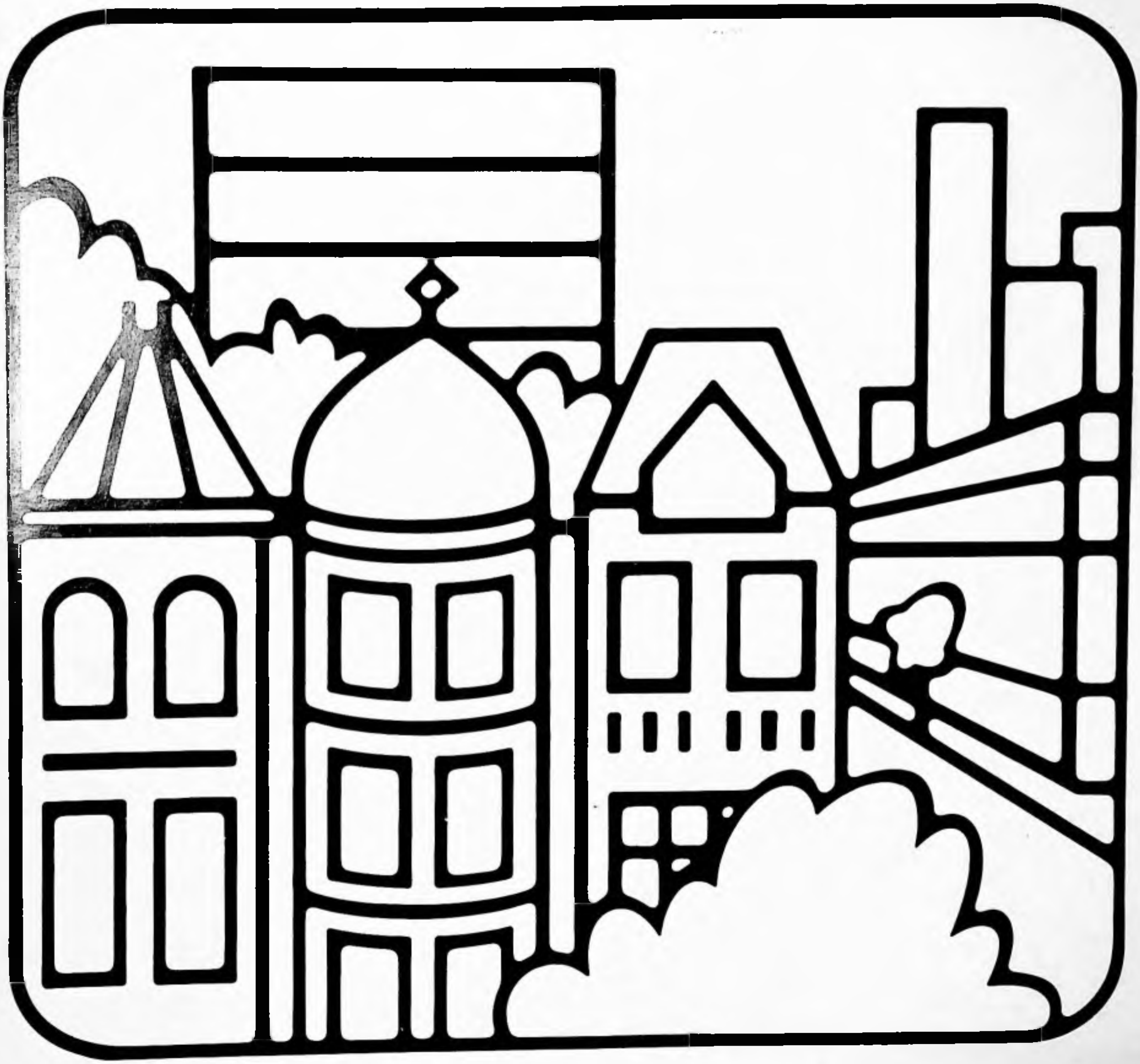
# The President's National Urban Policy Report

1980



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

Enclosed is the Second Biennial Report on National Urban Policy prepared by the Department of Housing and Urban Development.

As you directed, the Report describes the complex patterns and trends of social, economic and demographic changes that have shaped and continue to shape our nation's communities. Based upon this analysis, the Report suggests additions and refinements to the National Urban Policy which was developed by your Administration as a framework for a national effort to preserve and revitalize our cities.

The cornerstone of the Urban Policy is the concept of a "partnership" - a collaboration of effort and resolve - between the Federal government, the state and local governments and the private sector. This Report is illustrative of the fruition of that idea: numerous Federal agencies and public and private leaders contributed to its development and content.

I am grateful to all of the persons and organizations that assisted in the preparation of the Report. The White House Office of Intergovernmental Affairs and the Domestic Policy Staff should be commended for their help and counsel.

Respectfully,

Moon

Moon Landrieu

Enclosure

# 1980 PRESIDENT'S NATIONAL URBAN POLICY REPORT

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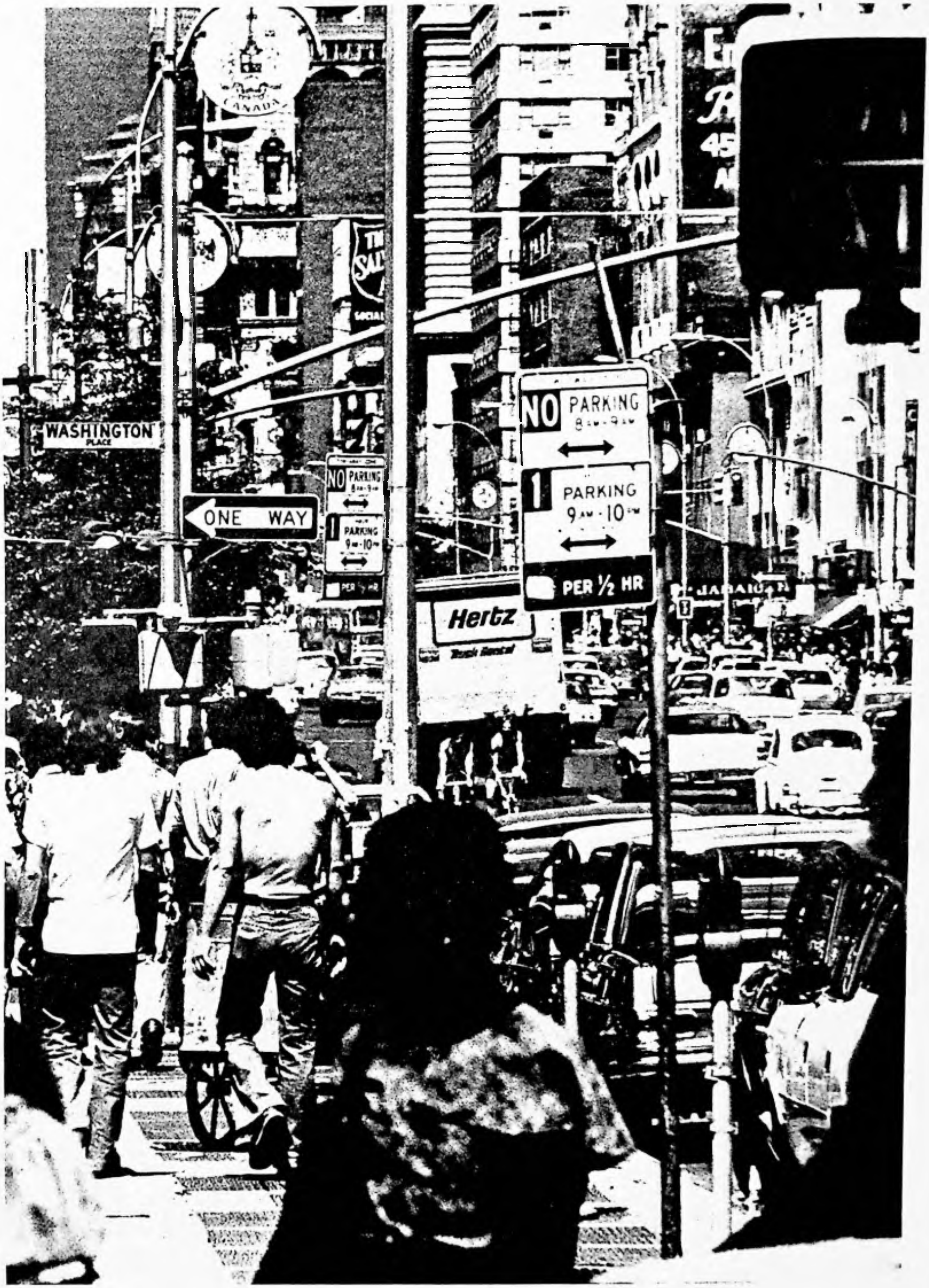
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# THE 1980 NATIONAL URBAN POLICY REPORT

# INTRODUCTION TO THE 1980 NATIONAL URBAN POLICY REPORT

On March 27, 1978, President Jimmy Carter announced a comprehensive national urban policy: "A New Partnership to Conserve America's Communities." The policy was the product of a year-long effort to define and clarify urban concerns and priorities. It was developed through joint action by Federal departments and agencies, working in consultation with state and local officials, public interest groups, private sector leaders, and urban policy analysts.

This Report presents a progress statement on the national urban policy. It provides an in-depth analysis of the trends and patterns that affect the health and welfare of our nation's urban communities and their residents. It also includes an updating of the record on achievements in implementing the urban policy guidelines and recommendations for next steps.

### Development of the 1978 National Urban Policy

Because this urban policy statement of 1980 builds on and refines the policy issued two years ago, it is useful to introduce the new policy document with a brief review of the approach adopted for that earlier document.

In March 1977, shortly after assuming office, President Carter asked the Secretaries of the Departments of Housing and Urban Development; Health, Education and Welfare; Commerce; Transportation; and the Treasury to form an Urban and Regional Policy Group (URPG) to draw up a national urban policy. Under the leadership of HUD's Secretary, Patricia Harris, the URPG organized dozens of high-level administration appointees into task forces to analyze urban problems and develop policy recommendations. It consulted widely with all groups and organizations who would be affected by an urban policy. The approach produced widespread understanding among the President's top domestic policy-makers of the condition of the nation's cities and urban counties. Through the URPG's deliberations, substantial agreement was reached on both the nature and the consequences of national trends affecting cities and their residents.

### The Key Findings of the 1978 Analysis

What the URPG found was an urban nation in the throes of major change:

- Population migration was shifting large numbers of Americans from the Northeast and North Central regions of the country to the South and West; jobs were moving in the same directions.

- Long-standing out-migration of people and jobs from central cities to the suburbs was continuing and even accelerating.

- Growth of metropolitan areas was slowing and an unprecedented outward movement from them to small towns and rural areas had set in.

These movements of people and jobs were bringing growth and prosperity to some regions of the nation and to some communities—but were generating or revealing deep-seated difficulties in other regions and communities. Many of the nation's large cities, especially those located in the Northeast and North Central states, were just emerging from the severe effects of the deep 1975-76 recession. Their economies were severely damaged. They were slow to recover as the national economy resumed its growth.

The population movements out of central cities to suburbs and out of the longer-settled parts of the nation to the newer "sunbelt" states brought growth and prosperity to many. But the populations and urban communities left behind were in need of assistance and leadership from the Federal Government.

The URPG participants reached the conclusion that national trends in the movement of people and jobs were transforming the nature of urban communities and their problems. As recently as 1970, an earlier Administration and Congress had been united in agreement that the burgeoning growth of large urban centers necessitated a policy of channeling urban growth to free-standing new communities. By 1977, sufficient data was available to show that during the 1970's, extraordinary changes in demographic and economic trends were occurring that shifted growth away from large established urban centers. The new trends, coupled with other changes such as the energy crisis, required a redirected emphasis on strengthening urban centers.

**The Starting Point: The Urban Policy of 1978 Can be the Framework for the Next Decade**

Three firm principles were defined by President Carter in his initial urban policy report to Congress. They formed the base upon which the President built his comprehensive urban policy. They provided the framework within which the Administration defined legislative and administrative actions to carry out the urban policy.

First, the President committed his Administration to provide the leadership necessary to help this nation's urban communities respond to their problems. Second, realizing that federal actions alone would not be sufficient to meet urban needs, he directed that federal programs help forge partnerships among all levels of government, the private sector, and voluntary and neighborhood groups, to work on revitalization strategies. Third, he indicated that, to the extent possible, federal resources should be targeted to communities and people reflecting the greatest needs.

**Urban Policies**

Nine urban policies emanated from these urban policy principles. They are briefly summarized in Exhibit I-1. Each one led to specific legislative inititives, Executive Orders, and administrative actions.

These policies acknowledge the broad economic development and job needs of urban communities. They commit the Federal Government to leverage its funds with those of state and local government, and with neighborhood and private sector resources to address urban concerns. The policy guidelines recognize the need for coordination and greater efficiency on the part of federal programs impacting urban communities. They also reflect the need to improve local governmental planning and management capacity, and to address the fiscal problems facing many municipalities. Finally, they make a substantial commitment to enhancing the employment, housing, and social services opportunities of urban residents, particularly those disadvantaged by a history of discrimination.

**Legislative Initiatives**

A major product of the 1978 urban policy process was the development of nineteen legislative initiatives. Of these, fourteen have already become the law of the land. Two others appear likely to be approved in the current session of the Congress. The remaining three were withdrawn by the Administration for further review and assessment of need after it became clear that they were unlikely to achieve Congressional approval.

Exhibit I-2 provides a summary "scorecard" of the nineteen legislative initiatives, indicating which were approved in their original or a similar form and also those which did not achieve Congressional concurrence. The two legislative initiatives which appear likely to be adopted in some form by the current Congress are: first, the proposal for targeted fiscal assistance (often referred to as "counter-cyclical aid") which at the time of publication had passed both Houses by heavy margins and was in conference; and second, the proposed National Development Bank which has now been incorporated in amendments to the reauthorization of EDA's economic development legislation. The two major initiatives that did not gain Congressional favor were a labor-intensive public works concept and a proposal for incentive grants to the states for their own urban strategies. Some of the highlights of urban policy related initiatives include:

**Comprehensive Employment and Training Act (CETA).** The CETA program is the major Federal job training and work experience program. The 1978 legislative initiatives included addition of a new Private Sector Initiatives Program. Under it, private industry councils composed of business, labor, and community leaders became partners with Federal, state, and local governments in expanding training and employment opportunities for low-income members of the labor force, with expanded private sector placement as the program's target. Other changes to CETA included a stronger focus on the economically disadvantaged as program beneficiaries and a reduction in the use of CETA funds to support existing employees in local governments.

## EXHIBIT I-1

## SUMMARY OF THE 1978 URBAN POLICY

1. Encourage and support efforts to improve local planning and management capacity, and the effectiveness of existing Federal programs, by coordinating these programs, simplifying planning requirements, reorienting resources, and reducing paperwork.

2. Encourage States to become partners in assisting urban areas.

3. Stimulate greater involvement by neighborhood organizations and voluntary associations.

4. Provide fiscal relief to the most hard-pressed communities.

5. Provide strong incentives to attract private investment to distressed communities.

6. Provide employment opportunities, primarily in the private sector, to the long-term unemployed and disadvantaged in urban areas.

7. Increase access to opportunity for those disadvantaged by a history of discrimination.

8. Expand and improve social and health services to disadvantaged people in cities, counties, and other communities.

9. Improve the urban physical environment and the cultural and aesthetic aspects of urban life.

## EXHIBIT I-2

## STATUS OF 1978 URBAN POLICY LEGISLATIVE INITIATIVES

| Legislation | Administering Agency |
|---|---|
| **LEGISLATION APPROVED BY THE CONGRESS** | |
| Urban Development Action Grant* | Housing and Urban Development |
| Neighborhood Self-Help Development Act | Housing and Urban Development |
| Livable Cities** | Housing and Urban Development and National Endowment for the Arts |
| Elementary and Secondary Education Act, Concentration Provision of Title I | Education |
| Title XX Social Services* | Health and Human Services |
| Inner City Health Initiative | Health and Human Services |
| Targeted Jobs Tax Credit | Labor and Treasury |
| Section 312 Housing Rehabilitation* | Housing and Urban Development |
| Private Sector Initiatives in CETA | Labor |
| New York City Guarantee Bill | Treasury |
| Urban Parks and Recreation Recovery Act | Interior |
| Rehabilitation Tax Credit | Treasury |
| Consumer Cooperative Bank Act | Treasury |
| Urban Initiatives in Transportation | Transportation |
| **LEGISLATION PENDING IN CONGRESS** | |
| National Public Works and Economic Development Act | Economic Development Administration (Commerce) |
| Targeted Fiscal Assistance Program | Treasury |
| **INITIATIVES NOT APPROVED BY CONGRESS** | |
| Labor Intensive Public Works | Economic Development Administration (Commerce) |
| State Incentives Grants | Housing and Urban Development |
| Urban Volunteer Corps | ACTION |

*Increased appropriation.
**Program authorized, but funds not yet appropriated.

SOURCE: U.S. White House Interagency Coordinating Council, **Urban Action, A New Partnership to Conserve America's Communities** (Washington, D.C.: 1979).

Total CETA obligations rose to over $10 billion in fiscal 1979; this provided funds for over a million enrollees in youth programs and nearly 700,000 persons in public service employment.

**Urban Development Action Grant (UDAG).** The two-year old UDAG program has provided Federal dollars that directly leverage local investment in economic development. By the end of fiscal year 1979, the program had funded 521 projects in 382 large and small cities with severe levels of physical and economic distress. The projects have generated $5.8 million in private sector commitments, and are projected, when complete, to create some 150,000 new permanent jobs and 46,000 units of new or rehabilitated housing. In addition, 81,000 threatened permanent jobs will have been saved and 135,000 construction jobs will have been created. The UDAG program is currently funded at an annual level of $675 million.

**Title XX Social Services.** Title XX is the basic program of Federal aid to states and localities for social services such as day care and services for the elderly. The program has operated at a $2.5 billion level since fiscal 1975; in fiscal years 1978 and 1979 an extra $200 million was included as part of the urban policy initiatives. Considerable latitude is allowed states and localities under Title XX to decide on what services to offer and whom to serve. A local matching share equal to 25% of the total grant is required, and at least 50% of all program funds must be used to benefit welfare recipients.

**Urban Initiatives in Transportation.** These initiatives authorized a $200 million program, with appropriations set at $50 million in fiscal 1979 and $80 million in fiscal 1980. Eligible projects include:

- Joint development projects that link public transit with housing, industrial, or commercial ventures (including downtown "people movers"), particularly around station areas;

- Intermodal transfer facilities that integrate the urban public transportation system with other forms of transportation, such as intercity bus and rail, taxis, and auto parking;

- Transit malls such as streets improved for pedestian use which retain roadways reserved for transit vehicles and from which automobiles are barred or permitted only limited access.

Special consideration is given to distressed cities. Of the first 17 grants for $50 million, 15 were to cities eligible under the UDAG definition of economic distress.

**Urban Park and Recreation Recovery Program.** The Urban Park and Recreation Recovery (UPARR) Act of 1978 established a new grant program to help physically and economically distressed urban areas improve recreation opportunities for their residents. This program provides grants to local governments to rehabilitate existing indoor and outdoor recreation facilities; to demonstrate innovative ways to enhance park and recreation opportunities at the neighborhood level; and to develop local Recovery Action Programs that identify community needs, objectives, action priorities, and strategies for revitalization of the public and private recreation system. Grants criteria are strongly targeted to distressed municipalities. This program is authorized at a level of $150 million over a five-year period. The first two rounds of grants, approved in October and December 1979, provided $52.6 million to 161 total jurisdictions.

**National Public Works and Economic Development Act.** The National Public Works and Economic Development Act is the result of President Carter's commitment to reorganize Federal economic development programs and to accomplish the goals of the National Development Bank proposal. The legislation improves EDA's method for identifying distressed urban and rural communities and significantly increases the Agency's ability to leverage private and other public funds to promote long-term economic stability and growth. A comprehensive business development finance program of loans, loan guarantees, interest rate subsidies, and grants—with $675 million in authority for FY 80 and $1.1 billion in 1981—will be implemented upon enactment. The new EDA business finance program will give communities a powerful tool for retaining, expanding, and attracting private sector jobs. The Act has been approved by both Houses of Congress and is currently in conference.

**Executive Orders**

On August 16, 1978, President Carter signed four executive orders to improve the coordination of Federal urban programs and heighten government sensitivity to urban areas. These executive orders called upon Federal agencies to: prepare analyses of new actions and legislative proposals to assess their anticipated impact on urban areas; target additional Federal procurement to firms located in labor surplus areas and distressed communities; locate Federal facilities in central cities wherever feasible; and coordinate their urban-related activities through a new high-level policy group under the direction of senior White House staff.

**Urban Impact Analysis.** This executive order, subsequently amplified by an Office of Management and Budget Circular, required Federal agencies to prepare impact analyses to accompany significant new budgetary, legislative, and regulatory initiatives. The executive order requires assessment of employment, fiscal, and other impacts on large and small communities. It is based on the recognition that Federal programs have impacts that go well beyond the purposes and objectives set forth in their legislation, and that in the past some Federal actions have had inadvertent negative effects for cities.

The executive order on impact analysis was widely acclaimed by public interest groups, the media, and community and private sector leaders. It was viewed as one of the most significant steps the Administration has taken to implement the urban policy. It focused the attention of the Federal officials on the inadvertent as well as the purposeful effects of their programs and proposals. By assigning the Office of Management and Budget as the key agency responsible for implementation and oversight of the executive order, budgetary decision-making was linked to the urban policy.

**Targeted Procurement.** This executive order directed Federal agencies to accelerate the targeting of their procurement programs for the purchase of goods and services to firms located in labor surplus areas and distressed cities and communities.

The executive order built on long-standing, but never fully implemented Federal policy dating back to the issuance of a Defense Manpower Policy statement in 1952 and a subsequent policy statement of 1967 by the Office of Emergency Planning. For a variety of reasons, including the Maybank amendment which exempted defense appropriations from the targeted procurement effort, these earlier policy statements did not result in significant changes.

Executive Order 12073 directs the Administrator of General Services to establish specific labor surplus area (LSA) procurement targets for executive agencies in consultation with the heads of those agencies. Agencies with appropriations less than $300 million were requested to designate 10 percent of their appropriations as an LSA target. All agencies subject to this order were requested to establish procedures for the attainment of their goals.

Achievements under the executive order have resulted in a major advance in Federal procurement in labor surplus areas. A total of $588 million in labor surplus "set-asides" was reached in fiscal 1979, about 1.6% of the total procurement spending of the participating Federal agencies. This level represented a four-fold advance over previous levels of spending for such purposes. Agency goals for Fiscal 1980 call for a set-aside procurement level of $1.3 billion.

**Federal Facility Location.** A third executive order directed Federal agencies to maximize the extent to which their physical facilities, whether owned by the Federal Government or in leased space, were located in central business areas of communities. The intent of the order was not to disrupt or introduce inefficiencies into the operation of Federal agencies by requiring them to locate in inappropriate sites; rather, it was designed to assure that where there were valid alternatives in the location of agency operations, the benefit of the doubt would operate to help strengthen city economies.

Since August 1978 the results of the executive order have been visible. The General Services Administration, the Federal agency with the broadest responsibility for domestic agency facilities, has taken the lead in achieving compliance with respect to the facilities over which it has direct jurisdiction. In Federal offices throughout the nation, 229 out of 380 leasing actions have been focused within central city business districts. These central city leases have involved 1.35 million square feet of floor space out of a national total of 2.6 million additional square feet in Federal leased space and 6,000 employees out of a national total of 7,900 affected by new leases.

**Inter-agency Coordination.** The fourth executive order established a new Inter-agency Coordinating Council (IACC), composed of an Assistant Secretary or equivalent official from every major Federal agency. The function of IACC is to bring together key officials to oversee the coordination and implementation of the urban policy under the overall supervision of senior White House staff members.

While the establishment of "yet another" Federal group may seem a modest move forward to the casual observer, the IACC represents the first example of a sustained inter-agency effort to resolve urban issues with White House leadership. For the first time, there is a clear, coordinated urban policy decision-making capacity at the highest levels within the Federal Government.

The IACC has made a difference. In its first two years of operation, the group has:

- **Encouraged numerous inter-agency agreements aimed at achieving a coordinated Federal response to urban problems.** For example, HUD and DOT have consented to jointly conduct and review environmental impact analyses affecting each other's key programs. Similarly, HUD and the Corps of Engineers have agreed to work together in evaluating the urban impact of key Corps of Engineer permits.

- **Encouraged numerous inter-agency urban policy demonstrations.** As indicated on page I-9-10, several innovative demonstration programs have been started to test possible new ways to deliver Federal assistance in a more equitable and efficient manner.

- **Encouraged numerous improvements in administrative procedures.** For example, HUD and EDA have established common eligibility guidelines under their respective key economic development programs. Similarly, agencies have been asked to use uniform population projections, to the extent feasible, to govern the distribution of program assistance. Finally, the IACC has directed that agencies develop energy conservation initiatives as part of their on-going program administration efforts.

- **Encouraged numerous new policy initiatives.** For example, the Community Conservation Guidelines resulted from IACC deliberations. At the request of locally elected chief executive officers, Federal agencies are required to initiate community impact analyses to determine the effect of new commercial developments on older communities. The findings will be used by Federal agencies to assure consistency between their pending actions, the urban policy, and local revitalization needs.

The IACC also initiated the recently announced foreign investment guidelines. These guidelines will encourage foreign investors, once they have decided to invest in job and tax-creating endeavors in the United States, to locate in distressed or needy communities.

**Administrative Actions**

A third approach to implementing the 1978 urban policy involved administrative actions. Many Federal agencies participated by changing regulations and programs; the Interagency Coordinating Council energized and supervised the entire process.

As compared to new legislative initiatives and the issuance of executive orders, the process of administrative change may appear obscure and even unimportant. Rarely does the media focus attention on such changes because they lack the drama and conflict that accompanies legislative debate. But any effective urban policy must be based on such program improvements; otherwise policy will not be translated into the day-to-day reality of Federal operations.

Selected highlights of administrative change are described here. They are grouped under three headings: program changes, demonstration or pilot efforts, and interagency agreements. A fuller listing is presented in Exhibit I-3.

**(1) Program Changes**

**Wastewater Treatment Facilities.** The Environmental Protection Agency (EPA) revised its Section 201 wastewater treatment program as a result of 1977 legislative amendments. The basic thrust of the revisions was to limit the degree to which EPA would assist treatment facilities that contained excess capacity (that might induce additional fringe area growth) or called for excessively expensive treatment processes. EPA's new regulations require more careful assessment of alternative wastewater treatment facilities. In planning for facilities, they limit size and location and provide for a more careful assessment of environmental effects. They also require public participation during the planning process.

A key component of these new regulations is revision of EPA's Cost-Effectiveness Analysis Guidelines. The revised Guidelines require use of a uniform set of State population projections, developed by the Bureau of Economic Analysis, in planning facilities. In addition, more realistic estimates of system size and reserve capacity allowance are now required in the planning of both treatment facilities and wastewater collection systems. Unnecessary extension of interceptors and other pipes into sparsely developed areas, including wetlands and prime agricultural lands, is discouraged. The President's Small Community and Rural Policy encourages the application of EPA'S Cost-Effectiveness Guidelines in HUD, the Farmer's Home Administration, and EDA programs. This important initiative to retard urban sprawl, if implemented on a broad scale, can cut local construction, operating, and maintenance costs.

EPA also adopted regulations that will promote use of innovative, small-scale approaches to wastewater treatment in rural and non-metropolitan areas. While there is very limited experience with such facilities, they may provide an opportunity to achieve clean water objectives in small communities without excessive costs.

**Urban Impact of Highways.** The Department of Transportation, taking the lead from the President's executive order on impact analysis, introduced its own impact analysis requirements for new urban transportation projects. Proposed projects must be assessed in terms of their potential impact on the urban communities, and decisions must fit into a broader policy context. This requirement applies to all major transportation aid requests.

**Targeting Community Development.** HUD's new regulations for the Community Development Block Grant Program have significantly increased the allocation of funds to areas within recipient communities inhabited by low and moderate income households. HUD regulations also focus increased benefits directly on poorer people.

**Increased Urban Focus in Economic Development.** The program of the Economic Development Administration has been expanded from approximately $375 million in 1977 to $1.6 billion proposed for 1981, including $900 million in loan guarantee authority. EDA has adjusted the emphasis of its program to fit the changing patterns of economic development needs within the country. The result is a balanced response to local distress. Because of its increased budget EDA has been able to greatly expand its aid to urban areas, which now receive approximately 50% of EDA assistance, while maintaining its commitment to rural areas.

**(2) Demonstration Projects**

**Technical Assistance in Procurement.** The General Services Administration and several Federal agencies are providing assistance to four distressed cities aimed at improving the ability of private firms to bid for Federal procurement contracts. Experience gained from these communities will be disseminated to all communities qualified as labor surplus areas.

## EXHIBIT I-3

## KEY ADMINISTRATIVE ACTIONS TAKEN IN SUPPORT OF THE URBAN POLICY

### PROGRAM CHANGES

| | |
|---|---|
| Economic Development Administration (Commerce) | **Minority Economic Development:** Sets specific targets for aid to minority groups in each program area. |
| Economic Development Administration (Commerce) | **Revolving Loan Fund:** Cuts red tape in providing business loans through local communities. |
| Economic Development Administration (Commerce) | **Targeting of Funds:** Focuses existing EDA programs increasingly on distressed urban communities. |
| Health and Human Services | **National Health Service Corps:** Assigns additional personnel to areas having shortages of health personnel. |
| Housing and Urban Development | **CDBG Simplification:** Requires three-year rather than annual plans, cutting local paperwork. Also coordinates HUD and EDA planning requirements. |
| Housing and Urban Development | **Expanded Local Involvement in Section 312 Loans:** Gives localities greater control over processing of loans for neighborhood housing rehabilitation. |
| Housing and Urban Development | **Neighborhood Strategy Areas:** Gives localities discretion to target funds in needy neighborhoods and to use them for a broader range of revitalization activities. |
| Housing and Urban Development | **Targeted Tandem:** Provides $1 billion in 1978 and 1979 for below-market-rate mortgages for middle-income housing in UDAG-eligible cities. |
| Environmental Protection Agency | **Waste Treatment Facility Planning:** Shortens the time horizon for planning requirements, reducing the unintended incentives that induce unplanned urban sprawl. |
| Transportation | **Urban Impact Assessment:** Ensures that transportation investments enhance urban centers or that negative impacts are addressed; takes energy-related impacts into account; and focuses attention on repair and rehabilitation of highway facilities. |
| Environmental Protection Agency | **Emission "Banking":** Allows cities more discretion in applying air quality regulations to expanding or new firms. |

### DEMONSTRATION OR PILOT PROGRAMS

| | |
|---|---|
| Environmental Protection Agency | **Resource Recovery:** Provides pilot grants to States and localities. |
| Housing and Urban Development | **Moderate Rehabilitation:** Provides set-asides for rehabilitation of housing involving job creation. |
| Housing and Urban Development | **De-institutionalization:** Funds 59 special small group homes for the mentally ill. |
| Small Business Administration | **Bank Certification:** Aids 29 banks helping small businesses obtain guaranteed loans. |
| Economic Development Administration (Commerce) | **Comprehensive Economic Development Strategies:** Assists cities developing long-term strategies for economic development. |
| Federal National Mortgage Association | **Urban Loan Participation:** Focuses expanded residential and mortgage loan capacity on central cities. |

**EXHIBIT I-3** (continued)

| | |
|---|---|
| Federal Home Loan Bank Board | **Community Investment Fund:** Provides incentives to local savings and loan institutions to expand investment in central cities. |
| Housing and Urban Development | **Urban University Partnership:** Involves seven national higher education associations in urban revitalization. |
| General Services Administration | **Technical Assistance in Procurement:** Funds pilot project focused on four cities and their local businesses. |
| Labor, Housing and Urban Development, Economic Development Administration, Transportation, Small Business Administration, and Community Services Administration | **Targeted Jobs Demonstration Program:** Provides grants to 14 localities to target jobs from community and economic development projects to CETA-eligible persons. |
| Environmental Protection Agency, Housing and Urban Development, Economic Development Administration, and Transportation | **Air Quality Technical Assistance Demonstration:** Provides technical assistance to urban communities to help reconcile potential conflicts between air pollution and economic development goals. |
| Economic Development Administration | **Metropolitan Demonstration Program:** Provides planning assistance for regional planning organizations addressing urban economic distress. |
| Interior | **Land and Water Conservation Fund Urban Contingency Projects:** Earmarks contingency funds for urban projects. |
| Interior | **Rails to Trails Railroad Revitalization:** Provides $5 million for conversion of abandoned railroad right-of-way for recreation use in ten urban areas. |
| Interior | **National Park Service:** Aids gateway parks in New York, San Francisco, the Cuyahoga Valley (near Cleveland) serve urban populations. |

**INTERAGENCY AGREEMENTS**

| | |
|---|---|
| EPA, DOT | **Federal Urban Noise Initiative** |
| DOL, DOE, CSA | **Solar Utilization, Economic Development, and Employment** |
| HUD, CSA | **Community Housing Partnership** |
| HUD, EDA | **Cooperation in Economic Development** |
| OMB, DOC, EPA | **Coordination of Population Projections** |
| Comptroller of the Currency, HUD, SBA, EDA, and others | **Task Force on Commercial Reinvestment** |
| DOL, HUD, DOT, EDA, SBA, CSA, FmHA | **Employment Initiatives** |
| SBA, HUD, EDA | **Neighborhood Business Revitalization** |
| HUD, HHS, DOL, and LEAA | **Assistance to Low Rent Public Housing** |
| LEAA, ACTION | **Urban Crime Prevention Program** |

EXHIBIT I-3 (continued)

| | |
|---|---|
| CSA and National Credit Union Administration | Credit Union Development in Low Income Communities |
| HUD and Corps of Engineers | Urban Impact Analysis of Significant Actions |
| All Federal Agencies | Community Conservation Guidelines |
| HCRS, Interior, and ACTION | Youth Employment Opportunities in Recreation |
| HCRS, Interior, and HUD | Neighborhood Revitalization/Recreation |
| EPA, DOT | Urban Air Quality Planning Grants |
| DOT, EDA | Urban Rail Improvement and Development |
| DOT, HUD | Cooperation on Facility Investment |
| LEAA, National Fire Association | Arson Control Assistance Program |

**Urban University Partnership.** HUD and seven national associations of higher education institutions signed a memorandum agreeing to set up a Center for College and University Partners in Community Development. The Center will demonstrate to colleges and universities how they can work with cities on economic revitalization efforts and will encourage colleges and universities to expand their facilities and services in cities.

**Comprehensive Economic Development Strategies.** Through the Comprehensive Economic Development Strategies (CEDS) demonstration, EDA has assisted 21 cities in fostering long-term strategies for investing local, state, Federal, and private resources to solve local economic development. The CEDS demonstration will help EDA improve the coordinated delivery of its planning and investment programs.

**Metropolitan Demonstration Program.** The EDA-sponsored Metropolitan Demonstration Program is testing the role of regional planning organizations in dealing with economic distress in central cities and older suburban areas. EDA assistance enables these organizations to tailor programs to their specific regional settings and problems. Eighteen regional organizations have received grants under this program, all in metropolitan areas with greater than 250,000 population.

**(3) Interagency Agreements**

**Coordinating Air Quality With Economic Development.** In 1979, the Environmental Protection Agency, the Department of Housing and Urban Development, the Economic Development Administration, and the Department of Transportation, under the auspices of the White House Interagency Coordinating Council, agreed to a demonstration effort to coordinate air quality and economic development. Specifically, $4 million were provided by participating agencies for two-year grants to eight urban areas to demonstrate innovative approaches which respond to clean air standards and promote economic development. All eight are "non-attainment" air quality areas, each with unique economic development needs. The areas included Portland, Oregon; Minneapolis-St. Paul, Minnesota; Chicago, Illinois; Erie County (Buffalo), New York; Elizabeth, New Jersey; Boston, Massachusetts; Philadelphia, Pennsylvania; and Bridgeport-Westbury, Connecticut.

**Coordinated Inter-Agency Strategies.** Development of coordinated inter-agency strategies affecting cities was the subject of an interagency agreement between HUD and the Department of Transportation. The two agencies agreed to coordinate their work on urban impact analysis and in preparation of environmental impact statements. In addition, the two agencies agreed to coordinate their local financial assistance programs that affect community development and revitalization priorities.

Under a similar interagency agreement, the Corps of Engineers agreed with HUD to apply urban impact analysis guidelines to permits issued by the Corps.

**Community Conservation Guidelines.** At the request of the IACC, all Federal agencies agreed to initiate community impact analyses of pending Federal actions which have a clear link to proposed large commercial developments, if requested to do so by local chief executives. An example of the type of project to which the guidelines apply is a new expressway interchange that could stimulate development of a suburban mall competitive with a nearby central business area. The purpose of the guidelines is to help avoid Federal actions likely to harm existing business areas of older communities.

**Summing Up: The Urban Policy of 1978**

The preceding brief summary of action taken in response to the President's 1978 urban policy guidelines illustrates the progress that has been made toward revitalizing America's urban communities. The record is one of many positive accomplishments in legislation, executive orders, and administrative actions. At the same time, it must be seen as a beginning, not as an end. Many of the new initiatives have still to be fully implemented; others have uncovered obstacles that require redoubled and focused efforts to overcome. Still, a number of key accomplishments of the 1978 urban policy should be recognized:

- It focused national attention on the problems of urban communities and began an examination of the ways in which Federal policies impact urban areas.
- Together with the Small Communities and Rural Development Policy, it established a clear commitment on the part of the Federal Government to support the economic and social well-being of needy American communities—large and small.
- It sparked efforts to establish a strong partnership among Federal, state, and local governments; private enterprise; and neighborhood and voluntary groups to develop flexible strategies to revitalize urban communities.
- It initiated successful economic development and job creation efforts in numerous urban areas; fostered downtown and neighborhood revitalization projects; expanded housing opportunities for low and moderate income households and generated improvements in community and social services in many needy communities.

These accomplishments have helped begin to turn the tides that had been running against the cities.

**Continuing Evolution of the Urban Policy**

Measurable progress has been made through the initial legislative and administrative steps taken to implement the urban policy. But much remains to be done. Continuing action on the unfinished national urban policy agenda must be based on a firm understanding of the nature and implications of the changing national trends that affect the nation's urban communities and on a full appreciation of their differing needs urban areas. This National Urban Policy Report for 1980 presents a more detailed analysis of national trends than could be prepared in the time available to the URPG. It examines needs in all types of the nation's communities, extending the 1978 analysis from the largest urban centers to smaller central cities, suburbs, and non-metroplitan communities.

Since the URPG's initial formulation of an urban policy, national and community leaders have become more acutely aware of the challenges the nation faces at home and abroad in the 1980's. The nation's urban areas can play a role in meeting national challenges. Restoration of national productivity growth can be accelerated if distressed communities regain their ability to generate new economic activity. Conservation of national energy supplies and preservation of environmental values can be enhanced if already-developed urban areas regain their attractiveness to business and industry, and if newly-developing urban areas are helped to achieve compact, environmentally-sensitive, cost-effective patterns of development. The nation's resiliency in the face of future challenges can be strengthed if urban communities are assisted in developing their unique competencies, and are able to provide their residents with decent jobs, housing, education, and health opportunities. Improvements in the quality of life in urban America will reinforce, and indeed, is essential to the well being of the nation as a whole.

This National Urban Policy Report is designed to contribute to the process of rethinking and refining national urban policy goals. It describes conditions in the nation's urban communities and suggests steps that can be taken to focus and implement urban policy objectives.

**Contents of the 1980 Biennial Urban Policy Report**

This Report presents both an overview of national urban trends, patterns and problems, and a restatement of the national urban policy. The Report is divided into five parts, each of which is subdivided into Chapters devoted to important aspects of urban conditions:

- **Part One: Overview** sets the background for the analytical approach to urban issues that follows. Chapter 1 details the spreading out of national population and employment that is changing the face of urban America. It considers broad regional trends, the changes that are taking place within metropolitan areas as people and jobs continue to move to the suburbs, and the new patterns of non-metropolitan growth. Chapter 2 presents a "typology" of cities—an analytical approach to classifying urban communities on the basis of economic need demonstrated by their residents and on recent population trends. This typology is used throughout the Report to highlight variations in trends and community needs experienced by high need versus low need cities and by growing versus declining cities.

- **Part Two: The Central City** examines what is happening in the central cities of the nation's metropolitan areas. While much attention is focused on trends and patterns in the largest central cities (partly because of greater availability of current data), the analysis is extended to the full array of central cities wherever feasible. Separate Chapters examine changes in the economy of central cities; the growing problem of poverty; housing issues and concerns; and the increasingly serious fiscal problems that afflict many central cities.

- **Part Three: Suburban and Non-Metropolitan Communities** extends the analysis of urban patterns and trends to suburban ccmmunities (which now contain three in every five metropolitan residents) and to non-metropolitan communities. While the data base is less extensive and detailed than is the case for central cities, the Chapters examine local economies, problems of poverty and housing, and fiscal conditions in these smaller urban communities.

- **Part Four: The Policy Framework** contains four Chapters that deal with important cross-cutting aspects of urban problems and concerns. Chapter 9 examines the linkage between urban land settlement patterns and energy and environmental objectives. Chapter 10 focuses on the important issue of discrimination and minority welfare in urban areas. Chapter 11 addresses the institutional context of urban policy created by the Federal system of government. Chapter 12 assesses the major economic, demographic, and resource factors which will influence urban communities in the next decade.

- **Part Five: An Urban Policy for the 1980's** presents a detailed program for Federal action for the coming years to achieve national urban policy objectives. The proposed actions reaffirm the basic policy directions established in 1978. They are based on an understanding of the current conditions and needs of the nation's urban communities, described in earlier Chapters. They are also cognizant of limited Federal resources resulting from the need to address inflation and from the prospects of slow national economic growth.

Throughout the Report, references are made to the developing body of Federal publications and other analyses that provide a basis for statements contained in the various Chapters. An Appendix to the Report provides a full Bibliography for these citations.

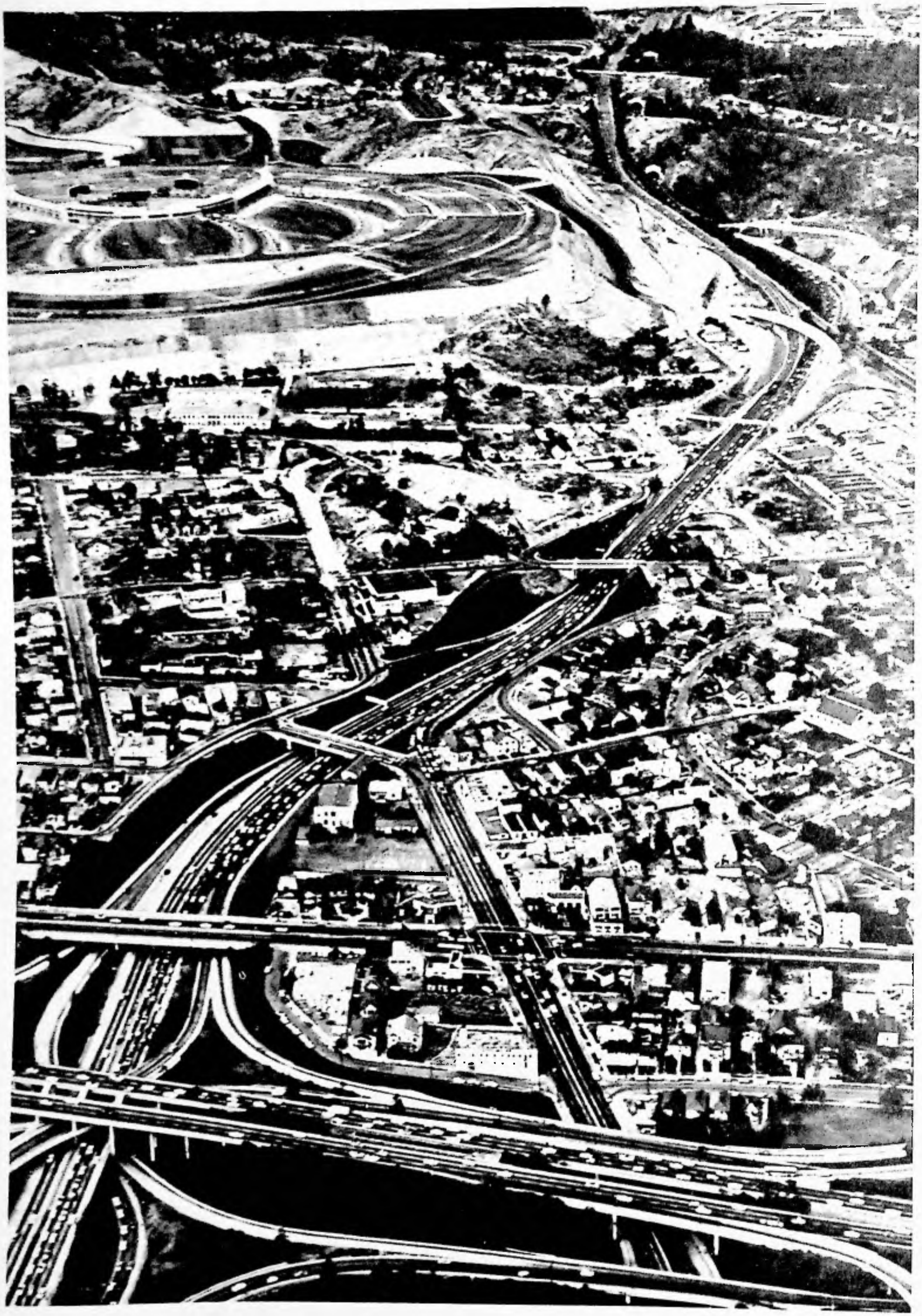
# PART ONE: OVERVIEW

# PART ONE: OVERVIEW

Part I provides a framework for the analysis of urban problems and policy options which follows in Parts II through V. It describes basic demographic and economic changes affecting urban areas. It also presents a way to classify the level of need faced by different kinds of urban communities.

- **Chapter One** describes basic demographic and economic trends which have occurred and are now occurring in this nation. It focuses, particularly, on those trends affecting the vitality of America's urban communities; that is, the movements of jobs and people from its older to its newer regions, the continued movement of people and jobs from central city to suburbia; the recent movement of people and jobs to nonmetropolitan areas.

- **Chapter Two** reviews ways to describe community needs. It classifies community need based on type and intensity of resident problems as well as population change.



# I. THE SPREADING OUT OF URBAN POPULATION

In the 1970's, the spatial patterns of urban America changed markedly. People and jobs moved in substantial numbers from the older urbanized regions of the nation, the Northeast and North Central states, to the South and West. Within metropolitan areas, a decades-old pattern of movement out of central cities to suburban areas continued and even accelerated. And in a surprising but consistent pattern, people and jobs began to move out of metropolitan areas entirely into the lightly developed counties adjacent to metropolitan areas and also counties distant from metropolitan centers. Together, the combined impact of these changes is resulting in a "spreading out" of urban America.

Of the three patterns of dispersion, suburban growth dominates. Between 1970 and 1978, a net of 9.7 million persons three years or older moved from central cities to suburban areas. By comparison, 3.9 million people migrated from the Northeast or North Central regions to the South or West, and a net of 2.7 million moved out of metropolitan areas entirely.

This Chapter describes the spreading out of population and jobs. These patterns have had positive benefits for many Americans, but they also have serious negative consequences for many others who lack the income and ability to keep pace with change. Increasingly, these "left-out" people are the residents of older, troubled central cities.

The Chapter reviews in sequence the three basic trends in the geographic distribution of population and employment in the U.S. during the 1970's: regional shifts, suburbanization within metropolitan areas, and non-metropolitan growth. It reviews the magnitude of population and job flows, the types of persons and jobs involved, the factors responsible for change, and the policy implications of emerging national patterns of redistribution. This review sets the stage for the more in-depth analyses presented in Part II of the Report which focuses on patterns and trends in the central cities, and in Part III, which looks at what is happening in suburbs and non-metropolitan communities.

## 1. Regional Shifts in Population and Jobs

The overall pattern of recent population change in the nation is shown in Table 1-1. Significant features of population change are illustrated in Figures 1-1 and 1-2. Together, these provide a quick overview of the major changes that are taking place in where Americans live and where they are moving.

### A. Population Shifts Among Regions

Total national population growth slowed markedly during the 1970's, largely because of declining fertility. The growth that occurred was concentrated in the South and West, where population rose at twice the national rate. The population of the Northeast has grown very slowly since 1970 and the North Central region increased less than half as fast as the national average. These different growth rates were caused, in large measure, by migration of people within the nation.

TABLE 1-1

POPULATION OF THE UNITED STATES BY REGION, 1960, 1970, AND 1978
(Numbers in Thousands)

| Region | 1960 | 1970 | 1978 | Percent Change 1960-1970 | Percent Change 1970-1978 |
|---|---|---|---|---|---|
| United States | 179,311 | 203,305 | 218,059 | 13.4 | 7.3 |
| Northeast | 44,678 | 49,061 | 49,081 | 9.8 | 0.0 |
| North Central | 51,619 | 56,593 | 58,251 | 9.6 | 2.9 |
| South | 54,961 | 62,812 | 70,626 | 14.3 | 12.4 |
| West | 28,053 | 34,839 | 40,100 | 24.2 | 15.1 |

SOURCES: U.S. Bureau of the Census, **Data Book for the White House Conference on Balanced National and Economic Development**, January 1978, Table 1-8.; and U.S. Bureau of the Census, "Estimates of the Population of States, by Age: July 1, 1977 and 1978," **Current Population Reports**, Series P-25, No. 794, Table 1.

During the 1950's and 1960's the West received nearly five times as many net in-migrants as the South. After 1970, however, the South began to capture the largest share of those moving from the North and East. Between 1975 and 1978 the South received more than three times as many net in-migrants as the West, with the largest number settling in the South Atlantic states of Florida, Georgia, the Carolinas, the Virginias, Maryland, Delaware, and Washington, D.C.

Migratory growth appears to be diffusing throughout the South and West. Before 1970, rapid in-migration to Florida just offset migratory losses in the rest of the South. But since 1970, Florida's net in-migration has been matched by equally large in-migration to the rest of the South. The nation's other fast-growing region, the West, showed similar diffusion of migratory growth. California no longer dominates regional migration growth as it did prior to 1965. Between 1970 and 1975, the other 12 states in the West gained more than twice as many net in-migrants as California. Gains in the Mountain states were especially rapid. In the first six years of the 1970's, eight Mountain states gained 903,000 residents through net in-migration, compared with 307,000 during the entire period of the 1960's (Morrison, 1979).

**Housing Construction Patterns**

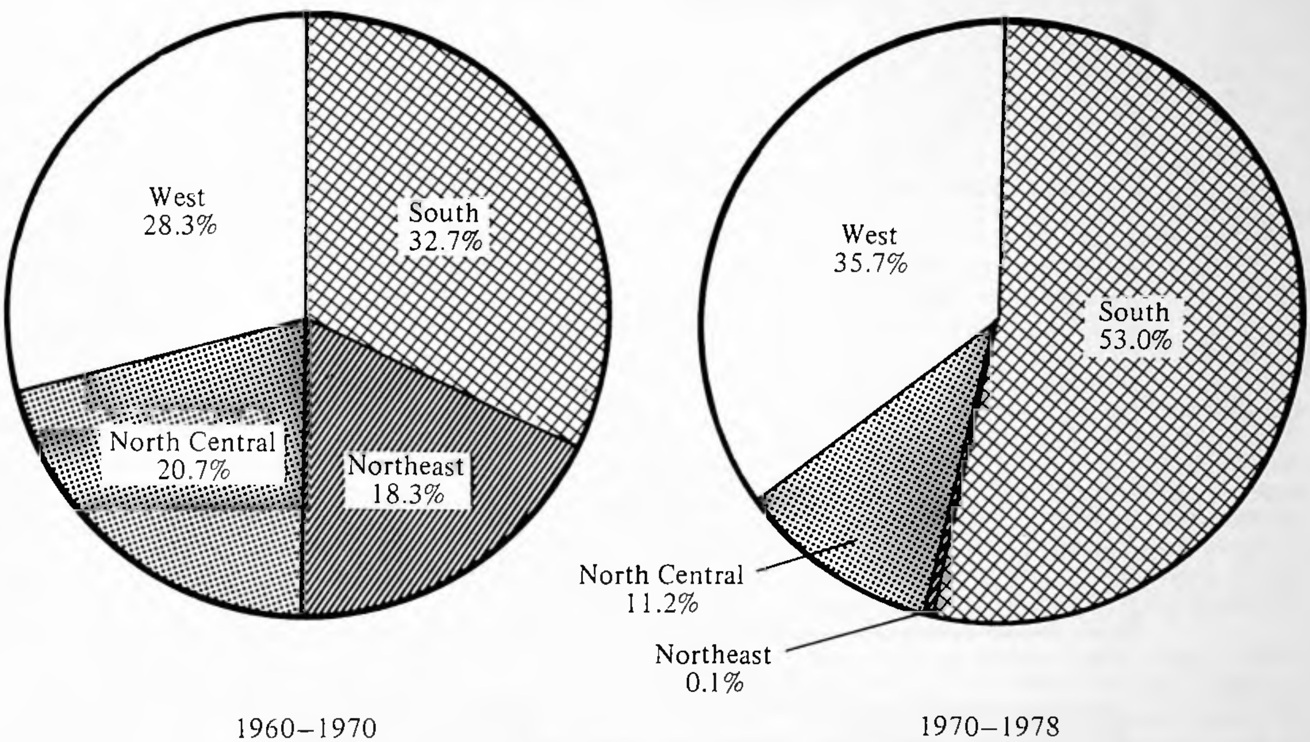
The flow of population from the North and East to the South and West is reflected in the relative levels of new residential construction in the four Census regions. Most new home building has taken place in the regions experiencing net in-migration. Since 1965, the South alone has consistently accounted for about 40% of all new housing construction. The West's share rose from about 19% to 26% after 1975. By contrast, the Northeast has shown a long term decline from 16.6% of home construction in the mid-1960's to 10.7% in the most recent period. The North Central region consistently accounted for about one quarter of all newly built residential units since the mid-1960's. Thus, while significant amounts of new residential constrution continue in the regions of stable population (principally reflecting the spreading out of city population into suburban and non-metropolitan areas), a rising share of total new construction is concentrated in the regions of net in-migration.

**Characteristics of Inter-Regional Migrants**

The typical inter-regional migrant of the mid-1970's was young (between 15 and 34 years of age), white, college-educated, employed in a profession or technical occupation, and moved from a suburb in one metropolitan area to the suburban ring of another. However, considerable diversity is found among those migrating between regions: 28% are either under 14 years of age or over 65; more than 10% are non-white; one in four is employed in a blue-collar occupation; 12% of families have incomes below the poverty level; 20% are moving from central cities; and almost a third are relocating to non-metropolitan areas.

Many of those moving to the South and West are retirees, while the northern and eastern parts of the country primarily attract households with heads of working age. Nationally, almost 60% of all inter-regional migrants over age 65 move to the South, while another 22% choose the West. The North Central region captures about three-quarters of the remaining elderly migrants. Retired households migrating between regions show a strong preference for the

**Figure 1-1**
**DISTRIBUTION OF TOTAL GROWTH OF U.S. POPULATION BY REGION: 1960–1970 AND 1970–1978**

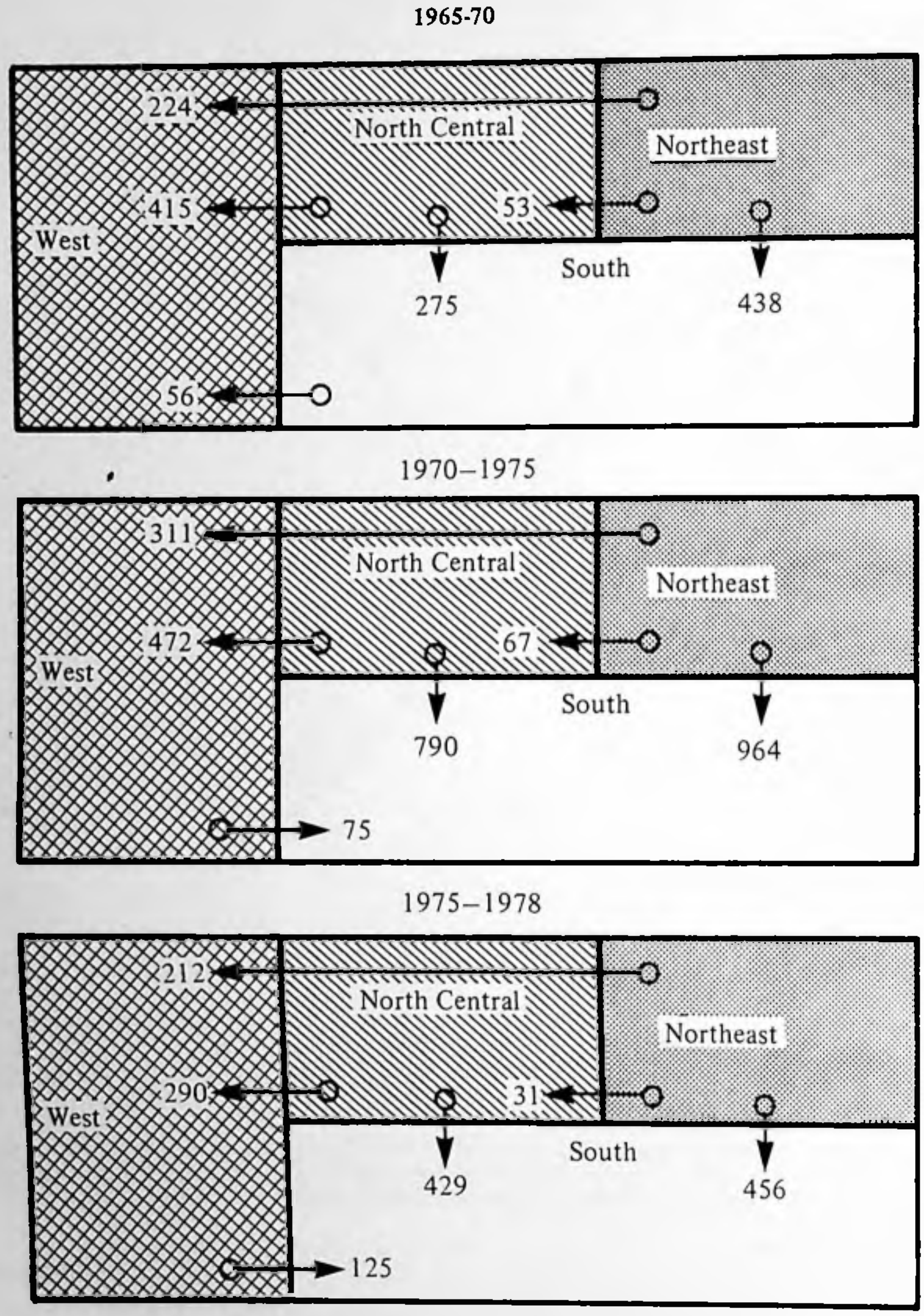



Total increase in U.S. population: 24.0 million

Total increase in U.S. population: 14.8 million

SOURCE: U.S. Bureau of the Census, **Data Book for the White House Conference on Balanced National and Economic Development**, January 1978, Table 1-8; and U.S. Bureau of the Census, "Estimates of the Population of States, by Age: July 1, 1977 and 1978," **Current Population Reports**, Series P-25, No. 794, Table 1.

Figure 1-2
NET INTERREGIONAL MIGRATION: 1965–70, 1970–75, AND 1975–78
(Numbers in Thousands)




SOURCE: U.S. Bureau of the Census, Census of the Population 1970, "Mobility of the Population of the United States: March 1970 to March 1975," and "Geographic Mobility: March 1975 to March 1978," Current Population Reports, Series P-20, No. 285 October 1975 and No. 331, October 1978.

TABLE 1-2

REGIONAL MIGRATION BY RACE, 1970-1977
(Numbers in Thousands)

| Migration and Race | Northeast | North Central | South | West |
|---|---|---|---|---|
| All Races | | | | |
| In-migration | 1,725 | 2,928 | 6,016 | 3,857 |
| Out-migration | 3,682 | 4,484 | 3,723 | 2,535 |
| Net Migration | −1,957 | −1,556 | 2,293 | 1,222 |
| Blacks | | | | |
| In-migration | 161 | 255 | 484 | 250 |
| Out-migration | 257 | 294 | 454 | 75 |
| Net Migration | −96 | −39 | 30 | 150 |

SOURCE: U.S. Bureau of the Census, "Mobility of the Population of the United States: March 1970 and March 1975, and "Geographical Mobility, March 1975 to March 1977," **Current Population Reports**, Series P-20, No. 285, October 1975, and No. 320, February 1978.

"sunbelt" over the Northeast. Still, persons over age 65 account for only a fraction (about 8%) of all in-migrants to the South.

Those migrating to the Northeast and North Central regions are more likely to be college educated than migrants to the South and West and are more likely to be currently employed. Almost 40% of the labor market age males who migrate to the Northeast are employed in professional or managerial occupations, compared to 27% nationally. Fewer than one in ten families moving to the Northeast have incomes below the poverty level and only 7.6% are non-white. Migrants to the North Central region tend to be employed in blue collar occupations, and low income and minority households represent a larger proportion of the in-migrant flow than is the case for the Northeast.

In general, inter-regional migrants are less likely to choose a metropolitan destination—particularly the central city of an SMSA—and are more likely to live in a non-metropolitan area after moving than before. More than a third of migrants to the South and North Central regions choose non-metropolitan destinations. So do 29% of persons moving to the Northeast and 22% of those moving to the West. Fewer than one in five inter-regional migrants settle in a central city. Only migrants to the West are more likely to reside within a central city after moving than before. This suggests that many migrants take advantage of their move between regions to select a less urban residential location than they occupied before their move.

The patterns of inter-regional migration of black households came to resemble those of whites more closely during the 1970's. Prior to 1970, black migration tended to flow from the rural South to the cities of the North and, to a lesser extent, the West. This meant that in the pre-1970 period the Northeast and North Central regions had net in-migration of blacks and net out-migration of whites. As a result the South had a net in-flow of whites and net out-flow of blacks. After 1970, blacks as well as whites showed net out-migration from the two northern regions and net in-migration to the South and West (see Table 1-2).

The low income population has also begun to move parallel to the migration trends of the whole population. Until the early 1970's, the South consistently had net out-migration of people with incomes below the poverty level (many of whom were black). During the 1970's, however, the number of poor out-migrants from the South fell, while the level of in-migration remained about the same (Long, 1978). Poor Southerners who relocate today are more likely to remain in the South than was the case in earlier years. As the poor have become less likely to leave the South, in-migration to the Northeast and Midwest of persons with below-poverty incomes has fallen.

### The Reasons Behind Migration

Surveys asking households which have changed their residence in the previous year to identify their primary reason for moving reveal that job-related factors account for just over half of all inter-regional moves. Non-economic reasons are of increasing importance, particularly for persons moving to the South or West. Of those migrating between regions in the mid-1970's, 52.4% cited job-related reasons as most important. Of these, slightly over half moved because their jobs were transferred; the other half relocated either to take a new job or to seek one. The second most frequently cited reason for moving between regions is family-related factors, such as the desire to be closer to relatives. Migrating to seek a better climate and migrating upon retirement have become increasingly popular, together accounting for one in every ten moves between regions.

Table 1-3 shows the reasons given for regional movement in recent years. The South and West have experienced net in-migration and the Northeast and North Central regions have registered net out-migration for most of the reasons for moving shown in the table. This underscores the broad base of migration gains experienced by the South and West and the losses being experienced by the northern regions.

Migrants to the South and West are more frequently motivated by retirement or better climate than those moving to the Northeast or North Central regions. Between 1973 and 1975, about 134,000 persons moving to the South were members of households whose head reported retirement as the principal reason for moving, and another 275,000 in-migrants were in households which moved to seek a better climate. These two groups account for 4.1% and 8.5%, respectively, of all migrants to the South during this period. An even greater proportion of migrants to the West cite retirement and climate motivations (4.4% and 10.6%). The absolute number of persons moving for these reasons is larger for the South, suggesting that in the 1970's the South has become a more popular destination for retirees and "sun seekers" than the West. Few moves to the Northeast or North Central states were motivated by retirement or climate factors. On the other hand, retirement and climate account for nearly 15% of the out-migration from these two regions.

Overall, work was the most commonly cited reason for migrating between regions. Job transfer, a new job, and the search for work together accounted for about half of all in- or out-migrants. Economic reasons were least commonly mentioned by migrants out of the Northeast and North Central regions, or by those moving to the South and West.

## B. Job Shifts Among the Regions

Jobs as well as population spread out across the nation over the last two decades. From 1960 to 1978, the employment base of the southern states increased by 88% (or more than 12 million jobs) while employment in the nation as a whole rose by about 60%. By the mid-1970's, the South surpassed both the Northeast and North Central regions in terms of total employment. An even faster rate of increase occurred in the West (93.1%) although the gain in actual number of jobs was less than for the South. The job base in the North Central States increased 48.5% between 1960 and 1978, with the East North Central states of Wisconsin, Illinois, Michigan, Indiana, and Ohio lagging behind the less industrial states of the Midwest. The slowest employment growth took place in the Northeast, where jobs increased only 26.1% over the 18-year period. Again, the smallest gains were found in the most industrial states–in this case those of the Middle Atlantic: New York, New Jersey, and Pennsylvania.

The economic weakness of the Northeast and the strength of the South are emphasized by analysis of their shares of recent national employment growth. The Northeast accounted for one-third of all jobs in the nation in 1960, but it captured only about 13% of the nation's net job gain in the years since. A slightly larger share of total growth went to the Northeast during the boom years of the late 1960's, but slowdown in the economy during the early 1970's brought actual net employment losses. Since 1975, the Northeast has gained fewer than one in every ten net new jobs created in the United States. In contrast, the rapidly growing southern states have accounted for more than one-third of total U.S. employment gains in every five-year period since 1960. During the recession years of the early 1970's, 56% of the net gain in jobs occurred in the South. The North Central region has fared better than the Northeast in recent years, but continues to capture less than its share of total 1960 employment, and, like the Northeast, has been adversely affected by downturns in the economy. Almost as many net new jobs have gone to the West as to the North Central region since 1960, despite its much smaller employment base in the initial year. Like the South, job growth in the West slowed only modestly during recession years.

### Manufacturing Shifts to the Sunbelt

A major factor responsible for employment base erosion in the North and East has been manufacturing. In 1960, the Northeast was the dominant industrial production center of the nation with the North Central region ranking a close second. By 1978, the South surpassed the Northeast in total manufacturing jobs. Between 1960 and 1978, manufacturing employment in the South increased by 59.3% and in the West by 44.4%. On the other hand, the North Central region gained less than 15% over its 1960 base, and the Northeast lost more than 10% of its 1960 total, a net loss of 619,000 manufacturing jobs (see Table 1-4).

The Northeast experienced slow growth in manufacturing employment as far back as 1960; during periods of slowdown in the national economy it suffered serious net job losses in manufacturing. Between 1970 and 1975, job losses in the Northeast accounted for more than 60% of the total decline experienced nationwide. Fewer than one in every ten net manufacturing jobs added in the United States since 1975 have been in the Northeast. The North Central region has fared considerably better, consistently capturing about 30% of the new manufacturing employment nationwide; however, during the recession of the early 1970's the North Central states lost almost six million production jobs. More than five million of these were regained during the subsequent recovery, resulting in a net loss of manufacturing employment over the decade for the Midwest.

These northern job losses contrast with positive growth in manufacturing employment experienced in the South and West during all five-year periods since the 1960's, with the South capturing two jobs for each one going to the West after 1975 (see Table 1-5).

## TABLE 1-3

## PATTERNS OF INTERREGIONAL MIGRATION, 1973-1975

Percent of Persons Moving to and from Each Region in the 12 Months Preceding the 1974, 1975, and 1976 Annual Housing Surveys, According to Reason for Moving Given by the Household Head

| Reason for Moving | To North-East | From North-East | To North Central | From North Central | To South | From South | To West | From West |
|---|---|---|---|---|---|---|---|---|
| Job transfer | 31.0% | 25.6% | 26.4% | 23.8% | 25.6% | 30.2% | 27.9% | 28.5% |
| New job or looking for work | 23.7 | 20.0 | 26.5 | 24.4 | 20.8 | 22.1 | 20.3 | 22.6 |
| Other employment reason | 2.1 | 1.9 | 3.0 | 3.1 | 3.8 | 2.6 | 2.0 | 4.5 |
| Enter or leave Armed Forces | 7.8 | 4.4 | 7.3 | 4.6 | 5.1 | 6.9 | 5.2 | 8.2 |
| Attend school | 3.8 | 4.7 | 5.6 | 2.1 | 2.1 | 4.9 | 4.4 | 3.1 |
| Wanted change of climate | 2.6 | 11.0 | 1.3 | 9.9 | 8.5 | 3.4 | 10.6 | 1.9 |
| Retirement | 2.5 | 3.9 | 1.9 | 4.4 | 4.1 | 3.1 | 4.4 | 2.3 |
| To be closer to relatives | 6.8 | 6.2 | 8.2 | 9.4 | 9.3 | 8.8 | 7.3 | 8.0 |
| Other family reason | 7.3 | 6.9 | 8.0 | 6.0 | 7.9 | 6.9 | 4.9 | 8.8 |
| All other reasons | 9.0 | 13.7 | 10.2 | 11.0 | 11.5 | 9.3 | 11.6 | 9.8 |
| Not reported | 3.5 | 1.9 | 1.7 | 1.2 | 1.4 | 1.7 | 1.5 | 2.2 |
| TOTAL | 100.1 | 100.2 | 100.1 | 99.9 | 100.1 | 99.9 | 100.1 | 99.9 |

SOURCE: Larry H. Long and Kristin A. Hansen, "Reasons for Interstate Migration," U.S. Bureau of the Census, Current Population Reports, Series P-23, No. 81, March 1979, table 6.

TABLE 1-4

EMPLOYMENT CHANGE BY REGION AND DIVISION, 1960-1978[1]
(Numbers in Thousands)

| Region and Division | Employment 1960 | Employment 1978 | Change 1960-1978 Number | Change 1960-1978 Percent |
|---|---|---|---|---|
| **Total Employment** | | | | |
| Northeast | 15,229.5 | 19,202.8 | 3,973.3 | 26.1% |
| Middle Atlantic | 11,676.4 | 14,237.7 | 2,561.3 | 21.9 |
| New England | 3,553.1 | 4,965.1 | 1,412.0 | 39.7 |
| North Central | 15,291.8 | 22,701.7 | 7,409.9 | 48.5 |
| East North Central | 11,318.1 | 16,237.6 | 4,919.5 | 43.5 |
| West North Central | 3,973.3 | 6,464.1 | 2,490.8 | 62.7 |
| South | 13,818.0 | 26,006.7 | 12,188.7 | 88.2 |
| South Atlantic | 7,054.2 | 13,048.9 | 5,994.7 | 85.0 |
| East South Central | 2,606.0 | 4,875.3 | 2,269.3 | 87.1 |
| West South Central | 4,157.8 | 8,082.5 | 3,924.7 | 94.4 |
| West | 7,734.3 | 14,934.7 | 7,200.4 | 93.1 |
| Mountain | 1,765.9 | 3,829.7 | 2,063.8 | 116.9 |
| Pacific | 5,968.4 | 11,105.0 | 5,136.6 | 86.1 |
| U.S. Total[2] | 52,073.6 | 82,845.9 | 30,772.3 | 59.1 |
| **Manufacturing Employment** | | | | |
| Northeast | 5,620.6 | 5,001.4 | −619.2 | −11.0 |
| Middle Atlantic | 4,172.8 | 3,583.5 | −589.3 | −14.1 |
| New England | 1,447.8 | 1,417.9 | −29.9 | −2.1 |
| North Central | 5,579.9 | 6,317.3 | 737.4 | 13.2 |
| East North Central | 4,586.4 | 4,977.9 | 391.5 | 8.5 |
| West North Central | 933.5 | 1,339.4 | 345.9 | 34.8 |
| South | 3,650.5 | 5,816.3 | 2,165.8 | 59.3 |
| South Atlantic | 2,013.1 | 2,907.6 | 894.5 | 44.4 |
| East South Central | 823.2 | 1,398.8 | 575.6 | 69.9 |
| West South Central | 814.2 | 1,509.9 | 695.7 | 85.4 |
| West | 1,874.6 | 2,707.9 | 833.3 | 44.4 |
| Mountain | 248.9 | 470.7 | 221.8 | 89.1 |
| Pacific | 1,625.7 | 2,237.2 | 611.5 | 37.6 |
| U.S. Total[2] | 16,725.6 | 19,842.9 | 3,117.3 | 18.6 |

SOURCE: U.S. Bureau of Labor Statistics, **Employment and Earnings**, monthly issues.

[1] Employees on non-agricultural payrolls as of March of the respective year.
[2] Excludes Alaska and Hawaii.

TABLE 1-5

REGIONAL GROWTH SHARE OF EMPLOYMENT CHANGE, 1960-1978[1]
(Numbers in Thousands)

| | Growth Increment | | | | Percentage Share of National Growth | | | |
|---|---|---|---|---|---|---|---|---|
| Region | 1960-65 | 1965-70 | 1970-75 | 1975-78 | 1960-65 | 1965-70 | 1970-75 | 1975-78 |
| **Total Employment** | | | | | | | | |
| U.S. Total[2] | 6,041.9 | 11,911.4 | 5,925.9 | 6,893.1 | 100.0% | 100.0% | 100.0% | 100.0% |
| Northeast | 875.7 | 2,465.9 | −35.7 | 667.4 | 14.5 | 20.7 | −0.6 | 9.7 |
| North Central | 1,422.2 | 3,240.6 | 872.1 | 1,875.0 | 23.5 | 27.2 | 14.7 | 27.2 |
| South | 2,323.6 | 4,033.6 | 3,305.1 | 2,526.4 | 38.5 | 33.9 | 55.8 | 36.7 |
| West | 1,420.4 | 2,171.3 | 1,784.4 | 1,824.3 | 23.5 | 18.2 | 30.1 | 26.5 |
| **Manufacturing Employment** | | | | | | | | |
| U.S. Total[2] | 722.9 | 2,213.4 | −1,467.0 | 1,648.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Northeast | −110.1 | 264.9 | −936.2 | 162.2 | −15.2 | 12.0 | −63.9 | 9.8 |
| North Central | 189.7 | 624.5 | −579.8 | 503.0 | 26.2 | 28.2 | −39.5 | 30.5 |
| South | 520.6 | 951.5 | 23.9 | 669.8 | 72.0 | 43.0 | 1.6 | 40.6 |
| West | 122.7 | 372.5 | 25.1 | 313.0 | 17.0 | 16.8 | 1.7 | 19.0 |

SOURCE: U.S. Bureau of Labor Statistics, Employment and Earnings.

[1] Employees on nonagricultural payrolls as of March of the respective year.
[2] Excludes Alaska and Hawaii.

### The Pattern of Industrial Change

Manufacturing employment declines in the Northeast and North Central regions were widespread among industries. Between 1967 and 1973, of the 21 major two-digit Standard Industrial Code (SIC) manufacturing categories, job levels fell in 18 categories in the Middle Atlantic states, 17 in New England, and 13 in the East North Central states (Petrulis, 1979a). Industries showing the largest absolute employment losses over the late 1960's and early 1970's in the Middle Atlantic were apparel and electrical machinery production, with smaller losses in primary metal products and non-electrical machinery. In New England, the largest losses were in transportation equipment and leather goods production, with apparel and textiles also showing substantial job declines. The electrical and non-electrical machinery production categories accounted for over half the jobs lost in the East North Central region; however, employment in fabricated metal products grew rapidly in this area over this period.

Growth in the other subregions was widespread throughout the industrial structure, except in the West North Central states where only 12 manufacturing industries experienced positive growth rates between 1967 and 1972. Machinery, fabricated metal products, and apparel were solid growth industries in the South. Other industries contributing to rising employment in the southern states were textiles, rubber and plastic, furniture, printing, and transportation equipment. Production of electrical machinery was the single largest contributor to manufacturing employment growth in the Mountain states. Lumber products, apparel, and non-electrical machinery grew most rapidly in the Pacific states, with some declines experienced in the aerospace industry. Growth in the West South Central region was strongest in machinery and plastics, with losses registered in food processing and accessories.

### Reason for Employment Shifts

Growth of employment in the South and West at higher rates than in the North and East appears to be not so much the result of firms "migrating" among regions but of differential rates of expansion of existing firms and of establishment of new firms. The industrial structure of the Northeast and North Central regions is disproportionately comprised of slow growth industries such as machinery, food processing, leather goods, and apparel, while the South and West contain a higher proportion of rapid growth industries such as plastics and wood products.

Furthermore, the South and West have been able to capture an increasing share of new firms and of new plants, offices, and retailing outlets established by existing firms across almost all employment sectors. Technological changes in transportation and communications have undermined the locational advantages for industrial production once held by the older northern regions. Outdated capital plants together with new production technologies further hamper the North. Firms are attracted to the South and West by lower production costs, a general receptivity to growth on the part of local officials and ordinances, and by the climate and other amenities. Population-serving employment, such as retail, government, and services, has also grown in response to the rapid population growth experienced in the South and West.

## 2. Metropolitan Shifts in Population and Jobs

By the late 1970's over two-thirds of the nation's population lived in Standard Metropolitan Statistical Areas (henceforth referred to as metropolitan areas). These areas are established by the Office of Management and Budget, generally on the basis of a central city of at least 50,000 residents plus the surrounding suburban areas that are economically linked to the central city. In most parts of the nation metropolitan areas are defined in terms of county units, but in New England the definition is in terms of incorporated towns. The metropolitan area has been found to be a highly useful geographic unit for analysis of urban trends.

### A. Metropolitan Population Trends

Metropolitan areas, particularly the largest metropolitan areas, grew more slowly in the 1970's than the nation as a whole. Between 1970 and 1977, the United States population increased 6.4%. Metropolitan areas grew by 4.4% and those areas with population in excess of one million grew by only 3.6%. The contrast became even sharper after 1974 when the rate of population gain in metropolitan areas slowed to less than one quarter of a percent annually.

The growth that has occurred in metropolitan population has been concentrated in the suburban ring. Central cities as a group suffered a net loss of almost 2.9 million residents between 1970 and 1977 because of heavy net out-migration to suburban communities and non-metropolitan areas (see Table 1-6). Population loss from central cities has been most dramatic in the largest metropolitan areas, particularly those located in regions of net out-migration. Northeast and North Central metropolitan areas of over one million account for nearly three-quarters of the total central city population loss experienced since 1970. After 1974, smaller metropolitan areas as a group also registered population decline in their central cities, and even many rapidly growing metropolitan areas experienced net out-migration from their central cities during the 1970's (see Table 1-7).

Suburban areas gained 8.9 million residents from 1970 to 1977. Although the suburbs lost net migrants to non-metropolitan areas over this period, these losses were more than balanced by the net in-flow of migrants from central cities. Suburban communities gained 7.8 million net residents from migration in the 1970-78 period.

Net migration from central cities to suburbs appears to be continuing at a high rate. Despite media accounts of "back to the city" trends, 3.8 million more people moved from central cities to suburbs than went the other way in the years since 1975. Suburban growth is uniformly strong in metropolitan areas of all sizes and all regions of the country. In metropolitan areas of the West and South, suburban growth was especially rapid during the 1970's. Suburbs in the West grew by 16% and those in the South by 22% from 1970 to 1977. Suburban population also increased in the regions of the country which have experienced net out-migration. The number of suburban residents increased three percent in the Northeast and ten percent in the North Central region between 1970 and 1977 in the face of absolute declines in total metropolitan population in both regions.

One consequence of the differential growth rate of central cities and suburban areas is that an increasing proportion of total metropolitan population resides outside central cities. Since 1960, the suburban share has risen from 50% to 60% of all metropolitan residents.

#### The Increasing Diversity of Suburban Migration

The population of suburban areas has traditionally been overwhelmingly white, middle to upper income, and family oriented. At the time of the census in 1970, only five percent of suburban population was black and only eight percent was below the poverty level. By contrast, 22% of central city residents were black and 15% had poverty level incomes. Almost three-quarters of suburban households were husband-wife families and fewer than one in ten was headed by a female.

More recent data indicates that blacks, low income households, and families with female heads–all population groups which have traditionally been concentrated in the central cities–began to participate in the spreading out of metropolitan population to the suburbs during the 1970's.

#### Black Suburbanization

As indicated in Table 1-8, the black population residing in suburban areas increased significantly during the 1970's. Between 1970 and 1978 the number of blacks living in suburbs rose from 3.4 million to nearly 4.8 million. This was an increase of nearly 40%, four times the percent gain in the white suburban population over the same period. Furthermore, the rate of suburbanization of blacks appears to be increasing. Over the course of the decade, the rate of black net migration to suburban areas rose from 1.8 persons per 1,000 in

## TABLE 1-6

### METROPOLITAN POPULATION IN THE 1970's
(Numbers in Thousands)

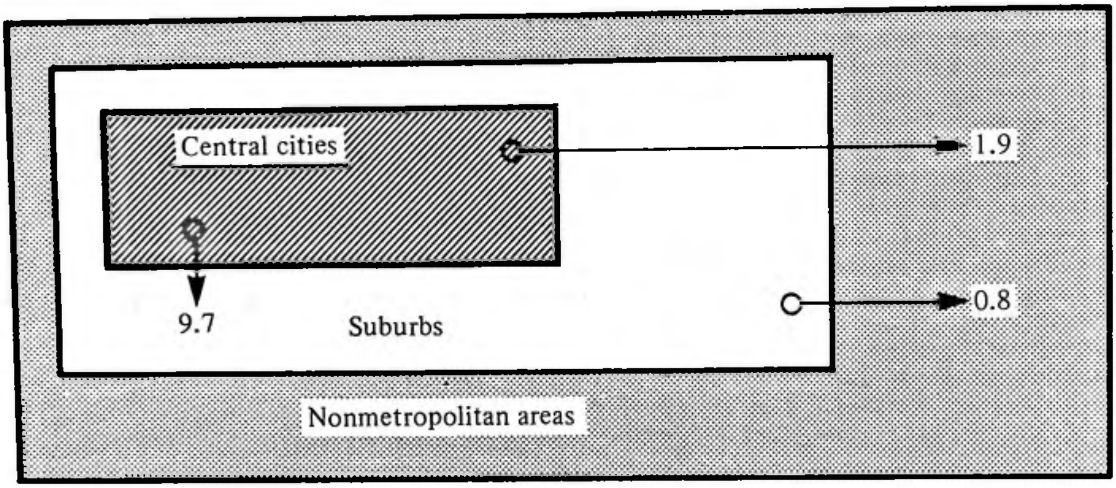
| Location | Population | | | Percentage Change | | |
|---|---|---|---|---|---|---|
| | 1970 | 1974 | 1977 | 1970-74 | 1974-77 | 1970-77 |
| United States Total | 199,819 | 207,949 | 212,566 | 4.1% | 2.2% | 6.4% |
| Metropolitan Areas[1] | 137,058 | 142,043 | 143,107 | 3.6 | 0.7 | 4.4 |
| Central Cities | 62,876 | 61,650 | 59,993 | −1.9 | −2.7 | −4.6 |
| Suburban Areas | 74,182 | 80,394 | 83,114 | 8.4 | 3.4 | 12.0 |
| Metropolitan Areas of 1 Million or More | 79,489 | 81,059 | 82,367 | 2.0 | 1.6 | 3.6 |
| Central Cities | 34,322 | 33,012 | 31,898 | −3.8 | −3.4 | −7.1 |
| Suburban Areas | 45,166 | 48,047 | 50,469 | 6.4 | 5.0 | 11.7 |
| Metropolitan Areas of Less Than 1 Million | 57,570 | 60,985 | 60,739 | 5.9 | −0.4 | 5.5 |
| Central Cities | 28,554 | 28,638 | 28,095 | 0.3 | −1.9 | −1.6 |
| Suburban Areas | 29,016 | 32,347 | 32,644 | 11.5 | 0.9 | 12.5 |
| Counties Designated Metropolitan Since 1970 | 8,373 | 9,243 | 9,980 | 10.4 | 8.0 | 19.2 |

SOURCE: U.S. Bureau of the Census, **Current Population Reports**, "Social and Economic Characteristics of Metropolitan and Nonmetropolitan Population: 1974 and 1970," and "Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Population: 1977 and 1970," Series P-23, No. 55, November 1975, and No. 75, November 1978, Tables D and E.

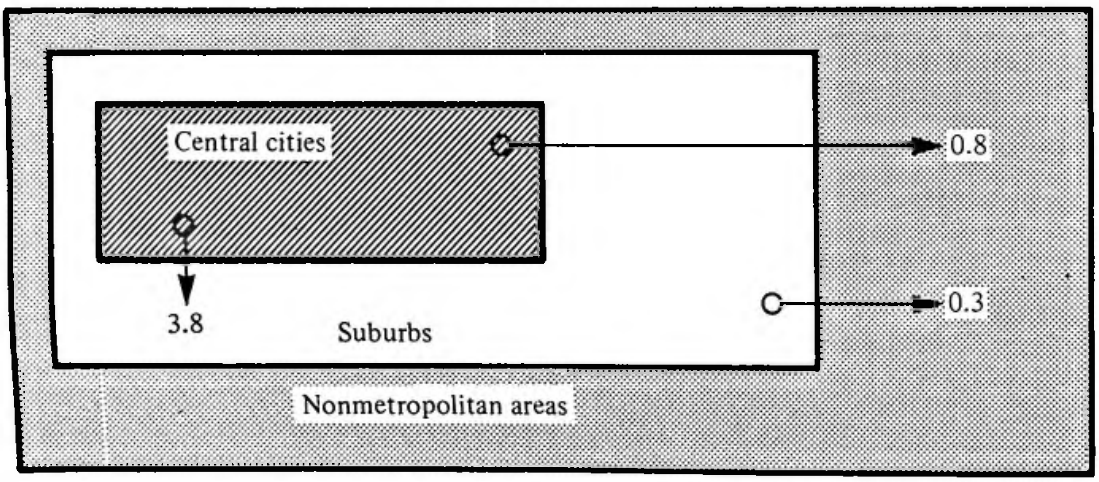
[1] Metropolitan areas as defined in 1970.

Figure 1-3
NET RESIDENTIAL FLOWS: 1970–1978 AND 1975–1978
(Numbers in Millions)

1970-1978




1975-1978




SOURCE: U.S. Bureau of the Census, "Mobility of the Population of the United States: March 1970 to March 1975" and "Geographic Mobility: March 1975 to March 1978", Current Population Reports, Series P-20, Numbers 285 and 331, 1975 and 1978.

TABLE 1-7

METROPOLITAN POPULATION CHANGE BY REGION, 1970-1977

| Location | Northeast | North Central | West | South |
|---|---|---|---|---|
| | Percent Change 1970-1977 | | | |
| Metropolitan Areas | −2.4% | −0.9% | 12.0% | 10.0% |
| Central city | −10.9 | −10.1 | 7.0 | −1.7 |
| Suburban areas | 3.4 | 10.0 | 15.7 | 22.2 |
| Metro Areas of 1 Million or More | | | | |
| Central city | −11.2 | −9.6 | 2.1 | 6.2 |
| Suburban areas | 3.1 | 10.2 | 14.4 | 25.9 |
| Metro Areas of Less Than 1 Million | | | | |
| Central city | −6.5 | −10.8 | 16.4 | 0.4 |
| Suburban areas | 3.9 | 9.6 | 18.9 | 19.1 |
| Counties Designated Metropolitan Since 1970 | 11.9 | 3.9 | 13.8 | 29.6 |

SOURCE: U.S. Bureau of the Census, **Current Population Reports,** "Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Population: 1977 and 1970," Series P-23, No. 75, Table 3.

1970-1978 (well below that for whites) to 12.2 persons per 1,000 in 1975-1978 (well above the rate for the white population). More than half of net migration of blacks to suburban areas between 1970 and 1978 took place after 1975 (U.S. Bureau of the Census, 1978c).

Despite the impressive percentage increases in the number of blacks residing in suburban communities and in the rate of net in-migration, blacks remain heavily concentrated in the central cities. Although blacks suburbanized at a faster rate than whites after 1970, the number of whites moving to the suburbs during that period out-numbered blacks by more than five to one. Suburban blacks still represent only 19% of the nation's total black population (up from 16% in 1970) and only about 26% of the black metropolitan population (up from 21%). Furthermore, while blacks are 12% of the total United States population, they represent six percent of suburban residents.

Black suburbanization varies by size of metropolitan area and region. In general, blacks are somewhat more concentrated in the central cities of large metropolitan areas than in small ones, although the differences are slight. Black households were more likely to reside in suburban areas in 1977 than in 1970 in all four Census regions. However, the proportion of metropolitan blacks living in suburbs is highest in the West (35.4%) and lowest in the North Central region (16.4%), with the proportion in the South slightly below the West, and the Northeast just above the Midwest. In all four regions, blacks remain much more concentrated in central cities than whites. In the West and South, blacks are only about 58% as suburban as whites, and the discrepancies are even greater in the Northeast and North Central regions (see Table 1-9).

Black suburbanization varies considerably among cities. One study of 19 large metropolitan areas indicates that although almost all experienced rising net out-migration of blacks from the central city during the 1970's, only half showed clear increases in the rate at which black movers from the central city choose a suburban location. The evidence suggests that in Los Angeles, Miami, Washington, Cleveland, Philadelphia, and Newark, blacks move to suburban areas as frequently as white movers originating in the central city. But in other areas—Baltimore, Atlanta, New York, Boston, Chicago, Houston, Dallas, and New Orleans—the black rate remained less than one third of the white rate through 1974 (Nelson, 1979).

**Continued Concentration of Low Income and Female Heads of Households**

Poverty has increasingly become a central city phenomenon. Prior to 1960, most poor people lived in small towns and rural areas. But by the mid-1970's, 60% lived in metropolitan areas and, within such areas, six of every ten lived in the central city. The 5.6 million low income persons residing in suburban areas in 1977 made up less than seven percent of the total suburban population, compared with a poverty rate of almost 16% in central cities.

The evidence indicates that low income households have not suburbanized appreciably during the 1970's. And of those

TABLE 1-8

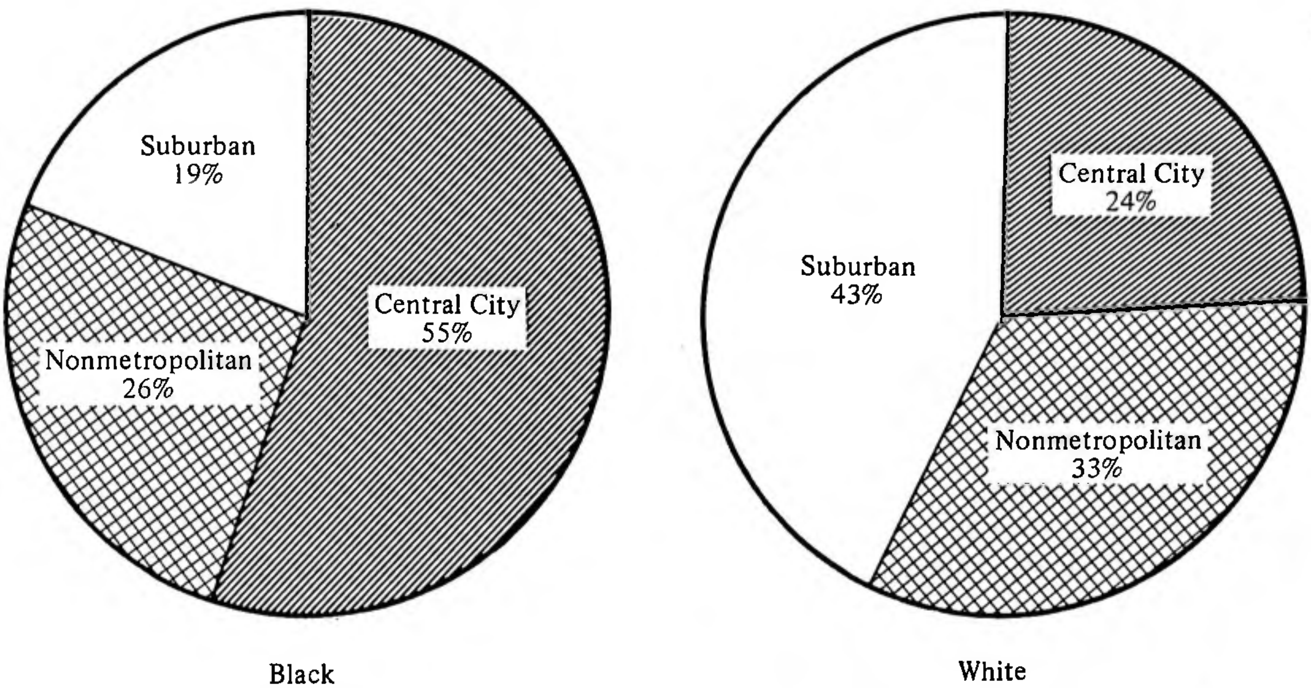
**METROPOLITAN POPULATION OF THE UNITED STATES BY RACE, 1970-1978**
**(Population in Thousands)**

| Race | Location | Population 1978 | Population 1970 | Numerical Change | Percentage Change 1970-78 | Percentage Change 1960-70 | Average Annual Percentage Change 1970-78 | Average Annual Percentage Change 1960-70 |
|---|---|---|---|---|---|---|---|---|
| *White* | *Total Metropolitan*[1] | 121,650 | 118,938 | 2,712 | 2.3% | 14.0% | 0.3% | 1.3% |
| | *Central Cities* | 44,511 | 48,909 | –4,398 | –9.0 | 0.1 | –1.2 | 0.0 |
| | *Suburban Areas* | 77,140 | 70,029 | 7,111 | 10.2 | 26.1 | 1.2 | 2.3 |
| *Black* | *Total Metropolitan*[1] | 18,463 | 16,342 | 2,121 | 13.0 | 31.6 | 1.5 | 2.7 |
| | *Central Cities* | 13,687 | 12,909 | 778 | 6.0 | 33.2 | 0.7 | 2.9 |
| | *Suburban Areas* | 4,776 | 3,433 | 1,343 | 39.1 | 26.4 | 4.1 | 2.3 |

*SOURCE:* *U.S.* Bureau of the Census, **Current Population Reports**, "Population Profile of the United States: 1978," Series P-20, No. 336, April 1979, Table 19.

[1] Metropolitan areas as defined in 1970.

**Figure 1-4**
**DISTRIBUTION OF BLACK AND WHITE POPULATION: 1978**




SOURCE: U.S. Bureau of the Census, **Current Population Reports**, "Population Profile of the United States: 1978," Series P-20, No. 336, April 1979, Table 19.

TABLE 1-9

METROPOLITAN BLACK POPULATION BY REGION, 1970 AND 1977

| | Northeast | North Central | West | South |
|---|---|---|---|---|
| Percent change in black population 1970-1977 | | | | |
| SMSA | –0.8% | 10.0% | 33.6% | 12.1% |
| Suburban areas | 12.9 | 37.9 | 61.2 | 34.4 |
| Suburban blacks as percent of black metropolitan population, 1977 | 20.9 | 16.4 | 35.4 | 30.8 |
| Blacks as percent of total population, 1977 | | | | |
| SMSA | 10.6 | 12.3 | 6.9 | 19.4 |
| Suburban areas | 3.8 | 3.4 | 4.1 | 11.0 |
| Index of suburbanization[1] | 0.36 | 0.28 | 0.59 | 0.57 |

SOURCE: U.S. Bureau of the Census, **Current Population Reports**, "Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Population, 1977 and 1970", Series P-23, No. 75, Table F.

[1] Index calculated as ratio of percent of total suburban population that is black to the percent of total SMSA population that is black. A value of 1.0 indicates that blacks are distributed between the central city and suburbs in the same proportion as whites; a value less than one indicates that blacks are disproportionately concentrated in the central city.

who have, one in every five is concentrated in poverty areas outside the central city. Since 1960, the fraction of all low income persons residing in suburban areas has risen by only five percentage points, while the central city share rose by twice that amount. By the late 1970's, households with incomes above the poverty level were twice as likely to live in suburban areas as the poor.

The number of households headed by females—a category that includes many of the poorest American families—increased markedly during the 1970's. Suburban areas shared in this increase, but most families headed by women remain in the central cities.

Between 1970 and 1977, the number of families headed by a woman with no husband present rose by 2.1 million. Slightly more than half of this increase occurred in suburban areas. As of 1977, one in ten suburban families was headed by a woman and one in eight suburban children lived in families without a father present. These proportions are about half as high as those found in the central city, where one in five families is headed by a woman and one in four children lives without a father.

The lower incidence of female heads in suburban areas is due partly to differences in racial composition. Female-headed families tend to be black in disproportionate numbers. As of 1978, 39% of all black suburban families were headed by a female compared with 12% of white families. Among blacks as well as whites the incidence of families headed by women is substantially greater in central cities than in the surrounding communities.

Families headed by women are four times as likely to be below the poverty level than all urban families: 41% of female headed households living in central cities are poor, as are 26% of those living in suburban areas (U.S. Bureau of the Census, 1977). For all families, the comparable proportions are 14% and 6%. For blacks, the proportions are even higher: 54% of all central city black families headed by women are poor, as are 49% of those living in the suburbs.

## B. Metropolitan Job Shifts

The central cities have lost their dominance of the metropolitan economy. The central city share of total metropolitan jobs has eroded greatly in the post-war period, and in many cases the actual number of jobs in central cities has declined. Table 1-10 shows that between 1962 and 1976 the share of total private metropolitan employment located in the suburbs rose from 43% to nearly 60% for ten areas examined. A combination of actual decline in central city jobs and strong growth in the number of suburban employment opportunities account for the rising suburban share.

Job losses have been most serious in older central cities located in regions which are losing employment. Older central cities such as Newark, Buffalo, Cleveland, St. Louis, and Detroit each lost more than three percent of their jobs annually between 1970 and 1977. For most cities losing jobs, the pace of loss accelerated during the 1970's.

However, not all central cities have lost employment. Employment in such cities as Houston, Phoenix, Austin, Tulsa, Wichita, and Charlotte grew between 3.9% and 6.4% annually after 1970. The majority of cities with an expanding employment base are located in the South or West, and the remaining tend to be small to mid-size cities in the Midwest.

Manufacturing employment, a traditional cornerstone of the central city economy, has accounted for a large share of the total job loss. Between 1972 and 1975, manufacturing employment in central cities of the Northeast declined about 15%, and in the North Central region by nearly ten percent, well in excess of the nationwide loss. Declining employment in wholesale and retail trade has also contributed to job loss in central cities, while growth in the service sector has been limited, replacing only a small fraction of the lost manufacturing jobs. In contrast, growing cities of the South and West have registered employment gains in all sectors, with services and retail trade accounting for the largest share of the gain (Garn and Ledebur, 1978).

Two factors contribute to the erosion of the central city job base. First, there have been regional shifts in population and employment from the North and East to the South and West. This contributes to low overall rates of employment growth in metropolitan areas in regions of net out-migration, and has resulted in actual declines in manufacturing employment in many central cities. Second, the spreading out of employment and population to the suburbs has often been at the expense of the central city. Improved transportation and innovations in production technology have broken traditional ties to central locations for many goods-producing firms. Suburban population growth promotes the growth of retail trade and other population-serving employment.

Suburban employment increased during the 1970's even in declining metropolitan areas. For example, St. Louis lost 22% of all private sector jobs in the central city between 1970 and 1976, but suburban employment increased by 25% over the same period. In rapid growth urban areas with expanding central city employment, suburban job gains have been even larger. In Denver, for instance, private sector employment rose five percent in the central city over the first half of the 1970's while suburban employment more than doubled.

Manufacturing and retail trade have led the spreading out of jobs to the suburbs. Nationally, manufacturing employment in suburban areas increased markedly while central cities lost blue collar jobs. Even in the Northeast and North Central regions, the number of manufacturing jobs in suburban areas rose despite heavy losses in central cities. The share of metropolitan manufacturing located outside the central city has risen from less than 40% to more than 60% since the 1950's, in a pattern that has hit the older industrial cities hardest. Retail trade has also grown rapidly in the suburbs. By 1970, the rise of suburban shopping malls and smaller retail centers had proceeded to the point where three in every five persons employed in retailing worked outside the central city. The metropolitan core has retained more of its relative advantage for the wholesaling and service sectors. Even so, both of these categories also have grown rapidly in the suburbs in recent years. Even for office employment, traditionally concentrated in the central city, the suburban share of total employment is rising.

## 3. Shifts of People and Jobs to Non-Metropolitan Areas

The 1970's marked a turning point in metropolitan growth in the United States. Through the 1960's, metropolitan areas grew at a rate four times that of non-metropolitan areas, attracting more than 700,000 net migrants each year from small cities and the rural countryside. After 1970, metropolitan growth slowed sharply, particularly in the largest urban areas. By 1975, nearly one in six of the nation's 259 metropolitan areas had begun to lose population. As the large metropolitan areas settled into slow growth or decline, non-metropolitan areas emerged as an important focus of population and job gains. Between 1970 and 1977, the population of non-metropolitan areas grew 10.7%, compared to 4.4% for all metropolitan areas and less than 3.6% for the largest areas. This section documents the turn-about in non-metropolitan population and employment growth, and examines the underlying factors which account for it.

### A. Non-Metropolitan Population Reversal

Prior to 1970, non-metropolitan areas experienced net out-migration and population decline. Farms were consolidated and mechanized, and employment in mining and forestry contracted. In the 1950's alone, six million more people moved from the rural countryside, remote towns, and small cities to metropolitan areas than traveled the other way. But after 1970, non-metropolitan counties began to register net in-migration as more Americans moved from metropolitan to non-metropolitan areas. Non-metropolitan population began to grow at a faster rate than the nation as a whole. Between 1970 and 1977, the number of persons living in counties defined as non-metropolitan in 1977 increased 1.2% per year. In contrast, the population of metropolitan areas increased only 0.7% per year. Non-metropolitan growth can be observed throughout the nation. All regions registered

TABLE 1-10

EMPLOYMENT TRENDS IN TEN CENTRAL CITIES AND THEIR SUBURBS, 1962–1976[1]

A. Employment Levels

| | 1962 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974[3] | 1975[3] | 1976[3] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Central Cities | | | | | | | | | | | |
| Number[2] | 3049 | 3342 | 3379 | 3430 | 3455 | 3349 | 3387 | 3481 | 3038 | 2861 | 2872 |
| Percent of SMSA | 57.1 | 53.1 | 52.0 | 51.3 | 50.8 | 50.5 | 49.5 | 48.8 | 43.0 | 42.1 | 41.6 |
| Suburbs | | | | | | | | | | | |
| Number[2] | 2288 | 2952 | 3115 | 3254 | 3346 | 3281 | 3418 | 3648 | 4023 | 3928 | 4029 |
| Percent of SMSA | 42.9 | 46.9 | 48.0 | 48.7 | 49.2 | 49.5 | 50.2 | 51.2 | 57.0 | 57.9 | 58.4 |
| SMSA's | | | | | | | | | | | |
| Number[2] | 5337 | 6294 | 6484 | 6684 | 6801 | 6628 | 6805 | 7129 | 7061 | 6789 | 6901 |
| Percent of SMSA | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

B. Employment Changes

| | Average Annual Change 1962-1967 | 1967-1968 | 1968-1969 | 1969-1970 | 1970-1971 | 1971-1972 | 1972-1973 | 1974-1975 | 1975-1976 |
|---|---|---|---|---|---|---|---|---|---|
| Central Cities | | | | | | | | | |
| Absolute Change | 51 | 21 | 39 | 20 | −119 | 19 | 68 | −177 | 11 |
| Percent Change | 1.8 | 0.7 | 1.2 | 0.6 | −3.7 | 0.6 | 2.2 | −5.8 | 0.4 |
| Suburbs | | | | | | | | | |
| Absolute Change | 133 | 162 | 139 | 91 | −65 | 135 | 230 | −95 | 101 |
| Percent Change | 5.8 | 5.5 | 4.5 | 2.8 | −2.0 | 4.1 | 6.8 | −2.4 | 2.6 |
| SMSA's | | | | | | | | | |
| Absolute Change | 184 | 183 | 178 | 111 | −184 | 154 | 298 | −272 | 112 |
| Percent Change | 3.6 | 3.0 | 2.9 | 1.7 | −2.8 | 2.4 | 4.6 | −3.9 | 1.6 |

SOURCE: U.S. Bureau of the Census, County Business Patterns.

[1] Only private wage and salary jobs covered under Social Security are included. Employment levels are measured in March of each year. The ten areas considered are Baltimore, Boston, Denver, New Orleans, Philadelphia, St. Louis, San Francisco, Washington, D.C., San Antonio, and Albuquerque.

[2] Thousands of jobs.

[3] Due to changes in definitions of employment location these data are not directly comparable to data from earlier years.

larger increases in population and net migration in non-metropolitan than metropolitan areas since 1970. Even in the South there has been a marked increase in non-metropolitan growth and a shift from heavy out-migration to net in-migration (see Table 1-11).

This major reversal of long-standing rural population loss trends must be seen in perspective. Although non-metropolitan areas are growing at a more rapid rate than metropolitan areas, because only one-quarter of the U.S. population resides in non-metropolitan areas, the majority (63.3%) of the population increase experienced nationally is still occurring in metropolitan areas.

### The Spread of Non-Metropolitan Growth

Prior to 1970, non-metropolitan growth, where it occurred, could be primarily attributed to the growth of non-metropolitan cities at the expense of surrounding countryside and rural communities, or to the spillover of growth beyond officially recognized metropolitan boundaries. However, after 1970, non-metropolitan growth has increasingly taken place in counties which are neither adjacent to metropolitan areas nor contain a large urban place. Non-metropolitan counties adjacent to metropolitan areas have grown most rapidly, but counties not adjacent to a metropolitan area accounted for 43% of total non-metropolitan growth after 1970 compared t6 only 16% during the 1960's. Furthermore, counties with no urban places greater than 10,000 population are now growing faster than those with cities over 10,000, and counties with no urban place greater than 2,500 are growing most rapidly of all. Taken together, entirely rural counties not adjacent to metropolitan areas are growing as rapidly as adjacent counties with larger urban places. These data suggest that while metropolitan spillover remains an important factor, the current population growth in non-metropolitan areas is remarkably dispersed (see Table 1-12).

The spreading out of non-metropolitan growth is further evidenced by the fact that since 1970 population in unincorporated areas has increased much faster than in incorporated towns. Between 1970 and 1975, the population of non-metropolitan towns grew more slowly than the United States average, while the non-metropolitan population living outside incorporated places increased at twice the national rate. Not only is the rural population growing faster than the urban population, but there is also an inverse relationship between the size of incorporated place and population growth. Non-metropolitan incorporated places with fewer than 2,500 inhabitants increased at a markedly faster rate than towns of 2,500 to 24,999 population, and cities larger than 25,000 grew even more slowly.

### Characteristics of Non-Metropolitan Migrants

Nationally, just over half the migrants to non-metropolitan areas relocate from metropolitan areas. The remainder come from other non-metropolitan counties. More than 40% move across state boundaries (U.S. Bureau of the Census, 1978c). However, these figures tend to exaggerate the importance of the movement out of the metropolitan areas because many of those relocating originally came from non-metropolitan areas. A study of five non-metropolitan counties in southern Ohio found that only 22% of all migrants moving out of metropolitan areas grew up in such areas. Many others were raised in a rural area (Thomas and Bachtel, 1978). These "returnees" probably account for a substantial proportion of the recent population flow from cities to the countryside.

Households migrating from metropolitan to non-metropolitan areas in the 1970's are typically husband-wife families (half with children living at home) who have at least one member that works. Only five percent of the adult movers are elderly. Recent migrants tend to be relatively educated—one in four have attended college. They are also more frequently employed in white collar professional and managerial occupations than long-term non-metropolitan residents. Fewer than five percent are employed in agriculture. About one in ten households migrating out of metropolitan areas during the 1970's had income below the poverty level while twice that many had income above the national median.

Migrants to non-metropolitan areas are overwhelmingly white. Only one in twenty persons moving from a metropolitan to a non-metropolitan area in the mid-1970's was black. While the rate of black net in-migration to metropolitan areas slowed markedly by the 1970's, more blacks still migrate out of rural and non-metropolitan areas than leave cities for such areas. (See Table 1-13). During the first seven years of the decade, 145,000 more blacks moved from non-metropolitan areas to metropolitan areas than went the opposite way (U.S. Bureau of the Census, 1978d).

Nationally, retirees account for only a small share of the non-metropolitan migrant stream. However, for some localities with warm climates, many natural amenities, or low property taxes, retired households are a key factor behind population growth. A 1977 study of recent migrants to the Upper Great Lakes region, for example, found that more than one in three households migrating from metropolitan areas were retired (Fuguitt and Voss, 1979).

Non-metropolitan migration exhibits significant regional dimensions. In the Northeast immigrants are mainly from metropolitan counties within the region. In contrast, most of the net gain experienced by non-metropolitan counties in the South came from metropolitan areas outside of the region. Migration to the West was from metropolitan areas inside and outside of the region and from non-metropolitan areas elsewhere in the country. Finally, non-metropolitan areas in the North Central region experienced a net loss of workers to metropolitan and non-metropolitan counties outside of the region (Steahr and Brown, 1978).

### The Reasons for Non-Metropolitan Migration

Traditionally household migration has been a response to employment opportunities. However, surveys of post-1970 migrants to non-metropolitan areas find that employment-related factors are less frequently cited as the primary reason for relocating than are "quality of life" considerations. This evidence has led to speculation that amenities rather than

## TABLE 1-11

## POPULATION AND NET MIGRATION FOR METROPOLITAN AND NON-METROPOLITAN AREAS 1960, 1970, AND 1977 (Numbers in Thousands)

| | Population | | | Average Annual Percentage Change: Population | | Average Annual Percentage Change: Net Migration | |
|---|---|---|---|---|---|---|---|
| | 1977 | 1970 | 1960 | 1970-77 | 1960-70 | 1970-77 | 1960-77 |
| United States | 216,351 | 203,305 | 179,311 | 0.9% | 1.3% | 0.2% | 0.2% |
| Metropolitan[1] | 158,550 | 150,291 | 128,328 | 0.7 | 1.6 | 0.1 | 0.5 |
| over 3 million | 53,260 | 52,864 | 45,766 | 0.1 | 1.4 | -0.5 | 0.4 |
| 500,000 to 3 million | 66,123 | 61,889 | 51,789 | 0.9 | 1.8 | 0.3 | 0.7 |
| less than 500,000 | 39,167 | 35,538 | 30,733 | 1.3 | 1.4 | 0.5 | 0.2 |
| Non-metropolitan | 57,802 | 53,014 | 50,982 | 1.2 | 0.4 | 0.6 | -0.6 |
| Northeast | | | | | | | |
| Metropolitan | 42,140 | 42,481 | 38,609 | -0.1 | 1.0 | -0.5 | 0.1 |
| Non-metropolitan | 7,159 | 6,580 | 6,069 | 1.2 | 0.8 | 0.8 | 0.0 |
| North Central | | | | | | | |
| Metropolitan | 40,221 | 39,661 | 35,073 | 0.2 | 1.2 | -0.5 | 0.1 |
| Non-metropolitan | 17,719 | 16,932 | 16,546 | 0.6 | 0.2 | 0.2 | -0.6 |
| South | | | | | | | |
| Metropolitan | 44,907 | 40,032 | 32,755 | 1.6 | 2.0 | 0.8 | 0.8 |
| Non-metropolitan | 24,942 | 22,782 | 22,206 | 1.2 | 0.3 | 0.6 | -0.8 |
| West | | | | | | | |
| Metropolitan | 31,281 | 28,118 | 21,891 | 1.5 | 2.5 | 0.7 | 1.3 |
| Non-metropolitan | 7,981 | 6,720 | 6,162 | 2.4 | 0.9 | 1.5 | -0.4 |

SOURCE: U.S. Bureau of the Census, **Current Population Reports**, "Population Profile of the United States: 1978." Series P-20, No. 336, April 1979, Table 18.

[1] Metropolitan areas as defined in 1977.

TABLE 1-12

POPULATION AND NET MIGRATION FOR NON-METROPOLITAN COUNTIES BY SIZE OF LARGEST PLACE IN THE COUNTY AT THE BEGINNING OF THE DECADE AND ADJACENCY STATUS, 1950-60, 1960-70, AND 1970-75[1]
(Annual Percentage Change)

| | Annualized Population Change (Size of Largest Place) | | | Annualized Net Migration (Size of Largest Place) | | |
|---|---|---|---|---|---|---|
| | 10,000+ | 2,500-10,000 | Less Than 2,500 | 10,000+ | 2,500-10,000 | Less Than 2,500 |
| **1950-1960** | | | | | | |
| Adjacent[2] | 1.1 | 0.0 | −0.4 | −0.4 | −1.4 | −1.8 |
| Nonadjacent | 1.0 | −0.5 | −1.0 | −0.7 | −2.0 | −2.5 |
| **1960-1970** | | | | | | |
| Adjacent | 1.0 | 0.4 | 0.2 | 0.0 | −0.5 | −0.6 |
| Nonadjacent | 0.6 | −0.2 | −0.4 | −0.5 | −1.1 | 1.2 |
| **1970-1975** | | | | | | |
| Adjacent | 1.3 | 1.3 | 1.6 | 0.7 | 0.8 | 1.1 |
| Nonadjacent | 1.2 | 0.9 | 1.3 | 0.4 | 0.4 | 0.9 |

SOURCE: Glenn V. Fuguitt and Paul R. Voss, **Growth and Change in Rural America**, The Urban Land Institute, 1979, Table 3.

[1] Metropolitan status as of 1974.
[2] Adjacent refers to counties contiguous to a metropolitan area.

TABLE 1-13

ANNUAL NON-METROPOLITAN NET MIGRATION RATE BY RACE, 1970-1973 AND 1975-1978

| | White | Black |
|---|---|---|
| 1970-1973 | +2.0 | −1.9 |
| 1975-1978 | +1.9 | −1.3 |

SOURCE: U.S. Bureau of the Census, **Current Population Reports**, "Mobility of the Population of the United States: March 1970 to March 1973," and "Geographical Mobility: March 1975 to March 1978," Series P-20, No. 262, March 1974, and No. 331, November 1978.

economic considerations may have become the primary factor accounting for migration to non-metropolitan areas in the United States (Steahr and Brown, 1978; Williams and Sofranko, 1979; Zelinsky, 1978; Long and Hansen, 1979; Thomas and Bachtel, 1978).

A recent study of households who moved to 75 high net in-migration counties of the Midwest after 1970 found that only 25% cited employment-related factors as the primary reason for leaving their previous residence; 17.2% cited retirement and 40.2% cited either negative attributes of their previous home or attractive features of the place they were moving to (Williams and Sofranko, 1979). The larger the metropolitan place of origin, the more frequently quality of life factors were mentioned. In contrast, almost half of those relocating from other non-metropolitan counties reported employment-related reasons for leaving their previous home, while quality of life factors accounted for only one move in five. Among households with heads of working age, the proportion motivated by employment increased, but still over 43% of households said they relocated primarily for non-economic reasons. Migrants were also asked the primary motivation for choosing their new home. Again, employment reasons were much more evident among those migrating between non-metropolitan counties; only 21% of households relocating from metropolitan areas cited job factors as the primary reason for choosing their current home. Almost half were motivated by ties to the area, while 28% were attracted by particular positive features of the locale. Among those selecting their destination because of ties, 30% wanted to be closer to friends or relatives, had parents living there, or were born and raised locally.

Migrants vary in terms of the size of non-metropolitan community they choose. Those who come from metropolitan areas more frequently settle in small towns or the open countryside than those relocating from other non-metropolitan counties. Among those from metropolitan areas, households seeking amenities more often settle in rural areas, while those moving in response to job factors more frequently select towns or small cities. These findings suggest that non-economic considerations, particularly those associated with anti-urban attitudes and positive images of rural living, may be an important factor explaining recent in-migration to non-metropolitan areas.

American preferences for living outside of large cities are not new. Polls as far back as 1948 reveal similar residential preferences. However, there is reason to believe that more households are able to realize their locational preferences today than before. Earlier retirement and more generous retirement benefits create a growing pool of potential migrants who are not tied to centers of employment, and who are able to locate in areas with warm climate, low taxes, or natural beauty. Also, job opportunities in non-metropolitan areas have improved markedly in recent years, enabling more young households to act on their preference to live outside large cities.

Economic factors are not unimportant to the resurgence of non-metropolitan growth. Most household heads migrating to non-metropolitan areas since 1970 are employed. Even in the popular retirement center of the Upper Great Lakes, most in-migrant households are headed by individuals of labor market age, and unemployment levels for recent migrants are only slightly higher than for the native population (Fuguitt and Voss, 1979). Studies also indicate that most migrants to non-metropolitan areas have stable or rising incomes. Only 26.1% of metropolitan to non-metropolitan migrants in the Midwest during the mid-1970's reported declining incomes in the year after moving. (Williams and Sofranko, 1979). It appears that few migrants are making moves which result in unemployment or even a decline in income. While employment may not be the motivating factor behind the decision to move, the existence of job opportunities in non-metropolitan areas is an important factor enabling households to act on their residential preferences for small town living.

## B. Employment Gains in Non-Metropolitan America

Employment opportunities outside metropolitan areas have improved significantly. Over much of the 1970's, total employment gains in non-metropolitan areas exceeded those in metropolitan areas. Between 1973 and 1976, 1.4 million new jobs were added in non-metropolitan areas, compared to 1.1 million for the 209 largest metropolitan areas. Not only are more jobs available, but the occupational structure of the non-metropolitan economy has expanded with manufacturing and the service sector replacing agriculture as the dominant source of employment. These gains have occurred in all regions of the country.

Since 1930, when half of all workers of rural areas were employed in agriculture, the employment base of non-metropolitan areas has greatly diversified. From 1940 to 1970, the total number of people working solely or primarily in agriculture dropped from 8.4 million to 2.5 million (Beale, 1978). By 1975, less than one in ten non-metropolitan workers was employed on a farm, and fewer than 15% of all rural counties had more than a third of their work force in agriculture.

After 1960, losses in agricultural employment were more than offset by other job gains. Between 1960 and 1970, more than four million net non-farm jobs were added in non-metropolitan areas, and an additional 4.6 million were added between 1970 and 1978. The manufacturing and service sectors have played critical roles in the revival of non-metropolitan economic growth. Manufacturing accounted for 31% of the total gain in non-agricultural employment between 1960 and 1970, and the service sector accounted for most of the rest. After 1970, growth in manufacturing employment slowed, but rapid expansion in the service sector created 3.4 million new jobs in non-metropolitan areas of the United States.

By 1975, more than half of all non-metropolitan workers were employed in service occupations. Recent migrants to non-metropolitan areas are even more heavily concentrated in service occupations, especially professional services. Growth in the service sector reflects its rising importance as part of the evolution toward a post-industrial economy, as well as the importance of retirement and recreation to rural growth.

Nearly one in four non-metropolitan workers is employed in manufacturing. Since 1962, manufacturing employment in non-metropolitan areas has increased more rapidly than for the nation as a whole. While metropolitan areas suffered a net loss of industrial jobs between 1970 and 1978, rural areas had a net increase of 12.1% (Lonsdale, 1979). As a result, the fraction of total manufacturing employment located in non-metropolitan areas has risen steadily since the early 1960's. This is also true for most individual industries (Petrulis, 1979a).

The most common large manufacturing plants in non-metropolitan areas are textile mills and firms making clothing or fabricated textile products. Other industries in which the bulk of large employers are non-metropolitan are pulp and paper mills, logging and wood products, coal and metal mining, primary aluminum plants, and poultry processing. These activities tend to locate near raw materials or near large quantities of water or power. Industries which showed particularly large increases in non-metropolitan employment in the early 1970's include plastics, fabricated metal products, textiles, apparel, and transportation equipment. Jobs in the first two industries rose in metropolitan areas as well, but the latter three represent a shifting of production out of older metropolitan centers.

Manufacturing growth in non-metropolitan areas has been geographically widespread. Since 1970, production employment has increased in the non-metropolitan parts of all Census divisions except New England and the Middle Atlantic, and in 39 of the 50 states. Nineteen states, primarily in the Southeast, registered non-metropolitan manufacturing growth in excess of 20% between 1967 and 1973 (Petrulis, 1979a). Even in those Census divisions with declining production employment, losses outside metropolitan areas were significantly smaller than those incurred inside large cities. This has meant that in all regions the share of manufacturing employment located outside metropolitan areas went up during the 1970's.

## 4. Summing Up: National Population and Job Trends

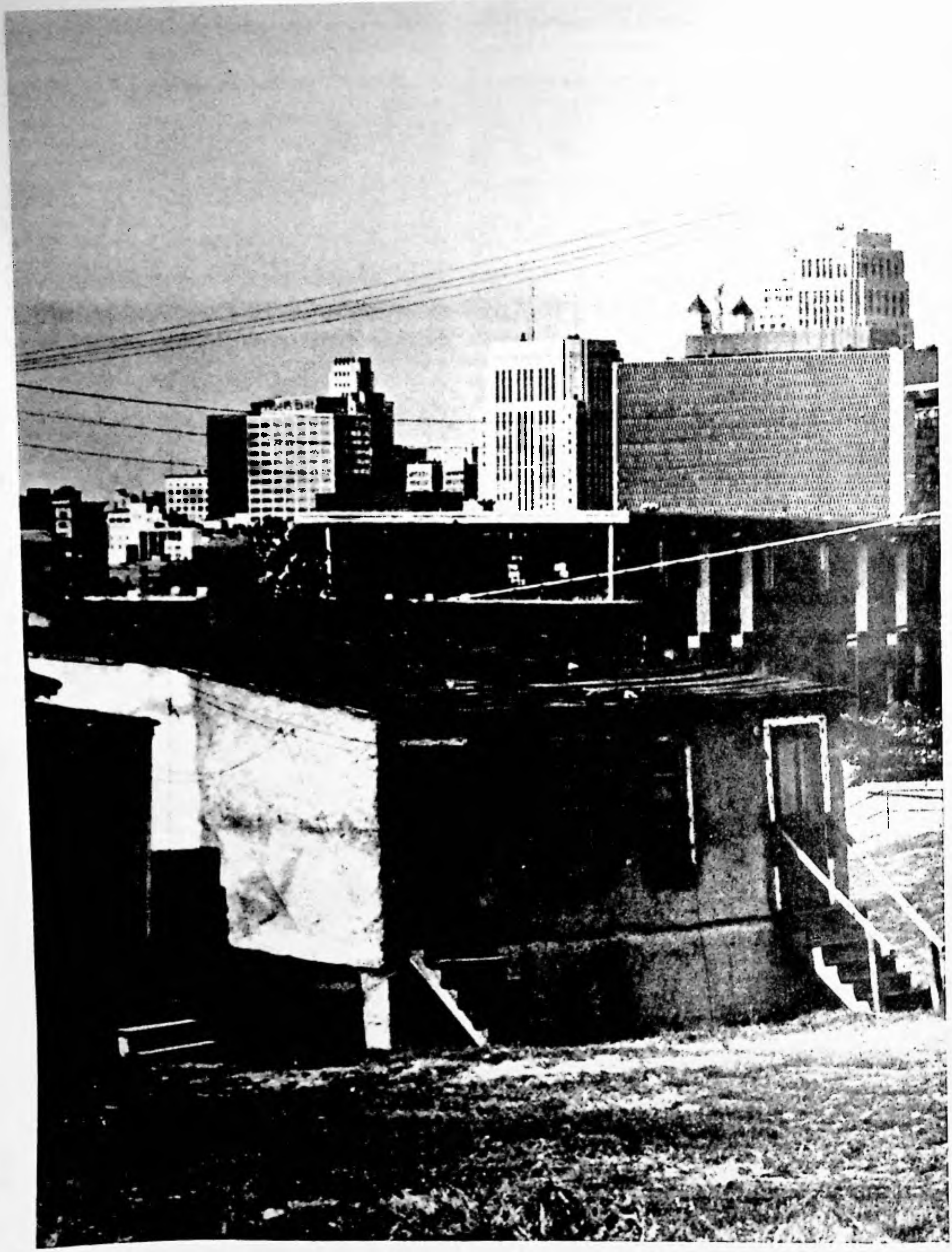
This chapter describes a nation on the move. Its citizens and businesses are creating new patterns of residence and employment as the population of the nation spreads out within and outside of large metropolitan centers. The redistribution of population and economic activity has brought growth and prosperity to some areas, but has meant decline and hardship in others.

The factors that underline the spreading out of population and jobs are complex. Life style changes, innovations in production and goods distribution, and improved accessibility are all important. Further, shifts in population and employment are mutually reinforcing. People follow jobs and then jobs follow people. Traditional links between work and residential location have weakened in recent years as the number of retirees with dependable incomes has grown and as "leisure orientation" has expanded. Improved vehicular access to previously remote areas is another factor that aids non-metropolitan growth. Yet, the fact that both people and jobs are spreading out in parallel is more than coincidental.

To an extent, these recent movements of population and employment represent an equalization of opportunity and choice. Incomes in the South are rapidly rising to levels comparable with those in the North. Blacks are beginning to move in the same patterns as whites between regions and within metropolitan areas. Formerly depressed rural areas are now gaining population and jobs. However, the spreading out pattern appears to perpetuate other inequities and foster other areas of decline. At the individual level, low income households and blacks and Hispanics have not fully participated in the move out of central cities and older metropolitan areas. At the aggregate level, the cumulative impact of population and job movement stimulates rapid growth in some parts of the country, but results in stagnation and decline in areas of net out-migration.

Central cities of the large metropolitan areas in the Northeast and North Central regions have been the hardest hit, losing population and jobs not only to their suburban areas but also to non-metropolitan areas and other parts of the country. Redistribution of people and jobs during a time of slow national population and economic growth has resulted in absolute as well as relative losses in areas experiencing net out-migration. Because migration tends to involve primarily the young and best educated members of the work force, leaving behind those least well off, urban areas which face the greatest problems of economic distress are left with fewer resources to address them.

Chapter 2 develops a framework for analyzing the developing patterns of community "need" brought about in part by these trends and forces. This is important because while many broad national trends affect every part of the nation, their effects vary sharply from place to place. National policy formulation must take these variations into account.



# II. MEASURING COMMUNITY NEED AND DISTRESS

Communities within the United States differ widely from one another in social and economic conditions. The variations run the gamut of extremes, from low density suburban wealth in Beverly Hills, California, to concentrated urban poverty in Newark, New Jersey.

To be relevant, national urban policy must acknowledge these differences. If scarce resources are not to be wasted, Federal efforts to assist communities meet national commitments concerning jobs, housing, community services, and the basic quality of urban life must reflect the diverse conditions found in this nation's cities and towns. For example, growing communities face different needs than communities with declining economies and increasing poverty populations. Similarly, community distress in growing metropolitan areas and regions requires a different Federal, and indeed local response than community distress in areas with stable or declining economies and population. Pockets of poverty in otherwise healthy cities and towns deserve a different approach than pervasive distressed conditions found in more troubled communities. And finally, poor people, irrespective of the type of community in which they live, require focused attention to their need for expanded employment, housing, health care, and other community services.

This Chapter presents a typology of community need and distress. This typology improves upon earlier efforts to classify cities in terms of the degree of social, economic, and fiscal distress in two ways. First, the framework presented here measures both need and the nature of population change. Second, the typology is extended to encompass suburban and non-metropolitan communities as well as central cities.

The community classification scheme developed in this Chapter provides a first step toward refining the President's urban policy commitments. It provides a basis upon which to identify urban communities with the most urgent needs and the least capacity to deal with them. It also provides a means to begin to distinguish among different kinds of urban need, including those associated with growing cities and towns. Finally, the approach highlights the dual aspect of urban problems: the fact that some problems are primarily those of people and require a people-oriented response, while others are primarily place-related, and are best dealt with by programs directed at local governments.

Before beginning, a word of caution is in order. While a refined typology can help create an understanding of broad patterns and trends, it can never replace strategic attention to particular places and groups of people. Every city and suburb is unique in its history, economy, and people. At best, a typology can reveal useful patterns that assist national, state, and local decision-makers to frame urban policies and allocate resources. Specific action to address the needs of particular communities must ultimately take into account the patterns and trends within the individual community.

## 1. Classifying Communities by Degree of Community Need

In recent years, the process of classifying major urban centers into a limited number of categories that measure degree of distress has been advanced as a means of improving our understanding of urban change and helping frame policy responses. Indices of central city need have been used by the Joint Economic Committee of the Congress, the Committee for Economic Development, the Congressional Budget Office, the Brookings Institution, and the Department of Housing and Urban Development.

Most of these approaches to ranking or measuring community needs rely on similar indicators of social, economic, and fiscal distress. These include:

- Income characteristics, including per capita income or the poverty rate.
- Economic characteristics, including the rate of change in the number of jobs and the extent of unemployment or underemployment.
- Fiscal characteristics including expenditures for different kinds of services, relative and absolute growth of tax base, relative and absolute tax burdens, and such proxies as age of housing.
- Population trends, measured as the absolute or relative population increase or decrease over a recent period.

There is no precise agreement on exactly which factors to include in an urban needs index or concerning what weights to assign to each. As a result, while most of the indices of urban need show agreement on a broad group of very needy and relatively less needy central cities, because of the different perspectives of their formulators, the indices differ on the relative ranking of some cities. For instance, a recent needs index published by the Department of Housing and Urban Development, which placed heavy weight on poverty characteristics as measured in 1969-70, identified some Southern cities as highly needy, whereas other indices rated them as only moderately needy. Conversely, an index developed by the Brookings Institution, which emphasized population decline and age of the housing stock, identified some Northern cities as highly distressed when other indices ranked their needs as only moderate.

The fact that different indices of distress result in somewhat different rank order listings does not mean that one method is right and the others wrong. Each provides useful insights into some of the complex characteristics of urban communities. Clearly, there is much to be learned about the limitations and utility of different indicators of distress and different ways to use indicators to define distress. Among the aspects that must be investigated further are: methods of defining change measures; the effects of combining several factors into a single needs measure; the interrelationships among different indicators of social, economic, and fiscal need; the ways in which the measures change over time; and the relative attention that should be given to measures that focus on a city's residents as compared to those that measure conditions within the geographic area of the city (Benjamin, 1980a and b).

### The "People Versus Place" Issue

This last factor raises particular complications for urban policy analysis. It is an issue sometimes summarized as "people versus place." One way of looking at the problems of a city is to see them as problems of the city's low and moderate income residents, such as their need for full-time jobs that pay reasonable wages, for housing mobility, and for income support programs. Another way to look at the same issues is to see the problems of the city as though they were characteristics of a particular place: for example, weaknesses in the economic base of a community, or fiscal strain and the inability of a local government to raise enough revenue to pay for essential public services.

At a given moment in time, the two viewpoints may amount to much the same thing. Federal programs focused on either people or places can have useful results for both. But, at other times, looking at the needs of people and those of place can have very different policy implications. For example, a program that helps particular families improve their lot by moving to another community (say, from a city apartment to the suburbs) may be viewed as a positive step for the families involved. The same assistance, however, may have unfortunate consequences for the central city from which the family moves, depriving it of middle income, taxpaying residents, and increasing the level of vacancies in city apartments. This, in turn, may affect neighborhood stability in the central city.

Obviously, there are direct and indirect linkages between measures of resident need and measures of jurisdiction or city need. Indeed, many recent studies of urban distress have noted the strong relationship between population and employment trends and different levels of fiscal and social difficulties faced by many urban communities. The flow of people and jobs into or out of a community over an extended time period vitally affects the community's fiscal capacity and ability to provide services to its residents. Communities which have lost jobs significantly faster than people or which have gained people significantly faster than new employment opportunities often face problems in making ends meet or in meeting relatively conventional governance responsibilities. Both types of communities often reflect a population profile with relatively significant needs for public assistance and an economic profile with relatively marginal capacity to provide increased assistance.

A typology or classification scheme has been developed for this Report. To the extent possible, it measures community need based on indices illustrating varied problems faced by community residents and indices reflecting community growth patterns. Both sets of indices are important. The first characterizes income levels and trends; the second, population change. Together they provide an approximation of a community's economic and social well being as well as its general fiscal capacity.

**Resident Need**

Four measures are used to define resident problems and the general ability of a community to respond to such problems. They are:

| | Weight |
|---|---|
| (1) **Percent of population below the poverty level in 1969:** Measures relative level of poverty population, and generally indicates the population in need of assistance. | 40% |
| (2) **Net growth of per capita income for 1969-1975:** Records absolute growth of income in a community and average income level. | 20% |
| (3) **Percentage growth of per capita income from 1969-1975:** Indicates relative growth of income. | 20% |
| (4) **Unemployment in 1978:** Reflects job availability and provides an indicator of general economic health. | 20% |

Each measure records or illustrates possible household problems. Collectively, they reflect trends in local conditions, particularly with respect to poverty and income. They also suggest the current burdens on a community with respect to neighborhood deterioration and community services. Finally, because income growth and poverty are related to local fiscal strength, they indicate a community's ability to respond to local problems with its own resources.

Unfortunately, most measures of resident need suffer from shortcomings related to age and reliability of data. Clearly. the measures used to construct the resident need index, described above, are not without problems. For example, only the unemployment data are current. Even these data must be used with caution, given methodological difficulties associated with their collection.

But because the measures are used in a composite manner, they appear appropriate. Their pluses outweigh their minuses and use of all four together mitigates defects of individual measures. They, as indicated in later pages, help explain varied kinds of community distress better than most similar measures. They help establish linkages among economic, demographic, and social phenomena occurring in each community (Benjamin, 1980b).

The poverty measure was allocated the heaviest weighting because it directly measures the concentration of low income households—those residents whose needs for public services tend to be greatest. It also provides a base (1969) upon which to estimate through more current measures the level of income and the rate of income change. Unemployment data provides a useful recent measure of the overall economic health of the community and its ability to provide residents with jobs. All of the measures used in the index indicate a community's fiscal health.

**Developing the Needs Categories**

Based on the measures described above and the weights assigned each measure, a resident needs index was calculated for each of the nation's 377 central cities. Cities were individually ranked in order of need and the list was divided approximately as follows:

- The 30% of cities with the greatest need were categorized as having "Relatively High" need.
- The 30% of cities with the lowest need, were classified as having "Relatively Low" need.
- The remaining cities were characterized as having "Moderate" need.

**Population Trend**

Subsequent to ranking each city according to resident need, all cities were ranked according to population growth. Three general patterns were recognized:

- **Decreasing Population:** Cities that lost five percent or more of their population between 1970 and 1976.
- **Stable Population:** Cities whose population gain or loss between 1970 and 1976 was less than five percent.
- **Increasing Population:** Cities that gained population by five percent or more between 1970 and 1976.

A five percent population change for a period of only six years represents a rapid rate of change. Nevertheless, four of every five large central cities for which the measure was calculated, showed population losses or gains of over five percent from 1970 to 1976. This gives some indication of how rapidly population change is proceeding in the nation's central cities.

Studies prepared by the Brookings Institution and the Urban Institute document the close relationship between population growth or decline and community well being. For example, although population loss does not always parallel data reflecting resident need, both generally tend to occur together. Cities with declining population often illustrate increasing proportions of lower income residents. As a result, they face relatively high public and social service needs with at best a stable, and at worst a reduced tax base. Often fiscal stress is a fact of life.

Population growth is often synonomous with community economic health. But, as indicated in later paragraphs, the relationship is not always perfect. In communities where population growth does not parallel job growth, or where population and job characteristics do not match, resident need can remain relatively high despite overall growth.

**Results of the Classification—A Community Needs Index**

Table 2-1 summarizes the results of the effort to classify each of 377 central cities according to resident need and population trend. It illustrates nine categories of relative community need. The number of large central cities falling into each category is shown in Table 2-2.

The distribution of cities into the nine categories is not even: only 15 cities with decreasing population illustrate low resident need, while 60 cities with increasing population reflect low resident need. More cities fall into the population gain category (41%) than the rapid population loss (26%) category.

Overall, some 46 central cities fall into the group that is under the most severe pressure. These are the central cities which display the highest levels of resident need and are also experiencing significant population loss. As noted below, one-third of this troubled group is made up the nation's largest central cities; New York, Chicago, Philadelphia, Baltimore, and Detroit, five of the nation's largest cities, are found in this group.

**Community Need in the Largest Central Cities**

Table 2-3 presents the classification of the 58 largest central cities—those with over 250,000 residents—by degree of resident need and population trend. Within the table, the cities are listed in order of decreasing need. One in every three large cities falls into the high need category; and one in four falls into the high need, declining population category. Overall, thirty large cities lost population, while 16 gained population and 12 remained within the range of plus or minus five percent that was defined as "stable" for the 1970-76 period.

Although no single dimension, or combination of measures, can more than approximate the problems and strengths of cities with diverse characteristics, the classification of Table 2-3 defines major differences among large central cities. A useful way to highlight these differences is to summarize the four corners of the chart—high need and declining cities, high need and growing cities, low need and declining cites, and low need and growing cities. First, the four types will be surveyed as a group, and then the neediest or least needy in each group will be briefly described. Table 2-4 presents essential supporting data for the discussion of city types.

Until the 1960's, most **needy declining** large cities were expansive industrial and commercial centers with a long history of providing upward mobility to foreign and native migrants. Now these cities are typically locked in, physically and fiscally, by their suburbs; have steadily lost middle income and non-minority residents; face diminished resources for public services; struggle to maintain an aging infrastructure; have a growing pool of unskilled workers; and suffer housing and commercial abandonment. In many cases employment has declined even more rapidly than population.

Many, if not all, of these distressed cities still have productive economic sectors and stable or revitalizing neighborhoods. Indeed, some have enclaves of great affluence. But overall, these cities disproportionately lost their more affluent population during the 1970's. They have many fewer resources to address the needs of the growing proportion of needy residents.

Although their share of low income persons and their unemployment rates have remained quite high during the past decade, **growing** needy cities such as El Paso, Miami, and San Antonio have gained employment and population, and have enjoyed rising per capita and total income. Poverty problems and social service burdens relate in part to growth in immigrant population, some of which is not recorded in conventional Census data. Income and population growth have prevented major problems of housing or neighborhood abandonment. Minorities in needy growing cities, while often subject to lower wages and discrimination, participate more fully in the labor force than minorities in declining cities and they suffer less breakup of households.

Typically enjoying low unemployment rates as well as rapid growth of per capita and total income, less **needy growing** cities have several underlying traits—a recent coming of age as a large city, major annexations that often continued into the 1970's, low density, and the central presence of innovative and productive "industrial" sectors (e.g., energy, agrobusiness, or micro-electronics). Quite often the rate of job growth surpasses the rate of population growth. Rather than a shrinkage of opportunity and resources, their major problems are concentrations of poverty in the core city and a demand by annexed areas and by pockets of poverty for additional city services. However, providing these services has not appeared to strain city budgets. The tax effort of these cities is still much lower than the average for large cities. Moreover, many of these cities are in states that will enjoy a tremendous growth in non-resident tax levies from extractive industries such as oil.

**Low need** cities with marked **population decline** also have highly competitive job sectors, relatively low unemployment, and high per capita income. Compared with low need growing cities, they are denser and older; they have not annexed recently and tend to comprise a smaller fraction of the total metropolitan population and to be ringed by traditional suburbs. Low need declining cities have in many cases experienced urban deterioration. Some cities have undertaken major public and private redevelopment efforts in the

TABLE 2-1

CLASSIFICATION OF 377 CENTRAL CITIES BY RELATIVE DEGREE OF COMMUNITY NEED

(Data is in number of cities)

Population Trend, 1970-1976

| Degree of Resident Need | Decreasing | Stable | Increasing | Total |
|---|---|---|---|---|
| Relatively High | 46 | 29 | 39 | 114 |
| Moderate | 36 | 53 | 56 | 145 |
| Relatively Low | 15 | 43 | 60 | 118 |
| TOTAL | 97 | 125 | 155 | 377 |

SOURCE: HUD Urban Development Action Grant Data File (Based on Census, Revenue Sharing and BLS Tapes).

TABLE 2-2

CLASSIFICATION OF 58 LARGE CENTRAL CITIES BY RELATIVE DEGREE OF COMMUNITY NEED [1]
(Number of Cities)
Population Trend, 1970-1976

| Degree of Resident Need | Decreasing | Stable | Increasing | Total |
|---|---|---|---|---|
| Relatively High | 15 | 2 | 3 | 20 |
| Moderate | 10 | 5 | 5 | 20 |
| Relatively Low | 5 | 5 | 8 | 18 |
| TOTAL | 30 | 12 | 16 | 58 |

SOURCE: HUD Urban Development Action Grant Data File (Based on Census, Revenue Sharing and BLS Tapes).

[1] Large central cities are defined as those with 1975 populations in excess of 250,000.

TABLE 2-3

CLASSIFICATION OF 58 LARGE CENTRAL CITIES BY RELATIVE DEGREE OF COMMUNITY NEED [1]

| Degree of Resident Need | Population Trend, 1970–1976 Decreasing | Stable | Increasing |
|---|---|---|---|
| Relatively High | Newark (-13)<br>New Orleans (-6)[2]<br>Buffalo (-14)<br>Cleveland (-17)<br>New York (-6)<br>Atlanta (-14)<br>Detroit (-13)<br>St. Louis (-17)<br>Chicago (-9)<br>Philadelphia (-8)<br>Baltimore (-9)<br>Norfolk (-8)<br>Oakland (-8)<br>Birmingham (-6)<br>Cincinnati (-10) | Boston (-4)[2]<br>Los Angeles (-2) | Miami (5)[2]<br>El Paso (21)<br>San Antonio (20) |
| Moderate | Akron (-9)<br>Rochester (-11)<br>Washington (-7)<br>Louisville (-9)<br>Pittsburgh (-14)<br>Fort Worth (-6)<br>Milwaukee (-8)<br>San Francisco (-7)<br>Long Beach (-6)<br>Kansas City (-10) | Tampa (-2)<br>Sacramento (2)<br>Columbus (-1)<br>Toledo (-4)<br>Indianapolis (-4) | Tucson (15)<br>Memphis (7)<br>Baton Rouge (11)<br>Jacksonville (5)<br>San Diego (13) |
| Relatively Low | Portland (-6)[2]<br>Minneapolis (-14)<br>St. Paul (-12)<br>Seattle (-8)<br>Denver (-7) | Dallas (1)<br>Oklahoma City (0)<br>Nashville (2)<br>Wichita (-3)<br>Tulsa (1) | Omaha (7)[2]<br>Austin (24)<br>Phoenix (16)<br>Albuquerque (17)<br>San Jose (24)<br>Charlotte (22)<br>Honolulu (13)<br>Houston (21) |

SOURCE: HUD Urban Development Action Grant Data File (Based on Census, Revenue Sharing and BLS Tapes).

[1] Within each of the nine cells, cities are arranged according to degree of resident need. Population growth, in percent change, is shown in parentheses next to each city name.

[2] Because of Census adjustments after 1975, the 1970-75 population growth figures were used for New Orleans and Portland. Recent population estimates for 1978 suggest that Boston will fall into the "decreasing" population group, and Miami and Omaha in the stable groups.

## TABLE 2-4

### SELECTED NEED INDICATORS FOR LARGE CITIES BY RESIDENT NEED AND POPULATION TREND, 1970–1976

| Need Indicators | High Need, Declining | High Need, Growing | Low Need, Declining | Low Need Growing |
|---|---|---|---|---|
| Annual Average Population Growth 1970-76 | -1.7% | 2.6% | -1.3% | 3.0% |
| Annual Average Job Growth 1970-77 | -2.0% | 2.6% | .8% | 4.6% |
| Annual Average Change in Manufacturing Jobs, 1967-1972 | -3.2% | 5.0% | -0.8% | 3.6% |
| Percent Median Increase in Urban County Real Wages and Salaries, 1974-77 | -0.4% | 6.4% | 6.7% | 11.6% |
| Unemployment Rate, 1978 Resident Labor Force | 7.9% | 7.9% | 5.1% | 5.0% |
| Percent Growth of Nominal per capita income, 1969-75 | 53% | 60% | 61% | 60% |
| Net Growth of Nominal Per Capital Income, 1969-75 | $1565 | $1524 | $2198 | $1968 |
| Percent Growth of Nominal Total Income, 1969-75 | 37% | 85% | 48% | 89% |
| Non-education Tax Effort, 1976 | 5.1% | 2.4% | 3.1% | 2.5% |
| Poverty Rate, 1969 | 18.0% | 20.5% | 11.4% | 11.9% |
| Percent Female Headed Households, 1970 | 19% | 15% | 14% | 12% |
| Percent Black Births, 1976 | 54% | 18% | 12% | 16% |
| Percent Black, 1970 | 37% | 11% | 6% | 10% |
| Percent Black, 1960 | 28% | 11% | 4% | 10% |
| Percent of Residents Bothered by Abandoned Housing, 1974-76 | 10% | 4% | 3% | 3% |
| Total Population (millions) | 18.6 | 1.5 | 2.0 | 4.7 |

SOURCE: HUD Urban Development Action Grant Data File; HUD, Urban Data Report No. 1 (data prepared by Seymour Sacks); Harold Bunce and Robert Goldberg, "Age of Housing: A Controversial Indicator of Need" (1980); City and County Data Book (1972); BLS Unemployment Tapes; NIH Vital Statistics Tapes; Robert Benjamin, "Urban Need Indicators: A Critical Overview" (1980); Bureau of Economic Analyses, County Wage and Salary Tabulations (1974-1977).

downtown and transitional neighborhoods. A combination of public effort and sound economic base have maintained relative prosperity in these relatively old, "declining" cities.

Although their municipal efforts and shrinking population base have sometimes led to moderately high tax effort and debt, their unused tax capacity and ability to support productive infrastructure is much greater than for declining needy cities. In general these cities attracted fewer black rural migrants seeking economic opportunity. As a result, the income, poverty, and racial disparity between the central city and suburbs is less sharp than for needy declining cities.

**A High Need City Whose Population is Decreasing.**

Newark, New Jersey ranks highest among large cities on the degree of resident need. Newark has become the epitome of the troubled central city in a troubled region. Its Mayor, Kenneth Gibson, summed up the agonizing problems his city faces by saying that, wherever the older central cities are going, "Newark's going to get there first." Newark's housing stock is old and has high levels of dilapidation; 12% of the population complained of abandoned structures in a recent survey. Population has fallen sharply, down 2.4% a year since 1970, largely a result of out-migration of middle-income white families. The city's population is predominantly black (54% in 1970), and suffers from very high rates of unemployment (12% in 1978) due to job declines of 3.0% a year since 1970. Per capita income in Newark is, on average, only 55% as high as in the nearby suburbs.

But even Newark, one of the most troubled central cities in the nation, has very real strengths and potentials. Newark's downtown area is still the focus of major region-serving employment, particularly in the insurance industry. Newark is also the focus of a strong transportation system: it contains one of the New York area's three major international airports, major expressway and rail facilities and Port Newark is one of the best-equipped sea-land terminals in the world. Because most of these transportation terminals are operated by well-financed state and regional authorities, they have escaped the crushing fiscal pressures under which the city's government strains.

**A High Need Growing City**

The high need growing city is typified by El Paso, Texas. Located on the Rio Grande border with Mexico, El Paso is a major recipient of legal and illegal immigration. The city's population is predominantly Hispanic (58% in 1970). Its population soared 3.7% a year from 1970 to 1975, a rate of growth as fast as that of virtually any other central city in the nation. El Paso has serious unemployment problems (9.1% in 1978) despite a very strong job growth rate (up 4.1% a year since 1970). Per capita income is low, only slightly above that of Newark. El Paso is a city with serious problems but its growing population and even faster growing job base provide indications of strengths that can be turned to the city's advantage.

**A Low Need City Whose Population is Decreasing**

Denver, Colorado has relatively low resident need but is losing population (down 1.3% a year from 1970 to 1976). Denver is characterized by below-average rates of poverty for a large central city; 13.5% of its population was below the poverty line in 1969, a figure that has fallen to below 10% in 1977-78 census estimates. Denver's population loss is primarily to its own suburbs and has occurred despite strong job growth in the city that has averaged 2.7% a year. Per capita income, at $6,032 in 1975 ranks among the highest in the nation for a central city and is rising rapidly (up 71% from 1969 to 1975). Per capita income in the city is equal to that in the suburbs. Denver has low proportions of minority population: 15% Hispanic and 9% black in 1970.

Even an occasional visitor to Denver can see the booming pace set in its downtown area, where job expansion is housed in gleaming new skyscrapers. While Denver has begun to lose population to its own suburbs, its location in a healthy metropolitan area assures it a piece of a growing economic pie. The city continues to gain households as family size drops. Denver is landlocked, unable to extend its borders by annexing adjacent developed communities. It is without much open land for development of additional single-family dwellings–the characteristic housing pattern in this low-density region.

**A Low Need Growing City**

Houston, Texas typifies the low need city with growing population. Houston ranks lowest among the nation's large cities in degree of resident need. Rapid population growth (3.4% per year from 1970 to 1976) has been fueled by proximity to extensive natural resources and sustained by a heavy concentration of technologically advanced industries. Employment in Houston has risen far faster than population, up 6.1% of a year. Houston has grown by annexation as well as by natural increase and net migration. The city has relatively high per capita income ($5,801 in 1975), only slightly below that found in its own suburbs. Houston's poverty was relatively moderate in 1969 and has probably fallen since (to 11-12%). However, there are still pockets of deep poverty: 29% of the city was defined to be a Low Income Area in the 1970 Census. These low income areas contained 353,000 residents, more than the total population of most of the nation's central cities.

**Community Need in Smaller Central Cities**

The 319 central cities of the nation with less than 250,000 population were also classified by degree of resident need and population trend. The results are presented in Table 2-5.

Among smaller central cities, only 21% lost population in the 1970-76 period, while 44% showed rapid population gains and 35% remained stable. This pattern stands in sharp contrast to that for the largest central cities, half of which fell in the population loss category. On average, a slightly lower proportion of central cities under 250,000 population have high levels of resident need than for central cities over

TABLE 2-5

CLASSIFICATION OF 319 SMALLER CENTRAL CITIES BY SIZE AND RELATIVE COMMUNITY NEED[1]

(Data is in number of cities)

| Resident Need by Population Size Class | Population Trend 1970-1976 Decreasing | Stable | Increasing | Total |
|---|---|---|---|---|
| Under 50,000 Population | | | | |
| NEED: | | | | |
| Relatively High | 10 | 9 | 15 | 34 |
| Moderate | 10 | 18 | 19 | 47 |
| Relatively Low | 5 | 10 | 14 | 29 |
| Sub-Total | 25 | 37 | 48 | 110 |
| 50-100,000 Population | | | | |
| NEED: | | | | |
| Relatively High | 10 | 14 | 14 | 38 |
| Moderate | 12 | 15 | 21 | 48 |
| Relatively Low | 4 | 16 | 21 | 41 |
| Sub-Total | 26 | 45 | 56 | 127 |
| 100-250,000 Population | | | | |
| NEED: | | | | |
| Relatively High | 11 | 4 | 7 | 22 |
| Moderate | 4 | 15 | 11 | 30 |
| Relatively Low | 1 | 12 | 17 | 30 |
| Sub-Total | 16 | 31 | 35 | 82 |
| Total Below 250,000 | | | | |
| NEED: | | | | |
| Relatively High | 31 | 27 | 36 | 94 |
| Moderate | 26 | 48 | 51 | 125 |
| Relatively Low | 10 | 38 | 52 | 100 |
| Sub-Total | 67 | 113 | 139 | 319 |

SOURCE: HUD Urban Development Action Grant Data File (Based on Census, Revenue Sharing, and BLS Tapes)

[1] Table includes all 319 SMSA central cities with less than 250,000 population in 1976.

250,000 population. Among smaller cities little variation in population growth trends or in resident need is observed by city size.

The broad regional distribution of the 319 smaller metropolitan central cities classified by resident need and population trend is shown in Table 2-6. High need central cities are most common in the Northeast where over half of all small central cities are needy, and in the South where a third exhibit high need levels. Only one in every seven North Central cities and one in every eight Western cities are characterized by high levels of resident need.

High need cities in the South have sharply different population trends than high need cities in the Northeast. Nearly 90% of the high need smaller central cities in the South have stable or growing populations; on the other hand, over half of the high need cities in the Northeast exhibit recent population declines. The North Central pattern resembles the Northeast in this respect while the dominant pattern in the West parallels that of the South.

As indicated in Table 2-6, **needy and declining smaller central cities** are primarily located in the Northeast. These are often older manufacturing centers such as Elmira, New York and Bridgeport, Connecticut, which have suffered from a declining job base. Despite the loyalty of many long time residents, these cities often lack the amenities and opportunities to retain or attract young and mobile households. In many cases, these cities have received the overflow of minority job seekers from larger central cities. The stagnation of their economies has led to high rates of minority unemployment, and white flight. Table 2-7 shows that, as a class, needy and declining smaller central cities experienced very small gains in per capita income after 1970, a sizable increase in black residents after 1960, and high incidence of female headed households.

Primarily located in the deep South, the **needy but growing small central cities** such as Brownsville, Texas and Monroe, Louisiana had an exceptionally high rate of poverty in 1969. Net growth in income has been slow and unemployment rates are high. However, since 1970 some have shown signs of increased economic vigor, seemingly from general regional growth. Recently, per capita income has begun to increase at a relatively fast pace and poverty rates are beginning to decline in many cities.

Relatively few smaller central cities are **low need small central cities losing population.** Six of the ten cities are located in the South; several are coal towns in the Southern Appalachian states. Population loss for low need declining cities averaged considerably less than for high need declining cities. These cities are characterized by an exceptionally high growth in per capita income and a very small minority population.

**Low need and growing small central cities** are common in all regions except the Northeast. They share the low unemployment and rapid income growth of other low need cities. In the Midwest, they are often located in prosperous agricultural areas. The Southern and Western counterparts include energy-based economies, (Midland, Texas or Richland, Washington) and successful recreation-based economies (Reno, Nevada or Boca Raton, Florida).

## 3. Measuring the Degree of Need in Suburbs and Non-Metropolitan Communities

Ideally, the same resident need and population trend measures that were utilized to categorize central cities would also be used to examine patterns of need in suburbs and non-metropolitan communities. Unfortunately, it is not yet feasible to extend the analytic framework in a fully consistent manner to these other communities. In part, this is because some of the data essential to the analysis—such as unemployment information—is not gathered separately for smaller communities. In addition, while there is a growing body of information on communities outside central cities it is generally not yet sufficient to support the same level of analysis that is possible for central cities.

### Needs Index for Smaller Communities and Places

A needs index for smaller cities located in suburban and non-metropolitan areas was developed with most, but not all, of the data used in the central city index. The following components are available for all cities and were weighted as noted:

| Measure | Weight |
|---|---|
| Percent of population below the poverty level in 1969. | 40% |
| Net growth of per capita income from 1970 to 1974. | 30% |
| Percentage growth of per capita income from 1970 to 1974. | 30% |

Suburban and non-metropolitan communities were arranged in rank order in terms of this weighted index. The entire listing was then divided into three categories of need by applying the cut-off levels that were developed for the 377 central cities.

The absence of unemployment data does not appear to have greatly affected community rankings. Using unemployment data that is available for suburban municipalities with more than 25,000 population, the needs index was calculated both with and without the employment component. The correlation of rank order between the two indices was very high, indicating that the needs index for small cities is comparable to that developed for central cities. This is not altogether surprising; most of the component measures used in the two community need indexes are highly correlated.

TABLE 2-6

DISTRIBUTION OF 319 SMALLER CENTRAL CITIES BY REGION AND RELATIVE COMMUNITY NEED

(Data is in number of cities)

| Region and Degree of Resident Need | Population Trend 1970-1976 Decreasing | Stable | Increasing | Total |
|---|---|---|---|---|
| Northeast | | | | |
| Relatively High | 20 | 14 | 3 | 37 |
| Moderate | 9 | 13 | 3 | 25 |
| Relatively Low | 1 | 6 | 2 | 9 |
| Sub-Total | 30 | 33 | 8 | 71 |
| North Central | | | | |
| Relatively High | 6 | 4 | 2 | 12 |
| Moderate | 12 | 13 | 11 | 36 |
| Relatively Low | 2 | 20 | 11 | 33 |
| Sub-Total | 20 | 37 | 24 | 81 |
| South | | | | |
| Relatively High | 5 | 7 | 27 | 39 |
| Moderate | 4 | 16 | 25 | 45 |
| Relatively Low | 6 | 6 | 23 | 35 |
| Sub-Total | 15 | 29 | 75 | 119 |
| West | | | | |
| Relatively High | 0 | 2 | 4 | 6 |
| Moderate | 1 | 6 | 12 | 19 |
| Relatively Low | 1 | 6 | 16 | 23 |
| Sub-Total | 2 | 14 | 32 | 48 |

SOURCE: HUD Urban Development Action Grant Data File (Based on Census, Revenue Sharing, and BLS Tapes)

TABLE 2-7

SELECTED NEED INDICATORS FOR SMALLER CENTRAL CITIES BY RESIDENT NEED AND POPULATION TREND

| Need Indicators | High Need, Decline | High Need, Growth | Low Need, Decline | Low Need, Growth |
|---|---|---|---|---|
| Percent Annual Population Growth, 1970-76 | -1.6% | 3.2% | -1.2% | 2.9% |
| Percent Poverty, 1969 | 17% | 24% | 11% | 10% |
| Percent Growth of Nominal Per Capita Income, 1969-75 | 50% | 60% | 64% | 64% |
| Net Growth of Nominal Per Capita Income, 1969-75 | $1418 | $1501 | $2025 | $2075 |
| Unemployment Rate, 1978 | 8.2% | 8.7% | 5.0% | 5.0% |
| Percent Black, 1960 | 17% | 18% | 5% | 11% |
| Percent Black, 1970 | 23% | 17% | 4% | 7% |
| Percent Minority, 1970 | 26% | 30% | 6% | 12% |
| Percent Female-Headed, 1970 | 18% | 15% | 10% | 10% |
| Percent pre-1939 Housing | 67% | 31% | 53% | 24% |
| Average Population (thousands) | 90 | 65 | 57 | 86 |
| Number of Cities | 31 | 36 | 10 | 52 |
| Total Population (millions) | 2.8 | 2.3 | .6 | 4.5 |

SOURCE: HUD Urban Development Action Grant Data File (Based on Census, Revenue Sharing, and BLS Tapes); City and County Data Book (1972); BLS Unemployment Tapes.

The resident need index was calculated for 6,261 suburban and 12,368 non-metropolitan municipalities. Most of these cities are quite small—90% have less than 10,000 residents each. The distribution of suburban and non-metropolitan communities by size class is shown in Table 2-8.

Given the large number of suburban and non-metropolitan municipalities, it is necessary to treat the data in a more aggregate fashion than was the case with the larger central cities. Tables 2-9 and 2-10 present summary data on resident need by size class and by regional distribution.

Suburban communities display lower levels of community need than non-metropolitan cities in each of the population size classes. The disparity tends to be larger as the population size class increases. For communities with fewer than 2,500 persons, 26.2% of suburbs and 41.5% of non-metropolitan towns display high need, but in the 25,000 to 50,000 size class the respective proportions of high need communities are 11.1% and 29.9%. The proportion of communities with high levels of need declines as population size increases, for suburbs up to 25,000 population and for non-metropolitan communities.

A lower fraction of suburban than non-metropolitan communities are in the high need category in each of the four major geographic regions of the nation. However, the relationship varies widely. The contrast between suburban and non-metropolitan need is sharpest in the Northeast and least sharp in the West.

**Summing Up: Community Need Measures**

This Chapter presents a framework that will be utilized in the remainder of the Report to illuminate relationships among poverty, income, unemployment, population change, and other aspects of community life. The needs index is useful as a tool for understanding what is happening in the nation's 58 large and 319 smaller central cities, 6,000 suburbs, and 12,000 non-metropolitan municipalities. Without such an organizing principle, only vague nation-wide generalities would be feasible.

On the other hand, neither a needs index nor a measure of population change can capture all the diversity of individual cities. Caution is essential to avoid confusing characteristics of a category with the problems and strengths of an individual municipality. With such caution in mind, it should be possible to use the needs index as a guide to how changing national and local conditions affect the vitality of the nation's urban communities.

**TABLE 2-8**

**NUMBER OF SUBURBS AND NON-METROPOLITAN COMMUNITIES BY POPULATION SIZE CLASS**

**(Data is for number of municipalities)**

| Population | Suburbs | Non-Metropolitan |
|---|---|---|
| Under 2,500 | 3,339 | 10,036 |
| 2,500–9,999 | 1,729 | 1,738 |
| 10,000–24,999 | 728 | 457 |
| 25,000–50,000 | 288 | 137 |
| Over 50,000 | 177 | 0 |
| TOTAL | 6,261 | 12,368 |

TABLE 2-9

CLASSIFICATION OF SUBURBS AND NON-METROPOLITAN MUNICIPALITIES BY SIZE CLASS AND DEGREE OF NEED

(Data is in percent of municipalities)

| | Population Size Class | | | | |
|---|---|---|---|---|---|
| Resident Need | Under 2,500 | 2,500–9,999 | 10,000–24,999 | 25,000–50,000 | Over 50,000 |
| A. SUBURBS | | | | | |
| Relatively High | 26.2% | 15.4% | 10.9% | 11.1% | 15.8% |
| Moderate | 15.9 | 18.5 | 14.0 | 16.0 | 15.3 |
| Relatively Low | 57.9 | 66.1 | 75.1 | 72.9 | 68.9 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| B. NON-METROPOLITAN | | | | | |
| Relatively High | 41.5 | 40.1 | 33.7 | 29.9 | –– |
| Moderate | 15.6 | 20.9 | 28.0 | 26.3 | –– |
| Relatively Low | 42.9 | 39.0 | 38.3 | 43.8 | –– |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | –– |

SOURCE: HUD Urban Development Action Grant Data File (Based on Census, Revenue Sharing, and BLS Tapes)

TABLE 2-10

CLASSIFICATION OF SUBURBS AND NON-METROPOLITAN MUNICIPALITIES BY REGION AND DEGREE OF NEED

(Data is in percent of municipalities)

| | Region | | | | |
|---|---|---|---|---|---|
| Resident Need | Northeast | North Central | South | West | Total U.S. |
| A. SUBURBS | | | | | |
| Relatively High | 13.6% | 13.5% | 33.2% | 24.0% | 20.6% |
| Moderate | 20.1 | 15.7 | 14.6 | 17.4 | 16.4 |
| Relatively Low | 66.3 | 70.8 | 52.2 | 58.2 | 63.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| B. NON-METROPOLITAN | | | | | |
| Relatively High | 46.8 | 27.8 | 62.0 | 29.0 | 40.9 |
| Moderate | 24.6 | 16.6 | 16.0 | 17.1 | 16.9 |
| Relatively Low | 28.6 | 55.6 | 22.0 | 53.9 | 42.2 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

SOURCE: HUD Urban Development Action Grant Data File (Based on Census, Revenue Sharing, and BLS Tapes)

# PART II: THE CENTRAL CITY

# PART II: THE CENTRAL CITY

Central cities vary widely. They also display characteristics, problems, and strengths that contrast sharply with those of the surrounding suburban areas. Some of the nation's central cities are thriving–with increasing jobs, expanding tax base, and rising income levels. Others are in serious trouble as a result of sharp job losses, shrinking tax values, and rising numbers of impoverished residents.

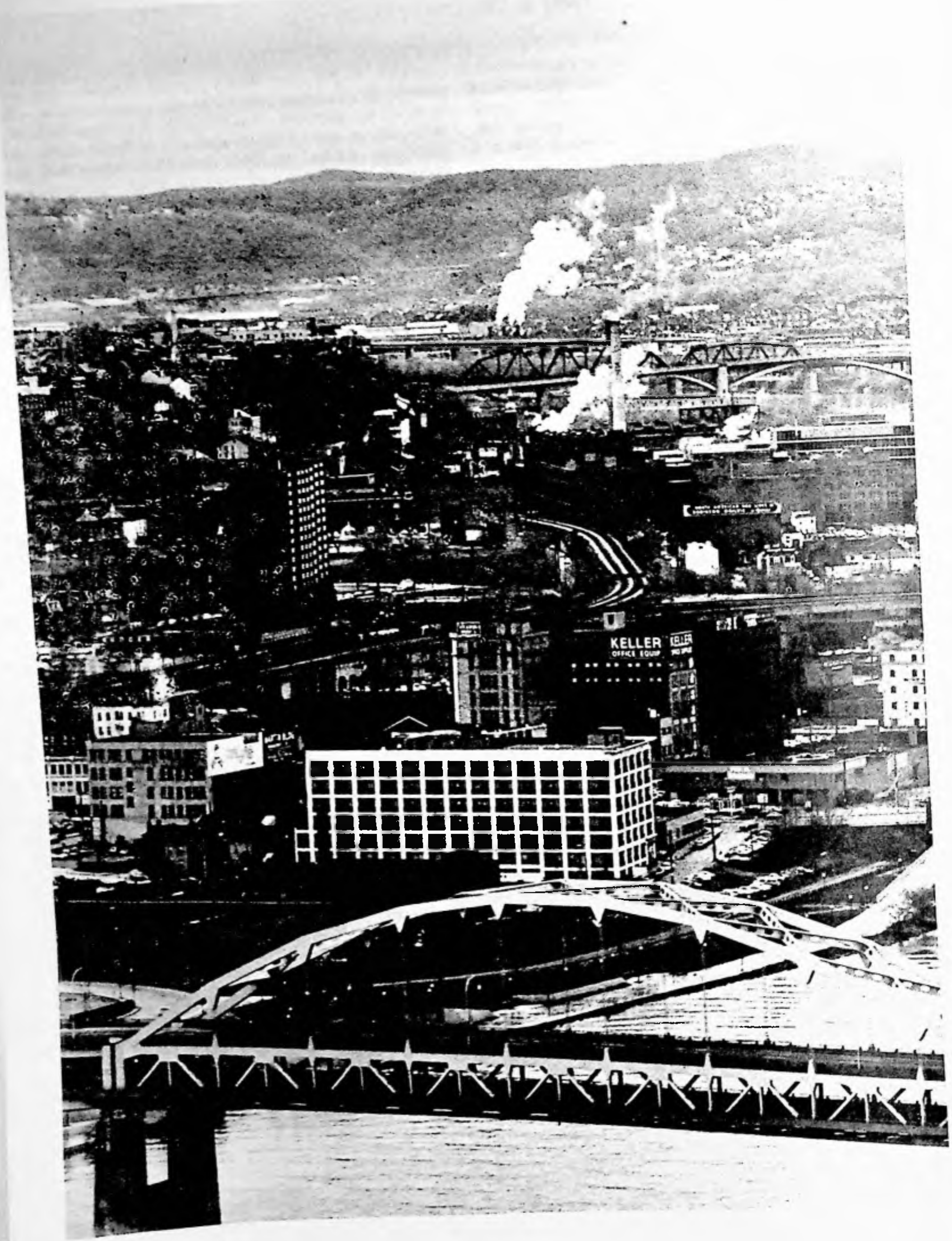
The four Chapters in this Part examine major aspects of the changing character of central cities:

- **Chapter Three** is concerned with what is happening to the economies of central cities.
- **Chapter Four** focuses on the growing concentration of the nation's poor in the largest central cities.
- **Chapter Five** addresses housing and neighborhood trends.
- **Chapter Six** considers the fiscal strengths and weaknesses of central city governments.

Much of the analysis is addressed to patterns and trends in the 40 to 60 largest central cities, those with populations in excess of 250,000 each. Where possible, however, data are provided on a summary basis for smaller central cities as well. An effort has also been made to assure that, where data permits, patterns and trends are reviewed in terms of the two dimensions of urban condition defined in Chapter Two: the degree of resident need and the pace of population change. Through this approach it is possible to highlight the very directions of change in central cities with different levels of overall community need.

Some large central cities are doing quite well in terms of economic strength and growth; this is especially the case with central cities of the South and West, although even in these regions there are central cities with serious problems. Other central cities, especially those in the Northeast and North Central regions, continue to experience serious economic problems that are reflected in their income, housing, and fiscal patterns.

Smaller central cities appear generally to be experiencing patterns of change parallel to those of the larger cities. Differences that arise seem to be closely related to regional location and economic base.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# III. CHANGES IN THE CENTRAL CITY ECONOMY

Central cities play a major role in the national economy. Together, the 377 central cities of the nation accounted for one-third of the nation's jobs in 1975. The pace of economic change in central cities is both rapid and complex. Some cities are achieving accelerating job gains while others are suffering devastating employment losses. These developments have had profound effects on the economic and social well-being of city residents. They sharply influence the attractiveness of cities to prospective residents and businesses. They strengthen or undermine local fiscal capacity and they affect the health of the nation's economy.

Public policy must reflect an understanding of the dimensions of central city economic change. Toward that end, this Chapter outlines several major economic trends. First, it describes how the pace of employment change in central cities accelerated during the 1970's, affecting both the number of jobs and the type of available jobs in individual cities. This section also examines how changes in employment relate to other key indicators of economic welfare, such as unemployment and income. The Chapter then focuses on factors influencing job change in central cities, such as economic recessions, regional and metropolitan economic shifts, and the failure of older central cities to attract growth industries. Finally, the Chapter examines barriers to economic development in central cities.

## 1. Central City Employment Trends

Employment, measured in jobs, is the single most widely accepted indicator of economic trends. On the basis of this measure, the 1970's were a decade of rapid change for large central cities. Generally, cities with growing economies during the 1960's expanded their job base even more rapidly after 1970; those that had been losing jobs prior to 1970 suffered even faster losses during the decade. Overall, the number of central cities with a contracting employment base increased.

Employment gains and losses among the 57 largest central cities can be seen in summary form in Table 3-1, which tracks job trends during the 1960's and the first seven years of the 1970's. Among the key features it reveals are:

- Job losses by central cities were much more common in the 1970's than in the decade earlier. Only 15 major cities lost employment in the 1960's, but 23 lost jobs during the 1970's.

- In those cities that lost jobs in both the 1960-70 and 1970-77 period, the rate of loss more than doubled in the later period. Only one city that lost jobs in the 1960's gained employment during the next seven years.

TABLE 3-1

EMPLOYMENT TRENDS IN 57 MAJOR CENTRAL CITIES, 1960-1977

| Employment Change | Number of Cities | Average Annual Percentage Change in Employment (unweighted) 1960-1970 | 1970-1977 |
|---|---|---|---|
| Cities Losing Employment, 1960-1970 | 15 | –0.9% | –2.2% |
| Employment Loss, 1970-1977 | 14 | –1.0 | –2.4 |
| Employment Gain, 1970-1977 | 1 | –0.1 | 0.7 |
| Cities Gaining Employment, 1960-1970 | 42 | 2.3 | 2.1 |
| Employment Loss, 1970-1977 | 9 | 0.8 | –0.7 |
| Employment Gain, 1970-1977 | 33 | 2.6 | 2.8 |
| TOTAL | 57 | 1.4 | 1.0 |

SOURCE: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, "Changing Conditions in Large Metropolitan Areas," Urban Data Report No. 1. (Data provided by Seymour Sacks.) Washington, D.C., 1980.

- The pattern of change was more complex in cities that gained jobs during the 1960's. As a group, these cities gained jobs at a reduced rate during the 1970's. However, nine of the cities that gained jobs in the 1960's became job losers in the 1970's. Among cities that grew throughout the 1960-1977 period, the average rate of job expansion quickened.

**Change in Job Composition**

Changes in employment levels in central cities have been accompanied by changes in the composition of their job base. On a national level, manufacturing is declining as a percentage of total employment; less than two percent of the net increase in jobs from 1970-1977 took place in manufacturing. This pattern is reflected in the changing composition of employment in cities. For many years, central city economies have been shifting away from manufacturing toward service industries and white collar work.

Manufacturing employment is declining in almost two-thirds of the large central cities of the nation with populations in excess of 250,000 (see Table 3-2). Among central cities, growth in manufacturing employment persists largely among smaller cities with populations below 250,000. Even so, half of these smaller cities lost manufacturing jobs between 1967 and 1972, the most recent year for which data are available.

In large cities losing employment, most of the net job loss has been in manufacturing. A recent analysis of the industrial composition of private sector job changes in 28 larger central cities found that the manufacturing sector accounted for two-thirds of the jobs lost in cities with declining total employment. As shown in Table 3-3, growth in the service sector of declining cities was extremely limited, replacing less than one-fifth of the lost manufacturing jobs. These cities also suffered job losses in retail and wholesale trade, activities closely related to overall population trends.

Cities gaining jobs tend to gain them in all sectors of their economies. However, from 1967 to 1972 they gained five times as many jobs in the trade and selected service sectors as they did in manufacturing. Overall, growing central cities enjoyed relatively balanced economic growth.

**Employment Change and Community Need**

It is highly likely that rapid employment growth in the nation as a whole between 1976 and 1979 was reflected in the economies of a number of central cities. As will be shown later in this Chapter, the precipitous employment losses which occurred in distressed cities during the first seven years of the decade are in part attributable to the impacts of recessions which hit the economies of these cities hard in the early and mid-1970's.

TABLE 3-2

MANUFACTURING EMPLOYMENT TRENDS IN 229 CENTRAL CITIES BY SIZE, 1967-1972

| City Population | Average Annual Percent Change 1967-1972 in: Manufacturing Establishments | Manufacturing Employment | Number of Cities in Sample With: Manufacturing Employment Growth | Manufacturing Employment Losses | Total |
|---|---|---|---|---|---|
| 250,000 or more | 0.7% | 0.1% | 20 | 36 | 56 |
| 100,000–249,999 | 1.4 | 1.8 | 41 | 33 | 74 |
| 50,000–99,999 | 1.4 | 0.7 | 44 | 55 | 99 |

SOURCE: U.S. Bureau of the Census, Census of Manufacturing, 1967 and 1972.

TABLE 3-3

INDUSTRIAL COMPOSITION OF EMPLOYMENT CHANGES IN 28 MAJOR GROWING AND DECLINING CENTRAL CITIES, 1967-1972

| Employment Category | 14 Selected Cities Experiencing Employment Growth: Absolute Job Changes (000s) | Percent of Total Job Loss or Gain | 14 Selected Cities Experiencing Employment Loss: Absolute Job Changes (000s) | Percent of Total Job Loss or Gain |
|---|---|---|---|---|
| Manufacturing | 39.1 | 16.9% | –281.0 | 78.6% |
| Retail Trade | 76.8 | 33.2 | –55.0 | 15.6 |
| Wholesale Trade | 30.6 | 13.2 | –67.9 | 19.0 |
| Selected, Service | 84.5 | 36.6 | +47.0 | –13.0 |
| TOTAL | 231.0 | 100.0 | –357.0 | 100.0 |

SOURCE: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, "Changing Conditions in Large Metropolitan Areas," Urban Data Report No. 1. (Data provided by Seymour Sacks.) Washington, D.C., 1980.

Falling unemployment rates provide one indirect indicator that the economies of many cities may be somewhat stronger today than they were in mid-decade. As can be seen in Table 3-4, unemployment rates have fallen by two to three percentage points since 1976 among residents of all types of central cities, whether their levels of resident need are high or low, or whether their populations are growing or decreasing. In the nation as a whole, unemployment rates fell by roughly equivalent amounts, from 7.7% in 1976 to 5.8% in 1979. These trends are the result both of national economic recovery during the period, as well as determined efforts by the Federal government in its employment and training programs and other programs to generate jobs for the unemployed.

However, as the table also makes clear, unemployment remains a serious problem in a number of cities. In 1979, unemployment rates averaged nearly eight percent in large high need, declining cities, higher by a substantial margin than any other group of large central cities. The rate of unemployment in 1979 was 11.7% in Newark, and 10.3% in Detroit, almost twice the national average. These rates of unemployment were far below their recession level high point, when unemployment rates reached 18% in Newark and 14.5% in Detroit. Nevertheless, they are unacceptably high.

The persistance of high levels of unemployment in needy cities appears to reflect the continued structural problems with their economies as well as changing population characteristics. Table 3-5 indicates that the most serious signs of economic weakness were found in central cities with high levels of resident need and declining population. Conversely, cities that exhibited low need levels and rapid population gains were characterized by very rapid job growth (over four percent per year).

In central cities with declining employment, the rate of job loss often exceeded the rate of population loss. The 20 largest cities that lost jobs most rapidly from 1970 to 1977 saw their employment base shrink by an average of two percent a year; population in these cities also declined, but at a rate of only 1.5% per year, a one-fourth lower rate. Where the number of jobs increased, the rate of job expansion tended to exceed the rate of population growth. In the 20 large cities, where employment grew most rapidly from 1970 to 1977, jobs increased almost three times as fast as population.

Residents typically enjoy greater job opportunities in cities where employment is growing more rapidly than population or where employment is declining less rapidly than population. As can be seen in Table 3-6, rates of unemployment have been consistently lower in cities experiencing an advantageous balance between employment growth and population change than in cities where employment gains lagged behind population growth, or where employment loss exceeded population loss.

## 2. National, Regional, and Metropolitan Job Trends

Among the economic forces underlying changes in the economies of central cities have been large-scale shifts of economic activity among regions and within metropolitan areas. In addition, the two major recessions during the 1970's depressed national economic growth.

**Recessions and the Economic Performance of Cities**

Unfortunately, annual employment data needed to illustrate the impacts of recessions on city economies, are available only for eight large cities which are approximately coterminous with counties. While these eight cities are not a representative sample of central cities in the U.S., evidence from them suggests that central cities may suffer more and longer from economic recessions than suburban or nonmetropolitan areas. Table 3-7 shows that the eight central cities for which annual data are available suffered severe employment losses during the 1970-71 and 1974-75 recessions. Job losses in their suburbs were far more moderate. Further, after each recession, the suburban areas recovered more rapidly than did the central cities. Within a year following each recession, the suburbs had more than regained their pre-recession level of employment. This was not the case in the eight central cities.

In the eight central cities as a group, private employment peaked in 1970 following a decade of steady employment expansion. Employment fell by 3.7% between 1970 and 1971 in response to economic slowdown. Almost 120,000 jobs were lost in a single year. Employment expanded slowly after this recession, but still had not regained its pre-recession level in 1973. When the second, more severe recession of the decade hit in 1974 and 1975, these eight cities lost 290,000 jobs, or 9.2% of their 1973 private sector employment base. Recovery had hardly begun in 1977, the most recent year for which data are available.

The recessions of the 1970's had an especially severe impact on cities with high levels of community need. Needy cities suffered sharp employment declines during recessions and were slow to recover afterward. Five of the eight central cities for which annual employment measures are shown in Table 3-7 have high levels of community need: Baltimore, Boston, Philadelphia, New Orleans, and St. Louis. Recession resulted in rapid job losses in these cities. Employment fell by almost 100,000 jobs between 1970 and 1971, a loss of 4.4%. Between 1973 and 1975, almost 13% of their private sector job base was lost. City employment showed only weak signs of recovery between the two recessions, and the national economic recovery in 1976 and 1977 did not result in significant job growth.

The remaining three cities in the eight city sample have lower levels of community need and generally stronger economies: Washington, D.C., Denver, and San Francisco. These cities have hardly proved immune to recessions, suffering economic reversals in 1971 after a long period of steady job gains, and even greater job declines in 1975. However, they began to gain jobs as soon as the nation's economy was on track. Although job growth between 1975-1977 fluctuated, job total in 1977 surpassed totals in 1975.

Employment declines in needy cities during recessions may have relatively long-run impacts. Existing businesses which cut back or shut down cannot be counted on to expand or

TABLE 3-4

UNEMPLOYMENT RATES IN 57 LARGE CENTRAL CITIES BY COMMUNITY NEED, 1976-1979

| Degree of Resident Need[1] | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|
| Relatively High Need | | | | |
| Decreasing Population | 10.3% | 9.2% | 7.9% | 7.8% |
| Stable Population | 10.5 | 9.3 | 7.5 | 6.4 |
| Increasing Population | 10.0 | 9.5 | 7.9 | 6.8 |
| Moderate Need | | | | |
| Decreasing Population | 8.3 | 7.4 | 6.5 | 5.9 |
| Stable Population | 8.6 | 7.6 | 6.2 | 6.3 |
| Increasing Population | 7.3 | 7.2 | 6.0 | 5.6 |
| Relatively Low Need | | | | |
| Decreasing Population | 7.6 | 6.6 | 5.1 | 4.9 |
| Stable Population | 5.5 | 4.8 | 3.8 | 3.5 |
| Increasing Population | 7.4 | 6.3 | 5.0 | 4.7 |

SOURCE: U.S. Bureau of Labor Statistics.

[1] Resident Need is defined in Chapter 2.

TABLE 3-5

RATES OF CHANGE IN EMPLOYMENT IN 57 LARGE CENTRAL CITIES, BY COMMUNITY NEED

(Data are in average annual rate of employment change)

| Degree of Resident Need[1] | Population Trend, 1970–1976 Decreasing | Stable | Increasing | Total |
|---|---|---|---|---|
| Relatively High | –1.6% | –1.2% | 2.6% | –0.9% |
| Moderate | –0.6 | 2.4 | 3.7 | 1.2 |
| Relatively Low | 0.8 | 2.6 | 4.3 | 2.9 |

SOURCE: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, "Changing Conditions in Large Metropolitan Areas," Urban Data Report No. 1. (Data provided by Seymour Sacks.) Washington, D.C., 1980.

[1] Resident Need is defined in Chapter 2.

TABLE 3-6

RELATIONSHIP OF EMPLOYMENT CHANGE, POPULATION CHANGE, AND UNEMPLOYMENT IN LARGE CENTRAL CITIES

| Change in Employment Relative to Change in Population | Unemployment Rates 1976 | 1977 | 1978 | 1979 | Percent of Cities With High Resident Need |
|---|---|---|---|---|---|
| Disadvantageous | 9.4% | 8.4% | 7.1% | 6.8% | 61% |
| Adequate | 8.2 | 7.3 | 6.2 | 5.9 | 31 |
| Advantageous | 7.8 | 7.0 | 5.5 | 5.1 | 11 |

NOTE: Relative change in employment opportunities reflects the difference between the annual average rate of employment change and the average annual rate of population change. If this difference is less than 0.5, change in employment opportunities has been disadvantageous; if it is between 0.5 and 2.0, change in employment opportunities has been adequate; if it is greater than 2.0, change in employment opportunities has been advantageous.

reappear quickly when business conditions improve. By contrast, in healthier cities recessions may result in temporary rather than permanent job losses.

**Regional Shifts of Economic Activity**

As was pointed out in Chapter 1, regional shifts of population and of economic activity reflect underlying structural changes which offer growing regions competitive advantages in attracting industry and business. For example, much of the infrastructure, plant, and equipment is old and obsolescent in declining central cities of the Northeast and Midwest. The tax costs of public services are often higher in such communities than elsewhere, both for business and for workers. At the same time, technological advances and changes in products have reduced the importance to industry of locating near some raw materials which drew major concentrations of industry during the 19th and early 20th century. This has made industry more footloose, and permitted workers and managers greater freedom to work and live in communities of their choice.

Regional shifts in economic activity have undercut the economies of central cities in declining regions. The economic bases of many northern cities rest on manufacturing. The large central cities of the North have been losing manufacturing production jobs since Word War II. The economies of these cities have been significantly weakened in recent years by the shift of manufacturing jobs outside their regions and to other nations.

Since 1960, most new manufacturing jobs have been located in the South and West. The Vietnam War and other factors buoyed national manufacturing activity during the 1960's by almost three million new jobs, and no region of the nation experienced absolute declines in manufacturing jobs. Recessions, the end of the War, and the growing inability of the U.S. to compete in world markets for many basic industrial commodities have stymied national growth in manufacturing employment during the 1970's. The Northeast has experienced protracted losses of manufacturing jobs for the first time since World War II. The North Central region also lost manufacturing jobs.

Reflecting these shifts, central cities in New England, the Middle Atlantic, and the North Central regions lost a substantial proportion of their manufacturing jobs after 1970. Losses ranged from 18% in the East North Central region to 27% in the Middle Atlantic states. Cities in these regions continued to lose jobs, although at a slower rate, in the 1975 to 1976 period. Central cities in the South also lost manufacturing jobs between 1970 and 1975, due in large part to national recession. However, their job losses were smaller (ranging from six percent in the South Atlantic region to ten percent in the East South Central region) and their losses were halted or reversed after 1975 with the beginning of national economic recovery.

Also significant are the changes that occurred during the 1970's in the characteristics of the jobs in central cities and suburbs of the different regions. For example, analysts have long assumed that much of the manufacturing job growth in the South took place in industries needing low-skilled, low-wage workers. As shown in Table 3-8, it now appears that average manufacturing wages have converged among the major Census regions for both central cities and suburbs. In fact, average wages paid by central city manufacturers were lowest in New England in 1975. Moreover, manufacturing in central cities of New England and the Middle Atlantic regions appear to have been less productive in 1975 than in any other region of the nation, when productivity is measured in terms of value added per worker.

TABLE 3-7

## PRIVATE EMPLOYMENT IN EIGHT CENTRAL CITIES BY RESIDENT NEED, 1962-1976[1]

### A. Employment Levels[2]

| Resident Need[4] | 1962 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974[3] | 1975[3] | 1976[3] | 1977 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Relatively High | 2039 | 2188 | 2193 | 2208 | 2211 | 2114 | 2117 | 2143 | 1998 | 1866 | 1837 | 1848 |
| Moderate or Relatively Low | 824 | 925 | 941 | 965 | 982 | 960 | 976 | 1018 | 1042 | 1003 | 1033 | 1022 |
| TOTAL | 2863 | 3113 | 3134 | 3173 | 3193 | 3074 | 3093 | 3161 | 3040 | 2869 | 2870 | 2870 |

### B. Employment Changes[5]

| Resident Need[4] | Average Annual Change 1962-1967 | 1967-1968 | 1968-1969 | 1969-1970 | 1970-1971 | 1971-1972 | 1972-1973 | 1973-1974 | 1974-1975 | 1975-1976 | 1976-1977 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Relatively High | 1.5% | 0.2% | 0.7% | 0.1% | -4.4% | 0.1% | 1.2% | -6.8% | -6.6% | -1.6% | -0.5% |
| Moderate or Relatively Low | 2.5 | 1.7 | 2.6 | 1.8 | -2.2 | 1.7 | 4.3 | 2.4 | -3.7 | 3.0 | -1.1 |
| TOTAL | 1.7 | 0.7 | 1.2 | 0.6 | -3.7 | 0.6 | 2.2 | -3.8 | -5.6 | 0.0 | 0.0 |

SOURCE: U.S. Bureau of the Census, County Business Patterns.

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[1] Only private wage and salary jobs covered under Social Security are included. Employment levels are measured in March of each year.

[2] Thousands of jobs.

[3] Definitions changed; data not comparable to earlier years.

[4] Resident need is defined in Chapter 2. Cities with high resident need are Baltimore, Boston, New Orleans, Philadelphia, and St. Louis. Cities with low or moderate resident need are Denver, San Francisco, and Washington, D.C. Cities with low and moderate resident need are treated together because of the small number of such cities for which information is available.

[5] Average annual percent change.

### Shifts to the Suburbs

The most significant long-term force sapping the economic strength of needy central cities is the consistent expansion of suburbs as centers of employment. As described in Chapter l, jobs have been spreading out in metropolitan areas for many years, growing less rapidly in the urban core and more rapidly on the metropolitan periphery. Two of the more important reasons for employment decentralization have been the plentiful supplies of comparatively cheap, vacant land in the suburbs and the nation's growing reliance on trucks, automobiles, and telecommunications. Vacant land has long made new development in suburbs easier and cheaper compared to new development in densely built-up older areas. Transportation and communication innovations enabled businesses to take advantage of suburban land with little sacrifice in access and information.

The forces for decentralization have differed somewhat among economic sectors. In manufacturing, changes in production technology and transportation patterns have hastened suburbanization. By locating in suburbs, manufacturers can obtain modem single-story production facilities, consistent with today's continuous production techniques which rely on the horizontal movement of goods to achieve production economies. Older production space in cities is often housed in multi-story buildings, effectively precluding the cost-effective use of horizontal operations. The growing use of truck transport has made location near expressways an important determinant of the accessibility of a plant to markets or suppliers. Traffic congestion has reduced the attraction of central city locations.

Central cities have been exposed to growing competition from regional shopping centers located outside their borders (Muller, 1979). Suburban shopping centers are generally located close to the intersection of major arterial highways and provide many customer amenities not available in city centers, particularly parking. They combine easy access and a wide variety of selection, features which historically were the exclusive perogative of the downtown shopping area. As suburban shopping centers have expanded, retail sales in central business districts have remained steady or fallen.

Wholesaling has decentralized in similar fashion. This happened because of the increasing use of the truck for interregional shipment, because warehouse space is relatively cheap in the suburbs and, in part, because of suburban gains in manufacturing and retailing which opened up opportunities for suburban wholesalers.

## 3. The Process of Economic Growth and Decline

The shifts of economic activity among communities and regions do not, in large part, reflect the simple relocation of successful, existing business from one area to another more competitive area. Rather, employment changes have largely resulted from different rates of new business formation and expansion. Economic growth in low need cities has been boosted by the emergence of new industries and activities and the expansion of existing businesses. Economic decline in more needy cities is in large part a symptom of their reliance on industry which is no longer expanding and of their inability to stimulate new industries and economic bases.

### The Role of New Business Formation

The growth of new sources of jobs is essential to a sound and growing city economy. Growth can come from expansion of existing firms or from the creation of new establishments. In recent years, urban economists have begun to assign considerable weight to the importance of new establishments as a source of jobs.

Net changes in employment in core counties containing central cities are shown by region in Table 3-9. The table shows separately the contribution made by three factors: net business in-migration; expansion of existing firms; and employment in new businesses minus employment in dying businesses. Net in-migration is apparently not a major source of jobs in any region. Expansion of existing business was a significant source of job growth in the North Central region and the South. Low rates of new business formation relative to business shut down in New England and the Middle Atlantic regions accounted for significant employment losses between 1970 and 1975. By contrast, relatively high rates of new business formation in the South more closely balanced employment losses due to business shut downs. This combined with rapid net expansion of existing firms, accounted for overall manufacturing employment growth in Southern core counties. The situation in the West was more complex: rates of new business formation were substantial, but total manufacturing declined due to very limited expansion of employment in existing businesses, possibly due to Federal cutbacks in defense and space procurement in the period covered by the table.

Comparable data on the factors underlying employment change are quite sparse for individual cities. The effect of the basic pattern of employment change in central cities can, however, be illustrated with data from six cities for 1969-72 (see Table 3-10). Two of the six cities have high community need—New Haven and Dayton. Two others are low need, growing cities—Charlotte and Houston. The remaining two exhibit moderate need—Rochester and Worchester. Of these six cities, New Haven suffered the most rapid employment losses. Only Houston had manufacturing job growth between 1969 and 1972.

A comparison of the components of employment change in New Haven and Houston is consistent with the general patterns described above for the nation as a whole. Despite their very different overall economic experiences, the two cities had almost identical rates of job loss through the closing of existing firms (eight percent in New Haven versus nine percent in Houston). This underlines the relative unimportance of geographic differences in rates of establishment failure. Variations in the net rate of outmigration are correspondingly small; New Haven's employment declined by only two percent as a result of net out-migration of firms and

TABLE 3-8

CHANGE IN CITY AND BALANCE OF COUNTY MANUFACTURING PAYROLL BY REGION 1970–1975

| Region | Central City | | | Balance of Urban County | | |
|---|---|---|---|---|---|---|
| | Hourly Wage Per Production Employee 1975 | Annual Payroll Per Employee 1975 | Percent Change in Payroll Per Employee 1970–1975 | Hourly Wage Per Production Employee 1975 | Annual Payroll Per Employee 1975 | Percent Change in Payroll Per Employee 1970–1975 |
| New England | $4.55 | $10,463 | 40% | $4.41 | $11,004 | 50% |
| Middle Atlantic | 4.81 | 12,013 | 46% | 5.67 | 12,644 | 49% |
| East North Central | 6.12 | 13,404 | 47% | 6.34 | 14,118 | 47% |
| West North Central | 5.63 | 12,400 | 41% | 5.51 | 12,479 | 56% |
| South Atlantic | 4.60 | 10,464 | 31% | 4.18 | 10,354 | 44% |
| Southeast | 5.08 | 11,060 | 52% | 5.73 | 11,849 | 44% |
| Southwest | 4.69 | 11,559 | 47% | 5.24 | 12,196 | 42% |
| West | 5.38 | 12,940 | 43% | 5.29 | 12,820 | 44% |
| Average | 5.32 | 12,363 | 43% | 5.61 | 12,902 | 46% |

SOURCE: U.S. Bureau of the Census, **Annual Survey of Manufacturers**, 1970 and 1975. Thomas Muller, "Central City Business Retention: Jobs, Taxes, and Investment Trends," (paper prepared for the Department of Commerce Urban Roundtable. February 1978).

TABLE 3-9

COMPONENTS OF MANUFACTURING EMPLOYMENT GROWTH IN CORE COUNTIES OF MAJOR METROPOLITAN AREAS, BY REGION, 1970–1975

| Region | Total Percent Change[1] In Manufacturing Employment, 1970–1975 | Employment Change Due To: Net In-Migration of Businesses | Net Expansion of Existing Businesses | Net New Businesses (Starts Minus Closures) |
|---|---|---|---|---|
| New England | –18.0% | –0.5% | 1.1% | –18.5% |
| Middle Atlantic | –22.1 | –2.8 | –0.4 | –18.9 |
| East North Central | –5.4 | –1.3 | 9.7 | –13.8 |
| West North Central | 8.1 | –1.2 | 22.0 | –12.6 |
| South Atlantic | 4.0 | 4.4 | 12.0 | –12.4 |
| East South Central[2] | NA | NA | NA | NA |
| West South Central | 12.1 | –2.7 | 18.1 | –3.3 |
| Mountain | –9.3 | –1.9 | 3.7 | –11.1 |
| Pacific | –2.3 | 0.1 | 3.3 | –5.7 |

SOURCE: Harvey A. Garn and Larry C. Ledebur, "Metropolitan Prospects in the Context of the Changing Distribution of Industry and Jobs," Working Paper 5111-4 (Washington, D.C.: The Urban Institute, November 1978), Table 15.

[1] Components may not add to total due to rounding.
[2] East South Central region has no core counties.

## TABLE 3-10

## COMPONENTS OF EMPLOYMENT CHANGE IN SIX CENTRAL CITIES AS PROPORTIONS OF THE INITIAL EMPLOYMENT BASES, 1969–1972

| | High Need | | Moderate Need | | Low Need | |
|---|---|---|---|---|---|---|
| **Components of Employment Change** | **New Haven** | **Dayton** | **Rochester** | **Worchester** | **Charlotte** | **Houston** |
| **Employment Loss** | –0.21 | –0.16 | –0.19 | –0.21 | –0.17 | –0.18 |
| Closing of Firms | –0.08 | –0.07 | –0.08 | –0.10 | –0.08 | –0.09 |
| Contractions of Firms | –0.09 | –0.05 | –0.07 | –0.07 | –0.05 | –0.04 |
| Out-Migration of Firms | –0.04 | –0.04 | –0.03 | –0.04 | –0.04 | –0.05 |
| **Employment Gain** | 0.08 | 0.09 | 0.12 | 0.13 | 0.17 | 0.19 |
| New Firms | 0.02 | 0.04 | 0.03 | 0.02 | 0.06 | 0.07 |
| Expansion of Firms | 0.04 | 0.03 | 0.06 | 0.07 | 0.07 | 0.07 |
| In-Migration of Firms | 0.02 | 0.02 | 0.03 | 0.04 | 0.04 | 0.05 |
| **Net Changes** | | | | | | |
| New Firms Minus Closeings | –0.06 | –0.03 | –0.05 | –0.08 | –0.02 | –0.02 |
| Expansions Minus Contractions | –0.05 | –0.02 | –0.01 | –0.00 | 0.02 | 0.03 |
| In-Migration Minus Out-Migration | –0.02 | –0.02 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Net Employment Change (1969–1972)** | –0.13 | –0.07 | –0.07 | –0.08 | 0.00 | +0.01 |

SOURCE: David L. Birch, "The Processes Causing Economic Change in Cities." (Paper prepared for a Department of Commerce Roundtable on Business Retention and Expansion, held on February 22, 1978. Paper revised September 1978).

Houston's job base did not change at all through business relocations. The big differences between the two cities were in the rates of new firm formation and in the degree to which expansions outpaced contractions. Houston gained jobs three times as rapidly as New Haven through the formation of new establishments. While Houston's employment increased by three percent as a result of net firm expansions, New Haven lost five percent of its job base through the net contraction of existing business. These findings from Houston and New Haven appear broadly applicable to the other cities listed in the table. Other studies of the process of employment change support general applicability of the results (Struyk and James, 1975; Schmenner, 1978).

### The Failure to Attract Growth Industries

Central cities characterized by high levels of job and population loss have failed to attract new, growing industries and economic activities to replace old, declining industries. Large cities have historically been centers of economic innovation. Firms doing business in large cities often specialize in producing new products or services which require skilled management and craft labor, and which embody technological advances. As new products or services become standardized, production tends to shift to less expensive areas or to areas where there are expanding markets (Rees, 1979). But many older cities have not been able to generate new services, products, and businesses. For many declining central cities, this failure to innovate has occured in both manufacturing and the office sector.

**The Manufacturing Sector.** Central cities that have failed to attract or generate new, growing industries have lost jobs because their employment base has become disproportionately concentrated in manufacturing industries which are vulnerable to economic setbacks. For example, the largest manufacturers in Pittsburgh and Buffalo produce iron and steel. New York City's major manufacturers are apparel producers and printers. Cleveland's largest manufacturing employers are in fabricated metals and non-electrical machinery. These are all industries with low growth potential (Mollenkopf, 1980).

By contrast, many lower need, growing cities of the South and West are centers of production for relatively new, high technology industries. For example, the largest manufacturing employers in San Diego are in electronics and the largest employers in San Jose and Tucson are electronics and ordinance. These industries have generated high levels of technological innovation in recent years, and will continue to provide a foundation for economic expansion in the 1980's (Rees, 1979).

New manufacturing facilities have been established at a much faster rate in cities of the South and West than in cities of the North. This is shown in Table 3-11 which presents data for the 1969-75 period by major regions of the nation. Rates of new manufacturing establishment were substantially lower in metropolitan central counties (those containing central cities) in the North. Rates of new business formation were only half as high in central counties in the Middle Atlantic region as they were in central counties of the South and West. The limited success of many of the more troubled central cities in attracting new manufacturing firms is important. A recent study has found that young business establishments during their first four years produce nearly four of every five new urban jobs (Birch, 1978).

**White Collar Jobs and The Office Sector.** For many years, urban economists have been pointing to the office industry as a principal component of the urban economy with potential for long-term employment growth. Since 1950, virtually all net national employment growth has occured in services, trade, finance and government. These "white collar" jobs now comprise about one-half of all national employment. More than half of these jobs are located in office buildings separate from manufacturing plants (Armstrong, 1977).

Historically, office jobs have been heavily concentrated in major central business districts. Such locations offered superior transportaion facilities and extensive support functions, such as legal firms, accounting and management services, and job printers. Also, central business districts were attractive to offices simply because so many other offices were located there. This facilitated face to face communication among decision makers in private industry or government.

Technological advances such as the computer and telecommunication have allowed more businesses to separate office, sales and production functions, physically enabling the businesses to fine-tune the location of each of their establishments. Headquarters functions remain solidly concentrated in central business districts. So too do the support functions such as lawyers, accountants and other professional services and the array of support services that headquarters firms utilize, although there are some signs of suburban growth in these as well (Conservation of Human Resources, 1977).

As shown in Table 3-12, most central cities experienced significant expansion of office space in their business districts during the 1970's. Office space more than doubled in core locations of Denver between 1970 and 1978, and grew by more than 50% in Atlanta, Detroit, Houston, Newark, New Orleans, Pittsburgh and Seattle. Overall, over 40 million square feet of office space were added in the business districts of these eight cities between 1970 and 1978. However, job gains in the office sectors of central cities have not been sufficient to counter balance the much larger losses of employment in manufacturing and trade. Moreover, many high need, declining cities which have been historic centers of the office industry are today experiencing strenuous competition from new regional office centers of the South and West. As a result, declining, needy cities have often proved unable to capitalize effectively on the growing importance of office work in the national economy.

The best national data indicating regional patterns of the office industry are measures of employment in "central administrative and auxiliary units" of firms. These units include business headquarters and establishments supporting the headquarters such as major research and development centers. Data are available for 18 metropolitan areas that contain 60% of the nation's headquarters-type employment. Between 1954 and 1972, employment in headquarters establishments grew rapidly in Boston, Houston, Atlanta, Denver, Washington, D.C., Cincinnati, Los Angeles and Minneapolis-St. Paul. Of the 11 metropolitan areas centered around cities with high community need, only four experienced higher than average growth rates of central office employment: Boston, Atlanta, Cincinnati and Los Angeles.

Employment in two major national office centers—New York and Chicago—grew much less rapidly in percentage terms than in the nation as a whole. Absolute levels of office job growth in these two areas did exceed growth in any other metropolitan area. However, in relative terms, the two areas lost some of their historic dominance of office sector employment (Armstrong, 1977).

Patterns with respect to industrial specialization may account in part for the eroding overall position of office centers in a number of metropolitan areas in the older regions of the country. Much of the office industry in older northern manufacturing centers grew up around the headquarters of major industrial firms. Detroit, Cleveland and Pittsburgh are prime examples of this pattern. Recent growth in headquarters office employment has been most rapid in trade and service industries rather than in manufacturing. Employment in central administrative and auxiliary units of non-manufacturing firms grew 56% between 1963 and 1972, as compared to 40% growth in manufacturing industries. Growing cities of the South and West have been most successful in attracting the headquarters establishments of these relatively new and dynamic activities. Growth in office employment related to service and trade activities has been most substantial in Atlanta, Dallas, Los Angeles, San Francisco and Washington, D.C. In contrast, numerous northern cities missed out almost entirely in attracting new jobs in the headquarters of service and trade firms. Example are Philadelphia, Pittsburgh, Detroit and Cincinnati.

## 4. Barriers to Economic Gains in Older Central Cities

Many of the changes that have taken place in central cities—especially the large, older central cities of the Northeast and North Central regions—reflect long-term developments in the

TABLE 3-11

NEW MANUFACTURING ESTABLISHMENTS FORMED BETWEEN 1969 AND 1975 AS A PERCENT OF TOTAL MANUFACTURING ESTABLISHMENTS IN 1969

| Region | Metropolitan Areas | Central Counties | Suburban Counties |
|---|---|---|---|
| New England | 24.9% | 24.1% | 29.1% |
| Middle Atlantic | 19.3 | 16.9 | 26.2 |
| East North Central | 24.1 | 21.1 | 33.1 |
| West North Central | 26.3 | 23.5 | 40.4 |
| South Atlantic | 36.8 | 39.3 | 32.8 |
| East South Central | 23.4 | NA | 23.4 |
| West South Central | 37.9 | 37.3 | 43.0 |
| Mountain | 41.7 | 32.1 | 61.3 |
| Pacific | 40.1 | 39.7 | 45.1 |

NOTE: Nationwide data on central cities are not available. The county-level data must be interpreted carefully since in many metropolitan areas the central county is larger than the central city. The central county thus includes suburban areas and in some cases the suburban portion of the county may be large. To the extent that businesses relocate from central cities to suburban areas within the central county, these data underestimate the importance of migration.

SOURCE: Harvey A. Garn and Larry C. Ledebur, "Metropolitan Prospects in the Context of the Changing Distribution of Industry and Jobs," Working Paper 5111-4 (Washington, D.C.: The Urban Institute, November 1978).

TABLE 3-12

OFFICE SPACE EXPANSION IN CORE AREAS OF SELECTED CITIES: 1970–1978

(Data are millions of square feet)

| City | Office Space 1970 | Office Space 1978 | Percentage Increase |
|---|---|---|---|
| Atlanta | 10.8 | 16.9 | 56.5% |
| Baltimore | 8.0 | 10.0 | 25.0 |
| Boston | 28.5 | 38.0 | 33.3 |
| Chicago | 57.8 | 77.8 | 34.6 |
| Cincinnati | 10.1 | 10.5 | 4.0 |
| Cleveland | 16.5 | 18.7 | 13.3 |
| Dallas | 18.0 | 20.4 | 36.0 |
| Denver | 7.8 | 15.8 | 102.6 |
| Detroit | 11.5 | 18.0 | 56.5 |
| Houston | 13.9 | 22.2 | 59.7 |
| Indianapolis | 10.4 | 12.4 | 19.2 |
| Los Angeles | 38.0 | 45.0 | 36.4 |
| Milwaukee | 9.0 | 11.5 | 28.0 |
| Minneapolis | 10.0 | 14.8 | 48.0 |
| Newark | 2.8 | 4.6 | 64.3 |
| New Orleans | 5.5 | 8.5 | 54.5 |
| Philadelphia | 24.1 | 32.2 | 33.6 |
| Pittsburgh | 8.7 | 13.2 | 51.7 |
| San Francisco | 25.0 | 35.0 | 40.0 |
| Seattle | 4.5 | 7.2 | 60.0 |
| Average Percentage Increase | | | 42.9 |

SOURCE: Research Division, Urban Land Institute, based on a survey of local organizations, as reported in J. Thomas Black, "The Changing Economic Role of Central Cities and Suburbs," in Arthur P. Solomon, ed., The Prospective City (Campbridge, Massachusetts: The MIT Press, 1980).

national economy. But current job losses in some central cities cannot simply be regarded as an efficient response to economic forces. The costs of providing physical infrastructure in new places and of adjusting the physical plant and land use patterns of currently-developed areas to the needs of new industries and technology are substantial. Most of these costs are borne by the public sector and are, therefore, not actually taken into account by private businesses when they select business locations. Futher, changes in the location and character of job opportunities require that individuals who wish to be productively employed adjust their work-related skills, their location or both. Substantial segments of the population have a limited ability to make such adjustments because of low skills, low incomes, discrimination or family obligations. The cost of enabling them to participate fully in the changing economy, or of providing for their basic survival needs if they cannot participate, are also not borne directly by individual businesses making locational choices.

Many barriers impeding economic development in needy cities will be difficult to overcome. But the first step is to understand them.

**Land Costs and Availability**

As indicated earlier, manufacturers increasingly prefer sprawling, one-story plants built around assembly lines or other continuous processing arrangements. This shift has meant that manufacturing plants require large parcels of land for custom-designed buildings. Land is relatively scarce in central cities, and is typically divided into small parcels under separate ownership. As a result, assembling a site large enough for a major single-story plant is difficult, time-consuming, expensive and risky. On these grounds alone, many businesses prefer to build in industrial parks or sparsely-settled areas where parcels of suitable size are readily available. Indeed, 62% of industrial plant managers interviewed by the Economic Development Administration reported that site size was of significant or even critical importance in selecting a plant location. The only site characteristic rated more important than size was highway access (DOC, 1971).

Central city locational disadvantages appear to exist in the South as well as the North, at least for manufacturing. Two recent studies have developed profiles comparing building and operating costs for prototypical manufacturing establishments in central city and suburban locations. The first study analyzed the costs of buying land and constructing a new manufacturing facility at three locations in Boston: one in the central city, one on the major circumferential highway dividing the inner and outer ring suburbs and one on a circumferential highway well beyond the currently developed metropolitan area. The study found that land prices in the central city averaged three to four times the price of land on the fringe, and that the most attractive type of centrally located plant (including land and building) was about 25% more costly to build than the best-choice suburban plant (Hamer, 1977). While these cost differences may decrease over time as prime suburban land becomes more scarce and more costly and as densities in central cities fall, current cost differences generally favor suburban locations.

The second study developed a profile of overall operating costs for a typical manufacturing establishment in the city of Atlanta and in its suburbs. Table 3-13 presents quantitative estimates of the annual costs and income per employee in three locations: a new plant in Atlanta's suburbs; an existing 20 to 30 year old plant in the city of Atlanta; and a new plant in Atlanta. Overall costs are shown to be highest for manufacturers in a new plant in the central city and lowest for a new plant in the suburbs. Differences in land and building costs are reflected in the modest variation in capital costs and debt service. Most of the differences in operating costs, by location, come from differences in local taxes. Overall, annual costs vary by as much as $800 per employee per year. This differential amounts to two percent of total annual income and costs per worker, or 30% of the estimated net before tax income which might be received in a suburban location.

**Local Government Policies**

Local government policies and resources are sometimes barriers to economic growth in cities. An EDA survey of plant managers found that, of six significant community characteristics affecting plant locational choices, three are within the city's control. These three are fire protection, police protection and local taxes or tax breaks such as tax incentives or tax holidays. Cities with a declining employment base are frequently in a strained fiscal position and hence less able to offer special services or tax incentives. In addition, declining cities more than growing cities have payroll or income taxes that many business managers find objectionable (Muller, 1978). Businesses undertaking major plant modernization or expansions are more likely than others to move out of a city because they fear red tape and delays in obtaining zoning and building permits required for major plant changes. Public action may itself cause business relocation out of cities. Some 14% of manufacturing plants relocating in the Cincinnati and New England region were forced to move by public construction projects or other public actions (Schmenner, 1978).

Taken together, these elements of service provision, regulation, and taxation can be characterized as local government's attitude toward business. This attitude factor has been cited more frequently than any other by businessmen asked about factors affecting their locational choices (U.S. Congress, 1979).

**The Availability of Credit**

The availability and cost of financing—both equity and debt—are significant determinants of business investment in a community.

The cost of credit—interest rates, points, and so forth—affects the feasibility of business investments when credit is available. However, the availability of credit is often a more important constraint on investment. When some businesses cannot obtain financing even though the expected risk-adjusted rates of return from their proposed investments exceed the prevailing cost of capital, economic growth is curtailed. Some evidence suggests that capital markets are

## TABLE 3-13

## ANNUAL COSTS AND INCOME OF A SPECIFIED MANUFACTURING PLANT IN ALTERNATIVE LOCATIONS WITHIN THE ATLANTA METROPOLITAN AREA, 1977

| | Establishment Locations | | |
|---|---|---|---|
| **Annual Cost and Income Per Employee** | **New Plant In Suburbs** | **New Plant In Central City** | **Existing Plant in Central City** |
| Annual Sales | $40,000 | $40,000 | $40,000 |
| Annual Costs | | | |
| Payroll | 10,000 | 10,000 | 10,000 |
| Materials | 16,800 | 16,800 | 16,800 |
| Capital Costs and Debt Service | 3,300 | 3,400 | 3,200 |
| Local Taxes | 600 | 1,300 | 1,250 |
| Other Operating Costs | 6,900 | 6,900 | 6,900 |
| Net Annual Income Before State and Federal Taxes | 2,400 | 1,600 | 1,850 |

SOURCE: Andrew M. Hamer, "The Impact of Federal Subsidies on Industrial Location Behavior: Preliminary Conclusions from a Case Study," (Atlanta, Georgia: Georgia State University, October 11, 1977).

failing to supply needed credit for business investments in needy cities. Financing barriers, increasing credit costs and limited capital availability are particularly great for small businesses, for new enterprises, and for minority enterprises (Hovey, 1979).

Equity financing is needed in large quantities if new industries and new enterprises are to form in cities in sufficient numbers to replace older, declining ones.

Shortages of equity capital have particularly great impacts on smaller new enterprises. Large businesses can obtain equity for new business initiatives from retained earnings from their other activities or by the issuance of public stock offerings. Small new enterprises are restrained by cumbersome Federal red tape from the public issuance of stock (Morrison, 1980). They must rely on investments by individuals or institutions. Equity financing has been in short supply throughout the nation during the 1970's.

The profitability to investors of equity financing is largely in the form of capital gains reflecting the growing value of successful, growing firms in which they invest. Inflation has made equity investment less attractive by pushing up effective Federal tax rates on capital gains. More importantly the 1970's have witnessed a growing concentration of investment capital in pension funds, insurance companies and other institutional investors. Institutional investors often are barred by law from risky investments or discouraged from making them because of laws, regulations, or fiduciary responsibilities.

Small businesses are also highly dependent on long term debt financing. One indicator of this is higher ratios of debt to business equity or business value among small businesses than among larger ones (Morrison, 1980). Long term financing is often in short supply for smaller business. When available, its costs are often higher for smaller businesses, particularly businesses in declining communites. Evidence shows significant regional variation exists in the costs of bank credit, especially for smaller loans (Straszheim, 1969). When they need long term financing, small businesses are also more highly reliant on bank credit than are larger businesses. The public issuance of bonds is more expensive for smaller business than for larger ones. Interest rates and other costs associated with bond issues of smaller business are generally higher than for larger businesses even after taking into account the credit worthiness of the business (Morrison, 1980). Commerical banks do not commonly provide long term credit. When they do, they prefer to make larger loans which generate sufficient profits to cover the transaction costs (Daniels and Kieschnick, 1978). Savings institutions generally focus the bulk of their investment in housing as they are encouraged to do by Federal tax law and by the availability of secondary markets for mortgage loans. The costs and availability of bank credit to business in a community depends in part on competition in in the banking industry. Federal, state, and local regulations sometimes constrain competition by limiting bank branching or the entry of new firms into the banking industry. One study has estimated that regulations have cut the number of new banks by 50% (Peltzman, 1965). In the absence of effective competition, the banking industry can easily discriminate among borrowers on the basis of risk, race, or a variety of other factors.

There is limited evidence of discrimination by lenders, on the basis of the race or ethnicity of business persons. Minorities remain largely excluded from the ownership and management of businesses. While there is no direct evidence of discrimination by lenders against minority applicants for credit, recent studies provide solid evidence for discrimination against minority homebuyers seeking home mortgage credit (Schafer, 1978). There is no reason to doubt that minorities seeking business financing also encounter significant discrimination. It is far more difficult for regulatory authorities to detect discrimination in business finance than in home mortgage finance, because business financing decisions are more complex than is home mortgage lending. In addition, less effort is devoted by regulatory authorities to detecting discrimination in business lending.

**Energy Costs**

Inflation in the costs of energy and uncertainty of energy supplies have emerged as a powerful constraint on industrial growth and economic development in some central cities of the north, especially the Northeast. There are sizable differences among regions in the relative costs of various energy sources. As a result, there are differences among regions in the utilization of various types of energy by industry and by households. Figure 3-1 depicts differences among states in 1976 in the costs of electricity to industrial users in large cities. As can be seen, a typical energy bill for an industrial user ranged from a high of $4,100 in New York state to a low of $800 in Washington state. Prevailing electricity costs were higher than the national average for industrial users throughout the Middle Atlantic region and New England, with the exception of Maine, Vermont and New Hampshire. Differences among regions in the price of natural gas to industrial users are similarly substantial. In early 1979, the costs of natural gas were 50% higher in New England and the Middle Atlantic than in the Mountain states, where the costs of natural gas were lowest (American Gas Association, 1979).

To the extent that firms have large energy requirements, these price differences have favored cities in regions with cheap, plentiful energy supplies. Research has shown that recent upward trends in energy costs and the greater uncertainty of supply have cut into employment and investment in the Northeast in two ways. First, new plants with high energy requirements have increasingly chosen to locate closer to domestic energy supplies. Second, industry has undertaken intensive efforts to reduce energy use. In part, conservation measures have taken the form of the shutdowns of older, less energy efficient plants (Romanoff and Bushees, 1978). Industrial plants in the north are generally older and less efficient than in growing energy-rich regions.

**Federal Regulations**

Federal regulation of environmental quality, of worker safety, of competition and pricing, and of a wide range of other concerns has become a major influence on the performance of the national economy and of economic growth in local communities. There are no precise or reliable guides to the impacts of regulations. Recent rough estimates suggest that Federal regulations cost the nation between $60 and $130 billion annually (Schwartz and Choate, 1980). Against these costs must be balanced the sometimes significant economic, social and environmental benefits of regulation. Virtually nothing is known about either the net impacts of regulations or how Federal regulations as a group affect economic growth of specific urban economies.

Most Federal regulations are defined and implemented uniformly across the nation. These regulations can have disparate local economic impacts, because their effects are generally uneven across industries or types of plants. For instance, compliance with Federal regulations which mandate plant design or the installation of particular processes or equipment is often more economical in new plants built from scratch than in older facilities. Examples are OSHA regulations setting standards of safe plant design, and EPA regulations setting standards for pollution emissions. Because industrial plants in declining cities are generally older than in growing communities, the impacts of such regulations can be more severe in such cities than elsewhere.

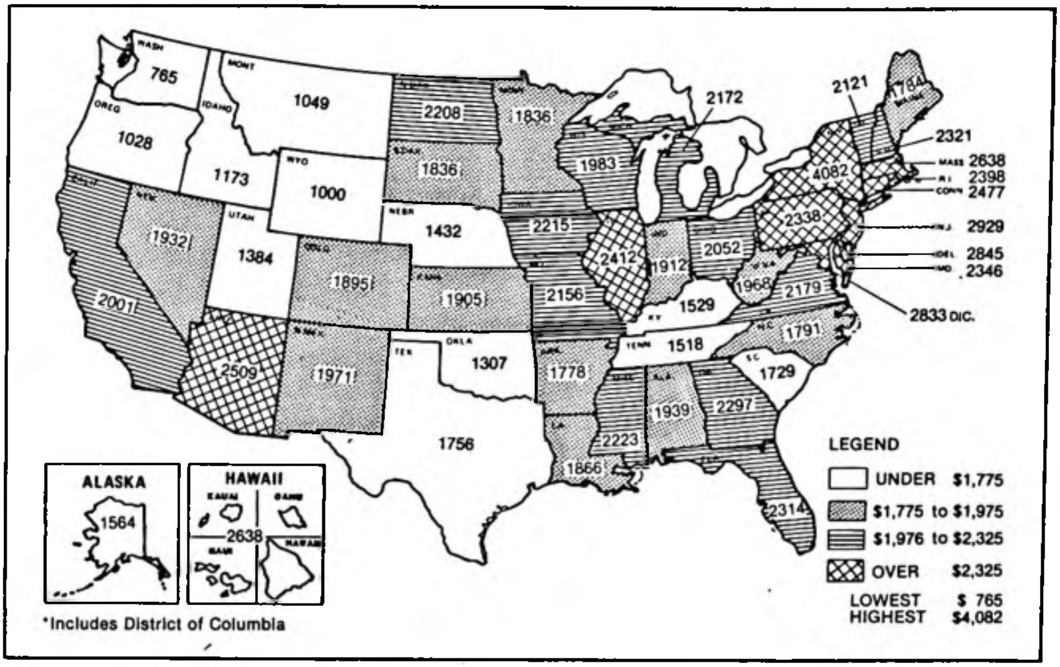
Federal air quality standards allowable under the Clean Air Act establish maximum concentrations of various air pollutants for every community in the nation. Regulations also limit the degradation of air quality in communities which are in compliance with the standards. While the Federal standards are uniform nationwide, state and local measures to implement these standards may differ from place to place. Only one major central city meets Federal standards for all pollutants: Honolulu. The greatest air pollution problems are generally found in older cities with declining population and moderate to high levels of community need: St. Louis, Cleveland, or Pittsburgh.

Under existing law, new industry in communities which do not meet national standards may be subject to expensive pollution control requirements. Generally, such industry will be permitted to locate in the community only if pollution from existing industry is cut back to provide progress toward improved air quality. These regulations could become a significant barrier to new business investment and employment in many distressed cities.

**Sectoral Shifts in the National Economy**

As has been seen, many cities, experiencing rapid employment loss remain highly reliant on traditional, basic manufacturing industries in which the United States is no longer highly competitive. Declining production of such basic industries as steel, textiles, apparel and leather products affects the hundreds of communities in which they are located. Unless

**Figure 3-1**
**STATE AVERAGE MONTHLY BILLS*–300KW–60,000 KWH INDUSTRIAL SERVICE - JAN. 1, 1976**
**United States Average Bill - $2,348**
**Large Cities Only**




Source: U.S. Department of Energy, Energy Information Administration, *Energy Data Report: Typical Electric Bills, January 1979.* DOE/EIA-0040(79), October'1979.

efforts to maintain such economic activity in particular communities are undertaken within the context of national policies which take into account both the needs of troubled industries and the nation as well as the competing claims of individual communities in which industry is currently located, local economic development activities may be inconsistent and unsuccessful. At present, the U.S. is just beginning to define economic policies reflecting the general needs and potential of individual sectors of the economy. As a result, public interventions targeted on specific sectors have been made on an ad hoc basis, as in the recent rescue of the Chrysler Corportation.

Economic growth in the U.S. has been intimately tied to the flexibility with which private investment and workers have shifted to sectors which earn the greatest return and contribute the most to national economic growth. These shifts have been associated with sometimes profound changes in economic activities and resources of regions and urban areas. Studies have shown that the capacity to accomplish major economic transformations to new industries varies greatly among cities. Many older cities which grew on the basis of their attractiveness to manufacturing industries dominated by large firms have not developed the business services and financial expertise needed to facilitate economic innovation and new business enterprise. Cities resting on obsolete or declining economies need time to develop the economic development capacity to identify, attract, and foster new competitive businesses.

## 5. Effects of Federal and State Policy on Cities

Actions of the Federal Government have pervasive impacts on the economic development of cities. They also offer a number of means to strengthen the economies of cities.

National economic policies set by the President, Congress and the Federal Reserve Board affect the demand for goods and services. These, in turn, have very substantial effects on cities. In addition, Federal actions shape urban economic development by altering the relative cost of doing business in various industies. The relative costs of labor, land, capital, energy and other resources—all important factors in business investment and location decisions—are influenced by Federal tax and credit policies. Also, federal programs in transportation can directly affect the cost and competitiveness of alternative business locations in urban areas, and thus influence the geographic patterns of business investment and employment.

Federal actions also alter patterns of economic development by influencing changes in the actions and resources of state and local governments, as well as individuals or businesses.

Federal policies can increase or reduce the tax costs to state or local taxpayers of public services and facilities. Federal actions influence the objectives and performance of state and local governments, thus affecting business climates. Federal policies influence where and how people choose to live, thus affecting where they wish to work and shop.

Unfortunately, the impacts of many Federal actions on urban economies are not measured easily. The responsiveness of business, people and state and local governments to Federal actions and incentives depends on the clarity, size and predictability of the incentives. The impacts of many Federal actions are determined at the project level and depend upon the design of the project and its context. Many Federal policies alter the pace of economic change, not its direction, making direct measurement of impacts difficult (Peterson, 1979). While no attempt will be made to develop a comprehensive list, examples of Federal actions which affect urban economies can usefully illustrate the range of urban impacts. These illustrations are drawn from two policy areas: tax policy and transportation policy.

**Federal Tax Policy** affects the real costs to business of productive inputs such as capital, labor and land. For example, taxes influence the relative cost to business of new capital versus existing machinery, of low wage or lower skilled workers versus others, and of land in growing areas which is rising in value as opposed to land whose value may be falling. As a result, the tax system is perhaps the most pervasive federal influence on patterns of economic development.

Much of the commercial and industrial capital stock of needy, older central cities is in place, and much of the land in these cities is built. New development often requires the demolition of existing structures and complex and expensive efforts to assemble sites. Federal policies which favor new development over the use and improvement of existing facilities generally favor investment in growing communities over declining ones (Peterson, 1979).

Investment tax credits are one example of a Federal policy favoring new investment rather than reinvestment in existing plant and machinery. The investment tax credit offers over $10 billion in annual savings to businesses making investments in new equipment and machinery. It was instituted to encourage business investment, and studies have shown it to be fairly effective in meeting this goal (Fromm, 1971). Although geographic data are unavailable, tax aid is concentrated in growing businesses and thus primarily benefits growing areas (Andur, 1978). Accelerated depreciation for new industrial or commercial plants is a second example. Owners of new industrial or commercial plants are permitted to claim more rapid depreciation than owners of existing properties. This tax provision costs the Federal treasury approximately $400 million per year, and encourages new investment rather than investment in existing plant and equipment.

Federal taxes which alter the relative after-tax costs to employers of low wage and high wage workers include payroll taxes such as social security and Federal unemployment insurance which are higher for low wage workers. Other Federal employment tax credits work in the opposite direction to reduce the relative cost to employers of low skilled workers. Examples include the WIN (welfare work incentive) tax credit and the Targeted Jobs Tax Credit, both of which offer tax breaks to employers when they hire eligible persons. National labor and employment policies also affect the costs and therefore the attractiveness to employers of lower skilled persons. The minimum wage is the most widely recognized such policy. The minimum wage places a floor on the wages employers and employees can negotiate. Workers whose productivity is below the floor set by the minimum wage have difficulty finding work as a result (Mills and Forbes, 1979).

**Federal Transportation Programs** influence the development of central city economies by altering the attractiveness and cost of alternative locations. Transportation directly affects the cost of obtaining supplies, reaching markets, and indirectly impacts urban economies by influencing where people choose to live and shop. Federal transportation policies have often created powerful incentives for investment and jobs to move away from central cities.

Federal transportation has long focused on highways, rather than commuter rail systems or mass transit. In effect, such assistance has reinforced decentralization trends or the movement of people and jobs out of many older cities. A major Carter Administration focus has been to increase aid for mass transit and rail projects. While such aid has grown rapidly in recent years, Federal aid for interstate highways still generally carries lower matching requirements than does aid for transit. Recent policies encouraging special bus and car-pool lanes on urban highways may make highways into more effective mass transit corridors.

Another way in which Federal transport policy has influenced the economies of older cities is through unequal subsidies for new construction as compared to the maintenance of existing facilities. Until recently, Federal subsidies for maintenance were generally provided through special programs with limited funding, or on less attractive terms than for new construction. One result of this was that existing systems in developed areas have been undermaintained and tend to offer lower quality services to users in these areas (Peterson, 1979; Ewing, 1978).

Circumferential highway routes outside the boundaries of central cities can alleviate inner-city congestion by diverting through traffic, and thus improve transportation access. However, a primary effect of these beltway routes is to improve suburban access, thus increasing the attractiveness of outlying locations over central cities. The intersections of beltways with major radial highways have become major focal points of suburban commercial, office, industrial and residential development. Regional shopping centers commonly locate at such intersections. Evidence also suggests that beltways accelerate the overall pace of the out-movement of commercial employment and sales (Muller, 1978). Surveys of industrial and commercial businesses located along beltways in Washington and Boston found that accessibility was the prime attraction of beltway locations, and that many businesses located along beltways had relocated from the central city (Ewing, 1978).

### The Impact of State Actions

State actions also affect central city economies. For example, state taxes affect development patterns and state transportation policies affect how Federal transportation aid is used within urban areas. Few states have comprehensive economic development strategies which incorporate the goal of strengthening the economies of central cities (Vaughn, 1979). As a result, a number of state development programs inadvertently draw investment and jobs away from central cities.

State agencies take the lead role in highway planning, particularly the expressway systems that have produced transportation webs promoting suburban development. In some instances states have also taken active roles in strengthening and subsidizing mass transit which supports central city economies; examples include subsidy programs for commuter rail in the New Jersey and New York portions of the New York City area and state support for the regional transit system in the Boston area.

State tax systems and state-authorized local tax laws can—but often do not—support central city economies by relieving city budgets and spreading the base of support over the metropolitan area or state. Among the positive instances of state action in this respect are the Pennsylvania laws that allow cities to levy payroll taxes on suburban commuters as well as city residents.

Industrial development bonds (IDB's)—a widely used tool in state and local economic development programs—illustrate how state aid has sometimes hurt central city economies. These tax exempt bonds are issued by state or local governments to finance projects for profit making companies. The tax exempt feature lowers the effective cost of financing new business development. IDBs have been widely used to induce businesses to build facilities, sometimes relocating from other areas. Federal law does not target the use of the bonds to communities needing economic assistance, and few states target IDB's. The result is that most businesses using the bonds are located outside of distressed cities. For example, the Dallas-Fort Worth Airport Authority sold $147 million in tax exempt bonds in order to build a headquarters, computer and training facilities for American Airlines, which will relocate its headquarters from New York City. While "small issue" bonds do not represent a major revenue loss to the Federal government, they often do not serve any clear public policy, and by subsidizing new development, they often encourage existing firms to relocate to growing areas, and they draw economic activity away from needy central cities.

## 6. Summing Up: Changes in the Central City Economy

The 1970's were a period of rapid change in the economies of central cities. Some gained markedly, adding jobs across all sectors. However, a growing number of the largest central cities suffered severe losses, particularly in manufacturing, long a mainstay of the central city economy. Central city economies across the nation grew more slowly than their suburban counterpart, with the largest disparity found in the Northeast and North Central regions. Office and service jobs, rather than manufacturing, are now the principal growth sectors of most central city economies. The patterns of growth in white collar jobs varies widely among cities, with the largest gains made by cities that have attracted headquarters functions of non-manufacturing firms. Central city economies face continuing hurdles due to relatively high land costs and tax levels. Futhermore, many Federal and state policies remain weighted against the needs of central city firms and against new investment in central cities.

# IV. THE POOR AND THE JOBLESS IN THE CENTRAL CITY

Poverty diminishes individual and household well-being and adds numerous social and fiscal burdens to our nation's urban areas. In contrast to the pattern in suburban and non-metropolitan areas where poverty is declining, it is growing in the nation's central cities, especially the larger ones. Indeed, the needy and declining large cities, identified in previous chapters, account for almost all of the growth of poverty. Yet these cities often offer the poor few opportunities for income mobility given their high rates of net job-loss, and their inability, at times, to provide a decent array of basic services.

## The Growth of Central City Poverty: A National Comparison

Central city poverty grew between 1969 and 1976. The increase was concentrated in the largest central cities—those located in metropolitan areas with more than a million residents. Over the 1969-76 period, the fraction of large central city residents with incomes below the poverty line rose by one-sixth, from 14.8% to 17.1%. The proportion of the population in poverty remained at about the same level in smaller central cities taken as a group, and the rate of poverty dropped measurably in suburbs and non-metropolitan areas (see Table 4-1). From 1969 to 1976 the total number of poor persons rose appreciably in large central cities and declined in other categories, especially in non-metropolitan areas.

Today, nearly four in every ten poor Americans live in a central city. Over one in every seven central city residents is poor—and in some of the larger cities with troubled economies, the proportion of poor persons exceeds one in five. Furthermore, these figures understate the relative severity of large city poverty. This occurs because national poverty standards don't vary by region or location, while living costs are often 10% to 25% higher in large central cities.

Why has poverty substantially increased in large central cities, particularly in those characterized as needy and declining? This is the difficult question this chapter seeks to answer. The response is framed primarily in terms of three factors: first, these cities disproportionately house minorities and female-headed households who are more often underemployed and poorly paid; second, these poverty-prone families find it especially difficult to work their way out of poverty in the shrinking job markets of needy cities; finally, these cities continue to lose relatively affluent residents.

## The Poverty Standard

The standard Federal poverty measure used by the Bureau of the Census and many other Federal agencies identifies who is poor in terms of annual income for families of various sizes. The most commonly cited figure is the annual income for a family of four persons. As of 1978, non-farm families of four persons were classified as poor if their annual income fell below $6,660. This income figure includes transfer payments such as welfare but excludes the value of in-kind assistance such as food stamps.

## TABLE 4-1

## POVERTY BY TYPE OF COMMUNITY, 1969 AND 1976

### A. Rate of Poverty

| Year | All Central Cities | Large Central Cities[1] | Small Central Cities | Suburbs[2] | Non-Metropolitan Areas |
|---|---|---|---|---|---|
| 1969 | 14.9% | 14.8% | 14.9% | 8.1% | 19.3% |
| 1976 | 15.8% | 17.1% | 14.4% | 6.9% | 14.0% |
| Percent Change, 1969-1976 | +6% | +16% | –3% | –15% | –28% |

### B. Total Number of Poor (in thousands of persons)

| Year | All Central Cities | Large Central Cities[1] | Small Central Cities | Suburbs[2] | Non-Metropolitan Areas |
|---|---|---|---|---|---|
| 1969 | 9,247 | 5,049 | 4,198 | 5,976 | 11,981 |
| 1976 | 9,482 | 5,446 | 4,036 | 5,747 | 9,746 |
| Percent Change, 1969-1976 | +3% | +8% | –4% | –4% | –19% |

SOURCE: U.S. Bureau of the Census, "Social and Economic Characteristics of the Metropolitan and Non-metropolitan Populations: 1977 and 1970," **Current Population Reports**, Special Studies P-23, No. 75, November 1978.

[1] Large central cities refer to central cities of SMSA's with more than one million persons. Some fairly large central cities are not included in this category.

[2] The suburbs represent all metropolitan areas that are not central cities. These "metropolitan balances" include rural or unincorporated areas that do not fit a traditional "suburban" image.

There are many problems with the poverty line measure. For example, a single nation-wide figure is used although the cost of living varies considerably across the nation and by size of community; the only adjustment that is made is that a somewhat lower figure is used for rural families to take into account non-cash income. Another problem frequently cited is that the poverty standard is probably too low. The Bureau of Labor Statistics' low-income budget, a far from luxurious standard, is well above the census definition of poverty, even when the value of in-kind assistance is considered. Thus, while families and individuals who fall below the Federal poverty standard are clearly poor, many others who have incomes above those levels also meet widely held standards of deprivation and need. But because nearly all of the uniform data now available on poverty are based on the Federal poverty standard, this chapter uses it to describe trends and current conditions.

## 1. The Growing Concentration of Poverty in the Central City

Table 4-1 shows how poverty has grown in central cities during the 1970's. The number of poor living in central cities rose by almost three percent between 1969 and 1976. In the largest central cities the rate of increase was eight percent. These absolute increases in poor residents occurred at the same time that total central city population was declining. As a result, the poor became a significantly larger fraction of all central city residents. This was reflected in sharp increases in the poverty rate. Rising poverty rates had serious consequences for needy communities. They often faced increased social service burdens simultaneous with losses of jobs, affluent households, and tax base.

During the same period, many suburbs and non-metropolitan communities enjoyed a declining poverty population. Overall the suburbs sustained major population growth from 1969 to 1976 while the number of poor persons fell by four percent. The changes in rural areas were even sharper; nearly one-fifth fewer poor residents lived in non-metropolitan areas in 1976 than in 1969, although the total population in these areas increased.

### Who Are the Central City Poor?

The poor people who live in central cities are not a cross-section of all Americans. To a disturbing degree, they are:

- **Blacks and other minorities.** Although blacks make up about 22% of the population of the nation's central cities, they make up 45% of the central city poor. By 1976, central cities housed 55% of all poor blacks in the United States, up from 48% in 1969. This reflects the increasing urbanization of blacks.

  While the white poor living in cities declined in numbers from 1969 to 1976, the number of central city black poor rose by 12% (see Table 4-2). All of the increase in black poor took place in the central cities of metropolitan areas larger than a million population. For large central cities, the number of poor blacks increased 21% during this seven year period. Equally noteworthy, the poverty rate for blacks increased significantly (17%) for large central cities, while showing a marked decline in suburbs (–27%), non-metropolitan areas (–27%), and even in smaller central cities (–10%).

- **Families with female heads.** Families with female heads are more frequently poor than those with male heads. In 1976, nearly two in every five central city families headed by a woman fell below the poverty line. In the seven years after 1969, the number of poor female-headed families in large central cities rose by more than 50 percent. During the same time period, central city poor families headed by males declined. As a result, by 1976 female-headed families accounted for nearly two-thirds of all poor families in large cities.

The highest rates of poverty are for central city households headed by black females. Black female-headed families living in large central cities are almost twice as likely to be poor as are white female-headed families; 51% of the families headed by black women had below-poverty incomes in 1976, compared to 27% of the families headed by white women. Both the rate of poverty and the total number of black families headed by women is growing. From 1969 to 1976, the number of poor black families headed by women rose by almost two-thirds in large central cities. The 1980 census may well reveal a doubling in the number of such impoverished families over the decade.

Poverty among central city families headed by black males is serious, but is much lower and is declining: 10.8% of the families headed by black males had incomes below the poverty line in 1976, versus 12.1% in 1969. Families headed by white males had a relatively low poverty rate of 5.3% in both 1969 and 1976.

### Poverty Among the Elderly in Central Cities

The elderly once constituted a significant percentage of the central city poor. As recently as 1969, the elderly comprised almost 17% of all poor persons in large cities. Moreover, the 24% rate of poverty for elderly persons in 1969 considerably exceeded the near 15% rate of all city residents. During the 1970's the rate of poverty and the number of elderly poor declined sharply, so that by 1978 the elderly accounted for less than nine percent of poor persons in large central cities despite a slight increase in the share of total population which is elderly. By 1978 the poverty rate for elderly persons was about 12% versus a large city average of more than 17%.

The absolute and relative decline of poverty among the elderly in large cities is largely due to two Federal income assistance programs: Social Security and Supplemental Security Income (SSI). More of the elderly who are retiring have earned substantial social security-based retirement pay which keeps them above the poverty line. In many states, Federal SSI payments are supplemented by state and local contributions that further bring elderly recipients above poverty levels. Because both of these programs are at

TABLE 4-2

POVERTY BY RACE AND TYPE OF COMMUNITY, 1969-1976

A. White and Black Poor (thousands of persons)

| | All Central Cities | Large Central Cities | Small Central Cities | Suburbs | Non-Metropolitan Areas |
|---|---|---|---|---|---|
| White Poor, 1969 | 5,361 | 2,666 | 2,695 | 4,882 | 8,746 |
| White Poor, 1976 | 5,068 | 2,538 | 2,531 | 4,591 | 7,054 |
| Percent Change, 1969-1976 | –5% | –5% | –6% | –6% | –19% |
| Black Poor, 1969 | 3,726 | 2,279 | 1,447 | 1,002 | 2,984 |
| Black Poor, 1976 | 4,167 | 2,747 | 1,420 | 982 | 2,447 |
| Percent Change, 1969-1976 | +12% | +21% | –2% | –2% | –18% |

B. Rate of Black Poverty

| | All Central Cities | Large Central Cities | Small Central Cities | Suburbs | Non-Metropolitan Areas |
|---|---|---|---|---|---|
| Percent Poor, 1969 | 29.1% | 26.4% | 34.5% | 29.5% | 52.6% |
| Percent Poor, 1976 | 31.0% | 31.0% | 31.0% | 21.5% | 38.2% |
| Percent Change, 1969-1976 | +7% | +17% | –10% | –27% | –27% |

SOURCE: U.S. Bureau of the Census, "Social and Economic Characteristics of the Metropolitan and Non-metropolitan Population," *Current Population Reports*, Special Studies P-23, No. 75.

least partially indexed to the cost of living, incomes for the elderly as a group have kept pace with inflation. Moreover, the elderly have been special beneficiaries of food stamps and medical aid programs not counted as income.

Many elderly still suffer the insecurities of low income. Moreover, were the income standard for poverty set somewhat higher, the elderly would disproportionately enter the ranks of poverty. That is, a high proportion of the elderly are "near-poor" under present standards. Moreover, income gains among the elderly have not been uniform. Approximately 25% of all black elderly remain below poverty levels in central cities.

### Poverty and Household Characteristics and Employment

Poverty is clearly linked to household characteristics and job status. But the relationships are complex. Among black working-age female heads of households living in cities, 34% did not participate at all in the labor force, and another seven percent were unemployed 15 or more weeks during 1977 (see Table 4-3). Only one-third held a full-time job for the entire year. By contrast, among white male heads of households, almost two-thirds (62%) worked a full year in a full-time job. Only eight percent did not participate in the labor force in 1977. In terms of employment and labor force participation, white female heads of households were somewhat closer to black female heads of households than to white male heads of households. Similarly, black male heads of households were closer in their labor force traits to white male heads of households. A comparison based only on race, however, would have to take into account the much higher share of female heads among black households in large cities.

Low wages and irregular work generate poverty conditions among households with working age heads. Table 4-4, which relates poverty to labor force participation and the number of weeks unemployed, illustrates the severe consequences of a household head not being in the labor force and of long term unemployment. It also shows that households headed by blacks and/or females suffer much higher rates of poverty irrespective of labor force participation. The absence of income from other household earners contributes to higher levels of poverty among female headed households. When a female head of a family is out of work, there is usually no other adult wage earner in the household. Hence, unemployment among female heads of households leads to much higher rates of poverty (80% blacks, 63% whites) than does extended unemployment among male heads of household (45% blacks, 25% whites).

### Where the City Poor Live

Central city poverty tends to be concentrated in specific neighborhoods. This is particularly true for minority and female headed households. This pattern of concentration of poverty appears to have increased during the 1970's. One indication of this comes from trends in the poverty rate for census tracts where over 20% of the residents were poor in 1970. From 1969 to 1976 the rate of poverty in these low income areas in large central cities increased from 31% to 39%, and the proportions of female-headed and minority households in such areas also grew.

A more ambiguous trend, whose meaning will be clarified after the 1980 census, is the presence of many more poor persons in areas outside of tracts defined as low income in 1970. Some of these poor might be living in economically integrated neighborhoods, with better access to decent housing and job opportunities. On the other hand, many could be living in new concentrations of poverty that will be designated low income tracts in 1980. The increasing number of poor in distressed central cities together with the flight of the middle class supports the latter interpretation.

### Cities with High Poverty and Unemployment

Almost all of the growth of poverty in large central cities during the 1970's occurred among needy central cities. This is suggested by Table 4-5. Philadelphia, Detroit, Baltimore, New York, and Chicago—all needy central cities—experienced sharp increases in the poverty rate after 1970. On the other hand, the poverty rate in Dallas and Houston—both low need cities—declined. As a group, high need cities with declining populations witnessed a 31% growth in the rate of poverty from 1969 to 1977, while less needy cities with expanding economies achieved reductions in poverty. By 1977, the neediest cities reflected a rate of poverty of 20.7%, about 75% above that for declining or growing cities with lesser need (see Table 4-5). In 1969, by contrast, disparities in poverty rates between high and low need communities were significantly smaller.

A lack of employment opportunities is closely related to central city poverty. In central cities where jobs grew more rapidly then population, the level of poverty is typically low and falling. Conversely, in cities where job opportunities shrank relative to population, poverty is usually on the rise. High unemployment is also generally associated with above-average rates of poverty. Further, most of the cities with high and increasing rates of unemployment are needy cities with shrinking job opportunities. Unemployment rates in high need central cities with relatively large poverty populations average well over one and a half times those in non-distressed cities. In 1978, for instance, unemployment rates in high need cities such as Detroit, New York, Philadelphia, and Buffalo were between eight and ten percent compared to rates of about four percent in Dallas and Houston, low need cities whose economies were expanding.

When unemployment rates are refined, the picture is even worse for many needy cities with increasing and relatively large numbers of poor residents. From 1974 to 1977 (a year of national economic recovery), the number of long-term unemployed (15 or more weeks in a year) at least doubled in Baltimore, New York, Philadelphia, and Chicago, far surpassing the growth of long-term unemployed in the low need cities of Houston and Dallas.

A labor market problem that has especially plagued high need cities and their poor residents is extensive non-participation in the labor force. Although more research needs to be done on the interrelationship of economic and social conditions, the lack of employment opportunities

TABLE 4-3

LABOR FORCE PARTICIPATION AND EMPLOYMENT STATUS OF WORKING-AGE HOUSEHOLDS IN LARGE CITIES: BY SEX AND RACE OF HOUSEHOLD HEADS, 1977

| | Household Head | | | |
|---|---|---|---|---|
| **Labor Force Participation and Employment Status** | **White Male** | **Black Male** | **White Female** | **Black Female** |
| Not in Labor Force | 8% | 11% | 21% | 34% |
| Part-year, Unemployed 15+ Weeks | 7 | 10 | 5 | 7 |
| Part-year, Unemployed 0-14 Weeks | 7 | 9 | 10 | 9 |
| Full-year, Some Part-time Work | 16 | 16 | 20 | 17 |
| Full-year, Full-time Work | 62 | 54 | 44 | 33 |
| TOTAL | 100 | 100 | 100 | 100 |

SOURCE: U.S. Bureau of the Census, Special Tabulations, March 1978 **Current Population Survey**.

Explanation of a column: Of all working-age households in 1977 headed by a white male, the following proportions held: 8% did not participate in the labor force; 7% were unemployed 15 or more weeks; 7% were unemployed 14 or less weeks; 16% worked the full year but with some weeks part-time (less than 35 hours); and 62% worked a full year (48 weeks) without any unemployment or part-time work.

TABLE 4-4

POVERTY RATES BY DURATION OF UNEMPLOYMENT AND LABOR FORCE PARTICIPATION FOR WORKING-AGE HOUSEHOLDS BY RACE AND SEX IN LARGE CENTRAL CITIES, 1977

| | Weeks of Unemployment | | | | | Not in Labor Force | Poverty Rate |
|---|---|---|---|---|---|---|---|
| | 0 | 1-4 | 5-14 | 14-26 | 26-52 | | |
| Households Headed By: | | | | | | | |
| Black Females | 15% | 75% | 56% | 39% | 66% | 80% | 45% |
| White Females | 9 | 31 | 24 | 21 | 49 | 63 | 23 |
| Black Males | 5 | 14 | 17 | 44 | 53 | 45 | 15 |
| White Males | 4 | 15 | 12 | 17 | 37 | 25 | 8 |
| All Households | 6 | 28[1] | 21 | 26 | 46 | 55 | 17 |

SOURCE: U.S. Bureau of the Census, Special Tabulation, March 1978 **Current Population Survey.**

[1] The poverty rate for this category of relatively "low" unemployment is higher than that of all other categories except 26-52 weeks. Except for this, there would be a simple progression of severity of poverty according to the number of weeks unemployed. The "1-4" week category has many female heads of households with low labor participation rates and low earnings. Their number of weeks employed is relatively low even though their unemployment (as presently measured) is also low.

TABLE 4-5

CHANGE IN RATE OF POVERTY FOR LARGE HIGH AND LOW NEED CENTRAL CITIES: 1969 TO 1976-78[1]

| | Poverty Rate 1969 | Poverty Rate 1976-1978[2] | Average Annual Growth of: Population, 1970-1976 | Average Annual Growth of: Jobs, 1970-1977 |
|---|---|---|---|---|
| **High Need** | | | | |
| New York | 14.6% | 18.2% | –1.0% | –2.4% |
| Detroit | 14.6 | 15.7 | –2.2 | –4.4 |
| Chicago | 14.3 | 21.0 | –1.5 | –2.8 |
| Philadelphia | 15.1 | 20.8 | –1.3 | –1.7 |
| Baltimore | 18.1 | 21.3 | –1.7 | –1.7 |
| **Low Need** | | | | |
| Dallas | 13.4 | 11.9 | 0.1 | 2.5 |
| Houston | 14.0 | 12.2 | 3.4 | 6.1 |

**Large Cities by Need and Poverty**

| Type of City[3] | Poverty Rate 1969 | Poverty Rate 1977 |
|---|---|---|
| High Need, Population Decline | 15.8% | 20.7% |
| Low-Moderate Need, Population Decline | 13.1 | 12.0 |
| Low-Moderate Need, Population Growth | 12.2 | 11.7 |

SOURCE: HUD Census Tapes; Special Tabulations **Current Population Survey** (March 1976, March 1977, and March 1978); employment estimates provided by Semour Sacks (HUD Urban Data Reports, Number 1).

[1] Cities over 800,000 population in 1976.

[2] Poverty rates are averaged for 1976-78 to reduce sampling error.

[3] Level of need is defined in Chapter 2.

appears to raise levels of labor force non-participation. Nearly 19 percent of working-age heads of households living in needy and declining cities did not participate in the labor market in a recent year, compared to 9.5% of residents of low and moderate need cities with declining population, and 7.6% of residents in growing low need cities. As noted earlier, labor force non-participation is an important factor in keeping people in poverty.

**The Special Problem of Youth**

Unemployment levels among urban youth, and especially among black youth, tend to be much higher than among adults. March 1977 data for central cities of metropolitan areas with over one million population show unemployment rates for black youth aged 16-19 at the extremely high rate of 52.6%, compared to an 18.0% rate among white youth of the same age. For blacks aged 20-24, the rate was 31.4% compared to an 11.4% rate for whites. These high unemployment rates among black central city youth represent only part of their problem: their labor force participation rates are also much lower than for whites of the same age. For black youth aged 16-19, only 26.5% participated in the labor force; the comparable rate for white youth was 51.1%.

The serious unemployment problems of black youth worsened during the 1970's. For black youth aged 16-24 who participated in the labor force, the unemployment rate in central cities increased from 14% in 1970 to 34% in 1977, while that for white youth rose more slowly from seven to 13%. Over the same period, labor force participation rates among black youth fell from 56% to 42%, but for white youth increased from 59% to 65%. The net effect is that in March 1977 only 28% of black youth, but 56% of white youth, were in the labor force and employed. By contrast, in March 1970, 42% of black youth were employed and in the labor force versus 54% of white youth.

The causes of this serious employment problem for black youth are complex. Clearly, the decline in the availability of low and semi-skilled entry level jobs in large central cities has not helped (see Chapter 3). Further, growing competition for the available jobs from other entrants in the labor force, including illegal immigrants and adult women, has perhaps limited job opportunities. Educational inadequacies, racial discrimination, low household income, and family problems have also contributed to black-white disparities. The growing numbers of black youth in central cities probably have intensified their labor market difficulties. From 1970 to 1977 the number of central city black youth aged 18-24 grew by 27% and the number aged 14-17 rose by 16%.

## 2. The Coincidence of People and Place Poverty

When families who are likely to be victims of poverty live in central cities that are economically distressed, their economic opportunities are doubly constrained. This Chapter has already shown that central city poverty is disproportionately concentrated among families that are black and whose heads are women. Previous Chapters have demonstrated that central city economies have tended to lose in the job competition with suburbs and non-metropolitan areas and that these losses have been most serious in the distressed central cities of the Northeast and Midwest. When the problems of people and place coincide—as they do for many poor families—opportunity is drastically foreclosed and the threat of poverty is sharply increased.

One way in which this pattern of people and place can be shown is presented in Table 4-6. This table arrays cities in terms of need and details the composition of their households by race and sex of the family head. The proportion of black families and of female headed families increases as city need rises. Moreover, among the neediest cities, almost one in every two black families was female headed, versus a one in three ratio in the least needy cities.

Table 4-7 presents 1978 unemployment and labor force participation data for blacks and Hispanics in 17 large central cities for which the Bureau of Labor Statistics provides data. It indicates that minorities in needy and declining central cities have much higher unemployment rates and much lower labor force participation rates than in low need and growing cities. These results hold for all age groups. For instance, unemployment rates of black youth in the largest needy cities (55 to 60%) are about half again as high as the rate for black youth in Dallas and Houston (35-40%).

Tables 4-8 and 4-9 give further evidence of the impact of place upon economic opportunities for minorities. First, Table 4-8 shows a convergence of black poverty rates among large central cities during the 1960's. This probably reflects an equalization of wage rate and productivity over metropolitan areas. Even so, as recently as 1969, blacks in Chicago, New York, and even Newark averaged lower rates of poverty than blacks in Dallas or Houston. However, by the late 1970's, blacks in the growth cities of the Southwest had considerably lower rates of poverty than blacks in most needy and declining cities (See Table 4-9). Moreover, blacks have, on average, suffered more severely than whites from declining economic opportunities in the large, needy cities where blacks primarily reside. Black rates of poverty in the growth cities remain much higher than white rates of poverty.

Census survey data suggest further significant differences in black poverty rates across types of city. The findings accord with the city unemployment, labor force participation, and female heads of household data reported earlier. In needy and declining cities, nearly 60% of poor blacks do not participate in the labor force. For less needy cities, 25-30% of poor blacks do not participate. Consequently, household earnings of the black poor in high need, declining cities are less than half those in less needy cities. This indicates that the poor or near poor in most needy cities are much less likely to earn their way up the income ladder than if they live in less needy central cities.

Another disturbing aspect of the place problem is shown in Table 4-10. It indicates that for the largest cities the net difference in unemployment levels for blue and white collar workers tends to be greater in high need and declining cities than in low need cities. While blue collar workers tend in all cities to have higher levels of joblessness, the severe

TABLE 4-6

PERCENT DISTRIBUTION OF WORKING AGE HOUSEHOLDS IN LARGE CITIES BY CITY NEED, SEX, AND RACE OF HOUSEHOLD HEAD

| | Distribution of Households by Type of Head | | | | |
|---|---|---|---|---|---|
| Quartiles of Need [1] | White Males | Black Males | White Females | Black Females | Total |
| 1. High | 47% | 17% | 20% | 16% | 100% |
| 2. Middle | 50 | 16 | 21 | 13 | 100 |
| 3. Moderate | 60 | 10 | 24 | 6 | 100 |
| 4. Low | 66 | 10 | 19 | 5 | 100 |

SOURCE: U.S. Bureau of the Census, Special Tabulation, March 1978 Current Population Survey.

[1] Level of resident need is defined in Chapter 2.

manufacturing losses of the older Northern and Midwestern industrial centers have created disproportionate employment problems for cities located in these regions. This is especially true when the surrounding metropolitan area is suffering job declines as well and where the job composition shifts from low to high technology, and from manufacturing to services.

Several studies of urban households have found that the economic conditions of a city affect the personal economic performance of otherwise similar households. One such study related the poverty experience of families to the age, experience, and skills of the head of household as well as to the unemployment rate in the county in which they lived. For persons on the borderline of poverty, the study found that those living in high unemployment communities were significantly more likely to be poor than were similar persons living in areas with low unemployment. For instance, a household headed by a black male in a high unemployment area was two-thirds more likely to be poor than a comparable household in a low unemployment community. For households headed by females, poverty was 50% more frequent in high unemployment areas. Thus, a community's condition apparently influences the ability of otherwise similar households to escape poverty (Levy, 1977). Another analysis of welfare dependency found that controlling for household characteristics, the likelihood of a household going on welfare was much greater in areas where unemployment rates were high or where the number of unskilled jobs was less than the number of potential applicants for such jobs (Harrison, 1978).

**Mobility of the City Poor**

Migration for increased economic opportunity is a classic American pattern. It was a major factor in building the great industrial belt cities of the nation during the nineteeneth and early twentieth centuries when millions of Europern immigrants crowded into city slums in search of a better life. In a more recent period, millions of rural Americans moved from the South and Puerto Rico in search of urban jobs.

Unfortunately, there is little evidence at the present time that the poorest families from the most distressed central cities are migrating in large numbers to other parts of the metropolitan area or to other economically stronger areas of the nation. This is in sharp contrast to the clear evidence of major national population movements from cities to suburbs and non-metropolitan areas, and from distressed areas of the North and Mid-West to the nation's growth centers in the South and West, as detailed in earlier Chapters.

From 1975 to 1978, Census data indicate that in the Northeast and North Central States, more of the public assistance families who moved within a metropolitan area moved from the suburbs into the central city than the reverse (see Table 4-11). The pattern was reversed in the metropolitan areas of the South and West, where more public assistance families moved out of central cities to suburbs. For the nation as a whole, movement of public assistance families was equal in both directions. The total number of such city-suburban moves was not large, amounting to only 80,000 public assistance families moving in each direction during a three-year period.

Pending availability of the 1980 census, only limited information is available on migration of poor families from one metropolitan area to another. This data indicates that at all income levels white central city residents were more than twice as likely as black residents to move to another metropolitan area: about ten percent of white family heads migrated between 1975 and 1977 compared to five percent of blacks.

There was little difference in this migration pattern between public assistance recipients and non-assisted households. White inter-metropolitan movers originating in central cities

TABLE 4-7

**UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES FOR BLACKS AND HISPANICS IN CENTRAL CITIES OF LARGE METROPOLITAN AREAS: BY RESIDENT NEED AND POPULATION CHANGE, 1978[1]**

| City Type[3] | Black: Percent Labor Force Unemployed | Black: Percent Not In Labor Force | Hispanic[2]: Percent Labor Force Unemployed | Hispanic[2]: Percent Not In Labor Force |
|---|---|---|---|---|
| **High Need, Population Decline** | | | | |
| Atlanta | 9% | 32% | — | — |
| Baltimore | 16 (18) | 39 (43) | — | — |
| Chicago | 15 (16) | 39 (43) | 8 | 34 |
| Cleveland | 12 (14) | 41 (44) | — | — |
| Detroit | 16 (16) | 38 (39) | — | — |
| Newark | 11 | 38 | — | — |
| New York | 11 (11) | 42 (43) | 11 | 49 |
| Philadelphia | 20 (21) | 37 (41) | — | — |
| St. Louis | 14 (17) | 37 (41) | — | — |
| **High Need, Non-Decline** | | | | |
| Los Angeles | 11 | 38 | 8 | 32 |
| Miami | 10 | 30 | 6 | 34 |
| **Low Need, Population Decline** | | | | |
| Denver | 10 | 27 | — | — |
| Minneapolis-St. Paul | 7 | 35 | — | — |
| Seattle | 11 | 33 | — | — |
| **Low Need, Non-Decline** | | | | |
| Dallas | 6 (6) | 31 (27) | — | — |
| Houston | 10 (8) | 29 (30) | 3 | 31 |
| San Jose | 9 | 31 | — | — |

SOURCE: U.S. Bureau of Labor Statistics, **Geographic Profile of Employment and Unemployment** (1978), Report 571, September, 1979.

NOTE: The sampling error for individual city–SMSA data can be considerable.

[1] The central city data is given in parenthesis where available. Since minorities in the central city usually make up the larger part of the metropolitan minority population, SMSA data is usually a good approximation of city minority performance.

[2] BLS published employment data for Hispanics is available only for five of its seventeen SMSAs.

[3] Level of resident need is defined in Chapter 2.

## TABLE 4-8

### THE RATE OF POVERTY OF NONWHITE FAMILIES[1] IN LARGE CENTRAL CITIES BY RESIDENT NEED AND REGION, 1959 and 1969

| | Non-White Poverty Rate | | Poverty Index[2] | |
|---|---|---|---|---|
| | 1959 | 1969 | 1959 | 1969 |
| **High Need[3]** | | | | |
| **North** | | | | |
| Boston | 30.4 | 24.7 | 82 | 100 |
| Buffalo | 34.7 | 24.9 | 94 | 101 |
| Chicago | 29.7 | 20.2 | 80 | 82 |
| Cleveland | 28.1 | 23.4 | 76 | 95 |
| Detroit | 35.9 | 18.7 | 97 | 76 |
| Newark | 29.3 | 23.4 | 79 | 95 |
| New York | 25.9 | 20.2 | 70 | 82 |
| Philadelphia | 30.9 | 21.3 | 84 | 86 |
| St. Louis | 40.0 | 25.6 | 108 | 104 |
| **South** | | | | |
| Atlanta | 46.3 | 25.2 | 125 | 102 |
| Baltimore | 35.4 | 22.8 | 96 | 93 |
| Miami | 41.3 | 27.5 | 112 | 112 |
| New Orleans | 50.1 | 39.3 | 136 | 160 |
| **Low Need[3]** | | | | |
| **Northwest** | | | | |
| Denver | 26.9 | 18.7 | 73 | 76 |
| Omaha | 32.7 | 24.9 | 89 | 101 |
| Portland | 28.9 | 20.3 | 78 | 83 |
| **Southwest** | | | | |
| Charlotte | 52.2 | 28.7 | 141 | 117 |
| Dallas | 46.8 | 25.3 | 127 | 103 |
| Houston | 42.9 | 25.1 | 116 | 102 |
| Oklahoma City | 43.5 | 28.1 | 118 | 114 |
| Phoenix | 42.6 | 28.9 | 115 | 117 |
| Average 21 Cities | 36.9 | 24.6 | 100 | 100 |
| Fraction of Cities with Index Less Than 80 or More Than 120 | — | — | 9/21 | 3/21 |

SOURCE: Robert Benjamin, "City Need Over Time" (1980).

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[1] The poverty rate for families is typically several percentage points lower than for persons as shown in Table 4-9 and elsewhere.

[2] Index is calculated as the ratio of city non-white poverty rate to the average nonwhite poverty rate for all 21 cities in that year.

[3] Level of resi[illegible] eed is defir[illegible] in Chapter 2.

## TABLE 4-9

### CHANGE IN RATES OF POVERTY FOR BLACKS AND WHITES IN HIGH NEED, DECLINING CITIES AND LOW NEED, GROWING CITIES, 1969-1977/78[1]

| Type of City and Size of Minority Population[4] | White % Poor 1969 | White % Poor 1977-78 | White Net Change | Black % Poor 1969 | Black % Poor 1977-78 | Black Net Change |
|---|---|---|---|---|---|---|
| High Need, Declining Population: | | | | | | |
| **1 Million + Blacks** | | | | | | |
| New York | 12.3 | 14.8 | +2.5 | 24.0 | 29.8 | + 5.8 |
| Chicago | 9.3 | 10.5 | +1.2 | 25.1 | 35.9 | +10.8 |
| **450-700,000 Blacks** | | | | | | |
| Detroit[2] | 9.3 | 10.2 | +0.9 | 22.0 | 16.2 | – 5.8 |
| Philadelphia | 10.2 | 10.0 | –0.2 | 25.4 | 36.3 | +10.9 |
| Baltimore | 10.8 | 11.8 | +1.0 | 27.1 | 29.1 | + 2.0 |
| **125-250,000 Blacks** | | | | | | |
| Average of St. Louis, Newark, Atlanta, Cleveland, Cincinatti[3] | 12.8 | 14.2 | +1.4 | 29.2 | 34.5 | + 5.1 |
| Low Need, Growing Population: | | | | | | |
| **200-400,000 Blacks** | | | | | | |
| Average of Houston, Dallas[3] | 8.5 | 8.5 | 0.0 | 30.0 | 22.2 | – 7.8 |

SOURCE: Robert Benjamin, "City Need Over Time" (1980).

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[1] The cities selected are those for which special tabulations of the **Current Population Survey** were available and could provide a reasonable sample size. Even so, the statistics have moderate sampling error.

[2] The special role of the automobile industry in the overall city economy and in the employment of the minority work force make yearly comparisons for Detroit subject to cyclical variation; 1977-78 were particularly good years for the industry.

[3] Poverty rates were averaged for the listed cities to reduce sampling variation due to small sample size.

[4] Level of resident need is defined in Chapter 2.

TABLE 4-10

UNEMPLOYMENT RATE OF WHITE-COLLAR AND BLUE-COLLAR WORKERS IN SELECTED CENTRAL CITIES BY RESIDENT NEED, 1978

| | Average Rate of Unemployment (1978) | | |
|---|---|---|---|
| Relatively High Need Cities | Blue Collar (1) | White Collar (2) | Net Difference (1) – (2) |
| St. Louis | 10.2% | 2.8% | 7.4% |
| Cleveland | 10.8 | 3.7 | 7.1 |
| Detroit | 11.2 | 6.7 | 4.5 |
| New York | 10.6 | 6.4 | 4.2 |
| Philadelphia | 13.8 | 5.8 | 8.0 |
| Baltimore | 13.4 | 5.7 | 7.7 |
| Chicago | 9.1 | 5.5 | 3.6 |
| Relatively Low Need Cities | | | |
| Dallas | 4.0 | 1.8 | 2.2 |
| Houston | 4.3 | 2.8 | 1.5 |

SOURCE: U.S. Bureau of Labor Statistics, Geographic Profile of Employment and Unemployment (1978), Report 571.

[1] Resident need is defined in Chapter 2.

were more likely to end up in a suburb or non-metropolitan area than were blacks who moved from central cities; again, however, there appears to have been little distinction within racial groups between publicly assisted and non-assisted households.

More information is needed on the migration patterns of the poor both within and between metropolitan areas. Such information should include data on the degree of "return" moves, a factor that has been significant in previous migration patterns. Such information should make it possible to assess the extent to which poor inner city families are responding to job opportunities in other areas and whether programs to assist such moves are called for.

### Illegal Immigration

During the 1970's, the most publicized group of lower income urban migrants has been illegal aliens from developing countries such as Mexico. Their numbers are estimated to be from three to six million persons and to be increasing by at least one quarter million yearly. The cities attracting great numbers of illegal aliens—Los Angeles, New York, and the border towns of Texas and California—are cities where large numbers of their fellow countrymen already resided in 1970. Some growing cities, such as Houston, do not appear to attract substantial numbers of legal or illegal aliens.

Illegal aliens are perhaps less numerous than legal resident aliens, who are estimated to total six million and to be increasing by 400,000 yearly. Unlike newly arrived legal immigrants, who often are sponsored by American relatives or bring professional skills to the American job market, the illegal aliens are generally poor and frequently possess few skills. Yet millions have found employment, often in large urban centers. The question, then, is do they find opportunities that their unskilled American counterparts do not seek, thereby strengthening the local economy, or do illegal aliens generate increased social burdens by displacing American citizens from low-skilled jobs. thereby increasing unemployment rates? Also, because of their relatively low incomes, do they impose a special burden on services and housing for low income residents overall?

An analysis of illegal aliens requires more than the usual caution about the quality of the data. However, the weight of the evidence indicates that illegal aliens at present provide a net benefit to local economies. Specifically, most seem to take relatively low paid jobs that many low income citizens no longer are willing to accept. Their indirect taxes and service-charge payments probably exceed the costs they impose on public services. Only if family formation increased or if illegal aliens were unable to find work would the public cost-benefit ratio shift from positive to negative. Though they might raise the price level of low income housing somewhat,

TABLE 4-11

MIGRATION WITHIN METROPOLITAN AREAS FOR SELECTED HOUSEHOLDS, 1975-1978
(In thousands of households)

A. Households Receiving Public Assistance Who Moved:

| Region | From Central City To Balance of SMSA | From Balance of SMSA to Central City |
|---|---|---|
| Northeast | 6 | 29 |
| North Central | 14 | 18 |
| South | 17 | 10 |
| West | 44 | 23 |
| U.S. TOTAL | 80 | 80 |

B. Black Households Receiving Public Assistance Who Moved:

| Region | From Central City to Balance of SMSA | From Balance of SMSA to Central City |
|---|---|---|
| Northeast | — | 7 |
| North Central | 7 | 3 |
| South | 10 | 9 |
| West | 8 | 3 |
| U.S. TOTAL | 24 | 23 |

C. Female Headed Households Receiving Public Assistance Who Moved:

| Region | From Central City to Balance of SMSA | From Balance of SMSA to Central City |
|---|---|---|
| Northeast | 4 | 26 |
| North Central | 14 | 8 |
| South | 15 | 7 |
| West | 26 | 16 |
| U.S. TOTAL | 58 | 57 |

SOURCE: U.S. Bureau of the Census, Current Population Report, Series P-20, No. 331, "Geographical Mobility, March 1975 to March 1978," U.S. Government Printing Office, Washington, D.C., 1978.

NOTE: Regional figures may not add to U.S. total due to rounding. Moreover, relative to the magnitude of the migration flows, sampling error is considerable.

they may also lessen the rate of abandonment in cities losing households and generate improvements in the "filtered out" housing stock (Morris, 1979).

## 3. Central City-Suburban Income Gap

While poverty has become more concentrated in central cities, migration trends have widened the income gap between central cities and suburbs. Families moving from a central city to a suburb on the average have higher incomes ($20,770 in 1978) than those moving to a central city from a suburb ($19,410) or a nonmetropolitan area ($16,570). (Barabba, 1980) Over time, these differentials have widened the city-suburban income gap. In 1969, central city median family income was 83% of suburban family income; by 1977, it had decreased to 79%. (Long and Dahlmann, 1980)

Data gathered for the 20 largest SMSAs show that high need cities with declining populations experience the largest city-suburb income gaps, and these gaps have been widening (See Table 4-12). In 1969 Newark's median family income was only 60% of its suburbs'; its average for the 1975-1977 period was even lower (42%). Between 1969 and 1975-1977, median family income declined as a percentage of suburban family income in St. Louis from 79% to 57%; in Philadelphia, from 89% to 71%; and in Chicago, from 76% to 66%.

Low need, stable or growing cities apparently experience smaller city-suburban income gaps, and these gaps have shown less change over time. Median family income in Houston decreased relative to that of its suburbs by only three percentage points between 1969 and 1975-1977, from 93% to 90%. In Dallas, it increased by two percentage points from 93% to 95%.

Per capita income differentials between cities and suburbs are narrower than family income differentials, but follow the same pattern, being more pronounced in high need, declining cities than low need, growing cities. They also generally showed less change in the city-suburb income gap in the 1969 to 1975-1977 period. (Long and Dahlmann, 1980)

Median family income in central cities has failed to keep pace with inflation, unlike family income in the suburbs. Between 1969 and 1977, central city family income increased 57.1%, while the Consumer Price Index rose 65.3%. Suburban family income rose by 65.6% in the same period, just keeping pace with inflation.

These central city-suburban income differentials have serious consequences for the welfare of poor people and the cities in which they reside. Central cities experiencing declines in family income relative to their suburbs and relative to the rate of inflation have relatively less capacity to raise revenues and meet the service needs of their residents. This can only increase the outward movement of their middle-income residents and reduce the long-run economic prospects of the poor, unless offsetting and ameliorating steps are taken (See Chapter 6).

## 4. Summing Up: The Changing Nature of Urban Poverty

The 1970's saw poverty increase in the largest central cities of the nation, particularly in those cities whose economies were troubled by loss of employment opportunities. The lack of economic opportunities in large cities characterized by high levels of resident need and declining total population, appears to be a major factor underlying the increase in poverty in such cities. Within large cities the population groups most afflicted by poverty were blacks and female headed households. Families headed by black women were most at risk of being poor. Black youth experienced very high levels of joblessness.

Growing poverty levels in the largest and neediest central cities stood in sharp contrast to declining poverty levels in smaller cities, the suburbs and non-metropolitan areas. Yet, there is little evidence that poor residents of large needy central cities migrate to communities with expanding opportunities in significant numbers, in order to improve their earnings and quality of life.

TABLE 4-12

RATIO OF CITY-TO-SUBURB FAMILY INCOME, FOR THE 20 LARGEST SMSA's: 1969, 1975 TO 1977

| Degree of Resident Need[1] | Population Trend | Metropolitan Area | Ratio of City-to-Suburb Family Income 1969 | Ratio of City-to-Suburb Family Income Average 1975-1977 | Change in Income Gap |
|---|---|---|---|---|---|
| High | Decreasing | Newark | .60 | .42 | –.18 |
| High | Decreasing | St. Louis | .79 | .57 | –.22 |
| High | Decreasing | Atlanta | .72 | .62 | –.10 |
| High | Decreasing | Baltimore | .74 | .63 | –.11 |
| Moderate | Decreasing | Washington, D.C. | .69 | .63 | –.06 |
| High | Decreasing | Cleveland | .72 | .64 | –.08 |
| High | Decreasing | New York | .71 | .64 | –.07 |
| High | Decreasing | Chicago | .76 | .66 | –.10 |
| Moderate | Decreasing | Milwaukee | .82 | .67 | –.15 |
| High | Decreasing | Philadelphia | .89 | .71 | –.18 |
| High | Decreasing | Detroit | .60 | .74 | +.14 |
| Moderate | Decreasing | San Francisco-Oakland | .81 | .74 | –.07 |
| Low | Decreasing | Minneapolis-St. Paul | .82 | .74 | –.08 |
| Low | Decreasing | Seattle-Everett | .90 | .74 | –.16 |
| High | Stable | Boston | .76 | .79 | +.03 |
| Moderate | Decreasing | Pittsburgh | .88 | .84 | –.04 |
| High | Stable | Los Angeles-Long Beach | .93 | .90 | –.03 |
| Low | Increasing | Houston | .93 | .90 | –.03 |
| Low | Increasing | Anaheim-Santa Ana-Garden Grove | .86 | .95 | +.09 |
| Low | Stable | Dallas | .93 | .95 | +.02 |

SOURCE: Larry H. Long and Donald C. Dahlmann, "The City-Suburban Income Gap: Is It Being Narrowed by the Back-to-the-City Movement?" U.S. Bureau of the Census, Special Demographic Analyses, COS-801-1, March 1980.

[1] Resident need is defined in Chapter 2.

# V. CENTRAL CITY HOUSING AND NEIGHBORHOODS

The primary goal of national housing policy is to assure that all Americans have access to decent, safe, and sanitary housing which is located in suitable living environments and neighborhoods. To achieve this goal will require public and private sector efforts to preserve the inventory of existing housing, rehabilitate substandard units and construct new housing where needed.

Major progress has been made in recent decades in most cities in upgrading the overall quality of the housing stock through the construction of new housing units and the rehabilitation of older structures. Most city residents now find their neighborhoods attractive.

Housing affordability is now a major problem in urban areas. Because of inflation, housing costs are rising much more rapidly than most central city household incomes. Many city residents must pay a large portion of their income for housing. Lower income households, particularly, face severe housing cost constraints. The inability of many developers and landlords to make ends meet and turn a profit has made new rental housing a scarce commodity in cities, and has generated disinvestment, abandonment, and condominium conversion.

This chapter focuses first on the quality, cost, and accessibility of housing in urban communities. The analysis turns in sequence to the two major sectors of the central city housing market: housing for rent and owner-occupied housing. The final sections of the chapter address the market forces which influence the quantity, cost, and location of housing. Public policies which, in turn, influence the market forces are also examined.

As in the other chapters of this Report , an effort is made to isolate housing patterns and trends which characterize different types of central cities. Recent data on housing conditions are limited to a sample of 20 cities with population in excess of 100,000. Using illustrations primarily drawn from these large cities, major aspects of city housing are related to the degree of local need and population trends. Striking differences are found among central cities when viewed in terms of the index of need and growth.

## 1. The Quality and Affordability of Central City Housing

In relation to past standards for what constituted adequate housing, today's central city housing stock is of generally high quality. The critical urban housing problems of greatest concern in the 1940's—the lack of indoor, private bathrooms and structural dilapidation—have today been largely solved in most cities.

A number of traditional measures of housing conditions have been made obsolete by the rising quality of urban housing.

For many years, housing analysts used measures of the availability of complete plumbing systems to estimate the extent of severe housing deficiencies. Today, virtually all owner-occupied units in cities have complete plumbing and almost 98% of rental housing stock has complete plumbing. A similarly high proportion of central city housing units now possess complete kitchen facilities.

Much of the improvement in central city housing came about because of major increases in the stock of central city housing in the 1960's and early 1970's. By 1973, one in every five central city units had been built since 1965. New building permitted the removal of many of the oldest and most dilapidated units.

Despite these major improvements in central city housing, many less severe housing deficiencies remain. Approximately one in every four rental units and one in five owner-occupied units suffers from one or more significant physical deficiencies such as holes or cracks in walls, floors, or ceilings (see Table 5-1). The presence of rodents is another common problem. However, these defects appear likely to signal more a lack of adequate maintenance than basic structural shortcomings, and the data suggests that even most of these maintenance problems are diminishing in the renter-occupied housing of central cities.

Some cities have not shared equally in the dramatic improvement of urban housing during the past two decades. Larger than average proportions of the housing stocks of needy central cities remain in deficient physical condition. Table 5-2 contains summary measures of housing condition among homeowners and renters in the 20 major central cities for which such data are available. It shows that less than one-fifth of occupied housing units is classified as structurally deficient in cities with relatively low need. By contrast, between one-fourth and one-third of the housing stock of relatively high need cities is deficient. Discrepancies among cities are larger in rental housing than in the owner-occupied housing stock.

**Neighborhood Conditions**

There are no measures of neighborhood quality as precise as those available to judge housing quality. Most of the factors that determine the quality of a neighborhood are subjective and cannot be accurately measured.

Surveys of neighborhood satisfaction find that central city residents generally give their neighborhoods high ratings, but that the level of satisfaction is generally lower for cities with high resident need. In 1977, almost three-fourths of central city residents judged their neighborhood to be good or excellent, up slightly from 1973. Suburban residents rate their neighborhoods even more highly with 87% declaring them good or excellent (Table 5-3).

Resident attitudes toward their neighborhoods differ among cities. As can be seen in Table 5-4, residents of central cities that are high on the need index appear far less satisfied with their neighborhoods than are people in low need cities. For example, only 54% of Cleveland's residents rated their neighborhoods as good or excellent. By contrast, about 80% of people in low need cities such as Seattle, Allentown, Oklahoma City, Omaha, and Raleigh found their neighborhoods in good or excellent condition. But not all high need cities reported extensive dissatisfaction with their neighborhoods. Providence and Birmingham—both high need cities—are notable for the high proportion of residents declaring their neighborhoods to be in good or excellent condition.

**Housing Affordability**

While it is difficult to judge exactly how much city residents can afford to pay for their housing, available evidence shows that housing affordability problems are emerging as a serious housing challenge in central cities. Central city residents are devoting an ever increasing fraction of their incomes to pay for their housing. To some degree, this increase in income spent on housing may reflect changing decisions on how people prefer to spend their money, but for the low income population, at least, there is no doubt that decent housing is becoming harder to afford.

Table 5-5 shows trends in the proportion of income that central city renters spend on housing. Half of the renters in central cities spent more than 25% of their incomes for rent in 1977 and almost one in every three city renters spent over a third of total income on housing. These high levels of housing expenditures represent an abrupt increase from 1970, when the median ratio of housing cost to income among city renters was only 21%.

Housing affordability problems are severe for lower income households in central cities. Over 85% of renter households with annual incomes less than $5,000 paid more than one-quarter of their incomes for rent in 1977. About two-thirds of central city renter households with incomes of between $5,000 and $10,000 paid more than a quarter of their incomes for rent. Affordability was not a significant problem in 1977 among middle and upper income renters in central cities.

There are beginning to be distinct differences in this pattern of increasing housing expenditures between cities impacted by high need levels and other cities. Until recently, the proportion of tenants spending more than 25% of their income for rent has not differed greatly between high need and low need central cities. Table 5-7 shows that close to half of the renter households paid more than a fourth of their incomes for housing in 1976 in both needy and less needy cities. However, this indicator of housing affordability problems has risen much more sharply in high need cities

TABLE 5-1

NUMBER OF HOUSING UNITS WITH STRUCTURAL DEFICIENCIES IN CENTRAL CITIES, 1973 AND 1977

| | Central City Rental Housing Units | | | | Central City Owner-Occupied Housing Units | | | | Central City Total Occupied Housing Units | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number with Deficiencies (000s) | | Percent of Units | | Number with Deficiencies (000s) | | Percent of Units | | Number with Deficiencies (000s) | | Percent of Units | |
| | 1973 | 1977 | 1973 | 1977 | 1973 | 1977 | 1973 | 1977 | 1973 | 1977 | 1973 | 1977 |
| Lacking Some or all Plumbing | 313 | 312 | 2.7 | 2.6 | 73 | 31 | 0.7 | 0.3 | 386 | 343 | 1.7 | 1.5 |
| Lacking Complete Private Kitchen | 302 | 252 | 2.6 | 2.1 | 25 | 16 | 0.2 | 0.1 | 327 | 268 | 1.5 | 1.2 |
| With Signs of Rats or Mice | 1,329 | 1,700 | 11.7 | 14.4 | 703 | 1,008 | 6.3 | 8.9 | 2,032 | 2,708 | 9.0 | 11.7 |
| With Exposed Wiring | 512 | 175 | 4.5 | 1.5 | 338 | 53 | 3.0 | 0.5 | 850 | 228 | 3.8 | 1.0 |
| Lacking Working Electrical Outlets In Some or All Rooms | 559 | 310 | 4.9 | 2.6 | 320 | 143 | 2.9 | 1.3 | 879 | 453 | 3.9 | 2.0 |
| With Leaking Roof | 1,056 | 927 | 9.3 | 7.9 | 588 | 540 | 5.3 | 4.8 | 1,644 | 1,467 | 7.3 | 6.3 |
| With Open Cracks or Holes in Walls or Ceiling | 1,469 | 1,328 | 12.9 | 11.2 | 374 | 336 | 3.4 | 3.0 | 1,843 | 1,664 | 8.2 | 7.2 |
| With Holes in Floors | 446 | 432 | 3.9 | 3.7 | 86 | 80 | 0.8 | 0.7 | 532 | 512 | 2.4 | 2.2 |
| Overcrowded Units 1.01 Persons Per Room or more | NA | 779 | — | 6.6 | NA | 351 | — | 3.1 | NA | 1,130 | — | 4.9 |
| Total Units with Structural Deficiencies | NA | 2,981 | — | 25.3 | NA | 2,053 | — | 18.1 | NA | 5,034 | — | 21.7 |

SOURCE: U.S. Bureau of the Census, Annual Housing Survey, 1973 and 1977.

## TABLE 5-2

### NUMBERS OF HOUSING UNITS WITH STRUCTURAL DEFICIENCIES IN 20 MAJOR CENTRAL CITIES, 1976

| | | Owner-Occupied | | Renter-Occupied | | Total Occupied Units | |
|---|---|---|---|---|---|---|---|
| Degree of Resident Need[2] | Population Change 1970-1976 | Number of Units With Deficiencies[1] | Percent of Owner Housing Stock | Number of Units With Deficiencies[1] | Percent of Renter Housing Stock | Number of Units With Deficiencies[1] | Percent of Total City Housing Stock |
| **Relatively High** | | | | | | | |
| Baltimore | Decreasing | 29,800 | 24.4 | 61,100 | 41.6 | 90,900 | 33.8 |
| Birmingham | Decreasing | 10,700 | 20.7 | 13,100 | 27.2 | 23,800 | 23.8 |
| Buffalo | Decreasing | 16,600 | 25.3 | 21,800 | 27.6 | 38,400 | 26.5 |
| Cleveland | Decreasing | 27,200 | 25.2 | 43,900 | 35.7 | 71,100 | 30.8 |
| New York | Decreasing | 108,400 | 15.4 | 625,100 | 31.9 | 733,500 | 27.5 |
| Providence[3] | Decreasing | 12,400 | 22.0 | 13,600 | 24.5 | 26,000 | 23.3 |
| St. Louis | Decreasing | 15,500 | 18.6 | 29,000 | 28.6 | 44,500 | 24.1 |
| **Moderate** | | | | | | | |
| Grand Rapids | Decreasing | 10,600 | 26.9 | 7,200 | 32.1 | 17,800 | 28.8 |
| Louisville | Decreasing | 14,000 | 21.5 | 16,000 | 30.5 | 30,000 | 25.5 |
| Indianapolis | Stable | 27,000 | 18.5 | 19,900 | 19.3 | 46,900 | 18.8 |
| Sacramento | Stable | 4,200 | 7.3 | 9,000 | 18.2 | 13,200 | 12.4 |
| **Relatively Low** | | | | | | | |
| Denver | Decreasing | 12,400 | 12.5 | 20,000 | 20.3 | 32,400 | 16.4 |
| Seattle | Decreasing | 20,300 | 17.0 | 24,400 | 23.6 | 44,700 | 20.1 |
| Houston | Increasing | 35,400 | 16.9 | 61,300 | 24.2 | 96,700 | 20.9 |
| Honolulu | Increasing | 3,500 | 7.4 | 7,200 | 11.8 | 10,700 | 9.9 |
| Las Vegas | Increasing | 2,300 | 7.9 | 3,500 | 17.4 | 5,800 | 11.8 |
| Omaha | Increasing | 8,200 | 12.2 | 7,200 | 17.4 | 15,400 | 14.2 |
| Raleigh | Increasing | 3,700 | 15.7 | 4,900 | 20.2 | 8,600 | 18.0 |
| Allentown[4] | Stable | 8,400 | 19.3 | 6,600 | 23.2 | 15,000 | 20.8 |
| Oklahoma City | Stable | 9,900 | 11.3 | 10,100 | 19.3 | 20,000 | 14.3 |

SOURCE: U.S. Bureau of the Census, **Annual Housing Survey**, 1976.

[1] Structural deficiencies include the following: water leakage in the basement or roof; open cracks or holes in the interior walls or ceilings; holes in the floor; and broken plaster or peeling paint on the ceiling or walls.

[2] Resident need is defined in Chapter 2.

[3] In this and other tables in this chapter, "Providence" consists of the central cities of Pawtucket and Warwick as well as Providence central city. Warwick showed much less resident need than the other two cities.

[4] In this and other tables in this chapter, "Allentown" consists of the central cities of Allentown, Bethlehem and Easton.

**TABLE 5-3**

**NEIGHBORHOOD RATINGS GIVEN BY RESIDENTS OF CENTRAL CITIES AND SUBURBS, 1973 AND 1977**

| Percent Reporting | Central Cities 1973 | Central Cities 1977 | Suburbs 1973 | Suburbs 1977 |
|---|---|---|---|---|
| Overall Rating of Neighborhood as Good or Excellent | 71% | 73% | 85% | 87% |
| Selected Undesirable Neighborhood Conditions | 77 | 76 | 75 | 75 |
| Inadequate Neighborhood Services | 29 | 42 | 49 | 55 |

SOURCE: U.S. Bureau of the Census, **Annual Housing Survey, 1973 and 1977.**

than in low need cities since 1970. In growing, less needy cities, the proportion of renters paying a fourth of their incomes for housing also rose from 1970 to 1976, but the increases were generally slight (with the exception of Honolulu).

## 2. The Rental Housing Market

Almost half of the rental housing in America is found in central cities. The rental housing market in cities is highly complex. Units for rent range from detached single-family houses to high-rise apartments, and the rental market ranges from some of the least desirable city slums to luxury units.

While it is difficult to generalize about the widely varied rental housing stock, there appear to be solid indications that the rental housing market in many central cities is operating under economic stress due to a growing imbalance between tenant incomes and the cost of rental units. The costs of operating, financing, maintaining, and constructing rental housing rose sharply during the 1970's as a result of inflation. Simultaneously, the rental housing stock is becoming occupied by lower-income persons who cannot afford the rent necessary for new housing or even for adequately maintained, older housing. Many landlords are feeling serious squeezes on their profits and thus on the value of their property. New construction of unsubsidized rental units is occurring at relatively low levels. At the same time, tenants are being forced to devote increasing proportions of their income to rent.

Conditions in rental housing markets differ greatly among central cities. With some important exceptions, the typical housing market which prevailed in most communities during the 1950's and 1960's reflected both rising incomes and growing numbers of households. This situation now prevails primarily in cities with stable or growing populations and low levels of need.

During the 1970's, many central cities with declining populations experienced declining numbers of renter households. Household loss has meant declining housing occupancy and, where the decline has been rapid, rising housing vacancies in certain neighborhoods or areas of the community. Lower incomes have cut into tenants' ability to pay for decent housing and adequate housing maintenance. Where household loss and falling real incomes have occurred simultaneously, the abandonment of some rental housing units has taken place.

Other types of cities also have severe problems. Indeed, irrespective of their need, intense demand for older, less expensive, lower quality housing exists in many central cities. Difficulties are particularly visible in cities where population growth is rapid, needs are high, and rent levels sufficient to cover the cost of new housing construction are beyond the ability of many tenants to pay. The result is intense demand for older, less expensive, lower quality housing. Severe shortages of rental housing are predicted by some experts within the next few years. If, as a result, replacement of older deteriorated units is significantly reduced, absolute declines in housing conditions may result for low and moderate income households (Downs, 1979).

TABLE 5-4

PERCENT OF CENTRAL CITY HOUSEHOLDS
RATING THEIR NEIGHBORHOODS AS GOOD OR EXCELLENT

| Degree of Resident Need[1] | Population Change 1970-1976 | Rating Neighborhood Good or Excellent |
|---|---|---|
| **Relatively High** | | |
| Baltimore | Decreasing | 63.0% |
| Birmingham | Decreasing | 70.3 |
| Buffalo | Decreasing | 68.1 |
| Cleveland | Decreasing | 53.8 |
| New York | Decreasing | 57.4 |
| Providence | Decreasing | 74.2 |
| St. Louis | Decreasing | 60.9 |
| **Moderate** | | |
| Grand Rapids | Decreasing | 74.4 |
| Louisville | Decreasing | 72.9 |
| Indianapolis | Stable | 73.3 |
| Sacramento | Stable | 70.9 |
| **Relatively Low** | | |
| Denver | Decreasing | 76.1 |
| Seattle | Decreasing | 81.5 |
| Allentown | Stable | 83.2 |
| Oklahoma City | Stable | 79.6 |
| Honolulu | Increasing | 80.7 |
| Houston | Increasing | 71.8 |
| Las Vegas | Increasing | 78.3 |
| Omaha | Increasing | 82.9 |
| Raleigh | Increasing | 85.7 |

SOURCE: U.S. Bureau of the Census, Annual Housing Survey, 1976.

[1] Resident need is defined in Chapter 2.

## TABLE 5-5

### HOUSING EXPENDITURES AS A PERCENTAGE OF HOUSEHOLD INCOME AMONG CENTRAL CITY RENTERS, 1970-1977

| Percentage of Income Spent on Housing | Number of Households (000) | | Percentage of Households | |
|---|---|---|---|---|
| | 1970 | 1977 | 1970 | 1977 |
| Less than 15% | 2,916 | 2,009 | 27.8% | 17.5% |
| 15% to 24% | 3,181 | 3,591 | 30.4 | 31.4 |
| 25% to 34% | 1,520 | 2,065 | 14.5 | 18.0 |
| 35% or more | 2,854 | 3,786 | 27.3 | 33.1 |
| TOTAL[1] | 10,471 | 11,451 | 100.0 | 100.0 |
| MEDIAN PERCENTAGE | 21% | 26% | — | — |

SOURCE: U.S. Bureau of the Census, **Annual Housing Survey, 1977.**

[1] Excludes households not paying cash rent and other households for which data were unavailable.

## TABLE 5-6

### PROPORTION OF CENTRAL CITY RENTERS PAYING MORE THAN 25 OR 35 PERCENT OF THEIR INCOMES FOR HOUSING, BY INCOME GROUP IN 1977

| Income | Proportion Paying Over 25% | Proportion Paying Over 35% |
|---|---|---|
| Less than $3,000 | 87% | 81% |
| $3,000–4,999 | 85 | 70 |
| $5,000–6,999 | 79 | 48 |
| $7,000–9,999 | 57 | 18 |
| $10,000–14,999 | 23 | 5 |
| $15,000 or more | 5 | 1 |
| TOTAL[1] | 51 | 33 |

SOURCE: U.S. Bureau of the Census, **Annual Housing Survey, 1977.**

[1] Excludes households not paying cash rent and other households for which data were not available.

TABLE 5-7

TRENDS IN THE PROPORTIONS OF RENTERS PAYING 25 PERCENT OR MORE OF THEIR INCOME FOR HOUSING, IN SELECTED CITIES, 1970-1976

| Degree of Resident Need[1] | Population Change 1970-1976 | Percent Paying More than 25% 1970 | Percent Paying More than 25% 1976 | Net Change 1970-1976 |
|---|---|---|---|---|
| **Relatively High** | | | | |
| Baltimore | Decreasing | 42.3% | 47.3% | 5.0% |
| Birmingham | Decreasing | 36.7 | 41.7 | 5.0 |
| Buffalo | Decreasing | 38.2 | 51.1 | 12.9 |
| Cleveland | Decreasing | 36.0 | 50.0 | 14.0 |
| New York | Decreasing | 35.7 | 50.7 | 15.0 |
| Providence | Decreasing | 36.9 | 46.9 | 10.0 |
| St. Louis | Decreasing | 38.6 | 44.7 | 6.1 |
| **Moderate** | | | | |
| Grand Rapids | Decreasing | 42.7 | 50.4 | 7.7 |
| Louisville | Decreasing | 37.4 | 42.4 | 5.0 |
| Indianapolis | Stable | 35.3 | 37.9 | 2.6 |
| Sacramento | Stable | 48.8 | 47.2 | −1.6 |
| **Relatively Low** | | | | |
| Denver | Decreasing | 43.6 | 45.0 | 1.4 |
| Seattle | Decreasing | 45.7 | 45.7 | 0.0 |
| Allentown | Stable | 35.3 | 40.8 | 5.5 |
| Oklahoma City | Stable | 41.3 | 42.1 | 0.8 |
| Honolulu | Increasing | 38.2 | 48.8 | 10.6 |
| Houston | Increasing | 37.1 | 40.3 | 3.2 |
| Las Vegas | Increasing | 50.3 | 56.2 | 5.9 |
| Omaha | Increasing | 38.4 | 44.2 | 5.8 |
| Raleigh | Increasing | 38.6 | 43.8 | 5.2 |

SOURCE: U.S. Bureau of the Census, Annual Housing Survey, 1976.

[1] Resident need is defined in Chapter 2.

## The Demand for Rental Housing

Basically, the demand for rental housing is determined by the number of households seeking rental housing in the community and their incomes. Nationwide, the median income of renter households declined relative to the cost of living during the 1970's, as tenant incomes have failed to keep pace with inflation. Real income declines among renters have been most rapid in central cities where the median income of renter households rose by 33% between 1970 and 1977, while the consumer price index rose by 56%.

Declining renter incomes reflect the changing composition of renter households; in particular, increases in female-headed and one-person households, as well as declining household size. It also reflects the shift of numerous affluent households to ownership—a shift in part induced by tax and investment benefits associated with ownership (see page 5-31).

Tenant incomes have grown slowly in most central cities, as illustrated in Table 5-8. Indeed, tenant income increased more rapidly than the consumer price index in only two of the twenty cities shown. These are both low need cities. In some cities where needs are great, incomes went up much less than the cost of living. For example, median renter incomes grew by only three percent in Cleveland, 14% in Buffalo, and 17% in St. Louis between 1970 and 1976—all three are high need cities with rapid population losses. In real terms, tenant incomes fell by approximately one-fourth during the 1970 to 1976 period.

Growth or decline in numbers of households has a major influence on the demand for rental housing. Until recently, actual household loss has been rare in large cities. The number of households grew in virtually all major cities during the 1960's—despite population declines—because household size fell as well. Among the factors that led to decline in the size of urban households were the declining birth rate, and the decision by an increasing number of city dwellers, both young and old, to live alone.

During the 1970's many large cities losing population also began to lose households. A decline in the number of households cuts directly into the demand for housing, because fewer households means fewer occupied housing units.

Table 5-9 describes changes between 1970 and 1976 in the number of owner-occupied and renter households in the 20 major central cities for which data are available. Virtually every city with stable or increasing population also experienced growth in numbers of households because of diminishing household size. For example, the number of households grew by 18% to 31% during the first six years of the 1970's in Houston, Las Vegas, and Raleigh. On the other hand, most of the central cities losing population also lost households between 1970 and 1976. In some instances, these losses were very rapid. St. Louis experienced a net loss of 14% of its households, while Baltimore, Buffalo, Cleveland, and New York each lost between six and eight percent.

Much of the household loss was concentrated in the rental housing market. The number of renter households declined by 20% in St. Louis between 1970 and 1976. By contrast, homeowner households declined by only five percent. Similarly, Baltimore, Buffalo, Cleveland, and New York lost renter households at nearly twice the rate of owner-occupants.

These trends in slow income growth and stable or declining household numbers pose new and difficult challenges to many of the nation's central cities. Up to now, there has been little experience with shrinking local housing markets or with markets in which household incomes are falling.

## The Costs of Rental Housing

Inflation in the cost of constructing and financing new rental housing surged during the 1970's in virtually all areas of the nation. The credit crunch of late 1979 pushed interest rates on new multi-family mortgage money from approximately 11% to 14% in the space of a few weeks. They had already risen from nine to eleven percent during the preceeding two years. Increases in land and construction costs of new multi-family housing continue to surpass general inflation, thereby raising the cost of supplying new rental housing (HUD, 1979).

The cost of operating and maintaining existing rental housing also rose rapidly during the 1970's. Between 1970 and April 1979, the consumer price index of residential fuel and utilities more than doubled and the index for home furnishing rose by two-thirds. Surveys of the costs of operating rental apartment buildings in the United States and Canada conducted annually by the Institute for Real Estate Management show that operating costs, excluding real estate taxes, rose between six and eleven percent (Institute for Real Estate Management, 1979). These data do not reflect the earlier jump in costs during 1973 and 1974 in response to higher fuel and utility bills. An index of operating costs of rental housing compiled by the Federal Reserve Board shows that operating costs more than doubled between 1967 and 1978. It also suggests that inflation pushed operating costs up by 50% between 1972 and 1978 alone (Seiders, 1979).

Rising operating costs of rental housing have increased pressures on landlords both to economize and to raise rents. Though evidence remains sketchy, it appears that inflation in the costs of operating rental housing has exceeded inflation in the rents charged tenants by their landlords. According to a study by the Federal Reserve Bank, rent levels grew by about 70% between 1967 and 1979, a period of time over which operating costs rose by 120%. That rent levels lagged behind operating costs is not surprising, given the comparatively slow growth and, in some cases, marked decline in aggregate tenant incomes. These rent and cost trends have squeezed profit levels for many landlords and made new rental construction economically infeasible in many communities.

TABLE 5-8

TRENDS IN MEDIAN INCOME OF RENTERS IN SELECTED CENTRAL CITIES, 1970-1976

| Degree of Resident Need[1] | Population Change 1970-1976 | Median Income of Renter Households 1970 | 1976 | Net Change 1970-1976 |
|---|---|---|---|---|
| **Relatively High** | | | | |
| Baltimore | Decreasing | $5,900 | $7,600 | 28.8% |
| Birmingham | Decreasing | 4,700 | 6,300 | 34.0 |
| Buffalo | Decreasing | 5,700 | 6,500 | 14.0 |
| Cleveland | Decreasing | 6,000 | 6,200 | 3.3 |
| New York | Decreasing | 7,200 | 8,900 | 23.6 |
| Providence | Decreasing | 5,700 | 6,900 | 21.1 |
| St. Louis | Decreasing | 5,400 | 6,300 | 16.7 |
| **Moderate** | | | | |
| Grand Rapids | Decreasing | 5,600 | 6,600 | 17.9 |
| Louisville | Decreasing | 5,300 | 5,900 | 11.3 |
| Indianapolis | Stable | 6,900 | 9,100 | 31.9 |
| Sacramento | Stable | 4,900 | 6,300 | 28.6 |
| **Relatively Low** | | | | |
| Denver | Decreasing | 5,500 | 7,500 | 36.4 |
| Seattle | Decreasing | 5,900 | 7,600 | 28.8 |
| Allentown | Stable | 5,900 | 7,900 | 33.9 |
| Oklahoma City | Stable | 5,100 | 7,800 | 52.9 |
| Houston | Increasing | 6,500 | 10,500 | 61.5 |
| Honolulu | Increasing | 8,000 | 10,500 | 31.3 |
| Las Vegas | Increasing | 6,500 | 8,300 | 27.7 |
| Omaha | Increasing | 6,300 | 7,800 | 23.8 |
| Raleigh | Increasing | 5,900 | 8,600 | 45.8 |
| National Consumer Price Index | | | | 47.0% |

SOURCE: U.S. Bureau of the Census, Annual Housing Survey, 1976.

[1] Resident need is defined in Chapter 2.

**TABLE 5-9**

**PERCENT CHANGE IN NUMBER OF HOUSEHOLDS IN SELECTED CENTRAL CITIES BY HOUSING TENURE, 1970-1976**

| Degree of Resident Need[2] | Population Trend | Owner-Occupants | Renters | Total Households |
|---|---|---|---|---|
| **Relatively High** | | | | |
| Baltimore | Decreasing | –5.0% | –8.7% | –7.1% |
| Birmingham | Decreasing | –4.2 | 5.0 | 0.0 |
| Buffalo | Decreasing | –5.5 | –10.7 | –8.4 |
| Cleveland | Decreasing | –5.8 | –8.2 | –7.1 |
| New York | Decreasing | 5.2 | –9.6 | –6.1 |
| Providence | Decreasing | 0.9 | –5.9 | –2.7 |
| St. Louis | Decreasing | –4.7 | –20.9 | –14.4 |
| **Moderate** | | | | |
| Louisville | Decreasing | –0.3 | –8.6 | –4.2 |
| Grand Rapids | Decreasing | –4.8 | 1.4 | –2.7 |
| Indianapolis | Stable | 1.0 | 13.0 | 5.7 |
| Sacramento | Stable | 8.7 | 26.3 | 16.2 |
| **Relatively Low** | | | | |
| Denver | Decreasing | 6.2 | 6.8 | 6.6 |
| Seattle | Decreasing | –3.0 | 1.6 | –1.0 |
| Allentown | Stable | –1.4 | 3.6 | 0.6 |
| Oklahoma City | Stable | 6.6 | 15.7 | 9.8 |
| Houston | Increasing | 1.2 | 36.1 | 17.7 |
| Honolulu | Increasing | 19.2 | 5.4 | 11.1 |
| Las Vegas | Increasing | 24.9 | 14.2 | 20.0 |
| Omaha[1] | Increasing | (0.0) | (–6.1) | (–2.4) |
| Raleigh | Increasing | 27.0 | 34.4 | 31.0 |

SOURCE; U.S. Bureau of the Census, **Annual Housing Survey, 1976.**

[1] The population trend includes recent annexation, the household growth figures do not.

[2] Resident need is defined in Chapter 2.

As can be seen from Table 5-10, rents have risen in all types of central cities. Rent increases have been reasonably high in even the neediest cities experiencing household loss and falling tenant incomes. It appears that rent increases since 1970 have not differed significantly in terms of city growth and decline or even rent-paying ability of city residents. Rent increases averaged greater than 50% between 1970 and 1976 for all three groups of cities shown in the table. Further, evidence that rents have risen uniformly in all types of central cities is provided by HUD's Fair Market Rents. The estimated cost of a standard quality rental unit (used to set rent levels in housing subsidy programs) has risen as rapidly in needy, declining cities as in growing less needy cities in recent years.

Changes in operating costs have had particularly great impact on older housing since these costs account for a greater proportion of total property income than is true for newer buildings. Current operating expenditures account for 60% to 70% of total rental income in properties built during the 1920's and 1930's, as compared to 40% to 50% in rental units built during the 1970's. Thus, a given rate of inflation in operating costs requires larger percentage increases in rent levels in older housing than in newer units to maintain sufficient property income to cover financing and other fixed costs (HUD, 1979). Rising operating costs have placed a virtual floor under rent levels and created serious housing affordability problems in most cities, particularly those where average tenant incomes are low or growing slowly.

**New Production of Rental Housing in Cities**

Inflation in the costs of building, financing, and operating new rental housing has not yet been fully reflected in increased rent levels for new apartments in most housing markets in the nation (Downs, 1979). Between 1973 and 1977, the median asking rent for new unsubsidized apartments rose only 24%, significantly slower than inflation in construction costs (HUD, 1979). One result of the growing gap between rents and costs is low levels of new, unsubsidized rental housing construction across the nation.

As can be seen in Figure 5-1, multi-family housing starts have been relatively low in the nation since 1974 and 1975. Further, increasing proportions of multi-family structures which are being built are slated for condominium or cooperative ownership. Units built for low or moderate income persons with Federal subsidies account for the bulk of units now being built for the rental market. During 1979, relatively little unsubsidized multi-family housing was started for rental occupancy in structures with five or more units.

Housing units in structures with fewer than five units comprise approximately 60% of the nation's stock of rental housing, and mobile homes account for an additional two percent. Available data suggest that almost 300,000 unsubsidized apartments were started in 1978 in structures with two or more units. Despite increases in subsidized units, this level of construction starts was below that of 1977, when approximately 325,000 units were started and is far below production levels of unsubsidized apartments experienced in early years of the 1970's. Recent low levels of apartment construction are a strong sign of the deteriorating economic profitability of producing and owning unsubsidized rental housing.

Building permits data, although often an imperfect measure of construction activity, suggest that the level of multi-family housing construction in central cities mirrored national trends and fell markedly during the second half of the 1970's. From very high levels of multi-family production during early years of the decade, construction fell drastically in 1974, 1975, and 1976. Building permit activity rose moderately in cities in 1977 and 1978, although it appears to have remained far below the levels of the early years of the decade (see Table 5-11).

**Vacancy Rates in Rental Housing**

Vacancy rates in rental housing are not always an accurate indicator of the degree to which new rental housing construction has maintained the rental housing stock at a level sufficient to respond to needs and demands in central cities. High vacancy rates can reflect high levels of tenant mobility and turnover rather than excess quantities of housing. They can also reflect temporary unrented units resulting from high levels of production in fast growing areas. Low vacancy rates can reflect stable tenancy rather than housing shortages. Despite their limitations, vacancy rates provide one indicator of the strength of local housing markets. In this context, vacancy rates in central cities as a group have declined since 1974. In 1979, the vacancy rate was 5.3%; the same as it was in 1970. Vacancy rates in suburban rental housing were slightly higher than in 1970 (see Table 5-12).

While there are no fixed standards against which to judge whether or not vacancy rates are too high or too low, most housing market analysts accept local vacancy rates of four to seven percent (depending on whether the area is contracting or growing) as a rough indicator of sufficient vacancy to permit needed household mobility and choice. The most recent available data suggest that high levels of housing production in central cities during the early 1970's pushed vacancy levels up. The inventory of vacant units insulated tenants in some central cities from housing shortages in more recent years.

The drop in vacancy rates between 1976 and 1979 suggests that rental housing shortages exist in some central cities and in neighborhoods of numerous central cities. Estimates of current vacancy rates are available for luxury rental housing in selected large central cities. They provide insight into the impact of recent levels of rental construction. The data in Table 5-13 suggest that the number of luxury units which

TABLE 5-10

TRENDS IN MEDIAN GROSS RENTS IN SELECTED CENTRAL CITIES, 1970-1976

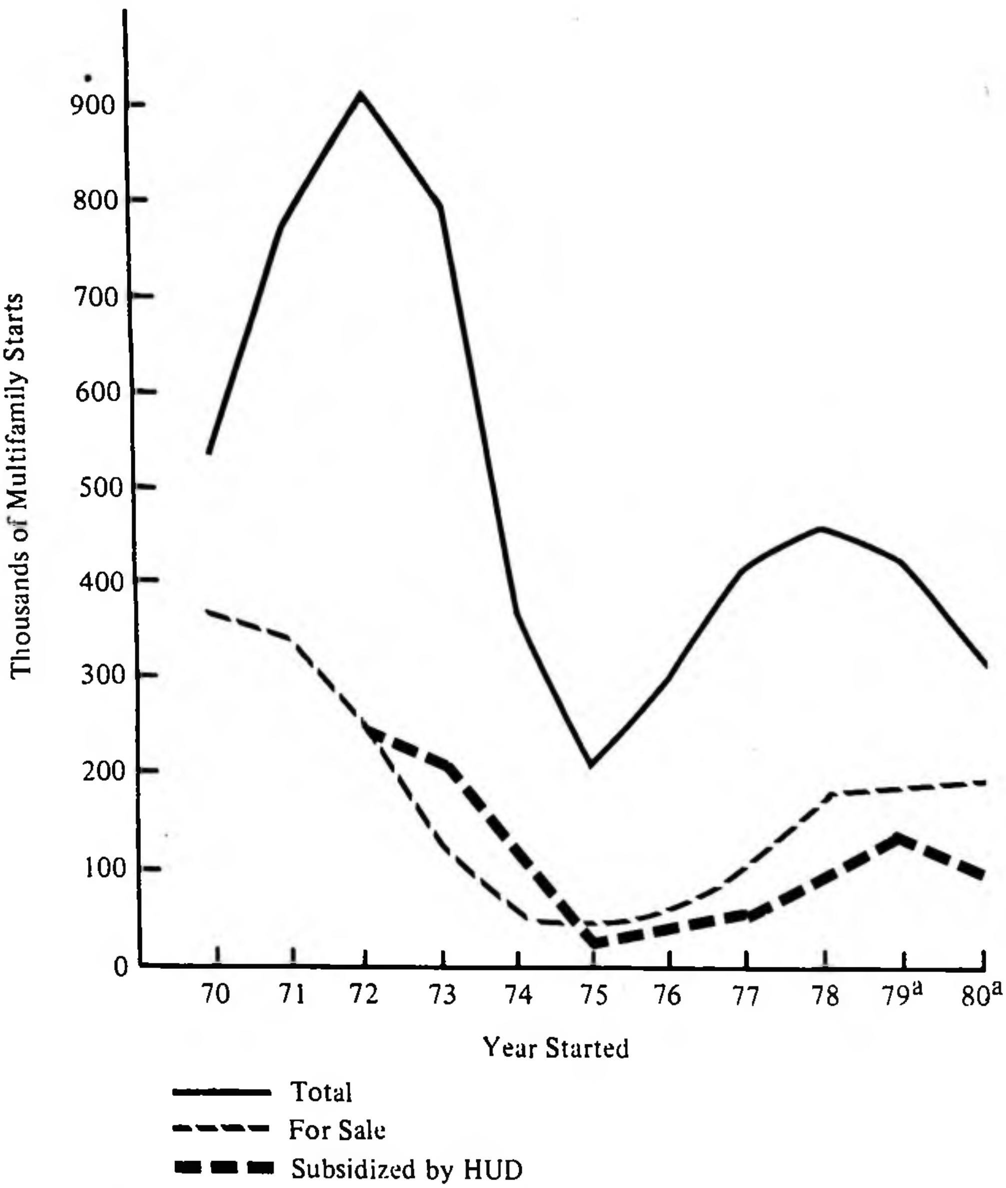
| Degree Resident Need[1] | Population Change 1970-1976 | Median Gross Monthly Rents 1970 | Median Gross Monthly Rents 1976 | Net Change 1970-1976 |
|---|---|---|---|---|
| **Relatively High** | | | | |
| Baltimore | Decreasing | $108 | $159 | 47.2% |
| Birmingham | Decreasing | 75 | 113 | 50.7 |
| Buffalo | Decreasing | 93 | 150 | 61.3 |
| Cleveland | Decreasing | 97 | 134 | 38.1 |
| New York | Decreasing | 109 | 190 | 74.3 |
| Providence | Decreasing | 90 | 152 | 68.9 |
| St. Louis | Decreasing | 90 | 117 | 30.0 |
| **Moderate** | | | | |
| Grand Rapids | Decreasing | 99 | 146 | 47.5 |
| Louisville | Decreasing | 89 | 115 | 29.2 |
| Indianapolis | Stable | 114 | 159 | 39.5 |
| Sacramento | Stable | 103 | 139 | 35.0 |
| **Relatively Low** | | | | |
| Denver | Decreasing | 106 | 158 | 49.1 |
| Seattle | Decreasing | 118 | 157 | 33.1 |
| Allentown | Stable | 93 | 161 | 73.1 |
| Oklahoma City | Stable | 93 | 150 | 61.3 |
| Honolulu | Increasing | 142 | 219 | 54.2 |
| Houston | Increasing | 112 | 190 | 69.6 |
| Las Vegas | Increasing | 144 | 188 | 30.6 |
| Omaha | Increasing | 110 | 157 | 42.7 |
| Raleigh | Increasing | 104 | 178 | 71.2 |

Source: U.S. Bureau of the Census, Annual Housing Survey, 1976.

[1] Resident need is defined in Chapter 2.

Figure 5-1

MULTI-FAMILY UNITS STARTED IN STRUCTURES WITH FIVE OR MORE UNITS BY INTENDED TENURE




SOURCE: Bureau of the Census, Construction Report C20, "HOUSING STARTS"
[a]Estimated by U.S. Department of Housing and Urban Development.

## TABLE 5-11

### NEW HOUSING UNITS FOR WHICH BUILDING PERMITS WERE ISSUED IN CENTRAL CITIES, 1970-1978
(in thousands)

| Number of Units in Structure | Year in Which Building Permit Was Issued | | | | | |
|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1973 | 1975 | 1977 | 1978 |
| Privately Owned | | | | | | |
| One | 123.5 | 179.1 | 126.7 | 105.1 | 181.2 | 174.2 |
| Two to Four | 25.1 | 39.8 | 28.7 | 18.8 | 33.2 | 33.9 |
| Five or More | 268.6 | 362.3 | 304.6 | 80.6 | 189.5 | 192.9 |
| Publicly Owned | 11.4 | 11.4 | 3.8 | 5.1 | 0.4 | 0.4 |
| TOTAL | 428.5 | 592.5 | 463.5 | 209.5 | 404.2 | 401.4 |

SOURCE: U.S. Bureau of the Census, **Construction Reports.**

## TABLE 5-12

### ANNUAL VACANCY RATES IN RENTAL HOUSING
(percent)

| | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979[1] |
|---|---|---|---|---|---|---|---|---|---|---|
| Metropolitan Areas | 4.9% | 5.1% | 5.4% | 5.7% | 6.2% | 6.1% | 5.7% | 5.3% | 5.0% | 5.1% |
| Central City | 5.3 | 5.4 | 5.7 | 6.2 | 6.8 | 6.6 | 6.2 | 5.7 | 5.2 | 5.3 |
| Suburbs | 4.3 | 4.5 | 4.8 | 5.0 | 5.2 | 5.4 | 5.1 | 4.6 | 4.7 | 4.7 |
| Non-Metropolitan Areas | 6.4 | 6.4 | 6.1 | 6.1 | 6.2 | 5.7 | 5.1 | 5.2 | 4.5 | 4.9 |
| Total | 5.3 | 5.4 | 5.6 | 5.8 | 6.2 | 6.0 | 5.6 | 5.2 | 5.0 | 5.0 |

SOURCE: U.S. Bureau of the Census, **Housing Vacancies,** Series H-111.

[1] Estimated from quarterly reports.

TABLE 5-13

PERCENTAGE OF UNITS VACANT AND AVAILABLE FOR RENT IN LUXURY APARTMENTS OF 16 MAJOR CITIES: JANUARY 1979 TO JANUARY 1980[1]

| Degree of Resident Need[2] | Population Trend | Percent of Units Vacant and Available for Rent: January 1979 | January 1980 | Change |
|---|---|---|---|---|
| **Relatively High** | | | | |
| Atlanta | Decreasing | 2.0% | 2.0% | 0.0 |
| Chicago | Decreasing | 5.5 | 4.6 | –0.9 |
| New York | Decreasing | 2.0 | 1–2.0 | 0 to –1.0 |
| Boston | Stable | 1–2.0 | 1.0 | 0 to –1.0 |
| Los Angeles | Stable | 2.0 | 2.0 | 0.0 |
| Miami | Increasing | 2.3 | 2.0 | –0.3 |
| **Moderate** | | | | |
| Kansas City | Decreasing | 5.0 | 5.0 | 0.0 |
| Pittsburg | Decreasing | 2.0 | 1.0 | –1.0 |
| San Francisco | Decreasing | 3.6 | 1–1.5 | –2.1 to –2.6 |
| Washington, D.C. | Decreasing | 2–3.0 | 1.0 | –1 to –2.0 |
| San Diego | Increasing | 2.0 | 2.0 | 0.0 |
| **Relatively Low** | | | | |
| Denver | Decreasing | 1.9 | 3.0 | 2.1 |
| Dallas | Stable | 5.0 | 1.0 | –4.1 |
| Honolulu | Increasing | 2.1 | 2–3.0 | –0.1 to 0.9 |
| Houston | Increasing | 6.0 | 7.0 | 1.0 |
| Phoenix | Increasing | 4.0 | 2.0 | –2.0 |

SOURCE: Eton Journal of Real Estate Investment, Volume 1, Number 1, February-March 1980.

[1] Vacancy rates presented in the table include only vacant units available for rent; units which are vacant but already rented or which are being held off the market for other reasons are excluded.

[2] Resident need is defined in Chapter 2.

were vacant and available for rent in late 1979 and early 1980 were quite low in most cities. However, the percentage of luxury units which were vacant and available for rent held constant or rose in seven of the 16 cities. The percentages fell in nine cities.

No recent information is available to gauge trends in housing vacancy in rental housing of lower cost and quality. Comparatively high volumes of subsidized construction of rental housing probably kept vacancy rates in such at reasonable levels during the 1970's. Rising rent-income ratios and a decline in new unit production have increased pressures on the older cheaper housing stock and resulted in shortages of units in decent neighborhoods in recent years. Cities most vulnerable to shortages of lower cost rental housing of decent quality are cities in which the degree of need is high and population is growing.

**Rental Abandonment and Disinvestment**

To date, there are no direct signs that declines in tenant incomes and increases in housing costs have impaired housing standards for renters in central cities. However, such a result can be expected if current trends continue. In growing cities with high need levels, tenants can be expected to place increasing pressures on older, lower quality rental housing as they seek to avoid higher costs of new housing. Crowding may increase as a result. Producers of new rental housing in these cities, if they can build at all, can either try to cut costs by producing rental housing of the lowest cost and quality legally permitted, or build only for the luxury market.

Housing challenges are more complex in cities with decreasing population where a reduction in the number of households translates into loss of housing demand. Available evidence suggests that abandonment is occurring in significant amounts in many declining, high need cities, and is damaging the viability of some older neighborhoods. Rough estimates of the magnitude of abandonment are provided by a recent unpublished study by Rutgers University's Center for Urban Policy. This survey of city officials in major declining cities found that, although abandonment varied widely among cities, and could not be measured with precision, it is severe in many cities. The worst abandonment problems were identified in New York and Baltimore with 3.3% and 2.3% of their housing units standing vacant and abandoned. Significant but less severe abandonment problems were found in St. Louis, Buffalo, and Cleveland. Abandonment was also identified in lower need cities including Denver, Seattle, Dallas, and St. Paul, with the average running at 0.5% of the housing stock (Rutgers, 1979).

Another indirect indicator of the magnitude of housing abandonment is provided by the Annual Housing Survey. Abandonment is reported to be a neighborhood problem by about one-tenth of the households in cities where needs are great and population is decreasing, such as Newark, Detroit, Philadelphia, and New York. Residents of cities with growing or stable population do not appear to be troubled by abandonment. Similarly, cities losing population but with low need levels appear to have avoided housing abandonment problems.

Abandonment is a complex phenomena. Sometimes, it appears to result from the general decline of a neighborhood and seems only tenuously related to market factors. Other times, it appears to be linked directly to rapid population and household loss. Rising vacancy rates weaken neighborhoods and undercut reinvestment in sound housing. Household loss does not automatically mean rapid rises in vacant housing, however. Some portion of the housing stock is lost each year through accidents and disasters such as fires or floods, while other housing units are demolished to make way for public projects or for private construction. Indeed, the retirement rate and loss of existing housing units has been fairly stable in the nation as a whole during the post-war period. During the 1950's, 1960's, and early 1970's, between 0.8% and 1.0% of the nation's housing units were lost or retired from active use each year, as a result of fire or some other disaster, or because of demolition. (Weicher, Yap and Jones, 1980). As a general rule, rising vacancy levels can be expected in cities and neighborhoods losing more than one percent of their households per year, even in the absence of new housing construction. A number of high need cities are losing over one percent of renter households per year, including St. Louis, Baltimore, Buffalo, Cleveland, New York, and Detroit.

Case studies of housing conditions in Cleveland and Detroit illustrate the impact of household loss on housing occupancy patterns. The number of households in Detroit declined at 1.8% per year between 1970 and 1974. Citywide vacancy rates in rental housing were 11.3% and an additional two percent of the housing stock was vacant but held off the market for various reasons. As of 1974, 17 neighborhoods had vacancy rates in excess of 20% and annual demolition rates of two percent or more. Household loss in Cleveland exceeded 7% from 1970-1976. Vacancy rates reached nine percent in 1976, with even higher rates in older rental housing located near the central business district and in lower income, minority neighborhoods of east Cleveland.

## 3. The Market for Owner-Occupied Housing

The central city market for owner-occupied housing has performed somewhat better than that for rental housing. Nationally, owner-occupants accounted for more than 60% of the net growth in central city households between 1970 and 1977. The result was a small but significant increase in the rate of owner-occupancy in cities, from 48.1% in 1970 to 49.0% in 1977. This increase, although slight, reverses the decline in the rate of homeownership which occurred in central cities during the 1960's.

Homeownership has long been regarded as important for neighborhood stability and maintenance of older housing. Homeowners tend to have firmer community ties than renters. Indeed, rising rates of homeownership have apparently been accompanied by renewed neighborhood revitalization efforts in many central cities, especially growing central cities of the South and West (Black, 1975; Clay, 1979; James, 1980). However, household loss and slow income growth have limited the demand for homeownership and for owner-occupied housing in cities, particularly cities characterized by high levels of need and declining population. Further, housing costs have risen for urban homeowners as for renters. As a result, disinvestment has occurred among homeowners in some cities.

**The Demand for Homeownership in Cities**

Trends in number of owner-occupants and their incomes indicate that the demand for owner-occupied housing buoyed the housing markets of many growing central cities during the 1970's. In declining cities, demand for owner-occupied housing was more stable during the 1970's than demand for rental housing.

Household losses in cities losing population have been more moderate among homeowners than among renters. Household loss was higher among renters than among homeowners in every city shown in Table 5-9 which lost households between 1970 and 1976, with the exception of Seattle and Grand Rapids. As indicated in the table, every city with growing or stable population also experienced overall growth in number of homeowners, with the sole exception of Allentown.

Table 5-14 describes trends between 1970 and 1976 in the median incomes of homeowners in 20 major cities. While the rates of increase vary greatly, the data suggest that income growth among homeowners has matched or exceeded the pace of inflation in a majority of central cities. Incomes rose in real purchasing power between 1970 and 1976 in virtually all low or moderate need cities, as well as in every city with stable or increasing population, with the exception of Indianapolis. Homeowner incomes generally failed to keep pace with inflation in cities with high need. Yet, even in these cities, growth in homeowner incomes exceeded growth in income among renters.

**The Value of Owner-Occupied Housing**

The values of owner-occupied homes appear to have risen most rapidly in those cities where demand for homeownership was strongest. Median housing values rose during the 1970's in most central cities; however, values failed to keep pace with general inflation in central cities where demand for owner-occupied homes rose least rapidly. These tended to be high need cities with declining population.

Property values rose rapidly between 1970 and 1976 in cities with low need and thus higher resident incomes. As estimated by their owners, the median values of owner-occupied homes doubled during the period in such low need cities as Houston, Honolulu, Raleigh, and Allentown. Moreover, among central cities with low need, appreciation in housing values was more rapid in growing cities than in those with declining population. Denver and Seattle—both losing population—experienced relatively slow increases in property values, compared to central cities with stable or growing populations.

The slowest increases in owner-occupied housing values occurred in cities with high levels of need and rapid population loss. Property values failed to keep up with the overall cost of living in Cleveland and St. Louis. As a result, property values fell in real dollar terms. Appreciation in property values barely matched the rate of inflation in New York and Buffalo. In only one high need city, Baltimore, did owner-occupied houses appreciate at a high rate.

**The Supply of Houses for Owner-Occupancy**

In most central cities, older housing units compose the great bulk of the owner-occupied housing stock. Differences among cities in the demand for owner-occupied housing and in house values are reflected in the pattern of investments by homeowners to maintain and improve existing houses. Evidence indicates that reinvestment in one-family homes is rising markedly in cities where housing demand and housing values are also rising rapidly. The conversion of rental units to condominiums or cooperatives is also taking place at a growing pace in cities where the demand for owner-occupied housing is strong or where the market for higher quality rental units is weak or subjected to stringent rent controls.

**Reinvestment in Owner-Occupied Housing**

In recent years, a number of older, central city neighborhoods have become the focus of intense private demand. These revitalizing neighborhoods have experienced high levels of home and neighborhood improvements and rapid increases in property values. A 1975 survey by the Urban Land Institute found instances of private neighborhood revitalization in many large central cities in the nation. However, the extent of central city neighborhood revitalization and renovation remains very limited. Fewer than 75,000 housing units have been rehabilitated without public subsidy in central cities over the past decade (Urban Land Institute, unpublished data).

Reinvestment appears to have risen markedly in cities in which housing values and the demand for homeownership have grown. The Survey of Residential Alterations and Repairs as conducted by the Bureau of the Census to monitor housing investment, measures out-of-pocket expenditures by homeowners. Average annual cash expenditures by central city homeowners rose by 16% between 1974 and 1976 (see Table 5-15). The average number of home maintenance and improvement projects undertaken by central city homeowners costing more than $25 increased even more rapidly. These figures substantially under-estimate residential reinvestment activity in urban areas since they exclude the

TABLE 5-14

GROWTH IN HOMEOWNER INCOMES IN SELECTED CENTRAL CITIES, 1970-1976

| Degree of Resident Need[1] | Population Change 1970-1976 | Median Income of Homeowners 1970 | Median Income of Homeowners 1976 | Percent Change |
|---|---|---|---|---|
| **Relatively High** | | | | |
| Baltimore | Decreasing | $ 9,500 | $13,400 | 41.1% |
| Birmingham | Decreasing | 8,400 | 11,400 | 35.7 |
| Buffalo | Decreasing | 9,100 | 11,500 | 26.4 |
| Cleveland | Decreasing | 9,500 | 12,400 | 30.5 |
| New York | Decreasing | 11,700 | 16,500 | 41.0 |
| Providence | Decreasing | 10,000 | 14,300 | 43.0 |
| St. Louis | Decreasing | 8,400 | 11,000 | 31.0 |
| **Moderate** | | | | |
| Grand Rapids | Decreasing | 9,900 | 13,200 | 33.3 |
| Louisville | Decreasing | 9,100 | 11,400 | 25.3 |
| Indianapolis | Stable | 11,200 | 16,000 | 42.9 |
| Sacramento | Stable | 10,300 | 16,200 | 57.3 |
| **Relatively Low** | | | | |
| Denver | Decreasing | 10,400 | 15,500 | 49.0 |
| Seattle | Decreasing | 11,000 | 15,800 | 43.6 |
| Allentown | Stable | 9,700 | 14,300 | 47.4 |
| Oklahoma City | Stable | 9,200 | 13,700 | 48.9 |
| Houston | Increasing | 10,900 | 17,500 | 60.6 |
| Honolulu | Increasing | 16,000 | 23,200 | 45.0 |
| Las Vegas | Increasing | 12,300 | 18,100 | 47.2 |
| Omaha | Increasing | 10,500 | 15,700 | 49.5 |
| Raleigh | Increasing | 12,000 | 19,800 | 65.0 |

SOURCE: U.S. Bureau of the Census, Annual Housing Survey, 1976

[1] Resident need is defined in Chapter 2.

value of the labor and time invested by the homeowners in fixing up their own homes. Still, they indicate that in older central city neighborhoods, as well as in newer suburban neighborhoods, homeowner reinvestment activity increased over the mid-1970's.

Investment in home maintenance and improvement increased more rapidly in the Southern and Western portions of the nation than in the Northern regions. To the extent that central cities in the North more commonly display population decline and high resident need than cities in the South and West, this pattern suggests that revitalization of older neighborhoods is more prevalent in cities with growing population and incomes.

Revitalization of older neighborhoods has aroused concern that substantial numbers of lower income tenants are being displaced from their homes. A recent HUD study reported that displacement is a serious problem in some areas where revitalization is rapid, substantial in scale, and occurring in the context of a tight overall housing market (HUD, 1979). Studies have also found that displaced persons are commonly elderly or minority households, or are often female-headed households with children. Age and race compound relocation difficulties caused by housing market conditions. By their very nature, displacement problems are localized and difficult to document. Clearly, more study is needed to determine the severity of the displacement problem in revitalizing neighborhoods and to identify appropriate public responses.

#### Condominium and Cooperative Conversion

Few hard data are yet available to measure the scale of condominium conversion or its distribution among cities. However, it appears that condominium conversion has become a significant source of additional owner-occupied units in some cities. Table 5-16 presents the most up-to-date estimates of the scale of conversion in central cities between 1970 and September 1979. The table lists all cities in which more than 2,000 units are known to have been converted to condominiums or cooperatives during the decade. Cities are listed in order of the estimated number of conversions.

More than 2,000 units were converted during the 1970's in these 13 cities. Conversion has been most rapid in Chicago, followed by Houston, Denver, New York, and Washington, D.C. In most cities, the pace of conversion is accelerating . For example, almost 40% of the 36,000 rental units converted to condominiums in Chicago were converted during the first nine months of 1979.

Like reinvestment and rehabilitation, conversions are a symptom of relatively stronger markets for owner-occupied than for rental housing in many central cities. Rising costs for operating rental buildings together with lagging real rent levels give landlords strong incentives to convert their buildings, particularly in cities with local rent control ordinances.

Condominium conversion has been accompanied by major renovation of older, attractive, and well-located buildings. It has also been accompanied by displacement of some long term renters.

### 4. Market Forces Affecting Housing in Central Cities

Many factors have framed the market for central city housing. During the 1970's, demographic forces have produced major changes in the types of housing urban households prefer. The demand for homeownership and for one-family homes has risen rapidly in metropolitan areas as a result of the coming of age of the post-war baby boom. Economic forces, especially inflation in the cost of housing and of mortgage credit, have made homeownership more expensive but, at the same time, have made it an attractive investment and convinced many households to buy a home before they are priced out of the market. The spreading out of population has contributed to household loss and the concentration of lower income and minority populations in central cities. Population migrations during the 1970's have also shifted the geographic locus of housing demand and new housing production to growing regions and to growing communities.

#### Homeownership and Inflation in Housing Prices

One basic force for change in urban housing markets arises from the coming of age of the post-war baby boom generation. During the late 1960's and early 1970's, the housing needs of persons born during the late 1940's and 1950's stimulated rental apartment construction (Schafer, 1974). These groups are now into their prime home buying years. They have helped create a boom in demand for homeownership that has resulted in rapid growth in owner-occupant numbers.

Figures on the overall growth in homeownership in metropolitan areas during the 1970's (Table 5-17) show that the rate of growth in the number of homeowners in metropolitan areas exceeded the rate of growth in renters by three-fifths (19.9% versus 12.7%). Growth in owner-occupants accounted for almost three-fourths of overall household growth in metropolitan areas during the period. Reflecting the impacts of the post-war generation, the bulk of the growth in homeownership occurred among three groups of metropolitan households: husband-wife families headed by persons under the age of 35, single-person households, and families not headed by both a husband and a wife (e.g., men or women living alone with children). However, increases in rates of homeownership have occurred among a wide variety of household types. For example, rates of homeownership increased among middle aged and elderly husband-wife families as well as younger families (Pitkin and Masnick, 1979).

TABLE 5-15

AVERAGE ANNUAL HOME MAINTENANCE AND IMPROVEMENT WORK BY OWNER-OCCUPANTS OF ONE-FAMILY HOMES IN CENTRAL CITIES AND SUBURBS, BY REGION, 1974-76

| | Central Cities | | | Suburbs | | |
|---|---|---|---|---|---|---|
| | Number of Major Projects Per Year | | | Number of Major Projects Per Year | | |
| Region | 1974[1] | 1975-76[2] | Percent Change | 1974[1] | 1975-76[2] | Percent Change |
| North[3] | 1.34 | 1.47 | 9.7% | 1.68 | 1.87 | 11.3% |
| South and West[4] | 1.16 | 1.65 | 42.2 | 1.48 | 1.62 | 9.5 |
| NATION | 1.24 | 1.56 | 25.8 | 1.59 | 1.76 | 10.7 |
| | Average Annual Expenditures Per Home | | | Average Annual Expenditures Per Home | | |
| North[3] | $342 | $358 | 4.7% | $429 | $471 | 9.8% |
| South and West[4] | 365 | 444 | 21.6 | 274 | 400 | 46.0 |
| NATION | 355 | 410 | 15.5 | 361 | 437 | 21.1 |

NOTE: Only jobs costing $25 or more are included in the table.

SOURCE: Special tabulations of public-use data from the U.S. Bureau of the Census, **Survey of Residential Alterations and Repairs.**

[1] Data for 1974 are based on analyses of home repair and improvement work undertaken by homeowners during the first and third quarters of the year. As a result, these figures differ from those published by the Census, which are based on the full year's surveys.

[2] Data for 1975-76 are based on analyses of home repair and improvement work undertaken by homeowners during the third quarter of 1975 and the first quarter of 1976.

[3] The North includes the Northeastern and North Central regions of the nation as defined by the U.S. Census Bureau.

[4] The South and West comprise both the Southern and Western regions of the nation as defined by the U.S. Census Bureau.

TABLE 5-16

CONDOMINIUM CONVERSIONS IN THE 13 CITIES IN WHICH CONVERSION HAS BEEN SIGNIFICANT, 1970 TO SEPTEMBER 1979

| | Approximate Number of Units Converted[1] | |
|---|---|---|
| City | 1970 to September 1979 | January 1979 to September 1979 |
| Chicago | 36,000 | approximately 14,000 |
| Houston | 10,000 to 16,000 | 1,000 to 5,000 |
| Denver/Boulder | 10,000 to 16,000 | 1,000 to 5,000 |
| New York City | 10,000 to 16,000 | 1,000 to 5,000 |
| Washington, D.C. | 10,000 to 16,000 | 1,000 to 5,000 |
| Dallas/Fort Worth | 3,000 to 9,000 | 1,000 to 5,000 |
| Philadelphia | 3,000 to 9,000 | 1,000 to 5,000 |
| Boston | 3,000 to 9,000 | Less than 1,000 |
| San Diego | 3,000 to 9,000 | Less than 1,000 |
| Miami | 2,000 to 2,999 | 1,000 to 2,000 |
| Seattle | 2,000 to 2,999 | Less than 1,000 |
| Tampa/St. Petersburg | 2,000 to 2,999 | 1,000 to 2,999 |
| Atlanta | 2,000 to 2,999 | Less than 1,000 |

SOURCE: U.S. Department of Housing and Urban Development, Office of Policy Development and Research.

[1] A structure was counted as converted when at least one unit in the structure had been sold as a condominium or cooperative.

**TABLE 5-17**

**GROWTH IN NUMBER OF OWNER-OCCUPANTS AND RENTERS IN METROPOLITAN AREAS, 1970-1977 (Thousands)**

| | Number of households | | Change, 1970-1977 | |
|---|---|---|---|---|
| | **1970** | **1977** | **Number** | **Percent** |
| Owner-Occupants | 26,090 | 31,286 | 5,196 | 19.9% |
| Renters | 17,769 | 20,028 | 2,259 | 12.7 |
| TOTAL | 43,859 | 51,314 | 7,455 | 17.0 |

SOURCE: U.S. Bureau of the Census, **Annual Housing Survey, 1977**

Inflation is a second basic force which has shaped metropolitan housing markets more powerfully in the 1970's than in earlier decades. Inflation in the cost of operating and constructing homes and apartments has been among the more potent forces pushing up the national cost of living in recent years. Sharp increases in the cost of living have pushed interest rates and mortgage financing costs to historically high levels. The high mortgage interest rates which currently prevail in many areas of the nation have begun to cut deeply into the ability of Americans to purchase houses and into housing production.

Trends in the median sales prices of new and existing one-family homes provide a partial indicator of inflation in housing costs (see Figure 5-2). Median sales prices of homes nationally rose from approximately $20,000 in 1967 to approximately $60,000 in 1979. The median sales prices of new homes exceeded the median sales prices of existing homes by about ten percent, except during the period 1970 to 1972 when Federal homeownership subsidy programs and other factors resulted in the construction of substantial numbers of lower-priced new homes (Weicher, 1979).

Home sales prices are only one of several factors affecting the costs of housing to the occupant. Nevertheless, as shown in Figure 5-2, home sales prices alone rose far more rapidly than median family incomes. Median family income more than doubled during the period, while home sales prices tripled. Clearly, low and moderate income households now face increasingly narrow choices with respect to the purchase of housing.

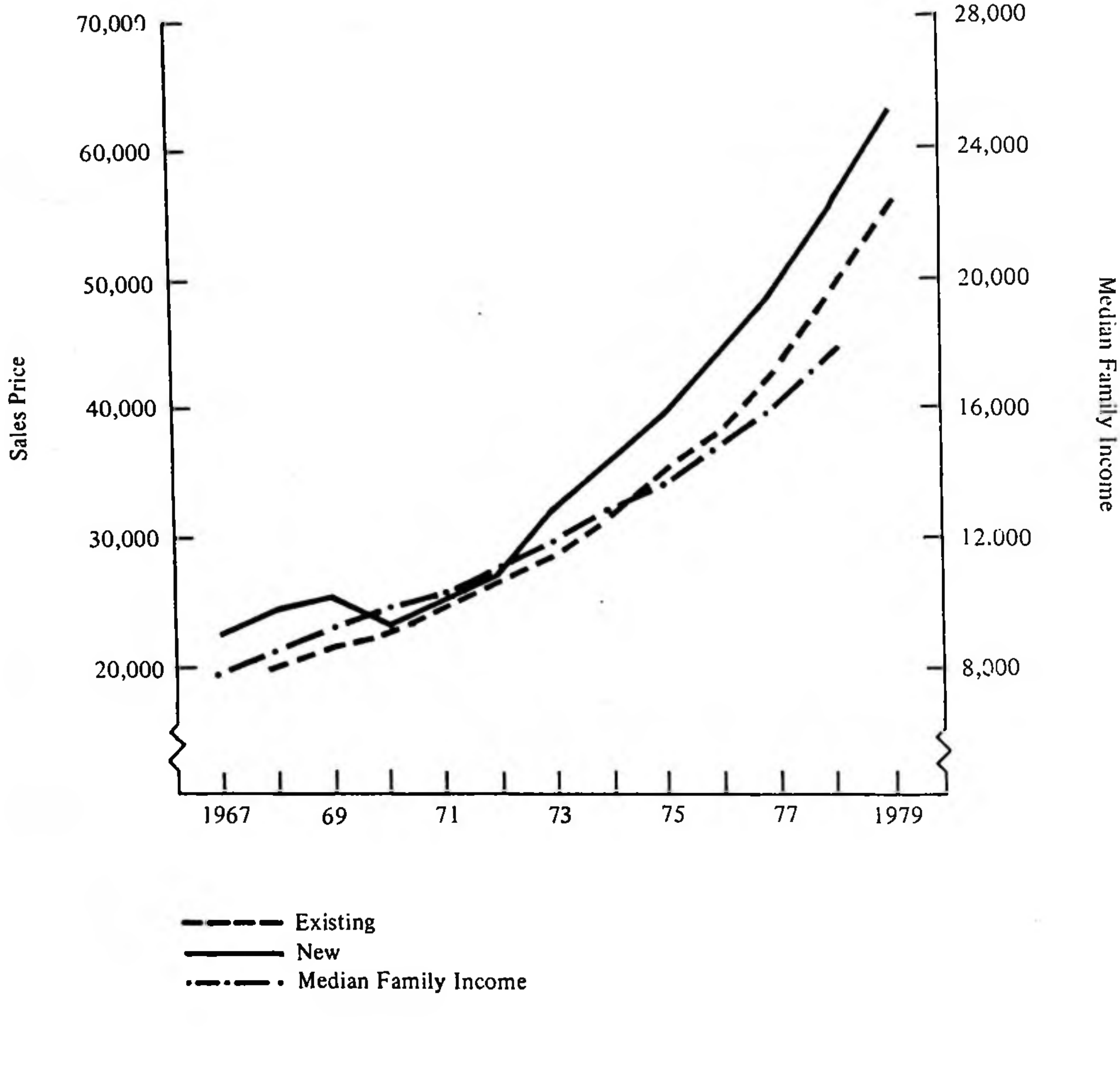
Both the rapid rise in demand for homeownership and the intensity of housing cost inflation in the 1970's were largely unanticipated at the start of the decade. That they could occur simultaneously would have been even more surprising to experts at the start of the decade.

Strong demand for homeownership produced rising home values and made homeownership a powerful hedge against inflation. Indeed, during the late 1970's increasing numbers of affluent households bought homes and devoted very substantial portions of their incomes for housing. They hoped for capital gains and feared that inflation would price them out of the market if they delayed purchasing.

Recent economic studies indicate that the increases in the demand for homeownership experienced among metropolitan households cannot be totally attributed to income shifts, simple demographic forces, or housing needs. If relationships which now exist between homeownership, income, demography, and housing needs had prevailed during the 1960's, statistical studies suggest that rates of homeownership in metropolitan areas would have been approximately three percentage points higher in 1970 than they were in fact; that is 65% rather than 62% of households would have owned homes in 1970 (Weicher, Yap, and Jones, 1980). If the current demand for homeownership persists during the 1980's, some projections suggest that growth in numbers of homeowners will almost match and may exceed net growth in numbers of households. This implies that the number of renters could hold constant or even decline (Weicher, Yap, and Jones, 1980).

Figure 5-2

TRENDS IN MEDIAN PRICE OF NEW AND EXISTING SINGLE FAMILY HOMES, AND IN MEDIAN FAMILY INCOME, 1967–1979




SOURCE: U.S. Department of Housing, Office of Policy Development and Research

## New Housing Production in Metropolitan Areas

New housing production is needed both to permit growth in numbers of households and to permit the replacement of obsolete and substandard units, as well as units lost from the housing stock for a variety of reasons. Throughout the postwar period, new housing has been built at rates in excess of household growth. Housing production in excess of household growth has permitted vacancy rates adequate to enable needed household mobility and housing choice. It has permitted households to move out of substandard housing into better homes, so that deficient housing could be retired from use. From 1968 to 1977, approximately one of every four new housing units replaced units that were removed from the existing housing stock.

The early 1970's were a period of unusually rapid expansion and improvement for housing in metropolitan areas. New housing production, including mobile homes, exceeded household growth by approximately one million housing units from 1971 through 1973. This level has not been reached before or since. In absolute terms, new housing production reached three million units per year. High levels of new housing production meant that millions of households could move to new homes and newer communities, and millions of older units could be withdrawn from the housing stock. This fostered the abandonment and/or replacement of substantial numbers of older housing units. It also enabled very substantial housing improvements for many households.

Since 1975, housing production in metropolitan areas has responded to the strong demand for owner-occupied housing. Construction of new one-family homes grew both in absolute numbers and as a proportion of overall housing starts. As can be seen in Table 5-18, the proportion of metropolitan housing starts accounted for by one-family homes rose from about 47% at the start of the decade, to about 66% after 1976. In addition, the attractiveness of homeownership as an investment has encouraged the purchase of larger, more expensive homes than households have traditionally purchased to meet their housing needs (Pitkin and Masnick, 1979).

Less needy central cities with substantial quantities of vacant land have captured a portion of this growing volume of one-family home construction. However, the bulk of recent construction of single family homes has occurred in suburban areas where vacant land is not only available in larger quantities than in cities but is also generally less expensive. As a result, the growing demand for owner-occupied homes has resulted in a striking shift of new housing construction from central city to suburban locations. The proportion of new housing built in central cities declined steadily and substantially after 1970, from 36% at the start of the decade to 29% in 1977 and 1978. Booming new construction of one-family homes has meant rapid growth, often unanticipated and unplanned, in suburban areas. This growth has also been linked to the decline of some older neighborhoods in central cities.

## The Demand for Existing, Older Housing

The shift to homeownership has cut into housing demand which can be satisfied in multi-family rental structures. The linkage between homeownership and the one-family home remains strong. In 1977, over 80% of metropolitan homeowners lived in one-family detached structures. Only one in five renters lived in such housing. Careful statistical studies have shown that each one percent increase in rates of homeownership increase one-family homes as a proportion of new housing by one-half of one percentage point. (Peterson, James, and Reigeluth, forthcoming).

The demand for multi-family housing has continued to grow, sometimes rapidly, in cities with stable or growing population and increasing numbers of households. However, population and household loss in some needy cities, combined with a shift in household demand from rental to owner tenure, has undercut the values of the older multi-family housing stock. In these instances, condominium and cooperative conversion has been insufficient to maintain occupancy and values.

A number of studies have shown that the occupancy and value of older housing in central cities is closely tied to the pace of new housing construction in the metropolitan area. One recent study examined the linkage between new housing production and the rate of loss or retirement of existing housing in 39 metropolitan areas during the first half of the 1970's. The pace of new construction was found to be among the most important determinants of the rate at which existing units were retired from the housing stock. Approximately one additional housing unit was retired from use and demolished or abandoned for every five new units built in the metropolitan area. Moreover, the pace of housing loss was significantly higher in metropolitan areas where new housing production exceeded household growth (Weicher, Yap, and Jones, 1980).

Other studies have shown that housing abandonment in central cities during the 1970's was linked to the pace of housing construction in suburban areas. One study of 15 major central cities found that one additional unit was standing abandoned in 1970 for every five new housing units built in the metropolitan area in excess of household growth during the 1960's (James, 1980). A second study concluded that ten central city housing units were abandoned for every 100 new housing units built in the suburbs in excess of metropolitan household growth (Peterson, James, and Reigeluth, forthcoming).

Overall housing trends in urban areas are widening rather than narrowing the disparities in household income which have long separated central cities and suburbs . The large scale construction of new one-family homes in suburbs has opened up housing opportunities principally for higher income households, especially households who have owned homes previously and have accumulated equity capital to

TABLE 5-18

NEW HOUSING STARTS IN METROPOLITAN AREAS BY STRUCTURE TYPE

| Year | One Family Homes Number (000) | One Family Homes Percent | Two or More Family Structures Number (000) | Two or More Family Structures Percent | Total Units Number (000) | Total Units Percent |
|---|---|---|---|---|---|---|
| 1970 | 485 | 48% | 533 | 52% | 1,018 | 100% |
| 1971 | 718 | 48 | 784 | 52 | 1,502 | 100 |
| 1972 | 802 | 47 | 918 | 53 | 1,720 | 100 |
| 1973 | 707 | 47 | 788 | 53 | 1,495 | 100 |
| 1974 | 539 | 58 | 383 | 42 | 922 | 100 |
| 1975 | 550 | 72 | 210 | 28 | 760 | 100 |
| 1976 | 739 | 71 | 304 | 29 | 1,043 | 100 |
| 1977 | 943 | 68 | 434 | 32 | 1,377 | 100 |
| 1978 | 941 | 66 | 492 | 34 | 1,432 | 100 |
| 1979[1] | 631 | 65 | 337 | 35 | 968 | 100 |

SOURCE: U.S. Bureau of the Census, Construction Reports.

[1] First three quarters.

finance downpayments. Older multi-family structures in central cities are increasingly occupied by low and moderate income households. Studies have shown that homebuyers in revitalizing neighborhoods of cities are generally moving from rental units within the same city, and thus do not bring additional income into the city. Table 5-19 shows that median incomes of renters and of homeowners in central cities declined markedly relative to the incomes of suburban households during the 1970's.

## 5. Federal Housing Assistance for Lower Income Renters

Historically, most Federal programs delivering housing assistance to lower income renters have been production programs, related to construction or rehabilitation of units. For example, the low rent public housing program, initiated in the 1930's, has financed construction and rehabilitation of hundreds of thousands of new units in central cities across the nation. Additional subsidized units were constructed or rehabilitated under Sections 235 and 236 and other programs. Federal housing assistance facilitated the retirement and demolition of substantial numbers of substandard units in central cities. It also contributed to the improvement in overall housing conditions, noted earlier, and expanded the housing choices of many low and moderate income households.

Heavy reliance on housing production programs through the mid-1970's had a number of adverse impacts as well. Communities or housing authorities were sometimes led to produce new or rehabilitated housing for lower income households when existing, vacant housing was available which, with subsidies, could have met housing needs. In some instances, this meant that housing assistance programs boosted vacancy rates beyond the levels needed to replace substandard units, thus encouraging abandonment. Perhaps most importantly, the focus on production of new or rehabilitated housing often limited the locational choices of low income households receiving assistance. Quite often, subsidized housing units were located or developed in lower income neighborhoods of central cities.

TABLE 5-19

MEDIAN INCOMES OF HOMEOWNERS AND RENTERS IN CENTRAL CITIES AND SUBURBS, 1970–1977

| | Median Household Income 1970 | 1977 | Percent Change |
|---|---|---|---|
| Homeowners | | | |
| Central Cities | $10,100 | $15,900 | 57.4% |
| Suburbs | 11,600 | 18,800 | 62.1 |
| Ratio | 0.87 | 0.85 | 0.92 |
| Renters | | | |
| Central Cities | 6,100 | 8,100 | 32.8 |
| Suburbs | 7,700 | 10,600 | 37.7 |
| Ratio | 0.79 | 0.76 | 0.87 |

SOURCE: U.S. Bureau of the Census, **Annual Housing Survey, 1977**

Current housing assistance programs and strategies are designed to minimize earlier deficiencies. While the public housing program continues to provide assisted housing to large numbers of lower income tenants, the scale of new construction is much smaller than in the past. Section 8 is now the principal subsidy program. It utilizes Federal subsidy commitments to provide direct rental assistance to low income families in existing housing as well as to help finance private housing construction or rehabilitation by for-profit and not-for-profit sponsors. At present, approximately 50% of Section 8 commitments have been made to enable tenants to live in decent quality private housing of their choice. The other 50% are for federally-subsidized housing developments, constructed or rehabilitated under the Section 8 program. Local governments are given major responsibility to determine the allocation of Section 8 assistance among new housing units, rehabilitation, and the existing stock. This enables the program to reflect local situations more than has been the case under earlier programs.

**Local Flexibility in Housing Assistance Strategies**

The Housing and Community Development Act of 1974 represents an important milestone in U.S. housing policy. This act provided the Federal Government and localities flexibility to implement housing assistance strategies responsive to local housing needs and local housing market conditions.

The Section 8 program authorized by the Act provides housing assistance to low income households in subsidized new or rehabilitated units as well as standard existing units. Housing assistance plans drawn up by local governments are the key factor in allocating Section 8 assistance among communities within a housing market area, and in determining the mix of assistance among new housing, rehabilitated units, and existing housing.

Under Section 8, communities can use Federal assistance to make existing housing affordable to lower income renter households. Communities in which new housing construction or rehabilitation is needed to provide decent housing choices or improved neighborhood conditions for lower income renters can use Section 8 to leverage required housing investment.

Table 5-20 describes the housing assistance efforts supported under the Section 8 program in fiscal years 1977 and 1978 for 43 large central cities. The data must be interpreted with care. A significant proportion of Section 8 assistance for existing housing has been used to strengthen the financial condition of older projects assisted under earlier subsidy programs. Nevertheless, the data suggests that virtually all large cities are making extensive use of their existing housing stock in their housing assistance efforts. In most cities more than half of the households receiving assistance were assisted by the Section 8 existing program.

Although the record varies from city to city, local housing strategies using Section 8 generally appear responsive to local housing needs. Many needy cities experiencing rapid population gains appear to emphasize Section 8 new housing units, thus expanding their stocks of housing for lower income households. By contrast, most needy cities with stable or declining populations seem to focus more on Section 8 substantial rehabilitation or existing housing assistance. This is consistent with the evidence that physical housing

TABLE 5-20

SECTION 8 HOUSING UNIT RESERVATIONS ALLOCATED TO NEW CONSTRUCTION, SUBSTANTIAL REHABILITATION, AND EXISTING UNITS, IN SELECTED CITIES, 1977 AND 1978[1]

| Degree of Resident Need | Percentage of Reserved Units Allocated to: New Construction | Substantial Rehabilitation | Existing Units[2] |
|---|---|---|---|
| **Relatively High** | | | |
| **Decreasing Population** | | | |
| Newark | 51% | 21% | 27% |
| Buffalo | 20 | 0 | 80 |
| Cleveland | 40 | 26 | 35 |
| New York | 23 | 35 | 42 |
| Atlanta | 14 | 13 | 73 |
| St. Louis | 37 | 30 | 33 |
| Baltimore | 24 | 9 | 67 |
| Cincinnati | 26 | 0 | 74 |
| Oakland | 19 | 15 | 66 |
| **Stable Population** | | | |
| Boston | 23 | 42 | 35 |
| Los Angeles | 28 | 8 | 63 |
| **Increasing Population** | | | |
| El Paso | 54 | 10 | 36 |
| Miami | 80 | 1 | 19 |
| San Antonio | 33 | 0 | 67 |
| **Moderate** | | | |
| **Decreasing Population** | | | |
| Akron | 22 | 36 | 42 |
| Rochester | 0 | 0 | 100 |
| Washington | 44 | 36 | 19 |
| Pittsburgh | 30 | 8 | 64 |
| Fort Worth | 0 | 0 | 100 |
| Milwaukee | 21 | 11 | 68 |
| San Francisco | 30 | 19 | 51 |
| Kansas City | 36 | 19 | 45 |
| **Stable Population** | | | |
| Tampa | 21 | 0 | 79 |
| Sacramento | 48 | 11 | 41 |
| Columbus | 11 | 9 | 80 |
| **Increasing Population** | | | |
| Tucson | 18 | 0 | 82 |
| Memphis | 49 | 15 | 35 |
| Jacksonville | 29 | 4 | 67 |
| San Diego | 15 | 0 | 85 |
| **Relatively Low** | | | |
| **Decreasing Population** | | | |
| Minneapolis | 10 | 5 | 85 |
| St. Paul | 23 | 1 | 77 |
| Seattle | 22 | 0 | 77 |

Table 5-20 (continued)

| Degree of Resident Need | Percentage of Reserved Units Allocated to: New Construction | Substantial Rehabilitation | Existing Units[2] |
|---|---|---|---|
| **Relatively Low (continued)** | | | |
| **Stable Population** | | | |
| Dallas | 51 | 10 | 39 |
| Nashville | 74 | 5 | 22 |
| Wichita | 52 | 0 | 48 |
| Tulsa | 30 | 0 | 70 |
| **Increasing Population** | | | |
| Honolulu | 16 | 0 | 84 |
| Austin | 19 | 0 | 81 |
| Phoenix | 28 | 15 | 56 |
| Albuquerque | 32 | 0 | 68 |
| Charlotte | 24 | 28 | 48 |
| Omaha | 16 | 18 | 66 |
| Houston | 27 | 0 | 73 |

SOURCE: HUD Management Information Systems Files

[1] Table includes all cities with 1975 populations over 250,000 for which comparative data were available.

[2] Includes loan management projects in which Section 8 assistance is used to assist financially troubled projects developed under other programs.

conditions remain inadequate for substantial numbers of tenants in such cities and that vacancy rates remain reasonably high in some neighborhoods. Low need cities—particularly those with decreasing populations—made the most extensive use of Section 8 existing units.

### Income Levels of Assisted Households

During the 1940's, 1950's, and 1960's, the Federal government delivered the bulk of its housing assistance in the form of subsidies for the capital cost of producing housing, such as land writedowns, lower cost financing, or payments of interest on housing mortgages. These subsidy mechanisms resulted in lower cost housing, but the cost of operating and maintaining the housing placed an effective floor under rent levels in Federally assisted projects. As a result, the poorest households were often excluded from securing subsidized units.

Under the Section 8 program, tenants receiving assistance pay a specified fraction—25% in most cases—of their income for housing. Rental costs in excess of tenant payments are paid by the Federal government. Much the same change was made in public housing in 1969. This means that even the lowest income household may participate. The income levels of families receiving assistance under Section 8 and the public housing program are described in Table 5-21. Three-fourths of the families in both programs combined had incomes of less than $6,000 in 1978. Across the nation, 12% of low income households with incomes of less than half the median in their areas are now receiving housing subsidies. Virtually no households with incomes above four-fifths of the area median receive assistance.

The costs of subsidizing the occupancy of new rental housing by the very poor are high. In order to contain Federal subsidy costs in these programs while still permitting housing production where it is needed, current policy requires that developers of Section 8 projects make their best effort to maintain a mix of tenant income equal to 40% of local median income. Currently, the average is approximately 30% of area median income.

### Mobility and Residential Location Choices of Assisted Households

Little effort was made during most of the history of the public housing program to use housing production to open up housing opportunities for the disadvantaged and minorities by reducing racial and economic segregation patterns in urban areas. Indeed, many public housing units were built in lower income, minority neighborhoods in central cities. In Chicago, for example, 99% of all public housing units were located in areas in which 50% or more of the residents were black. While this situation may be extreme, it does reflect a general pattern of public housing reinforcing residential segregation patterns through the 1960's.

TABLE 5-21

ANNUAL INCOME OF SECTION 8 AND PUBLIC HOUSING FAMILIES, 1978

| Total Annual Family Income | Section 8 | Public Housing |
|---|---|---|
| Under $2,999 | 24.1% | 33.9% |
| $3,000 – $5,999 | 52.0 | 43.8 |
| $6,000 – $8,999 | 19.3 | 14.3 |
| $9,000 – $11,999 | 4.0 | 6.5 |
| $12,000 and Over | 0.6 | 1.5 |
| Total | 100.0 | 100.0 |
| Median Family Income | $4,070 | $3,723 |

SOURCE: U.S. Department of Housing and Urban Development.

Under the Section 8 program, federal law and regulations have been promulgated which attempt to locate the bulk of assisted developments to encourage economic and racial integration. The same is true today of the public housing program. Available evidence is incomplete, but some success appears to have been achieved. A recent HUD survey of Section 8 developments in 21 metropolitan areas reports that 75% of the units in new and rehabilitated Section 8 developments were located in neighborhoods in which minorities comprise less than 40% of population.

The Section 8 Existing program offers assisted households substantial choice in their housing decisions. Because tenants can seek out housing in which unsubsidized tenants also live, assisted households can avoid the stigma sometimes associated with residence in a public housing development. However, some barriers to mobility and choice remain in the Section 8 Existing Housing program. For example:

- Generally, only rental units owned by landlords willing to enter into a contractual relationship with the local public housing authority are accessible to Section 8 tenants. Subsidies are paid directly to landlords by the housing authority under a contract between HUD and the landlord.

- In order to limit Federal subsidy payments, the program sets a maximum rent for the unit, including all utilities. These fair market rents are defined on the basis of estimates of the costs of adequate rental housing in a community. Fair market rents constrain the housing choices of Section 8 tenants to rental housing available at or below defined rent levels, and do not permit tenants to rent units costing more, even when the tenant is willing to spend more than the maximum allowable fraction of income on housing.

- Section 8 tenants are generally limited to housing within the jurisdiction of the local housing authority administering the Section 8 program. While a number of state-wide agencies administer Section 8 programs, and while local authorities are encouraged by HUD to work with surrounding authorities so as to enable greater portability of Section 8 certificates, assisted households still face limited choices with respect to location of units.

Several pilot projects using the current Section 8 program are now under way which are aimed specifically at low-income households wishing to move to less concentrated areas. One such program in Chicago has sought to encourage selected low-income Chicago households to move to less concentrated (especially suburban) locations. Approximately 43,000 households were potentially eligible for the program. During the first two years of operation, 870 units were made available; 455 households had moved at the time of the initial program evaluation, and satisfaction levels were extremely high.

Demonstrations run by areawide public agencies under the AHOP Program have been initiated by HUD to test metropolitan-wide housing strategies. Boston, Minneapolis-St. Paul, and Baltimore areas are among the leaders in developing approaches that expand the area-wide choices of Section 8 eligible households. Waiting lists for certificates in the programs are extensive. Another demonstration, the Regional Housing Mobility Program, is just beginning, with 17 metropolitan areas participating in planning efforts.

## 6. Impacts of Other Federal and State Policies

The most powerful housing policies of the Federal Government are embedded in the Federal tax system, and in institutions offering housing financing. At base, the tax and financing policies of the Federal Government and of many states have reinforced demographic trends, accelerated the shift into homeownership, expanded levels of new production, increased the concentration of new housing units in suburbs, boosted the pace of retirement and abandonment of older sometimes deteriorated housing units, and increased the concentrations of lower income households in some communities.

### Federal Tax Treatment of Homeownership

Favorable tax treatment for homeowners has reinforced population outmigration from cities and the expansion of new housing production in suburbs. Under Federal income tax law, homeowner expenditures for mortgage interest and property taxes are deductible. Further, capital gains on owner-occupied homes are also not taxed when houses are sold, as long as another house is purchased within a short time of an equivalent or higher value. Homeowners over 55 years of age can now avoid taxation of capital gains of up to $100,000 even when they do not purchase another home of equivalent value. After age 65, additional capital gains taxes can be avoided.

Tax law provisions favoring ownership provide benefits conservatively estimated by the Treasury Department at $15 billion per year. They accrue disproportionately to more affluent households who itemize deductions and who are in the highest tax brackets (Hellmuth, 1977). Homeownership preferences have stimulated high levels of construction of one-family homes in suburban areas and strengthened decentralization trends.

Recent studies estimate that the rate of homeownership increases by about 1.5% for each one percent reduction in the after-tax cost of owner-occupied housing relative to the cost of equivalent rental housing (James, 1976; and Peterson, James and Reigeluth, forthcoming). Estimates of the overall impacts of income tax benefits on rates of homeownership in 1960 among households at various income levels are presented in Figure 5-3. As can be seen, homeownership rates were boosted by as much as 20 percentage points among relatively affluent households in that year.

### Federal Mortgage Insurance Program

A large number of Federal initiatives encourage homeownership by increasing the availability of mortgage credit. Since the Great Depression, one major goal of Federal regulation of credit institutions has been to assure ample supplies of lower cost mortgage credit for homebuyers. Historically, among the most potent of Federal tools affecting mortgage markets were the mortgage insurance programs of the Federal Housing Adminstration and the Veteran's Administration. These programs reduced the downpayment requirements to home buyers and extended amortization periods available for mortgage debt, thus bringing homeownership within reach of millions of Americans.

Federal mortgage insurance programs have increased homeownership opportunities for millions of Americans. Indeed, as indicated in Figure 5-3, the effect of both the tax code provisions reviewed earlier and FHA/VA mortgage insurance has boosted homeownership rates considerably. Clearly, they have expanded housing credit to households in many older neighborhoods and helped revitalize these neighborhoods. Just as clearly, they have reinforced suburban growth.

### State Actions and the Central City Housing Market

States have mounted a number of housing programs which have assisted lower income city residents and encouraged housing investment by middle income persons in city neighborhoods. However, states have also pursued policies that have reinforced the migration of middle income residents from central cities. The investments of state housing finance agencies provide examples of both types of action. Rent controls enabled by states and implemented by localities became a significant force in the 1970's with adverse impacts on central city housing markets.

### State Housing Finance Agencies

State housing finance agencies make heavy use of tax exempt financing to lower the cost of housing. In 1978, state borrowing amounted to $4.6 billion or 60% of all tax exempt debt used to finance housing. Between 1970 and 1976, state housing agencies financed a total of 190,000 multi-family units, of which half received some form of Federal subsidy. In past years, the activities of state housing finance agencies primarily benefited central cities where three-fourths of the multi-family units financed by state housing agencies were located (Peterson and Cooper, 1979).

More recently, however, state housing agencies have begun to shift their financing focus to middle income single-family homes. During 1978, almost two-thirds of the tax exempt financing provided by state housing agencies was used to finance single-family housing. In the first six months of 1979, the fraction rose to 84%. This change in focus to one-family homes has shifted the benefits of state housing finance activity from lower to middle income families and has also shifted the benefits of state action in housing toward suburbs and non-metropolitan areas. Only one-fourth of the single-family units financed by state agencies have been located in a central city.

The use of tax exempt financing to provide mortgages on one-family homes is also increasing as a result of the growing popularity of housing revenue bonds issued by state and local governments. These bonds offer homebuyers mortgage savings on interest rates of approximately two percentage points in today's mortgage market. The issuance by local governments of these bonds rose from virtually nothing in 1977 to $570 million in 1978 and several billion dollars in 1979, before Congress announced its intention to regulate this type of financing instrument. The impact of mortgage bonds on central city housing markets has been mixed. A number of the early issues in Chicago, Denver, and other places were used to support central city revitalization efforts. However, since then, a number of suburbs have begun to issue their own bonds.

**Rent Controls**

In response to rising rent levels, a number of state have passed enabling legislation permitting localities to implement rent control ordinances. While rent control can be a temporary palliative for the problems of housing affordability, the benefits of control are not targeted on lower-income tenants most in need of housing assistance. In addition, controls often have long run adverse impacts on the supply of rental housing.

Most rent control ordinances are largely insensitive to the economic situations of individual rental housing structures, or to types of rental structures. Neither are the controls sensitive to the economic situations and the needs of particular tenants for housing assistance. Rather, recent rent controls set fairly uniform standards for permissible percentage increases in rent levels, keyed to the Consumer Price Index or some other index of the costs of providing rental housing (Lett, 1976; James and Lett, 1976).

Many recently implemented rent controls are so loosely drawn as to have little impact on rent levels. However, even in these cases, rent controls can deter needed investment in rehabilitating or constructing rental housing. They increase the riskiness of investment in rental housing and discourage investors and lenders from making long term investments.

When rent controls do effectively hold down rent increases, they are generally counter-productive, especially in the older rental housing stock of high need, declining cities. Generally, rent increases are being driven by rising operating costs. Holding down rents in such instances can force cutbacks in building maintenance and thus in housing condition. In extreme cases, controls can encourage the abandonment of marginal rental properties.

## 7. Summing Up: Housing and Neighborhoods in Central Cities

Central cities continue to face many housing problems. While basic housing conditions have improved in most cities, needy central cities continue to contain relatively more substandard housing units than other cities or suburbs. Abandonment and neighborhood deterioration remain a visible fact of life in many urban areas.

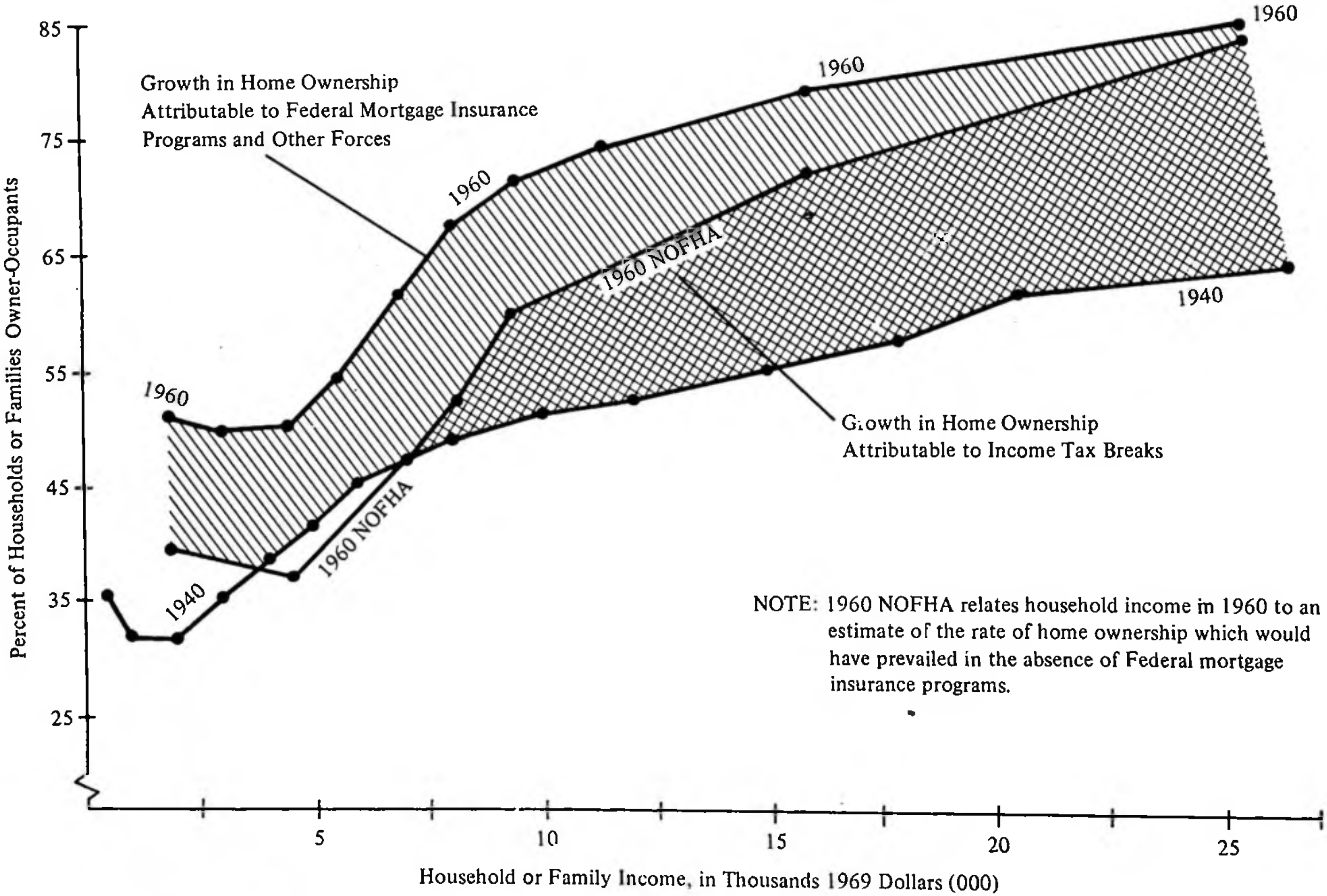
Affordability now constitutes a major problem of most low and moderate income households. Rapidly rising housing cost–income ratios, particularly with respect to renters, have made housing a significant burden for many urban households. However, because rents generally have not increased as rapidly as costs, recent production levels of new rental units have been minimal. Shortages have appeared in many central cities, narrowing housing opportunities, particularly to low and moderate income households. In a similar vein, the gap between rents and costs (in some cases) seems to have slowed down neighborhood revitalization and housing rehabilitation activities.

Federal housing efforts have improved the supply and quality of urban housing. However, in the past, Federal housing policies and programs have reinforced ghettos in some cities. They have also weakened demand for older housing and neighborhoods through extensive support for production of new units in suburban and some non-metropolitan areas.

Recent improvements in Federal housing programs assisting lower income households have increased the efficiency with which aid reaches lower income persons, and enhanced their housing and neighborhood choices.

Figure 5-3

## ESTIMATED IMPACTS OF FEDERAL INCOME TAX BREAKS AND HOME MORTGAGE INSURANCE ON HOME OWNERSHIP




NOTE: 1960 NOFHA relates household income in 1960 to an estimate of the rate of home ownership which would have prevailed in the absence of Federal mortgage insurance programs.

SOURCE: Peterson, James and Reigeluth, forthcoming.

# VI. FISCAL CONDITIONS IN THE CENTRAL CITY

City budgets often make news these days, and almost all of it is bad news. The problems of New York City and Cleveland, and more recently of Chicago's Board of Education, are the most widely publicized municipal fiscal crises of recent years, but they are not the only ones. Many more cities face tough fiscal choices on how to allocate scarce revenues among urgent demands for services. Rising expenditures lead to tax increases or service cuts, or both. These in turn can precipitate out-migration of higher income residents and business activities that have alternative location choices in the suburbs or in other localities.

This chapter focuses on the fiscal problems of central cities. First, it addresses the basics of municipal budgeting: revenues and expenditures. The discussion describes the heavy reliance of municipalities on the real property tax as their fiscal mainstay; it also notes the growing importance of sales and income taxes, user charges, and inter-governmental aid. Next, it considers the impact of inflation and recession on city budgets. Third, the chapter considers a vital longer-term fiscal concern of central cities: the need to maintain a sound physical infrastructure. Finally, it reviews several emerging problems that are likely to become increasingly important in the future.

Fiscal problems generally arise in a municipality when the cost of providing public services rises more rapidly than revenues, or when revenues decline and service needs remain relatively high. As this chapter shows, fiscal problems impact most heavily on those central cities with troubled economies, out-migration of middle-income citizens, and an increasing proportion of low-income residents who are heavily dependent on public services. For these cases, fiscal strains are becoming severe despite often vigorous local efforts and increases in intergovernmental aid.

## 1. Municipal Budget Trends and Problems

In recent years, fiscal pressures have pushed municipal expenditures up faster than municipal revenues have risen. This has forced many communities to confront the difficult choice of either raising taxes or cutting back on the level of public services.

The analysis begins with revenues, which tend to be the dominant constraint on budgeting in most localities. It then goes on to consider the diverse patterns of local spending for public services.

### Municipal Revenues: Where the Money Comes From

Local jurisdictions have two major sources of revenue: locally generated revenues and revenues received from other levels of government. Local revenue generally comes from property, sales and income taxes, and from user charges. Intergovernmental assistance is primarily in the form of Federal and state aid. Even the largest central cities still depend on local sources for a majority of their revenue, but an increasing share of the typical big city budget is supported by intergovernmental aid. In the decade from 1967 to 1977, intergovernmental aid rose from 28% to 40% of total revenues for American cities over 50,000 population (see Table 6-1).

Distressed central cities generally show less fiscal capacity than growing and low need cities. They also have higher average tax efforts. On the other hand, central cities with high resident needs and declining population have benefitted from the greatest increases in intergovernmental transfers.

### (1) Local Revenues

At one time, virtually all municipal revenues were derived from property taxes. In recent decades, communities have increasingly turned to other revenue sources to meet growing service needs and rising costs. In the largest cities, sales and income taxes are now important revenue sources.

**Real Property Taxes.** For cities larger than 50,000, one fourth of all municipal revenues raised in 1977 were from real property taxes. This represents a decline in the importance of the property tax compared with a decade earlier when it produced over a third (37%) of all local revenues. Although the relative importance of real estate taxes has diminished, total dollar receipts from this source more than doubled between 1967 and 1977.

The ability of cities to raise revenue from real property taxation is subject to many constraints and conditions. In some states, constitutional provisions set a maximum rate at which property can be taxed. Since Proposition 13 in California, a number of states have introduced such tax limitations. Another significant constraint arises from competition between the central city and the surrounding suburbs and, to a lesser degree, by the competition among central cities, for various types of economic activity. The overall fiscal health of a community is closely related to its ability to use the property tax to absorb a significant share of necessary local expenditures. Jurisdictions where little growth has occurred or where expenditure needs outstrip growth of the tax base are in a potentially weak fiscal position.

Cities vary widely in terms of per capita taxable property. In addition, there are equally great variations between central cities and their suburbs in per capita property values. Table 6-2 illustrates both of these vital relationships:

- There appears to be an inverse relationship between the degree of need and per capita property values. Cities with high need have significantly lower per capita property values than cities with moderate or low need. This means that high need cities are less capable of obtaining revenues from property taxes except through high and burdensome tax rates.

- Cities which are losing population have significantly lower per capita property values than growing cities. Because revenue needs do not decrease as rapidly as total population, they are vulnerable to fiscal stress.

- The gap between suburban and central city per capita values is substantial for cities with high need and declining population. Per capita property values in declining and needy cities average only two-thirds of the values in surrounding suburbs. On the other hand, low need cities with increasing populations have per capita property values essentially equal to their suburbs.

The property tax is responsive to population change. A recent study indicates that each one percent in the rate of population growth or decline is associated with a 2% to 2.7% difference in the rate of growth of the real property tax base. In a sample of large central cities, fifteen with sharp population losses experienced a median increase in real property market values of 41% between 1971 and 1976; in contrast, five rapidly growing cities had a median gain of 115%, nearly three times as great (Peterson, 1979a).

The net effect of these disparities is that the property tax often is an inadequate revenue source to meet the requirements of the neediest central cities. They must lock elsewhere for the revenues to balance their budgets and respond to priorities.

**Sales Taxes.** Another important source of municipal revenue is the sales tax. The sales tax is levied upon non-residents purchasing goods in the city as well as residents. Sales taxes accounted for 16% of "own source" revenues in 1977 for cities over 50,000 population, ranking second in importance after real estate taxes. As of the mid-1970's, 25 of the 46 largest central cities collected general sales or gross receipts taxes and virtually all collected selective taxes on such items as alcoholic beverages.

The revenue potential from sales taxes varies with the structure of the sales tax--primarily whether it applies to all sales or only selected items--and with the level of retail sales. Needy cities have on average lower per capita retail sales than low need cities. In 1977, ten large cities (over 300,000 population) with high community need had median per capita retail sales of $3,016, one-third below the average of $4,654 for the ten cities with lowest need. ("Survey of Buying Power", 1979). Retail sales also grew more slowly in high need cities: from 1974 to 1977, per capita sales in high need cities grew by 32%, compared to 46% growth in low need cities. The disparity in sales growth was even larger in absolute terms since the high need cities began with a lower per capita sales base. Growing cities have a sales tax advantage over cities that are losing population. While the per capita sales tax base in 1977 was not significantly larger in growing large cities than in shrinking ones, per capita retail sales and total sales tax revenue increased more rapidly in growing cities.

**Income Taxes.** Local income taxes are an important revenue source in a few large central cities. In 1976-77, about 12% of all municipal (non-school) taxes came from local income

## TABLE 6-1

### SOURCES OF MUNICIPAL REVENUE FOR CITIES OVER 50,000 POPULATION, 1967 AND 1977

| Source of Revenue | 1967[1] Amount ($000,000) | 1967[1] Percent | 1977[1] Amount ($000,000) | 1977[1] Percent |
|---|---|---|---|---|
| A. General Revenue From Own Sources | $10,282 | 72% | $26,347 | 60% |
| Taxes | 7,900 | 55 | 19,462 | 44 |
| a) Property Taxes | 5,384 | 37 | 11,314 | 26 |
| b) Other Taxes | 2,516 | 18 | 8,148 | 19 |
| User Changes and Miscellaneous | 2,378 | 17 | 6,886 | 16 |
| B. Intergovernmental Revenue | 4,091 | 28 | 17,477 | 40 |
| From State Governments[2] | 3,970 | 21 | 11,386 | 26 |
| From Federal Government | 691 | 5 | 5,416 | 12 |
| TOTAL MUNICIPAL REVENUE | 14,375 | 100 | 43,824 | 100 |

SOURCE: U.S. Bureau of the Census, City Government Finances in 1966-67, and City Government Finances in 1976-77.

[1] 310 cities in 1967 and 392 cities in 1977.

[2] Includes Federal funds passed through states to cities.

## TABLE 6-2

## AVERAGE REAL PROPERTY VALUE PER CAPITA IN 1976, BY COMMUNITY NEED[1]

| Population Change | Degree of Resident Need[2] Relatively High | Moderate | Relatively Low |
|---|---|---|---|
| Decreasing | $ 9,371 ($14,738)<br>22 cities | $12,490 ($14,447)<br>10 cities | $13,727 ($14,650)<br>4 cities |
| Stable | $10,528 ($15,630)<br>4 cities | $11,198 ($14,467)<br>6 cities | $12,505 ($19,184)<br>9 cities |
| Increasing | $11,833 ($15,630)<br>4 cities | $12,847 ($21,016)<br>12 cities | $16,821 ($18,976)<br>11 cities |

SOURCE: U.S. Bureau of the Census, 1977 Census of Governments, Volume 2, Taxable Property Values and Assessment/Sales Price Retails, Table 19.

NOTE: Suburban figures are in parentheses.

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[1] The cities selected are central cities with populations over 50,000 in 1975 for which data are available. Real property values are determined by a sampling method whose results are at best approximate for an individual city. Apart from sampling errors (based on sometimes small samples), the method of estimating real property value creates systematic errors of unknown magnitude by excluding properties above a certain value. In some cities these amount to 30% of total property value.

[2] Resident need is defined in Chapter 2.

taxes. However, 80% of these taxes were raised in cities of over 300,000 population, and two-thirds came from only four cities: New York, Philadelphia, Detroit, and Washington, D.C. While currently the income tax has fairly limited use in central cities, its potential importance is large. At present, fourteen states allow use of local income taxes, and broader use of the tax is urged by such groups as the Advisory Commission on Intergovernmental Relations.

Per capita and total income of city residents are useful indicators of the revenue potential from city income taxes. Total income, per capita income, and income growth over the period 1969-1975 are shown in Table 6-3 by level of resident need and population change.

Because the definition of need includes measures of per capita income, it is not surprising that community need and per capita income are correlated with lower average incomes in the most needy communities. Cities with declining population have slower rates of growth in per capita income than growing cities, and much slower growth in total income. Under such conditions, income taxes are likely to offer only limited potential for raising revenues unless they can be structured to apply to all persons employed within the city, not just residents.

**User Charges.** In addition to taxes, many cities derive revenue from a variety of user charges ranging from parking meter fees to payments for water and sewer service. Together, these sources accounted for 16% of total revenues in cities over 50,000 in 1977, or one fourth of all own-source revenues. Faced with increasing resistance to raising local taxes, many cities are expanding user charges. This has occurred in California cities which face limitations on their real estate taxing capacity as a result of Proposition 13. User charges enable cities to relate the costs and revenues of particular services and to introduce market measures of efficiency. Used in too widespread a fashion, however, they tend to have a regressive effect since poor persons are charged the same price for city services as are well-off residents.

### Comparative Tax Effort

Needy cities and those with declining population have less capacity to generate revenues than growing and non-needy cities. This means that distressed cities must undertake a higher tax effort to achieve equivalent revenues. An analysis of tax effort—using a measure relating local taxes generated to local revenue capacity—shows that average tax effort is much greater among relatively high need cities with declining population than in other central cities. Local tax effort is also higher in larger cities (See Table 6-4).

Table 6-5 uses a similar measure to compare tax effort between central cities and suburbs. In every metropolitan area listed, central city tax efforts exceed that for their suburbs—often by a ratio of two to one. The disparity in per capita taxes collected follows the same pattern; in every case central cities collect more taxes per capita than their suburbs. The tax disparity between cities and their suburbs was more than twice as great for those with declining population than for growing cities. Higher personal taxes in central cities clearly puts them at a strong diadvantage relative to their suburbs for attracting higher income residents, jobs, and tax base.

### Intergovernmental Revenues

State and Federal aid has been the most rapidly growing revenue source for central cities since the late 1950's. As recently as 1957, state and Federal aid to the nation's largest cities (those over 300,000) amounted to only one fifth of locally raised revenue; by 1978, intergovernmental revenues accounted for 40% of total municipal revenues. Intergovenmental aid to the largest cities expanded eighteen-fold, from less than half a billion dollars in 1957 to over $9 billion in 1978 (Advisory Commission on Intergovernmental Relations, 1979). Federal aid to cities has grown very rapidly since the late 1950's, as the national government has accepted a greater responsibility for helping hard-pressed cities and their impoverished residents. Federal aid to the 47 largest cities, exclusive of New York, rose from $65 million in 1957 to $5.4 billion in 1978, an 82-fold rise. Growth in state aid to the same group of large cities was substantial, but less rapid, rising from $444 million in 1957 to $3.8 billion in 1978.

The greatest increases in Federal aid have been to the most needy central cities. Table 6-6 shows the change in aid on a per capita basis from 1972 to 1977 for the 45 largest central cities, excluding Washington, D.C. Cities faced with the highest levels of need and declining population received the largest per capita increases, averaging $155 per resident. Table 6-7 shows that Federal aid per $1000 of community income is larger in cities experiencing the greatest degree of hardship. However, until the Carter Administration, growth trends appeared to have been greater in cities with lesser degrees of hardship. In 1977 and 1978, the targeting of direct Federal aid to high need cities became much more pronounced. The primary reason for the tilt was the addition of substantial counter-cyclical aid, an emergency measure to cope with recession.

## Expenditures: The Cost of Local Services

Government expenditures are difficult to compare among cities. High per capita expenditures may reflect resident demand for a high quality or an extensive array of public services; on the other hand, low per capita expenditures may reflect the efficiency with which services are provided or local discipline in holding down payrolls and other costs. But perhaps the most significant obstacle to making comparisons is that municipal governments account for only a portion of all local government expenditures, and that portion varies widely from city to city.

The variation in local spending responsibilities is shown clearly in Table 6-8. The first column shows per capita spending by city government alone while the second column shows local spending by all levels of government serving the jurisdiction, including counties and special districts. When municipal expenditures alone are examined, it appears that public services cost almost $700 per resident in Boston in 1970, and less than half that amount in Los Angeles. How-

TABLE 6-3

MEASURES OF INCOME AND INCOME GROWTH IN CITIES OVER 50,000, BY COMMUNITY NEED

| Degree of Resident Need[2] | Average Per Capita Income, 1975 | Average Percentage Growth in Per Capita Income, 1969-1975 | Average Percentage Growth in Total Income, 1969-1975 (est.)[1] |
|---|---|---|---|
| **Relatively High** | | | |
| Decreasing Population (N=36) | $4,517 | 51% | 36% |
| Increasing Population (N=24) | 4,090 | 61 | 83 |
| **Moderate** | | | |
| Decreasing Population (N=26) | 4,894 | 54 | 42 |
| Increasing Population (N=37) | 4,735 | 58 | 74 |
| **Relatively Low** | | | |
| Decreasing Population (N=10) | 5,623 | 61 | 48 |
| Increasing Population (N=46) | 5,312 | 63 | 85 |

SOURCE: Computations based on special census tabulations, provided by the U.S. Bureau of the Census.

[1] This is estimated by multiplying the percentage growth of per capita income 1969-1975 by 1970-1976 population growth (both indexed so that 0% growth equals 1.00). The income and population figures are based on 1977 boundaries.

[2] Resident need is defined in Chapter 2.

## TABLE 6-4

## NON-EDUCATION TAXES (1976) PER $1,000 OF INCOME (1975), BY COMMUNITY NEED

**Cities Between 50,000 and 100,000**

| Population Trend, 1970-1976 | Relatively High Need[1] | Moderate Need[1] | Relatively Low Need[1] |
|---|---|---|---|
| Decreasing | 30.3<br>(10) | 23.9<br>(12) | 25.5<br>(4) |
| Stable | 28.2<br>(14) | 28.1<br>(16) | 20.1<br>(16) |
| Increasing | 21.7<br>(14) | 21.3<br>(21) | 19.9<br>(21) |

**Cities Between 100,000 and 250,000**

| Population Trend, 1970-1976 | Relatively High Need[1] | Moderate Need[1] | Relatively Low Need[1] |
|---|---|---|---|
| Decreasing | 41.7<br>(11) | 34.8<br>(5) | 21.5<br>(1) |
| Stable | 33.0<br>(7) | 27.0<br>(15) | 23.8<br>(12) |
| Increasing | 30.3<br>(7) | 22.7<br>(11) | 25.2<br>(17) |

**Cities Over 250,000**

| Population Trend, 1970-1976 | Relatively High Need[1] | Moderate Need[1] | Relatively Low Need[1] |
|---|---|---|---|
| Decreasing | 51.1<br>(15) | 43.4<br>(9) | 31.1<br>(5) |
| Stable | 62.0<br>(2) | 25.8<br>(5) | 25.4<br>(5) |
| Increasing | 24.3<br>(3) | 25.9<br>(5) | 25.0<br>(8) |

SOURCE: Table computed from data in Harold Bunce and Robert Goldberg, **City Need and Community Development Funding** (Washington, D.C.: U.S. Department of Housing and Urban Development, 1979).

NOTE: Number of cities are listed in parentheses.

[1] Resident need is defined in Chapter 2.

**TABLE 6-5**

**TAX EFFORT FOR SELECTED CITIES AND THEIR SUBURBS, BY COMMUNITY NEED[1]**

| **Degree of Resident Need and Population Trend[3]** | **Tax Effort: Per Capita[2] Non-School Taxes Collected (1977) Per $1,000 of Per Capita Income (1975)** | |
|---|---|---|
| **Relatively High Need** | **Central City** | **Suburbs** |
| **Decreasing Population** | | |
| Newark | $134 | $49 |
| New Orleans | 41 | 29 |
| Buffalo | 78 | 47 |
| Cleveland | 54 | 27 |
| New York | 125 | 64 |
| Detroit | 65 | 26 |
| Atlanta | 80 | 30 |
| St. Louis | 78 | 24 |
| Chicago | 51 | 26 |
| Philadelphia | 84 | 27 |
| Oakland | 68 | — |
| Baltimore | 56 | 27 |
| Norfolk | 51 | 38 |
| Cincinnati | 66 | 22 |
| Birmingham | 65 | 23 |
| MEDIAN: | 65 | 27 |
| **Increasing Population** | | |
| El Paso | 34 | 12 |
| Miami | 68 | 35 |
| San Antonio | 32 | 15 |
| MEDIAN: | 34 | 15 |
| **Relatively Low Need** | | |
| **Decreasing Population** | | |
| Portland | 46 | 15 |
| Minneapolis | 55 | 25 |
| St. Paul | 45 | — |
| Seattle | 44 | 19 |
| Denver | 52 | 29 |
| MEDIAN: | 46 | 22 |

TABLE 6-5 (continued)

| Degree of Resident Need and Population Trend | Tax Effort: Per Capita[2] Non-School Taxes Collected (1977) Per $1,000 of Per Capita Income (1975) | |
|---|---|---|
| **Relatively Low Need (cont)** | **Central City** | **Suburbs** |
| **Increasing Population** | | |
| Phoenix | 39 | 27 |
| Austin | 28 | 8 |
| Albuquerque | 29 | 10 |
| Charlotte | 48 | 22 |
| San Jose | 53 | 37 |
| Omaha | 39 | 20 |
| Houston | 46 | 30 |
| MEDIAN: | 39 | 22 |
| **Overall Medians** | | |
| Cities with Decreasing Population | 61 | 27 |
| Cities with Increasing Population | 39 | 21 |
| Cities with High Need | 66 | 27 |
| Cities with Low Need | 46 | 22 |

SOURCE: Computed from data in U.S. Department of Housing and Urban Development, Office of Policy Development and Research, **Changing Conditions in Large Metropolitan Areas**, Urban Data Reports, Number 1, (Data provided by Seymour Sacks.) Washington, D.C., 1979.

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[1] Cities selected were all those with 1975 populations over 250,000 falling in the high and low resident need categories with increasing or decreasing population (defined as those gaining/losing more than five percent of their population over the period 1970-76).

[2] Include overlapping county taxes, as well as non-school municipal taxes.

[3] Resident need is defined in Chapter 2.

TABLE 6-6

CHANGE IN INTERGOVERNMENTAL TRANSFERS FOR THE 45 LARGEST CENTRAL CITIES, BY COMMUNITY NEED, 1972-1977[1]

| Degree of Resident Need[3] | Population Change 1970-76 | Increases in Per Capita Intergovernmental Transfers, 1972-1977[2] | Number of Cites |
|---|---|---|---|
| Relatively High | Decreasing | $155 | 13 |
| | Stable | NA | 2 |
| | Increasing | 44 | 3 |
| Moderate | Decreasing | 91 | 7 |
| | Stable | 79 | 3 |
| | Increasing | 117 | 3 |
| Relatively Low | Decreasing | 111 | 5 |
| | Stable | 94 | 4 |
| | Increasing | 90 | 5 |
| Total | | 97 | 45 |

SOURCE: Computed from data in U.S. Department of Housing and Urban Development, Office of Policy Development and Research, **Changing Condition in Large Metropolitan Areas**, Urban Data Reports, No. 1, (Data provided by Seymour Sacks), Washington, D.C., 1979.

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[1] Excludes Washington, D.C.

[2] Median value of change in per capita Federal and state aid.

[3] Resident need is defined in Chapter 2.

TABLE 6-7

DIRECT FEDERAL AID PER $1,000 OF COMMUNITY INCOME BY QUINTILES OF HARDSHIP

| Quintile of Hardship[1] | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | Percentage Increase 1970-1976 |
|---|---|---|---|---|---|---|---|---|
| 1 | $5.33 | $10.52 | $12.69 | $16.67 | $17.27 | $19.17 | $23.07 | 333% |
| 2 | 7.21 | 7.04 | 11.32 | 15.61 | 17.22 | 16.21 | 21.26 | 195 |
| 3 | 2.91 | 6.05 | 8.26 | 12.12 | 16.15 | 14.43 | 15.55 | 435 |
| 4 | 1.61 | 3.37 | 6.09 | 7.57 | 9.78 | 10.02 | 12.20 | 613 |
| 5 | 2.28 | 3.48 | 5.94 | 9.67 | 10.99 | 11.06 | 14.17 | 521 |

SOURCE: Pockets of Poverty (Washington, D.C.: U.S. Department of Housing and Urban Development, May 1979), p. 20. Adapted from a table by Richard Nathan of the Brookings Institution.

[1] This hardship index combines growth and resident need factors, and is therefore more aggregated than the typology used elsewhere in this report. Nevertheless, the agreement is sufficient to use the rankings to illustrate broad differences in tax effort. Cities fall into the quintiles as follows:

(1) Newark, Pittsburgh, St. Louis, Cleveland, Philadelphia, Minneapolis, Oakland, Buffalo, Detroit, Cincinnati.
(2) Milwaukee, Chicago, Seattle, Boston, Baltimore, San Francisco, Akron, Louisville, Los Angeles, Rochester.
(3) New Orleans, St. Paul, Toledo, Columbus, Norfolk, Birmingham, Atlanta, Sacramento, San Diego, Denver.
(4) Dallas, San Jose, Miami, El Paso, Omaha, Wichita, San Antonio, Charlotte, Memphis, Tulsa.
(5) Honolulu, Albuquerque, Indianapolis, Nashville, Tucson, Long Beach, Phoenix, Austin, Baton Rouge.

TABLE 6-8

MUNICIPAL GOVERNMENT AND LOCAL PUBLIC SPENDING IN FIVE CITIES

| City | Municipal Spending Per Capita, 1970 | Total Local Government Spending Per Capita, 1970 | Column 1 as a Percent of Column 2 |
|---|---|---|---|
| Boston | $678 | $775 | 87% |
| Los Angeles | 292 | 775 | 38% |
| Chicago | 237 | 606 | 39% |
| Philadelphia | 309 | 550 | 56% |
| Houston | 151 | 340 | 44% |

SOURCE: U.S. Bureau of the Census, "Composite Finances in Selected City Areas," A special survey sponsored by the U.S. Department of Housing and Urban Development, August 1974.

ever, when all local government costs are counted, per capita expenditures were about the same in the two cities. Variations in the range of services provided account for much of the variation in municipal expenditures. However, even for total local government spending, there are wide variations among jurisdictions. Among the five cities compared in Table 6-8, Houston stands out as having the lowest per capita expenditures.

Two important functions which are not performed by most municipalities are welfare and education. These services impose great fiscal burdens on some municipalities. In other locations, those burdens are borne by the same taxpayers, but through other taxing jurisdictions such as coterminous counties or special districts. And in some locations, the cost burdens are spread over a wider tax base. Of 57 municipalities over 250,000 population, 44 cities spent less than one percent of total municipal general expenditures on welfare in 1976-77, while six cities spent over ten percent of total expenditures on welfare. Forty-one cities spent less than one percent on education, and ten cities spent over ten percent of total general expenditures on education. Table 6-9 shows that high need and declining large central cities more often bear these costs than other large central cities.

### The Cost of "Common" Services

A generally accepted basis for comparing municipal expenditure patterns is to focus on just those municipal functions that are performed by virtually every city. These include police and fire protection and sanitation services. This approach explicitly ignores expenditures such as education and welfare which can be very important in some cases. However, it permits reasonably valid, if limited, comparisons among cities whose services vary widely.

Table 6-10 shows that central cities spend very different amounts to provide these common municipal services. In 1977, cities with declining population spent more per capita than growing cities; this was true for high and low need cities. It was also generally true across cities of different sizes.

Part of the variation in spending on common services can probably be related to inter-city differentials in need for these basic services. High rates of violent crime, fire, abandoned housing, litter, and infrastructure deterioration create immediate pressure in declining and needy cities for fire, police, and sanitation services. For instance, recent data on fire incidence show that the number of fires per capita is about twice as high in older cities as in lower density, growing jurisdictions (Muller, 1977). FBI data and victimization surveys show that violent crimes per capita tend to be twice as high in needy central cities as in low need communities, and four times as high as in their own suburbs.

### The Quality and Effectiveness of Urban Services

Consistent, comparable indicators to use in monitoring what is happening to community services in the United States are not available. Public services vary widely in their amenability to measurement. Some services produce tangible outputs such as cubic feet of water, truckloads of garbage, acres of mowed grass. But outputs of other services, such as those involving personal interaction between provider and recipient, as in the case of school teaching or social casework, are very difficult to measure. Success depends on what the recipient does as well as what the provider does. On the whole, governments at every level have been unsuccessful in systematically measuring outcomes. Indeed, when they try, they often face charges of bias or of using untenable methodologies.

One common measure is what people say about their urban services. The Advisory Commission on Intergovernmental Relations found in a survey last year that many Americans are fairly content with their community services. In fact, on the whole, local governments get higher marks for delivering more for the taxpayers' dollar than do state or Federal governments (ACIR, 1979).

In 1978, over seven thousand citizens polled by Louis Harris and Associates for the Department of Housing and Urban Development indicated that central city residents are less satisfied with police protection and public schools than are suburban or non-metropolitan residents, but more satisfied with public transportation and health services. Citizens in all communities rated police and fire protection higher than any other service. Still, nearly one-fourth of central city residents felt that police protection needed improvement, while fewer than 20% of city respondents felt that other services needed improvement.

A National League of Cities survey in 1979 of mayors, state municipal leagues, and league members indicated that services are not viewed as a serious community problem in comparison to energy, inflation, demographic shifts, and intergovernmental relations. Only crime was viewed as a serious service-related problem by a large proportion of the respondents.

Still, there are serious problems in the service systems of many central cities, particularly those that are economically distressed. Cleveland and Chicago have been forced to close down their schools temporarily in the face of fiscal distress and teacher salary demands. Vandalism and violence haunt the corridors of high schools and junior high schools in most large cities. Arson is a disturbing fact of life in abandoned buildings and in poverty areas in both distressed and non-distressed cities. Overburdened criminal justice systems too often fail to protect society from criminals or create cruel disparities in prisoner treatment.

### Number of Employees and Quality of Services

Municipal employment increased in most central cities from 1970-1975. After 1975, several central cities cut back their municipal job base. Reductions in numbers were particularly severe in some needy cities with declining populations (See Table 6-12.)

In many cities, service personnel would have been reduced even more had it not been for the Comprehensive Employ-

## TABLE 6-9

## MUNICIPAL EXPENDITURES FOR WELFARE AND EDUCATION AS A PERCENTAGE OF TOTAL GENERAL EXPENDITURES BY COMMUNITY NEED 1976-1977 [1]

| Degree of Community Need | Percentage Spent on Education | Percentage Spent on Welfare | Combined Total Percentage |
|---|---|---|---|
| **Relatively High Need**[2] | | | |
| **Decreasing Population** | | | |
| Newark | 45.2% | 8.5% | 53.7% |
| New Orleans | 0.5 | 1.3 | 1.8 |
| Buffalo | 32.6 | * | 32.6 |
| Cleveland | * | 0.6 | 0.6 |
| New York | 21.6 | 29.0 | 50.6 |
| Atlanta | 2.6 | 0.1 | 2.7 |
| Detroit | 2.4 | * | 2.4 |
| St. Louis | 0.2 | 1.3 | 1.5 |
| Chicago | 1.5 | 2.0 | 3.5 |
| Philadelphia | 0.9 | 4.5 | 5.4 |
| Baltimore | 25.9 | 14.5 | 40.4 |
| Norfolk | 30.1 | 12.5 | 42.6 |
| Oakland | 0.3 | 0.0 | 0.3 |
| Birmingham | 0.7 | 0.0 | 0.7 |
| Cincinnati | 32.7 | 0.0 | 32.7 |
| Median | | | 3.5% |
| **Increasing Population** | | | |
| El Paso | 0.0 | * | 0.0 |
| Miami | * | 0.0 | 0.0 |
| San Antonio | 0.4 | 0.5 | 0.9 |
| Median | | | 0.0% |
| **Relatively Low Need**[2] | | | |
| **Decreasing Population** | | | |
| Portland | 0.4 | 0.0 | 0.4 |
| Minneapolis | * | 0.0 | 0.0 |
| St. Paul | * | * | 0.0 |
| Seattle | 0.5 | 0.0 | 0.5 |
| Denver | * | 15.8 | 15.8 |
| Median | | | 0.4% |

TABLE 6-9 (continued)

| Degree of Community Need | Percentage Spent on Education | Percentage Spent on Welfare | Combined Total Percentage |
|---|---|---|---|
| Increasing Population | | | |
| Honolulu | 0.0% | 0.0% | 4.0% |
| Austin | 0.4 | * | 0.4 |
| Phoenix | 0.4 | 0.1 | 0.5 |
| Albuquerque | 0.0 | 0.0 | 0.0 |
| San Jose | 0.0 | 0.0 | 0.0 |
| Charlotte | 0.0 | 0.0 | 0.0 |
| Omaha | * | * | 0.0 |
| Houston | * | 0.0 | 0.0 |
| Median | | | 0.0% |

*Less than 0.1 percent.

SOURCE: Computed from data reported in U.S. Bureau of the Census, **City Government Finances in 1976-1977.** Series GF77, No. 4, 1978.

[1] Cities selected are all those with 1975 populations over 250,000 falling in the high and low need categories and with increasing or decreasing populations (defined as those gaining/losing more than five percent of their population over the period 1970-1976).

[2] Resident need is defined in Chapter 2.

ment Training Act. CETA-funded public service employment constituted from 11% to 16% of total city employment in some of the nation's larger cities; however, much of this aspect of the CETA program is now being phased out, portending either cost increases or job cutbacks in many cities. As local tax revenues and Federal and state aid fail to keep up with inflation, employment cutbacks may become more common, even in cities where employees are well organized. Many municipal unions have sought to maintain wages and working conditions even at the cost of a shrinking membership.

### Key Public Services

The following sections summarize key features and trends in the principal municipal services.

**Police Services** account for a significant share of costs in nearly all municipal budgets, amounting to $61.75 per capita on a national average. The larger the city, the more spent per capita, reaching nearly twice the national average in cities with over one million residents (ICMA, 1978). Large, high need cities with declining populations spend substantially more than the average, even though per capita expenditures in the Northeast are lower than in the Midwest. Cincinnati, Cleveland, Detroit, and Chicago are among the cities with highest per capita expenditures for police services.

Despite attention given to new police hardware, 89% of municipal expenditures on police services are personnel costs and only 1.7% are capital costs. The ratio of personnel costs to total costs is somewhat lower in the largest cities (ICMA, 1978). Innovations in police services have included stationing patrolmen in neighborhoods for long periods of time to develop familiarity with conditions and giving them "ombudsman" responsibilities. New York and Detroit, among the large, high need cities, have decentralized many services to the neighborhood precinct. Community representatives help design crime control plans, including escorts for the elderly, street patrols, and housing project surveillance. A concern raised in many communities is that, in cities with substantial and increasing nonwhite populations, the police force remains dominated by whites.

**Fire Fighting.** Property damage by fire totaled $4.65 billion in 1978, the highest level ever recorded, according to the National Fire Administration (NFA). Expenditure on fire services per capita in the United States varies greatly. Mean per capita expenditures are $35.39, but cities with population greater than 250,000 spend over $40.00, or 20% more than the mean. Expenditure correlates with size, as in the other uniformed services. Central cities spend more. High need cities spend about 22% more per year than do low need cities.

About 88% of total fire fighting expenditures go to personnel costs (ICMA, 1978). But the number of fire fighters per thousand city residents varies across the country. The median for needy cities is 15.9 and for low need cities, 13.6. But the range of fire fighters per capita is much greater among cities of low and moderate need.

Arson has become a top concern in urban communities across the nation. According to the National Fire Administration,

TABLE 6-10

MEAN PER CAPITA EXPENDITURES FOR POLICE, FIRE, SANITATION SERVICE FOR SELECTED CITIES BY NEED, FY 1977[1]

Cities With 50,000–100,000 Population

| Population Trend, 1970-1976 | Degree of Resident Need: Relatively High | | Relatively Low | |
|---|---|---|---|---|
| Decreasing | $109 | (N=9) | $ 85 | (N=3) |
| Increasing | $ 69 | (N=9) | $ 74 | (N=18) |

Cities With 100,000–250,000 Population

| Population Trend, 1970-1976 | Relatively High | | Relatively Low | |
|---|---|---|---|---|
| Decreasing | $114 | (N=11) | $ 71 | (N=1) |
| Increasing | $110 | (N=7) | $ 89 | (N=17) |

Cities With Population Over 250,000

| Population Trend, 1970-1976 | Relatively High | | Relatively Low | |
|---|---|---|---|---|
| Decreasing | $137 | (N=15) | $117 | (N=5) |
| Increasing | $ 90 | (N=3) | $ 89 | (N=8) |

SOURCE: Computed from data reported in U.S. Bureau of the Census, **City Government Finances in 1976-77.** Series GF77, No. 4, 1978.

[1] Table includes cities gaining or losing over 5 percent of population over the 1970-76 period and those falling and in high and low need categories, as defined in Chapter 2.

**TABLE 6-11**

**PERCENTAGE OF RESPONDENTS INDICATING THAT A SERVICE-RELATED PROBLEM IS NOT SERIOUS, BY SIZE OF CITY**

| | Small | Medium | Large |
|---|---|---|---|
| Fire | 92% | 84% | 87% |
| Parks, Playgrounds | 81 | 84 | 79 |
| Health | 81 | 89 | 68 |
| Education | 81 | 77 | – |
| Refuse | 70 | 71 | 70 |

SOURCE: Adapted from National League of Cities, Office of Policy Analysis and Development, **Problems, Programs, and Needs**, Table 5, p. 9, Washington, D.C., National League of Cities, 1980. Three-quarters of the respondents represented cities of 100,000 or fewer.

arson costs the nation an estimated $1.09 billion per year. The unavailability of adequate fire insurance in poorer neighborhoods has led to fire insurance risk pools, also known as FAIR plans. Progress is needed to make sure that qualified home owners can get adequate insurance at rates that reflect true level of risk and actual replacement values.

**Sanitation.** A 1974 survey conducted by the National League of Cities found solid waste management to be of greater concern than crime. Refuse collection costs local governments from three percent to 30% of total municipal budgets, and the rate of cost escalation often exceeds that of other services.

Nationally, the $12.65 per capita cost of refuse collection is about one-third that of fire-fighting and one-fifth that of police services. As with the other basic services, expenditures rise with city size, with per capita costs in cities over one million population more than twice the national average ($26.94). Costs are higher in the South than in other regions, and are higher in central cities than in other types of communities (ICMA, 1978).

Sanitary landfills have been exhausted in many cities. Central cities formerly able to contract with neighboring suburbs for disposal sites are being precluded from doing so as suburbs grow and need the sites for their own refuse. Hauling or barging refuse long distances is becoming an even more costly expense borne almost entirely by local government. Using solid waste to produce energy through resource recovery techniques is the most promising aspect of sanitation management.

**Public Transit.** According to the Urban Mass Transportation Administration, transit systems in 1977 accounted for only five percent of total local travel, most of it in the form of trips within large urban areas. About three-fourths of all transit person-miles occured in the few cities with over two million people. To maintain ridership in the face of escalating operating costs, and to maintain an equitable fare schedule, the Federal government has increased operating subsidies. In 1967, fares covered 96% of transit operating costs; by 1977, 33%. In mid-1979, a clear rise in transit use was evident as gasoline prices rose. Transit use was higher at the end of 1979 than in 1978 by about 6.7%, according to estimates of the American Public Transit Association.

Transit systems face extraordinary costs for capital equipment. This applies to both old systems, which are located for the most part in the high need, declining population cities and newer systems. Even with the Federal government providing up to 80% of construction costs, many distressed cities cannot afford to renovate their massive rapid transit systems. In 1979, Chicago dropped plans to build a new subway tunnel to the central business district which was projected to cost the city $3.1 billion. The Miami, Baltimore, Atlanta and Buffalo transit systems will probably cost more than twice their original estimate. Cities which rely on bus systems also face rapidly escalating costs. Long delays occur in delivery of new buses, in part because the U.S. relies on only two bus-manufacturing companies.

Now that the growing need for public transit to conserve energy is becoming recognized, the nation faces a long term decision on who is going to pay for both capital costs and rapidly rising operating costs. Judgements on future transit use and financing are a key urban development issue.

**Parks and Recreation.** Parks and recreation account for 2.2% of municipal budgets. The Department of the Interior estimates that one-third of local recreation budgets come from Federal funds. In the past a large share of these funds went to suburban communities outside central cities which could easily raise matching shares.

The greatest recreation need in urban areas is not for more land, but for facility development, park rehabilitation, maintenance and improved program services. The Urban Park and Recreation Recovery Program was developed to rehabilitate and restore existing park and recreation areas and programs in urban areas. The program complements other grant programs which also operate in urban areas by focusing specifi-

TABLE 6-12

FULL-TIME EQUIVALENT EMPLOYMENT IN SELECTED CITIES
1970, 1975, AND 1978

| Cities With High Need Declining Population[1] | Full-Time Equivalent Employment (Total in 1,000's) 1970 | 1975 | 1978 | % Change 1975-78 | Full-Time Equivalent Employment Per 10,000 Population 1970 | 1975 | 1978 | % Change 1975-78 |
|---|---|---|---|---|---|---|---|---|
| New York | 375[2] | 348[2] | 318[2] | –8.6 | 476 | 464 | 429 | –7.6 |
| Chicago | 44 | 49 | 48 | –2.0 | 131 | 157 | 155 | –1.3 |
| Philadelphia | 34 | 38 | 36 | –5.3 | 177 | 209 | 203 | –2.9 |
| Detroit | 26 | 21 | 24 | 14.3 | 172 | 153 | 182 | 19.0 |
| Baltimore | 37[2] | 41[2] | 41[2] | 0.0 | 412 | 475 | 498 | 4.8 |
| Cleveland | 16 | 13 | 11 | –15.4 | 210 | 197 | 182 | –7.6 |
| New Orleans | 10 | 11 | 13 | 18.2 | 169 | 188 | 215 | 14.4 |
| St. Louis | 13 | 14 | 14 | 0.0 | 215 | 257 | 275 | 7.0 |
| Atlanta | 7 | 9 | 9 | 0.0 | 147 | 204 | 208 | 2.0 |
| Cincinnati | 13 | 17 | 8[3] | –53.0 | 297 | 421 | 188 | –55.3 |
| Buffalo | 13[4] | 13[4] | 13[4] | 0.0 | 290 | 325 | 313 | –3.7 |
| Newark | 16[4] | 18[4] | 18[4] | 0.0 | 407 | 542 | 547 | 1.0 |
| Oakland | 4 | 4 | 5 | 25.0 | 102 | 132 | 143 | 8.3 |
| **Cities With High Need Increasing Population** | | | | | | | | |
| San Antonio | 8 | 11 | 12 | 9.1 | 128 | 143 | 159 | 11.2 |
| El Paso | 3 | 4 | 4 | 0.0 | 85 | 90 | 108 | 20.0 |
| Miami | 4 | 4 | 5 | 25.0 | 126 | 100 | 127 | 27.0 |
| **Cities With Low Need Declining Population** | | | | | | | | |
| Seattle | 10 | 9 | 9 | 0.0 | 188 | 180 | 181 | 0.6 |
| Denver | 9 | 12 | 13 | 8.3 | 173 | 252 | 266 | 5.6 |
| Minneapolis | 5 | 6 | 5 | –16.7 | 117 | 146 | 140 | –4.1 |
| Portland | 5 | 5 | 4 | –20.0 | 121 | 132 | 118 | –10.6 |
| St. Paul | 3 | 3 | 3 | 0.0 | 89 | 120 | 127 | 5.8 |
| **Cities With Low Need Increasing Population** | | | | | | | | |
| Houston | 10 | 14 | 14 | 0.0 | 81 | 107 | 94 | –13.8 |
| Honolulu | 7 | 9 | 7 | –22.2 | 110 | 126 | 100 | –20.6 |
| Phoenix | 5 | 7 | 8 | 14.3 | 94 | 110 | 122 | 10.9 |
| San Jose | 3 | 4 | 4 | 0.0 | 59 | 66 | 69 | 4.5 |
| Omaha | 3 | 4 | 3 | –25.0 | 75 | 98 | 82 | –16.3 |

SOURCE: U.S. Bureau of the Census, City Employment Series GE No. 2.

[1] City need is defined in Chapter 2.
[2] Includes education and higher education.
[3] 1970 and 1975 include higher education.
[4] Includes education.

cally on revitalization of existing recreation systems and demonstration of new service approaches. In FY 1979, $159 million from the Community Development Block Grant program went to recreation in urban areas.

During the 1970's, the private sector also showed increasing interest in providing recreational activities, especially in conjunction with downtown revitalization efforts. Privately sponsored sculpture, sitting parks, street entertainment, and concerts are increasingly common in public areas. Privately sponsored cultural events have become increasingly sophisticated, extending to innovations such as the Spoleto Festival of the Arts in Charleston, South Carolina. The merging of historic preservation, commercial development and recreation activity has been highly successful, notably in Boston, Savannah, Charleston, New Orleans, New York, Denver, and San Francisco.

**Libraries.** A very small proportion (about one percent) of municipal budgets goes to maintenance of libraries. However, libraries depend on municipal expenditures for 82% of their budgets, on average, and somewhat less in large cities. Federal sources, including the Library Services Construction Act, Comprehensive Employment Training Act funds, and General Revenue Sharing, contribute to library revenues.

Nationally, library "demand" as measured by the estimated proportion of borrowers to the total population is 50%; in cities over 1 million, it is 51%, and in cities of 250,000-499,000, it is 40%. Fiscal pressures on cities have been felt sharply by libraries. Many large cities with fiscally tight situations have reduced library hours and other library services.

**Education.** Local financing for education provides less than half of total education expenditures; the state share is 44% and the direct Federal share is eight percent. One third of the Federal share is administered by the states. Most cities bearing high per capita education costs pay for schools through general revenue funds rather than via a separate school tax.

In terms of the nation's future, urban public education is clearly the number one problem in the urban services area. The ratio of high school graduates to all 18-year olds has fallen since 1969. Dropout rates have risen particularly among minorities (National Center for Education Statistics, 1979). Test scores are lower than ever in many urban schools. For many pupils, schools are merely custodians. Many schools accept truancy as a fact of life. School crime and vandalism are at alarming levels.

Pupil enrollment declined more rapidly than population in nearly all distressed central cities in the 1970's. It also declined in many low need, growing cities as a result of demographic changes. Despite these trends, school costs have risen because of rapid and continued growth in school expenditures per pupil. Increasing teacher wages and fringe benefit costs have contribute to rising school costs.

**Health and Hospitals.** The proportion of total city expenditures going to health and hospitals in large cities varies widely, ranging from less than one percent in many cities to over 20% in St. Louis.

Rises in hospital costs far outpaced the general inflation rate during the 1970's. Both capital costs and operating costs have soared. Rising operating costs have affected hospitals serving low income populations in large urban areas most severely, because these hospitals care for the largest number of Medicaid patients and others hospitalized without health care coverage. In some large metropolitan areas, such as St. Louis and Kansas City, suburban hospitals draw off the well insured and affluent patients, leaving inner city hospitals to serve larger proportions of poor and inadequately insured patients, thus driving city hospital deficits up. Poor neighborhoods in large central cities have insufficient health personnel, particularly registered nurses.

**Welfare.** States became the dominant providers of welfare during the 1970's. While this shift has benefited municipalites in general, some cities with high need still bear costly welfare burdens. Cleveland, Cincinnati, New York, Newark, Baltimore, New Orleans, Philadelphia and Oakland are among the high need cities paying large amounts of their budgets for welfare.

In 1977, counties spent a smaller percentage of local outlays for welfare (61%) than in 1967 (67%) while municipalities' share increased to 38% from 31%. However, in 1977 counties employed 78% of local government welfare personnel, up from 70% in 1967; municipalities employed 21%, down from 28% in 1967 (ACIR, 1980). Per capita expenditures range widely depending on state law.

**City Boundaries and Fiscal Problems**

Many of the fiscal problems of central cities arise because they contain the population and facilities most costly to service, and at the same time have the slowest growing tax base. If local governments could draw on broader metropolitan tax bases or share their service responsibility with either county governments or suburban communities, fiscal problems of many cities would be substantially relieved.

Annexation of surrounding, more affluent suburbs is one way to do this. High need cities less often annexed land during the 1970's than low need cities. However, some high need growing cities (including El Paso and San Antonio) enlarged their boundaries. Among high need, declining cities, only Birmingham annexed land during the period (See Table 6-13). A recent analysis completed by the Southern Growth Policies Board demonstrates that in the South, where annexation is easier and occurs most frequently, only one of the thirty central cities annexing land after 1970 was in the declining, high need category (Dusenbury and Beyle, 1978).

Annexation benefits central cities which are able to make use of it. Indirect evidence of this is displayed in Table 6-14, showing lower tax burdens in central cities which have annexed than in those which have not. Direct evidence of benefits comes from recent case studies of actual and proposed

**TABLE 6-13**

**MEDIAN ANNUAL PERCENT CHANGE IN MUNICIPAL LAND AREA, 1970-1975, BY COMMUNITY NEED**

| | Growing Cities | Stable Cities | Declining Cities | Total |
|---|---|---|---|---|
| High Need | 6.3% (N=3) | 0 (N=2) | 0 (N=16) | 0 (N=21) |
| Moderate Need | 2.7% (N=5) | 0 (N=5) | 0 (N=6) | 0 (N=16) |
| Low Need | 2.1% (N=8) | 0.6% (N=5) | 0.5% (N=8) | 0.7% (N=21) |
| Total | 2.3% (N=16) | 0 (N=12) | 0 (N=30) | 0.3% (N=58) |

SOURCE: Computed from data in Sacks, **Changing Conditions in Large Metropolitan Areas**, 1979.

annexations. Muller and Dawson (1973) found that annexation of a 23 square mile area to Richmond, Virginia, in 1970, resulted in:

- a 19% increase in city population and a 23% increase in real property tax base;
- a municipal surplus of $4.6 million in 1971, with residents of the annexed area contributing $337 per capita in revenues and incurring $239 per capita in expenditures.

An unpublished study of past and proposed annexations by the City of Phoenix, Arizona, found fiscal benefits to the city to strongly exceed the costs.

Another means of coping with fiscal strain is to shift traditional municipal functions to governments with more extensive and more rapidly growing tax bases. Nearly one-third of the cities responding to a 1975 survey indicated that they had shifted one or more functions to another unit of government in the previous ten years (Advisory Commission on Intergovernmental Relations, 1976). In cities over 250,000 population, law enforcement and public health were the two most commonly transferred functions. County governments, special districts and states were, respectively, the most common recipients of the transfer. Counties most often received the law enforcement and public health functions and state governments the social service functions, including welfare.

A recent survey of 21 central cities and their counties indicated that all but one county had assumed increased functional responsibilities during the 1970's which reduced central city costs (National Association of Counties, 1980). While the variety of transfers is encouraging, the amount of shifting taking place is not substantial. Also, there is no indication that high need cities are shifting functions to any greater extent than low need cities. As with annexation, such shifts of responsibilities encounter frequent legal, institutional, and political barriers.

Other means of overcoming the fiscal restrictions of municipal boundaries include taxing arrangements which tap larger and more rapidly growing tax bases. The sales tax and income tax mentioned earlier are two examples of this. Thirty-six states now permit their local jurisdictions to levy either sales taxes (31 states) or income taxes (14 states). Sales taxes have the advantage of tapping non-resident shoppers, but can also put city retailers at a competitive disadvantage. Declining and high need central cities are often least able to adopt this taxing device because their retailers are already at a severe disadvantage with respect to suburban retailers and are thus least able to bear the additional competitive burden. Income taxes are at present limited in use, as discussed above, but have great potential in tapping commuter tax bases. Of the municipalities empowered to impose the tax, only Washington, D.C., and a handful of Pennsylvania municipalities are prohibited from taxing incomes earned by nonresidents (ACIR and NAPA, 1979).

Metropolitan tax base sharing is another possible local action to relieve fiscal distress in central cities. However, only Minneapolis-St. Paul has implemented metropolitan wide tax sharing. Early indications are that the system yields some fiscal benefits for central cities, and also that it may lessen the city-suburban competition for industries (Knaff, 1977).

## 2. The Impact of Recession and Inflation

The preceding section described major patterns and trends affecting central city budgets. The net effect of these phenomena was to produce serious fiscal strain in many of the nation's cities as revenues failed to keep pace with municipal spending. The problems are especially acute for central cities that are losing population and that are impacted

TABLE 6-14

ANNEXATION AND ESTIMATED BURDEN OF MAJOR STATE-LOCAL TAXES ON A FAMILY OF FOUR[1] WITH $20,000 INCOME, 1975

| City | Tax Burdens as a % of Income | Total State/ Local Major Taxes | Annual % Growth Due to Annexation 1960-70 | 1970-75 |
|---|---|---|---|---|
| New York | 18% | $3,698 | 0.0% | 0.0% |
| Boston | 16% | 3,169 | 0.0 | 0.0 |
| Milwaukee | 15% | 2,936 | 5.0 | 0.0 |
| Buffalo | 14% | 2,739 | 0.0 | 0.0 |
| Los Angeles | 12% | 2,484 | 1.0 | 0.0 |
| San Francisco | 12% | 2,311 | 0.0 | 0.0 |
| Chicago | 10% | 2,010 | 0.0 | 0.0 |
| Philadelphia | 10% | 1,901 | 0.0 | 0.0 |
| Detroit | 10% | 2,070 | 0.0 | 0.0 |
| Baltimore | 10% | 1,930 | 0.0 | 0.0 |
| Pittsburgh | 10% | 1,976 | 0.0 | 0.0 |
| Atlanta | 9% | 1,730 | 0.2 | –2.0 |
| San Diego | 9% | 1,823 | 4.9 | 0.3 |
| Indianapolis | 8% | 1,667 | 18.4 | –3.0 |
| St. Louis | 8% | 1,696 | 0.0 | 0.0 |
| Phoenix | 8% | 1,514 | 2.8 | 1.9 |
| Denver | 8% | 1,679 | 2.8 | 3.1 |
| Kansas City | 8% | 1,518 | 9.2 | 0.0 |

SOURCE: U.S. Department of Housing and Urban Development, Office of Community Planning and Development, **Pockets of Poverty: An Examination of Needs and Options.** Washington, D.C., June 1979, p. 12.

[1] Taxes include income, real estate, sales, and auto-related taxes.

by high community need. These cities have experienced the slowest rises in tax base, have the highest costs for providing services, and must make the greatest tax effort. It is in these cities where the disparity in tax effort between city and suburb is becoming most pronounced, putting them at a growing competitive disadvantage. It is in these troubled cities where fiscal strain is most severe.

The 1970's experienced two severe recessions: in 1971-72 and again in 1975-76. In addition, much of the decade was characterized by a high rate of inflation. Understanding the complex impact of recession and inflation on local government finance is especially important now as the national economy faces a third recession, and as inflation continues at a high pace.

**Recession and City Finances**

Slowdowns in the national economy reduce city revenues and, in the short run at least, may increase municipal costs. The fiscal effects of recessions include severe short term adjustments and important long term consequences. The best available estimates suggest that the recession of 1975 cut local government revenues across the nation by almost six percent in 1975 and by somewhat more than five percent in 1976 (Advisory Commission on Intergovernmental Relations, 1979). Personal and business income taxes tend to rise or drop more rapidly than most municipal revenues during changes in the business cycle. Because large, older cities tend to be more reliant on such taxes than are growing large cities, small cities, counties, or school districts, they tend to suffer recessionary impacts more severely.

The limited evidence that is available on the impact of recession on local government costs indicates that expenditures increase as joblessness brings higher unemployment, welfare dependency, and criminal activity.

Often cities have to increase their tax effort during recession, or alternatively, cut services, capital investment, or maintenance. Table 6-15 describes estimates by local officials in a sample of 106 local jurisdictions of the budgetary adjustments made in response to the 1975 recession. In general, governments with the highest unemployment rates—a rough proxy of community need—reported the greatest fiscal adjustments to weather the recession. The 47 local governments with unemployment rates in excess of ten percent were responsible for four-fifths of all budget reductions made by jurisdictions in the sample. During the recessionary period from mid-1975 to early 1976, Cleveland and Detroit both reduced public employment by more than 20%. Three other major cities, including New York, cut employment by more than ten percent. Of these cities, only Minneapolis was in the low need category.

During and just following the recession in the mid-seventies, eight major cities raised their property tax rates by more than ten percent (see Table 6-16). Of these, only Memphis was a growing city and only Minneapolis did not have high need Three cities raised their income taxes by more than ten percent. All were cities with recent population losses and all were in the high or moderate need categories. Philadelphia and New York City raised both property and income taxes by more than ten percent.

Despite these adjustments, many cities failed to achieve balanced budgets during the 1971-77 period. Table 6-17 presents the general fund operating surpluses and deficits in 29 large cities from 1971 to 1977. Since cities are usually required to formally balance their budgets, these deficits were met by drawing down general fund balances by over 60%, or $300 million, between 1974 and 1976. Where there were no balances to draw upon, cities such as New York resorted to borrowing to meet deficits.

A city's ability to weather recessions depends in part on the prudence with which local fiscal affairs are managed. As can be seen in Table 6-18, some cities with high need and population loss have been able to maintain reasonable levels of cash or liquid assets in reserve to deal with unanticipated fiscal short-falls. The table presents estimates of the overall cash balances held in reserve by thirty major cities in 1975, expressed as a percentage of their annual spending from general funds. Eleven cities had sufficient cash on hand to support their entire budget for a period of one year; of these, only two were in the high need category. On the other hand six cities in the high need category had barely enough cash to cover costs for a month or two. These cities had drawn down their cash balances during 1973 and 1974.

**Inflation and Local Government Finance**

Inflation has drastically reduced the purchasing power of city revenues. Ninety percent of the increase in municipal expenditures between 1972 and 1977 was eaten up by inflation. Put another way: A two percent reduction in the inflation rate would have increased the 1979 purchasing power of cities by over $483 million—more than HUD's Urban Development Action Grant appropriations in that year (U.S. Department of HUD, 1979c). The protracted high rates of inflation during the 1970's disrupted both the operating and capital budgets of local governments, and deterred needed long term investment by localities.

Inflation appears to boost tax receipts as well as the costs of local government. Disagreement exists over whether inflation pushes one or the other more rapidly. One recent study concluded that costs rose more rapidly than revenues for local governments as a result of the inflation between 1972 and 1974. Costs were estimated to rise by 25% for all local governments as a group while revenues were estimated to increase by only 15% to 17%. But this same study estimated that prior to 1972 inflation pushed revenues up faster than costs (Greytak and Jump, 1975). Another more recent study found that since 1974, inflation has increased revenues of local government more rapidly than costs, but by a slim margin (ACIR, 1979).

Higher borrowing costs are perhaps the most damaging impact of inflation on the fiscal well-being of local governments. Between 1969 and 1979, the typical interest rate

## TABLE 6-15

## BUDGET ADJUSTMENTS BY LOCAL GOVERNMENTS IN SAMPLE OF 106 JURISDICTIONS
(Dollar Amounts in Millions)

| Unemployment Rate (March 1975) | Number of Local Governments | Tax Increases | Expenditure Cutbacks | Total Budget Adjustments |
|---|---|---|---|---|
| 4-6% | 13 | $ 4.0 | $ 5.2 | $ 9.2 |
| 6-7% | 12 | 14.6 | 2.1 | 16.7 |
| 7-8% | 14 | 16.6 | 5.1 | 21.7 |
| 8-9% | 12 | 3.3 | 15.8 | 19.1 |
| 9-10% | 8 | 18.9 | 3.3 | 22.1 |
| 10-11% | 17 | 26.8 | 63.2 | 90.0 |
| 11-12% | 9 | 66.2 | 16.4 | 82.6 |
| 12-14% | 14 | 36.6 | 32.8 | 69.4 |
| 14+% | 7 | 16.5 | 75.5 | 92.0 |
| TOTAL FOR SAMPLE | 106 | $146.1 | $187.9 | $334.0 |

SOURCE: U.S. Congress, Joint Economic Committee, Subcommittee on Urban Affairs, "The Current Fiscal Position of the State and Local Governments," Joint Committee Print, 94th Congress, 1st Session, Washington, D.C. Government Printing Office, December 17, 1975, p. 14, as cited in Advisory Commission of Intergovernmental Relations, **State-Local Finances in Recession and Inflation** (Washington, D.C.: 1979), p. 20.

TABLE 6-16

CITY GOVERNMENTS WITH TAX RATE INCREASES OF MORE THAN TEN PERCENT
(Year of Rate Hike and Rate of Increase in Parentheses)

| | Property Tax | Income Tax |
|---|---|---|
| **RELATIVELY HIGH NEED CITIES** [1] | | |
| Decreasing Population | Newark (15%–'76)<br>New York (11%–'76)<br>Detroit (19%–'77)<br>Philadelphia (69%–'77) | New York (Scaled increase in income tax)<br><br>Philadelphia (30% increase in rate of taxation on wages) |
| Stable Population | Boston (29%–'77) | None |
| Increasing Population | None | None |
| **MODERATE NEED CITIES** [1] | | |
| Decreasing Population | Milwaukee (13%–'77) | Pittsburgh (reimposed one percent wage tax) |
| Stable Population | None | None |
| Increasing Population | Memphis (10%–'77) | None |
| **LOW NEED CITIES** [1] | | |
| Decreasing Population | Minneapolis (11%–'77) | None |
| Stable Population | None | None |
| Increasing Population | None | None |

SOURCE: George E. Peterson, "The Fiscal and Financial Capacity of City Governments," Background paper prepared for the Urban Policy Report, 1979, p. 33.

[1] Resident need is defined in Chapter 2.

TABLE 6-17

AGGREGATE GENERAL FUND OPERATING SURPLUS, FOR 29 LARGE CITIES[1]
(Dollars in Millions)

| Year | Operating Surplus (Deficit) | As Percentage of Aggregate General Fund Expenditure |
|---|---|---|
| 1971 | $(57.4) | (1.2)% |
| 1972 | 16.1 | 0.3 |
| 1973 | 175.1 | 3.5 |
| 1974 | 156.1 | 2.9 |
| 1975 | (28.4) | (0.4) |
| 1976 | (154.1) | (2.2) |
| 1977 | 212.8 | 3.2 |

SOURCE: Philip Dearborn, The Financial Health of Major U.S. Cities in Fiscal 1977 (Boston, Massachusetts: First Boston Corporation, December 1978).

[1] New York is excluded from all years. Statistics for Chicago and Cleveland are not available for 1977.

## TABLE 6-18

## CITY LIQUIDITY: OVERALL CASH POSITION, 1975

| Population Trend | Degree of Resident Need[1] | City | Size of city's net cash reserve as a percent of its annual spending from the general fund |
|---|---|---|---|
| Decreasing | High | New York | -8 |
| Decreasing | High | Philadelphia | 2 |
| Decreasing | High | Chicago | 3 |
| Decreasing | High | Buffalo | 15 |
| Stable | High | Boston | 17 |
| Stable | Moderate | Columbus | 22 |
| Decreasing | Moderate | San Francisco | 39 |
| Decreasing | High | Detroit | 42 |
| Increasing | Moderate | Jacksonville | 44 |
| Stable | Moderate | Indianapolis | 45 |
| Increasing | Moderate | Memphis | 53 |
| Decreasing | High | St. Louis | 54 |
| Decreasing | High | New Orleans | 59 |
| Increasing | Low | Phoenix | 60 |
| Decreasing | Moderate | Pittsburgh | 61 |
| Decreasing | High | Cleveland | 62[2] |
| Decreasing | High | Balitmore | 68 |
| Increasing | Moderate | San Diego | 71 |
| Increasing | Low | Houston | 92 |
| Increasing | High | San Antonio | 102 |
| Stable | High | Los Angeles | 103 |
| Decreasing | Low | Minneapolis | 108 |
| Decreasing | Low | Denver | 115 |
| Decreasing | Moderate | Milwaukee | 119 |
| Stable | Low | Nashville | 137 |
| Stable | Low | Dallas | 142 |
| Decreasing | Moderate | Kansas City | 147 |
| Decreasing | High | Atlanta | 148 |
| Decreasing | High | Cincinnati | 177 |
| Decreasing | Low | Seattle | 246 |

SOURCE: Philip Dearborn, **The Financial Health of Major U.S. Cities in Fiscal 1977** (Boston, Massachusetts: First Boston Corporation, December 1978).

[1] Resident need is defined in Chapter 2.

[2] As reported by city; subsequent audits revealed deficit position.

prevailing for long term tax-exempt general obligation bonds of a city with a good (AA) bond rating rose from 4.6% to 6.7% (Moody's Bond Survey: January 5, 1969 and December 31, 1979). This increase is a function of many factors, including the growing use of tax exempt debt and various Federal income tax reform efforts which have reduced the advantages of tax exempt debt to high income investors; however, in large part it is a symptom of a decade of persistent inflation. Higher interest rates are damaging to local governments because they discourage needed long-term investment in public capital facilities. The need for such investment is the focus of the next section of this chapter.

## 3. The Long Run Fiscal Challenge: Infrastructure Maintenance

Among the most valuable assets of a city is its capital plant, or infrastructure: the complex of water supply facilities and distribution lines, sewers and pollution control plants, highways and bridges, mass transit lines, and park and recreation resources. In many of the nation's older central cities, this infrastructure was built 50 to 100 years ago and is ready to be replaced; in growing central cities there are major needs to construct new capital facilities. In all cities, there is a continuing need to maintain the infrastructure so that reliable service to residents and business establishments can be assured.

In recent years, concern about the quality and condition of urban infrastructure has become a matter of high priority in many cities. In part, worry arose because of highly-publicized instances of infrastructure failure: the collapse of New York's West Side Elevated Highway and Boston's excessive leakage from its water system. This anecdotal or partial evidence has begun to be supplemented by detailed analyses of infrastructure condition and needs in major American cities.

Table 6-19 presents some of the evidence that is available on infrastructure problems in major cities, classified by whether the cities are losing or gaining population. It shows that more than three-fifths of the highway miles were rated in poor or fair condition in cities losing population, compared to only a third of the mileage in growing cities. Similarly, bridges in cities experiencing population loss are twice as likely to be structurally deficient or obsolete as are bridges in growing cities. Estimated leakage from water systems is one and one-half times as great in declining cities as in others. Perhaps most dramatically, surveys of sewer conditions by the Environmental Protection Agency show that sewers in the metropolitan areas of large cities undergoing population decline would require per capita expenditures of almost $70 to replace those in danger of collapse and to plug leaks. For growing urban centers, the equivalent cost is only $13 per capita. Needed repairs to the sewer system in Cleveland and New York City are estimated at $345 per capita. On the other hand, such needs are considerably lower or negligible in other cities which rank high on the community need index, such as St. Louis, Philadelphia and Baltimore.

### Variations in Infrastructure Condition

As part of a HUD-financed study of urban infrastructure The Urban Institute has examined patterns of municipal maintenance and investment in capital plant in a number of cities. Information from surveys for Newark, New Orleans, Baltimore, Minneapolis, and Tulsa suggest wide differences among cities:

- **Newark** is an old Northeastern city. Its water and sewer systems were, for the most part, built 50 to 100 years ago. Its brick sewers are especially costly to service and subject to collapse. Inadequate maintenance and replacement adds to the physical problems. Currently the city is replacing its infrastructure on cycles that range from 300 to 500 years, well above good practice levels. Burdened by exceptionally high poverty problems and other social needs, Newark has little access to the bond market, and has had to cut capital expenditures to less than five percent of total expenditures. One exception to its difficult infrastructure conditions is that Newark has a relatively new and well-maintained fleet of buses, funded and operated by the New Jersey State Department of Transportation. The city also benefits from the fact that its airport and port facilities are in excellent condition, because they are under the jurisdiction of the Port Authority of New York and New Jersey.

- **New Orleans** is an old Southern city suffering from declining fiscal resources, including state-mandated constraints on its bond-issuing authority. Although the street system has been identified as one of New Orleans' most serious infrastructure problems, the city cut its street maintenance staff by nearly half between 1970 to 1977. Street resurfacing is on a very low replacement cycle of 88 years. As much as $400 million has been estimated to be necessary to bring the city's streets up to standard. Similarly, a much higher level of spending is required to renovate the city's antiquated sewer, water and drainage facilities to meet capacity needs, and to provide adequate maintenance. The local bus and streetcar system, operated privately by the New Orleans Public Service Company, is also in poor condition with old equipment, frequent and increasing mechanical failures, and a 50% decline in ridership since 1959.

- **Baltimore** is an old city suffering from population loss and high resident need, yet Baltimore has maintained a stable fiscal position and a commitment to essential maintenance that has kept its overall infrastructure in sound condition. One exception to the generally good conditions in Baltimore is the street and highway network. A sample of major arterial streets indicated that 80% of the major roads in the Baltimore urbanized area were in fair or poor condition. In the last few years, Baltimore has substantially stepped up its funding for road repair and reconstruction.

## TABLE 6-19

## ESTIMATES OF INFRASTRUCTURE MAINTENANCE NEEDS, FOR SELECTED FACILITIES, BY TYPE OF CITY

A. Comparison of Street and Highway Conditions as Classified by Present Serviceability Index (1975)[1]

| Population Change | Percent of Highway Mileage on Federal Aid System by Condition Rating: Good | Fair | Poor |
|---|---|---|---|
| Decreasing[2] | 36% | 50% | 14% |
| Increasing[3] | 64% | 27% | 9% |

B. National Bridge Inventory Survey Information[4]

| Population Change | Count of Structurally[5] Deficient Bridges (Percent of Total) | Count of Functionally[6] Obsolete Bridges (Percent of Total) |
|---|---|---|
| Decreasing[7] (Average) | 4 (2.3%) | 23 (13.5%) |
| Increasing[8] (Average) | 1 (0.5%) | 13 (6.0%) |

C. Per Capita Sewer Investment Needs, By SMSA: 1976 EPA Estimates (1976 Dollars)[9]

| Population Change | Repair and rehabilitation of sewer lines, correction of infiltration and inflow | Total: Includes construction of new sewer lines, investment in treatment plants to meet discharge standards and ambient water quality standards; excludes investment to eliminate overflow and separate sanitary sewers from storm-water systems |
|---|---|---|
| Decreasing[10] (Average) | $67 | $339 |
| Increasing | 13 | 284 |

D. Estimated Leakage from Water Systems, 1978

| Population Change | |
|---|---|
| Decreasing[12] | 9.1% |
| Increasing or Stable[13] | 5.7% |

SOURCE: George E. Peterson, "Transmitting the Municipal Squeeze to a New Generation of Taxpayers: Pension Obligations and Capital Investment Needs," (Washington, D.C.: The Urban Institute, March 1979), and Nancy Humphrey, George E. Peterson, and Peter Wilson, "Capital Stock Condition in Twenty-Eight Cities. Draft Report" (Washington, D.C.: Urban Institute, 1979).

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[1] Pavement condition as classified by Present Serviceability Rating (PSR) ranges from 5 for pavement in very good condition to 0 for completely deteriorated pavement.

PSR of 5.0-3.5 = Good
PSR of 3.5-2.5 = Fair
PSR of 2.0-0.0 = Poor

Large changes in pavement condition significantly affect vehicle operating costs, DATA SOURCE: U.S. Department of Transportation, Federal Highway Administration, Computer Print-Out on Urban Mileage and Travel by Pavement Condition and Pavement Type from the 1976 National Inventory and Performance Study.

[2] Baltimore, Chicago, Cincinnati, Cleveland, Detroit, Louisville, Milwaukee, Minneapolis, New Orleans, Philadelphia, Pittsburgh, St. Louis, San Francisco, Seattle, Washington, D.C.

[3] Baton Rouge, Charlotte, Jacksonville, Memphis, Miami, Omaha, Phoenix, San Diego, San Jose, Tucson.

[4] DATA SOURCE: U.S. Department of Transportation, Federal Highway Administration, Bridge Inventory File Print-Out by city, data as of October 4, 1978.

[5] A structurally deficient bridge is one that has been restricted to light vehicles only or closed.

[6] A functionally obsolete bridge is one whose deck geometry, load carrying capacity, clearance, or approach roadway alignment can no longer safely service the system of which it is an integral part.

[7] Baltimore, Chicago, Cincinnati, Cleveland, Detroit, Louisville, Minneapolis, Oakland, St. Louis, San Francisco, Seattle.

[8] Austin, Baton Rouge, Charlotte, El Paso, Jacksonville, Memphis, Miami, Omaha, Phoenix, San Antonio, San Diego, San Jose, Tucson.

[9] Unpublished EPA data compiled for 1976 Need Study.

[10] Baltimore, Boston, Buffalo, Chicago, Cincinnati, Cleveland, Detroit, Milwaukee, Newark, New Orleans, New York, Philadelphia, Pittsburgh, St. Louis, San Franciso, Seattle, Washington, D.C.

[11] Albuquerque, Houston, Jacksonville, Memphis, Phoenix, San Antonio, San Diego.

[12] Baltimore, Buffalo, Cincinnati, Cleveland, Hartford, Minneapolis, New Orleans, Philadelphia, Pittsburgh, St. Louis, Atlanta, Kansas City, Milwaukee, Portland, Seattle.

[13] Charlotte, Dallas, Des Moines, San Jose, Tucson, Tulsa.

**TABLE 6-20**

**CAPITAL EXPENDITURES FOR 67 LARGE CITIES**

| Unemployment Rate | Capital Expenditures 1977 | Capital Expenditures 1976 | Percent Change in Capital Expenditures | 1977 Capital Expenditures as a Percent of Total Expenditures |
|---|---|---|---|---|
| 2 to 5% | $425.9 | $367.0 | 16.1% | 23.2% |
| 5 to 7% | 770.7 | 660.4 | 10.7 | 18.9 |
| 7 to 9% | 1,403.6 | 1,547.0 | −9.3 | 16.5 |
| 9 to 12% | 1,152.9 | 1,391.6 | −17.2 | 6.3 |

SOURCE: U.S. Congress, Joint Economic Committee, "The Current Fiscal Condition of Cities: A Survey of 67 of the 75 Largest Ciites," 95th Congress, First Session, July 28, 1977.

- Minneapolis is a moderately old city which has experienced steady loss of population since 1960. Minneapolis ranks low in the community need index. It has relatively low rates of poverty and unemployment and has enjoyed both high and growing per capita income. Minneapolis has remained attractive to middle income households and to business, in part by spending heavily on maintenance and replacement of infrastructure. For instance, its highway expenditures in fiscal 1977 were almost as great as the total of Newark's capital expenditures for all purposes although the two cities have approximately the same population. Per capita expenditures for highways in Minneapolis are among the highest in the country. Overall, Minneapolis appears to be staying abreast of the needs of its aging infrastructure.

- Tulsa is a relatively new city, with low community need. It is in excellent fiscal condition, spending a heavy percentage of its funds on capital construction but not suffering from excessive tax burden. Tulsa has a good credit rating and ready access to the bond market. Although its growth requires additional capital plant, its relatively new infrastructure keeps maintenance costs low. In every major item of public infrastructure, Tulsa enjoys a good to excellent overall condition.

### Declining Patterns of Capital Investment

Capital plant investment tends to be viewed by most city budget officials as a discretionary item that can be postponed in any given year, unlike the mandatory cost of police, fire, and sanitation services. This has meant that in the face of fiscal pressure, capital budgets are often cut back sharply. The major exceptions to this pattern appear to be revenue-supported facilities (as with many city water systems) or when state and Federal aid is available. When fiscal crisis is deep enough, even these sources are foreclosed. For example, Cleveland has not been able to afford the local funds needed to match Federal capital grant programs.

A recent survey by the Joint Economic Committee offers insight into the comparative capital investment behavior of different types of city in the face of recession. Table 6-20 shows that large cities with the highest unemployment rates cut back their capital budgets deeply between 1976 and 1977 in delayed reaction to the severe 1975 recession, at the same time that cities with relatively low unemployment rates expanded their capital budgets rapidly.

Not only has capital expenditure on infrastructure been cut back, but normal maintenance has been reduced as well. Cleveland had 542 street employees in 1973, and 419 in 1978; over the same period, its bridge maintenance workforce was halved and bridge painting was stopped. The city of Newark cut back its street maintenance workforce by one third between 1973 and 1978, despite the fact that over 80% of its street system is in poor to fair condition. Indeed, of 19 cities surveyed recently (Humphrey et al., 1979), the ten high need, declining cities had experienced a median reduction of ten percent in street maintenance workforce between 1973 and 1978. The other nine cities experienced a median increase of two percent.

### Maintenance Versus New Construction

Older cities tend to have high capital plant maintenance costs and face major replacement needs because of the age of their stock. Newer, growing cities, on the other hand, face the cost of installing new capital facilities. To date, there is no clear evidence on which of these requires greater total capital expenditures. Data gathered for 26 large cities by the Bureau of the Census for fiscal 1977 indicates that per capita expenditures for capital plant did not vary widely by type of city.

Per capita expenditures were virtually the same ($9.00 and $9.50, respectively) for cities losing and gaining population.

The difference between high need cities which have lost population and other cities with respect to their ability to pay for infrastructure upgrading is clear. Not only do needy, declining cities have weaker and slower growing tax bases, but they also cannot use some important financing devices which are available to growing cities. Where growth occurs, cities can require the sponsors of new construction to pay for much of their own infrastructure. This financing option is not generally open to declining cities because they have very limited new development.

## 4. Additional Concerns In Municipal Finance

Recent years have seen a rapid expansion of concern with municipal finance and budgetary practices. State governments, Federal agencies, and even the Congress have been drawn into intensive analysis of municipal finance matters. The most overt causes of this increased attention have been specific instances of fiscal crisis: New York City in 1975; Cleveland in 1978-79; the Chicago school system in 1979-80; and also smaller cities such as the problems of Saco, Maine in 1980. While it is not at all clear that these nationally-publicized incidents represent the forerunners of a growing wave of crises, it is evident from data presented earlier in this chapter that many large central cities are feeling fiscal pressures comparable to those that have already resulted in crisis for some.

Increased attention to municipal finance has revealed the widespread nature of some major problems whose full force has not yet been felt. In addition to the infrastructure maintenance problem discussed above, these include:

- **Municipal employee pension systems** are in unsound condition in many localities. Few cities presently contribute to pension reserves in amounts sufficient to meet commitments to past and current employees. While little is known of the problems of many city employee pension systems, it has become clear that meeting pension commitments constitutes a fiscal problem of serious proportions. This is particularly true in cities where population and economic base is shrinking, leaving the prospect that there will be less ability to spread the rising cost of pension payments over a broad base of support.

- **The municipal securities market** has become more volatile and less willing to accept the securities of weaker municipalities. Complex changes are taking place in this market, including a rapid growth of tax-exempt securities for non-traditional purposes such as industrial development and upper-income housing.

- **Municipal finance systems** in some communities have proven inadequate to meet the information needs of city officials and potential investors. The revelations of poor accounting practices that have accompanied recent fiscal crises come as no news to public officials familiar with municipal accounting--but did surprise many state and Federal officials and many private financial institutions who had little idea of the archaic quality of fiscal controls in many communities.

- **Unionization of municipal employees** became widespread in the 1970's as many states and cities enacted legislation authorizing unions to represent city workers. In large measure this brought municipal employment into line with the private sector where the right to organize and bargain collectively was recognized much earlier. There has been a major learning process as collective bargaining by public employee unions has become widespread, and in places this has led to costly and divisive conflicts. In a number of states, binding arbitration is becoming accepted by both parties as the most viable way to arrive at agreement on wages and working conditions.

As these fiscal problems have come to light, action has begun that will help alleviate some of them and that may preclude their growth in cities not yet having difficulties. Up to the present, responsibility for resolving many of the issues cited above has been left in the hands of the states and city governments themselves. This is the case with respect to most aspects of municipal pension systems (which are specifically exempt from Federal pension reform laws), the issuance of municipal securities, municipal accounting standards, and the framework for collective bargaining.

Federal involvement has increased, however. Perhaps the most publicized instance was Congressional authorization of temporary loan support and long-term loan guarantees for New York City. On a more sustained level, the Federal Government improved the targeting of aid programs, such as the Community Development Block Grant Program, and has attempted to help needy cities respond to fiscal pressure with special programs like Counter-cyclical Fiscal Assistance. Another way in which the Federal Government has become involved in local fiscal management is through the "capacity building" program of the Department of Housing and Urban Development. The purpose of the program is to improve the management capability of local units of government. It is directed at building a body of good practice standards in such important aspects of city finance as improved estimating of revenues and expenditures; design of performance measurement and productivity systems; and development of integrated approaches to linking municipal budgeting with sound accounting and auditing procedures.

## 5. Summing Up: Fiscal Strain in the Central City

Fiscal strain is not evenly distributed. Central cities most impacted by high levels of community need are under the most severe pressures to balance revenues and expenditures. For these cities, also, the disparity in tax effort between city and suburb is sharpest, putting them at the greatest competitive disadvantage.

During the 1970's, recession and inflation intensified fiscal strain on declining and high need cities. Cities already in fiscal difficulties felt the erosion most. Short-run effects were very sharp in some cities, triggering abrupt cutbacks in public spending and increases in local taxes. In some cases, the result was full-scale fiscal crisis, requiring sharp reductions in public employment, curtailment of services, and loss of municipal discretion to overseers from state goverment and the private financial community.

Over the coming decade, most central cities face the need to maintain and update their capital plants. No community can hope to provide an attractive location for residence or industry unless it can provide an assured and reliable supply of water, adequate transportation, and other basic physical services. It is apparent that the cost of doing so will be a major fiscal burden for many jurisdictions.

Also coming in the decade of the 1980's are new fiscal challenges posed by the underfunding of municipal employee pension systems, problems of access to volatile security markets, needs for improved accounting and financial management systems, and impacts of unionization.

# PART III: SUBURBAN AND NON-METROPOLITAN COMMUNITIES

# PART III: SUBURBAN AND NON-METROPOLITAN COMMUNITIES

This Part assesses conditions in suburban and non-metropolitan communities of the nation. The accelerating loss of people and jobs in many of the nation's distressed central cities is mirrored by rapid growth and development in the generally smaller communities of suburbs and non-metropolitan areas.

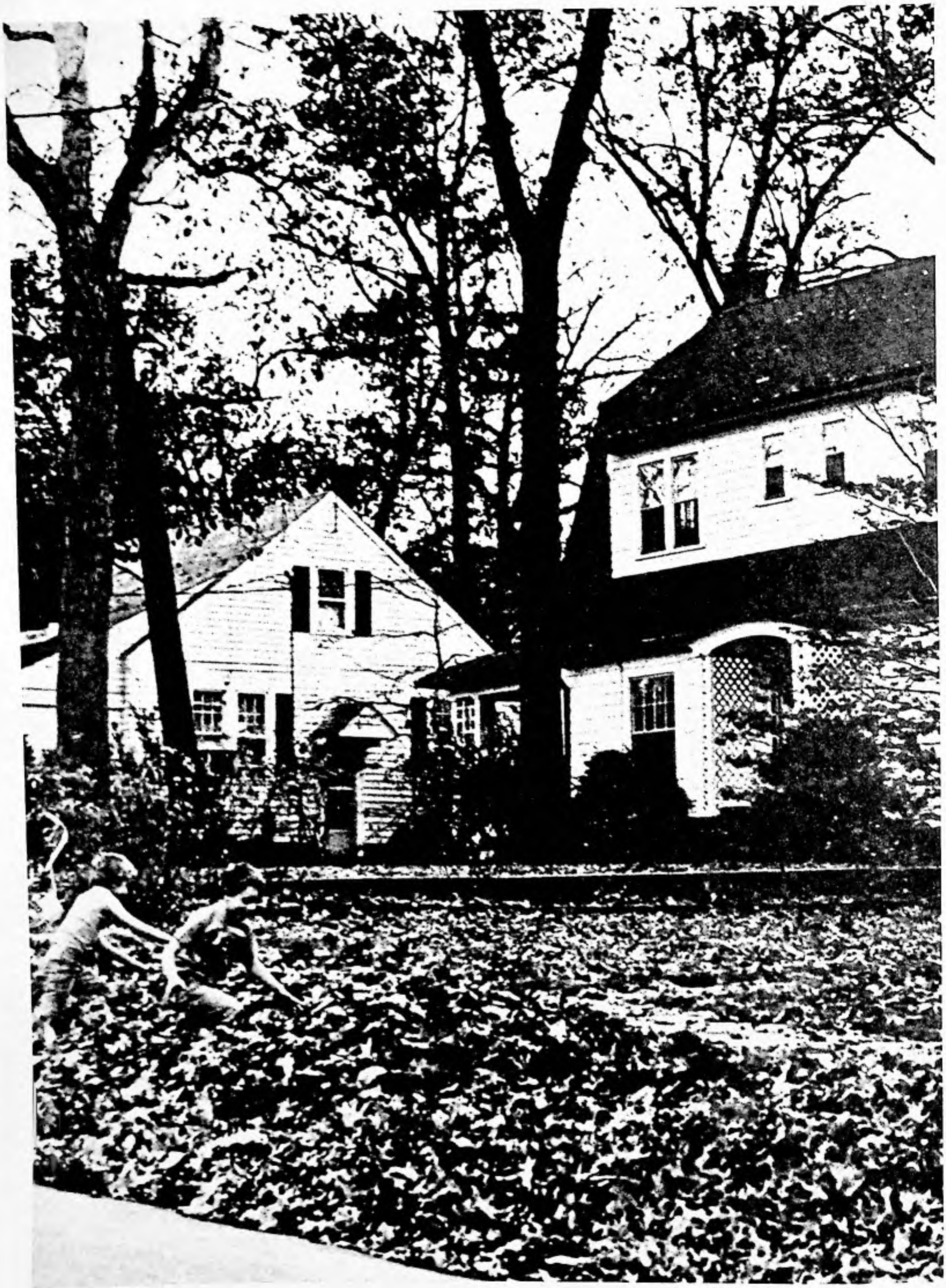
The rapid pace of growth which prevailed in many suburbs during the 1950s and 1960s has persisted in the 1970s. However, the focus of growth has shifted outward toward the fringes of metropolitan areas and in some cases, beyond. Urban distress is appearing in a number of older suburbs surrounding distressed central cities.

Many non-metropolitan communities have experienced very rapid economic growth during the 1970s. Growth has had many apparent benefits for some non-metropolitan communities: poverty rates have fallen substantially and resident incomes have grown. Yet, growth has also imposed significant environmental, social and physical strain in some communities.

This Part is divided into two chapters:

- **Chapter 7** focuses on suburban communities, highlighting their diverse economic, poverty, housing, neighborhood and fiscal conditions.
- **Chapter 8** presents similar information for non-metropolitan communities.

The analyses in each of the two chapters address the same conditions in suburbs and non-metropolitan communities as were examined in the previous Part for central cities. Each chapter first assesses trends in local economies; this is followed by an examination of resident incomes and resident poverty; housing and neighborhood conditions are then assessed; the final section examines the fiscal situations of local government. In addition, the two chapters utilize the community need typology developed in Chapter 2 and used in the analyses of central cities. The chapters call attention to the diversity of the problems and resources of various types of suburban and non-metropolitan communities.



# VII. SUBURBAN COMMUNITIES

Since the first Levittowns of the late 1940's, suburbs have been the target of criticism by many intellectuals, sociologists, planners and architects, and some elements of the media. Although sometimes overdrawn and imprecise, the criticism focused attention on the quality of American life in these newer urban areas and raised questions as to the types of urban society Americans want. Suburbs were described as consisting of "ticky tacky" architecture and were said to offer a bland life-style centered around crab-grass and the family station-wagon. More recently, suburbs have been criticized for their over-dependence on the automobile and for the high energy, infrastructure, and environmental costs associated with their low density, sprawling land settlement patterns. The exclusionary practices of suburbs have been another common and legitimate point of criticism. Blacks and other minorities, and to a lesser extent, low income households, have been effectively barred from most of suburbia, while affluent whites have been allowed to escape the central cities and responsibility for their needy households and fiscal burdens.

Despite these sometimes valid criticisms, suburban areas have served several important functions. Foremost, they have provided space for the very rapid growth in households experienced in metropolitan areas during the post-war years. Indeed, suburbs have accounted for most of the new housing, schools, jobs, and retail centers needed by a growing and increasingly affluent nation. In doing so, they have provided opportunities for vast numbers of middle-income families to improve their lives. Tens of thousands of aspiring families have been able to purchase a home, send their children to good schools, enjoy safe parks, and live in secure and uncongested neighborhoods. Despite the critics, a home in the suburbs is a deeply entrenched aspect of the "American dream" held by many Americans. But the dream has not been open to all segments of our society, and the fulfillment of the dream has imposed heavy social and economic costs on some older central cities.

The roles of suburban areas as a catchment for growth and in promoting upward mobility are likely to continue into the 1980's. One challenge of public policy will be to expand suburban opportunities for those groups which have historically been denied access to suburbs, whether because of racial discrimination or low income. Opening up the suburbs will provide these households with expanded housing, job and education choices. It will also aid central cities by relieving them of some of the major responsibilities for providing services to needy urban populations.

A second challenge of public policy will be to influence the form of new suburban development. Greater attention needs to be paid to the impact of rising energy use and costs (for home heating and for transport), to the infrastructure costs of servicing new areas, to the environmental costs resulting from low density, and to the costs associated with expanded use of prime farm land for residential and related urban land uses. A more compact pattern of suburban development may well be an appropriate and necessary response to continued growth pressures.

A third public sector concern lies with the relationship between suburbs and central cities. Continued population expansion in suburban areas should include minority and low income population. If such residential patterns can be achieved, together with neighborhood and commercial revitalization in central cities, metropolitan areas will reflect a more balanced population. a more balanced set of community fiscal and social responsibilities; and a real increase in minority and low income household mobility and opportunity.

**Suburbs: An Overview**

Although nearly three-fifths of the metropolitan population in the United States lives in suburban areas, much of the public discussion of urban problems has focused on central cities. This emphasis reflects the acute and overwhelming nature of distress found in many of the nation's older central cities, together with the perception of suburbs as relatively affluent communities with lower levels of resident need and more plentiful resources. In large part, this latter characterization is accurate: suburban communities as an aggregate are considerably better off than central cities. For instance, the suburban population grew by 12% between 1970 and 1977 while the number of persons living in central cities declined by five percent; the poverty rate in central cities is almost three times as high as in the suburbs. Furthermore, the share of metropolitan employment going to suburban areas has risen steadily, even in regions of net out-migration.

Yet, aggregate data, such as these, mask considerable diversity among suburban communities. Many do fit the image of affluent residential areas of good schools, clean streets, and expensive homes. Communities such as Lexington, Massachusetts; Richardson, Texas; Reston, Virginia; Grosse Point, Michigan; and San Raphael, California fit this model of an affluent community without evident urban ills. However, other suburban communities such as Mount Vernon, New York share much of the distress of the central cities they adjoin, including an older, deteriorating multi-family housing stock. These troubled suburbs contain relatively high concentrations of low income households and face eroding fiscal capacity. Declining needy suburbs are most often found in the large industrial metropolitan areas of the North Central and Northeastern United States. Distressed suburban areas are not necessarily old, however, as illustrated by cities such as Compton, California. Although almost all of its housing stock was built after 1940, Compton, California, has high levels of poverty, unemployment, out-migration, substandard housing, and fiscal strain. Moreover, other smaller, more rural suburbs have these problems despite a growth in population.

Among relatively affluent suburbs, considerable diversity exists as well. Many communities, situated at the fringe of metropolitan areas, grew rapidly during the 1970's, gaining population, income, and employment opportunities. Affluent growing suburbs are characterized by a relatively new housing stock largely composed of single-family houses, high median household income, high quality public schools, and moderate tax rates. Other affluent suburban communities are older, closer to the central city, and are neither growing nor losing population. Communities such as Winnetka, Illinois; or Newton, Massachusetts, combine relatively low levels of distress, stable numbers of households, and a well-maintained but older housing stock. The level of public services provided tends to be quite high, although tax rates are often relatively high also.

Many newer suburban communities are facing numerous problems associated with growth. They must find ways to finance new infrastructure, control development, regulate land use, and build expertise to deal with increasingly complex municipal responsibilities.

This Chapter assesses the current economic, social, and fiscal conditions of American suburbs. Unfortunately, detailed data for most individual suburban communities will not be available until the 1980 census. In many instances, recent data is available only for particular types of suburban areas, such as those located in metropolitan areas of more than one million population or for suburban communities which contain more than 50,000 residents. The analysis necessarily relies largely on aggregated statistics. When possible, however, an effort is made to disaggregate by region, size of suburban community, and size of the metropolitan area. Attention is paid to indicators of resident need and population trend as developed in Chapter 2.

At the most general level, the Chapter indicates that while neither the overall level of distress nor the severity of problems faced by suburban communities match those of central cities, some older suburban communities face many of the same problems as do needy central cities. Further, other suburban communities are confronted with a number of concerns similar to those faced by growing non-metropolitan areas. The Chapter notes that:

- Suburbs enjoyed large employment gains during the 1970's; however, economic growth was largely concentrated in growing, low need suburbs located at the metropolitan fringe. Some older, centrally located suburbs experienced employment losses and lagging per capita income, for many of the same reasons as central cities.

- Rising levels of resident need were experienced in some older inner suburbs during the 1970's, as low income and minority neighborhoods spilled over central city boundaries. Other pockets of suburban poverty are found in small towns and unincorporated areas at the periphery of growing metropolitan areas. Overall, the suburban poverty rate is nearly one-third of that for central cities.

- The suburban housing stock is newer, of high quality, and more expensive than the stock in central cities. Sharp increases in housing costs during the 1970's made it increasingly difficult for low and moderate income households to secure affordable housing in suburban areas. Despite appreciable growth in the number of upper and middle income blacks living in suburban areas, blacks remain far more concentrated in central cities than whites, at all income levels.

- Public infrastructure needs are a pressing concern of growing and distressed suburbs alike. A majority of smaller suburbs appear to have substantial untapped fiscal capacity to begin to address these needs; however, many older needy suburbs face fiscal problems similar to central cities.

For the near future, suburban areas will continue to act as major centers of population and employment growth within metropolitan areas and will remain relatively affluent compared with central cities; however, some older suburbs, particularly those near central cities, will exhibit many of the same symptoms of decline and distress as central cities. These problems of suburban distress may be quite difficult to address. Communities involved lack the diversity of central cities—even the most distressed central city retains substantial employment, a non-residential tax base, and a few stable neighborhoods—and often lack the basic economic strengths that have sparked recent redevelopment efforts in some core areas.

## 1. Suburban Economies

Suburbs experienced steady and significant economic growth during the 1970's due to their competitive advantage when compared to central city locations. Table 7-1 shows that total employment in suburban counties of large metropolitan areas (over one million population) increased by 16.7% between 1970 and 1976. Data for subsequent years will undoubtedly show even greater gains over the second half of the decade, as the economy recovered from the mid-decade recession.

The largest suburban employment gains during the 1970's occurred in the service sectors. Among large metropolitan areas, employment in the wholesale trade increased by 47.8%; finance, insurance, and real estate by 44.3%; professional and personal services by 35.7%; and retail trade by 27.0%. Altogether, these four sectors accounted for three-quarters of the total increase in suburban employment after 1970. Other substantial increases occurred in transportation, communications, public utilities, construction, and agriculture. Manufacturing employment growth slowed during the 1970's and shifted its focus to non-metropolitan areas. This was reflected in an actual decline in suburban manufacturing employment for large metropolitan areas of the Northeast and only modest gains elsewhere in the country. By 1976, more than 40% of total suburban employment was in the related service sectors, and the proportion in manufacturing had declined to 20%.

All regions experienced significant gains in suburban job opportunities; however, for most employment sectors, the rate of increase was most rapid in the South and West and slowest in the Northeast, reflecting the impact of regional migration of population and employment discussed in Chapter 1. In rapidly growing areas such as Denver, private sector employment in suburban areas more than doubled over the first six years of the decade. Yet, even in slow growth metropolitan areas such as St. Louis, which lost 22% of private sector employment in the central city between 1970 and 1976, suburban employment increased by 25% over the same period.

The suburbanization of employment during the 1970's continues a long-term secular dispersion of jobs away from the core of older metropolitan areas. Improvements in transportation have enabled firms to take advantage of the lower production and transportation costs available at the urban periphery and to respond to markets created by the suburbanization of households, who are both the labor force and the final consumers for many goods and services. Initially, the suburbanization of employment was led by manufacturing firms eager to take advantage of the availability of large tracts of undeveloped land, lower land costs, lower property taxes, and ease of access to newly built expressways which facilitated the transportation of goods and workers. As residential suburbanization proceeded, retail trade and other services which are by their nature "population-serving" dispersed to the newer centers of residential growth, thereby reinforcing and strengthening the decentralization of population and employment. In many instances, retail trade has actually led population decentralization, rather than responding to it. Recently, office and government employment have also begun to locate at the urban periphery. By the mid-1970's, well over half of total employment in metropolitan areas such as New York City, Philadelphia, St. Louis, San Francisco, and Washington, D.C., was located outside of central cities. Suburban industrial parks, executive office complexes, and large free-standing shopping centers have become familiar features of the suburban landscape, particularly along expressways radiating out from the city center or along circumferential beltways such as Route 128 in Boston or the Capital Beltway in Washington, D.C.

### Employment and Distress

The suburbanization of employment has meant expanded job opportunities for suburban workers and a source of fiscal revenue for towns receiving economic growth. This latter aspect of economic development has promoted many suburban communities—which once shunned non-residential land uses as undesirable—to actively solicit tax-generating establishments to locate within their jurisdiction. However, not all suburban communities have shared in the benefits of economic dispersion. Analysis of the distribution of suburban employment growth during the 1970's and its relationship with resident need suggest two points:

- Suburban employment growth during the 1970's largely occurred in communities of relative affluence and low resident need. These tended to be newer suburbs which gained population during the decade.

- Suburban communities which gained employment also enjoyed rising incomes, while suburbs where employment lagged behind population growth experienced declining real income and rising levels of

TABLE 7-1

EMPLOYMENT GROWTH IN SUBURBAN COUNTIES OF LARGE METROPOLITAN AREAS BY SECTOR: 1970-1976[1]

| | Change in Employment 1970-1976 | |
|---|---|---|
| | Number of Jobs (Thousands) | Percent |
| Total Employment | 1,364.5 | 16.7% |
| Manufacturing | –7.3 | –0.4 |
| Non-Manufacturing | 1,371.8 | 22.2 |
| Agriculture | | |
| Total Farm | 9.2 | 16.0 |
| Agricultural Services | 8.3 | 26.3 |
| Service Performing | | |
| Wholesale Trade | 146.2 | 47.8 |
| Retail Trade | 338.8 | 27.0 |
| Professional and Personal Services | 426.0 | 35.7 |
| Finance, Insurance, and Real Estate | 111.8 | 44.3 |
| Other | | |
| Construction | 9.6 | 2.3 |
| Mining | 3.3 | 26.3 |
| Transportation, Communications, and Public Utilities | 47.3 | 13.6 |

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis; employment data were compiled by the Center for Social Data Analysis, Montana State University.

[1] Table includes only suburban counties in metropolitan areas greater than one million population; not included are suburban communities of large metropolitan areas which are in the same county as the central city.

community need. These tended to be older suburbs located close to the central city, particularly in metropolitan areas experiencing population and job loss.

Most net suburban employment generated during the 1970's occurred in new suburban communities located at the far edge of metropolitan areas where the advantages of decentralization are largest—that is, where there are large tracts of land, lower prices, and lower tax rates; and access to radial or circumferential expressways is often direct. Suburbs with a growing economic base typically also experienced population growth and reflected healthly fiscal conditions. Table 7-2 shows that suburban counties which enjoyed rapid employment growth during the 1970's were significantly more affluent than counties which experienced slow economic growth. Note that suburban counties with the strongest economic gains during the 1970's began the decade with higher per capita incomes than counties which grew slowly over the following seven years.

While many suburbs experienced employment and income growth, others experienced declining employment and rising levels of community need over the 1970's. Suburbs suffering employment losses frequently share many of the characteristics of declining central cities: they tend to be old and typically were once thriving industrial or commercial retail centers which now suffer from an obsolete capital stock and a deteriorated commercial core. High tax rates, a low level of public services, vehicular congestion, and general blight are common features. In short, distressed inner suburbs share many of the same cost disadvantages of the central city that make it difficult to attract and retain employment. In many respects, these declining suburbs face an even more difficult situation, since they lack the prestige and economic strengths of a central "downtown" location which retains appeal for some employment sectors and which enhances redevelopment efforts.

Suburbs with stable or declining economies generally experienced slower income growth and became more needy over the 1970's. Per capita income increased less between 1970 and 1976 for suburban counties with slow employment growth than for suburbs with rapid employment growth (see Table 7-2). Over this six year period, the per capita income gap between slow employment growth and rapid employment growth suburbs widened from $453 to $940.

The growth of employment opportunities is clearly linked with rising suburban incomes during the 1970's. However, employment grew most rapidly in fringe communities which were already relatively affluent. Consequently, the income gap between prosperous and distressed suburbs widened over the course of the decade. If the dispersion of people and jobs continues into the 1980's, the list of economically distressed suburbs can be expected to lengthen.

## 2. Suburban Poverty

There is significantly less poverty in suburban areas than in central cities. Moreover, suburbs as a group did not share in the rise in poverty experienced by central cities during the 1970's. Yet suburban poverty does exist, and some suburbs are experiencing increasing levels of community need.

Despite their relative affluence, suburbs account for a substantial portion of the low income population of the United States. As of 1977, more than 5.6 million poor persons—nearly one in four of the nation's poor—lived in suburban communities (Table 7-3). More than 60% of these resided in the 44 largest metropolitan areas. While the number of poor persons living in suburban areas is relatively large, the incidence of poverty as measured by the poverty rate is quite low: less than seven percent of the suburban population is poor, contrasted to over fifteen percent of central city population. In large metropolitan areas, the disparity is even greater: three times as many central city residents are poor as are suburban residents. Low income persons are concentrated in the central cities of large metropolitan areas while poor persons in smaller areas are more dispersed throughout the metropolitan area.

Unlike central cities, where there was a sharp rise in the incidence of poverty during the 1970's, suburban poverty fell after 1969 (Table 7-4). Declining poverty rates in suburban areas are due to fewer poor persons living in suburbs—primarily a result of more generous transfer payments lifting some households above the poverty level—and the in-migration of largely non-poor households from central cities (Smeeding, 1980). This same suburbanization of non-poor households accounts for a good part of the rising poverty rate in central cities.

Suburban poverty rates are markedly higher in areas of the South than elsewhere in the country. Despite a substantial decline in suburban poverty in the South during the 1970's, poverty rates there remain 40% above those in other regions. Altogether, nearly one-third of the American suburban poor live in the South. In contrast, the Northeast and North Central regions have suburban poverty rates which are significantly below the national average. The higher level of poverty in the South reflects lower wages and lower average transfer payments for low-income households in the South as compared with other areas of the country. Also a factor are the frequent pockets of quasi-rural poverty found at the edge of growing Southern metropolitan areas. This last point is made particularly salient by the practice of selective annexation on the part of some Southern central cities. They have annexed affluent suburban communities, but not towns with significant levels of distress.

Nationally, suburban poverty is somewhat more concentrated in cities larger than 50,000 where over eight percent of the population is poor (Table 7-5). Indeed, for large suburbs of the Northeast, the poverty rate exceeds 12%. Concentrations of poor persons in many large suburban cities reflect the spread of central cities and low income minorities into older, economically distressed and industrially declining suburbs. In several of these communities, poverty rates are about the same as in the adjoining central city ghetto.

While the highest concentrations of suburban need are found

TABLE 7-2

SUBURBAN EMPLOYMENT GROWTH AND PER CAPITA INCOME CHANGE: 1970-1976

| | Large Suburban Counties[1] Rapid Employment Growth[2] | Moderate Employment Growth[2] | Slow Employment Growth[2] |
|---|---|---|---|
| Number of Counties | 37 | 43 | 43 |
| 1970 Mean Per Capita Income | \$4,094 | \$3,956 | \$3,641 |
| 1976 Mean Per Capita Income | \$6,801 | \$6,538 | \$5,859 |
| Mean Absolute Change 1970-1976 | \$2,707 | \$2,582 | \$2,218 |
| Percentage Change 1970-1976 | 66.1% | 65.3% | 60.9% |

SOURCE: Compiled from data supplied by the U.S. Department of Commerce, Bureau of Economic Analysis

[1] Includes only suburban counties within metropolitan areas of greater than one million.

[2] Employment growth over the period 1970-1976 is measured relative to population growth over the same period: counties for which the rate of employment growth exceeded population growth by more than two percentage points were classified as rapid growth; counties for which the growth gap was less than half of a percentage point were classified as slow growth; those between were classified as moderate growth.

TABLE 7-3

SUBURBAN POVERTY: 1977

| Type of Place | Number of Poor Persons (Thousands) | Poverty Rate | Percent of U.S. Total All Persons | Percent of U.S. Total Poor Persons |
|---|---|---|---|---|
| **Suburban Areas**[1] | 5,657 | 6.8% | 38.9% | 22.9% |
| Places of 50,000+ | 924 | 8.1 | 5.4 | 3.8 |
| Places Under 50,000 | 2,428 | 6.7 | 17.0 | 9.8 |
| Outside Places | 2,305 | 6.5 | 16.5 | 9.3 |
| 44 Largest Metropolitan Areas | 3,462 | 6.3 | 25.7 | 14.0 |
| Other Metropolitan Areas | 2,195 | 7.8 | 13.2 | 8.9 |
| **Central Cities** | 9,203 | 15.4 | 27.9 | 37.2 |
| 44 Largest Metropolitan Areas | 5,741 | 16.6 | 16.2 | 23.2 |
| **Non-Metropolitan Areas** | 9,861 | 13.9 | 33.2 | 39.9 |
| **Total U.S.** | 24,720 | 11.6 | 100.0 | 100.0 |

SOURCE: U.S. Bureau of the Census, Special Tabulations, March 1978 **Current Population Survey.**

[1] Suburban areas refers to that portion of the metropolitan area which is outside of central cities.

TABLE 7-4

CHANGE IN SUBURBAN POVERTY: 1969-1977

| | 1969 | | 1977 | | Percent Change | |
|---|---|---|---|---|---|---|
| | Poor Persons (Thousands) | Poverty Rate | Poor Persons (Thousands) | Poverty Rate | Poor Persons (Thousands) | Poverty Rate |
| Suburban Areas | 5,937 | 8.0% | 5,657 | 6.8% | –4.7% | –15.7% |
| Northeast | 1,331 | 6.2 | 1,317 | 5.9 | –1.0 | –12.1 |
| North Central | 1,171 | 5.8 | 1,117 | 5.1 | –4.6 | –27.3 |
| South | 2,038 | 12.1 | 1,879 | 8.8 | –7.8 | –18.6 |
| West | 1,398 | 9.1 | 1,345 | 7.4 | –3.8 | –15.0 |

SOURCE: U.S. Bureau of the Census, Special Tabulations, March 1978 **Current Population Survey.**

in large distressed suburbs, a substantial share of the suburban poor appear to live in small towns and unincorporated areas at the metropolitan fringe. Indeed, in 1977 more than 40% of suburban poor persons lived in places of fewer than 2,500 inhabitants. In the Northern region, small town poverty in metropolitan areas tends to be infrequent; however, in the South and West poverty rates in suburban communities smaller then 10,000 approach 10%. These pockets of poverty at the metropolitan fringe largely represent communities which, although located in metropolitan counties, still retain a rural or small town character and economic base.

Blacks made up a disproportionate share of the suburban poor. Nationally, blacks constitute almost 20% of all poor persons residing in suburban areas, although they represent only six percent of all suburban residents. In the South, poor blacks are most prominent in the small towns and unincorporated areas. In the other regions, they are principally concentrated in the largest, most centrally located suburbs. More than one third of all poor persons living in large suburbs of the North Central United States are black and the proportion in the Northeast is only slightly lower. Clearly, poverty rates for suburban blacks demonstrate that suburbanization, alone, does not insure upward economic and social mobility for minorities.

**Poverty and Suburban Distress**

While it will not be possible to examine suburban poverty in individual communities until the 1980 census is complete, the relationship between community need and poverty rates can be seen from available data on suburban poverty areas (defined as areas where over 20% of the population was poor in 1969). Table 7-6 provides evidence of pockets of increasing resident need in suburbs of large metropolitan areas, a pattern which contrasts with an apparent reduction of need in smaller metropolitan areas during the 1970's. The poverty rate in suburban poverty areas of large metropolitan areas increased slightly between 1969 and 1976, despite a substantial decline in the number of poor persons living in poverty areas. This seeming paradox is explained by the more rapid departure of non-poor households than poor households from poverty areas. In contrast, the poverty rate in high need suburbs of smaller metropolitan areas declined by one-third after 1969. Apparently, distressed suburbs of large metropolitan areas–like distressed central cities–became more needy over the 1970's. This reflects, in large part, the ghetto spillover phenomenon in inner suburbs such as East St. Louis, Illinois; or Compton, California. Still, the concentrated level of need in distressed suburbs is usually markedly lower than for distressed central city neighborhoods, as evidenced by the lower poverty rate in low income areas in suburban than in central cities of large metropolitan areas (27.8% versus 38.5%).

**Characteristics of the Suburban Poor**

Poor persons in large metropolitan areas illustrate labor force characteristics much like the poor in central cities–a majority of poor household heads are female and a majority of family heads did not work (Table 7-7). By contrast, the poor in the suburbs of smaller metropolitan areas and in nonmetropolitan areas more often live in male-headed families, of whom many are employed (though often at low wages). Blacks account for 21% of the suburban poor in large metropolitan areas and 13% in smaller metropolitan areas. This contrasts to 44% for central cities.

The relationship of employment to income has significant cant racial dimensions (Table 7-8). In 1977, the black poverty rate for working age household heads in suburban areas

TABLE 7-5

SUBURBAN POVERTY BY REGION AND PLACE SIZE: 1977

| | Total U.S. | | Northeast | | North Central | | South | | West | |
|---|---|---|---|---|---|---|---|---|---|---|
| Size of Place | Poor Persons[1] | Poverty Rate | Poor Persons[1] | Poverty Rate | Poor Persons[1] | Poverty Rate | Poor Persons[1] | Poverty Rate | Poor Persons[1] | Poverty Rate |
| Unincorporated | 2,305 | 6.5% | 620 | 5.2% | 321 | 4.5% | 962 | 9.1% | 402 | 7.1% |
| Less than 2,500 | 182 | 6.1 | 33 | 4.6 | 36 | 3.4 | 67 | 7.8 | 45 | 13.3 |
| 2,500–9,999 | 669 | 6.7 | 152 | 5.2 | 192 | 6.0 | 220 | 8.1 | 104 | 6.3 |
| 10,000–24,999 | 879 | 6.4 | 151 | 5.2 | 210 | 4.3 | 315 | 10.5 | 203 | 6.9 |
| 525,000–49,999 | 696 | 7.2 | 144 | 6.6 | 127 | 4.3 | 144 | 10.7 | 281 | 9.0 |
| 50,000 or more | 921 | 8.1 | 215 | 12.6 | 231 | 7.2 | 169 | 7.5 | 310 | 7.2 |
| TOTAL | 5,657 | 6.8 | 1,317 | 5.9 | 1,117 | 5.1 | 1,879 | 8.8 | 1,345 | 7.4 |

SOURCE: U.S. Bureau of the Census, Special Tabulations, March 1978 Current Population Survey.

[1] In thousands

TABLE 7-6

CONCENTRATION OF SUBURBAN POOR IN POVERTY AREAS: 1969-1976[1]
(Numbers in Thousands)

| | Total Poor Persons | | Poor Persons in Poverty Areas | | |
|---|---|---|---|---|---|
| | Number | Poverty Rate | Number | Poverty Rate | Percent of Total Poor |
| **All Suburban Areas** | | | | | |
| 1969 | 5,976 | 8.1% | 1,386 | 29.7% | 23.2% |
| 1976 | 5,747 | 6.9 | 996 | 22.2 | 17.3 |
| **Suburbs in SMSA's Larger Than 1 Million** | | | | | |
| 1969 | 2,985 | 6.6 | 415 | 27.2 | 13.9 |
| 1976 | 3,124 | 6.2 | 374 | 27.8 | 12.0 |
| **Suburbs in SMSA's Less Than 1 Million** | | | | | |
| 1969 | 2,992 | 10.4 | 970 | 30.8 | 32.4 |
| 1976 | 2,623 | 8.0 | 662 | 19.8 | 25.2 |

SOURCE: U.S. Bureau of the Census, Current Population Reports, Special Studies P-23, No. 75.

[1] Poverty areas refer to census tracts where at least 20 percent of the population was poor in 1969.

TABLE 7-7

WORK AND HOUSEHOLD HEAD CHARACTERISTICS OF THE SUBURBAN POOR

| | Percent in Female-Headed Family (1977) | Percent With Non-working Family Heads (1976) | Percent Black |
|---|---|---|---|
| **Suburbs** | | | |
| Large Metro Areas (1 Million +) | 54% | 55% | 21% |
| Smaller Metro Areas | 42 | 47 | 13 |
| **Central Cities** | 61 | 61 | 44 |
| **Non-Metro Areas** | 35 | 43 | 25 |

SOURCE: U.S. Bureau of the Census, Current Population Reports, Special Studies P-23, No. 75.

TABLE 7-8

EMPLOYMENT STATUS AND POVERTY RATE OF PERSONS IN WORKING-AGE HOUSEHOLDS BY PLACE OF RESIDENCE AND RACE: 1977

| | Working Status of Household Head (Percent) | | | |
|---|---|---|---|---|
| | Full Year Worker | Not Working Part of Year | Did Not Work | Total |
| **Distribution of Persons** | | | | |
| Suburbs | | | | |
| Black | 62% | 18% | 20% | 100% |
| White | 78 | 14 | 8 | 100 |
| Central City | | | | |
| Black | 55 | 19 | 26 | 100 |
| White | 72 | 16 | 12 | 100 |
| **Poverty Rate** | | | | |
| Suburbs | | | | |
| Black | 6 | 27 | 51 | 19.1 |
| White | 2 | 13 | 41 | 5.4 |
| Central City | | | | |
| Black | 9 | 37 | 70 | 30.3 |
| White | 3 | 19 | 29 | 9.9 |

SOURCE: U.S. Bureau of the Census, Special Tabulations, March 1978 **Current Population Survey.**

was significantly lower than in the central cities (19.1% versus 30.3%). This difference reflects, in large part, greater employment opportunities in suburban areas as well as the recent increase in black middle class suburbanization.

Fewer black males living in suburbs are unemployed or earn very low wages than is the case for those living in central cities. However, suburban job opportunities for blacks are still significantly less than for whites. Suburban blacks are more than twice as likely not to work as suburban whites, and among full-time suburban workers, three times as many blacks as whites are poor (six percent versus two percent). The joint impact of a higher incidence of non-work and of low-wage work is that among working-age blacks living in suburbs 19.1% are poor compared to only 5.4% of whites. This sharp disparity is clear evidence that residential suburbanization alone has not enabled racial minorities to share equally in the growth in employment opportunities outside of central cities.

Blacks living in suburban areas have not shared equally in employment opportunities and remain disproportionately poor, indicating the need for continued affirmative action. For suburbs as well as central cities, efforts to respond to the needs of the poor must go beyond increasing jobs to address the situation of the majority of the suburban poor who are either elderly or members of households headed by females.

## 3. Suburban Housing and Neighborhoods

The suburban housing stock is dominated by single-family, owner-occupied units. Indeed, the opportunity to own a detached home has long attracted households to residential areas outside central cities. However, the suburban housing stock is considerably more diverse than is commonly recognized, both in terms of tenure and structure type. This diversity arises from the urban character of many older inner suburbs and from the changing composition of new residential construction.

As of 1977, seven in ten suburban housing units were owner-occupied, compared to fewer than half of central city units (Table 7-9). Regionally, the fraction of suburban units that are owned is highest in the North Central portion of the country and lowest in the West. Home ownership is inversely related to place size with smaller suburban communities having the highest proportion of owned units and larger suburbs having a greater share of rental units. Although the majority of suburban units are owner-occupied, there are a substantial number of rental units outside the central city. These include older apartment buildings located in inner suburban communities such as Evanston, Illinois, as well as the newly built rental apartment complexes in growing suburbs such as Menlo Park, California. Moreover, many single-family homes are rented. As of 1977, nearly one-third of rental units in suburban areas were single-family structures. Slightly more than 30% of all suburban units built after 1970 were for rental occupancy.

The 1970's saw the beginning of a shift away from single-family detached homes in suburban areas. Over the first seven years of the decade, the proportion of owned suburban units which were single-family structures declined from 91.2% to 89.4%. Among newly built units, the change was even more dramatic, with more than 21% of new owned units being in structures of more than one unit. The acceptance of condominium home ownership was, of course, one factor responsible for the rise in multiple units. Although condominiums represent a small share (one percent) of the total suburban housing stock, more than five percent of housing units built after 1970 were sold as condominiums or cooperatives. Condominiums provide ownership opportunities for households who are priced out of the single-family market by rising construction and financing costs, and for households who want the tax and asset benefits of ownership without the responsibilities of a single-family home.

The growth in mobile homes illustrate the increasing diversity in the suburban stock. Between 1970 and 1977 the number of mobile homes in suburban areas approximately doubled. The largest growth occurred in the West where their share of the total housing stock rose from 3.8% to 7.6%. The rise in mobile homes indicates one way in which the need for low cost, owner-occupied housing is being satisfied in metropolitan areas.

Compared with central cities, the suburban housing stock is both markedly newer and in better condition (Table 7-10). Nearly 20% of the suburban housing stock occupied in 1977 was built after 1970, compared to approximately 12% of central city housing units. Newly built units account for an even higher proportion of the suburban stock in the South and West where population growth was most rapid during the 1970's. On the other hand, roughly half as many suburban units were built prior to 1939 as in central cities. In addition to being relatively new, the fraction of sururban units with structural deficiencies is very low. By the mid-1970's only 1.1% of units reported incomplete plumbing facilities, 3.5% reported open cracks or holes in the walls or ceilings, and 4.8% reported leaking roofs. By comparison, among central city units 1.5% of households reported incomplete plumbing, 7.2% open cracks in walls or ceilings, and 6.3% leaking roofs.

While structural deficiencies do exist in suburban areas, in most cases these are relatively minor in nature. The proportion of units with deficiencies has traditionally been highest in the South and in some older inner suburbs which have experienced deterioration in their housing stock in recent years. However, the overwhelming impression given by national housing data is of a structurally sound suburban housing stock.

In terms of neighborhood conditions and local facilities, suburban residents appear to be quite satisfied: 87% gave their neighborhood an overall rating of good or excellent in 1977, up from 85% in 1973. This is 14% higher than for central city residents. Compared to central city households, suburban homeowners appear to be more satisfied with the

## TABLE 7-9

## TENURE OF SUBURBAN HOUSING STOCK BY REGION: 1977

| | Percent of Housing Units | | | |
|---|---|---|---|---|
| | Owned | Rented | Cooperative or Condominium | Total |
| **Total Housing Stock 1977** | | | | |
| **Suburban** | 68.5% | 30.3% | 1.1% | 100% |
| Northeast | 68.8 | 30.3 | 0.9 | 100 |
| North Central | 74.9 | 24.3 | 0.7 | 100 |
| South | 67.8 | 30.7 | 1.5 | 100 |
| West | 61.9 | 36.7 | 1.4 | 100 |
| **Central City** | 47.3 | 51.1 | 1.6 | 100 |
| **Units Built Since 1970** | | | | |
| **Suburban** | 62.8 | 31.6 | 5.6 | 100 |

SOURCE: U.S. Bureau of the Census, Annual Housing Survey, 1977.

## TABLE 7-10

## AGE OF THE SUBURBAN HOUSING STOCK BY REGION: 1977

| | Percent of Housing Units Built | | | |
|---|---|---|---|---|
| | Before 1940 | 1940 through 1970 | After 1970 | Total |
| **Suburban** | 22.9% | 57.6% | 19.5% | 100% |
| Northeast | 42.0 | 47.2 | 10.8 | 100 |
| North Central | 23.6 | 59.1 | 17.3 | 100 |
| South | 11.9 | 60.7 | 27.4 | 100 |
| West | 12.7 | 64.2 | 23.1 | 100 |
| **Central City** | 43.7 | 44.5 | 11.8 | 100 |

SOURCE: U.S. Bureau of the Census, Annual Housing Survey, 1977.

quality of local schools and police protection, and less frequently report bothersome neighborhood conditions such as traffic noise, streets in need of repairs, or poor lighting. Equal proportions are satisfied with local shopping and recreational facilities. Only for public transportation and hospital facilities do suburban homeowners express less satisfaction than central city homeowners.

Over the 1970's, suburbs experienced strong growth in the demand for housing. The number of households living in suburban areas increased by 5.7 million (25.4%) between 1970 and 1977, and median family income rose from $11,600 to $18,800 for owners and from $7,700 to $10,600 for renters. Growth in households and average incomes resulted in almost a doubling of the total income earned by suburban residents, from $234.5 billion to $462.0 billion over the first seven years of the decade (Annual Housing Survey, 1977). Accounting for inflation, this amounts to a 26% growth in real purchasing power. Strong demand for housing units in suburban areas stimulated high levels of new residential construction which reinforced decentralizing trends from central cities. Between 1970 and 1977 more than 2.6 million new residential units were built in suburban areas, expanding the 1970 stock by more than one-fourth. Where demand was growing, additional housing units were built and existing units were well maintained. However, suburban communities which lost population and income, and hence effective demand for housing, experienced much the same problems of disinvestment and even abandonment as central cities.

**Housing Affordability and Opportunity in Suburban Areas**

For the majority of suburban areas the principal issues of policy concern with regard to housing are those of affordability and of opportunity for minority groups and low- and moderate-income households. A recent national survey of municipal officials found the high cost of housing to be the most commonly cited housing related problem among suburban communities (HUD, 1979). Rising housing costs have made it increasingly difficult for low and moderate income households to live in suburban areas. However, lower average incomes alone do not account for the extent to which blacks remain concentrated in central city residential neighborhoods.

By 1977, nearly half of suburban renters were paying at least 25% of their income for rent, and 28% were paying more than one-third of their income (Table 7-11). As recently as 1973, these figures were significantly lower. In 1973, only 17% of suburban renters paid in excess of 34% of their income for housing and 65% paid less than 25% of income. The problem is most acute in the West where by the mid-1970's nearly one in every three renters paid more than 34% of household income for rent. Using the traditional standard that expenditures for housing should not exceed 25% of income, this indicates that affordability is a growing concern for suburban renters, although the problem is less critical than in the central city, where fully one in three renters pay in excess of one-third of income for housing.

The suburban affordability problem is particularly acute for low and moderate income households. By 1977, more than three of every four suburban families earning between $5,000 and $10,000 paid in excess of 25% of their income for rent. Among families earning less than $5,000, nearly 80% paid in excess of one-third of their income for rent. As recently as 1973, only 15% of moderate income households spent more than 34% of their income on rent. It is apparent that in order to live in suburban locations, low income households —and, since the mid-1970's, moderate income households as well—must frequently pay a very large portion of their income for housing. Furthermore, middle income renters are also paying an increasingly large share of their income for rent. Between 1973 and 1977 the fraction of households with incomes between $10,000 and $19,999 who paid more than 25% of income toward rent rose from 7.2% to 25.2%.

Housing costs have also risen more rapidly than incomes for suburban homeowners. Between 1970 and 1977, the median value for a suburban house more than doubled; during the same period, median income for suburban households rose by only 62%. By 1977, the median value for suburban homes was $44,000, compared to $34,000 for the central city; for suburban homes built after 1970, the median value was $54,200.

The rapid rise in house values together with significantly higher average values in suburbs as opposed to central cities, have sharply limited the opportunity for first-time buyers to purchase a suburban house. First-time home-buyers must pay the full increase in capital costs resulting from rising residential values and from current financing costs, as well as rapidly escalating maintenance and operating costs, including heating and property taxes. Monthly ownership costs for first-time buyers rose sharply faster than family incomes over the decade. One study found that between 1970 and 1975 the cost for a new single-family home rose twice as rapidly as median household income (Mayer, 1977). Consequently, the ability of first-time buyers to afford a suburban home declined substantially. Another study found that the fraction of families able to afford a median priced new home without spending more than one-fourth of income on housing fell from 46.2% in 1970 to 27.0% in 1976 (Frieden and Solomon, 1977). The fraction fell even further in subsequent years as house values and energy costs continued to outpace incomes. Young families and upwardly mobile minority households have been particularly affected by this rapid escalation in housing costs for first-time buyers. One response has been increased interest in less expensive forms of owned housing such as attached townhouses, condominiums, or mobile homes. Another has been renewed interest in homeownership in inner city neighborhoods where lower prices can often be found.

Sharp increases in home heating costs and real estate taxes since the mid-1970's have increased housing costs for long term homeowners as well. However, the rise in costs has been less than for first-time buyers since mortgage costs reflect not current homes values and interest rates, but those prevailing at the time the house was purchased. Rising values accrue to previous owners as a capital gain rather than as an increased out-of-pocket cost. It is precisely this investment

TABLE 7-11

SUBURBAN HOUSING EXPENDITURES AS A PERCENTAGE OF RENTER HOUSEHOLD INCOME BY REGION AND INCOME: 1977

| | Percent of Households Spending the Indicated Fraction of Income on Rent | | | |
|---|---|---|---|---|
| | Less than 25 Percent of Income | 25 to 34 Percent of Income | More than 34 Percent of Income | Total |
| **Suburban** | 52.7% | 19.4% | 27.9% | 100% |
| Region | | | | |
| Northeast | 54.0 | 18.7 | 27.3 | 100 |
| North Central | 57.2 | 19.4 | 23.4 | 100 |
| South | 53.2 | 19.3 | 27.5 | 100 |
| West | 47.9 | 20.1 | 32.0 | 100 |
| Income Level–1977 | | | | |
| Less than $5,000 | 11.2 | 9.8 | 79.0 | 100 |
| $5,000–$9,999 | 23.4 | 34.7 | 41.9 | 100 |
| $10,000–$19,999 | 74.8 | 20.6 | 4.6 | 100 |
| $20,000 or more | 97.1 | 2.8 | 0.1 | 100 |
| Income Level–1973 | | | | |
| Less than $5,000 | 14.8 | 21.0 | 64.2 | 100 |
| $5,000–$9,999 | 54.9 | 30.2 | 14.9 | 100 |
| $10,000–$19,999 | 92.8 | 6.6 | 0.6 | 100 |
| $20,000 or more | 99.4 | 0.6 | 0.0 | 100 |
| Central Cities | 48.9 | 18.0 | 33.1 | 100 |

SOURCE: U.S. Bureau of the Census, Annual Housing Survey, 1977.

TABLE 7-12

PERCEIVED NEED FOR LOW INCOME HOUSING AMONG SUBURBAN COMMUNITIES BY POPULATION GROWTH AND LEVEL OF COMMUNITY NEED: 1977

| | Percent of Communities Perceiving a Need for Low Income Housing | | |
|---|---|---|---|
| | Declining Population | Stable Population | Growing Population |
| Degree of Resident Need[1] | | | |
| Relatively High | 70.0% | 55.0% | 38.5% |
| Moderate | 25.0 | 16.7 | 22.7 |
| Relatively Low | 8.3 | 14.5 | 16.3 |

SOURCE: Tabulated from U.S. Department of Housing and Urban Development, **Development Needs of Small Cities**, March 1979.

[1] Resident need is defined in Chapter 2.

aspect of homeownership which has kept the demand for homes strong despite sharp rises in the out-of-pocket costs of ownership in the late 1970's. Yet, because the capital gains are unrealized, the rising cost of maintaining a home has imposed a burden on households with fixed incomes, such as the elderly, who find that they must allocate a growing fraction of their incomes to housing.

Rising housing costs have made it increasingly difficult for low- and moderate-income renters and homeowners to afford to live in suburban areas. A recent study by the Department of Housing and Urban Development found that city officials from more than half of all suburban communities perceived a lack of housing opportunities for low- and moderate-income and for elderly households in their city. In general, communities with high levels of resident need rated low income housing to be a greater concern than those with low need, indicating that the perception of need may be tied to the current presence of low income groups (Table 7-12). Hence, the need to provide housing opportunities for low-income households in suburban areas is probably understated, since the housing needs of persons barred from suburbia by high housing costs and discriminatory practices are not adequately reflected in local officials' priorities. Among needy communities with declining population, fully 70% recognized that they had inadequate amounts of low cost housing. Among communities with low or moderate needs, those which are growing more often perceived a shortage than those which are declining or stable. Clearly, new construction of market rate housing in growing suburban communities cannot be counted on to provide significant housing opportunities for low- and moderate-income households.

For minority households, the barriers to suburban housing opportunities are greater than just affordability. Discrimination is still a factor limiting the housing choice of nonwhite households. Although the number of blacks living in suburbs increased by more than 40% over the 1970's, the actual numerical increase is relatively small; by 1977 three of every four blacks residing in metropolitan areas of the United States lived in a central city. Among whites, only two in five lived in a central city. This difference can only partly be explained by lower average incomes for blacks than whites. High income blacks more frequently live in suburban areas than those with low incomes, but compared to whites with similar incomes, blacks are only half as likely to reside in suburban communities as are whites with similar incomes. Among low-income households, only 20% of blacks live outside of the central city compared to 50% of whites (Table 7-13).

A recent study indicates that in more than half of the nation's 20 largest metropolitan areas, black suburbanization increased little if at all during the 1970's (Nelson, 1979). Moreover, as discussed earlier, many suburban blacks live either in largely black suburban communities contiguous to the central city, or, in the case of the South, in smaller rural enclaves within the metropolitan boundaries. The goal of equal access for racial minorities to suburban areas clearly has not been achieved, even when income differences are accounted for. Rising incomes alone cannot be relied upon to eliminate the barriers to suburban housing opportunities for racial minorities.

## 4. Suburban Fiscal Conditions

Like their central city counterparts, suburban communities must provide a broad range of services. Among the traditional municipal functions are police and fire protection,

**TABLE 7-13**

**PERCENT OF METROPOLITAN POPULATION RESIDING IN SUBURBAN AREAS BY RACE AND INCOME: 1977**

| Income | Percent Suburban Black | White |
|---|---|---|
| Less than $5,000 | 17.7% | 46.5% |
| $5,000–$9,999 | 22.4 | 52.2 |
| $10,000–$14,999 | 22.8 | 57.8 |
| $15,000–$25,000 | 30.5 | 63.8 |
| More than $25,000 | 35.5 | 69.3 |
| TOTAL | 23.6 | 59.2 |

SOURCE: U.S. Bureau of the Census, **Annual Housing Survey**, 1977.

sewage disposal, water supply, education, parks, and recreation facilities. A recent survey of local governments found that about 85% of all suburbs have a municipal police and fire department, 80% provide storm drainage facilities, 66% provide refuse and sewage collection, 54% supply water, and 90% are responsible for building code enforcement. A smaller fraction operate a municipal bus company, distribute electricity, or operate libraries and hospitals. In general, the range of functions performed increases with the size of the suburb (Urban Data Service Reports, 1975).

Suburban communities have increasingly adopted innovative forms of service provision which take advantage of their physical proximity to a large central city and other suburban towns. A variety of mechanisms are available through which local governments can shift and share responsibility for providing municipal services. These include intergovernmental service agreements by which municipalities formally or informally contract with a county, special district, state, or another municipality to provide specific services. More than 70% of suburban communities participate in such arrangements. Another increasingly popular mechanism is a transfer of functions whereby responsibility for providing (and usually for financing) a service is formally assigned to another agency or level of government. Solid waste collection and disposal, sewage collection and treatment, and public health are among the most commonly transferred functions. The propensity to use these mechanisms increases with community size. Economies of scale are the most commonly cited reason for entering into both types of agreements, although a substantial number of communities are motivated by a lack of facilities or trained personnel to provide the service themselves (ACIR, 1976).

**Community Development Needs in Suburban Areas**

Suburban communities currently face two principal types of community development need. First is the need to expand facilities and services to accommodate new population growth and to meet the demand for rising levels of services. Second is the need to upgrade or replace existing facilities which are no longer adequate due to either deterioration or obsolesence, or which do not meet Federal, state, or local standards. The first set of needs are most salient for growing suburbs while the second is the dominant concern of stable high need communities where resources are limited.

For growing suburbs, infrastructure needs principally reflect the cost of expanding and upgrading public services in response to growth. For instance, the use of private wells and septic tanks is prevalent in smaller communities; however, with rapid population growth and new government regulations, many of these communities must shift to public water and sewer systems. The per household costs of providing such systems can be quite high. Although a number of state and Federal programs provide a substantial proportion of the costs of installing distribution and collection lines, the per capita cost for such facilities is often large and their relatively small size reflects obvious diseconomies of scale. Upgrading of formerly rural roadways to accommodate increased traffic flow is also a cost associated with growth. Some roadway costs are borne by the local government, though state and Federal programs assist with these costs as well.

Older, stable or declining suburban communities face problems arising from deferred maintenance of public facilities. Where the tax base has been either relatively static or declining, communities have frequently allowed roads, bridges, and water and sewer lines to fall into disrepair. In extreme cases, total replacement of large parts of these systems is now necessary, often at staggering costs. The central business districts of many suburban communities have also fallen into a state of deterioration, marked by vacant and abandoned buildings and physical blight. The cause is typically the same as in central cities–competition from new shopping malls or commercial strip development, and disinvestment in core business. While many communities have carried out successful revitalization efforts, others are confronted with a need for both physical and economic redevelopment.

A 1979 study of the developmental needs of small cities found that community infrastructure is a leading concern among suburbs of less than 50,000 population (HUD, 1979). Facilities most frequently cited as in greatest need of improvement were sewer and drainage facilities, water treatment and delivery facilities, and streets and roadways. These were widely felt to represent the most urgent and immediate needs, although the extent of concern was less widespread for suburbs than for non-metropolitan communities of a similar size. Community infrastructure–notably water and sewer systems–were most frequently cited as the top developmental priority (Table 7-14). This appears to reflect the high cost of these facilities in relation to municipal budgets. Water treatment and distribution facilities, as well as sanitary sewers and storm drainage facilities, were more often rated as top priority for improvement by suburbs under 10,000 population than by larger suburban cities. On the other hand, revitalization of the central business district and economic development were progressively greater concerns with increasing community size. Streets and roadways were a high priority for about 25% of suburbs of all sizes. These data indicate that substantial unmet community development needs remain in suburban areas.

**Suburban Tax Effort and Fiscal Capacity**

Suburbs spend less per resident for municipal services than central cities. One indication of this is the variation in per capita expenditures by municipalities reported in the Census of Governments for communities of different sizes, including both central cities and suburbs. In 1977, cities larger than one million spent $412 per capita compared to $341 for municipalities with 50,000 residents and only $238 for towns with 10,000 residents. Smaller per capita expenditures for suburban communities in part reflect lower costs for providing some services. For example, suburbs hire fewer employees per resident and pay lower average wages than central cities. Volunteer organizations such as volunteer fire departments and library associations play a larger role in providing local services in small communities. Another factor behind lower expenditures is the ability of suburbs to rely on services and facilities provided elsewhere in the metropolitan area, such as central city libraries, museums, civic centers, and sports facilities.

Property taxes are the principal source of locally generated municipal revenues for suburbs as well as for central cities. Hence, the value of real property within suburban communities is an important indicator of fiscal capacity. Real property values per capita in suburban areas are consistently higher than for central cities. For example, the per capita value of real property in the Philadelphia area in 1976 was $20,341 for suburban areas compared with $8,160 for the central city; in Minneapolis, per capita value of suburban real property was $17,279 to $14,001 for the central city; in New Orleans, the figures were $14,396 and $10,387, respectively. The gap between suburban and central city values is largest for metropolitan areas which are declining in population and for those with needy central cities (U.S. Bureau of the Census, 1977). Higher property valuation per capita in suburban areas indicates an ability to generate revenue with a lower level of tax effort than for central cities.

Suburban communities tax themselves less heavily than central cities. Table 7-15 shows an average non-school tax effort of $16.70 per $1,000 of local income for suburbs compared to $25.80 for large metropolitan cities. Tax efforts are lowest for suburbs smaller than 2,500 population and increase with city size; average tax effort for suburbs larger than 50,000 approach that for central cities. Only seven percent of suburbs have a high tax effort compared to 18% of large metropolitan cities–and these are mostly communities greater than 10,000 population (Table 7-15). Suburban tax effort is highest for communities which are declining in population and lowest for those which are gaining. Table 7-16 shows that growing suburbs tax themselves only $15.50 per $1,000, compared to $19.00 per $1,000 for declining places. Surprisingly, affluent suburbs under 50,000 show a markedly higher tax effort than needy suburbs. Among declining communities, those with low need tax themselves at nearly twice the rate of those with high need. The inverse relationships between community need and tax effort holds for all regions except the South and for each size of place category.

Increasing demands are being placed on suburban governments by often rapid change in community size and character and by more stringent state and Federal requirements. Communities which are growing face the need to upgrade or replace existing facilities which are inadequate to meet current demand due to growing obsolescence or deterioration, or which are no longer acceptable under government regulations. Large capital infrastructure projects such as sewer and water systems and roadways are frequently cited community development needs for both growing suburbs and those with stable population. While a number of suburbs are in need of planning and financial assistance for large infrastructure projects, measures of tax effort indicate that a majority of suburban communities have substantial untapped fiscal capacity in comparison with many central cities.

## TABLE 7-14

## COMMUNITY DEVELOPMENT NEEDS FOR SUBURBS BY SIZE OF PLACE: 1979

| | Percentage of Communities Ranking Various Community Development Needs as First or Second Priority by Population Size | | | |
|---|---|---|---|---|
| | Less than 2,500 | 2,500-9,999 | 10,000-24,999 | 25,000-50,000 |
| Water Treatment & Delivery Facilities | 26% | 32% | 14% | 13% |
| Sewer & Drainage Facilities | 43 | 42 | 31 | 21 |
| Streets & Roads | 28 | 21 | 23 | 25 |
| Revitalized Central Business District | 6 | 4 | 17 | 17 |
| Resources to Attract Economic Development | 6 | 7 | 17 | 16 |

SOURCE: U.S. Department of Housing and Urban Development, Developmental Needs of Small Cities, Washington, D.C., March 1979.

## TABLE 7-15

## AVERAGE TAX EFFORT FOR SUBURBAN COMMUNITIES AND PERCENT WITH HIGH TAX EFFORT BY SIZE OF PLACE: 1976

| | Average Tax Effort[1] | Percent With High Tax Effort[2] |
|---|---|---|
| Suburban Municipalities | $16.70 | 7.3% |
| Less than 2,500 | 11.60 | 4.7 |
| 2,500 – 9,999 | 16.10 | 3.9 |
| 10,000 – 24,999 | 20.10 | 9.8 |
| 25,000 – 49,999 | 20.70 | 12.4 |
| Metropolitan Municipalities[3] | | |
| Larger than 50,000 | 25.80 | 18.2 |
| Less than 50,000 | 16.70 | 7.3 |

SOURCE: Data provided by U.S. Treasury Department, Office of Revenue Sharing, from Census Bureau figures developed for allocation of general revenue sharing funds.

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[1] Local taxes generated per $1,000 of local income.

[2] High tax effort is measured as one standard deviation above the mean tax effort for all communities.

[3] Includes central cities and suburbs greater than 50,000.

## TABLE 7-16

## AVERAGE TAX EFFORT[1] FOR SUBURBS AND COMMUNITIES BY POPULATION CHANGE AND COMMUNITY NEED[2]

| Population Change: 1970-1975 | Degree of Resident Need[3] Relatively Low | Moderate | Relatively High | Total |
|---|---|---|---|---|
| Decreasing | $23.7 | $15.6 | $12.7 | $19.0 |
| Stable | 20.6 | 15.4 | 13.6 | 17.8 |
| Increasing | 19.0 | 14.2 | 12.0 | 15.5 |
| Total | 20.3 | 14.8 | 12.5 | 16.7 |

SOURCE: Data from Brookings Institute, **Report on the Allocation of Community Development Funds to Small Cities**, 1979.

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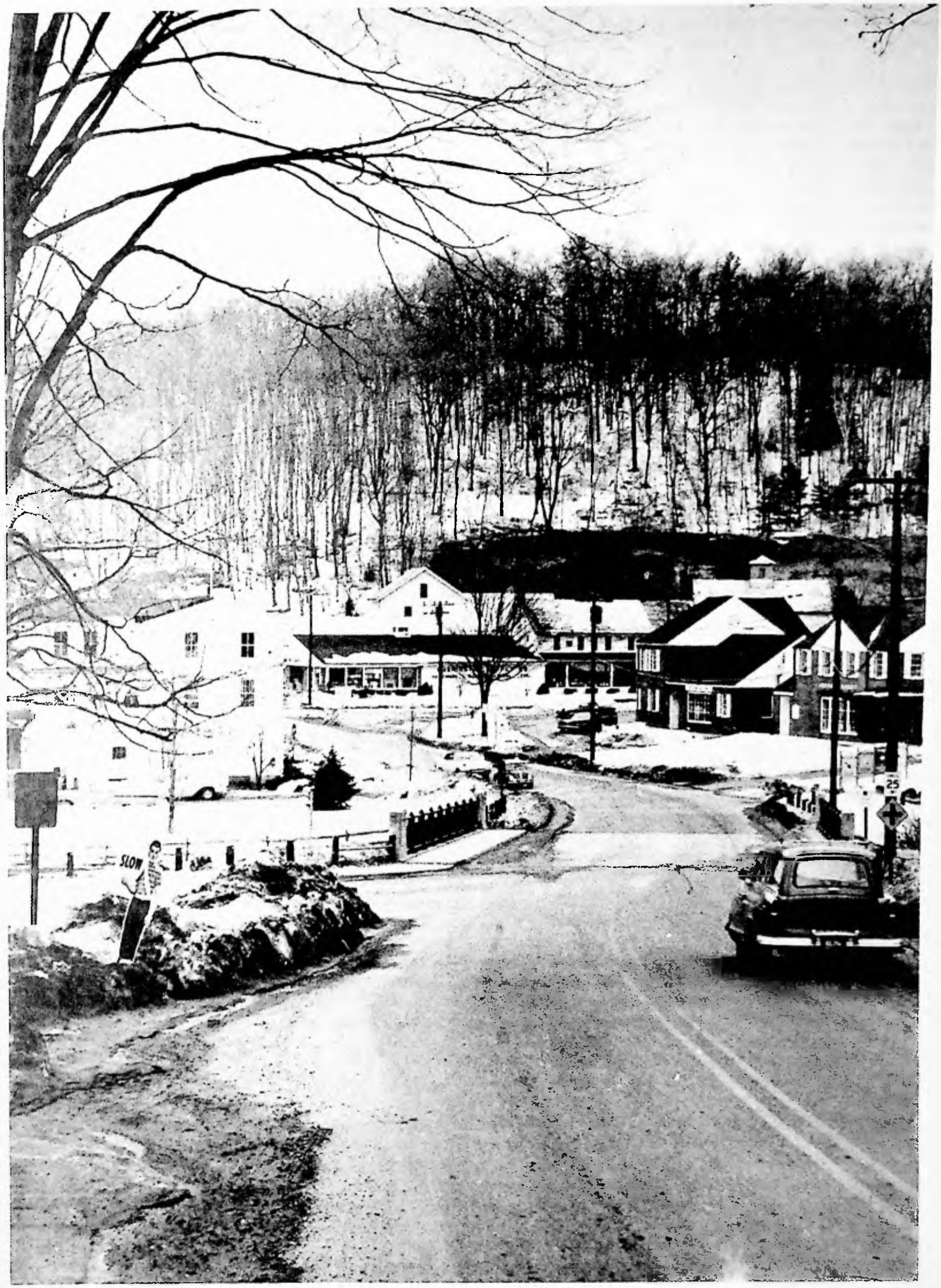
[1] Local taxes generated per $1000 of local income.

[2] Includes only suburbs smaller than 50,000.

[3] Resident Need is defined in Chapter 2.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25

# VIII. NON-METROPOLITAN COMMUNITIES

The small cities and towns of the nation's non-metropolitan areas were historically a mainstay of American society. But during the first half of the twentieth century, they consistently lost residents to the greater employment and cultural opportunities offered by growing metropolitan areas centered around larger cities. Out-migration resulted in declining population in many non-metropolitan areas, and a gradual aging of the population as younger households responded to the lure of the big city. The housing stock, commercial centers, public buildings and capital infrastructure of small cities also aged, gracefully in some places, but with considerable deterioration in many places. Until recently, non-metropolitan communities were seen by many observers of the urban scene as quaint artifacts of a simpler era, while large metropolitan areas were seen as the dynamic focus of future population and economic growth.

So deeply embedded were these attitudes that initial reports of renewed growth in non-metropolitan areas after 1970 were met with surprise and even disbelief. By the close of the 1970's, recognition of the turnabout in non-metropolitan growth had begun to reach beyond urban analysts into the consciousness of elected officials, the media, and the general public. What this turnabout means for American society is still being learned.

Recent growth has bolstered the economy of non-metropolitan areas, increased incomes, stimulated residential construction and strengthened the fiscal condition of many languishing communities. This has improved the lives of long-term non-metropolitan residents and has expanded job, housing, and service opportunities for new in-migrants. At the same time, growth in non-metropolitan areas has aroused the specter of a renewed wave of urban sprawl. In addition, growth has imposed fiscal burdens on some cities and towns because of needs related to community infrastructure and services. It has also threatened the small town ambiance that makes non-metropolitan areas attractive to many migrants and has generated fears of environmental degradation.

Non-metropolitan growth appears to be part of the dispersion, or spreading-out of urban settlement patterns which has long been observed within metropolitan areas in the form of suburbanization. This dispersion is fueled by advances in transportation and communications which have loosened historical ties of non-agricultural employment to large metropolitan centers, and by changes in population characteristics–such as the increasing number of retired persons. Development of "portable" income supports such as social security have also given households greater locational flexibility. The fundamental nature of these forces underlying decentralization indicate that non-metropolitan growth will continue into the 1980's.

Continued non-metropolitan growth means an enlargement of the metropolitan fringe. In fact, many growing counties adjacent to existing metropolitan areas will be reclassified as metropolitan after the 1980 census. Growth in these areas raises the concerns cited in the previous Chapter as pertinent to suburban development: the efficiency issues associated with a deconcentrated pattern of land use; issues of equal access for low-income households and for racial minority groups; and issues related to the impact of extended new urban development at the fringe on central cities and existing suburbs. For growing, free-standing, non-metropolitan urban places, population and employment growth pose the challenge of guiding development in ways which respect objectives with regard to the quality of the environment, energy-efficiency, housing and job choices for low income and minority households, and the adequacy of public services.

**Non-metropolitan Areas: An Overview**

After a long period of stable or even declining population and employment, non-metropolitan areas began to show indications of renewed vitality and growth during the 1970's. As discussed in Chapter 1, net migration flow from small towns and mid-sized cities to large metropolitan centers reversed direction about 1970 and population began to grow more rapidly in non-metropolitan areas than in metropolitan areas. Population growth in non-metropolitan communities reflects improved access, expanded employment opportunities, and the lower cost of living available outside large urban centers. Greater concern on the part of households for quality of life and environmental amenities have also apparently stimulated out-migration from metropolitan areas.

Non-metropolitan growth during the 1970's was widespread, affecting urban places of all sizes and all regions of the country. Indeed, half of all non-metropolitan towns and cities larger than 2,500 persons experienced population increases in excess of five percent after 1970. The most rapid rates of growth occurred in counties adjacent to metropolitan areas. Growth in "exurban" counties can be characterized as metropolitan spillover, with many recent migrants commuting to jobs in the nearby metropolitan area. However, nearly half of non-metropolitan growth during the 1970's took place in counties distant from metropolitan centers. Energy boom towns of the West, new manufacturing towns of the South, and scenic retirement and recreation communities scattered throughout the country, all showed rapid increases in population after 1970. Overall, only about 17% of employed heads of households which migrated to non-metropolitan counties in recent years commute to SMSA jobs (Bowles, 1978).

As of 1977, 59.8 millions persons, or 28% of the United States population, resided outside metropolitan areas. The majority (62%) of the non-metropolitan population lived in counties with a town of 2,500 to 24,999 population, and another 25% lived in counties containing a relatively large city of 25,000 or more population. Only about 12% lived in entirely rural counties with no place larger than 2,500. Nationally, the non-metropolitan population is predominantly white: whites account for 87.8% of the non-metropolitan population, blacks 9.3%, and persons of Hispanic origin 2.5%; however, in the South, more than one-quarter of the non-metropolitan population is black (U.S. Bureau of the Census, 1978).

Non-metropolitan communities vary widely with respect to their degree of distress or need. Many growing non-metropolitan communities are characterized by expanding employment opportunities, rising incomes, and ample resources to address the strains associated with population growth. However, other growing places are characterized by high levels of poverty and a lack of financial resources as well as lack of administrative capacity to address growth related needs. Some growing non-metropolitan towns, particularly in the Southwest, have experienced increasing distress due to legal and illegal in-migration from other countries.

Not all non-metropolitan places grew. One-third of all non-metropolitan communities experienced stable population during the 1970's, and another one-fifth experienced population declines of five percent or more. Stable and declining communities include older mill towns of the Northeast, agricultural towns whose economic function has withered away with the passing of family farms, and retail centers which have been by-passed by freeways. In many cases, declining communities are characterized by economic and fiscal distress and by rising levels of resident need. They often face diminishing employment opportunities, a deteriorated housing stock, high levels of poverty, aging capital infrastructure, and a deteriorated central business district.

Not all non-metropolitan cities and towns with stable or declining populations are distressed, however. Many non-metropolitan towns with stable populations, have relatively low levels of resident need, a well-maintained housing stock, a solid employment base, and fiscal resources sufficient to maintain existing infrastructure. Some non-metropolitan towns in agricultural areas of the North Central region have enjoyed rising incomes, despite population losses, due to agricultural prosperity and technological advances.

This Chapter describes the experience of non-metropolitan American during the 1970's. Aside from an analysis of community need and growth, which is based on city specific data, the remainder of the Chapter necessarily relies heavily upon aggregate data, because in many cases, adequate information is simply not available for individual cities under 25,000 population. Where possible, the data is disaggregated to suggest variations in experience by size of non-metropolitan community or region. While aggregate data has shortcomings, it gives considerable insight into the broad characteristics and trends of non-metropolitan areas.

The principal finding of the Chapter is that renewed growth in non-metropolitan communities has manifested itself in generally improved conditions:

- Economic growth greatly expanded and diversified the economic base of non-metropolitan communities during the 1970's, resulting in greater employment opportunities and rising average earnings relative to metropolitan areas.

- Economic growth in non-metropolitan areas contributed to a sharp decline in poverty over the 1970's. By the close of the decade, the poverty rate for non-metropolitan areas was substantially below that for central cities. Still, about 14% of the non-metropolitan population is poor and 44% of non-metropolitan communities are needy. Moreover, nearly four in every ten poor persons in the United States live outside of metropolitan areas. In contrast to needy central cities which usually lost population, half of all needy non-metropolitan places gained population after 1970.

- Housing conditions improved substantially over the 1970's in non-metropolitan communities, largely due to high levels of new residential construction. Sharp rises in rents and house values have made affordability an increasing concern. Still, more low cost housing is available in non-metropolitan areas than in suburbs and more low-income households are homeowners than in central cities.

- Growing non-metropolitan communities face expanding public service and infrastructure needs. Many appear to have some fiscal capacity to respond to these needs. However, the large capital cost of some projects in relation to total municipal budgets poses great fiscal difficulties for many small cities.

These findings indicate that the problems facing non-metropolitan areas may be changing. Publicly assisted economic development efforts may become less of a concern for many non-metropolitan communities where employment and population are now expanding without government intervention. Employment growth should translate into real per capita income growth and further declines in non-metropolitan poverty. Yet, greater prosperity may place increased stress upon low income households as the cost of living–and particularly the cost of housing–rises. Growth will also strain the fiscal and management capacity of small communities.

## 1. Non-Metropolitan Economies

During the 1970's, economic growth spilled beyond metropolitan boundaries, and non-metropolitan areas showed marked gains in all employment sectors. Between 1970 and 1976, 2.5 million jobs were added in non-metropolitan areas of the United States (see Table 8-1). This represents a 12% expansion in employment opportunities. Over the same period population living in non-metropolitan areas increased by ten percent. Economic growth was remarkably widespread with non-metropolitan employment increasing in all regions, for communities for all sizes, and in many previously distressed areas. Altogether, 70% of counties experienced significant employment gains.

The service occupations showed the largest gains in non-metropolitan employment over the 1970's. Employment in professional and personal services and in retail trade increased by more than 400,000 jobs each. Rapid growth also occurred in wholesale trade and in finance, insurance, and real estate, which increased by 64% and 35%, respectively. Together, these four occupational categories account for more than half of total non-metropolitan employment growth over the 1970-76 period. Service related jobs have been increasing in non-metropolitan areas since the early 1960's, as part of a long-term nationwide shift from a goods-producing to a service-providing economy. The decentralization of certain service related industries with a regional or national market also contributed to non-metropolitan employment growth during the 1970's. The sharp rise in wholesale employment in non-metropolitan counties is particularly noteworthy in this regard since prior to 1970 this sector was predominantly found in metropolitan areas.

During the 1960's, manufacturing was a key employment growth sector in non-metropolitan areas, accounting for 30% of the total non-metropolitan job gain. After 1970, manufacturing employment growth slowed considerably, and accounted for only 13% of the total growth in non-metropolitan jobs through 1976. Still, manufacturing employment in non-metropolitan areas grew by 336,000 jobs between 1970 and 1976, during the same period that metropolitan areas lost manufacturing employment. Manufacturing industries which showed particularly strong non-metropolitan growth over the 1970's include plastics, fabricated metal products, textiles, apparel, and transportation equipment. The first two of these are growth industries and increased in metropolitan areas as well, while the latter three represent a shifting of production out of older metropolitan centers. These industries join traditional non-metropolitan manufacturers such as textiles, clothing, pulp and paper mills, logging and wood products, and aluminum plants.

The very small contribution of agriculture to total employment growth emphasizes the diminishing importance of this sector to the non-metropolitan employment base. Farm and agricultural services employment accounted for less than three percent of total job growth between 1970 and 1976. By the close of the decade, fewer than one in ten non-metropolitan workers were in occupations directly related to agriculture.

Non-metropolitan employment growth during the 1970's showed significant regional and size of place variations (Table 8-2). Between 1970 and 1976, more than 65% of non-metropolitan growth in manufacturing employment occurred in the South, although significant gains also occurred in the North Central and Western states as well. In contrast, the Northeast lost manufacturing employment in non-metropolitan areas as well as metropolitan areas after 1970. Manufacturing employment grew most rapidly in non-metropolitan counties with small to mid-sized towns. Seventy percent of the total increase in non-metropolitan manufacturing employment was in counties with towns of 2,500 to 20,000 population, and the most rapid rates of increase–in part due to the low initial base–were in counties with no place larger than 2,500.

Non-manufacturing employment increased by about 12% in non-metropolitan areas of the Northeast, South, and North Central regions. The West, however, grew at nearly twice the rate as the rest of the nation. Strong growth in all job sectors, together with a small initial base, accounted for its more

TABLE 8-1

EMPLOYMENT GROWTH IN NON-METROPOLITAN COUNTIES BY EMPLOYMENT SECTOR, 1970–1976

| | Change in Employment 1970–1976 Number[1] | Percent |
|---|---|---|
| Total Employment | 2,535.5 | 12.0% |
| Manufacturing | 335.7 | 7.7 |
| Non-Manufacturing | 2,199.9 | 13.2 |
| Agriculture | | |
| Total Farm | 51.5 | 6.4 |
| Agricultural Services | 12.8 | 12.4 |
| Service Performing | | |
| Wholesale Trade | 292.4 | 63.5 |
| Retail Trade | 436.7 | 18.1 |
| Professional and Personal Services | 470.3 | 18.5 |
| Finance, Insurance, and Real Estate | 142.8 | 34.7 |
| Other | | |
| Construction | 126.4 | 17.9 |
| Mining | 90.8 | 27.0 |
| Transportation, Communications, and Public Utilities | 64.0 | 8.4 |

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis; employment data were compiled by the Center for Social Data Analysis, Montana State University.

[1] In thousands

TABLE 8-2

EMPLOYMENT GROWTH IN NON-METROPOLITAN COUNTIES BY REGION AND SIZE OF LARGEST PLACE, 1970–1976

| | Employment Change 1970–1976: Total | | Manufacturing | | Non-Manufacturing | |
|---|---|---|---|---|---|---|
| | Number[1] | Percent | Number[1] | Percent | Number[1] | Percent |
| Total Non-Metropolitan | 2,535.6 | 12.0% | 335.7 | 7.7% | 2,199.9 | 13.2% |
| Region | | | | | | |
| Northeast | 204.5 | 8.1 | –36.7 | –5.6 | 241.2 | 13.0 |
| North Central | 715.0 | 10.0 | 85.7 | 6.1 | 629.3 | 10.9 |
| South | 1,009.1 | 11.5 | 221.0 | 11.0 | 780.1 | 11.7 |
| West | 607.0 | 23.5 | 65.7 | 22.8 | 541.3 | 23.5 |
| Size of Largest Place | | | | | | |
| Less than 2,500 | 257.3 | 11.5 | 43.5 | 15.9 | 213.8 | 10.9 |
| 2,500–19,999 | 1,274.8 | 12.7 | 234.9 | 11.6 | 1,040.0 | 13.0 |
| 20,000 or More | 1,003.4 | 11.4 | 57.3 | 2.8 | 946.1 | 14.1 |

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis; employment data were compiled by the Center for Social Data Analysis, Montana State University.

[1] In thousands

rapid rate of increase. Retail trade grew most rapidly in non-metropolitan cities larger than 20,000, while all other types of non-manufacturing employment grew more rapidly in smaller places. Other dimensions, not shown in Table 8-2, indicate that mining and construction both grew rapidly in the South and West, and that employment gains in agriculture were largely concentrated in the North Central region while the South lost agricultural jobs. Wholesaling showed strong employment growth in all regions, as well as in towns smaller than 20,000, indicating a genuine dispersion of activity in recent years in this sector.

The widespread nature of economic growth in non-metropolitan areas is further evidenced by county-level data presented in Table 8-3. Employment increased by at least five percent between 1970 and 1976 in 70.7% of all non-metropolitan counties. Fewer than six percent of all non-metropolitan counties lost more than five percent of their 1970 employment. Non-metropolitan counties containing mid-sized towns between 2,500 and 20,000 most frequently enjoyed employment growth, while counties with no place larger than 2,500 most frequently experienced employment loss. Even so, only one of every ten counties with no urban place suffered significant employment decline after 1970.

Expanded employment opportunities in non-metropolitan areas were reflected in rising resident incomes. Table 8-3 shows that non-metropolitan counties with the most rapid economic growth generated the most rapid increase in resident incomes during the 1970's. Non-metropolitan counties with high employment growth relative to population growth over the first half of the decade experienced an 82% increase in per capita income over the same period. In contrast, counties with moderate job growth relative to population growth registered a 73% increase in income, and those with low employment growth relative to population growth experienced only a 63% income gain. This is clear evidence of the link between economic growth and per capita income growth. Significantly, there is no indication that employment growth in non-metropolitan areas over the 1970's favored more affluent counties, as evidenced by the similarity in 1970 per capita income for the high-, moderate-, and low-growth county groups.

Expanded employment opportunities in non-metropolitan areas narrowed the per capita earnings gap between non-metropolitan workers and metropolitan workers during the 1970's (Table 8-4). Between 1970 and 1977 mean per capita earnings of employed persons residing in non-metropolitan areas rose from 76.5% to 79.0% of mean earnings for employed persons living in metropolitan areas. Particularly strong increases in relative earnings occurred in retail and wholesale trade and in manufacturing. Only for public administration and professional services did non-metropolitan earnings fall relative to metropolitan areas, perhaps reflecting the increasing unionization of public employees and teachers in many large metropolitan areas.

In real dollar terms, average earnings in non-metropolitan areas declined between 1970 and 1977, although not as sharply as for metropolitan areas. The largest losses occurred in agriculture where real earnings fell by more than 13%. On the other hand, substantial gains in real dollar earnings occured in mining—reflecting the renewed vitality of energy extractive industries. Manufacturing and transportation were also real growth sectors. Among the service occupations, only wholesaling and public administration showed real gains in mean earnings per worker after 1970.

Rising relative wages outside of metropolitan areas have made non-metropolitan areas increasingly attractive for many households. Further, the cost of living in non-metropolitan areas is significantly lower than for metropolitan areas. Data for a four-person family indicate that the cost of living in non-metropolitan areas declined from 93% to 90% of the national average between 1973 and 1977. However, lower average wages outside of metropolitan areas remain a factor attracting firms to locate in non-metropolitan areas. Thus, the convergence of wage levels between metropolitan and non-metropolitan areas could eventually detract from one of the chief incentives of firms producing goods for regional or national markets to locate plants outside of metropolitan areas (Lonsdale and Seyler, 1979).

**Sources of Non-Metropolitan Economic Growth**

Many of the same cost and demand factors that were historically responsible for the economic growth of suburbs relative to inner cities are responsible for the decentralization of economic activity into non-metropolitan areas. Advances in transportation of goods and in rapid telecommunications systems have greatly reduced the need for manufacturing, wholesaling, and even office establishments to locate near large urban centers. These advances have enabled firms to take advantage of spatial variations in production costs, or to locate in areas rich in amenities.

Firms are attracted to non-metropolitan locations by the availability of large quantities of relatively inexpensive developable land and by generally lower levels of local taxation. However, the availability of relatively low cost labor has probably been the most important factor attracting manufacturing industry to non-metropolitan locations. Recent studies show that many non-metropolitan manufacturers believe that their employees provide greater levels of output per unit cost than employees in large urban areas (Lonsdale and Seyler, 1979). Nevertheless, low cost of labor tends to coincide with low skill levels. Hence, it is not surprising that manufacturing growth in non-metropolitan areas has been strongest in relatively labor-intensive industries such as apparel, textiles, fabricated metals, and electronics.

As indicated in Chapter 5, the chief factors producing overall differences in employment growth are geographic differences in the rates of new business formation and business expansion. Business relocation between metropolitan and non-metropolitan areas or between regions is apparently not a major contributor to employment growth in non-metropolitan areas (Schmenner, 1978).

TABLE 8-3

EMPLOYMENT CHANGE FOR NON-METROPOLITAN COUNTIES BY SIZE OF LARGEST PLACE, 1970–1976

| | | Size of Largest Place | | |
|---|---|---|---|---|
| | Total | Less Than 2,500 | 2,500–9,999 | 20,000 or More |
| **Percent Counties Where Employment:** | | | | |
| Increased More Than Five Percent 1970-1976 | 70.7% | 61.9% | 75.4% | 75.4% |
| Decreased More Than Five Percent 1970-1976 | 5.6% | 9.9% | 3.0% | 4.7% |
| **High Employment Growth**[1] | | | | |
| Percent of Counties | 20.6% | 17.8% | 23.4% | 17.2% |
| Mean Per Capita Income 1970 | $2,936 | $2,741 | $2,980 | $3,212 |
| Percentage Change in Per Capita Income 1970-1976 | 82.4% | 82.6% | 81.9% | 84.6% |
| **Moderate Employment Growth**[1] | | | | |
| Percent of Counties | 39.1% | 34.1% | 41.3% | 42.8% |
| Mean Per Capita Income 1970 | $2,940 | $2.786 | $2,935 | $3,273 |
| Percentage Change in Per Capita Income 1970-1976 | 72.7% | 70.8% | 74.0% | 71.6% |
| **Low Employment Growth**[1] | | | | |
| Percent of Counties | 40.3% | 48.0% | 35.4% | 40.0% |
| Mean Per Capita Income 1970 | $2,888 | $2,794 | $2,839 | $3,321 |
| Percentage Change in Per Capita Income 1970-1976 | 63.3% | 61.0% | 66.0% | 61.4% |

SOURCE: Compiled from data supplied by the U.S. Department of Commerce, Bureau of Economic Analysis.

[1] Rate of employment growth is evaluated relative to population growth: communities for which the rate of change in employment exceeded that rate of change in population by at least two percentage points are classified as high growth; counties for which the rate of employment change exceeded the rate of population change by less than one-half of one percentage point are classified as low growth; all others are classified as moderate growth.

TABLE 8-4

MEAN EARNINGS BY INDUSTRY AND METROPOLITAN STATUS AND CHANGES IN EARNINGS 1970–1977

(Earnings in Constant 1976 Dollars)

| Industry Group | | Metropolitan Workers | Non-Metropolitan Workers | Ratio of Non-Metropolitan to Metropolitan Earnings |
|---|---|---|---|---|
| Total Employment | 1977 | $13,545 | $10,773 | 79.0 |
| | 1970 | 14,325 | 10,963 | 76.5 |
| | Percent Change | –5.4 | –1.7 | |
| Goods Producing | | | | |
| Agriculture, Forestry, and Fisheries | 1977 | 9,611 | 6,967 | 72.5 |
| | 1970 | 8,881 | 8,049 | 90.6 |
| | Percent Change | +8.2 | –13.4 | |
| Mining | 1977 | 17,581 | 13,330 | 75.8 |
| | 1970 | 16,310 | 12,129 | 74.4 |
| | Percent Change | +7.8 | +9.9 | |
| Construction | 1977 | 12,372 | 9,912 | 80.1 |
| | 1970 | 14,014 | 10,745 | 76.7 |
| | Percent Change | –11.7 | –7.8 | |
| Manufacturing | 1977 | 14,275 | 11,601 | 81.3 |
| | 1970 | 14,666 | 11,256 | 76.7 |
| | Percent Change | –2.7 | +3.1 | |
| Service Producing | | | | |
| Transportation | 1977 | 14,596 | 12,935 | 88.6 |
| | 1970 | 14,101 | 11,958 | 84.8 |
| | Percent Change | +3.5 | +8.2 | |
| Wholesale Trade | 1977 | 14,847 | 12,635 | 86.8 |
| | 1970 | 15,768 | 11,958 | 75.8 |
| | Percent Change | –5.8 | +4.5 | |
| Retail Trade | 1977 | 9,318 | 8,930 | 95.8 |
| | 1970 | 11,024 | 9,669 | 87.7 |
| | Percent Change | –15.5 | –7.6 | |
| Finance, Insurance, Real Estate | 1977 | 16,055 | 14,835 | 92.4 |
| | 1970 | 17,898 | 16,089 | 89.9 |
| | Percent Change | –10.3 | –7.8 | |
| Professional and Other Services | 1977 | 16,532 | 12,700 | 76.8 |
| | 1970 | 17,456 | 13,440 | 77.0 |
| | Percent Change | –5.3 | –5.5 | |
| Public Administration | 1977 | 15,408 | 12,623 | 81.9 |
| | 1970 | 14,862 | 12,445 | 83.7 |
| | Percent Change | +3.7 | +1.4 | |

SOURCE: U.S. Bureau of the Census, **Current Population Reports**, Series P-23, No. 75, 1978.

Businesses which have plants or offices at several locations rather than in only one facility have played an important part in non-metropolitan employment growth. Such firms frequently locate branch plants emphasizing standarized, routine production processes in non-metropolitan areas, while maintaining corporate headquarters in a large metropolitan area, often in a different region of the country (Table 8-5). The advantages of a metropolitan location such as face-to-face contact with suppliers, purchasers, regulators, or colleagues and access to support services such as lawyers and accountants, are less important to branch plants than to single-facility companies. Multi-locational firms tend to locate functions dependent on face-to-face contacts or linkages with other firms at the corporate headquarters while shifting standarized production to low cost areas. They use corporate-wide management and marketing systems to coordinate the various parts of the business. As the industrial base and service infrastructure of non-metropolitan areas has improved, the need for a metropolitan location for even single-facility firms has been eroded.

A second factor responsible for economic growth in non-metropolitan areas has been the growth in population and per capita income outside of metropolitan areas. Growing numbers of households and consumer dollars spurred development of a local service economy in non-metropolitan areas during the 1970's. This was reflected in the substantial rates of employment growth in the retail trade and service sectors indicated earlier. The strong secular forces behind non-metropolitan economic growth indicate that the economies of non-metropolitan areas are likely to continue to expand and diversify in the future.

## 2. Non-Metropolitan Poverty

Economic growth in non-metropolitan areas contributed to a sharp decline in poverty during the 1970's. Between 1969 and 1977, the number of poor persons residing in non-metropolitan areas fell by nearly one-fifth, bringing the poverty rate down from 19.2% to 13.9% (Table 8-6). This reduction is particularly dramatic when compared to the moderate decline in suburban poverty over the same period (8.0% to 6.8%), and the sharp increase in poverty rates experienced by central cities noted in Chapter 4. By 1977 the non-metropolitan poverty rate had fallen significantly below that of central cities, although it remained almost twice that found in suburban areas. Still, nearly 40 percent of all poor persons in the United States live outside of metropolitan areas, while only 27% of the total U.S. population is non-metropolitan.

Income gains over the 1970's were strongest in the South and in the smallest towns. Still, the highest concentration of non-metropolitan poverty is found in precisely these areas: 17.9% of the Southern non-metropolitan population is poor, as are 14.5% of residents of towns smaller than 2,500 population. There is, however, some evidence of a reduction in poverty in the most distressed non-metropolitan communities. Non-metropolitan poverty areas experienced declining numbers of poor persons and diminishing poverty rates after 1970. Non-metropolitan poverty rates are markedly lower in the Northeast (8.6%) than elsewhere in the nation.

Non-metropolitan poverty is primarily a small town phenomenon. The highest rate of poverty is found in small towns; two-thirds of the non-metropolitan poor live in towns with fewer than 10,000 residents. Not surprisingly, four of every ten non-metropolitan towns smaller than 10,000 have high levels of need (Table 8-7). High poverty rates in small non-metropolitan towns reflect, in part, their tendency to be located distant from major employment centers. They are often small, isolated rural communities whose economy is linked to the family farm, or older highway retail towns which time and the expressway have passed by. Although four in ten small non-metropolitan communities have high resident need, almost as many have relatively low resident need.

In contrast to smaller non-metropolitan places, the poverty rate in cities larger than 25,000 declined only moderately during the 1970's, and the number of poor persons increased by 13%. By 1977, nearly one in three large non-metropolitan cities was characterized by high levels of need. Poverty in the largest non-metropolitan cities frequently is associated with older manufacturing centers with stagnant or declining economies.

Poverty rates have historically been high in the non-metropolitan South due to such factors as lower average transfer payments in Southern states, a long-term decline in agricultural employment, and the vestiges of a rural sharecropper economy. Only in the South do blacks comprise a substantial proportion of the non-metropolitan poor population. Despite dramatic reductions in poverty after 1970, Southern non-metropolitan poverty rates remain markedly higher than elsewhere in the country at 17.9%. Conditions are worst in the smallest towns where almost one-fourth of the population remains poor. High poverty rates are reflected in widespread need. More than 60% of Southern non-metropolitan towns with fewer than 10,000 residents have high levels of need. Among cities larger than 10,000 the situation is less severe, with about half characterized by high need. The greatest declines in poverty during the 1970's occurred in mid-sized towns of 2,500 to 25,000 popuation which gained employment during the decade.

**Characteristics of the Non-Metropolitan Poor**

The poor in non-metropolitan areas are predominantly white (72%) and have male heads of household (65%), whereas a majority of the poor in large central cities are black and are members of female-headed households. Many of the non-metropolitan poor are elderly; fewer than half of the non-metropolitan poor are in male-headed households where the head is of labor-market age.

Despite the fact that most poor residents of non-metropolitan areas are white, a far greater proportion of black residents are impoverished than is true for whites. Poverty among blacks is severe in non-metropolitan areas. Black poverty rates for non-metropolitan areas stood at 38.2% in

**TABLE 8-5**

**LOCATIONS OF CORPORATE HEADQUARTERS FOR BRANCH PLANTS LOCATED IN SOME NON-METROPOLITAN AREAS: 1967–1976**

| | Number of Plants in Non-Metropolitan Areas | | | | |
|---|---|---|---|---|---|
| **Headquarters Location** | **Kentucky** | **New Mexico** | **Vermont** | **Wisconsin** | **Total** |
| Manufacturing Belt | 52 | 12 | 3 | 76 | 143 |
| Chicago | 14 | 5 | 1 | 28 | 48 |
| Milwaukee | 1 | 0 | 0 | 20 | 21 |
| Minneapolis-St. Paul | 2 | 0 | 1 | 17 | 20 |
| New York | 8 | 3 | 0 | 4 | 15 |
| Cincinnati | 7 | 1 | 0 | 1 | 9 |
| Cleveland | 7 | 0 | 1 | 0 | 8 |
| Detroit | 4 | 0 | 0 | 3 | 7 |
| Pittsburgh | 5 | 1 | 0 | 1 | 7 |
| St. Louis | 2 | 1 | 0 | 1 | 4 |
| Toledo | 2 | 1 | 0 | 1 | 4 |
| Other | 29 | 7 | 10 | 22 | 62 |
| Non-Manufacturing Belt | | | | | |
| Domestic | 23 | 12 | 0 | 9 | 44 |
| Foreign | 2 | 1 | 6 | 0 | 9 |
| TOTAL | 106 | 32 | 19 | 107 | 264 |

SOURCE: Erikson and Leinbach, 1979.

1976 and approached 50% in the South. More than nine of every ten non-metropolitan poor blacks live in the South.

Compared to central cities, working-age heads of poor households in non-metropolitan areas more often are employed and more often have steady employment; 36% of poor persons in young male-headed households living in non-metropolitan areas worked a full year, compared to 24% for suburbs and 18% for central cities. Conversely, 34% of the non-metropolitan poor did not work at all, compared to 56% in central cities. Hence, two-thirds of those able to work in non-metropolitan areas did so, at least for some part of the year. For central cities less than half did. As in suburban areas, the smaller the city, the more likely were poor non-metropolitan household heads to work; 42% of poor household heads worked a full year in rural areas compared to 27% in non-metropolitan cities of over 25,000. These numbers highlight the important contribution of irregular employment and low-wage employment to poverty in non-metropolitan areas. The low wage factor is particularly the case for blacks; four times as many black households with full time working heads are poor as for whites.

**Sources of Non-Metropolitan Poverty**

Increased earnings from economic growth appear to account for a significant portion of the measured decline in non-metropolitan poverty after 1970. This is evidenced by a decline in the pre-transfer poverty rate during the 1970's for non-metropolitan areas. Some non-metropolitan households have been able to earn their way out of poverty due to higher wages or more steady employment. In contrast, low-income households in metropolitan areas became more reliant on welfare and other income support programs over the decade.

Migration of households with income above the poverty line to non-metropolitan areas also contributes to declining poverty rates. Studies of post-1970 migrants to non-metropolitan areas in the Upper Great Lakes region, Connecticut, and Ohio found that those coming from metropolitan areas had higher average incomes than long-term non-metropolitan residents (Fuguitt and Voss, 1979; Thomas and Bachtel, 1978; Steahr and Brown, 1978). These migrants have contributed directly to lower poverty rates by increasing the

TABLE 8-6

RECENT CHANGE IN NON-METROPOLITAN POVERTY BY REGION, SIZE, AND POVERTY AREAS, 1969–1977

| | 1969 | | 1977 | |
|---|---|---|---|---|
| | Poor Persons[3] | Poverty Rate | Poor Persons | Poverty Rate |
| **Non-Metropolitan** | 11,899 | 19.2% | 9,860 | 13.9% |
| **Region** | | | | |
| Northeast | 1,011 | 10.7 | 949 | 8.6 |
| North Central | 2,616 | 14.3 | 2,231 | 11.0 |
| South | 7,114 | 26.5 | 5,555 | 17.9 |
| West | 1,158 | 16.0 | 1,127 | 12.9 |
| **Size of Place[1]** | | | | |
| Less than 2,500 | 1,348 | 21.1 | 1,399 | 14.5 |
| 2,500–9,999 | 1,446 | 18.0 | 1,649 | 13.7 |
| 10,000–24,999 | 1,076 | 15.9 | 806 | 10.0 |
| More than 25,000 | 674 | 14.8 | 765 | 13.2 |
| **Poverty Areas[2]** | | | | |
| Total | 7,340 | 32.2 | 5,224 | 21.7 |
| Less than 2,500 | 1,543 | 35.2 | 1,066 | 21.5 |
| 2,500–24,999 | 4,897 | 32.1 | 3,307 | 21.1 |
| More than 25,000 | 899 | 28.7 | 805 | 24.6 |

SOURCE: U.S. Bureau of the Census, Special Tabulations, March, 1978 **Current Population Survey**

[1] The size of place refers to the largest city in the county; poor persons living in counties with no urban places are excluded.

[2] Poverty areas refers to areas for which 20% of the population had incomes below the poverty level in 1970; poverty area data is for 1969 and 1976.

[3] In thousands

**TABLE 8-7**

**RESIDENT NEED FOR NON-METROPOLITAN COMMUNITIES BY SIZE OF PLACE, 1979**

| Size of Place | Resident Need[1] Relatively High | Moderate | Relatively Low | Total |
|---|---|---|---|---|
| **U.S. Total** | | | | |
| Less than 2,500 | 44.9% | 16.4% | 38.7% | 100.0% |
| 2,500–9,999 | 41.6 | 23.3 | 35.1 | 100.0 |
| 10,000–24,999 | 35.5 | 27.1 | 36.8 | 100.0 |
| 25,000–50,000 | 31.5 | 24.9 | 43.7 | 100.0 |
| Total | 43.9 | 18.0 | 38.1 | 100.0 |
| **South** | | | | |
| Less than 2,500 | 62.8 | 16.0 | 22.5 | 100.0 |
| 2,500–9,999 | 62.4 | 18.1 | 19.5 | 100.0 |
| 10,000–24,999 | 51.9 | 24.3 | 23.8 | 100.0 |
| 25,000–50,000 | 46.3 | 31.5 | 22.2 | 100.0 |
| Total | 62.0 | 16.0 | 22.0 | 100.0 |

SOURCE: Tabulated from data from U.S. Department of Housing and Urban Development, **Developmental Needs of Small Cities**, 1979

[1] Resident need is defined in Chapter 2.

number of non-poor persons in the population, and indirectly because of their demand for services and service-related employment.

Perhaps the single factor accounting for the largest portion of the decline in non-metropolitan poverty over the 1970's was the rising level of transfer payments paid to low-income households. These more generous transfer payments, rather than increased earnings, pushed a large number of low-income households living in non-metropolitan areas above the officially defined poverty level. The contribution of transfer payments to declining non-metropolitan poverty can be inferred by comparing changes in the census poverty rate, which measures the fraction of population with incomes below the poverty levels when transfer income is included, to the change in pre-transfer poverty, which measures the fraction of population which is poor on the basis of earnings alone. After 1970, the census poverty rate declined much more sharply than the pre-transfer poverty rate. Larger transfer payments—such as welfare or social security retirement income—account for the difference in the two rates of change. Increased transfer payments may be responsible for as much as 30% of the decline in the census poverty rate between 1968 and 1974 (Smeeding, 1980).

Differences in the level of support payments between metropolitan and non-metropolitan areas largely account for the continued relatively high level of poverty outside of metropolitan areas. Although income support programs grew markedly in their coverage and benefit levels in all parts of the country during the 1970's, the level of average payments remains significantly lower in non-metropolitan areas than for central cities or suburbs. In part, this reflects state to state variations in benefit levels (states with a large non-metropolitan population tend to offer lower welfare benefits) and partly the availability of fewer social service programs outside metropolitan areas. In terms of pre-transfer poverty, non-metropolitan areas are substantially better off than central cities where there are greater transfer payments.

Needy non-metropolitan communities are not always losing population (Table 8-8). For all size categories, the proportion of towns gaining and losing population are similar for high-, moderate-, and low-need jurisdictions. Half of all high-need non-metropolitan communities gained population during the 1970's, while about 13% of low need communities lost population. This contrasts with a clearer relationship between population decline and high levels of resident need found for central cities.

## 3. Non-Metropolitan Housing and Neighborhoods

Renewed growth in non-metropolitan areas during the 1970's was reflected in high levels of new residential construction and a general upgrading of the quality of the housing stock. However, a substantial proportion of non-metropolitan housing units are older, and the condition of housing remains a problem in many areas. Among housing units of all ages, single-family, owner-occupied units predominate. Mobile homes are an important component of the non-metropolitan housing stock. By the late 1970's mobile homes accounted for nearly one-tenth of non-metropolitan housing units, up from two percent in 1960.

More than one-third of the non-metropolitan housing stock was built prior to 1940. Another 20% was built after 1970.

**TABLE 8-8**

**NON-METROPOLITAN COMMUNITY NEED BY POPULATION SIZE**

| Resident Need[1] and Size of Place | Percent of Communities: Population Increase | Population Stable | Population Decrease | Total |
|---|---|---|---|---|
| RELATIVELY HIGH NEED | | | | |
| Less than 2,500 | 18.0% | 28.1% | 53.9% | 100.0% |
| 2,500–9,999 | 10.6 | 44.0 | 45.4 | 100.0 |
| 10,000–24,999 | 9.9 | 47.8 | 42.3 | 100.0 |
| 25,000–50,000 | 10.8 | 34.0 | 55.2 | 100.0 |
| MODERATE NEED | | | | |
| Less than 2,500 | 20.0 | 30.9 | 49.1 | 100.0 |
| 2,500–9,999 | 11.2 | 39.0 | 49.8 | 100.0 |
| 10,000–24,999 | 14.7 | 46.1 | 39.2 | 100.0 |
| 25,000–50,000 | 13.7 | 51.4 | 34.9 | 100.0 |
| RELATIVELY LOW NEED | | | | |
| Less than 2,500 | 24.1 | 30.4 | 45.5 | 100.0 |
| 2,500–9,999 | 10.6 | 38.8 | 50.4 | 100.0 |
| 10,000–24,999 | 11.7 | 38.6 | 49.7 | 100.0 |
| 25,000–50,000 | 17.8 | 46.1 | 34.9 | 100.0 |

SOURCE: Tabulated from data from U.S. Department of Housing and Urban Development, **Developmental Needs of Small Cities**, 1979.

[1] Resident Need is defined in Chapter 2.

This combination of a large number of very old and very new units reflects the historical pattern of growth in non-metropolitan areas. Durng the 1950's and 1960's few residential units were built outside metropolitan areas. However, since 1970 renewed population and income growth have greatly bolstered the demand for housing in non-metropolitan areas. Between 1970 and 1977 the number of households living in non-metropolitan areas increased by more than 4.4 million, and real median household incomes rose by almost 10%. Growth in population and per capita income together, resulted in a 30% increase in total real dollar incomes in non-metropolitan areas. Rising demand for housing stimulated high levels of new residential construction. More than 5 million new housing units were built outside of metropolitan areas between 1970 and 1977, increasing the total housing stock by one-quarter. By 1977, nearly one-third of the non-metropolitan housing stock was less than 12 years old.

The condition of the housing stock has traditionally been a problem in non-metropolitan areas, although high levels of new residential construction over the 1970's and removal of some of the lowest quality units have made this a diminishing concern. Still, indicators of housing quality suggest that the non-metropolitan stock is characterized by more frequent physical defects than the suburban housing stock. A recent study of small city officials found that nearly three-fourths of all non-metropolitan communities consider the condition of their housing to be a problem (U.S. Department of Housing and Urban Development, 1979).

Poor housing conditions are most common in the smallest non-metropolitan communities with population under 2,500 persons. In these places 14.2% of households report at least one housing deficiency, compared to 9.9% of households living in non-metropolitan places larger than 2,500 and 9.1% of households living in metropolitan areas. For non-metropolitan urban places, the number of seriously deficient units is relatively small and has diminished since 1970.

The rate of homeownership in non-metropolitan areas is high and increasing. Nearly 70% of non-metropolitan households own their own housing units; this is a significantly larger proportion than for central cities and comparable to suburban areas, despite far lower income levels in non-metropolitan areas (Table 8-9). Rentals are most frequent in non-metropolitan areas in the West (37% of all units) and least frequent in the North Central United States (27% of all units). Homeownership is inversely related to place size, with rental units accounting for more than one-third of the stock in communities larger than 20,000 population, but only one-fourth of total units in places of less than 5,000. Owner-

## TABLE 8-9

## TENURE OF NON-METROPOLITAN HOUSING STOCK BY REGION, 1977

| | Percent of Housing Units | | | |
|---|---|---|---|---|
| | Owned | Rental | Cooperative or Condominium | Total |
| **Total Housing Stock 1977** | | | | |
| Non-metropolitan | 69.0% | 30.9% | 0.2% | 100.0% |
| Northeast | 66.3 | 33.7 | 0.0 | 100.0 |
| North Central | 72.7 | 27.1 | 0.2 | 100.0 |
| South | 68.9 | 30.9 | 0.2 | 100.0 |
| West | 62.7 | 37.3 | 0.0 | 100.0 |
| Central City | 47.3 | 51.1 | 1.6 | 100.0 |
| Suburban | 68.5 | 30.3 | 1.1 | 100.0 |
| **Units Built Since 1970** | | | | |
| Non-metropolitan | 83.3 | 16.7 | 1.1 | 100.0 |

SOURCE: U.S. Bureau of the Census and U.S. Department of Housing and Urban Development, **Annual Housing Survey**, 1977.

occupants accounted for more than 80% of non-metropolitan household growth during the 1970's. In the South and West the total number of non-metropolitan homeowners increased by better than one-third between 1970 and 1977.

Single-family detached houses dominate the non-metropolitan housing stock. Nearly 90% of all owned units are single-family, as are nearly 60% of rental units. As in metropolitan areas, the dominance of one-family units diminished over the decade; only six of every ten units added to the non-metropolitan stock after 1970 were single-family. The paradox of rising levels of homeownership in combination with a declining fraction of one-family homes is largely explained by sharp increases in mobile homes. Between 1970 and 1977, the number of mobile homes in non-metropolitan areas of the United States nearly doubled. By 1977 they accounted for eight percent of total housing stock. Eight of every ten mobile home units were owner-occupied.

In terms of neighborhood conditions, residents of non-metropolitan areas appear to be relatively satisfied. Fewer non-metropolitan households indicate dissatisfaction with particular neighborhood conditions, such as traffic noise, poor street lighting, or crime. However, non-metropolitan residents more frequently indicated that neighborhood services—particularly public transportation and shopping facilities—were inadequate. Overall, 85% rate their present neighborhood as good or excellent. This is slightly below the level of approval expressed by suburban residents but 12 percentage points higher than for central cities.

### Housing Costs and Opportunities

If opportunity is measured as the ability of low- and moderate-income households to secure housing without undue financial burden, then opportunities are greater in non-metropolitan areas than for central cities or suburbs. However, rents and house values rose faster than incomes after 1970, resulting in a growing affordability problem, particularly for low- and moderate-income households and elderly persons.

Since 1970, rents in non-metropolitan areas have risen much faster than household income, resulting in an increasing burden on tenants (Table 8-10). Through the early 1970's, rents remained low relative to renter incomes; only among the poorest families did rents commonly exceed 25% of income. As recently as 1973, 82% of non-metropolitan households earning between $5,000 and $10,000 paid less than one-fourth of their income for rent, as did nearly one-third of households earning less than $5,000. However, by 1977, nearly half of moderate-income renters paid at least 25% of their income for housing and fully two-thirds of low-income households paid in excess of 35% of their income for rent. Rising housing costs have not yet imposed significant burdens on middle income renters in non-metropolitan areas: 90% of non-metropolitan households earning between $10,000 and $20,000 paid less than one-fourth of their income for rent in 1977, compared to 75% of suburban middle-income renters.

TABLE 8-10

NON-METROPOLITAN HOUSING EXPENDITURES AS A PERCENTAGE OF RENTER HOUSEHOLD INCOME BY REGION AND INCOME, 1977

| | Percent of Household Income Spent on Rent (Percent of households) | | | |
|---|---|---|---|---|
| | Less Than 25 Percent | 25 to 34 Percent | More Than 35 Percent | Total |
| **Non-Metropolitan Areas** | 54.6% | 17.6% | 27.7% | 100.0% |
| **Region** | | | | |
| Northeast | 51.5 | 17.1 | 31.3 | 100.0 |
| North Central | 51.6 | 19.8 | 28.6 | 100.0 |
| South | 58.2 | 16.8 | 25.0 | 100.0 |
| West | 53.4 | 16.8 | 29.8 | 100.0 |
| **Income Level – 1977** | | | | |
| Less than \$5,000 | 15.4 | 17.9 | 66.8 | 100.0 |
| \$5,000–\$9,999 | 48.4 | 31.4 | 20.2 | 100.0 |
| \$10,000–\$19,999 | 90.3 | 7.5 | 2.2 | 100.0 |
| \$20,000 or more | 97.8 | 2.2 | 0.0 | 100.0 |
| **Income Level – 1973** | | | | |
| Less than \$5,000 | 30.9 | 21.9 | 47.3 | 100.0 |
| \$5,000–\$9,999 | 82.0 | 14.4 | 3.6 | 100.0 |
| \$10,000–\$19,999 | 96.4 | 3.2 | 0.4 | 100.0 |
| \$20,000 or more | 98.5 | 1.5 | 0.0 | 100.0 |
| **Central Cities** | 48.9 | 18.0 | 33.1 | 100.0 |
| **Suburban Areas** | 52.7 | 19.4 | 27.9 | 100.0 |

SOURCE: U.S. Bureau of the Census and U.S. Department of Housing and Urban Development, **Annual Housing Survey**, 1977.

Although rent burdens became increasingly common in non-metropolitan areas during the late 1970's, the situation is better than found within metropolitan areas. Non-metropolitan renters more frequently paid less than 25% of their income for housing than central city renters, and less often paid in excess of 35% of income. Furthermore, nearly twice as many renters earning less than \$10,000 were able to secure units costing less than one-fourth of their income in non-metropolitan areas as was the case in the suburbs.

High rent burdens were most prevalent in non-metropolitan areas in the Northeast and North Central regions, and more severe in large cities than in small towns.

Average values for owner-occupied dwellings in non-metropolitan areas are significantly below those in metropolitan areas. This, together with the wider availability of lower quality units, helps explain the relatively high level of home-ownership in non-metropolitan areas despite lower average incomes. The median value for owner-occupied units in 1977 was \$30,400 compared to \$34,000 for central cities and \$44,000 for sururban areas. In that year, more than one in four owned units in non-metropolitan areas were valued at less than \$20,000 and only one in six units were valued at more than \$50,000. By comparison, only one in twelve suburban units were valued at less than \$20,000 and nearly two in five had values over \$50,000. Even among newly built units, values in non-metropolitan areas are about 20% below central cities and 25% below suburban areas. Lower average housing costs in non-metropolitan areas, as compared to central cities and suburbs, reflect both the lower average quality of units outside of metropolitan areas and lower land and construction costs.

Non-metropolitan dwelling values are lower in small towns than in cities. Regionally, fewer inexpensive houses are found in the Northeast than elsewhere in the nation, reflecting the greater urbanization of the region. The largest fraction of low cost houses are found in non-metropolitan areas of the South and North Central regions.

Sharp increases in the value of owned houses in recent years have diminished the ability of low and moderate income households to purchase a unit in many non-metropolitan areas. Since 1970 the median values of owner-occupied units in non-metropolitan areas has risen twice as rapidly as median household incomes. Thus, a shrinking fraction of the non-metropolitan housing stock remains within the financial reach of low- and moderate-income households who aspire to become homeowners. The popularity of mobile homes and of inexpensive "panel built" homes illustrates ways in which non-metropolitan households have attempted to compensate for rising housing costs.

A 1979 study by the Department of Housing and Urban Development found that by the late 1970's housing costs were a widespread concern outside of metropolitan areas, particularly in the larger cities (Table 8-11). Officials from nearly 90% of cities over 25,000 population felt that costs were a moderate or severe problem, as did 80% of those living in towns between 2,500 and 25,000. Consistent with the patterns of lower housing costs in smaller places, only about half of communities of fewer than 2,500 residents recognized high costs to be a significant concern. A lack of adequate housing for low and moderate income households was recognized to be a severe or moderate need in 80% of non-metropolitan cities larger than 25,000, and about 65% of towns smaller than 10,000 inhabitants. Indeed, housing availability was perceived to be a more critical problem than the condition of the housing stock, for all community sizes. Insufficient new construction was felt to be a problem among nearly half of non-metropolitan communities.

The perceived need for low income housing is greatest for non-metropolitan places with high levels of need, particularly those which are growing (Table 8-12). Nearly half of growing needy places stated a concern for additional housing for low income households, compared to one third of declining needy communities. Rising demand for housing in growing communities tends to reduce vacancies and exert upward pressure on rents, thereby reducing the availability of housing for low income households. In contrast, slow population and income growth in declining communities will tend to depress house values and rents, thereby making more housing available for low income households. Even among communities with low or moderate resident need, one in three growing non-metropolitan places expressed concern regarding housing opportunities. Only among low need places which are losing population is a lack of low cost housing an infrequent concern.

## 4. Non-Metropolitan Fiscal Conditions

Non-metropolitan communities have traditionally displayed low tax effort as compared to central cities, but have also typically provided fewer public services. In small towns and unincorporated areas, individual land owners frequently perform many of the functions provided by metropolitan municipalities: private wells and septic systems, individuals hauling their own refuse to the city land-fill and volunteer fire departments typify this more limited form of municipal services. For example, one study found that 82% of non-metropolitan municipalities relied at least in part on volunteers to provide fire protection and 38% had no salaried fire protection personnel at all (Advisory Commission on Intergovernmental Relations, 1974).

Although larger non-metropolitan towns and cities typically provide municipal water, sewage disposal, street cleaning, and refuse collection, in comparison with central cities, they tend to support fewer cultural facilities and social service programs, and to offer fewer specialized courses of instruction in the schools and less advanced medical treatment facilities at local hospitals. These differences in services partially explain the significantly lower per capita expenditures on the part of non-metropolitan municipalities compared to large metropolitan cities.

Non-metropolitan communities have increasingly turned to other units of government for assistance in responding to the growing range of public services they provide residents. Slightly more than half of non-metropolitan municipalities contract with the county, state, other municipalities or special districts to provide local services such as police protection, water supply, or schools. In addition, 41% have transferred legal responsibility for provision of one or more functions to other units of government. Functions most commonly transferred are solid waste collection and disposal (27%), law enforcement (12%), taxation and assessment (ten percent), and public health (nine percent). These intergovernmental arrangements are seen as ways to avoid adding personnel and facilities, to eliminate duplication of services (e.g., between the county and the city) and to take advantage of economies of scale (Advisory Commission on Intergovernmental Relations, 1976).

### Community Development Needs

Public infrastructure involving major capital costs–particularly sewers, water and roadways–is perceived as the most pressing community development need in non-metropolitan areas. Among rapidly growing communities, the principal need is for expansion of facilities and services to meet the increasing needs of a growing population. For stable or declining communities, the key need is to replace or upgrade existing infrastructure which in many cases has fallen into disrepair. In both cases, the capital costs involved are frequently quite large in relation to the municipal budget of small cities.

Estimates from the Environmental Protection Agency show that the per capita costs of wastewater collection and treatment facilities rise sharply as the size of the service area decreases. Sewage project costs are frequently estimated as more than $1,000 per capita for places smaller than 10,000 population, compared to less than $500 per capita for the

TABLE 8-11

NON-METROPOLITAN COMMUNITIES RATING HOUSING PROBLEMS AS SEVERE OR MODERATE BY SIZE OF PLACE

| | Population | | | |
|---|---|---|---|---|
| Housing Problem | Less Than 2,500 | 2,500–9,999 | 10,000–24,999 | 25,000–49,999 |
| High Cost of Housing | 53% | 76% | 81% | 87% |
| Lack of Housing for Low and Moderate Income Families | 65 | 68 | 75 | 82 |
| Lack of Housing for Elderly and Handicapped | 63 | 76 | 73 | 80 |
| Condition of Housing | 56 | 72 | 72 | 75 |
| Insufficient New Housing Construction | 55 | 43 | 48 | 43 |

SOURCE: U.S. Department of Housing and Urban Development, **Developmental Needs of Small Cities**, Washington, D.C., March 1979.

TABLE 8-12

PERCEIVED NEED FOR LOW INCOME HOUSING IN NON-METROPOLITAN COMMUNITIES BY POPULATION GROWTH AND LEVEL OF COMMUNITY NEED

| | Percent of Communities Perceiving a Need for Low Income Housing | | |
|---|---|---|---|
| Degree of Resident Need[1] | Declining Population | Stable Population | Increasing Population |
| Relatively High | 31.3% | 36.6% | 47.8% |
| Moderate | 33.3 | 34.3 | 32.4 |
| Relatively Low | 12.0 | 24.2 | 35.7 |

SOURCE: U.S. Bureau of the Census and U.S. Department of Housing and Urban Development, **Annual Housing Survey**, 1977.

[1] Resident Need is defined in Chapter 2.

majority of cities over 100,000 population. Higher costs for small cities reflect diseconomies of scale associated with constructing treatment facilities to service a limited number of users, particularly where population densities are low or topography is severe.

The **1979 Developmental Needs of Small Cities** study undertaken by HUD found that sewer and drainage facilities and water treatment and delivery facilities were widely reported to represent urgent and immediate needs, particularly among communities with fewer than 10,000 residents (Table 8-13). The greater concern on the part of small communities can be attributed to the often rapid growth of many small non-metropolitan places, and the attendant need to replace private wells and septic tanks with municipal water and sewer systems. Many small non-metropolitan communities are hard pressed to comply with increasingly stringent state and Federal regulations regarding water and sewer facilities, given the often high per capita costs involved.

Other community development needs frequently cited by non-metropolitan cities concern downtown revitalization and economic development. The central business districts of many non-metropolitan communities have deteriorated and are marked by vacant and abandoned buildings and physical blight. The cause is the same as in metropolitan centers—competition from fringe or commercial strip development and disinvestment in core business. About 15% of non-metropolitan cities larger than 10,000 population rated revitalization of the central business area to be a high priority. Inadequate industrial facilities to attract economic development were cited as a moderate or severe problem by about half of all non-metropolitan communities. Economic development was a greater concern for communities over 10,000 than for smaller places.

Non-metropolitan places with high levels of need and thus higher poverty problems and lower resident income appear to suffer significantly greater problems from poor infrastructure conditions and infrastructure under-maintenance than do places with less severe community need. Municipalities experiencing rapid growth more often encounter shortages of capacity in community facilities, while declining communities more often face problems of deterioration of existing facilities. In general:

- **Growing cities with low need** are most concerned about the adequacy of sewers and streets, and secondarily about recreational facilities such as parks. There is also concern about the mismatch between existing facilities and demand. One common example involves sewage; many growing cities find septic tanks an inadequate solution to wastewater treatment and residents begin to demand construction of sewer systems.

- **Growing communities with high need** are confronted with problems of inadequate supply as well as severe deterioration of existing facilities. The inadequacy of central business areas and industrial facilities are clearly indicated in contrast to low need growing cities. The quality of sewers and streets are a particular concern.

- **High need and declining cities** face issues of low quality rather than inadequate supply or mismatch. Many towns appear to be suffering from severe deterioration and abandonment of the central business area and industrial facilities as well as deterioration of roads, sewers, and public buildings.

- **Low need declining cities** appear to have the fewest community development problems. However, they can face a reverse mismatch situation whereby existing facilities are no longer needed. Some public schools, for example, are being converted into recreational centers.

**Fiscal Capacity and Management Capability**

It is difficult to assess accurately the fiscal capacity of non-metropolitan communities to respond to their expanding public service and infrastructure needs. One indicator of fiscal capacity would be to measure the growth in assessed value of real property and to subsequently compare the average per capita assessed value for non-metropolitan communities. Regrettably this data is not uniformly available. A second often-used measure of fiscal capacity is that of tax effort. This is measured in terms of the relationship between total community income (developed as per capita income times population) and adjusted non-school taxes. Educational taxes are generally excluded from measures of local tax effort due to differences in state funding patterns for schools.

Tax effort has several important shortcomings as an indicator of relative tax burden among municipalities. First, the tax measure excludes local community revenues generated from special assessments, user fees, and fines. Since these are proportionately more important sources of revenue for small cities, their exclusion will tend to underestimate the true tax effort of non-metropolitan places relative to large metropolitan cities. Second, the tax effort measure excludes taxes collected by counties and special districts. Consequently, municipalities which rely heavily upon other units of government with separate powers of taxation to provide services appear to have a much lower tax effort than more self-sufficient communities. Finally, the total income measure is only a proxy for the true fiscal capacity of a municipality, given that real property taxes—not income taxes—are the major source of locally-generated revenue.

Because of these shortcomings, tax effort indices must be interpreted cautiously. Still, they provide a useful indicator of relative fiscal capacity. In this context, average measured tax effort is significantly lower for non-metropolitan communities than for large metropolitan cities. Table 8-14 shows that non-metropolitan communities on average generated \$16.10 of local tax revenues per \$1,000 of local incomes, compared to \$25.80 for metropolitan cities of 50,000 or more residents in 1976. This indicates that non-metropolitan communities tax themselves at only 60% of the rate of large cities. Furthermore, only one in 20 non-

TABLE 8-13

COMMUNITY DEVELOPMENT NEEDS FOR NON-METROPOLITAN CITIES BY SIZE OF PLACE, 1979

| Needs | Percentage of Communities Ranking Various Community Development Needs as a First or Second Priority by Population: Less Than 2,500 | 2,500–9,999 | 10,000–24,999 | 25,000–50,000 |
|---|---|---|---|---|
| Water Treatment and Delivery Facilities | 30% | 21% | 12% | 16% |
| Sewer and Drainage Facilities | 49 | 46 | 32 | 32 |
| Streets and Roads | 29 | 25 | 29 | 22 |
| Revitalized Central Business District | 1 | 6 | 15 | 13 |

SOURCE: U.S. Department of Housing and Urban Development, Developmental Needs of Small Cities, 1979.

TABLE 8-14

AVERAGE TAX EFFORT FOR NON-METROPOLITAN COMMUNITIES BY SIZE OF PLACE, 1976

| Population | Average Tax Effort[1] | Percent With High Tax Effort[2] |
|---|---|---|
| Non-Metropolitan Municipalities | $16.10 | 4.8% |
| Less than 2,500 | 11.90 | 3.2 |
| 2,500–9,999 | 17.20 | 5.3 |
| 10,000–24,999 | 19.30 | 4.5 |
| 25,000–49,999 | 21.50 | 9.3 |
| Metropolitan Municipalities[3] | | |
| Larger than 50,000 | 25.80 | 18.2 |
| Less than 50,000 | 16.70 | 7.3 |

SOURCE: Data provided by U.S. Treasury Department, Office of Revenue Sharing, from Census Bureau figures developed for allocation of general revenue sharing funds.

[1] Local taxes generated per $1,000 of income.
[2] High tax effort is measured as one standard deviation above the mean tax effort for all municipalities.
[3] Includes central cities and suburbs greater than 50,000.

metropolitan communities make a "high" tax effort, compared to one in five large metropolitan cities. Average non-metropolitan tax efforts are comparable to those for suburban communities of similar population, although a larger fraction of suburban communities make a high tax effort.

Non-metropolitan tax effort rises sharply with population size. Communities smaller than 2,500, in particular, show very low tax efforts, generating only half as much tax revenue per $1,000 of income as non-metropolitan cities larger than 25,000. The largest non-metropolitan cities illustrate an average tax effort only moderately below that for metropolitan cities over 50,000. Nearly one in ten large non-metropolitan cities make a high tax effort.

Growing non-metropolitan cities reflect a lower average tax effort than those with stable or declining population (Table 8-15). In all but the most extreme cases of growth, increased revenue capacity has permitted growing communities to maintain a relatively low tax effort. However, there is some evidence that non-metropolitan communities which grew by more than 40% after 1970 have average tax efforts comparable to stable or declining communities. By contrast, communities which are losing population are frequently characterized by an eroding fiscal capacity due to fewer households and lagging per capita income. Often these face either relatively fixed or rising public costs. A higher tax burden is often required to meet these costs.

Surprisingly, the level of tax effort in non-metropolitan places is inversely related to local need: the least needy communities appear to generate significantly higher tax revenues per dollar of income than the most needy communities (Table 8-15). This inverse relationship may, in part, reflect variations in the quality of municipal services provided which are not reflected in the measure of tax effort. Higher tax effort on the part of some low-need municipalities may reflect a burden willingly undertaken to acquire a high level of local services (e.g., better schools or more recreational facilities). Still, the quite low average tax effort on the part of needy non-metropolitan communities suggests that many—particularly those which are gaining population—have at a minimum some marginal fiscal capacity to generate additional revenues to address their services needs.

The capacity of smaller non-metropolitan cities to plan and manage the financing necessary to meet new demands—particularly those for expanded infrastructure—is important to the long run fiscal condition of these cities. Ironically, this capacity is often most critically needed at a point in a city's development when it is least likely to be able to afford it because it is small and understaffed and facing the multiple demands of growth.

One aspect of financial management is the capability of communities to identify, secure, and manage intergovernmental grants which are available for assisting municipalities to meet their community development needs. These include funds from the Environmental Protection Agency, the Economic Development Administration, the Farmers Home Administration, and the Department of Housing and Urban Development. Small towns less frequently apply for grants and are less often awarded funds than large cities.

The lower propensity of small communities to apply for Federal grants partly reflects a lack of management capacity. A recent Department of Housing and Urban Development survey found the most frequently cited reasons for not applying for Federal grants to be a lack of staff capable of making application and administering the grant (HUD, 1979). Communities indicating a lack of management capability less often applied for grants and were less often awarded funds when they did apply. Granting agencies are apparently reluctant to fund an application from a community without evident capability to administer the grant. As the share of total municipal revenues coming from intergovernmental transfers rises, the management capability of non-metropolitan communities will become an increasingly important concern.

The ability of many non-metropolitan communities to respond to the needs precipitated by growth is hindered by a traditionally low level of service provision and tax effort, and, in some instances, a lack of expertise in responding to a widening range of problems and in securing Federal assistance. While many growing, low-need communities appear to have some fiscal capacity to respond to increased public service demands, the capital costs involved are often large in relation to local budgets and revenue sources, posing substantial fiscal strain and dilemmas for local officials. For non-metropolitan communities with stable or declining population, fiscal concerns center on the need to maintain and upgrade existing sewer and water systems, to revitalize the central business district, and to attract economic development. Many declining communities—particularly those larger than 25,000 population—show indications of fiscal strain, although not to the extent of larger metropolitan cities.

## 5. Summing Up: Prospects for Non-metropolitan Communities

Growth in non-metropolitan areas appears to be part of the spreading out of urban population and economic activity which has long been observed within metropolitan areas in the form of suburbanization. The powerful forces behind the dispersal of economic activity to non-metropolitan areas, and the greater ability this gives households to act upon preferences for small city living, suggests that non-metropolitan cities and towns will continue to grow during the 1980's.

The pace of this growth may be relatively moderate in light of anticipated slow economic growth nationwide and the rising price and limited availability of energy. On the other hand, high rates of inflation will make the lower average cost of living outside of metropolitan areas even more attractive, particularly if wages continue to rise toward metropolitan levels. It is safe to say that a rising share of urban population and employment will be found outside of the nation's largest metropolitan areas. Growth is likely to center in exurban counties adjacent to growing metropolitan areas,

## TABLE 8-15

## AVERAGE TAX EFFORT FOR NON-METROPOLITAN COMMUNITIES BY POPULATION CHANGE AND COMMUNITY NEED

| | Population Change 1970–1975 | | | |
|---|---|---|---|---|
| Resident Need [1] | Declining | Stable | Growing | Total |
| Relatively High | $12.4 | $12.9 | $12.6 | $12.7 |
| Moderate | 18.1 | 17.0 | 15.5 | 16.5 |
| Relatively Low | 22.1 | 19.3 | 20.8 | 20.4 |
| Total | 17.0 | 16.1 | 15.9 | 16.1 |

SOURCE: Data from Brookings Institution, **Report on the Allocation of Community Development Funds to Small Cities**, 1978.

[1] Resident need is defined in Chapter 2.

in rural areas attractive for retirement or recreation, and around new employment growth centers.

Continued non-metropolitan growth will bolster the economy, raise incomes, stimulate new construction, and strengthen the fiscal condition of many small and mid-sized communities. This will expand the job, housing, and service opportunities for long-term residents and attract many new in-migrants. At the same time, non-metropolitan growth poses the danger of an unregulated pattern of urban development. In addition, growth will continue to strain the fiscal capacity of many communities with expanding infrastructure and service needs.

# PART FOUR: A FRAMEWORK FOR URBAN POLICY

# PART IV: A FRAMEWORK FOR URBAN POLICY

This Part extends the analyses presented in earlier chapters to consider four critical aspects of urban concern:

- **Chapter Nine** deals with resource conservation and how it can be supported by guidance of urban development patterns. The chapter evaluates systems with respect to the conservation of energy, air quality, and farmland.

- **Chapter Ten** focuses on the most difficult and inequitable of urban problems: discrimination against minorities. It details the degree to which discrimination against blacks, Hispanics, families headed by women, and other minorities remains an ever-present factor in America's urban society.

- **Chapter Eleven** addresses the intitutional framework of government. It examines how the intergovernmental system of Federal, state, regional, county, and local organizations act to support—and at times to frustrate—the improvement of conditions in urban communities.

- **Chapter Twelve** sets the stage for an urban policy for the 1980's. It examines how trends in the nation's economy, in the characteristics of its population, and in the sometimes conflicting goals of energy conservation and improvement of the environment are likely to change in the coming decade.

These chapters provide a framework for the urban policy for the 1980's presented in Part V.


CHRIS·TOWN

# IX. RESOURCE CONSERVATION AND URBAN DEVELOPMENT

Prudent public action to guide urban development patterns provides a major opportunity for the nation to preserve its limited and irreplaceable natural resources in sensible and efficient ways. This chapter addresses three important issues of resource conservation. It examines how they influence urban development patterns and the extent to which future development patterns should be guided to achieve desirable and feasible goals of resource conservation. The three are:

- **Energy conservation**, where the two aspects that have the greatest degree of interaction with urban development patterns are the use of energy for transportation and for heating and cooling of residential space.

- **Air quality**, where the achievement of desirable standards of clean air interacts both with existing development patterns and future directions of growth.

- **Preservation of farm land** from unnecessary and potentially damaging losses through the conversion of valuable croplands to scattered patterns of urban development.

For many years, urban planners have believed that compact urban development patterns make more economical use of society's resources. Compact development has been felt to require less conversion of scarce farm land, to restrain energy consumption in both residential and transportation use, and to generate fewer environmental pollutants. This rationale for resisting sprawl asserts not only that we should use and strengthen the cities we have built, but that even where we build anew it is in the nation's interest to encourage compact development.

This Chapter tests this rationale. It weighs what is known about the effects on resource consumption of alternative urban development patterns. It concludes that while there are some costs associated with density, a policy of compact development can, in the long run, help achieve national objectives of resource conservation.

Urban design will never be the primary means for conserving the nation's natural and energy resources. The lead roles in this regard will be played by realistic pricing of energy and other scarce resources, by strategic regulatory practices, by coordinated public and private sector planning and action. Urban design and the guidance of development can best serve to reinforce these other national policies.

## 1. Energy Conservation

Energy is the resource of most pressing policy concern at present, both because of its rising cost and the threat to the national interest caused by dependence on unreliable foreign oil imports. Therefore, this Chapter devotes special attention to the effects of urban development patterns on energy use. It draws upon the best currently available information to answer the question: Can significant energy savings be achieved through compact patterns of urban development?

The traditional, densely developed city has been praised as one of society's most energy efficient inventions (U.S. Congress, 1977). Two end-uses of energy are believed to be especially sensitive to metropolitan development characteristics: urban travel and residential space heating and cooling. Together, urban passenger transportation and residential space heating and cooling account for close to 20% of the total energy consumption in the United States. An additional 9% or 10% is accounted for by the transportation of goods in urban areas and the heating and cooling of commercial buildings.

Over the long run, the market price of energy will be the principal instrument for bringing energy demand and supply into balance. Already, higher prices have slowed the rate of increase in residential energy use from 4.6% per year in the 1960's to about 2.5% annually during the 1970's. Annual gasoline sales also are now showing an absolute decline, largely as a result of rising prices.

The vulnerability of the U.S. economy to increases in the prices of energy imports is a strong reason for additional non-market conservation actions to reduce energy usage. Energy conservation standards have been established both for new automobiles and for new housing production. To the degree that urban planning on the metropolitan scale can further contribute to energy conservation, it deserves Federal encouragement, especially if the most energy efficient patterns of urban development are also consistent with other national goals such as aiding disadvantaged and poor people and revitalizing distressed cities.

The following sections consider, in sequence, the degree to which energy consumption for urban transportation and for residential heating and cooling is influenced by the density of urban development.

### A. Fuel Consumption for Urban Transportation

Urban travel choices are sensitive to metropolitan development characteristics. These choices, in turn, influence the amount of energy required to transport the urban population to its desired destinations. In principle, economies in fuel usage for urban transportation can be achieved by:

- altering the "mode split," or degree of reliance on different forms of transportation, such as private automobile, mass transit, and pedestrian travel;

- raising the average occupancy rate for both mass transit and private vehicles;

- reducing the total miles of urban passenger travel by shortening average trip length and reducing trip frequency;

- influencing the speed at which automobile and other trips are made, especially by reducing the amount of travel made under highly congested conditions.

Although urban land use planning is by no means the only way to influence the above factors, it often has been recommended as one of the most effective options open to public officials. Skillfully designed changes in the urban settlement pattern conceivably could simultaneously reduce energy consumption through each of the above routes. Moreover, it may well be possible to rearrange population and job clusters so as to economize on energy use, while retaining the existing urban infrastructure. This would avoid the necessity of undertaking large new investments with their great dollar and energy costs.

Tables 9-1 and 9-2 provide some of the basic data for judging the payoff of efforts to shift the urban transportation mix for passenger travel. Table 9-1 summarizes several different estimates of the fuel efficiency of various transportation modes, as of the mid-1970's. Automobile fuel efficiency has improved significantly since that time and will improve even more by 1985. Present Federal legislation calls for achieving an average of 27.5 miles per gallon for new automobiles sold in 1985. New and old cars, together, shall achieve an average of 17 to 18 miles per gallon. This contrasts with average fuel usage of about 13.3 miles per gallon in 1975.

Table 9-2 shows the relative reliance on each transportation mode in the United States today. Although there is considerable variability in the estimates produced by different sources, the overall pattern is clear. Urban passenger travel in the United States is overwhelmingly by private automobile. The automobile accounts for no less than 97% of all passenger miles traveled. Under present conditions, urban automobiles use more than twice as much operating energy per passenger mile as trains and even more in relation to buses. Thus, some energy saving is possible from shifts in the mode mix. However, the extreme reliance on automobiles in U.S. cities suggests that the most direct opportunities for fuel savings lie in improving the operating efficiency and reducing the amount of automobile travel. The fuel saving realizable from converting the urban automobile stock to the mileage performance standards for new cars in 1985, for example, is comparable to the saving that could be achieved from totally replacing the automobile by public transit for urban travel at today's fuel efficiency levels.

Significant energy savings can also be obtained by increasing the number of passengers per automobile. Currently automobile travel in the U.S. averages 1.3 passengers per vehicle (including the driver). If ridership were increased to 1.4 passengers per vehicle, the immediate savings would be one percent of all U.S. energy consumption. However, ridership rates have generally been resistant to change.

Table 9-3 provides another perspective on potential energy savings. It compares per capita energy use for urban transportation (or for total land transportation where urban figures are not available) in the United States with three European counties. It then estimates the energy savings that could be accomplished in the United States by achieving other nations' level of automobile fuel efficiency, average passenger miles traveled per capita, and mode mix. While there are considerable uncertainties regarding the data used for these

## TABLE 9-1

### ENERGY CONSUMPTION PER PASSENGER MILE, VARIOUS TRANSPORTATION MODES (U.S.)
(in BTUs per passenger mile)

| | Source of Estimates | | |
|---|---|---|---|
| Transportation Mode | Hirst[1] | Schipper-Lichtenberg[2] | Mixed |
| **Automobile** | | | |
| All Travel | 5,400 | 4,800 | – |
| Urban Travel | 8,100 | 6,550 | 6,700[3] |
| **Bus** | | | |
| All Travel | 1,600 | 1,360 | – |
| Urban Travel | 3,700 | 1,700 | 3,020[4] |
| **Rail** | | | |
| All Travel | 4,100 | 2,400 | 5,900[5] |
| Urban Travel | 2,900 | 2,150 | 3,700[6] |

SOURCES:

1
[1] Eric E. Hirst, **Energy Consumption for Transportation in the United States** (Oak Ridge National Laboratory, March 1972).

[2] L. Schipper and A.J. Lichtenberg, "Efficient Energy Use and Well Being: The Swedish Example" (Report prepared for U.S. Energy and Research Development Administration, April 1976).

[3] R.H. Pratt, et. al., "The Potential for Transit as an Energy-Saving Option" (Report prepared for the Federal Energy Administration, March 1976).

[4] BTUs per mile from Timothy Healy, "Energy Demands on Urban Transit Systems," in **Proceedings of the Third National Conference on the Effects of Energy Constraints on Transportation**, Energy Research and Development Administration, May 1977; average ridership from Mayo S. Stanz, Jr. and Eric Hirst, "Energy Conservation Potential of Urban Mass Transit" (Prepared for Federal Energy Administration, Conservation Paper No. 34, December 1975).

[5] San Francisco BART system. Stanford Research Institute, "Railroad Energy Study: Description of Rail Transportation in the United States, Vol. II: Rail Passenger Transportation" (Report prepared for Energy Research and Development Administration, January 1977).

[6] New York City transit system. Source same as above.

As reported in George E. Peterson and others, **Urban Development Patterns** (Urban Institute: 1980).

TABLE 9-2

PASSENGER MILES TRAVELED PER CAPITA, VARIOUS TRANSPORTATION MODES (U.S.)

| Transportation Mode | Source of Estimates: National[1] Transportation Survey (1974) | Standford Research[2] Institute (1972) | Schipper-[3] Lichtenberg (1972) |
|---|---|---|---|
| **Automobile** | | | |
| All Travel | – | 11,536 | 9,050 |
| Urban Travel | 7,320 | – | 4,850 |
| **Bus** | | | |
| All Travel | – | 415* | – |
| Urban Travel | 123 | – | 234 |
| **Rail** | | | |
| All Travel | – | 40** | 85 |
| Urban Travel | 120 | – | 64 |

SOURCES:

[1] National Transportation Survey, 1974 (Travel within 1,190 urbanized areas).

[2] Richard L. Goen and Ronald K. White, **Comparison of Energy Consumption Between West Germany and the United States** (Prepared for Federal Energy Administration, Stanford Research Institute, Menlo Park, California, June 1975).

[3] L. Schipper and A.J. Lichtenberg, "Efficient Energy Use and Well-Being: The Swedish Example" (Report prepared for U.S. Energy Research and Development Administration, April 1976).

*Includes urban rail transit systems.
**Excludes urban rail transit systems.

As reported in George E. Peterson and others, **Urban Development Patterns** (Urban Institute: 1980).

## TABLE 9-3

## FUEL CONSUMPTION DIFFERENCES FOR URBAN TRAVEL, U.S. AND SELECTED EUROPEAN COUNTRIES

| | | | | Country | | |
|---|---|---|---|---|---|---|
| **Item** | | **U.S.** | | **Great Britain**[1] | **Sweden**[2] | **West Germany**[3] |
| **Per Capita Energy Use for Passenger Transportation (Millions of BTU's per yr)** | | | | | | |
| Urban Only | -- | 29.0[2] | -- | -- | 6.9 | -- |
| All Land Transportation | 43.9[1] | -- | 53.7[3] | 10.9 | 13.9 | 13.7 |
| **Reduction in U.S. Passenger Transportation Energy Consumption Achievable from Reaching Respective Country Levels of:** | | | | | | |
| Passenger Miles per Capita (Land Travel) | | | | 54% | 36% | 51% |
| Transportation Mix (Automobile, Bus, Rail) | | | | 11% | 5% | 5% |
| Energy Efficiency of Automobiles (Energy Use Per Vehicle Mile) | | | | | 46% | 54% |
| Automobile Load Factor (Passengers per Vehicle) | | | | 45% | 4% | -15% |

SOURCES:

[1] Joel Darmstadter, Joy Durkerley, and Jack Alterman, **Progress Report on Analysis of Variations in Energy/GNP Ratios Between Selected Counties.** (Washington, D.C.: Resources for the Future, July 1975).

[2] Lee Schipper and A.J. Lichtenberg, "Efficient Energy Use and Well Being: The Swedish Example" (Report prepared for U.S. Energy Research and Development Administration, Washington, D.C.: April 1976).

[3] Richard L. Goen and Ronald K. White, **Comparison of Energy Consumption Between West Germany and the United States** (Report prepared for Federal Energy Administration, Stanford Research Institute, Menlo Park, California: June 1975).

As reported in Peterson and others, **Urban Development Patterns**, (Urban Institute, 1980).

comparisons, the overall pattern of contrast between the U.S. and other countries is so strong and consistent as to minimize the importance of data irregularities. Several conclusions stand out:

- First, by far the greatest opportunities for fuel saving come from greater automobile efficiency and from reducing the miles traveled per capita. The potential for energy economies from these two sources is roughly equal.

- Second, in evaluating the impact of alternative urban development patterns upon travel-related energy use, we should give greatest attention to the determinants of automobile travel length and trip frequency. The total volume of urban vehicle trips is crucial to vehicular fuel consumption and potentially sensitive to alterations in metropolitan development patterns.

- Third, reductions in energy consumption achievable by reaching European levels of public transit usage are relatively small. In fact, when the energy expended on the construction of fixed-rail systems is taken into account, as well as the energy required for station operation, the difference in energy use between fixed-rail transit systems and private automobiles largely disappears, even at current performance levels (Congressional Budget Office, 1977). Since it would be difficult for many U.S. cities to triple or quadruple mass transit usage without large investment in new fixed-rail transit systems, the potential energy payoff from new mass transit construction seems relatively modest. Still, expanded transit use can achieve significant savings in those metropolitan areas where extensive fixed-rail mass transit capacity already exists or where greater use can be made of the bus system.

**Urban Travel Patterns**

An understanding of how urban travel varies with neighborhood and metropolitan density, centralized work concentration, and other factors requires a wealth of data on individual travel choices. Unfortunately, these have been reported only as part of large-scale transportation surveys, which were last conducted in large numbers in the late 1960's and early 1970's. As part of a recent study for the Department of Housing and Urban Development, The Urban Institute examined a pooled sample of household trips drawn from surveys of more then 135,000 households in eight metropolitan areas between 1966 and 1971. Households in the analysis were divided into 234 neighborhoods consisting of two to four traffic zones. Average travel behavior for the neighborhood then was summarized aggregating all trips made by sample households in each neighborhood. Average household characteristics, such as family income level and family size, were determined for each neighborhood by aggregating the individual households in the sample. The analysis then related neighborhood travel behavior to household characteristics, to neighborhood characteristics such as density and location relative to work place, and to overall metropolitan development patterns (Peterson and others, 1980).

The results of this analysis can be summarized in terms of the travel patterns of hypothetical residential developments or neighborhoods in different metropolitan areas. Table 9-4 presents three such hypothetical neighborhoods. One type of development is at a residential density of 10,000 people per square mile and located three miles from the central business area. This represents a typical in-town development or new in-fill. The second hypothetical new development is at the same density but located on the urban fringe. The third is at a very low density of 750 people per square mile and also located on the urban fringe. The inhabitants of these hypothetical neighborhoods were chosen to represent people likely to occupy new housing. They had slightly higher than average incomes, larger than average household sizes, and one in ten was black. Three metropolitan areas were chosen to demonstrate the importance of metropolitan-wide characteristics in travel behavior: Los Angeles; an average size metropolitan area (i.e., average for the eight metropolitan areas in the sample); and Youngstown, Ohio, which had an urbanized area population of 396,000 in 1970.

Table 9-4 shows that these hypothetical neighborhoods were associated with dramatically different magnitudes of average daily household vehicle miles traveled (VMT). Within each metropolitan area, estimated vehicle miles traveled for households in the higher density, close-in neighborhood were approximately one-half the VMT for the low density, fringe development. These differences indicate the magnitude of fuel saving realizable from concentrating new development in high-density, in-fill areas rather than low-density, fringe development. Comparing different metropolitan areas, vehicle miles traveled for comparable neighborhoods in the smallest metropolitan region, Youngstown, were between one-fourth and one-third those of the largest area, Los Angeles. Total metropolitan population size has a very strong, positive relation to average household travel and hence energy use in all studies of trip behavior. Smaller metropolitan areas thus provide promising locations for energy-efficient development.

Table 9-4 also shows certain characteristics of the trips which produced these total miles of automobile travel. These data help explain the differences in automobile use.

The principal effect of increased neighborhood density was to reduce automobile trip frequency. The major direct explanation for this impact seems to be substitution of walking for vehicle trips. There is also an indirect effect on automobile trip frequency through the lower rates of automobile ownership found among households living in dense urban areas. Higher density also resulted in shorter average trip lengths, but this effect was found to be about one-third as important as the impact on trip frequency.

In contrast, the effect of proximity to the central business area, once neighborhood density was controlled, was entirely in terms of trip length. Nearness to the central business area is associated with shorter distances between origins and destinations and with low automobile travel speeds because of congestion. Both of these influences tend to shorten trips.

The trip length most impacted by residential location within

## TABLE 9-4

## CHARACTERISTICS OF AVERAGE DAILY HOUSEHOLD TRAVEL BEHAVIOR IN HYPOTHETICAL NEIGHBORHOODS

| | Inner High Density | Fringe High Density | Fringe Low Density |
|---|---|---|---|
| | | **Household Automobile Vehicle Miles of Travel** | |
| Los Angeles | 49.7 | 73.5 | 101.9 |
| Average Area | 24.8 | 35.9 | 52.7 |
| Youngstown | 14.7 | 20.2 | 29.6 |
| | | **Vehicular Trip Frequency** | |
| Los Angeles | 6.2 | 5.9 | 9.1 |
| Average Area | 6.7 | 6.7 | 10.4 |
| Youngstown | 7.1 | 7.1 | 11.3 |
| | | **Automobile Trip Length (miles)** | |
| Los Angeles | | | |
| work | 16.4 | 19.3 | 26.3 |
| total | 12.7 | 14.6 | 17.2 |
| Average Area | | | |
| work | 7.4 | 8.6 | 11.4 |
| total | 5.8 | 6.6 | 7.7 |
| Youngstown | | | |
| work | 3.9 | 4.1 | 5.6 |
| total | 3.3 | 3.5 | 4.1 |
| | | **Automobile Trip Duration (minutes)** | |
| Los Angeles | 26.3 | 26.5 | 28.7 |
| Average Area | 14.5 | 14.7 | 15.9 |
| Youngstown | 8.3 | 8.4 | 9.1 |
| | | **Percent Transit Use** | |
| Los Angeles | 4.4 | 0.6 | 0.3 |
| Average | 2.3 | 0.7 | 0.3 |
| Youngstown | 1.6 | 1.1 | 0.5 |

Note: All figures refer to home-based travel within the metropolitan area.

SOURCE: Peterson and others, **Urban Development Patterns**, (Urban Institute, 1980).

the metropolitan area is the journey-to-work. As long as the urban core contains great concentrations of jobs, close-in neighborhoods will tend to have shorter work trips. This provides a functional rationale for in-fill development and preservation of central residential neighborhoods. Work places and residential locations can also be brought into close proximity by other means. Clustering jobs near residences or residences near jobs could be an effective way of reducing work related travel.

**Gasoline Use**

The travel behavior described in Table 9-4 can be converted to gasoline use to show the effects of neighborhood and metropolitan development patterns on energy consumption for urban travel. Table 9-5 indicates the variation in gasoline consumption by households in the three hypothetical neighborhoods.

As noted above, Table 9-4 indicates that average automobile trip duration in minutes did not vary significantly among hypothetical neighborhoods within the same metropolitan areas, but trip distance in miles did. This condition causes the percentage differences in fuel use among neighborhood types (shown in Table 9-5) to be less than the percentage differences in vehicle miles traveled. For example, VMT for the inner high-density neighborhood was 53% less than for the fringe low-density neighborhood in the "average" metropolitan area. The difference in fuel use was 47%. The differences are due to the inefficient use of energy due to congested traffic in high-density areas.

The greater fuel efficiency scheduled for the U.S. automobile fleet in the 1980's will reduce the absolute level of energy savings achievable from compact residential development and close-in locations. Nevertheless, the percentage reductions in automobile fuel use associated with increased residential density and close-in locations will remain unchanged.

The savings in energy use for urban travel made possible by different development patterns may be further clarified by looking at total gasoline sales in different metropolitan areas. Approximately 60% of the variation in metropolitan gasoline sales per capita can be explained by total urban area population, average population density, job and population clustering, and income (Peterson and others, 1980).

This analysis suggests a picture or the gasoline efficient city. It is relatively small, compactly developed, has a large proportion of its population living in high density neighborhoods, and has a relatively uniform distribution of jobs and population across the metropolitan area. Such cities are not commonly found in the United States. Lower metropolitan population, higher average density, stronger population clustering, and job decentralization could produce savings of between 65 and 80 gallons of gasoline per capita per year (Peterson and others, 1980).

This represents a 20 to 24% reduction from the average level of metropolitan gasoline consumption. This savings in travel-related energy use obtainable from significant changes in urban settlement patterns can be compared with the more than 50% savings to be achieved from the 1985 fuel efficiency standards for new automoblies. If the energy savings from urban development are applied to new development only (on the assumption that the rest of the housing stock will remain in place) approximately 0.5 quadrillion BTUs in annual energy savings could be realized after a ten year period. This is equal to roughly one-half of one percent of total national energy consumption, a modest but nonetheless significant amount.

**B. Residental Space Heating and Cooling**

Compactly developed urban areas also conserve on residential energy use. This is primarily because they have higher proportions of multi-family housing with shared walls and because single-family homes in cities tend to have smaller floor areas than suburban homes. These considerations mean that net energy savings could be achieved by preserving existing central city neighborhoods—especially if the energy conservation thus achieved could be supplemented by improving the insulation of older housing.

Studies of on-site heating requirements are of two types: engineering simulation studies and empirical analyses of actual fuel consumption. The engineering approach typically examines the energy necessary to heat (or cool) a house to a specified temperature, given different construction characteristics and outside temperatures. Empirical studies of actual energy use examine the same question, but the actual fuel consumption data they analyze are more properly interpreted as energy demand functions. This is because actual energy use for space heating and cooling is influenced by the price of energy, by household income, and by other household characteristics, as well as by the amount of energy needed to change the indoor temperature.

**Engineering Simulation Studies**

Several models have recently been developed that estimate the heating and cooling loads of various types of residential structures (U.S. Congress, 1979). One basic study of this type assessed the energy requirements of prototypical single- and multi-family housing units found in Baltimore and Washington, D.C. (Anderson, 1973; Harvey, 1974). Each prototype was specified in considerable detail in terms of total window area, exterior and interior construction materials, heat conductance coefficients, and type and degree of landscaping. Hourly energy requirements were then calculated using a computerized model based on heat flow equations. Annual consumption totals for different types of housing are shown in Table 9-6. There is a general pattern of reduced energy loads at higher dwelling densities which arises both from thermal efficiency gains resulting from shared walls and from the smaller size of multi-family units. On a square foot basis, units in high-rise structures require about 35% less energy than single-family detached units. On a per unit basis, savings are as large as 60%. Other studies have corroborated the relative magnitude of energy savings for housing in other cities and regions.

The estimates of cooling and heating requirements in Table 9-6 are for individual units alone. Additional energy is

TABLE 9-5

DAILY ENERGY USE PER HOUSEHOLD IN HYPOTHETICAL NEIGHBORHOODS

| | Inner High Density | Fringe High Density | Fringe Low Density |
|---|---|---|---|
| | | Daily Fuel Use (gallons) | |
| Los Angeles | 3.7 | 5.2 | 6.9 |
| Average Area | 2.3 | 3.1 | 4.3 |
| Youngstown | 1.6 | 2.1 | 2.8 |
| | | Average Miles Per Gallon | |
| Los Angeles | 13.3 | 14.2 | 14.8 |
| Average Area | 11.0 | 11.7 | 12.4 |
| Youngstown | 9.4 | 9.7 | 10.4 |

SOURCE: Peterson and others, Urban Development Patterns, (Urban Institute, 1980).

required for the heating and lighting of common areas and the operation of elevators in multi-family structures. Consequently, the energy efficiencies of high rise and, to a lesser extent, low-rise multi-family buildings tend to be overestimated in Table 9-6. This problem of overestimation is particularly severe for buildings over ten stories in height.

**Empirical Studies: Residential Structures**

Relatively few attempts have been made to examine the influence of building type on fuel consumption empirically—that is, in actual operation. The enormous task of controlling for all the building, occupant, and fuel factors which significantly affect energy use make it difficult to isolate the contribution of any one variable such as building type.

One relatively recent study employing this approach focused on energy consumption in electrically-fueled residential structures of three different types in Chicago (Sweet, 1974). The investigation was restricted to all-electric housing units served by the same electric company. Thus, differences in insulation characteristics and in the average price of energy were largely eliminated. Unfortunately, other factors could not be controlled in this way; therefore, to the extent that characteristics such as family income are correlated with the type of building, differences in observed energy use may not be entirely due to building type.

The three types of building in the Chicago study were: single-family detached homes (71 separate dwellings at various locations); high-rise apartments (882 units in the 68-story Lake Point Tower Building); and "super" high-rise apartments (705 units in the 99-story multi-purpose John Hancock Center). The energy consumed for general services in the two apartment buildings was allocated to residential units on a proportional basis. The average amount of energy consumed by households in each type of unit is shown in Table 9-7. Energy consumption excluding common-service areas is shown in parentheses.

The implied efficiencies of single-family detached and the high-rise buildings indicated in Table 9-7 differ substantially from those found in the simulation studies summarized in Table 9-6. The Chicago study concluded that on a per square foot, and especially on a per occupant basis, single-family detached housing appear to be more energy-efficient.

Much of the difference between the results of the two different types of studies can be explained by the use of energy for general services. Both the John Hancock Center and Lake Point Tower are very tall structures and the energy needed to run the elevators, ventilating systems, and other common services is considerable. Energy for these services represents 33% and 77% of the total per unit consumption for Lake Point Tower and the John Hancock Center, respectively.

Thus, the Chicago results do not invalidate the relationships suggested by the Baltimore-Washington and other simulation studies. In fact, individual units in the Chicago high-rises are more efficient than single-family homes, by about the same margin as indicated in the other studies, if energy requirements for common services are ignored. But once auxiliary energy requirements are included, high-rise structures are

## TABLE 9-6

## AVERAGE ENERGY REQUIREMENTS FOR HEATING AND COOLING PROTOTYPICAL HOUSING UNITS IN THE BALTIMORE–WASHINGTON AREA

| | Annual Energy Requirements (Therms[1]) | | |
|---|---|---|---|
| **Structure Type** | **Per Unit** | **Per Square Ft. of Floor Area** | **Per Occupant** |
| Single-Family Detached[2] | 1,300-1,400 | 0.765-0.826 | 325-350 |
| Townhouse[3] | 896 | 0.689 | 224 |
| Low-Rise[4] | 575 | 0.512 | 192 |
| High-Rise[5] | 493 | 0.506 | 246 |

SOURCE: R.W. Anderson, 1973 and M. Tomanhekin and D.G. Harvey, 1974.

As reported in Peterson and others, **Urban Development Patterns** (Urban Institute, 1980).

[1] One therm = 100,000 BTUs

[2] A two-story detached unit with 1,695 square feet of finished space, a gas-fueled forced air furnace, and an electrically operated central air conditioner.

[3] The average of eight two-story units in a row, each with 1,300 square feet of finished space and the same heating/cooling equipment found in the detached unit.

[4] The average of 24 units in a three-story structure. Each has 1,140 square feet of finished space, and the same heating/cooling equipment found in the detached unit.

[5] The average of 196 units in a 10-story structure. Each has 950 square feet of finished space and is heated, cooled, and ventilated by single systems for the entire building. (Heating is by hot water fueled by gas and cooling is by chilled water fueled by electricity.)

NOTE: The values for the single-family units are not entirely comparable with those for the multi-family units as type of construction and building materials were not completely standardized. A range of values is thus indicated for the single-family unit.

## TABLE 9-7

## ENERGY CONSUMPTION COMPARISONS FOR THREE TYPES OF ALL ELECTRIC RESIDENTIAL UNITS IN CHICAGO

| Structure Type | Annual Energy Consumption (Therms)[1] Per Unit | Per Square Ft. of Floor Area[2] | Per Occupant |
|---|---|---|---|
| Single-Family Detached | 1,375 | 0.686 | 336 |
| Lake Point Tower[3] | 1,143(719) | 0.735 (0.548) | 747 (470) |
| John Hancock Center[4] | 2,062 (464) | 1.097 (0.369) | 897 (202)[5] |

[1] Figures in parenthesis exclude energy for general services.

[2] Net area (floor space in the unit) for figures which do not include energy for general services, gross area (floor space in unit plus a proportional share of the common area) for figures which include energy for general services.

[3] High-rise apartment building.

[4] Super high-rise multipurpose building.

[5] Occupancy figures are estimates for units in the John Hancock Center.

SOURCE: George E. Peterson and others, **Urban Development Patterns** (Urban Institute, 1980).

seen to be much less energy-efficient. General service energy requirements increase faster than the height of buildings and eventually more than compensate for the thermal advantage of the individual units in these structures.

Of the various figures which appear in Table 9-6 and 9-7, those calculated on a "per square foot of floor area" basis are the most standardized. The values for the single family detached homes reveal that the simulated requirements for Baltimore and Washington are some 15% higher than the Chicago measured consumption (0.80 versus 0.69 therms per square foot). This result may be due to differences in insulation characteristics. As a rule, all-electric units, such as those in the Chicago sample, are much better insulated than those heated by other fuels; the Baltimore-Washington simulation indicated that upgrading insulation could produce energy savings on the order of 20% to 30%.

The amount of energy required to heat and cool units in the simulated Baltimore-Washington high-rise is quite similar to the energy consumed by individual units in Lake Point Tower in the Chicago study (0.51 versus 0.55 therms per square foot). Units in the John Hancock Center appear to be considerably more efficient (0.37 therms per square foot).

The Chicago data shown in Table 9-7 support the estimates in Table 9-6 as reasonable approximations of space heating and cooling requirements. They provide additional evidence for the superior thermal efficiency of individual units in multi-family buildings. But just as clearly, the Chicago data demonstrate the danger of ignoring general service energy requirements in estimating actual energy effects.

Perhaps the most detailed study of metropolitan energy consumption has been conducted for the New York region, where energy use for each of 31 counties centered on New York City has been estimated by economic sector and by fuel type for 1970 (Regional Plan Association, 1974). The primary data for the residential energy consumption analyses were fuel records maintained by companies selling or distributing natural gas, electricity, heating oil, coal, and other fuels in the region. The New York area offers an excellent opportunity to test the relationship between building type and energy consumption. The type and size of buildings show substantial intra-metropolitan variation which should lead to significant variations in fuel consumption levels.

The analysis of the New York region's energy consumption pattern bears out the hypotheses that different types and sizes of buildings consume different amounts of fuel. Statistical analysis indicate that 75% of observed variation in energy consumption per housing unit in New York communities can be explained by differences in household and structure type characteristics.

Larger multi-family structures in New York consume less energy than smaller buildings, even when common service requirements were taken into account. But, this may be misleading , when compared to earlier studies, because of the way the data on housing mix were reported. "Large" multi-family structures in the New York sample referred to all buildings having 20 or more units. The great majority of buildings were smaller than those described as high-rise in the other study and were probably not large enough to suffer diseconomies of energy use in common service areas.

**Energy Use and Housing Structure Type**

The general magnitude of energy savings realizable from shifts in the housing mix are shown in Figure 9-1, a graph of energy consumption per square foot of residential floor space plotted on a scale showing gradations of building types from single-family detached structures to skyscrapers. The results of the different analyses described above are plotted on the graph. The levels of the consumption lines are partly a product of the regional differences in outdoor temperatures, age of the housing stock, and the type of fuel used for heating. The shapes of the curves show how fuel consumption per square foot of floor space declines as the density of housing increases, and then rises at very high densities.

Although the broad categories of building types used in the studies create some uncertainly about the exact location of data points, the change in thermal efficiency with building type is highly consistent across the four studies. Specifically, units in medium sized multi-family structures–ranging from apartment buildings with fewer than 20 units to small high-rises–appear to save on the order of 30% in energy use per square foot. Thus, if a housing stock composed exclusively of single-family detached units were totally replaced by multi-family structures of this size, a reduction of about 30% in energy consumption should result, if all other factors (including dwelling unit size) remaining unchanged.

Actual energy consumption in the average multi-family and single-family housing unit differ by much more than this. Energy savings of 60% and more are common on a per-unit basis, due to the smaller size as well as the superior thermal efficiency of multi-family units. But the smaller housing units in multi-family structures typically are occupied by smaller households. The total effect on energy use of a change in the structural mix of housing construction is likely to be between the 30% savings achievable on a square foot basis and the approximately 60% savings achievable on a per unit basis.

These estimated savings are of the same magnitude as those achievable for individual housing units by improving the energy-efficient design standards for new housing. Design standards have the advantage that they are potentially applicable to all new housing, whereas it is feasible to shift only a fraction of housing construction from single-family to multi-family. Moreover, many of the same design standards can be used to retrofit the existing housing stock to make it more energy-efficient.

These two approaches can be used together. Adoption of energy-efficient construction standards, coupled with modification of future urban development patterns, would help promote energy conservation. The Urban Institute study estimates that a large shift in the new housing mix toward multi-family housing could save some 0.2 to 0.25 quadrillion BTUs annually after a decade, and eventually in the neighborhood of 0.9 to 1.0 quadrillion BTUs per year. At the upper level, this saving would be on the order of one percent of total national energy consumption.

**The Problem of Older Housing**

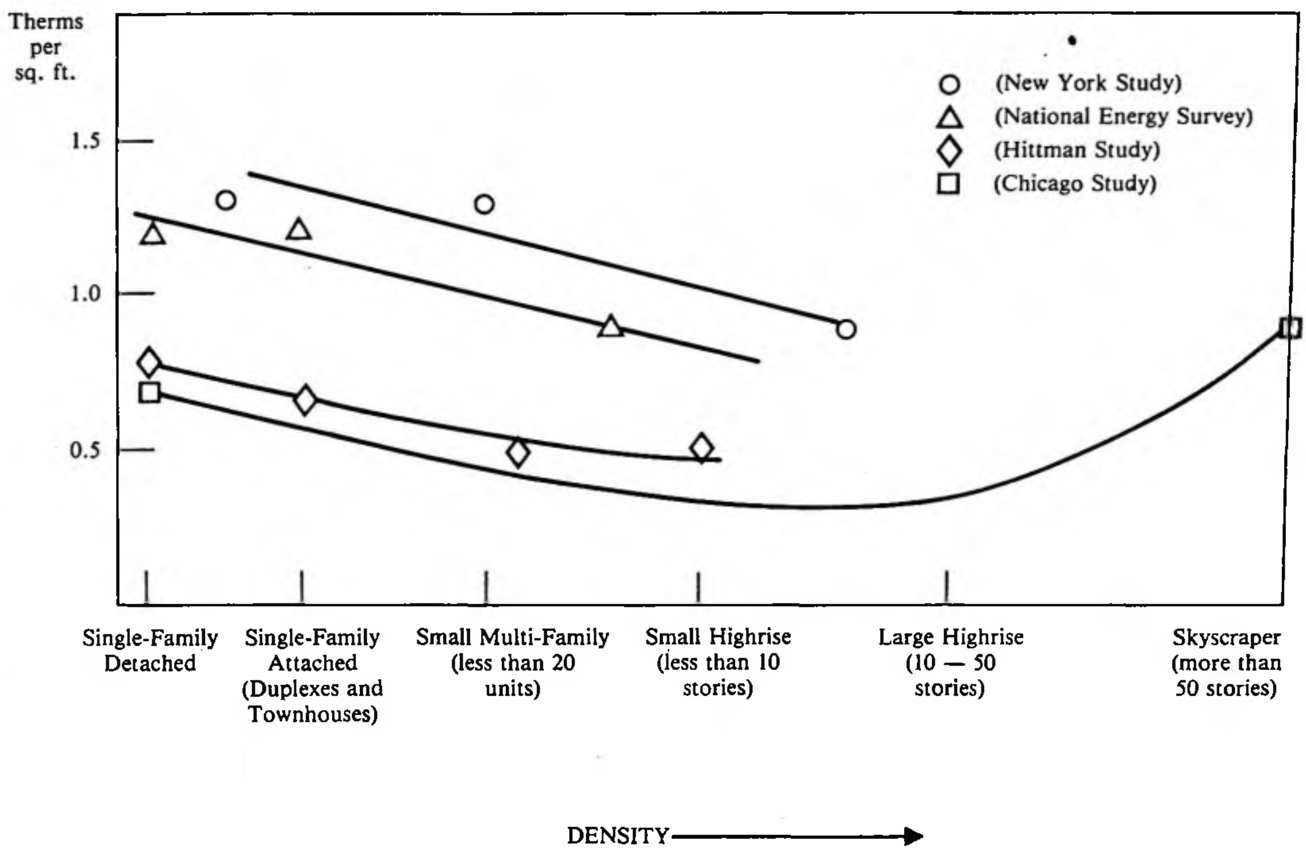
The energy savings realizable from an urban preservation strategy are complicated by the much higher energy consumption found in older housing. Until 1940, insulation was rarely used in homes and even between 1940 and 1960 only minimal attic insulation was used (Rowse and Harrje, unpublished). The differences in energy use for different generations of housing can be illustrated by comparing typical new homes built in 1973 and 1976. Typical new homes built in 1976 are estimated to use 20% to 38% less energy for heating than typical homes built in 1973 (Hittman Associates, 1977). The differences are far more dramatic for older vintage housing. Various experiments with older housing have shown that savings of 20% to 30% in home heating energy use can be achieved from fairly simple, economically efficient retrofit packages (Socolow, 1977/78; Burch and Hunt, 1978). Thus, while at present older cities tend to be heavy energy users because of their original housing construction standards, the ease of retrofitting makes it energy efficient and economically efficient to upgrade the existing stock, rather than to replace it on a large scale with newly built housing solely to save energy.

**Regional Variations**

There are significant regional differences in energy consumption. The mild climate of the South and Southwest contributes to energy conservation. The prototypical new house in Houston uses one-fourth less heating and cooling energy per year than the same sized new house in Chicago and moderately less than a similar house in Baltimore (Hittman Associates, 1977).

These regional differences are likely to narrow in future years, because the possiblities for saving on home heat loss and thus heating energy requirements are much greater than the possibilities for reducing home cooling loads. In addition, present regional differences in residential energy use in existing houses are greater than the differences observed in new housing construction, since they are heavily influenced by the thermal standards of housing of an earlier date. On balance, however, energy savings may be one by-product of the regional migration that is taking place to the South and Southwest, at least in terms of consumption for residential heating and cooling. To a significant degree, however, such savings are probably counter-balanced by the higher travel uses and gasoline consumption in cities of the South and West as compared to those in the North.

**Figure 9-1.**
**Relative Energy Efficiency by Type of Dwelling**




SOURCE: George E. Peterson and others, **Urban Development Patterns**, (Urban Institute, 1980).

#### Savings Possible from Compact Development Patterns

To place the potential energy savings possible from shifts in the housing mix in perspective, it is useful to compare them with the savings possible from other residential strategies.

One conservation strategy that can be compared to a land use strategy involves upgraded thermal efficiency standards. Two voluntary efforts of this type are now covered by Federal law. The Building Energy Performance Act of 1976 applies to new construction. The Residential Conservation Service Program of the 1978 National Energy Conservation Policy Act applies to existing housing.

The market place has already forced substantial reduction in the energy use of newly constructed housing. State-of-the-art, economically efficient design could further reduce heating and cooling loads by 50% or more. By comparison, the energy savings payoff to changes in metropolitan scale design or urban preservation appear relatively modest. Nevertheless, they can reinforce a national policy of energy conservation and will yield their annual savings in perpetuity. The best approach would appear to be the combining of the two: upgrading thermal standards of individual buildings and guiding development into medium to higher density levels where energy savings are more likely.

### C. Summing Up: Energy Conservation

While the data available to base energy conservation planning for urban transportation and land development is still sparse, initial indications are available to guide urban policy in the direction of energy-efficient patterns.

Energy savings from urban transportation will be greater from more gas-conserving cars than appear likely to be achievable through new development patterns. Small- to medium-sized cities minimize trip lengths. Savings can be achieved by bringing jobs into closer proximity to residences and by more compact development. Mass transit produces significant savings where it already exists, but construction of major new fixed-rail systems does not appear likely to produce dramatic energy savings overall. Innovative planning of roads and traffic control devices could also substantially reduce energy consumption by reducing congestion and decreasing trip duration.

Multi-family housing development at medium density appears to have the best chance to reduce total energy consumed for heating, cooling, and general purposes, with part of the savings due to shared-wall construction and part to smaller average unit size as compared to single-family detached dwellings. Initial studies indicate that improved insulation and energy-efficient construction may offer greater savings than could be gained through changes in density alone. However, additional research is needed to more clearly establish the relationship between energy conservation and residential density.

Overall, it appears that guidance of development patterns toward more compact, medium densities can supplement other approaches to energy conservation in urban transportation and residential heating and cooling.

## 2. AIR QUALITY IN URBAN AREAS

The exposure of metropolitan residents to air pollutants is influenced by urban development patterns in two ways. First, urban development patterns influence emission levels of some pollutants by affecting the amount of energy consumed for travel and for temperature conditioning of residential space. Second, they influence the atmospheric concentrations of pollutants to which the population is exposed through their effect on the distance between pollutant sources and the places where people live, work, and shop. Dispersed development patterns generate a greater quantity of some pollutants because they involve more vehicle travel and greater energy use. However, studies also indicate that more individuals are exposed to risks from air pollution when they live and work in densely concentrated areas than in areas of low density development.

The Federal Government has established air quality standards for seven pollutants which, either singly or in combination, are potentially hazardous to human health, plant, and animal life, or the durability of valuable materials. These are total suspended particulates (TSP), sulfur oxides (primarily sulfur dioxide), carbon monoxide, nitrogen oxides, hydrocarbons, ozone, and lead. Particulates and sulfur dioxide are primarily associated with power generation, space heating and cooling, and industrial operations. Automobiles and industry are the major sources of carbon monoxide and lead. Nitrogen oxides are associated with all major combustion sources. Hydrocarbons come primarily from transportation and industrial processes and contribute, along with nitrogen oxides to the formation of ozone "smog."

#### Particulates and Sulfur Dioxide

Total emission levels of TSP and sulfur dioxide may be relatively insensitive to the arrangement of urban land uses, being determined instead by the number and type of industries, production techniques, emission controls, and types of fuels used. The pattern of urban development does, however, have a direct bearing on the distance between people and the sources of TSP and sulphur dioxide, and thus on human exposure levels.

Simulations can be used to gauge the effects of widely differing urban patterns on human exposure to suspended particulates and sulfur dioxide. A recent Urban Institute study used simulation techniques to compare the population exposure to TSP and sulfur dioxide resulting from nine different configurations of major point sources of air pollutants—primarily industrial and power generating plants—and four population settlements patterns: spread population; centrally compact; radial corridor concentration; and satellite cities. These variables thus defined both area sources of air pollutants and the location of people exposed to air quality. The results for a hypothetical highly industrial area similar to Pittsburgh are shown in Table 9-8.

TABLE 9-8

COMPARISONS OF TSP AND SULFUR DIOXIDE LEVELS FOR NINE HYPOTHETICAL DEVELOPMENT PATTERNS
(Air quality measured in terms of micrograms/cubic meter)

| | Total Suspended Particulate (TSP) | | Sulfur Dioxide | |
|---|---|---|---|---|
| Development Pattern: Population Settlement/ Point Source | Population[1] Exposure Level | Sub-area[2] Maximum | Population[1] Exposure Level | Sub-area[2] Maximum |
| Compact/Linear Clustered | 33 | 588 | 19 | 33 |
| Radial/Linear Clustered | 30 | 589 | 15 | 30 |
| Compact/Linear Uniform | 25 | 102 | 18 | 27 |
| Compact/Dispersed | 24 | 171 | 15 | 20 |
| Spread/Linear Clustered | 22 | 588 | 12 | 27 |
| Radial/Dispersed | 21 | 171 | 12 | 19 |
| Spread/Dispersed | 18 | 171 | 10 | 18 |
| Compact/Segregated | 19 | 161 | 18 | 25 |
| Satellite City/ Segregated | 13 | 161 | 13 | 28 |

SOURCE: George Peterson and others, **Urban Development Patterns**, (Urban Institute, 1980).

[1] A population-weighted average of sub-area pollutant concentrations.

[2] The maximum annual average estimated for any receptor point.

The highest population exposure level was found in the traditional development pattern that combines compact population settlement patterns and linear clustered point sources with no pollution control devices. The lowest level was found for a satellite city settlement pattern and segregated point sources of pollution. This second combination has a 60% lower exposure level for particulates than the first. Since the satellite city/segregated pattern is an idealized distribution not found in the U.S., it is perhaps more interesting to compare the high exposure levels of the compact settlement pattern with clustered point sources with the intermediate exposure levels of other patterns, representing less concentrated development. The less concentrated settlement patterns display 27%, 33% and 45% reductions for TSP as compared to the compact pattern. Similar differences were found for levels of exposure to sulfur dioxide.

This analysis indicates that significant reductions in human exposure to particulates and sulfur dioxide can be gained by separating people from point sources. This result is most easily achieved by locating major point sources, such as electric generating plants, at the urban periphery or beyond. However, the study also indicates that even where point sources are isolated from populated areas, exposure levels are significantly affected by emissions from widely distributed "area" sources of pollution . The average sub-area population exposure in the compact/segregated pattern was almost 50% higher than in the satellite city pattern, with its lower average densities.

Additional simulations were performed to approximate the effects on exposure levels of upgrading point source emission abatement efforts by the use of emission control devices including electrostatic precipitators and stack scrubbers. Results are shown in Table 9-9. Reductions in exposure levels due to point source abatements were generally comparable to those resulting from the most extreme spatial rearrangement of sources and residences.

Once emissions from point sources have been abated, the link between development pattern and area sources takes on added importance. In urban areas where point source pollution controls are not able to reduce exposure to desired levels, the location or relocation of major fuel-using plants to more isolated sites appears to be a strategy deserving of consideration. Or, where existing point sources are centralized, the planned location of new residential and shopping areas distant from pollution sources would reduce exposure of new residents to sulfur dioxide and particulates.

These findings are based on estimates of long term (annual) area-wide average pollutant concentrations. However, health hazards may be masked by long term, area-wide estimates, because concentrations recorded during shorter intervals and at different specific locations are often much higher. This is especially true in development patterns which cluster people and sources together. (see Table 9-8).

These simulation results are supported by an analysis of actual measurements of TSP and sulfur dioxide concentrations in metropolitan areas throughout the nation. Indices of exposure levels were constructed and regression analyses performed to determine the extent to which population clustering, high density concentrations, and other variables explain variations in exposure. The results suggested that while low-density development patterns with lesser centralized concentration exposed people to less TSP and sulfur dioxide, the differences, though statistically significant, were not pronounced.

**Carbon Monoxide and Lead**

On a nationwide basis vehicle use accounts for about 85 percent of carbon monoxide and lead emissions. A dispersed metropolitan area with relatively low-density will have higher levels of gasoline consumption and thus will have high emissions, especially if employment is concentrated in the central business area. Under these conditions the greater length of the journey to work, with the greater frequency of travel, leads to higher automobile use. In addition, more frequent trips mean more cold starts which, for a given amount of vehicle miles traveled, also generate more emissions of carbon monoxide. Several factors operate against this trend. First, higher travel speeds in dispersed areas will tend to offset the increased generation of carbon monoxide, since carbon monoxide emissions are inversely related to speed. Lead emissions however, increase with speed. Second, average distance between residential areas and highways, provides additional opportunity for atmospheric dilution of emissions.

Very few metropolitan areas have sufficiently large monitoring networks to measure the spatial variation of mobile source pollutants accurately. However, what evidence there is suggests that concentrations of carbon monoxide decrease rapidly with distance from the central business area. Simulation studies of the effect on air quality of alternative metropolitan development patterns confirm that concentrations of carbon monoxide decrease as density decreases.

The degree of improvement in carbon monoxide exposure cannot be quantified from studies to date. It appears that the worst conditions of exposure are suffered by people living along highly traveled highway corridors and near central business areas. Low income and black families generally live in inner-city neighborhoods close to central business areas where pollution levels are higher.

**Hydrocarbons, Nitrogen Oxides and Ozone**

Hydrocarbons and nitrogen oxides are emitted by both stationary and mobile sources. Nitrogen dioxide is a pollutant in its own right and behaves somewhat like sulfur dioxide and carbon monoxide with respect to urban development patterns: lower population exposure is associated with dispersed development. Nitrogen dioxide reacts with nitric oxide and hydrocarbons to produce ozone. Taken together, these pollutants produce the condition commonly known as smog.

The reactions which produce ozone are highly complex and poorly understood. Yet, ozone is the most pervasive air pollution problem in urban areas. Although ozone may be transported significant distances, marked variations in ozone level

TABLE 9-9

AVERAGE ANNUAL LEVELS OF POPULATION EXPOSURE TO TSP AND SULFUR DIOXIDE
INCREASED ABATEMENT OF POINT SOURCE EMISSIONS

| Development Pattern and Emission Assumption | Population Exposure Level[1] Total Suspended Particulates (TSP) | Sulfur Dioxide |
|---|---|---|
| Compact/Linear Clustered | | |
| Initial Case | 33 | 19 |
| Abated Case | 17 | 13 |
| Spread/Dispersed | | |
| Initial Case | 18 | 10 |
| Abated Case | 10 | 7 |
| Satellite City/Segregated | | |
| Initial Case | 13 | 13 |
| Abated Case | 11 | 9 |

SOURCE: George Peterson and others, **Urban Development Patterns**, (Urban Institute, 1980).

[1] Measured in micrograms/cubic meter

are observed from community to community in the same metropolitan area. In general, ozone concentrations tend to be highest at the urban fringe, particularly where stagnant air conditions prevail. The impact of urban development patterns on ozone concentrations is ambiguous. More dispersed patterns of urban development can reduce exposure by better utilizing the atmospheric dilution capabilities. However, dispersed patterns of development result in more vehicular emissions and allow more time for the emissions to interact and increase ozone levels as air masses move back and forth across the urban areas. Altering the spatial pattern of cities does not promise to contribute greatly to reduced ozone concentrations in urban areas.

### Summing Up: Air Quality

On balance, air quality is one of the "costs" associated with higher density development. This is especially true of urban development which concentrates both industrial sources and population near the urban center. Dispersal of population and major polluting sources such as electric generation plants away from urban centers could help reduce the levels of exposure to many pollutants, including particulates, sulfur dioxide, and carbon monoxide. But possible air quality gains associated with more dispersed development are counterbalanced by increases in the amount of vehicular pollution generated. As indicated earlier, dispersed development increases vehicular travel, particularly travel by single-occupant vehicles and reduces the viability of public transit. The ozone problem, which is among the most difficult to mitigate of urban air pollution problems, is generally worsened by increased vehicular travel.

Given present and likely future land settlement patterns, use and enforcement of emission controls will continue to be the most relevant way to protect urban population from air pollutants. Reducing emissions from major point sources can improve the air quality associated with any development pattern. Further, emission standards on automobiles can reduce the emission resulting from mobile sources.

## 3. Farm Land Preservation in Urban or Urbanizing Areas

Widespread concern has been voiced over the loss of farm land to urban development. This subject is presently being studied by several Federal groups. The Secretary of Agriculture and the Chairman of the Council on Environmental Quality are co-chairing the National Agricultural Lands Study, which will report on the need to limit conversion of farm land to urban uses and on the relationship between preservation of farm land and legitimate development needs. Other studies are under way which examine the soil, water, and related resources of the nation. Until these studies are completed, it is difficult to arrive at more than very generalized opinions as to the seriousness of the nation's farm land loss.

It is clear that the aspect of urban development most closely linked to the consumption of farm land resources is low density, single-family housing development. Several studies have shown that the average density of new housing is closely related to the total amount of land converted to urban uses in metropolitan areas. A study by the U.S. Department of Agriculture of 96 counties in 12 Northeast states found that of the approximately 120,000 acres of rural land which were shifted to urban uses during the 1950's, 85% went into low density residential use. The other 15% was used for industrial, commercial, and institutional purposes, as well as for multi-family housing and airports (Department of Agriculture, 1971).

Single-family subdivisions at the metropolitan fringe often extend urbanization in a "leap frog" manner. During the period 1950 to 1970, each newly constructed single-family home was responsible for adding approximately six-tenths of an acre to the nation's urbanized area, as defined by the Bureau of the Census.

Greater land use per dwelling unit may result in an increasing percentage of housing units on septic tanks. According to the 1977 Annual Housing Survey, of the 14.6 million housing units constructed between 1970 and 1977, 6.2 million or 43% were outside the urban areas. Of those 65% were on septic tank size lots. This compares to less than 6% of the new urban construction on septic tanks. Since areas without public sewers also usually lack public water supply, health standards require large lots to separate the domestic water well from the septic tank drainage field. The ratio of septic tank to public sewer lots for the nation's housing stock in 1970 was 1:3. For the increment built between 1970 and 1977 the ratio was 1:2.

The construction of multi-family housing had no measurable impact upon the amount of land that was urbanized (Peterson, 1980). This does not imply that all new urban households could be accommodated in multi-family structures without adding to the radius of urbanization. But the vast amount of undeveloped land within the present urbanized portions of metropolitan areas does mean that considerable in-fill development could take place without extending the outer boundaries of most urban regions.

From the information that is available regarding farm land conversion, it appears that the nation's good quality agricultural land is threatened by continued rapid urban development. Many of the same features that make land attractive for farming (such as level terrain, the absence of dense natural vegetation, the presence of good topsoil, and good drainage) also single it out as a desirable target for subdivision development. Farm land unencumbered by permanent structures presents a developer with the lowest possible site preparation costs. For this reason, the outward march of subdivisions often is disproportionately directed toward good agricultural land.

One of the most comprehensive examinations of rural-urban land conversion examined total land use in 53 of the nation's most rapidly growing metropolitan counties, where one-fifth of the U.S. population increase between 1961 and 1970 occurred (Zeimetz, Dillon, et al., 1976). This study found that 34.6% of all new urban land had been converted from cropland. Another third of urban land requirements was satisfied by the conversion of open idle land, most of which was in an intermediate holding state between cropland and urban development. Directly and indirectly, more than half of urban land development required cropland conversion—a substantially higher share than cropland represents in the total distribution of undeveloped land.

In some states, the proportion of urban growth occurring on cropland is still higher. Studies in California indicate that approximately 80% of the one million acre growth in urban land projected over the period 1965 to 1980 is from land suitable for agricultural production, and that well over half is from land classified as "prime" farm land by the Soil Conservation Service (Shumway, 1971). In general, the strong connection between urban density and total land requirements, and the equally strong relation between total land requirements and the likelihood of farm land conversion, indicates that the density of development has a significant effect on the amount of cropland claimed for urban uses.

Encouragement of compact development can help preserve agricultural lands in the vicinity of urban areas. The scale of urban land conversion must always be kept in mind, however. Although estimates on farmland conversion differ, the Economics, Statistics and Cooperative Service of the United States Department of Agriculture has estimated that some 750,000 acres of "rural environment" land are currently lost each year to urban development (Department of Agriculture, 1974). Although precise data are not available, of this total, perhaps 300,000 acres were actively employed in crop production (Peterson and Yampolsky, 1975). The 300,000 acres of cropland lost annually to urban uses should be compared to a national base of approximately 400 million acres in cropland use. In fact, more farm land is brought into production each year, through draining and irrigation, than is lost through urban development. Based on presently available information, the long run argument against urban encroachment on farm land, seems to rest more heavily on the quality and location of the land lost to agriculture than the absolute volume of acreage.

## 4. Summing up: Resource Conservation and Urban Patterns

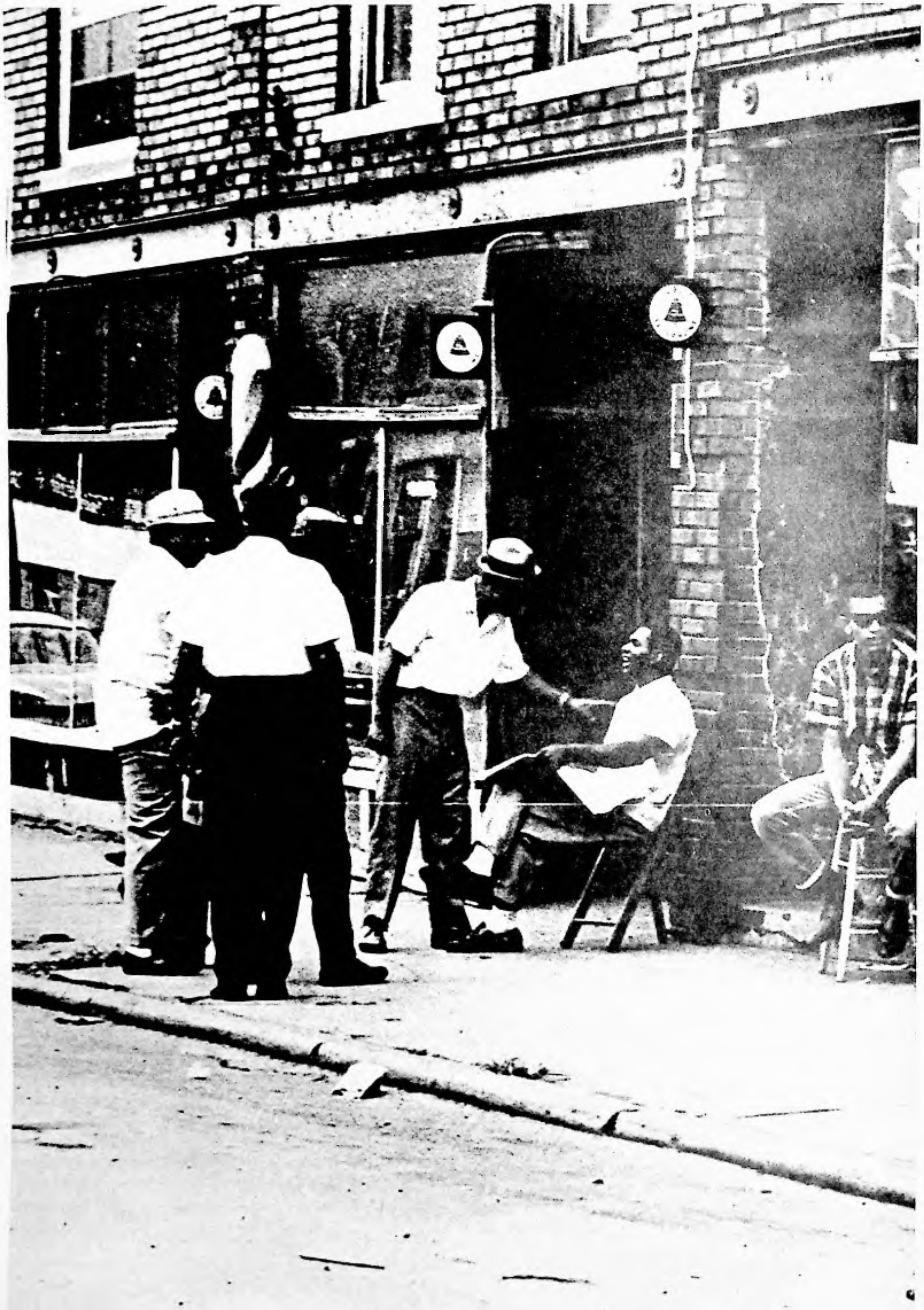
Urban development patterns can exert a positive influence on the nation's effort to implement resource conservation strategies.

In terms of energy conservation, there are two aspects which relate most directly to urban development patterns: transportation within urban areas and residential energy use for heating and cooling. The most efficient urban development patterns to conserve energy used for transportation are those which are reasonably compact. Small- to medium-sized metropolitan areas tend to use less energy for transportation. With respect to residential heating and cooling, higher density housing (but not the very highest) is most energy efficient, all other things being equal. Guidance of urban development, wherever feasible, to compact, medium density patterns will supplement—but cannot replace—energy conservation strategies involving more efficient vehicles and better insulated housing, both new and retrofitted.

The potential influence of urban development patterns on air quality levels is less clear than is the case with respect to energy conservation. Generally, however, less intense development seems to produce lower exposure of humans to pollutants. While air quality can be improved through dispersal of heavily-polluting "point" sources, such as electric generating plants, control of emissions, rather than changes in development patterns, offers the greatest leverage to simultaneously meet air quality and energy objectives.

Compact development tends to utilize less of the nation's supply of good cropland than dispersed single-family detached housing development. To date, however, there is no clear evidence that cropland loss due to urban development has reached extreme proportions.

On balance, it appears that medium density, compact development, especially of the in-fill type has positive features for a resouce conservation strategy. However, it will have to be supplemented by other, more focused efforts such as production of more energy-efficient cars and dwellings and installation of air pollutant emission controls, to be fully effective.



# X. RESIDENTIAL SEGREGATION, DISCRIMINATION, AND MINORITY WELFARE IN U.S. CITIES

Segregation and discrimination on the basis of race, ethnicity, and sex are among the most potent forces adversely affecting both the welfare of minority persons and the condition of American cities. At base, residential segregation and discrimination segment urban housing markets, limiting the choices of blacks, Hispanics, other minorities, and families headed by females .

Discrimination and segregation infect the housing markets of virtually all communities: central cities, suburban cities and towns, and non-metropolitan communities. Discrimination is found in the housing markets of all types of cities, regardless of whether they have increasing or decreasing populations and regardless of whether they have relatively high or low proportions of economically disadvantaged people.

Widespread discrimination and segregation have left their imprint on the nation's urban areas. Minorities and female-headed households are disproportionately concentrated in needy central cities, especially in large, older central cities. Minorities living in suburbs and non-metropolitan areas tend to be concentrated in communities with high levels of need. Within cities, minority households are typically clustered in neighborhoods with few white residents.

The harmful effects of discrimination and residential segregation are widespread. The most direct and clear-cut impacts are those that affect the housing in which minorities live. For example, minorities tend to live in lower quality housing and neighborhoods. They pay more than whites for housing of comparable type and quality. They are less likely than whites to own their own homes. Those that own their own homes benefit less than whites from appreciation of housing values. They have accumulated less wealth by building up housing equity.

Segregation also lowers the quality of services to which minority households have access. The quality of municipally provided services is more often perceived as unsatisfactory in black neighborhoods than in white neighborhoods. Access to quality health care is more limited for minority households than it is for whites. Minority children are increasingly concentrated in school systems plagued by poor conditions and financial difficulties.

Discrimination and residential segregation affect the character of minority participation in the job market. Minority workers have less access to employment opportunities than their white counterparts. This is especially true for those who live in segregated central cities. When compared to whites, they are more likely to reverse commute from central city residence to suburban jobs, and have poorer access to suburban areas where job opportunities are expanding most rapidly. This limits minority job choice and works against efforts to increase minority incomes and reduce minority unemployment rates.

Discrimination and segregation have negative effects on cities as well as on minority individuals and families because they encourage the concentration of households with relatively low incomes. Low incomes have combined with discrimination to reduce the level of housing investment in neighborhoods of high minority concentration. This affects the quality of housing found in cities with substantial minority populations—particularly distressed central cities. It works to reduce the value of residential property and thus contributes to the low tax base of these cities. It reduces the appeal of central city housing to middle class households, both white and black.

Because minority households on the average have relatively low incomes, segregation and discrimination also concentrate households with a relatively high need for publicly-provided services and little ability to pay for the costs of the services they receive (see Chapter 4). Both directly and indirectly, discrimination, segregation, and the resultant concentrations of economically-deprived households contribute in important ways to the problems of needy cities. Conversely, blacks and other minorities, plagued by the dual problems of discrimination and low income, are among the principal victims of the decline of many central cities.

## 1. Segregation in the Housing Market

Urban residential areas are highly segregated along racial lines. Minority households are more likely than others to live in metropolitan areas. However, they have been largely excluded from the rapid suburbanization that has taken place in metropolitan areas since World War II. As a result, their housing choices tend to be confined to central cities. Within cities, they typically live in neighborhoods of high minority concentration. Minority households disproportionately live in needy cities.

Although a number of factors contribute to residential segregation, there is no doubt that discrimination is a principal cause. A recent HUD study measured the degree to which blacks and whites seeking to rent or buy homes encounter discriminatory barriers (HUD, 1979b). The study, which monitored the experience of paired black and white prospective renters and buyers in 40 metropolitan areas, found that 27% of rental agents and 15% of sales agents engaged in some form of discriminatory practice. Since many people looking for housing visit more than one sales or rental agent, the level of discrimination experienced by households is even higher. For example, 72% of black households visiting four rental agents could expect to encounter discrimination, while 48% of black households visiting four sales agents could expect some type of discrimination. A similar HUD study reported that Mexican-American households also experience discrimination when they look for housing: light-skinned Mexican-Americans in Dallas met discrimination about as frequently as blacks, and dark-skinned Mexican-Americans encountered discrimination even more frequently (HUD, 1979a).

During the 1960's, reforms at all levels of government began to promote equal opportunity in housing. Title VIII of the 1968 Civil Rights Act outlawed housing market discrimination on the basis of race, color, religion, sex or national origin. The Supreme Court, in its ruling in **Jones v. Mayer**, interpreted the 1866 Civil Rights Law to prohibit private as well as public discrimination against blacks in the sale or rental of property. It also recognized that the provisions of Title VIII apply to a broad range of discriminatory housing practices and are subject to enforcement both by Federal authorities and through private action. Subsequent legislation, such as the amended Equal Credit Opportunity Act, has expanded the specific guarantees of equal access to housing opportunities for minority households. As a result of these and other reforms, provisions and practices that overtly discriminate on the basis of race, e.g., restrictive covenants and other restrictions on minority access to integrated neighborhoods, have become relatively rare. However, there is ample evidence, such as the HUD studies cited above, that more subtle forms of discrimination are still common. This discrimination has the effect of limiting the residential choices of minority households to segregated neighborhoods, and in many cases this means central cities.

### Segregation Among Types of Cities

Minority households and female-headed households are highly concentrated in central cities. They are more likely than whites and households maintained by men to live in metropolitan areas, and within metropolitan areas, a large proportion are central city residents (see Table 10-1). For example, among the metropolitan population, 75% of blacks, 59% of Hispanics and 57% of female headed households resided in the central city in 1977. Among whites, only 37% of metropolitan residents were central city dwellers. Because they are both more likely to live in metropolitan areas and also more likely to live in the central portion of the metropolitan area, 55% of blacks, 49% of Hispanics and 41% of female headed households—as compared to only 24% of all whites— live in the nation's central cities. One-third of the black population lived in just twelve large central cities in 1970.

Central city minority populations live in communities faced with serious problems. Seventy percent of central city blacks and Hispanics live in cities with high resident need. Sixty-nine percent live in cities suffering from population decline, frequently accompanied by employment loss. Among central city whites, only 53% live in needy cities and 63% in declining cities. Thus, those central cities with the most serious problems also have sizeable concentrations of minority households who therefore bear a disproportionate share of the burden created by urban distress. For example, large central cities experiencing population loss and having high resident need had populations that were 41% black or Hispanic (see Table 10-2). A similar pattern prevails in smaller central cities, although a lower percentage of the population is minority. As noted in Chapter 4, central cities in which the level of resident need is high also have the greatest concentrations of households maintained by women.

Income differences between whites and minorities are a partial explanation of the racial segregation found in cities. Such differences also explain part of the concentration of female-headed households. Black, Hispanic, and female-headed households have incomes substantially below the incomes of whites and households headed by men, and

## TABLE 10-1

### CHARACTERISTICS AND SPATIAL DISTRIBUTION OF THE POPULATION, 1977

| | Places of Residence | | | | | |
|---|---|---|---|---|---|---|
| | Central City | | Suburban | | Non-Metropolitan | |
| Population Group | Number[2] | Percent | Number[2] | Percent | Number[2] | Percent |
| Total Population | 59,993 | 28.2% | 83,114 | 39.1% | 69,459 | 32.7% |
| White Population | 44,951 | 24.4 | 77,226 | 41.9 | 62,158 | 33.7 |
| Black Population | 13,451 | 55.0 | 4,596 | 18.7 | 6,427 | 26.3 |
| Hispanic Population | 5,570 | 49.4 | 3,922 | 34.8 | 1,777 | 15.8 |
| Female-Headed Households | 7,488 | 41.1 | 5,550 | 30.4 | 5,201 | 28.5 |
| **Median Family Income** | | | | | | |
| White | $15,069 | | $17,371 | | $13,318 | |
| Black | 9,361 | | 12,037 | | 7,435 | |
| Hispanic | 9,391 | | 12,624 | | 9,069 | |
| Female-headed Households | 6,658 | | 8,539 | | 6,542 | |
| **Percent Below Poverty Level[1]** | | | | | | |
| White | 11.3% | | 5.9% | | 11.4% | |
| Black | 31.0 | | 21.5 | | 38.2 | |

SOURCE: U.S. Bureau of the Census. "Social and Economic Characteristics of the Metropolitan and Non-Metropolitan Population: 1977 and 1970," **Current Population Reports, Special Studies,** P-23, No. 75 (Washington, D.C.: U.S. Government Printing Office, 1978).

[1] Data available only for whites and blacks.

[2] In thousands

TABLE 10-2

BLACK AND HISPANIC POPULATION AS A PERCENTAGE OF TOTAL POPULATION IN LARGE AND SMALL CITIES, 1970

(Units are Percent of Total Population for Cities in Classification)

| | Population Trend, 1970-1976 | | |
|---|---|---|---|
| Degree of Resident Need [2] | Decreasing | Stable | Increasing |
| A. Large Central Cities:[1] | | | |
| Relatively High | 40.6% | 27.7% | 62.7% |
| Moderate | 27.3 | 22.3 | 28.0 |
| Relatively Low | 10.6 | 18.5 | 31.7 |
| B. Smaller Central Cities:[1] | | | |
| Relatively High | 26.4 | 19.6 | 30.2 |
| Moderate | 13.6 | 15.1 | 18.0 |
| Relatively Low | 5.9 | 10.2 | 12.6 |

SOURCE: U.S. Department of Housing and Urban Development. Calculations by the Office of Community Planning and Development, based on 1970 census data and classification of cities as described in Chapter 2.

[1] Large central cities are the 45 cities with 1976 populations in excess of 250,000. Smaller central cities are the 319 cities with populations below 250,000 in 1976.

[2] Resident need is defined in Chapter 2.

blacks are roughly three times as likely as whites to have incomes below the poverty line. However, numerous studies have shown that only a portion of existing residential segregation can be explained by differences in incomes. At every level of income, blacks are less than half as likely as whites of a similar income to live in a suburban area. Hispanics are also significantly less likely to live in suburbs than are whites with comparable incomes. Indeed, larger proportions of low income whites live in suburbs than is true for middle income black and Hispanic households (see Table 10-3).

A rising number of blacks do have access to suburbs. As noted in Chapter 1, net migration of blacks from central cities to suburbs reached 650,000 between 1970 and 1977. The black suburban population increased by 34% during this period, and the annual rate of net in-migration among blacks nearly doubled. Increased suburbanization was most marked among middle income blacks: the likelihood that a middle income black household would live in the suburbs rather than the central city increased by well over 40% during this seven-year period.

Despite what appears to be increasing minority access to suburbs, the level of residential segregation remains high. Blacks accounted for only five percent of the suburban population in 1977 but comprised 21% of the population of central cities. Even among the highest income group, for which the likelihood of suburban residence has increased most dramatically in recent years, blacks remained less than half as likely as whites to live in suburban areas. Furthermore, as discussed in Chapter 1, the limited evidence at hand suggests that clear increases in the pace of black suburbanization have taken place in fewer than half of the nation's 19 largest metropolitan areas; in other large urban areas, the situation remains much as it was in 1970 (Nelson, 1979).

Even when black suburbanization occurs, it often does not represent reduced segregation. A definitive look at this question must await the 1980 Census, but case studies suggest that a very common form of black suburbanization occurs as minority residential districts in the central city expand across city boundaries (Rose, 1976; Kain, 1980). In addition, many other blacks leaving central cities move to older suburban cities with large minority populations, such as Chester, Pennsylvania (outside Philadelphia), or to black working-class suburbs such as Warren, Michigan. Movement of black housholds to predominantly white neighborhoods which are not experiencing racial transition still appears to be relatively rare and to be confined mainly to upper and middle income black families.

Because discrimination limits the housing choices of minority families when they move to the suburbs, suburban residence

TABLE 10-3

PERCENTAGE OF METROPOLITAN RESIDENTS LIVING IN SUBURBS, BY INCOME AND RACE

| | 1970 | | | | 1977 | | | |
|---|---|---|---|---|---|---|---|---|
| Income[1] | White | Black | Hispanic | Female-Headed Households | White | Black | Hispanic | Female-Headed Households |
| Less than $5,000 | 49.9% | 19.6% | 27.0% | 33.6% | 50.9% | 18.3% | 22.0% | 34.4% |
| $5,000–10,000 | 51.5 | 19.3 | 29.9 | 37.6 | 56.8 | 25.2 | 34.2 | 43.6 |
| $10,000–20,000 | 58.9 | 20.8 | 39.4 | 44.2 | 63.3 | 29.1 | 46.0 | 50.7 |
| More than $20,000 | 63.8 | 22.3 | 48.5 | 47.0 | 69.9 | 33.0 | 49.4 | 49.6 |

SOURCE: U.S. Bureau of the Census, "Social and Economic Characteristics of the Metropolitan and Non-Metropolitan Population: 1977 and 1970," **Current Population Reports, Special Studies**, P-23, No. 75, November 1978.

[1] Income is measured in 1976 dollars.

often fails to provide relief from many of the problems faced by blacks and Hispanics in central cities. The level of community need is typically high in suburban cities where minority households are concentrated. A sample of 257 suburban cities reveals that 81% of the cities in which minority persons constitute more than 20 % of the population are cities with high levels of need, as defined in Chapter 2.

**Segregation Within Cities**

Within central cities, blacks appear to live in neighborhoods almost as highly segregated on racial lines as was true in 1940 or 1950 (see Table 10-4). A numeric index is frequently used to indicate the extent of neighborhood racial segregation. The index measures the proportion of either blacks or whites who would have to relocate if blacks and whites were to be evenly distributed among neighborhoods. An index value of 100 indicates complete racial segregation; an index value of zero indicates that blacks and whites are evenly distributed. This quantitative index of segregation in central cities has changed very little during the postwar period.

When both the concentration of blacks in central cities and the degree of within-city segregation are taken into account, the high level of racial segregation is even more clear. In 1970, 71% of the blacks in metropolitan areas lived in census tracts that were more than 50% black, and 38% lived in tracts that were more than 90% black. In contrast, 65% of the whites in metropolitan areas lived in tracts that were less than one percent black. Furthermore, the average black resident had fewer white neighbors in their census tract in 1970 than in 1960 (Schnare, 1977). A clear picture of current levels of segregation will not be available until after the 1980 Census —but the known increase in the concentration of blacks in central cities suggests that progress has been modest.

Residential segregation cannot be accounted for by the preferences of minorities for living apart. Among blacks surveyed about their residential preferences, fewer than one person in five indicated a preference for an all-black neighborhood. Approximately three-quarters reported that they would like to live in racially mixed neighborhoods. Furthermore, the proportion of blacks preferring mixed neighborhoods has been rising steadily over time—a trend that is especially pronounced among middle income households (Kain, 1980).

Income differences between blacks and whites cannot fully account for the intense segregation found among local residential areas. If blacks and whites with similar incomes lived in neighborhoods of similar racial composition, less than one percent of metropolitan blacks would have been living in census tracts that were more than 50% black in 1970. This is a sharp contrast to the 74% of blacks that actually lived in such tracts (Schnare, 1977). Figure 1 compares the actual distribution of blacks across tracts of varying racial composition with the distribution that would be expected if income rather than race governed the neighborhood choices of black households.

## 2. Effects of Segregation and Discrimination on Housing Quality and Cost

Segregation and discrimination have enormous negative impacts on the housing and neighborhood opportunities of minority households. They effectively limit the range of minority housing choice. They foster housing market conditions under which minorities pay more than whites for housing of equivalent quality. They reduce the access of minority households to neighborhoods where single family

TABLE 10-4

INDEX OF NEIGHBORHOOD SEGREGATION OF BLACKS IN CENTRAL CITIES: 1940 TO 1970

| Year | Average Value of Index |
|---|---|
| 1940 | 85.2 |
| 1950 | 87.3 |
| 1960 | 86.1 |
| 1970 | 80.0 |

NOTE: An index value of 100 indicates complete segregation of neighborhoods. An index of zero indicates blacks and whites are evenly represented in all neighborhoods.

SOURCE: William Gorham and Nathan Glazer, eds., **The Urban Predicament**, (Washington, D.C.: The Urban Institute, 1977).

homes can be purchased. They reduce the ability of minority borrowers to obtain financing for home purchase and improvement. They reduce the ability of minority homeowners to obtain hazard insurance. All of these factors contribute to the lower housing quality currently experienced by the nation's black and Hispanic households.

### High Housing Costs

Segregation exacerbates housing affordability problems for minorities in cities. A number of studies have shown that discrimination and segregation effectively bifurcate urban housing markets. Black households have been found to be generally limited to black neighborhoods in their search for housing, and appear to pay more for comparable dwellings than do whites. Unfortunately, few studies of housing cost differentials between whites and blacks have examined recent data. For example, one of the most careful studies utilized information on housing costs collected in 1960 and 1961 (Gillingham, 1973). This study examined evidence of differentials in housing rents in ten large metropolitan areas. Only San Francisco showed no evidence of significantly higher housing rents for blacks. The greatest discrimination markups were found in Chicago, where blacks were found to pay 20% higher rents than whites for comparable housing, and in Baltimore, where the markup was 17%. The smallest significant markups, at three percent, were found in Boston and Washington. A number of later studies have corroborated the finding that blacks pay more than whites for housing of equivalent quality (Kain, 1979).

Two studies using more recent data have failed to find evidence of housing cost differences between whites and blacks in central cities (Schnare, 1976; Berry, 1976). However, the reliability of the findings of these studies has been questioned on methodological grounds (Schafer, 1977; Kain, 1980). Furthermore, the studies focused on Boston and Chicago. Both cities are losing population and households, and the studies suggest that this may have weakened housing demand sufficiently to eliminate the housing shortages that contribute to higher housing costs for blacks. The increasing tightness of housing markets suggests that the factors producing price markups for blacks will continue to be present in many cities (Kain, 1980).

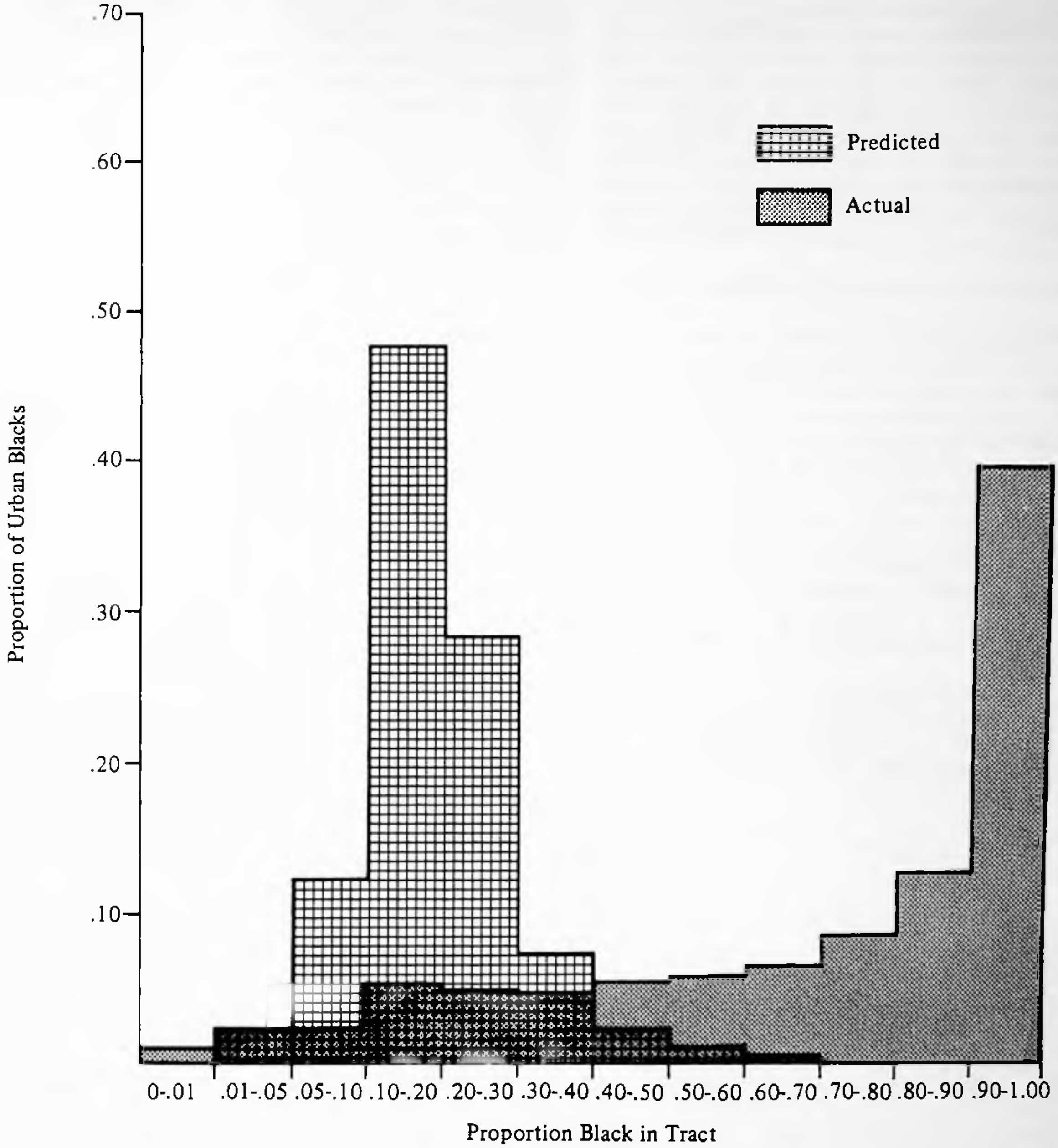
### Limited Housing Choices and Reduced Homeownership

Racial and ethnic segregation have been found to limit the housing choices of blacks. Ghetto housing offers blacks fewer opportunities to rent or purchase newer homes, homes built on larger lots, one-family homes, or homes likely to appreciate significantly in value. These constraints have a number of impacts on the housing choices of blacks.

Minority and female-headed households typically live in lower quality housing than other households. One indication of the poor quality of their housing is the high incidence of physical deficiencies in dwellings. While almost 10% of all dwellings surveyed in 1976 had at least one physical deficiency, such as a leaking roof or absence of a complete, private bathroom and kitchen (see Table 10-5), nearly 21% of all dwellings occupied by minority households had deficiencies. Twelve percent of all dwellings occupied by a female-headed household had at least one physical deficiency. Housing quality was lowest among blacks. Dwellings occupied by blacks were most likely to be deficient, and the average number of flaws in deficient dwellings was greatest for blacks.

Low incomes contribute to the low housing quality observed among minority households, but do not fully account for minority housing problems. Available evidence suggests that because they must pay relatively high prices for housing and face restricted housing choices, blacks are more likely than whites of similar economic status to live in lower quality neighborhoods and dwelling units. One study using a sample

**Figure 10-1**
**ACTUAL AND PREDICTED* DISTRIBUTION OF URBAN BLACKS BY PROPORTION BLACK IN TRACT: 1970 (76 SMSA's)**




* The predicted distributions are based on the assumption that the expected number of blacks and whites in any given census tract depends solely on the income distribution of the tract's residents and on the income distribution of blacks and whites in the metropolitan area as a whole.

SOURCE: A. B. Schnare, "Housing in Black and White: An Analysis of Segregation in U.S. Metropolitan Areas." Contract Report 246-3. (Washington, D.C.: The Urban Institute, 1977).

TABLE 10-5

PERCENT OF HOUSEHOLDS OCCUPYING DWELLINGS WITH PHYSICAL DEFICIENCIES, 1976[1]

| | Percent of Deficient Dwellings Among: | | | |
|---|---|---|---|---|
| Type of Deficiency | All Households | Blacks | Hispanics | Female-Headed Households |
| Plumbing | 2.6% | 8.0% | 3.3% | 3.4% |
| Kitchen | 1.8 | 5.8 | 2.8 | 2.1 |
| Maintenance | 4.1 | 11.1 | 7.7 | 6.1 |
| Public Hall | 0.4 | 1.4 | 1.2 | 0.7 |
| Heating | 1.6 | 0.7 | 5.0 | 1.3 |
| Electrical | 0.1 | 0.3 | 0.2 | 0.1 |
| Sewerage | 1.3 | 4.6 | 1.1 | 1.5 |
| Toilet Access | 1.8 | 3.5 | 4.5 | 1.6 |
| TOTAL | 9.7% | 21.4% | 18.5% | 12.0% |

SOURCE: U.S. Department of Housing and Urban Development, How Well Are We Housed? 1. Hispanics; 2. Female-Headed Households; 3. Blacks. 1979.

Physical deficiencies are defined as follows:

Kitchen, plumbing, sewerage, and toilet access: lack or share facilities.
Heating: none; fireplace or unvented burner only.
Electrical and maintenance: exposed or inadequate wiring; holes, leaking or drainage in walls or roof.
Public area unsafe because of absence of lighting or stair maintenance.

of nationwide data estimates that white families consumed 13% more residential services than black families with similar incomes and preferences in 1970 (Wilson, 1979). Another indicates that black families in St. Louis buy about one-fifth less housing than their white counterparts (Kain and Quigley, 1975).

Perhaps most importantly, discrimination and segregation have been shown to reduce homeownership among blacks, other minorities, and women. Homeownership rates among blacks and Hispanics were about one-third below the national average by the late 1970's. Some of this difference is attributable to the lower incomes of minorities and women. However, as shown in Table 10-6, blacks, Hispanics, and female-headed households are substantially less likely to be homeowners than other households at every level of income. The most careful statistical studies have found that blacks are approximately 10 to 15% less likely to own homes than are whites with comparable incomes, ages and family characteristics (Kain, 1975). These studies have found that differences in the probability of home purchase persist among recent movers as well as other households, suggesting that discrimination and segregation continue to warp the housing opportunities and choices of blacks.

Restricting minority households to housing located in central cities has contributed to low rates of homeownership. This is the case because central cities contain a relatively small proportion of dwellings suitable for homeownership. Only half of all central city households are homeowners—well below the national average (see Table 10-7). Black and Hispanic households living in central cities are less likely than minority residents in suburbs to own their own homes. Slightly more than one-third of minority households in central cities own their homes, while in suburbs about one-half of minority households are homeowners.

While suburbanization enhances homeownership opportunities, suburban residence by no means equalizes minority access to owner-occupied housing. Approximately 70% of all suburban households are homeowners, but only 50% of black suburban dwellers own the home in which they live. In fact, the disparity between rates of homeownership for blacks and whites is greater in the suburbs than in central cities, and it exists among households at all income levels. This suggests that within suburbs, discrimination and concentration of blacks in older suburban communities that are similar to the central city are major reasons for the racial differences in homeownership rates.

Low rates of homeownership contribute in many ways to the relatively limited stock of wealth held by minority households. Homeownership has long been a principal means of savings and capital accumulation for households. Homeowners receive favorable treatment under the federal income tax code. Homeownership also provides a hedge against inflation. Over time, rents tend to increase as the general price level rises, but mortgage payments typically remain fixed over the entire term of the mortgage. As a result, black households spend about 30% more for housing than they would if their home buying opportunities were not restricted (Kain, 1975). Finally, appreciation of housing value provides many owners with sizeable capital gains when they sell their homes. Limitations on homeownership have denied these financial benefits to many minority households.

Discrimination and segregation have also reduced the financial benefits accruing to those minority households that do purchase homes. Homes owned by blacks, which are concentrated in segregated neighborhoods, typically appreciate less than homes in white neighborhoods. One recent study using information from the Annual Housing Survey concluded that market values of homes owned by blacks were less likely to rise over time and more likely to fall than homes owned by whites (Lake, 1979). Similar findings have been reported for cities as different as Chicago and Houston (Berry, 1976; Smith and Mieszkowski, 1978), suggesting that black owned homes have appreciated slowly in almost all types of cities.

**Reduced Availability of Financing for Housing Investment**

There is strong evidence that discrimination by lenders against minorities reduces the availability of financing to purchase and upgrade housing in cities, thus directly contributing to both disinvestment in the city housing stock and to lower housing quality and reduced homeownership among minorities. A recent study provides solid evidence of discrimination against homebuyers seeking mortgage credit. This study examined mortgage lending in five major metropolitan areas in New York, a state requiring full disclosure of mortgage lending decisions. Strong statistical evidence was found that black borrowers encounter discrimination in four of the five metropolitan areas. In Buffalo, 24% of black mortgage applicants were denied credit, while similarly situated whites experienced only a 12% rate of denial. In New York and Long Island, the chance for denial was 21% for blacks and 11% for whites of comparable characteristics. Hispanic and Asian applicants in New York and Long Island faced a 15% chance of denial, and thus apparently suffered discrimination along with blacks. Similar patterns of discrimination were found in Rochester and Syracuse. Only in the Albany-Schenectady-Troy metropolitan area did black and white borrowers appear to be treated equally (Schafer, 1978).

The study also found some evidence that lenders differentiate among neighborhoods in supplying mortgage credit, though evidence of discrimination was found to be generally weak. The study did establish that lenders in New York State were more likely to deny credit in neighborhoods experiencing higher levels of property tax delinquency or vacant structures. However, both tax delinquency and high levels of vacancy indicate weak real estate markets, and thus can affect lender risk. Offering credit on more stringent terms to purchasers of properties whose value is declining or unstable might be a legitimate exercise of prudence, although the effect can be to limit credit for lower income or minority borrowers.

Direct evidence that discriminatory lending practices influence reinvestment and housing conditions in black neighborhoods was found in a recent study of rehabilitation decisions by landlords in Berkeley, California. This study examined the linkage between neighborhood racial composition and the

## TABLE 10-6

## PERCENT OF HOUSEHOLDS OWNING THEIR OWN HOMES, BY HOUSEHOLD INCOME, 1977

| Income | All Households | Blacks | Hispanics | Female-Headed Households |
|---|---|---|---|---|
| Less than $5,000 | 44.9% | 28.2% | 24.4% | 20.6% |
| $5,000–10,000 | 52.2 | 38.8 | 29.7 | 37.9 |
| $10,000–20,000 | 66.4 | 52.4 | 52.2 | 59.6 |
| Greater than $20,000 | 85.0 | 74.5 | 73.6 | 73.2 |
| TOTAL | 64.8% | 43.6% | 43.1% | 41.7% |

SOURCE: U.S. Bureau of the Census, **Current Housing Reports**, Series H-150-77, "Financial Characteristics of the Housing Industry for the United States and Regions," Annual Housing Survey: 1977, Part C.

## TABLE 10-7

## PERCENT OF HOUSEHOLDS OWNING THEIR OWN HOMES, BY TYPE OF CITY, 1977

| Type of Community | All Households | Blacks | Hispanics | Female-Headed Households |
|---|---|---|---|---|
| Central City | 49.0% | 36.3% | 34.1% | 29.7% |
| Suburban | 70.8 | 50.1 | 48.1 | 48.3 |
| Non-Metropolitan | 72.9 | 57.8 | 60.5 | 54.1 |
| TOTAL | 64.8% | 43.6% | 43.1% | 41.7% |

SOURCE: U.S. Bureau of the Census, **Current Housing Reports**, Series H-150-77, "Financial Characteristics of the Housing Industry for the United States and Regions," Annual Housing Survey: 1977, Part C.

probability that a multi-family property would be rehabilitated. It was found that buildings were significantly less likely to be rehabilitated in black neighborhoods than in white areas, other things equal. The availability and use of conventional financing from lending institutions appeared to account for much of the differences. Such financing was found to be less widely available and less often used in black neighborhoods than in white areas (Mayer, 1979).

## 3. Racial Segregation and the Quality of Urban Services

Urban minorities continue to receive inadequate public services, on both a city-wide and neighborhood level. Minorities are concentrated in central cities which tend to have fiscal problems. These conditions make provision of adequate city services to residents difficult. Although discrimination against minority neighborhoods in the provision of services is now illegal, services received in minority neighborhoods are often of lower quality than services in other parts of the city. In some cases, unequal service provision may result from the difficulty of serving minority neighborhoods, especially when they are older, high-density areas. For example, space for parks may be scarce in such neighborhoods; streets are difficult to clean when off-street parking is limited. In other cases, unequal services may be the result of historical patterns of discrimination which continue to affect service delivery.

### Education

More than 25 years after **Brown v. Board of Education** and 15 years after the Civil Rights Act of 1964, central city schools remain highly segregated. As minority households have become increasingly concentrated in many of the nation's cities, the proportion of white students in the public schools has dropped sharply (see Table 10-8). Nationally, two of every three black and Hispanic students attend schools that are over 50% minority; in central cities the figure is even higher (Center for National Policy Review, 1977). In the ten largest central cities, over 70% of black students were attending schools which were more than 90% minority in 1974.

Blacks and whites in racially segregated schools have different educational experiences. Minority students frequently leave central city schools without having acquired basic skills. The recently-completed Vice-Presidential task force on youth unemployment found rates of illiteracy among unemployed youth as high as 40%. In New York City, where over 70% of the students are black or Hispanic, over 18,000 students in the fourth grade are reading one year below grade level (Chambers, 1979). A disproportionate number of the low reading scores are found in school districts with high minority populations. Even when minority students start school possessing skills equal to those of other students, they tend to fall further behind as they move through the school system (Green, 1979). The differences between white and black graduation rates have narrowed in the last ten years; still only 68% of blacks aged 18-24 were high school graduates in 1977 compared to 82% of whites.

### Health Care

Minority persons have relatively poor access to health care despite greater need for such care than whites. Minorities have more frequent and more serious health problems than whites. According to a 1979 Public Health Survey, 19% of the black population described their health as poor or fair compared to 13% of Hispanics and only 11% of whites (National Center for Health Statistics, 1979). Blacks are more likely than whites to be afflicted by a variety of diseases, including influenza and tuberculosis. Black life expectancy is 7.9 years shorter than for whites.

Many health problems of minorities are the product of the poor diet and infrequent health care that result from low income. Some health problems can be directly linked to the segregation of the minority poor in central cities. Lead poisoning rates, for example, are higher among inner city minorities than among the general population. Lead poisoning is frequently contracted by eating chips of lead paint, which is most commonly found in housing built before 1950. In 1977, 54% of blacks and 55% of female-headed households lived in pre-1950 housing compared to 44% of the total population. Similarly, air pollution levels are higher in central cities than in surrounding suburbs. Numerous studies have indicated that some pollutants, particularly those containing sulfur, pose a hazard to human health; this is one of the major rationale for ongoing efforts to improve urban air quality. Many central cities do not now meet nationally-mandated air quality standards (see Chapter 12). Households living in these cities incur the resultant health risks.

The seriousness of health problems in the minority community intensifies the need for health care. Yet, as the middle class has abandoned the central city, doctors and other health care professionals have followed. It is difficult in many inner city neighborhoods to find private doctors. Consequently, inner city minorities must frequently depend on hospital emergency rooms for routine medical attention (Anderson, 1975; Okada and Sparer, 1976). Private and voluntary hospitals, however, are often reluctant to take low income patients, particularly for emergency services. The burden of hospital care for the poor in central cities thus falls on the shrinking number of public institutions. These poor inner-city residents are disproportionately minority and female-headed households. As central cities are faced with increasing fiscal strain, and as middle class residents who can pay for health care leave the city, health care services in cities are cut back: the number of hospital beds are reduced, programs are phased out, and health facilities are closed (de Vise, 1973). Minority residents of these cities bear the brunt of such service cutbacks.

### Crime and Police Protection

Blacks more often than whites are the victims of personal crimes, particularly those involving violence; victimization

## TABLE 10-8

### WHITE PUBLIC SCHOOL ENROLLMENT IN LARGE CENTRAL CITIES WHERE NO SIGNIFICANT BUSSING PLAN HAD BEEN IMPLEMENTED, 1968-1976

| | Percent White Enrollment 1968 | 1976 |
|---|---|---|
| New York | 43.9% | 30.5% |
| Los Angeles | 53.7 | 37.0 |
| Chicago | 37.7 | 25.0 |
| Houston | 53.3 | 34.2 |
| Detroit | 38.3 | 18.7 |
| Philadelphia | 38.7 | 31.8 |
| Baltimore | 34.9 | 24.4 |
| Cleveland | 42.5 | 37.8 |
| Washington, D.C. | 5.6 | 3.5 |
| St. Louis | 36.5 | 28.5 |

SOURCE: Diane Ravitch, "The 'White Flight' Controversy," **Public Interest**, Spring 1978.

rates for black males exceeded those for white males by 13% in 1973 (U.S. Department of Justice, 1974). Blacks also suffer more than whites from burglary at all levels of income (see Table 10-9).

High crime rates lead minority persons, and central city residents more generally, to consider crime a serious neighborhood problem. In the **1978 HUD Survey on Quality of Community Life**, residents of central cities ranked crime as the most severe problem in their community. Over 70% of central city residents designated crime as a severe problem, compared to 20% of suburban residents (HUD, 1978).

Blacks and Hispanics also express higher levels of dissatisfaction with police protection: 50% of the residents of all minority neighborhoods rated police protection as "fair to poor". Whites and residents of white or mostly white neighborhoods were much less likely to register dissatisfaction. Problems with police protection do not relate to relative allocations of policemen to minority neighborhoods, which are favorable. The perceived problems relate to the conduct of policemen in minority and low income neighborhoods, poor police community relations, and the fact that the poor and minorities are such frequent victims of crime.

### Public Transportation

Minority persons rely more heavily on public transportation than do whites. For example, blacks are almost three times as likely as whites to commute to work on public transportation: seven percent of whites and 20% of blacks take public transportation to work. One reason for the frequency of transit use by minorities is the fact that they are concentrated in central cities where at least some public transportation is usually available. Fewer than one-fifth of minority households report that they live in areas not served by public transportation whereas more than one-third of white households lack transit service (HUD, 1978). Within central cities, where access to service is more generally available, blacks are almost twice as likely as whites to be transit-dependent: 12% of whites but 23% of blacks take public transportation to work.

The reliance of minority commuters on public transportation poses a problem because most transit systems are facing financial difficulties. Many cities will find it hard to improve the service they provide or even to maintain current service levels. Equally important is the fact that service quality is frequently higher for suburbanites commuting to central city jobs than it is for city residents. For example, bus lines serving commuters are more likely to have newer, more comfortable busses than lines serving largely black neighborhoods within the city (Green, 1979).

### Neighborhood Services

Neighborhood conditions are affected by such city services as road maintenance, street lighting, and garbage collection. As

TABLE 10-9

ESTIMATED BURGLARY RATES BY FAMILY INCOME AND RACE, 1976

(Rate in Number of Victims Per 100,000 Households)

| Family Income | Burglary Victimization Rate White | Burglary Victimization Rate Blacks and Others |
|---|---|---|
| Under $3,000 | 11,063 | 13,744 |
| $3,000–7,499 | 8,709 | 13,103 |
| $7,500–9,999 | 8,387 | 13,681 |
| $10,000–14,999 | 7,336 | 10,573 |
| $15,000–24,999 | 8,169 | 9,806 |
| $25,000 or More | 9,385 | — |
| Not Ascertained | 7,373 | 11,268 |

SOURCE: Adapted from U.S. Department of Justice, Law Enforcement Assistance Administration, **Sourcebook of Criminal Justice Statistics**, 1978.

noted earlier, the quality of these services differs across neighborhoods. Members of minority groups consistently report lower levels of satisfaction with these services. Hispanics are less satisfied than whites, and blacks consistently express the lowest level of satisfaction (see Table 10-10).

Poor local services lower the quality of the neighborhoods within which minorities tend to be concentrated. They also discourage investments in housing improvements and generally lower the demand for housing in the area. Inadequate public services not only make minority neighborhoods less pleasant places to live than they would otherwise be, they also discourage neighborhood upgrading and promote neighborhood decline.

## 4. Employment and Income Among Minorities

Discrimination and residential segregation have clear adverse effects on the economic welfare of minorities. Minority households have substantially lower incomes than majority white households. Minority unemployment rates are relatively high, especially among young people. Among black males, labor force participation rates are relatively low and are declining. Minority households are more likely than white households to live in poverty; poverty rates are particularly high among minority households maintained by women. These problems are especially acute in the black community. Many factors contribute to the relative economic disadvantage of minorities. On average, minority persons have fewer years of schooling and are less likely to have completed either high school or college. This clearly puts them at a disadvantage in competing for jobs. Discrimination and prejudice in the labor market further limit the ability of minority workers to find jobs and to advance economically when they are employed. In many occupations, minority workers typically have less seniority than other workers and are therefore more likely to be laid off during economic slowdowns. As noted earlier, a relatively high proportion of minority households are maintained by women; female household heads are less able to participate in the labor market on a full time basis than are their male counterparts and tend to earn lower wages when they are employed. Finally, housing market segregation, and especially the confinement of minorities in central cities, deprives minority workers of equal access to employment opportunities.

### Economic Circumstances of Minorities

Minority families and families maintained by women have lower incomes than white families and families headed by men (see again Table 10-1). The median income among black families in 1977 was only 59% of the median income among whites. This represents a deterioration of their position since the beginning of the decade, when black family incomes averaged 61% of the white family incomes. The 1970's

TABLE 10-10

PERCENTAGE OF HOUSEHOLDS REPORTING POOR OR FAIR SERVICE QUALITY

| Service | Whites | Blacks | Hispanics |
|---|---|---|---|
| Road Maintenance | 51.4% | 66.2% | 51.9% |
| Street Lighting | 24.6 | 37.2 | 37.2 |
| Garbage Collection | 16.1 | 28.2 | 21.3 |
| Parks and Playgrounds | 32.9 | 39.1 | 37.4 |
| Fire Protection | 10.4 | 20.0 | 16.8 |

SOURCE: U.S. Department of Housing and Urban Development, **The 1978 HUD Survey on the Quality of Life: A Data Book.** Washington, D.C., 1978.

witnessed a reversal of the economic advancement enjoyed by minorities relative to whites during the more prosperous 1960's.

The deterioration of the income position of minority families has occurred primarily in central cities. The median real income of all major racial/ethnic groups in central cities fell between 1970 and 1977. This decline was sharpest among minority groups. In contrast, the median real income of black suburban families rose during this period, reflecting the increased pace of suburbanization among upper and middle income blacks noted earlier. As a result, the ratio between the median incomes of blacks and whites in central cities fell from .65 to .62.

At least three economic factors contribute to low minority incomes: low earnings, low labor force participation rates, and high unemployment rates. In addition, the rising number of minority households headed by women (described in Chapter 4) reduces the average level of minority economic welfare. Minority workers employed on a year-round basis earn less than white workers. This is true for both men and women, and at all levels of education. The discrepancy between the earnings of blacks and whites is greatest among male workers, among workers with little schooling, and among older workers. Thus, black males aged 55-64 with eight or ten years of schooling earned only 69% as much as their white counterparts in 1970. During that same year, black women aged 25-34 with graduate training earned 98% of comparably situated white women although women of all races earned less than men (Levitan, et. al., 1975). Earnings differentials appear to be narrowing over time. Between 1969 and 1975, the average earnings of employed black males rose from 59% to 65% of that for employed white males (U.S. Commission on Civil Rights, 1978). Since earnings differentials are less significant among those with higher levels of schooling, greater equality of earnings can be expected in the future as the average level of education among minority groups rises. At present, however, minority workers continue to earn substantially less than white workers and female workers continue to earn less than male workers.

A second factor reducing household income among minorities is the low rate of labor force participation among working age males. In 1977, 76% of white males aged 16 or more were in the civilian labor force, compared to 70% of black males.

Not only is the participation rate relatively low for black men, but participation has fallen more rapidly in this group than among white males in recent years. Had labor force participation among non-white males fallen at the same pace as for white males between 1960 and 1973, the 1973 labor force would have included 300,000 more non-white workers.

High rates of unemployment contribute both to low incomes and low labor force participation among minorities. Unemployment rates are highest among blacks, especially among youth. In 1978, unemployment among blacks was more than twice as common as unemployment among whites. Black teenagers were 2.6 times as likely as white teenagers to be unemployed (U.S. Bureau of Labor Statistics, 1979). As discussed in Chapter 4, unemployment has a direct, negative effect on household income and greatly increases the likelihood that a family's income will fall below the poverty line. High unemployment also affects income indirectly by encouraging workers who are unemployed for extensive periods to drop from the workforce--so the depressing effect on income becomes more permanent (Coleman, et. al., 1980).

### Effects of Segregation and Discrimination on Minority Economic Welfare

The residential segregation of minorities, especially their confinement to central cities and adjacent older, industrial suburbs, reduces the economic well-being of minority households. As noted in Chapter 7 metropolitan employment opportunities are growing much more rapidly in suburban areas than in central cities. Furthermore, blacks are concentrated in central cities that have been experiencing job losses: 58% of all blacks living in large central cities live in needy cities where extensive job losses have occurred, while only 43% of whites live in such cities.

Disparities between central city and suburban job growth are greatest in precisely those occupations most often employing minority workers. Blacks and Hispanics most commonly work as operatives, as sales or clerical personnel, or in the service sector (see Table 10-11). These are precisely the occupations in which the central city share of metropolitan jobs has been declining most rapidly. Approximately one-third of minority males work in manufacturing, a sector which has suffered substantial job losses in many needy cities (see Chapter 3).

The concentration of minority workers in central city locations reduces their access to employment opportunities. Minority workers are consistently under-represented in suburban jobs. Detailed data show that in 1975, 14% of central city workers were black. In contrast, only seven percent of suburban workers were black. In major metropolitan areas with large minority populations, the exclusion of blacks from suburban jobs is even more extreme (see Table 10-12). For example, in 1970, blacks held 12% of all jobs in Chicago's central business district and 20% of the jobs in the rest of the central city—but only six percent of the jobs in the suburbs.

The suburbanization of jobs has increasingly forced blacks to assume the trouble and expense of reverse commuting, that is, commuting from a central city residence to a suburban job. Forty-seven percent of blacks holding suburban jobs in 1975 commuted to those jobs from the central city.

Reverse commuting is especially difficult for black workers because of their heavy reliance on public transportation. As noted earlier, black commuters are three times as likely as white workers to get to work on public transit. Racial differences among reverse commuters are even more extreme. Forty-two percent of those who rely on public transportation to commute from central cities to suburban jobs are black. Public transportation systems are rarely designed to facilitate reverse commuting, and many suburban job locations are simply not accessible by transit. Thus, dependence on public transportation by black workers severely restricts their ability to find and retain many suburban jobs.

Segregated housing patterns also limit the ability of minority workers to find out about suburban job opportunities. Studies have consistently found that many people first hear about job openings from relatives or friends. Minority workers living in segregated central city neighborhoods are much less likely than white suburbanites to hear from their acquaintances about jobs available in suburbs. Increased minority participation in the suburban job market will reduce this problem to some extent. However, as long as minorities remain concentrated in the central city, they will lack equal access to the informal information network through which many jobs are filled.

Residential segregation thus makes the economic welfare of minority workers, especially blacks, heavily dependent on the vigor of central city economies. Unfortunately, some central city economies are in trouble, and the problem of job loss is most severe in those large central cities in which minorities tend to live. Movement of minority households out of needy central cities will not, by itself, solve the problems of high unemployment and low income. However, as discussed in Chapter 4, minority labor force participation rates are higher in growing cities with low levels of resident need than they are in distressed cities. Similarly, unemployment rates among minority workers are lower in cities with thriving economies. And throughout the country, black unemployment and labor force participation respond to variations in the condition of the national economy. This suggests that the economic welfare of minority households might improve substantially if they enjoyed access to areas of more vigorous economic activity.

## 5. Summary

Segregation and discrimination tend to restrict minority and female-headed households to central cities, especially those cities which are experiencing population and employment loss and which have high levels of resident need. Within cities, minorities tend to live in neighborhoods that are racially and ethnically segregated. Minorities and women face a restricted set of housing choices, live in housing of lower quality than other households, and are much less likely than whites or households maintained by men to own their own homes. Job discrimination and the concentration of minorities in central cities distant from expanding suburban employment opportunities contribute to lower income levels and higher rates of unemployment. Minorities frequently receive public services of inferior quality.

Suburban residence brings improved conditions for some minorities; however, suburban residence sometimes replicates central city segregation and its associated problems. Although the problems of minorities are most severe in central cities, discrimination afflicts minorities regardless of their socioeconomic status and place of residence.

Racial segregation, especially when intensified by income segregation, creates problems both for minority households and for cities with sizeable needy minority populations. Such cities are often already troubled by loss of population and employment and by fiscal strain. The confinement of growing concentrations of needy minority households within these cities only makes their circumstances more difficult. Minority households, for their part, labor under the multiple disadvantages of discrimination, low income, and segregation, and often inadequate housing, services, and economic opportunities.

## TABLE 10-11

### OCCUPATIONAL DISTRIBUTION BY RACE AND BY CHANGING CENTRAL CITY SHARE OF EMPLOYMENT

| Occupation Group | Percent of Labor Force in Occupation Group, 1977 | | | Change in Central City Share of Total Metropolitan Employment, 1960-1970 |
|---|---|---|---|---|
| | White | Black | Hispanic | |
| Professional | 15.5% | 10.1% | 7.5% | – 5.70% |
| Manager | 11.4 | 4.1 | 5.7 | – 7.82 |
| Sales/Clerical | 24.8 | 18.3 | 18.7 | – 9.73 |
| Services | 12.3 | 29.8 | 17.1 | –10.02 |
| Craftsmen | 13.6 | 9.1 | 13.8 | – 6.57 |
| Operatives | 14.7 | 21.4 | 25.2 | – 9.43 |
| Laborers | 7.8 | 11.2 | 12.2 | – 7.75 |
| TOTAL | 100.0 | 100.0 | 100.0 | – 8.23 |

SOURCE: Franklin Wilson, **Residential Consumption, Economic Opportunity, and Race** (Academic Press: New York, 1979); Gloria P. Green, Richard M. Devens, and Bob Whitmore, "Employment and Unemployment Trends During 1977," **Monthly Labor Review**, (February 1978).

## TABLE 10-12

### PERCENTAGE OF JOBS HELD BY BLACKS, BY CITY AND WORKPLACE LOCATION, 1970

| City | SMSA | Central Business District | Central City (Excluding Central Business District) | Suburbs |
|---|---|---|---|---|
| Chicago | 13.0% | 11.9% | 20.2% | 6.4% |
| Philadelphia | 14.3 | 15.1 | 22.1 | 7.8 |
| Detroit | 21.2 | 18.9 | 24.0 | 11.3 |
| Washington, D.C. | 21.6 | 24.4 | 35.9 | 12.3 |
| St. Louis | 12.2 | 12.5 | 18.4 | 8.0 |
| New Orleans | 19.0 | 21.5 | 18.9 | 17.5 |
| San Francisco/Oakland | 8.1 | 6.6 | 11.9 | 5.8 |
| Atlanta | 18.8 | 18.8 | 25.2 | 12.4 |
| Dallas | 12.8 | 10.0 | 15.0 | 9.1 |
| Miami | 13.0 | 0.0 | 15.8 | 11.8 |
| Boston | 3.4 | 4.1 | 6.6 | 1.9 |

SOURCE: U.S. Bureau of the Census, "Journey to Work," **1970 Census of Population: Subject Report**, PC(2)-6D, 1973.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# XI. FEDERAL, STATE, AND LOCAL RESPONSE TO URBAN PROBLEMS

For 200 years of American history, the Federal system of government has proven highly adaptable. Its triple-layered structure of national, state, and local institutions has gone through many realignments of function and responsibility as the national economy passed from the colonial era and the industrial revolution to modern, post-industrial society. In successive epochs, each level of government was called upon to respond to new conditions and mandates. They did so, though not always as rapidly or consistently as may have been required to meet changing conditions.

In recent decades, the Federal system has proven to be responsive to changes in the national consciousness. Spurred by the civil rights movement, the nation moved to rid itself of legalized and institutionalized racism. Awakened to the plight of the poor in the midst of plenty, the nation moved to expand income support programs, social services, and in-kind benefits for low-income people. Convinced by the environmental movement that unexamined actions imperil scarce natural resources and public health and safety, the nation moved to add environmental impacts to the considerations guiding public actions and to create new regulatory standards and assistance programs to rectify environmental ills. Forcibly alerted by the oil embargo, the nation is now beginning to cope with a future circumscribed by high energy costs. In each case, a set of issues came to national attention, and over a period of years, the Federal system responded.

At the present time a complex set of issues affecting the health of our nation's urban communities remains a vital part of the national agenda. These issues have their foundation in racism, poverty, pollution, and energy scarcity. As developed in this Report, major demographic and economic shifts have caused severe economic and fiscal distress in some communities. Cities and towns within metropolitan and non-metropolitan areas have problems related to both growth and decline. Some do not have the resources or expertise to respond without assistance from other levels of government as well as the private sector. Targeting additional resources to the neediest jurisdictions, helping economically disadvantaged residents irrespective of location, and eliminating or mitigating actions that exacerbate local distress will require active cooperation of Federal, state, regional, and local governments.

This chapter examines the division of responsibilities within the Federal system for responding to the needs of urban areas identified in earlier Chapters of this Report. The analysis focuses successively on the roles of the three principal levels of government: national, state, and local. In addition, because some aspects of the response to urban problems involve the creation of new governmental entities, such as multi-state and sub-state agencies, these new forms are also discussed. The final section of the Chapter describes what appears to be a growing national consensus on the need to rethink the functional and fiscal roles of each of the levels of government that comprise the Federal system.

It is easiest to examine the urban policy roles of the different levels of government in the Federal system by focusing in turn on each level, as is done in the following sections. However, it is also essential to bear in mind that no one level of government acts in a vacuum; the actions of each impacts the others, and they cannot be viewed as wholly separate and distinct from one another.

## 1. The Federal Role

Over much of our national history, the Federal Government paid almost no attention to urban issues. It saw its responsibilities as nation-wide or international: to regulate the domestic economy, to represent our concerns to other countries, and to defend the nation in event of war. Local government, in this view, was the responsibility of local citizens, and if a higher level of intervention was called for, it was a role for the states, not Washington.

Early signs of change in this Federal attitude can be traced to the 1930's when many national and local institutions faltered in the face of unprecedented economic disaster. Public intervention came in a variety of forms as the New Deal leadership of President Franklin D. Roosevelt endeavored to energize the national economy. Among the New Deal innovations were public employment programs and public works programs that left landmark structures in communities across the nation. Additional New Deal measures provided the first modest steps toward a national housing policy. They included federally financed, low-rent housing designed and built by local authorities, and other Federal assistance to encourage housing construction. The New Deal era expanded Federal involvement with local government. Yet, it would stretch historical fact to claim that this involvement constituted a conscious Federal commitment to the cities.

World War II and its unsettled aftermath focused the nation's attention on international problems. But the thinking that had begun before and was continued during the war resulted after its end in hallmark Federal legislation. One major step was Federal assumption of responsibility for the national economy in the Full Employment Act of 1946. Another step toward framing Federal urban policy in the postwar era was the Housing Act of 1949. It declared a resounding national goal that still provides a valid benchmark to measure urban policies: "a decent home and a suitable living environment for every American family."

The path toward development of Federal urban policy has been neither smooth nor consistent. Many individual programs have been initiated and, in some cases, terminated or changed almost beyond recognition in the thirty years since 1949. Some have been of direct assistance to central cities; others have weakened older urban communities; some have fostered growth and sprawl; others have been directed at redevelopment and revitalization.

Some of the major steps in Federal involvement with urban areas, by major time periods, were as follows:

- The 1950-60 decade was highlighted by major Federal stimulus for suburban growth through the Interstate Highway System and the FHA and VA single-family home mortgage insurance programs. The decade also saw initiation of Federal emphasis on capacity building in local government through the Section 701 urban planning assistance program and the initiation of large scale Federal aid for urban renewal and low-rent public housing.
- The 1960-68 period was characterized by an enormous expansion of Federal aid focused on major national economic and social problems. Trail-blazing measures of the period included the Economic Opportunity Act of 1964, declaring the elimination of poverty to be a national goal, and the Civil Rights Act of 1965, committing the nation to end racial discrimination by law. Another effort, the Model Cities program, pioneered in integrating social and physical programs to help inner-city neighborhoods.
- The 1968-76 period saw the Federal Government increasingly focused on the war in Viet Nam. Nevertheless, during this period, Federal aid programs to urban areas expanded. Several programs were consolidated under the Community Development Block Grant. General Revenue Sharing was initiated.

Federal programs and policies have had many positive impacts upon urban areas, but negative impacts have resulted as well in some cases. In the absence of a policy framework, some Federal actions, such as mortgage insurance and highway construction programs, inadvertently have harmed some central cities by reinforcing growth on their outskirts; Federal tax measures favoring new construction have had a similar effect. Federal actions have expanded the financial aid available to city governments, but at the same time placed upon them new complex administrative burdens. In some instances, federal aid for local programs—because it required local matching funds—has strained local budgets. In other instances, federal aid has created dependency on outside funds. Withdrawal of such funds, given community support for assisted programs, creates financial pressures on local governments required to substitute their own limited resources. Federal aid for anti-poverty, urban renewal, and Model Cities programs enmeshed city officials in controversial efforts that were neither as beneficial nor as harmful as their supporters and detractors claimed.

In an effort to take both the positive and potentially negative effects of Federal actions into account, Federal efforts since 1976 have been increasingly organized within a unified urban policy framework. The development of this urban policy—culminating in a major policy statement in 1978—is described in the first Chapter of this Report. Some of the changes in Federal behavior brought about by this policy are described in this Chapter.

### Level of Federal Assistance

As noted in Chapter 6, Federal aid has become an important source of local government revenue. The amount of Federal assistance to state and local governments increased at an average annual rate of 14.9% between 1955 and 1978. As a result, Federal aid now constitutes a substantial proportion of state and local government revenues. Federal grants will total 25.3% of state and local expenditures in FY 1980, almost one-third higher than the comparable figure for FY 1970 of 19.4%, but down slightly from a peak of 26.4% in FY 1978.

In recent years, the rate of increase in Federal assistance to states and localities has slowed. Federal assistance increased by 6.4% ($5.0 billion) in Fy 1979, and by 7.2% ($6.0 billion) in FY 1980 (see Table 11-1). Federal grants to state and local governments are estimated at 15.8% of Federal outlays for FY 1980 compared to 17.3% in FY 1978. Administration efforts to control inflation are largely responsible for these reductions, along with the phasing-out of countercyclical programs enacted to combat the most recent recession.

Total Federal aid to states and localities will amount to $88.9 billion in FY 1980. About two-fifths of this total are for payments to individuals, amounting to an estimated $33.5 billion for the provision of benefits, and another $6.9 billion for social service and related programs. Among the larger programs are Medicaid, public assistance, housing payments, and nutrition programs for children and the elderly. Another $16 billion of Federal grants to state and local governments in FY 1980 are provided for education and training. General purpose fiscal assistance amounts to one-tenth ($9 billion) of total Federal grants-in-aid in FY 1980; assistance for the construction and rehabilitation of physical assets, less than one-quarter ($20 billion); aids to agriculture, commerce, and transportation, one percent ($1.1 billion; and other assistance, less than two percent ($1.5 billion) (U.S. Executive Office of the President, 1980).

**Form of Federal Aid: Key Issues**

From the earliest origins of Federal financial assistance to urban localities, the question of how aid should be provided has been vigorously debated. Although the categories are not always neat, there are three principal forms of direct Federal financial assistance to states and localities.

- **Revenue sharing programs** utilize the national tax base as an equitable means of raising funds which are then redistributed to states and localities according to a formula that takes into account measures of need such as population, poverty, and tax effort. Considerable discretion is allowed to the recipient governments in how to use the aid.

- **Block grant programs** define a functional area for which Federal aid can be utilized (such as community development, law enforcement, or job training) but allow considerable discretion to localities as to how to utilize the funds for the defined purpose.

- **Categorical grant programs** are most narrowly defined. Most categorical programs define a specific type of activity as eligible (such as low-rent housing assistance or water pollution control). Typically, categorical grant programs define eligible activities and areas, often require fixed levels of local matching funds, and require a local application to receive a grant.

Categorical grants declined sharply as a percentage of Federal grant dollars distributed to state and local governments after the mid-1960's. By FY 1975 76.0% of Federal aid was distributed as categorical grants, down from 99.5% in 1966. The remaining 24.0% of Federal grant dollars were distributed in the form of block grants (10%) and revenue sharing (14%), and were distributed largely on the basis of "needs" formulas. However, formula-based distributions have also become characteristic of many categorical grants. ACIR has estimated that in FY 1975, 33% of all categorical grant programs, amounting to over 69% of Federal categorical grant outlays, used formula-based distribution methods (ACIR, 1979). Given these developments, it is not surprising that much of the contemporary debate over Federal assistance to states and local governments focuses upon factors for objectively determining relative need and so determining eligibility and the level of grant assistance.

Other disputes regarding the form of Federal aid concern the following issues:

**Should the Federal Government aid localities directly or indirectly through the states?**

Federal aid programs have used both approaches. Generally, health and welfare programs and highway assistance have operated through the states while community development grants have been made directly to cities. Education aid has generally been provided to local school districts while general revenue sharing aid has been provided to both states and localities.

One concern often expressed by local officials is that state governments are unresponsive to the needs of cities; in past decades many legislatures were dominated by rural interests. Today, after court-ordered redistricting, many state capitals are strongly influenced by suburban legislators, while central city representatives are a declining minority. Yet, some states have demonstrated that they share the Administration's concern to target assistance to needy jurisdictions, and the realization is growing that state policies play a dominant role in determining the fiscal and economic health of local jurisdictions.

**Should Federal aid be provided through specific, precisely defined programs to assure that national priorities are implemented or in the form of general fiscal support to states and localities?**

For many years, Federal aid was largely distributed as narrowly defined categorical grants with local matching requirements. This latter feature reflected the conviction that the Federal Government should never pay the full

TABLE 11-1

GROWTH OF FEDERAL AID TO STATES AND LOCALITIES
($ Billions)

| Fiscal Year | Federal Aid | Annual Increase in Federal Aid Amount | Annual Increase in Federal Aid Percent |
|---|---|---|---|
| 1980 | $88.9 | $6.0 | 7.2% |
| 1979 | 82.9 | 5.0 | 6.4 |
| 1978 | 77.9 | 9.5 | 13.9 |
| 1977 | 68.4 | 9.3 | 15.7 |
| 1976 | 59.1 | 9.3 | 18.7 |
| 1975 | 49.8 | 6.4 | 14.7 |
| 1974 | 43.4 | 1.6 | 3.8 |
| 1973 | 41.8 | 7.4 | 21.5 |
| 1972 | 34.4 | 6.3 | 22.4 |
| 1971 | 28.1 | 4.1 | 17.1 |
| 1970 | 24.0 | 2.2 | 17.1 |

SOURCE: U.S. Executive Office of the President, Office of Management and Budget, **Special Analyses, Budget of the United States**, Fiscal Year 1981.

cost of any programmatic expenditure to ensure local commitment to program objectives.

A counter-position often expressed by local executives is that narrowly defined aid programs divert local priorities to matters of less immediate concern. Also, matching requirements eliminate the most needy communities from receiving assistance. Local officials argue that while the Congress should define national objectives, it cannot know the needs of each local community.

**Should Federal aid be targeted on the most needy people and places?**

This issue has two aspects: first, whether aid should be people or place-oriented; and, second, whether it should be highly targeted on the neediest groups and places, or made available to all communities.

The Federal response to the people/place issue has generally been that both represent legitimate concerns of the national government. Federal health and welfare programs, which account for a very substantial fraction of all intergovernmental aid, are generally people-oriented, although variations in aid formulas at times revise this basic pattern. On the other hand, economic development and transportation programs are generally place-oriented.

Almost all Federal programs are targeted to some degree to particular recipient groups or geographic areas, but there are wide variations among them in this regard. As Federal resources become more constrained, there is growing agreement that at least some aspects of Federal aid to localities should be targeted to the most distressed localities.

**Should Federal expenditures such as procurement and military bases be viewed in the same light as direct aid to localities?**

Recent studies have shown that Federal domestic military expenditures have large impacts on local economies, and that Federal spending patterns show wide disparities among regions. Needy areas and cities have argued forcefully that these expenditures are as vital to local economic vitality as is direct aid. An alternative view is that military procurement and facilities should be distributed in the most cost-effective manner. Up to now, statutory mandates have prohibited set-asides of defense procurement funds for allocation to firms located in labor surplus areas.

These issues are pressing concerns in the Congress, state capitols, and city halls today. The natural tugs and pulls of political institutional life have resulted in different policy decisions for different Federal aid programs.

## The Impact of Federal Aid on Urban Areas

Many forms of Federal activity affect the development and well-being of urban areas and their residents. Most commonly understood are the various forms of Federal assistance—general revenue sharing, block grants, and categorical grants. Many other types of Federal actions have equal or greater impact—taxes, regulatory policies, procurement, and defense expenditures. This section describes and illustrates various types of Federal assistance programs (Table 11-2), and the

TABLE 11-2

SELECTED CHARACTERISTICS OF MAJOR FEDERAL GRANT-IN-AID PROGRAMS

| Form of Aid and Name of Program | Eligible Recipients | Eligible Activities | Degree of Targeting to Distressed Communities |
|---|---|---|---|
| **I. Revenue Sharing Programs** | | | |
| General Revenue Sharing | State & Local governments | Very broad–excludes only education | Slight–all governments eligible |
| Anti-Recession Fiscal Assistance | State & Local governments | Very broad | Some–primarily to areas of high unemployment |
| **II. Block Grant Programs** | | | |
| Comprehensive Employment and Training Act | State & Local governments | Fairly broad–with focus on social services | Some–primarily to areas of high unemployment |
| Social Services (Title XX) | States | Fairly broad–with focus on social services | None–sub-allocations made by states |
| Community Development Block Grants | Local governments | Fairly broad–with focus on physical development | Some–primarily to large urban communities |
| **III. Categorical Grant Programs** | | | |
| Urban Development Action Grant | Local governments | Narrow–to support local development initiatives | High–eligibility criteria based on community distress indicators |
| Local Public Works Grants | Local governments | Fairly broad–to support local public facilities programs | Some–primarily areas of high unemployment |

NOTE: Programs like the Federal Highway Program and the Waste Water Control Program contain certain criteria which cut across all categories of aid, and are not readily classified.

next section briefly examines the potential impacts of other types of Federal actions. In each section, notice is taken of recent changes resulting from the President's urban policy to bring Federal assistance programs and other Federal actions into greater consistency with the needs and priorities of America's urban communities.

**Revenue Sharing Programs**

The basic principle underlying revenue sharing programs is that the Federal Government has superior powers to raise revenues through its income tax and that it is appropriate to utilize this power to establish greater equity in revenue allocation among states and localities than can be done through local taxation. Revenue sharing is also used to provide emergency financial assistance to states and localities to help them maintain essential services during periods of national recession.

**General Revenue Sharing.** The General Revenue Sharing program was created in 1972 to give states and localities assistance from revenues based on the progressive Federal income tax in a form that would have no strings attached and that could be used flexibly to meet state and local needs. The program was popular with recipient governments, and there was strong pressure to extend it without modification when it came up for renewal in 1976. The program was extended four additional years, essentially without modification, except to add compliance requirements for civil rights, public participation, and audits. The program serves nearly 39,000 local governments. Its near universality provides opportunity for new awareness of local financial management practices and for selective leverage in bringing about reform among state and local governments.

Yet, GRS has never been beyond criticism. It is frequently observed that tax havens and affluent jurisdictions with no urgent fiscal needs receive substantial GRS funding. Similarly, it is pointed out that hard pressed jurisdictions with declining economies and high social need receive inadequate GRS funding. Others have suggested that GRS funds keep obsolete governmental forms alive, avoiding the need for reform. Some have observed that state governments have been receiving GRS funds even as they neglect their constitutional responsibilities for the fiscal condition of local governments and slough off to the Federal government burdensome problems that could be dealt with more effectively by the states themselves. In a period of scarce Federal dollars and widespread pressures to balance the Federal budget, some have proposed that the GRS not be renewed at all or that the $2.3 billion share of annual payments to state governments be discontinued.

In view of the critical need of many older cities for fiscal assistance and the likelihood that Federal assistance to urban areas will not expand substantially during the 1980's, the Administration is recommending that GRS payments to local governments be reauthorized for a period of five years, and be used to focus more direct Federal GRS assistance on needy jurisdictions less able to pay for minimum essential services. To do so, it is recommending several changes in the allocation formula. These changes would increase funding for large cities by making the allocation more responsive to local tax effort and per capita income. Relatively wealthy jurisdictions would experience substantial reductions in funding and most of the nation's largest counties, typically suburban jurisdictions, would receive slightly lower funding as a result. Lower-income counties would realize moderate gains, and poor rural and small-town jurisdictions would be provided additional funds. Any jurisdiction losing more than ten percent of its GRS funding under reprogramming would have a two-year period in which to make the adjustment.

In view of budget constraints, the Administration is proposing to eliminate GRS funds to states. To ease the transition, it is proposing to provide $500 million for local government transitional assistance in states that used their GRS funds to assist local governments.

**Anti-Recession Fiscal Assistance.** In response to the precipitous 1973-75 recession, Congress enacted the 15-month $1.25 billion Anti-Recession Fiscal Assistance (ARFA) program lasting from July 1976 to September 30, 1977. At the recommendation of the Carter Administration, Congress extended the program until September 30, 1978 and added another $2.25 billion. One-third of ARFA funds were distributed to states and two-thirds to general purpose local governments on the basis of each government's share of GRS funds and its unemployment in excess of four and five-tenths percent. There is general consensus that ARFA was well targeted on needy cities (Table 11-3) and that it successfully insulated them from the most adverse effects of the recession, preventing disruption of essential services.

As one of its 1978 urban policy initiatives, the Carter Administration recommended the creation of a Supplemental Fiscal Assistance program, patterned after ARFA and targeted on cities experiencing secular economic decline. The bill passed the Senate in the Fall of 1978, but was blocked in the House. In 1979, the Administration introduced a two-part bill providing for Targeted Fiscal Assistance to local governments with local unemployment rates of 6.5% or more, and for standby authority for Anti-Recession Fiscal Assistance to State and local governments when the national unemployment rate exceeds 6.5%. The legislation is under active consideration in the 96th Congress.

The Administration's proposal for retargeting the local share of GRS would increase the amount of assistance going to the most needy cities and could obviate the need for long-term targeted fiscal assistance. The Administration is proposing to phase out Targeted Fiscal Assistance if GRS is reauthorized along the lines that it has recommended. But, the need for ARFA is likely to continue for the foreseeable future, since state and local governments are increasingly reliant on income and sales taxes which are more responsive than property taxes and user fees to national economic downturns. As a result, they are likely to bear the full brunt of declining revenues and escalating service needs in the absence of emergency Federal assistance during recessionary periods.

**Block Grant Programs**

The Comprehensive Employment and Training Act (CETA),

**TABLE 11-3**

**ANTI-RECESSION FISCAL ASSISTANCE: MEDIAN PER CAPITA FEDERAL AID TO THE 48 LARGEST CENTRAL CITIES, BY TYPE OF CITY, 1977**

**(Number of Cities in Each Category Shown in Parentheses)**

| Degree of Resident Need[1] | Population Trends, 1970-1976: Decreasing | | Stable | | Increasing | |
|---|---|---|---|---|---|---|
| Relatively High | $19.71 | (15) | $13.16 | (2) | $15.94 | (3) |
| Moderate | 8.31 | (8) | 4.90 | (3) | 3.87 | (3) |
| Relatively Low | 8.60 | (5) | 2.11 | (4) | 4.49 | (5) |

SOURCE: Advisory Commission on Intergovernmental Relations, Counter-Cyclical Aid and Economic Stabilization, 1978, pp. 22-23.

[1] Resident need is defined in Chapter 2.

Title XX of the Social Security Act, and the Community Development Block Grant (CDBG) program are among the largest Federal programs of assistance to state and local governments. Created during the early 1970's, all are products of the New Federalism. As such they are characterized by: (1) a shift of decision-making authority from the Federal government to state and local governments; (2) a shift from discretionary categorical grant programs to formula grant programs; (3) a spreading of Federal assistance to more jurisdictions and (4) a spreading of Federal assistance to a broader spectrum of recipients. As a result, Federal funds for these programs are distributed among jurisdictions in a relatively objective and equitable manner, but they are relatively less concentrated than previously upon the neediest jurisdictions, and Federal decision-makers have much less control over who actually benefits from program expenditures.

Under the Carter Administration, the basic structure of these programs has been retained, but efforts have been made to concentrate resources upon jurisdictions in greatest need and to target benefits to low- and moderate-income people. Efforts to increase the targeting of resources upon low- and moderate-income persons has taken a variety of forms. For example, in the CETA program, statutory and regulatory changes have been made to tighten eligibility for employment and training assistance. In the CDBG program, statutory and regulatory changes have been made to require the channeling of benefits to low- and moderate-income neighborhoods.

**Comprehensive Employment and Training Act Program.** Created in 1973 to reduce numerous categorical grant programs, the Comprehensive Employment and Training Act (CETA) program authorizes block grants and discretionary grants to state and local governments for the purpose of providing job training and employment opportunities for economically disadvantaged, unemployed, and underemployed persons. Formulas for distributing funds vary with the type of activity, but target funds to jurisdictions with concentrations of unemployed persons and low-income adults. Program activities include classroom training, on-the-job training, public service employment (PSE), work experience, supportive services, and related activities. CETA programs are administered on a decentralized basis by prime sponsors which may be the state, a local government with population of 100,000 or more, or a consortia of local governments. In FY 1978 there were 450 prime sponsors: 180 counties, 70 cities, 50 balance-of-state sponsors, 146 consortia, and 4 rural non-governmental sponsors.

Between FY 1976 and 1979, annual enrollments of adults and youths in comprehensive employment and training programs hovered at about 1.28 million. However, the number of public service employment slots oscillated widely as countercyclical efforts expanded and contracted in response to national economic cycles. As a result of the President's Economic Stimulus Program, public service employment peaked in the spring of 1978 with an enrollment of 725,000. Although CETA programs increased employment opportunities at a time when jobs in the private sector were scarce, concern was expressed during the development of the urban policy that CETA services were not sufficiently targeted upon economically disadvantaged persons, that local governments were using PSE funds to hire employees who otherwise would have been hired using local funds, and that insufficient effort was being made to expand employment opportunities in the private sector. These concerns were addressed when CETA was reauthorized in 1978. Consistent with the national urban policy, the

Administration initiated tighter eligibility requirements and greater concentration of services upon economically-disadvantaged persons. The reauthorization act also included provisions to reduce the substitution of PSE enrollees for local government employees. These provisions limited the wages that could be paid to PSE enrollees and have the effect of limiting them to entry-level positions.

The reauthorization act also contained provisions designed to encourage prime sponsors to place their enrollees in private sector jobs. Still, prime sponsors have been only moderately successful in placing CETA enrollees in unsubsidized private sector jobs. In FY 1979, 35% of all CETA enrollees were placed in unsubsidized positions. To increase placements in private sector jobs, the Administration initiated a demonstration program, the Private Sector Initiatives Program (PSIP), which is intended to increase the involvement of the business community in the development of private sector employment opportunities for unemployed and underemployed persons. As of September 1979, 400 out of 470 prime sponsors had established Private Industry Councils, (PIC's) while another 20 had appointed a PIC chairperson.

**Title XX of the Social Security Act.** Title XX of the Social Security Act of 1975 distributes Federal funds to states to finance social services on a 75-25 matching basis (except for family planning where the Federal share is 90%). A Federal funding ceiling of $2.5 billion was established in 1975 to contain rapidly growing, previously open-ended Federal expenditures for social services. As a result of the urban policy, this ceiling was temporarily increased by $200 million during fiscal years 1978 and 1979. In 1980 the Title XX ceiling is $2.5 billion once again. Reauthorization legislation is being considered in the 96th Congress.

The Federal ceiling is translated into a funding ceiling for each state using a per capita allocation formula. In FY 1975, only 13 to 15 states had social service program levels equal to or above their ceiling; in FY 1979, all 50 states spent at a level equal to or in excess of their share of the $2.5 billion ceiling. To meet their rising social service expenditure needs, states are targeting services on lower-income groups, charging fees on a sliding scale even to low-income recipients, transferring services among funding sources in search of the "best deal" and supplementing Federal funds from their own resources.

The Act mandates that at least 50% of Title XX funds be spent on services for welfare recipients. It permits the provision of services without fee to persons with incomes below 80% of the state's median income and on a fee-for-service basis to persons with incomes up to 115% of the median. This expanded range of eligibility was justified on the ground that it helped people who would otherwise become dependent upon public assistance to maintain their independence. As funds become more constrained, it will be harder to achieve this objective. On the lower end of the scale, states are increasingly charging fees even to those with incomes below 80% of the median. In the case of this program, targeting may ration available funds, but it may be counterproductive to do so insofar as persons deprived of assistance deplete their own resources and become welfare recipients.

Two targeting issues are raised by the Title XX program: allocation among states, and allocation within states. As noted above, Title XX funds are allocated among states on a per capita basis. A more equitable formula might take into account the numbers of people potentially eligible for services (e.g., the number of actual and potential welfare recipients.) States allocate social service funds within their jurisdiction subject only to the requirement that they offer a minimum of services in all geographical areas, and that they offer opportunity for public comment on their proposed expenditure plan. Almost no data are available on how effectively social service expenditures are targeted to needy jurisdictions. A proposal requiring states to consult with local officials about their needs before allocating Title XX funds is now being considered in Congress.

The Title XX program highlights the tension in the urban policy between targeting scarce resources to needy jurisdictions and assisting low-income people wherever they may reside. Social services provide important in-kind income supplements for low income families. Concentration of services in needy cities is a legitimate policy objective, given the increasing numbers of poor people in them and their related fiscal burdens. But concentration would limit resources available to some low income households and might reduce or impede the willingness or ability of poor people to follow economic opportunities.

**Community Development Block Grant Program.** Created in 1974 to consolidate several categorical grant programs, the Community Development Block Grant program makes grants to local governments for the development of viable communities through the provision of decent housing, a suitable living environment and expanded economic opportunities, principally for low- and moderate-income persons. Four-fifths of the funds are allocated on the basis of a formula to entitlement communities: central cities or cities with at least 50,000 population and urban counties having at least 200,000 population and authority to perform community development functions. One-fifth of the funds are allocated on a discretionary grant basis to metropolitan and nonmetropolitan communities with less than 50,000 population and nonurban counties.

As a result of the Housing and Community Development Amendments of 1977, the targeting of CDBG funds to needy jurisdictions has been significantly improved. The 1974 formula allocated funds among entitlement communities on the basis of poverty, population, and overcrowded housing characteristics. This formula is highly responsive to the poverty dimension of community development need, but is relatively unresponsive to other dimensions of community development need associated with aging facilities and population decline. In 1977 a second formula was created which allocated funds on the basis of poverty, pre-1940 housing, and population growth characteristics. Under a "dual formula" arrangement, communities receive the amount to which they were entitled under the most favorable formula.

Utilization of the dual formula has increased and will continue to increase the central cities' share of CDBG funds. The projected central city share of CDBG funds for 1980 increased from 42.4% under the 1974 formula to 55.5% under the dual formula (Table 11-4). The 381 central cities will receive an average per capita amount of $30.48 compared to $18.22 for non-central cities over 50,000 population and $11.74 for non-metropolitan small cities receiving discretionary grants. Compared to other Federal formula grant programs, the CDBG program is well targeted to fiscally-strained cities (Table 11-5).

Evaluations of the early experience under the CDBG program showed that local government officials were under considerable local pressure to spread the benefits of CDBG expenditures among neighborhoods and income groups. Consequently, the proportion of benefits going to low- and moderate-income persons declined from 64% in 1975 to 61% in 1977. Since then, in response to statutory and regulatory changes, the proportion of benefits accruing to low- and moderate-income persons increased by five percentage points to 66%.

**Categorical Grant Programs**

**Urban Development Action Grants.** The UDAG program makes Federal funds available on a discretionary basis to local governments for leveraging private sector investment in distressed urban areas. The program was created in response to studies showing that local officials, under pressure to spread CDBG resources over numerous beneficiaries, were unable to accumulate sufficient Federal resources for use in major development projects. The program is consistent with the targeting objectives of the Administration's urban policy and also with its emphasis on a partnership between the public and private sectors to augment scarce Federal resources and to strengthen local economies and tax bases. Only communities scoring above specific thresholds of need are eligible. Funds can be used in a highly flexible manner to supply the impetus for community and economic revitalization projects: industrial, residential, and commercial projects have received assistance. On average, local governments have leveraged nearly six private sector dollars for every UDAG dollar received. To date, UDAG has funded over 500 projects in 382 cities and secured private sector commitments approaching $5.8 billion. Projects now funded will create over 150,000 new permanent jobs and retain another 80,000 jobs in cities. Early evaluations suggest that on the basis of its local job and tax base impacts, UDAG will be one of the most successful Federal tools to assist needy communities to respond to economic development priorities.

**Other Federal Assistance Programs**

Two other Federal programs with significant urban impacts are not easily classified as block grants or categorical grant programs.

**Wastewater Treatment Construction Grants.** Since 1972, the Environmental Protection Agency has been authorized to make grants to states and municipalities for the construction of publicly-owned waste treatment facilities. These facilities constitute one part of a multi-part strategy for achieving the national goals of "fishable-swimmable water" by 1983 and the elimination of pollutant discharges into navigable waters by 1985. The Environmental Protection Agency (EPA) provides grants for up to 75% of the costs of planning, designing, and constructing the public facilities necessary to meet the requirements of the Act.

Prior to statutory amendments in 1977, EPA projects frequently acted as a strong inducement for growth, drawing development to outlying urban areas. This impact resulted from policies which permitted the construction of treatment plants with excessive reserve capacity and the construction of interceptor and collector sewers in undeveloped areas. The availability of these facilities attracted developers eager to reduce the costs of development.

Numerous changes were made by the 1977 amendments and subsequent regulations resulting from the urban policy to reduce the likelihood that waste treatment construction activities would induce growth in undeveloped areas. These include using more accurate population projections to determine the cost-effective capacity of a treatment plant and requiring that state and local government bear the full cost of any additional treatment capacity, discouraging oversized interceptor pipes, and the extension of interceptors into undeveloped areas. The amendments also prohibit the use of Federal assistance for sewage collection systems for newly developed urban areas, on the grounds that these costs should be included in the costs of new construction in those areas. In addition, the 1977 amendments contain provisions encouraging the use of innovative and alternative waste treatment technologies. Many of these are designed to meet waste treatment needs in lower density communities. By reducing the need to extend collector and interceptor sewers into little developed areas, these provisions can also be expected to reduce growth inducement.

As a result of these changes, future EPA construction projects are less likely to induce growth in outlying areas. However, many projects approved prior to these changes have yet to be constructed.

**Federal Highway Aid.** Massive Federal assistance for constructing urban and interstate expressways has been a major determinant of the form of urban development since World War II. Analysts have generally concluded that the overall effect of Federally-aided highway construction has been to aid suburban development relative to central cities. Another general finding is that interstate expressways have tended to favor growth in the South and West relative to the Northeast; in part, this results from regional variations in the rate of improvement in transportation capacity, and in part from the shift from rail to truck transport of goods (Vaughn, 1977; Putman, 1980).

Recently, the Department of Transportation has taken a number of positive steps to reduce detrimental impacts of highway projects upon central cities. Among the most important is its decision to incorporate consideration of urban impacts into the process of planning major projects.

## Urban Impact of Other Federal Actions

Many Federal actions have unintended impacts upon urban areas. Federal tax, regulatory, and procurement policies all

TABLE 11-4

PROJECTED DISTRIBUTION OF CDBG ALLOCATIONS BY RECIPIENT COMMUNITY TYPE, 1980

| | (1) Per Capita $ Under Dual Formula[1] | Percentage Shares (2) Dual Formula[1] | (3) 1974 Formula[1] |
|---|---|---|---|
| SMSA | $19.10 | 81.3% | 80.0% |
| Metropolitan Cities (559) | 28.36 | 62.5 | 48.0 |
| Central Cities (381) | 30.48 | 55.5 | 42.4 |
| Noncentral Cities Over 50,000 Population (178) | 18.22 | 7.0 | 5.6 |
| Remainder of SMSA | 9.12 | 18.8 | 32.0 |
| Urban Counties (entitled) | 13.37 | 12.0 | 11.0 |
| SMSA Balance (discretionary) | 5.83 | 6.8 | 21.0 |
| NON-SMSA (discretionary) | 11.74 | 18.7[2] | 20.0 |
| U.S. Total | 17.51 | 100.0 | 100.0 |

SOURCE: Harold L. Bunce and Norman J. Glickman, "The Spatial Dimensions of the Community Development Block Grant Program: Targeting and Urban Impact," in The Urban Impact of Federal Policies, Norman J. Glickman, ed., (Baltimore: Johns Hopkins University, 1980).

[1] These are full formula (i.e., no hold-harmless) amounts based on a projected 1980 appropriation of $3.8 billion.

[2] The non-SMSA account falls below 20 percent because the SMSA balance account includes a minimum set-aside which is not divided on an 80-20 basis between the SMSA and non-SMSA accounts.

TABLE 11-5

PER CAPITA DISTRIBUTION OF SELECTED FEDERAL AID PROGRAMS RELATIVE TO FISCAL NEED FOR 38 LARGE CITIES

| | | | | | CETA | | | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Need | Number of Cities | CDBG (Projected 1980) | General Revenue Sharing to City Government | Antirecession Fiscal Assistance to City Government | Title I (Block Grant) | Title II (Public Service Employment) | Title VI (Public Service Employment) | Local Public Works |
| High | 10 | $44.11 | $28.29 | $9.65 | $11.70 | $2.05 | $8.75 | $42.03 |
| Medium | 18 | 37.93 | 21.74 | 6.54 | 10.38 | 2.19 | 8.43 | 31.25 |
| Low | 10 | 24.14 | 14.33 | 3.13 | 7.87 | 1.96 | 9.00 | 24.96 |
| All Cities | 38 | 35.93 | 21.25 | 6.46 | 10.07 | 2.09 | 8.41 | 32.43 |

SOURCE: U.S. Congress, House Committee on Banking, Finance, and Urban Affairs, Subcommittee on the City, **City Need and the Responsiveness of Federal Grants Programs**, 95th Congress, 2nd Session. (Washington, D.C.: GPO, 1978), pp. 58, 62, 70, and 74.

influence urban growth patterns and the health of urban economies, although this is not their primary intent.

### Federal Tax Structure

Several features of the Federal income tax structure impact communities. As described in Chapter 5, the deductions allowed to homeowners for interest paid on mortgages and for real property taxes have benefitted suburbs relative to central cities. The negative city impact comes about in two ways: first, because suburban residents tend to be homeowners to a far greater degree than city residents; and, second, because the deductibility feature has value primarily to high income persons. Both effects tend to either reinforce decentralization trends or to benefit suburban residents to a larger degree than city residents. Reforms in the 1978 Tax Act increased the standard deduction, helping to reduce this anti-urban bias, but the essential problem remains (Hayes and Puryear, 1980).

Another aspect of Federal taxation that appears to work against cities, especially those with an older industrial base and little growth potential, is contained in the business investment tax credit that provides tax benefits to industries that invest in new equipment and machinery. This provision has benefitted industrial expansion in developing suburbs and growing central cities in the South and West. Amendments in the 1978 Tax Act resulting from the urban policy will somewhat mitigate this impact by extending investment tax credits to rehabilitation of older factories. But adjustments are unlikely to have effects comparable to the investment tax credit for new equipment and machinery (Hayes and Puryear, 1980).

### Federal Facilities Location

The location of Federal facilities can have important effects upon urban economies. In recent years Federal facilities have increasingly been dispersed to outlying locations within metropolitan areas. One study found that between 1966 and 1976, the number of Federal civilian employees in metropolitan areas increased by 24,247, while the number in central cities decreased by 41,726 (DeVaul, 1979).

To make Federal facilities location decisions consistent with the aims of the urban policy, President Carter issued Executive Order 12072 directing that Federal facilities and Federal use of space in urban areas strengthen the nation's cities and make them attractive places to live and work. In so doing the President ordered all agencies to give first consideration to a central business area.

The General Services Administration, the Federal agency with the broadest responsibility for domestic agency facilities, has issued a Federal Property Management Regulation which implements the executive order and, further, favors facility location in the more distressed central cities of urban areas. Since issuance of the executive order in August 1978, 229 out of 380 GSA leasing actions have been focused within central business districts. These central city leases have involved 1.35 million square feet of floor space and nearly 6,000 employees.

The executive order directing Federal agencies to give first consideration to central city locations represents an important commitment on the part of the Federal Government to strengthening the economies of distressed urban areas. Still, several important issues need to be clarified. Some agencies, have historically been exempt from GSA review. Others have been granted legislative or administrative exemptions. The linkages between GSA and these agencies with regard to the executive order must be strengthened. Furthermore, apparent conflicts between the mandate to grant priority to central city siting and other policy or agency objectives regarding facilities location need to be addressed.

### Federal Procurement

Each year the Federal Government spends a sizeable proportion of its budget for the purchase of items from private sector firms. Defense purchases alone amount to five percent of the GNP. These purchases create jobs and contribute to the economic and fiscal health of local communities. Because Federal purchasing follows short-term, least-cost competitive principles, it inadvertently tends to reward firms in newer areas where labor, capital, and land costs are often lower. Although justified as cost-efficient, these allocation principles do not take into account the high socio-economic costs of under-utilized labor or capital and private disinvestment in bypassed regions and jurisdictions.

Acknowledging the role that Federal procurement can play in stimulating economic activity in distressed urban areas, President Carter issued an executive order under the auspices of the urban policy directing Federal agencies to target a portion of their procurement to labor surplus areas, defined as areas with unemployment rates in excess of 120% of the national average.

The executive order builds on long-standing, but never fully implemented, Federal policy dating back to the issuance of a Defense Manpower Policy statement in 1952 and a subsequent policy statement of 1967 by the Office of Emergency Planning. For a variety of reasons, incuding the Maybank amendment which exempted defense appropriations from the targeted procurement effort, these earlier policy statements never resulted in significant action.

Executive Order 12073 directs the Administrator of General Services to establish specific labor surplus area (LSA) procurement targets for executive agencies in consultation with the heads of those agencies. Agencies which do not have appropriations over $300 million were requested to designate 10 percent of their appropriations as an LSA target. Agencies subject to this order were requested to establish procedures for the attainment of their goals.

The executive order has resulted in a major advance in Federal procurement in labor surplus areas. A total of $588 million in labor surplus "set-asides" was obtained in fiscal 1979; this represents about 1.6% of the total procurementment spending of participating Federal agencies. It illustrates a four-fold increase over previous years. Agency goals for fiscal 1980 call for set-aside procurement of $1.3 billion.

Even in light of the good record to date, there is considerable room for strengthening and expansion of the procurement effort to help labor surplus areas.

- Present objectives fall well below the level necessary to make a real impact on labor surplus areas.

- The broad definition of "labor surplus areas" spreads the benefits of the program more widely—and with less measurable impact—than is desirable. Progress has been made on this score by defining the target areas in terms of "civil jurisdictions" and using 18-month rather than annual employment figures. Further targeting could be achieved by modest changes to the formula.

- The continued exemption of defense agencies, with their very large domestic procurement levels, from the policy because of the Maybank amendment means that many potential benefits cannot yet be achieved for labor surplus areas.

- Procurement under Federal grants is not clearly subject to the executive order. Broadening the order to include grants would extend coverage to many additional billions of dollars of spending by state and local agencies.

These items, as well as improvements in such respects as the quality of data used to target and assess the impact of the procurement program, offer opportunities for building on the sound initial steps under this executive order. Actions to reach these goals are discussed in the last Chapter.

## Summing Up: Federal Activities That Influence Urban Development

The Federal Government provides assistance to urban communities in a variety of forms for broadly and narrowly defined objectives and it influences what happens in urban areas and their economies through the tax structure, regulatory actions, and procurement policies.

As Federal assistance to state and local governments levels off, increased attention will be devoted to improving the efficiency and effectiveness of existing programs. As Federal resources become less plentiful, it becomes increasingly important to assure that Federal assistance is well-targeted on the basis of equitable need criteria and that Federal assistance is expended in a manner that yields the greatest benefits to economically disadvantaged persons.

Under the Carter Administration, the basic structure of Federal assistance to state and local governments has been retained, but efforts have been increased to concentrate resources upon jurisdictions in greatest need and to target benefits to low and moderate income people. In addition, awareness has grown of the impacts of all types of Federal actions upon the fiscal health of jurisdictions and the social and economic well-being of their residents. This increased awareness of the impacts of Federal actions has resulted in changes in the way that the Federal Government conducts its normal operations so that adverse consequences are reduced and beneficial consequences are enhanced.

Two institutionalized mechanisms are now in place to assist in improving the urban impacts of new and existing Federal policies and programs. These are urban and community impact analysis and the Inter-Agency Coordinating Council (IACC), created by executive orders issued by President Carter in August 1978.

### Urban and Community Impact Analysis

An executive order issued in August of 1978 and subsequently amplified by an Office of Management and Budget circular, requires Federal agencies to prepare urban impact analyses to accompany significant new budgetary, legislative and regulatory initiatives. The executive order requires assessment of employment, fiscal and other impacts on central cities and smaller urban communities. The urban impact analyses reflect a recognition that Federal programs have impacts that go well beyond the purposes and objectives set forth in their legislation, and that in the past some Federal actions have had unintended adverse effects upon urban areas. The executive order on impact analysis was widely acclaimed by public interest groups, the media, and community and private sector leaders, and was viewed by many as one of the most significant steps the Administration has taken to implement the urban policy.

The assignment of the Office of Management and Budget as the key agency responsible for implementation and oversight of the executive order was designed to link budgetary decision-making to the urban policy. Issuance of the order and the supporting OMB circular have expanded analytic activity by Federal agencies. However, most agencies found the requirements of the order and circular difficult to meet. Methodology adequate to trace impact was often lacking or based on inadequate data. Staff constraints also limited agency response. As a result, in the initial years of experience, relatively few new legislative proposals and budgetary initiatives were subjected to critical appraisal in advance of their formal adoption as Administration policy.

Recent internal appraisals of the urban impact process have highlighted ways in which it can be strengthened to meet the President's commitment. These include:

- The need to expand the range of Federal agency activities subject to analysis.

- The need to develop the analytic skills and data bases essential to rapid and accurate urban impact assessments in each agency.

- The need to clarify impact areas of concern for OMB's circular.

- The need to closely link urban impact assessments to the budgetary process.

The limited role played by impact analysis to date does not detract from its vital importance as a component of urban policy. It does indicate, however, that perseverance in improving the quality and timing of analyses is essential, and that constant emphasis on the need for accurate and extensive assessment is crucial.

**Inter-Agency Coordinating Council**

The new Inter-Agency Coordinating Council (IACC), composed of an Assistant Secretary or equivalent official from every major Federal agency, brings together key officials to oversee the coordination and implementation of the urban policy under the overall supervision of senior White House staff members. It is the first example of a sustained inter-agency effort to resolve urban issues with White House leadership. For the first time, there is a single clear urban policy forum that can command attention and decision-making capacity at the highest levels within the Federal Government.

Examples of the way that IACC has advanced urban policy objectives include its role in formulating the Administration's employment initiatives under which recipients of development assistance from five major agencies will target jobs to CETA eligible persons.

Another instance was IACC's action in bringing together Federal agencies to cut through disagreements over the intertwined issues of highway location and residential displacement involved in the Century Freeway in Los Angeles. Yet another example was the way in which IACC stimulated the recent issuance of the Community Conservation guidelines. When requested by elected chief executive officers of state, county and local governments, the guidelines require advance assessment of the potential impact on central city economies of pending Federal actions likely to lead to large commercial developments.

Even this positive new step needs continued attention to assure that it fulfills its vital mission. Federal programs interact within the urban setting in complex ways. Limited by staff and participant resources, the IACC has thus far been able to address a mainly short-term agenda. It now needs to begin framing a longer-term program that will spread its coordinating influence throughout the Federal establishment.

## 2. The Role of the States

The fifty states bear the primary responsiblity for the form and character of urban governance. Cities, counties, and other local forms of government are the creatures of the states. State consititutions and laws determine their very existence, their scope and jurisdiction, their functional responsibilities, and their authority to raise revenues.

Among the state actions that affect local government, one noted authority has listed the following ten: (1) states determine the structure of local government, (2) set municipal boundaries and limit annexation or mergers, (3) have an important influence on the organization of local government, (4) determine local taxing powers, (5) limit local borrowing, (6) prescribe local personnel practices, (7) set many local educational practices, (8) have major influence on local land use powers, (9) set local accounting and budgeting standards, and (10) can intervene or investigate local government virtually at will (Brown, cited in Rabinowitz, 1979b).

With this multitude of state powers runs the parallel responsibility to be responsive to local needs. However, the states have not always been ready to assume the full burden of this responsibility.

**State Financial Aid**

In a pattern closely following the expanding role of Federal aid, the states have significantly enlarged their programs of aid to localities in recent years. Table 11-6 describes the pattern of state aid expansion, both in dollar levels and as a fraction of local budgets. Several common patterns can be identified in the broad array of state responses to their responsibility for local governance. First, every state now offers some form of intergovernmental aid to local governments. Second, state aid tends to be concentrated on counties and local school districts. This is because education has been a traditional state responsibility, while counties are increasingly the unit of government that delivers state-mandated income maintenance and health care services to low income people.

States have begun to help central cities cope with fiscal strain. A recent study concluded that:

> The weight of contemporary evidence suggests that state governments are taking the first steps toward assuming this role. Over the past several years, the states have begun to develop and implement a variety of fiscal and functional reforms directed to meeting the needs of distressed urban and rural communities—a distinct departure from the states' past quiescence in these fields (ACIR and NAPA, 1979).

Revenue sharing programs have been adopted by 49 states. The effeots, described by ACIR as "moderately equalizing" were achieved, in general, by enacting aid formulas which distribute revenues on the basis of local population. Southern and western states have adopted the most equalizing formulas; however, many Southern states with equalizing formulas distribute relatively few funds, while Midwest and Northeast states re-distribute substantial amounts (ACIR and NAPA, 1979).

States are increasingly assuming responsibility for public assistance and social services. Thirty states have assumed over 90% of non-Federal welfare costs, and many states finance all of the non-federal cost of Medicaid, food stamps, and Supplemental Security Income programs. Of the nation's major cities, only New York and Washington, D.C. (which operates like a state for many purposes) are still required to bear substantial shares of the cost of public assistance and medical care for the poor.

**State Urban Policies**

In recent years, some states have begun to move toward framing urban policies to guide urban development and to

**TABLE 11-6**

**STATE AID TO LOCAL GOVERNMENT, 1954-1977**

| Fiscal Year | Amount ($ Billions) | Percent of Total Local Revenue from Own Source | Components of State Aid (as a percent of total aid) General Support | Education | Highways | Public Welfare | All Others |
|---|---|---|---|---|---|---|---|
| 1977 | $61.1 | 59.9% | 10.4% | 60.5% | 5.9% | 14.3% | 8.8% |
| 1974 | 45.6 | 59.4 | 10.5 | 59.4 | 7.0 | 16.2 | 6.8 |
| 1964 | 13.0 | 42.9 | 8.1 | 59.1 | 11.8 | 16.3 | 4.8 |
| 1954 | 5.7 | 41.7 | 10.6 | 51.6 | 15.3 | 17.7 | 4.8 |

SOURCE: Advisory Commission on Intergovernmental Relations, **Significant Features of Fiscal Federalism, 1978-79** (Washington, D.C.: 1979).

identify distressed communities. Among the leaders in this field have been Massachusetts, California, Michigan, and Oregon, each of which has prepared or is in process of preparing a state urban policy plan. Among the other innovative actions taken by states to help meet the needs of their distressed communities are the following:

- Massachusetts and Michigan began state-local targeting efforts during the period 1977-78 with the adoption of urban growth strategies, and the subsequent modification of state aid programs to meet strategy goals.

- During 1979, Connecticut adopted distress criteria from HUD's Urban Development Action Grant program as Connecticut's distressed communities standard, and defined further criteria for the receipt of additional urban assistance.

- Washington, Florida, New York, and Wisconsin are developing local distress criteria under current state planning initiatives to assist targeting of state aid funds.

- Hawaii has employed criteria to designate depressed areas since 1961. Under the Depressed Areas Redevelopment Act, the state may declare an area as "depressed" on the basis of population loss, high unemployment, or physical decline, at which point the jurisdiction becomes eligible for special infusions of state economic aid.

While such innovative efforts are under way in only a minority of states, a number of other states identify and assist distressed communities in the context of specific programs. New Jersey and Ohio, for example, permit municipalities to grant tax relief to areas designated as "blighted" or "impacted." Iowa designates certain jurisdictions as particularly needy in conjunction with tax relief, urban homesteading, and school finance programs. These efforts suggest that while most state development policies are not yet governed by comprehensive urban policies, states are making progress in shaping assistance programs to the needs of their urban jurisdictions.

A recent survey of state activity to aid distressed communities is summarized in Table 11-7. It shows that there is a broad range of initiatives available to states to help distressed communities, but that only a few of these initiatives have yet been enacted by a majority of states. Virtually every state assists its distressed localities in some of the ways listed in the table. However, only about a quarter have moved to target economic or community development support and only about a third have moved to target home rehabilitation aid. On the other hand, about half of the states have moved significantly toward reform of state-local fiscal relationships since 1970. This "scorecard" of state efforts suggests that progress has been made but that there is considerable scope for expanded effort by the states. One observer described the states as "sleeping giants with untapped powers to plan or to manage growth and change" (Schwartz, 1979). Full realization of this potential of the states is vital to urban improvement because of the many ways in which states control or determine local government actions and prospects.

**Multi-State Planning and Development Agencies**

The establishment of the Appalachian Regional Commission in 1965 began a Federal-state collaborative experiment in regional economic development that was subsequently extended to the entire nation. Typically, multi-state regional commissions operate with two co-chairpersons, one appointed by the President and the other chosen jointly by the governors of the participating states. The policy body is composed of gubernatorial appointees and representatives of the major Federal departments that serve the region.

TABLE 11-7

SUMMARY OF STATE ACTIONS TO ASSIST DISTRESSED COMMUNITIES

| Field | Action Taken by States | Number of States Taking Action |
|---|---|---|
| HOUSING FINANCE | Provide financial assistance to lower income households | 44 |
| | Geographic targeting in home rehabilitation aid | 19 |
| | Targeted home rehabilitation tax incentives | 17 |
| | Fair housing statutes | 30 |
| ECONOMIC DEVELOPMENT | Targeting site development aid to underdeveloped communities | 15 |
| | Promote commercial and manufacturing facilities in distressed communities | 11 |
| | Tax credits to stimulate industrial development in designated needy areas | 12 |
| | Tying small business aid to community need indicators | 8 |
| | Customized job training | 23 |
| COMMUNITY DEVELOPMENT | Authorize creation of local renewal agencies | 48 |
| | Targeted community development aid | 18 |
| | Preferential siting of state facilities in distressed communities | 4 |
| FISCAL REFORM | Targeted state-local tax and revenue sharing | 21 |
| | New school finance equalization plans (since 1970) | 25 |
| | Cutting per-pupil expenditure disparities within the state (since 1970) | 17 |
| | State assumption of at least 90% of local welfare costs | 30 |
| | Authorization of local sales or income taxes to reduce reliance on property taxes | 36 |
| | Reimbursement to localities for state-mandated expenses | 16 |
| | Authorize local tax base sharing | 1 |

SOURCE: Advisory Commission on Intergovernmental Relation and the National Academy of Public Administration. **The States and Distressed Communities: Indicators of Significant Action.** Report prepared for the Department of Housing and Urban Development. Washington, D.C., September 1979.

The most active regional commissions have focused their efforts primarily on major economic infrastructure concerns, such as water resource projects, interstate transportation networks, and the energy problem. Few have had much impact on patterns of urban development or have devoted much attention to the urban impacts of regional programs. Reorientation to include these concerns is an essential preliminary step to their involvement in urban policy implementation.

**Sub-State and Metropolitan Organizations**

Other forms of regional organization have been established to deal with issues and problems at the sub-state or metropolitan level. Some are decades old, such as metropolitan water districts and port authorities, created early in the process of urban expansion. Boston's Metropolitan District Commission was founded in the 1890's to cope with the water, sewer, and park needs of the central city and surrounding communities. The Port Authority of New York and New Jersey was established by interstate compact in 1921. Many others have been created in recent years.

Metropolitan organizations take many forms. Some are devoted primarily to planning, others to intergovernmental coordination, and others to delivery of services on a regional level.

- Regional planning agencies have been organized in many metropolitan areas. Most are financed partly with local contributions and partly with Federal assistance under Section 701 and the urban transportation program. A major role for such agencies has been in screening applications for Federal aid from localities within their region. The so-called "A-95 Review process", this approach is an effort to introduce regional coordination in development planning.

- Councils of governments ("COG's") have been organized in a smaller number of metropolitan jurisdictions. With memberships composed of chief executives of all localities in their region, COG's attempt to coordinate regional responses to intergovernmental problems such as solid waste disposal, water pollution control, and expressway layout. Some COG's also operate as A-95 screening and review clearinghouses. Because they are normally organized on a "one community, one vote" basis, few COG's are prepared to deal with difficult or controversial urban issues.

- Other regional agencies include a wide range of port, airport, and transportation authorities, regional water and sewer districts, and solid waste disposal authorities.

In addition to these sub-state regional organizations, there are many other special-purpose districts and independent public bodies. In much of the nation, local school districts are entirely separate from the general government whose jurisdiction they serve. This has led to situations where crises in school financing, as in Philadelphia and Chicago, can arise without either the knowledge or control of city government. Experience indicates, however, that when special district problems become severe, the general government is inevitably drawn into the situation.

**The A-95 Review Process**

OMB Circular A-95 established a screening and review process for Federal grant applications that operates through state and regional clearinghouses. The intent of the review is primarily to assure that applications for Federal aid are consistent with development plans and goals for the state or metropolitan region and do not otherwise conflict with or duplicate other Federally aided activities. The circular was recently revised to permit clearinghouses to consider the urban impacts of projects under review. Evaluations of the operation of the A-95 process have resulted in a mixed assessment: there have been positive coordinating effects in many areas at the metropolitan level and some at the state level; on the other hand, most A-95 reviews have been perfunctory and few have been found to result in significant changes in Federal aid proposals (Morris, 1977; HUD, 1976).

A recent study of A-95 clearinghouse agencies found that only a minority were in a position to perform effectively. The effective clearinghouses provided major cities and urban counties with a significant role in decision-making and were guided in their reviews by overriding policies or comprehensive policy plans to promote social and fiscal equity in metropolitan human and physical development. Less effective clearinghouses suffered from structural weaknesses, weak planning capabilities, and the absence of overriding policies or comprehensive policy plans that outlined a course of action for reducing intra-metropolitan disparities. These clearinghouses tended to limit their reviews to narrow functional considerations without regard to likely cross-functional or cross-jurisdictional impacts (Bertsch, Berger, and Christensen, 1980).

Increased Federal and state commitment to the A-95 review process could improve coordination of urban development. For this to happen, however, the agencies that are responsible for the process at both the state and regional levels will need to be considerably strengthened in their technical capacity and their relationship to the political decision-making process. If, on the other hand, the A-95 review results, as it has in many areas, in little more than a courteous, "hands-off" approach where local jurisdictions avoid criticism of each other in the hope that their own requests for aid will be approved without comment, the net result will do little more than add to bureaucratic delay.

Federal agencies, too, have a basic responsibility to take the A-95 review process seriously. To date, there is little evidence that many do. The Office of Management and Budget, which has the basic responsibility for assuring the effectiveness of A-95 screening by local and state clearinghouses and Federal agencies, is currently undertaking a major review of the process and will develop procedural changes to enhance its effectiveness.

## 3. The Role of Local Government

Local government is where most public services are delivered and where most public programs are carried out. Most place-oriented Federal and state programs are designed to provide financial and policy backing to local administrations who in turn are responsible for implementation.

Local governments spend nearly twice as much money as they raise themselves. State and local governments spent a total of $274.2 billion in 1976-77. Of this amount, 22.4% was contributed by the Federal Government, while 42.1% was raised by state governments and 35.5% by local governments. Considering all intergovernmental transfers, 37.7% ($103.3 billion) of total state-local general expenditures were spent by state governments and fully 62.3% ($170.9 billion) were spent by local governments (Table 11-8). In innumerable instances, Federal and state agencies provide critical support for local action, but in the final analysis it is local government that must act.

The nation's local governments are numerous and diverse. There were 79,862 local governments in the United States in 1977. A little less than half were general purpose local governments: 3,042 counties, 10,862 municipalities, and 16,822 townships. The remainder consisted of 25,962 special districts and 15,174 school districts. Municipalities of more than 50,000 constituted about two percent of the total number of municipalities, but served over 50% of the population living in municipalities. Those with less than 2,500 population constituted over 70% of municipalities but served only seven percent of the municipal population. One-third of all municipalities were located in metropolitan areas. By definition, this includes all those with 50,000 or more population (the minimum needed to justify the metropolitan area designation), but it also includes over 50% of the municipalities under 2,500.

While not so numerous, counties are also highly differentiated by size and location. About one-tenth (343) of all counties have populations of 100,000 or more, but they serve almost two-thirds of all people living in counties. Less than one-fifth (594) of all counties are located in metropolitan areas. About one-quarter of these (146) are single-county metropolitan areas. One-fifth (120) are "core" counties of multi-county metropolitan areas.

Townships, a form of government found largely in the Northeast and North Central states, are the least urban of all general purpose local governments. Only 0.6% serve populations of 50,000 or more, and nearly 80% serve populations less than 2,500. Unlike municipalities which are organized to serve concentrations of population, townships are organized to serve inhabitants of areas defined without regard to population concentration. Their powers are generally limited, but where they do serve concentrated populations, they tend to perform many of the functions of municipalities.

As Table 11-9 shows, all of these local governments are enmeshed in the intergovernmental system. Total intergovernmental revenue from the Federal and state governments amounted to 39.2% of local government general revenues in 1976-77. Townships receive more than one-quarter of their revenues from intergovernmental transfers; municipalities, more than a third; counties, more than two-fifths; and school districts, nearly one half. Municipalities and special districts receive larger shares of their general revenue from the Federal Government than other local governments, while counties and school districts receive larger shares of their general revenue from state governments. Policy questions now center less on whether Federal and state assistance should be provided to local governments, than on how the assistance should be targeted to correspond to differences in need.

Local jurisdictions have widely varying functional responsibilties. There are enormous variations from state to state, and even within states, in how functions are allocated among local governments. The following sections present a brief overview of the variety to be found in the range of functions performed by counties and municipalities.

### The Role of Counties

Below the state level, the county covers more of the nation in terms of both population and area than any other form of incorporated local government. In much of the nation, the county has significant taxing authority and service delivery responsibilities. This is most commonly the case in rural and non-metropolitan areas of the South and West, but there are examples of strong county governments in the Middle Atlantic states as well. However, there is little uniformity to the pattern of county government. Two states (Rhode Island and Connecticut) no longer have county governments at all; Alaska had no counties when it became a state. In one state (Virginia) cities are separate from counties, rather than included within their borders as is the case in most of the nation. Some cities and counties cover the same geographic area, and in these cases there is usually only a city government; examples are the five counties of New York City and the city-counties of Baltimore, Denver, and San Francisco. Altogether, 18 consolidated city-counties were identified in the 1977 Census of Governments.

Counties have traditionally functioned as administrative arms of states. County spending tends to be heavily concentrated in the health, welfare, and highway functions. Together, these account for just over half of all county expenditures (see Table 11-10).

Counties are far from uniform, in the manner in which they perform their functions. One frequent pattern is for counties to provide many local governmental services in unincorporated areas while cities, towns, and villages meet the same responsibilities within their respective borders. Another common pattern is for counties to deliver health, welfare, and judicial services throughout their entire jurisdictions.

### Counties and Urban Distress

Most counties serve non-metropolitan areas, and so have little interest in urban problems or programs. In recent years,

TABLE 11-8

STATE-LOCAL GENERAL EXPENDITURES: FINANCING AND DISBURSING BY LEVEL OF GOVERNMENT, 1976-77

| Level of Government | Amount ($ Billions) | Percent |
|---|---|---|
| Total State-Local General Expenditures | $274.2 | 100.0% |
| State | 103.3 | 37.7 |
| Local | 170.9 | 62.3 |
| Source of State-Local Revenues | | |
| From Federal | 61.2 | 22.4 |
| From State and Local | 211.8 | 77.2 |
| State | 114.9 | 42.1 |
| Local | 96.8 | 35.5 |

SOURCE: U.S. Bureau of the Census, 1977 Census of Governments, Vol. 4, Governmental Finances, No. 5 Compendium of Government Finances, p. 11.

TABLE 11-9

LOCAL GOVERNMENT REVENUE BY SOURCE AND TYPE OF GOVERNMENT, 1976-77

| | Counties | Municipalities | Townships | School Districts | Special Districts |
|---|---|---|---|---|---|
| **Total Revenue**[1] | $42.6 | $73.5 | $6.8 | $62.9 | $14.4 |
| **Revenue Source** | | | | | |
| Intergovernmental Revenue | 44.2% | 32.7% | 28.4% | 50.1% | 30.1% |
| From Federal Government | 8.8 | 12.1 | 7.2 | 1.5 | 17.1 |
| From State Government | 33.7 | 19.2 | 19.5 | 47.1 | 5.8 |
| From Local Government | 1.7 | 1.4 | 1.7 | 1.4 | 7.1 |
| Revenue From Own Sources | 55.8 | 67.3 | 71.6 | 49.9 | 69.9 |

SOURCE: U.S. Bureau of the Census, 1977 Census of Governments, Vol. 4, No. 5, Table 2.

[1] Dollars in Billions.

**TABLE 11-10**

**COUNTY SPENDING PATTERNS, FISCAL YEAR 1977**

| Function | Amount (Billions) | Percent of Total Spending |
|---|---|---|
| Public Welfare | $ 7.8 | 22.5% |
| Hospitals and Health | 6.2 | 17.9 |
| Highways | 3.9 | 11.3 |
| Police Protection | 1.9 | 5.5 |
| Corrections | 1.2 | 3.5 |
| All Other | 13.6 | 39.3 |
| Total County Spending | $34.6 | 100.0% |

SOURCE: **Census of Governments: Finances of County Governments, Volume 4, 1977,** U.S. Bureau of the Census.

however, some counties containing urban centers have begun to assume many functions that have commonly been regarded as municipal, and have begun to compete with municipalities for Federal assistance to alleviate urban problems. County involvement in urban issues can help bridge city-suburban conflicts because most urban counties include relatively affluent suburban areas as well as relatively distressed central cities. This greatly strengthens the tax base available to address urban needs.

There is evidence that some county governments have begun to expand their responsibilities. A 1975 survey found that metropolitan county governments were increasingly performing typically municipal functions (Lawrence and DeGrove, 1976; see Table 11-11). An ACIR study of functional transfers found that functions transferred by municipalities were more likely to be transferred to counties (56%) than to other state or local entities (Table 11-12). A detailed study of urban counties conducted for HUD by the National Association of County Officials documents numerous recent instances of function-shifting from hard-pressed central cities to the county level (NACO, 1980). At the same time, however, many county officials find themselves caught between the pressures to help fiscally strained cities and the preferences of their suburban and rural constituents to avoid involvement and the higher taxes implied.

Federal laws and agencies have tried to cope with county diversity in many different ways. HUD's CDBG program extends eligibility to urban counties with over 200,000 population but treats them as separate from cities of 50,000 or more within their borders. The CETA program extends eligibility to all counties, but permits cities of over 100,000 to administer their own programs. Counties are the principal unit upon which eligibility for the Economic Development Administration's programs is based, both in urban and rural areas. However, program funds may be awarded directly to any unit of local government within an eligible area.

**Role of Municipalities**

Municipalities are responsible for providing many of the services that determine the quality of life for urban residents. Most municipalities of any size provide police and fire protection, sanitation services, and basic infrastructure: highways and streets, sidewalks and street lights, water and sewer systems, park and recreation facilities. Larger municipalities generally provide a broader range of services, including some that in other communities are provided by counties or special districts.

Because they provide more services and generally must do so at higher cost, larger municipalities collect and spend more money per capita than smaller municipalities. For example, municipalities over 300,000 (excluding New York City) collect and spend more than twice as much per capita as municipalities under 25,000 population. Municipalities over 100,000 population raise about 60% of their revenues from their own sources compared to about 66% for municipalities under 100,000. Municipalities of all sizes receive about the same per capita revenues from state governments, but larger municipalities receive more revenue per capita from the Federal Government than smaller municipalities. As a result, larger municipalities receive a larger share of their per capita intergovernmental revenue from the Federal Government, while smaller municipalities receive a larger share from state governments (Table 11-13).

Larger municipalities spend substantially more per capita for expenditures related to health, education, and welfare, housing and urban renewal, airports and corrections. In each case, larger municipalities are more likely to provide these kinds of services than small municipalities. Per capita expenditures for highways and, to a lesser extent, sewerage treatment, show less variation with municipal size (Table 11-14).

In recent years, local government officials have assumed responsibility for administering many programs aimed at improving the lives of minorities and low-income people, redeveloping run-down urban centers, and preserving the environment. More specifically, they are increasingly expected to seek out private sector investors who, with the right combination of Federal, state, and local incentives, can

TABLE 11-11

SELECTED FUNCTIONS PERFORMED BY METROPOLITAN COUNTY GOVERNMENTS, 1971 AND 1975

| Function | 1971 Number of Counties | 1971 Percent of Total | 1975 Number of Counties | 1975 Percent of Total | Percent Increase |
|---|---|---|---|---|---|
| Total Metropolitan Counties Responding to Questionnaire | 150 | 100% | 291 | 100% | — |
| Fire Protection | 47 | 31 | 139 | 48 | 17% |
| Mental Health | 104 | 69 | 240 | 82 | 13 |
| Animal Control | 75 | 51 | 204 | 70 | 19 |
| Hospitals | 61 | 41 | 137 | 47 | 6 |
| Mass Transit | 7 | 5 | 81 | 28 | 23 |
| Airports | 36 | 24 | 121 | 42 | 18 |
| Water Supply | 31 | 21 | 90 | 31 | 10 |
| Solid Waste Collection | 31 | 21 | 124 | 43 | 22 |
| Solid Waste Disposal | 55 | 37 | 190 | 65 | 28 |
| Water Pollution Control | 45 | 30 | 131 | 45 | 15 |
| Air Pollution Control | 55 | 37 | 115 | 40 | 3 |
| Subdivision Control | 77 | 51 | 226 | 78 | 27 |
| Industrial Development | 32 | 21 | 143 | 49 | 28 |
| Museums | 25 | 17 | 75 | 26 | 9 |
| Libraries | 86 | 57 | 216 | 74 | 17 |

SOURCE: Carolyn B. Lawrence and John M. DeGrove, "County Government Services" in National Association of Counties and International City Management Association, The County Year Book, 1976 (Washington: National Association of Counties and International City Management Association, 1976), p. 98.

## TABLE 11-12

### RECIPIENTS OF FUNCTIONAL TRANSFERS BY TYPE, 1971-1975

| Function | Total Number of Functional Transfers | Another Municipality | | County | | State | | Special District | | Council of Governments | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Number | Percent of Total | Number | Percent of Total | Number | Percent of Total | Number | Percent of Total | Number | Percent of Total |
| All Functions | 1,708 | 121 | 7% | 958 | 56% | 231 | 14% | 324 | 19% | 74 | 4% |
| Administrative & Legal | 53 | 5 | 10 | 26 | 49 | 12 | 23 | 4 | 8 | 6 | 11 |
| Taxation & Assessment | 153 | 3 | 2 | 106 | 69 | 29 | 19 | 12 | 8 | 3 | 2 |
| Elections | 44 | 0 | 0 | 43 | 98 | 1 | 2 | 0 | 0 | 0 | 0 |
| Social Services | 134 | 1 | 1 | 46 | 34 | 82 | 61 | 5 | 4 | 0 | 0 |
| Planning | 65 | 3 | 5 | 27 | 42 | 1 | 2 | 1 | 17 | 23 | 35 |
| Recreation | 44 | 4 | 9 | 17 | 39 | 2 | 5 | 18 | 41 | 3 | 7 |
| Law Enforcement | 185 | 10 | 5 | 135 | 73 | 27 | 15 | 5 | 3 | 8 | 4 |
| Fire Protection & Civil Defense | 59 | 7 | 12 | 33 | 56 | 3 | 5 | 15 | 25 | 1 | 2 |
| Environmental Protection | 27 | 0 | 0 | 11 | 41 | 6 | 22 | 9 | 33 | 1 | 4 |
| Public Works | 44 | 3 | 7 | 22 | 50 | 10 | 23 | 9 | 21 | 0 | 0 |
| Sewage Collection & Treatment | 166 | 25 | 15 | 34 | 21 | 2 | 1 | 96 | 58 | 9 | 5 |
| Solid Waste Collection & Disposal | 294 | 23 | 8 | 220 | 75 | 4 | 1 | 37 | 13 | 10 | 3 |
| Water Supply | 60 | 24 | 40 | 8 | 13 | 0 | 0 | 28 | 47 | 0 | 0 |
| Transportation | 56 | 2 | 4 | 20 | 36 | 4 | 7 | 28 | 50 | 2 | 4 |
| Education | 49 | 1 | 2 | 23 | 47 | 5 | 10 | 20 | 41 | 0 | 0 |
| Public Health | 185 | 9 | 5 | 137 | 74 | 19 | 10 | 18 | 10 | 2 | 1 |
| Housing & Community Development | 15 | 0 | 0 | 9 | 60 | 1 | 7 | 3 | 20 | 2 | 13 |
| Building & Safety Inspection | 66 | 1 | 2 | 39 | 59 | 22 | 33 | 1 | 2 | 3 | 5 |
| Miscellaneous | 9 | 0 | 0 | 2 | 22 | 1 | 11 | 5 | 56 | 1 | 11 |

SOURCE: Advisory Commission on Intergovernmental Relations, **Pragmatic Federalism: The Reassignment of Functional Responsibility**, by Joseph S. Zimmerman, M-105 (Washington, D.C.: Government Printing Office, 1976), Table 10.

NOTE: Percentages may not add to 100% due to rounding.

TABLE 11-13

PER CAPITA MUNICIPAL REVENUE FROM VARIOUS SOURCES BY POPULATION SIZE

| | 300,000 or more* | 100,000–299,999 | 50,000–99,999 | 25,000–49,999 | 10,000–24,999 |
|---|---|---|---|---|---|
| **Dollars** | | | | | |
| General Revenue | $557.48 | $445.10 | $345.08 | $311.97 | $250.99 |
| Intergovernmental | 224.31 | 175.51 | 116.06 | 103.82 | 80.67 |
| From Federal | 123.78 | 76.20 | 46.08 | 36.88 | 30.73 |
| From State | 89.63 | 87.45 | 64.47 | 59.81 | 43.71 |
| From Own Sources | 333.17 | 269.59 | 229.02 | 208.15 | 170.31 |
| **Percent** | | | | | |
| General Revenue | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Intergovernmental | 40.2 | 39.4 | 33.6 | 30.2 | 32.1 |
| From Federal | 22.2 | 17.1 | 13.3 | 10.7 | 12.2 |
| From State | 16.1 | 19.6 | 18.7 | 17.4 | 17.4 |
| From Own Sources | 59.8 | 60.6 | 66.4 | 66.7 | 67.9 |

SOURCE: U.S. Bureau of the Census, 1977 Census of Governments, Vol. 4, Government Finances, No. 4, Finances of Municipalities and Township Governments.

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*Excludes New York City.

**TABLE 11-14**

**PER CAPITA MUNICIPAL EXPENDITURES BY POPULATION SIZE**

| | 300,000 or more* | 100,000–299,999 | 50,000–99,999 | 25,000–49,999 | 10,000–24,999 |
|---|---|---|---|---|---|
| General Expenditures | $526.93 | $440.90 | $341.06 | $304.57 | $239.97 |
| Education | 55.03 | 79.57 | 47.99 | 41.09 | 20.45 |
| Library | 7.07 | 6.13 | 5.51 | 4.83 | 3.30 |
| Welfare | 25.62 | 9.88 | 1.78 | 1.87 | .95 |
| Hospitals | 19.55 | 11.05 | 13.50 | 15.74 | 10.38 |
| Health | 14.66 | 5.81 | 2.49 | 2.11 | 1.41 |
| Highways | 34.21 | 35.37 | 32.27 | 29.44 | 29.43 |
| Airports | 10.86 | 4.82 | 1.93 | 1.44 | 1.33 |
| Police Protection | 66.35 | 45.79 | 40.33 | 36.20 | 33.27 |
| Fire Protection | 34.11 | 33.79 | 29.56 | 25.09 | 18.60 |
| Corrections | 9.50 | 1.38 | .13 | .36 | .25 |
| Protective Inspection & Regulation | 3.89 | 2.99 | 2.39 | 2.18 | 1.64 |
| Sewerage | 35.67 | 33.34 | 29.03 | 27.12 | 23.15 |
| Sanitation | 20.10 | 15.99 | 11.28 | 12.64 | 11.68 |
| Parks & Recreation | 26.27 | 23.31 | 20.11 | 17.17 | 13.12 |
| Housing & Urban Renewal | 28.18 | 17.36 | 12.60 | 10.03 | 4.22 |

SOURCE: U.S. Bureau of the Census, **1977 Census of Governments**, Vol. 4, Government Finances, No. 4, Finances of Municipalities and Township Governments.

*Excludes New York City.

be induced to remain, locate, or expand in older urban areas. They are expected to expand and contract their public service employment and public works activities to complement Federal actions to stabilize the economy. They are expected to be actively involved in housing rehabilitation to revitalize older neighborhoods by attracting and retaining middle-income residents without displacing the poor. They are expected to maintain and rehabilitate aging infrastructure without imposing debt burdens, tax rates, or user fees that residents find excessive. They are expected to recognize the right of all racial and ethnic groups for adequate voice in shaping the decisions that affect their lives without precipitating stalemate or undermining the confidence of majority groups and private sector investors. They are expected to bring as much state and Federal assistance into the community as possible without losing sight of local priorities or reducing local flexibility.

It is remarkable that so many local governments meet these expectations as well as they do. But, it is not surprising that municipalities losing jobs and residents and suffering from declining tax bases are finding it increasingly difficult to do so without additional assistance from the Federal and state governments.

**The Expanding Role of Neighborhoods**

The most basic component of the city, apart from the individual home, is the neighborhood. Most urban dwellers have a personal sense of neighborhood, although the definition may differ even for close neighbors. Beyond this personal sense, most cities have reasonably well defined informal neighborhoods which are used as guideposts and provide the sense of a human-scale village within the anonymity of the large city. Cleveland's Hough, Boston's Back Bay, New York's Greenwich Village, San Francisco's Russian Hill, and New Orleans' French Quarter are prototypical American neighborhoods which have achieved nationwide recognition. Every city is composed of less well known but nonetheless locally recognized and valued neighborhoods.

For the most part, urban neighborhoods are not formally structured units with a governing body, executive leaders, or power and responsibilities. In some cities, however, a more formal neighborhood structure is being developed. In Baltimore, over 30 neighborhoods have been officially recognized and have been assigned mayoral coordinators to assist them in unifying and using city programs more effectively. Boston's "Little City Halls" are out-stations of city government which serve as listening posts to hear neighborhood concerns and help coordinate municipal services. In New York, where the enormous size of the city means that even neighborhoods are the equivalent of cities elsewhere, a formal structure of 59 community districts has been created under the city charter, each with an appointed 50-member volunteer board and a small professional staff; most city agencies are being restructured so that their service delivery districts adhere to the official community district boundaries.

Federal action has been one of the factors that has led to increased recognition of the vital role that neighborhoods play in urban life. The Community Action Program of the Economic Opportunity Act of 1965 insisted that anti-poverty action be accompanied by "maximum feasible participation" of the residents of poverty neighborhoods. Neighborhood or resident participation requirements were included in many subsequent Federal statutes, including Model Cities, CDBG and Title XX Social Services. A recent survey by ACIR identified a host of different Federal statutes and regulations that call for some identifiable form of community and neighborhood involvement in planning and administration of Federally aided activities.

At times, neighborhoods striving for recognition and a say over their own "turf" have come into conflict with mayors and other local officials over their role in municipal decision-making. Charges are hurled that neighborhoods want to protect themselves against any change, including measures necessary for job development and to reduce discrimination, only to be countered by charges that "city hall" cares nothing for local communities and is only a tool of economic interests. The conflicts have tended to be especially vigorous for neighborhoods in which racial or ethnic minorities feel themselves to be the subject of discriminatory treatment. One of the concerns of city hall and neighborhoods alike is over the equity with which municipal services are distributed within the overall community. Service allocation, to date, has been the subject of more controversy than analysis, but there are some signs that this is changing.

The neighborhood movement is lively and untidy, bringing to the formal structures of government a sense of "can do" and to local citizens a sense that their actions can make a difference. The revitalization of needy cities may well depend, in many small and meaningful ways, on the success of the neighborhood movement.

## 4. Summing Up: The Federal System

National urban policy must cope with the multi-patterned character of America's Federal system. From the earliest days of the nation we have maintained the importance of preserving different levels of government—from the locality to the state to the nation—to meet our varied public service needs. Within this fundamental three-part system, we have insisted that freedom lies, at least in some meaningful measure, in diversity. As a result, institutional relationships within the Federal system are exceedingly complex. Many Americans typically reside not only in a city but also in a county, a school district, a water district, and in other special-function governmental jurisdictions as well. Most now also live within the jurisdiction of an organized multi-state regional commission and a sub-state planning body; and many are active members of neighborhood organizations that act as functioning government units, whether or not they are given formal recognition by city hall.

Earlier Chapters of this Report have linked the crisis and hardship experienced by some cities in the nation—in particular, distressed central cities—to their loss of population and jobs and to their consequent shrinking tax base. Additional sources of urban distress can be found in the ways in which functions and financial responsibilities are allocated among levels of government in the Federal system. To restore strength to local governments, it may be necessary to rearrange and clarify these functional responsibilities.

Over the years, local governments have been forced to seek assistance from other levels of government to meet their service responsibilities, because they have not had sources of revenue adequate to meet these needs. Other levels of government have at times been dissatisfied with local government priorities and have created assistance programs to induce them to assume responsibilities that they would otherwise not have. Certain functional transfers among levels of government in the Federal system could have the result of strengthening the ability of all levels of government to fulfill their primary responsibilities.

Given its capacity to raise and redistribute revenues among geographical areas and income groups, the Federal government is the level of government most capable of assuming responsibility for assuring that all individuals enjoy at least a minimum standard of living. Enactment of the President's health and welfare initiatives should stimulate each level of government to review basic service roles and responsibilities. In this context, states should be encouraged to remove remaining financial inequities with respect to urban school systems and to work with local governments to ameliorate fiscal pressures resulting from the provision of basic services. These actions on the part of the states would make it easier for local governments, particularly needy localities, to respond to key revitalization priorities.

# XII. FORCES AFFECTING CITIES IN THE COMING DECADE

This chapter focuses on the future. It assesses the likely impact of major economic, demographic, energy and environmental factors on cities in the next decade.

- Central among the factors affecting American cities in the 1980's will be the vitality of the national economy and the distribution of economic activity. To a significant degree, these economic forces will determine the level of income and employment and will influence its distribution among population subgroups and communities.

- Changing demographic characteristics of the nation's population will have a major influence on where and how people wish to live as well as their willingness to move or migrate to attain their desires. In turn, their decisions will affect the distribution of population among regions and within metropolitan areas.

- The availability and price of energy will also be a major determinant of national economic performance. Rising energy prices will be a persistent force encouraging energy-conserving investments and modifying living patterns.

- Some attempts to encourage energy efficiency, especially the expanded use of coal, will conflict with national goals of improved environmental quality in cities. Environmental regulations themselves have the potential to impede urban economic development, especially in high density urban centers. On the other hand, improved environmental quality will make cities more attractive places in which to live.

These four factors will influence not only the problems and opportunities faced by cities, but also the resources and constraints that shape their capacity to respond.

Some forces for change will affect cities and their residents throughout the nation in similar ways. Many others will affect different types of cities and different groups of people in varying ways and with varying intensity. For example, inflation and rising energy prices will affect all Americans, reducing the ability to purchase desired goods and services. But the relative direct burden of price increases will fall most heavily on the poor, whose incomes are already severely strained and who have fewer options to ease their impact. Cities with large concentrations of poor residents are likely to find themselves in a position of increasing fiscal strain, while some cities in energy-producing regions may see their tax bases expand rapidly.

The overall pace of change is likely to slow for cities during the 1980's. Growing places will continue to expand, but slower national economic growth and the persistence of inflation will generally prevent any acceleration of economic growth. Possible exceptions will occur in sites of high-growth industries such as energy production. These same factors may tend to slow the decline of cities with contracting economies.

However, cities with heavy dependence on manufacturing, especially those relying on industries vulnerable to foreign competition, or industries facing high environmental cleanup costs, risk continued rapid employment losses. Such cities are likely to be disproportionately hard-hit during recessionary periods.

Population changes will also occur more slowly. Population growth and new household formation will both be lower than during the 1970's. Population redistribution is also likely to stabilize or occur more gradually. Several factors will contribute to this pattern: slower redistribution of employment opportunities; the regional convergence in age structure and wage rates; the general aging of the population; and slower income growth. However, most major cities experiencing population decline will continue to suffer the effects of selective out-migration. They will increasingly house a disproportionate share of disadvantaged households. For the poor throughout the country, the costs of basic items like housing and energy are likely to rise faster than household income. The loss of employment opportunities in distressed cities will make the problems even more severe for their low income and minority populations.

## 1. The Performance of the National Economy

The performance of the national economy will be the single most important factor affecting the welfare of cities and their residents during the 1980's. National economic performance will influence the resources available to address urban problems, the level and distribution of income in urban areas, the number and types of jobs available to city residents, and the fiscal strength of municipal governments.

Understandably, considerable uncertainty exists about future economic conditions during the coming decade. Because of the complexity of the economy and the many factors that can influence its performance, long-run economic forecasts are difficult to make even under the best of circumstances. The unpredictable size and timing of oil price increases exacerbate the forecasting problem. One way to deal with this uncertainty is to make alternative assumptions about major economic variables to obtain alternative forecasts about national economic performance over the next decade. Using these alternative forecasts, at least the broad contours of the national economic landscape in the 1980's can be sketched.

### Overall Economic Performance

The overall picture of the economy during the coming decade is one of modest growth. Real Gross National Product (GNP) will increase more slowly than it did during the 1970's. The labor force will also continue to expand, but at a lower rate. Labor force increases will result from the changing age structure of the population and from changing labor force participation rates, especially among women. Productivity growth will be limited and will be based, in part, on the increasing average level of experience of the labor force. Recessions are a very real possiblity, although their timing and severity are difficult to predict. Inflationary pressures will persist throughout the 1980's driven in part by large anticipated energy price increases and continuous strong upward pressures on housing prices.

### Gross National Product

Varied economic analyses suggest that real Gross National Product will expand at a moderate rate during the 1980's. Estimated increases in GNP exhibit considerable variety (see Table 12-1). A relatively optimistic forecast by Data Resources, Inc., "Trendlong," estimates that GNP will increase at an annual average rate of three percent over the course of the decade. A more pessimistic forecast by Wharton Econometric Forecasting Associates, Inc. indicates that annual average growth of only 2.2% can be expected. Only the two more optimistic forecasts by the Joint Economic Committee suggest that the nation's average annual growth in GNP of 3.5% during the 1970's will be matched during the 1980's—and these forecasts make very favorable assumptions about energy price increases.

### The Labor Force

The number of workers in the labor force will increase during the 1980's. Part of this increase will be the result of the aging of individuals born during the postwar "baby boom." The Bureau of the Census estimates that the population aged 18-64 will grow by more than 13.5 million persons in the next ten years, an increase of ten percent (see Table 12-2). This growth, although sizeable, will be more moderate than the 17.5% increase that occurred during the 1970's. The bulk of the next decade's increase will occur in the next five years. During the second half of the 1980's, growth in the working-aged population will slow.

The labor force can be expected to expand at an even faster rate than the non-elderly adult population because labor force participation rates will rise. The civilian work force has expanded more rapidly than the working-aged population during each of the last 15 years (Evans, 1979). All available forecasts predict that this pattern will continue, although actual estimates of the increase in the labor force vary widely—from 12 to 19 million workers over the decade (Evans, 1979; Saunders, 1978; Coleman, et. al., 1980). This variation arises because the actual rate of labor force participation will depend on the number of people who want jobs and the ability of the economy to provide them. When the economy is performing poorly and unemployment rates rise, some unemployed workers become discouraged about seeking employment and drop out of the labor force (Coleman, et. al., 1980).

Under the more optimistic forecasts, expansion of the economy would allow the maximum expected labor force growth and still permit average unemployment rates below current levels. More pessimistic forecasts indicate that substantially fewer new jobs will be created and that unemployment may rise, especially during the first half of the decade. Forecasts generally agree that unemployment will become less severe as labor force growth slows after 1985, but will remain a serious problem for some groups, such as minority

**TABLE 12-1**

**ALTERNATIVE NATIONAL ECONOMIC FORECASTS, 1980-1990**

| Economic Indicator | Data Resources, Inc. | | | Joint Economic Committee | | |
|---|---|---|---|---|---|---|
| | Trendlong | Cyclelong | WEFA | Optimistic | Baseline | Pessimistic |
| Average Annual Growth in GNP | 3.0% | 2.6% | 2.2% | 3.5-4.0% | 3.5% | 2.5-3.0% |
| Total Employment Growth | 18.9 million | 16.6 million | 12 million | N.A. | N.A. | N.A. |
| Average Annual Unemployment Rate | 6.0% | 6.7% | 7.8% | Less than 4% | 5.0-7.0% | Greater than 7.0% |
| Average Annual Inflation Rate[1] | 7.6% | 8.0% | 8.3% | 4.9-6.5% | 5.7-6.7% | 8.7-9.6% |
| Average Annual Productivity Growth | 1.8% | 1.5% | Less than 1.5% | N.A. | 1.5-2.4% | 1.5-2.4% |

SOURCE: Coleman, Henry A., Norman J. Glickman, David L. Puryear, and John P. Ross. "Business Cycles and Cities: Past Experience, Prospects and Policy Alternatives." U.S. Department of Housing and Urban Development, 1980.

NOTES: The Data Resources Inc. (DRI) forecasts are based on quarterly economic simulations for a period extending from the second quarter of 1979 to the last quarter of 1990. "Trendlong" assumes a high-employment growth path, the absence of major economic shocks, and average imported oil price increases of 13.6% annually. "Cyclelong" assumes a more volatile pattern of economic activity and yearly imported oil price increases of 14.5%. The forecast by Wharton Econometric Forecasting Associates, Inc. (WEFA) is their lower-growth alternative model. It assumes world oil price rises will exceed 12% annually. The "Baseline" and "Optimistic" forecasts of the Joint Economic Committee assume that domestic oil prices will increase at an average rate of 10.5% yearly. The "Optimistic" forecast also assumes a substantial decline in our dependence of foreign oil. The "Pessimistic" case assumes imported oil prices increase at a rate 1.2 times the overall rate of inflation. All forecasts assume no disruption of imported energy supplies.

[1] Inflation rates for DRI and JEC forecasts are average annual increases in the Consumer Price Index. Inflation rate for the WEFA forecast is the average GNP deflator.

TABLE 12-2

WORKING-AGED POPULATION OF THE UNITED STATES, 1970-1990
(Numbers in thousands)

| Age Group | 1970 | 1980 | 1985 | 1990 | Percent Change 1970-1980 | Percent Change 1980-1990 |
|---|---|---|---|---|---|---|
| 18-24 | 24,687 | 29,462 | 27,853 | 25,148 | +19.3% | -14.6% |
| 25-34 | 25,294 | 36,172 | 39,859 | 41,086 | +43.0 | +13.6 |
| 35-44 | 23,142 | 25,721 | 31,376 | 36,592 | +11.1 | +42.3 |
| 45-54 | 23,310 | 22,698 | 22,457 | 25,311 | - 2.6 | +11.5 |
| 55-64 | 18,664 | 21,198 | 21,737 | 20,776 | +13.6 | - 2.0 |
| Total | 115,097 | 135,251 | 143,282 | 148,913 | +17.5 | +10.1% |

SOURCE: Series II projections, U.S. Bureau of the Census.

youths who tend to be victims of very high rates of joblessness.

As the labor force expands, the average level of experience in the employed work force will rise. The largest increases in the numbers of working-aged persons will come among those aged 35-44. At the same time, the number of working-aged people with more limited work experience—those under 25 years of age—will decline by almost 15%. The increasing experience level of the work force will be a major positive factor contributing to the expected modest rise in national productivity.

**Productivity**

During most of the period since the end of World War II, the United States has enjoyed considerable growth in economic productivity. The pace of productivity gains began to slow early in the 1970's; toward the very end of the decade, there were even some periods of productivity decline. In the 1980's, productivity is expected to improve at an annual rate between 1.5% and 2.4%. While the changing composition of the work force will operate to improve national productivity, other forces will be at work that undermine the prospects for improvement. These forces are both numerous and complex; their effect on productivity is only poorly understood. At least one of these forces, however, is of special importance for cities: the changing composition of the national economic base, especially the relative decline in importance of manufacturing, which has been a mainstay of many urban economies.

One of the factors contributing to the evolution of the national economy is our changing position in the world economy. The U.S. share of the world's production has been consistently declining. In manufacturing, in particular, our comparative advantage is being lost to developing Third World countries with low wage rates and to a few highly industrialized nations with relatively new and technologically advanced production facilities. This long-term trend will continue for some time to come. Forecasts by the Organization for Economic Cooperation and Development, for example, suggest that the world's manufacturing output will rise only modestly over the next twenty years, and that the U.S. share of this production will continue to fall. Unfortunately, many of the industries with an eroding competitive position internationally are based in older central cities that are now experiencing economic decline.

**Recession**

The pace of economic growth during the 1980's will almost certainly be uneven. Economic slowdowns are predicted in every major forecast of the national economy, even in the absence of oil embargoes or imported oil price rises as rapid as those in 1979. The severity of expected fluctuations varies greatly. For example, the DRI "Trendlong" forecast anticipates that real GNP will grow at a rate of two percent per year even during the most severe downturn, while the same company's "Cyclelong" forecast indicates that the decade's most severe recession will produce a decline in real GNP (Coleman, et. al., 1980). Major unpredictable economic disruptions, such as another oil embargo, would strengthen the likelihood and severity of national recession.

**Inflation**

Controlling inflation will continue to be a national concern throughout the coming decade. The underlying rate of inflation (i.e., the rate of inflation after discounting volatile factors such as food, housing, and energy costs) now exceeds seven percent per year. This underlying inflation rate is likely to fall very slowly, if at all (U.S. Council of Economic Advisors, 1980). However, the overall inflation rate, which exceeded 13% in 1979, is expected to decline during the 1980's. Forecasts of the extent of the decline vary widely depending on assumptions made about such factors as the price of energy. Nevertheless, the overall rate of inflation can reasonably be expected to be in the moderate to high range for much of the decade. Even the most optimistic forecasts suggest that inflation will still be about six percent per year in 1990. Keeping the inflation rate under control will be one of the major challenges facing the nation in the 1980's.

**Effect of National Economic Performance on Cities**

The performance of the national economy has a variety of implications for the nation's cities. Relatively slow growth will limit the resources available to address urban needs. In the absence of public action, the relative income of minorities and the poor is likely to decline; income growth will accrue primarily to upper-middle income households and those with two wage earners. Limited productivity improvements and the shifting composition of the national industrial mix will continue to undermine the economies of older manufacturing cities. If recessions occur, they will worsen the economic problems of declining cities, hastening the pace of job loss and increasing fiscal strain. Inflation tends to reduce the rate of capital investment. This will encourage more intensive use of existing capital and may slow the expansion of growing cities and regions. It will also raise housing prices, increase the difficulty of municipal borrowing, and inhibit new business enterprises that need capital to grow.

**National Resource Constraints**

The size of the Gross National Product places an economic ceiling on the goods and services that the nation as a whole can afford. The rapid growth in GNP during most of the post-war period provided resources for addressing national problems. All reasonable forecasts agree that our resource base will be expanding in the 1980's at a rate below that to which we have become accustomed.

Forecasts of the need for different kinds of expenditures suggest that there will be many competing uses for the country's goods and services. These include housing for the growing number of households, improved and safeguarded environmental quality and occupational safety, health care, investment in productivity improvements, increases in the well-being and opportunities of the poor, and national defense. The problem of allocating the country's resources will be difficult in both the private and the public sectors. Many households will see the cost of basic expenses such as food, housing, and medical care rising faster than their incomes. Firms will compete for relatively scarce investment capital. In the public sector, growing budgetary allocations will be needed to meet existing obligations but will have to compete with expanding national commitments in the areas of national defense and health care. As a result, few discretionary funds will be available for new public initiatives during the 1980's. Difficult choices will have to be made, and the efficient targeting of scarce resources to areas of national concern will become increasingly important.

**Distribution of Income Growth**

There is a real danger that the modest income growth of the coming decade will not be equally distributed. In the past, the disadvantaged segments of the population have been most successful in improving their incomes during periods of rapid growth when opportunities are plentiful. During periods of slower growth, these groups have received smaller shares of more limited gains. During the last two decades, the experience of minority families and of families with incomes below the poverty line illustrates this pattern.

During the 1960's, when income growth was rapid, the gap between the median incomes of white and non-white families narrowed sharply, although nonwhite family income was still only two-thirds the national average (see Table 12-3). Between 1970 and 1977, when income growth nationally was much slower, these relative gains were eroded and the median income among nonwhite families actually declined slightly in real dollar value. Similarly, the proportion of families with incomes below the poverty line fell by more than 40% during the 1960's (see Table 12-4). Between 1970 and 1977, however, the rate of decline was less than eight percent, despite the fact that the level of transfer payments to the poor increased during the period. A substantial portion of the relative decline in the incomes of blacks is the result of rapid increases in the number of black female-headed households (U.S. Bureau of the Census, 1979c). The evidence suggests that in the absence of vigorous public action, minority and low income persons are unlikely to participate fully in the income growth that occurs in the 1980's.

To the extent that the economically disadvantaged do not share fully in national income growth, the benefits of economic expansion during the coming period of moderate growth are likely to go to those that are already relatively well-off. During the 1970's, income gains were concentrated among the higher income groups. The number of households earning over $25,000 increased by over 4 million between 1970 and 1978. In the absence of additional public action to redistribute economic opportunities, there is every reason to believe that a disproportionate share of the income growth in the coming decade will be enjoyed by those who are already in the strongest economic position.

**Recessions and Urban Economies**

The well-being of low and moderate income people and of the cities in which they are concentrated will be most seriously affected during recessions. This is suggested by evidence concerning the recession occurring in the mid-seventies: metropolitan areas including declining central cities were hard-hit. They began to lose employment earlier than other areas, they suffered sharper employment declines than other areas, their employment levels remained low after recovery had begun elsewhere, and they recovered less fully than other

## TABLE 12-3

## MEDIAN FAMILY MONEY INCOME, 1960-1977
(Numbers in 1977 Dollars)

| | 1960 | 1970 | 1977 | Percent Change 1960-70 | Percent Change 1970-77 |
|---|---|---|---|---|---|
| Median Family Income: | | | | | |
| All Families | $11,500 | $15,399 | $16,099 | 33.8% | 4.5% |
| Non-White Families | 6,610 | 10,169 | 10,142 | 53.8 | -0.3 |
| Non-White Family Income as a Fraction of Total Family Income | 57.5% | 66.0% | 63.0% | | |

SOURCE: U.S. Bureau of the Census, Consumer Income, Series P-60.

## TABLE 12-4

## POVERTY RATE BY RACE, 1959-1977

| | 1959 | 1970 | 1977 | Percent Change 1959-70 | Percent Change 1970-77 |
|---|---|---|---|---|---|
| All Races | 22.4% | 12.6% | 11.6% | -43.8% | -7.9% |
| Black | 55.1 | 33.5 | 31.3 | -39.2 | -6.6 |

SOURCE: U.S. Bureau of the Census, Consumer Income, Series P-60.

areas (Coleman, et. al., 1980). The central cities of declining metropolitan areas bore the brunt of these ill effects. As has been stressed throughout the previous chapters of this Report, these cities increasingly house concentrations of economically disadvantaged people. To the extent that the labor markets in which the disadvantaged seek employment are disproportionately affected by economic downturns, they are affected, too.

### Inflation and Investment Costs in Cities

Inflation will also have important effects on city economies during the 1980's. These effects will be felt most sharply in business investment, municipal borrowing, and housing.

Inflation tends to reduce the level of capital investment by private business. This happens, in part, because expensive money makes it more difficult for small firms and new enterprises to gain access to capital. These firms are less able to generate capital internally than are larger, well-established enterprises and, at the same time, are more likely to be viewed as relatively risky credit applicants. If investment funds are limited, their continuing access to funds may be jeopardized. Given the important role that small businesses play in the creation of new job opportunities in cities (discussed in Chapter 3) the result could be a diminished level of urban job growth.

For those businesses with access to capital, inflation will make borrowing for investment in plant and equipment more expensive. This, in turn, will reduce the attractiveness of capital investment, especially major investments that would increase productive capacity in anticipation of expanded demand. Thus, inflation will work to make business investment strategies more conservative. As a result, existing capital is likely to be used more intensively (Leone and Meyer, 1979).

To the extent that firms invest more frequently in expanding or upgrading existing facilities, new plant construction in growing cities and regions may be slowed somewhat by inflation. This would work to the advantage of older industrial centers of employment—at least in the short run. On the other hand, the high cost of capital will also mean that only investments promising high returns will be undertaken. Little direct evidence about the relative profitability of investments in different types of places is available but the economic expansion of the South, the West, and communities on the periphery of metropolitan areas is strong indirect evidence of the attractiveness of these locations to investors. The new facilities that are constructed in the coming years are likely to be concentrated in these high growth areas rather than in existing employment centers. Moreover, if low levels of investment undermine efforts to increase national productivity, the long run effect of inflation on city economies could be to hasten the pace at which production shifts from domestic sites to locations abroad. This would place additional stress on the economies of declining cities.

Inflation will raise the costs of borrowing money for city governments as well as private firms. Cities with the greatest need for capital to finance rehabilitation or replacement of infrastructure will be hardest hit; the constraints may be greater for older cities whose infrastructure is seriously deteriorated and whose populations are decreasing than for those that are growing. Cities with deteriorated infrastructure are more often in an already-strained fiscal position and thus less able to bear increased borrowing costs; growing cities have the prospect of an expanding tax base to help support the cost burden. If high interest rates are accompanied by a scarcity of funds for municipal borrowing, cities with an expanding tax base and a well-established credit rating will be best able to obtain capital.

Inflation will also tend to raise the price of housing. As long as inflationary pressures are strong, interest rates will remain relatively high, raising the price of newly-constructed housing and reducing the amount of new construction that occurs. In the face of the expanding number of households anticipated for the 1980's, this supply limitation will push up the prices of both new and existing dwellings. Finally, since housing has proven to be a good hedge against inflation, the expectation that inflation will continue will increase demand for owner-occupied housing as an investment and thereby raise housing prices. The extent and distribution of price increases in different types of communities will depend heavily on the relative strength and nature of the demand for housing.

## 2. The Changing Composition of the Nation's Population

Demographic forces will help shape the size and character of the nation's cities in the 1980's. Changes in the country's population characteristics will take place along several dimensions. The total number of Americans will grow by somewhat less than ten percent. Birth rates will remain relatively low. The age structure of the population will change as individuals in their 30's, 40's, and over 65 increase in number, while the number of teenagers declines. The number of households will rise sharply, although at a lower rate than during the 1970's. The average size of families will fall, and a higher proportion of all households will differ from the traditional nuclear family of husbands, wives, and children. The rate of population movement among regions and among different types of communities will tend to stabilize.

### Population Growth

The population will increase somewhat more rapidly during the 1980's than during the 1970's (see Table 12-5). However, population growth rates will remain well below the rapid rises observed during most of the immediate post-war period.

Relatively low fertility rates will contribute to the modest rate of population growth. These rates declined rapidly during the late 1960's and early 1970's. For example, between 1970 and 1975, the fertility rate for white women fell from 2,339 births per 1,000 women to 1,690. The rate of decline for black women was nearly equivalent, dropping from 2,957 in 1970 to 2,135 in 1975. Birth rates are expected to remain stable during the 1980's, or perhaps even rise slightly as

**TABLE 12-5**

**POPULATION STRUCTURE OF THE UNITED STATES BY AGE, 1970-1990[1]**
**(Numbers in thousands)**

| Age Group | 1970 | 1975 | 1980 | 1985 | 1990 | % Change 1970-1980 | % Change 1980-1990 |
|---|---|---|---|---|---|---|---|
| Under 5 | 17,148 | 15,882 | 16,020 | 18,803 | 19,437 | - 6.6% | +21.3% |
| 5-13 | 36,636 | 33,440 | 30,197 | 29,098 | 32,568 | -17.6 | + 7.9 |
| 14-17 | 15,910 | 16,934 | 15,763 | 14,392 | 12,771 | - 0.9 | -19.0 |
| 18-24 | 24,687 | 27,604 | 29,462 | 27,853 | 25,148 | +19.3 | -14.6 |
| 25-34 | 25,294 | 30,918 | 36,172 | 39,859 | 41,086 | +43.0 | +13.6 |
| 35-44 | 23,142 | 22,815 | 25,721 | 31,376 | 36,592 | +11.1 | +42.3 |
| 45-54 | 23,310 | 23,768 | 22,698 | 22,457 | 25,311 | - 2.6 | +11.5 |
| 55-64 | 18,664 | 19,774 | 21,198 | 21,737 | 20,776 | +13.6 | - 2.0 |
| 65 and over | 20,087 | 22,405 | 24,927 | 27,305 | 29,824 | +24.1 | +19.6 |
| Total | 204,878 | 213,540 | 222,159 | 232,880 | 243,513 | + 8.4% | + 9.6% |

SOURCE: U.S. Bureau of the Census, **Current Population Reports**, "Projections of the Population of the United States: 1977-2050," Series P-25, No. 704, and "Estimates of the Population by Age, Sex, and Race: 1970-1977," Series P-25, No. 721, April 1978.

[1] 1980-1990 figures are Series II projections.

women who have been postponing having their first child begin to have families. Differences between the fertility rates of white and minority women are expected to persist. As a result, the minority share of the population will rise slightly to just under 15%.

**Changing Age Structure of Population**

Three major changes in the age structure will occur in the next decade. First, the size of the adult population will increase substantially. The largest increases will occur in the age groups between 25 and 44 as children born during the postwar "baby boom" reach maturity. The number of people between the ages of 35 and 44 will increase by more than 42% (see Table 12-5).

Second, the proportion of the population under 20 years of age will decline noticeably: the absolute number of teenagers will decline by over four million (see Table 12-5). However, the number of children under age ten will rise despite continued low fertility rates because of increases in the number of women of childbearing age.

Finally, the elderly population will become more numerous. The most rapid increases will occur in the group over 80 years of age. They will rise by more than 27% between now and 1990. However the actual numbers of people involved are much smaller than those involved in either of the other two age compositional shifts.

**Household Growth and Composition**

As a result of the shifting age structure, the number of households will increase more rapidly than the size of the population. While population is expected to grow by less than ten percent, even the relatively conservative estimates contained in the Series D projections of the Bureau of the Census suggest the number of households will increase more than 16%. Nevertheless, most projections indicate that the rate of new household formation will be lower in the 1980's than it was during the 1970's. By the latter part of the decade, this rate will be lower than at any other time in the post war period.

The increase in the number of households will be accompanied by changes in household composition. The rate at which these changes will occur depends not only on the demographic factors discussed above but also on lifestyle preferences, the rate of income growth, and the ability of the housing stock to accommodate new households. Alternative projections of the number and type of households in 1990 are shown in Tables 12-7 and 12-8. The key household composition changes are continuations of trends observed during the past two decades: declining household and family size,

TABLE 12-6

AGE GROUP AS A PERCENT OF TOTAL POPULATION, 1970-1990[1]

| Age Group | 1970 | 1975 | 1980 | 1985 | 1990 | Increase 1970-1980 | Increase 1980-1990 |
|---|---|---|---|---|---|---|---|
| Under 5 | 8.4% | 7.4% | 7.2% | 8.1% | 8.0% | - 1.2% | +0.8% |
| 5-13 | 17.9 | 15.7 | 13.6 | 12.5 | 13.4 | - 4.3 | - 0.2 |
| 14-17 | 7.8 | 7.9 | 7.1 | 6.2 | 5.2 | - 0.7 | - 1.9 |
| 18-24 | 12.0 | 12.9 | 13.3 | 12.0 | 10.3 | +1.3 | - 3.0 |
| 25-34 | 12.3 | 14.5 | 16.3 | 17.1 | 16.9 | +4.0 | +0.6 |
| 35-44 | 11.3 | 10.7 | 11.6 | 13.5 | 15.0 | +0.3 | +3.4 |
| 45-54 | 11.4 | 11.1 | 10.2 | 9.6 | 10.4 | - 1.2 | +0.2 |
| 55-64 | 9.1 | 9.3 | 9.5 | 9.3 | 8.5 | +0.4 | - 1.0 |
| 65 and over | 9.8 | 1.0 | 11.2 | 11.7 | 12.2 | +1.4 | +1.0 |

SOURCE: U.S. Bureau of the Census, **Current Population Reports,** "Projections of the Population of the United States: 1977-2050," Series P-25, No. 704, and "Estimates of the Population by Age, Sex, and Race: 1970-1977," Series P-25, No. 721, April 1978.

[1] 1980-1990 figures are based on Series II projections.

a decreasing proportion of husband-wife households, and increases in both single parent and non-family households.

Average household size has been declining steadily for a number of decades, falling from 3.33 persons in 1960 to 2.81 persons in 1978. At the same time, the average family size decreased from 3.67 to 3.33 persons. Census estimates suggest that by 1990, average household size will have fallen to at least 2.58 persons, and perhaps as low as 2.41. Average family size is expected to be no greater than 3.07 persons.

One of the most striking changes in household composition is the increase in both single adult and non-family households. There are many factors causing the increase. Young adults increasingly prefer to establish independent households either with other single adults or by themselves (Siegel, 1979). Rising incomes have enabled them to realize their preferences. The divorce rate is relatively high and rising. The elderly are a growing proportion of the population. The propensity of women to live longer than men has been increasing until recently, making it more probable that females will survive their spouses for longer periods of time, again increasing the incidence of single adult households. Finally, more elderly persons are physically and financially able to maintain their own households than was the case in the past.

Despite these changes, husband-wife families will remain the predominant household type. Even projections based on assumptions of very rapid changes in household formation patterns indicate that husband-wife families will constitute about two-thirds of all households in 1990.

**Distribution of Population by Regions and Communities**

Household choices concerning place of residence will have a major impact on the size and character of cities and regions. These locational choices will be conditioned not only by household size and composition, but also by income, race, and the availability of employment opportunities. In general, the patterns and changes observed during the 1970's can be expected to continue into the 1980's. The spreading out of population and employment toward the West and South, and to suburban and non-metropolitan areas will persist. However, because household formation, employment growth, and income growth will all be less rapid than during the last ten years, the pace of change in the character of the nation's cities will be slower in the 1980's than in the 1970's.

The West and South will continue to attract population from the Northeast and North Central regions. However, the pace of net migration is likely to slow. Available data suggest that inter-regional migration rates were lower during the 1975-1978 period than during the first half of the decade (Muller, et. al., 1980). Net annual in-migration rates to the South and West fell slightly between these two periods while net out-migration rates from the northern regions registered similarly slight declines. Slower income growth and the possibility of a reduced pace of inter-regional shifts in employment opportunities both suggest that there will be fewer net in-migrants to the South, and especially to the West, during the 1980's than during the 1970's (see Table 12-9). Population losses from the Northeast and North Central regions will be correspondingly reduced.

## TABLE 12-7

## CURRENT AND PROJECTED HOUSEHOLD CHARACTERISTICS

| | 1978 | Census Series D Projections 1980 | 1985 | 1990 |
|---|---|---|---|---|
| Total Households (thousands) | 76,030 | 79,349 | 86,393 | 92,394 |
| Percentage Distribution by Type | | | | |
| Non-family households | 25.1% | 25.4% | 25.4% | 26.2% |
| Family households | 74.9 | 74.7 | 74.1 | 73.8 |
| Husband-wife | 62.3 | 62.0 | 61.2 | 60.6 |
| One adult head | 12.7 | 12.7 | 12.9 | 13.2 |
| Mean Persons per Household | | | | |
| Total households | 2.81 | 2.74 | 2.64 | 2.58 |
| Family households | 3.33 | 3.26 | 3.14 | 3.07 |

Projections are for July 1st in each year; they are based on the Series II population projection. The estimates for 1978 are for March 1st.

SOURCE: U.S. Bureau of the Census, "Projections of the Number of Households and Families: 1979 to 1995," **Current Population Reports**, Series P-25, No. 805, May 1979.

## TABLE 12-8

## ALTERNATIVE PROJECTIONS OF 1990 HOUSEHOLD CHARACTERISTICS

| | Bureau of the Census Projections for 1990 | | | |
|---|---|---|---|---|
| | Series A | Series B | Series C | Series D |
| Total Households (thousands) | 98,950 | 96,653 | 96,792 | 92,394 |
| Percentage Distribution by Type | | | | |
| Non-family households | 30.5% | 29.1% | 30.6% | 26.2% |
| Family households | 69.5 | 70.9 | 69.4 | 73.8 |
| Husband-wife | (54.7) | (56.6) | (54.8) | (60.6) |
| One adult head | (14.8) | (14.3) | (14.6) | (13.2) |
| Mean Persons per Household | | | | |
| Total households | 2.41 | 2.47 | 2.47 | 2.58 |
| Family households | 2.97 | 3.01 | 3.04 | 3.07 |

Projections are for July 1, 1990; they are based on the Series II population projection.

SOURCE: U.S. Bureau of the Census, "Projections of the Number of Households and Families: 1979 to 1995," **Current Population Reports**, Series P-25, No. 805, May 1979.

**TABLE 12-9**

**PROJECTED NET INTERREGIONAL MIGRATION BY REGION[1]**
**(Number in Thousands)**

| **Region** | **1970-1975** | **1975-1980** | **1980-1985** | **1985-1990** |
|---|---|---|---|---|
| Northeast | -1,342 | -1,076 | -1,019 | - 974 |
| North Central | -1,195 | -1,250 | -1,176 | -1,102 |
| South | 1,829 | 1,783 | 1,777 | 1,765 |
| West | 708 | 542 | 416 | 308 |

SOURCE: Derived from U.S. Bureau of the Census, "Illustrative Projections of State Populations by Age, Race, Sex: 1975-2000," **Current Population Reports**, P-25, No. 796, March 1979.

[1] Excludes foreign immigrants.

Trends in annual changes in central city and suburban populations during the 1970-1977 period suggest a very modest trend toward stabilization with lower rates of out-migration from cities and correspondingly lower growth rates for suburbs. However, not all large cities have experienced diminished population losses. For example, while losses in Boston and Rochester have apparently stabilized, there are no indications that losses have slowed in Cleveland or New York. Furthermore, lower rates of out-migration will not prevent future population losses in distressed cities, because they have low rates of natural increase.

Poor and minority households will become more concentrated in central cities during the 1980's. Overall rates of central city out-migration will be somewhat lower, but those who leave will continue to be among the more affluent. Because low income people in general and minorities in particular are not likely to share equally in the income growth that is expected in the 1980's, they will be less able than whites and middle-income households to afford the higher rents found in suburbs or to purchase homes there. The minority population will increase more rapidly than the majority white population because fertility rates remain relatively high among both blacks and Hispanics. In some cities, especially those in the Northeast, Southwest, and West, net in-migrants will further augment the minority population. Thus, the number of minority households will increase, and the proportion of blacks and Hispanics in central cities will continue to grow.

Overall, suburban communities will continue to expand but at a somewhat reduced rate. Suburbanization rates will vary by region and type of suburb. Most large Northeast and North Central suburbs will see as many persons moving out as moving in. By contrast, most suburbs in the South and West will continue to grow as a result of both in-migration from northern regions and the reduced propensity of central cities to annex suburban areas. All indications are that outer suburbs and non-metropolitan areas will continue to grow in all regions as new households move outward from the urban core to the metropolitan periphery (Muller, et. al., 1980).

Inner suburbs, particularly those physically contiguous to predominantly nonwhite areas of the central city, gained minority population during the 1970's. This trend will continue into the 1980's. Some inner suburbs, however, will be "rediscovered" by smaller, more affluent non-minority households seeking to take advantage of both a low cost housing stock and the employment opportunities offered by the central city.

**Effects of Population Changes on Cities**

Both the changing demographic structure and household choices about where to live will directly affect urban communities. The number, type, and location of households will shape both the demand for housing and the demand for public services.

**Housing Markets**

The increase in the number of households will create considerable pressure for an expansion of the housing supply. However, as discussed earlier, high interest rates caused by inflation will tend to inhibit new housing construction and will increase the price of new housing. This, coupled with strong demand, will almost certainly mean that housing prices will continue to rise at a rate that exceeds the rate of inflation.

Continued increases in housing prices will, in turn, tend to constrain the pace of household growth. As housing becomes more expensive, some people who might prefer to live as independent households will decide to live with others instead. Some young singles will feel financial pressure to share housing or to live longer with their families. Some elderly persons will be less financially able to maintain separate residences. Because of this depressing effect of rising housing prices on household formation, the lower estimates of the number of new households (e.g., the Series D estimate in Table 12-8) appear more probable than higher forecasts.

Despite rapidly rising prices, demand will be particularly strong for owner-occupied housing. The number of people in those age groups that have traditionally had high rates of homeownership will be rising. The number of families with young children will be increasing, and such families have traditionally had a strong desire to purchase a single family home. Rising incomes among those in the upper half of the income distribution, especially among households with two wage earners, will facilitate home purchase. Indeed, rapidly increasing home prices will actually make owner-occupied housing more desirable because such housing will continue to be a good hedge against inflation.

Slow income growth among low and moderate income groups combined with rapid increases in costs of operating rental units will restrict or limit new production of rental units. Rent-income ratios will continue to rise and markets in some areas will be tight.

Housing demand will vary by region and by type of community. It will generally be quite high in rapidly growing areas. Three states—California, Florida, and Texas—now account for over 30% of all new housing starts although only 20% of the population resides in these states (Muller, et. al., 1980). Demand will also be high for housing in suburbs, especially outer suburbs, and in communities at the metropolitan fringe.

In stable communities and in cities losing population, the housing picture will be more mixed. In general, demand is likely to be sustained for housing in attractive neighborhoods and in areas with good access to public transportation. Neighborhoods that may experience difficulties include those in which the housing is of poor quality, in which public services are inadequate, or in which a substantial proportion of the population cannot afford the rising cost of housing. This includes high need communities where the income necessary to meet rising costs of energy and other factors of housing cost will be more restricted.

**Public Services**

Both the increasing number of households and the changing composition of the population will contribute to sustained demand for public services and increasing expenditures for them.

Education is the locally-provided service most sensitive to demographic changes. It also accounts for the largest share of local expenditures. The decline in the population between 5 and 18 years of age is expected to result in a ten percent decline in public school enrollment during the 1980's (Muller, et. al., 1980). The sharpest decreases will occur in grades 8 through 12. Enrollment declines will be most dramatic in large, needy central cities, where enrollment will drop more rapidly than the total population. At the same time, per pupil outlays will rise as more attention is given to children with special needs. As a result, expenditures for public elementary and secondary education will rise even in school districts registering enrollment losses. In fact, if the pattern of the 1970's is repeated, outlays for public schools will increase most rapidly in needy cities.

Outlays for other publicly provided services will rise even more rapidly than expenditures for education. Health care cost increases are expected to be especially dramatic. The growing elderly population will be a major factor contributing to this increase, both because the elderly receive nearly twice the medical care as the non-elderly and because a higher proportion of the costs of health care for elderly persons is paid by public funds. If current trends continue, medical costs will absorb 20% of total governmental outlays by 1990 (Muller, et. al., 1980).

Demographic changes combined with increased labor participation rates will increase demand for day care services. The number of children under the age of five is expected to grow by more than 20% during the next decade. At the same time, labor force participation rates among women—including women with children—are rising. By 1990 nearly 45% of children under age six will have mothers in the labor force (Smith, 1979). Of course, not all of these children will use formal day care services, and an even smaller number will use publicly assisted day care services. Nevertheless, even if both the proportion of children receiving federally subsidized care and the cost per child remain constant, federal expenditures for day care assistance will rise by more than 70% (Smith, 1979).

## 3. The Rising Cost and Uncertain Availability of Energy

A recurring theme in discussions about the national economy, and especially about the magnitude of inflation rates, is the importance of rising energy prices and uncertain energy supplies. The problem of ensuring adequate supplies of energy for the nation in the decade ahead is complex. This complexity stems from several sources. The speed and timing of oil price rises in the international market are unpredictable. The extent of energy savings achievable through conservation measures is unclear. The time and cost required to discover new supplies of traditional sources of energy and to develop innovative energy technologies are difficult to anticipate. And legitimate disagreement exists about how much other national goals, such as economic growth, a safe and clean environment, and the standard of living, should be compromised as we seek solutions to the energy problem.

The central elements of the energy situation in the 1980's are reasonably clear. Energy prices will move consistently upward. Differences in energy prices across regions are likely to narrow, but important interregional energy cost differences will persist. Energy conservation will be widespread in industry, in transportation, and among individual households. Major efforts will be made to increase domestic energy production from both traditional and non-traditional fuel sources.

Rising real energy prices and the responses to them will have important implications for cities and their residents. Rising energy prices pose a potential hardship for the poor who will be increasingly concentrated in the nation's cities. Conservation, the single most important strategy for augmenting energy availability during the 1980's, will prompt substantial investment in the urban housing stock. But major changes in urban settlement patterns and life styles in response to energy factors are unlikely unless prices rise much more dramatically than expected or unless the country experiences major interruptions in fuel supplies. Growing communities in energy-producing regions will retain their advantage in attracting industry, especially firms engaged in energy-intensive production. Diminished interregional cost differences may work to reduce the rapid relative growth of the West and South. On the other hand, expanded energy production will boost growth rates in these regions toward the end of the decade and throughout the 1990's. Substantially greater use of domestic fuels, especially Eastern coal, will jeopardize the ability of large cities to meet national air quality standards.

### Rising Energy Prices

During most of the period since World War II, energy from a variety of sources–oil, natural gas, and coal–was readily available in the U.S. marketplace. Energy prices were relatively low, and the real dollar price of energy declined. For example, U.S. consumers paid less than half as much as their Western European counterparts for regular gasoline in 1973 (U.S. Bureau of the Census, 1975), and the real price of gasoline in the U.S. fell by more than 11% between 1945 and 1970 (Kain, 1979). Low and declining prices, coupled with rising incomes, encouraged a major increase in energy use, both in the aggregate and on a per capita basis.

Beginning in 1973, the vulnerability of the nation to interruptions in supplies received from abroad became clear, and the price of imported oil began to rise sharply. By 1975, as a result of OPEC action, the real price of gasoline was higher than it had been in 1945, and the prices of other petroleum products such as home heating oil went up as well. During 1979, energy prices paid by urban consumers rose by more than 40%. Petroleum prices rose even more sharply; gasoline prices, for example, increased 60%.

Energy prices will continue to rise rapidly during the coming decade. The questions at issue are the magnitude and timing of these increases. Most forecasts since 1973 have, in retrospect, underestimated oil price increases. The "pessimistic" economic forecast of the Joint Economic Committee (see Table 12-1) assumes that the price of imported oil will rise at a rate one fifth faster than the general inflation rate, based on price changes observed between mid-year 1979 and early 1980. If the more rapid imported oil price increases during the December 1979 - January 1980 period anticipate future trends, even this estimate will prove to be optimistic.

### Interregional Energy Cost Differences

Deregulation of oil and natural gas will contribute to the rise in average energy prices. But deregulation will also tend to make the prices of these fuels more uniform across the nation than they have been in the past.

Greater uniformity in energy prices will eliminate some of the interregional cost differentials that now encourage development in the West and South (see Chapter 3). Substantial price disparities now exist among different states and regions. In August, 1979, the average price of home heating oil was 11.7 percent higher in New England than in the Southwest (see Table 12-10). Interregional differences of similar magnitude exist in the price of gasoline (American Petroleum Institute, 1979). Even more striking, natural gas sold to residential customers in New England cost half again as much as the national average, and prices for commercial and industrial users varied comparably (see Table 12-11). Price differentials of a similar magnitude exist among states within the same region. These price variations favor gas-producing states and regions. Price deregulation should diminish these geographic variations.

Higher prices, even though they are more uniform nationally, will hurt some regions and cities more than others because of differences in energy use and energy needs. Reduction of oil and natural gas price differences across areas will not equalize fuel bills across cities, states, or regions. Among residential users, climatic variations will still produce substantial variations in the amount paid for home heating. For all classes of users, the effects of price equalization for individual fuels will be muted by the differential reliance placed on these fuels in different places. In New England, where natural gas has been relatively expensive, 71% of the energy used for home heating is provided by oil; in the Mountain states, where oil has been relatively expensive, 73% of home heating energy comes from natural gas, with oil providing only seven percent (Oak Ridge National Laboratory, 1975). Equally dramatic differences are found among cities. New York City obtains 78% of its total energy from oil, while only five percent of the city's energy comes from coal (Jones, et. al., 1974). In Washington, D.C., by contrast, coal provides 38% of the energy used while oil makes up 44% of the energy supply (Morris, 1978). The differences in the mix of fuels used and associated differences in average fuel bills are likely to persist for some time, partly because individual fuels will continue to be more costly to provide in some places

## TABLE 12-10

## AVERAGE RESIDENTIAL HEATING OIL PRICES BY REGION, AUGUST 1979

| DOE REGION | | COST PER GALLON (Cents) |
|---|---|---|
| 1 | New England | 80.1 |
| 2 | North Atlantic | 78.6 |
| 3 | Mid-Atlantic | 77.7 |
| 4 | Southeast | 74.8 |
| 5 | North Central | 78.5 |
| 6 | Mid-Central | NA |
| 7 | South Central | 76.4 |
| 8 | Mountain | 77.1 |
| 9 | Southwest | 71.7 |
| 10 | Northwest | 77.2 |

SOURCE: U.S.D.O.E. Energy Information Administration, "Energy Data Report" DOE/EIA-0013/9(79) December, 1979.

## TABLE 12-11

## GAS UTILITY INDUSTRY PRICES, \$/MMBTU[1]
(First Quarter 1979)

| Census Region | Residential | Commercial | Industrial | Utility Industry Average |
|---|---|---|---|---|
| U.S. Average | \$2.61 | \$2.45 | \$2.04 | \$2.36 |
| New England | 3.92 | 3.52 | 2.65 | 3.61 |
| Middle Atlantic | 3.18 | 3.04 | 2.64 | 3.05 |
| East North Central | 2.49 | 2.47 | 1.94 | 2.32 |
| West North Central | 2.29 | 2.18 | 1.82 | 2.15 |
| South Atlantic | 3.16 | 2.83 | 1.91 | 2.64 |
| East South Atlantic | 2.32 | 2.46 | 1.84 | 2.10 |
| West South Atlantic | 2.51 | 1.96 | 1.99 | 2.04 |
| Mountain | 2.38 | 1.91 | 1.73 | 2.05 |
| Pacific | 2.21 | 2.29 | 2.54 | 2.28 |

SOURCE: American Gas Association. **Gas Energy Review**, Volume 7, No. 11, September 1979, p. 16.

[1] MMBTU=Millions of British Thermal Units (a measure of the energy available from gas supplies).

than in others, and partly because dependence on these fuels historically has led to the development of physical capital and institutions that facilitate their distribution and use.

## Energy Conservation

Conservation will be the single most effective approach to balancing energy supplies and energy demand during the next ten years. This does not necessarily mean that the country will use less energy, since both population and income are growing. It does mean that we will capitalize on the ample opportunities which exist for making energy use more efficient in all major sectors of the economy. Rising prices can be expected to spur conservation measures in industry, commerce, transportation, and among residential users.

Business will be very responsive to the energy price rises that are anticipated in the 1980's. Industrial users have already begun to make their operations more energy efficient. In 1973, 39% of all domestically consumed energy was used by industry. As prices rose during the next five years, the country's energy consumption rose by a little more than five percent—but industry's energy consumption increased only 0.3%. The industrial record was probably not affected by production decline, but may reflect the shut down of some energy inefficient plants in industries with high energy use (Yergin, 1979). Further price rises, coupled with tax credits for energy-saving investments, will bring continued energy-efficient changes in the industrial sector.

Commercial establishments use less energy than industrial ones: in 1973 they accounted for about 15% of all energy consumed nationally. Like industrial firms, however, they have many conservation opportunities and are likely to take advantage of them. An example of what commercial users can do is provided by the city of Los Angeles in the period immediately following the oil embargo in 1973, when the city feared the possibility of a major shortage of electricity. Targets for cutbacks in use were set, and users failing to meet their consumption reduction targets faced a 50% surcharge on their electric bills. Commercial establishments cut their use of electricity by 28%, substantially more than had been required (Yergin, 1979). The potential price increase in the Los Angeles example was much more sudden than increases are likely to be in the 1980's. Nevertheless, the experience suggests that commercial users of energy can and will respond to rising prices through conservation.

Transportation accounted for 25% of the energy used in the country in 1973. Of this, about one-third was for urban passenger travel. As a result of rising prices, demand has grown for more fuel-efficient motor vehicles. At the same time, domestic auto manufacturers are required, under the Energy Policy and Conservation Act of 1975, to increase the average mileage of their new car fleets to 27.5 miles per gallon by 1985. Meeting these standards will greatly enhance the energy efficiency of transportation, particularly in urban areas where most auto travel takes place. The switch to smaller cars with better gas mileage means that even with the anticipated rise in gas prices, the average person will be able to drive as much as now with little or no increase in the total real amount spent for gasoline. Since incomes will be rising, the amount of travel can be expected to increase (Kain, 1979).

Motivated by the desire to conserve, by changing building codes and loan requirements, and by rising fuel prices, property owners have already begun to increase the energy efficiency of existing residences. Tax credits for energy-saving improvements will further encourage such activities. The energy efficiency of new residences has also begun to improve as buyers and mortgage lenders become more concerned with energy's rising share of home operating costs.

## Expanded Domestic Energy Production

While conservation is the single most important means of avoiding energy shortages in the short run and reducing demand in the long run, energy supplies must be augmented as well. Part of the needed expansion of supply will come from the discovery of new reserves of traditional fuels. Part will also come from technological advances that make alternative forms of energy such as synfuels and solar power economically feasible on a commercial scale. Each of these routes to an increased future energy supply are now being pursued, and major public and private investments to promote this goal will be made in the 1980's. However, uncertainty necessarily surrounds both exploration and innovation. Development and construction of technologically sound and commercially viable synthetic fuel plants will require many years. New solar technologies can only gradually be incorporated into the capital stock. For all these reasons, it is likely that the results of these expanded investments, in the form of augmented energy supplies and new employment opportunities, will not begin to play a major role in the national economy until the late 1980's or even the 1990's.

Even before major new energy sources are brought into widespread use, the mix of fuels on which the country relies will shift. The shift will be most marked in industry, particularly among utilities. Nuclear-generated electric power will become more common, and substantially expanded use will be made of coal, an energy source of which the U.S. has abundant reserves. In the process of using more coal, we will burn more of the high-sulfur coal found in the Eastern part of the country, aggravating the air quality problems in large central cities where generating plants are located.

## Urban Impacts of Energy Price Changes

Rising energy price will have wide-ranging impacts on communities and their residents. The budgets of poor households will be severely strained by energy price increases. Subsidies to offset rising home heating costs will ease but not solve the problem. The South and West will lose some of their energy cost advantages through deregulation, but will continue to offer industry cheaper and more dependable energy supplies. These regions will also benefit from new jobs related to energy production. Older manufacturing areas risk some plant shutdowns as industry moves to make production more energy-efficient. Widespread energy conservation efforts can be expected, accompanied by substantial investment in the existing housing stock. Compact forms of urban development, which are relatively energy-efficient, will be encouraged; however, major shifts toward high density housing and mass transit use are unlikely. Increased use of coal by utilities and others will increase air pollution in cities.

### Impacts on the Poor

The rising price of energy will force a readjustment of household budgets and consumption patterns for all consumers, but the poor will feel the most severe adverse impacts. Poor households use less than half as much energy as the well-to-do; however, the poor spend a larger fraction of their incomes on energy. In 1979, households with incomes below \$5590 spent an average of almost 30% of their incomes on gasoline and energy used at home. This was about three times the fraction for households with incomes over \$25,000 (U.S. Congress, 1979). The gap between upper and lower income households is greatest in the Northeast, especially New England, and the North Central states, where heating costs are highest.

As energy prices rise during the 1980's, energy will become an increasing financial burden for the poor. In all likelihood, the gap between lower and upper income households with respect to the percentage of their incomes spent on energy will widen. This widening gap may be anticipated even under very optimistic assumptions about the rate and stability of economic expansion and about the extent of energy price increases. Poor households living in older areas such as New England and the Middle Atlantic states will be especially hard-hit. Federal subsidies to offset residential energy cost increases will work to ameliorate these problems. Nevertheless, the poor will remain hard-pressed, especially by rising gasoline prices.

At least three factors contribute to the disproportionate impact of energy price increases on the poor. As discussed earlier, income growth among the poor is likely to be relatively slow during the coming decade; their incomes will certainly rise more slowly than energy prices. Because the poor already consume less energy than other households they have less discretionary energy use that can be cut back as prices rise. Finally they are not in a position to make investments that will result in long-run energy savings such as new, low-mileage automobiles, home insulation, or storm windows.

Weatherization activities, in particular, will be least vigorous among poor homeowners and among renters. Owners of rental property have the incentive to make such improvements only if they can expect to reap benefits from them. Thus, investments in weatherization will be made mainly in rental units for which demand is reasonably certain to remain strong: good quality units in stable or upgrading neighborhoods that will continue to be attractive to households able to afford rising rents. Rental units serving low-income households and those in marginal or declining neighborhoods will be least likely to attract weatherization improvements. In the absence of public action, poor owners and tenants will therefore be the least likely to obtain relief from rising fuel costs through energy-saving investments. Improvements in housing quality and savings from increased energy efficiency will thus be distributed unequally, with the fewest benefits falling to those most pressed by the rising costs of energy and housing. In addition, rising fuel bills in the absence of these investments will further undermine landlords' willingness and ability to operate rental housing for low and moderate income tenants. Housing quality may deteriorate, with the impact felt most harshly in the large distressed central cities with substantial poverty populations.

### Impacts on Economic Development

Cities and regions will not be uniformly affected by energy price rises. The movement toward more equal prices for energy in different places will reduce some of the cost advantages now enjoyed by energy producing regions. However, deregulation will not entirely remove the relative advantage enjoyed by some regions in their ability to provide reliable energy supplies and hence their attractiveness to energy-intensive industries. Regions with rich energy resources can anticipate rapid growth as the nation moves to expand domestic energy production. Conversely, the Northeast and North Central regions will be vulnerable to employment losses as rising energy prices diminish the attractiveness of older industrial facilities.

Firms vary greatly in their demand for energy. In some industries, energy is a minor component of the total cost of production; in others, energy costs are a substantial fraction of the total value of the output. Products such as refined petroleum, chemicals, steel, aluminum and building supplies (such as cement, bricks, and asphalt) require large energy inputs. Firms engaged in energy-intensive production tend, over time, to gravitate to regions where energy prices are relatively low and where energy supplies are dependable. Locational pressures have become stronger as energy prices have risen. Although deregulation will help even out regional price differentials, interregional differences in fuel costs and supplies are likely to persist. Indeed, they may become more important as rising price levels make cost savings and conservation more important. Furthermore, energy supplies will continue to be more dependable in the West and South than in areas like the Northeast that are heavily dependent on foreign oil. As a result, the energy-producing regions are likely to retain their comparative advantage in attracting industries with major energy requirements.

Efforts to increase domestic energy production will further enhance the economic strength of the West and Southwest. Exploration for new supplies of traditional fuels, research into new technologies for the provision of reasonably-priced energy, and development of new, energy-related production facilities will generate new job opportunities. However, while the employment impacts from the production of alternative fuels may begin to be felt in the latter half of the decade, the bulk of the new jobs will not be created until the 1990's (U.S. Department of Energy, 1980).

The direct impacts of new energy production strategies—new jobs, population gain, and related development—will be highly localized in most cases and will be substantially greater while facilities are under construction than in the long run. The majority of this development will take place in rural areas or very small towns, encouraging a continuation of the non-metropolitan growth that began during the 1970's.

The indirect impact of new energy production activities will be more widely dispersed, but many of these impacts, such as the growth of businesses serving new employees and energy-producing firms, will be concentrated in the West and the Southwest. Expanded energy production will thus further encourage the shift of jobs and population toward these

to the coal mining areas of Appalachia and the Midwest as increasing reliance is placed on coal. Other indirect impacts will be more widely felt. Development of new energy sources, especially building the nation's capacity to produce synthetic fuels, will require enormous capital investments. The use of tax-exempt bonds to finance such energy products could easily divert funds from the municipal bond market. Such a diversion would worsen the problems, discussed earlier, likely to be faced by cities seeking to borrow money during a period of persistent inflation.

There is a very real risk that industrial conservation efforts will have negative long-run impacts on older, industrial cities and regions. Some strategies for conservation in industry, such as adjustment of lighting, improved furnace maintenance, and waste heat recovery, require only modest investment and are likely to be carried out in plants throughout the country. Other strategies, such as installation of innovative technology, can be much more costly. Firms will be most willing to undertake such investments in plants which they expect to keep in operation for a period of many years, so they can get the full benefit of their investments. Those plants with the lowest productivity are least likely to be the sites of major investments to increase energy efficiency. And, over time, the absence of these investments will serve to make their continued operation progressively less attractive. In general, it seems likely that major investments in technological innovation to improve energy efficiency will occur least often in older plants which are disproportionately located in the Northeast and North Central regions. These industrial facilities will be most vulnerable to shutdowns as energy prices rise. Available evidence suggests that some of these energy-inefficient northern plants have already been closed.

**Housing Improvement Through Energy-Saving Investments**

Residential conservation efforts and their effects will differ among regions and across types of cities. The cost of home heating–and the consequent incentive to conserve through weatherization–varies substantially among cities. To some extent, this is the result of the inter-regional variations in fuel prices discussed earlier. More importantly, the need for home heating is much greater in the colder parts of the country. This is illustrated in Table 12-12. On average, the incentives to improve the insulation of new and existing residences are clearly stronger in colder regions.

Although the need for well-insulated housing is greatest in northern climates, it is not clear that a proportionate amount of the investment in weatherization will occur there. Of the one-third of U.S. households living in the warmest portion of the country, 85% live in single family housing. Of the one-third of households in the coldest part of the country, only 74% live in single family housing. To the extent that energy-saving investments are more likely to be made in single family dwellings than in housing of other types, less weatherization may occur in colder regions than temperature variations alone would suggest.

Weatherization activities will vary not only by region but also by type of community. Upper and middle income households living in single-family, owner-occupied dwellings are most likely to have both the incentive and the financial ability to make energy-saving investments. Moderate income homeowners are also likely to do a substantial amount of weatherization when they can obtain loans to cover the initial investment, can take advantage of tax credits for energy-saving investments, or can reduce investment costs by performing some of the installation work themselves. In cities where the proportion of such households is high, the energy-efficiency of the existing housing stock is likely to improve during the 1980's. This means that among cities with comparable climates, the most complete weatherization of the housing stock will occur in medium and low-density communities, especially those with relatively few low-income households.

In cities where there is substantial rental housing, less weatherization may occur, especially where the tenants are of low or moderate income and incapable of paying higher rents to repay the landlord's investment. Energy cost savings possible through weatherization will provide some inducement to landlords, but alternative actions such as cutting back on heat levels will be a constant threat in the poverty neighborhoods of larger cities with high levels of resident need.

**Impacts on Patterns of Urban Development**

It is unlikely that pressures to conserve energy used for residential purposes and transportation will be strong enough in the 1980's to alter substantially the basic patterns of demand for urban housing and transportation. Available evidence suggests that compact forms of urban development are relatively energy-efficient. Medium-density residential patterns with shared-wall styles of construction (including townhouses and low- and medium-rise buildings) require less energy per square foot for heating, cooling, and lighting than do single-family detached houses (see Table 12-13). Households that live closer to work use less gasoline for commuting, and those that live in medium and high density areas use less energy on trips to schools and shopping. Intensively-used mass transportation is more energy-efficient than the private automobile. For all these reasons, rising energy prices will tend to encourage more compact development, especially infill around existing employment concentrations. However, barring major energy supply interruptions or price jumps much larger than those that are anticipated, rising

TABLE 12-12

SPACE CONDITIONING (HEATING AND COOLING) DEMANDS
AND ESTIMATED ENERGY COSTS
FOR MODEL HOMES BY FUEL TYPE AND REGION[1]

| | | Heating Fuel[2] Electricity | | Gas | | Oil | |
|---|---|---|---|---|---|---|---|
| | | Energy Demand | Annual Cost | Energy Demand | Annual Cost | Energy Demand | Annual Cost |
| Region | Degree Days | (MMBTU/ Unit/yr) | (1979$) | (MMBTU/ Unit/yr) | (1979$) | (MMBTU/ Unit/yr) | (1979$) |
| Northeast | 5,400 | 71 | $1520 | 179 | $890 | [208 | $1310] |
| North Central | 6,200 | 81 | 1190 | [204 | 710] | 237 | 1500 |
| South | 2,800 | 63 | 810 | [111 | 430] | | |
| West | 3,800 | 77 | 970 | [141 | 440] | | |

[1] Model homes are similar single family two-story detached units with 1,560 square feet. Building construction and insulation vary by fuel type and region to reflect typical construction practices.

[2] Air conditioning assumed to be electrically powered.

SOURCE: Federal Energy Administration (November 1974), **Project Independence**, Vol. I, U.S. Government Printing Office, Washington, D.C.

NOTE: Brackets identify most popular fuels in each region.

## TABLE 12-13

### AVERAGE ENERGY REQUIREMENTS FOR HEATING AND COOLING PROTOTYPICAL HOUSING UNITS IN THE BALTIMORE-WASHINGTON AREA

| Structure Type | Annual Energy Requirements: Therms Per Unit[1] | Annual Energy Requirements: Therms Per Square Foot of Floor Area |
|---|---|---|
| Single Family Detached | 1300-1400 | 0.765-0.826 |
| Townhouse | 896 | 0.689 |
| Low Rise | 575 | 0.512 |
| High Rise | 493 | 0.506 |

### ENERGY CONSUMPTION COMPARISONS FOR THREE TYPES OF ALL ELECTRIC RESIDENTIAL UNITS IN CHICAGO

| Structure Type | Annual Energy Consumption Therms Per Unit |
|---|---|
| Single Family Detached | 1,375 |
| Large Multi-Family | 1,143 (719)[2] |
| "Super" Multi-Family | 2,062 (464) |

### AVERAGE ENERGY CONSUMPTION FOR ALL PURPOSES BY TYPE OF RESIDENTIAL UNIT IN THE NEW YORK CITY REGION

| Structure Type | Therms Per Unit | Annual Energy Consumption: Therms Per Square Foot of Floor Area | Annual Energy Consumption: Therms Per Occupant |
|---|---|---|---|
| Single Family[3] | 1,620 | 1.30 | 500 |
| Small Multi-Family[4] | 850 | * | 340 |
| "Super" Multi-Family[5] | 610 | 0.90 | 340 |

SOURCE: Dale L. Keyes and George E. Peterson, "Metropolitan Development and Energy Consumption," (Washington, D.C., The Urban Institute, Draft Working Paper 5049-15, March 23, 1977).

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[1] One therm is 100,000 BTUs.

[2] Numbers in parentheses do not include energy for common services.

[3] Single-family detached and attached units.

[4] Structures with 2-19 units.

[5] Structures with 20 or more units. Consumption estimated from regression equations.

*Not significantly different from single-family housing at 0.10 level.

energy prices are not likely to stimulate major shifts toward high-density, compact forms of development or toward major increases in the use of mass transportation.

Two factors contribute to the likelihood that the magnitude of such shifts will be modest. First, there will be many other ways for households to reduce energy consumption that involve easier and less fundamental changes in habits and lifestyles. Major reductions in residential energy use can be achieved through such strategies as weatherization and energy retrofit. Other energy-saving approaches in new housing include modest reductions in the number or size of rooms, use of more energy efficient appliances, and improved site design to take advantage of natural heating and cooling. Energy used in transportation can be dramatically cut through a switch to smaller cars offering higher gas mileage and through improved driving habits and car maintenance. Second, real incomes will be rising, and increases will probably be greatest among middle and upper income groups. These groups consistently use relatively large amounts of energy because they are likely to live in single-family houses and typically commute farther to their jobs than lower income people. Rising incomes, coupled with the widespread availability of alternative strategies for energy conservation, will enable the average household—and especially those households that can afford new houses—to avoid compromising their desire for the amenities associated with a single family dwelling and the private automobile.

Despite these options, the rising price of energy, combined with other factors, will exert influences to change development and living patterns in many undramatic but significant ways. There will be continuing increases in multi-family condominium housing at higher densities than for detached dwellings. Close-in suburban and central city neighborhoods that offer amenities will see rising demand.

**Innovative Energy Sources**

One promising response to rising energy costs in urban areas is the development of innovative sources of energy, particularly those which take advantage of existing energy sources. Then include district heating, co-generation and resource recovery.

District heat refers to the heating of urban areas from a central source, with hot water or steam circulated to individual residential and commercial structures via underground lines. District heating is widely used in Europe, the Soviet Union, and recently, Japan. The advantages of district heat are greatest when waste heat from major facilities like electric utilities is used.

District heat from co-generated sources is particularly attractive for large, industrial, densely settled, pollution plagued and oil dependent cities of the East and Midwest. District heating replaces fuel from individual building boilers, which use predominately oil or natural gas, with thermal energy from power plants. Power plants can, and in the future increasingly will use coal or uranium. Even where they burn oil or natural gas, in the co-generation mode, their fuel efficiencies will be far greater than individual boilers. The Department of Energy has estimated that installation of district heating in 300 cities where thermal demand is sufficiently dense and power plants sufficiently close to make the systems economic, could save one to 2.5 million barrels of oil or natural gas equivalent per day by the year 2000. Studies indicate that district heating can also improve air quality, facilitate the transition to coal and to renewable energy resources such as solar, and hold down residential energy costs.

Despite these potential advantages, less than one percent of thermal demand in the U.S. is supplied by district heat and only a small fraction of that is by cogeneration. Furthermore, federal policy does not encourage either cogeneration or district heat. Yet feasibility studies conducted in Minneapolis-St. Paul and Detroit indicate that district heating is economically viable.

A second promising new source of energy for urban areas is that provided by resource recovery. Using authorities provided by The Resource Conservation and Recovery Act of 1976, the Administration requested and received funds from Congress to provide direct assistance to communities to aid them in implementing systems which convert municipal waste into reusable energy. Currently EPA is administering grants in 63 communities throughout the country. EPA has also implemented a technical assistance program to provide staff resources and expertise to local communities endeavoring to solve their resource recovery problems. While conversion of waste to energy won't solve the nation's energy crisis —estimates indicate that resource recovery can meet one percent of U.S. energy needs—it is another economical, innovative approach to meeting the nation's energy demands.

## 4. Environmental Enhancement: Improving and Protecting Air Quality

During the 1970's, the nation made a major commitment to enhance and protect the environment. New legislation, regulations, and executive orders stimulated a wide variety of activities to raise environmental quality. National ambient air quality standards have been established under the provisions of the Clean Air Act, and states are refining plans to implement pollution control measures that will lead to attainment of these standards throughout the country. In pursuit of the national goal of fishable - swimmable water, enunciated in the Clean Water Act, extensive Federal assistance is being made available to states and municipalities to help support construction of sewers and sewage treatment facilities. The National Environmental Policy Act required that environmental impact statements be prepared for all proposed projects receiving direct Federal assistance. Many states passed complementary laws requiring preparation of environmental impact statements for other projects as well. Numerous other environmental improvement activities are under way, focused on such diverse objectives as promoting better land management, protecting ecologically sensitive areas, expanding recreational opportunities, and reducing the level of urban noise.

The requirements of the Clean Air Act will not be easily met in large cities. The national ambient air quality standards establish the maximum amounts of various pollutants that can be present in the air at any given time and still protect public health. In principal, this places a cap on the amount of pollution-generating activity that can occur, given a particular level of emissions control technology.

Efforts are being made by the Environmental Protection Agency to devise pollution reduction and control strategies that avoid restrictions on the level of economic activity or vehicular travel that can occur in cities. Still, the potential for conflict between efforts to improve air quality and efforts to insure the economic vitality of cities is very real. It is also a near-future problem, because the Clean Air Act mandates compliance with some standards by 1982 and others by 1987. Cities where a good faith effort to develop a plan is not made may be subject to restrictions on growth. Cities that now meet the standards may also have to limit certain kinds of growth to avoid air quality deterioration. For many cities, the increased use of coal will make compliance with the standards and regulations more difficult.

Substantial uncertainty exists about the likely effects of air quality regulations on different types of city. This uncertainty results from at least three sources. First, some of the Federal regulations, especially those designed to preserve air quality in cities that now meet standards, are currently under challenge in the courts. Second, state plans for areas not meeting national ambient air quality standards have just recently been finalized, so the ultimate effects of the measures businesses and communities must take to limit pollution are not yet clear in many states. Third, the Clean Air Act requires a major review (and possible revision) of the standards during 1980 and again during 1985; thus, the national standards and regulations are themselves subject to change. Despite these ambiguities, the character of the potential conflicts between air quality improvement and other national objectives, especially urban economic development and reduced dependence on imported oil, can be outlined.

**Air Quality Improvement in the 1980's**

National air quality standards have been set by the Environmental Protection Agency (EPA), as required by the amended Clean Air Act. States must prepare State Implemention Plans for bringing air quality into conformance with national standards by designated dates. The state plans are reviewed by EPA and revised by the states, as necessary.

EPA has specified ambient air quality standards for seven pollutants: sulfur dioxide, nitrogen dioxide, carbon monoxide, total suspended particulates, hydrocarbons, ozone, and lead. All the standards except that for hydrocarbons are set at levels to protect public health. Hydrocarbons are precursors of ozone; the standard was set to prevent violations of the ozone standard.

During the 1970's, important progress was made toward meeting some of these standards. For example, auto tailpipe emissions have been reduced substantially, especially emissions of carbon monoxide and lead. The level of sulfur dioxide in urban areas declined in the 1970's as a result of improved emissions control technology for power plants and industrial sources and the use of fuels with a lower sulfur content.

Despite such improvements, extensive additional reductions in pollution are needed to meet the national standards throughout the country. Under Federal law, standards must be met by December 31, 1982, although the deadline can be extended by administrative action to 1987 for carbon monoxide and ozone, pollutants caused primarily by automobiles. The extended deadline is available to those jurisdictions that make legally binding commitments to reduce auto traffic, increase public transit, and establish auto inspection and maintenance programs.

In some areas, the level of ambient air quality for specific pollutants is substantially better than required by the national standards. In these areas, regulations require that the air quality with respect to that pollutant not be allowed to degrade below existing conditions by more than a prescribed amount. In other areas, where the level of air quality for specific pollutants does not meet the national standards, new sources of industrial pollution must meet stringent emission control requirements. New sources of pollution will be allowed in such areas only if pollution from existing sources is cut back so that the overall level of air quality does not further deteriorate. State Implementation Plans consistent with the national standards and regulations are likely to result in improved air quality in areas where pollution levels now exceed standards. They should also help maintain or improve air quality in areas where standards are now met. At the same time, however, both types of areas face the possibility of restrictions on the level and type of allowed economic growth.

**Urban Impacts of Air Quality Regulations**

The potential impacts of air quality regulations on cities are complex and will vary substantially from area to area. The major potential impact is the conflict between attainment of health-related air quality standards and economic growth. The nature and extent of the impact in any given city will depend on the current level of air quality, the mix of existing emission sources, and the amount and type of growth attracted to the community.

The scope of potential impacts is very wide. Only one major city (Honolulu) now meets the national ambient air quality standards for all regulated pollutants. The great majority of large cities fail to meet the standards for two or more pollutants (see Table 12-14). Ozone is the standard most consistently violated nationwide by a broad range of cities. Ozone is a secondary pollutant created by photochemical reaction in the atmosphere; precursor pollutants are hydrocarbons and nitrogen oxides. Even after a recent revision of the standards which increased the maximum allowable concentration of ozone by 50%, only 20 urban areas out of 105 were expected to meet the revised standard by 1982. Other areas have requested extensions of the attainment date through 1987.

## TABLE 12-14

### VIOLATIONS OF AIR QUALITY STANDARDS IN MAJOR U.S. CITIES[1]
(X = violation of standard)[2]

| Population Trend and Community Need | Ozone | Carbon Monoxide | Particulates | Sulfur Dioxide | Nitrogen Dioxide |
|---|---|---|---|---|---|
| **1. Cities With Decreasing Populations:** | | | | | |
| **Relatively High Need[3]** | | | | | |
| Newark | X | X | X | | |
| New Orleans | X | | | | |
| Buffalo | X | X | X | | |
| Cleveland | X | X | X | X | |
| New York | X | X | X | | |
| Atlanta | X | X | X | | |
| Detroit | X | X | X | | |
| St. Louis | X | X | X | X | |
| Chicago | X | X | X | | X |
| Philadelphia | X | X | X | | |
| Baltimore | X | | X | | |
| Oakland | X | X | X | | |
| Cincinnati | X | X | X | X | |
| **Moderate Need[3]** | | | | | |
| Washington | X | X | X | | |
| Louisville | X | X | X | X | |
| Pittsburg | X | X | X | X | |
| Milwaukee | X | X | X | | |
| San Francisco | X | X | X | | |
| Long Beach | X | X | X | | X |
| Kansas City | X | | X | | |
| **Relatively Low Need[3]** | | | | | |
| Portland | X | X | X | | |
| Minneapolis | | X | X | | |
| Seattle | X | X | X | | |
| Denver | X | X | X | | X |
| **2. Cities With Stable Populations:** | | | | | |
| **Relatively High Need[3]** | | | | | |
| Boston | X | X | | | |
| Los Angeles | X | X | X | | X |
| **Moderate Need[3]** | | | | | |
| Columbus | X | X | X | X | |
| Toledo | X | X | X | X | |
| Indianapolis | X | X | X | X | |

| Population Trend and Community Need | Ozone | Carbon Monoxide | Particulates | Sulfur Dioxide | Nitrogen Dioxide |
|---|---|---|---|---|---|
| **2. Cities With Stable Populations: (continued)** | | | | | |
| **Relatively Low Need[3]** | | | | | |
| Dallas | X | | X | | |
| Oklahoma City | X | | X | | |
| Nashville | X | X | X | | |
| Tulsa | X | X | X | X | |
| **3. Cities With Increasing Populations:** | | | | | |
| **Relatively High Need[3]** | | | | | |
| El Paso | X | X | X | | |
| Miami | X | | | | |
| San Antonio | X | | X | | |
| **Moderate Need[3]** | | | | | |
| Memphis | X | X | X | | |
| Jacksonville | X | | X | | |
| San Diego | X | X | X | | X |
| **Relatively Low Need[3]** | | | | | |
| Honolulu | | | | | |
| Austin | X | | | | |
| Phoenix | X | X | X | X | |
| San Jose | X | X | X | | |
| Omaha | X | X | X | | |
| Houston | X | | X | | |

SOURCE: EPA.

[1] Designations are based primarily on monitored air quality for 1979.

[2] The geographic extent of the standards violations typically varies according to pollutant. Ozone violations generally occur throughout entire metropolitan areas. Particulate and sulfur dioxide violations, on the other hand, usually occur in only small portions of metropolitan areas.

[3] Resident need is defined in Chapter 2.

Cities with declining numbers of people and jobs may face the greatest problems meeting the standards. Sixty-four percent of the standards for the five pollutants shown in Table 12-14 are violated in cities with decreasing or stable populations. The comparable rate of violations in growing cities is only 47%. Furthermore, violations tend to be of greater magnitude in cities whose population is decreasing. Well over one-third of violations in such cities represent a serious failure of standards. Less than ten percent of the violations in stable or growing places are of comparable magnitude (Helm, 1980). However, growing areas will see equal or greater difficulty in attaining ozone standards due to heavy reliance on automobile use and more dispersed patterns of development.

Urban air pollution problems are of two basic types: those associated with stationary sources and those associated with mobile sources such as cars, trucks, and buses. The most severe air quality problems associated with stationary sources are caused by particulates and sulfur oxides. These problems tend to be found in cities with older industrial bases which are also most dependent on coal for power generation. Many of these cities have decreasing populations and high levels of resident need. The problems of such cities are exacerbated to the extent that they depend on especially "dirty" industries such as primary metals, paper products, petroleum and coal products, and chemical products. These industries are concentrated in cities experiencing job and population losses. Three-fourths of declining cities for which detailed data are available have more than two percent of their employment base in the four "dirty" industries mentioned above. Only 29% of cities with stable population and only eight percent of growing cities have more than two percent of their employment in these industries. Cities that are dependent on heavily polluting industries, such as Cleveland, Pittsburgh, and Detroit, have been particularly affected by requirements to reduce pollutants from stationary sources. Their plight will be made even more serious as the use of coal increases.

The most severe problems associated with mobile sources are caused by carbon monoxide, nitrogen oxides, and ozone. These tend to be found in larger metropolitan areas having difficult meteorological conditions and high automobile dependency. These include Los Angeles/Long Beach and Denver. Some cities, such as Cleveland, Philadelphia, and St. Louis, have serious violations of the national standards both for pollutants generated primarily by mobile sources and for pollutants generated primarily by stationary sources.

In addition to having the most serious pollution problems, declining or stagnant urban economies face considerable difficulties in assembling the necessary resources to improve environmental quality. This is due to the more marginal economic base, lower incomes, the greater dependence on heavy manufacturing, and the older capital investment characteristic of such cities as Cleveland, Buffalo, Louisville, Pittsburgh, Philadelphia, and Newark. Access to special grants and financing has made reinvestment in these areas more attractive in recent years. However, plant closures, relocations, and reduction in industrial output and employment in these cities have also contributed to their recent improvements in air quality. Whether these declining or stagnant urban areas continue to make additional improvements in air quality in the future is likely to depend on their ability to impose increasingly costly and restrictive emission control technologies on existing industries, many of which also face other negative economic pressures. Innovative strategies to help communities to meet emissions standards—such as the bubble policy, offsets, and banking—can potentially assist cities to reduce pollution while avoiding adverse economic impacts. These controlled trading concepts are described in Chapter 13.

Growing urban economies face considerable risks of deterioration in environmental quality (Barkley and Seckler, 1972). This is due to their increasing industrial output and consumption of electricity, as well as increasing truck and auto traffic. Rapidly growing cities such as San Diego and Phoenix run these risks. However, the relatively productive economic base and new capital investment characteristic of these growing urban economies make more affordable the advances in emission control technology for both fixed and mobile sources mandated by the Clean Air Act. This situation, combined with the relatively low dependence of these rapidly growing cities on traditionally polluting industries, has allowed even these rapidly growing economies to make improvements in air quality during recent years, particularly in terms of particulates and sulfur dioxide.

The current level of air quality in cities, the mix of existing pollution sources, and the presence or absence of growth in the community interact to create an array of potential conflicts between efforts to improve air quality and the ability of cities to maintain or expand economic opportunity during the coming decade. Especially in urban areas that do not meet national standards for particulates or sulfur oxides, there are likely to be significant conflicts between air quality and economic development efforts. Achieving current air quality standards may be very difficult in these areas without major improvements in pollution control technology, large investments in pollution control equipment, or additional plant closings. Some of these have already occurred. Between 1971 and March, 1978, EPA's Economic Dislocation Early Warning System identified 76 plant closings with a direct job loss of 14,000 that are at least in part attributable to air pollution control problems. Nineteen reported closures occurred in the nation's 56 largest cities. Of these, 68% were in cities with high levels of community need in 1975 (Shapiro, 1979).

In urban areas which meet national standards for particulates or sulfur oxides, moderate growth in industrial development is not likely to cause serious conflicts with efforts to prevent significant deterioration in air quality—unless the area is already close to violating standards. Rapid growth in industrial development could, however, cause problems. Such difficulties could be at least partially avoided if new industrial development is dispersed, since particulates and sulfur dioxide tend to be very localized pollutants. However, dispersal of industry would generate more auto travel from commuting and make reduction of ozone pollution more difficult. Dispersal also does not solve problems caused by hydrocarbons and sulfur compounds, which travel over long distances and may contribute to formation of ozone and acid rain over wide geographic areas. In the longer run, industrial dispersal would also encourage urban sprawl.

## 5. Summing Up: Forces Affecting Cities in the 1980's

The state of the national economy, population characteristics, and rising energy prices will all have important effects on regions, cities, and their residents during the 1980's. Many of the trends observed during the 1970's will continue, but in most instances the rate of change in the 1980's will be somewhat slower. The spreading out of population and employment from central cities and from the Northeast and North Central regions to suburbs, non-metropolitan areas, and the South and West will continue.

Cities which have experienced population and job loss will face persistent difficulties during the 1980's. Their economies may be bolstered somewhat as inflation encourages more intensive use of existing capital facilities. However, this source of support is likely to be very modest relative to the forces encouraging further decline. Cities with a contracting job base can expect to be more severely affected by recessions than growing communities. Urban economies heavily dependent on manufacturing will continue to be most directly affected by limitations on economic development imposed to improve air quality. Perhaps most basically, central cities and inner suburbs will continue to be less attractive to many forms of business and industry than non-metropolitan areas and suburban communities with good access and attractive, inexpensive vacant land.

Several factors will be at work to sustain the continued growth of the South, the West, outer suburbs, and non-metropolitan areas. The number of households will be growing, and household growth will be especially rapid among those age groups for whom homeownership is attractive. Incomes will be rising, particularly among two-worker households. Continued economic growth at the metropolitan fringe will attract households to exurban locations; recessions are likely to postpone rather than halt expansion in such communities. While non-metropolitan and outer suburban communities will not be without problems, they will generally have more resources available for addressing these problems than declining cities or many inner suburbs.

Minority groups and the poor will be increasingly concentrated in central cities and inner suburbs. Because of the selective effects of migration, increased concentrations of disadvantaged people are most likely in central cities experiencing population and job loss. Disadvantaged groups are unlikely to share fully in the modest income growth of the coming decade. The economies of the cities in which they live will expand more slowly than during the 1970's, reducing their economic opportunities. At the same time, the costs they must pay for basic commodities, such as energy and housing, will almost certainly rise even more rapidly than inflation.

# PART V: URBAN POLICY IN THE DECADE OF THE 1980s

# PART V: URBAN POLICY IN THE DECADE OF THE 1980s

This final Part of the Report presents the basis for urban policy choices and recommends courses for the Federal government and the nation to take in the coming decade. It is presented as a single chapter, divided into three sections:

- **Section One** summarizes the trends and patterns that affected urban communities in the 1970s and the prospects for continuity and changes in these trends in the 1980s.
- **Section Two** links the Urban Policy issued by President Carter in 1978 to the policy options recommended for 1980. Three principal policy guidelines are outlined: first, action to strengthen urban economies; second, action to increase equality of opportunity; third, action to guide urban development.
- **Section Three** presents the 1980 urban policy recommendations under each of these three broad guidelines.

In each case, the policy recommendations are linked to a rationale growing out of the analysis presented earlier in the Report.


Redwood
Bank

# XIII. AN URBAN POLICY FOR THE 1980s

President Carter's comprehensive urban policy announcement in March 1978 reflected this Administration's commitment to the nation's urban communities and their residents. It recognized that the vitality of our urban areas is crucial to the nation's economic well-being and the quality of life available to its cities. It reflected the fact that urban communities are more than just simply centers of jobs, communications and commerce. They are also centers of learning, centers of culture, and centers of social services. They are an important national resource, representing a massive accumulation of economic, social and physical investment. In addition, they have great historical and symbolic importance to America. For millions of individuals they have meant increased choices, increased hope, and increased opportunity.

President Carter's 1978 urban policy acknowledged that many needy urban communities required Federal assistance if they were to remain competitive, stem decay, foster economic and community revitalization, and provide residents with a decent environment. It also recognized that Federal aid alone, would not be sufficient to address the needs of troubled urban areas. Initiation of creative partnerships between all levels of government, the private sector, and neighborhood and voluntary groups would be essential if urban policy objectives were to be achieved.

The urban policy directions set out in 1978 carefully balanced commitments to help the poor and minorities improve the quality of their lives with commitments to assist needy urban communities strengthen their economies and improve the quality of their environments, their downtowns and their neighborhoods. In doing so, the policy recognized that Federal assistance must address both people problems; such as, problems of poverty, as well as place problems; that is, problems related to the inability of many communities to respond to often inordinate economic, fiscal or social burdens. Both sets of problems were viewed as inextricably related. Successful efforts to expand the job, educational and housing choices available to the urban poor and minorities were seen as dependent, to a large extent, on strengthening the economic base and fiscal capacity of needy urban areas.

The President's urban policy avoided extreme and unworkable options. For example, it rejected a "wait for market equilibrium to occur" approach to the revitalization needs of older declining communities. To have relied entirely on the marketplace, as recommended by some, would have exacerbated the economic and social problems faced by needy cities and towns. Clearly, their ability and capacity to compete for industry, jobs, and tax base was severely strained. In a similar vein, the policy also rejected a massive Federal effort to abort secular or long-term decentralization trends thought harmful to older urban communities. To have attempted to reverse secular trends, as proposed by some, would have required Federal actions inimical to the nation's institutions and its political framework. Moreover, it would have disregarded the fact that mobility has led to improvements in the lives of many Americans and has helped increase the economic vitality of many once distressed areas.

**The Urban Policy Context for the New Decade**

The key assumptions guiding the President's basic policy commitments in 1978, while at the time premised on partial and limited data, have stood the test of careful analysis and the availability of more comprehensive information found in this Report. As detailed in earlier chapters, the spreading out of people and jobs from older to newer regions, from metropolitan to non-metropolitan areas, and from city to suburb has left some communities in distressed condition. While changes resulting from mobility patterns have helped to improve the lives and lifestyles of many Americans and have strengthened the economies and well being of numerous communities, they have not benefitted all people nor all of the nation's cities and towns. In many older areas of the nation, the trends have exacerbated problems related to racial discrimination, an aging housing stock, often outmoded infrastructure, relatively high land costs and taxes, and the absence of sites for new development.

Many central cities, particularly larger central cities in older regions, have lost both jobs and people. As a result, some face extreme fiscal pressures just to meet their basic responsibilities. Indeed, managing decline, despite often yeoman-like efforts, has not been easy for many older urban communities. Relative and sometimes absolute increases in their poverty populations often have expanded social burdens at a time when unstable tax bases combined with an uneven national economy to limit available resources. Increased dependence on Federal and State transfers have become a fact of life for numerous urban jurisdictions.

Urban distress is not limited only to central cities. While most suburban areas are generally in good health, a number of older suburban communities, particularly those adjoining needy central cities, face severe economic and social problems. Similarly, some non-metropolitan areas have been bypassed by growth and continue to illustrate weak economies and relatively high poverty levels. The problem of these suburban and non-metropolitan communities, as well, must be addressed in the nation's urban policy.

The President's 1978 urban policy acknowledged the fact that urban problems vary in kind and intensity among communities. In light of this reality, its response was multifaceted and, to the extent possible, responsive to the varied conditions that characterize this nation's urban communities: growth as well as decline, pockets of poverty as well as more generalized distress and fiscal strain. The urban policy committed the Federal government to help troubled urban communities adapt to change, remain economically viable, conserve existing public investments, and provide a decent quality of life for their residents.

In the two years since the announcement of the President's urban policy, considerable progress has been made in addressing the nation's most pressing urban problems. New partnerships have been formed. More private sector resources have been leveraged to help revitalize urban economies and urban neighborhoods. Federal program coordination has improved and sensitivity to the urban impacts of Federal actions has grown. Although signs of revitalization and hope have emerged in a growing number of urban areas, many pressing problems continue. In this context, the 1980's will provide numerous opportunities and some significant challenges to urban America. Regrettably, as indicated in Chapter 12, the precise effect of anticipated demographic, economic and market trends is difficult to read with certainty. Indeed, many changes likely to occur will affect urban communities in sometimes inconsistent, often complex ways. For example:

- Anticipated slower rates of job and population movement between and among regions, metropolitan and non-metropolitan areas, cities and suburbs will help some needy communities stabilize their economies and better respond to fiscal, social, and environmental problems. But, decentralization will remain a fact of life in the 1980's. It will continue to increase the concentration of poor people and drain purchasing power and tax base from many older urban communities. It will support relatively high unemployment and low labor force participation rates in older urban centers, particularly among minorities and the poor.

- Anticipated increases in real income will raise household purchasing power in many urban areas. But, the relatively modest rate of expected income growth will not be sufficient to allow large numbers of the urban poor to escape from poverty.

- Anticipated trends toward smaller households and two worker families will generate increased demand for urban residence. But, this demand will be muted if inflation in housing costs continues to outpace household income.

- Anticipated increases in the cost of energy and energy shortages will foster closer links between place of work and place of residence. Energy factors may also promote public acceptance of more compact, higher density, cost-efficient forms of urban development. But, energy problems will also make it more difficult for some communities, particularly older needy communities, to compete for industry, and, because of the need to substitute coal for oil, achieve legitimate environmental objectives.

- Anticipated local government management improvements, growing out of the need to respond to fiscal pressures resulting from the twin recessions of the 1970's, will permit many older central and suburban cities to better respond to likely problems stemming from national economic trends during the early 1980's. But, the combined effects of continued inflation and recession will sorely test the ability of many cities to provide essential services to maintain capital infrastructure.

- Anticipated improvements in productivity and a return to a generally healthy economy will mean that most industrial sectors will enjoy economic growth. But, some key industrial sectors, particularly those linked to older plants and technology, will illustrate recurring difficulties through the 1980s. Their problems will affect the general well being of the communities in which they are located; for the most part, these are needy older communities which are already burdened by heavy economic, fiscal and social burdens.

- Anticipated movements of more affluent minority households from central cities to suburban areas, particularly older suburban areas contiguous to central cities, will expand their job, educational and housing opportunities. But, discriminatory practices and low incomes will continue to lock most minority households into relative compact, deteriorated urban neighborhoods in older central cities.

- Anticipated revitalization activities in some neighborhoods and downtown revitalization in a number of communities will strengthen local tax bases and result in more balanced urban populations. But, increased displacement of low-income and minority residents will create hardships in an expanded number of urban areas.

- Anticipated growth of non-metropolitan communities will improve the lives of many Americans. But, growth induced needs will also test the capacity and resources of many smaller non-metropolitan communities. If growth follows traditional urban development patterns, wasteful consumption of land, inefficient placement and use of infrastructure, environmental degradation, and higher energy costs will result.

In sum, all types of American communities will face sensitive choices in the 1980's. For many older, needy central cities and suburbs, the margin for error will be very slim. Failure on the part of less troubled communities to acknowledge problems and to respond to opportunities associated with basic economic and demographic trends will result in wasted environmental, economic, physical, fiscal, and above all, human resources.

**Policy Directions for the 1980s**

The basic principles guiding the 1978 urban policy will remain of paramount importance during the 1980's. Federal leadership will be required to sustain a coordinated public and private response to the nation's deep-seated urban problems. Federal budget constraints will require careful use of limited Federal funds to leverage resources from other levels of government, the private sector, voluntary and community groups. Although formulae are not always easy to define, given complex urban needs and diverse program priorities, fairness and efficiency require continued efforts to target available Federal funds, to the extent possible, to the neediest urban communities and the neediest urban residents.

The analyses presented in this Report suggest the need to reaffirm and indeed strengthen the President's 1978 urban policy commitments to help troubled older, large central cities and suburbs adjust to decentralization trends and respond to deep-seated economic, social, fiscal and environmental pressures. Just as clearly, they support the need for continued and sustained efforts to improve housing, job, education and health opportunities for increasing numbers of poor and minorities located in this nation's urban areas.

The findings of this Report also support the need for fine-tuned strategies both to assist needy smaller communities respond to anticipated economic and demographic changes and to encourage healthy communities, irrespective of size, to revitalize pockets of poverty and to prevent the spread of decay. Further, energy needs in the decade ahead, as well as a concern for the environment, mandate clear urban policy commitments to energy conservation and development and to the preservation of environmental quality.

The nine points of the 1978 urban policy have been refined and strengthened for the 1980's, but their thrust remains the same. Working in partnership with state and local governments, the private sector, and voluntary and neighborhood groups, the Administration reaffirms its commitment to the following urban policies:

- **Policy I: Strengthen Urban Economies**
  Action will be taken to strengthen the economic vitality of America's urban communities and to assist distressed communities to compete successfully for households and jobs.

- **Policy II: Expand Job Opportunities and Job Mobility**
  Action will be taken to increase job opportunities for the structurally unemployed where they live and to increase their mobility to communities where jobs are available.

- **Policy III: Promote Fiscal Stability**
  Action will be taken to assist urban communities to strengthen their tax bases and to meet urgent revenue needs.

- **Policy IV: Expand Opportunity for Those Disadvantaged by Discrimination and Low Income**
  Action will be taken to eliminate discrimination and increase access to good quality housing, neighborhoods, and needed community services.

- **Policy V: Encourage Energy-Efficient and Environmentally-Sound Urban Development Patterns**
  Action will be taken to encourage State and local efforts in cooperation with the private sector to promote urban development patterns that conserve energy and environmental quality without limiting mobility or economic development opportunities.

These five policies reaffirm the urban policy directions set out in 1978. They recognize that the economic and job development needs of urban communities are key to promoting fiscal stability, to expanding opportunities for disadvantaged populations and to improving the quality of life in distressed urban areas. They reaffirm the national commitment to eliminating discriminatory practices and to expanding opportunity. They acknowledge the need to pursue environmental goals while addressing growing energy related concerns. The implementation strategies proposed to attain these five policy objectives incorporate the partnership, leveraging and targeting principles established in 1978.

Many national priorities will compete with the urban policy for scarce funds. Financial realities emphasize the need for close attention to the cost effectiveness of proposed policies and programs and for continued attention to targeting principles. They also underline the necessity of using Federal dollars to leverage State and local government funds and private investment–profit and nonprofit–to achieve urban policy goals. Difficult tradeoffs will need to be made among competing budget items. However, the national commitment to improve our urban areas and to advance equality of opportunity make clear that the nation's urban policy objectives command constant reaffirmation, attention and priority.

In the sections that follow, the five policies are discussed in turn. Each begins with an overview of the broad policy approach and the supporting rationale. This is followed by specific actions which will be placed on the national agenda for implementation or necessary study and early consideration.

## POLICY I: FOSTER STRONG URBAN ECONOMIES AND STRENGTHEN THE ECONOMIES OF NEEDY URBAN COMMUNITIES

As indicated in earlier chapters, national economic and demographic trends bringing growth and prosperity to some urban communities are bringing economic distress and increased social burdens to others. Needy communities require assistance in adapting to change and in creating new bases for vital productive economic activity. The Federal Government must simultaneously examine the urban impacts of its actions and halt or modify those that inadvertently cause harm to needy urban areas, and initiate positive steps to encourage increased public and private investment in them.

Since the President's announcement of the urban policy in March 1978, several significant steps have been taken to help needy communities respond to changing economic and demographic conditions. Urban and community impact analysis has been made an integral part of Federal decision making. Federal facility location and procurement have been targeted to distressed communities. The investment tax credit has been modified. The speedy implementation and expansion of the UDAG program has brought new life to many urban downtowns and residential neighborhoods. The Economic Development Administration (EDA) has been transformed from an agency primarily concerned with economic development in rural and non-metropolitan areas to an agency with the dual function of assisting both urban and rural areas revitalize their economies. EDA's pending reauthorization legislation will provide the agency with new loan, loan guarantee, interest subsidy, and direct grant authority to foster local public and public/private efforts to strengthen local economies.

The relationship between policies aimed at key industrial sectors and urban policy objectives are gradually becoming better understood. The recently completed multi-lateral trade agreements recognize, to the extent possible given other legitimate national objectives, the link between the importation of foreign goods and the health of American industries located in urban areas. The efforts of the Administration to help avoid bankruptcy of the Chrysler Corporation and to help communities like Youngstown, Ohio define appropriate strategies to accommodate changes in the steel industry reflect growing awareness of the relationship between industrial sectors and the economic vitality of urban communities.

Clearly, much has already been done. But the agenda is still not complete. The nation's needy communities will need sustained assistance from other levels of government and the private sector, if they are to accommodate continued decentralization of people and jobs. Helping communities adapt to anticipated economic and demographic changes, and to remain competitive as places to work and live is a continuing policy objective of this Adminstration.

Successful local economic development efforts are an essential prerequisite to addressing a wide range of urban problems, including fiscal distress and unemployment. In this context, the need for Federal assistance is premised on the following observations:

- Healthy urban economies are essential to a healthy national economy, higher levels of productivity, and lower levels of unemployment;
- Many older urban areas have experienced declining economies due to the decentralization of employment and people. Many of these areas are dependent upon economic sectors such as manufacturing, which are declining nationwide. They have been unable to attract newer industries, secure the expansion or prevent the demise of existing businesses. The problems of economic deline are most acute in central cities of older declining regions and metropolitan areas. However, many older inner suburbs, and some non-metropolitan communities are also losing their traditional employment base;
- Declining economies in older urban areas have worsened the employment opportunities of the population living in those areas. Racial minorities, low income persons, and female headed households have been particularly hard hit, since they are increasingly concentrated in just these areas;
- Declining economic activity in older urban areas has also eroded the fiscal capacity of these municipalities. This has occurred directly through the loss of taxable business and indirectly through the loss of population and income. Many distressed communities do not have adequate resources to meet

the service needs of their residents and to maintain their capital infrastructure;

- Without public efforts to help stabilize employment losses and/or to promote development of a restructured and competitive economic base, many older central cities, inner suburbs and non-metropolitan communities face continued economic decline during the 1980s;

- While many of the traditional economic functions of declining urban communities—particularly older manufacturing-based cities—cannot be restored, urban areas retain viable economic functions and can offer competitive opportunities for new businesses, as well as for expansion and retention of existing businesses.

Because of tight budget constraints the development of meaningful Federal economic development strategies will require efforts to forge strong relationships with state and local governments as well as with the private sector. While no easy answers or ready-made options are available, the Administration will take the following actions:

## A. Actions to Make Federal Economic, Tax, and Regulatory Policies More Supportive of Urban Communities

Several provisions of the Federal tax code appear to reinforce the economies of growing areas and narrow the prospects of needy urban communities. Also, at times, Federal programs have abetted and even encouraged the movement of people, jobs and services out of distressed communities. Thus Federal actions have helped to establish and strengthen competitive markets in non-urban areas and non-needy urban areas. The Administration will continue efforts to consider the impact of Federal policies and proposed programs on urban areas. It will:

**(1) Strengthen linkages among macro-economic, sectoral and place-oriented policies.**

Only recently has the necessary data and analytical base begun to develop to further our understanding of the relationship between cyclical and structural changes in the national economy, the health of basic industrial sectors, and the strength of local economies. As a leading urban analyst, Ralph Widner, summarized the situation:

"Economic policy has been dominated by concerns for the aggregate performance of the economy . . . But, as is the case in many of the other advanced industrial countries, economic policy must also be concerned with two other aspects of national economic performance: the performance of major sectors within the aggregate economy; and the geographic consequence of national policy and technological change . . . It is time to recognize that sound economic policy depends upon the balanced recognition of all three aspects of economic performance: aggregate, sectoral, and geographic."

If recent trends continue, an uneven economy will widen disparities between declining and healthy communities. Fiscal and monetary strategies to strengthen macroeconomic performance will have different impacts on different types of communities. Because of the nation's most troubled industrial sectors are concentrated in distressed regions and older cities, Federal actions affecting these sectors will directly affect the economic viability of distressed places.

During the 1980's, the Administration will continue to strengthen the Federal Government's understanding of the links between macroeconomic, sectoral, and urban policies. Central to its efforts, the Administration will consider adding analysis of the economic status of urban communities to the President's Annual Economic Report to the Congress. The urban status report would include a review of the effects key industrial sectors have on different types of communities. In addition, the Department of Commerce, the Council of Economic Advisors, the Department of Housing and Urban Development and Treasury will undertake coordinated efforts to monitor macroeconomic, sectoral, and community economic performance. Appropriate Federal responses will be defined to integrate efforts to strengthen the national economy with efforts to strengthen the economic health of the nation's cities and towns.

**(2) Revise tax policies that inadvertently harm urban areas.**

Many changes have been proposed by this Administration to reduce the impact of provisions in the tax code which reinforce decentralization and hurt needy cities and towns. Some have been enacted by the Congress (such as rehabilitation tax credits); others have not (such as restrictions on the use of mortgage revenue bonds or targeting of industrial revenue bonds).

Consistent with its urban policy commitments, the Administration will continue to review the effect of key provisions of Federal tax policy on urban economic development. Where the analysis suggests negative impacts on local economies, recommendations will be made for Congressional consideration and administrative action. Among the areas of concern to receive early and focused attention are:

- Provisions, such as accelerated depreciation, which appear to favor investment in new industrial and commercial structures over investment in existing buildings.

- Provisions, such as the investment tax credit, which appear to reinforce the movement of firms and jobs from needy communities.

- Provisions which affect the decisions of builders to develop rental housing and which affect the distribution of benefits to renters.

- Provisions permitting non-targeted tax exempt financing of industrial development by states and local governments.

Numerous studies have indicated that these provisions of the tax code may reinforce decentralization trends and weaken economies of existing needy communities. All four may also result in indirect and sometimes expensive subsidies to particular groups, subsidies not always linked to clear-cut national policies or the public interest.

**(3) Reduce paperwork and regulatory burdens on businesses desiring to locate or expand in distressed communities.**

Much progress has been made by this Administration toward reducing unnecessary paperwork and simplifying regulatory actions. Much more needs to be done, particularly with respect to matching Federal intent to encourage the location and/or expansion of businesses in needy cities and the related availability of venture capital in such communities. During the next few months, the Administration will increase its efforts to eliminate the still excessive and often unnecessary bureaucratic red tape inhibiting economic development activities in troubled communities. Initial efforts will focus on the:

- Review of "prudent man" requirements in the law and regulations affecting the flow of investment and risk capital available to new or small businesses in distressed cities.
- Review of current regulations governing commercial lending practices by bank and savings institutions.
- Review of Interstate Commerce Commission regulations that may have created differential trucking rates for cities and suburban areas, and an assessment of the impact of the Motor Carrier Act of 1980 on any such differentials.

**(4) Reduce the inadvertent negative impact of Federal actions on the economic vitality of distressed communities.**

President Carter's Executive Order mandating agencies to conduct urban impact analyses prior to initiating new policies, programs, and significant regulations won widespread support from public interest groups and private industry. Subsequent to issuance of the Executive Order, the Administration took supportive steps to assure that most key Federal activities directly affecting urban areas were covered by impact analyses. Urban impact analyses provisions were incorporated in state and metropolitan A-95 clearinghouse reviews and Environmental Impact procedures. Further, Community Conservation Guidelines were issued instituting community impact studies of Federal actions likely to lead to large commercial developments in urban areas.

Urban impact analyses can help assure consistency between Federal activities and the nation's urban policy commitments to help revitalize urban economies. They can flag policies, programs, and projects which if implemented will reinforce decentralization trends. They can pinpoint where Federally assisted efforts directed at strengthening an urban area's economic base m[illegible] [illegible]rt by oth[illegible] [illegible]ederal actions directed at other nationa[illegible] policy objectives. While the impact analysis process may not make life simple for Federal decisionmakers, it does make Federal decisions more equitable and more consistent with national and local urban policy commitments.

The President's expectations concerning urban impact analyses will require Federal departments and agencies to reaffirm their commitment to the Executive Order. Key agency policies and existing programs affecting urban areas must be subjected to urban analyses and modifications made if analysis indicates they harm urban areas. Technical staff competence must be strengthened and urban impact analyses, once completed, must be linked clearly to OMB's budgetary decisions.

Current A-95 and environmental impact analyses procedures will be amended to assure preparation of relevant and meaningful urban impact studies of Federally assisted projects by appropriate local groups and reviews by appropriate Federal agencies. As relevant, OMB guidelines concerning the President's Executive Order on urban impact analyses will be refined to clearly identify key urban impacts of proposed Federal policies, programs and projects. Finally, the new Community Conservation Guidelines will be aggressively implemented by all Federal departments and agencies.

**(5) Develop strategies to meet air quality as well as economic development objectives.**

The quality of air in and around many urban communities does not meet current Federal health related standards (Chapter 9). This imposes constraints on economic development which must be recognized by both the private and public sector. Urban economic development will require local public and private sector awareness of the impact of new or expanded firms on the level and type of air pollutants. Distressed communities in particular will have to carefully balance objectives regarding air quality and economic development. Most have significant air quality problems; yet most must make significant efforts to attract new firms or to promote the retention and expansion of existing firms in order to strengthen their economies.

Consistent with the President's urban policy, the Environmental Protection Agency (EPA) has developed flexible and innovative strategies to assist communities meet air quality standards. For example, communities are able to "bank" emission reductions beyond threshold levels necessary for attainment of one or more standards and draw on these banked reductions for new development. In addition, private firms are allowed to cast a "bubble" over their operations and to increase or decrease emissions for different activities within the bubble so long as overall pollution reduction requirements are met. A heightened degree of cooperation between the public and private sector will be required to respond to both air quality and economic development priorities. The Administration will work with state and local governments as well as the private sector to:

- Evaluate the health, environmental, and local economic impacts associated with attaining air quality standards;

- Develop flexible regulatory and, if necessary, legislative strategies permitting distressed communities to respond to air quality problems without imperiling economic development priorities.

## B. Actions to Help Distressed Urban Communities Adjust to Change and Achieve Healthier Economies.

Federal action can help achieve healthier urban economies by supporting local government and community group efforts at economic development, by assisting cities and towns cope with deteriorated capital facilities and utilities, and by targeting Federal facilities and purchases to distressed urban areas.

With Congressional reauthorization of EDA, the Administration will have put in place a diverse array of economic development tools capable of helping distressed urban communities adapt to continued decentralization of population and employment. Over $2.5 billion will be provided by the combination of EDA loan, grant, guarantee and interest subsidy programs and HUD's expanded UDAG program. As a result of Administration initiatives, businesses, small and large, desiring to locate, start, expand, or branch out in needy communities now have access to increased amounts of debt and equity capital. This can significantly reduce their developmental and operating costs.

Federal economic development efforts have also encouraged the emergence of locally based community development organizations. Indeed, well over 5,000 viable self-help organizations are now actively working to promote economic and community development. The encouragement of the local self-help phenomenon will continue to be an important aspect of Federal efforts to stimulate local economies.

Local government efforts to rebuild or revitalize urban economies remain hampered by outmoded, seriously deteriorated infrastructure, and uncertainties with respect to the supply and cost of energy. Also, local public and private efforts to capture a reasonable share of markets for goods and services created by Federal purchases are often impeded by complex regulatory provisions. To help localities overcome these obstacles, the Federal Government will undertake action to assist needy communities improve infrastructure and transportation systems and to meet their energy needs. The Federal Government will also continue to fine tune procurement procedures to increase purchases in needy communities. Specifically, the Federal Government will:

**(1) Help distressed urban communities repair and improve vital infrastructure.**

Both healthy and needy urban communities often face significant public infrastructure problems. But, needy communities often cannot afford to respond to them because of fiscal problems. Yet, development and maintenance of adequate infrastructure–such as water and sewer facilities–is crucial to a community's ability to attract or retain firms as well as to encourage business expansion.

At present, no Federal financial aid is available to assist communities initiate a comprehensive program of repair and improvement of deteriorating water and sewer lines. For example, EPA's 201 program is structured primarily to respond to pollution control needs, HUD's CDBG program is directed for the most part at the needs of low and moderate income people and their neighborhoods, and EDA programs are primarily related to economic development related projects. Current budget limitations, reflecting the Administration's determination to curtail inflation, preclude substantial new programs at this time to help needy communities respond to major infrastructure needs. In this context, the Administration will initiate an immediate effort to define options for expanded use of existing programs for infrastructure rehabilitiation and to develop possible cost-effective new initiatives compatible with budget constraints.

**(2) Help maintain and improve vital urban transportation systems.**

Since the announcement of the President's urban policy, the Department of Transportation has acted to assure that assisted highway improvement and transit activities are consistent with urban policy objectives. As a result, Federal transportation programs now tilt in favor of preserving and encouraging more efficient use of existing transportation facilities rather than new construction projects. In addition, recent statutory and administrative changes give local officials greater influence over the direction and use of transit and highway funds. The Urban Policy Initiatives program of the Urban Mass Transportation Administration (UMTA) has expanded efforts to link DOT-funded transit improvement with public and private sector efforts to improve economic opportunities and to attract private investment for local economic development efforts.

Current directions initiated as a result of the urban policy will be continued by DOT. Pursuant to the Secretary's mandate, major transportation investments, such as expressway improvements, will be reviewed prior to their being undertaken to assure that they are energy and environmentally efficient and that they will not harm the economies and fiscal base of needy urban communities. DOT will also act to assure that transportation developments improve access by minority and low income households to expanded housing, job, and service opportunities. Better management and increased rehabilitation of existing transportation systems, including highways, transit systems and airports, will be granted top priority and considered as alternatives to major new construction projects.

**(3) Expand public and private investment in distressed communities through Federal facility location and procurement.**

Steps initiated by the Administration to measure the urban impact of Federal actions prior to their occurrence, combined with possible amendments to the tax code, will help limit the inadvertent and sometimes negative effect of Federal policies and programs. These efforts will be supported by strategies to improve GSA and Federal agency track records with respect to carrying out the President's commitments on Federal procurement and facility location.

Since the issuance of the President's Executive Order on Procurement, Federal agencies have improved their targeting of procurement to labor surplus areas. Changes in criteria determining labor surplus areas have reinforced the ability of agencies to focus procurement on needy urban communities.

The Administration reaffirms its commitment to direct increased procurement to needy communities. It will strengthen existing goal-setting procedures initiated by each agency, and reinforce GSA's current monitoring function. It will consider further amendments to the current definition of labor surplus areas to focus purchases even more clearly on needy communities. To the extent statutes permit, the Administration will direct that set-aside programs grant priority to procurements in labor surplus areas. It will also review, and to the extent practicable strengthen efforts to expand Defense Department purchases in needy communities.

The President's Executive Order on facility location has resulted in the increased use of urban communities and central business districts within them to meet Federal agency space needs (see Chapter 11). Still, performance must be improved if needy urban economies are to receive the benefits of increased employment and business activity that can result from Federal facilities locating within their boundaries. To achieve even more rapid progress in responding to the objectives of the Executive Order, the Administration will recommend administrative changes–and, if necessary, statutory changes as well–to expand GSA's ability to review and approve agency decisions relating to space needs. It will also work toward increasing GSA's monitoring capacity with respect to facility location. Finally, the Administration will review present regulations and, if necessary, clarify GSA priorities for location of facilities in needy communities.

**(4) Assist local governments to conserve energy and develop new alternative energy sources.**

Without an adequate supply of energy, future economic development in urban communities will be seriously constrained. Further, without a supply of competitively priced energy, present disparities among regions, states, and localities will widen sharply. If current cost and supply disparities persist, needy urban communities will find it increasingly difficult to retain or attract energy intensive industries or firms.

The President's national energy plan is directed at ensuring the supply and equalizing the price of energy throughout the nation. Decontrol will result in increased production and the convergence of prices among regions. Development of new sources of energy through synfuel production or the conversion from oil to coal, and the use of conservation measures to extend existing energy sources will help make available a predictable supply of energy for all urban areas. District heating, co-generation and resource recovery are particularly promising innovative energy sources for urban areas.

Currently, household and commercial use of energy accounts for more than a third of total U.S. energy consumption. Urban areas alone are estimated to use about three fourths of all residential and commercial energy consumed. Thus, the potential impact of energy conservation and energy development initiatives in urban areas is large.

Recent studies confirm the benefits of expanded household and community conservation efforts and the benefits of alternative energy sources. For example:

- The Energy Information Administration indicates that savings from conservation efforts–weatherization of existing housing, energy-efficient building design and other conservation pressures–would lead to important aggregate energy savings.
- The Harvard Business School estimates that up to 50% of current energy use for home heating could be saved through "economically justified" improvements and heating units.
- Resources for the Future estimates that residential space heating could be reduced by 39% in existing homes through retrofit insulation and more efficient heating units with only a $500 investment and a five year payback period.
- The City of Los Angeles set a target in 1973 for reducing electricity consumption by ten percent in the residential and industrial sectors and 20% in the commercial sector. Actual savings achieved, at relatively little cost, were 18% and 28%, respectively.
- The Department of Energy has estimated that implementation of district heating in 300 cities where thermal demand is sufficiently dense and power plants are sufficiently close to make the system economic, could save 1 to 2.5 million barrels of oil a day by the year 2000.

More needs to be done to assure that supplies of reasonably priced energy are sufficient to support the efforts of needy communities to revitalize their economies. The Administration will continue fine tuning its energy policies in order to increase resources available to cities and towns, particularly those suffering from economic distress, for energy planning, as well as energy development and conservation purposes. Efforts will include possible amendments to existing planning, community and economic development programs as well as possible new Federal assistance initiatives.

**(5) Continue strong Federal support for economic self-help development initiatives.**

Aware of the limitations of government and the potential of self-help economic development, the Administration supported a number of proposals in 1978 to carry out the national urban policy objective of strengthening self-help initiatives. These include: HUD's Self-Help Development Program; the National Consumer Cooperative Bank; improvements in ACTION's Urban Volunteer Corps; charter funding for Community Development Credit Unions; and increased funding for CSA's Community Development Corporations. This Federal government effort to help its citizens help themselves will continue to be emphasized as we enter the 1980s.

Efforts to promote economic self-help will be based upon a partnership between the private and governmental sectors. Given limited resources, leveraging of private funds is necessary if needy communities are to adapt to decentralization trends.

Necessary public-private-non-governmental relationships can only be created in a positive climate which brings local citizens, local governments, and the business community together as partners in development ventures. The Federal government is uniquely situated to provide liaison assistance to all sides of this potential partnership.

To this end, the Administration will encourage all pertinent Federal agencies (e.g., HUD, EDA, CSA, SBA) to forge a Federal capacity to stimulate and service public-private non-governmental partnerships for community economic development. Due to budget constraints, agencies will be expected to create this new capacity using existing staff and programs. Specifically, the Administration will expect Federal agencies to develop broker, facilitator, and educator capacities to:

- Improve coordination and cooperation among city governments, community-based organizations, voluntary associations, private developers, investors, bankers, and grant-making organizations in the planning, financing, implementation and management of community development programs;

- Help equip local governments and non-governmental entities with the practical knowledge, skills and capabilities to work effectively in "partnership" roles with private and other public organizations and institutions toward shared economic development objectives;

- Provide liaison with the private corporate sector to assist the sector in defining and identifying opportunities for community investment.

## POLICY II: EXPAND JOB OPPORTUNITIES AND JOB MOBILITY FOR LONG TERM UNEMPLOYED AND DISADVANTAGED IN URBAN COMMUNITIES

Between December 1976 and December 1979, the national unemployment rate declined by one fourth to 5.9%, and the number of people employed increased by over 9.2 million. Total employment reached an all-time high of 98 million at the end of 1979. Despite this improvement in the national employment picture, many urban communities continue to experience high unemployment rates, especially among minorities, youths, and the poor.

In most needy cities, unemployment exceeds the national average. Among minorities and the poor, joblessness, low labor force participation rates and the absence of upward mobility remain a visible and often tragic commentary on our inability as a nation to achieve the national commitment to full employment. Large numbers of out-of-work minority youth remain as a symbol of wasted human resources and are likely to result in continuing community burdens.

To increase job opportunities for those who need them most, this Administration has improved the targeting of employment and training assistance to the economically disadvantaged, created the Private Sector Initiative Program to increase employment opportunities for CETA enrollees in the private sector, and initiated the Targeted Jobs Tax Credit to provide employers with an incentive to hire disadvantaged workers. The President's fight against inflation and efforts to restore the economy to health will further increase the nation's ability to achieve full employment and to address the problems of structural unemployment in urban communities. Still, more action is needed to assure that economically-disadvantaged persons do not bear the brunt of urban economic distress.

Many of the actions described here are aimed specifically at creating job opportunities for the unemployed in distressed urban communities. These "in place" strategies have dominated job creation efforts in the past. Other proposed strategoes aim at expanding job mobility opportunities for unemployed persons; that is, they are directed at expanding job choices for the unemployed in areas with growing employment. The Administration will:

**(1) Strengthen current interagency agreements to target jobs resulting from Federally assisted projects to disadvantaged workers.**

Within the limits of existing law, stronger efforts will be made to assure that the maximum feasible number of jobs created by Federally-aided projects and procurement contracts go to economically disadvantaged persons. Currently, agencies funding or assisting economic development projects have agreed to employment objectives with respect to these projects. For example, as part of an interagency agreement, HUD and EDA have set goals that 10-15 percent of the jobs created by their investments will be directed to the long-term unemployed. Applicants for HUD and EDA assistance must complete an employment plan that describes the jobs to be provided for the structurally unemployed and the employment and training programs that will prepare them for such jobs. This is an important first step. However, the employment plans required by Agencies for most assisted projects remain quite general, and monitoring procedures by Agencies remain uneven.

The Administration will take steps to strengthen the targeting of jobs created by Federally assisted projects to disadvantaged workers. To the extent statutes permit, and to the extent feasible, Federally-funded or assisted projects and significant Federal procurement contracts will be linked to employment objectives. Prior to receipt of Federal aid or a contract, brief employment plans will be required stating how many (and when) structurally unemployed people will be hired; and what types of outreach training programs will be used to assure a match between the unemployed and new job openings. The adequacy of applicant employment plans and commitments will constitute a major factor in Federal decisions to assist projects. Monitoring of performance will be improved and adjustments made in Agency programs if monitoring reflects significant gaps between employment objectives and project performance.

**(2) Evaluate the Targeted Jobs Tax Credit program.**

The Targeted Jobs Tax Credit program, enacted under the Revenue Act of 1978, was an important achievement of the 1978 urban policy. It replaced the former New Jobs Tax Credit and will remain on the books until December 31, 1980. The program provides tax credits to employers hiring workers from seven target groups, including disadvantaged youth, Supplemental Security Income recipients, the handicapped, and general assistance welfare recipients. The program is designed primarily to help the structurally and chronically unemployed. Through the end of 1979, nearly 100,000 vouchers had been certified. To date, a majority of the jobs affected have been in growing regions of the country.

Currently, businesses not earning taxable profits receive no incentive to hire eligible persons. Thus, based on pre-recession 1974 figures, nearly 40% of all corporations and all non-profit groups were unable to benefit from tax credits. At the other end of the profit spectrum, businesses earning very large profits receive relatively smaller tax breaks because tax credits must be deducted from employer wage and salary expenses.

Dissemination of information regarding the program has been widespread. But there are still gaps among employer groups and potential beneficiaries. Further, state participation in the program has been uneven.

The Administration will initiate an early review of the initial effect of the Targeted Jobs Credit Program and take appropriate steps, if necessary, to improve its effectiveness.

**(3) Enact the Administration's proposal for Youth Employment Initiatives.**

Young workers between 18 and 24 suffer the highest unemployment rate in the nation. To prevent this tragic loss of talent and erosion of youthful self-confidence, the Administration has proposed a major new youth employment initiative which would provide disadvantaged youth with graduated training and work experience including basic education skills. These initiatives are designed to make unemployed teenagers and young adults employable in the increasingly white collar job market of the 1980's. They link educational and vocational training to job training and market incentives. The initiatives will consolidate Youth Employment and Training Programs, Youth Community Conservation and Improvement Projects and Youth Entitlement Pilot Projects. The Administration will continue to press for the passage of the Youth Employment Initiatives by the 96th Congress.

**(4) Expand geographic job mobility for disadvantaged workers.**

Persons with low job skills living in economically needy urban communities are more likely to be unemployed and to be unemployed for longer periods than similar persons in economically thriving communities. The Federal Government has long acknowledged its responsibility to assist workers displaced from their jobs as a result of Federal action. In addition to reviewing possible reforms in and to the CETA program directed at expanding the choices of CETA eligible persons with respect to job location, the Administration will request an examination of new approaches to assist workers in communities losing jobs to seek employment in growing neighboring communities or in other states. Among them:

- **Welfare reforms to expand job mobility.** Currently, welfare recipients needing jobs have no guarantee that their benefits will continue, even temporarily, if they move to another area where employment may be available. Understandably, this impedes mobility. The Administration will review options which would assure welfare recipients continuation of assistance for a limited period of time.

  In a similar vein, providing WIN recipients the right to continue receiving WIN benefits and their employers the right to secure WIN employment tax credits after employee relocation for job purposes will also be considered. The elimination of jurisdictional restrictions on the program coupled with the temporary continuation of welfare payments would be likely to encourage households to relocate to areas of expanding employment.

- **Tax credits for moving costs.** Presently, moving costs are deductible from taxable income. As a result, benefits are largely confined to relatively affluent households in the highest income tax brackets. Comparatively few income benefits are accorded to low income households. Changing to a tax credit equal to a percentage of moving costs will be considered by the Administration. This would not only increase equity but would provide additional incentives to low-income families to seek jobs wherever they might be.

- **Amend CETA to increase targeting and mobility.** Many changes were made in the CETA program at the time of its reauthorization in 1978 to make the program more consistent with the urban policy objectives. These included improving the targeting of employment and training services to economically disadvantaged persons, reducing opportunities for local governments to substitute PSE enrollees for their regular employees, and giving increased emphasis to placement of CETA enrollees in private sector jobs. These positive steps were reinforced by the President's employment initiatives which increase the likelihood that jobs created by Federally-assisted economic development projects will go to economically-disadvantaged persons.

  As PSE slots are cut back, achievement of urban policy job goals are likely to depend upon how well CETA is linked to the private sector. The Private Sector Initiatives program will suggest new directions for local employment and training efforts and will increase the rate at which CETA enrollees are placed in private sector jobs. To increase its overall effectiveness, CETA will increasingly tailor employment and training services to target population groups, as is being done in the Administration's youth employment initiatives. The Department of Labor will also consider alternatives to provide relocation assistance to graduates of CETA training programs who wish to relocate to areas offering greater job opportunities for persons with their skills.

## POLICY III: PROMOTE FISCAL STABILITY IN URBAN COMMUNITIES

Administration initiatives to strengthen the economic position of needy communities will help improve their long term fiscal viability. Improvements in the local tax base from retention and expansion of local jobs and from the improved employment and income status of residents will enable local governments to respond better to local needs from their own revenue sources. These actions will also help reduce fiscal disparities among communities. But until these improvements take hold, many economically hard-pressed communities will continue to require fiscal relief from the Federal and state governments.

The Administration has taken steps to help needy communities overcome short and long term fiscal problems. During the last recession, the Administration worked with Congress to enact the Economic Stimulus Program that provided substantial countercyclical assistance to urban communities in the form of Anti-Recession Fiscal Assistance, Local Public Works assistance, and sharply increased CETA public service employment positions. This assistance was largely phased out as the economy recovered. Other Administration actions have increased the targeting of Federal assistance to communities suffering from long-term fiscal strain. A dual formula was developed for the Community Development Block Grant program which increased allocations to older distressed urban communities. Improvements were made to the formulas for allocating CETA assistance. A concentration provision was added to Title I of the Elementary and Secondary Education Act. Finally, Federal actions to aid New York City illustrate the Administration's commitment to work in partnership with state and local government and the private sector to assist localities in crisis situations.

Additional actions will be taken by the Administration to improve the targeting of fiscal assistance to distressed urban areas and to improve local management capacity with respect to fiscal problems. They include:

**(1) Consider ways to take cost differentials into account in distributing Federal aid.**

Because of the persistence of relative cost differentials between and among regions, metropolitan areas, and communities, Federal aid formulas, which distribute grants on the basis of uniform per capita income and poverty rates, may inadvertently discriminate against high cost urban areas. Bureau of Labor Statistics data for metropolitan and some non-metropolitan areas suggest that there are pronounced differences in family budgets required to maintain reasonable living standards in needy as opposed to prosperous communities. According to most analysts, the cost of living averages 10% to 30% higher in needy jurisdictions than in non-distressed communities. Similarly, controlling for management and administrative differences, the cost of public services appears to be higher in needy communities.

The Administration will initiate a review of the feasibility of using cost indexes to distribute Federal assistance. The analysis will test ways to surmount methodological difficulties associated with adjusting current grant-in-aid formulas to either incorporate indices measuring differential costs for publicly provided services or the general cost of living. It will also evaluate options with respect to extending the scope and coverage of current cost of living measures and review alternative targeting formulas to assure predictable and equitable impacts across jursidictions.

**(2) Modify and extend the General Revenue Sharing Program and enact the Targeted Fiscal Assistance Program.**

To achieve the dual objectives of balancing the Federal budget and providing local fiscal relief, the Administration has proposed to extend General Revenue Sharing with several important modifications. First, the state share of GRS will be eliminated for a savings to the Federal budget of $2.3 billion. Second, up to $500 million in transitional fiscal assistance will be provided to local governments to offset Revenue Sharing funds formerly passed through to them by States. Third, targeting of the local share of Revenue Sharing will be sharpened to provide additional relief to communities with high tax and poverty burdens.

In addition, the Administration has proposed the creation of a Targeted Fiscal Assistance Program of up to $250 million aimed at local communities experiencing long-term economic distress. With shrinking tax bases and growing dependent populations, these communities lack the capacity to provide essential services and to restore their economic health and competitiveness without some assistance.

**(3) Refine the criteria for distributing grant programs to improve the targeting of funds to needy communities.**

The Administration will continue efforts to improve the criteria used in Federal grant programs so that Federal assistance is fairly and equitably distributed. Recognizing resource scarcity, this Administration, has directed its efforts towards assuring that limited Federal dollars are directed inceasingly to the neediest communities and households. Since the issuance of the urban policy in 1978, significant progress has been made. For example, the CDBG, CETA, and mass transit programs have been amended by either statutory or administrative change to expand the flow of program funds to needy communities and their residents.

These efforts will continue. Specific provisions governing fund distribution will be subjected to intensive analysis. Current indices measuring such problems as unemployment will be improved in order to indicate local problems more precisely. Methods to improve accurate counting of minorities and low-income people in census reports will be developed.

**(4) Strengthen state and local management capacity.**

State and local governments play a vital role in accomplishing national objectives and carrying out Federally-mandated programs. In addition they are responsible for a vast range of locally provided services and capital infrastructure. Efforts to improve the capability and productivity of local levels of government can contribute in important ways to strengthening their long run fiscal position.

Several assistance programs are currently available to promote State and local management capacity. These include: HUD's 701 comprehensive planning assistance program; the Intergovernmental Personnel Act, a $20 million grant program that finances improvements in personnel management systems; HUD's Governmental Capacity Strengthening Program, which focuses on use of scientific and technical information in management activities; and EDA's economic development planning assistance to needy communities. A number of executive reforms are currently underway to reduce the adverse impacts of unnecessary Federal regulations on state and local productivity.

The Administration will continue to support actions to strengthen the public management capability of local government. Strategies to be considered include the following:

- Amend the Intergovernmental Personnel Act to authorize grants and cooperative agreements in key management areas. Revise award criteria to give more emphasis to the development and testing of management systems and techniques.

- Encourage Federal agencies to continue their individual efforts to support state and local government productivity and management capacity. EDA's Comprehensive Economic Development Strategies (CEDS) demonstration is an important example of such efforts. The CEDS program has assisted 21 cities in fostering long term, coordinated strategies for investing local, state, Federal and private resources to promote local economic development.

- Establish a productivity/management related information sharing program for state and local governments.

- Amend the 701 planning assistance program in order to encourage more attention to urban policy priorities and to require a closer link between local urban policies, local management capacity, and local strategies for affecting urban policy changes.

## POLICY IV: EXPAND OPPORTUNITY FOR THOSE DISADVANTAGED BY DISCRIMINATION AND POVERTY

During recent years this nation's urban areas have not served effectively as a platform for advancement for many persons suffering from poverty and discrimination in the way that cities filled this role for successive waves of immigrants earlier in this century. If present trends continue, larger needy cities will become the permanent home of a disproportionate share of low-income and minority households. In the process, our ability as a nation to resolve urban problems will be sorely tested, and the ability of poor, and minority households to improve their lives and the lives of their children will be lessened appreciably.

Since his inauguration, President Carter has renewed and strengthened the nation's long-standing commitment to eliminate racism and provide greater opportunities to disadvantaged groups. Following the President's lead, the Administration has expanded enforcement of civil rights, affirmative action and equal opportunity provisions of current statutes. It has extended neighborhood revitalization and housing programs. It has recommended, and the Congress has enacted, increases in education and other human service programs. Major reforms with respect to health care and income support are now before Congress. Despite what has been accomplished, the national agenda for increasing the opportunities open to the urban poor and those facing discrimination remains unfinished.

The Administration reaffirms its commitment to achieving a society free of racism and discrimination; a society where lower income households and minorities have expanded housing and neighborhood opportunities throughout broad metropolitan and non-metropolitan areas; and a society where neighborhood revitalization does not create fear of displacement but provides hope for a better life. The Administration remains committed to helping expand the range and quality of shelter, employment, neighborhood, educational and social service choices open to the poor and the near-poor as well as to minorities and women. For some, increased spatial mobility will be a prerequisite for a fuller life; for others, greater opportunities for income support, jobs, and decent, affordable housing in their current neighborhoods will be the route to equal opportunity. Because poverty and minority status are often characteristics associated with the same urban households, policies to increase housing and employment opportunities among disadvantaged urban populations, as well as policies directed at in-place revitalization of older, troubled neighborhoods, require dealing with problems of race and income simultaneously. This raises several important policy issues:

- Neighborhood revitalization has upgraded the existing housing stock and the quality of urban life in a number of cities. But it has also resulted in displacement of some low income and minority households;

- Efforts to increase the access of poor people and minorities to growing, economically healthy jurisdictions and stable neighborhoods have often conflicted with local perceptions of community self interest. Many affluent areas are reluctant to applaud the arrival of lower income or minority residents. Community leaders in troubled neighborhoods also view mobility as a two-edged sword. While they applaud opportunities for some to improve their lives, many would prefer a focus on neighborhood revitalization for existing residents.

Spatial mobility and neighborhood revitalization are not mutually exclusive policy options. Effort to provide minority and low income households expanded housing choices outside of their current neighborhoods, even if immeasurably strengthened, will only affect relatively small numbers of low income and minority households. Even if a disproportionate share of existing housing programs were targeted toward mobility, limited resources, households preferences and discrimination will constrain many households to their current neighborhoods. Regrettably, a quick and major break in the walls of urban ghettos is not possible. Thus, both spatial mobility and neighborhood revitalization will be necessary to meet national commitments to improve the quality of life in urban areas and to expand access to better jobs, housing and services for poor and minority households.

## A. Actions to End Discrimination

The Carter Administration has made significant strides in combatting discrimination against minorities, women, and the handicapped. Reorganization and strengthening of civil rights enforcement activities have led to significant improvements in equal opportunity, and affirmative action efforts have met with considerable success. The Administration has taken many steps to enforce fair housing provisions of Title VIII. For example, HUD has recently instituted a $3.7 million Fair Housing Assistance Program; it has also recently committed $2 million for Housing Resources Boards and $600,000 have been allotted for a Fair Housing Demonstration. Opportunities for minority business have expanded enormously as well in the last three years:

- Federal procurement for minority-owned firms has increased by nearly two and a half times;

- Federal deposits in minority-owned banks have nearly doubled;

- Minority ownership of radio and television stations has increased by 65%;

- The Section 8(a) program operated by the Small Business Administration has been reformed.

Rigorous enforcement of current civil rights, fair housing and equal opportunity legislation will be necessary throughout the 1980's to provide minorities, low income persons and women with expanded residential and neighborhood choices and job opportunities. Discriminatory barriers, which historically have denied minorities and women access to employment opportunities and limited their choices of residential neighborhoods in city as well as suburban communities, must be eliminated. To the extent that statutes permit, aggressive affirmative action will be taken by this Administration to redress inequities and provide new opportunities.

Further actions are needed to make Title VIII a truly effective tool in the fight against discrimination. As it now stands, the law prohibits discrimination based on race, color, religion, sex and national origin in the sale or rental of most housing units. Its coverage extends to financial institutions and prohibits discrimination with respect to the decisions concerning the availability or cost of credit. All Federal departments must administer their programs and activities relating to housing and urban development in a manner consistent with the purpose of Title VIII.

Congressional passage of the Administration's proposed amendments to the Civil Rights Act of 1968 will strengthen HUD's ability to secure prompt and equitable compliance with the fair housing provision of Title VIII. They will provide HUD with the authority to investigate complaints, hold Administrative hearings and, where warranted, issue binding cease-and-desist orders.

The President will also consider early issuance of an Executive Order directing HUD to develop guidelines for determining which Federal programs relate to housing and community development, and to issue regulations describing:

- Methods for analyzing the impact of Federal programs which relate to housing and community development on the promotion of the goal of fair housing;

- HUD's responsibilities in assuring that its programs are administered in an affirmative manner to further fair housing;

- The responsibilities of agencies involved in administering Federal programs which relate to housing and community development to further the goal of fair housing.

The Executive Order would require Federal agencies to publish and carry out regulations providing for the administration of their respective programs and activities relating to housing and community development in a manner to further fair housing.

Above and beyond rigorous enforcement of Title VIII, the Administration will evaluate efforts to meet the goal established by Title VI of the Civil Rights Act of 1964, as well as the various Executive Orders and statutes requiring equal opportunity and affirmative action with respect to employment and credit lending. Federal implementation and enforcement of key civil rights statutes will be subjected periodically to urban impact analyses. Building on the steps already taken to improve Federal performance, the Administration will strive to improve inter-agency coordination with respect to the enforcement of civil rights statutes, to develop an effective information system identifying the location, extent and type of discriminatory practices and the effect of Federal anti-discrimination, affirmative action and equal opportunity actions.

The Administration will also improve the targeting of Small Business Administration loans to minority-owned businesses. Management, technical, and training assistance will be expanded for minority firms, and support will be provided for minority capital development under the SBA's Minority Enterprises Small Business Investment Company (MESBIC) program. The President will also propose that Congress formally authorize the newly created Minority Business Development Agency within the Department of Commerce. Finally, the Administration is committed to tripling the 1977 level of Federal procurement from minority-owned firms.

## B. Actions to Expand Housing Opportunities

Despite rapid inflation in housing costs and rising interest rates, actions on the part of the Administration helped maintain new housing construction, make mortgage credit available and assist low income households to secure affordable housing through the late 1970's. However, persistent rapid inflation and the need for tight monetary policy threaten the progress that has been made in expanding housing opportunities.

As indicated in Chapter 5, affordability has replaced substandard conditions as the most pressing urban housing problem. Still, for the poor and near-poor, and for many minority families, structural and other housing deficiencies as well as increased costs constitute significant problems. These problems appear likely to worsen in light of current market conditions limiting the production of new housing units, particularly rental units.

Housing policies for the 1980's must be framed within the context of an uneven economy and the expectation that increased capital and operating costs will mean that the supply of rental units, particularly, may be inadequate to meet housing needs. As a result, increasing pressures will be placed on the existing supply of units in both cities and suburbs and in growing communities in non-metropolitan areas. Displacement of the poor, while not yet a major problem in most cities may well become one, if neighborhood revitalization efforts proceed without concern for the housing needs of lower income residents.

Rising housing costs together with slowed income growth mean that the housing market in some cities will become increasingly tight. Heightened housing related needs on the part of low, moderate, and indeed middle income groups, will occur at a time when developers will find new production or reinvestment and maintenance of existing units increasingly unprofitable. Abandonment, disinvestment and neighborhood deterioration may well occur simultaneously with low vacancy rates in some low income neighborhoods. To address these needs, the Administration will:

**(1) Coordinate housing production with efforts to conserve the existing housing stock.**

Historically, high levels of production have upgraded the housing stock and provided improved housing for Americans in cities, suburbs, and non-metropolitan areas. However, when production of new units has exceeded household growth from new family formation and net in-migration, it has reinforced decentralization trends and, in the process, hurt some older neighborhoods.

Recognizing the linkage between new residential construction and the stability of older urban neighborhoods, the Administration will continue to base its housing assistance programs on a careful study of local market conditions and household needs. Current procedures related to market analyses will be strengthened to assure consistency between the location and number of Federally assisted or insured units required to respond to household needs, and local community efforts to conserve the existing housing stock and preserve older neighborhoods.

**(2) Encourage neighborhood revitalization for new and present residents.**

Neighborhoods in many cities and towns around the nation have become the focal point of visible revitalization activities. As a result, many urban residents have benefitted from an improved living environment, better housing conditions, and often, more integrated neighborhoods. However, neighborhood revitalization has, in some instances, displaced residents and imposed affordability burdens on those who remain.

The Administration is committed to helping urban communities initiate successful revitalization efforts. It is also committed to developing effective approaches which minimize displacement and which provide opportunities for present residents to remain in place and secure improved housing conditions.

Since announcement of the President's urban policy, several steps have been taken to encourage neighborhood revitalization and to reduce displacement. New programs such as the UDAG, Targeted Tandem Neighborhood Self-Help and the Urban Parks and Recreation Recovery Program, have been enacted. Existing programs, such as the Section 312 rehabilitation loan program, have been expanded in terms of both budget and coverage to provide resources for upgrading the existing stock. The Administration has also attempted to develop fair and equitable displacement guidelines. Agencies such as HUD and DOT have amended their program assistance regulations to respond to the Uniform Relocation Act requirements and to precisely define Federal and local responsibilities to displaced residents.

The Administration is firmly convinced that neighborhood revitalization and conservation of the existing housing stock is essential if central cities and older suburbs are to be kept vital. At the same time the Administration fully recognizes that the threat of displacement constitutes a very serious problem in some communities and creates hardship for those who are displaced. To promote revitalization that does not simultaneously create hardships for the residents of the revitalizing neighborhoods, the Administration will encourage two complementary sets of actions.

To reduce the possibility of revitalization induced displacement, the Administration will:

- Continue to help forge public/private/neighborhood partnerships as the most appropriate structure for revitalization activities.

- Implement as feasible in light of current anti-inflation efforts, the Section 312 rehabilitation loan program for multi-family units.

- Encourage localities to meet revitalization needs by taking full advantage of CDBG funds, Section 312 loans, Targeted Tandem, Section 8, Urban Homesteading funds, and Neighborhood Housing Services programs within target areas.

- Encourage agencies that administer neighborhood revitalization programs to promote the use of neighborhood-based groups as vehicles for implementation of these programs.

- Encourage the strategic local use of existing Federal assistance programs (such as Section 8, Section 312 and CDBG) to provide opportunities for low and moderate income households to remain in place during and subsequent to revitalization.

To ameliorate unavoidable displacement, the Administration will strive through amendments to existing programs to assure that:

- Displacement of persons in connection with Federal or Federally assisted programs and activities is minimized.

- Where such displacement is unavoidable, appropriate relocation assistance is provided.

- Sufficient research and technical assistance is provided to enable state and local governments, counties, neighborhood-based groups and the private sector to develop appropriate strategies and activities to minimize displacement resulting from or caused by private revitalization.

**(3) Increase housing choices outside areas of concentration for low and moderate-income and minority households.**

Discriminatory practices have historically narrowed the housing choices of low and moderate-income households and minorities. These households have been denied opportunities to improve the quality of their lives and the job, housing and education choices open to them. Central cities have borne a disproportionate share of the costs of discrimination.

Beyond the steps noted above to fully implement existing statutes, the Administration will strongly encourage localities and the private sector to provide expanded housing options to low and moderate income households and minorities outside of their present neighborhoods. Specific strategies will be developed to foster metropolitan-wide and city-wide mobility. At a minimum, these will include:

- **Amendments to Section 8:** The Section 8 Existing Program will be used to remove barriers and to facilitate the mobility of low and moderate income people and minorities who are seeking greater housing choice. Public housing agencies will be encouraged to use their extra-territorial powers to provide housing opportunities afforded by the Section 8 Existing Program throughout the metropolitan area. HUD will provide bonus allocations of Section 8 units to communities that participate in Areawide Housing Opportunities Programs (AHOP). HUD will also conduct a Regional Mobility Demonstration which will provide bonus Section 8 Existing units to suburban communities willing to provide housing opportunities to inner city low income households.

- **Areawide Planning:** Areawide planning efforts aimed at developing and implementing fair share housing plans which emphasize metropolitan-wide mobility will be linked, to the extent possible, to other discretionary community and economic development funds, and to the Department of Health and Human Services' Title XX Social Service funds.

- **Demonstration Programs**: Demonstration programs will be initiated to test the coordinated use of programs such as Title XX Social Services and Section 8. These will be directed at expanding housing choice and responding to the needs of relocated households in need of social services.

(4) **Expand housing opportunities for low and moderate income households.**

Current market conditions, combined with escalating housing costs and Congressional resistance to new housing subsidy programs, have raised serious questions concerning this nation's continued capacity to help its low, moderate, and even middle income households secure decent affordable shelter in good neighborhoods. Extensive reliance on new construction to meet the needs of the poor is both relatively expensive and, because of limited site availability, relatively inefficient. Conversely, extensive reliance on the rehabilitation and use of existing housing to respond to the needs of poorer families and individuals, while less costly and capable of producing more units in more diverse areas, is perceived by some to raise serious equity questions.

The difficulties must be faced, as complex as they are. During the next few years, housing market factors reviewed earlier in this Report will exacerbate problems of affordability and limited supply. These same market factors will continue to ration new unassisted housing units and direct them at predominantly higher income groups during the 1980s. If housing opportunities available to low and moderate income households are not to be narrowed substantially, and if needy communities are to be able to provide all income groups with a balanced set of housing choices, more cost-effective strategies must be considered. These will include:

- **New strategies to produce and preserve rental housing while meeting lower-income household needs.** Because Section 8 Existing commitments require less budget authority than Section 8 commitments for new construction, a strategy which grants priority within the Section 8 program to Section 8 Existing units, if coupled with reasonable levels of rental housing production, would increase the number of low- and moderate-income households that could be assisted from current and anticipated budgets. However, relatively little nonassisted rental housing is now being built in this country, particularly in needy communities. Condominium conversion has further reduced the supply of units in some cities. The administration will review alternative strategies to foster the increased production of rental units by the private sector, where needed, thus permitting increased reliance on the Section 8 Existing program to meet lower-income needs.

- **Targeted use of Section 8 new housing and public housing funds to respond to specific urban policy strategies.** Section 8 New Construction and the public housing program will be linked increasingly to locally-defined revitalization strategies directed at avoiding displacement and responding to relocation needs. They will also be coordinated with locally-defined strategies to respond to tight markets and to close the gap between the existing housing stock and changing households needs and demands. Finally, they will be used in conjunction with areawide and local efforts to enhance integration and mobility.

- **Consideration of new strategies to increase rental housing options.** Currently, relatively little non-assisted rental housing is being built in this country, particularly in needy communities. Condominium conversion has further reduced the supply of units in some cities. The Administration will review alternative strategies to foster the increased production of rental units by the private sector, particularly rental units in needy communities.

## C. Actions to Improve Urban Services

Improving the quality of social services will continue to be a major urban policy commitment. Since the President's urban policy announcement, the Administration has undertaken numerous initiatives to help provide better community services for lower income and minority households. For example, Administration recommendations call for $2.5 billion to be made available to states in FY 1980 for Title XX Social Service programs, as well as for higher funding levels for ESEA education programs. The administration proposed and Congress enacted the Livable Cities program providing support for community projects with cultural, artistic and historic value. Finally, enactment of the President's health care initiatives will improve the health care available for low and moderate income households. The proposed National Health Insurance plan would provide health coverage for millions of low income Americans for the first time, improve Medicare coverage for the elderly, and protect every American family against the disastrous costs of extended illness.

There is no way to measure easily the need or quality of community services in this nation's cities, counties, and towns. Acceptable performance and cost measures are absent. Issues related to comparability, equality and distribution of services, while at times subject to gross legal definition by the courts, have not yet yielded to analytical precision. Aggregate data, combined with the testimony of numerous public officials, neighborhood groups and low and moderate income residents suggest, however, that there are community, household, and neighborhood problems with respect to service quantity, quality and access. The lack of adequate services exacerbates the problems faced by low income households living in poor areas. In addition, the fear of losing services may restrict mobility on the part of poor households, thereby furthering the concentration of low income households in large urban areas. Large, needy communities generally allocate more funds for social services than smaller, non-distressed communities, thus increasing fiscal disparities and exacerbating municipal cost burdens.

Proposals for providing basic public service delivery through privatization or expanded income support programs, face significant institutional, political, and cost constraints. Privatization is perhaps appropriate in a limited number of areas. But, as a general strategy, privatization raises significant accountability, distribution and equity problems. Improved income support for poor people, while necessary and contained in the President's welfare reform program, would not be sufficient to enable poor households to purchase adequate services.

Needy urban communities require continued Federal, state and county assistance to provide adequate community services. The fiscal resources of needy jurisdictions often do not provide the flexible resources necessary to meet expanded service requirements resulting from growing poverty populations. Unfortunately, budget limits now place a cap on increases in key programs such as Title XX and ESEA. Current economic constraints underline the need to consider the reform of existing programs and formulate new partnerships among Federal, state, county and local governments to secure better service delivery. In this context, the Administration will:

**(1) Improve the effectiveness of Title XX and ESEA.**

Title XX and ESEA provide financial assistance for community services. Title XX of the Social Security Act of 1975 distributes Federal funds to states on a population basis to finance social services for low and moderate income households. ESEA, the largest compensatory education program funded by the Federal Government, provides assistance to state education agencies based on statutorily defined poverty criteria.

Each of these programs has been subjected to extensive agency and independent analyses. While most studies give both programs reasonable grades for performance and impact, most studies also fault them for similar types of problems. For example:

- Both Title XX and ESEA have enabled many urban communities to improve the quality and expand the quantity of local education and community services provided lower-income residences. However, both exhibit targeting problems, measured by urban policy commitments. Title XX is distributed to States essentially on a per capita basis. The formula does not reflect differences in level of need among states or among communities within states (unless the state chooses to do so). ESEA funds are allocated on the basis of poverty criteria which under-estimate the total numbers of poor persons. Only very general statutory or administrative standards guide distribution internal to states with respect to either program. Statutory requirements that states spend 50% of their Title XX allocation on services to welfare recipients, directs funds toward the most needy in each state while maintaining considerable state flexibility.

- Both Title XX and ESEA are only tenuously linked to local public officials or local public consultative processes. Neither program is effectively tied to broader community revitalization and housing mobility strategies, policies, or plans.

- Information concerning the precise distribution of program funds and the impact of funded projects in local jurisdictions is sketchy at best.

- ESEA does not require State matching funds. As a result, it does not leverage local funds.

  Differing standards among and between states regarding the use of both ESEA and Title XX funds do not assure minimal performance thresholds.

Title XX and ESEA are crucial to improving the quality of local services. They are likely to become more important as total Federal resources decline as a share of local budgets. The Administration will subject each program to sustained analysis in order to recommend to the Congress where statutory changes are required to enhance the benefits of both programs to needy people and needy communities. In this context, the Administration will consider options to: more precisely target ESEA and Title XX; improve linkages between state and local governments with respect to planning for both programs; and improve current information, collection, retrieval, and evaluation procedures.

**(2) Improve health care services.**

President Carter's proposed national health care programs will go a long way toward improving access to basic health care services in urban communities. Expanded insurance coverage provided by the President's health care initiatives will permit millions of low and moderate income urban residents a chance to secure medical treatment without excessive financial burdens. The cost containment proposal will slow the rapid growth of hospital costs.

While Congressional debate proceeds on these initiatives, the Administration will examine ways to improve the Medicare/Medicaid programs and to stabilize the financial position of public hospitals enabling them to continue to serve the needs of low-income people.

**Medicare/Medicaid.** Medicaid and Medicare were created primarily to provide access to improved health care for the poor and the elderly. Since their enactment, the utilization of medical services by low-income households and the aged has increased measurably. Indeed, in some areas poor people may have achieved parity with respect to higher income groups concerning access to physician and hospital services. However, several severe problems which have reduced the impact of Medicare and Medicaid will be addressed:

- Medicare and Medicaid were initially anticipated to support a large share of the costs of Neighborhood Health Centers. By 1975, funds for Medicare/Medicaid covered only 10-20% of the operating costs of most centers. Failure to support the centers arose because many poor and near poor are not eligible for benefits, because of limitations on reimbursable services and low reimbursement rates for some services.

- The absence of state uniformity with respect to Medicaid standards results in uneven coverage.

- Medicare reimbursement policies tend to favor institutional care without regard to cost or patient needs. Other needed services, such as preventative care, are excluded.

**Public hospitals.** Public general hospitals—community hospitals owned by local, state or regional governments—play a critical role in the delivery of health services in urban areas. There are 90 public general hospitals located in 63 of the 100 largest cities of the country. Of the 50 largest cities, only four have no publicly-owned community hospitals. However, many of the nation's hospitals—private as well as public—are threatened with closing, as declining tax bases, low occupancy and outmoded facilities make them financially insolvent.

The **Journal of the American Hospital Association** reported more than 200 hospitals closed in the country between 1975 and 1977 due to bankruptcy, low occupancy and outmoded facilities. Inner-city public hospitals are particularly vulnerable to closing because they rely on tax support that must be spread thin to cover rising medical costs, and because they compete for funding with other government services. Because many of the inner-city poor cannot afford hospital fees and yet are ineligible for Medicaid, the hospitals receive no fees for many of the services they render. Ironically, Medicaid itself contributes indirectly to public hospitals' financial problems. By giving its recipients the option of going to a private hospital, Medicaid has increased the "empty bed" problem in public hospitals.

Because most inner-city residents served by public hospitals are black or Spanish-speaking, threatened closings disproportionately affect disadvantaged persons. Public interest lawyers, the Office of Civil Rights of the Department of Health and Human Services and the Department of Justice have actively litigated against the closing or relocation of urban hospitals on the basis of the closings' disparate impact on minority groups.

In addition to the loss of health facilities, hospital closings have other adverse social impacts. Hospitals have long provided an important source of jobs for inner city persons, including many minorities and women. In the early 1960s, black hospitals reported 75% more revenue and employed 200% more people than the 100 top black business firms in the country. A hospital closing also has an adverse economic side effect on the surrounding community: for example, small businesses supported by the hospital are often forced to close, further reducing the employment and economic base.

Proponents of closing, moving or consolidating hospitals point to the financial drain of supporting a public hospital. For example a visit to an emergency room for a problem that actually requires only a doctor's office visit may cost upwards of four times as much in the emergency room as in the office. In many cases, however, clinics often are not there in the numbers or scope required to meet community health needs.

Ultimately, the cost of hospital care for the uninsured cannot continue to be borne by cities, just as the full cost of Medicaid, if expanded to meet indigent needs, cannot be borne by states. A national health care program as proposed by the President will diffuse the financial burden as widely and as equitably as possible. During the transition period, however, ways must be found to assist public hospitals to continue to provide health services in the inner city.

To maintain the quality of services and facilities at urban public hospitals, interim fiscal relief provided by Federal and state governments may be necessary. Options which will be considered under existing grant, experimental, demonstration and waiver programs are:

- Grants under Public Health Service authority to enable urban hospitals to restructure and improve ambulatory care services to emphasize comprehensive primary care and continuity of care.

- Support for existing or new community health centers linked to inner-city hospitals whose services are coordinated with other public health functions.

- Capitation support through Medicaid and special grants to public or private hospital and health delivery systems.

- Additional National Health Service Corps personnel affiliated with established hospitals and community health centers.

- Use of grants authorized under Section 1625 of Public Law 93-641 for underwriting public hospital renovations and improvements necessary for hospitals to meet licensure, fire and safety code requirements.

- Innovative use of Medicaid waiver authority to encourage development of organized ambulatory, primary and comprehensive care programs in public/general hospitals, based on pre-enrolled populations and funded on a prepaid capitation basis.

**(3) Improve urban education.**

The Administration is committed to help improve the quality of local public education. The recently created Department of Education will focus Federal efforts on the nation's public education needs. Continued funding of Title I will provide support to many needy school districts. Still, a number of pressing problems remain to be addressed.

Urban schools and urban school systems, particularly in declining cities, are in trouble. Demographic changes and population loss in many areas have resulted in vacant or underutilized facilities. Growing concentrations of minority and low income households combined with the continued net outmigration of white, more affluent, households have increased the number of schools serving primarily minority children and children from poorer families.

At the present time, the ability of urban school districts to carry out the varied educational and non-educational roles assigned them is open to question: resources are limited, demands are excessive and institutional constraints are severe. Despite sometimes heroic efforts on the part of individual principals, teachers and administrative personnel, schools in many urban areas have failed to educate increasingly large number of their students. Dropout and push-out rates remain high; the links between educational offerings and jobs remain peripheral, and test scores often suggest educational disparities among and between jurisidictions.

Unfortunately, there are no easy answers to what should be done to improve urban schools. The range of solutions offered sometimes blurs the fact that we still lack data or conclusive evidence as to what works and what doesn't. Today's favored ideas or concepts often seem unable to stand the test of tomorrow's analysis.

Clearly, the nation has a responsibility to upgrade the educational opportunities open to its poor and minority young people living in urban areas. To do this will require a concerted effort on the part of Federal and state governments, local school districts, community groups and the private sector. Working with other relevant public and private sector groups, the new Department of Education will consider amendments to current Federal assistance programs in order to encourage more effective links between school systems and job opportunities, and to improve targeting to needy school districts and students. It will also work with states to establish more equitable financing and equalization formulae.

Issues related to school integration will need to be squarely addressed. Continued efforts to achieve integrated schools remain a high priority of this Administration. In this context, local strategies to achieve integration will be reviewed to further our understanding of how best to assist communities respond to local conditions, including the number and spatial distribution of minority and non-minority populations. Further, borrowing on the current work of the Department of Justice and the thinking of many urban analysts, strategies will be developed to link local housing mobility strategies or local willingness to expand minority housing options in non-impacted neighborhoods to school integration strategies. To the extent legally permitted, efforts to integrate neighborhoods will be viewed as an essential component and an essential complement of activities required to integrate schools.

## POLICY V: ENCOURAGE ENERGY EFFICIENT AND ENVIRONMENTALLY SOUND URBAN DEVELOPMENT PATTERNS

The growth and development of urban communities in the next decade will exert major influence on national policy objectives such as energy conservation, environmental improvement and the preservation of farmland. Patterns of growth and change will also influence—and be affected by—infrastructure investments, neighborhood quality and the production of various types of housing.

Current settlement patterns reflected in most metropolitan and non-metropolitan areas have served most Americans well. For all but minorities and poor people, they have facilitated a variety of housing, job and lifestyle choices. Up to now, the presence of and willingness to use the automobile has made proximity of residence and work place more an element of personal choice than a requirement based on excessive travel time or costs. However, as energy has become more expensive and supplies less reliable, and as the environmental costs of unregulated urban growth have become more apparent, the need to encourage more energy efficient and environmentally sound patterns of urban development has gained wide recognition.

Subsequent to the announcement of the President's urban policy, several steps were taken by the Administration to help states and local governments encourage more energy-efficient and environmentally sensitive urban development patterns. They included:

- Simplifying and amending the National Environmental Protection Act (NEPA) regulations to require analyses of the effect of Federal actions on the quality of urban life.

- Strengthening A-95 guidelines to encourage state and areawide urban impact analyses for significant Federal projects.

- Issuance of Community Conservation Guidelines reaffirming the Federal commitment to the revitalization of existing commercial areas and directing Federal agencies to measure the likely effect of new large commercial developments resulting from pending Federal actions upon request of elected local officials. Where the evaluation indicates a negative effect on local communities, mitigating actions will be initiated by the responsible Federal agency.

- Revising regulations of key Federal programs to reduce their sprawl inducing effects. For example, the design period for Section 201 waste water grants was shortened to reduce inducements for expansion of newly serviced suburban neighborhoods.

- Reorienting transportation and transit programs to provide more flexible funding for urban roads and the maintenance of existing transit facilities and rolling stock.

Present knowledge does not always provide a basis for setting precise directions for achieving the most energy-efficient, equitable or environmentally sound urban development patterns. For example, efforts to ration the use of land by state, county or local governments to meet national or local environmental or energy conservation objectives, may raise land costs and eventually narrow housing choices. Further, as indicated in Chapter 9, forms of settlement which merit high marks with respect to economic development or energy conservation objectives are often less satisfactory when measured against environmental goals. Similarly, local development patterns which seem appropriate from an energy saving perspective may compromise economic development or urban revitalization priorities. Finally, land use relationships which appear to save one form of energy may generate problems with respect to the use of other forms of energy and harm environmental quality. While the data is not yet conclusive, the relationship between energy conservation, air quality, farmland preservation and urban development patterns can be briefly summarized as follows (see Chapter 9):

- **Energy Conservation.** Two aspects of energy conservation relate most directly to urban development patterns: transportation within urban areas and energy use for heating and cooling. The most efficient urban development patterns to conserve energy used for transportation are those which are reasonably compact. With respect to heating and cooling, higher residential densities are more energy-efficient, other things being equal. Given their likely modest short-term impact, efforts to encourage compact, medium density development will supplement—but cannot replace—energy conservation strategies focusing on more energy efficient vehicles and better insulated housing and businesses.

- **Air Quality.** The linkage between urban development patterns and air quality is less clear. Less compact development lowers exposure levels to some pollutants, but increases pollutants generated by additional automobile travel. Some improvements in air quality can be achieved by dispersing heavy polluting "point" sources, such as electric generating plants, to unpopulated areas. However, the largest gains and the most flexibility with respect to urban development patterns will come from emissions controls on industrial polluters as well as automobiles.

- **Farmland Preservation.** Compact development can help to conserve the nation's supply of prime cropland. To date, however, there is no solid evidence that cropland loss due to urban development has reached critical proportions. Time is available to define appropriate strategies which balance agricultural needs with growth needs and which help preserve urban amenities.

On balance, medium density, compact development, especially of the "infill" type can contribute to an energy and environmental conservation strategy. Further, planned growth of small or medium sized metropolitan areas appears preferable to the continued unplanned fringe growth of large metropolitan areas. However, significant changes in urban development patterns will be difficult to achieve given market factors and institutional constraints. Indeed, the basic form and shape of most metropolitan areas is already in place.

Tradeoffs will be required with respect to state and local efforts to encourage urban development patterns which respond simultaneously to energy conservation, clean air and water, housing and economic development objectives. A willingness to attempt to balance progress toward meeting sometimes conflicting objectives will require increased commitments by all levels of government and the private sector to consider the effect of their respective actions on land use patterns. It will also require a willingness to revise actions over time if clear-cut progress is not made toward meeting those objectives.

The Administration reaffirms its 1978 urban policy commitment to work with state and local officials and the private sector to encourage urban development patterns which are both energy efficient and environmentally sound, and which will accommodate economic growth, community development and household mobility needs. To achieve these objectives, the Administration will:

- Assist state, areawide and local officials and the private sector to define policies and strategies which respond efficiently and equitably to environmental, energy, agricultural and development needs.

- Assure that Federal actions are consistent with and foster energy efficient and environmentally sound urban development patterns.

## A. Actions to Assist Local Communities to Define Development Options and Strategies

The Administration will continue to assist state and local governments and the private sector to define land settlement options and objectives which balance both growth and revitalization priorities. Acknowledging the data gaps as to what works and doesn't work, and the fact that there are at times conflicts among environmental, energy, agricultural and economic objectives, HUD has provided financial support to a Council on Development Choices for the 1980's. This group is composed of a cross-section of State and local elected officials and representatives of the private development sector. It will focus on how the public and private sector can best respond to emerging community development needs, given changing economic and demographic conditions. The Council will develop specific options with respect to efficient and equitable growth patterns. When complete in 1981, the Council's analyses and recommendations will serve as a basis for public discussion, and will be developed into proposals for legislative changes and revisions in administrative behavior by all levels of government.

The Department of Agriculture has taken initial steps, and is studying the need for other measures, to protect prime agricultural cropland from conversion to urban uses. Several states have completed similar studies. Federal and state efforts with respect to preservation of agricultural land will be linked to HUD's effort to define development choices for the 1980's. In this context, the nation will move toward achievement of two different but highly compatible national objectives: preservation of prime agricultural land and control of unplanned urban sprawl. Recommendations will be developed, in concert with state and local governments as well as the private sector, to balance expanded efforts to preserve primary agricultural land with the need to assure a ready supply of properly located developable land for metropolitan and non-metropolitan growth needs.

At the local level, the Administration will act to encourage state, areawide and local planning with respect to development choices. Significant steps have already been taken by the Administration to simplify and coordinate data analysis requirements for current planning assistance programs. The Administration will continue to work in partnership with other levels of government and the private sector to encourage state, areawide and local development policies which reflect an integrated set of development and revitalization priorities consistent with energy conservation, economic development and environmental quality goals.

Efforts will be made to ensure greater consistency with respect to current Federally assisted planning programs; to more effectively coordinate Federally funded functional planning activities (such as air quality, health, and transportation) with Federally assisted comprehensive land use plans processes; and to tie Federally assisted projects affecting land settlement patterns directly to state, areawide and local comprehensive planning processes. Several additional steps will be taken:

**(1) Amend A-95 guidelines.**

The Office of Management and Budget (OMB) will consider amending A-95 guidelines to assure more equitable representation among constituent members; require comprehensive policy plans as a prerequiste for continued clearinghouse designation; strengthen the relationship of state, regional and areawide planning groups to functional or single-purpose entities; and consolidate areawide planning designations and assistance programs into a single annual entitlement.

**(2) Review Federal planning assistance programs.**

Each Federal agency will be asked to review its planning assistance programs and program prerequisites in order to improve linkages to state, areawide, and local government comprehensive land use policy processes; encourage recipients of planning assistance to acknowledge national urban policies—including energy conservation and environmental objectives—in their plans; and improve linkages between assisted planning efforts and assisted development projects.

## B. Actions to Assure that Federal Activities Foster Energy Efficient, Environmentally Sound Urban Development Patterns

Federal actions will reinforce to the extent possible, energy efficient and environmentally sound urban development patterns. The Administration has already taken several steps to assure consistency between its policies and programs and the urban policy, and to provide state, regional, areawide and local governments with greater responsibility for implementing Federally funded programs. The President's Executive Order establishing the urban impact analysis process as well as amendments to A-95 and NEPA regulations have been among the more important actions taken to extend urban policy concerns to the widest possible range of Federal activities.

Evidence indicates that the application of cost-effective energy related building standards and advanced pollution control technology, together with the encouragement of more compact medium density development within metropolitan and non-metropolitan areas would result in the conservation of energy and help achieve progress toward environmental objectives. The Administration has encouraged the development of more uniform energy efficient construction standards for new and rehabilitated buildings. It has also amended its planning and community and economic development assistance programs to encourage more energy efficient and environmentally sound local development patterns and projects.

To insure that Federal actions reinforce the development of energy efficient and environmentally sound land settlement pattern in urban areas, the Administration will consider the following additional measures:

**(1) Amend Federal tax laws to remove possible preferences favoring new development over rehabilitation or revitalization of existing structures.**

(See Policy I)

**(2) Amend OMB guidelines regarding the President's Executive Order on Urban Impact Analysis and strengthen the inter-agency response to the Executive Order.**

Currently, OMB's guidelines regarding the President's Executive Order on Urban Impact Analysis do not contain explicit criteria to link the evaluation of new Federal policies and programs with their potential impact on urban development patterns and on energy, environmental and economic development objectives. An overall review of the guidelines will be initiated by OMB to take into account what has been learned from initial agency experience. As part of this review and revision, specific criteria will be added to require agency analyses of the effect of policies and programs on land settlement patterns.

**(3) Refine Community Conservation Guidelines.**

The Administration's Community Conservation Guidelines, announced in 1979, require each Federal agency to subject pending Federal actions likely to promote large commercial development to a community impact analysis at the request of elected local officials. The guidelines are designed to increase the probability that Federal actions will generate land settlement patterns consistent with urban policy commitments.

The guidelines have won substantial support from local public officials, various public interest groups, and from business. Numerous community impact analyses of large commercial developments have been prepared at the request of locally elected mayors and county executives. They have generated coordinated actions by Federal agencies to help the job base, economies and shopping areas of existing communities. The IACC will continue to monitor and assure an infirmative vigorous agency response to the guidelines.

**(4) Refine NEPA and A-95 urban impact analysis criteria.**

Both NEPA and A-95 guidelines now include requirements for urban impact analyses. Both sets of guidelines should be amended to provide groups initiating A-95 reviews or environmental impact statements with more direction as to the precise nature of urban impact analyses and the extent to which coverage of energy related impacts are to be included. Refinement should also assure that urban impact analyses encompass all key Federal projects signficantly affecting land settlement patterns.

**(5) Review the urban development impacts of key Federal policies and programs.**

A number of programs significantly affect the form and shape of the nation's urban areas. At times their effect is purposeful and positive; at other times, however, their impact is neither planned nor, from an urban policy perspective, welcome. The Administration will review the relationship between these programs or activities—such as those related to highways, housing, infrastructure and economic development—and urban development patterns. This effort will be completed by November 1981. Specific recommendations will be generated to facilitate more effective, coordinated inter-agency strategies aimed at using Federal programs to meet land settlement objectives. Increased Federal ability to coordinate the use of Federal highway improvement funds, infrastructure assistance, economic and community development programs will go far toward encouraging state, regional, areawide, and local governments as well as the private sector, to respond to national commitments regarding energy conservation and environmentally sound land settlement patterns.

**(6) Refine key Federal regulations impacting urban development.**

Concurrent with the study described above, each Federal agency will be asked to review its programs affecting land settlement patterns. To the extent possible, administrative changes will be made to assure consistency between likely program impact and urban policy objectives regarding energy efficient and environmentally sound urban development patterns. For example, HUD, the Department of Agriculture and the Veterans Administration will consider development of site selection criteria for federally-subsidized and insured housing which, to the extent possible, will:

- Direct assisted new units to infill areas, such as existing vacant land within urban areas, or vacant land contiguous to urban areas.
- Link assisted units to specific indicators of areawide and local household demand and need.
- Grant preference to mixed or higher density projects near employment and commercial facilities.

Similarly, EPA, HUD, DOT, and EDA will consider options regarding their community and economic development programs which, to the extent possible, will increasingly foster compact contiguous development in urban areas and development on in-fill sites.

**Toward Responsible Federalism**

The analyses and policy proposals contained in this Report make clear that the decade of the 1980's will bring new and sometimes difficult challenges for the Federal system. Limited resources will constrain the ability of all levels of government to respond to the need for public services generated by an increasing population. Effective responses to national commitments to the economic, fiscal and environmental health of the nation's urban areas and to the well-being of urban residents, particularly the poor and minorities, requires that we temper our expectations with a realistic understanding of our limitations and capacities.

Provision of basic services in cities and towns is currently uneven. Many communities with weak fiscal bases and a disproportionate share of low income households have made extraordinary efforts to respond to the service needs of their population. The record among healthier cities and towns generally is not as compelling. Services provided tend to be primarily limited to the community development, police and fire, and sanitation functions. Expenditures related to growth have generally taken precedence over those related to revitalization of distressed neighborhoods. Social services focused on pockets of poverty or poor people, particularly those provided by local governments, remain minimal in many communities.

Budget constraints mean that Federal financial assistance to states and local governments will increase at a slower rate during the 1980's than during the past decade. Tax cutting measures such as California's Proposition 13 are likely to place a cap on state and local revenues and expenditures in many areas of the nation. Given this context, the nation's unfinished urban policy agenda can only be addressed if all levels of government are willing to address the limitations in the present system of Federalism with respect to urban areas and urban needs.

No longer can we afford to merely acknowledge the "marble cake" nature of Federalism and assure ourselves that because it exists, it reflects the best of all possible worlds. Rather, changing governmental roles are made necessary by the energy, environmental and economic difficulties the nation will face in the 1980s and by our national resolve to avoid wasting scarce environmental, fiscal and human resources in our nation's cities and towns.

Roles are already changing. State, regional and county governments appear to be willing to rethink their roles and responsibilities with respect to service provision. Many states have assumed an aggressive urban agenda. Some urban counties have accepted new responsibilities with respect to the funding and provision of urban services; and some regional organizations, in partnership with local governments, have attempted to convert areawide plans into meaningful action. These trends are particularly appropriate given national urban policy commitments and the diversity of local urban needs and resources.

Federal roles are changing as well. In response to Presidential initiatives there is a clear possibility that the Federal Government will increasingly accept an even greater share of the cost burden of providing welfare and health care to the nation's low and moderate income citizens. This shifting of responsibility requires a sustained dialogue among Federal, state and local officials and interested public interest groups regarding the equitable and efficient assignment of functions to each of the basic levels of government. The heightened level of commitment to urban policy objectives of all levels of government indicated in this Report suggests that this dialogue has already begun.

To further this communication process, the Administration will work with state governors, county and local officials, private business and community leaders, and noted urban analysts to:

- Review current services required for urban areas and the revenues available to fund them;
- Identify current roles and responsibilities of each level of government and the private sector in responding to disparate urban needs;
- Recommend proposals to "decongest" the Federal system; that is, to adjust the system to better match resources and responsibilities and to allocate functions to levels of government most able to carry them out in a cost-effective, equitable manner.

For its part, the Administration will strengthen the efforts to encourage the development and implementation of coordinated urban policies, consistent with national urban policy commitments, by state, regional and, where appropriate, urban county governments. Comprehensive planning assistance programs like HUD's 701 program will be used to help focus state and regional efforts on urban needs. To the extent possible, functional planning efforts, like EPA's 208 Waste Water Management Program, will increasingly reflect urban policy considerations, and grant-in-aid assistance will be tied to integrated state, regional and locally developed urban policies and priorities.

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