U.S. Department of Housing and Urban Development

1982

The President's National Urban Policy Report

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20410

July 8, 1982

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

Dear Mr. President:

Enclosed is the National Urban Policy Report, prepared by the Department of Housing and Urban Development for transmittal by you to the Congress, pursuant to Section 703(a) of the Housing and Urban Development Act of 1970, as amended.

As you have directed, the priorities of your Administration's urban policy are:
(1) to place greatest emphasis on economic growth;
(2) to seek a proper balance of responsibilities among the different levels of government acting as partners within the Federal system;
(3) to encourage private-sector institutions to help shape a healthy urban society;
(4) to support effective approaches being developed by local leaders to better their communities, and
(5) to create experimental Enterprise Zones in distressed inner cities that will produce jobs and revitalize those areas.

As you are well aware, under your leadership numerous steps have already been taken that will improve, directly and indirectly, the quality of life for the people of our cities. Your Economic Recovery Program has lowered the burden of inflation on individuals and local governments, and the Economic Recovery Tax Act is of special help to older urban areas. Deregulation is saving municipalities billions of dollars, while consolidation of many separate programs into block grants is giving States and cities greater flexibility to meet their own spending priorities. Your emphasis on housing is exemplified by the work of the President's Commission on Housing and by the proposals for vouchers to house the poor, and for the rehabilitation program to restore much-needed rental housing in older cities. Steps have also been taken to create more affordable housing and to encourage greater private investment in housing. Moreover, striking progress is evident in our approach to ensuring fair and equal housing opportunities for all.

The Enterprise Zone initiative is awaiting action by the Congress. In the meantime we have streamlined and focused both the Urban Development Action Grant program and the Community Development Block Grant program. Your concern about the victims of crime – so many of whom are in our cities – has been translated into a legislative initiative that is moving forward, and your emphasis on jobs has been advanced in a proposal for a new, sensible job-training program. Education programs that are particularly important for cities are being improved. Finally, you have recognized the creative force of the private sector and mobilized, through the Task Force on Private Sector Initiatives, action to help make our communities better places to live and work.

The problems and opportunities for America's cities, and the substantial steps already taken by your Administration to address them, are the subject of this report. I wish to thank all the people and organizations who contributed to its preparation.

Respectfully,

Samuel R. Pierce, Jr.

Samuel R. Pierce, Jr.

Enclosure

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

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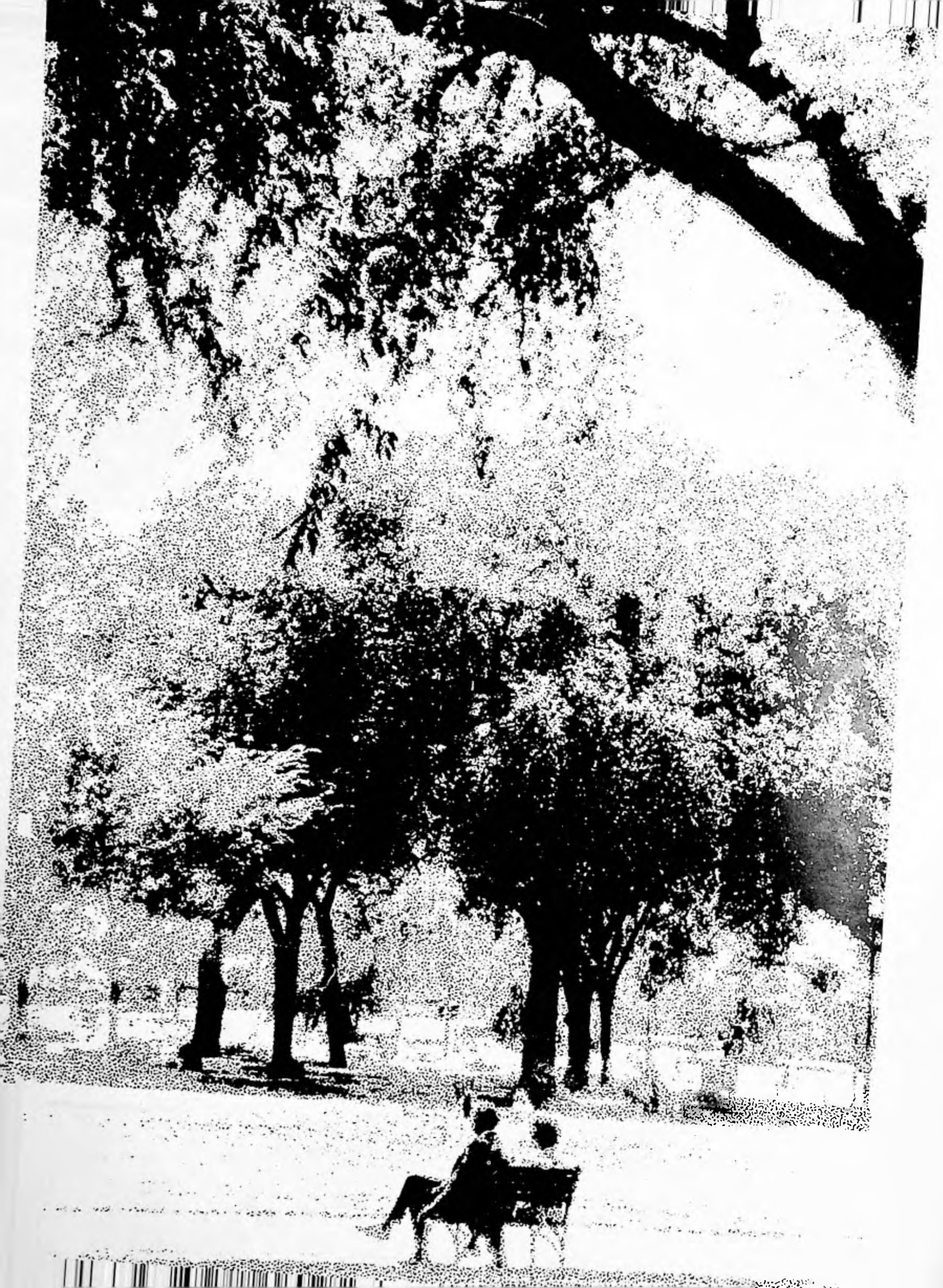


Urban Policy: An Administration Overview

Our Nation's cities are centers of commerce and communication, of culture and education. People have brought to them their ambitions and values, their energies and skills, their hopes and dreams. Our cities became proud and thriving extensions of ourselves and our families. They captured and distilled the very essence of America in an abundance of neighborhoods with distinct ethnic and cultural characteristics. We invested enormously in our cities. . . both in resources and spirit. . . and the return on that investment was a cornucopia of opportunity. Industries prospered, employment grew, and trade expanded.

As our economy flourished and our cities thrived, America became an international symbol of progress and promise. Today, we remain a great country with new horizons still to reach. Yet, there has been an erosion of our economic vitality. Too many cities have budgets stretched to the breaking point, with aging and undermaintained sewers, roads and bridges, and with deteriorating physical plants – schools, housing, transit systems, and correctional facilities. Crime and drugs are persistent problems.

Our success as a society in handling the problems of cities will determine in large measure our success and future as a Nation. The Reagan Administration is pledged to working jointly with State and local governments and the private sector to improve the quality of life in our cities.

No single approach can achieve this objective. Our Federal system of government began with the individual and the States creating a Federal Government and local governments. Thus, today an urban policy must reflect the urban policies of the State and local governments as well as the private sector.

Furthermore, our cities are not homogeneous. Their problems and opportunities are as diverse as the roots of our Nation. A policy that may be right for Houston wouldn't necessarily fit St. Louis. What is right for one community in the Los Angeles area might not be right for another. Aspirations, conditions, and priorities differ enough so that no one approach is satisfactory for all.

The Reagan Administration believes that its urban policy must be an evolving one, designed in part to strengthen our Federal system of government.

Our values as a free and caring people and the lessons of recent decades suggest the following basic premises to guide the development of the Administration's urban policy:

1 that cities are a valuable asset
2 that our urban policy should be broad enough to encompass the diversity of our cities
3 that States and cities, properly unfettered, can manage themselves more wisely than the Federal Government can
4 that Federal, State and local governments have responsibility to care for the needy who cannot help themselves
5 that the Administration is committed to guaranteeing civil rights, to enforcing vigorously the constitutional and statutory safeguards against discrimination, and to ensuring that no one is denied equal treatment and participation in publicly funded programs because of race, sex, creed, or national origin
6 that certain problems in cities, such as crime and infrastructure needs, require special attention
7 that certain forms of Federal aid should be directed to cities bearing the brunt of economic dislocation
8 that the private sector, both corporate and voluntary, contains important sources of strengths and creativity that must be tapped for the Nation to progress
9 that, ultimately, the key to healthy cities is a healthy economy.

The critical role cities play in the fulfillment of economic and social well-being is as fundamentally important for America today as it has ever been.

The foundation for the Administration's urban policy is the Economic Recovery Program. If cities are to prosper, our economy must be healthy and vital. As discussed in Chapter One, the Economic Recovery Program – comprising tax cuts, reductions in the rate of government spending, regulatory relief, and monetary restraint – seeks to restore economic vitality to American industry and to create productive jobs for workers. As indicated by the economic trends summarized in Chapter Two, urban areas and the people living there will benefit from a healthy national economy that provides jobs and leads to an adequate local tax base. Restoring economic growth and reducing inflation will not solve all urban ills. But, without an expanding economy, all other programs which focus on the symptoms of recession and inflation will falter.

The Economic Recovery Program is not expected to be a panacea for all urban problems. National attention, involving all three levels of government and the private sector, must be focused on the pervasive problems of crime and infrastructure needs. Crime is a major threat to the quality of life in our urban communities, bearing especially hard on the poor and the minorities in America's central cities. The violent crime rate for cities is about twice the rate for suburban areas, and three times the rate in rural areas. This Administration considers the control of violent crime to be a fundamental priority. The Administration has already taken steps, discussed in Chapter Three, to implement a series of recommendations offered by the Attorney General's Task Force on Violent Crime to work with State and local government officials to improve their ability to combat crime. Legislation has been endorsed for a major overhaul of the criminal justice process. But a continued effort of all three levels of government is necessary to control this major urban danger.

The infrastructure of existing cities is a tremendous asset which should be conserved. The Administration will continue to cooperate with State and local governments in addressing this important issue. Recent trends and innovative strategies currently being undertaken by State and local government are examined in Chapter Three.

As shown in the following chapters, States and localities are demonstrating increasing capacity to develop creative strategies, in partnership with the private sector, aimed at solving not only infrastructure problems but other pervasive urban problems.

Chapter Four discusses in detail the new directions taken by States that enhance State capacity and State responsiveness. Chapter Five describes numerous successful attempts by cities to develop effective strategies for economic development and service provision.

The increased capabilities of State governments and the growing trend of local governments to enhance private sector involvement in urban problem-solving are signs of progress and promise in the continuing drive to achieve an urban renaissance. Our purpose is to support and encourage these strategies and trends and to pursue those actions and programs which enable State and local governments to solve urban problems in creative ways.

It is the policy of this Administration to return maximum authority and discretion over the use of resources to State and local governments. The Administration believes that State and local government have amply demonstrated that, properly unfettered, they will make better decisions than the Federal Government acting for them. The President has thus proposed an historic, major realignment of responsibilities in the American Federal system. The sorting out of responsibilities and the return of tax resources to States and localities are the Administration's long-range goals to be achieved by a dialogue among all three levels of government. The Administration is convinced that the time is ripe for a more rational division of responsibilities among the Federal, State and local governments, and it places utmost confidence in the ability of States and localities to manage their resources wisely. The consolidation of 57 categorical grants into nine block grants accomplished by the Administration last year was the first step toward the larger goal of reordering responsibilities among the levels of government.

Administration Initiatives

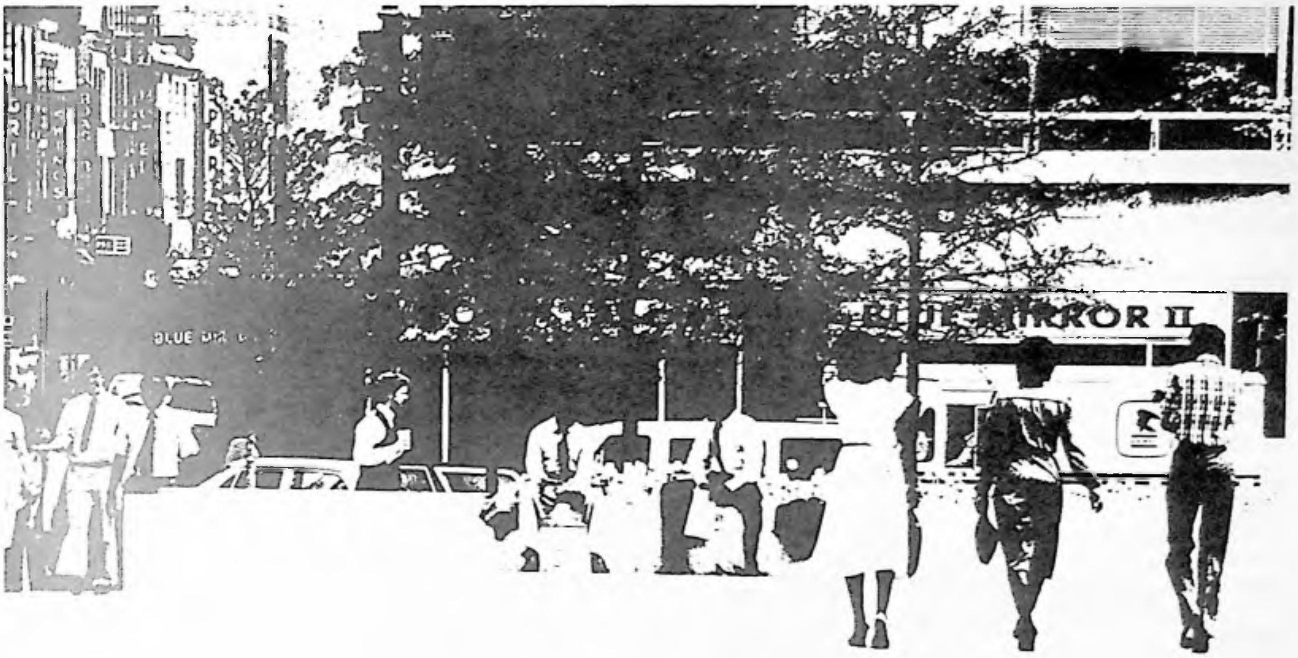
While the Administration's urban policy is a developing, evolving process within the context of the Federalism Initiative, the Administration has already taken many actions aimed at improving the health and vitality of our cities.

Streamlining Existing Programs

The Reagan Administration will continue those programs which have been successful in bettering people's lives in urban areas. At the same time, it is making and proposing major improvements in the programs to assure greater efficiency, effectiveness and equity so that the American people get fair value for their hard-earned tax dollars. The Urban Development Action Grant program, for example, has been improved to accentuate economic development.

Economic Recovery Program

Some difficult decisions were made to put our country on the road to economic recovery. The budget cuts required to control Federal spending place increased responsibilities on States and cities to exercise fiscal discipline, but the high inflation rate



in effect before this Administration took office had cut seriously into the purchasing power of State and local government dollars.

The most obvious and direct improvement in people's daily lives during this Administration is the dramatic reduction in the inflation rate. The inflation rate dropped from 12.5 percent in 1980 to 6.7 percent for the year ending in May of 1982. This means that a dollar will go farther today than it would have if the high inflation rate in effect when President Reagan was elected had been allowed to continue; a worker earning the minimum wage, for example, could purchase $1,050 more in goods and services over the next year than he or she otherwise could have.

Economic Recovery Tax Act

An oppressive tax burden has been removed from individuals and businesses alike, and an atmosphere that encourages growth has been established. Through the Economic Recovery Tax Act, incentives have been introduced to stimulate private sector investment in a variety of ways. The new tax act helps urban areas by allowing tax credits for rehabilitating older structures, leasing arrangements that benefit mature as well as growing industries, and accelerated cost recovery for new and used rental housing.

Block Grants

In support of the Administration's initiative to return decisionmaking closer to the people affected by those decisions, the Congress in 1981 approved legislation to merge 57 separate Federal grant programs into nine block grants: Alcohol, Drug Abuse, and Mental Health; Community Services; Community Development; Elementary and Secondary Education; Home Energy Assistance; Maternal and Child Health Care; Preventive Health Services; Primary Care; and

Social Services. Based on past experience, 80 to 90 percent of those grant funds will go to urban areas. The Administration feels that State governments can operate such programs on a less costly basis and with greater efficiency, vision, and accountability. The block grants are viewed by the Administration as the first step toward the larger goal of restructuring the division of responsibilities among the levels of government.

Deregulation

Under the guidance of the Presidential Task Force on Regulatory Relief, the Administration is undertaking a massive effort to reduce the burden of Federal regulations on cities. Burdensome regulations suppress economic growth and impede efficient service provision by State and local governments, adding to the costs of both private and public organizations. Deregulation, in terms of freedom from Federal mandates, is saving States and cities billions of dollars; in mass transit alone, deregulation will save $1.7 billion in capital expenditures.

Housing

Housing issues are of intense concern to the Administration. By the end of the 1970's, the problem of housing affordability increased as the percentage of income devoted to housing rose for both owners and renters. The sharp increase in interest rates and previous increases in new home prices have reduced, at least temporarily, the portion of the population able to afford newly-built homes.

From the outset, this Administration gave high priority to the housing problems of the Nation and initiated the following actions:

The President's Commission on Housing. Indicating a strong commitment to addressing the Nation's housing problems, the President appointed a Housing Commission of public and private sector representatives to advise the President and the Secretary of Housing and Urban Development on options for the development of a national housing policy consistent with the Economic Recovery Program. The Commission Report, submitted to the President and the Secretary in April of this year, has influenced actions already initiated by the Administration, and others under review.

Vouchers. The Administration has proposed a Modified Section 8 Certificate or voucher program which addresses the basic housing problems confronting lower-income families. . . not a lack of adequate housing resources, but rather a lack of adequate family income. Present production programs address this problem only indirectly, in a way that is far too costly and inefficient.

This proposed voucher program can improve the overall housing situation for the poor, including especially the urban poor. It benefits participating families by allowing them to choose where they want to live and what proportion of their income they want to spend on housing.

In addition, subsidies that utilize existing housing have resulted in improved maintenance and preservation of our housing stock. Such subsidies help stabilize declining neighborhoods and prevents the loss of the valuable resource that this housing represents.

Rental Rehabilitation. An integral part of the Administration's urban policy is a drive to make better use of the existing housing stock. A key initiative in support of this effort is HUD's proposed Rental Rehabilitation Block Grant program, a measure that is especially beneficial to older cities. This proposal is now being considered by the Congress.

Joint Venture for Affordable Housing. To help reduce housing costs, the Department of Housing and Urban Development has initiated a program of activities called the Joint Venture for Affordable Housing. It brings together public and private sector groups who share a commitment to the creation of more affordable housing. At the present time, the Joint Venture includes HUD, the International City Management Association, the National Association of Counties, several State and local organizations, and selected local governments and private firms.

The Joint Venture builds on previous HUD demonstration projects which show clearly that substantial savings are available through more sensible site development standards, expedited processing procedures, increased densities, and use of new and improved technologies. Each member of the Joint Venture is actively working through its constituencies to achieve these objectives.

Many communities have already produced substantial reductions in the cost of housing production, and these are serving as examples to others who want to make similar changes.

Pension Funds. Proposals to restructure the thrift institutions are likely to reduce significantly the traditional role they have played in the housing mortgage market. Therefore, even when interest rates are brought down to a point where the sale of housing can surge, there will be a need for mortgage financing to support the strengthened housing market.

The Administration believes that one approach to the problem is the virtually untapped pool of pension funds whose assets currently approximate $800 billion, $560 billion of which are held by private pension funds.

The low level of pension fund investment in mortgage instruments – an estimated 3 percent of total assets – stems in part from constraints on even prudent pension fund investments imposed by provisions and regulations of the Employee Retirement Income Security Act, or ERISA. Another reason for the low level of investment is the lack of knowledge by pension funds of the market competitiveness of mortgage investments.

Following recommendations by the Cabinet Task Force on Housing, chaired by HUD Secretary Pierce, the Department of Labor has begun to ease restrictions on ERISA regulations. Three technical changes, two of which have already been accomplished, will remove some of the barriers to prudent pension fund investment in housing instruments.

In an effort designed to communicate to pension funds the market competitiveness of housing investment, Secretary Pierce has initiated a series of conferences involving over 200 of the Nation's largest pension fund managers.

Secretary Pierce has also established a working group comprising representatives of GNMA, FNMA, FHLMC, several private mortgage insurance companies, and an unofficial sounding board of pension fund managers. This working group will focus on the possibility of designing mortgage instruments tailored to the needs of both the home buyer and pension funds.

Deregulation. To remove unnecessary regulatory barriers that interfere with the provision of safe and less expensive housing, the Department of Housing and Urban Development has established a Housing Deregulation Task Force. The primary role of the Task Force is to discourage rules that impose unnecessary costs or reporting burdens on the private sector, and to encourage procedures designed to eliminate unneeded regulations.

Mass Transportation

The Administration recognizes the prime role of local governments and local transit authorities, as well as the private sector, in providing mass transit. Special attention is being given to providing technical assistance to local policymakers as they plan to meet their communities' transportation needs and to improve the productivity of their systems. The major emphasis of this Administration is on capital infrastructure while removing unnecessary Federal intrusion into local decisionmaking.

Economic Development

In keeping with the basic premise that the Federal Government should give assistance priority to severely distressed cities to overcome the effects of economic dislocation, the Administration proposes an experimental, new program and has retained two key programs, improving them to allow focus on development needs.

Enterprise Zones. A major proposal now before the Congress could have profound significance for many of our depressed urban areas. The Administration strongly urges passage of Enterprise Zone legislation which would establish up to 75 zones in the next three years. The underlying concept of Enterprise Zones is to strengthen the free-market environment in depressed areas through relief from taxes, regulations, and other government burdens, improvement of city services, and involvement of private, neighborhood organizations. The removal of government burdens will create and expand economic opportunity within the zones, allowing private sector firms and entrepreneurs to create jobs, particularly for the chronically underemployed, and to expand economic activity within these areas.

The program is intended primarily to stimulate new economic activity within the zones that would not otherwise have occurred at all, anywhere, rather than to encourage existing activities elsewhere to relocate into the zones. In addition, the intent behind the program is not to stimulate a particular kind of business, but rather to let the market decide what activities should take place in the zones. While the Federal tax incentives are skewed toward labor-intensive businesses and jobs for disadvantaged workers, the program generally is meant to include a relatively balanced set of incentives for a broad range of economic activities.

Community Development Block Grants. The Administration has restored decisionmaking authority to local government in the use of CDBG funds by replacing the burdensome application process with a statement of proposed uses and has added as an eligible activity the use of Block Grant funds for direct support of for-profit organizations to encourage economic development.

The Administration has created a CDBG State Block Grant for small cities that allows States, in consultation with local governments, to design and administer programs that meet local needs. Thirty-six States are currently participating in this program and have worked closely with their small localities to design innovative and creative programs.

Urban Development Action Grants. The planning process for Urban Development Action Grants has been streamlined to reduce time and paperwork burdens on applicants. The program's focus on economic development has been sharpened by placing primary emphasis on industrial and commercial projects. Mixed-use projects, which include housing as an integral part of a local economic development strategy, also receive strong consideration.

Private Sector Initiatives

President Reagan established a bipartisan 44-member Task Force on Private Sector Initiatives to help encourage greater private activities on behalf of America's communities. As part of its mission, the Task Force has been charged with bringing to the Nation's attention successful examples of private initiatives and community partnerships. These examples will serve as models to be adapted in other communities facing similar challenges. To strengthen the role of the private sector in community services, the Task Force is also charged with these key missions: to identify and eliminate impediments to private initiative; to explore and improve the incentives used to encourage private initiative; to recommend strategies for more effective contributions of time, talent and money for community enterprise by business, foundations, religious and civic groups, and others; and to create a computerized project bank for collecting and sharing information on private initiatives, community partnerships and creative solutions undertaken by business, foundations, voluntary organizations, religious institutions and other private sector groups.

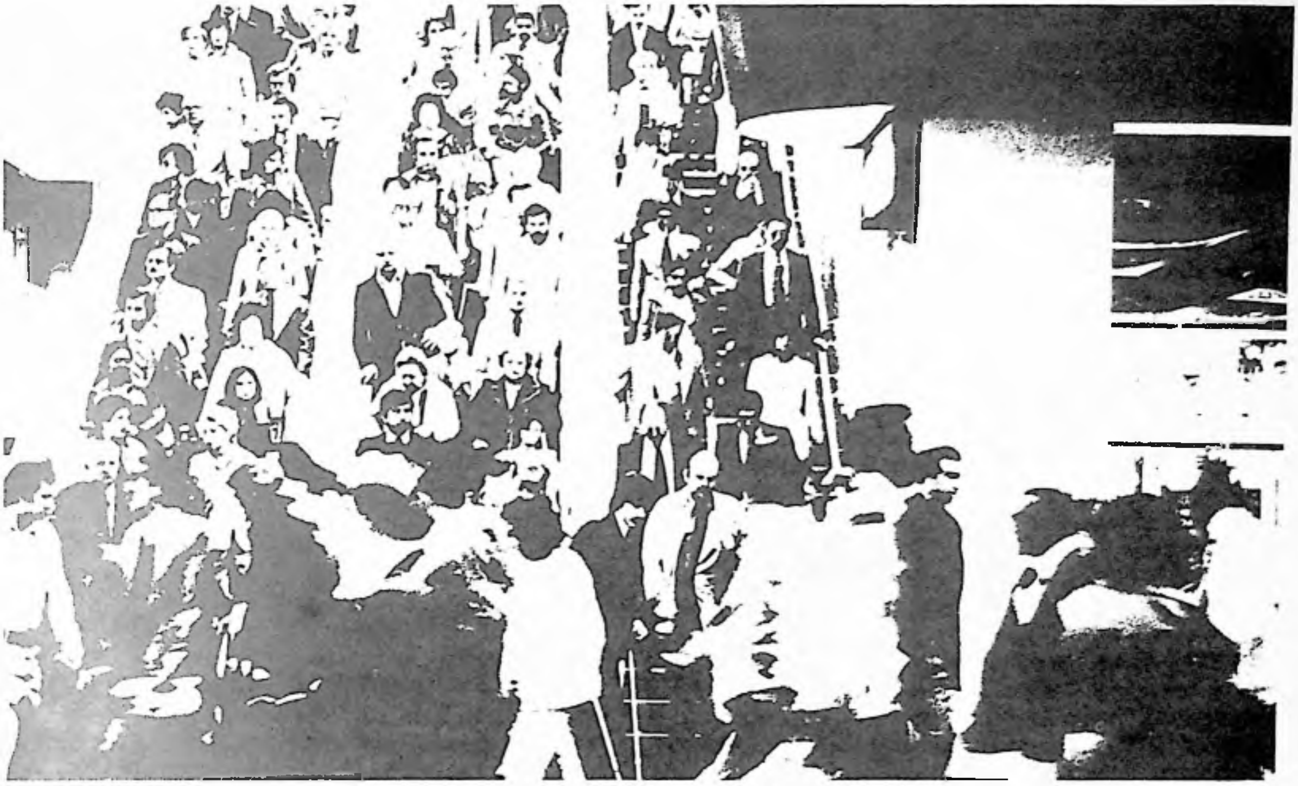
Job Training

Of vital importance to the problem of severe unemployment in larger and older urban areas is the new employment training legislation supported by the Administration, which has several important features. Called the Training for Jobs Act, its purpose is training, rather than income maintenance. The Administration seeks to assure that the maximum amount possible is spent directly on training. Through Block Grant funding, the States and local governments would have the paramount role in running the program, with the private sector directly involved in planning program activities and coordinating the local delivery of services. The program is designed to be a cost-effective way of helping an individual to move from public assistance and unemployment to a permanent private sector job. Training will be provided for the economically disadvantaged. There are separate authorizations for the Job Corps training program and for training dislocated workers, and a separate authorization for Summer Youth Employment and Training programs for disadvantaged youth.

Criminal Justice

The Reagan Administration recognizes that city dwellers are the predominant victims of crime. To address this pervasive problem, the Administration, with bipartisan support, has submitted comprehensive anti-crime proposals to restore a sense of security and fairness to our communities, especially our urban communities. Although primary responsibility for prosecuting and punishing criminals lies with the State, the Federal Government can set an example by establishing a modern, effective criminal justice system.

The proposed legislation includes bail reform which enables a judge, consistent with due process protections, to prevent a dangerous defendant from returning to the streets to prey on



innocent citizens. It provides for comprehensive sentencing reform by replacing an unpredictable and discredited parole system with fixed sentences; and, it strengthens penalties for those trafficking in dangerous drugs. The bill also provides for criminal sanctions and civil injunctions to protect victims and witnesses from harassment and retaliation. Correcting the imbalance that has developed between criminals and their victims is vitally important to a fair and just society. The President's Task Force on Victims of Crime will report further recommendations in this area later this year.

Education

Education is one of the most important and vital functions of State and local governments. It is also one of the primary determinants of the quality of life and the main route to progress for the poor and immigrants in our cities. However, local ability to direct educational efforts toward local needs has in many cases been hampered by excessive Federal control imposed as the price of receiving what are frequently only small amounts of Federal aid: aid to the Nation's public schools from the Federal Government has, over the past five years, averaged less than 10 percent of the total elementary and secondary schools budget.

Administration efforts in regard to education, therefore, follow two main themes: to the maximum extent possible, (1) Federal funds should encourage States and local education agencies to provide for locally determined needs, and (2) Federal regulatory impediments to local educational discretion should be eased.

The Education Block Grant in the Omnibus Budget Reconciliation Act of 1981, consolidating approximately 29 separate Federal programs into one block grant, began this process.

Vocational and Adult Education Consolidation Act. The Administration is proposing the Vocational and Adult Education Consolidation Act to continue what has been begun. Under the Act, procedures will be greatly simplified, and States will have more flexibility to determine how available funds will be used within broad constraints. States will be required to use at least 30 percent of available funds for programs and projects specifically related to State and local economic development, 30 percent for strengthening State and local systems of vocational education, and 13 percent for adult education activities. The heart of the new legislation is the emphasis on ties to economic development, training and retraining of workers who lose jobs because of technological changes or economic downturns and encouragement of joint projects with local business.

Bilingual Education Act. The Administration is also proposing a new approach to Bilingual Education through amendments to the Bilingual Education Act. The modifications proposed would authorize funding of a broadened range of instructional approaches for serving children who have limited English proficiency. The Education Department would be allowed to fund whatever educational approaches a school district believes warranted, as long as that approach is designed to meet the special educational needs of the target population. In addition, the changes would give priority funding to projects which serve children who are both limited in English proficiency and whose usual language is not English, allowing limited funds to be directed toward greatest need. Finally, the Administration's proposed changes would allow use of Bilingual Education Act funds for vocational training activities for out-of-school youth and for adults lacking English proficiency. The Administration believes these new directions will make possible more effective responses to the needs of persons with limited English proficiency who live in our cities.

Equal Housing Opportunity

Equal housing opportunity for all, although not yet fully accomplished in fact, remains a goal the Administration continues to pursue through implementation of the Federal Fair Housing Law, and through education and conciliation. The Fair Housing Assistance program is evidence that progress is being made. This program provides Federal financial assistance to encourage State and local agencies to develop equivalent fair housing laws and to accept referral of complaints filed with HUD. When the program began in 1980, there were only 23 recognized agencies, only nine of which were accepting HUD referrals. There are now 48 recognized agencies, with 45 accepting referrals. In addition, there are 20 requests outstanding for recognition. Through this program, the number of complaints successfully conciliated increased from 41 to 674. Recent trends indicate that the improvement will be even more substantial during the current fiscal year.

Equality in housing opportunity also is supported by HUD through the creation of Community Housing Resource Boards (CHRB), and technical assistance for them to develop Voluntary Affirmative Fair Housing Marketing Agreements with housing industry groups and to promote programs that further fair housing goals. CHRB's are composed of HUD-selected representatives from a variety of community organizations which have a vested interest in fair housing. Community Housing Resource Boards serve in an advisory and resource capacity to the local housing group in the pursuit of specific fair housing goals. There were 325 organized CHRB's and 832 voluntary agreements in February 1980. As of June 1, 1982, there are 578 CHRB's and 1,134 voluntary agreements, a substantial increase.

The condition of urban America is as diverse as the communities themselves, a condition that ranges from vital and thriving to borderline and troubled, with all the stages of economic health in between. The cities, counties and towns that comprise urban America, although distinct and different in many respects, share many common concerns.

There is no single, readymade answer to these concerns and to the problems of crime, unemployment, deteriorating infrastructure, and the entire litany of urban ills. To resolve these problems and return a sense of confidence and hope to our urban centers will require a broad-based and diversified approach. A strong and stable economy is an essential part of this approach. So is a more sensible sharing of responsibility among all sectors of our society, public and private. The Administration's Federalism approach seeks to allocate responsibilities and decisions at the appropriate level of government, enabling us to draw upon our resources in the most efficient and effective manner possible. Consultation and collaboration with counties and towns, cities and States, and their organizations have been. . . and continue to be. . . a fundamental part of this evolving process.

Yet, governments alone can do little to solve problems without the direct and strong involvement of the people those governments represent. Local and State leaders have begun making creative and productive use of the special expertise, wisdom, and dedication found in private firms, civic groups and neighborhood associations to spur community development and to address specific problems. The Administration seeks to build on this positive trend by emphasizing private sector initiatives, creating Enterprise Zones, and pursuing other approaches and experiments that can help revitalize urban America and improve the quality of life in all our communities.

Specific features of the Administration's Urban Policy will evolve as the three levels of government sort out their responsibilities. The basis of the Reagan Administration's Urban Policy is to place the highest priority on economic growth as the most important element of such policy and to seek to restore a balance of authority and responsibility among the three levels of government. This chapter sets the background for the Administration's evolving urban policy.

Diversity in Urban America

Almost three-quarters of the Nation's population lived in metropolitan areas in 1980, 30 percent in central cities and 45 percent in the suburbs. However, urban America encompasses more than metropolitan areas. Nearly 40 percent of nonmetropolitan residents live in areas the Bureau of the Census defines as urban, while – surprisingly – almost one-quarter of the residents in metropolitan suburbs live in areas the Census Bureau defines as rural.[1] Because the Nation's urban population is so widely dispersed, an urban policy addressed only to the Nation's largest cities or metropolitan areas would overlook much of what is urban in American society.

The ultimate goal of urban policy is to ensure a satisfactory quality of life – in the broadest sense of that term – in America's urban communities. Clearly there can be no single, nationally-imposed approach to achieving that goal as there is great diversity among and within urban areas. Some places are boom towns, trying to cope with explosive growth. Others, which perhaps once were boom towns, are adjusting painfully to a loss of jobs and people, and are experiencing social and physical deterioration. Still others are pleasant and thriving communities, with few major problems. Therefore, different approaches tailored for – and hence tailored by – different localities are necessary.

Perhaps as important as a recognition of diversity is a recognition of the powerful economic and social forces which have shaped – and continue to shape – the evolution of urban America. Technological and social changes have benefited some cities and created problems for others, but most importantly they have yielded changing opportunities that must be exploited if urban areas are to remain centers of socially productive activities, family life, culture, education, recreation and entertainment.

The Evolution of Urban America

Urban growth in a free society is the result of decisions by many individuals, households, and firms, acting independently, to cluster together in particular places. As the economic centers of a growing Nation, America's cities have been the most visible symbol of economic growth and change. Their growth, change, decline and renewal follow highly individual patterns which result from the interplay of two critical factors. The first, and most universally powerful, is the match between each city's resources (location, climate, work force, etc.) and the technological demands of different periods of the Nation's economic development. The second is the incremental, but nonetheless significant, influence which public and private leadership can have in using natural advantages effectively, accepting and adapting to change, and exploiting newly rediscovered resources.

The economic forces which have shaped urban America are most easily understood from the perspective of the manufacturing sector – by looking at the effect changing technology has had on the early urban manufacturing centers. Nineteenth-century urban growth was closely linked to the industrialization of the American economy. Three reasons explain much of the concentration of industrial activity in cities, all of them related to industrial and transportation technologies. First was the availability of natural resources, expecially coal and iron ore. The production of steel, a key ingredient in nineteenth-century industrialization, was located near coal and iron fields or, because these materials are cheaply shipped by water, at sites with good water access to these fields. Location of manufacturing plants for machinery, automobiles, and other products near the steel mills was also sensible. These factors led to the growth of steel-producing centers and the concentration of heavy industry near coal and ore deposits.

A second cause of urban growth was the reduction in cost that accrues to related activities that locate near each other. A classic example is the garment industry in New York City. This industry is characterized by small firms, frequent design changes, and highly variable levels of production that depend for each firm on how successfully its designs have been received in each season's fashion market. In such an industry, subcontracting many parts of the final product (in this case, the manufacture of belts, buttons, and decorations required for dresses) becomes the lowest-cost method of production. Not only can specialized subcontractors take advantage of economies of large-scale production that would not be available to the small firms that they serve, but, in addition, by serving many customers that have ups and downs in their business activity at different times, they can avoid inefficient excesses and shortages of capacity. Moreover, given the rapid changes in fashion in this industry, frequent contact is needed between subcontractors and the firms they supply. Thus, the interrelationships among firms provide strong incentives for clustering.

The third and perhaps the most important stimulus to the concentration of late nineteenth-century industrial development in cities was the transportation systems. Railroads and water transportation had become cheap and efficient means for shipping large quantities over long distances. For their economies to be realized, however, large shipments had to be assembled for movement from one region to another. Downtown ports and rail yards served as assembly points for shipments.

Other attributes of nineteenth-century technology led non-manufacturing activities to cluster as well. For urban workers, options for commuting between homes and jobs were limited to travel on foot and by streetcar, restricting residential choice to places not far from work. High-density housing immediately adjacent to urban workplaces became the norm. This residential pattern further reinforced the advantages of the city as an industrial location, since it provided urban firms with excellent access to a labor force. it also spurred the growth of downtown retail trade, since the central business district was the only place easily accessible both by foot and by streetcar lines. With factories, stores, and households all concentrated in the city, locating in the city was the appropriate choice, as well, for business firms that served them, such as banks. The principal dividends from spatial concentration were savings in the number of people and machines, and hours of travel time devoted to transportation. These savings, in turn, freed resources for other productive activities.

Cities have continued to change since World War I, especially in recent years. But now, the widespread growth that was characteristic of cities in the late nineteenth and early twentieth centuries has become much more selective. Midwestern and Northwestern cities that made up the core of nineteenth-century urban growth lately have been losing population and jobs to their own suburbs and to cities and suburbs in the South and West, although some have made successful transitions to more diversified and healthier economies.

The decline of the manufacturing base of old cities, no less than their earlier growth, reflects responses to contemporary technology. The composition of the Nation's output of goods and services has shifted away from products with heavy steel content. For the maker of pocket calculators, for example, a location near coal and iron deposits has no particular advantage; the location decision will be made on other grounds. The introduction of assembly lines at the beginning of this century revolutionized manufacturing technology and conferred a large cost advantage on low-density, single-story factories making use of the new technology. Existing plants in the cities became obsolete, and few vacant parcels available in cities were both large enough to accommodate the space requirements of single-story plants and inexpensive enough to compete with suburban alternatives. Long-distance trucking has become steadily more attractive, relative to rail and water, for all but the heaviest, bulkiest commodities, freeing manufacturers from central city ports and railroad yards to locate in suburbs or small towns without a transportation cost penalty.

Similar developments have affected location decisions of households and of businesses other than manufacturing firms. As incomes rose and families could afford better housing, they became dissatisfied with the high densities of the city and chose instead the large-lot, single-family houses that were available at reasonable cost only in the suburbs – due in part to Federal mortgage aid. The introduction of the automobile and the expansion of the highway network – the latter a result of Federal programs – reduced commuting times to the vast suburban regions that were not previously accessible, and made such choices possible; the movement of jobs to the suburbs made the latter even more desirable. As both manufacturing and households left the city, retail and service firms that catered to them had incentives to follow them.

Thus, changing technology allowed manufacturers to reduce their costs, to their own benefit, while simultaneously improving the productivity of the economy and raising the standard of living of the Nation as a whole. However, achieving these gains has not been without cost. City workers found that their jobs disappeared; city retailers were driven out of business by the relocation of their customers to the suburbs; and owners of city property found that their properties lost their value. It is largely in response to the direct and indirect effect of these losses that the Federal Government was called upon to halt the decline of older cities and to underwrite their revitalization. The effectiveness of these policies was somewhat limited, however, because the economic forces propelling job and population dispersal have been so strong that efforts to reverse them have been only minimally successful.

An urban area's ability to maintain its economic base involves adapting to change in a manner which uses remaining – and new – resources. An illustrative example of positive adaptation to deep-seated changes in economic forces and circumstances is found in New England. The old manufacturing cities of New England seem to be succeeding in attracting the growing high-technology and service industries which require and can afford the well-educated labor force in New England.[2] Beyond that economic foundation, shifting demography, life-styles, and tastes have turned older, close-in residential neighborhoods into resources. The initiatives of private and public leadership can and must play a major role in responding to change.

Encouraging Adaptation to Economic Change

The ability of State and local governments, and, most importantly, cities to adjust to long-run structural changes in the economy is severely hampered by short-runs shifts in the Nation's business cycle. Therefore, stabilizing and revitalizing the national economy is the most important Federal urban policy for the 1980's. Recession reduces the revenues of State and local governments and at the same time increases the demand for public services. When recession is coupled with rapid inflation, the results are even more damaging to the financial health of local governments, particularly those facing a significant, long-term decline in revenues. The latter are more severely affected during such periods and generally make advances in employment and income only during periods of rapid national growth.

In recent years, the national economy has suffered from persistently high inflation, high interest rates, frequent bouts of recession, low rates of saving, increasing competition from abroad, declining rates of capital investment per worker, low productivity, and slow rates of growth in the gross national product.

The economic well-being of all Americans, rich and poor, urban and rural, depends upon the productivity of the American economy. Consistent increases in output per worker throughout American history have provided a high and steadily increasing standard of living among our citizens and increased leisure time in which to enjoy it. Among the most important benefits of productivity growth has been a decline in the fraction of Americans living in poverty.

Since the early 1970's, however, productivity growth has not been the vehicle for increased prosperity that it had been in the past. Since 1970, productivity per worker in American private business has increased less than one percent per year, less than one-third the rate of growth that prevailed in previous years. During the same time, productivity growth in German industry was nearly three percent and, in Japan, almost four percent.[3] Lagging productivity creates both short-term and long-term problems. In the short-term, failure of American industries to keep pace with foreign competition means loss of markets, excess capacity, and unemployment. In the long-term, lagging productivity adversely affects living standards of all Americans.

In its Economic Recovery Program, the Administration introduced tax cuts and incentives to increase savings and investment, and it is pursuing measures to stabilize the growth of the money supply. Combined with reductions in Federal expenditures and in unnecessary regulations, these measures will reduce the size and intrusiveness of the public sector, leaving more resources in the private sector for productive investment, and thereby creating new jobs and higher real incomes. Implementation of the Administration's Economic Recovery Program is a major element of a new urban policy – economic recovery will directly strengthen the economy of cities and thereby cure many related problems. In 1980, the Joint Economic Committee of the Congress came to the same conclusion; namely, the most important thing the Federal Government could do to help cities was to improve the national economy.[4]

As part of its efforts to promote economic recovery, the Reagan Administration is reducing the excessive number of regulations

that impose costs outweighing their benefits upon both private sector firms and State and local governments. Regulation may well be justified when firms impose costs on others – for example, when a firm discharges its untreated wastes into a stream, polluting the receiving waters for downstream users who rely on them for drinking water or recreation. But while the Administration accepts the necessity and desirability of many types of regulations, it questions the proliferation of regulations by the Federal Government and the indefensibility of certain standards in light of the costs they impose on firms and State and local governments. Often, regulations have been adopted and enforced without regard to other public objectives. Increasingly, it is being recognized by all parties that the benefits of regulation are not without cost. In fact, compliance with Federal regulations annually costs private firms, and hence consumers, tens of billions of dollars.[5] As a Nation, we must decide how much we wish to pay to achieve the benefits provided by any given regulation.

While the Federal Government concentrates on establishing the conditions for increasing rates of growth in the gross national product, State and local governments will find it is in their interests to concentrate on increasing their attractiveness to potential investors, residents, and visitors. In doing so, they are most likely to succeed if they recognize their changing comparative advantages and adapt to the changes that are occurring in regional, national, and international economies rather than trying to work against them.

Inevitably, higher rates of national economic growth will have different consequences for each of the Nation's communities. As some industries grow and others contract in response to changing national and international market conditions and opportunities, the communities in which they are located will experience sometimes unpredictable expansions and contractions in jobs, population, and tax bases. Older areas frequently have substantial parcels of land that are vacant or occupied by deteriorated structures, and yet the land is well located for a variety of economic activities and well served by existing street, water, sewer, transportation, and communication facilities. In such areas, it is generally the case that a firm will be reluctant to invest despite these assets, unless it has reasonable confidence that other firms are also willing to do so. When each firm is reluctant to be the first to take the risk, otherwise viable investments may be foregone unless government intervenes to start the process.

To demonstrate the viability of investments in certain depressed urban areas, the Federal Government will cooperate with State and local governments to designate experimental Enterprise Zones, providing incentives in the form of tax savings and the removal of regulatory barriers to firms that choose to invest or expand there. Economic activity and job creation in such zones will be stimulated by a combination of tax relief, reduction of excessive regulatory barriers, and initiatives to improve the physical environments and social services of the areas. The fundamental idea behind the Enterprise Zone program is to eliminate government barriers to job-creating entrepreneurial efforts.

For similar reasons the Reagan Administration continues to promote Urban Development Action Grants (UDAG). Last year, the program's emphasis on economic development was increased and priority was placed on commercial, industrial, and mixed use projects that will help distressed urban areas diversify their economic bases and adjust to long-term structural changes.

UDAG funds can be used flexibly for the construction of infrastructure or for financial assistance to firms, as long as the Federal funds leverage substantial private funds. In other words, each project must be sufficiently attractive to private investors that they are willing to make firm commitments of private dollars as a condition for receiving Federal assistance. Such projects are also likely to demonstrate the economic viability of distressed areas and attract additional investment. Federal assistance of this sort is designed to help communities that are losing jobs to assume new economic functions compatible with the changes occurring in the larger economic order of which the community is a part. It speeds rather than slows social and economic adjustment in a manner consistent with the interests of the community and the Nation as a whole.

Restoring Balance in Our Federal System of Government

Ours is a Federal *system* of government, composed of the national, State and local governments, yet we invariably use the term "Federal Government" when we mean the national government. This semantic usage reflects the overwhelming dominance achieved by the national government, and the concomitant diminution of the roles of the other member governments of the Federal system.

State constitutions and laws determine the conditions under which local governments and special districts operate – boundaries, annexation procedures, taxing authority, borrowing limits, land use powers, and service responsibilities. States have powerful tools for addressing the consequences of economic change, as evidenced by their aggressive use of a wide variety of techniques to pursue economic development objectives for the State as a whole. Many have taken steps to provide special benefits for distressed areas. Through a variety of means they can equalize resource disparities within the State by redefining responsibility for certain functions or providing financial assistance. They can redraw boundaries and they can create more regional or more local – that is, neighborhood – units of governance. Even if boundary lines of political jurisdictions are not redrawn, other accommodations for taxation and service delivery can be devised whose net effect is to reduce fiscal disparities among communities within metropolitan areas and the State as a whole.

The Reagan Administration is proposing a major realignment of Federal, State, and local responsibilities, which will establish efficient, effective, and equitable working relationships among the three levels of government. The realignment will strengthen the role of State and local governments by transferring to them the responsibility for programs whose benefits are local rather than national, along with tax sources, thereby increasing the accountability of these levels of government. Moreover, as the Federal Government collects relatively less revenue from the citizenry, States and localities will be able to collect more, but only if their citizens so choose. In this way, the democratic process will determine the priorities of State and local expenditures, and provide a safeguard against public expenditures for which costs exceed the collective benefits.

Where Federal aid for local functions is continued temporarily, it is the intention of the Administration to combine categorical grants into block grants whenever possible and to give maximum discretion to State and local policymakers in administering programs. Through this sorting-out process, citizens will know whom to hold accountable for spending their taxes, and the Federal Government should be able to concentrate on those activities that promote national economic growth, thereby increasing the resources available to all levels of government and, most importantly, to the Nation's citizens and enterprises.

The restoration of balance in the Federal system of government is discussed in greater detail in Chapter 4.

Supporting Urban Leadership

First and foremost, the fiscal viability of a city, and hence its ability to offer a satisfactory quality of life to its residents, depends upon its performing a productive role in its regional economy. This demands local leadership and initiative, both organized and unorganized, formal and informal, collective and individual, public and private.

Elected leadership plays a pivotal role in this process. In every community, elected officials make basic choices about fiscal and service-delivery options, about investments in municipal infrastructure, and about urban development. Strong leaders will insist on creating options, examining alternatives and their consequences, and making informed decisions. In San Francisco, the mayor made productivity and the high service levels of the city a campaign issue, resulting in a political consensus supporting continuation of many programs desired by its citizens. Perhaps no city has more incontrovertible evidence of urban leadership than Cleveland, where a newly-elected mayor instilled confidence in the community and brought a bankrupt city back into the capital markets little more than a year after it had defaulted on loans.

Urban leadership is by no means limited to public officials. The private sector, both corporate and voluntary, is a fount of creative leaders and is indispensable to the success of a city's strategy. This is so for two reasons: (1) the size of private investment in a city, in the aggregate, generally dwarfs public sector investments; (2) leaders from the private sector do not encounter the same pressures as elected officials to concentrate on short-range results timed to elections and can afford a longer-range perspective. This is particularly true of business leaders whose firms have large, fixed, and immobile investments, such as utilities, banks and real estate businesses, as well as leaders of religious, neighborhood, and civic associations.

Constrained by diminishing resources and strict limitations on deficit spending, local governments have faced fiscal discipline for a much longer period than the national government. It is not surprising, then, that many local officials have successfully demonstrated that they can deliver services to their citizens in a far more cost-effective manner through better management and greater productivity. The techniques they are using include privatizing public services, greater reliance on the free market, letting private institutions perform those activities that are not necessary functions of local governments, encouraging voluntary efforts by corporate and nonprofit groups, reforming antiquated civil-service systems, improving their financial management practices, and imposing user charges.

Many cities are characterized by active civic involvement in community concerns, and others have succeeded economically because of strong entrepreneurial resources. The growing signs of recovery in severely-deteriorated and economically-depressed cities (for example, Boston and Baltimore) must be attributed in part to such strong public-private cooperation. Farsighted economic planning to adapt to economic change has likewise been a major ingredient in helping cities such as Minneapolis, St. Paul, Pittsburgh, and Cincinnati make incremental and positive adjustments in a changing economy.

By proposing the return of programs and resources to State and local government, the Reagan Administration expresses its confidence in the democratic process and in the capacity of State and local officials to govern.

Recognizing the importance of private sector involvement in urban issues, the Administration has created the Task Force on Private Sector Initiatives. The Task Force is investigating and will publicize ways in which the private sector can work more effectively with the public sector and neighborhood organizations to make urban areas stronger both socially and economically.

Neighborhoods, too, are a vital resource for urban leadership. Numerous examples demonstrate that the long-term stability of neighborhoods and cities is enhanced by creative cooperation between neighborhood organizations, the private business sector, and local government. The Administration will encourage local governments to experiment with the delivery of traditional city services by neighborhood organizations operating under the auspices of the city government. The same approach of "contracting out" that can be used at the municipal level can often be applied at the neighborhood level as well. As residents assume greater responsibility and exercise greater influence over the quality of local living conditions, neighborhoods and cities will become better places in which to live.

Conclusion

It is the position of this Administration that the Nation's individuals, businesses, and communities will realize greater and longer-lasting benefits if the Federal Government creates the conditions under which all can productively pursue their own interests.

The diminution of the role and responsibilities of the Federal Government in urban programs does not mean government will not play an important role in urban society. Indeed, there are logical and necessary roles for other levels of government in these activities.

Policies concerning the proper roles and responsibilities of Federal, State, and local governments, and other institutions must be based on an understanding of the circumstances of our communities. The following chapter describes economic, demographic, and fiscal conditions and trends in urban areas. Subsequent chapters focus on the roles and responsibilities of Federal, State, and local governments in light of these conditions.

This chapter describes fundamental economic and social changes affecting firms and governments in urban areas. The next chapter describes trends in three specific subjects: housing, crime, and infrastructure. Since its inception, the Administration has been reviewing these urban trends to determine the necessity for action in response. The actions that already have been initiated by the Administration are described.

Variety of the Urban Condition

According to the 1980 Census, almost three-quarters of the Nation's 226.5 million residents live in urban areas. One-half live in the Nation's nearly 5,800 incorporated places over 2,500 population, nearly one-third live in the 418 cities over 50,000 population, and a little more than one-sixth live in the 56 cities over 250,000 population.[1] Certain types of concerns are commonly associated with urban areas, whatever their size. Some concerns arise when jurisdictions rapidly gain or lose population and jobs. Others arise when people with low incomes and low job skills are clustered together and seek assistance in securing employment, affordable housing, and sufficient cash and in-kind income to support their households. Still others arise from efforts to maintain or restore the desirability of communities as places to live and work by improving social and political institutions, physical infrastructure, and the quality of environmental, cultural, and recreational amenities. These concerns are characteristic of all urban areas, but, depending upon their circumstances, different concerns are paramount in different places.

Decisions made in the private market play a major role in shaping the shared concerns of urban residents. Consumers make individual decisions to purchase or not purchase various items. Production of the items takes place in a way that accommodates to the relative costs of the different inputs (such as land, labor, capital, energy, etc.) in different places. The rewards to workers for participating in productive activity are similarly determined, although modified by taxation and transfer payments. The outcome of these market forces determines the condition of regional and local economies. Among the economic factors that interact to determine an area's comparative advantage in this market economy are:

- The size and growth rate of its population;
- The quality and quantity of its public and private capital stock;
- The characteristics of its local labor market, including the demand for labor, labor-force participation rates, wage rates, and productivity;
- The level and composition of investments in housing and in plant and equipment;
- The area's endowment of natural resources; and
- Its participation in regional and national markets.

The comparative advantages of a region or urban area will change over time in response to the dynamics of the economy that reflect such basic factors as:

- Changes in demand in the local, national, and international markets;
- Changes in relative prices that affect input costs; and
- Changes in technology that may combine inputs in different proportions and be more suited to alternative locations.

At any time, some cities will be growing and others declining in response to national economic and demographic changes. Such changes are to be expected. Obviously, communities that are losing population and jobs, and have declining industries, growing dependent populations, deteriorating infrastructure, and contracting tax bases will experience different and more serious stress than those with the opposite trends.

Two cities, St. Louis and Houston (and Harris County in which the latter is located), illustrate the range of urban diversity.[2] Between 1970 and 1980, St. Louis lost 27 percent of its population. Between 1967 and 1979 it lost 28 percent of its manufacturing jobs and three percent of its finance, insurance, and real estate jobs (hereafter referred to as "finance jobs") and selected services jobs (generally the two fastest growing sectors in central cities), for a total loss of 41,700 jobs in all three sectors. In 1979 the city's average annual unemployment rate was 9.3 percent, and its per capita income was 88 percent of the national average. In sharp contrast, Houston's population increased by 28 percent between 1970 and 1980. Manufacturing employment increased in Harris County by 74 percent between 1967 and 1979, while its combined finance and selected services sector employment increased by 165 percent, for a total gain of 304,800 jobs in these three sectors. In 1979 the city's average annual umemployment rate was 4.3 percent, and the county's per capita income was 126 percent of the national average. (An estimate for the city is unavailable.)

While the range of variation among cities is very wide, the range of variation among communities within the same metropolitan area may be even greater. The Los Angeles metropolitan area has 23 suburbs with populations greater than 50,000.[3] In 1977 Santa Monica's per capita income was 149 percent of the national average, while Compton's was 62 percent. In addition to being two and one-half times higher, Santa Monica's per capita income increased more than three times faster than Compton's between 1969 and 1977. While Alhambra, Monterey, and Whittier had unemployment rates under 3.5 percent, Carson, Los Angeles, and Pomona had unemployment rates over six percent, and Compton had an unemployment rate of 8.8 percent. Over 44 percent of the housing stock in Pasadena was built before 1940, compared to less than two percent in Lakewood and West Covina. Other metropolitan areas display similar diversity within their boundaries.

Among the Nation's 57 cities over 250,000 population in 1978 (the number declined to 56 by 1980), 24 cities met at least five of the FY 1982 eligibility criteria for the Urban Development Action Grant (UDAG) program and could be regarded as severely distressed.[4] Severely distressed cities are found in all regions: seven in the Northeast, eight in the North Central region, six in the South, and three in the West. Over time, the proportion of the U.S. population residing in today's distressed jurisdictions has been declining.[5] These 24 cities had a combined population of 26.2 million in 1960, 25.3 million in 1970, and 21.6 million in 1980. Their proportion of the U.S. population declined from 14.6 percent in 1960 to 9.6 percent in 1980. Using the UDAG criteria, 144 of the Nation's 583 central cities (some with populations less than 50,000) and other jurisdictions over 50,000 in population can be described as severely distressed. These cities had combined populations of 36.3 million in 1960, 35.0 million in 1970, and 31.0 million in 1980. Their proportion of the U.S. population declined from 20.2 percent in 1960 to 13.7 percent in 1980. More than 70 percent of the residents of the 144 distressed communities live in those 24 largest cities which are regarded as severely distressed.

While many cities share similar concerns, there is an infinite variety of problems that are unevenly distributed among and within urban areas. Each unique combination of circumstances calls for a unique response, and thus a truly national urban policy cannot be predicated solely on Federal Government actions. The Joint Economic Committee concluded in a staff study issued in 1980: "The single most important thing that the Federal Government can do to meet the needs of State and local governments is to stabilize the national economy and return it to a path of stable economic growth."[6]

Economic Trends

It is the responsibility of the Federal Government to establish a healthy national economic environment within which State and local governments can take the initiative in seeking to improve the desirability of their jurisdictions to current and potential future residents and firms. Some communities will grow while others contract. The Administration intends to help communities anticipate and adjust to change. Many declining areas still have numerous competitive strengths and private sources of renewal. Under this Administration's policies, many areas, while growing slowly relative to others, will nevertheless be able to improve their absolute performance.

Sources of Urban Economic Change

Innovations in technology, transportation, and communication during the last 30 years have loosened the ties of both manufacturing and service activities to central city locations. Manufacturing employment shifts have occurred in response to: (1) changing technological requirements; (2) differences in regional manufacturing wages, capital investment, and productivity; and (3) competition from international trade.

Technological innovations have so altered manufacturing that once-advantageous central locations near freight terminals have become congested and inefficient, and firms now seek more spacious sites in locations well-served by freeways. Location decisions of firms have been decisively altered by the substitution of trucks for railway transport of many raw materials and finished products, the spread of hard-surfaced highways and public utilities throughout peripheral areas, telecommunication advances enabling the separation of production facilities from administrative offices, and the use of automated assembly lines that require horizontal plant layouts with more space per worker. Federal policies have influenced these decisions. Similar factors have also led many wholesalers and retailers to cut costs by leaving congested sites with high crime rates and declining markets for more accessible and safer locations.

Once technology made less-developed sites more feasible for production and trade, other factors including relative labor costs led to further dispersal. For example, the Southeast had the lowest average hourly earnings of manufacturing production workers in the 1950's and 1960's and the second lowest earnings in the 1970's; this comparative advantage helped the Southeast to capture one-third of net manufacturing employment growth in the 1950's, two-fifths in the 1960's, and over three-fifths in the 1970's.[7] Similarly, the lower wage demands of nonmetropolitan workers in all parts of the country made them more competitive for standardized manufacturing jobs that were no longer tied to central city locations. Moreover, advances in transportation and communications and changed life-style preferences independently made nonmetropolitan areas and suburbs more attractive to potential residents who could supply much of the work force and consumer demand for the decentralizing industries.[8]

Despite below-average rates of new capital investment per employee, there is evidence which suggests that sufficient capital investment is occurring in the regions of the older manufacturing belt to maintain the productivity of their contracting, high-skilled, high-wage work forces. For example, between 1967 and 1978, the growth in value added per worker, a measure of productivity, in the Great Lakes region exceeded the average growth for the Nation as a whole.[9] However, these regions have lost ground relative to the South and West because they have been unable to attract sufficient new plants and firms to replace those which closed or went out of business.

No significant differences have been found among the four Census regions in average rates of deaths of firms. A study comparing birth and death rates of firms in the North (the older manufacturing belt) and the South (the South Atlantic, East South Central, and West South Central regions, as defined by the Bureau of the Census) found that between 1969 and 1974, closure rates were actually slightly higher in the South across all sectors, but births were also significantly higher in the South for all sectors, averaging 50 percent higher overall. Both the North and the South lost a little over 20 percent of their 1969 job bases as a result of firm closures. However, the North gained back only nine percent of its 1969 job base from births and only six percent from expansions, while the South gained back 17 percent from births and 16 percent from expansions. As a result, between 1969 and 1974, the North lost 5.8 percent of its 1969 job base, while the South gained 11.6 percent.[10] Other studies have confirmed that the northern regions have been unable to acquire enough enterprises to replace firms that go out of business.[11]

In addition to domestic forces, international technological and market forces have altered the comparative advantage of areas. As international trade has grown, domestic products have been subject to increasing competition with imported components and finished products from both developed and developing countries. In 1970, exports and imports were only about six percent of the gross national product; by 1980, they were about 12 percent.[12] Some areas and industries (such as the shoe industry in New England) have suffered in the short run from import competition, but others have benefited from exports.

Manufacturing Employment

Trends in net employment growth show the cumulative power of the new technological, economic, and demographic forces. In brief, the share of national manufacturing employment in the regions of the older manufacturing belt (the New England, Mideast, and Great Lakes regions, as defined by the Bureau of Economic Analysis of the Department of Commerce) fell from almost 70 percent in 1950 to 50 percent in 1980. Manufacturing employment losses in these regions accelerated during economic downturns. In the period 1970-75, which encompassed the recession of 1970-71, the economic upturn of 1971-74, and the severe recession of 1974-75, the New England, Mideast, and Great Lakes regions experienced total manufacturing employment losses of nearly 1.2 million jobs. Only 600,000 manufacturing jobs were regained during the 1975-78 upturn. In the 1978-80 period, the Great Lakes region again experienced major employment losses, as the automobile industry and its suppliers faced a suddenly weakened demand. In contrast, regions of the South and West as well as the Plains region of the Midwest proved to be relatively immune to national economic downturns and realized appreciable manufacturing gains during the 1970's.[13]

Central cities lost 693,000 manufacturing jobs between 1970 and 1975 and regained only 262,000 jobs between 1975 and 1980, for a net loss of 421,000 manufacturing jobs during the 1970's. Ninety-eight percent of this net loss occurred in the central cities of the Nation's 33 largest metropolitan areas (those with over one million population in 1970). In contrast, suburbs and nonmetropolitan areas experienced inconsequential net manufacturing job losses between 1970 and 1975 and strong job gains between 1975 and 1980, for net gains during the decade of 1.6 million manufacturing jobs in the suburbs and 1.0 million in nonmetropolitan areas. However, manufacturing jobs increased at only half the rate for all jobs created in these jurisdictions, reflecting the national shift away from manufacturing jobs during the 1970's.[14]

Nonmanufacturing Employment

Nationally, while total employment increased by 28 percent during the 1970's, employment in the finance and selected services sectors increased by 53 percent. Service employment in central cities increased at less than half this rate (22 percent), and their share of total service employment declined from 38 percent in 1970 to 30 percent in 1980. Service employment in the central cities of large metropolitan areas grew only 15 percent, with the result that they gained sufficient service jobs in the aggregate to offset their losses in the manufacturing, transportation, utility, and wholesale and retail trade sectors, but their overall job growth rate for the decade was nearly zero (0.4 percent).[15] The overall effect of these differential growth rates has been the decentralization of service as well as manufacturing employment. On closer inspection, it appears that wholesale trade, like manufacturing, needs space and access to major highways and other modes of transportation, and only the most specialized forms of retailing do not follow population outmigration. Business services are decentralizing to continue to serve their industrial clients. Professional services show a similar pattern. Even finance, insurance, and real estate activities are becoming decentralized.

Both suburban and nonmetropolitan areas gained service employment at more than four times the rate of central cities. By 1980, suburbs had one-third more finance and selected service jobs than central cities, while nonmetropolitan areas had 91 percent of the central cities' total. Suburbs and nonmetropolitan areas gained jobs in both manufacturing and services, but their service jobs increased at a faster rate. As a result, all types of jurisdictions became relatively more dependent on service jobs: central cities, because of lower rates of service employment growth and absolute declines in manufacturing employment; and suburbs and nonmetropolitan areas, because of the more rapid growth of service employment.[16]

Sources of Renewal

It was once believed that large urban areas could spin off standardized production processes and yet maintain their long-run economic vitality because they possessed rich inventories of the social and physical infrastructure conducive to further innovation and the replacement of declining industries.[17] However, large urban areas in older, industrial regions have not maintained stable economic growth; they have not generated industries to replace declining industries or businesses which have moved to lower-cost environments. They possess no monopoly on the professional, technical, and managerial expertise and rich array of business support services supportive of technological innovation and new enterprise development; and in many cases, their physical infrastructure has been allowed to decay. High wages, taxes, and operating costs along with congestion and obsolescent facilities have weakened older cities' capacities to attract new industries. Urban centers can no longer count on the advantage of central location to continue their primacy as "incubators of innovation." Cities are now learning to identify and exploit their unique competitive strengths in an increasingly differentiated economic environment. Initiative is being demonstrated by State and local governments in partnership with their private sectors.

The New England region, the oldest industrial area and the first to suffer from trade and technological obsolescence, is demonstrating that comparative advantage can be reestablished.[18] Since 1975, it has experienced a sizeable net gain of manufacturing jobs and, more recently, has enjoyed unemployment rates well below the national average. Its nonmetropolitan areas have done especially well, but New England's older metropolitan areas and some of its central cities have also experienced job growth and lowered unemployment rates. For example, the Boston metropolitan area had a net growth of 173,000 jobs between 1975 and 1980 (including a new growth of 35,000 manufacturing jobs). And the City of Boston experienced job growth after 1975 despite a decline in resident population and enjoyed a steady decline in its resident unemployment rate from 12.8 percent in 1975 to 9.5 percent in 1977 and down to 6.2 percent in 1980.[19] Portland, Maine is showing signs of being revitalized, and, like Boston, has benefited from Federal, State, and local funds that have been used to leverage greater private sector participation in the development process.[20]

The primary impetus for New England's renewal has been entrepreneurial initiative and public and private sector cooperation in replacing noncompetitive manufacturing and service jobs. These efforts have been assisted by New England's long-term assets – an educated and skilled work force, a relatively low wage structure, and an attractive living environment. The older urban areas of Pittsburgh, Indianapolis, Minneapolis-St. Paul, and Kansas City, Missouri, among others, have shown similar capacities for diversification and modernization.

As a consequence of these regional and metropolitan population and job shifts, people have been matched with jobs in new locations; firms enjoy lower-cost, more efficient production sites; regional employment structures have become increasingly similar; and regional income disparities have narrowed. However, these population and job shifts have imposed costs on some communities and their residents where renewal has not taken place. As obsolete plants have closed in the cities under the pressure of domestic and foreign competition, jobs have been lost and individuals and families have had to leave relatives and friends to search for new employment opportunities. Communities losing firms and households have experienced contracting tax bases while trying to meet rising service demands and to deal with aging infrastructure.

Too often in the past, the Federal Government has responded to these temporary symptoms of national economic change with policies and programs intended to halt or slow rather than accommodate the process of adjustment. For example, in 1978 the Economic Development Administration (EDA) embarked on a $100 million loan guarantee program to support the beleaguered steel industry. Since government efforts to reverse such powerful market forces are unlikely to succeed, it is not surprising that EDA's steel program has experienced such limited success that the Federal Government was forced to buy millions of dollars of steel-making equipment when a firm went bankrupt.[21]

In general, Federal economic development programs were created to increase private sector investment in communities experiencing economic decline. Some forms of assistance were intended to correct presumed imperfections in private credit markets by increasing the availability and reducing the cost of capital to firms locating or expanding in economically distressed communities. Programs were created to make direct loans or to guarantee loans made by private lenders. These programs had the unintended effect of channelling credit to less competitive firms.

The private market is more efficient than Federal program administrators in allocating dollars among alternative uses. In this period when some communities are experiencing job losses and contracting tax bases, Federal assistance is being used to attract and retain private investment. This assistance is intended to complement rather than displace market decisionmaking processes. This assistance may take the form of targeted tax incentives (such as those to be made available in Enterprise Zones) that are available to any firms choosing to locate in designated areas; targeted discretionary grants (such as Urban Development Action Grants) that leverage private investment without eliminating private market tests of project viability; and technical assistance that disseminates information about cost-effective economic development strategies.

State and local governments have primary responsibility for making their urban areas attractive to private investors. They are most likely to succeed if they form partnerships with their private sectors and plan strategically to enhance their comparative advantages relative to other jurisdictions. Again, as stated by the Joint Economic Committee, the major contribution that the Federal Government can make to local economic vitality is the promotion of sustained economic growth. Such growth will directly increase the economic activity of localities; increase their tax bases so that they can make public investments to attract private investors; and create a climate for long-term investment that can help revitalize declining areas.

Demographic Trends

During the 1970's, people generally moved from jurisdictions with contracting job bases to those with growing job bases. During that decade, the U.S. population grew at the slowest rate in recent history, at a rate of 11.4 percent, compared to 12.3 percent in the 1960's and 18.5 percent in the 1950's. Between

1970 and 1980, while immigration into the United States increased from 2.1 per 1,000 population to 2.9 (an estimated 654,000 persons in 1980), population change from natural increase slowed as birth rates declined from 9.4 per 1,000 population to 8.9, even though death rates also declined, from 18.2 per 1000 population to 8.9, even though death rates also declined, from 18.2 per 1000 population to 16.1.[22] As a result, net migration played a more prominent role in determining which regions and jurisdictions gained and lost population. Net migration into the South, first noted during the 1960's, continued and accelerated, and in the 1970's both the South and West gained about 50 percent of their net population growth from net migration compared with only 10 percent in the South and 40 percent in the West in the 1960's.[23]

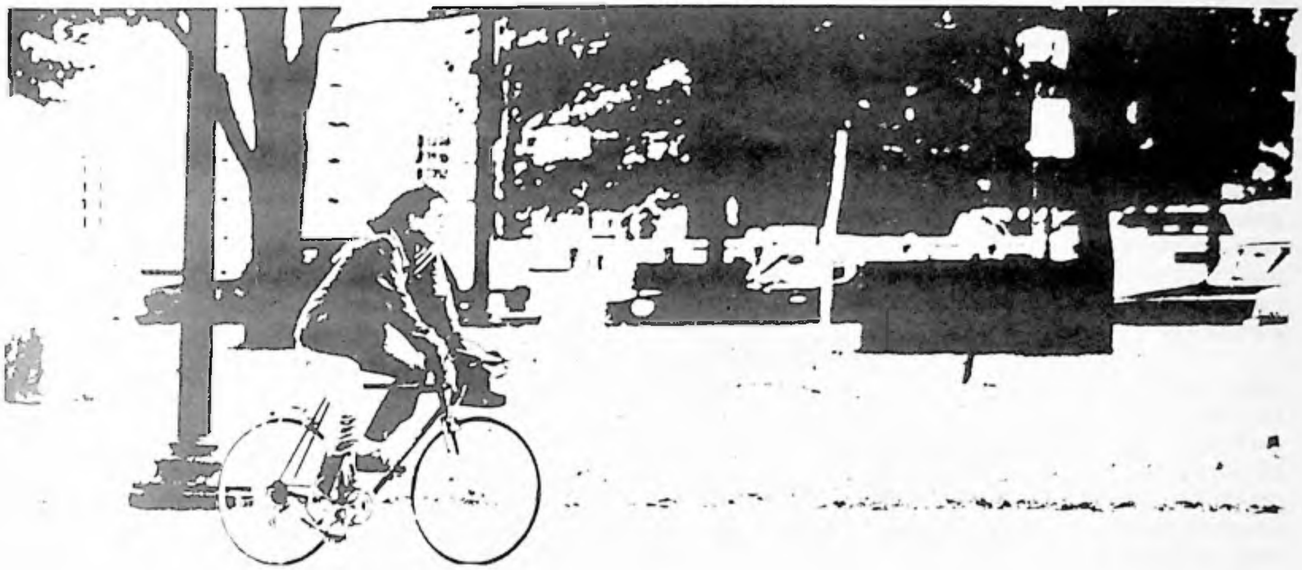
Strong regional patterns underlay population shifts among metropolitan and nonmetropolitan areas and central cities and suburbs in the 1970's. While the metropolitan areas grew by 10 percent and nonmetropolitan areas by 15 percent between 1970 and 1980, 98 percent of net metropolitan growth and 72 percent of net nonmetropolitan growth occured in the South and West. Within metropolitan areas, central cities in the Northeast and North Central regions lost about as many residents (3.5 million) as the central cities of the South and West gained. Central city population losses of 10.5 percent in the Northeast were not offset by suburban population gains, with the result that Northeastern metropolitan areas lost 806,000 residents. In the North Central region, central city losses of 9.2 percent were offset by suburban gains, so the region's metropolitan areas grew at a modest 2.7 percent, only one-eighth the rate of the South and West.[24]

Despite population losses from economically declining areas over the decade, unemployment rates tended to be higher in jurisdictions experiencing job losses. Not all population groups are equally mobile. In general, younger persons and those with higher skills and education tend to be more mobile than older persons and those with lower occupational skills.[25] Persons with lower occupational skills may be less motivated to move because they face the prospect of unstable, low-paying jobs regardless of the community in which they live.[26] Such persons had the highest unemployment rates, often 10 percent or higher, in the job contracting areas. Moreover, older persons with strong family and community ties frequently find it difficult to move, especially if they own a home in a community where population decline has weakened demand. In addition, some people may be prevented from moving to jurisdictions offering greater opportunities to persons with their skills by zoning and building codes that discourage the construction of moderately-priced, single- and multifamily housing and by racial discrimination in housing and job markets.

Some potential workers may elect or be forced to withdraw from the labor force entirely. Such dropouts are disproportionately female heads of families.[27] Because of their low rate of participation in the labor force, almost one-third of female-headed families in 1980 had an income below the poverty threshold ($8,414 for a non-farm family of four, adjusted for age and sex of the household head, but not adjusted for non-monetary benefits such as food stamps). In fact, poor families headed by familes constituted 48 percent of all poor families in 1980, up from an already disproportionate share of 33 percent in 1969.[28] Among families that were persistently poor or lived in areas with high concentrations of poverty, female-headed families were even more prominent. Only families headed by blacks had similarly high rates of annual poverty or persistent poverty, in part because a growing proportion of black families are headed by females.[29]

Because of the growing share in many central cities of families with low rates of participation in the labor force, central city poverty rates (i.e., the percent of central city populations with incomes below the poverty level) increased from 14.9 percent in 1969 to 17.2 percent in 1980. Between 1969 and 1980, nonmetropolitan poverty rates declined from 19.3 percent to 15.4 percent. In other words, poverty rates increased in jurisdictions losing blue-collar and lower-skilled, white collar jobs and decreased in jurisdictions gaining such jobs. In the same period, black poverty rates increased in central cities from 29.1 percent to 32.3 percent, while declining in nonmetropolitan areas from 52.6 percent to 40.6 percent.[30]

Poverty levels and rates during the 1970's increased in all regions except the South, but southern poverty levels and rates continued to exceed those of the other regions. Overall regional poverty rates converged, while differences between central city and suburban poverty rates increased. Beginning in the mid-1970's, net migration flows of persons with incomes below the poverty line reversed their historical pattern; the number of poor people migrating out of the South declined while the number migrating into the South from the Northeast and North Central regions remained about the same, with the result that the South



gained more poor persons than it lost to other regions.[31] This reversal of long-prevailing migration patterns suggests that poor people respond to changes in relative economic opportunities, but somewhat more slowly than the rest of the population. This suggests that long-run, national economic growth, regardless of its regional distribution, has the potential to increase job opportunities for all people in society.

The Administration has proposed that responsibility for some income support and many social service programs be devolved to State and local governments, which would have increased discretion to pursue social service and income support policies more responsive to need. In particular, they will be able to pursue policies that increase labor-force participation rates among those able to work, and to provide appropriate forms of supportive assistance.

The Administration's principal job-creation strategy is the promotion of new permanent job opportunities in the private sector through its economic recovery program. Job-training assistance will be made available to prepare low-skilled persons for such jobs. Under the block grant component of the legislation to replace the Comprehensive Employment and Training Act, assistance will be funneled through States, with mandatory "pass-throughs" for cities in excess of half a million people, or, under certain conditions to cities with over 250,000 population, so that the assistance can be used for job training in growing employment sectors regardless of their location.

While the primary responsibility for linking workers with jobs rests with the private sector, State and local governments share responsibility for the education and training of local work forces. They determine the quality and responsiveness of public education to the needs of prospective employees and employers. The creation of public -private partnerships to strengthen local educational and training systems constitutes an important component of a local economic development strategy. Skilled and motivated work forces are major inducements that State and local governments can offer to prospective private investors.

Fiscal Trends

In the last 20 years, local governments have received an increasing share of their revenues from higher levels of government. In 1960, they received a total of $10.1 billion in intergovernmental revenues from Federal and State governments, an amount equal to 44 percent of the general revenues that they raised from their own sources. Less than three percent of these intergovernmental revenues came in the form of direct transfers from the Federal Government. In 1980, local governments received a total of $102.4 billion in intergovernmental revenues, an amount equal to 79 percent of their own source revenues, and 16 percent of this amount came directly from the Federal Government. It is estimated that an additional 17 percent of this amount reached local governments indirectly in the form of Federal revenue pass-throughs by State governments.[32] After intergovernmental transfers, about 60 percent of total State and local revenues were allocated to local governments.[33] Increasingly, local governments are the providers of services directed and financed by other levels of government.

Most Federal assistance has been earmarked for special purposes. Indeed, in 1980, only 20 percent of Federal grants-in-aid to State and local governments took the form of general purpose or broad-based grants.[34] The proliferation of Federal grants (the Advisory Commission on Intergovernmental Relations identified 473 in FY 1980[35]) may have altered State and local priorities, by inducing them to provide some services that their taxpayers would have been unwilling to provide if they had to pay the full cost themselves, and injected Federal rules and regulations into local administration.

Despite Federal efforts to allocate resources on the basis of objective indicators of needs, Federal funds have not always been consistently targeted to the neediest people and

Table 2-1

Per Capita Income Levels Relative to the U.S. Average by Region, 1950-1980

Region	1950	1960	1970	1980[1/]
U.S.=100	($1,496)	($2,222)	($3,966)	($9,521)
New England	107	110	108	106
Mideast	117	116	113	107
Great Lakes	111	108	104	103
Plains	95	93	95	98
Southeast	68	73	82	85
Southwest	87	87	89	98
Rocky Mountain	97	94	91	96
Far West	119	118	111	113

1/Based on preliminary figures.

Source: ACIR, *Regional Growth: Historic Perspective,* Washington, D.C., June 1980; U.S. Bureau of Economic Analysis, *Survey of Current Business,* July 1981.

Table 2-2

Median Income for Households Relative to National Median Income by Region and Type of Jurisdiction 1979

National Median Income=100 ($16,533)

	Metro Areas	Central Cities	Suburbs Areas	Non-metro
Northeast	103	77	125	99
North Central	114	89	133	90
South	100	88	111	80
West	110	97	120	87
United States	107	87	123	87

Source: U.S. Bureau of the Census. "Money Income of Households in the United States: 1979." *Current Population Reports: Consumer Income,* Series P-60, No. 126, Table 8.

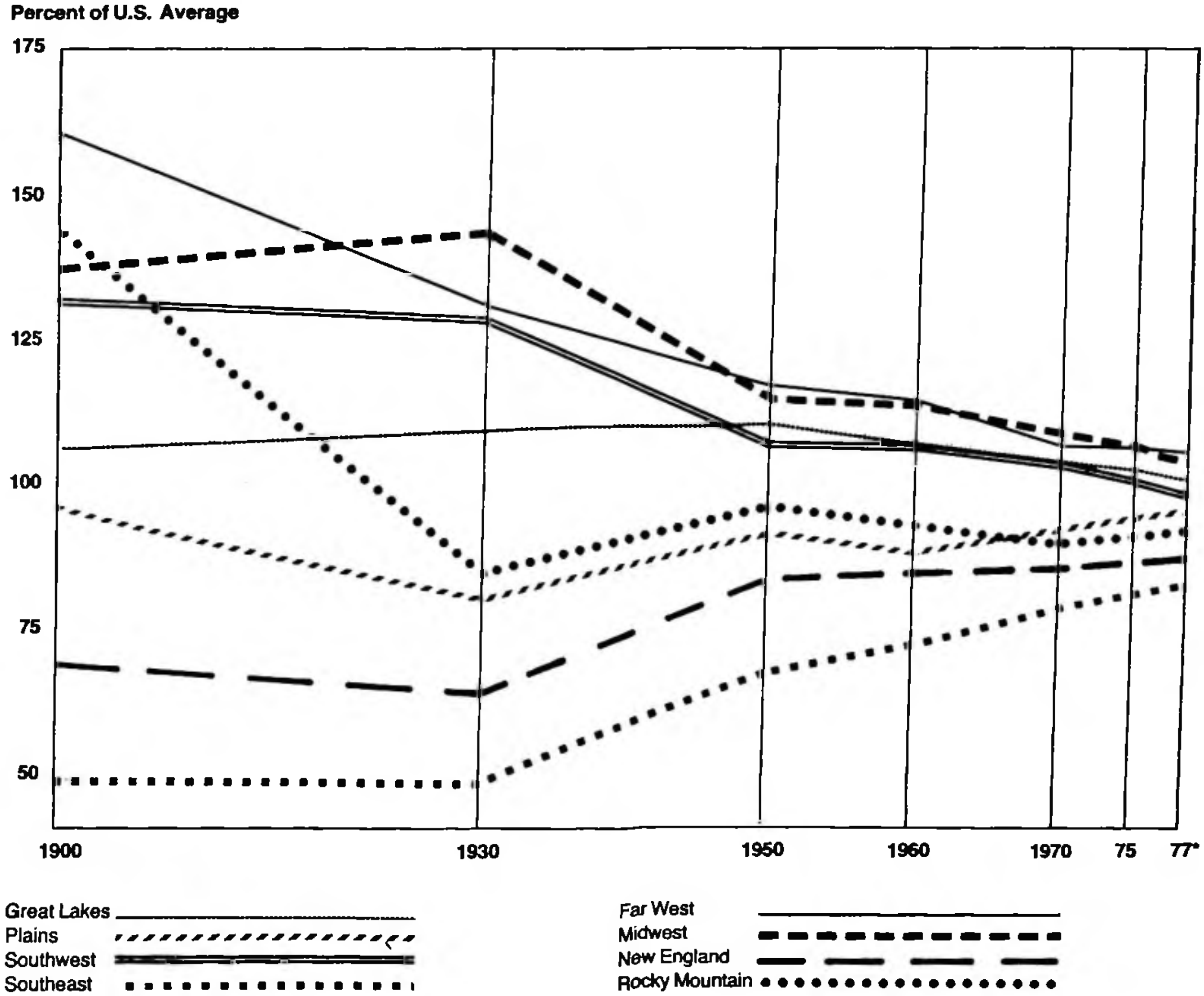
jurisdictions. The political process renders this almost impossible to do.[36] Yet, ironically, it appears that national economic trends may have contributed in greater measure to the equalization of fiscal capacity among the Nation's States and regions than Federal efforts to redistribute income through grant programs. As a result of population and jobs shifts over the last 50 years, disparities in regional incomes have narrowed significantly, as Figure 2-1 illustrates. Table 2-1 shows the more recent trends.

It shows that among the eight regions defined by the Bureau of Economic Analysis, in both 1950 and 1980 the Southeast had the lowest and the Far West had the highest per-capita income. But their per-capita incomes converged: the Southeast's from 32 percent below the national average in 1950 to 15 percent below in 1980, and the Far West's from 19 percent above the national average in 1950 to 13 percent above in 1980. State fiscal capacities as measured by per capita income have also converged. By 1980, 35 States had per-capita incomes no more than 15 percent above or below the national average. Only four States (Alabama, Arkansas, Mississippi, and South Carolina) had per-capita incomes more than 20 percent below the national average.[37] Increasingly, by this measure,[38] States have a roughly equal ability to pay for the governmental functions that their citizens require.

Additional evidence of regional covergence is provided in Table 2-2, which shows that the 1979 median household incomes of

Figure 2-1

Regional Per Capita Income as a Percent of U.S. Average, Selected Years, 1900-75



*The 1977 figure is based upon 1976 population figures (State tax collections, 1977) and 1977 third quarter income estimates (Robert Bretzfelder, *Survey of Current Business*, Washington, D.C. U.S. Department of Commerce, January 1978, p. 20).

Source: U.S. Advisory Commission on Intergovernmental Relations, *Regional Growth: Historic Perspective*, Washington, D.C., June 1980, p.10.

metropolitan area residents of the four Census regions differed by no more than seven percentage points from the national average for metropolitan areas.

Table 2-2 also shows that there were remarkable disparities in the median incomes of central city and suburban residents within all regions, but these disparities were the most pronounced in the Northeast and North Central regions. It is in these regions that annexation occurs infrequently.[39] Two midwestern cities, Indianapolis and St. Louis, illustrate the difference that annexation can make to the economic and fiscal well-being of a central city. They are located in States and metropolitan areas with comparable 1979 per capita incomes (Indiana, $8,570, and Missouri, $8,248; Indianapolis SMSA, $9,361, and St. Louis SMSA, $9,171). However, Indianapolis - which merged with its surrounding Marion County, in effect annexing most of its suburbs - had a 1979 per capita income of $9,724, while St. Louis's was only $7,721. Baltimore and Nashville illustrate a variation on this phenomenon. The State and metropolitan area in which Baltimore is located have 1979 per capita incomes ($9,333 and $8,967, respectively) that were higher than those in which Nashville is located ($7,316 and $8,510, respectively). Yet Nashville, which encompassed its suburbs within a single jurisdiction, had a 1979 per capita income of $9,572 compared to $8,284 for Baltimore.[40] Both the convergence of regional and State per capita incomes and the divergence of central city and suburban household and per capita median incomes suggest that *central city fiscal problems may be a product of arbitrary boundaries and inadequate State and metropolitan fiscal equalization policies rather than of insufficient resources.*

By their powers to establish boundaries, boundary-change procedures, taxing authority, service requirements, and debt limits, State governments can assure that their local governments have adequate revenue bases, and they can reduce the wide disparities in fiscal capabilities that have developed even among local governments within the same metropolitan area. (Cooperation between States is possible for interstate metropolitan areas.)

Although most of the governmental bodies experiencing fiscal emergencies have been located in older cities with sluggish economic activity, the great majority of cities with the same or very similar economic conditions have not had acute financial problems. It is clear that the character and quality of city management serve as powerful intervening forces in such situations. If city leaders recognize budget limitations at an early date, they can prevent poor economic conditions from causing financial injury to city government.[41]

There is evidence that State and local governments have improved their financial management skills and, as a result, today are less vulnerable fiscally to reductions in aid and to interest-rate changes than they were in the mid-1970's. Cities have dramatically reduced their reliance on short-term debt since 1975 and have restructured their long-term debt away from full-faith-and-credit debt toward revenue-bond debt. The latter type of debt is supported solely from the revenue generated by specific investment projects - such as sewer and water utility revenues or repayment of mortgages - and carries no obligation for the city's general funds. It is, of course, far less threatening to the financial position of governments than general-obligation debt.[42] And surprisingly, because of high interest rates, the net interest position of many city governments has actually improved. Interest earned by city governments has increased more rapidly than has interest paid; in 1979-80, for the first time ever, cities earned as much interest on general accounts as they paid out.[43]

Although the importance of State aid to cities was somewhat obscured during the last half of the 1970's by the growth in Federal assistance, the gradual assumption by States of what were once city fiscal obligations has been a steadier trend. This growth in State aid has taken several forms. Over the last decade, many States have developed large programs of local property-tax relief. These programs typically take the form of circuitbreaker laws, which rebate either to the entire residential population or to households below specific income levels a portion of their "excess" property taxes - i.e., property taxes that exceed a designated fraction of household income. These State rebate programs have substantially reduced the net burden of local taxes, providing an important form of indirect fiscal relief to city budgets.[44]

A more persistent trend has been the steady increase in the States' share of public school expenditures. Traditionally, schools have been the largest item in local government budgets. States have also assumed greater financing responsibility for many social welfare activities, such as Aid to Families with Dependent Children, Medicaid, and public hospitals. This change in State financing roles has been especially beneficial to older and fiscally distressed cities with large poverty populations.[45]

A third development in State aid policy has been the sharing of State revenues with local governments; this sharing has often been targeted to fiscally or economically distressed locations. A number of States have sought to free local governments from reliance on inelastic revenue bases (those bases that increase slowly, if at all, in response to economic growth or inflation) by providing certain cities with a share of statewide tax collections. The degree of targeting has often been enhanced by aid formulas that allocated resources to compensate for specific local fiscal or economic difficulties.[46]

As an example of what States have done, in Massachusetts the State government instituted a number of reforms to invigorate the State's economy. The measures included a reduction in State spending, more aid to local communities to offset the effects of Proposition 2½, and strong resistance to tax increases. Preliminary results are encouraging. Personal income is growing faster than the national average; unemployment dropped substantially from well above to well below the national average; more than 200,000 jobs were created in the last four years; welfare rolls are down; and State revenues are up sharply, with mounting surpluses – part of which may be used to reduce State taxes.

Conclusion

The variety of urban conditions is ultimately traceable to natural geographic features and to the decisions and preferences of individuals and firms as they respond to innovations in technology, transportation, and communication and to changing life-style preferences. In the aggregate, these decisions have resulted in the continuing decentralization of population and jobs from central cities to suburbs and nonmetropolitan areas, and to migration from the Northeast and North Central regions to the South and West. As a consequence, some communities are coping with the challenges of growth, while others are coping with those of shrinkage. Broad trends can be identified, but their impact varies among urban communities.

The following critical observations emerge from this analysis:

- Aggregate trends obscure large differences among individual cities.
- Distressed cities are found in all regions of the country.
- The loss of population and of manufacturing jobs does not necessarily spell decline for a city.
- The proportion of the U.S. population residing in today's distressed jurisdictions has been dropping.
- Income disparities between regions and between States have continued to narrow.
- The range of conditions among major cities is very wide, but the range among communities within the same metropolitan area may be even greater.
- Disparities between central cities and their suburbs have widened, notably in the metropolitan areas of the Northeast and North Central regions where annexation has been rare.
- Central city fiscal problems may be a product of arbitrary boundaries and inadequate State and metropolitan fiscal equalization policies rather than of insufficient resources.

Housing Trends

This chapter discusses three of the most pressing issues that affect American cities. Clearly, there are other concerns that may merit attention separately rather than within the framework of this report.

During the 1970's, the supply of housing increased most rapidly in the growing regions of the South and West. In almost every location, the supply of owner-occupied stock increased more rapidly than rental stock, and in central cities of the Northeast and North Central regions, the number of rental units actually declined as weakened demand permitted the withdrawal of older, poorer quality units from the inventory.[1]

There was geographic variation in the amount and rate of new construction. The number of housing units built during the 1970's was equal to only six percent of the 1970 stock of Northeastern central cities, but was equal to 53 percent of the 1970 stock in Southern suburbs. Within regions, the highest rates of new construction of both owner-occupied and rental units occurred in suburbs, where population growth was generally highest. Nonmetropolitan areas also acquired a large number of newly-constructed, owner-occupied units, especially in the South and West, where they equalled almost 50 percent of the 1970 stock. At the same time, nonmetropolitan areas experienced high loss rates, especially among older, poor quality units, that contributed to the general upgrading of their housing stock.[2]

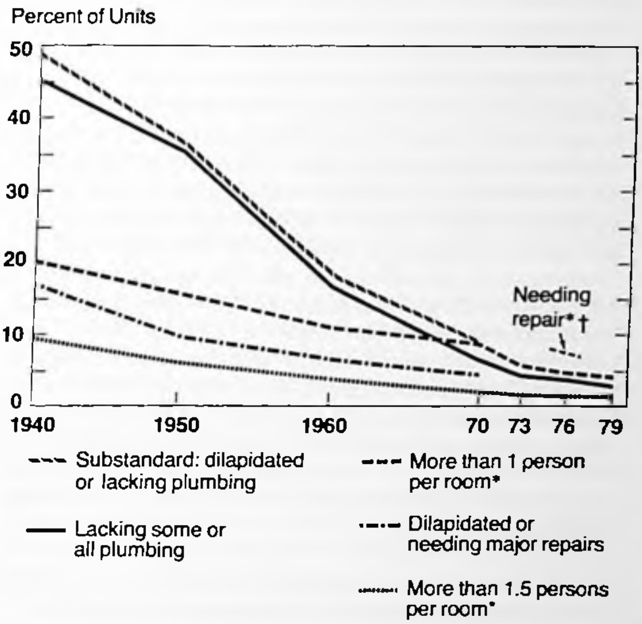
As shown in Figure 3-1 the number of physically inadequate units declined dramatically during the past 40 years. Using upgraded standards of housing adequacy, it has been estimated that only about four percent of the Nation's housing stock was seriously inadequate in the mid-1970's, with an additional six percent moderately inadequate.[3]

Affordability

While problems of housing availability and adequacy are decreasing over time, problems of housing affordability escalated in the late 1970's, especially for low-income renters and first-time home buyers. In 1980, one-third of all renters and three-quarters of renters in the lowest income quartile paid more than 35 percent of their incomes for rent. Housing affordability problems were most severe among central-city renters in the Northeast and West, where over half of all renters and close to 90 percent of all low-income renters paid more than 25 percent of their incomes for rent.[4] First-time home buyers were deterred by high mortgage interest and demand-inflated prices of new and existing housing. New homes in 1981 had median sale prices of $70,000 and average sale prices of $83,000, almost three times their 1971 level, while median family income only doubled during the same period.[5] Despite the tax advantages of homeownership, high interest rates made monthly payments on the average new home difficult to afford for all but a small percentage of first-time home buyers. A reduction in interest rates is necessary to solve this problem.

Figure 3-1

Measures of Housing Inadequacy



* Percent of occupied units.

† According to the Congressional Budget Office definition.

Sources: U.S. Department of Commerce, Bureau of the Census, and U.S. Department of Housing and Urban Development.

With the exception of the Section 8 Existing Housing Program, Federal housing assistance programs were more suited to addressing the problems of housing availability and adequacy than housing affordability. They aimed to increase housing supply through subsidies for new construction and substantial rehabilitation. These programs proved to be extremely expensive and inefficient ways to address the housing problems of this country. A healthy economy with low inflation and moderate interest rates is the best prescription for the ills which plague housing production today. It is the responsibility of the Federal Government to pursue sound fiscal and monetary policies that reduce inflation and lower interest rates. When barriers to the financing of housing production and purchase are removed, private enterprise will be capable of meeting most emerging housing needs.

In addition to removing economic barriers, the Administration also seeks to remove other barriers that may be inhibiting investment in housing. Among these are artificial regulatory barriers. For example, the Department of Labor has announced three separate actions to remove a number of potential Employee Retirement Income Security Act (ERISA) impediments to investments in housing by pension funds. The actions include extending class exemptions from prohibited transactions to tranactions involving mortgage financing commitments, receiving fees, and making or purchasing loans pursuant to these commitments, as well as transactions involving direct acquisition and sale of mortgage loans and participation interests in such loans. There are also proposed exemptions for transactions involving mortgage pool investments, such as forward delivery commitments, and pools involving second mortgages or deeds of trust. A definition of plan assets has also been developed which would consider the mortgage pool certificate, for certificates guaranteed by GNMA, FNMA and FHLMC, as a plan asset rather than the underlying mortgages, thus avoiding many potentially restrictive conflicts arising out of ERISA.

It is hoped that these, and other measures being considered will make it possible for pension funds representing over $800 billion in resources, to increase their level of investment in housing, while continuing their primary task, which is to protect the retirement income of American workers. Building on this effort, the Administration also has strongly endeavored to communicate to pension funds information on the competitiveness and market-worthiness of housing investments. The Department of Housing and Urban Development has sponsored two conferences, inviting representatives of over two hundred of the largest private pension funds and multi-employer pension funds to share with them the latest information about regulations, new types of housing investments, and market considerations, and to receive from them expert reactions on current offerings in the housing markets. These conferences, and others that may follow, are providing the basis for further improvements in housing investment instruments to attract a greater flow of funds into housing.

With resources freed from housing production subsidies, the Administration proposes to address the problem of housing affordability for the poor directly.[6] It has proposed a limited program of modified housing certificates or vouchers, which provide payments to low-income people who often live in inadequate housing and pay an excessive proportion of their incomes for rent. The program will allow qualifying households to find adequate units in the existing housing market, and these subsidies will be portable, that is, the recipients will be able to retain them when moving to another housing unit. The program will be designed so that fear of losing housing assistance payments will no longer deter households from moving to other communities offering potentially greater economic opportunities. In this way, individual choice freely exercised in local housing markets would also contribute to the efficient functioning of labor markets.

Regulation and Affordability

In addition to policy adjustments due to increasing costs of housing production and diminishing problems of housing adequacy, there are also changes required by changes in patterns of households.

In the 1970's, household size continued to decline, while the number of households increased at nearly twice the rate of the population as a whole.[7] The housing supply kept pace with this growth, as the vacancy rate at the end of the decade was about that at the beginning.[8] The number of single-person households increased to almost one-quarter of all households, as more young people delayed the age of marriage, more elderly people maintained separate households, and high rates of divorce split families. Simultaneously, the number of households with children has declined sharply as young families have fewer children or no children at all.[9] Average household size declined from 3.14 in 1970 to 2.75 in 1980 as is projected to decline to 2.41 in 1990.

It is anticipated that 51 percent of the households to be formed in the 1980's will be composed of single persons (many of them elderly) and unrelated individuals; 22 percent will be single-parent families; and only 27 percent will contain married couples, with or without children.[10] As a result, housing standards suited to the larger, child-centered households of the past will not meet the full range of future housing needs, and housing built to satisfy past needs may be priced beyond the financial reach of future home buyers. Rising energy costs also can be expected to influence decisions regarding housing consumption and location. The demand for smaller units located closer to places of work and accessible to public transportation will probably increase as people try to hold down their housing, energy, and transportation costs.

Under these circumstances, central cities and older suburbs may find it desirable to lessen regulatory obstacles to residential, commercial, and industrial development that led to an underutilization of existing properties. Many are already making it possible to convert old warehouses and factories to mixed-use combinations of residences, light manufacturing, and services. Similarly, older urban areas can ease the economic plight of their elderly homeowners as well as increase the efficiency of housing use by permitting the creation of rental units in some homeowner neighborhoods.

States and especially local governments can maintain the strength of their housing markets by making their communities more desirable so that more people will choose to live in them and to invest in and maintain the local housing stock. State and local governments can increase their ability to do so by reducing regulations that unnecessarily raise construction costs and that are unresponsive to residents' preferences. It has been estimated that such regulations increase the cost of housing by up to 30 percent.[11] In revising their building codes and land use regulations, State and local officials will be more successful in meeting residents' preferences if they take into account the remarkable changes that have occurred in the size and composition of the Nation's households and the economics of housing. If they continue to use codes and regulations developed for an earlier generation, they will undoubtedly find that they are encouraging a wasteful overconsumption of both land and living space at the expense of housing affordability for a substantial proportion of their current and potential residents.[12]

In order to determine the effect of a number of different types of restrictions on housing costs, the U.S. Department of Housing and Urban Development has designed the Joint Venture for Affordable Housing in 31 cities and counties. In each site, builders, developers, and local government will work together to modify zoning, building, and/or subdivision ordinances to lower the cost of new residential construction, and potentially provide replicable models for lowering housing costs throughout the country. The coordinated activities of the various Joint Venture programs are designed to reduce the cost of market-role housing through rezoning, modified regulations, revised subdivision standards, consolidated permit review and processing, and the introduction of innovative construction techniques.

The demonstration will draw on the efforts of local builders and community officials as well as seven national organizations whose members are involved in the development process: National Association of Home Builders; International City Management Association; National Association of Counties; National Governors Association; National Conference of State Legislatures; Council of State Community Affairs Agencies; American Planning Association.

Each of these organizations is undertaking projects to promote cost savings techniques or to provide assistance to its members in addressing the problem of affordability. In addition, the seven partners participate in an exchange of information and expertise to encourage local cooperation among builders, public officials, and others involved in housing development.

Unlike other Federal housing demonstrations which have attempted to show that some things are possible with additional money, this program is intended to show that costs can be controlled through local and State actions without special Federal funding. Therefore, the Department is providing technical assistance and guidance in a passive fashion; there are no HUD requirements or regulations that must be satisfied by the participants. With this assistance, and through their own knowledge of local conditions, builders and public officials will select the particular innovative measures to be used in their projects.

Twenty-eight cities, three counties, and four States are participating in the Joint Venture for Affordable Housing. Thirteen of the cities are developing demonstration projects in cooperation with local builders to explore the effects of streamlined regulations and procedures on costs. Fifteen cities, through their city managers, are reexamining their cities' regulatory process with a view to eliminating unnecessary delays and burdens. The participating counties and States are identifying their own regulatory and processing changes which might reduce costs.

When the information is gathered on the success of the various State and local efforts, it will be disseminated by HUD, and through a citizens' action component involving a network of citizens' groups which will prepare a booklet on citizen involvement in deregulating at local levels and potential savings.

Urban Infrastructure

For at least a decade and a half, real levels of capital spending by State and local governments on their local infrastructure have fallen, and the capital share of State and local budgets has declined. These trends are especially apparent in the country's large cities; they are even more pronounced for capital maintenance spending than for investment outlays.

Taken by itself, this shift in budget allocation need not necessarily cause concern. It is, after all, the function of government to adjust spending patterns to citizen demand, and much of the 1960's demand for public capital facilities – for example, for new school and university buildings – has now been satisfied. The decline in capital spending, however, has been accompanied by signs of erosion in the condition and performance of the urban capital plant. Though not indicating an imminent, widespread failure of urban capital plant, the decade's record does point to significant deterioration – especially in the oldest urban areas.

There is a noticeable difference between the capital facility standards adopted in Federal capital needs assessments (and sometimes prescribed in Federal law) or those standards generally adopted as local planning norms and the actual condition of urban infrastructure. The investment needed to satisfy currently promulgated standards of infrastructure need far exceeds present levels of State and local investment; it also appears to exceed investment levels that taxpayer-voters might approve in the future. This may involve a reevaluation of standards and assessment of current and projected infrastructure investment, or of an expansion of innovative methods of financing already used by some State and local governments.

The Recent Record of Capital Investment and Financing

Two aggregate trends dominate the past 15 years of infrastructure investment: (1) a persistent decline in real levels of State and local capital outlays, and (2) a steady shift toward greater reliance on Federal aid to finance capital investment and establish investment priorities. Table 3-1 shows the decline in the share of State-local budgets devoted to capital expenditures between 1968 and 1977 and the recent modest recovery, which now appears to be accelerating.[13]

In retrospect, the 1980-82 period may prove to be a watershed for infrastructure financing. Preliminary data point to a sharp reversal in capital budgets, especially in large cities. A budget survey carried out by the Joint Economic Committee estimates that cities increased capital spending by 19 percent in 1980 and planned another 28 percent increase in 1981.[14] Capital spending growth for the lagest cities was still greater – 25 percent in 1980 and 30 percent planned for 1981.

The decline in State-local capital spending in the 1970's occurred despite increases in Federal grants-in-aid specifically designed for capital assistance, and substantial growth in other Federal assistance which could be used for capital purposes. The growth of Federal capital assistance has precipitated a marked shift in the financing mix for State and local public works projects. In 1957, Federal grants represented less than one-tenth of State and local public works investment. In 1970, Federal grants accounted for 20 percent of State-local capital spending. During the last four years, Federal monies have averaged 40 percent of State-local capital spending.[15]

The focus of capital spending has changed significantly. Capital spending for schools and highways scarely grew during the 1970's, while capital spending in wastewater systems and mass transit systems boomed. (See Table 3-2.) Federal programs provided much of the funding which led to this redirection of capital outlays.

Table 3-1

State and Local Capital Expenditure Trends (Billions of Dollars)

Fiscal Year	Gross Capital Investment[a]	Real Capital Investment in (Constant) 1972 Dollars	As Percent of Total Expenditures[b]
1960	$13.5	$24.2	27.1%
1965	20.1	30.6	26.8
1970	28.8	32.8	21.8
1975	41.8	33.0	18.0
1976	39.9	29.2	15.9
1977	39.0	26.4	14.4
1978	46.7	29.5	15.7
1979	50.8	29.6	15.7

[a] **Source:** Bureau of Economic Analysis.

[b] **"National Income and Products Accounts, State and Local Sector." (FY 1982)** *Special Analyses, Budget of the US Government.* Table H-10.

The Recent Record of Federal Capital Aid

During the past 15 years, State and local capital investment has been greatly influenced by the structure of Federal assistance programs. Shifts in Federal perception of national investment priorities have been swiftly translated into the ways in which Federal financing assistance is provided to local governments.

At the beginning of the 1970's, interstate highway investment enjoyed a predominance in Federal capital financing assistance. This effort began in 1956 with the publicly supported decision to create an interstate highway system. Its role in the Federal capital grants structure has diminished since the early years of the 1970's, primarily because the highway system is substantially complete. Beginning in 1973, there was a surge of Federal capital support for municipal wastewater treatment, reflecting the national decision to attack water pollution problems. During the latter half of the 1970's, there was also substantial growth in Federal capital aid for public mass transit systems, prompted by the widespread national interest in encouraging mass transit ridership to conserve energy.

The starting point for most major Federal capital financing programs has been a federally-established standard for capital facilities. The Federal Government regularly compares standards for different facilities with the actual conditions or performance of existing infrastructure. The amount of funding needed to upgrade existing capital facilities to meet federally-specified standards is treated as a "needs gap." In the past, the Federal Government has usually helped to close the gap through categorical capital grants.[16] The "needs standards" established by the Federal Government may be unrealistically high and the cost may be correspondingly high.

Table 3-2
Capital Outlays by State and Local Governments*
(Millions of Dollars)

		Function				
Fiscal Year	Local Schools	Highways and Bridges	Sewers	Transit	Water	Total
1971	$4,845	$11,888	$1,744	$ 446	$1,247	$33,137
1972	4,759	12,317	2,091	435	1,343	34,237
1973	4,856	11,459	2,428	920	1,435	35,257
1974	5,108	12,152	2,640	926	1,743	38,084
1975	6,532	13,646	3,569	1,203	2,111	44,817
1976	6,547	14,209	3,955	1,339	2,208	46,531
1977	5,982	12,497	4,208	1,573	2,302	44,896
1978	5,709	12,898	4,366	1,407	2,141	44,769
1979	6,370	15,567	5,619	1,618	2,701	53,196
Percentage Growth 1971-1979	31%	31%	222%	263%	117%	61%

Source: US Bureau of the Census. *Governmental Finances.* Fiscal Years 1971-72 through 1978-79.

* Includes Federal funds allocated to State and local governments for these purposes.

State and Local Capital Financing Options

States and local governments have already begun to redirect infrastructure investment efforts, frequently with great success. An efficiently managed infrastructure is one of the most important components of an effective economic and community development strategy. State and local governments have always had primary responsibility for determining their infrastructure needs and for finance and maintenance. To do so they have had to establish realistic levels of service, financed, where appropriate, by user fees, tolls and special assessments for street paving, street-light installation, and sewer hook-ups. They have created independent sewer and water authorities, established State bond programs to improve local government access to credit, used private development fees to cover the costs of new capital, and involved the private sector through capital equipment leasing, lease-purchase agreements, and innovative uses of development rights.

Basic Infrastructure Preservation. Probably the most important capital financing adjustment that cities are beginning to take is concentrating capital resources on the preservation of basic infrastructure support systems. This adjustment often requires reducing capital commitments to new schools (where enrollments are declining), other public buildings, parks – in short, many new facilities.

The possibilities for such budget redirection are illustrated by New York City's capital plans. In the first half of the 1970's, only 30 percent of New York's locally financed capital spending was for existing roads, bridges, mass transit system, and sewer and water systems. Most of the remaining funds were spent for new building construction. In the city's present five- and ten-year capital plans, these proportions are reversed. Seventy percent of the city's capital budget is earmarked for existing facilities in these basic infrastructure systems. Other cities are in the process of carrying out comparable capital budget reallocation, as they strive to preserve the essential pieces of their infrastructure.

Independent Sewer and Water Authorities. Studies show that where sewer and water systems are taken out of the general budget process and entrusted to independent authorities or put on a full enterprise fund basis, the capital stock conditions of these systems are superior; greater attention is given to maintenance; and more regular capital replacement and repair plans are followed. This experience suggests that capital budgets for these systems can be stabilized by reorganizing sewer and water service delivery systems as independent utility functions.

This approach has been followed by several cities, with a substantial degree of success. Boston, for example, shifted responsibility for water and sewer oprations to an independent commission in 1977. The city's sale of these two systems wiped out an accumulated operating deficit of $25 million in the city's accounts and relieved the city of responsibility for outstanding debt service. The new Boston Water and Sewer Commission raised rates to cover full operating and maintenance costs. Recently, the commission issued its first series of revenue bonds to carry out a much enlarged 10-year capital improvement plan. In Boston's case, transferring authority relieved a fiscally troubled local government, brought better management to water and sewer operations, and stabilized capital planning financing. New York City has a comparable plan under active consideration.

Bond Guarantees. A number of States have adopted bond programs or created lending authorities to obtain better access to credit and to benefit from lower interest costs on long-term debt issued by local governments.

One of the most interesting of these programs is the New Jersey Qualified Bond program. Under this program, municipalities and school districts can elect to earmark State aid for the repayment of "qualified" local bonds. The State aid payments are set aside as a guarantee of repayment to bondholders; these monies are not part of the local budget allocation process. Purchasers of these bonds are thus guaranteed first access to the locality's most stable revenue source; this approach greatly reduces the risk of default. All bonds issued under this program are given a minimum single-A rating by the major bond-rating agencies. Although the State incurs no obligation to repay the debts, the State aid set aside for repayment is regarded as a secure stream of revenue. As an added measure of security, local governments are required to budget for debt service as though they were repaying the debt themselves.

Private Sector Initiatives. The condition of public capital stock is important to the economic health of private industry. Good transportation facilities and quality water and sewer utilities are necessary to attract and maintain industries and jobs. Recognition of this relationship has led to new efforts at joint public-private capital planning and to attempts to draw the private sector into financing repairs and upgrading of infrastructure.

Public-private cooperation to identify local investment priorities is underway in a number of cities, notably Cleveland, Washington, D.C., New York City, and Pittsburgh. In Cleveland, the local equivalent of the Chamber of Commerce took the lead in lobbying for approval of an income tax referendum to provide revenues for designated capital infrastructure improvement. In New York and Pittsburgh, industrial interests have organized support for greater capital investment within current metropolitan budgets.

The private sector has also been asked to play a large role in financing public capital investment. Private development fees to cover the cost of new capital have been widely used by fiscally strained local governments. In California, cities were able to replace an estimated 18 percent of their property tax losses through new or increased fees and charges. The California Building Industry Association estimated a median increase in new construction charges of 26 percent. These charges are typically designed to offset the public sector costs associated with new capital facilities necessitated by population growth. In several California communities, development fees of $3,000 or more per bedroom are now levied to pay for the costs of constructing new schools.

Special Assessment Districts. One of the oldest methods of financing capital improvements is to establish a special assessment district, where those who will benefit from a capital facility are assessed a special payment to finance it. The special assessment may take the form of a front-foot charge, a special add-on to the property tax rate, or a flat fee.

Special assessments have recently enjoyed a revival. In most States, they qualify as special charges and are therefore exempt from limitations on general revenues. The special assessment also meets one important equity criterion: it recovers capital costs from those who directly benefit from a capital improvement. Like any service price, the special assessment also acts to restrain taxpayer demand. New York City was greatly burdened by Staten Island residents' demand for full sewer connections until the city adopted a policy of paying for connections through special assessment of beneficiaries. At that point, resident demand for capital spending fell sharply. Where capital investments are based on taxpayer willingness to pay, a special assessment system can effectively regulate economic demand.

Maintenance and Rehabilitation Incentives. A few States provide maintenance or rehabilitation assistance for local capital facilities. Such initiatives are uncommon since maintenance and upkeep of public infrastructure have traditionally been viewed as local responsibilities.

In 1965, New York adopted State aid for operating and maintenance costs in conjunction with a statewide capital construction program for sewage treatment facilities. The purposes of the program are preventing deterioration of new wastewater treatment facilities financed with State assistance and upgrading older facilities where such rehabilitation is possible. For the first 10 years the State reimbursed one-third of participating treatment plants' operating costs; this reimbursement was reduced to 10.5 percent in 1975 and then raised to 25 percent in 1977 where it now stands. The State sets standards for treatment plant construction and operation; requires adherence to Federal and State discharge permits; and draws up timetables for completion of capital construction to improve sewage treatment processes.

Conclusion

Financing and long-term planning will require Federal, State and local cooperation. Few local capital planning offices are equipped to handle this jump in activity. Consequently, there is a large need at the local level for technical assistance in planning, budgeting, and information gathering about capital stock.

The Federal Government has a role to play in assisting State and local governments to develop more cost-effective capital investment strategies. This goal will be accomplished, in part, through gathering information about innovative, state-of-the-art practices and disseminating the results to State and local government officials. Other aspect of Federal aid remain to be determined.

Crime

Increase in and Distribution of Crime

Violent crime affects six percent of all United States households each year.[17] In 1980, there were nearly five million households where at least one family member was a victim of rape, robbery, or assault. Over five times as many families were victims of property crimes; 25 percent were victims of larceny, and another seven percent were victims of burglary.

The incidence of violent crime is increasing every year. It has at least tripled since 1960 in cities and towns of all sizes (Figure 3-2). Between 1960 and 1980, the number of known violent

Figure 3-2

Larger Cities Have Higher Violent Crime Rates

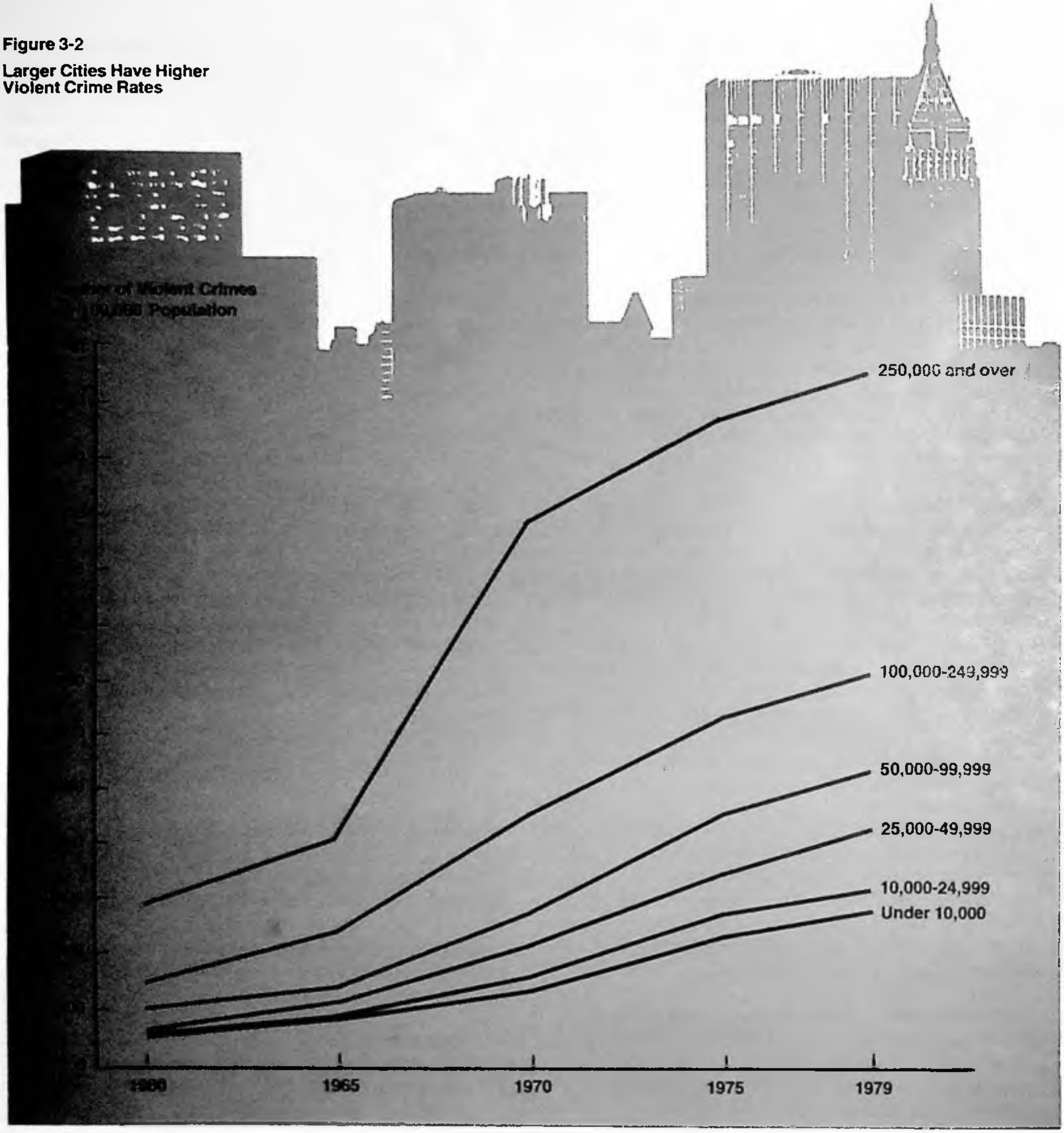
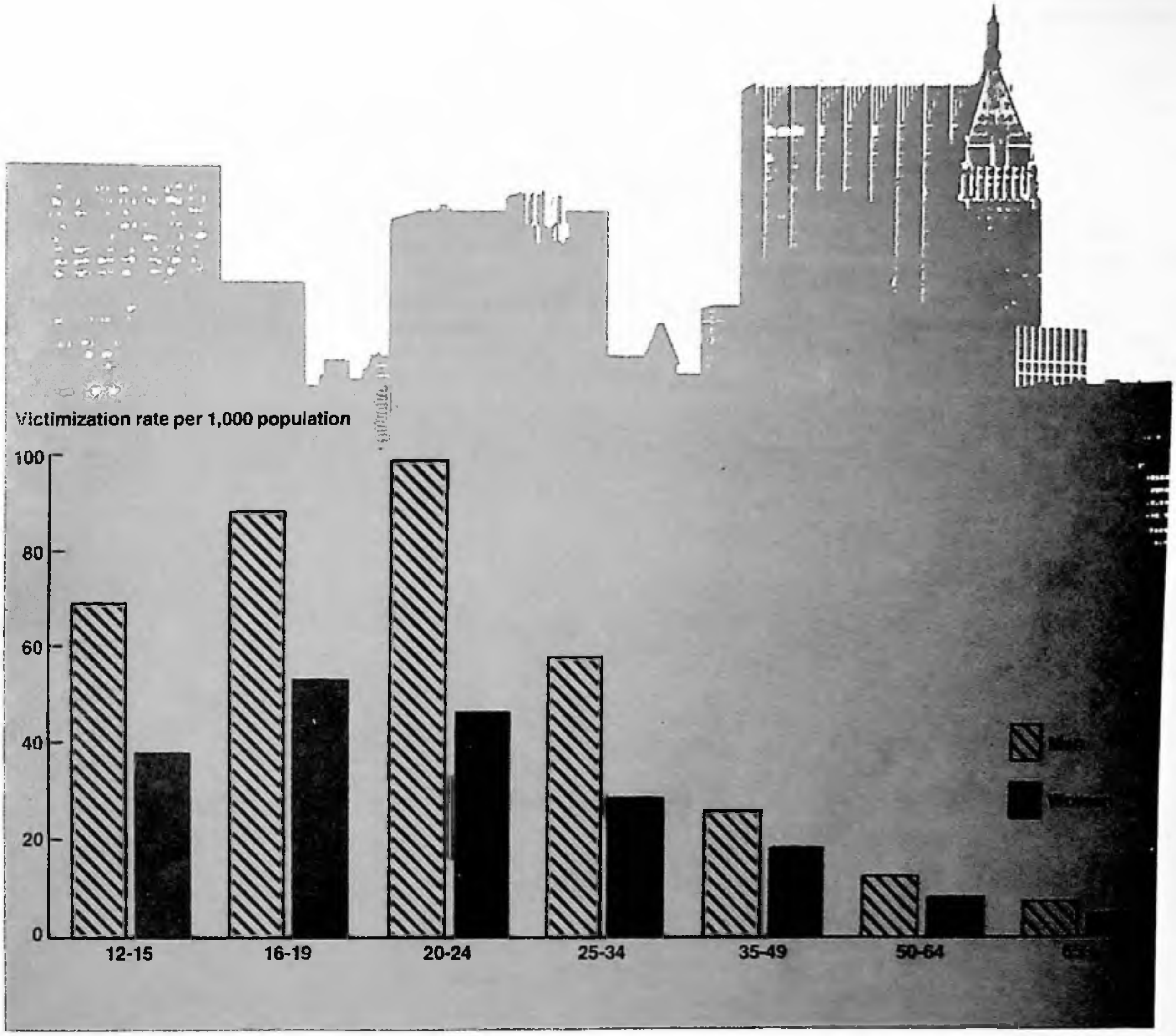


Figure 3-3
Victims of Violent Crime Are
Most Often Young and Male



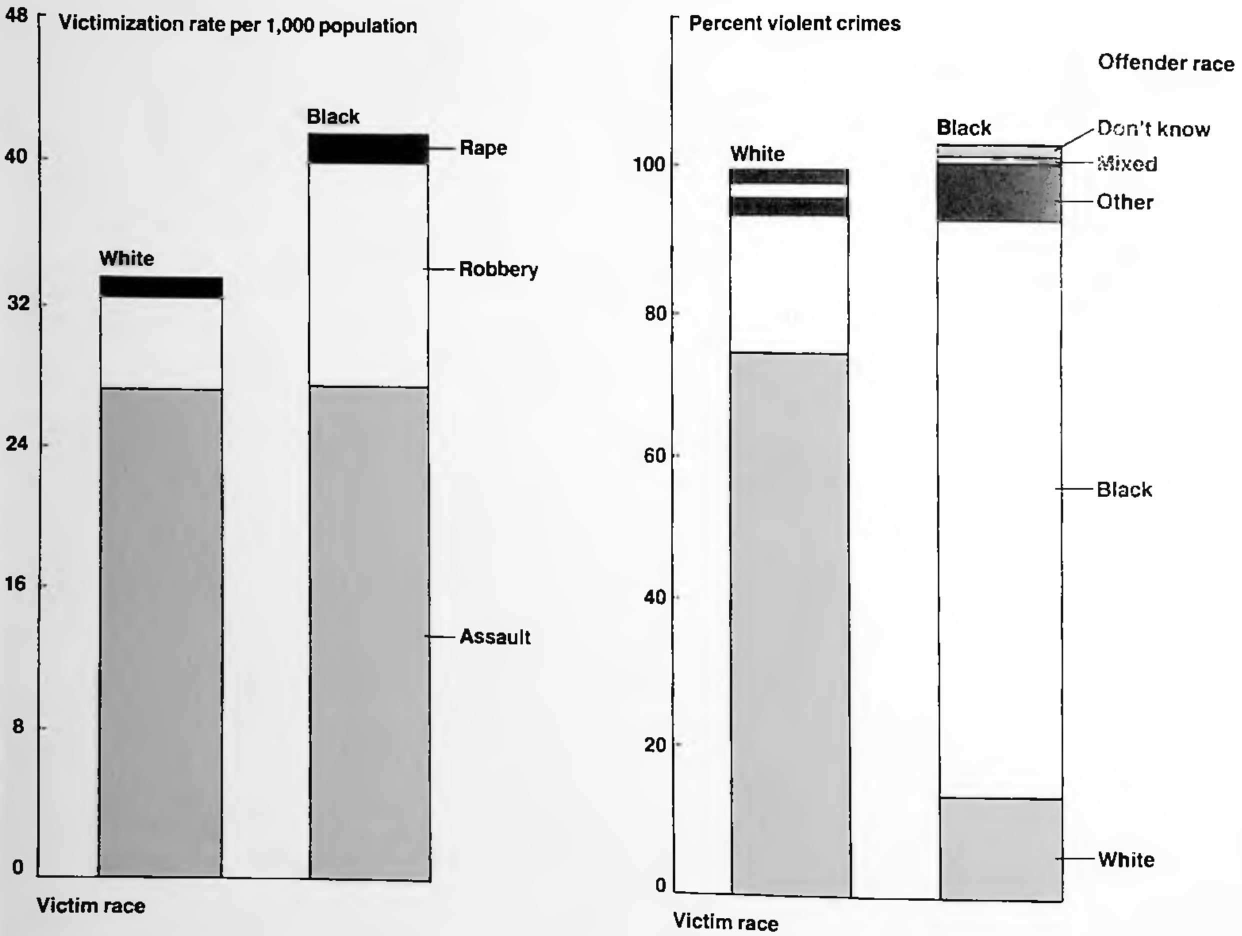
crimes per 100,000 population has risen from about 300 to over 1200 in cities of 250,000 or more persons. The increase in number of crimes in smaller cities has not been as dramatic, but percentage increases have been comparable.

Cities are much more susceptible to violent crime than suburbs or rural areas. The violent crime rate in cities is about twice the rate in suburbs, and three times the rate in rural areas. The larger the city, the worse the problem becomes. As Figure 3-2 indicates, the rate of violent crime in cities over 250,000 population is approximately twice that in cities with between 100,000 and 249,999 people, and over four times that in cities with under 25,000 people.

Violent crime does not strike all Americans equally. The most frequent victims are young males (Figure 3-3). Persons

Figure 3-4

Blacks Are More Likely than Whites to be Victims of Violent Crime



between 12 and 25 are 11 times more likely to be victims of violent crime than the elderly, and black men are twice as likely to be victims of violent crime as white, especially with respect to robbery, where blacks are twice as likely to be victims. (See Figure 3-4).

Violent crime appears to be increasing at a slower rate, largely due to demographic factors. In 1981, it increased by only one percent. Even this modest (relative to recent history) percentage increase represents a great deal of human suffering, for it builds upon a crime rate that had exploded over the past two decades.

Impact of Crime on the Quality of Life

The greater likelihood of young males being victims of violent crime does not indicate that crime is less of a problem for women or the elderly. As Figure 3-5 makes clear, the percentage of elderly whose personal activities are affected by fear of crime overwhelmingly exceeds the percentage of 25-year-olds who report that their activities are similarly affected.

This would indicate that the fear of vulnerability among the elderly, and probably other identifiable population groups, is far higher, and the number of self-protecting measures greater than for younger people. Therefore, the amount of exposure to violence by the elderly would be expected to be considerably less.

This last observation is not so much a victory for common sense as it is an indication of the potential level of anxiety among a large segment of the population that views itself as vulnerable. Americans who are not attacked because they fear to leave their apartments still should be considered victims of crime. A poll in July of 1981 indicated that 85 percent of the public was more concerned about crime than five years before. So long as the crime rate continues to increase, that concern may be expected to grow.

The fear and incidence of violent crime constitute major detriments to the quality of life in our urban areas, especially in America's central cities. Crime and fear add a special element of tragedy to the lives of the urban poor, who are the primary

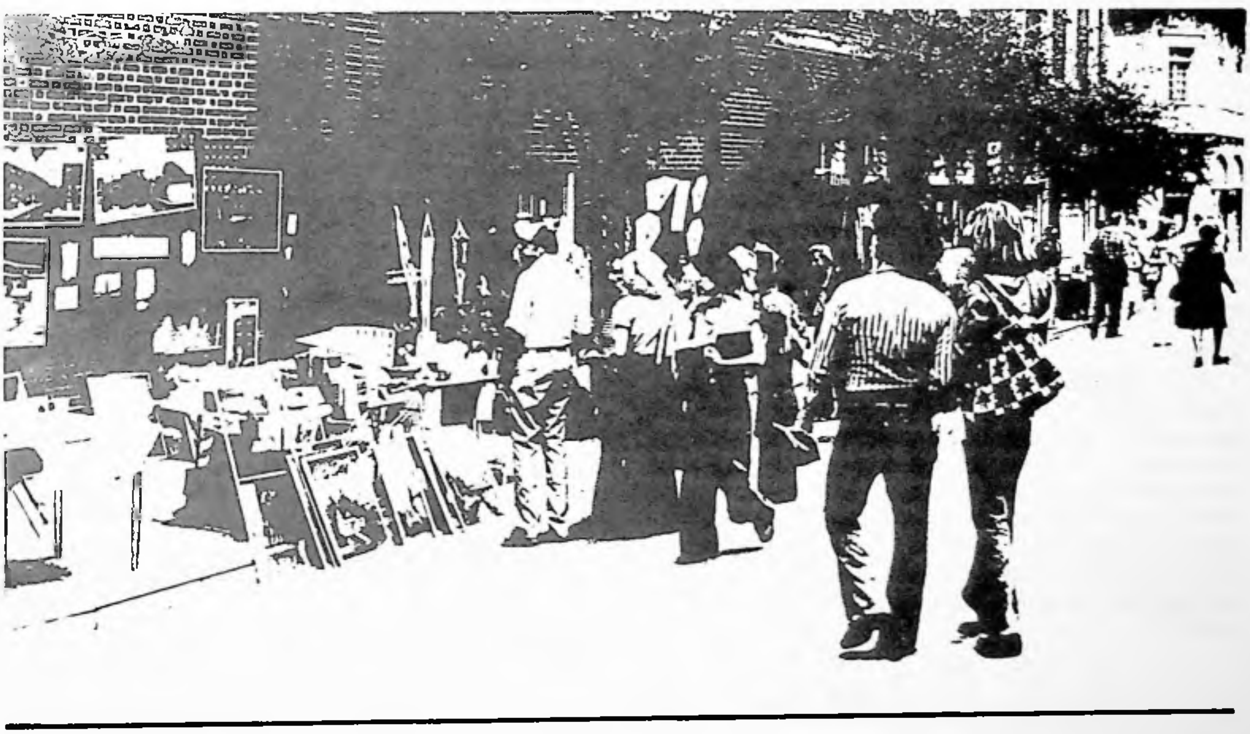
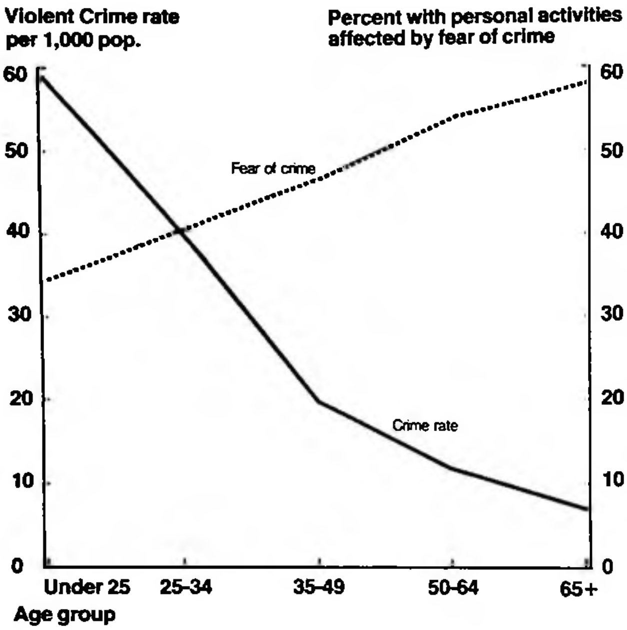


Figure 3-5

Fear of Crime Is Not Directly Related to Crime Levels



This Administration considers the high level of violent crime to be a major urban danger. We recognize that the sense of security from physical danger, which is a fundamental human desire, has been seriously impaired in our urban areas, especially in our major cities. We realize that crime and government's actual and perceived inability to ensure the physical well-being of urban citizens and visitors alike has affected the ability of our cities to serve citizens from throughout metropolitan regions as information, communication and entertainment centers. Therefore, the Administration has made the fight against violent crime a fundamental priority.

victims. In addition, to the extent the increase in violent crimes indicates a weakening of public order in our cities, it constitutes a serious threat to the welfare of all Americans and to the future of our metropolitan areas. Violent crime not only causes pain and loss to victims and their families, and creates fear among many more people, it also represents one of the primary threats to the viability –"livability"– of America's cities.

Administration Initiatives Against Violent Crime

The original purpose and first duty of government is to protect the security of its citizens. Under our constitutional system, the duty to protect citizens from domestic violence belongs primarily to the State and local governments. However, this Administration recognizes that the increasingly interstate characteristics of violent crime, and the impact that violent crime has on the economic and social fiber of the country, make inescapable the fact that violent crime is a matter of Federal concern.

Following the directions outlined in the President's speech last year to the International Association of Chiefs of Police, and building upon the recommendations of the Attorney General's Task Force on Violent Crime, the Administration has undertaken a series of administrative initiatives to combat crime. We have formed Law Enforcement Coordinating Committees in all but a handful of the 95 Federal judicial districts. The United States attorney in each such district has met with representatives of all law enforcement agencies in the district to assess law enforcement needs and together to develop a plan for the optimal use of available Federal resources. Each United States attorney will be held responsible for assuring that Federal resources in his district are allocated as provided in the plan to best achieve a coordinated effort against crime. These committees and the plans they are developing are viewed as the cornerstone of the Administration's efforts to coordinate limited Federal resources and efforts with those of State and local agencies. This is of particular importance in large urban areas where organized and drug-related criminals are most prevalent.

Federal training programs have been expanded and offered at lower cost. A pilot program has begun to attest the feasibility of providing advanced specialized training through the National Law Enforcement Training Center for large numbers of State and local law enforcement officials. For the first time, the Department of Justice is training State and local prosecutors at the Attorney General's Advocacy Institute. This last April, for example, 50 of the 250 attendees at a special conference on the enforcement of narcotics laws were from State and local agencies.

The Administration has redoubled its efforts against drug traffickers. Particularly in urban areas, much violent crime results from disputes between traffickers, and an incredible amount of property crime is attributed to addicts who must steal to support their habits. Certainly the most visible and dramatic actions have occurred in conjunction with the establishment of the Vice President's Task Force on South Florida, which brought together the FBI, Drug Enforcement Administration (DEA), Customs, Treasury, Coast Guard and Navy in an effort to seal off South Florida from the importation of narcotics.

Also, the DEA has been reorganized along FBI lines so that the DEA can have access to the FBI's superior resources while retaining its single-purpose character as a unit dealing only with the trafficking and use of illegal narcotics. The Administration has improved its assistance to the States by improving its fingerprint and identification systems and by focusing its fugitive apprehension efforts on those who committed violent crimes.

This is just a brief overview of the actions the Administration has taken to assist in the fight against the violent crime that plagues our urban areas. We believe this Administration has done or begun much of what can be done within the limits imposed by current budgetary constraints and existing statutory authority.

Needed Anti-Crime Legislation

While the administrative innovations referenced above are proving useful, the imbalance that has arisen in favor of the forces of lawlessness over those of organized society cannot be corrected without badly needed legislation to reform our criminal justice system. The people's diminishing confidence in the ability of government to protect them will not be restored unless the Federal Government takes the lead by enacting legislation that will ensure that violent criminals do not go unpunished. The people cannot be expected to have faith in the criminal justice system when a very small percentage of reported violent crimes result in incarceration. While only three percent of crimes committed in this country are punishable by the Federal Government, they tend to be more serious in nature. Also, Federal policy is important because the States have traditionally adopted practices established at the Federal level.

The Administration has developed or endorsed over two dozen legislative proposals to combat crime. To date most of these have made little progress. However, the Administration, working with the Senate Judiciary Committee, has combined several of the less controversial and most needed proposals into the Violent Crime and Drug Enforcement Improvement Act, (S. 2572 and H.R. 6497) which enjoys broad, bipartisan support. This legislation includes the following proposals:

Bail Reform, to authorize pretrial detention of dangerous criminals, allow consideration of dangerousness in setting release conditions, and permit inquiry into the source of bail money.

Sentencing Reform, to replace the parole system with a nationally uniform set of determinate sentences, and permit the government to appeal overly lenient sentences.

Insanity Defense Review, to eliminate insanity as a defense for offenders who have the requisite state of mind to commit an offense, make other mental conditions factors to be considered in sentencing, and provide for Federal custody of persons acquitted by reason of insanity if the States will not assume responsibility.

Criminal Forfeiture, to improve the ability of the government to reach proceeds and instrumentalities of organized crime operations.

Witness/Victims Protection, to restrain and provide criminal penalties for acts of intimidation, aid witness relocation, and establish liability for government gross negligence resulting in release or escape of a dangerous prisoner.

Controlled Substances, to increase penalties for drug trafficking.

In Addition, the bill would provide for dozens of minor improvements. It is not an exhaustive list of needed reforms. However, there can be no doubt that the changes that would be accomplished by this bill would aid greatly in our fight against crime.

The proposals contained in this bill will continue to be principal Administration priorities until they are enacted into law. The experience of the last 20 years has shown that neither increased anti-crime expenditures nor improved law enforcement efforts can deal a major blow to the violent and drug-related crime that plagues our urban areas until these basic reforms of our criminal justice system are accomplished.

In his 1982 State of the Union Address, President Reagan announced a bold new initiative for restoring balance among the Federal, State and local governments in the Federal system. In stating the problem, he noted:

"Our citizens feel they've lost control of even the most basic decisions about the essential services of government – such as schools, welfare, roads, and even garbage collection. And they're right.

"A maze of interlocking jurisdictions and levels of government confronts average citizens in trying to solve even the simplest of problems. They don't know where to turn for answers, who to hold accountable, who to praise, who to blame, who to vote for or against."

He identified the source of the problem: "The main reason for this is the over-powering growth of Federal grants-in-aid programs during the past few decades"; and he proposed a solution:

"Let's solve this problem with a single bold stroke – the return of some $47 billion in Federal programs to State and local government, together with the means to finance them and a transition period of nearly 10 years to avoid unnecessary disruption."

This section examines the past and discusses what the Reagan Administration proposes to do "to make government accountable to the people, to make our system of federalism work again."

Evolution of American Federalism

American Federalism is a system of limited governments sharing powers. The political problem faced by the framers of the Constitution was how to create a strong national government while preserving autonomy for States and liberty for individuals.

That neither State autonomy nor individual liberty have faded away testifies to the framers' success, but throughout American history, a creative tension has existed between the Federal Government and States and localities. Historians differ over the identification of periods in the evolution of federalism, but for the purpose of describing Federal involvement in urban affairs, three periods suffice: the first lasting from the founding of the Republic until about 1935; the second, from about 1935 to about 1960; and the third, from about 1960 to about 1980.[1]

In the first period, the Federal Government's involvement in urban affairs was very modest. The Constitution prescribed a discrete separation of powers between the Federal Government and the States, the sources of local government authority. The U.S. Supreme Court upheld this "dual federalism" through narrow constructions of the interstate commerce clause, the public welfare clause, the 14th Amendment, and other elements of the Constitution. Actions of the Federal Government affected cities, for example, through its involvement in the development of the national railway system and the provision of land grants, but these did not reflect a Federal Government interest in urban affairs *per se*. As industrialization quickened, the Federal Government enlarged its role by beginning to regulate big business and the conditions of work, but the Federal role in urban affairs for the first 150 years remained limited to *ad hoc* activities, such as a study of slums commissioned by Theodore Roosevelt and selective assistance to house war production workers during World War I. The passive Federal role under federalism ended with the Great Depression: existing institutions did not prevent it, and they were inadequate to provide a reasonably expeditious recovery.

The second period, "cooperative federalism," began in the mid-1930's when the U.S. Supreme Court began to interpret the Constitution more broadly. This gave a green light for the New Deal and for a selective Federal role in managing the economy and providing Federal grants-in-aid to State and local governments. The Federal Housing Administration was created in 1934 to give middle-income families greater access to home mortgages. The Tennessee Valley Authority and the Rural Electrification Administration were created and soon became symbols of a new Federal role in economic development. As a result of new programs in slum clearance, public housing, public works, and employment creation, a Federal responsibility for countercyclical policy slowly came to be accepted. This Federal role in countercyclical policy was given permanence in the Employment Act of 1946; urban-related programs were often the practical vehicles for its implementation. Broader support for enlarging the Federal role in urban affairs came with the urban renewal program in 1949. Although the new "cooperative federalism" lacked the clearly delineated Federal and State roles inherent in the earlier dual federalism, it was limited by program areas, and national roles were aligned with clear-cut national goals.

A third period of American federalism began to emerge in about 1960. It began with a substantially enlarged role for the Federal Government in "marble cake federalism," a confusing swirl of Federal, State, and local participation in almost all programs and policies that affected the average citizen. In 1960, the Federal Government had 132 grants-in-aid programs, costing seven billion dollars. By 1981, it had about 500 programs, costing about $95 billion.

Along the way, the Federal Government tried several approaches to urban problems. There were functional approaches, dealing with problems, such as housing, crime or education; there were structural approaches, dealing with efforts to improve the division of responsibility; there were targeted approaches, dealing with the problems of a particular sector; and there were revenue sharing or block grant approaches, dealing with local resource needs while minimizing Federal intervention in local affairs.

Federal grants-in-aid were offered as inducements to involve State and local governments and nongovernmental entities in efforts to alleviate the succession of social problems brought to national attention by the civil rights movement, the war on poverty, urban unrest, and the environmental movement. In the climate of the time, no matter how intrinsically local the problem, evidence that it was common and widespread was sufficient justification to trigger Federal action. Increasingly, State and local officials and their constituents looked to Washington for leadership and the resources to deal with nearly every problem, however narrow its scope or intractable its cause. More often than not the Federal program did little more than demonstrate concern about an age-old condition and offer the illusion of progress.

Many of the Federal programs supported activities that had been the responsibility of State and local governments but this generated little reaction, other than dismay that these governments had failed to "solve" those problems. There were little recognition that the swift translation of the perception of a problem into the creation of a Federal program effectively preempted such corrective action. What is more, as the next two sections document, the programs were unsuccessful – sometimes spectacularly so – and so were efforts at reform, which inadvertently increased the size, scope, and intrusiveness of the Federal grant system.

Past Federal Urban Programs

A brief examination of several earlier, major urban programs is instructive in showing that good intentions do not necessarily result in improved urban conditions. [2]

Urban Renewal

The Urban Renewal program was created under Title I of the Housing Act of 1949 which established as national policy "the realization as soon as feasible of a decent home and a suitable living environment for every American family."[3] The program had as its objective the elimination of slum areas and the stimulation of urban revitalization.

The urban renewal program neglected the housing needs of low-income people who were displaced by purchases of local slum sites. While many of the housing units which were demolished should have been, the program resulted in a net *reduction* in the central-city housing stock. One study estimated that 80 percent of 126,000 units demolished by 1961 were substandard (and presumably inhabited by low-income residents) and that almost all of the new units were for upper-income tenants.[4] By June 1971, the number of units demolished was 600,000, while only 201,000 new units were built;[5] some 334,000 families and individuals were forced out of their homes by government action, and very few were able to move back to their original neighborhoods or be adequately relocated.[6] A similar impact was felt by small businesses in these areas, as entire neighborhoods were demolished. Many of the Central Business District projects, while successful at first, failed because of competing suburban shopping centers. (The existence of many were known when the urban renewal projects were undertaken.) The result of all this activity was extraordinary benefits for a select group of builders, developers, and landowners at the expense of most residents and all taxpayers.[7]

Community Action Program

The Community Action Program (CAP), enacted in 1964, was intended to improve the economic condition of inner-city inhabitants by increasing individual employability and coordinating the delivery of social services to the poor and minorities. The program had ambitious but ambiguous objectives and a very controversial history. The local CAP agencies often took the role of advocate of the poor and challenger of established agencies, a confrontational style that reduced their popularity with local governments and led to repeated efforts to curb their autonomy and reduce their funding. The emphasis on "maximum feasible participation" of the poor led many to give political change priority over specific programmatic activities. For its proponents, this approach was a necessary precondition to effective programs at the local level. For its critics, CAP was divisive and unproductive. Both in the communities where controversy was severe and the many communities where the process was more peaceful, CAP altered the processes, tactics, and consequences of "citizen participation" not only for the poor in the inner city but for all social and economic groups.

Implementation of the CAP program was hampered by resistance from the local agencies it was intended to coordinate and the difficulty of staffing in haste a new program with such potential for controversy and such an uncertain mandate. The turnover of local CAP directors was exceptionally high, which reduced program stability and management effectiveness.[8] The consequences generally were to generate either a relatively passive CAP agency merely funding the activities of other local agencies, or an aggressive agency which exercised its coordination role across a narrow range of activities and for a specific constituency rather than for the general community.

The national priorities of the Federal agency responsible for the program tended to override the activity choices of the local CAP agencies, making assessment of their activities more difficult. Federal preference for particular programs was enforced through the review and approval of local program requests. The allocation for innovative, locally-initiated programs therefore was restricted to an average of one-third of the total funds available. When combined with the administrative problems of staffing and local coordination, the programmatic performance of local agencies was not outstanding.

Model Cities

The Model Cities program was proposed in 1965 as a limited experiment in coordinating Federal funding of urban programs and promoting coordinated social and physical planning in inner-city neighborhoods. It was addressed to concerns current at that time: (1) dissatisfaction with urban renewal programs and related efforts to deal with urban slums; (2) difficulty in reconciling citizen participation and decentralization of government programs with the interests of established bureaucracies and officials; and (3) fragmentation and lack of coordination of national grants-in-aid programs. The focus on planning and general local government authority over the program was a response to deficiencies in War on Poverty programs, especially the Community Action Program. Concentrated and targeted aid, using the discretionary funds of the Model Cities program to link and supplement existing programs, was expected to enhance local flexibility and innovation and to leverage local funds relative to Federal funding through categorical grants. The lack of coordination of existing programs was seen as a major component of the difficulties of inner-city neighborhoods.

As actually adopted, the Model Cities program lost much of its concentration, coordination, and demonstration potential. To achieve Congressional passage, a total of 150 Model Neighborhoods were authorized, almost 20 times as many as originally contemplated.

The principal assessments of the Model Cities program focused on the unrealistic expectations for local planning and coordination it had and the underestimation of the resistance to coordination by existing Federal programs.

The gap between promise and performance was conspicuously large in the Model Cities program. Looking toward future Federal efforts to cope with the problems of cities, we consider it important to distinguish among three different sources of shortcomings in the program. Some faults arose from flaws in the initial conception and design, such as the failure to investigate statutory and funding limitations in other grant-in-aid programs that were expected to be readily available for use in the model neighborhoods. Others arose from ineptness in administration, such as the imposition of unrealistic and counterproductive planning requirements on *the cities. Still others, however, resulted from the nature of the Federal Government itself, the behavior of its executive departments, and the politics of its grant-in-aid system.*[9]

The pressures on Federal officials to have ongoing programs and expand existing authorizations led them to expand the intrusiveness of their technical assistance, to emphasize "delivery of services" rather than the planning process and coordinated efforts, and to introduce Federal program priorities in place of local innovations.

Attempts to coordinate complex, Federal-grant programs with the Model Neighborhood plans considerably underestimated both the statutory-regulatory and the political-clientele barriers inherent in the established grant programs. Instead of involving the hoped-for two to four times leverage in additional Federal, local and private resources, the multipliers for local Model Cities programs proved to be one or less.[10]

Managing the Federal Grant System

Federal grants-in-aid create predictable managerial problems for both Federal agency grantors and State and local grantees. Ironically, efforts to improve the management of Federal grants-in-aid often had the unintended effect of increasing the complexity and unmanageability of the Federal grants-in-aid system. Federal agencies charged with implementing grants-in-aid programs want assurance from grant recipients that their funds will be used in accordance with statutory and administrative guidelines, and so they are inclined to establish relatively detailed application and reporting requirements. To increase their confidence that grant recipients have the capacity to carry out the program activity, they may prescribe organizational and procedural arrangements. By the late 1960's, Federal agencies proceeding independently had created a maze of local counterparts. The Office of Economic Opportunity created Community Action Agencies (CAA's); the Economic Development Administration in the Department of Commerce created Economic Development Districts (EDD's) and Overall Economic Development Program Committees (OEDPC's); the Department of Health, Education, and Welfare created Comprehensive Health Planning Agencies (CHPA's); the Department of Housing and Urban Development created Community Demonstration Agencies (CDA's); the Department of Labor formed the Cooperative Area Manpower System (CAMP's) and the Concentrated Employment Programs (CEP's); and the Appalachian Regional Commission formed Local Development Districts (LDD's). Several agencies (HUD, DOL, HEW, and OEO) jointly sponsored neighborhood centers, and HUD, with the Departments of Agriculture and Commerce, organized Nonmetropolitan Districts (NMD's).[11]

To overcome the lack of coordination among these local agencies, the Federal Government created new grants-in-aid programs to coordinate the existing ones. For example, HUD Section 701 planning funds were used to encourage the creation of areawide coordinating mechanisms called Councils of Government (COG's); and the Appalachian Regional Commission, a regional coordinating mechanism, was imitated in eight other regions. As one observer accurately reports: "The complexity of Federal rules and regulations applicable to each program was compounded, not reduced, by the coordinating systems designed to simplify the program delivery process."[12]

Increasingly aware of the lack of coordination among Federal agencies, successive administrations initiated legislation, reorganization plans, domestic councils, OMB circulars, Federal management circulars, Federal regional councils, and numerous interagency study groups to meet rising complaints about categorical grants-in-aid programs. State and local officials complained that Federal agencies pursued program goals without regard to local needs; that certain needs could be met only by application to several Federal agencies; that the application process was too complex; that the general deluge of Federal information and reporting requirements was becoming too complicated to understand; and that Federal programs frequently overlapped or failed to meet the key needs of recipient governments.[13]

Two responses to their demands that the grants-in-aid be broadened and simplified – the creation of block grants and the standardization of Federal grant procedures – have had unintended effects of their own. Categorical grants are susceptible to numerous defects. As reported above, they can be excessively narrow in scope and unresponsive to local priorities; they can be designed to bypass State and local elected officials, reducing political accountability; and many provide considerable discretion to Federal officials in making awards.

Under the mantle of New Federalism in the Nixon Administration, efforts were made to correct these defects. Numerous categorical grants were combined into block grants, including the Comprehensive Employment and Training Act (1973), Community Development Block Grant Program (1974), and Title XX (Social Services) of the Social Security Act (1974); and a program of General Revenue Sharing with States and local governments was begun. These new forms of Federal assistance funneled assistance through State and local governments, permitted increased responsiveness to local conditions, and substituted formulas for Federal agency discretion in the distribution of funds. These were achievements of considerable magnitude.

Yet, ironically, these reforms increased Federal influence over States and localities. All of them provided Federal assistance for functions that had traditionally been regarded as State and local responsibilities, and some diminished the role of States by providing assistance directly to local governments or requiring mandatory State pass-throughs. Because they distributed their funds by means of formulas, they involved a larger number of local governments more deeply in the Federal grants-in-aid system. With the passage of General Revenue Sharing, 38,000 local governments became direct beneficiaries of Federal grants-in-aid, many of them for the first time.

As Table 4-1 shows, Federal aid per capita jumped substantially between 1970 and 1975 as General Revenue Sharing and the block grant programs were put into effect. While per capita Federal grants-in-aid doubled between 1965 and 1970 under the influence of Great Society categorical programs, they more than quadrupled between 1970 and 1975 under the influence of the New Federalism programs; and the largest rates of increase in assistance were experienced by the smallest communities. Per capita Federal grants-in-aid continued to increase between 1975 and 1980. Assistance to large communities increased at a faster rate as the Carter Administration tried by formula and regulatory changes to target Federal assistance to the needier communities; but, as statutory and administrative requirements were tightened, State and local officials complained of the "recategorization" of block grants.

Federal grants-in-aid to State and local governments peaked as a percentage of total Federal outlays (17.3 percent) and as a percentage of State and local government expenditures (26.4 percent) in FY 1978 due to the $13.5 billion Economic Stimulus Program.[14] A countercyclical program conceived as a response to the deep recession of 1974-75, the Economic Stimulus Program made formula grants to State and local governments under the Department of the Treasury's Anti-Recession Fiscal Assistance (ARFA) Labor's Public Service Employment (PSE) program, and the Public Works program.

Table 4-1

Per Capita Federal Aid to U.S. Municipalities by Population Size (1960, 1965, 1970, 1975, 1980)

Federal Aid Per Capita[1]

City Size	1960	1965	1970	1975	1980
Over 1,000,000	$4.93	$ 5.09	$17.77	$ 70.34	$144.45
500,000-999,999	8.81	14.64	30.42	100.82	192.06
300,000-499,999	7.56	5.31	13.37	64.68	131.45
200,000-299,999	5.24	3.78	13.18	60.96	101.74
100,000-199,999	5.39	4.37	11.09	42.73	79.45
50,000-99,999	2.56	3.76	7.11	33.49	53.14
Under 50,000	3.99	2.84	3.04	21.84	34.66
All cities	3.90	4.79	10.13	43.06	77.13

[1] Total intergovernmental aid minus State intergovernmental aid.

Sources: *U.S. Bureau of the Census, City Government Finance in 1960, 1964-1965, 1969-1970, 1974-1975, 1979-1980,* Table 4.

In the view of many analysts, the Economic Stimulus Program was largely unsuccessful as a countercyclical program.[15] State and local governments were prevented by their own budget planning and expenditure cycles from spending ARFA funds sufficiently rapidly to have the desired countercyclical effect, and State surpluses increased. Local governments were encouraged to hire public service employees at a time when they were cutting back their own work forces, with the result that they transferred some former employees to the PSE rolls and substituted some PSE enrollees for employees that they would otherwise have hired with their own resources. Local public works funds were frequently used for projects that were slated for funding with local revenues, although perhaps at a later time.

Apart from its questionable efficacy as a countercyclical strategy, what is significant about the Economic Stimulus Program is its contribution to the evolving relationship between the Federal Government and State and local government.[16] It marks the culmination of the movement toward a preeminent role for the Federal Government in the Federal system. As the Federal Government carried out its responsibility to maintain the stability of the national economy, State and local governments became instruments of national policy in ways that were not necessarily in their own interests. They were encouraged to spend additional revenues rapidly at a time when first local governments (1974) and then State governments (1976) were beginning to curtail their growth in real spending from their own funds. With assistance from the Federal Government, they added employees and expanded services at a time when they were inclined to reduce their rate of growth in employment and payroll, a trend emerging as early as 1972, well before the approval of Proposition 13 in 1978 and Federal aid cutbacks in the post-1978 period.[17]

The growth of Federal grants-in-aid, in the words of President Reagan, "has led to the distortion of the vital functions of government." It is time to pause and reconsider what the Federal Government should do and what it should not. The list of what the Federal Government should do is long, including providing for the national defense, promoting national economic growth, and providing for the elderly, blind, and disabled through Social Security and related programs, but it should not include financing traditionally State and local services or encouraging State and local governments to engage in activities that are contrary to their own and the Nation's interest.

Growth of Federal Regulations and Mandates

Counterproductive Federal intervention has manifested itself in another area, the growth of Federal regulations and mandates. State and local governments have to absorb increased costs to meet Federal regulatory standards. One example illustrates how an excessively high uniform national standard can impose unreasonable costs on State and local governments. Under the Clean Water Act of 1977, Congress established the national goals of "fishable-swimmable water" by 1983 and authorized the Environmental Protection Agency (EPA) to provide grants on a formula basis to States for up to 75 percent of the costs of planning, designing, and constructing the publicly-owned waste-water treatment facilities necessary to meet the requirements of the Act. EPA conducts a biennial needs survey to estimate the costs of meeting the 1983 goal of "fishable-swimmable waters." Since wastewater treatment needs are strongly related to current and projected population levels, EPA estimates the costs to meet 1983 goals for two different time periods and population levels – the present and the year 2000. Its 1978 estimate of the amount of money needed to serve 1977 population needs was $79.6 billion, while the amount needed to serve year 2000 needs was $106 billion. (Figures from the 1980 survey raise the latter estimate to $119 billion.) Congress has authorized only a fraction of this amount; yet by conventional standards, these amounts have been large – about half of the total authorized annually for State and local revenue sharing. The program has imposed on State and local governments financial burdens of widely varying effect, depending upon the past performance, physical location, and degree of fiscal strain of the jurisdiction. The rigidity of the national goal for "fishable-swimmable water" and the nature of the financial assistance offered have combined to produce numerous undesirable and unintended impacts:

- Relatively high Federal matching grants for capital investment have encouraged the construction of excessively large and capital-intensive plants;
- The unavailability of Federal subsidies for operational costs has burdened local governments with unexpectedly high annual outlays;
- Needs for secondary and tertiary treatment facilities have been mandated with no effort to balance the additional capital expenditure with the marginal gains to pollution reduction; and
- Federal subsidies for collector and interceptor sewers have encouraged some communities to open new land for development before it was needed, accelerating the movement of residential, commercial, and industrial development from central to peripheral locations. (In other areas, refusal to serve areas in the path of development has unnecessarily raised land and housing costs in the serviced areas.)[18]

Few people would deny the desirability of clean water, and yet, most people would decry the financial waste and undesirable impacts on urban development patterns that efforts to meet the clean water standard have engendered. It is the intention of the Administration to weigh the benefits of a regulation against its costs, to consider alternative means for achieving the objective at lowest possible cost, and to promulgate only those regulations whose benefits clearly outweigh their costs.

Pursuit of this policy will require some hard choices. To take another example, few people oppose the objective of increasing the transportation mobility of the handicapped. But Section 504 of the Rehabilitation Act of 1973 threatened to impose billions of dollars in costs upon urban areas and upon all citizens, handicapped and nonhandicapped, for the purchase of buses with wheelchair lifts and for retrofitting rapid-transit stations with escalators and elevators. New York City's Metropolitan Transportation Authority estimated that compliance would cost between $1.5 billion and $2.5 billion. The Chicago Transit Authority estimated that compliance would cost $910 million – more than had been invested in the entire transit system since 1890. Los Angeles estimates that after spending $17 million to equip 1,140 buses with lifts for the handicapped, no more than five riders daily out of 300,000 would use them.[19] Numerous analyses demonstrated that the needs of the handicapped could be met less expensively and with greater responsiveness to their special needs by van pools, taxis, and similar means. Shortly after assuming office, this Administration declared its support for these less costly alternatives.[20]

In the past, the Federal Government has too often mandated an unassailable social objective and left it to others to pay the bill. It is the intention of the Reagan Administration to subject these mandates to careful scrutiny. Not all matters that have been subjected to regulation by Congress are properly within the domain of the Federal Government. For example, the previous Administration issued proposed rules mandating how local school jurisdictions should comply with their responsibilities under Title VI of the Civil Rights Act of 1964 if they had significant numbers of students who did not speak English well. This proposed rule was relatively inflexible and imposed substantial costs on local school jurisdictions. The Reagan Administration has withdrawn this proposed rule, returning responsibility for compliance to local authorities and giving them the flexibility to meet their Constitutional responsibilities in more cost-effective ways.[21] Various other standards now set by the Federal Government are also being examined to determine whether more responsibility for setting and enforcing standards can be returned to State and local governments. In numerous circumstances, we can trust informed voters to elect State and local officials who promise them the degree of safety and freedom from risk that they feel they can afford.

State and local governments encounter the regulatory arm of the Federal Government in another sphere, that is, as conditions for various forms of Federal assistance. As Federal assistance to State and local governments has increased, so have Federal mandates. Mandates have been defined as "any responsibility, procedure, or other activity that is imposed on one government by another by constitutional, legislative, administrative, executive, or judicial action as a direct order or a condition of aid.[22] Some mandates apply to a single program or function while others apply to more than one program or function and are called "crosscutting."

In a study of the management of Federal assistance, the Office of Management and Budget identified 59 crosscutting regulations, over half of which had been instituted in the 1970's. It classified 36 of the regulations as socioeconomic policy requirements implementing national policies such as protecting civil rights, protecting the environment, and providing for the handicapped; and the remaining 23, as administrative and fiscal policy requirements defining grant standards and financial management practices.[23]

The growing number of mandated socioeconomic objectives increases the likelihood that programs will have multiple and sometimes conflicting objectives. Since the Federal Government has thought and acted primarily in terms of single programs, with little regard for the effects of their uncoordinated actions on recipients who receive funds from more than one source, large State or local agencies receiving assistance from several Federal agencies have frequently received conflicting instructions on how to comply with a single requirement.

Researchers have tried to estimate the number of mandates imposed on local Government and their costs. A study of the number of Federal and State mandates imposed on one city and county in each of five States – California, Washington, North Carolina, Wisconsin, and New Jersey – between 1941 and 1978 identified 1,257 Federal mandates, most of which had been issued since 1970. The study estimated that 50 percent of the cost of meeting all types of Federal mandates was borne by the Federal Government, but 100 percent of the cost of meeting crosscutting mandates was borne by local general funds. The study showed that, in the absence of the crosscutting mandates, the local governments surveyed would have continued the activities at the mandated level only 36 percent of the time.[24]

Another study analyzed the incremental costs to seven communities of six Federal regulatory programs described by local officials as "notably expensive or intrusive": the Clean Water Act Amendments of 1972 and 1976, the Unemployment Insurance Compensation Act Amendment of 1976, bilingual educational requirements (under the 1974 Bilingual Education Act and the 1964 Civil Rights Act), the Education of All Handicapped Children Act, transit accessibility requirements for the handicapped (under the Rehabilitation Act of 1973) and the Davis-Bacon Act. The researchers estimated incremental operating costs of $51.9 million in 1978, or $19 for every resident of the seven jurisdictions, and incremental capital costs totalling $113.5 million. If the capital costs were amortized over a 20-year period at eight percent interest and added to the operating costs, the total incremental costs would vary with local circumstances from $6 to $52 per capita, with an overall average of $25 per capita – an amount which happens to be equal to the average per capita amount of general revenue sharing received by these communities. Regarding these costs, the authors reason:

. . . in contrast to most business regulation, these regulatory programs are designed to benefit their own regulatory targets – the cities themselves, or at least the residents of these cities. They require local governments to provide services or benefits that parallel or supplement (where they do not entirely overlap) services or benefits already being provided. The incremental costs of these programs, then, generally reflect expenditures that the local government **might** *have made on their own, but have not, in fact, wished to make. Thus from the local perspective, at least, virtually all of the incremental costs associated with these programs must have exceeded the perceived benefits – else the programs would have been undertaken without a mandate from Washington. From a national perspective, of course, the perceived benefits may still justify the investment, but this does not make it easier for local jurisdictions to swallow the costs involved.*[25]

Both of these studies show that the cumulative burden of Federal regulations on local governments stemming from grants-in-aid programs can be very high. Under the Presidential Task Force on Regulatory Relief, numerous concrete steps have been taken to relax the program, regulations affecting State and local governments, and OMB is working with Federal agencies to develop a single set of implementing rules for each of the roughly 60 crosscutting requirements. While these actions will provide some relief, more substantial relief will be realized when major Federal grants-in-aid programs and the resources for financing them are turned back to States and their localities, and when State and local officials can determine what programs to provide, what administrative standards to prescribe, and what socioeconomic requirements to enforce. The Federal Government will, of course, retain its ultimate responsibility for seeing that State and local activities are carried out in a manner that preserves constitutionally guaranteed civil rights and liberties.

Levels of Federal Assistance Versus Local Tax Effort and Need

Levels of Federal assistance do not appear to relate closely to either local tax efforts or need as indicated by the UDAG Distressed City rating system. Federal aid as the fraction of total city government revenues accounted for by direct Federal assistance varies greatly. This measure for the Nation's 46 largest cities (those cities with populations of 300,000 or more) is shown in Table 4-2. The variation of Federal aid ranges from 6.5 percent to 40.8 percent of total revenues.

There are qualifications that must be kept in mind in interpreting Table 4-2.[26] First, there is great variation among cities in local tax capacity, local tax effort, and State aid receipts. The Federal budget share is influenced by the size of these other revenues. Cities located in States without generous State aid programs and cities with very low local tax rates will have the appearance of high levels of Federal assistance, but in both cases other revenue sources could be made available to reduce the relatively high level of Federal aid versus the cities' total revenues, if voters desired this outcome. Unfortunately, it is difficult to separate these cities from cities that are taxing at or near capacity on a meager tax base. This latter type of city will also tend to show a high share of Federal aid, and Federal dollars will be far more crucial to its budget. Table 4-2 attempts to control to some degree for this difference by indicating whether cities have above or below average local rates of taxation of their own resources. The six cities that have both above-average shares of Federal assistance in total revenues and above-average local tax rates – Washington, St. Louis, Kansas City, Detroit, San Francisco and Buffalo – have the least flexibility in meeting their financial needs.

Table 4-2

Federal Aid for Cities Over 300,000 Population Versus Their Tax Effort and UDAG Distress Ratings

	Aid as Percent of Total City Revenues (1980)	Above Average[1] Local Tax Rates (1978)	UDAG Eligibility Ranking
1. Washington, DC	40.8	Yes	5
2. El Paso	37.3	N/A	3
3. Louisville	37.0	N/A	4
4. San Antonio	34.5	N/A	3
5. Oklahoma City	31.1	No	2
6. Toledo	30.6	N/A	6
7. New Orleans	30.4	No	6
8. Chicago	29.6	No	6
9. Honolulu	28.1	No	2
10. Indianapolis	26.3	N/A	3
11. Pittsburgh	26.2	N/A	5
12. St. Louis	25.9	Yes	6
13. Long Beach	24.5	N/A	3
14. Phoenix	23.7	No	0
15. Portland	23.3	No	5
16. Oakland	23.2	N/A	5
17. Cleveland	22.6	No	6
18. Cincinnati	22.3	N/A	6
19. Detroit	22.2	Yes	6
20. Kansas City	21.1	Yes	4
21. Minneapolis	21.1	No	4
22. San Francisco	20.8	Yes	5
23. Buffalo	20.3	Yes	6
	——MEDIAN——		
24. Omaha	20.1	N/A	2
25. Columbus	20.0	No	5
26. Ft. Worth	19.4	N/A	3
27. Baltimore	19.2	Yes	6
28. San Diego	18.8	No	1
29. Tulsa	18.2	N/A	1
30. Los Angeles	17.8	No	3
31. Seattle	16.4	N/A	3
32. Atlanta	16.3	No	5
33. Memphis	16.0 **(MEAN)**	No	3
34. Austin	15.8	N/A	1
35. Dallas	15.6	N/A	1
36. Nashville	15.2	N/A	1
37. Miami	15.1	No	4
38. Jacksonville	14.5	N/A	3
39. Denver	12.9	Yes	4
40. Boston	12.0	Yes	6
41. Houston	11.9	No	1
42. Philadelphia	11.7	Yes	6
43. Milwaukee	10.0	No	5
44. New York	8.1	Yes	6
45. San Jose	7.9	N/A	1
46. Newark	6.5	Yes	6

Mean 16.0
Median 20.2

[1] Because cities utilize different tax bases, it is necessary to weight their tax rates to determine whether, on balance, they have above-average or below-average rates of taxation. Table 3-2 uses the ACIR definition of a "representative" tax system – that is, it computes the local tax and revenue yield which each city would generate if it fixed sales at the average sales tax rate for these cities; fixed income at the average rate; fixed true property values at the average rates; and raised "other" revenues at the average rate relative to personal income. If a city raises more total local revenues than would be produced by this "average" or "representative" tax system, it is shown in Table 3-2 as taxing local resources at above average rates.

Sources: Column 1: U.S. Bureau of the Census, *City Government Finances 1979-80*, Table 8.

Column 2: Municipal Finance Officers Association, *Urban Condition Indicators*, Table 4.6; and U.S. Bureau of the *Census, City Government Finances, 1977-78*, Table 7.

Column 3: Office of Community Planning and Development, Department of Housing and Urban Development. (Higher scores indicate higher levels of distress.)

The Federalism Initiative

What this review of the evolution of American federalism shows is that Federal grants-in-aid programs have induced State and local governments to undertake a wide range of activities and have served as vehicles for the imposition of Federal mandates. Many of the programs have financed activities that logically and traditionally have been the proper responsibilities of State and local governments. Moreover, the programs have imposed administrative requirements that cumulatively have added substantially to the costs of State and local government. Efforts to reform the Federal grants-in-aid system have frequently, if inadvertently, enlarged its scope, expanded its intrusiveness, and added to its unmanageability.

In recent years, the Federal Government assumed many responsibilities better left to State and local officials. State and local governments have become administrative arms of Federal agencies to an alarming degree, while the Federal Government has swollen to unmanageable proportions. Policymakers have become more remote at the same time that Government itself has become more intrusive.

As a consequence, President Reagan has proposed a fundamental rethinking and sorting out of Federal, State and local responsibilities, so that State and local officials are again accountable to voters for the performance of State and local functions, and Federal officials are accountable to the same voters for the performance of national functions. As he said in his State of the Union address:

"In a single stroke we will be accomplishing a realignment that will end cumbersome administration and spiraling costs at the Federal level, while we insure these programs will be more responsive to both the people they are meant to help and the people who pay for them."

Return of Responsibilities to States

In his address, the President proposed a major shift in the roles and responsibilities of the Federal and State governments. These proposals would significantly alter the existing relationships between the three levels of government, and fulfill the objective of assigning responsibility for service provision to the levels of government that can best reflect the priorities and preferences of citizens. In addition, the proposals turn over to States command of revenue sources currently controlled by the Federal Government.

The President's Federalism Initiative is based on the following principles:

A. Federalism reform should be at the top of the national policy agenda.
B. The Federal Government is overloaded, having assumed far more responsibilities than it can effectively or efficiently manage.
C. State and local governments need greater flexibility to permit them to serve as true "laboratories of democracy."
D. We need to sort out government responsibilities. This will provide greater accountability for elected officials and will make government work more effectively for all of our citizens.
E. Many current Federal programs should be turned back to State and local governments, along with equivalent revenue sources to finance them.
F. We should reduce the Federal regulatory strings which bind the hands of State and local officials.
G. State and local officials are every bit as compassionate and competent and caring as officials in Washington, D.C.
H. The Federalism Initiative includes a dollar-for-dollar exchange of programs along with the revenue sources to pay for them. The Federalism Initiative is not a vehicle for budgetary savings.
I. There should be no winners or losers among the States.
J. State and local governments should be encouraged to work together towards solutions to intergovernmental problems.
K. The States should have discretion over the pace of their assumption of responsibility for the performance and financing of the services associated with the terminated Federal programs.

The plan, which is currently under discussion with State and local governments, can be divided into two main components. The first component involves a division of responsibilities in the income maintenance area. The Federal Government would assume financial responsibility for the Medicaid program and States would assume total responsibility for the Aid to Families with Dependent Children program.

The second major component of the Federalism Initiative involves the transfer of responsibility for dozens of programs currently run by the Federal Government to State and local governments. These programs (and the additional State costs of A.F.D.C.) would be funded by State Medicaid savings plus a trust fund. As proposed, the trust fund would consist of revenues from Federal excise taxes on alcohol, tobacco, and telephone services, and general revenues.

Among the dozens of programs to be transferred to the States are programs in the following functional areas: 1) social, health, and nutrition services; 2) transportation; 3) community development and facilities; 4) revenue sharing and technical assistance; 5) education and training; and 6) income assistance. States would have two options. States could continue to receive Federal grants to support these activities and simply draw down funds from their trust fund allotment to reimburse the granting Federal agency. Alternatively, a State could withdraw or "opt-out" of the Federal grant program participation and simply draw upon its trust fund allotment. In this case, the State could spend its share of funds on programs returned to them by the Federal Government or on any other set of activities it chooses. The trust fund would then become a type of "super revenue sharing" fund for the States.

The total amount of funding in the Trust Fund will be based on the budget levels enacted by the Congress for FY'83 for the programs turned back to the States. The FY'83 budget levels will then remain constant through FY'87.

The President's revised Federalism Initiative, which will be presented to the Congress, includes many provisions which reflect the concerns and input of local officials:
- It will not be effective until FY'84, and includes an eight-year transition period, thus giving enough time to avoid any major dislocations for State and local governments.
- For traditionally Federal-local programs such as revenue sharing, there is a mandatory 100 percent pass-through to local units of government. For programs which are not entirely Federal-local, the States would be required to pass through to local units of government the historical percentage which has been passed through for that program.
- The proposal will provide the stability and certainty in funding that State and local officials have been requesting by taking the budget figures for FY'83 that are enacted by the Congress and locking them in through FY'84-87.
- It protects the general revenue sharing program (which would be included on the turnback list) by funding it at $4.6 billion per year through FY'87. If a State opted out of the revenue sharing program, it would be required to pass through 100 percent of revenue sharing funding to local units of government, based on the historical distribution formula within that State.
- It provides additional flexibility to State and local governments by essentially establishing a giant revenue sharing program.
- It deletes many of the original turnback programs, principally because of concerns expressed by local officials.
- It requires extensive and meaningful consultations with local units of government prior to a State decision to opt out of a Federal program.

State and local officials are actively participating in a systematic review of the proposal's details to fashion an acceptable arrangement of programs to be devolved.

The Federalism Initiative is part of a continuing process of moving authority and responsibility from the national to the local levels of government.

Block Grants

In the interim before these new federalism proposals begin to go into effect, the Administration intends to continue to combine categorical grants into block grants whenever possible and to draft regulations that give maximum discretion to State and local policymakers in administering programs.

During 1981, 57 categorical programs were consolidated into nine block grants, greatly simplifying and rationalizing public assistance in such areas as preventive health (including rodent control), social services, alcohol and drug abuse, and low-income energy assistance. The block grants are designed to allow State and local governments the flexibility to create innovative programs tailored to their specific needs.

In addition, block grants increase State and local accountability. They eliminate the wasteful proliferation of administrative structures and paperwork and contribute to economy in government. At the same time, they permit State and local officials to experiment with new approaches, to adapt programs to local circumstances, and to target limited resources to needy areas and individuals. In some functional areas, the creation of block grants can be viewed as the first step in the eventual devolution of total responsibility for a function to the States along with revenue sources to support it. In other functional areas, however, some Federal involvement will continue to be necessary. In addition, it will help local governments to identify feasible alternatives for meeting important goals through use of the private sector. Both the President's Task Force on Private Sector Initiatives and the Cabinet Council on Human Resources Working Group on Voluntarism will continue to identify and stimulate local private sector and voluntary involvement in urban programs.

States in a Changing Federal System

A proposal to return significant functional responsibility to State governments is a controversial one. The activism of the Federal Government in many domestic areas was a reflection of the perceived failure or reluctance of State governments to take action. The general response of governors and State leaders to the challenge of returned responsibilities, however, is perhaps the clearest evidence of the dramatic changes that have overtaken State governments in the last two decades, and of the ability of the States to handle these responsibilities. Structural reforms have increased the capacity of State governments to provide a democratic forum in which urban policy concerns can be addressed.

As the U.S. Advisory Commission on Intergovernmental Relations (ACIR) noted in 1980:

Over the past 20 years, significant changes have occurred in the nature and role of States in the Federal system. In every State, efforts were undertaken to promote greater efficiency, economy, and accountability by enhancing the authority of the governor, the legislature, and the highest State court. The common themes were improved management, professionalism, and unshackling. Changes were both institutional and fiscal.[30]

For example, State legislatures were strengthened in the 1960's and 1970's. Twenty years ago, only 19 State legislatures met annually, and then they met for only a few months. Thirty-six legislatures now meet every year, often throughout the year; those few legislatures which continue to meet biennially are often in special session in the off-year.[31]

Similarly, more and more legislators have become full-time public officials and are compensated accordingly. In State after State, men and women have chosen to make service in the State legislature a career, and with the rise of professional State legislatures has come the development of better legislative staffs and supporting capabilities.

Further, Supreme Court decisions in the 1960's, such as *Baker* v. *Carr* in 1962 and *Reynolds* v. *Sims* in 1964,[32] created more equitable geographical representation in the legislatures. With the rendering of the "one man, one vote" ruling, State legislatures soon became less rural-oriented and more accurately reflected the concerns of the State population centers.[33] Their composition, interests, and values can be expected to be similar to those of the State's Congressional delegation.

Positive changes have also taken place in the executive branch. Governors are serving longer terms: 46 governors are now elected to four-year terms and, in all but five States, they can now succeed themselves.[34] With greater compensation and better staffs, furthermore, a governor can afford to serve for longer periods and also have more expertise at his or her disposal.

Since the mid-1960's, more than 40 percent of the States have reorganized their executive branches to modernize their management practices.[35] In addition, States and their governors have sought other methods to make the executive branch more efficient. In the same spirit of modernization, 11 States have adopted new constitutions in the last two decades,[36] and many others have approved critical amendments; many of these revisions have given State governments more revenue-sharing options.

In short, State governments are different – far different – and more capable of meeting today's problems than they were in the 1950's and 1960's.

It is important to recognize that the outcome of local policies decided separately in 50 States will be more diverse than that decided by a single national government making procrustean decisions for 50 different States. The product of modernized constitutions, full-time legislatures, and more administrative capability will be highly customized domestic programs, not replicas of their Federal predecessors. Such diversity should be welcomed as a source of strength, vitality, and fruitful experimentation, and the best way to assure the Nation's future.

Conclusion

The Administration seeks to reduce the influence of the Federal Government in domestic affairs so that other more effective centers of decisionmaking can flourish. Individuals, firms, and State and local governments, properly unfettered, will make better decisions than the Federal Government acting for them. State governments have the authority to correct the imbalances in the fiscal capabilities of local governments within a State resulting from inappropriate boundaries, inequitable allocations of functions, and inadequate tax bases. It is the State governments that are in the best position to encourage metropolitan-wide solutions to problems that spill over political boundaries, and to allow the creation of suitable neighborhood units of governance, where appropriate. And it is State governments that are capable of mobilizing the broad bases of support to tackle the economic, financial, and social problems that affect the well-being of the State as a whole as it competes with others to attract and retain residents and businesses.

As for the Federal Government, in the area of economic policy, the Administration will assist communities in anticipating and adapting to the changes brought about by innovations in technology, transportation, and communication. In the area of social policy, the Reagan Administration proposes to retain responsibility for income maintenance and health insurance for the elderly and the disabled, while assuming further responsibility for medical insurance for the poor. At the same time, it proposes to devolve to the States responsibility for income support and social programs that serve primarily those who are physically able to work and to support their families. In this way the States will have increased discretion to pursue policies, adapted to their circumstances, that increase self-reliance rather than dependence, increase labor-force participation among those able to work, and provide appropriate forms of supportive assistance to those in need.

In the area of housing policy, the Administration will rely upon private housing markets to provide sufficient supplies of housing and to remove inadequate units from the housing stock, and it will provide assistance in the form of housing certificates to some households with insufficient income to afford decent housing. In the area of Federal grants-in-aid to State and local governments, the Administration will continue to combine categorical grants into block grants. It will pursue its federalism proposal to turn back grants-in-aid programs, along with revenue sources to finance them, to States and, through them, to their local governments, in order to separate national responsibilities from those that are State and local in scope, thereby permitting each level of government to do what only it can do best.

The virtues of federalism historically have been diversity, creativity, and heterogeneity. With States and localities as innovators, the opportunities for experimentation are multiplied, while the consequences of failure are contained. States and localities are likely to imitate one another's successes and learn from one another's mistakes. They are likely to tailor programs to local circumstances and to profit from the ingenuity of citizens stirred to action by the prospect of having some influence on the outcome.

The Reagan Administration intends to devolve the maximum feasible responsibility for urban matters to States and through them to their local governments, and to limit Federal Government responsibilities to those matters where a clear national interest is at stake. Through this sorting-out process, the Federal system should become less overloaded, and the citizens will be better able to hold their elected officials accountable. The Federal Government will be free to concentrate on foreign affairs and on those domestic activities that promote national economic growth and thereby increase the resources available to all levels of government and to the Nation's citizens and enterprises.

The Administration's urban policy offers broadened opportunities for urban leaders. It aims at giving them the chance to use their creativity and local tenants to meet their responsibilities in ways specifically tailored to local needs and challenges. Local leaders are in the best position to understand and respond to the changes and problems that cities inevitably face. In its efforts to deregulate, to move from categorical to block grants, to pursue its Federalism Initiative, the Administration has shown its belief in the capacity of local leaders to pursue sound strategies, to manage resources and to respond to economic changes.

The basis for a more stable future for a city is just such a sound strategy, incorporating flourishing partnerships among government, private, and neighborhood interests. Growing numbers of examples of successful strategic partnerships already exist, pointing the way for the future.

Urban leaders, in tandem with their residents, civic organizations, and employers, can find the means to rebuild, revive, and renew confidence in the future of their city. In passing increased responsibilities to cities and States, there is every reason for Federal officials to be confident that urban leaders will adopt successful strategies for the future. In taking a less intrusive role, the Administration recognizes that many urban leaders have already taken responsibility for directing their own affairs, that they have learned from examples of successful urban strategies of others, and that they are increasingly aware of opportunities for using private institutions in place of Federal programs, regulations, and taxes.

This chapter describes successful urban strategies that have leveraged human and fiscal resources. No uniform set of goals and means is prescribed. Instead, attention is drawn to opportunities for strategic choices and partnership arrangements that have formed the basis for civic revival.

City Strategies

A number of cities, displaying creative and farsighted local leadership, are implementing carefully developed strategies to assure their long-term prosperity. For example, to discover and develop its comparative advantages, Dallas organized the "Goals for Dallas" project in 1965 to bring together community leaders to plan a strategy for the city's future. They focused on creating Dallas as an international business center, establishing a first-rate international airport and a network of higher education facilities to foster high technology.[1] They also included a major regional health center and improved transportation to enhance the city's attractiveness to potential newcomers.[2]

In Eugene, Oregon, city leaders learned they had to make a major change in their strategic goals after a period of trial and error. Efforts were made to halt the flight of retail stores to competing shopping centers by building an attractive mall. However, tax benefits, increased parking facilities, and reduction of land costs did not succeed in attracting or holding major department stores. Ultimately, city leaders focused on the creation of a downtown performing arts center as an alternative measure to diversify the economy, to attract tourists, and to serve the cultural needs of the entire community.[3]

The key to the long-term success of a city, such as Eugene, is local leadership and its ability to devise a suitable strategy that will enable the city to adapt to changing circumstances and opportunities. Because conditions differ widely from city to city, local business, government, and civic leaders are best able to determine what course is most appropriate for their city. Local leaders naturally include mayors and other local government officials. But they are only part of the picture. Other important sources of leadership include the city's business sector, foundations, universities, civic associations, neighborhood organizations, and charitable and religious institutions.

As part of a strategy to reduce costs while maintaining services, some cities have taken steps to rationalize their work forces, changing many archaic staffing requirements or costly, unnecessary work patterns. Boston's transportation authority, for example, recognized that rush-hour travel needs can best be handled by using more part-time workers and fewer full-time ones. Many local government activities share this "peak-load" characteristic; large savings may be possible with no reduction in the level of public services.

Cities have often reduced expenditures dramatically, while maintaining services, by privatization – that is, using the private sector to provide municipal services, where feasible.[4] While government often must *arrange* for services, it need not *produce* those services; the producer can be a private sector organization, or even another governmental entity. The City of Lakewood, in Los Angeles County, for example, purchased roughly 40 different services from the County in 1981.[5]

The principal advantage of this approach is that, when properly carried out, it substitutes private competition for municipal monopolies. Competition can be introduced through several different mechanisms.[6] One of the most popular is "contracting out," in which local governments contract with private firms to provide services formerly provided by municipal agencies. The contracts are granted on a competitive basis to the private firm or institution that offers the best price and quality of service. Municipal agencies could be allowed to compete for the contracts as well as private firms. This would give these bureaucracies the same competitive spur which usually exists in the private sector. The public and private sector would then coexist side by side as a constant competitive check on each other, and each would provide a yardstick by which to measure the performance of the other. Among the better known cities that are following this approach and cutting their costs by up to 50 percent are Minneapolis, New Orleans, Newark, Oklahoma City, and Kansas City, Missouri.[7]

Another means of introducing competition is through associations or organizations of neighborhood residents, businesses, and merchants. More and more cities are contracting with them to provide selected services at substantial savings. Some States now permit neighborhood units such as these to create special assessment districts, which can levy a special tax in that area to pay for local services whose delivery is arranged outside the normal municipal monopoly.

Through the use of these mechanisms, cities have reduced costs by 20 to 50 percent by introducing competition while maintaining service quality and quantity. Numerous studies of residential refuse collection throughout the United States and abroad have found that service by city agencies is 29 to 37 percent more expensive than by private firms, yet is no higher in quality or in citizen satisfaction.[8] Gainesville, Florida, is saving taxpayers more than $500,000 a year by contracting with private companies for trash pickups, vehicle and fleet maintenance, and janitorial and custodial services. The deputy city manager reports that citizen complaints have dwindled and out-of-service time for vehicles has been drastically reduced.[9] Another example is Scottsdale, Arizona, which is well-known for its privately-run fire department. Scottsdale fire fighting personnel have developed unique fire fighting apparatus, admired and copied by other cities.[10] The City of Providence, Rhode Island, is also saving millions of dollars through privatizing such public services as waste collection and street sweeping.[11]

These mechanisms are in far greater use than is widely recognized. In a survey of 2,375 cities with populations over 2,500, it was found that 21 percent of the cities contracted with private firms for refuse collection, 13 percent contracted for street-lighting repairs, and 11 percent for engineering services.[12] Contracting out is used for dozens of other services such as street paving, tax assessment and collection, zoning control, snow removal, payroll processing, ambulance service, solid waste disposal, bridge construction and maintenance, voter registration, and the operation of senior citizen centers. The U.S. Advisory Commission on Intergovernmental Relations tabulated 66 services that are provided by cities contracting out with private firms.[13] More and more cities in the U.S. and in other countries are selectively "contracting out" for the delivery of public services.

Many cities have moved toward greater reliance on user fees for the financing of services, where feasible,[14] on the theory that the beneficiaries of a service should pay for it. The City of San Leandro, California, for example, requires a $2.00 fee for library cards for most users, but children and low-income residents are provided a card at no cost.[15] Relying on such revenue sources has relieved some pressure on more traditional city revenue sources, such as property taxes. Moreover, it has made the full cost of the service readily apparent to consumers, and may induce them to conserve. It has allowed consumers to compare the service with private alternatives and to opt for the latter when they so choose.

Another innovative means of financing – leasing – has been made economically desirable by changes in the tax code enacted as part of the Economic Recovery Tax Act of 1981. Under a typical leasing arrangement, the private owner would benefit from the investment tax credit and accelerated depreciation on the capital equipment. These advantages could allow the lessor to provide savings to the city on the rentals, and on the ultimate purchase price if the city should chose to purchase at the end of the rental period.

In one of the first examples of this financing arrangement, in the fall of 1981 the New York Metropolitan Transit Authority signed an agreement under which a private firm will purchase 620 buses and 12 commuter rail cars and lease them to the Authority. Lease-purchase agreements have been used for other capital items, principally office buildings and revenue-producing facilities. The same arrangement could be extended to a broader range of public facilities: private investors could build roads, sewers, and bridges, for a fixed period of years. At the end of the period, the local government could assume ownership.

Enhancing the Quality of Life

Reliable municipal services and a decent infrastructure are important contributions of city government to the quality of local life. Cities have found that improving services need not mean spending more. Instead many cities, through privatizing their municipal services, have allowed competitive forces to bring greater innovation and responsiveness to citizens' needs in service delivery. Cities are also preserving their valuable infrastructure, which lends so much to their community's unique character, through strong capital rebuilding plans instead of building new facilities.

The reduction of crime is another major factor in enhancing the quality of life within a city. Cities find that crime prevention activities that involve citizens, such as Neighborhood Watch programs, have been successful in decreasing crime as well as reducing the fear of crime.

A high quality of life is the result of satisfying the physical, social, and economic needs of the city's residents. Decent housing, with good local educational facilities and convenient neighborhood shopping combine to make a good community. Residents themselves are often instrumental in improving these aspects of their lives. In Boston, an Hispanic neighborhood association in the South End was delegated authority by the city to redevelop the housing, commercial, and recreational uses of the neighborhood. Over the past ten years, the group has constructed apartment buildings, single-family homes, and a cultural plaza with a shopping center, and has opened a day care center, cable TV studio, and a number of neighborhood businesses. Funding for its work comes from both the public and private sectors, as well as from fees for the services the group provides.[16] In Baltimore, the Park Heights Community Council opened an alternative high school, housed in rowhouses renovated by the group.[17]

Culture and recreation complement the physical amenities of a healthy city. In Minneapolis, a world-renowned theater, two major art museums, and an internationally-known orchestra are made possible by the support of the city government with the active involvement of the city's corporations and community organizations. Throughout this city, as well as in many others, there are neighborhood theaters, youth education programs, community parks, and many other artistic and social activities.

Local officials may also seek other means to involve private corporations in improving the quality of local life. The City of Boston, for example, joined with the Rouse Corporation to carry out one of the country's more successful efforts to improve the quality of life by creating Faneuil Hall Marketplace in downtown Boston. In Baltimore, local business leaders joined the city in planning and executing two of the more exciting efforts to revive the economic and cultural vitality of the inner city; the projects at Inner Harbor and Charles Center offer local residents and tourists an example of how public-private cooperation can improve the quality of life.

Public-Private Partnerships

Examples of public-private cooperation are found throughout urban America. Private corporations and neighborhood groups working both informally as well as in carefully designed projects now constitute an almost indispensable element in restoring economic and civic vitality to cities.[18]

One of the earliest examples of such partnerships is the Allegheny Conference for Community Development in Pittsburgh, an economic and community development business group formed in the post-World War II period. In cooperation with political leadership in the Pittsburgh area, it initiated numerous economic and community development programs. Such programs included a regional industrial development corporation, a city redevelopment authority, and other quasi-public organizations to improve other aspects of the city's life, such as air quality, housing, and sanitation.

Minneapolis was another early example of the tradition of corporate leadership working with the city to improve urban amenities and encourage redevelopment. Leading business firms have committed five percent of their before-tax profits for public purposes. The Downtown Council, a private organization of business leaders, encourages and helps coordinate central city improvements. Through the Council, private companies have financed architectural planning for many public and private projects. These activities are coordinated with and approved by the Minneapolis Industrial Development Commission, a public agency responsible for overall city planning, financing, and construction of private and publicly subsidized facilities. The nine-member commission is comprised of seven business representatives and two public officials appointed by the City Council.

The New York City Partnership is an umbrella association of more than 100 civic and business leaders, organized in 1979 to mobilize public and private resources to address major problems confronting the City. The Partnership brings together key business associations, including the New York Chamber of Commerce and the Economic Development Council, and has forged strong ties with organized labor and public officials at all levels. Its mission is to set priorities, form *ad hoc* coalitions to undertake priority projects, and rally other business-sponsored groups in support of particular projects.

The Partnership's accomplishments have been impressive. In 1980 alone, its Summer Jobs programs placed more than 14,000 disadvantaged youths in private business. Its Executive Loan program, which has operated for several years, provided city agencies in 1981 with 68 executives from 28 companies at an estimated salary level of close to $20 million; in the mass transit area, these executives provided management training, streamlined the claims procedures in cases brought against the Transit Authority, and introduced efficiency in warehousing and distributing parts for subways and buses. Task forces established by the Partnership have conducted extensive research on public policy issues such as school truancy, civil servant compensation, property tax assessment, and pupil transportation; equally important, the members of the association have worked with City officials to implement improvements suggested by this research.

Early this year the Partnership announced a major new initiative, the New York City Housing Partnership. This private, nonprofit corporation, which includes lenders, businesses, labor, and community groups, will build or renovate 30,000 units of middle-income housing over five years. City officials have responded enthusiastically to their new partner in housing development.

In many cities the major public-private organization for economic development is a nonprofit quasi-public development corporation that allows redevelopment or building renovation to take place with the assistance of tax incentives and financing aid from the public sector. The Dayton Citywide Redevelopment Corporation, the Greater Buffalo Development Foundation, and the Milwaukee Redevelopment Corporation are among the better known urban corporations of this type. But most major cities have established development corporations.

Other examples of public-private partnerships can be drawn from across the country. In Detroit, for instance, a private consortium including the Ford Motor Land Development Corporation, 50 other corporate partners, 28 banks, and four life insurance companies joined with the city to build Detroit's Renaissance Center. The private partners assembled the land, provided the financing, and formulated the development plan, which included hotel space, office space, and retail and service facilities. The city provided zoning relief and vacated city streets.

St. Paul joined with Oxford Properties, Inc. to construct a downtown development including two office towers, a major retail shopping center, and a luxury hotel. The city prepared the development design, built an indoor park and public walkways and skyways, vacated a major downtown street, granted building permits, and negotiated with tenant groups to obtain their cooperation. The private sector provided financing and built the office towers, shopping center, and hotel. The city has also initiated public improvements, which are financed equally by the city and private firms.

Pittsburgh recently initiated a series of similar projects.

Development of the Grant Street Plaza complex is being undertaken by a partnership between the U.S. Steel Corporation, the Port Authority Transit (PAT), the Urban Redevelopment Authority (URA) and the City. The complex will include construction of a 53-story office building, a shopping center, and the main subway terminal in the central business district. U.S. Steel will construct the office building and shopping center, PAT will construct the subway terminal, URA will restructure land parcels between the public and private sector, and the city will redesign and reconstruct streets. In another project, the city and URA will join with PPG Industries, Inc. to build PPG Place, a 40-story office complex with six structures, including shops, restaurants, an open plaza, and winter gardens. PPG will construct the office complex, URA will assemble land under its powers of eminent domain, and the city will encourage community support. In still another project, the city and URA are joining with Vista International to build a 20-story hotel and 31-story office complex.

In Los Angeles, joint development projects between the Community Redevelopment Agency and several of the largest North American development firms have been translated into a billion dollar mixed-use project for the city. In particular, a new convention center and a Hyatt Regency Hotel built in 1974 have spurred business activity in the 7th Street area. The hotel now forms the basis of a Broadway Plaza which includes a department store, several retail shops, and an office tower.

One of the most comprehensive public-private partnerships has been the effort to revitalize Toledo. It therefore merits more attention here. These revitalization projects were accomplished with local, State, and Federal funding, including Urban Development Action Grants, which the city successfully used to leverage substantial private investment. The effort began in the summer of 1977 when Owens-Illinois, the city's largest corporation, announced plans to construct in downtown Toledo, a $94.5 million office complex, Sea Gate Center, where the corporation would locate its new world headquarters. In January 1978, the city's largest bank, the Toledo Trust Company, committed itself to building a new $10 million headquarters in the same area. In order to encourage these investments, the city committed itself to financing a 15-acre public park along the entire downtown riverfront, a public parking garage, a boulevard connecting two of the main avenues, and other downtown street improvements.

These initial efforts led to broader revitalization efforts. Early in 1978, the city established the Toledo Economic Planning Council (TEPC), with the Mayor appointing the president of Toledo Trust Company as chairman. The Council included members from the business community, city and county government, the University of Toledo, labor organizations, and development groups. The function of the TEPC is to bring together public and private representatives to develop long range strategies for maintaining and improving the city's economic health.

But TEPC also felt this downtown recovery would not be lasting unless the more residential neighborhoods around the central business district were also revitalized. Consequently, the Council focused on the poorest of these neighborhoods, the Warren-Sherman area, for a concentrated redevelopment effort which can serve as a model for the rest of Toledo and even the country.

Warren-Sherman has an area of 300 acres adjacent to Toledo's downtown. The population is 3500, down from 6500 ten years ago. Unemployment has been roughly 30 percent, with 40 percent of neighborhood family incomes below $5,000 and over 60 percent below $10,000. Almost 20 percent of the land in Warren-Sherman is vacant. The area suffers from high crime and deteriorated housing.

The TEPC first consulted with the residents of Warren-Sherman to determine their needs and goals. Such local community involvement was a key element of the effort. The neighborhood association, the Warren-Sherman Community Council, continues to identify local needs and to work with the public and private sectors to develop and implement programs.

Based on this advice, the TEPC, the city, and the business community have developed a broad range of coordinated programs to help the area. To stimulate business and industrial development, Control Data Corporation's City Venture subsidiary agreed to build a Business and Technology Center in the Warren-Sherman area. The Center will be built in a large, old factory building and will provide office space, computer facilities, laboratories, an answering service, financial and management consulting advice, and other education and support services to tenant-entrepreneurs. City Venture operates a number of these centers around the country with the intention of eventually making a profit from their operation.

The TEPC has also undertaken development of a 23-acre industrial park in the area and plans to require tenants to make substantial commitments to hire Warren-Sherman residents. Commitments have been received from Libby-Owens-Ford, Owens-Illinois, Sheller Globe, and Toledo Testing Lab, Inc. In addition, plans have been finalized to build a $3 million, 50,000-square-foot shopping center in the neighborhood. Toledo Trust Company has committed $1 million in loans to the shopping center project and $1 million for loans to small businesses and commercial ventures.

To date, a total of $10 million in public funds has leveraged another $35 million in private investment; this private money has come not only from large corporations – such as Control Data Corporation, Owens-Illinois, and a large law firm that substantially rehabilitated an existing building in the community – private investment is still to come, as five major parcels in the industrial park are developed.

The TEPC is also arranging for business enterprises in Warren-Sherman to establish a variety of job-training programs. Child care, transportation, employee counseling, and other programs are also components in the plans to provide employment opportunities for Warren-Sherman residents.

Through these various efforts, Toledo has established a complex web of public-private relationships in a comprehensive approach toward stimulating urban revitalization. These efforts offer substantial possibilities for fundamental and lasting success, and offer another example which can be of use to other jurisdictions.

Many more examples could be provided, as the potential public-private partnerships which can be undertaken to improve the quality of life in a city are virtually limitless.

The Role of Neighborhoods

Healthy neighborhoods are an important key to urban America's well-being. People increasingly realize that "neighborhood" is more than just a place where they live or work. The neighborhood nourishes the spirit of community – the creativity, commitment, and energy of neighbors helping each other. It is a place of familiarity and belonging that nurtures tradition and continuity in the lives of its residents. It stands as a buffer between the individual and the larger, distant society. Each renewed and stable neighborhood strengthens the social and economic fabric of its city. Neighborhood organizations are reservoirs of energy and ability. They have often aided in service delivery and local governance while organizing volunteer self-help efforts in building a sound and viable community. Local leaders are increasingly recognizing and building upon these resources.

Tens of thousands of neighborhood groups have emerged in recent years, with varying levels of sophistication. These groups are as varied as their members and communities. Some groups are all-volunteer associations supported by annual bake sales, food festivals, or by running a barter exchange. Others are large organizations with the staff and capacity to deliver services and run development projects with complex, long-term commercial financing.[19]

Many groups address the immediate problems typical to urban neighborhoods – street crime, litter, the lack of child-care facilities. In Kansas City, Missouri, for example, Marlboro Neighborhood Services uses donations and grants to bring health care to the homes of the neighborhood's elderly. Still other groups take on the long-term issues of housing, employment, and economic development.

Some groups are empowered by the city to be part of the yearly planning and budget decisions; Cincinnati's Community Councils, for instance, help to allocate the Community Development Block Grant funds each year. Other groups provide a variety of social and environmental services to neighborhood residents. Operation Brotherhood in Chicago offers food service, recreation, counseling, and other services to 3,000 elderly residents.

One of the more comprehensive examples of neighborhood initiative in a predominantly middle-class neighborhood can be found at Breezy Point in New York City. The 500-acre area is owned by the residents on a cooperative basis. With 7,000 permanent and 8,000 seasonal residents in this beachfront neighborhood, the cooperative members assess themselves and use these and other funds to provide the neighborhood with a range of basic services usually provided by city government. The special control over service quality and mix makes these efforts worthwhile for the residents.

For example, the Co-op provides fire and ambulance services staffed entirely by volunteers. Because of the excellent neighborhood ambulance service, the city ambulance service is almost never called. Hired Co-op personnel collect refuse from individual homes and deliver it to a transfer station on the edge of the neighborhood for the city to pick up. Security guards hired directly by the Co-op provide additional protection for the neighborhood against violence and crime. The Co-op purchases metered water at the property line and distributes it through its own network of pipes which is maintained by Co-op personnel.

The Co-op also runs its own year-round shuttle bus service on a 20-to-30 minute schedule using mini-buses and station wagons. All roads and parking areas within the Breezy Point area, with one exception, are owned and maintained by the Co-op. Personnel maintain all walks and Co-op owned structures and run a maintenance shop for Co-op vehicles. The Co-op also provides a lifeguard service and recreational programs and maintains the beaches.

Another, very different example can be found in Brooklyn, not far from Breezy Point. The Southern Brooklyn Community Organization (SBCO), with partial funding from the Ford Foundation, confronted the problem of vacant buildings and neighborhood deterioration. Twenty-six vacant buildings in the area symbolized substantial decay; real estate values were depressed; out-migration was increasing; and, private initiative was absent. Today, largely due to SBCO's generating $12 million in private and public funds and having organized more than 100 block, tenant, and merchant associations, the deterioration has been reversed.

The most striking thing about neighborhood action is that it has worked well. It can improve the local economy and quality of life in measurable ways. People are taken off the welfare rolls and put to work in community jobs. Abandoned houses are renovated for homeownership. Neighborhood youths are engaged in training and recreation.

Neighborhood action also has had an impact on the city government and its economy. Because the neighborhood group can set priorities responsive to residents' needs, these organizations can help local governments allocate and coordinate resources efficiently, often reducing municipal costs. The improvement brought about by neighborhood action in the local economy and community livability similarly benefits local businesses and financial institutions.

Conclusion

Clearly asserting their customary roles as the country's basic service providers and policy innovators, local governments and their States are bringing new and invigorating approaches to problems of finance, service provision, community involvement and neighborhood revitalization. In addition, local governments and private corporations are far in the lead in developing public-private partnerships to accomplish social goals.

It is the type of initiative shown in these pages that this Administration recognizes and commends. Local governments may wish to review and evaluate these and other innovative approaches to local needs and determine which of these to support with available revenues. The vitality of American life at the local community level has been observed as the key to American success since the 1830's and the writings of Alexis de Tocqueville. This Administration is committed to removing obstacles to local initiative and experiment, to allowing governments close to their communities to make the vital decisions affecting their citizens and to freeing resources which have been drawn to Washington so that individual communities are free to use their own resources for their own locally determined goals.

To aid local governments in such efforts, without intruding, this Administration is developing plans to disseminate information about local innovations to wider audiences, to provide technical assistance for communities to pursue nationally desirable goals, such as affordable housing, within their boundaries, and to consult constantly with State and local officials on questions of appropriate levels of responsibility, impact of Federal policies, and principles of cooperation, as we pursue together the improvement of our urban areas.

Chapter One

1. U.S. Bureau of the Census, "Standard Metropolitan Statistical Areas and Standard Consolidated Areas: 1980," *1980 Census of Population: Supplementary Reports,* PC80-S1-5, October 1981, and unpublished data from the Bureau of the Census. These figures reflect metropolitan and nonmetropolitan areas as defined at each census. The 1950 figures include Alaska and Hawaii. See also, John F. Long, "Population Deconcentration in the United States," Special Demographic Analyses, CDS-81-5, November 1981.

2. Lynn E. Browne and John S. Hekman, "New England's Economy in the 1980's," *New England Economic Review* (January/February 1981), pp. 5-14.

3. U.S. Bureau of Labor Statistics, "Comparative Real Gross Domestic Product, Real Gross Domestic Product Per Capita, Real Gross Domestic Product Per Employed Person, 1950-1981," unpublished report, April 1982.

4. U.S. Congress, Joint Economic Committee, *State and Local Finance: Adjustment in a Changing Economy,* a staff study, Washington, D.C., December 1980, p. 15.

5. See Murray L. Weidenbaum, "The Costs of Government Regulation of Business,": prepared for the U.S. Congress, Joint Economic Committee, 95th Congress, 1st Session, Washington, D.C., April 10, 1978.

Chapter Two

1. U.S. Bureau of the Census, *1980 Census of Population,* unpublished estimates as of April 1980.

2. To increase the amount of data available, county as well as city data are reported. In 1980 the City of St. Louis constituted 100 percent of its county; and Houston, 65 percent of Harris County. Population figures are drawn from the U.S. Bureau of the Census, *1980 Census of Population and Housing,* PHC80-V-27, and -45, March 1981. Employment figures are drawn from the U.S. Bureau of the Census, *County Business Patterns,* selected issues. Unemployment rates are based upon sample surveys of these jurisdictions conducted by the U.S. Bureau of the Census for its Current Population Survey, and are published in U.S. Bureau of Labor Statistics, *Geographic Profile of Employment and Unemployment, 1979,* December 1980. Per capita income figures come from the U.S. Bureau of Economic Analysis, *Survey of Current Business,* 61 (April 1981).

3. The per capita income figures for the Los Angeles metropolitan area are based on estimates prepared by the Internal Revenue Service in the U.S. Department of the Treasury. All figures are drawn from the data base maintained by the U.S. Department of Housing and Urban Development, Office of Community Planning and Development.

4. Cities can receive a maximum of six eligibility qualification points for the UDAG program. Those receiving three or more qualification points are eligible to receive assistance under the program. A city receives one point for exceeding minimum standards of economic and physical distress in each of the following categories: a) percentage of housing constructed prior to 1940, b) per capita income change, c) percentage of poverty, d) population growth lag or decline, e) job lag or decline, and f) unemployment.

5. The 1960 and 1970 population figures used for the calculations in this paragraph are drawn from the data base maintained by the U.S. Department of Housing and Urban Development, Office of Community Planning and Development; the 1980 population figures come from the U.S. Bureau of the Census, *1980 Census of Population and Housing: Person and Household Counts for Places by States,* unpublished data, no date.

6. U.S. Congress, Joint Economic Committee, *State and Local Finance: Adjustment in a Changing Economy,* a staff study, Washington, D.C., December 1980, page 15.

7. Calculated from data in U.S. Advisory Commission on Intergovernmental Relations, *Regional Growth: Historic Perspective,* Washington, D.C., June 1980, Tables A-9 and A-16; and U.S. Bureau of Labor Statistics, *Employment and Earnings,* May 1981.

8. Richard E. Lonsdale and H.L. Seyler eds., *Nonmetropolitan Industrialization,* Washington, D.C.: V.H. Winston and Sons, 1979.

9. This conclusion is based on calculations using data in the U.S. Bureau of the Census, *1977 Census of Manufacturers: Geographic Area Series,* October 1980; and *1978 Annual Survey of Manufactures: Statistics for States, SMSA's, Large Industrial Counties, and Selected Cities,* September 1981.

10. Carol L. Jusenius and Lary C. Ledebur, "Documenting the 'Decline' of the North," prepared for the U.S. Department of Commerce, Economic Development Administration, June 1978.

11. David L. Birch, "The Job Generation Process," prepared for the U.S. Department of Commerce, Economic Development Administration, 1979; Harvey A. Garn and Larry C. Ledebur, *The Role of Small Business Enterprise in Economic Development,* U.S. Congress, Joint Economic Committee, 97th Congress, 1st Session, Washington, D.C., May 14, 1981; David L. Birch, "Choosing a Place to Grow: Business Location Decisions in the 1970's," prepared for the U.S. Department of Commerce, Economic Development Administration, January 1981; Nonna A. Noto, "Federal Assistance to Troubled Firms? An Analysis of Business Failure Data," U.S. Library of Congress Congressional Research Service, December 10, 1980.

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