



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

the President's
National
Urban Policy
Report

1986





August 26, 1986

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am pleased to transmit to you the 1986 President's Report on National Urban Policy.

The 1986 Report demonstrates that the Administration's urban policies are working. We have fostered national economic growth with low inflation. We have strengthened the authority of State and local governments, and they have assumed more effective roles in dealing with the needs of urban areas and people in their jurisdictions. We have stimulated public-private partnerships that have brought a new vitality to urban places.

In all regions of the country, many cities are growing faster, urban decline is being reversed, and many slow-growth local economies are being revitalized. The recovery of urban areas is reflected in strengthened economic bases, a revival of downtown areas, and improved fiscal conditions. Quality of life has improved. Educational achievement is up. Crime is being brought under control.

Problems remain, particularly in States dependent on agriculture and energy and in urban areas heavily dependent on older industries. These are receiving attention.

In a broader sense, however, the successes of our economic and urban policies now make it possible to rethink our approaches to helping poor people move from dependency to self-sufficiency. This Report documents experiments underway at all levels of government that provide a basis for developing new strategies for real and lasting independence for the poor. The common elements of these experiments are self-help, choice, control, responsibility, improved program coordination, and a commitment to use welfare moneys more effectively.

The ultimate responsibility of a national government is to give all citizens an opportunity to share in the Nation's economic mainstream. I believe our national urban policy provides a strong foundation for achieving this goal.

Respectfully,

A handwritten signature in black ink, appearing to read "Samuel R. Pierce, Jr." Below the signature, the name "Samuel R. Pierce, Jr." is printed in a smaller, serif font.

Enclosure





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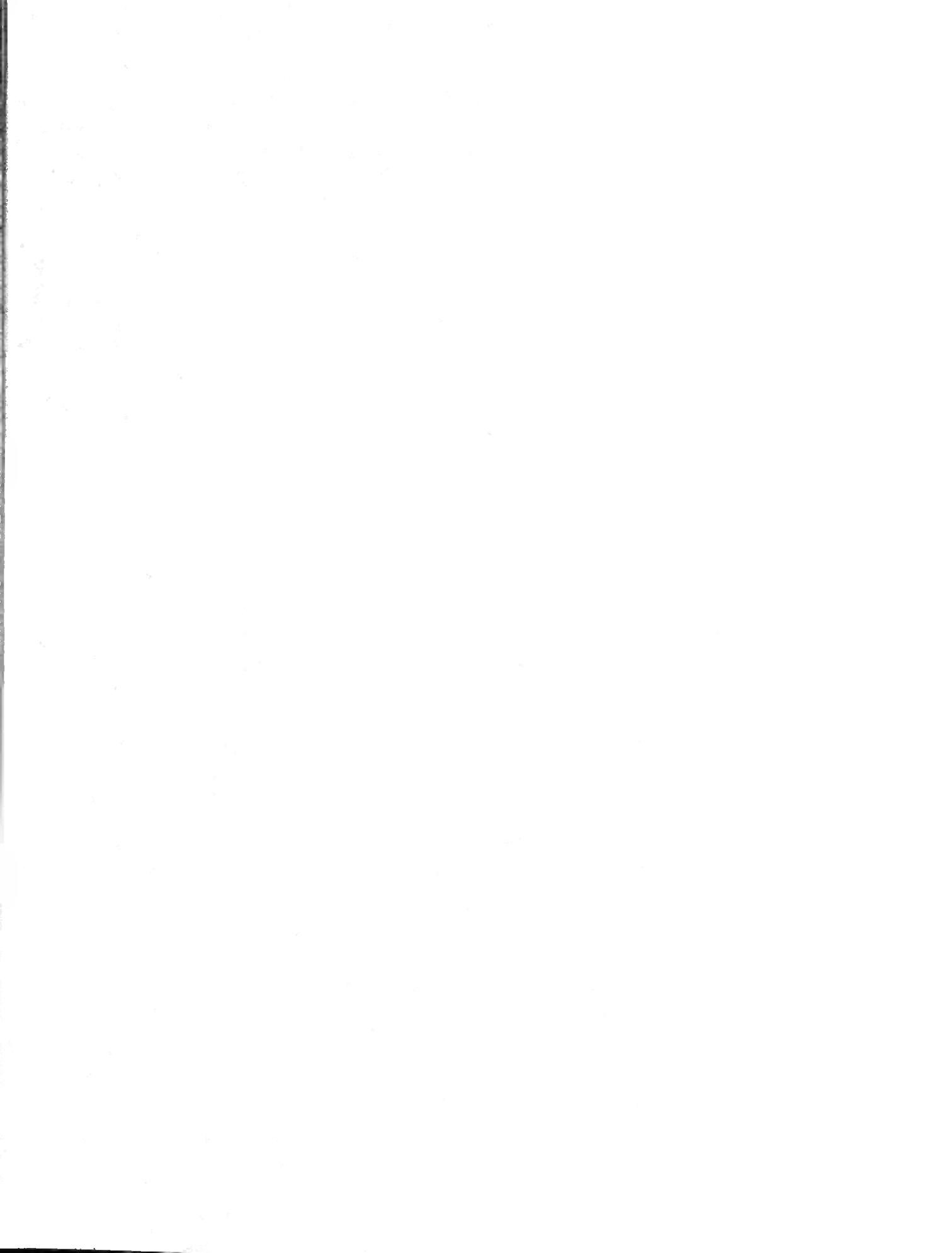


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Chapter I

Overview

An era of renewed prosperity and stability in our Nation's cities has been the goal of the Reagan Administration's Urban Policy. There is every indication that the Administration strategy to achieve this goal in the past 5 years is proving successful.

The Reagan Administration's urban strategy is to approach the goal of renewed prosperity and stability in the Nation's cities by (1) sustaining national economic growth without inflation; (2) strengthening the authority of State and local governments; (3) stimulating public-private partnerships; and (4) encouraging self-sufficiency by those able to work. The first three elements foster improved social, economic, and physical conditions in cities. The fourth is designed to create new ladders of opportunity for the poor to climb out of poverty.

Each part of the strategy to strengthen cities is itself achieving results.

Economic Growth With Low Inflation

The urban Renaissance in the 1980's is directly linked to the Administration's economic policies, which have brought substantially reduced inflation and an expansion of the national economy. The recovery of urban areas is reflected in strengthened economic bases, revival of downtown areas, and improved fiscal conditions.

At the national level, the strength of the economy can be seen by examining a few key indicators. The average annual increase in gross national product (GNP) in the past 3 years was a healthy 4.1 percent. In the first quarter 1986, GNP increased at an annualized rate of 3.8 percent.

The recovery in the Nation's output has been accompanied by a sizable increase in the number of new jobs. Between 1980 and 1985, over 7.9 million additional jobs were created. Civilian employment increased from 99.3 to 107.1 million jobs. The percentage of employed adults grew from 63.8 to 64.8 percent. There are more Americans employed today than at any time in our history.

The Administration's success in curbing inflation has been dramatic. When the President won election in 1980, the annual percentage increase in the consumer price index had been 11.3 for 1979. By contrast, the increase for 1985 was only 3.5 percent, and over the past 3 years, the increase has averaged 3.2 percent. Especially important, the expectation of future inflationary increases has been dramatically lowered, permitting a return to long-term fixed rate mortgages with lower interest rates. Few expected that the inflation rate would remain at such low levels during a period of rapid economic recovery.

Since 1983, the economy has experienced one of the strongest recoveries from a recession in the post-World War II period, and that recovery has had pervasive effects. It has not only benefited individuals by increasing employment opportunities, reducing unemployment rates, and sharply reducing inflation, but it has had a profound impact on the fiscal health of State and local governments.

By 1984, many States and localities were enjoying the large surpluses that enable many governmental units to reduce taxes and still increase their treasury balances. Throughout the Nation, most States and localities are in better fiscal shape than they were in the late 1970's. They moved from a budget deficit of \$1.9 billion in 1979 to a surplus of \$9.0 billion in 1985. These resources can be used by States and local communities, without strings, for locally determined needs. The number of States with budget stabilization accounts ("Rainy Day Funds") grew from 2 in 1977 to 24 in 1985. In that year, the overall general fund balances for all States was 2.9 percent of expenditures, and the combined General Fund/Rainy Day Fund balance was 3.8 percent of expenditures. However, some States and cities, particularly those whose economies depend on energy and agriculture, were experiencing economic strains and budgetary stringencies rather than surpluses.

Federalism

A second part of the national urban policy is strengthening the roles of State and local governments by giving them increased authority and flexibility to manage their resources and thus returning decisionmaking to the people. As a result of the Administration's Federalism initiatives, State and local governments have assumed increased responsibility for their urban areas and have developed creative workable strategies for their urban needs. This constitutionally appropriate shift is expected to lead to better program coordination and more efficient use of resources.

State and local governments are clearly the organizations that implement almost all national domestic policy. When the Administration took office in 1981, there was an emerging consensus that Federal categorical aid programs to State and local governments had proliferated to unmanageable numbers, that spending in these Federal grant programs was out of control, and that the national level of government was too overloaded with State and local issues to make wise decisions.

In this situation, the imperative of reducing both the growth of Federal spending and the scope of Federal decisionmaking became a basic tenet of Administration philosophy. As the role of the Federal Government has been cut back, more authority and responsibility have been returned to the private

sector and to State and local governments directly accountable to local voters who are fiscally more prudent and who press harder for efficient allocation of money to high priority needs.

The President signed on April 8, 1986, a Statement of Principles on Federalism that guides future policy in this area and encourages a healthy diversity in public policies among the States.

The Administration's changes in Federalism fall under three broad, interrelated headings: (a) Federal deregulation and devolution of decisionmaking from Federal to State and local authorities and to the private sector; (b) block grants as consolidations of narrow, categorical programs; and (c) budgetary restraint on Federal domestic programs.

Federal Deregulation and Devolution

Federal deregulation and the devolution of decisionmaking to State and local levels and the private sector serve to reduce the Federal role. Deregulation was given momentum by the Presidential Task Force on Regulatory Relief. This Task Force, which functioned from 1981 through 1983, restrained the creation of new Federal regulations and sought cutbacks of various Federal regulations that imposed unnecessary costs on State and local governments and the private sector. Other important changes include:

- Replacing OMB Circular A-95, which established Federal ground rules for intergovernmental reviews, by Executive Order 12372, which empowered States to establish their own ground rules for reviewing proposed Federal activities in their jurisdiction and which required Federal responsiveness to State and local concerns.
- Reducing Federal requirements for many categorical programs and broadening the discretion available for State and local officials.
- Maintaining some general level of environmental protection standards at the Federal level, but giving States considerable discretion on how to achieve these standards.

In August 1985, the White House Domestic Policy Council formed a Working Group on Federalism. This group is charged with ensuring that Federal law and regulations are rooted in constitutional Federalism principles and developing additional block grants, regulatory relief, and simplification of crosscutting requirements. The primary purposes of this Working Group are to restore legitimate authority to the States and to improve Federal responsiveness to State and local concerns.

Finally, on February 6, 1986, the President reaffirmed in his message on "America's Agenda for the Future" his intention



to liberate the American economy from the grip of unnecessary and costly regulation. The President pledged to continue the Administration's efforts to:

- Develop proposals for improving the safety, soundness, and competitiveness of the financial services industry.
- Eliminate virtually all regulations on interstate shipping except safety and insurance requirements.
- Deregulate pricing of the natural gas industry and the oil pipeline industry.

As the result of Federal deregulation, devolution, and grant simplification, State and local governments have more flexibility in dealing with urban needs. More important, they are working together in a new spirit of cooperation. New initiatives are emerging at the State level.

Whereas the dominance of the Federal Government and the consequent preference of cities to bypass States tended to weaken State governments in the 1960's and 1970's, in

contrast, the Reagan decentralization has encouraged the revitalization and renewed activism of State governments. States are active in efforts to reform their tax structures, enforce civil rights, open up their political systems, reapportion their legislatures, and professionalize their staffs. In the area of civil rights, for example, the number of States whose laws have been recognized as providing rights and remedies substantially equivalent to those provided under the Federal Fair Housing Act has risen from 27 at the end of Fiscal 1980 to 33 at the present time. Federal financial and technical assistance have notably improved the performance of State and local agencies.

Along with this activism has come a degree of professionalism and modernization far exceeding expectations. States have taken the lead in sophisticated fiscal planning and the separation of capital and operating budgets, the use of executive line-item vetos, balanced budgets, sunset legislation, prison reform, teacher accreditation systems, and development of environmental safeguards.



States have also been very active in dealing with infrastructure improvements. In the 1983-84 time period, 25 States raised their motor fuels tax which, along with the \$5 billion raised annually by the Federal motor fuels tax increase, has spurred bridge, road, and transit improvements.

States are now taking the lead on several initiatives that are stalled at the Federal level. For example, 32 States have established enterprise zones, offering business tax incentives and regulatory relief or other incentives for establishing new or expanded operations in geographically targeted areas. While such efforts do not eliminate the need for Federal legislation, they demonstrate the initiative and resourcefulness apparent at the State level.

In regard to program coordination, the Job Training Partnership Act (JTPA) transfers most administrative responsibilities to the States. This permits increased coordination with vocational and adult education programs, which were already the responsibility of State governments. In addition, the JTPA authorizes a new program of grants to States to assist dislocated workers. This program also can be coordinated with other State-level programs.

The enhanced and revitalized role of the States in urban policy is an essential element of this Administration's national urban policy. There is ample evidence that this change will endure. The record demonstrates what can be achieved when governments or individuals move from dependency toward autonomy. The pains inherent in the transition have been more than compensated for in most State and local governments by the satisfaction of control, self-sufficiency, flexibility, and autonomy.

Block Grants

A second set of Administration actions to reduce the Federal role and encourage more efficient use of resources focused on establishment of block grants. Federal categorical assistance programs proliferated through the 1960's and 1970's to total from 350 to 650 programs (depending on the method of counting) and to affect virtually every aspect of local affairs—housing, health, transportation, education, training, community development, economic development, environmental protection, welfare, and more. Each Federal program had its specialized regulations and requirements that severely restricted the discretion of State and local officials.

In 1981, based on an Administration proposal, Congress enacted nine block grants to consolidate 57 categorical programs. The nine block grants were:

- Alcohol, drug abuse, and mental health services.
- Community services.

-
- State community development.
 - Maternal and child health services.
 - Elementary and secondary education.
 - Low-income home energy assistance.
 - Primary care.
 - Preventive health and health services.
 - Social services.

These block grants were used by the Administration to ameliorate the effects of reduced Federal funding by allowing the States and localities to focus the limited resources on their highest priority needs. In addition, block grants helped to establish the primacy of the States in allocating Federal funds within their boundaries and to simplify Federal management by reducing national requirements on the States and localities. This permitted each State to coordinate Federal programs more effectively with State policies and programs.

In 1982, Congress consolidated several expiring Comprehensive Education and Training Programs into a new block grant to the States under the Job Training Partnership Act. This act reduced costs below previous levels by focusing on training people for real jobs and avoiding makework public service jobs that had been funded under the previous program.

The Administration recently has tried to further enhance State flexibility in administration by eliminating restrictive statutory provisions and by consolidating additional categorical programs. On June 12, 1986, legislation was sent to Congress to consolidate programs authorized by three separate statutes into a single Family Crisis and Protective Services program. The simplified program would eliminate unnecessary Federal restrictions and allow States greater flexibility in designing and administering services to address problems of child abuse and neglect, elder abuse and neglect, and family violence.

In 1986, Administration efforts to enhance the role of State government in improving access to health care by underserved populations were set back when Congress repealed the primary care block grant. The Administration had proposed the elimination of a number of restrictive provisions that had thwarted State capacity to administer the block grant.

Federal Budgetary Restraint

The Administration has sought to reduce the Federal role vis-a-vis the States and localities, and as part of its effort to achieve stable economic growth, it has instituted budgetary restraints on Federal grant programs. This involved cutbacks in grant programs in an attempt to target funding to programs benefiting the truly needy and to reduce costly bailouts that hamper instead of aid structural economic adjustments.

Moreover, legislation was passed in 1981 to tighten welfare eligibility and to establish penalties for States with rapidly increasing Medicaid costs. The Administration also moved to replace the project grant and its matching requirements with an automatic distribution formula that was neutral and did not encourage the expansion of local public spending.

Public-Private Partnerships

A third important element of the Administration's urban strategy is the improvement of the social and physical conditions in our Nation's cities through encouragement of the development of public and private sector cooperation. Public-private partnerships play an increasingly important role at the local level. These partnerships, encouraged by the White House Office of Private Sector Initiatives, are evident in virtually every area of the country and have resulted in tangible successes.

Cities have assumed more responsibility for their economies, bases, negotiating specific commitments in exchange for private sector investment. No longer relying on Federal aid as the principal redevelopment resource, city officials have learned to transcend the traditional local means of delivering services and enforcing regulations. By developing more collaborative, entrepreneurial, self-reliant forms of management, these officials have been able to tailor development strategies to their cities' needs.

To encourage more self-reliant and productive activity, the Administration has deregulated a number of programs providing aid to localities, including the Community Development Block Grant program. Local governments now have the authority to use these funds for creative public-private development projects. Because of the importance of this new approach to urban development, the Department of Housing and Urban Development (HUD) has started a National Recognition Program for Community Development Partnerships. The goal is to identify successful public-private partnerships using CDBG funds that will inspire other communities. To date, 190 projects have been selected and the results of their efforts disseminated to local governments.

Successful public-private partnerships can now be found in almost every American city. Examples include:

Indianapolis, Indiana

Bold civic leadership and entrepreneurial risk taking have led this city of 701,000 to become a destination rather than a city of people merely "passing through."

Business and governmental leaders, concerned with the city's dependency on automotive manufacturing, have stimulated a

more diverse local economy, attracted private-sector capital, instituted management reforms, and made the city one of the Nation's amateur sports centers. Results of this cooperative effort can be seen in a dramatically revitalized downtown, with cultural and sporting facilities, new hotels, shops, and residences. Overall, 6,000 new manufacturing jobs were created and over \$1 billion in private investments were made, greatly enlarging the city's economic base and tax revenues.

Portland, Maine

This 350-year-old city had outdated port facilities and many of the urban woes plaguing older American cities. City leaders worked closely with local banks, business leaders, and others to help create a diverse economy of manufacturing, distribution, banking, tourism, medical service—all of which helped reduce unemployment to 3.6 percent in late 1984 for the metropolitan area, with an even lower rate estimated for the city itself. The city's renaissance included restoration of the dock area with its Old Port Exchange, updated facilities for ship repair and fishing, revival of the downtown Congress Street, and opening of the Portland Performing Arts Center.

Portland is strikingly attractive and robust with 63,000 residents and a daytime population of 100,000. A slogan around is, "Portland is a nice place to visit but you won't leave there."



Fairfield, California

Thanks to a number of bold initiatives and high levels of public-private cooperation, this city of 62,000, located midway between San Francisco and Sacramento, is now among a handful of California cities rated to have "excellent" financial health.

Led by a resourceful city manager, Fairfield built a \$1.2 billion cogeneration plant to heat and power civic-center buildings, saving about \$120,000 a year in utility bills; induced Southern Pacific Railway to purchase 600 acres of prime industrial land, resulting in the attraction of major industries to the area; and worked out an arrangement with a real estate developer to provide the city with 10 to 17 percent of the net cash flow from a retail shopping center.

Nashville, Tennessee

A combination of public improvements, private investment, and Federal historic tax credits has given new life to an old warehouse area on the Cumberland River, containing over 50 Victorian buildings with a million square feet of space.

This area now includes a new Riverfront Park, new streets, sidewalks, streetlights, utilities, and a 1,200-car parking garage built under an innovative public-private partnership

arrangement. The warehouse space has been renovated and is now occupied by a variety of new businesses.

When the entire project is completed, it is expected to draw 1 million visitors a year, provide 2,000 jobs, and generate an additional \$800,000 in property tax revenues.

Helping the Poor Move Toward Self-Sufficiency

Impact of the Administration's National Urban Policy

The thrust of the Administration's urban policy is that in all regions of the Nation, many cities are growing faster, urban decline is being reversed, and slow-growth local economies are being revitalized.

A recent survey showed the strength of the recovery in urban areas: 188 of 204 metropolitan areas studied gained jobs since late 1982 and all but 6 showed increased employment rates. These 204 metropolitan areas lost 1 percent of their employment in the two recessions of the 1979-82 period but gained 5.2 percent during the subsequent recovery. During the 1983-84 recovery, the unemployment rate in these areas dropped sharply—from 9.8 percent to 6.2 percent.

A number of cities, including some in slow-growth regions, have achieved dramatic results. Philadelphia, Syracuse, and St. Louis ranked near the bottom on employment growth during the 1970's, but gained employment between 1979 and 1984. Larger metro areas such as New York, Boston, and Baltimore have gone from a slow-growth or decline status to above-average growth during the 1980's.

Metropolitan areas have also experienced high population growth rates, reversing trends in the 1970's when some nonmetropolitan areas grew faster than metropolitan areas. In the 1980-84 period, metropolitan areas grew at a 4.5-percent rate compared with a 3.4-percent rate for nonmetro areas. Sixteen of 23 central cities with populations over 500,000 gained population between 1980 and 1984. Central cities that lost population in the 1970's—Boston, Denver, New York, Philadelphia, New Orleans, Indianapolis—reversed that trend in the early 1980's. Central cities are sharing in this metropolitan growth; in all regions they are growing faster and showing greater vitality than they did in the 1970's.

Earnings and income are also growing faster in metropolitan areas resulting from the fact that service industries, where much of the economic expansion is occurring, tend to be concentrated there.

Opportunities

A strengthened national economy, improved urban conditions, and a new administrative flexibility under Federalism

have created new opportunities to help poor people who are able to work move from poverty toward self-sufficiency. Moreover, cities and States are better equipped now to deal with a deep-rooted urban problem—the disproportionately large poverty population that has accumulated in our central cities.

For poor people who cannot take advantage of the constantly emerging job opportunities—the truly needy—the Reagan Administration continues its commitment of Federal support. For example, about 3.7 million families who live in poverty, according to the Census definition, were receiving Aid to Families With Dependent Children in September 1984. Many in poverty were also receiving assistance from food stamps, Medicaid, and other Federal programs.

The single most important contribution the Federal Government can make to the amelioration of poverty is to maintain a sound economy. The positive effects of economic recovery on family incomes became apparent between 1983 and 1984 as median family income increased faster than inflation for the first time since 1978: After adjusting for a 4.3-percent increase in consumer prices, median family income—in real terms—increased by 2.8 percent, the largest increase since 1976. Moreover, between 1983 and 1984, the poverty rate (the percentage of persons with incomes below the poverty level) decreased significantly from 15.2 percent to 14.4 percent.

More than 1.6 million Americans were lifted out of poverty in almost all demographic groups except Spanish origin, the largest annual reduction in 16 years.

With the foundation of noninflationary economic growth in place, the time is ripe to rethink our approaches to helping the poor. We can now begin to harness the opportunities the Reagan Administration has created—not just the obvious opportunities of new job openings, but also the new willingness and flexibilities of State and local governments and the private sector to work together in this area.

Central to any new approach to dealing with poverty is the need to recognize that what poor people most want is the opportunity to share in the country's economic promise. While it may sound simplistic, this recognition is essential to achieving a most important goal: Helping poor people move from dependency toward self-sufficiency.

The Reagan Administration is committed to working with poor people themselves, with State and local governments, and with the private sector to build ladders of opportunity for poor people to rise out of poverty. In order to rethink and revamp the way government on any level helps poor people, we need to first identify and articulate the basic principles of aid designed to lead to self-sufficiency. New approaches to

dealing with poverty should have these common elements: Self-help, choice, control, responsibility, flexibility, program coordination, and a commitment to change.

Past Federal social programs clearly have not led toward self-sufficiency. Even though current programs to assist the needy cost some \$120 billion annually, they have encouraged dependence and locked people into the very poverty they were designed to alleviate.

In the critical area of housing, for example, Federal aid, in many cases, may have worked against self-sufficiency by deepening in poor people a sense of hopelessness and of their own inadequacy to deal with life's fundamental challenges. The subsidized construction programs of the past 50 years funneled poor people into housing that was virtually labeled "for the poor" and into neighborhoods isolated from the main housing stock. Often these subsidized projects were badly managed and maintained, and the people living in them had no control over their steady deterioration or over the crime and social ills that accompanied this decay.

The need to provide good housing for ourselves and our families is a fundamental human aspiration shared by all people. If Federal aid completely denies a family's choice and control, it undermines that family's ability to exercise those attributes in other areas of their lives. The nature of the Federal housing aid helps explain why three generations of families have, in some cases, lived in public housing projects that were originally conceived as temporary housing for people working their way out of poverty.

The recognition that choice and control should be fundamental parts of the housing assistance the Federal Government provides for the poor, led the Reagan Administration to shift the emphasis of housing policy from subsidizing projects to housing vouchers and rent supplements.

This Administration has developed the voucher concept into a major housing assistance program for the poor. With a voucher, a poor family has an alternative to traditional public housing earmarked "just for poor people" and can move into a regular, private-market apartment near transportation, jobs, or a supportive community of friends or relatives. Vouchers help families build the kind of lives that will lead them away from dependency. Vouchers are also more efficient from the Federal perspective: Housing assistance through vouchers costs about one-half the cost of providing assistance through a newly constructed unit.

To provide more information about the effect of this kind of housing aid on self-sufficiency, the Department of Housing and Urban Development for the past 2 years has supported a series of demonstrations called Project Self-Sufficiency.

Project Self-Sufficiency, currently underway in over 100 cities, is a coordinated approach designed to help single parents break out of poverty and dependency and to define whether and how Federal aid can help to stimulate coordinated public and private efforts to overcome poverty. HUD provides housing vouchers to local public-private partnerships that support single parents with important services—training, counseling, child care, and job placement.

Spurred by the dream of decent housing and a chance to realize this dream and change their whole lives through their own efforts, 10,000 women are participating in Project Self-Sufficiency. Despite the services offered, it requires hard work and dedicated effort on the part of the single parents, often high school dropouts, to relearn basic skills, study new subjects, and juggle concerns over children with new responsibilities.

Early reports on this experiment show a high level of enthusiasm among local program administrators, a high degree of coordination between different local departments, and strong private sector involvement. After a final evaluation, the experience of this demonstration program will be incorporated into a new strategy for helping the poor rise out of poverty.

The efficiency and effectiveness of integrated delivery systems for human services are also being studied in another cooperative Federal demonstration program administered by the U.S. Departments of Health and Human Services, Agriculture, Labor, and Housing and Urban Development. The five-State demonstration program is expected to show that integrated delivery of human service programs at the State and local levels promotes social and economic self-sufficiency.

The participating States are charged with developing integrated human service delivery systems which will have a measurable impact on problems of priority concern. Maine will focus on multiproblem families, while Oklahoma's demonstration will focus on teenage pregnancies and families that endure abuse, neglect, or exploitation. Florida will concentrate on maintaining independence for older people, and Arizona will attempt to improve service delivery to multiproblem families. South Carolina will work to establish a single statewide human service system for all users of human service programs.

In addition to these cooperative Federal efforts, the States themselves are experimenting with new ways to move people toward self-sufficiency, particularly female heads of households with dependent children. States are acting on their own and under program authority of several Federal statutes, including 1981 Federal legislation which gives States author-

ity to require recipients of Aid for Families With Dependent Children (AFDC) to "work off" their benefits in public sector jobs and the Federal Work Incentives (WIN) demonstration authority. Three examples illustrate the variety of mandatory or voluntary approaches adopted among the 50 States to train welfare mothers for self-sufficiency:

Massachusetts has adopted an Education and Training (ET) program that is voluntary for AFDC mothers. It is an ambitious effort to provide mothers who are most likely to be long-term AFDC recipients with quality education and training and job placement. The objective is to get the people placed in jobs that exceed the benefits they would receive in welfare. Massachusetts has begun to accrue experience data on this voluntary program. The results clearly depend on placement in good entry jobs, but these are available in Massachusetts. Since the ET program was begun in 1983, the ET Administration reports that more than 25,000 welfare recipients have obtained full- or part-time jobs in addition to some 500 clients a month who get jobs on their own. However, the Congressional Research Service evidence suggests that this figure might be high and that only two-thirds (6,000) of those with full-time jobs retain them beyond 2 months.

California's "GAIN" plan (Greater Avenues to Independence), adopted in 1985, is a skillful amalgam of conservative and liberal views in the California legislature. In contrast to the Massachusetts plan, which is voluntary and thereby attracts the highly motivated, trainable, and employable welfare mothers, the California plan is mandatory for all AFDC mothers who have no preschool children. Those who have held jobs within the last 2 years are enrolled in a "jobs club" and given a brush up course on placement skills; those without recent job experience are sent immediately into a training program that fits their preferences and competencies. Recipients who remain unemployed after the training program are required to work for the State, for no more than a year, to work off their welfare checks.

Illinois, at the end of 1985, announced what it termed "the startup of the largest welfare-to-work program in the Nation...one designed to help welfare recipients find full-time work." "Project Chance" is not a make-work program, but an attempt to give people on welfare the education and skills they need to compete in the job market and achieve independence and self-sufficiency. The program is heavily oriented to completion of high school equivalency through cooperation of the Illinois Department of Public Aid and the State Board of Education, and to job training and placement partnerships with the private sector. Project Chance is mandatory for AFDC mothers with no children under 6 and voluntary for AFDC mothers with children under 6. The goal of the program

is to take 100,000 mothers from welfare rolls to employment rolls in 3 years. Because Illinois has a relatively high unemployment rate, fulfillment of this goal would be a notable achievement.

The Manpower Demonstration Research Corporation, with funding from the Ford Foundation and selected States, is undertaking a controlled experiment to evaluate the work-related programs in some eight States. Preliminary findings indicate the feasibility of linking welfare receipt to an obligation to participate in designated activities. Preliminary findings also indicate that for three programs—San Diego, Baltimore, and two counties in Arkansas—benefits exceeded costs by a wide range during a 5-year period.

A number of quite different program approaches led to increases in employment; the gains might be relatively modest, but they are significant and large enough to justify the program costs. The question of whether or not these findings can be replicated in other jurisdictions or on a large scale requires further study, but preliminary findings are encouraging.

That poor people themselves want to move toward self-sufficiency and take advantage of the opportunities emerging under renewed economic health is manifest in the number and variety of self-help movements that have developed and accelerated in the past few years.

Another approach to self-sufficiency and maintenance of local services when Federal and State funding is cut back or is inadequate is that of the National Association of Neighborhoods which has fostered the creation of community based organizations (CBO's). These CBO's perform on contract or grant some community services that were formerly carried out by local governments, and they usually do so at considerably lower costs. They encourage local self-help in the form of entrepreneurial outlets and employment opportunities, and they are responsive to the needs of the local residents. Examples include:

- Palmer Enterprises in Shelby County, Tennessee, distributes surplus food.
- North Omaha Community Development, Inc., of Omaha, Nebraska, obtained a contract for snow removal in a neighborhood of the elderly.
- Beacon Hill Community Council of Kansas City, Missouri, has been active in paint-up programs, summer youth programs, and crime prevention programs sponsored by the city.
- Old Fairgrounds Neighborhood Improvement Association of Toledo, Ohio, has painted over 50 homes in the neighborhood, developed a comprehensive neighborhood plan, and delivered Christmas baskets.



Homeownership opportunities are another means of helping poor families become self-sufficient. While most poor families assume they can never achieve the great American dream of homeownership, some families living in public housing will be able to realize this dream. Under a demonstration project being conducted by the Department of Housing and Urban Development, 2,000 families are expected to purchase public housing units at affordable prices. Both single family and multifamily units will be sold under a variety of arrangements, including fee simple, cooperatives, and condominiums. Purchasing families will be provided with counseling and training to help them assume the additional responsibilities of being homeowners, and, in the multifamily developments, to run the projects.

The National Center for Neighborhood Enterprises (NCNE), under a grant from the Amoco Foundation, has developed a public housing resident management demonstration. Residents of public housing developments are first given training in managing their housing, and when able, they take over the management. In the second phase, successful resident management corporations receive technical assistance in ownership conversion. In phase three, a national accounting firm will work with the NCNE team in developing resident-owned and operated business enterprises.

A notable example of this line of development toward greater control and independence is the Kenilworth/Parkside Resident Management Corporation in the northeast part of the District of Columbia. The corporation manages the property, collects rents, maintains the buildings, enforces housing regulations, screens residents, gives job training, and operates a thrift store and a carryout store. However, it is claimed that their most important program is their "College, Here We Come Program." Begun in 1974, in a little over 10 years it sent 487 students off to college.

It is clear from the above that the three major elements of the Administration's national urban policy—economic growth with low inflation, a Federalism that enhances State roles, and public-private partnerships—have accelerated the dynamics of change and have created new opportunities for upward mobility. Where will all this go?

The President, in his message, "America's Agenda for the Future" on February 6, 1986, commissioned the Domestic Policy Council to deliver by December 1, 1986, an "evaluation of programs and a strategy for immediate action to meet the financial, education, social, and safety concerns of poor families—a strategy for real and lasting emancipation." The intent is to develop a new strategy for meeting the legitimate subsistence needs for the poor while reducing dependence on governmental support. The new approach will be built on experiments now underway within the States. All these have certain common elements: Self-help, choice, control, responsibility, flexibility, improved program coordination, and commitment to use welfare moneys more effectively.

The remainder of this Report adds detail to the discussion in this overview. Chapter 2 discusses the economy; Chapter 3, social conditions; and Chapter 4, the urban physical environment.



Chapter II

Urban Economies

The revival of urban areas is directly linked to the current expansion of our national economy and to the low levels of inflation that have existed during the past 3 years. Strong growth in investment and consumer demand has resulted in new businesses and job increases in cities of all types—both large and small. Particularly important, this real economic growth is providing the momentum for the turnaround of several of the Nation's older urban areas that experienced substantial job losses during the 1970's. Therefore, the foundation of this Administration's urban policy is to maintain economic growth in the context of overall price stability.

This chapter first documents the current economic recovery and its impact on the revival of urban areas during the early 1980's, and then describes efforts by all three levels of government to assist those cities that are continuing to experience problems. The chapter shows how State and local officials across the Nation are joining with the private sector to find new and creative ways to improve the competitiveness of urban areas.

National Economic Recovery

The Administration's Urban Policy relies on a healthy economy with low inflation. The strong economic recovery that our Nation has experienced during the past 3 years has not only been the basis for the continued expansion of the growing urban areas but has also been the basis for the turnaround of many of our older, traditionally declining urban areas. Only with continued national economic growth and price stability can these urban areas develop to their full potential during this period of ongoing industrial change.

When this Administration took office, improved incentives for work, saving, and investment were essential. Therefore, in 1981 the Administration initiated a Program for Economic Recovery that sought to restore economic growth and stability by reducing the rate of growth of Federal spending, decreasing personal and business taxes, providing regulatory relief to business and consumers, and restoring a stable currency through sound monetary policy. The success of this program is now obvious—we experienced the strongest recovery in 30 years.

Recovery and Stabilization

The strength of the recovery from the era of stagflation, beginning in the late 1970's and extending through the recessions of the early 1980's, can be seen by examining a few key economic indicators. Real gross national product (GNP) increased by 3.6 percent in 1983 and 6.4 percent in 1984. The recovery moderated somewhat in 1985 to a 2.7-percent rate (see Table II-1).

Table II-1

Indicators of National Economic Change, 1980–1985

	1980	1981	1982	1983	1984	1985
Real GNP (1982 \$)	\$3,187.1	\$3,248.8	\$3,166.0	\$3,279.1	\$3,489.9	\$3,585.2
Change (annual rates)	-.2%	1.9%	-2.5%	3.6%	6.4%	2.7%
Consumer Price Index	197.0	217.4	230.7	238.1	248.3	257.1
% Change (annual rates)	13.5%	10.4%	6.1%	3.2%	4.3%	3.5%
Total Civilian Employ- ment (millions- annual)	99.3	100.3	99.5	100.8	105.0	107.1
Unemploy- ment Rate (annual)	7.0%	7.5%	9.5%	9.5%	7.4%	7.1%

Source: Office of Management and Budget

This recovery in the Nation's total output was reflected in a sharp increase in employment and an associated decline in unemployment. After showing practically no growth between 1980 and 1982, total civilian employment increased by 7.7 percent between 1982 and 1985. By December 1985, employment had increased to 108.2 million, approximately 9 million more employed persons than in 1980 and at the recession's trough in December 1982. As a result, the Nation's unemployment rate in December 1985 had fallen to 6.9 percent, 3.8 percentage points less than the 10.7 percent at the recession's trough and approximately equal to the 1980 unemployment rate.

The current recovery-expansion has followed the postwar pattern of being stronger in the earlier than later stages. As has been typical during the third year of a recovery, GNP and employment growth slowed during the latter half of 1984 and the first half of 1985. Despite this pause, the current recovery has been much stronger than earlier postwar recoveries. Total employment increased substantially more in the first 2 1/2 years of the current recovery than in

comparable periods of earlier recoveries (7.7 versus 6.1 percent). Business investment, particularly in durable equipment, has been much stronger than in past recoveries.

Slowdown in Inflation

During the recovery, inflation has continued at its lowest level in more than a decade. The rate of change in the consumer price index has been in the 3- to 4-percent range since 1983. This compares with inflation rates of over 10 percent during the 1979-81 period. Few expected that the inflation rate would remain at these low levels during such a rapid economic recovery.

The low level of inflation and the substantial reductions in interest rates since their peak in 1981 have made it easier for local governments to meet their operating and construction costs, the latter being a key factor in the ability of local governments to maintain their infrastructure. But more important, the reversal of the runaway inflation and high interest rates of the late 1970's and early 1980's has erased the pessimism of consumers and businesses that was widespread when this Administration took office. At that time, the expectation of continued inflation had reduced real investment and productivity to such low levels that the economy could not sustain real economic growth. However, because productivity has improved substantially in the past few years, the prospects for long-term economic growth and continued low inflation are excellent.

Labor productivity averaged almost a 2-percent growth rate between 1981 and 1984, as compared with 0.3 percent between 1976 and 1980. This increase in productivity was due mainly to strong spending in new plants and equipment by businesses earlier in the economic recovery.

In addition to less pressure on their costs and expenditures due to lower inflation, State and local governments are also benefiting from recovery-induced increases in their revenues. After experiencing a \$1.9 billion deficit in their general fund budgets in 1982, State and local governments bounced back with surpluses of \$6.6 billion and \$10.4 billion in 1983 and 1984. These surpluses have permitted State and local governments to rebuild their balances, which were severely eroded by the 1981-82 recessions. With respect to city finances, recent analysis for the Joint Economic Committee found that, as a result of the recovery, cities were experiencing less fiscal distress, increasing their capital expenditures and workforces, and sustaining a comfortable margin of cash balances. Except for State and local governments with agriculture-based or mineral/energy-based industries, the recovery has brought stability back to the budgeting process.

Industry and Regional Recovery

Except for energy, steel, and agriculture, all major industries have shared in the recovery. After experiencing substantial job losses between 1979 and 1982, the construction and manufacturing industries bounced back during 1983 and 1984 with employment gains of 17 and 8 percent, respectively. Manufacturing industries showing impressive gains during the recovery include electronics (+ 16.5 percent), automobile-related industries of transportation (+ 18.7 percent), and rubber (+ 18.7 percent), and the construction-related industries of lumber (+ 14.2 percent) and furniture (+ 13.3 percent). The large service and retail trade industries continued their rapid growth during the 1983-84 recovery. Particularly impressive has been the growth of professional and business services.

Unemployment rates fell in all regions during the recovery. During 1983 and 1984, the largest drop (3.1 percent) in unemployment was in the heavily industrialized East North Central region. Unemployment in the economically resurgent New England region fell to 4.9 percent, which was 2.6 percentage points below the U.S. average.

Impact of Recovery on Urban Areas

The direct linkage of urban economies to the current expansion was documented by a recent analysis of 204 metropolitan areas, which account for almost 90 percent of total metropolitan employment. So far, 188 of the 204 metropolitan areas have gained jobs since the recession's trough in December 1982, and 198 have experienced decreases in their rates of unemployment. These metropolitan areas lost 1 percent of their employment during the 1979-82 period which included two recessions—1980 and 1981-82. But they gained 5.2 percent during the recovery for a net gain in jobs of 4.0 percent between 1979 and 1984. During 1983 and 1984, the unemployment rate in these areas fell from 9.8 percent to 6.2 percent.

These aggregate numbers hide a wide variation in local recovery experiences. In general, the recovery has differed among metropolitan areas depending on their industrial characteristics and their past economic growth. On the one hand, there are several metropolitan areas that experienced growth during the period that included the 1980 and 1981-82 recessions. These areas included regional centers such as Phoenix and Dallas, consumer and resort centers such as Tampa and Orlando, government and education centers such as Austin and Raleigh, and military-industrial centers such as San Antonio and San Diego. The recovery was particularly strong in these areas because it reinforced an existing growth trend.

At the other extreme are those industrial areas that began the recovery in a particularly depressed condition. For instance, two recessions, foreign competition, and shifts in product demand had led to losses of manufacturing jobs of over 25 percent between 1979 and 1982 in industrial areas such as Pittsburgh, Birmingham, Detroit, Buffalo, Youngstown, and Louisville. Reflecting their longer term structural problems, the recovery was not as strong in these manufacturing areas as in other metropolitan areas. Urban areas dependent on the mining, agriculture, and oil industries were also lagging in the recovery (e.g., Wheeling and Huntington, West Virginia).

In between these two groups are several older metropolitan areas that are successfully revitalizing a previously slow growing economy. In this case, the recovery assisted in the economic turnaround of traditionally slow growing areas such as New York, St. Louis, Philadelphia, Hartford, and Syracuse. As the discussion below indicates, the successful economic restructuring that is taking place in this latter group provides the basis for much of the present optimism about the future of urban areas.

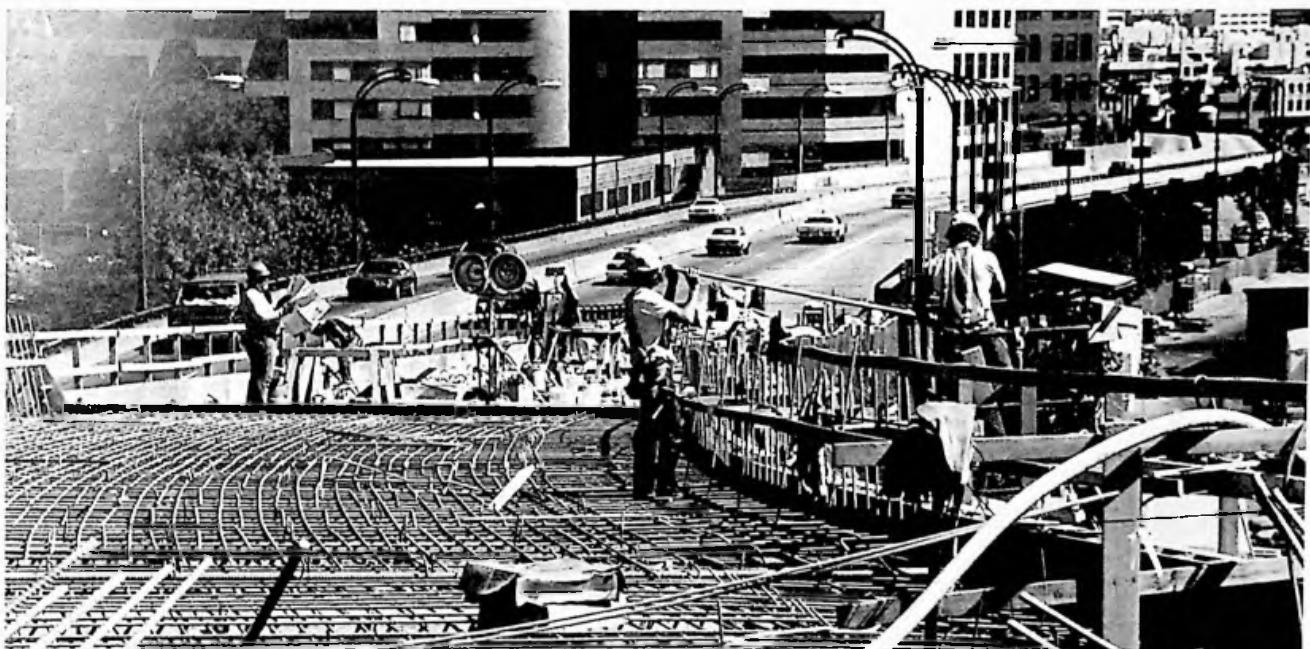
In addition, overall economic recovery makes the transition to the older to newer industries a much easier task for all urban areas. A strong economy allows people to move from job to job and from region to region and search out their most productive and satisfying employments.

Structural Change and Urban Turnaround

The linkage of urban economies to the national expansion, as documented above, has taken many forms. In some instances, increased investment due to low interest rates and renewed optimism about future economic conditions have resulted in revitalization of aging and declining downtown and industrial areas. The background of strong economic growth has made it easier for new types of businesses—both manufacturing and service-oriented—to grow and prosper in urban areas.

A growing national economy has been particularly important for the recent turnaround of several of our older urban areas. After a decade of slow growth and predictions of their economic collapse, many older urban areas have begun to turn their economies around. Some have based their recovery on service and office sectors while others have taken a different route. Some areas began sowing the seeds for their recovery years ago after their manufacturing sector collapsed, while others have benefited from recent shifts in demand for their products. Regardless of the specific circumstances, the underlying momentum has come from the strong demand generated by a growing economy.

While the turnaround of our older urban areas is by no means complete, it has proceeded to the point that for the first time



it is beginning to show up in aggregated data on urban areas. Evidence has clearly emerged that urban stagnation and decline are not necessarily self-perpetuating. A growing national economy makes it possible for traditionally declining urban areas to stabilize their local economies. The discussion below documents this urban recovery and points to the many shapes that it is taking and to many opportunities that it is offering urban areas.

Growth Shifts Back Toward Metro Areas

A major phenomenon of the 1970's was the shift in population and economic growth away from metropolitan areas in favor of nonmetropolitan areas. Data for the early 1980's point to the comeback of metro areas. After growing more slowly than nonmetro areas during the 1970's, metro areas gained population at a 4.5-percent rate between 1980 and 1984, compared to a 3.4-percent rate for nonmetro areas. Metropolitan areas in the South and West have continued their high population growth into the early eighties. Population growth in Midwestern metropolitan areas slowed down, obviously reflecting the effects of the two recessions on overall growth. Northeastern metropolitan areas gained population in the early 1980's after losing population during the 1970's (see Table II-2).

Table II-2

Urban Population Shifts, 1970–1984

Average Annual Percent Change

	1980 to 1984	1970 to 1980
United States	1.0%	1.1%
Nonmetro Areas	0.8	1.3
Metro Areas	1.0	1.0
Northeast	0.3	-0.1
Midwest	0.1	0.3
South	1.8	2.0
West	1.9	2.0
Central Cities	0.6	0.1
Northeast	-0.1	-1.1
Midwest	-0.4	-0.9
South	1.2	0.9
Northwest	1.6	1.5
Suburbs	1.3	1.7

Source: U.S. Bureau of the Census, *Patterns of Metropolitan Area and County Population Growth: 1980 to 1984*, Series P-25, No. 976, 1985.

Central cities are sharing in this metropolitan growth. In all regions, many central cities are growing faster, or declining less, than they did in the 1970's. For instance, after losing almost 10 percent of their population during the 1970's, Northeastern central cities almost maintained their population during the early 1980's. Only 7 of the 23 central cities with populations above 500,000 lost population between 1980 and 1984—Baltimore, Chicago, Cleveland, Detroit, Milwaukee, Philadelphia, and Washington. Six central cities that lost population in the 1970's reversed that trend during the early 1980's—Boston, Denver, Indianapolis, New Orleans, New York, and San Francisco.

The population shifts described above are partially explained by the fact that earnings and income are also growing faster in metropolitan areas. The national growth industries thus far in the 1980's, apart from high technology and defense-related industries, have been the service industries, particularly business and finance services. These industries are concentrated in metropolitan areas. Conversely, the declining industries have been agriculture, coal mining, oil and gas extraction, metal mining, and other natural resource-related industries—all of which are concentrated in nonmetro areas and contributed significantly to the higher growth rates in nonmetro areas in the 1970's. These industrial patterns account for much of the shift in favor of metropolitan areas in the early eighties.

Changing Economic Structure in Urban Areas

The revival of our urban areas can best be described in terms of shifts in their economic structure. The more important changes in economic, or industrial, structure can be seen by comparing the early eighties with the seventies. At the major industry level, the most significant change has been the continued decline of basic manufacturing. The large losses of basic manufacturing jobs (e.g., steel, textiles, automobile) in urban areas during the 1970's are well documented. As shown in Table II-3, manufacturing continued to decline, particularly in metro areas located in the industrial Midwest, and in the Middle Atlantic and East South Central regions. At the metropolitan-area level, Pittsburgh lost about 40 percent of its manufacturing employment between 1979 and 1984. While not as drastic, Cleveland, Chicago, New Orleans, and Buffalo lost over 20 percent. Philadelphia, New York, Baltimore, and St. Louis lost over 10 percent of their manufacturing base during this period.

As the national recovery continues, there is increasing evidence that some metropolitan areas are successfully stabilizing their economies even after suffering such large losses in their basic manufacturing sectors dating back to 1970. Many, but not all, of these metropolitan areas are

Table II-3

**Percent Change in Employment
in 204 Metropolitan Areas,
1979-1984**

Region	Total Employment	Manufacturing	F.I.R.E. ^a	Services
New England	7%	-2%	17%	22%
Middle Atlantic	3	-14	13	19
East North Central	-6	-18	7	13
West North Central	1	-9	10	13
South Atlantic	12	1	17	24
East South Central	1	-10	9	15
West South Central	11	-5	23	25
Mountain	13	10	17	26
Pacific	5	-2	9	16
All 204 SMSAs	4	-10	13	19
U.S.	7	-6	14	22

^aFinance, Insurance, and Real Estate

Source: Computed from tapes produced by the Bureau of Labor Statistics.

located in the traditionally slow growing New England and Middle Atlantic regions (See Table II-3). Larger metro areas such as New York, Boston, and Baltimore switched from decline (New York) or below-average growth in employment during the 1970's to above-average growth during the early 1980's. Philadelphia, Syracuse, and St. Louis stand out for the fact that they gained employment between 1979 and 1984, after ranking near the bottom on employment growth during the 1970's.

These are not the only examples of older areas showing strong performance. In addition to Boston, several areas in New England switched from below average growth in the 1970's to above average growth in the early 1980's (e.g., Newport, Lowell, New Haven, New Bedford). In addition Manchester, New Hampshire, and Portland, Maine, continued their strong growth. In the Middle Atlantic region, Newark, Wilmington, and Poughkeepsie are examples of smaller metropolitan areas that showed above average growth during the early 1980's. Indeed, in both relative and absolute terms, many older urban economies are stabilizing and turning around during the current expansion.

The increased investment and consumer demand associated with a growing economy has provided the basis for this resurgence of urban areas. This has been reflected in (1) their strong service performance, (2) revival of their downtowns and central business districts, and (3) development of new manufacturing industries.

Strong Service Performance

Manufacturing losses in many of the larger metro areas are being offset by strong growth in services. Numerous studies have shown that national and regional centers have well-developed financial and business sectors, and therefore have a strong competitive advantage in industries that are fast growing and attracted toward urban areas.

The nature of the recent shift from manufacturing to services is best illustrated by the New York economy. Between 1969 and 1979, the share of total employment accounted for by manufacturing in the New York metropolitan area fell from 21.8 percent to 16.2 percent. The manufacturing share continued to fall during the early eighties, equaling only 13.0 percent by December 1984. As manufacturing became less important in New York's economy, its service and finance industries became more important—reflecting, of course, New York's position as a major financial center. The employment share for these industries increased from 32.7 percent in 1969 to 38.8 percent in 1979 and to 42.5 percent in 1984.



The shift away from manufacturing has reduced the sensitivity of New York to future recessions. The disappearance of major portions of manufacturing in New York, as well as other sections of the Northeast, during the 1974-75 recession was likely an important factor in its not being hurt so much by the 1980 and 1981-82 recessions.



Service growth will likely play an important role in the recovery of those larger industrial areas that are the headquarters location of major corporations. Corporate centers such as Detroit, Pittsburgh, and Milwaukee are not, at present, offsetting their manufacturing losses with gains in other sectors. However, compared with smaller production centers such as Buffalo and Youngstown, these cities have relatively strong office sectors that can play an important part in their recovery.

While services are leading the way, the recovery is, in fact, very balanced in many areas. For instance, manufacturing losses combined with growth in services have resulted in a more service-based economy for Philadelphia, but this shift only explains 20 percent of the reduction in the gap between Philadelphia and U.S. performance. The other 80 percent is accounted for by the fact that all employment categories except government have improved their performance during the early 1980's relative to the national performance. In addition, Midwestern cities such as Indianapolis and Cincinnati are stabilizing their economies by developing a broad mix of service and manufacturing industries. The strong resurgence in New Bedford, Massachusetts, is due to a broad range of industries, including expansions in the headquarters of food processing and textile firms as well as high technology firms. The growth is a combination of resurgence of old firms and growth of new firms.

Downtown Retail and Commercial Development

A resurgence in new construction and renovation is bringing new life to long-deteriorated downtowns across urban America. Offices, hotels, and shopping malls are being built; historic landmarks are being rehabilitated, and old factories are being turned into loft apartments. The growing economy, through increases in income and spending, is providing the impetus for this development. In addition, this development has been spurred by availability of local funding at low interest rates. The development is obviously strengthening the retailing, tourism, and service sectors of urban areas.

The upsurge in downtown development since 1979 in New England, Eastern Seaboard, and Sunbelt cities has been widely publicized and documented. New York, Boston, Atlanta, Dallas, and San Francisco, for example, are undergoing major development. Less known is the downtown development taking place in areas that have been losing manufacturing jobs. For instance, a \$10 billion wave of construction is "changing the face and function of downtown" Chicago and helping that city to partially offset its large manufacturing losses. Between 1979 and 1984, 160 public and private construction projects were completed in the downtown area and an additional 45 are "in process." Despite its manufacturing problems, investors are convinced that Chicago has a bright future as a national center for industries

such as banking, futures trading, and professional services like law, architecture, and engineering.

Despite a loss of 20 percent of its manufacturing jobs since 1979, Louisville is undergoing major redevelopment in its downtown. A waterfront development, a new civic center, a specialized complex for regional medical activities, and new convention and entertainment facilities are providing Louisville a fresh climate for private investment.

After gloomy predictions during the 1970's, the St. Louis downtown is experiencing a similar upsurge. A shopping mall in the heart of downtown and construction and renovation of several offices and hotels are giving this city a new image.

Numerous other examples can be given. Downtown construction is taking place in Oakland, Tampa, Indianapolis, Buffalo, Savannah, Milwaukee, Washington, D.C., Cincinnati, and Hartford, to mention a few. Economic vitality is also being restored to the downtowns of smaller cities, such as Lynchburg, Virginia, Springfield, Massachusetts, and Portland, Maine.

Concern has been expressed that cities are overbuilding and the new offices and hotels will suffer from high vacancy rates. In some instances, this has already occurred but at this time it is difficult to determine how serious this problem will be. What can be said is that with economic growth there is a new vitality in downtowns across this Nation.

Changes in Manufacturing

Although cities are experiencing an adjustment to a lower industrial base, manufacturing will continue to anchor many urban economies. Still, high wages, low productivity, high energy prices, foreign competition, and excess capacity in key sectors (e.g., steel) are problems that must be overcome. While it is too early to predict the future course of our industrial areas, there are some encouraging trends. Many older industrial areas have diversified their manufacturing sectors and developed their small business sectors in response to the decline of their major industry. For example, Rockford, Illinois, which was once dominated by the declining machine-tool industry, is encouraging small businesses as a way to propel its economy in a new direction.

Science-based and high-technology industries have developed in some urban areas. While these industries will never compensate for losses in the "smokestack industries," they are an important component of the revitalization strategy in several cities. Boston has used its universities and skilled labor force to become a world leader in the manufacture of computers, precision instruments, and other high technology products. Several smaller New England cities (e.g., Lowell,

New Bedford) have successfully transformed their economies from old-time manufacturing industries such as textiles to high-technology manufacturing. Worcester and New Haven have developed science centers.

Similar, but less well-known examples exist outside of New England. On the West Coast, Portland, Oregon, is experiencing rapid growth in computer-related industries. As part of its diversification strategy, Indianapolis has emphasized sophisticated medical services and high-technology industries as an outgrowth of the Indianapolis-based Lilly Pharmaceutical conglomerate and the large Indiana Medical Center and Research Facility. Akron developed as a major international research center in the rubber industry after the decline of its tire production. These are just a few of the examples of cities developing science-based and high-technology industries.

Local factors important to high-technology startups include a good entrepreneurial climate, proximity to one or more major universities, a skilled labor force, availability of venture capital, and low-rent sites where small businesses can share business services. To satisfy these requirements, State and local officials have begun working much closer with their university communities. For instance, the Ben Franklin Partnership in Pennsylvania has successfully fostered new technology-based development. The program has set up four advanced technical centers at major universities in Philadelphia. It supports incubator development and encourages entrepreneurial activity by making low-cost space available to small startup businesses.

Despite the recent focus on high-tech industries as the solution to local employment problems, there are several cautions. First, high-technology employment is a very small percentage of total employment. Its phenomenal rate of growth has occurred on a relatively small base. Therefore, it is unrealistic to expect high-tech employment to absorb a large percentage of the losses experienced in the manufacturing sector. Second, one of the most visible of these industries, the computer field, has recently experienced some employment reductions. Particularly hard hit are areas that assemble high-tech goods in branch plants. These areas, as compared with entrepreneurial centers that are engaged in research and more sophisticated forms of manufacturing, continue to be highly vulnerable to low-wage competition from abroad.

Special Problems of Structural Adjustment

Despite the renewed vitality that we see in urban areas, three problems continue to be of concern. First, the transition to a lower industrial base is particularly difficult for production-based cities such as Gary, Youngstown, and Wheeling. These areas are tied to stagnant industries such as steel, textiles,

and mining, and they are lagging in the current recovery. In comparison to larger industrial centers such as Detroit, Cleveland, and Pittsburgh, these smaller areas are less likely to contain headquarters and administrative offices of the industry in which they specialize, and as a result, they are unlikely to develop strong office sectors. They are more likely to be engaged in production activities that rely on less skilled, blue-collar workers. These are the types of activities that suffer most from foreign competition.

A second problem is that jobs that are growing in urban areas are often not available to those displaced from declining industries. During this transition period, the older industrial cities are experiencing gains in finance, service, and high-technology industries that typically hire professional, technical, managerial, and clerical workers. Although there are obviously low-skilled jobs in these industries (particularly health services), as well as in retail trade which is also growing in urban areas, they have provided only a small offset to substantial losses in blue-collar jobs in industries such as machinery, fabricated metals, and automobiles. Furthermore, the low-skilled service and retail jobs often do not provide the income and job stability that were provided by the blue-collar jobs, which traditionally required little formal education but offered good wages.

Finally, the new jobs are not always available in the central cities of metropolitan areas, which contain most of the poor and minorities. Central cities are participating in the recovery, but much of the new development is in suburban areas, and in instances when it is located in central cities, low levels of education and training can place central city residents at a distinct disadvantage in competing for the new jobs. As a result, central cities continue to have much higher levels of unemployment than suburban areas.

Federal Actions To Promote Urban Economic Development

Administration's Overall Strategy

This Administration's approach to economic development continues to be based on the three-part strategy outlined in the 1984 National Urban Policy Report. First, the strategy is based on the premise that it is the Federal Government's role to maintain an environment of sustained noninflationary economic growth. As a result of Administration actions, the U.S. economy and urban areas are recovering, and long-term economic growth prospects are extremely promising.

Second, to the extent that the Federal Government is involved in economic development, its role is to strengthen State and local governments by giving them increased authority and

flexibility to manage their own resources. In addition to the Administration's proposed Enterprise Zone legislation, the primary vehicles for assisting States and cities during this economic transition period are block grants—such as the Community Development Block Grant and Job Training Partnership Act programs—which give States and localities the freedom to set their own priorities.

Third, it is the role of the Federal Government to stimulate public and private cooperation to maintain and improve the social and physical condition of this Nation's cities.

Enterprise Zones: Proposed Federal Legislation

The Administration's proposed Enterprise Zone legislation would help States and cities create environments for job formation by removing tax and regulatory impediments to business activity.

Under the program, rural and urban areas characterized by pervasive poverty and unemployment would be eligible for Federal Enterprise Zone designation. The Federal Enterprise Zone legislation would require as a condition for zone



designation that State and local governments formulate a strategy to deal with impediments to economic activity within the proposed zone. The Federal legislation encourages State and local governments to work closely with businesses and zone residents to ensure the success of the zone. Employment and investment would be stimulated in these areas by a package of Federal tax and regulatory incentives.

The Administration's bill has passed the Senate twice in recent years, but a full bill has never been considered on the floor of the House of Representatives. However, in the meantime, States and localities have moved forward aggressively and successfully, using their own resources, and have implemented Enterprise Zones widely on their own.

Enterprise Zone Idea Picked Up by States

State Enterprise Zones have emerged as an interesting phenomenon in the laboratory of "New Federalism." Many States initially adopted Enterprise Zone legislation in anticipation of Federal legislation. However, after a period of uncertainty and frustration at delays in gaining congressional approval, they decided to move out on their own.

Thirty-two States have adopted the concept, and over 1,400 zones have been designated in more than 675 jurisdictions. As reported by the States, over 90,000 to 130,000 jobs have been created or retained in the zones and more than \$6 billion of investment has occurred.

The States have taken the basic concept of providing incentives to encourage business to invest in distressed areas and have used it in a variety of ways. It has been adapted to reflect the unique approach of each State to encouraging economic and community development as well as new State-local relationships—particularly with regard to distressed areas. States and localities have offered a range of incentives, including tax credits, tax exemptions and abatement, loans and loan guarantees, infrastructure improvements, service enhancement, technical assistance, and job training.

Perhaps more significant than the specific incentives, however, is the perception that something is happening in the zones. In many cases, zone designation is serving as the catalyst for other activity. Quite frequently, Small Business Incubators are springing up in the zones, and linkages to job training programs are a regular occurrence. In some communities, designation and promotion of a specific zone have the effect of creating a forum for businesses and local government to discuss, for the first time, the advantages of the city as a desirable place to invest. As a result, State Enterprise Zone programs are playing an important new role in local economic development.

Community Development Block Grants: Entitlement Program

The Community Development Block Grant (CDBG) program is contributing to the comeback of urban areas. The entitlement program gives approximately \$2.4 billion to 691 metropolitan cities and 104 urban counties. These funds are highly targeted to cities that are experiencing the most severe adjustment problems. For instance, declining industrial cities such as Cleveland, Detroit, Pittsburgh, and Buffalo receive over 2 1/2 times more than the average city, on a per capita basis. Within cities, CDBG funds are targeted to lower income neighborhoods. The program supports a wide variety of local activities such as rehabilitation of deteriorated housing, street repair and public facility improvements in blighted neighborhoods, and site improvements in industrial parks.

The Administration has substantially reduced Federal oversight and regulations in the CDBG program and increased the emphasis of the program on economic development. The proportion of total CDBG funds spent on economic development activities has increased steadily from 5 percent in 1981 to 13 percent in 1984. But perhaps CDBG's greatest contribution lies in the flexible support it provides to cities that are attempting to improve their overall quality of life. Local officials realize that increasing the quality of basic services and amenities and improving their neighborhoods is one way to successfully attract and retain the new service and high-tech businesses and their professional and highly educated employees. A city's amenities and its image can be as important to these business firms as the skills of the local labor force and the economic incentives offered by the city.

As an example, consider St. Louis, where CDBG funds have played a key role in the comeback of this city. Local officials there are using CDBG funds to make grants and low-interest loans to developers, neighborhood groups, and individuals who want to renovate St. Louis' long-neglected but valuable older housing. Because of its original design and quality, this renovated housing is turning out to be a major asset for St. Louis as it rebuilds its neighborhoods and attracts business investment. People are now moving back into St. Louis' neighborhoods.

Community Development Block Grants: State Program

From its beginning in 1982, the State CDBG program gave States and local governments an opportunity to shape their community development activities more closely to their own priorities and circumstances. The single most drastic change in priorities that occurred relative to the predecessor Small

Cities CDBG program was an increased emphasis on economic development activities.

In the initial design of their programs, States gave economic development the top priority among the possible mix of community development activities to be funded by this program. In 1981, when HUD administered the program, only four percent of the funds awarded to small cities were used for economic development activities. Now, based on their own assessment of local needs, 33 of the 48 States administering the program have special economic development set-asides that cover 21 percent (or \$203 million) of total funds. This represents a fivefold increase in expenditures for economic development activities since 1981.

Some of the activities funded include site improvement for business expansion and loans to businesses for capital or to improve facilities. A variety of innovative approaches are being used to assist local efforts; e.g., a State-capitalized loan fund to finance municipal improvements in conjunction with business expansion in Indiana.

States are assisting smaller communities in their initial experiences with public sector loans to for-profit firms. They have also provided technical assistance across a broad range of programs designed to enhance the economic stability and growth of smaller communities. Examples include coordinating the state CDBG program with the Job Training Partnership Act and the more general task of linking economic development and employment and training activities. Specific devices include giving preference points to CDBG applications meeting statewide employment objectives, CDBG set-asides for job creation in 31 States, financial packaging services, and reorganization of the most important employment and economic development programs into the same administrative agency in at least 11 States.

Encouraging Public-Private Partnerships

Public-private partnerships are quickly becoming a major force in the revitalization of our urban areas. In cities across the Nation, local officials are joining with the private sector to solve public problems. These public-private partnerships have involved numerous actors—banks, neighborhood groups, large and small businesses, universities, city halls, State and Federal governments—and have taken a remarkable number of forms. The common theme of these partnerships has been to leverage limited public resources. Using a variety of incentives, such as loan subsidies, land donations, site improvements, and planning assistance, cities are encouraging private developers and businesses to renovate vacated stores in dying downtowns, to modernize old and inefficient

factories, and to rehabilitate deteriorated housing in distressed neighborhoods.

The availability of CDBG funds has stimulated many of these public-private partnerships. This Administration's deregulation of the CDBG program gave local governments the freedom to use CDBG funds in such creative ways. Because of the importance of this new approach to urban development, HUD has started a National Recognition Program for Community Development Partnerships. The goal is to identify successful partnerships using CDBG funds that will inspire other communities to create public-private partnerships. In the first two rounds of competition, 190 projects have been identified and the results disseminated to local governments.

This Administration is encouraging greater self-reliance in other ways as well. The White House Office on Private Sector Initiatives symbolizes this Administration's commitment to full mobilization of the role the private sector can play in meeting public needs. As discussed later, the Administration's Job Training Partnership Act program is based explicitly on public-private collaboration.

Technical Assistance Efforts

The Administration continues to sponsor technical assistance to increase the economic development capacity of State and local governments. Encouraging downtown retail development has been a focus of technical assistance. For 3 years, the Department of Housing and Urban Development (HUD) has supported conferences that bring together city officials, developers, and lending institutions to discuss successful techniques for retail development. In a related effort, technical assistance is being provided to help cities apply centralized retail management techniques, which have made suburban shopping malls successful, to downtown retail districts.

A variety of additional topics are being addressed by our technical assistance efforts. Encouraging minority business enterprises has been emphasized. Southwestern border areas, which have lost jobs as a result of devaluation of the peso, are being helped to attract industry. Economic development capacity of small communities is being strengthened by technical assistance from university faculty. Management assistance to local elected officials is aiding them in implementing their economic development programs.

Small Business Opportunities Project

A project to create small business opportunities in public housing projects is also being proposed. This program is based on the belief that there is untapped entrepreneurial talent



among the residents of public housing that deserves support and assistance. Public housing residents can, with appropriate support, develop and sustain entrepreneurial efforts to serve residents, adjacent neighborhoods, and other markets, and thereby create economic opportunity and upward mobility for themselves. Examples of enterprises already launched by public housing tenants include variety stores, catering services, construction, painting, cleaning and maintenance services, laundromats, and thrift stores.

HUD will offer technical assistance to help localities organize public/private small business development coalitions that will work with potential entrepreneurs to develop, launch, and operate their businesses, in effect creating a "greenhouse" for fledgling businesses. These coalitions will have maximum flexibility in developing strategies suitable to local conditions and needs. Coalition tasks will include identifying business opportunities, screening potential entrepreneurs, developing business plans, and providing training, seed capital, and access to contracts and clients.

State and Local Economic Development Efforts

State Governments

State governments are making dramatic efforts to stimulate their economies. They are using numerous incentives to create jobs and leverage private investment. States have reduced corporate tax rates, eliminated machinery and equipment from property tax bases, and offered special tax concessions in their new Enterprise Zone programs. They have created programs for financing local economic development, encouraging small business growth, developing high technology industries, retraining their population in advanced skills, and strengthening local economic development capacities. State officials are actively promoting their States, both at home and abroad, as a way to increase their exports.

State governments are also taking the lead in encouraging technical innovation and the creation of new technologies for

business purposes. High technology research and development have been recognized as the major factor in the resurgence of Massachusetts. In that State, a highly educated labor force and a close partnership among government, the university community, and private industry led to an environment conducive to innovation and entrepreneurial activities.

Other States are now devising similar strategies. For instance, North Carolina is investing \$24.4 million to build a center to train North Carolinians for employment in microelectronics. A consortium of Minnesota-based high technology companies is working with the University of Minnesota to upgrade electronic engineering and computer science research. The State of Washington is making long-term plans for high-tech education of both students and teachers ranging from grade school through graduate school. Pennsylvania is starting a major economic development program that will ensure that students of vocational education schools have state-of-the-art equipment on which to learn the skills demanded by a technology-oriented economy.

Pennsylvania also provides one of the best examples of universities helping the State economy grow. In the Ben Franklin Partnership, 102 of the 135 colleges and universities in Pennsylvania participate in four Advanced Technology Centers. Using both public and private funds, these research and development centers commercialize new products and apply advanced technology to existing industries. In addition, they sponsor workshops, provide training, counsel entrepreneurs, and operate small incubators.

Local Government Leadership

The turnaround of our urban areas during the early 1980's has created a new optimism in American cities. Local officials are realizing that they can revitalize decaying downtowns, create jobs for their residents, and make their areas attractive places to live and invest. This is being accomplished across the Nation by the leadership of city officials.

City officials are working closely with the private sector in their urban development efforts, shifting their economies to new growing industries, developing their small business sectors, participating in complicated retail and office development projects, renovating rundown buildings that were left vacated in dying downtowns, and in a real sense, improving the image of urban America. They are increasingly taking responsibility for their economies as they actively search for investment opportunities, take risk positions in large scale public-private projects, and market their cities. The renewed confidence in urban areas generated by the aggressive and sustained efforts of city officials is leading to much more participation on the part of individuals and businesses in community revitalization efforts.

Stories of this leadership are appearing in the media and urban publications almost daily. Through careful planning and coordination with the private sector, city officials in Baltimore, Philadelphia, San Antonio, and Indianapolis are successfully rebuilding these older cities. In York, Pennsylvania and Shreveport, Louisiana, city officials are providing the leadership necessary for diversifying these economies. City officials took the lead in reversing the decline of downtown Roanoke, Virginia, and now that city is emerging as a regional and tourist center with a vigorous specialty retail sector in its downtown.

Characteristics of Local Development Efforts

The diversity of techniques that local officials are using to strengthen their economies shows clearly that there is no single "grand" strategy that will work in today's dynamic economic environment. Cities must focus on a wide variety of activities and objectives if they are to be competitive. These range from improving the city's overall quality of life in order to attract and retain an educated labor force that is necessary for the new service and high technology firms, to renovating and reusing vacated buildings in order to reinvigorate a declining commercial district.

Such diversity is why this Administration has stressed the importance of giving local officials maximum freedom in designing their economic development programs. The need to maintain this diversity can be seen by examining some of the characteristics of local development programs.

Cities are increasingly undertaking comprehensive evaluations of their economy's competitive advantages. These evaluations are particularly important given the rapid change that industries are currently undergoing and the ease with which firms can shift capital from area to area. As in the case of Philadelphia's "Past, Present, and Future" project, these evaluations incorporate the ideas of all sectors of the local economy, and furthermore, they are not simply put "on the shelf" after completion. Philadelphia officials are adopting a number of the recommendations from that project's final report.

Cities are finding new ways to turn liabilities into assets and to take advantage of their amenities and historical assets. This has been particularly important in putting vitality into dying downtown areas. In New England towns such as Chicopee and Pittsfield, Massachusetts, New Market, New Hampshire, and Winooski, Vermont, former textile mills and factories have been renovated for reuse as apartments, retail shops, office buildings, and homes for light industry. Memphis, Tennessee, has turned Mud Island, an eyesore on the Mississippi river, into a \$63 million entertainment and recreational complex that celebrates the Mississippi. Major

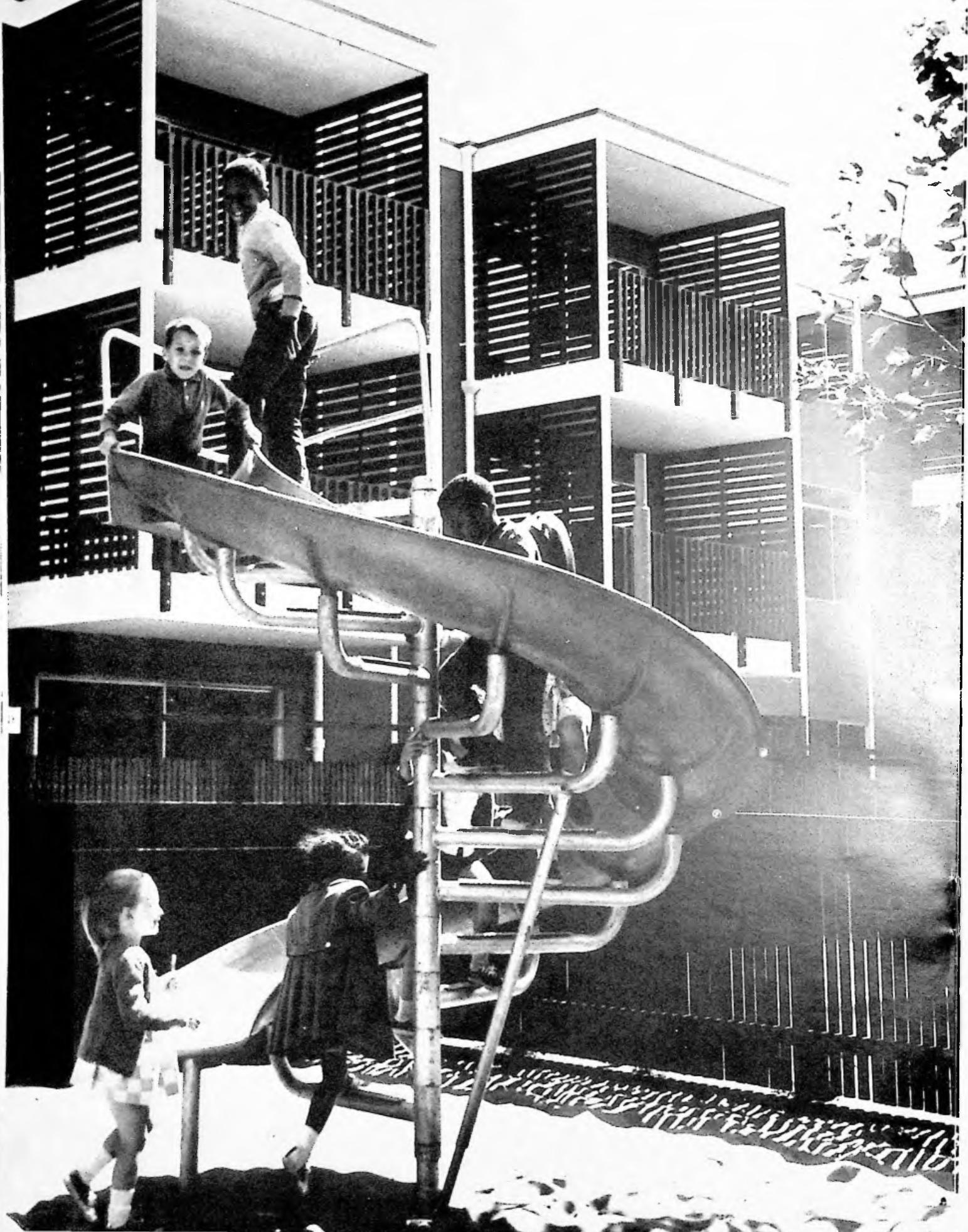
waterfront developments are also underway in Louisville, New Orleans, and Norfolk just to name a few. Storefront facade programs, street and lighting improvements, and new parking garages have also been improved components of these downtown revitalization programs. Once the city provides the catalyst, the building of new hotels and office buildings further strengthens the downtown economy.

In implementing these revitalization projects, cities are working closely with private business and financial leaders, often through their local development corporations (LDC's). Because of this experience, cities have become very adept and creative at initiating and packaging complex financial arrangements. Different financing and subsidy tools and "piggybacking" of various aid sources are frequently required depending on the specifics of the situation. This increased capacity has lessened the reluctance of the private sector to work with city governments.

Cities are continuing to focus on small homegrown businesses in their economic development strategies. Working with LDC's, local chambers of commerce, community groups, and local universities, cities are helping small businesses in a variety of ways. They provide low interest venture capital

and working capital loans to small businesses during their critical startup phases. Startup businesses are also provided space in "business incubators," buildings that offer low rent, centralized services, flexible leases, and management advice. Business incubators, which are becoming very popular, usually arise from a collaboration between city officials, universities, and private corporations. In several cities, abandoned factories are used as incubator sites. In Chester, Pennsylvania, low-interest loans of up to \$15,000 are provided to incubator tenants in conjunction with the other incubator services.

Creating jobs by creating the conditions that will attract employers is the main objective of publicly sponsored incubators. Therefore, they tend to focus on light assembly, manufacturing, and sometimes retail and service industries, rather than on high-tech industries. In its first incubator, St. Paul is attempting to increase local employment by encouraging the production of goods that are currently being imported from outside the local economy. While it is too early to gauge the extent of their impact, incubators can provide struggling small businesses with instant support that may increase their chances of survival.



Urban Social Conditions

This chapter examines social conditions and policies and their effect on the well-being of urban residents, particularly the poor. It looks at approaches to assist the poor in their efforts to break from dependency and move into the social and economic mainstream of America. The chapter focuses on overcoming impediments to independence through housing, neighborhood revitalization, education and training, income and other assistance, and crime prevention.

The Reagan Administration has succeeded in establishing a stable, noninflationary economic environment, strengthening the authority of State and local governments, and stimulating public and private partnerships. These successes now give us the opportunity to try approaches to ameliorate poverty that build on poor people's own desires and capabilities and on the creativity of public and private decisionmakers at the State and local levels.

Proposed solutions to poverty problems must recognize the persistence of barriers to choice, mobility, and opportunity, and the need to provide flexibility in meeting local needs and conditions. There is no single element that is, by itself, the key to these solutions. Adequate housing, viable and safe neighborhoods, education, and training, as well as income and other forms of assistance, may all be necessary ingredients to give poor people the opportunity to take responsibility for their lives and to become independent and part of the broader community.

One of the most important obstacles to independence has been the very belief in the dependence of the poor. But there is a growing spirit among poor people themselves that they can be in charge of their futures. There is rising demand for forms of assistance that give the poor choices and responsibility. It is the aim of the Reagan Administration to understand and support that spirit and to shape our programs to those demands. Examples abound of poor people undertaking self-help efforts. It is time to support those efforts, to tap the motivation of the poor, and to provide the tools that will enable the poor to take responsibility for their own futures.

Income and Poverty

The impact of economic recovery on cities, discussed in the previous chapter, is reflected in the increased family income and reduced poverty of urban residents. The positive effects of the economic recovery on family incomes became apparent in 1983 and 1984 as median family income increased faster than inflation, reversing a trend that began in 1978. Between 1983 and 1984, after adjusting for the 4.3 percent increase in consumer prices, median family income—in real terms—increased by 2.8 percent, the largest annual increase since 1976.

The general improvement in the economy has been shared by the poverty population. In 1984, more than 1.6 million Americans were lifted out of poverty. Between 1983 and 1984, the poverty rate (the percentage of persons with incomes below the poverty level) decreased significantly, from 15.2 percent to 14.4 percent. Virtually all demographic groups except persons of Spanish origin shared in these gains. Poverty among blacks declined 1.9 percentage points as almost 400,000 persons moved above the poverty level. Almost half a million children left poverty. Poverty among the Nation's elderly declined by 1.4 percentage points (300,000 elderly persons).

Even though gains have been made in reducing poverty, there were still 33.7 million Americans whose incomes placed them below the poverty level in 1984. Table III-1 presents selected characteristics of the poverty population for 1984 and 1983. The decrease in poverty for all demographic groups, except persons of Spanish origin, is clearly seen in the table. However, the poverty rate remains high for specific groups, particularly blacks (33.8 percent) and persons in female-headed households (34.0 percent).

As the economy continues its growth without inflation and as incomes continue to rise, there will be further opportunities for people, particularly poor people, to become permanently strong economically. We must assure that recent gains are not temporary and that people become less vulnerable to any future fluctuations in the economy.

Housing Assistance

Housing and viable neighborhoods are key factors in any effort to assist poor people to become independent and participate in the mainstream of society and the economy. Housing shapes the way people consider themselves. People define themselves as residents of a block, a neighborhood, a community. One of the most deeply held goals for Americans is to have a decent place to live and raise their children. The provision of adequate housing at an affordable price relieves the poor from concern with a basic necessity of life, freeing them to pursue opportunities to become independent, productive members of society.

The Administration has been steadily expanding the number of poor families receiving assistance that enables them to rent decent standard housing. This assistance takes several forms: direct assistance to tenants under the Section 8 certificate and voucher programs to help pay the rent in existing private market units; debt service and operating subsidies for public housing projects owned by local authorities; and subsidies to privately owned projects reserved for low-income tenants. In 1986, housing assistance reached 4.058 million households,

Table III-1
Characteristics of the Poverty Population
1984 and 1983
(Numbers In Thousands)

Characteristic	Number Below Poverty Level		Percent Below Poverty Level	
	1984	1983	1984	1983
All Persons	33,700	35,303	14.4%	15.2%
White	22,955	23,984	11.5%	12.1%
Black	9,490	9,882	33.8%	35.7%
Spanish Origin*	4,806#	4,633	28.4%#	28.0%
Children Under 18 years	12,929	13,427	21.0%	21.8%
65 Years and Older	3,330	3,625	12.4%	13.8%
Persons in Female-Headed Households**	16,440	NA	34.0%	NA
Female-Headed Households**	3,498#	3,564	34.5%#	36.0%

*Persons of Spanish origin may be of any race.

**No husband present.

#No statistically significant change from 1983.

Source: *Money Income and Poverty Status of Families and Persons in the United States*. U.S. Department of Commerce, Bureau of the Census, Series P-60, No. 149, Selected Tables, August 1985, and Bureau of the Census Press Release, September 18, 1985. (Second Revision of Data)

almost a million more than were served in 1981. Even after fiscal 1986 cutbacks made necessary by the budget deficit, 50,000 additional households will be served, and HUD has requested assistance for an additional 50,000 households in fiscal year 1987.

Housing Needs

The demand for housing assistance is substantial. Given budgetary considerations, assistance must be directed to those families who have the greatest need. The Congress has placed special emphasis on serving the needs of very low-income families and elderly individuals (those with incomes below 50 percent of their area's median family income) occupying substandard housing or paying more than half of their incomes for rent. It is estimated that, as of 1983, there were 3.9 million

unassisted families and elderly individuals with such need (the highest priority, or "worst case" needs).

Analysis of data derived from the 1981 and 1983 American Housing Surveys indicates that the primary housing problem confronting poor families is affordability, not the availability, of adequate housing. The number of families and elderly individuals living in severely inadequate housing has declined, while the number of families and elderly individuals with a rent burden above 50 percent of income has increased. In 1983, there were 9.7 million renter households with incomes below 50 percent of the area median family income. An overwhelming majority (92 percent) of these very low-income renters occupied housing that was not severely inadequate. On the other hand, about a third of very low-income renter households were paying more than half of their incomes for rent.

In the 2 years from 1981 to 1983, the number of very low-income families paying over half their income for rent increased by over 20 percent. However, this very rapid growth in rent burdens may be a short-term phenomenon. In the early 1980's, rents rose more than general inflation; this was probably a catchup period during which owners of rental housing were passing on cost increases from earlier years when rent levels lagged behind inflation. At the same time, incomes of lower income families reported in the 1983 American Housing Survey were especially low relative to rents because they were lagging the economic recovery. It is expected that income growth will outpace rent increases in the 1984 to 1986 period, thus resulting in a much smaller increase in the number of rent-burdened families or even a decline. Nonetheless, rent burden is, and will continue to be, the major housing problem for very low-income renters.

Housing Supply Adequacy

Today when we talk about housing "shortages" we really mean shortfalls in the rent-paying capacities of very low-income families and elderly. The private sector continues to be capable of providing rental housing in large enough quantities to meet demand in most areas of the country. Multifamily construction in 1983 through 1985 was at the highest level since 1973, and starts of rental units (single family and multifamily) in 1984 were at the highest level in 12 years, with record levels set in the West in 1984 and in the South in 1983 and 1984.

The rate at which new apartments were absorbed by the market fell in 1984 to the lowest level since at least 1969. Only 67 percent were rented within 3 months, down from 69-, 72-, and 80-percent rates in the preceding 3 years. Construction of rental apartments is clearly outpacing demand.

A survey of 60 metropolitan area housing markets found that local housing markets generally respond well to housing demand; most of the Nation's rental markets cannot be considered tight. Where markets become tight, there is a strong tendency for the private market to respond through higher rates of construction, conversion, and tenure change, and through increased investment in improving the existing stock. In the housing market survey, the few areas where housing markets seemed to be tight without a sufficient response from the private sector were also found to have production constraints such as lack of available land, zoning restrictions, or development moratoriums. In some cases, State and local governments assist adjustment to tight market situations by supplementing or expediting the activities of the private market with their own housing programs.

Rental conditions can vary widely by market; some markets are overbuilt and have high vacancy rates, while other markets have high rates of new construction but strong flows of new residents moving in that result in high rates of market absorption. Other markets have low vacancy rates but are experiencing economic recovery, with some increase in demand for rental housing. Overall, however, low to moderate rates of household formation and a substantial supply of rental housing have minimized the number of areas with tight rental markets.

Vouchers

Because affordability is the major housing problem facing the poor, we are able to use a housing program that provides those receiving assistance with the freedom to make their own housing choices. The cornerstone of the Reagan Administration's assisted housing policy is the housing voucher program which gives poor families a wide choice of where to live while directly addressing the affordability problem. The voucher program and its predecessor, the Section 8 Existing Housing program, provide an income supplement that helps families afford good quality housing in the broader community, not just in isolated multifamily projects built under Federal construction programs. Families with vouchers can choose good quality rental housing on the basis of location near a job, transportation, or a supportive community of friends or relatives, all important factors in the poor's efforts to break from dependency. In addition, because vouchers rely on the existing stock of housing, they are a much faster and less costly way of providing housing assistance to the poor than traditional construction programs. A voucher costs about one-half the amount of a newly constructed unit, in terms of annual outlay per unit, and thus many more poor families can be assisted.

The voucher program modifies and builds on the Section 8 Existing program, which currently serves over 785,000

households. The voucher program provides even greater flexibility and wider choice of housing than the Section 8 Existing program. The Section 8 program restricts those being assisted to units that rent within federally established limits; i.e., the Fair Market Rent. Voucher holders are allowed to decide for themselves the tradeoff between choice of neighborhood, amenity level and style of housing, and the share of their family budget that they wish to devote to housing expense. HUD pays the difference between 30 percent of the family's adjusted gross income and a reasonable rent level for a given area (the "payment standard").

The payment standard is set at the same level as Fair Market Rent, about the midpoint of rents in the local area. These are not low rent levels. For example, for a two-bedroom unit the standard is currently \$415 per month in Baltimore, \$570 in Boston, and \$710 in the San Francisco-Oakland area. The family has the choice of renting a unit that has a rent below the payment standard and pocketing the savings, or renting a more expensive unit above the payment standard and devoting a larger proportion of its income to housing.

In addition, vouchers are "portable." A voucher holder is free to move to other jurisdictions where there may be better housing or employment opportunities and take the voucher benefits along. Portability is an important step in the evolution of welfare policy, particularly housing assistance. No longer is the assisted family confined to a specific project as with public housing and other project-based subsidy programs, or even confined to a specific jurisdiction. A voucher holder's freedom of choice is thus further expanded, with great flexibility to respond to opportunities to break from dependence.

Authorizing legislation for the voucher program was passed in 1984 and by the end of fiscal year 1986, over 62,000 vouchers will have been made available to local housing authorities for use in connection with Rental Rehabilitation grants and for two demonstration projects—one to test the effectiveness of vouchers in areas with large public housing authorities and the other in smaller and rural areas. In addition, about 23,500 vouchers without special restrictions will have been allocated to local authorities who have applied for the program. These vouchers represent \$1.8 billion in budget authority.

Public Housing

Public housing is an established component of America's assisted housing stock. Currently, there are over 3 million people living in the 1.3 million units of public housing.

HUD provides housing authorities, local public organizations established pursuant to State legislation, with operating

subsidies to offset the difference between rents and expenditures. In fiscal year 1985, these operating subsidies totaled \$1.25 billion. In addition, to preserve and maintain the existing cost-effective public housing stock, HUD has provided \$4.68 billion in loan authority since 1981 for capital improvements to modernize public housing.

Tenant Participation and Management

Modernizing the stock may not be sufficient to allow public housing to be integrated in the general housing stock. Policies for the public housing program should be built on the same principles of giving people the chance to pull themselves out of poverty and isolation and into the mainstream community. One way to accomplish this is through tenant management of public housing developments.

The Reagan Administration believes that both the local housing authorities and the tenants benefit from a high level of resident participation in the operation and management of public housing. Management, maintenance, and modernization all depend to one degree or another on the commitment, participation, and activity of the tenants. From the standpoint of the housing authority, a key to the success of any well-run project is a good relationship with the tenants. From the standpoint of the tenants, participation can be a major step in moving toward independence. Such participation allows tenants to take responsibility for their own living environment, to become self-reliant, and to achieve control over their own futures.

The Administration is strongly committed to the concept of tenant participation and management, and HUD has proposed a major new regulatory initiative to implement this commitment. Under this proposed regulation, housing authorities are strongly encouraged to help tenants form tenant organizations and to work with these organizations on decisions affecting the management of their housing. Such organizations can create a sense of community and lead to an increased sense of self-determination, in addition to providing a base for leadership development. The overall experience of participation in tenant organizations can be a step in the preparation for movement out of public housing.

Local housing authorities are also strongly encouraged to move to a higher stage of tenant involvement—tenant management. Tenant management offers public housing residents a further stake in their future and opens up new opportunities to move toward independence. Experience with tenant management over the past decade has shown that benefits flow to tenants through jobs, training, and significant leadership development, as well as increased tenant satisfaction with their housing. The experience gained and the

structure of the organization can be utilized for more ambitious community and economic development activities.

Under a tenant management arrangement, the housing authority and a tenant management corporation establish a contractual arrangement for specific management responsibilities such as rent collection, property maintenance, or security. In a number of cities (e.g., St. Louis, Boston, Washington, D.C.) tenant management groups have reported success in working with their housing authorities to increase rental income, reduce vacancy rates, improve property management, and coordinate and improve social services. Some tenant management groups have branched out from simply managing their projects to providing day care centers, afterschool youth programs, meal services for elderly residents, job training, and income-producing enterprise development.

Kenilworth/Parkside Resident Management Corporation in Washington, D.C., is a notable example of how residents can move effectively toward exercising greater control over their public housing developments. The corporation manages the property, collects rents, maintains the buildings, enforces housing regulations, screens residents, gives job training, and operates a thrift store and a carryout store. Over a 10-year period, Kenilworth/Parkside's "College, Here We Come Program" has been largely responsible for sending 487 of its project residents to college.

The proposed regulation also specifies that housing authorities may permit a tenant management corporation to retain and use all or part of any savings in operating expenses realized as a result of improved management by the tenant management corporation; the tenant group may use these financial incentives in a variety of ways to improve the project. In addition, the proposed regulations allow housing authorities to use Comprehensive Improvement Assistance Program (CIAP) funds to provide technical assistance to tenant management corporations.

In 1985, to further promote tenant management, the Amoco Corporation provided \$1.9 million to the National Center for Neighborhood Enterprise for a 3-year demonstration to provide 12 tenant groups with training in tenant management and economic development opportunities.

Public Housing Homeownership

The deeply rooted dream of homeownership has continued unabated for the vast majority of Americans. The continued importance of owning one's own home is well-recognized for its effect on the family, neighborhood and community stability, and feelings of security and self-reliance. For many,

homeownership is the most important factor in their overall economic well-being. In addition to making homeownership in general more affordable by reducing interest rates and housing production costs and expanding sources of mortgage credit, and counseling, actions have been taken to provide homeownership opportunities for lower income households through a public housing homeownership demonstration.

Homeownership of public housing units offers those who otherwise would be renters all their lives a chance to build financial equity and have something of value to leave their children. Such homeownership builds a sense of responsibility and a stake in the community that can lead to neighborhood stability. In another sense, the purchase of one's own home directly moves a family from a state of dependence to one of independence. HUD's current demonstration will test and document various approaches taken by housing authorities to help low-income public-housing families buy their own units. The demonstration will enable up to 2,000 families to own public-housing units in 18 different communities. It will also enable HUD to determine whether the concept of homeownership for public housing families could be successfully expanded to other communities.

The demonstration encourages a wide variety of approaches to the sale of public housing. The program leaves the type of sale and the development of local homeownership programs to local decision. This flexibility underscores the Administration's belief that creative local solutions to unique local problems associated with a homeownership program are more likely to result in successful programs.

The 18 communities in the demonstration have selected a wide variety of approaches to sales, including conventional sales, cooperatives, and condominiums. Sales prices are set at a level affordable to current public housing residents, so that purchasers will have homeowner carrying costs that will range from 30 percent to 35 percent of their gross incomes. Residents who choose not to participate in a sales program for their building will not be relocated involuntarily. Housing authorities must provide housing counseling and tenant support.

Units are sold in good condition so that homebuyers are not exposed to the risk of unaffordable major repairs in the early years of ownership. The sales must be structured so that, upon resale, the property will remain available to lower income families and there will be no "windfall" profits to the original purchasers.

The typical unit to be sold will have a market value of about \$30,000; the typical purchaser will have a first mortgage obligation of less than half that amount, with the difference

ordinarily covered by a second mortgage that is repayable only when the property is sold.



Participating housing authorities have made excellent progress in implementing their local demonstration plans. Housing authorities and tenants have forged new relationships to show that successful plans can be developed and implemented. Tenants have shown a strong interest in the opportunity to purchase their units. For example:

- In Washington, D.C., 21 of the 28 residents of the project being offered for sale have already applied and have been determined eligible. Of 42 other public housing residents prescreened for income and invited to apply, 20 have done so.
- In Baltimore, where 30 units are available for sale, applications were mailed to all residents of scattered site units whose incomes were above the minimum to purchase (\$10,000)—a total of 352 households. Of this number, 216 responded. To date, 79 have applied.

The first public housing sale was closed in January 1986 in McKeesport, Pennsylvania. In May, Baltimore announced the first five families to purchase their public housing units in that city. Seventeen other families are in the process of being counseled and trained, with sales contracts expected to be executed during the summer of 1986. In addition, a number of sales are expected to be completed in St. Mary's County, Maryland, and Newport News, Virginia, in 1986.

Fair Housing

Discrimination is an artificial barrier to upward mobility, and its persistence can defeat efforts of the poor to move to independence. The Administration is committed to fair and equal housing opportunities for all Americans. New legislative, regulatory, and programmatic changes have been initiated, or proposed, which offer new options for reducing discrimination in urban housing markets. This commitment has included new legislation aimed at attacking discriminatory housing practices with the most effective enforcement tools.

State and Local Fair Housing Agencies

The Administration has placed a continued emphasis upon supporting the role of State and local fair housing agencies in combating discrimination. The number of States whose laws have been recognized as providing rights and remedies substantially equivalent to those provided under the Fair Housing Act rose from 27 at the end of fiscal 1980 to 33 (plus the District of Columbia) at the present time. HUD now recognizes 63 "substantially equivalent" localities, including 6 that are outside the 33 recognized States.

Under the Fair Housing Assistance Program (FHAP), HUD funding is provided to recognized State and local agencies to increase their capacities and to partially reimburse their complaint processing costs. In fiscal 1979, before institution of the FHAP program, only 211 complaints, or 7 percent of the total, were referred to State and local agencies. In 1982, such "referrals" constituted 52 percent of complaint activity. The portion of complaints processed by State and local agencies increased to 60 percent in 1983, and to 63 percent in fiscal 1985.

All available evidence, including a comprehensive evaluation of the Fair Housing Assistance Program, indicates that Federal financial and technical assistance has notably improved the performance of State and local agencies. There have been substantial increases in the number of fair housing complaints handled and in the percentage of cases in which a resolution is reached, accompanied by a decrease in the amount of time required to obtain resolution. The quality of relief, such as provision of a housing unit received by successful complainants, has also improved. Participating agencies are processing more complaints for better relief and doing all this quicker than has been the case prior to FHAP. This has helped to prove that HUD and State and local agencies can effectively work together toward the mutual purpose of providing equal housing opportunity for all.

Fair Housing Amendments

The Administration has continued to work for passage of amendments to the Fair Housing Act of 1968. These amend-

ments, first proposed in 1983, are designed to correct several important weaknesses in existing fair housing law. Changes include enabling the Department of Justice to take individual complaints of discrimination to Federal Court after voluntary conciliation has failed. The utilization of Federal Courts will serve as an efficient backup for Federal administrative enforcement procedures. The Attorney General would be empowered to seek penalties of up to \$50,000 once a violation has been proven and \$100,000 for each subsequent violation.

Fair Housing Initiatives Program

Another major legislative initiative to break down discriminatory barriers was proposed to Congress for funding in fiscal year 1986. President Reagan proposed the Fair Housing Initiatives Program to increase public and private participation in a national fair housing effort. It will support a diversity of public and private fair housing activities in a more coordinated and focused structure. This new comprehensive approach is based upon a policy which seeks to (1) increase reliance on State and local government enforcement and innovation; (2) strengthen the role of the private sector in achieving fair housing; and (3) place the Federal Government in the role of catalyst and capacity builder to develop a national commitment to fair housing.

There are three basic components of the program:

- Under an Administrative Enforcement component, HUD would fund substantially equivalent State and local fair housing agencies to conduct innovative enforcement and training projects. This is a continuation and expansion of activities already funded under FHAP.
- Under an Education and Outreach component, HUD would provide funding to public and private entities to enable them to conduct fair housing outreach and education programs for the general public.
- Under a Private Enforcement component, HUD would provide funding to nonprofit organizations or other private entities to enable them to conduct a variety of activities, including testing, in support of fair housing enforcement in judicial or administrative proceedings. Private fair housing organizations are well trained and well suited to provide individuals with greater access to effective fair housing enforcement.

Education and Training

A major element in any move toward self-sufficiency for the poor is the opportunity to increase their level of educational attainment and develop marketable job skills. This Administration is dedicated to improving the quality of education for



and providing for those with special needs, such as the handicapped and disabled, those in need of bilingual education, and adult illiterates. A strong commitment has been made to help those in need of job training to obtain job skills that are in demand in the private sector and that will lead to meaningful employment.

The goal of the Administration's education policy is to assist States, local districts, schools, and parents in their responsibility for providing the best possible education for all students. Administration leadership has fostered a turnaround in American education by promoting educational excellence for all children, through the combined efforts of States, localities, schools, businesses, and parents.

At the time President Reagan took office, the condition of American education was in significant decline. In spite of a history of growing Federal involvement:

- Scores of graduating high school seniors on college admissions tests had decreased annually since 1963, and scores on graduate and professional school admissions tests had dropped in 15 out of 23 fields.
- Scores in math, science, and reading among the Nation's 17-year-olds were showing no signs of improvement.
- Schools had lost their traditional sense of purpose, and were buffeted by every new social fad that came along.
- The United States led all other industrialized Nations in rates of teenage drug abuse and pregnancy, while lagging behind them in academic performance.

The concerns of the American people with their education system were voiced with the publication of *A Nation at Risk*.

This report and others alerted the country to just how far American education had deteriorated, and it prompted an immediate groundswell of support for reform. The Administration responded by promoting a new federalism in education, designed to encourage the best efforts of State governments and local school districts, business and community groups, and parents, teachers, and students in improving their schools. At the same time, Administration economic policies resulted in a revitalized economy, strengthening the State and local tax base needed to support these reforms.

The Administration's education policies are beginning to show results. In the last 3 years:

- College-bound high school students in 35 States have improved their scores on the two most widely used achievement tests. Scholastic Aptitude Test scores have risen appreciably, with an unprecedented 9 point gain (combined math and verbal) in 1984-85.
- The public school graduation rate has increased in 39 States.

Yet, despite this good news, there is much to be done, particularly in the Nation's urban areas. Test scores, while improving, still remain low in the inner cities, and urban dropout rates are at alarming levels, often exceeding 40 percent. The continued self-destructive behavior of many young people through drug abuse, teenage pregnancy, and crime is a national tragedy. Only through the rededication of our schools and our Nation's parents to teaching self-discipline and strength of character can our children learn to succeed in school and beyond.

Providing Quality Education

The Administration is committed to bringing to education a renaissance of common sense. The Reagan Administration believes that the Department of Education serves the American people best when it provides them with information they need to educate their children and to run their schools effectively. To help achieve this, the Administration is publishing a handbook series for parents, teachers, and school officials. The first volume, *What Works*, summarizes over two decades of research about effective learning practices in the classroom and home. Over 200,000 copies have already been distributed to the public. The next two volumes in the series will address two other critical areas: strategies for improving school discipline and for creating drug-free schools.

Another major report issued by the Administration, *Becoming a Nation of Readers*, summarizes what we know about the teaching of reading. This widely acclaimed report applies findings from research to recommend practices that will help students acquire the skills essential to becoming good readers.

The Reagan Administration is also committed to reporting information about successful schools and programs. The *Elementary School Recognition Program*, the *Secondary School Recognition Program*, and the *Effective Compensatory Education Sourcebook* have recognized and described hundreds of outstanding schools and programs across the country, including schools that provide effective, high quality education in urban areas with high concentrations of educationally disadvantaged children.

School-age children are not the only ones in need of a quality education. Adults who are unable to read may find it difficult to locate and keep jobs. Public-private partnerships are being established to combat adult illiteracy. For example, adult illiteracy is being addressed through a joint effort of the Department of Education and the White House Task Force on Private Sector Initiatives, aimed at bringing in private sponsors and volunteers.

Increasing Parental Choice

The Reagan Administration believes strongly that the primary responsibility for educating our children resides with parents; it supports the right of parents to choose the best educational services for their children. As one means to achieve this, the Administration has proposed The Equity and Choice Act (TEACH) to permit parents of educationally disadvantaged children to receive compensatory education services through a voucher mechanism. The Administration has requested that funding for compensatory education be maintained at \$3.7 billion.

Under this proposal, parents of educationally disadvantaged students selected by their school districts to participate in the Federal compensatory education program could exercise their right of choice to send their children to the public or private school which would provide the education services that best meet the education needs of their children.

The education voucher would accomplish three goals. First, it would increase the educational opportunity of disadvantaged students. Second, it would encourage parental involvement in education. Third, it would improve American education by fostering competition and diversity among schools and thereby give schools an incentive to better serve disadvantaged students. Just as the American economy has been revitalized through competition, so may American education be revitalized through giving parents a choice in where they send their children to school, and in what programs their children will participate.

Helping Children With Special Needs

The Administration is committed to seeing that those with special educational needs receive a quality education and

become full participants in America's growing economy. It strongly supports special assistance for children of limited English proficiency to enable them to learn English as quickly as possible while they are progressing in their regular academic studies. The Administration has requested \$143 million for bilingual education, while proposing greater flexibility in the program so that local educators can have the flexibility to determine the services that best meet their children's needs.

Another area of special need is that for the handicapped and disabled who require some type of special education or rehabilitation to enable them to realize their potential. The Administration has proposed that funding for State grants for the education of handicapped children and for rehabilitation services be maintained at \$2.2 billion.

Job Training Partnership Act

The Job Training Partnership Act (JTPA) program, which became fully operational in late 1983, has become a highly successful training and job placement program which has provided meaningful employment in the private sector for tens of thousands of disadvantaged and dislocated workers. This program has provided a lead role for State government in allocating funds and a shift in focus from reliance on local and State governments as employer to reliance on the private sector for training and job placement. It has also been used as a linkage with local economic development efforts to provide JTPA trainees job opportunities in economic development projects.

Under JTPA, local jurisdictions are given wide latitude in the design and operation of the federally funded program to address unemployment in their communities. Business is provided a key role in the local programs through Private Industry Councils (PIC's) composed of representatives of business, labor, education, government, and other local representatives. Unlike earlier training programs, business representatives play a much greater role in operating local training programs. The private sector has lent its full support to this initiative, with some 8,500 representatives of business serving on PIC's. Cooperation of the private sector ensures that disadvantaged and dislocated workers are trained for real jobs. Another distinguishing feature of this program is the ability of States to coordinate it with other related programs, such as vocational and adult education, which are already the responsibility of State governments.

The JTPA grant program consists of two major components. The first component provides block grants to States to support local training programs for the economically disadvantaged and to support summer youth employment programs. In 1984,

over 850,000 disadvantaged persons were served under this component. In addition, the summer youth employment program provided jobs for over 800,000 during the summer of 1985.

The second component provides grants to States to support training for workers dislocated by plant closings, technological change, and trade impacts. Such workers have been helped into new fields of endeavor through identification of alternative occupations that fit their skills, training in new skills for which demand exceeds supply, assistance in finding suitable new jobs, and payment of the costs of a worker's move to a new job location. Over 175,000 persons participated in the dislocated workers program in 1984.

JTPA has achieved impressive results. An estimated 61 percent of those terminating from the disadvantaged worker program entered employment, and of those terminating from the dislocated worker program, 66 percent were placed in employment. Seventy-three percent of the block grant funds have been spent on training, in contrast to past programs which an average of only 18 percent of Federal training aid went to training, with the remainder spent on income transfers, administration, and various support services.

Characteristics of new enrollees served by the programs have been compiled for the program's operation period from July 1985 to December 1985. As seen in Table III-2, under the program for the disadvantaged, 92 percent of the 373,600 persons served were economically disadvantaged, 45 percent were minority, 55 percent were women, 42 percent were youth, and 41 percent were public assistance recipients.

Table III-2
Characteristics of Persons Served by JTPA From July 1985 to December 1985

	Program for Economically Disadvantaged	Program for Dislocated Workers
New enrollees	373,600	42,000
Percent economically disadvantaged	92%	45%
Percent minority	45%	27%
Percent women	55%	38%
Percent youth (under 22)	42%	6%
Percent public assistance recipients	41%	12%
Percent high school dropouts	25%	19%

Source: U.S. Department of Labor, Manpower and Training Administration, *Job Training Partnership Act Status Report*, January 1986.

Twenty-five percent of the participants were high school dropouts. The program for dislocated workers served 42,000 new enrollees in this same time period who, consistent with the different target group of the program, tended to be male, older, nonminority, and less economically disadvantaged.

Minority Youth Training Initiative

Public housing residents are often locked out of the economic mainstream by living in an all low-income neighborhood where few jobs are easily accessible. The Minority Youth Training Initiative (MYTI) was a demonstration designed to overcome this problem. MYTI has provided education and job training for unemployed young men and women living in or near public housing projects to prepare them for jobs in the fields of housing management (e.g., property management, bookkeeping, rent collection) and housing maintenance. MYTI has helped young public housing residents acquire job-related skills and meaningful employment, while at the same time providing housing authorities and other public and private housing-related organizations with trained personnel.

As a subsidiary benefit, these youths help improve their own neighborhoods—public housing projects—thus benefiting all who live there. Following training, these youths have been assisted in obtaining full-time housing industry jobs.

Eighteen communities have participated in the original MYTI demonstration. Each community designed a program tailored to local needs and conditions. These projects were public/private partnership efforts, designed and implemented jointly by mayors, public housing authorities, and the private sector. Initial funding was provided through CIAP, which can fund both physical rehabilitation of public housing projects and associated management improvements. Each community was awarded \$100,000 in CIAP funds. In addition, many of the communities obtained supplemental funding through the Jobs Training Partnership Act and in-kind donations from local agencies.

By the end of 1985, 868 young people graduated from the program, of whom 631 have already been placed in permanent jobs—a placement rate of more than 70 percent. A number of graduates have gone back to school after having been encouraged to continue their education.

The MYTI concept is now a part of the CIAP program. Local housing authorities are permitted to use CIAP funds to provide job training similar to the MYTI. Although the training funds are not limited to unemployed youth, priority may be established for them. Under CIAP funding the participants must be public housing residents and must work on CIAP projects in jobs directly related to the purpose of each specific

project. For fiscal 1985 CIAP funding, 45 sites were approved for such training.

Employment Opportunities for the Disabled

The Department of Labor estimates that 307,000 developmentally disabled members of the workforce are unemployed. Another 783,000 developmentally disabled members are not a part of the labor force. Beginning in 1984, the Department of Health and Human Services initiated an aggressive plan to expand private sector employment opportunities for persons who are severely disabled. The Department secured the cooperation of State councils on developmental disabilities, private sector companies, and industry trade associations. Commitments by businesses to place developmentally disabled persons in jobs now stand at 43,000. This represents 20,000 from the National Restaurant Association, 16,000 from the American Hospital Association, 4,000 from various large and small businesses, 2,500 from the horticulture industry, and 500 from a chain of fast food restaurants. The goal is to place 150,000 developmentally disabled persons in competitive employment by the end of calendar year 1986.

Income and Other Assistance

The Administration's approach to welfare assistance is to continue to meet the legitimate subsistence needs of those in poverty, provide assistance needed by those in the transition from welfare dependency to self-sufficiency, and create an environment that encourages those on welfare to engage in work and work-related activities. For many of those now dependent on welfare, only a comprehensive strategy of assistance will enable them to enter the social and economic mainstream. Such a strategy may involve combinations of transitional welfare assistance, education and training, housing assistance, the provision of health care services, and other forms of assistance.

Welfare Programs in Urban Areas

The principal welfare programs in the United States—Aid to Families With Dependent Children (AFDC), Medicaid, and food stamps—provide a majority of their benefits to residents of urban areas. Participation in these programs responds to changing economic conditions, and an improving economy has stabilized or reduced the number of persons receiving benefits under these programs.

The number of families in the Nation receiving AFDC reached a high of 3.9 million (monthly average) in 1981. With legislative changes enacted in 1982, the number dropped by 8 percent to 3.6 million and has remained at about 3.7 million in the last 3 years. The average monthly family benefit increased during this time from \$311 in fiscal year 1983 to

\$338 in fiscal year 1985. Between 1980 and 1984, the number of two-parent families on AFDC because of the unemployment of a parent doubled. However, the number of such families declined (by 9 percent) in 1985 reflecting the growth of jobs and the improving economy in the cities.

Although Medicaid expenditures have grown rapidly in recent years, the number of Medicaid recipients has remained stable (21.6 million in 1982, 1983, and 1984). The average payment per Medicaid recipient was \$1,078 in 1980 but by fiscal year 1984 had increased by 50 percent to \$1,569.

Participation in the food stamp program is very responsive to rates of unemployment and prevailing economic conditions. Reflecting the improving economic conditions, participation in the food stamp program is now at the lowest level at any time in the past 5 years. The average monthly participation was 20.6 million in fiscal year 1981, reached a high of 21.6 million in fiscal year 1983, and dropped to 19.9 million in fiscal year 1985.



Welfare Reform

The President has directed the Domestic Policy Council to review current policies and propose an improved system that will better target resources to the poor, enable the able-bodied welfare recipients to regain economic self-sufficiency through work, and reduce welfare dependency.

Programs designed to help the poor are administered by several Government agencies, and many Federal programs,

including welfare, education, housing, and labor, are involved in the review. But this is not solely a Federal effort. The Administration will be working closely with State and local governments as well as the private sector. People at State and local levels will be asked to assess local needs and to take a lead role in the design and demonstration of ways to help poor people increase their personal capacities and become self-reliant.

Welfare and Employment Opportunities

The Administration is proposing to expand opportunities for welfare recipients to engage in work and work-related activities. Under the Administration's 1987 legislative proposals, all employable AFDC applicants and recipients will be required to participate in some form of work-related activity as a condition of eligibility. States will be able to design their work programs with a choice of several types of work-related activities.

There is evidence that employment and training programs are particularly effective, in terms of net impact, for individuals whose characteristics define them as difficult to employ; i.e., welfare recipients with limited education and weakest work records. This finding is of particular importance because without these programs such individuals tend to remain on welfare for many years. A major share of welfare resources are spent on these long-term recipients. While a majority of those receiving AFDC do not stay in the program very long, the 15 percent of new recipients who stay 8 years or more collect more than 50 percent of the benefits paid out.

In 1981, Congress gave the States discretion to initiate various employment-related activities for welfare recipients. Currently, over two-thirds of the States have implemented such programs. There is a great variety among these State programs, involving employment, job counseling, placement services, on-the-job training, and vocational education. Some of the programs are mandatory, others voluntary. Mandatory programs often exempt certain welfare recipients, such as those with preschool children. Many of the States require recipients to seek jobs or training as a condition of receiving benefits. In others, recipients are required to accept public service jobs. In some cases, welfare grant levels are reduced and the savings used to subsidize jobs in the public or private sectors.

Voluntary programs are popular in a number of States, with strong interest shown by welfare recipients. In New York's Employment Assistance Program, one-third of the voluntary participants have obtained employment and left the welfare rolls. Under the New Jersey voluntary program, the State reports that it reduced its welfare rolls by 10,000 in 1984, in

part as a result of the program, and saved \$16.4 million. In Michigan, about 7,700 welfare recipients voluntarily participated in Project Self-Reliance, an experimental 9-month program to find welfare recipients jobs in business. About 2,100 found work or obtained training. In this program, government-financed agencies worked with businesses and the State employment office to find jobs and match them with participants.

California's new program, "Greater Avenues to Independence" (GAIN), provides a wide range of employment-related services and concentrates on about a third of the adults on the welfare rolls, primarily mothers with school-age children. Under this program, non-English speakers are provided with English language instruction before they begin any job search.

Welfare recipients who have been employed during the previous 2 years are initially enrolled in a 3-month "job club" where they review skills needed to apply for jobs. Those who don't find jobs following the "job club" are provided alternatives that include up to 2 years of on-the-job training, subsidized private employment, and vocationally oriented community college. Those who haven't worked in 2 years enroll immediately in a training program that fits their preferences and abilities.

Recipients who remain unemployed after a job training program are then required to work for the State for up to a year to pay off their welfare checks. This mandatory employment is not to be busy-work, but should be viewed as preparation for permanent employment. If no job is available after a year of State employment, the welfare recipient begins the training cycle again. In addition, State aid is provided to participants in the form of personal counseling, subsidies for commuting, and afterschool child care.

Massachusetts' jobs program, known as "E.T." (education and training), offers a variety of services to reduce dependency for those currently on welfare. All AFDC mothers with children over 6 years old must register for the program. However, a large proportion of the participants are mothers with children under 6 who voluntarily enter the program. Following registration, an appraisal is made of the job skills of each participant and an employment plan developed. Participants may select from four approaches to employment: career counseling and planning; education and skills training; on-the-job training through supported work; or job placement through the Division of Employment Security.

Education and training may consist of English as a second language, pursuit of a general equivalency diploma (GED), vouchers for use at a community college (for up to two courses), and job-skills training under the JTPA/Bay State

Skills Corporation (averaging about \$2,500 to \$3,500 per participant). The supported work program provides State funds to employers (about \$4,500 per placement) for on-the-job training for the truly hardcore unemployed. Day care services and transportation are provided when necessary.

Project Self-Sufficiency

For those poor families not helped by the growth in employment opportunities resulting from the economic recovery, a comprehensive approach to assistance may be necessary to help them enter the economic mainstream. A number of factors may be combined to create the environment needed by the poor to become self-sufficient. As previously indicated, housing assistance can be a major factor during the transition to independence, but to break from dependency some poor people may require combinations of education and training, job placement assistance, child care services, and transportation to and from jobs, as well as wider housing choices.

One such comprehensive approach, Project Self-Sufficiency, a demonstration sponsored by the Department of Housing and Urban Development, uses housing assistance as leverage to encourage the use of public and private resources to assist the poor in joining the economic mainstream. This demonstration is a coordinated approach to breaking the poverty-dependency cycle among very low-income single-parent families. Its goal is to give highly motivated single parents the tools they need to become economically self-sufficient.

HUD has contributed about 10,000 Section 8 certificates to the program, worth \$48 million, which has been allocated to communities in two rounds of competition. HUD also provides technical assistance to communities to assist them in marshaling public and private resources to develop and implement their programs. Programs are well on their way in the 78 communities selected for participation in the first round of competition in 1984. The second round, announced in September 1985, added 77 new communities to the program and provided additional Section 8 certificates to 31 of the participants of the first round. The second round places special emphasis on assisting single parents who lack basic educational skills and are thus severely limited in their ability to become self-sufficient.

Project Self-Sufficiency is a coordinated approach that enables each community, under the leadership of its local chief executive, to define its unique needs and bring local resources to bear in helping these single parents. At the local level, public-private partnerships have been formed to combine the resources of all levels of government, businesses, private industry councils, labor, education, and community

groups to address the diverse needs of single-parent households and help integrate them into society's mainstream. These partnerships provide training in specific skills, on-the-job experience and job placement, basic education, child care, personal and career counseling, and transportation.

The types of assistance contributed by different groups are diverse. Local businesses have loaned executives to work with the program and have organized networks that pair participants with business people who can provide job information, moral support, and advice on career development. Major landlords have agreed to offer first option on available rental units, and educational institutions have provided tuition assistance and tuition-free courses for adult basic education, technical courses, career counseling, and resume and job application preparation. Private nonprofit groups have provided day care services; child care facilities; other assistance such as interest-free loans to participants experiencing short-term financial crisis; and donations of furniture, appliances, and household goods for participants' homes.

Entry to the demonstration is now closed. However, communities may develop a self-sufficiency effort apart from the Federal demonstration. Since local housing authorities in each community have the authority to set local preferences for the selection of families from the Section 8 Existing Housing waiting list, a self-sufficiency program can be implemented by using current Section 8 allocations or future voucher allocations.

Human Services Integration Projects

A five-State demonstration is now underway to promote social and economic self-sufficiency through the integration of human services programs. Each State is developing a service delivery system targeted to a population that the State considers a high priority problem. While past demonstrations have focused on the efficiencies to be gained through integrated services, these demonstrations will be designed to show whether or not integrated services are more effective in terms of client outcome. An examination of projects in three of the States illustrates the diversity of approaches and target populations.

- Maine's goal is to strengthen the family by developing a statewide system to identify multiproblem families and to integrate services in ways that address their needs, particularly with respect to employment. Initially, the program will focus on the AFDC single parents. As the project proceeds, other groups will be added, such as pregnant teens not now receiving AFDC. Services to be integrated include AFDC, food stamps, Medicaid, home energy

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- assistance, family services, WIC, WIN, and housing and employment services.
- Oklahoma's five-county project focuses on families in which instances of abuse, neglect, or exploitation occur, and on teenage pregnancies. The project will be designed to demonstrate that services integration and targeting can increase job placements of public assistance recipients, reduce the number of families receiving public assistance or being placed in alternative care arrangements who are involved in cases of abuse, neglect, or exploitation, and reduce the number of teenage pregnancies occurring in households receiving public assistance. The program will concentrate on referrals to job opportunities or training and education, and referrals for integrated, intensive treatment. Services to be integrated include AFDC, food stamps, family planning, employment services, and other family oriented services.
 - Florida's program is seeking to maintain the greatest degree of independence possible for older people for as long as feasible. Through a combined approach of co-location of services and establishment of satellite service centers, the Florida project is developing a model for community care settings for elderly persons to assure that, along with the development of physical facilities, service needs can be met as residents grow older and require additional support. The model includes a process for identifying Federal, State, and local resources, both public and private, which can be combined to meet needs in the areas of financial assistance, information and referral, case management, socialization, and in-home and out-of-home health and social support services. Services to be integrated include Medicare/Medicaid, food stamps, supplemental security income, housing, and other aging services.
- Single Teenage Mothers Project**
- Teenage pregnancy is a major problem in urban America. Teenage childbearing leads to poverty and dependency and greatly increases health risks for both mother and child. It also increases public expenditures for welfare, health, and social services. Teenage mothers are more likely to drop out of school, still be in poverty at age 35, have low birthweight children, and consequently, increased infant mortality and morbidity. They also appear to be at greater risk of neglecting and abusing their children. The percentage of teenage mothers who are unmarried has more than tripled over the past 25 years, from 15 percent in 1960 to 54 percent in 1983.
- Over half of the AFDC budget supports families in which the mother was a teenager when her first baby was born. The group with the highest probability of becoming long-term AFDC recipients is young, never-married mothers who start receiving AFDC when their child is less than 3 years old; over 40 percent of this group receive AFDC for at least 10 years. Fifty-five percent of babies born out of wedlock to teenagers receive AFDC benefits during their first year of life.
- According to a recent study, the combined expenditures of Federal and State Governments for families of teenage mothers totaled more than \$8.3 billion in AFDC benefits, \$4.9 billion in Medicaid costs, and \$3.4 billion in food stamp program costs.
- Because the largest share of welfare resources is spent on long-term recipients, early interventions to help young, never-married mothers to become employed and to reduce the time that they are on welfare could lead to significant welfare savings. The Office of Family Assistance in the Social Security Administration is sponsoring State demonstrations of the effects of mandatory employment-related activities on single teenage mothers applying for AFDC benefits. These activities will be concurrent with full or part-time educational activities appropriate for the age and educational attainment of each participant. The demonstration States will provide support services, such as child care and transportation.
- The demonstration projects will also emphasize the responsibility of absent fathers to support their children. The AFDC agency will coordinate with the State child support enforcement agency to target additional resources on establishing paternity and support obligations for the absent fathers.
- Employer-Supported Child Care**
- Child care has become a major social and economic concern over the past decade because of changes in family lifestyles and work patterns as more and more have started or returned to work. About 6 out of every 10 mothers with preschool or school-age children are now in the labor force. Forty-seven percent of married women with a child 1 year or younger are employed.
- State and local governments, in part through the Social Services block grant, are providing significant support for child care services. The Department of Health and Human Services is also working with the private sector to stimulate employer-supported child care. Forums which provide information on employer-supported child care options have already been held in 23 cities for over 1,200 chief executive officers of private companies that represent a total workforce of over 8 million persons. These forums have resulted in a number of new private sector initiatives at the local level. For example, local corporations in Portland, Oregon, donated \$35,000 to establish a computerized communitywide child care service. In Fort Worth, Texas, a major corporation has

opened a child care center in the downtown area which will provide child care for over 100 children.

Health Care

Dependency and lack of self-sufficiency can sometimes be related to health problems. Access to health care for the poor, both in terms of availability and affordability, is a necessity. In addition, greater emphasis must be placed on preventive health care—the maintenance of health. The Administration is committed to improving the ability of the States to target health care resources to those most in need by creating incentives for efficiency without lessening the quality of care.

Health Status

The health status of the American people in both urban and rural areas continues to improve. An important measure of this is life expectancy. Improvements in life expectancy at birth have occurred for all race and sex groups. In 1983, life expectancy at birth was 74.7 years. This compares with 73.7 in 1980 and 70.9 in 1970.

Despite these improvements, there are significant issues of health status in urban America. Reductions in postnewborn mortality, especially among minority groups, have leveled off, and some studies suggest increases in certain geographic areas. Teenage pregnancies continue to occur with troubling frequency. Deaths from lung cancer have steadily increased since 1950, although the rate of increase slowed between 1970 and 1982, reflecting the decrease in smoking among the population in general and among males in particular. The continued decrease in the percent of males who smoke was countered by increases among females.

The health status of urban Americans is determined by a number of factors. Primary determinants are the lifestyle choices made by individuals—whether to smoke or not to smoke, nutritional practices, levels of physical activity, reactions to stress, and when to seek medical advice and care. In addition, an individual's access to health care when it is needed is a significant determinant. Twenty years ago, access to health care was to a large extent a matter of physical proximity to population centers where care was centered. Federal efforts succeeded in expanding the supply of both practitioners and facilities. Over the past 10 years, as the supply of practitioners and facilities improved, access to care increasingly has come to be dependent on the ability to pay.

The annual rate of increase in the consumer price index for medical care averaged 7.9 percent between 1970 and 1985. It reached 11.6 percent in 1982, but declined to 6.2 percent in both 1984 and 1985. Increases in costs of medical care threaten access to care for many persons. For some, private

and government-supported insurance, primarily Medicare for older Americans, ensures access to care. Others have been assisted through State efforts to provide medical care for low-income persons, including the Medicaid program which is jointly funded by States and the Federal Government. Controlling the cost of health care in both urban and rural America remains a major issue facing the Nation.

Health Care Initiatives

The Federal Government, primarily through the Department of Health and Human Services, has a series of initiatives directed to two complementary ends: improving the ability of States to target health care resources to those most in need and restraining health care costs.

To allow targeting of resources to populations and areas of greatest need, the Administration continues to work to ensure that State and local governments have the flexibility to determine what health care services to provide and how best to provide them. This is accomplished by eliminating unnecessary Federal requirements and through implementation, beginning in 1981, of the block grant concept.

Under block grants, State governments have taken primary responsibility for managing and directing the Government programs providing health care. This places decisions on resources closest to the areas of need and permits more efficient targeting. The block grants have been effectively implemented and administered by States and the Administration is seeking congressional approval of additional block grants to replace narrowly focused Federal programs.

The Administration has continued its efforts to restrain the rise in health care cost through implementation and expansion of the Prospective Payment System for reimbursement of health care costs for older Americans under the Medicare program. The system has been operating since 1983 and has helped to slow the growth of health care costs. This has important implications for access to health care in urban America.

Presently, Medicare covers most of the health care expenses incurred by our senior citizens. Under the Prospective Payment System, this care has continued to be delivered at a high quality level, but with a great deal more attention to cost. Many citizens have purchased additional coverage for certain out-of-pocket expenses. New approaches are now being considered and have begun to be tested under which certain groups, such as large employers or unions, undertake to provide health care coverage under a risk-based per-person approach. These "voucher" plans promise to extend the coverage for many citizens while simplifying the process of obtaining comprehensive coverage. The Department is also

examining alternative approaches which could be made available for coverage of catastrophic medical expenses, not now covered by Medicare.

Although successful during its initial implementation, Medicare's Prospective Payment System is widely considered as an interim step. The health care industry is rapidly evolving new forms and new financing methods. For example, the delivery of many services previously reserved for inpatient care is now being carried out in new ambulatory care centers. The list of such services expands annually as new techniques are developed.

Medical practitioners are organizing their practices in different ways. Whereas health maintenance organizations at one time represented practically the only alternative to conventional fee-for-service medicine, new forms such as preferred provider organizations and individual practice plans have begun to increase the choices available. The Administration and the Department of Health and Human Services are working to promote those alternatives which promise to improve the health care system and make it more accessible.

Recently, the Administration proposed further modifying the Medicaid program to give States considerable flexibility under a funding cap to tailor their Medicaid services to the particular needs identified by the State. This proposal retains requirements for a minimum set of basic services to be provided to certain federally designated categories of eligible individuals. However, beyond these basic services, States would enjoy increased latitude to add other target groups and provide additional services without having to provide comparable services to every beneficiary.

Reduction of Infant Mortality

National progress toward improved maternal and child health has been marked. However, there is a continuing need to improve the health of prospective mothers and infants. For example, improvements in infant mortality and low birth-weight rates have slowed recently. In addition, while progress has been made in reducing infant mortality among all groups, there is a longstanding disparity in the level of maternal and child health attained by blacks and whites.

As one of the many efforts to address this concern, the Department of Health and Human Services, together with nearly 70 national voluntary, health professional, and governmental organizations, is participating in a broad coalition, called Healthy Mothers, Healthy Babies, to improve the health status of mothers and infants. In addition, the Department launched an examination of the health problems of minorities and is following the study recommendations to improve the health status of minorities.

Crime

Crime or the fear of crime can be a major barrier to the pursuit of independence and self-sufficiency. Because of it, businesses and the job opportunities they present are driven away from areas where they are most needed. Neighborhoods may be destroyed as viable places to live and raise children. Children growing up in an environment permeated by crime may be led away from productive pursuits. Crime and its fear destroys incentives to improvement, reduces freedom of movement, and imposes significant costs on victims and taxpayers.

The economic impact of crime hits the poor most heavily; the burden of crimes involving money and loss or destruction of property is higher for lower income families. This Administration is committed to a declaration of war on crime of all types.

Progress in the Fight Against Crime

There are continuing signs of progress in the fight against crime during the 1980's. According to the FBI's Uniform Crime Reports, the number of serious crimes reported to the police dropped by 8 percent between 1980 and 1985. Although newly released 1985 figures show a 4-percent increase nationally, the Crime Index for cities of more than 1 million population remained unchanged. Also, the National Crime Survey of the Bureau of Justice Statistics recorded a 14-percent drop in criminal victimizations during the same period (or a drop of about 6 million crimes). The National Crime Survey also shows that in 1985, 2 million fewer households were victimized by crime than in 1980, even though there were 8 million more households in the United States in 1985. The percentage of American households victimized by crime dropped from 30 percent to 25 percent during these 5 years. The drop included the personal crimes of rape, robbery, assault, and personal theft, as well as the household crimes of burglary, household theft, and motor vehicle theft. Last year was the fourth consecutive year that the percentage of American households touched by crime dropped.

Crime remains a more serious problem in cities than in suburbs or rural areas. In 1985, 29.6 percent of households in cities were victimized by crime, compared with 25.8 percent of suburban households and 19.5 percent of rural households. The difference was especially pronounced for robbery—1 in 60 urban households had a member who was the victim of a robbery versus 1 in 112 suburban households and 1 in 295 rural households.

However, in the 5 years between 1980 and 1985, the proportion of urban households victimized by any personal

or household crime dropped from 34.3 percent to 29.6 percent. Even more dramatic was the drop in crimes most feared by urban residents: rape, robbery, assault by a stranger, or a burglary. In 1981, 14.1 percent of urban households—equivalent to 3.5 million households—were victimized by these crimes; by 1985 this had dropped to 10.1 percent—about 2.6 million urban households.

Crime Prevention Activities

A major crime prevention initiative of the Reagan Administration is a comprehensive nationwide public education campaign featuring the crime dog McGruff as the National Crime Prevention Symbol with his slogan, "McGruff Takes a Bite out of Crime." This highly successful effort brings to the American people practical, easy-to-understand recommendations on how to make themselves, their children, their families, their homes, and their neighborhoods safe from crime. It promotes collective citizen programs such as Neighborhood Watch, Block Watch, Apartment Watch, and Business Watch, which rely on the voluntary efforts of citizens working closely with local law enforcement authorities. Emphasis is on current prevention issues as defined by State and local governments. Current national crime prevention campaigns include "Teens as Resources," "Kids Keeping Safe," and "Partners for a Safe Community." McGruff is also featured on a postage stamp, billboards, posters, and in puppet shows.

An estimated 38 million people have learned something new or taken some preventive actions as a result of this educational program, with 19 million citizens actively participating in an organized Neighborhood Watch program. In addition, the program has helped create a readiness on the part of citizens, businesses, and local officials to assist in the fight against crime, a readiness reflected in the fact that about one in six Americans now participates in some sort of organized crime prevention activity. The significant decrease in residential burglaries experienced in 1985 is attributed at least in part to these growing citizen-police community crime prevention activities.

Also of importance in the fight against urban crime has been the formation of victims programs, which not only aid victims but also encourage reporting crimes to the police and cooperating with the prosecution of offenders. These are largely voluntary programs run by concerned citizens. Public service television announcements have further encouraged citizen reporting of crimes—a necessary first step in apprehending criminals. Statistics published by the Bureau of Justice Statistics based on an ongoing survey of more than 100,000 individuals show that only about 36 percent of all crimes are reported to the police, although there is some evidence that this may now be increasing.



The Federal data collection effort has been essential in gauging the real dimensions of the crime problem in the country and thereby providing policymakers and practitioners with the data necessary to make informed decisions in criminal justice.

In addition, law enforcement agencies were assisted in solving approximately 83,000 crimes, arresting 20,197 individuals, and recovering \$410,000 of stolen property and narcotics by leads provided by citizens under Crime Stoppers programs from 1980 through mid-1984. The evidence obtained through the citizen tips was sufficient to convict 19,273 individuals or 96 percent of those arrested. Crime Stoppers programs are "silent witness" programs, whereby citizens who report

crimes anonymously to police are assigned a code number and can collect a reward, paid with local contributions, if the information leads to an arrest or the recovery of stolen property. The number of programs in operation is expected to increase by 10 percent per year from 1985 through 1987.

Many State and local governments are acting in creative ways to reduce criminal activity or respond to it in a more effective manner. For example, in Pennsylvania 113,000 households participate in 1,500 Neighborhood Watch programs on a regular basis. These are located in both residential areas and business districts. Special crime prevention training is conducted for their 2,000-plus crime prevention officers, and 575 municipalities now have a trained practitioner to assist the citizenry. Public service announcements are being shown, prevention special activities are being conducted, and State involvement is occurring through groups such as the National Federation of Women's Clubs, State Police, the American Association of Retired Persons, and the business community.

Through Project Pride in the Northeast Independent School District, San Antonio, Texas, vandalism costs were cut by two-thirds in just 3 years. The school superintendent created the Project Pride Committee and commissioned it to find ways to restore pride, in the belief that people who are proud of their school do not vandalize it and do not tolerate people who do. In its first year, the Committee brought 600 school leaders together for a motivation leadership rally, designed and distributed over 12,000 bumper stickers advertising a 24-hour vandalism hotline, put on plays and slide-shows on vandalism's consequences, and staged an editorial-writing contest. Project Pride has produced results. Vandalism is down, thousands of bumper stickers advertise the reporting hotline, and student behavior at sports events and other competitions has markedly improved.

Drug and Alcohol Abuse

In August 1986, the President, in announcing a national strategy to eliminate drug abuse, stated that:

"Drug use threatens the health and safety of millions of Americans, it extracts a high cost: the cost of crime stemming from drugs; the cost of drug-related health problems; the cost in productivity; the cost in the quality of American manufactured goods as we compete on the world market. But, most of all, the cost in lives. Drugs, in one way or the other, are victimizing all of us."

There are 6 major goals in this national strategy:

1. A drug-free workplace for all Americans. Progress in this area is needed to protect working people and the public and

to increase the productivity of our country. It is particularly important that workers in sensitive occupations are clear-minded and free from the effects of illegal drugs.

2. Drug-free schools, from grade schools through universities.
3. Protection of the public from health dangers posed by drugs and treatment for those involved in drugs.
4. International cooperation. Earlier this year the President raised the priority of drug abuse by declaring it a threat to our national security. Now our goal is nothing less than the full and active support and cooperation of every country with which the United States must work to defeat international drug trafficking.
5. Strengthened law enforcement. Existing programs can be built upon to hit drug traffickers with the force and power of a renewed sense of purpose.
6. Expanded public awareness and prevention. Attitudes are changing, so now is the time to enlist those who have yet to join the fight.

State and local governments, community organizations, and private businesses are joining together on many occasions and in many forums to prevent such abuse. Recently, the National Association of Broadcasters, in cooperation with the Department of Health and Human Services, provided about one-half million dollars of free air time to television stations to support National Drunk and Drug Driving Awareness Week. A major insurance company assisted the awareness campaign by printing and distributing materials to prevention centers throughout the country.

"Just Say No" clubs, directed to fourth through sixth graders, are being promoted by private businesses, many agencies, community groups, and the Department of Health and Human Services. "Teens in Action" is directed toward fifth through ninth graders and supported by the Department of Health and Human Services and a broad range of private business, nonprofit organizations, and public entities. It encourages a public commitment to abstinence while providing a means for increasing a student's self-esteem.

The Administration recognizes that widespread drug use among school children hinders learning and erodes school discipline. To address this problem, efforts in the area of drug abuse prevention will be emphasized. While concern is focused on the damage that drugs do to student performance and schooling, the Administration believes that schools are an essential part of the solution. This fall, a book summarizing the available information on effective methods of drug abuse prevention will be published.

Child Safety Partnership Programs

In April 1985, President Reagan established the President's Child Safety Partnership Program which will examine issues and make recommendations to the President on the prevention of child victimization and the promotion of child safety in the United States. The Partnership is composed of 26 presidentially appointed representatives from private corporate, private nonprofit, State and local, and Federal sectors.

Every year millions of children fall prey to crime: abuse and neglect, sexual molestation, theft, assault, robbery, murder, abduction, exploitation, and drug abuse. Protecting our children has been a top concern for this Administration. All levels of government, as well as the private sector, have taken action to stop the victimization of innocent children, but there is a need to better coordinate and augment these steps. Putting an end to the abuse of children requires tapping every possible resource—from criminal justice, education, media, corporate, public interest, and social services.

The National School Safety Center (NSSC) is a partnership of the Department of Justice, Department of Education, and Pepperdine University. NSSC's mission is to coalesce public, private, and academic resources throughout the United States and provide a central headquarters to assist school boards, educators, law enforcers, lawyers, and the public to ensure all our schools are safe, secure, and peaceful places of learning.

Citizens in School (CIS) is a public-private partnership that addresses the problems of school dropouts and violence by helping communities analyze their existing problems and needs and adjust their existing community resources to respond accordingly. In order to accomplish this, they help communities develop their own public-private partnerships

and provide services to youth, generally in school settings. High-risk youth receive coordinated, comprehensive care.

During the initial grant, the program was replicated in 13 sites. In Phase II, recently funded with participation by the Departments of Justice, Labor, Health and Human Services, and Education, CIS will establish National Leadership Training Partnerships on each coast to facilitate further expansion and assist existing local programs.

In Atlanta, one of the original CIS sites, an alternative school was established in Rich's Department Store. A management consulting firm was requested to do an analysis of the program by local officials. Based on the firm's findings, over 70 percent of the CIS program youngsters return to the mainstream of society. The report also claims that CIS costs less than \$1.2 million per year in operating costs and has near-term potential benefits to the area of from \$7 to \$15 million for each academic year.

Victims' Assistance and Compensation

The Office for Victims of Crime was established within the Department of Justice to aid in the implementation of the recommendations of the President's Task Force on Victims of Crime and, later, the Attorney General's Task Force on Family Violence. Members of the Task Force on Victims of Crime perceived three fundamental needs of victims that the justice system must meet: (1) victims must be protected; (2) the justice system must be responsive to victims' needs; and (3) victims need assistance to overcome the burdens imposed by crime. The President's Task Force made 68 recommendations for law enforcement and prosecutors, judges and parole boards, lawmakers and businessmen, physicians and therapists, and ministers and educators. To date, nearly 75 percent of all the proposals have been acted upon.



The passage of the Comprehensive Crime Control Act of 1984 caused major reforms throughout the Federal criminal justice system. One of its provisions, the Victims of Crime Act, established a crime victims fund. Grants from the fund are made to the States to provide financial assistance to State victim compensation programs and for projects providing services to crime victims. The State victim compensation programs compensate victims for medical expenses, including mental health counseling, lost wages, and funeral expenses. Projects providing services to victims include crisis intervention, emergency transportation to court, short-term child care, and temporary housing.

In 1980, prior to the implementation of the Victims of Crime Act, 37 States had victim compensation programs which paid roughly \$50 million to victims. Now, 43 States and the District of Columbia offer compensation to victims and their dependents; they paid \$68 million to victims in 1984. In addition to making awards to victims, more States are now able to provide assistance for other victim expenses such as property damage. California, for example, is doubling the maximum amount allowable per claim. New York is enhancing its coverage for essential property loss. Independent organizations in Massachusetts, Arizona, and California are raising private funds to help victims with emergency financial needs.

During the past decade, many national victim assistance groups have been formed, such as Parents of Murdered Children, Mothers Against Drunk Driving, Society's League Against Molestation, and the National Organization for Victim Assistance. Their affiliates and countless other citizen groups work with local professionals to educate them on the needs of crime victims. Some organizations lobby States for stronger victim protection laws. Utilizing the power of self-help groups, these people are reaching out to heal their own wounds and to ease the pain of others.

Since 1980, the number of these type of programs and victim advocacy services within the justice system has doubled. Primarily staffed by volunteers, many of these efforts are now eligible to receive funds pursuant to the Victims of Crime Act of 1984 and the Justice Assistance Act of 1984. Moreover, 21 State laws enacted since 1982 are providing funds specifically for services to victims of all crimes. These advocates are a new, vital element of the criminal justice system. More and more professionals are relying upon the services these dedicated victim aides provide.

The Justice Department also operates a National Victims Resource Center which has information on more than 1,600 programs. It provides information on victim services, where to apply for State victim compensation, where to call if you suspect a child has been abused, and how to start or expand a victim service program.

The Justice Assistance Act of 1984 has provided funding to improve State and local criminal justice efforts. In addition to block grants for every State, demonstration projects have been launched in several communities that address family violence and the prosecution of child sexual abuse. In addition, the Department supports many programs to aid child victims of crime. The Justice Assistance Act also continues the National Institute of Justice, which has established victims of crime as a major research priority. More than 30 studies regarding victims have been conducted during the last 4 years.

President's Task Force on Victims of Crime Response

Increasingly aware of the victim's exasperation with the criminal justice system, the law enforcement community has enthusiastically taken action to improve the treatment of crime victims. The Office for Victims of Crime is working with national law enforcement organizations to educate their members on the needs of crime victims. The National Sheriffs' Association has launched a massive education project on these and other issues and has already reached 90 percent of the Nation's counties. The National Sheriffs' Association Victim Assistance Program (NSAVAP) works in partnership with the U.S. Department of Justice and State Sheriffs' Associations. NSAVAP takes the results of research and current practice and uses them to train and assist sheriffs and other officials of the criminal justice system.

Between 1984 and 1986, the National Sheriffs' Association has: (1) organized and established over 43 State Task Forces on Victims of Crime, comprised of over 500 sheriffs and other officials; (2) trained these Task Force members to be active State and local leaders in the establishment of programs to assist victims and coordinate services in the States and several thousand localities; (3) trained an additional 5,000 persons at 23 national and international conferences and workshops; and (4) assisted and trained an additional 4,000 sheriffs, deputy sheriffs, and other officials at 40 State conferences and workshops.

To meet the special needs of crime victims living in inner cities, the National Organization of Black Law Enforcement Executives (NOBLE) assisted 8 metropolitan policy departments serving high-crime, inner-city jurisdictions in developing and implementing structured, police-based victim assistance programs. The programs are designed to improve the police response to victims' needs in their respective communities and stress identification of and linkage with established victim services in the community.

As the people who hold the keys to the court proceedings, prosecutors have a vitally important responsibility to see that the doors remain open to victims, who have a legitimate need to be informed about the progress of their cases and to be

involved in major decisions. The growth in prosecutor-based victim aid programs has been tremendous. For example, when the President's Task Force held a hearing in Texas, it found only one victim advocate in one State's attorney's office. Now, 18 prosecutors in Texas have created such programs in major jurisdictions and are working to expand services into outlying areas. The Office for Victims of Crime is working with the National District Attorneys Association to train prosecutors and improve victim services in their offices. Several regional conferences have been organized to spur 200 top-level prosecutors in the Nation into enhancing victim services in their areas.

The ultimate arbiters of justice are judges. Most members of the judiciary, however, have been unaware of the powerful impact they have on victims. Two judges from every State heard this message in face-to-face meetings with victims at a conference sponsored by the National Institute of Justice and the National Judicial College in November 1983. After unanimously adopting a "Statement of Recommended Judicial Practices" following the President's Task Force report, the judges vowed to educate their brethren at home. More than 20 similar conferences have occurred, and the National Judicial College is now offering courses on the needs of crime victims. In addition, judges who often handle child victims of crime are being educated about children's special needs—the result of 25 conferences sponsored by the National College of Juvenile and Family Court Judges.

Family Violence

Family violence is a serious national problem which impacts heavily on urban areas. The Office of Justice Programs has supported efforts in several large urban areas to develop model programs for law enforcement in effective intervention in spouse abuse. These projects include increased training for law enforcement officers, development of spouse abuse units, improved departmental policies in accord with the Attorney General's Task Force recommendations, and increased coordination with prosecutors and victim service agencies.

The Office of Justice Programs also is supporting projects to improve the treatment of child victims and more effective prosecution in child sexual abuse cases. The dramatically increased visibility of cases of child sexual abuse, sometimes involving multiple victims and perpetrations, and pornography has hit a number of urban areas in our country. The Office is increasing research efforts to learn more about this tragic problem and its impact upon children and their families, how our criminal justice system can more effectively handle these sensitive cases, and how parents can more effectively support and protect their children.

Youth Programs

The Office of Justice Programs supports numerous programs aimed at reducing the level of crime among the young in our inner cities. The programs are aimed at preventing delinquency and exploitation among youth who exhibit one or more risk factors such as family disorganization, poor school performance, aggressive behavior patterns, or who have been involved in the juvenile justice system. The programs include shelters and services for runaway or throwaway youth and efforts to assist in solving their problems and returning them to their families, if possible.

Projects are underway to control and reduce incidents of serious crimes committed by chronic juvenile offenders which are so destructive to the social fabric of the inner city. The Office supports efforts to provide opportunities for the rehabilitation of juvenile offenders with emphasis upon the serious, violent, and repetitive offender.

Missing and Exploited Children

In 1984, the National Center for Missing and Exploited Children was established to assist families, citizens, law enforcement agencies, and other government institutions in a national effort to ensure the safety and protection of missing children. The Center has established a toll-free telephone line which has received more than 100,000 calls and has assisted in the recovery of some 3,600 children; operates a national resource center and clearinghouse to provide assistance to State and local governments, organizations, and individuals; coordinates public and private programs that locate or recover missing children; and disseminates information nationwide about missing children and missing children's programs.

Criminal Justice System

Community block grants have been awarded to the States, two territories, and the District of Columbia to improve the functioning of the criminal justice system. The States subgrant the funds to State and local units of government for programs in 7 major areas: Crime Prevention, Victim/Witness Assistance, Investigation and Apprehension, Prosecution and Adjudication, Corrections and Treatment, Information Systems, and Training and Technical Assistance.

Criminal Justice Research

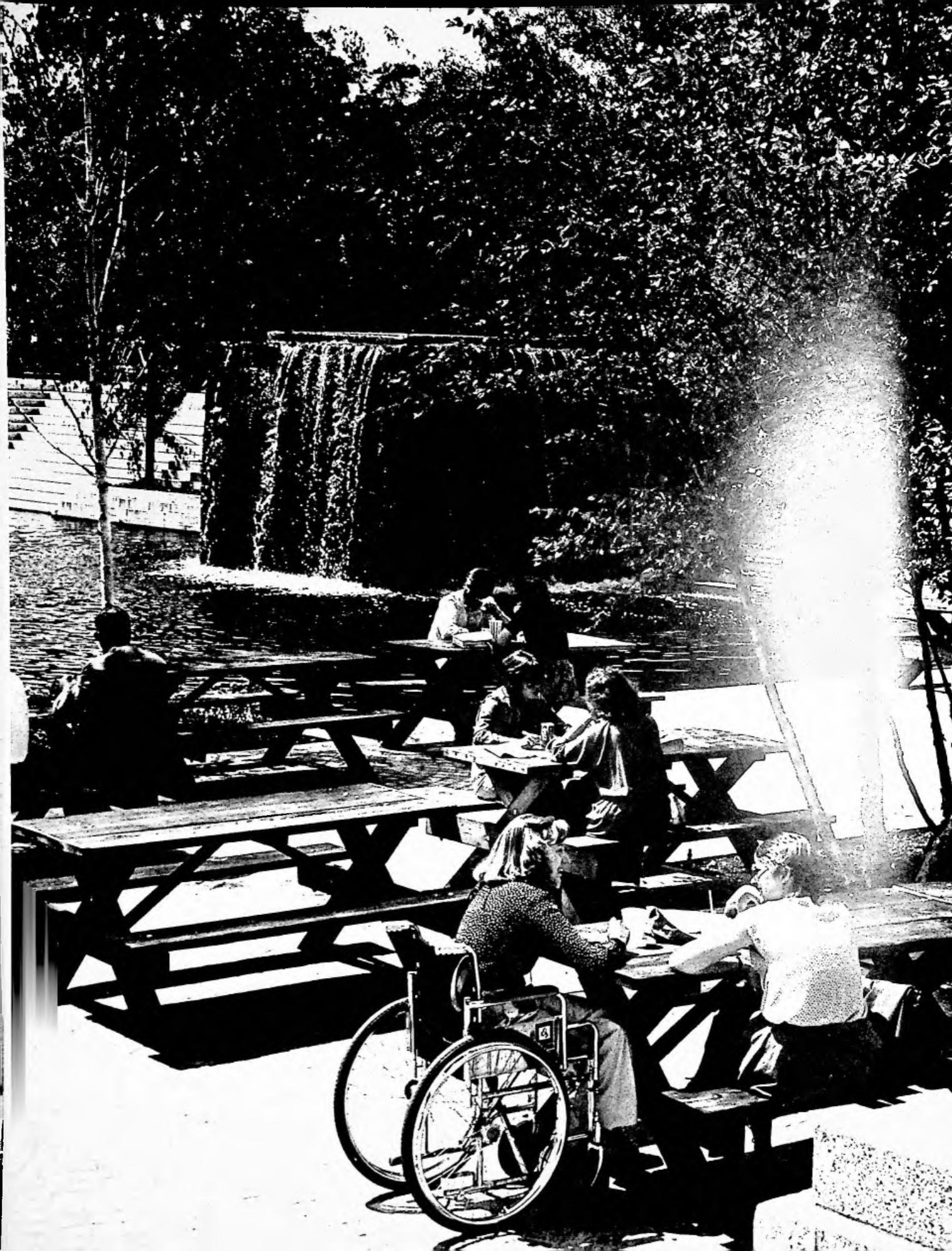
The National Institute of Justice has recently implemented the Attorney General's initiative on construction of correctional facilities. The effort is aimed at containing costs and reducing the time required for completion of jails and prisons.

It relies entirely upon the active participation of State and local officials who have recently built correctional institutions, and no attempt is made to establish standards or dictate policies to those who are planning to expand their jails and prisons. The role of the Federal Government is limited to research on successful State and local efforts, and NIJ serves as a clearinghouse for information on noteworthy technologies that save time and money. Through NIJ, State and local corrections officials are sharing their experience and skills with colleagues who need to build correctional facilities.

Institute research is also helping communities cope with the drug abuse that fuels so much urban crime. Research has established that a strong correlation exists between individual crime rates and hard-drug use. Offenders commit up to six times more crime when they are actively addicted than when they are relatively drug free. A field test by the Institute in Washington, D.C., and New York is using a more accurate method of urinalysis to test arrestees for drug use. Preliminary results from the District of Columbia show that 65 percent of arrestees had one or more serious, illegal drugs in their systems at the time of arrest. The research is assessing the level of risk posed by drug abusers on pretrial release and comparing the cost and effectiveness of surveillance versus treatment as deterrents to drug use and subsequent rearrest.

National Institute of Justice research has also documented the risks posed by increasing use of probation for convicted felons as a means of easing prison crowding. An Institute study of California probationers showed that 65 percent of a sample of felony probationers were rearrested during a 40-month followup period. The Institute is also studying better ways of controlling released offenders. One approach is the use of electronic monitoring to ensure that probationers or those placed on house arrest are at work or at home and off the streets when they are supposed to be. Electronic monitoring may help to reduce crimes by those already under criminal justice supervision.

The fear of crime that pervades so many of our urban neighborhoods erodes the social and economic vitality of many communities. Reduction of the fear of crime greatly assists economic recovery in economically depressed areas. A National Institute of Justice experiment carried out in Houston and Newark provided the first reliable evidence about what works to reduce their fear. The study found that neighborhood police offices, door-to-door contact programs, and helping to establish community organizations improve citizen-police relations and can reduce fear of crime. Most important, police agencies can carry out these strategies without the need to increase personnel or expand resources.



The Physical Environment

This chapter describes how the Administration's efforts to promote economic growth with low inflation and to restore balance to the Federal system have affected the urban physical environment—neighborhood revitalization, infrastructure, and environmental protection.

The continuing expansion in the national economy has enabled urban areas to improve their physical environments. Moreover, reliance on Federal programs has decreased, with State and local governments, as well as private groups, taking on increasingly active roles.

A national Gallup poll for the Urban Land Institute in early 1986 found that a majority of Americans believes that cities are improving and that citizens support tax subsidies for mass transit, historic preservation, highway construction, and better public housing for urban centers. A majority of Americans believes their neighborhoods and communities will stay the same or remain the same, rather than decline, during the next five years. Most respondents gave high ratings to their communities for shopping convenience, fire and police protection, sanitation, schools, and housing construction. Roads and road maintenance and housing maintenance were generally rated fair or poor.

The essence of the Administration's National Urban Policy regarding physical environment is to return to State and local governments the primary responsibility for responding to local priorities and needs. Federal funding should be limited, should focus on areas of demonstrable need that cannot now be met from other sources, and should be distributed in a manner that encourages frugality and effective local allocation of resources, including establishment of public-private partnerships.

Neighborhood Revitalization

A resurgence of new construction and rehabilitation is bringing new life to long-deteriorated downtown areas and older neighborhoods, primarily as a result of local initiatives.

The value of building permits issued by the Nation's 200 largest cities in 1985 rose to \$55.1 billion, a 10-percent increase over the previous year, according to a Dun and Bradstreet report on July 8, 1986. Several cities in the Midwest were among those with the largest increases. Based on a \$170 million permit issued for the construction of a new General Motors plant, Kansas City, Kansas, reported the largest increase. Cambridge, Massachusetts, was second.



Other leaders were Trenton, New Jersey, New Bedford, Massachusetts, and Dearborn, Michigan, all up over 150 percent from the previous year.

The positive impact resulting from essentially private efforts in neighborhood revitalization has become clearly evident in most major cities. Besides the well-known "back to the city" movement of young professionals purchasing and renovating houses in disrepair or abandonment, incumbent homeowners and landlords have also reinvested in the housing stock. Current evidence shows that these neighborhoods have become more mixed socially and economically than before. There is more homeownership, and many of the lower income people who had to move have relocated in the same neighborhood.

Community-based groups such as the National Association of Neighborhoods have initiated self-help activities that both upgrade the neighborhood's physical environment and provide employment for the unemployed in the neighborhood. Sometimes these voluntary neighborhood groups are funded by Community Development Block Grant moneys. Even neighborhoods not yet upgraded have benefited from the increased tax base, increased employment opportunities, and greater access to local public officials stimulated by the new neighborhood activists. Cities have responded by forging new partnerships with community groups and the local private sector to spread the revitalization momentum to commercial areas, forming job opportunities, and creating local enterprise zones and tourist attractions.

The "Oasis Technique" for neighborhood revitalization was developed in Florida by the Fort Lauderdale Housing Authority. The project focuses on reversing deterioration and rising crime rates in troubled neighborhoods and creating "oases" of safe, decent housing in areas of urban blight. An additional benefit is stimulating similar improvements in adjacent areas by proving to neighborhood residents that they can upgrade the aesthetics, safety, and livability of their own neighborhoods.

The key elements of the Oasis Technique are careful analysis of a community's strengths and weaknesses and involvement by residents, community groups, law enforcement and social service agencies, and private businesses. The objective is to mobilize existing resources as well as to identify potential resources and to accomplish rapid, visible revitalization in declining housing projects and nearby neighborhoods. The project channels local government services and funds to targeted areas of greatest need in a coordinated, highly focused effort.

Urban homesteading, or reuse of abandoned property, also helps to stabilize neighborhoods and reverse decline. The

Federal Urban Homesteading program transfers federally owned (HUD, VA, or FmHA), unoccupied properties to communities which, in turn, offer the properties at nominal or no cost to homesteaders. Federal funds are used to reimburse the pertinent Federal agency for the value of the property. Local governments use the programs as part of their own locally determined approach toward neighborhood improvement.

Under present law, in an attempt to target the homesteading program to needy lower income families, special priority must be given to families that pay more than 30 percent of their income for rent, are living in substandard or overcrowded conditions, and have little prospect of improving their housing conditions except through homesteading. All three criteria must be met.

This priority system has been difficult to implement and has placed a heavy administrative burden on local governments. HUD is proposing to reinforce the lower income nature of the program and to replace the current cumbersome family priority criteria by establishing a single priority criterion for those families with incomes below 80 percent of the median income.

The Urban Homesteading program has proved very successful at returning properties to productive use. Since the program's inception, over 10,000 single-family properties have been transferred to families that otherwise had little opportunity to become homeowners. As a result of the program's success and to provide local governments with greater flexibility in developing neighborhood improvement programs, this approach to homeownership has been extended to multifamily properties and properties acquired by cities through tax foreclosure. Approximately 15 multifamily properties and 168 locally owned one- to four-unit properties will be conveyed to homesteaders in 1986. All these urban homesteading programs have the same effects: they promote neighborhood stabilization, supply low-income housing, and improve residential living environments.

We now see the most striking results of these neighborhood revitalization experiences. For the first time in over 30 years several large cities have slowed their rate of population loss or have begun to register population increases. This includes cities such as Boston, New York, Chicago, and Indianapolis.

Over the longer term, the United States will be participating in the United Nations International Year of Shelter for the Homeless (IYSH) beginning in 1987. The United Nations IYSH's philosophy is to secure the commitment and action of all nations to help the world's poor improve their shelter and neighborhoods and, by so doing, help to integrate them into the economic mainstream. The theme of IYSH in the



United States is "Housing America: Freeing the Spirit of Enterprise." As part of this participation, HUD is holding a competition in 1986 to identify and recognize local public and private projects that demonstrate ways to augment or facilitate the efforts of the poor and disadvantaged to improve their shelter and neighborhoods.

These projects involve a wide range of housing and neighborhood development activities, including:

- Construction and rehabilitation of housing, particularly through individual and community action, with emphasis on private sector involvement.
- Provision or improvement of community facilities and services.
- Identification, testing, and use of low-cost materials and techniques for the construction of housing and upgrading of community services.
- Generation of jobs in housing construction, maintenance, rehabilitation, and management.
- Increased availability of funds to finance the construction or purchase of housing.

Approximately 200 applications have been received for this competition. Local projects that fit criteria set out by the United Nations will be officially recognized by HUD as IYSH

projects. From this larger group of IYSH projects 15 to 20 projects will be selected for special merit awards; monographs on these projects will be published for worldwide dissemination. In addition, a U.S.-sponsored conference will be held in 1987 to exchange experience on IYSH projects and their activities in this country.

The urgent need at this time is for continuing efforts by State and local organizations to feed the momentum that has been established and to find ways of using welfare, education and training, housing assistance, and mass transportation programs in imaginative new combinations at the local level so as not only to give people new opportunities but also to contribute to neighborhood revitalization.

Urban Infrastructure

The Federal Government provides about half the Nation's financing for infrastructure, but State and local officials select almost 80 percent of the actual infrastructure projects. Under this arrangement, urban infrastructure has improved in recent years. However, with the increased scarcity of Federal funding, there is need for greater selectivity in Federal financial assistance and for State and local authorities to refine their methods of choosing the proper and most cost-efficient mix of new construction, rehabilitation, and operational improvements.

Capital Formation for Infrastructure

Economist George Peterson, a student of community infrastructure investment, wrote in 1985 that "The United States has launched a campaign of reinvestment in its capital infrastructure. The commitment began in the big cities and industrial states but now appears to have spread widely enough to reverse a 15-year course of declining investment in basic transportation, water and other systems."

This trend can be seen in the upturn in debt issued by State and local governments since 1981. Between fiscal 1980-81 and 1983-84, debt issuances increased by close to 50 percent in real terms. In terms of actual capital outlays, however, the upturn is not yet evident, due to the lag between borrowing and expenditure and to the unavailability of current data. Perhaps the most remarkable upturn in outlays that is apparent from available data is in transit investments, which have been increasing by \$600 million per year from 1980 to 1984. This trend is associated with the rapid increase in sales tax revenues for special transit districts.

Indications are that these high volumes of local capital investment will continue as long as conditions are favorable. A 1985 survey by Touche Ross and Company, for example, found that local officials plan to spend twice as much for infrastructure in the second half of the 1980's as they did in the first half.

The trend toward more efficient and sophisticated capital financing reported in the 1984 Urban Policy Report has continued. At the latest count, at least seven States had established State bond banks that issue bonds and use the proceeds to buy local bonds. At least 14 other States are considering such measures. In addition, some States may set up revolving loan funds. As communities repay loans, money is lent to others, spreading funds to more projects over a longer time period.

Another approach is for the States to purchase local issues and then consolidate and market a new State issue at preferred terms. Still another technique is the State guarantee of local bonds to improve marketability. The State may directly guarantee local issues or help communities get or pay for private-sector guarantees. States are also providing technical assistance in bond marketing and helping communities upgrade credit ratings.

States that have enacted some or all of these mechanisms include Alaska, Georgia, Maine, Montana, Nevada, New Hampshire, Vermont, and Utah. In Indianapolis, the newly authorized Local Public Improvement Bond Bank will pool debt issuances of several units of local government in Marion County. The Bank will provide localities with greater

flexibility in borrowing instruments than was previously available to them under State law.

Local officials are being encouraged from all sides to make maximum use of user fees wherever feasible in generating revenue to pay for capital as well as operating costs of public facilities. Economists emphasize the efficiencies in resource use resulting from charging users a "price" for incremental goods and services used instead of relying totally on general tax levies that are insensitive to consumption. Taxpayer groups often prefer user charges to increased general taxes.

Transportation

The transportation infrastructure of urban areas has improved in recent years. As a result of the Surface Transportation Assistance Act of 1982, States and localities launched an extensive program of new construction, repairs, and rehabilitation with the additional Federal funds and matching State and local moneys. During the 3-year period since the enactment of this legislation, progress has begun in stemming and reversing the tide of physical deterioration in the Nation's urban highways and mass transit facilities. Annual spending \$13.4 to \$14.2 billion was obligated on highways and \$3.6 to \$4.2 billion on transit by the Federal Government from 1983 through 1985.

Highways and Bridges

There are almost 4 million miles of public roads of which 673,700 are in urban areas and approximately 600,000 bridges in the United States. The Federal Government provides grants to States to assist in financing the construction and preservation of about 22 percent of these roads and about 47 percent of the bridges. These Federal-aid highways carry about 80 percent of total U.S. highway traffic.

Federal-aid highways and bridges are managed through a Federal-State partnership in which:

- States and localities maintain ownership and responsibility for roads.
- State highway departments have the authority to initiate projects subject to Federal Highway Administration (FHWA) approval of plans, specifications, and cost estimates.
- The Federal Government provides financial support through matching grants, the terms of which vary with the type of road.

Federal-aid highways are divided into four systems, each of which has a different function and different standards. The first three are in urban areas:

Interstate and Defense Highway System. These limited access routes connect major cities and industrial areas, and are subject to the highest standards. The Interstate system consists of about 43,000 miles of road—1 percent of the Nation's total—and carries 20 percent of all traffic. About one-quarter (10,600 miles) of these 43,000 miles are in urban areas.

Primary System. This is a system of interconnected roads important to interstate, regional, and State traffic, including rural arterial routes and extensions into and through cities. Excluding the Interstate highways, the primary system consists of 257,000 miles of roads—7 percent of the U.S. total—but carries 29 percent of the Nation's traffic. About 31,300 miles are in urban areas.

Urban System. This is a system of urban arterial and collector routes, exclusive of urban extensions of the primary system. It includes about 137,000 miles of roadways—4 percent of the U.S. total—and carries about 22 percent of total U.S. traffic.

Secondary System. This is a system of rural major collector routes designed to provide access to rural residents. It includes about 397,000 miles of highway—just over 10 percent of the U.S. total—and carries about 22 percent of total U.S. traffic.

Total highway revenue collections and disbursements for the Federal-aid system reached all-time high levels in 1985 (disbursements are shown in Table IV-1). Constant dollar growth of disbursement averaged 5.4 percent annually from 1980 to 1985, with most of the growth occurring following

passage of the Surface Transportation Assistance Act of 1982 (STAA).

Table IV-1
Total Spending on the Federal-Aid Highway System,
1982–1985*

(billions of 1983 dollars)

Interstate

Year	Construction	4R***	Primary	Secondary	Urban	Total
1982	3.0	0.5	5.8	1.1	1.5	11.9
1983	3.1	1.3	7.0	1.1	1.7	14.2
1984	2.9	2.4	8.1	1.2	1.9	16.5
1985**	2.5	3.2	8.5	1.3	1.9	17.4

* Includes highways, bridges, and engineering costs.

** Estimates.

*** Resurfacing, Restoration, Rehabilitation, and Reconstruction.

Source: U.S. Department of Transportation

Since passage of the STAA, pavement conditions on the Federal-aid highway systems have stabilized and improved. The constant-dollar investment per unit of travel on the Federal-aid system increased, even while travel on these systems increased 3.8 percent annually since 1982.

Over this period, almost 50,000 miles of highways were built, reconstructed, or improved, at a cost of more than \$60 billion in Federal, State, and local funds. Each year since the passage



of the STAA, the number of improved miles of Federal-aid highways has been substantially higher than the pre-STAA figure. Resurfacing, restoration, and rehabilitation, a high priority of the Administration, as well as State and local governments, represented 70 percent of the improved mileage. The highest expenditure level, almost \$10 billion over the 4-year period, was for the construction and improvement of bridges.

Mass Transportation Systems

There is some form of regular, fixed-route transit service in most urbanized areas, and there are at least 300 other systems providing services to smaller cities and towns in rural areas. Local public transportation is provided by conventional fixed-route bus service, commuter rail service, rapid rail transit systems, light rail transit lines, and a broad range of services known as paratransit. Federal assistance is currently available for both capital investments and mass transit operating costs. There are two major elements of the current Federal assistance program:

1. A **formula grant** program provides the Federal contribution for routine capital replacement or expansion and operating assistance. In 1985, this program apportioned \$2.45 billion in new budget authority, of which \$2.166 billion went directly to urbanized areas with over 200,000 population and \$284 million went to the States for use in small urbanized and rural areas. These formula funds can be used for either capital investment projects or operating costs. However, there was an \$870 million ceiling on the amount that urbanized areas may use for operating expenses.
2. A **discretionary grant** program of \$1.1 billion assisted rail system extensions and modernization, new rail systems, bus vehicles and facilities, transit system planning, nonprofit local elderly and handicapped services, and demonstrations related to new equipment.

For the fiscal years 1982 to 1985, commitments were made to purchase 916 new rail cars and 11,639 new buses. During these 4 years, \$2.6 billion was obligated for rehabilitation and modernization of urban rail transit systems, with the largest share going to New York, Chicago, Pittsburgh, Philadelphia, and San Francisco. Another \$1.1 billion was obligated for construction of new urban rail lines or extensions in 10 urban areas including Atlanta, Baltimore, Buffalo, Miami, Detroit, Portland, and Santa Clara County, California.

However, some of the problems with mass transit systems cannot be solved with Federal financial assistance: rising operating costs, capital cost overruns, stagnant ridership, and an inability to adjust to changing patterns of urban development. These problems can only be addressed at the local level where solutions can be adapted to specific conditions.

The Administration believes that significant efficiencies in the provision of public transportation service can be accomplished through increased competition and private sector contracting. Research by the University of California has shown that public transit operators have saved between 10 and 50 percent by contracting services to private operators. Consequently, the Department of Transportation (DOT) has been promoting increased involvement of the private sector in providing urban transportation services and in the financing of these services.

To further promote private sector participation, DOT issued a Policy on Private Participation in the Urban Mass Transportation Program in October 1984. It calls for early involvement of private providers in the development of new transit services and for their maximum feasible participation in providing those services. The policy identified the principal factors that DOT would consider in determining whether recipients complied with existing statutory requirements for private sector participation. It indicated that private transportation providers must be consulted in the development of plans for new and restructured services and that local areas must have explicit processes and mechanisms for involving them. Moreover, the policy required that private carriers be considered where new or restructured public transportation services are to be provided. A true comparison of costs is to be used when comparing publicly provided service with private providers. An independent local dispute resolution mechanism must be established to ensure fairness in administering the policy.

The instances of private provision of urban public transportation services and in public/private cooperative ventures are certainly increasing. Some transit agencies already are contracting out services which are more expensive for the agency itself to provide. Many others are considering similar approaches.

Legislative and Policy Initiatives

The Administration is proposing a major restructuring and redirection of transportation programs whose current authorizations expire in 1986. The Administration has sent to Congress the proposed Surface Transportation Reauthorization Act of 1986, which gives State and local officials more discretion in highway construction, highway safety, and transit projects. At the same time, it would encourage and require competition with the private sector as a condition for Federal transit assistance. The proposed legislation would authorize \$14.1 billion annually from the Highway Trust Fund for the 4-year period from fiscal year 1987 through 1990. Thus, the authorizations would be totally funded from user charges for the highway, transit, and highway safety programs.

The proposed legislation would create a new combined highway and transit block grant program that would provide State and local officials more flexibility to address their local highway and transit needs. The new program would be authorized at a projected \$3.3 billion annually and funds could be used for either highway or capital transit projects at the discretion of State and local officials. Highway projects could be on any public road. Federal requirements for such projects would be significantly reduced.

Funds attributable to areas with populations of 200,000 or more would be made available to the areas for use on projects selected by local officials. The remainder of the funds could be used anywhere in the State for projects selected by the State in consultation with appropriate local officials. The new program would replace the existing urban and secondary highway system programs, the nonprimary portion of the bridge program, and the transit formula grant program. The transit discretionary grant program would be discontinued.

The Administration continues to support the reduction of Federal transit operating assistance. Transit fare and service decisions and the resulting subsidy requirements are a local responsibility. Local decisionmaking, until now impeded by Federal operating assistance, could increase operating efficiency, bring compensation in line with productivity, and generate local financial support. The proposed legislation would eliminate operating assistance for large urbanized areas of 200,000 or more in population. Recognizing that smaller urbanized and rural areas have a higher dependence on Federal assistance and that serious hardship might result from sudden cessation, the proposed legislation would permit block grant funds for operating assistance for these areas, but the amount could not exceed current levels.

This legislative proposal would change Federal highway and transit programs so that they can respond to transportation issues and needs to the 1990's and beyond.

Urban Environmental Protection: Air and Water Quality

Pollution from all sources has been greatly reduced in recent years, due mainly to greatly increased State and local efforts to control air-quality and to the construction of municipal wastewater treatment plants. There has recently developed a greater degree of flexibility in designing stationary pollution control systems, permitting lower costs than with inflexible rules and regulations.

Clean Air

The primary goal of Federal air quality standards administered by the U.S. Environmental Protection Agency (EPA) is the

protection of human health. Secondary standards include measures to deal with problems affecting human welfare, such as visibility degradation and dirt and grime in the Nation's cities.

The high volume of traffic in urban areas makes automobile emissions a major source of air pollution. Since the passage of the Clean Air Act in 1963, considerable progress has been made in reducing these emissions with new car standards representing a 95 percent reduction in hydrocarbons, a 96 percent reduction in carbon monoxide, and a 76 percent reduction in nitrogen oxides.

Exposure to lead has been associated with serious health consequences in children, with recent studies suggesting that some of those consequences occur at lower lead levels that were typical of children's mean blood lead levels a few years ago. Recent studies in both humans and animals have linked lead to increases in blood pressure, a serious factor in cardiovascular disease.

In response to these studies and data on misfueling of unleaded cars with leaded gasoline, EPA has imposed a new limit on the lead content of gasoline that is only 10 percent of the old standard. EPA has also proposed a total ban on the use of lead in gasoline in 1988.

Another means to reduce pollution from mobile sources is the implementation of automotive vehicle inspection and maintenance programs in areas which exceed national standards. EPA has made it clear that it will impose Federal funding sanctions mandated by Congress on those few areas that do not implement the required inspection programs.

EPA continues to encourage industries to meet or do better than their environmental requirements through flexible approaches such as air emissions trading. Using EPA's 1982 interim Emissions Trading policy, companies that reduce emissions more than required at some smokestacks can receive reduction credit to meet regulatory requirements at other stacks. EPA has approved or proposed 50 urban "bubbles" for an estimated \$300 million in savings for the affected firms. An additional 40 bubbles have been authorized by States under EPA-approved generic rules.

Clean Water

EPA operates under three major laws in addressing water pollution problems. These are the Safe Drinking Water Act (which ensures that drinking waters are free from harmful contaminants), the Clean Water Act (which regulates discharges of pollutants into surface waters), and the Marine Protection, Research, and Sanctuaries Act (which provides for the safe and effective disposal of wastes at sea).

One of the ways in which EPA approaches solutions to water pollution problems is through the construction grants program, a program that provides funding for municipal wastewater treatment plants. The construction grants program has since 1970 been one of the largest intergovernmental assistance programs in the Federal Government.



Given our success in building the Nation's municipal wastewater treatment infrastructure and the current fiscal realities, the emphasis of the municipal water pollution control program will shift in coming years from financing new construction to ensuring that existing facilities are properly operated and maintained. The National Municipal Policy is intended to ensure compliance with discharge limits, by July 1988, for all publicly owned treatment works (POTW's).

Progress is being made in controlling toxic pollutants from industrial discharges. EPA studies and sampling efforts show that current levels of control are removing significant amounts

of a number of toxic organic chemicals and heavy metals. Furthermore, a survey of wastewaters entering and leaving municipal sewage treatment facilities reveals that well-operated plants provide an incidental removal of priority pollutants such as heavy metals and organics.

Under the Safe Drinking Water Act, EPA has the responsibility to establish standards to ensure the safety of drinking water while encouraging States to accept the primary responsibility for enforcing those standards. In the last year, a primary emphasis of the public water supply program has been to propose standards for volatile organic chemicals. The program also has initiated regulatory activity to control over 50 contaminants, including pesticide products, inorganic compounds, synthetic organic chemicals, micro-organisms, and radionuclides.

EPA also has taken action to address the problem of ground-water degradation. Because nearly half of the population depends on ground water for its drinking water, this is an issue that affects many urban communities. The Ground-Water Protection Strategy, released in 1984, established the overall policy framework for guiding EPA programs in preserving this vital resource. In the past year, the ground-water program has been developing guidelines to classify ground waters according to their value and vulnerability to contamination. All this will result in a more consistent and coordinated set of environmental programs to protect public health.

This Administration's approach to the environmental aspects of National Urban Policy is fundamentally different from the approach of predecessor Administrations, which followed the path of ever more Federal categorical aid programs and ever higher funding for each program. This Administration's approach is to call attention to certain needs or standards and to provide limited amounts of Federal aid in a form that motivates State and local governments to focus on high priority local needs and to allocate their more limited resources efficiently.



