119169

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410-0001

September 1, 1988

The President
The White House
Washington, DC 20500

Dear Mr. President:

I have the honor of transmitting to you the President's Report on National Urban Policy 1988, pursuant to the requirements of the Housing and Urban Development Act of 1970, Public Law 91-609, as amended in 1977.

This Report documents the widespread and profound effects that the policies of your Administration have had on urban life in America. In the past 8 years, during the longest sustained peacetime economic expansion in U.S. history, urban America has experienced an unparalleled increase in jobs, income, and the capacity to pay for public sector goods and services. Cities and metropolitan areas are seizing the opportunities offered by the revived national economy.

Furthermore, Administration policies--emphasizing the value and efficiency of placing urban decisionmaking at the State and local levels--have enabled people who are most concerned about local programs, and who are the most knowledgeable about solving them, to join together in new initiatives, often with private-sector partners, to address those problems.

Yet the very success of the past 8 years has brought into sharp relief conditions in many major cities that resist solution by simple expenditures of public funds or strengthened fiscal positions. Drug trafficking and abuse, low academic achievement in public schools, and inadequate opportunity for poor families to enter the economic mainstream are conditions found in concentration in a number of the Nation's major urban areas.

The Report describes the successes resulting from Administration urban policies in the past 8 years, and the central concerns that should be the subjects of national policy debate on urban affairs for the 1990s. The focus of that debate should be on finding solutions to stubborn problems having to do with neighborhoods, families, and crime.

The Nation can and will deal with these problems, for the tools are at hand, the sorting out of governmental responsibilities has been completed, the economy is robust, and the direction is clear. The reliance of this Administration on the American people, organized in their families, neighborhoods, and State and local governments, has proved to be well-founded and will enable the people to solve even the most recalcitrant of urban problems.

Respectfully,

Samuel R. Pierce, Jr.

Samuel R. Pierce, Jr.

Enclosure

the President's National Urban Policy Report

1988

Table of Contents

Chapter I: **Overview**

Chapter II: **Urban Economies**

Chapter III: **Fiscal Federalism**

Chapter IV: **The Physical Environment**

Chapter V: **Urban Social Conditions**

List of Tables

Chapter I

Overview

For 6 years, the Nation has followed a path of sustained economic growth, low inflation, and growing employment and productivity. As expressed in the 1982, 1984, and 1986 **President's National Urban Policy Reports**, this effort has been the cornerstone of the Administration's urban policy. Upon it have risen the increased capacity and self-confidence of the State and local governments, empowered by the Administration's federalism, and a burgeoning emphasis on public-private cooperation and privatization to meet public goals. Once the recessions of 1980 and 1982, triggered by a decade of inflationary stagnation, had receded, the people of the Nation's urban areas moved rapidly to seize the opportunities provided by a revived national economy.

Evidence of the economy's new-found enduring strength continues to surface. Real gross national product increased steadily at about 3 percent per year from 1982 to 1988. Unemployment decreased from about 10 percent in 1982 to 5.4 percent in April 1988. Inflation fell from the double-digit levels of the late 1970s to a current 3.7 percent. Interest rates have fallen. Labor productivity has grown more than twice as fast in the 1980s as it did during the 1970s.

The successes of the Administration's urban policy abound. Once apparently moribund urban areas in the Northeast have made a successful transition to diversified and growing economies; this turnabout is especially striking in New England. The Midwest, having struggled under the burden of older cyclical industries, has begun to reassert itself in international and domestic markets as currency exchange rates have adjusted. In the South and West, except for States heavily dependent on oil extraction, employment has grown at a very healthy pace. It has become clear that every section of the Nation can and must diversify and adjust in order to remain competitive in domestic and international markets. As the other sections of the country have proven, however, the necessary changes are much more easily made within a healthy national economy, in which Federal policies encourage rapid competitive restructuring, as opposed to forlorn attempts to resist market forces.

The success of the Administration's urban policy over the past 8 years has also brought into relief the recalcitrance of some enduring urban social problems, including the following:

- In many urban areas, there is drug trafficking and abuse, low academic achievement in the public schools, and inadequate opportunity for poor families to enter the economic mainstream.

- In some older central cities, moreover, special urban social problems plague families and neighborhoods. These include: high unemployment and skill deficiencies among youth and the disadvantaged; illiteracy and high dropout rates from public schools; alarming numbers of teenage pregnancies; a high incidence of single-parent households headed by women who are poor; neighborhoods with high concentrations of the poor and disadvantaged; housing programs that lock the needy into neighborhoods without jobs or access to jobs; and inadequate provision for occupational or geographic mobility for workers displaced by rapid structural changes.

These problems are largely the results of the proliferation of single-parent families, ineffective schools, and drug addiction and crime—all of which appear to resist simple economic and fiscal success. They indicate a need for refinements in urban policy that build on the success of the past and emphasize measures to reinforce family stability, especially among those with low incomes, and increase family options to obtain jobs and educational opportunities. This urban agenda must forge close ties between local governments and private and religious organizations that are solidly located in many low-income neighborhoods as well as alliances among all levels of government and the majority of decent, hard-working poor families in order to reestablish high standards for work, education, and behavior in all schools and communities.

The new urban policies needed in the 1990s will be most effective if they recognize the new character of metropolitan areas, including the growing economic strength of cities, the increasing dominance of suburban populations and markets within metropolitan areas, and the healthy fiscal positions of both State and local governments. With this restructuring and rebirth of urban areas, all levels of government and the private sector can turn their attention to the enduring difficulties of single-parent families, education, and drugs and crime, always assuming the continuation of the foundation of economic growth and stability from the success of the Administration's economic policies. The hope for ameliorating remaining urban ills lies with local communities, families, and State and local governments, where the power, creativity, authority, resources, and knowledge of local needs are concentrated. Suburbs in cooperation with central cities have both the resources and the knowledge to work with their States to ameliorate these problems.

This clearer vision of the issues that are not amenable to fiscal and economic success, or responsive to simple expenditure of public funds, demands a refocusing of the National Urban Policy agenda for the 1990s. Direct Federal Government intrusion into urban markets and into the decisions of local governments is not likely to be the optimal policy course; rather, freeing urban governments from restrictive Federal programs and regulations may prove the most successful future direction. Such a strategy would include the following elements:

• The Federal role should be primarily one of providing basic family-oriented financial assistance that enhances the capacity and authority of families and aids States and localities in responding flexibly to family needs. More flexible means should be developed for assisting low- and moderate-income people in urban areas with their housing needs and giving them the choice to locate closer to where job and educational opportunities are. Housing Vouchers and assistance to States for job training programs may be models for such efforts. The National Urban Policy should leave to State and local governments as many as possible of those policy decisions that do not involve Federal transfer payments to individuals.

• The shift in the focus of Federal programs from "place-specific" urban aid to direct assistance to needy people and families or to State governments should continue. Direct Federal aid to urban places should be reserved for cases of severe economic adjustment and dislocation problems, and can best be handled with flexible programs such as the Department of Housing and Urban Development's Community Development Block Grant (CDBG) program. Several decades of experience show that, however well-intended, Federal assistance to urban places in opposition to market forces, to people's preferences, or to State policies and programs, is unlikely to succeed.

• All levels of government, but especially State and local governments, must form alliances with the hard-working, family-oriented majority of the poor to reassert high expectations for all citizens, regardless of income, race, or ethnicity; to restore expectations of self-discipline and achievement, and if necessary, to restore faith and hope; and to enforce these expectations through law and regulation where necessary in the schools and parental responsibilities. Governments must protect those with the courage to be moral.

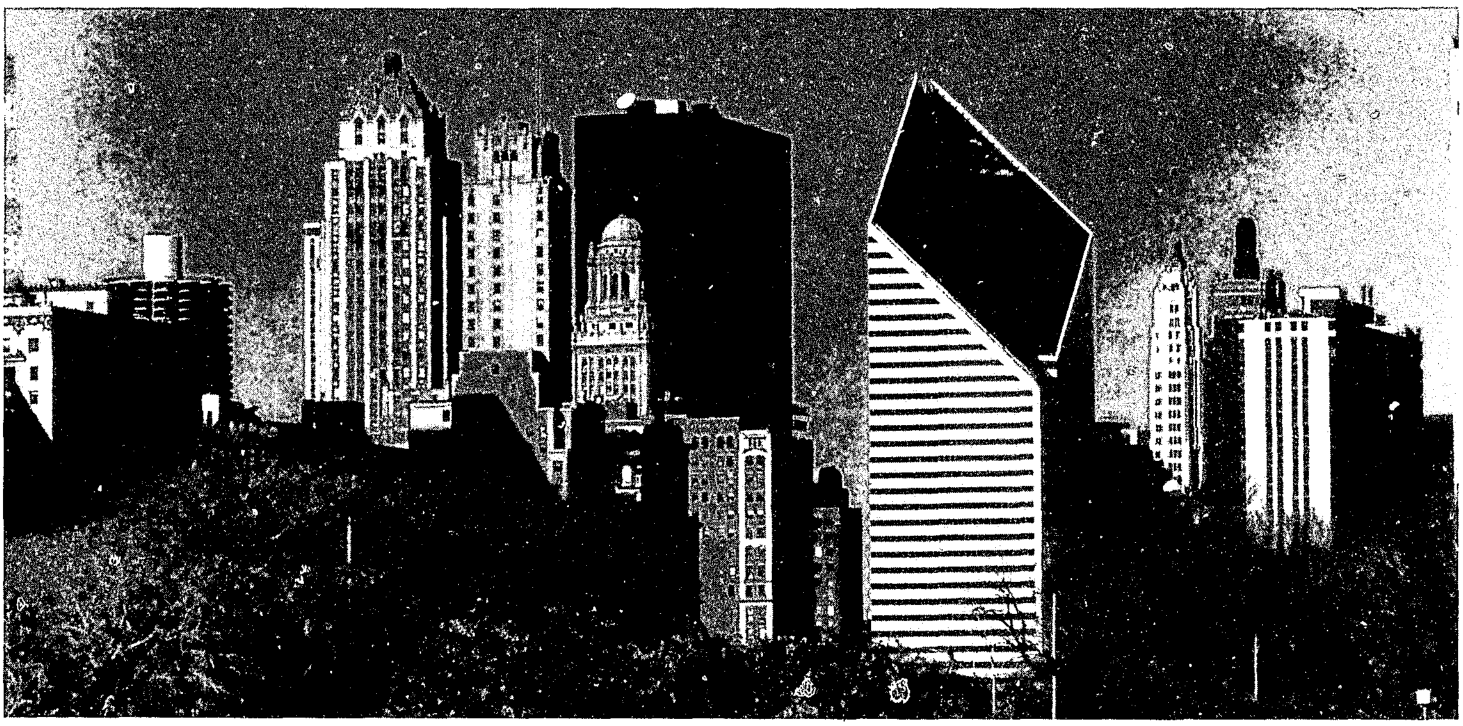
• Urban schools must prepare all young people for a labor force characterized by far more demanding skill requirements. Most good new jobs are in the service industries and require at least 1 year of education beyond high school. Many workers are prevented from getting jobs or moving to better jobs by their lack of basic competency in reading, writing, and speaking English, by their poor math skills, and by their lack of reasoning and problem-solving skills. Beyond what the schools do, training programs, employers, and the individuals themselves should work to ensure that everyone in urban areas is fully prepared to contribute to a technologically complex society. People should expect to pursue more continuing adult education in the years ahead, and urban educational institutions should be geared to provide it.

• Better ways to break the cycle of welfare dependency must be considered, especially in older central cities where poverty has often become concentrated, and to facilitate the movement toward self-sufficiency. Urban areas cannot afford to continue a situation in which many young people—primarily poor, minority school dropouts—face lives of unemployment and welfare dependency, compounded by problems of illiteracy, drug use, and teen pregnancy. Urban officials need to focus training and employment resources on young parents and adolescent children in families receiving Aid to Families with Dependent Children (AFDC); enhance opportunities for educational choice, incorporating work requirements for welfare recipients where appropriate; and make use of programs such as Housing Vouchers to enable families to locate in working communities outside areas of high concentration of social, educational, and crime problems.

• The private sector has been and will continue to be the primary satisfier of social needs, from day care to health insurance, from employment training to transportation. Consequently, all governments must be sensitive to the burdens they impose on the private sector when financing social programs directly. Such burdens can, in fact, decrease the total services available, even to the poorest families.

• More and more women and single heads of households are entering the urban workforce and may have special needs such as child care that should be considered if they are to be productive workers. Employers who recognize these needs are better able to attract and retain a quality workforce.

• As part of the recasting of relations among Federal, State, and local governments and in recognition of major shifts in relative expenditures in a revitalized Federal system, State and local governments can be expected to invest in activities previously funded almost exclusively by Federal Government grants. New legislation is needed to prevent Federal programs from being used to encourage antimarket activity that will hamper adjustments by State and local governments. Federal Government infrastructure programs must be focused on Federal properties and activities of particular concern to the Nation.



This 1988 **President's National Urban Policy Report** both documents the success of the past 8 years and initiates what is hoped will be a major debate on the urban policy agenda for the 1990s. The Nation has the opportunity, meeting on the solid foundation of fiscal and economic success of the 1980s, to turn its care and conviction to the problems that afflict the spirit of its families, its poor, and those ill-served by well-intentioned but naive programs of the past. This report looks toward the expansion of efforts—already begun in many communities by State and local governments, imperiled families and committed private organizations, low-income residents of public housing, and dedicated minority parents in public and private schools—to raise standards and self-discipline in education, in job training and performance, and in community appearance and pride. The Federal Government, in alliance with local efforts rather than through dictation, can provide leadership, information, and flexible basic assistance for families, or block grant aid to the States and local governments to assist in these efforts. The greatest resources of the Nation, however, as de Tocqueville pointed out a century and a half ago, come out of the free associations of its citizens. It is upon those talents of families and local communities that the next stories of urban success will be constructed.

Urban Economies

The current state of the Nation's urban areas sets the stage for Federal policies of the 1990s. The Administration's success in maintaining rapid, noninflationary economic growth has paid handsome dividends for urban economies. The economies of almost all metropolitan areas have grown at a very healthy pace during the 1980s, and most are adapting well to substantial changes in the sectoral composition of the American economy.

These sectoral changes are most evident in relative decreases in the importance of manufacturing employment, accompanied by increases in manufacturing productivity and the decentralization of the economy, most notably in the manufacturing sector. At the same time, employment in the service sector has been increasing, both within and outside metropolitan areas.

Changes in industrial structure are to be expected in a healthy, dynamic economy, especially in an era of technological revolution, exploration of new kinds and sources of information, and expansion of international productive capacity. Under the umbrella of overall prosperity, most urban areas have adapted to these changes. Those that have not adapted well have, by and large, been characterized by over-reliance on specific industries that are themselves not adapting or growing. Examples include manufacturing, where the productivity increases have had the effect of decreasing employment opportunities, and oil-related industries that have been hurt by price declines.

Each region has its own growth patterns. The Northeast has generally done very well during the 1980s, in sharp contrast to the severe losses of the 1960s and 1970s. The industrial Midwest suffers from structural changes, but shows signs of reviving as industries increase their productivity and currency exchange rates stabilize. The South continues to prosper industrially, with the exception of the oil-based States. Employment in the West maintains its healthy upward trend.

State and local governments are increasingly sophisticated in managing their own economies, and the Federal Government should in most cases avoid interfering. Although well-intended, market intervention by the Federal Government has often had unforeseen negative consequences, has occasionally conflicted with the policies of the States, and has sometimes retarded local economic adjustment to global forces of change. The most productive use of Federal resources is to facilitate worker mobility, both technologically (through training and retraining) and locationally (through reducing barriers to geographic mobility). Improving the general quality and mobility of the workforce is often better for promoting economic growth than providing Federal aid to specific urban areas.

The current sectoral shifts may produce mismatches between job skills and job requirements: workers with skills suitable for manufacturing jobs may not have the skills required for service jobs. A way to improve the circumstances of workers facing such dislocations is to increase their mobility or, at least, not impede it. Many Federal policies do exactly the latter—impede the mobility of families and labor. Examples include project-based Federal housing assistance, Federal public transportation policies that are oriented toward central cities and are inflexible to changing employment locations, and Federal economic development projects that merely postpone inevitable economic adjustments among industries that are declining nationwide.

As far as urban economic development is concerned, the Federal role in the urban policy agenda of the 1990s should move toward encouraging greater flexibility and mobility of labor and capital. This includes (1) promoting worker geographic mobility; (2) improving worker skills; (3) removing barriers to business location and fostering economic development with programs such as Enterprise Zones; and (4) encouraging public-private partnerships to tap the talents of the private sector and local communities.

Fiscal Federalism

State and local governments are now in sounder fiscal shape than at any time in the recent past. Cities suffered though the decade of the 1970s: they provided public services within an environment of severe recession and rapid inflation, which resulted in pronounced dissatisfaction with both the quantity and quality of municipal services. During the 1980s, the fiscal environment and the financial condition of the Nation's urban areas improved dramatically. The results of 5 years of uninterrupted growth, with an average inflation of just over 4 percent, are that cities and States have been able to stabilize their budgets, secure their tax bases, and for most, run consistent operating budget surpluses. The best help the Federal Government can provide to cities is economic growth with stable prices, a strategy that has proven sound, not more Federal aid.

All the measures of fiscal condition examined in this discussion suggest that State and local government finances have improved dramatically over the past 5 years and are now quite healthy. As the economy has grown, State and local revenues have continued to expand, whereas their expenditures remained comparatively stable. As long as the economy continues to grow, State and local governments can meet their fiscal responsibilities.

State and local governments, like the Federal Government, must recognize and avoid the temptation to project unreasonable resource growth as a way to avoid difficult expenditure realignments. Some States and localities have already been forced to restrain accelerating expenditure patterns that were based on unrealistic, overly optimistic revenue estimates. Even in the most optimistic cases, however, they have shown more restraint than the Federal Government.

This Administration has vigorously pursued a policy of slowing the growth of and streamlining the grants-in-aid system, with the goal of promoting local government creativity by replacing highly regulated categorical programs with block grants. The Administration has moderated, streamlined, and deregulated aid to cities, allowing increased State and local government control over their own budget decisions. When the Administration took office, a consensus held that Federal categorical aid programs to State and local governments were out of control, and that the national level of government was too overloaded with local issues to make wise decisions. As a consequence, the number of categorical grants has been reduced, and the mix of grant-in-aid programs has shifted to emphasize redistributional grants to families and individuals.

The Administration has returned more authority and responsibility to the private sector and to State and local governments that are directly accountable to local voters. The Federal Government has stepped back into its traditional role of concentrating on policies aimed at problems that are truly national in scope; i.e., economic growth, price stability, and meeting the basic needs of lowest income families.

The result has been to stimulate creative problem-solving and to promote healthy cooperation between levels of government in addressing local needs and exploring local opportunities. Service delivery systems in cities are improving, public sector productivity is growing, and local governments are reaping the benefits from working more closely with the private sector, which in some cases means privatization. In Denver, the regional transit authority is about to turn over the entire six-county bus system to private operators. In Anne Arundel County, Maryland, the county government and private developers are launching a joint venture to build a new water and sewage treatment plant that will improve service for current and future residents. In Edgewater, New Jersey, sewage treatment capacity was inadequate for development plans, but the town could not afford new facilities. The town is contracting with a private company to build and operate the new capacity, all without significant tax increases. In North Dakota and Minnesota, the first private toll bridge in 40 years will be built between Fargo and Moorhead. After users pay 25-cent tolls for 20 years, the bridge will be owned by the cities. In Florida, private companies are competing to provide a high-speed rail link between Miami, West Palm Beach, Orlando, and Tampa. The 300-mile railway will replace $1 billion of highway capacity.

The Federal Government must recognize the true, healthy condition of cities and their suburbs, the dominant and growing role of suburbs in contemporary urban life, and the political and fiscal strength of State and local governments. The revival of the political and fiscal strengths of cities must be not only welcomed, but also wholeheartedly encouraged. After meeting its fundamental responsibilities for maintaining the national economy, providing defense, and ensuring the necessities of life for the neediest Americans, the Federal Government in the next decade faces the challenge of working harmoniously in a subordinated role with State and local governments on domestic problems such as crime and drug abuse, the deterioration of family life, and the quality of education. Although national in scope, these concerns have always been primarily State and local responsibilities. The urban policy of the 1990s must be built upon the repaired and now solid foundation of fiscally healthy State and local governments that this Administration's policies have produced.

The Nation's urban fiscal policy for the 1990s should be based on the Administration's successful initiatives. Specifically: (1) the importance of economic growth to a national urban policy cannot be overemphasized; (2) because cities and States exercise superior fiscal responsibility compared with the Federal Government, fiscal resources should increasingly be left in their hands; (3) cities and States may continue to require some Federal support in their efforts to help needy people, but, for the most part, that support should be provided as much as possible by voucher-style assistance or incorporated into existing transfer payment programs rather than as location-specific grants-in-aid; (4) the Federal Government should provide whatever locational-specific assistance is needed for areas experiencing severe difficulty adjusting to market changes through streamlined block grants or deregulatory- and tax incentive-based programs such as Enterprise Zones; (5) serious thought should be given to correcting inequities and possible inefficiencies created by current tax expenditure programs; and (6) cities and suburbs must work together and with their respective State governments to address policy matters that do not involve Federal transfer payments to individuals.

The Physical Environment

The Administration's National Urban Policy also pertains to the physical environment—urban infrastructure, transportation, environmental protection, and neighborhood revitalization. The objective of the Administration has been to return to States and local governments the responsibility for responding to local needs and priorities. Federal spending should be limited to clearly national infrastructure concerns and should be distributed in a manner that encourages frugality and effective local allocation of resources.

Funding Urban Infrastructure

Except for Interstate highways and certain hazardous waste sites, providing urban infrastructure is clearly a State and local function, and the time has come for the Federal Government to return full financial responsibility to the locus of operation, where the incentives for accomplishment and efficiency are greatest. States and localities have a wide array of revenue sources with which to fund public works. In addition to the three major bases for general taxes (income, property, and sales), local authorities can apply user fees, special assessment districts, and development charges, all of which can, if administered properly, introduce efficiencies into the provision of capital-intensive services. Use of these fees and charges can help to equate demand and supply of services, discourage overconsumption of services and overbuilding of facilities, and, in some cases, encourage more efficient use of land in developing areas. None of these revenue sources can be used as effectively by the Federal Government as by State and local governments and their independent authorities.

Environmental Protection

A major change in the Federal funding of wastewater treatment plant construction was put in place with the passage of the Water Quality Act of 1987. As a result, the Environmental Protection Agency will begin in 1989 to phase out the grant program that was started in the early 1970s. It will be replaced for 4 years with capitalization grants for State revolving loan funds. By 1994, the States will fully control construction of the Nation's wastewater treatment plants.

Other recent Federal initiatives in the protection of water quality include proposed standards for organic chemicals in public water supplies, a ban on the use of lead in plumbing systems, and the initiation of regulatory activity to control more than 50 contaminants, including pesticides, inorganic compounds, synthetic organic chemicals, micro-organisms, and radionucleides. These initiatives indicate the Administration's commitment to continuing the Federal role of regulation of hazardous substances.

Neighborhood Revitalization

One of the most pronounced trends in recent years has been the birth of scores of effective private nonprofit development corporations working on housing rehabilitation and neighborhood revitalization for low- and moderate-income households. Many local governments are working closely with these neighborhood-based organizations, providing technical and financial assistance where possible. This heartening trend is abetted by a few private national organizations, such as the Enterprise Foundation, the Local Initiatives Support Corporation, the Oasis Institute, and Habitat for Humanity. The creative energy of these organizations is making headway in solving the problems of our urban neighborhoods. Reliance on local resources and talent is proving to be more effective in many instances than rigid categorical programs "parachuted" to the cities and neighborhoods from Washington.

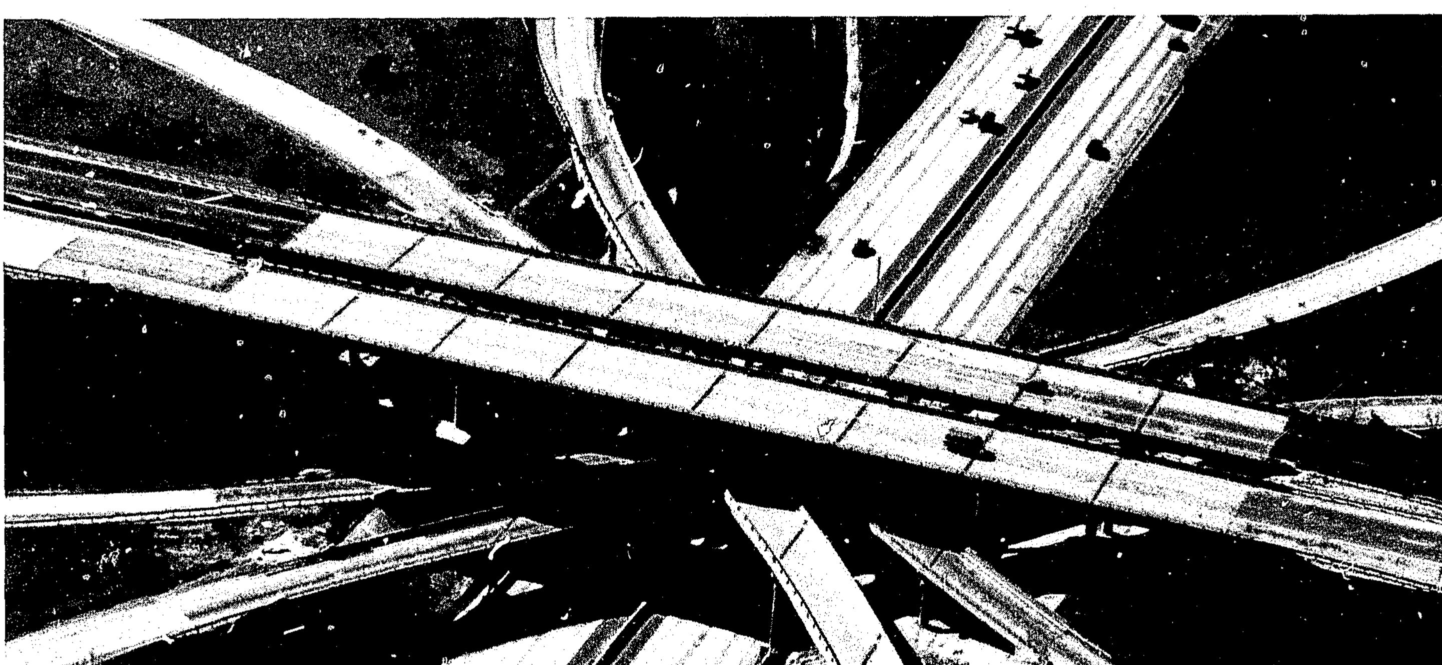
Urban Social Conditions

The national economic expansion has increased jobs, income, and the capacity to pay for public sector goods and services in cities and metropolitan areas throughout the country. Even many of the largest older cities in the North are benefiting from economic growth and restructuring, although such cities remain poorer than their suburbs, with higher concentrations of poor and minority populations and a disproportionate incidence of social problems. The interaction of economic growth, migration, and the current fiscal strength of State and local governments give cities a new capacity to deal with their problems and to help the urban poor and disadvantaged children move toward more productive and self-sufficient lives.

Yet changing patterns of chronic dependency, crime, teenage pregnancies, and drug trafficking still challenge cities, especially those burdened by above-average concentrations of unemployment, poverty, disrupted families, and low educational achievement. Increasingly, poor children are living in one-parent households, almost all with mothers only, and the concentration of such families in poor neighborhoods has been increasing within several large central cities. Integrating and rationalizing often contradictory policies with respect to education, welfare reform, employment training, and housing will be necessary to retain and strengthen incentives for economic, social, and geographic mobility while aiding the needy who cannot provide for themselves.

In order to have a sound basis for refocusing policies aimed at improving urban social conditions in the 1990s, it is useful to keep in mind the major social and demographic trends affecting urban areas:

- Past suburbanization—selective by income, household type,



and race—has created wide disparities between central cities and their suburbs in income and resources, especially in those metropolitan areas with large old cities unable to annex growing fringes. The growth in these income disparities has noticeably slowed and may be stopping, but the gap remains.

• Over recent decades, suburbanization and regional redistribution have resulted in slow population growth—or decline—and increasing relative concentrations of minorities in older Northern cities and some close-in suburbs.

• The sustained economic expansion of the past 6 years has helped almost all communities by creating new jobs without generating high inflation. However, changes have been taking place:

> — The number of manufacturing jobs has been stable for the Nation as a whole, although some older cities have been losing manufacturing jobs.
>
> — Most of the new jobs in the Nation are in service industries. New service-industry jobs are opening up in many urban areas and cities across the Nation. Many of these are well-paying jobs that require education beyond secondary school at a time when many minority and disadvantaged youth in central cities are not even completing secondary school.
>
> — Unemployment is down in most cities across the Nation, but it remains unacceptably high in some central cities, especially among minorities and disadvantaged youth.

Urban social conditions in the United States today, although for the most part improved over a decade ago, have reached the point where the Nation's very success has brought into relief the recalcitrance of the remaining urban problems and the fact that these problems resist solutions by simple increases in expenditures or strengthened fiscal positions.

The urban social problems do not appear to be functions of money. America spends about 35 percent of its national income on government. Unfortunately, increases in welfare programs to assist and preserve families have coincided with structural economic change, an increase in skill requirements for new jobs, a proliferation of single-parent families, and increased rates of poverty among children. This convergence of forces has set off a nationwide debate on the real effect of welfare programs as well as calls for welfare reform, even though as yet no national consensus has emerged on the causes of the obstinacy of poverty and family dissolution.

Education problems also seem unresponsive to levels of expenditure. General crime has been reduced as a result of the Administration's initiatives, but drug abuse and the drug-based economy appear to remain disturbingly high, even as enforcement efforts reach new heights. At the very least, it is clear that the expanding levels of government expenditures do not have a predictable curative effect. This observation implies that typical government activity is not adequate for dealing with the causes of the urban problems now standing in stark relief against the background of economic growth and general well-being.

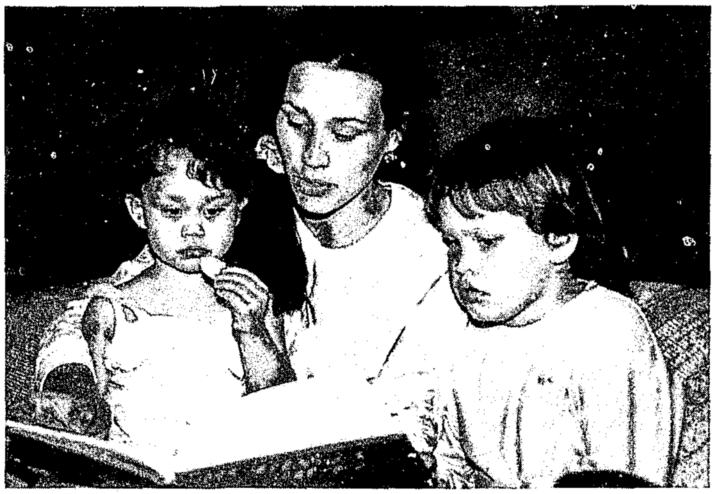
These are the problems at which the primary efforts of the next urban agenda must be directed. However, such efforts will call for new and creative ways of thinking and acting on social problems, thus replacing naive reliance on injections of cash. Discussion of these problems should focus on neighborhoods, families, and children—the foundations of urban areas, whether city or suburban.

Urban Social Policy Agenda for the 1990s

Most urban areas today are better off than they were a decade ago, but their success has highlighted special problems that are present in some urban neighborhoods where, in contrast, the concentrations of poor and minorities have been permitted to accumulate. Moreover, there is a general need for the Nation to identify and adapt to the powerful forces of change that are affecting the economies of urban areas. Overall, the Nation's urban policy agenda for the 1990s should focus on the shift from emphasis on Federal to emphasis on State and local activities; it should concentrate on problems in neighborhoods, families, and education of children—the three areas that the Administration believes will be most in need of attention in the coming decade.

Policy issues regarding these neighborhoods include: how to continue to move from place-specific urban aid toward assistance to needy families and individuals and to State governments in forms that give greater choice of residential locations to the recipients of aid; how to deal with the menaces of drug trafficking and crime; how to avoid and even to roll back the heavy concentrations of poverty, disadvantage, and crime that have developed in some major metropolitan areas; and how to improve access to health care in the poorer urban neighborhoods.

Problems exist at the family level. More than two-thirds of mothers with children under 14 are in the labor force today, and they need improved child care services, using a full range of resources, especially private-based resources, to the fullest extent possible. The numbers of teenage pregnancies out of wedlock are alarming, reaching perhaps the highest rate of any industrialized nation. Poverty is growing in single-parent families headed by women. An outmoded welfare system appears to create welfare dependency and to deny recipients any real hope of escaping from a life of marginal poverty.



Finally, solutions to these other problems depend in large part on educating children to be responsible members of society who can develop meaningful and satisfying lives and careers. A disproportionate number of children are growing up in poverty. An increasing percentage of children are being born to minority families who all too often have been passed over or afflicted with low expectations by the Nation's public education system. In fact, the entire U.S. public educational system seems to have fallen far behind the educational systems of other industrialized nations. The impact of this deterioration is most heavily visited on the poor, who most need the honest extension of high standards and expectations in order to be prepared for the challenges of economic and integral family life.

The bulk of the new urban jobs to be created between now and the year 2000 will be service jobs, and these jobs will require higher skill levels and better educational preparation than do today's jobs. Most of these new jobs will require 1 year or more of education after high school.

Unfortunately, the U.S. public education system has not kept pace with international trends in raising education levels and rates of public literacy. While other advanced industrial nations have been schooling their children for 220 or 240 days a year, American schools typically operate for only about 170 days, with shorter school days, much less homework, less demanding curriculums, and lower expectations for educational achievement for all students. As a result, the academic achievement of American students, as measured by test scores, has been on a downward trend for several decades, and in spite of some recent improvement still compares adversely with most other advanced industrial nations. Center city schools particularly have been too often characterized by poor discipline, poor attendance, low expectations, high dropout rates, and deplorably low academic achievement even for those who receive diplomas.

Not surprisingly, therefore, in a situation of higher job entry requirements and current low academic achievement for center city youth, unemployment rates among the youth in center cities are unacceptably high, even in the presence of ever-tightening labor markets in most urban areas.

Federal, State, and local officials are currently wrestling with redesign of the Nation's youth programs and welfare programs, design of teenage pregnancy-prevention policies, and plans for dropout-prevention programs. These problems are interrelated: statistics show that young people with limited reading, mathematical, and vocabulary skills are much more likely to experience some social pathology.

Perhaps the single most important change in the Nation's approach to educating disadvantaged or poor youth should be to emphasize the expectation that these young people can succeed—they can be taught. The current generations of poor or minority students must not be relegated to second-class status by being deprived of the expectation that they can learn the things they need to succeed. Examples abound of successful teachers and principals, relying on discipline and high expectations, bringing supposedly disadvantaged students to the highest levels of academic achievement. The Nation's parents and school boards should insist that their principals, teachers, and guidance counselors all expect disadvantaged students to succeed and instill in them high expectations for themselves.

The fundamental need for dealing with the social conditions of today's urban areas is to restore the cities as vital parts of their metropolitan areas, as places of opportunity where all who work hard can enter the economic mainstream. The major responsibility, the power and authority, as well as the resources and the knowledge of local conditions needed for improvement, are concentrated with State and local governments. The role of the Federal Government should be to help those governments to identify the nature of urban problems and to extend some supplemental assistance to the States, but especially to assist families and individuals in a manner that fosters mobility and flexibility for the residents and that assists State and local governments in carrying out local strategies.

Urban policy must also be built on the recognition that the substantial majority of the poor hold to the same religious and ethical principles and place the same emphasis on hard work and high standards as the rest of the Nation, and further, that they constitute a virtually untapped resource under the existing assistance programs. This Administration has pressed to execute initiatives that bring assisted families into active roles in pursuit of self-sufficiency and shared responsibility for their environment. For example, the Department of Housing and

Urban Development's Project Self-Sufficiency gives single parents the opportunity to build a cohesive program of housing assistance and other services from existing programs as a foundation for economic independence. Resident management of public housing gives low-income residents more control over their housing environment and the opportunity to establish existing services of their own. The Administration's welfare reform initiatives will allow the States to use existing programs to explore ways to coordinate assistance with training and work experience. Increased emphasis on educational choice stimulates localities to provide better schools for their children and gives parents a greater role in their children's lives.

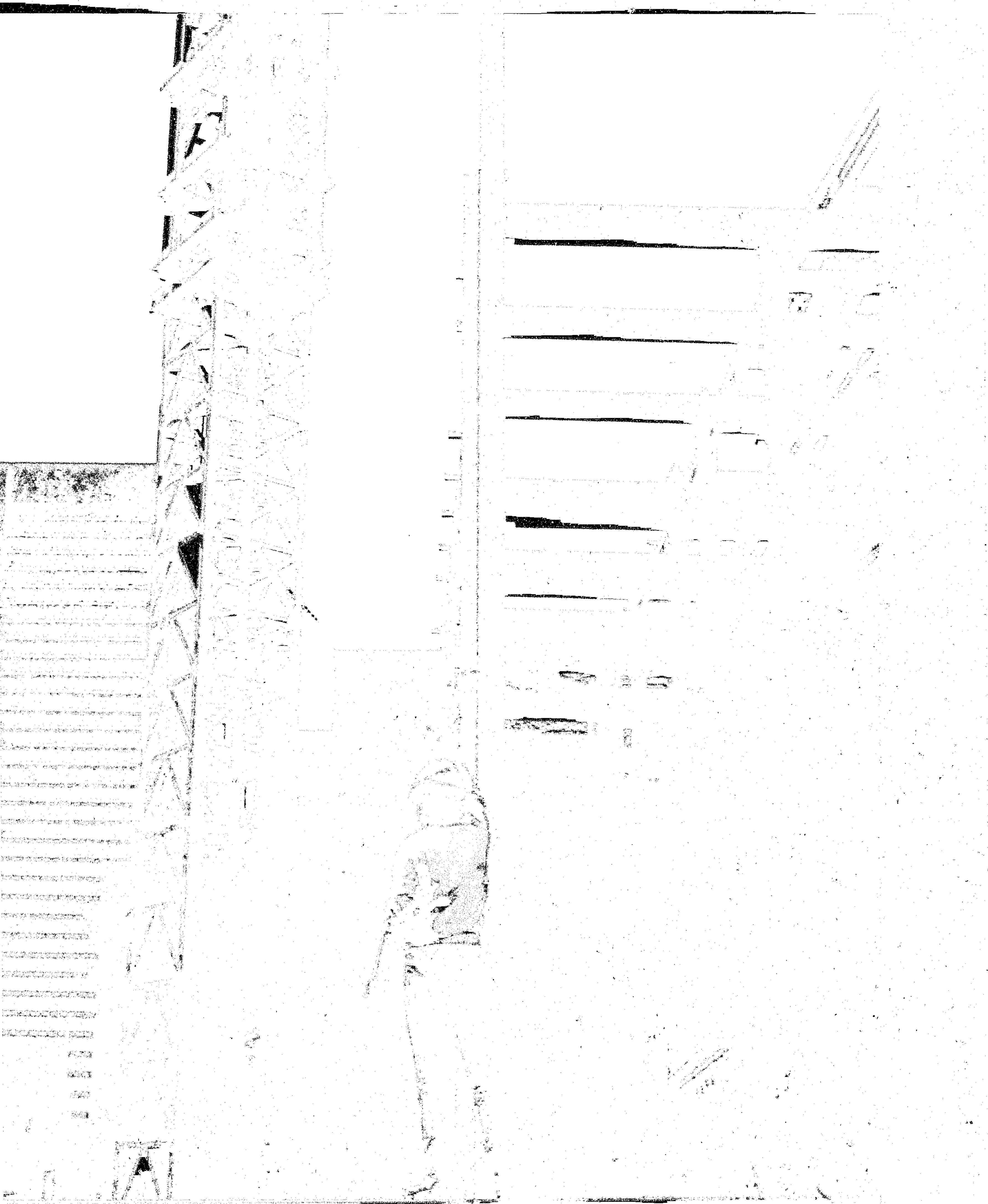
This Administration has emphasized for 8 years that the American people, working freely and independently in their families, private associations, and local governments, are the Nation's ultimate resource. Given the foundation of a sound economy unburdened of excess regulation, and encouraged to use their own initiative without waiting for a paternalistic Federal Government, the suburbs and central cities can be relied on to manage the problems of schools, law enforcement, drugs, infrastructure, and the multitude of other responsibilities that require local knowledge and well-founded community standards.

The Administration's policies are intended to recognize and institutionalize a major sea-change from the days when States and local governments could be looked upon by national figures and scholars as repositories of racial prejudice, malapportioned legislatures, corruption, and indifference to the plight of urban areas. With the breakdown of regional barriers, reapportionment, more professional executives and legislatures, and increased intergovernmental sharing of many local innovations, the States and localities in partnership with private groups now show clear evidence of capabilities to handle domestic priorities that equal or exceed the capabilities of the Federal Government. From helping the homeless to establishing Enterprise Zones, initiating welfare reform, balancing budgets, initiating tax reforms and reduction, effecting educational reforms, and setting educational performance standards, States and local governments have displayed the ability and agility to anticipate and exceed the lumbering movements of the Federal Government.

Not every State and locality will always be correct in its strategies or policies. However, the States and localities together will invariably explore and test a wider range of alternatives than the Federal Government can pursue. Their successes can be communicated and shared, and their failures are subject to more popular controls, swifter corrections, and more significant market disciplines than are Federal actions. In addition, the Federal Government has no resources that it does not first take from the citizens of States and localities. Thus a clear burden falls on the Federal Government to establish that it can better use available funds than can local governments. Only rarely will this be the case.

Faith in the American people is a faith in those people organized in their local governments, communities, and private organizations. For 8 years, the Administration has placed its faith and the foundations of its urban policy on the cities, suburbs, and private agencies of urban areas. That faith has been rewarded with a resurgence of local confidence and competence, consistent exhibitions of local flexibility and adaptability to changing economic environments, and the active development of creative State and local responses to the intractable problems of urban areas.

All levels of government must now focus their attention on the improvement of schools, law enforcement, and the war on drugs; on the integrity of families; and on the reaffirmation of standards and self-discipline, built on the religious and ethical beliefs of the large majority of the people. These issues are all historically delegated to the States and localities, which have proven their mettle even before the resurgence of these issues. During this Administration, the foundations have been laid and the case has been made for expanded reliance on the American people organized in their families, neighborhoods, and local governments to break down and dissolve even the most stubborn of the Nation's urban problems.



Chapter II:

Urban Economies

Introduction and Overview

The most important effect of this Administration's urban policy stems from proven ability to maintain economic growth while avoiding the turbulent inflationary and recessionary periods that plagued the economy during the 1970s and early 1980s. Because the health of the national economy is the most critical factor influencing the well-being of local economies, cities have benefited enormously from this longest peacetime expansionary period in U.S. history.

Using the record of the past 6 years as a guide in planning the urban agenda for the 1990s, a continued rethinking of how to direct Federal assistance to specific places for economic development is in order. Except under circumstances of serious economic adjustments, policies that aid specific places by encouraging employers to locate or remain in certain geographic areas may be both too expensive and too ineffective to be useful in the next decade.

Such policies directly or indirectly subsidize firms to locate in places they would not have otherwise chosen. These are often higher cost locations: labor and capital may cost more, crime and vandalism may render the place undesirable, or the place may be simply difficult and time-consuming to reach. The subsidy enables the firm to locate or remain in these less desirable places and still compete with firms in lower cost or more desirable geographic settings.

The traditional justification for these policies has been that they bring jobs to people located in those special places. However, the Nation as a whole pays a cost for such place-specific policies. At the Federal level, place-specific economic development policies often do nothing more than tax one place to improve the conditions in another. The wealth of both places is no greater and may actually be less than it might have been if no transfer had taken place at all, with the attendant extra administrative and transaction costs. These policies may only move national resources from one location to another, usually higher cost and less productive location. Jobs are created (or retained) in one place and not the other. If the same number of jobs were created as would have been if no transfer had taken place, and if no additional costs were incurred in attempting to prevent a normal market adjustment, then the net result neither adds to nor subtracts from aggregate growth and national welfare.

In some cases, however, these Federal policies can actually produce fewer jobs than if no transfer had taken place. Forcing resources into high-cost locations, regardless of the reasons for the higher cost, means that more resources are required to provide each job than would be required in other locations. The result actually could be fewer total jobs, less income, and reduced national growth. The total group—urban America—is less well off. In this example, Federal Government market intervention, although well-intentioned, would have the unintended consequence of reducing economic growth and national welfare below the level it might have reached had the Federal Government concerned itself solely with the national economy.

This analysis does not necessarily mean that the Federal Government should never provide direct economic development aid to specific places. Circumstances can arise in which certain forms of temporary Federal aid should be directed to cities bearing the brunt of unusual economic dislocation and not responding to the stimulus of general economic growth. This aid should either be channeled through the States, however, because they are better able to understand the needs of their own jurisdictions than is the Federal Government, or provided in a generally targeted fashion through block grants such as the ongoing Community Development Block Grant (CDBG) program, which has been extensively deregulated over the past 7 years. It may also appropriately take the form of deregulation and generalized tax incentives such as those that would be found in Enterprise Zones developed in accordance with this Administration's legislative proposals.

Candidates for such transitional Federal aid are generally characterized by heavy reliance on a single slow-growth or depressed industry, or a particularly poorly trained or immobile labor force relative to the available jobs. These places may have been severely hurt by international trade policies and competition over which they have little or no control, or they may simply have been slow to adjust to economic dislocations resulting from rapid technological changes. In these circumstances, assistance should generally be aimed at enabling individuals and industries to adapt flexibly to the changing economic environment, not at preserving noncompetitive entities or locking individuals, through subsidies, into increasingly obsolete occupations.

For most other places, whatever Federal aid is budgetarily feasible in the 1990s should be principally concerned with the economic skills and opportunities of people, regardless of where they live, and should concentrate on improving the skills and mobility of the workforce to ensure access to newly emerging major industries and locations. Such aid is more efficient in that it complements rather than resists private market forces.

Where Federal place-specific policies are justified for easing difficult economic transitions, these policies will produce the best results if they channel assistance through block grants to the States and larger cities. In the great majority of cases, private industry and State and local governments have responded well to changes in the national and local economy. These changes include restructuring the local industrial mix from manufacturing to a more service-based economy and decentralizing economies and people out of the traditional central urban places. The evolution of many urban areas has been greatly aided by the Nation's rapid economic growth; for this reason, maintaining rapid, noninflationary growth should be a primary goal of the Federal Government.

This chapter describes the current economic expansion and its effect on the revival of urban areas, as well as the efforts of Federal, State, and local governments and the private sector to aid cities continuing to experience problems. It discusses the disparate characteristics of urban areas; the wide variety of their economic responses, prospects, and advantages; and their notably differing political and economic structures, which must be carefully considered in formulating government policies. Most cities are growing rapidly and adapting to new technologies. State and local governments, in concert with the private sector and with limited Federal Government help, are proving more successful in aiding economic growth and transition than they did when they relied solely on the Federal Government. Finally, this chapter highlights examples of "people-specific" policies.

Highlights of This Chapter

- The current economic expansion is the longest peacetime expansionary period in U.S. history.

- States and localities are becoming increasingly sophisticated in managing their own economic development efforts.

- Substantial structural change is occurring, with jobs in high technology and service sectors growing much faster than in the goods-producing sector.

- The relative decline in manufacturing employment has been accompanied by substantial increases in worker productivity, signaling a shift similar to that in American agriculture earlier this century.

- Regional growth patterns are very distinct. The Northeast has generally done very well, in sharp contrast with the severe losses of the 1960s and 1970s. The industrial Midwest still suffers from structural changes, but shows signs of revival as currency exchange rates stabilize. The South continues to prosper industrially, with the exception of the oil-based States. Employment in the West maintains its healthy upward trend.

- Metropolitan areas have generally shown substantial employment strength.

- Downtown retail and commercial development has leveled off from its frenzied pace of the early to mid-1980s.

- Manufacturing employment is decentralizing to the suburbs and nonmetropolitan areas.

- One consequence of this decentralization of manufacturing is in some cases a mismatch between pools of labor in the central cities and the areas of greatest employment growth.

- The patterns of economic adjustment in urban areas suggest that the Federal Government's role in aiding structural transitions should be limited to block grant programs such as the CDBG program to support community and economic development, worker training and retraining programs such as the Job Training Partnership Act (JTPA), or cost-reduction incentives such as those found in Enterprise Zones.

In all, the most productive use of Federal and other governmental resources is to encourage and ease worker mobility, both technologically (through training and retraining) and locationally (through reducing barriers to geographic mobility).

National Economic Recovery

The Current Overall Expansion

The current expansion began in November 1982 and represents the longest peacetime expansionary period in U.S. history. When this Administration took office in January 1981, inflation was high, productivity was low, and unemployment was rising. The Administration quickly initiated its program for economic recovery in 1981 to restore economic growth and stability through a combination of a reduction in the rate of growth of Federal spending, decreases in personal and business taxes, regulatory relief to businesses and consumers, and restoration of stable prices through sound monetary policy.

Economic statistics bear out the success of this program. Real gross national product (GNP) increased by 3.6 percent in 1983 and 6.8 percent in 1984. The growth rate has been somewhat slower in recent years, at a steady 2.9 to 3.0 percent rate in 1985, 1986, and 1987 (Table II-1.) Fueled by improved exports and a surge in business capital spending, GNP rose at a rapid 3.9 percent rate during the first quarter of 1988. At the same time, unemployment was reduced from a high of 9.5 percent in 1982 and 1983 to only 5.4 percent in April 1988, which is lower than the 5.8 percent unemployment rate that prevailed in 1979 and is especially noteworthy in the context of a growth in total employment of 13 percent over the period.

One of the most notable features of the current expansion is that it has been achieved without increasing inflation. Indeed, the inflation rate was 3.7 percent in 1987, compared with double-digit rates from the late 1970s to 1981. Interest rates have fallen substantially from their 1982 peak. Three-month Treas-

Table II-1

Selected National Economic Statistics, 1980-87[1]

	1980	1981	1982	1983	1984	1985	1986	1987
Real GNP (billions of 1982 dollars)	$3,187.1	$3,248.8	$3,166.0	$3,279.1	$3,501.4	$3,607.5	$3,713.3	$3,819.6
Percent change from previous year	–0.2	1.9	–2.5	3.6	6.8	3.0	2.9	2.9
Consumer Price Index (1967 = 100)	246.8	272.4	289.1	298.4	311.1	322.2	328.4	340.4
Percent change from previous year	13.5	10.4	6.1	3.2	4.3	3.6	1.9	3.7
Civilian employment (millions; annual)	99.3	100.4	99.5	100.8	105.0	107.1	109.6	112.4
Percent change from previous year	0.5	1.1	-0.9	1.3	4.2	2.0	2.3	2.6
Unemployment rate, percent (annual)	7.0	7.5	9.5	9.5	7.4	7.1	6.9	6.1
Interest rates (3-month Treasury bills)	11.5	14.0	10.7	8.6	9.6	7.5	6.0	5.8

[1]Calendar years.

Source: Council of Economic Advisers, *Economic Report of the President, 1988,* Washington, D.C., February 1988, Tables B-2, B-58, B-33, B-39, B-71.

ury bills currently yield 6 percent, compared with more than 10 percent in 1982.

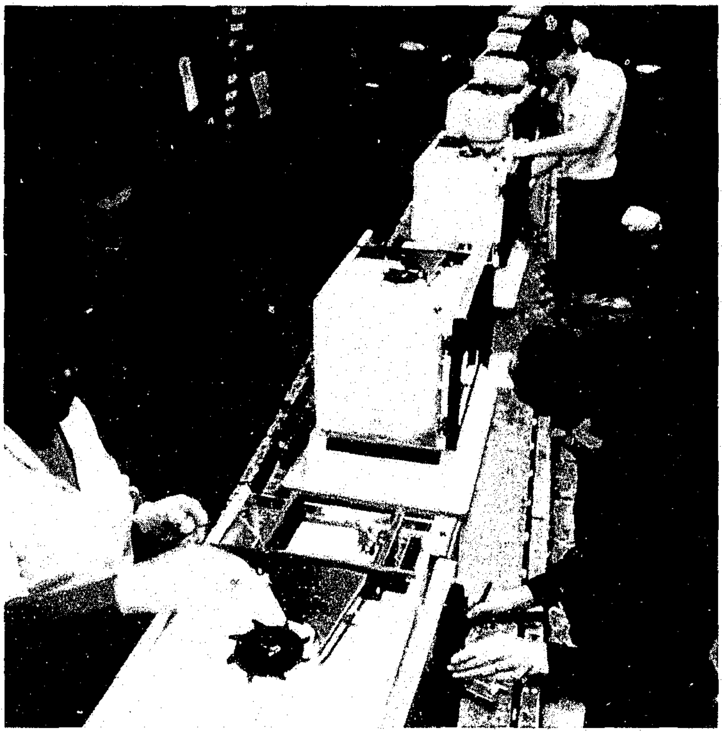
Another measure of growing economic strength is the trend in labor productivity. Since 1981, labor productivity has grown at an average annual rate of 1.4 percent, compared with 0.6 percent during the 1970s.[1]

National Industrial Recovery

Total employment increased 13 percent between 1982 and 1987, but differences across industries reflect substantial structural change. The service-producing sector (transportation and utilities; wholesale and retail trade; finance, insurance, and real estate (FIRE) services; and government) grew 17 percent over this period, while the goods-producing sector (mining, construction, and manufacturing) grew only 4.5 percent.[2] Within the goods-producing sector, however, construction employment grew 29 percent, which exceeded even the 27 percent growth in the service sector. Rapid growth also occurred in construction-related industries such as lumber (22 percent) and furniture (18 percent). This growth was offset by declines in mining (-34 percent, predominantly in the oil industry) and a modest 2 percent growth in manufacturing. Manufacturing employment increased 3 percent in the early recovery (1982-84), then lost 2 percent between 1984 and 1986 and stabilized at 0.6 percent between 1986 and 1987.

The slow adjustment of manufacturing to the general uptrend can be partially attributed to weak exports. Recent evidence points to a substantial turnaround in exports of manufactured goods, however, in response to realignments of international currency exchange rates as well as to improved competitiveness of many industries that underwent substantial restructuring and modernization during the early 1980s.

The failure of manufacturing employment fully to recover its recession losses represents a departure from past cyclical behavior of this sector. Despite cyclical swings, the number of persons employed in manufacturing had historically trended upwards, peaking in 1979. In March 1988, however, manufacturing employment remained 7 percent lower than in 1979. This



trend has led to concerns about "deindustrialization" and a weak economic base. A restructuring of the economy seems to be occurring that is part of a long-term trend and not necessarily cause for alarm. Manufacturing employment has declined as a share of total employment since World War II while maintaining a fairly constant share (19 to 23 percent) of total output.

This performance has been possible because of productivity increases that have surpassed those in other industries. Beginning in the mid-1960s, manufacturing productivity increases slowed because of a surge of inexperienced baby boomers entering the workforce, lower investment, an increase in government regulations, and higher energy prices. The growth rate in manufacturing productivity has increased markedly in the 1980s as these factors reversed direction. During the expansion, manufacturing output has increased faster than GNP. The decline in manufacturing jobs can be likened to the historical decline in agricultural employment. While sometimes adjustment problems arise for the workers and localities that lose manufacturing jobs, the losses do not reflect a weakness in the overall industrial base.

Yet several industries have been experiencing a long-term adjustment in both output and employment. Employment and production in the steel industry have been decreasing for a number of reasons, including a failure to invest in more efficient new technologies. In addition, the energy crisis of 1973-74 caused transportation manufacturers to shift to lighter weight substitutes. Other industries, including some mining, leather, rubber, watches and clocks, and apparel have faced weakening demand, lost market share attributable to foreign competition, or both.

But some longer term patterns have changed recently. At present, manufacturing employment is enjoying a long-awaited export-driven increase, a natural consequence of the recent adjustments in the exchange value of the dollar.

Concerns have also been raised about the domestic automobile industry, which has faced stiff foreign competition. Auto employment increased during the recovery until 1985, then fell 2 percent between 1985 and 1986 and 3 percent between 1986 and 1987. Auto output increased through 1986, but fell 7 percent between 1986 and 1987.[3] The future of the auto industry depends on exchange rates, the pricing structure of domestic and imported cars, and the expansion of foreign companies manufacturing in the United States.

Oil-based industries, including extraction and refining, have been seriously affected by a drop in the price of oil starting in 1984. Employment in oil and gas extraction fell 21.5 percent between 1985 and 1986, although the decline slowed to 7 percent from 1986 to 1987 as oil prices rose somewhat. (Nationally, however, the reduction in oil prices has been beneficial, as Americans share in lower overall inflation.)

Regional Industrial Recovery

Regional disparities have been prevalent for decades, but the relative fortunes of the regions have shifted over time. During

Table II-2

Percent Change in Total Employment in 239 Metropolitan Statistical Areas, by Census Division

Census Division	1980-82 (3rd quarter)	1983-87 (1st quarter)	1986-87 (4th quarter)
New England	–0.2%	14.8%	2.6%
Middle Atlantic	–0.3	10.7	2.3
East North Central	–4.3	14.5	2.6
West North Central	–2.9	14.4	4.4
South Atlantic	1.5	21.4	3.9
East South Central	–0.7	17.3	3.8
West South Central	5.0	4.5	0.2
Mountain	3.1	19.6	2.1
Pacific	–0.6	17.0	3.7
All 239 MSA's	–0.3%	14.4%	2.9%
United States Total	–0.9	14.4	2.2

Source: U.S. Department of Housing and Urban Development Urban Data System/U.S. Department of Labor, Bureau of Labor Statistics.

the first half of this century, the South lagged economically, while in the 1960s and 1970s employment and population shifted from the industrial North to the South. New trends are evident in the 1980s, as can be seen in Table II-2.

During the 1960s and 1970s, the Northeast experienced substantial industrial adjustments. One of the best success stories of the current expansion is the degree to which this area has turned around. Having experienced heavy manufacturing losses in earlier decades, the New England and Middle Atlantic divisions experienced little employment loss (0.2 and 0.3 percent respectively) during the early 1980s. New England metropolitan areas did lose an average of 15 percent of their nondurable manufacturing employment, however, and these losses continued from 1983 to 1987. Overall metropolitan employment growth during the expansion was 14.8 percent in New England and 10.7 percent in the Middle Atlantic, compared with 14.4 percent for all metropolitan areas. Prior to 1980, these divisions had been characterized by very slow growth. Their growth rates during the expansion, combined with their relative stability during the recession period, indicate that these divisions were more resistant to cyclical changes, partly as a result of being more industrially diversified. The Northeast appears to have nearly completed its structural adjustment, while in the Midwest that process has just begun.

The back-to-back recessions of 1980 and 1982 were highly concentrated in their effects, hitting the industrial Midwest the hardest. Overall employment losses in all metropolitan areas were only 0.3 percent, but losses were 4.3 percent in metropolitan areas in the East North Central. The West North Central, suffering from not only the decline in manufacturing but also a decline in the agricultural sector, lost 2.9 percent in nonagricultural employment. By contrast, the oil-based economy of the West South Central metropolitan areas gained 5 percent during this period. Employment losses during the recession were concentrated in manufacturing and construction, while FIRE and services employment continued to grow.

By 1984, despite a high rate of national employment growth, Midwestern metropolitan areas had failed to recover substantially. More recent evidence shows that metropolitan employment growth in this region was close to the national average from the first quarter 1983 to the first quarter of 1987. Beginning in 1986, however, motor vehicle employment declined for the first time during the expansion (-2.1 percent in 1986 and -2.7 percent in 1987), causing the East North Central region to have a below-average growth rate for manufacturing compared with the earlier part of the recovery.

The fortunes of the West South Central division, which continued to rise during the early 1980s, were reversed by a decline in oil prices in 1984. Heavy employment losses in mining, construction, and manufacturing have occurred during the expansion, and the growth in trade, FIRE, and services have been substantially below the national average. Employment figures for 1987 suggest that the economy of this area may be starting to stabilize. Employment increased 0.2 percent because service growth was closer to the national average, which helped balance losses in mining, construction, trade, and FIRE. Only 28 percent of West South Central metropolitan areas lost employment during 1987, compared with 44 percent over the first quarter 1983 to 1987 period. Metropolitan unemployment peaked in 1986, and fell from 8.9 percent in 1986 to 7.5 percent in 1987.

The South Atlantic division continues to prosper. Although its rate of employment growth (1.5 percent) during the early eighties did not match that of the West South Central (5.0 percent), South Atlantic metropolitan employment grew faster (up 21.4 percent) than that in any other division from the first quarter of 1983 to 1987.

The East South Central division has done almost as well. Although employment losses occurred during the early eighties, growth has been above average since 1983.

The Mountain division prospered during the recession and experienced above-average growth through the first quarter of 1987. However, its growth slowed during 1987 to a below-average rate. Losses in oil employment affected this division more mildly than they did the West South Central division.

Employment in the Pacific division continues to grow at an above-average rate.

Even within a period of strong national growth, the shifting character of regional disparities indicates the advantage of having the Federal Government concentrate on national economic health while allowing State and local governments to make necessary competitive adjustments. The regions have shown themselves to be capable of significant accomplishments, frequently in directions that look obvious only in retrospect. The umbrella of national economic regeneration has provided ample opportunity for States and localities to identify and exploit their unique advantages. So long as the national economy stays on a path of stable growth, regions that are currently adversely affected by competitive disadvantages will have time to make the difficult adjustments needed.

Effect of Recovery on Metropolitan Areas

Recent analysis of 239 of the largest metropolitan areas shows both the inherent economic strength of urban areas and the degree to which economic problems are concentrated in a few areas. These metropolitan areas are classified here by their performance during the past two recessions and the current expansion.

The strength of the metropolitan areas is evidenced by the fact that about 56 percent of them continued to experience employment growth during the recessions of the early eighties. Of those that lost employment during the recessions, 29 percent have experienced above-average growth since 1983, and 49 percent have grown between 7.2 percent and 14.4 percent (the average for metropolitan areas). Only 7 percent have continued to lose employment, and another 15 percent have grown less than 7.2 percent. The situation improved further in 1987, when 53 percent of the recession losers had above-average growth. The only one that lost more than 1 percent was Flint, Michigan, where losses in auto employment spilled over to cause losses in all categories except trade and government.

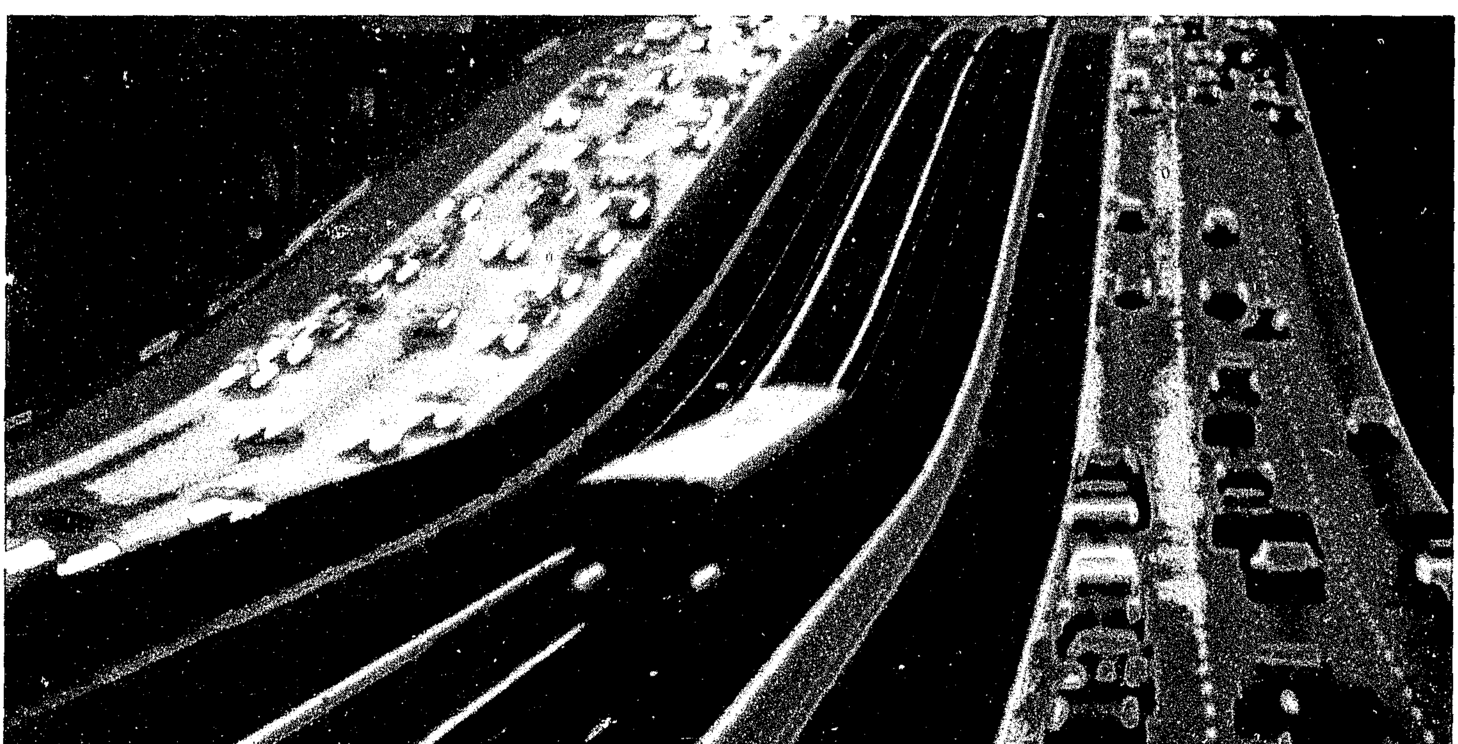
Iowa has experienced problems related to the agricultural sector in the 1980s. Several metropolitan areas, including Cedar Rapids, Des Moines, and Dubuque experienced heavy losses in the recession, but have grown at close to the average rate since 1983 and at an above-average rate in 1987.

For the most part, in manufacturing-based metropolitan areas with growing manufacturing employment, total employment grew at an above-average rate; e.g., Worcester, Gary (in 1987), Chattanooga, Davenport, and York. Where manufacturing growth was weak, or losses occurred, overall employment growth was weak; e.g., Providence (in 1987), Flint, Beaumont, Huntington, and Erie.

Metropolitan areas that grew well during the recession and continued their rapid growth in the recovery tended to lie in the Sun Belt, particularly in Florida and California. In addition to resort-retirement communities, they include military-industrial centers such as San Diego and San Antonio. This robust group also includes such areas as Lowell, Massachusetts, however, whose resurgence from previous decline was achieved through growth in high-tech employment. Lowell's growth slowed in 1987, however.

Another group of metropolitan areas that grew at a high rate during the recession—the oil-based Texas, Oklahoma, and Louisiana areas—have lost employment since the recovery began because of a drop in oil prices. Regional centers in and near the Southwest such as Dallas and Denver fared better than the smaller, less diversified areas. Denver experienced merely slow growth over the period, while Dallas grew at an above-average rate. Their condition seems to have deteriorated in the past year, however, with employment growth only 0.4 percent for the year in Dallas and -0.7 percent in Denver. Other regional centers, including Houston and New Orleans, have lost employment—6.3 and 5.9 percent, respectively—between first quarter 1983 and first quarter 1987.

In its assessment of urban economies, the **President's National Urban Policy Report, 1986,** pointed out that several older metropolitan areas characterized by historically slow



growth had turned around. These included New York, St. Louis, Philadelphia, Hartford, and Syracuse. More recent evidence shows that improvements have continued in these areas and that several other areas have also shown improvements. Although Chicago and Baltimore suffered substantial recession employment losses, they grew at a rate close to the average between 1983 and 1987. Newark had small losses in the recessions and has grown 10.4 percent in employment from 1983 to 1987. Buffalo also grew 10.4 percent from 1983 to 1987, and even grew 3.8 percent in 1987, compared with the average of 2.9 percent for all metropolitan areas.

Structural Change Within Metropolitan Areas

The Nation's metropolitan areas are undergoing a complex series of economic adjustments within the overall framework of economic growth. Population has shifted slightly back toward metropolitan areas, a shift that is reflected primarily in suburban growth as the suburbs have continued to gain population share relative to their cities. As the relative size of populations employed in manufacturing decreases, and as manufacturing environments and practices change, central cities find themselves competing against their own suburbs in far more diversified economic markets. The central city role is becoming one of sharing in the overall success of the metropolitan area, striving for an adequate share of metropolitan success rather than being the economic engine that drives the entire local market. Employment, communications, and services are more and more distributed throughout urban regions, with cross-suburban commuting and social patterns diversifying the entire character of urban life.

This alteration in the relation of city and suburbs has begun to clarify some of the critical problems remaining for central cities. Older economic and transportation practices and patterns may not adequately serve central city populations now cut off from service and manufacturing jobs that are increasingly decentralizing to the suburbs and demanding highly developed skills and training. Mismatches have been growing in metropolitan areas: a mismatch of job opportunities and the unemployed, of educational resources and the uneducated, of available housing and the poorly housed, of transportation patterns and mobility needs. Too frequently, these mismatches have been exacerbated by well-meaning but lumbering Federal programs, such as housing programs that concentrate the poor in housing projects, immobilizing them far from job growth and educational opportunity, or transportation programs that emphasize spoke-style mass transit at the expense of cross-suburb transportation and reverse commuting.

Overcoming mismatches in urban areas will require cooperation among local governments within metropolitan areas, State involvement to moderate legal and structural problems that widen city-suburb disparities, and Federal emphasis on altering assistance delivery to emphasize mobility, strengthening the educational achievements of individuals and families and encouraging the coordinated use of existing programs by State and local agencies.

Table II-3

U.S. Population and Per Capita Income: Total, Metropolitan and Non-Metropolitan, 1980-86 (1979-85 for Per Capita Income)

	Population (thousands)			Real Per Capita Income		
	1980	1986	% change	1979	1985	% change
United States	226,546	241,010	6.4%	$10,816	$10,797	–0.2%
Inside Metro Areas	172,299	184,655	7.2	11,455	11,525	0.6
Outside Metro Areas	54,247	56,355	3.9	8,786	8,412	–4.3

Note: All dollar figures are in 1985 terms, using the all-items Consumer Price Index.

Source:
HUD Urban Data System/U.S. Department of Commerce, Bureau of the Census.

Population and Income Shifts Back Toward Metropolitan Areas

Population has shifted slightly toward metropolitan areas during the past few years, reversing the trend of the 1970s. Per capita

Table II-4

Population Level and Percent Changes in Metropolitan Statistical Areas (MSAs), Central Cities, and Suburbs over 500,000, 1980–86, by Region and Size[1]

Metropolitan area	1986 MSA Population (1,000s)	Population change, 1980-86 MSA	Central city	Suburbs
Northeast				
New York, NY	8,473	2.4%	2.7%	0.8%
Philadelphia, PA-NJ	4,826	2.3	−2.7	5.4
Boston, MA	2,823	0.6	0.5	0.7
Nassau-Suffolk, NY	2,634	1.1	0.0	1.1
Pittsburgh, PA	2,123	−4.3	−8.9	−3.2
Newark, NJ	1,889	0.5	−2.9	1.5
Bergen-Passaic, NJ	1,298	0.4	0.8	0.3
Rochester, NY	980	0.9	−2.4	2.0
Buffalo, NY	965	−5.0	−9.2	−2.7
Middlesex-Somerset-Hunterdon, NJ	950	7.2	−3.3	8.2
Monmouth-Ocean, NJ	935	10.1	0.0	10.1
Albany-Schenectady-Troy, NY	844	0.9	−3.6	2.6
Hartford, CT	738	3.0	1.2	3.5
Scranton--Wilkes-Barre, PA	726	−0.4	−6.9	1.5
Allentown-Bethlehem, PA-NJ	657	3.4	0.5	4.7
Syracuse, NY	649	1.0	−5.5	3.3
Providence, RI	635	2.7	0.3	3.5
Harrisburg-Lebanon-Carlisle, PA	577	3.8	0.6	4.5
Jersey City, NJ	553	−0.7	−1.8	0.3
Springfield, MA	517	0.4	−2.0	3.0
New Haven-Meriden, CT	513	2.6	−0.8	4.5
Northeast Totals	**43,964**	**1.8%**	**−1.2%**	**2.7%**
(Annual Changes)	**—**	**0.3**	**−0.2**	**0.5**
Midwest				
Chicago, IL	6,188	7.1%	0.2%	4.1%
Detroit, MI	4,346	−3.2	−9.1	−0.5
St Louis, MO-IL	2,438	2.6	−4.4	5.3
Minneapolis-St. Paul, MN	2,295	7.4	−2.3	12.4
Cleveland, OH	1,850	−2.6	−6.6	−0.8
Kansas City, MO-KS	1,518	5.9	1.7	9.7
Cincinnati, OH-KY-IN	1,419	1.2	−4.1	3.2
Milwaukee, WI	1,380	−1.2	−4.2	1.6
Columbus, OH	1,299	4.5	0.1	9.1
Indianapolis, IN	1,213	4.0	2.7	5.8
Dayton-Springfield, OH	934	−0.9	−6.6	1.3
Grand Rapids, MI	649	7.8	3.4	10.1
Akron, OH	645	−2.4	−5.2	−0.1

Table II-4 (continued)

Metropolitan area	1986 MSA Population (1,000s)	Population change, 1980-86 MSA	Central city	Suburbs
Gary-Hammond, IN	615	−4.3	−8.9	−0.7
Omaha, NE-IA	614	5.0	1.7	12.0
Toledo, OH	611	−0.9	−3.8	3.8
Youngstown-Warren, OH	510	−4.0	−8.5	−1.9
Midwest Totals	**42,038**	**1.3%**	**−2.4%**	**4.0%**
(Annual Changes)	**—**	**0.2**	**−0.4**	**0.7**
South				
Washington, DC-MD-VA	3,563	9.6%	−0.1%	12.9%
Houston, TX	3,232	18.2	7.4	35.1
Atlanta, GA	2,560	19.7	1.9	24.6
Dallas, TX	2,401	22.7	11.7	35.7
Baltimore, MD	2,280	3.7	−3.9	8.2
Tampa-St. Pete-Clearwater, FL	1,914	18.6	3.1	27.7
Miami-Hialeah, FL	1,770	8.9	7.2	9.8
New Orleans, LA	1,335	6.2	1.0	10.7
Norfolk-Va. Beach-Newport News, VA	1,309	12.8	11.5	18.8
San Antonio, TX	1,276	19.0	12.8	38.0
Fort Worth-Arlington, TX	1,254	28.8	24.2	34.8
Fort Lauderdale-Hollywood, FL	1,142	12.2	−0.4	18.4
Charlotte-Gastonia-Rock Hill, NC	1,065	9.7	7.8	11.3
Oklahoma City, OK	983	14.2	10.7	18.9
Louisville, KY-IN	963	0.7	−3.6	3.0
Memphis, TN-AR-MS	960	5.0	0.9	16.7
Nashville, TN	931	9.4	5.3	14.9
Birmingham, AL	911	3.1	−2.8	6.4
Greensboro--Winston-Salem, NC	899	5.6	3.0	7.7
Orlando, FL	898	28.4	13.7	31.6
Jacksonville, FL	853	18.1	12.7	33.9
Richmond-Petersburg, VA	810	6.4	−1.1	10.3
W. Palm Beach-Boca Raton, FL	756	31.0	16.4	36.0
Tulsa, OK	734	11.6	3.6	21.4
Austin, TX	726	35.3	25.2	58.3
Raleigh-Durham, NC	651	16.0	10.5	22.3
Greenville-Spartanburg, SC	606	6.3	0.5	7.6
Knoxville, TN	591	4.5	−1.1	7.5
El Paso, TX	562	17.0	15.6	27.6

(Continued)

Table II-4 (continued)

Metropolitan area	1986 MSA Population (1,000s)	Population change, 1980-86 MSA	Central city	Suburbs
Wilmington, DE-NJ-MD	551	5.3	−0.7	6.2
Baton Rouge, LA	546	10.4	6.8	18.8
Little Rock-N. Little Rock, AR	506	6.6	1.1	13.8
South Totals	**57,886**	**12.9%**	**6.0%**	**18.8%**
(Annual Changes)	**—**	**2.2**	**1.0**	**3.1**
West				
Los Angeles-Long Beach, CA	8,296	10.9%	10.1%	11.8%
San Diego, CA	2,201	18.2	16.6	19.9
Anaheim-Santa Ana, CA	2,167	12.1	12.8	11.9
Riverside-San Bernardino, CA	2,001	28.4	13.4	32.3
Oakland, CA	1,934	9.8	4.9	11.7
Phoenix, AZ	1,885	24.9	21.4	36.2
Seattle, WA	1,751	8.9	0.3	13.7
Denver, CO	1,633	14.3	2.5	20.5
San Francisco, CA	1,588	6.7	10.3	3.6
San Jose, CA	1,402	8.2	12.2	3.8
Sacramento, CA	1,291	17.4	16.8	17.7
Portland, OR	1,153	4.3	−2.2	7.9
Salt Lake City-Ogden, UT	1,041	14.4	−0.7	19.4
Honolulu, HI	817	7.1	7.1	0.0
Oxnard-Ventura, CA	611	15.5	12.7	17.0
Tucson, AZ	594	11.8	6.0	22.0
Fresno, CA	588	14.2	14.9	13.5
Las Vegas, NV	570	23.0	16.3	26.7
Tacoma, WA	533	9.8	0.3	14.4
West Totals	**40,767**	**13.7%**	**10.6%**	**15.4%**
(Annual Changes)	**—**	**2.3**	**1.8**	**2.6**

Source: U.S. Department of Housing and Urban Development Urban Data System/U.S. Department of Commerce, Bureau of the Census.

Primary Metropolitan Statistical Areas (PMSAs) only, in cases where PMSAs may be aggregated into Consolidated Metropolitan Statistical Areas (CMSAs).

incomes, on the other hand, have remained approximately steady in real-dollar terms, with substantial decreases outside metropolitan areas counterbalanced by slight increases in metro areas (Table II-3).[4]

Population: Metropolitan Areas, Central Cities, and Suburbs

Over the past 25 years, population has shifted considerably among metropolitan areas and the rest of the country.[5] During the 1960s, metropolitan populations grew very rapidly, 17 percent, which was 7 times as fast as nonmetropolitan areas. They reversed this pattern during the 1970s, increasing only 11 percent, three-quarters as fast as the nonmetropolitan populations. The 1980s have seen yet another reversal, with metropolitan populations increasing 7 percent (during 1980-86), almost twice as fast as nonmetropolitan populations.

Between 1980 and 1986, metropolitan area populations in the South and West increased by 13 to 14 percent, but were virtually unchanged in the Northeast and Midwest, with increases of only 2 and 1 percent, respectively (Table II-4).

Between 1980 and 1986, central city populations declined only slightly in the Northeast and Midwest (dropping 1 and 2 percent, respectively), but rose 6 and 11 percent, respectively, in the South and West. Suburban populations rose slightly in the Northeast and Midwest (3 and 4 percent, respectively), somewhat offsetting central city losses in those regions. Suburban populations rose 19 percent in the South (three times the rise in central city populations) and 13 percent in the West.

Overall, central city populations rather consistently dropped slightly in relation to their Metropolitan Statistical Areas (MSAs), with losses of about 1 to 2 percent during 1980-86. On average, Northeastern suburbs constituted about 38 percent of all MSAs, while in the other three regions suburban populations

Table II-5

Percent Change in Employment in 239 Metropolitan Statistical Areas, 1983-87, by Industry Sector and Area[1]

Division	Total employment	Manufacturing	F.I.R.E.[2]	Services
New England	14.8%	−1.8%	24.7%	21.6%
Middle Atlantic	10.7	−4.9	17.7	19.1
East North Central	14.5	6.3	15.4	22.0
West North Central	14.4	5.4	20.4	24.1
South Atlantic	21.4	7.8	27.3	34.5
East South Central	17.3	8.5	19.6	32.9
West South Central	4.4	−4.4	13.0	19.0
Mountain	19.6	14.7	28.4	28.9
Pacific	17.0	9.2	20.7	24.6
All 239 MSAs	14.4%	3.4%	19.9%	24.3%
United States Total	13.9	4.0	20.8	23.2

Source: U.S. Department of Housing and Urban Development Urban Data System/Census Bureau files.

[1]Data are for first quarter to first quarter.
[2]Finance, insurance, and real estate.

were proportionately slightly higher, at 43 to 45 percent of all MSAs.

In almost no case did a central city acquire population at the expense of its suburbs. The San Francisco and San Jose, California, central cities were alone in gaining 2 percent during this period. By contrast, in almost all MSAs, central cities lost ground slightly to their suburbs, dropping 1 to 2 percent during the 6-year period. Metropolitan areas whose central city losses were more pronounced were centered mainly in the Southwest. For example, Texas, Houston, Dallas, Austin, and San Antonio all dropped 4 to 6 percent with respect to their suburbs. The central city of Tulsa, Oklahoma, dropped 4 percent. In Florida, Tampa-St. Petersburg-Clearwater and Fort Lauderdale-Hollywood showed substantial drops. In the West, Denver's central city population dropped substantially (4 percent).

Sectoral Shifts in Employment

Overall, the expansion has been led by growth in FIRE and services employment. In metropolitan areas, services grew 24.3 percent between 1983 and 1987 and FIRE grew 19.9 percent, compared with only a 3.4 percent growth for manufacturing (Table II-5). Some areas continued to lose manufacturing employment during the expansion. These include the older industrial areas of New England and the Middle Atlantic, as well as the oil-based West South Central. In addition, scattered metropolitan areas elsewhere lost manufacturing employment.

Many metropolitan areas have managed to grow at a healthy rate despite manufacturing losses. In the Northeast, these include Boston, Providence, New York, Newark, Allentown-Bethlehem, Philadelphia, and Rochester. In fact, although more than half of metropolitan areas in New England and the Middle Atlantic lost manufacturing employment between the first quarter of 1983 and 1987, only Pittsburgh was stagnant over the period, with an increase in total employment of only 1.8 percent and manufacturing losses of 21.7 percent. Pittsburgh has not yet achieved the restructuring of its economy needed to recover from employment losses in the steel industry. Thus, most Northeastern areas seem to have adjusted to a less manufacturing-dependent employment base.

The situation is more complex in the Midwest. As a whole, metropolitan areas in the Midwest region are growing well. Although lagging in the early recovery, Midwestern employment growth was equal to the average for all metropolitan areas, and manufacturing growth was above average over the 1983-87 period. Relatively few Midwestern metropolitan areas suffered manufacturing losses between 1983 and 1987 (fewer than 20 percent, compared with 55 percent in the Northeast). However, manufacturing losses tended to have more adverse effects on areas experiencing them in the Midwest than in the Northeast. Gary, Indiana, Kenosha, Wisconsin, and Waterloo-Cedar Falls, Iowa, all experienced losses in total employment associated with heavy manufacturing losses. All of these areas grew much faster than the average in 1987, however (8.3 percent, 12.5 percent, and 9.9 percent respectively, compared with 2.8 percent for all metropolitan areas), and so did their manufacturing employment.

The fortunes of most other Midwestern metropolitan areas seem strongly tied to the performance of their manufacturing sectors. Strong employment growth over the 1983-87 period has been linked to a strong performance in their manufacturing sectors, suggesting a continued vulnerability to cyclical slowdowns. Employment shifts that occurred in 1987 confirm this concern: for example, losses in automobile employment last year caused Detroit to lose 0.1 percent in total employment, and Flint lost 4.3 percent, after growth in the 1983-87 period of 19.1 and 12.4 percent, respectively. On the other hand, many Midwestern localities saw a resurgence in their employment growth in the past year, driven by manufacturing gains associated with growing exports resulting from the weaker dollar. These include Gary, Indiana, Kenosha, Wisconsin, and Dubuque, Iowa, in which employment grew 8.3 percent, 12.5 percent, and 14.2 percent, respectively, in 1987. Manufacturing employment grew much faster than in the Nation as a whole in all Midwestern States except for Michigan (where increases in service employment compensated for a fall in manufacturing). Additionally, manufacturing plants that are now being reopened tend to be the most efficient, the less efficient ones generally having been closed during the past few years.

Downtown Retail and Commercial Development

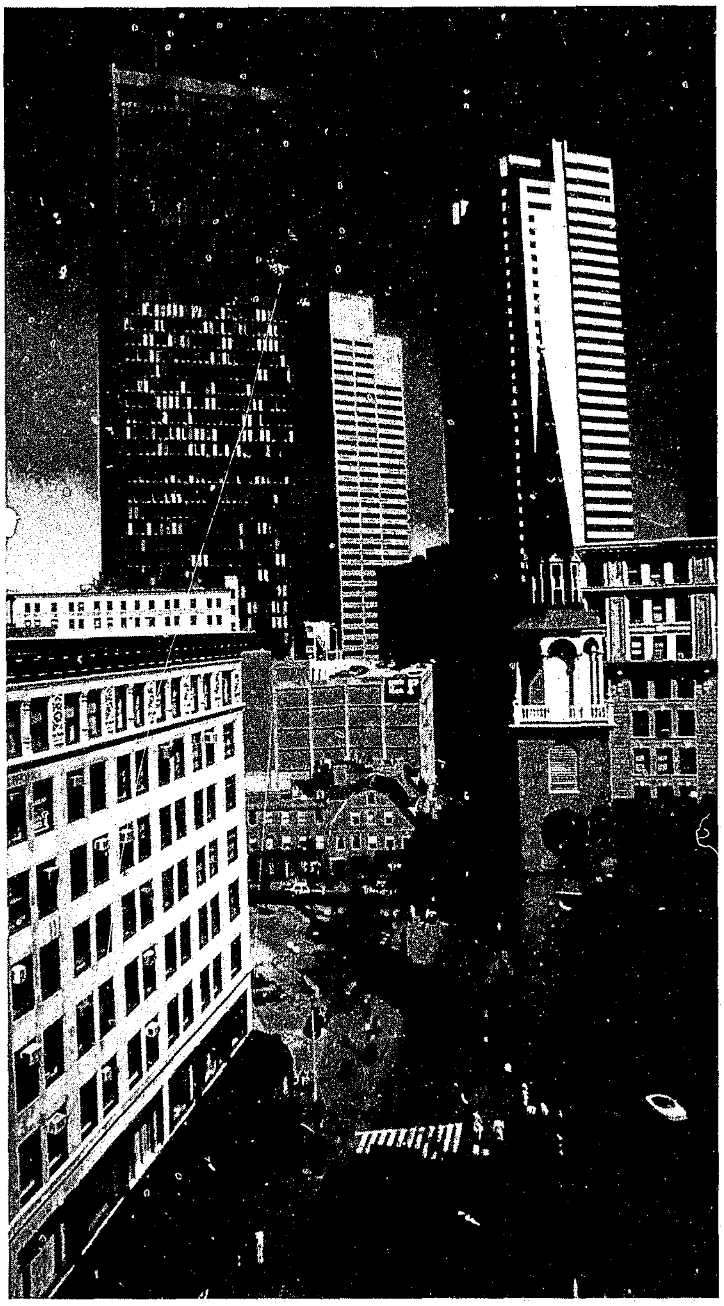
Following a phenomenal boom in commercial construction, which peaked in 1985, retail and commercial development declined in the past 2 years and is expected to continue to decline for the next few years.[6] The unprecedented amount of construction during 1983-87 has resulted in record vacancy rates for office buildings, stores, hotels, and warehouses. These high vacancy rates will depress the demand for new construction for several years, until supply and demand for commercial space are brought into balance.

This correction is at least in part a result of the Tax Reform Act of 1986, which reduced the tax writeoffs for real estate investment. The 1986 tax reform was intended to reduce or eliminate activity that was motivated more by tax concessions than by strictly economic considerations, and the resulting slowdown is occurring exactly as anticipated. This outcome stands in sharp contrast with the vast overbuilding during the 5 years following the Economic Recovery Tax Act of 1981 (ERTA), which resulted both from the great tax benefits of the 1981 Act and, at least in 1985, in anticipation of tax benefit cutbacks that were incorporated in the 1986 Act. As one analysis notes, however, "Even before tax reform brought the arithmetic of real estate development back to reality, soaring vacancy rates had ordained the boom's end."[7]

The consequences of the slowdown are shown in the following figures. Compared with the peak year of 1985, the dollar volume of construction has declined (in real terms) 28 percent for office buildings, 9 percent for hotels, 26 percent for manufacturing facilities, and 11 percent for other commercial structures.[8] The latest figures (for the first quarter of 1988) indicate a further and very steep drop in office building (down 20 percent in the quarter).[9]

On the positive side, spending for manufacturing facilities construction has turned around during the past few months, with outlays up 15 percent during the first quarter of 1988 compared with the first quarter of 1987. Factory construction, which has lagged badly during the expansion, may be about to break out of the doldrums because of the weak dollar, reviving exports, and high operating rates.

The national vacancy rate for office buildings stands around 13 percent, with much of the overbuilding concentrated in the Sun Belt.[10] Some of the problems in the Sun Belt can be attributed to slowdowns in specific industries, such as the oil "bust" that has afflicted such Sun Belt cities as Houston (vacancy rate 26 percent), Austin (33 percent), and Denver (29 percent). Additional areas that have been especially hard hit by office overbuilding include Miami (29 percent), Memphis (28 percent), and San Jose (27 percent). Areas with the lowest office vacancy rates include the New England cities of New Haven, Hartford, and Boston (7 to 8 percent vacancy), Detroit (8 percent), and Charlotte (10 percent).



High-Technology Expansion

High-tech industries, whether producing goods or services, tend to grow up in close proximity to each other because of economies of scale, the availability of workers with specific skills, and the proximity to research and development facilities.[11] So strong is the link with nearby research and development facilities that the United States Conference of Mayors and the Economic Development Administration have entered into a joint program to link Federal laboratories with city governments, universities, and the private sector, in order to realize more widespread use and application of the valuable research conducted in Federal laboratories across the country.[12]

Special Problems of Structural Adjustment

Metropolitan areas that have diversified away from manufacturing were less vulnerable in the last recession. Those that have not diversified remain exceptionally vulnerable to recessions and other factors that affect manufacturing employment. These factors include competition from imports; foreign demand for U.S. exports, which depends on foreign economic conditions and the value of the dollar relative to foreign currencies; and decisions by U.S. manufacturers to close old, inefficient plants (usually in the North), and build new ones in the Southern metropolitan areas and Southern and Midwestern countryside.

The economic performance of most Midwestern industrial cities remains tied to the performance of the manufacturing sector.

The Federal Reserve Bank of Chicago has concluded that the Midwest is not less dependent on the manufacturing sector, because manufacturing has maintained a steady share of the region's output despite an 18 percent loss in manufacturing employment between 1979 and 1986.[13] The region's recovery lagged behind that of the rest of the country, but employment growth in the past few years has been robust as exports have increased. The exceptions are areas dependent upon stagnating or contracting industries.

The Midwest is still in the transition phase that the Northeast has almost completed after several decades. However, the success of the Northeast in making this transition provides evidence that regional decline is not self-perpetuating and irreversible. The Northeast turnaround occurred around strengths that were already present in the region. The concentration of universities and a highly educated workforce in the Boston area, along with a manufacturing history, led to growth in high-technology manufacturing and related high-technology service employment. New York's background as a financial center led to growth in financial and business services.

Midwestern metropolitan areas will need to focus on areas where they have underlying strengths to identify sectors in which to focus economic renewal. In the meantime, some adjustment problems for industrial cities in the Midwest and other areas will continue. The oil-based cities of the Southwest will fare much better during national business cycles and externally caused dislocations when they are industrially better diversified than they are now.

Another adjustment problem related to economic restructuring is the mismatch in skills and education between displaced manufacturing workers and new financial and service employment. Many of the durable manufacturing industries paid high wages for relatively low-skilled jobs. The high-wage jobs in finance, insurance, real estate, and services tend to have extensive education requirements, while the less skilled jobs often do not match wage levels in heavy manufacturing.

Mismatch Between Cities and Suburbs

One unfortunate aspect of the rapid growth of suburban and nonurban employment is a mismatch between pools of labor in the central cities and the areas of greatest employment growth. The mismatch can involve several factors: outmoded skills, wrong skills, or the lack of any usable skills; transportation problems; and racial discrimination. In the Washington, D.C., area, for example, all of these factors have been cited as explanations for the labor shortages in the fastest growing suburbs, coexisting with high unemployment in the Washington central city.

As already noted, manufacturing employment is taking place more and more in the fringes of metropolitan areas or in rural settings. Perhaps the most visible example is the automobile industry, where American and foreign firms are setting up major plants in rural areas of both Rust Belt Midwestern States and the Sun Belt States. A few factories are returning to urban areas, but generally to their suburbs rather than their inner cities. United States and foreign manufacturers have built auto plants outside of Pontiac and in Hamtramck, Michigan, and a closed Ford plant has been resuscitated in Flat Rock, near Detroit.[14] Nevertheless, the trend away from centralized urban manufacturing seems to be widespread and not likely to be reversed in the near future.

Another side effect of the loss of manufacturing jobs is that, because linkages of manufacturing to other industries are much closer than for most service jobs, other industries suffer. Manufacturing jobs, especially for such complex mechanisms as automobiles, lead to many ancillary jobs in industries such as upholstery making and parts manufacturing. Hence, major automobile plant closings have very serious ripple effects. This sort of secondary job creation is far less extensive in most service industries.

Federal Policies to Promote Urban Economic Development

The Administration's Overall Strategy

Changes in industrial structure are to be expected in a healthy, dynamic economy, especially one that is as open to domestic and international market forces as is this country's. New technology and increased competition, both international and domestic, cause the basic economic function of many cities to change, making the service sector relatively more important than manufacturing, but also blurring the lines between service and manufacturing industries.

Most cities have recognized these trends and have implemented policies designed to speed the necessary adjustments rather than trying to forestall the inevitable. Employment in most urban areas has been growing at a very healthy rate during the recovery, adjusting to the sectoral changes that are called for in the current economic environment. In a few cities, however, these adjustments have occurred more slowly, largely because of heavy reliance on specific industries that themselves are not growing, or reliance on industries that are maintaining their relative share of total output by substituting capital for labor and therefore not increasing employment.

This background provides the basis of the Administration's overall urban strategy for the 1990s, which rests on several basic principles:

- The key to healthy American cities is a healthy U.S. economy.

• The Federal Government can and should ensure that American industries have full access to foreign markets.

• The most appropriate role for the Federal Government is to encourage and enable local governments and the private sector to match job skills and worker location to emerging industrial changes.

• In many cases, improving the quality and mobility of the workforce is better for promoting economic growth than providing Federal aid to specific urban areas.

• Where aid to specific areas is justified, State and local governments are often better positioned to render it than is the Federal Government. When Federal funds are provided to specific areas, they should, in general, be funneled through the State or local governments by means of block grants or generalized incentives such as those found in Enterprise Zones.

• Local governments must closely examine their own policies to determine whether they are retarding economic growth with high taxes, development controls and high fees, zoning policies that discourage the construction of moderate- and low-income housing, and restrictive regulations on businesses. The Federal Government should not be forced into responding with large infusions of aid to cities whose economies are faltering or stagnating as a result of their own policies.

• Finally, any government aid to specific areas or industries should avoid retarding adjustment to inevitable global forces of change.

These basic principles have important implications regarding employment policies, one of the areas in which the Federal Government can play a useful role.

Employment patterns are changing because of the changing economic functions of metropolitan areas and of the decentralization of jobs, particularly in the manufacturing sector. The result is increased demand for service-sector workers and a relatively smaller demand for manufacturing workers. For many cities, local economic development efforts will be most effective if they are aimed at industries that the locality has a competitive advantage in attracting, which in central cities often means service industries. Trying to attract manufacturing jobs to metropolitan areas, or especially to their central cities, often is doubly difficult: not only do most metropolitan areas face competitive disadvantages for these jobs, but also the total number of these jobs is growing very slowly nationwide, meaning that a gain for one area may be a loss for another. In sum, cities are in general best advised to direct their economic development efforts toward diversifying their industrial bases, thus speeding adjustment to changing economic environments and insulating their economies as much as possible from future cyclical swings.

The current and future sectoral shifts will continue to produce mismatches between job skills and job requirements: workers with skills suitable for manufacturing jobs may not have the skills required for service jobs. These mismatches occur in instances where capital is mobile but labor is not, because of insufficient or irrelevant training or failure of information flows. A way to improve the circumstances of workers facing dislocations is to increase the mobility of labor, or at least, not impede it. Many current Federal policies do exactly the wrong thing—impede the mobility of labor. Examples of such mobility-inhibiting Federal programs include an orientation toward subsidized low-income housing projects and subsidized construction as opposed to portable Housing Vouchers, Federal public transportation subsidies that are oriented toward central cities and are inflexible to changing employment focuses, and Federal economic development projects that merely postpone inevitable economic adjustments among industries that are declining nationwide. The Federal Government should take every opportunity to do away with policies that interfere with people's options to find jobs or training.

Governments cannot afford to put themselves and their citizens in the position of resisting normal economic adjustments to technological and competitive changes. Rather, national economic growth is maximized when workers are provided with the means and encouragement to respond flexibly to the somewhat unpredictable, but expected, changes in the market environment.

With these overall policy objectives in mind, it is possible to gain perspective on various Federal Government programs:

• Programs that promote worker geographic mobility (Housing Vouchers, for example).

• Programs and policies that improve worker skills (Job Training Partnership Act; education reform; Project Self-Sufficiency; and welfare reform).

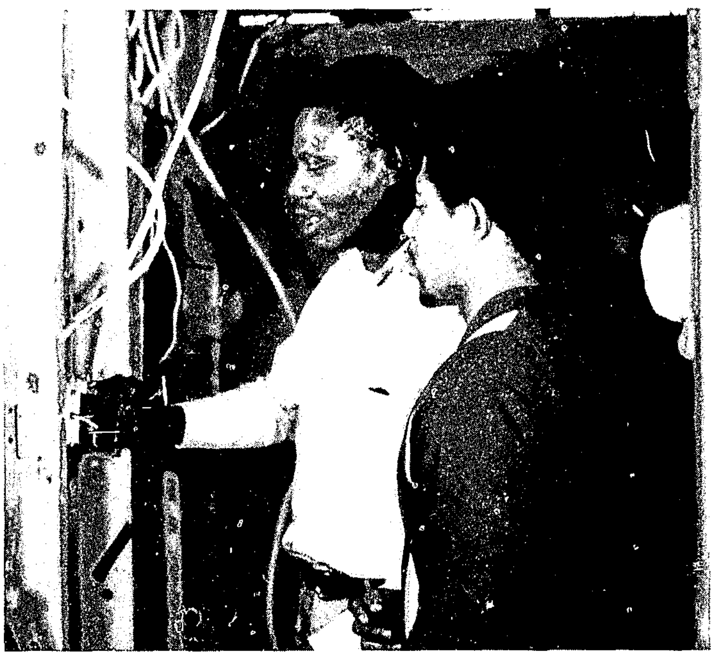
• Programs that remove barriers to business location and economic development (Enterprise Zones).

• Block grants for community development.

• Other economic development programs.

Worker Geographic Mobility

This Administration has strongly promoted various measures to increase the mobility of workers and their families. The most innovative of these measures has been the emphasis on portable Housing Vouchers and Rental Assistance Certificates, and a deemphasis of programs that construct housing for low-income people and thereby lock them into specific neighborhoods and cities. These programs are discussed in Chapter V. Programs that promote easier travel between residential areas and where the jobs are located are discussed in Chapter IV.



Worker Skills

With an economy changing rapidly, both in its industrial and geographic makeup, a well-trained, adaptable workforce is extremely important if the country is to maintain urban—and, indeed, national— prosperity. Cities, corporations, and workers will be required to respond rapidly in an environment of rapid and accelerating changes. The pressures of increased foreign competition from nations with free economies in a world at peace will mean that the isolated stability of older manufacturing firms will be a thing of the past, requiring a willingness to train and be retrained. Centralized Federal control of such efforts will be impossible; they must be met by market-attuned local governments, their private-sector actors, and their citizens. The Administration's job training policies and family-oriented assistance policies are geared to provide the appropriate levels of aid, with minimal intrusion into the local capacity to adjust. These policies are discussed in Chapter V.

Removing Barriers to Economic Development

Enterprise Zones

HUD has supported a number of measures to encourage Enterprise Zones. The Enterprise Zone concept is in tune with this Administration's basic philosophy: rather than depending on federally directed aid to specific places and businesses, it removes barriers to economic development in distressed neighborhoods. It establishes incentives available to all businesses and then allows the market to decide which will succeed.

Federal legislation. The Administration has consistently proposed comprehensive Enterprise Zone legislation that would help States and cities create environments for job formation by removing tax and regulatory impediments to business activity.

In the original Administration proposal, rural and urban areas characterized by pervasive poverty and unemployment would have been eligible for Federal Enterprise Zone designation. The proposed Federal Enterprise Zone legislation required 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 encouraged 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 proposal has not been enacted, in spite of bipartisan cosponsorship by more than half the House membership as recently as 1983. However, Title VII of the Housing Act of 1987 authorized the Secretary of HUD to designate 100 zones based entirely on the degree of distress. The requirement for a local zone development strategy is included in the legislation, although it is not a critical factor in the designation criteria. The benefits resulting from Title VII are limited to HUD programs and do not include tax incentives.

The Administration intends to implement Title VII vigorously, while at the same time continuing to seek more comprehensive legislation.

State Enterprise Zones. Although Congress has been unwilling to expedite Enterprise Zone legislation, the States and localities, in a major sign of their increasing responsibility and attunement to local needs, have legislated, implemented, and promoted State Enterprise Zones, even in the absence of Federal tax incentives. State Enterprise Zones have emerged as a major success story in the laboratory of federalism. States initially adopted Enterprise Zone legislation both for their own development and in anticipation of Federal legislation. After a period of uncertainty, however, and in frustration at delays in gaining Congressional approval, they decided to move aggressively on their own. Thirty-six States and the District of Columbia have adopted the concept, and more than 2,000 zones have been designated in more than 700 jurisdictions. As reported by the States, more than 180,000 jobs have been created or retained in the zones and more than $8.8 billion of investment has occurred or is anticipated. The founding of an association of Enterprise Zones is further evidence of the widespread appeal of this concept.

States have applied the basic concept of using deregulation and tax incentives to encourage business to invest in distressed areas in a variety of ways. The concept 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 widened range of incentives, including tax credits, tax exemptions and abatements, service enhancements, technical assistance, and job training.

Perhaps more significant than the specific incentives is the perception that something positive is happening in the zones. In many cases, zone designation is serving as the catalyst for other activity. Frequently, Small Business Incubators are springing up in the zones, and linkages to job training programs occur regularly. 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 increasingly important role in local economic development. They are providing useful laboratories to learn about the most effective approaches to urban economic development.

Community Development Block Grants (CDBG)

The Community Development Block Grant program has been a keystone of the Federal Government's efforts in community and economic development. Within broad national objectives, the Administration has structured this program to offer maximum discretion to States and communities to pursue the paths of community and economic development that they feel meet their needs at a given time in a given place. Moreover, the comprehensiveness of the activities eligible under the program allows communities to mold an environment in which long-term community development can occur and private investment can be elicited. The consistency of its funding has made it a predictable source of community development assistance. This predictability has enabled States and communities to use CDBG funds most efficiently because they have known how much funding was forthcoming and under what restrictions.

Finally, CDBG activities are highly targeted, with approximately 90 percent of funds benefiting low- and moderate-income persons, with the remainder spent mostly on preventing or eliminating slums or blight. This sharp targeting far exceeds the requirements of the Housing and Community Development Act of 1987, which stipulates that at least 60 percent of CDBG funds must support activities that benefit low- and moderate-income persons.

The CDBG program consists of two main components: an entitlement program providing money to large cities and a State and small cities program. The entitlement program consumes 70 percent of the entire CDBG appropriation.

CDBG Entitlement Program

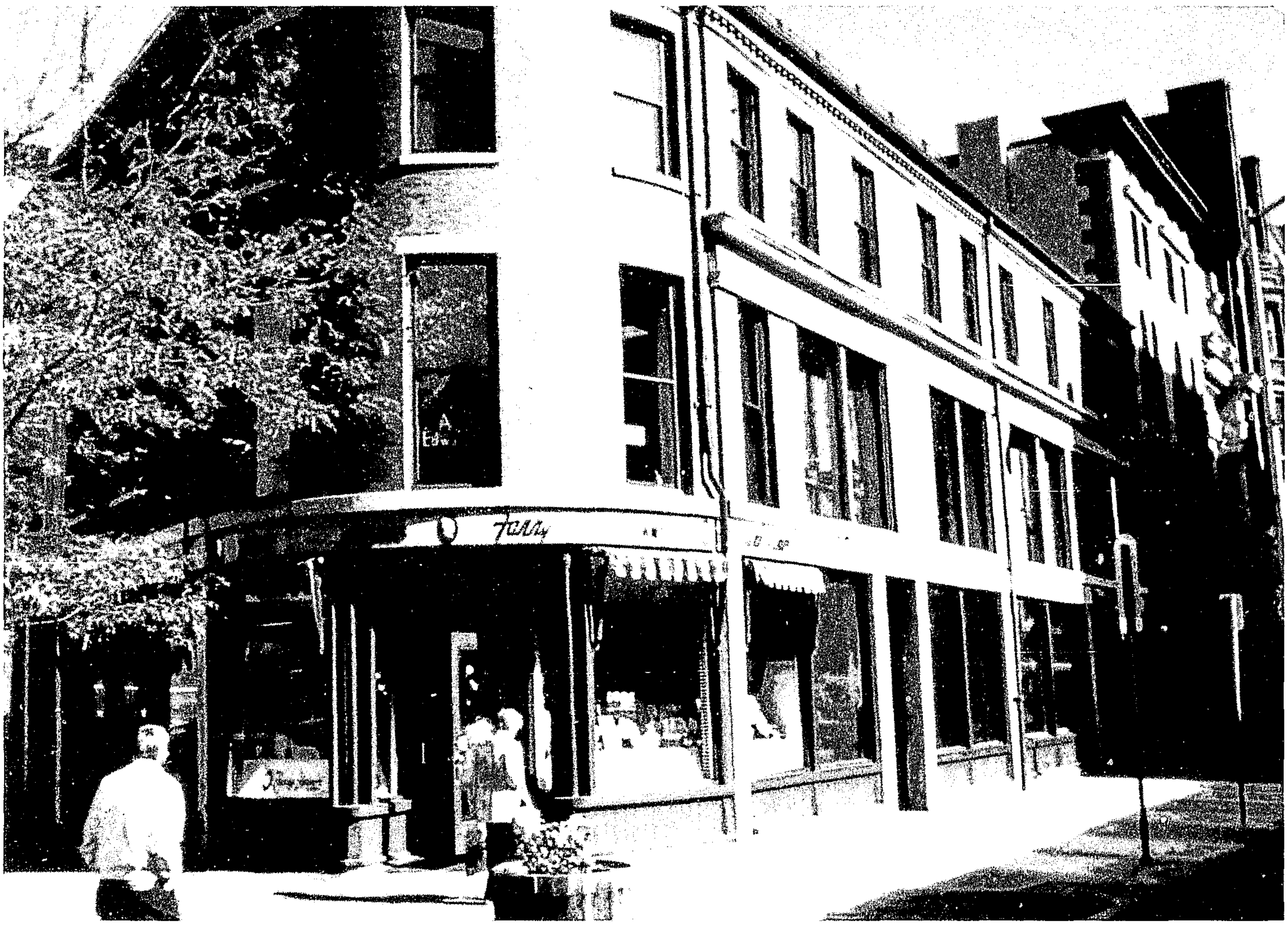
The CDBG entitlement program awarded approximately $2 billion in 1987 to about 700 metropolitan cities and 115 urban counties. These funds are targeted to cities experiencing severe economic adjustment problems, and are based on formulas that account for population, population growth lag, the number of persons in poverty, the extent of overcrowded housing, and the amount of housing built before 1940. Industrial cities undergoing severe long-term adjustments, such as Cleveland, Detroit, Pittsburgh, and Buffalo, receive more that 2-1/2 times that of the average city, on a per capita basis. Within cities, CDBG funds are required to be targeted to lower income neighborhoods. CDBG supports a wide range of local activities such as rehabilitation of housing, street repair and public facility improvements in blighted neighborhoods, and site improvements in industrial parks.

This Administration has substantially reduced Federal oversight and regulations in the CDBG program and expanded the ways in which these funds can be used for economic development. The proportion of total CDBG funds spent on economic development activities has increased from 5 percent in 1980 to more than 10 percent in 1987, and during the past 8 years communities have budgeted almost $2 billion in CDBG funds for these activities.

Uses of CDBG Funds

The wide range of eligible uses and the ability to use entitlement funds for grants, loans, and loan guarantees in varying amounts has made CDBG a useful means of stimulating private investment. The goal of this Administration has been to increase the possibility of creative uses by making use of the CDBG program funds almost as flexible as if the funds had been left in the hands of State and local citizens to begin with. A number of localities have seized that opportunity, and within the limits of the deregulated CDBG program, explored locally suitable policies for community and economic development.

CDBG-funded activities include $876 million for housing-related activities, primarily rehabilitation (36 percent of the total, the largest single activity); $536 million for public



facilities and improvements (22 percent); $254 million for economic development activities (10 percent); and $242 million for public services (10 percent). Acquisition and clearance activities are estimated at $141 million (6 percent).[15]

The following examples illustrate some uses of Block Grant Entitlement funds for economic development activities.

Atlanta, Georgia, used $2.4 million in CDBG Entitlement funds and leveraged an additional $11 million in public and local funds to acquire and develop the 330-acre Atlanta Industrial Park. This Atlanta Economic Development Corporation project was the first industrial venture in Georgia to receive Urban Enterprise Zone classification designed to encourage businesses to locate in areas of high unemployment and economic decline. To date, 26 businesses have settled in the Park.

The estimated market value of all this private investment is $75 million, representing a ratio of 11.2 private dollars to each public dollar invested in the project. Currently, the Park is providing 1,113 jobs. About 44 percent of these jobs are filled by city residents, and 41 percent of the jobs are held by minorities. It is expected that the Park will create 2,000 jobs by the time it is completed.

Portland, Maine, used $1.2 million of CDBG Entitlement funds and leveraged an additional $14 million in public funding to reinvigorate and expand its waterfront. The city developed several parcels of a landfill area for a fish-processing plant and other port-related development that resulted in the creation or retention of 284 jobs. More than 60 percent of the 185 permanent jobs created are held by low- and moderate-income persons. The volume of fish sold on Portland's waterfront rose from 300,000 pounds per year to 2 million pounds per month. The city acquired several dilapidated piers and replaced them with two new piers and constructed a fish auction house and cooler, an ice and fuel building, and the Marine Trades Center office building.

Rock Hill, South Carolina, used $400,000 in CDBG Entitlement funds together with other city funds to help finance the Rock Hill Economic Development Corporation. The corporation helped finance an economic development loan pool, two industrial parks, a Small Business Incubator program, an equity investment firm, cheaper utility rates, and lower property taxes. In 4 years of operation this Economic Development Corporation and seven other private lenders made $5 million available to assist small businesses. Seven businesses received loans for expansion and 200 new jobs were created.

Philadelphia, Pennsylvania, sponsored a Small Business Incubator project in cooperation with the Southwest Germantown Community Development Corporation (SGCDC) and a number of large corporations in response to the deterioration of the Wayne Avenue commercial corridor of the city. As the operating agent for the partnership, SGCDC screens and counsels potential entrepreneurs and provides management assistance to businesses located in low-rent commercial space owned and rehabilitated by the development corporation. Rental payments are phased in to match anticipated business growth and are structured to cover operating expenses and replenish SGCDC's property acquisition and rehabilitation fund. Businesses in the incubation process are provided management and technical assistance until they can stand on their own.

The incubator project is supported by more than $100,000 in private capital contributed by major corporations, $96,000 per year for 2 years of CDBG Entitlement funds, and substantial in-kind and cash contributions from existing neighborhood merchants and the SGCDC. During the first 18 months of the project, SGCDC helped start 12 new businesses and retained 8 others under new minority ownership. Fifty-two jobs for low-income residents were created during the period and 22 more were planned.

Chicopee, Massachusetts, decided to use a vacant mill building strategically located in the center of downtown as a Small Business Incubator. With $200,000 in Entitlement funds and additional private funding, the city was able to retrofit the structure as 43,000 square feet of light manufacturing space with low rent, shared services, and technical business assistance to startup firms. So far, the project has been instrumental in the creation of 74 jobs, 48 of which are available to low- and moderate-income persons.

CDBG State and Small Cities Programs

These programs are HUD's principal vehicles for assisting small communities (less than 50,000 population) that are not eligible to receive CDBG entitlement grants.

Smaller communities frequently encounter unique obstacles in their efforts to create and retain jobs and business opportunities. Smaller communities form parts of regional economies that sharply circumscribe their capacity to act. Also, small communities often lack the infrastructure and skilled labor force required to attract new private investment and keep existing firms. Finally, inexperience in economic development and with public programs, both within the public and private sectors, may limit their capacity to respond to the considerable advantages they at times hold; e.g., competitively priced land, lower wage scales, and favorable tax structures.

The discretion accorded States in the State CDBG program permits them to tailor their priorities to the particular economic conditions of the State and the areas within it. Moreover, the flexibility of the program gives States the opportunity to modify their economic development priorities with shifts in economic climate and circumstances. The CDBG program also permits a comprehensive range of eligible activities that can produce an environment in which business will want to participate. Public improvements and commercial rehabilitation, for example, can create an atmosphere in which local economic development becomes possible. Finally, the gradations in scale that State CDBG economic development projects may take—and the potential for multiple sources of funding of a community's economic development efforts—allow local economic development expertise, public and private, to be nurtured over time.

HUD initially administered this program exclusively. In 1982, at the Administration's request, States were offered the option of administering it themselves, determining the broad policies, priorities, and methods of distribution of funds within their jurisdictions. At this point, all States but New York and Hawaii have exercised this option. By statute, the State and Small Cities program receives 30 percent of CDBG funds; allocation to individual States is determined by a formula similar to that of the Entitlement program.

What the communities do with their grants is determined by joint consultation with the State officials administering the program. Public facilities activities have been the principal focus of State CDBG funding since 1982, accounting for over about one-half of all expenditures. Housing programs (mostly rehabilitation) are next with about 30 percent of the current funds. Finally, with about 10 percent of current funds, are various economic development activities. These consist mostly of infrastructure construction and improvement, rehabilitation of neighborhood or elderly centers, and activities tied to public improvements; e.g., acquisition and clearance of land for street and sewer construction.

Communities of fewer than 10,000 population have been allocated more than 60 percent of State CDBG funds. The very smallest jurisdictions are most likely to be funded for public facilities and improvements, while housing and economic development are more common uses among the larger recipients.

Other Economic Development Programs

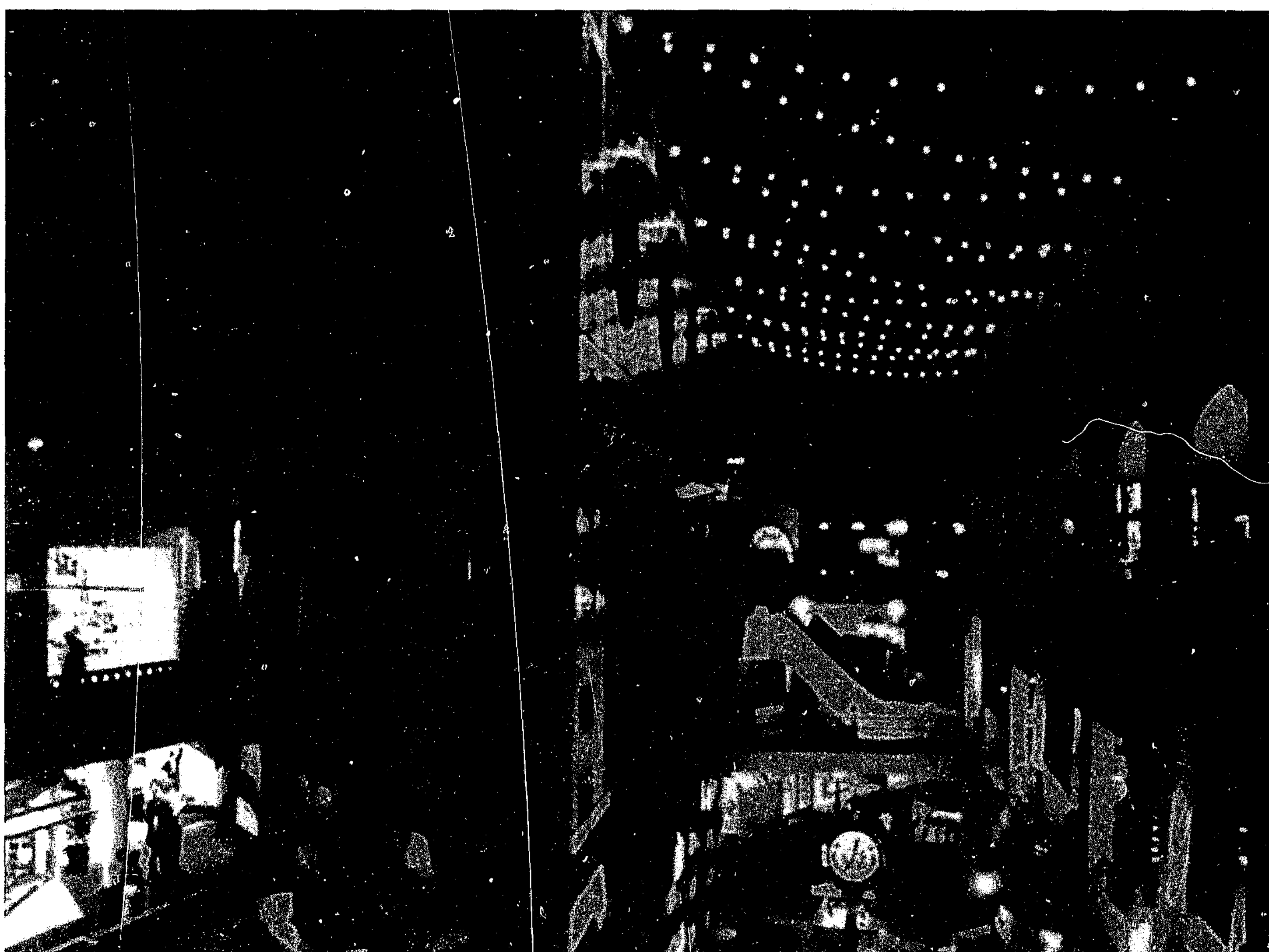
This section discusses various economic development programs, including those promoted by several Federal agencies and those promoted by State and local governments and business entities.

Urban Development Action Grants (UDAG)

The basic purpose of the UDAG program was originally to stimulate employment and to generate tax and other revenues in distressed communities by providing grants to be used to leverage private investment in economic development projects. Local governments use UDAG grants to make loans to private commercial or residential developers and to industrial companies.

UDAG funds are awarded on a competitive basis, according to the following criteria: the degree of economic distress in the area (with a "pocket of poverty" criterion for areas that are not, overall, poor); the amount of private investment compared with the UDAG grant ("leveraging"); the number of permanent jobs created per UDAG dollar; the number of new, permanent jobs; and the amount of local tax revenues to be created. UDAG project funding is contingent on the assertion that the investment would not be feasible without the UDAG infusion.

New provisions of the 1987 Housing and Community Development Act strengthen job training and retraining provisions of the



program. These provisions also require guarantees that the UDAG supported project will produce decent housing for low- and moderate-income persons in cases where such housing is in severe shortage.

In a time of increasing financial stringency for the Federal Government, the Administration has decided that, with the exception of certain CDBG projects, most place-specific economic development programs are best left to State and local governments. Therefore, it has not requested funds for the continuation of UDAG. Even Senator William Proxmire, one of its founders, says: "... I was the author of that program about 10 years ago, and I think it is time to end it."[16] Increasing doubts have been raised over the years about UDAG's ability to guarantee that the jobs it supports are not simply shifted from other sites, or that it gives some companies unfair competitive advantages over others in the same industry, or that the jobs it supports are insufficient to justify their great cost, or that some projects are approved purely on a formula basis even though they create few new jobs or cost hundreds of thousands of tax dollars for each new job.

Responding to these concerns, the Congress has authorized no new funds for UDAG in the fiscal year 1989 budget, although the UDAG program has not been formally terminated.

Encouraging Public-Private Partnerships

The Administration has consistently supported efforts to involve private groups—businesses, universities, neighborhood groups, banks, and others—in economic development activities, often with Federal coordination. The White House Office of Private Sector Initiatives is one such coordinating group. Another is the recently formed Council for Community-Based Development, which consists of more than 200 executives and directors of corporations, private foundations, nonprofit organizations, and religious groups, forming a network for community investment capital. The objective of this group is to promote low-income community development by greatly increasing private investment in community-based developments through grants from foundations, corporations, and religious bodies, as well as portfolio investments by corporations, insurance companies, the banking sector, and pension funds.[17]

Examples of successful community-based development efforts abound.[18] Among these are a Kansas City shopping center, created on the grounds of a partially razed hospital that had been used as the setting for a post-nuclear holocaust movie, "The Morning After." Others include an organization in Arizona that serves the Hispanic population with a wide array of social services and development activities. In Cleveland, private interests and community groups have coalesced to discover workable solutions to serious, long-term housing problems. And for the Mississippi Delta, the focus on capacity building in a chronically depressed rural area has raised the living conditions of area black residents.

Many community-based development efforts use a variety of funds, from private and public sources. The Council for Community-Based Development has been formed to encourage this sort of grassroots development and greatly increase the amount of private funding available for such projects.

State and Local Economic Development Efforts

The extent of State and local economic development activities has increased at a rapid pace, especially during this Administration. State and local governments are becoming increasingly sophisticated in promoting economic development in a wide range of industries.[19] In recent years, these efforts have broadened substantially beyond industrial attraction, to include business retention, expansion, and incubation of startup industries. Financial incentives have gone far beyond simple tax concession, to include various forms of subsidized or guaranteed financing, commonly with emphasis on leveraging private and Federal funds. To avoid the appearance of favoritism to the private sector, many such activities take the form of loan guarantees rather than direct loans. In States with constitutional restrictions against using public money to help private, profitmaking firms, nonprofit private development corporations often have been set up.

The emphasis of most State development programs has been on a diversified mix of small business, high-technology firms, research and development, and the service sector. Michigan, for example, has set as a specific goal the diversification of its economy away from the automobile industry; industries assisted during the 1980s have included food service equipment, boats, and electrical wiring insulation. By contrast, the Sunbelt States have tended to concentrate on attracting new manufacturing investment from other States. Whether because of State incentives, cheaper labor, or other relative locational advantages, the Sunbelt States have very successfully attracted some major industries that formerly were almost solely located in the heavily industrialized Upper Midwest (such as automobile manufacturing) and the Northeast (such as textiles).

Even along the shores of the Great Lakes, long considered the domain of heavy industry, a resurgence of activity is evident. As a recent news account noted, "Over the last four years, cities across the region have invested hundreds of millions of dollars in public and private funds to transform what were once underused docksides and abandoned industrial sites into marinas, parks, hotels and retail malls that are bringing people back downtown and helping to replace lost industrial jobs."[20]

Tax incentives are one of the oldest and most common form of State support to developing firms. Tax incentives do not have to be specific, however. Low overall and marginal tax rates can have an incentive effect, as in New Hampshire, whose spectacular growth has been attributed at least in part to the absence of personal income taxes.[21] Over the long term, low tax rates, deregulation, and lowering of entry barriers may well prove to be the most effective local strategies for stimulating business and job creation and attracting new businesses.

However, some States and localities are attempting more specific remedies. State aid to new industries has more recently taken the form of venture capital revolving funds. Many States now provide such support to new, risky industries, using State funds. Additional financing methods increasingly include encouraging State employee pension funds and local insurance and banking industries to support risky investments, often with State guarantees. Many States believe that small firms often need equity investment rather than pure debt; the perceived problem with debt financing is the fixed-interest component that can hold back such firms during their startup period. Impatient for results, and willing even to risk creating "hothouse" effects, State development agencies are therefore encouraging a range of long-term fixed debt or equity financing, which can be advantageous to many new, risky, but potentially profitable new firms. Low and stable inflation and interest rates during this Administration have made such financing much less costly than in prior years.

Federal resources continue to play a significant role in State economic development efforts. Existing Federal programs, such as CDBG (both the Entitlement and the State and Small Cities programs), Job Training Partnership Act, and Federal technical assistance, are all being used by State development agencies in conjunction with State programs.

Tax-exempt financing for municipal economic development projects has been curtailed by the 1986 Tax Reform Act, and as a result some municipalities have given up the Federal tax subsidies and issue taxable municipal bonds. This example is just one in the broad range of imaginative programs being used by States and municipalities to support their own development. The great variety of economic strategies available to the States, from low taxes and deregulation to high taxes and loan subsidies, should create the basis for evaluating a broader scope of alternatives than is available to the Federal Government. Within differing community standards, a multitude of strategies may be seen as successful.

Conclusions and an Agenda for the 1990s

The Nation's steady, noninflationary growth over the past 6 years has been reflected in most metropolitan areas. In general, urban areas are adapting well to the challenges of industrial growth, sectoral change, and the rapid decentralization of the economy and workforce. The few areas that have not grown as well are usually characterized by overreliance on a limited number of industries currently undergoing major economic adjustments or having poorly trained or immobile workforces.

The record of the 1980s should be used to set the framework of the urban agenda for the 1990s:

- The key to healthy American cities is a healthy U.S. economy. The most important single policy the Federal Government can follow to help metropolitan areas is to keep the national economy growing with stable prices, low taxes, and limited regulatory burdens. In a growing economy, structural changes can occur far more smoothly than when the national economy is stagnating.

- The Federal Government can and should help its industries compete fairly in international markets, by ensuring that international markets are fully open for exports and imports and at the same time encouraging domestic research and development activities in areas of rapid industrial change.

- The Federal Government should ensure that its assistance policies foster rather than inhibit close matches between job skills and worker location and the emerging industrial changes. Existing job training programs and increased aids to geographic mobility through programs such as Housing Vouchers are appropriate bases for the Federal Government's activity in helping and encouraging States and localities to perform those functions.

- Improving the quality of the workforce by increasingly emphasizing adequate education, training, and mobility is, in general, a more productive use of Federal funds than "bricks and mortar" programs—aid to specific industries in specific urban areas.

- Aid to specific urban areas or industries should concentrate on helping localities adapt to changing economic environments rather than mechanically aiding industries or areas that exhibit overall competitive weakness.

- Where aid to specific localities is called for, State and local governments rather than the Federal Government should be the primary providers. State and local governments are far better positioned to know the specific needs and strengths of their urban areas than is the Federal Government. Programs such as Enterprise Zones should provide the basic model for State and local adjustment and Federal participation.

- Where specific industries and urban areas are aided, whether by the Federal Government or by State or local governments, care must be taken to avoid situations where jobs are maintained or increased in one location at the expense of other locations, with no net gain to the industry as a whole. Such situations produce no overall benefit to the economy, and are a great waste of taxpayers' resources.

• As a corollary, government aid to specific areas or industries should avoid the trap of retarding local economic adjustment to global forces of change.

• Federal aid should not supplant or obviate good local policies such as low taxes, sensible rules for development, and minimal regulation of businesses, which are important factors in creating a local climate conducive to economic growth.

Footnotes

1. *Economic Report of the President, 1988,* Washington,D.C.: U.S. Government Printing Office, Feb. 1988.

2. Derived from U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings,* Washington, D.C.: U.S. Government Printing Office, Feb. 1988.

3. Derived from *Economic Report of the President, 1988,* Table B-7, and *Employment and Earnings,* Feb. 1988, Table 54.

4. Both household income and total compensation have been rising because of increased labor force participation of wives and fringe benefits. However, per capita income is the only income measure available for central city-suburban comparisons.

5. U.S. Department of Commerce, Bureau of the Census, *State and Metropolitan Area Data Book, 1986,* Table A.

6. U.S. Department of Commerce, International Trade Administration, *Construction Review,* Nov.-Dec. 1987.

7. *1987 Dodge/Sweet's Construction Outlook; First Update, Mar. 1987.* New York: McGraw-Hill Construction Information Group.

8. *Construction Outlook for 1988,* Table 1.

9. Seminar by George A. Christie, McGraw-Hill Information Systems Company, May 4, 1988.

10. Cushman and Wakefield, *Across the Nation; 4th Quarter 1987,* in "Vacancy Rates," *The Wall Street Journal,* Mar. 4, 1988, p. 31.

11. Institute for Urban Economic Development Studies, *Sectoral Growth Patterns at the Metropolitan Level; An Evaluation of Economic Development Incentives,* Evanston, IL, Jan. 1988. Prepared for the Economic Development Administration, U.S. Department of Commerce.

12. United States Conference of Mayors, *Improving Local Economies Through Technology Transfer,* book draft, Mar. 1988, prepared under grant from the Economic Development Administration of the U.S. Department of Commerce.

13. Robert Kelley and John Anthony, *The State of the Region: Demographic and Economic Trends in the Northeast and Midwest,* Northeast-Midwest Congressional Coalition, Northeast-Midwest Senate Coalition, Northeast-Midwest Institute, 1988.

14. "Fleeing Factories; Shift of Auto Plants to Rural Areas Cuts Hiring of Minorities," *The Wall Street Journal,* Apr. 12, 1988, p. 9.

15. U.S. Department of Housing and Urban Development, Office of Community Planning and Development, *Consolidated Annual Report to Congress on Community Development Programs, 1988,* Mar. 28, 1988, Chapter 2 (data for fiscal year 1987).

16. Transcript from the Senate Appropriations Subcommittee Hearing, April 18, 1988.

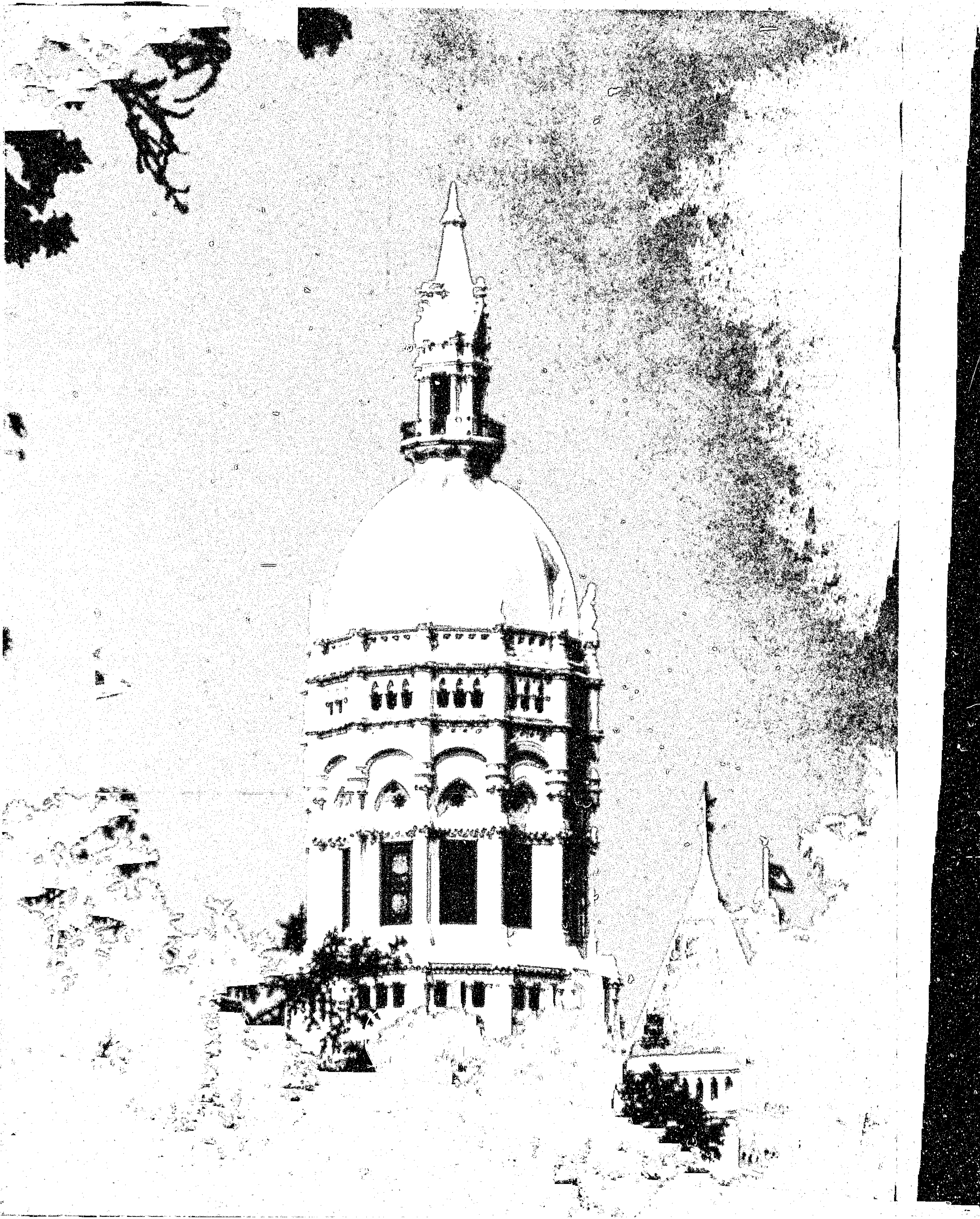
17. "Council Formed to Encourage Private Investment in Community Renewal Efforts," in *Housing & Development Reporter,* Apr. 4, 1988.

18. Task Force on Community-Based Development, *Community-Based Development: Investing in Renewal.* National Congress for Community Economic Development, Washington, D.C., Sept. 1987.

19. Deborah Matz, *An Analysis of Innovative State Economic Development Financing Programs.* National Association of State Development Agencies, Washington, D.C., Aug. 1985. Unless otherwise noted, this section is derived from Chapter 1. A more recent source of State and local development activities is found in Government Finance Research Center, *Capital Financing and Development,* Government Finance Officers Association, Mar. 1988.

20. William E. Schmidt, "Great Lake Cities Replace Gray With Gleam on the Waterfront," *The New York Times,* May 5, 1988.

21. "Survey: New England," *The Economist,* Aug. 8, 1987, page 8.



Chapter III

Fiscal Federalism

Introduction

The Nation's urban governments make up a large, remarkably stable sector of the national economy. During the 1980s, total public sector spending—a measure of government control over resources—accounted for about one-third of gross national product (GNP). Federal spending after intergovernmental transfers hovered around 21 percent of GNP, while municipal spending remained remarkably stable at about 3 percent of GNP (Table III-1). At both the Federal and the State-local levels, public sector employment as a proportion of total employment fell during the decade (Table III-2). Between 1980 and 1986, employment in State and local governments rose in absolute numbers from 13 million to 14 million, but fell in relative terms from 20.7 to 18.3 percent of the civilian labor force.

Total public sector debt, a measure of future claims against the sector, increased from 49 to 66 percent of GNP, primarily as a result of Federal Government activity (Table III-3). State and local government debt increased from 13 to 16 percent of GNP during the 1980s.

Table III-1

Government Expenditures After Intergovernmental Transfers as a Percent of Gross National Product

	Total	Federal	State & local	State	Local	Cities
1960	26.9%	17.2%	9.6%	3.4%	6.2%	2.3%
1970	30.4	17.8	12.6	4.5	8.0	3.1
1975	34.5	19.5	15.0	5.5	9.5	3.4
1980	33.0	19.5	13.5	5.2	8.3	3.0
1981	33.0	20.2	12.8	5.0	7.8	3.0
1982	35.1	22.0	13.1	5.2	7.9	3.1
1983	34.9	22.0	12.9	5.1	7.8	3.1
1984	33.9	21.3	12.6	5.1	7.5	3.0
1985	34.9	22.1	12.8	5.2	7.7	3.0
1986	35.1	21.9	13.2	5.4	7.9	N/A
1987	34.9	21.4	13.5	N/A	N/A	N/A

Source: Advisory Commission on Intergovermental Relations, *Significant Features of Fiscal Federalism, 1988*, Washington, D.C., 1987, Table 1.

The relative stability of municipal finances masks significant improvements in the fiscal conditions of most cities. During the 1970s, cities provided public services within an environment of severe recession coupled with rapid inflation, resulting in pronounced dissatisfaction with both the quantity and quality of municipal services. From 1973 to 1982, the economy experienced three major recessions and inflation rose to an annual rate of more than 13 percent. Voters expressed clear dissatisfaction with local government activities in the plethora of tax and expenditure limitations passed during and after 1978. Local governments in California and Massachusetts, for example, are still adjusting to the limits imposed by Propositions 13 and 2-1/2, respectively, on their budget behavior.

The fiscal environment, and with it the financial condition of the Nation's urban areas, has improved during the 1980s. From its inception, this Administration argued that the best help the Federal Government could provide to cities was economic growth with stable prices, not more Federal aid. That strategy has proved to be sound. The results—6 years of uninterrupted growth with an average inflation of just over 4 percent—have allowed cities to stabilize their budgets, secure their tax bases, and for most, run successive operating budget surpluses.

In addition to improving the Nation's economy, this Administration has deliberately followed a policy of expanding and streamlining block grants to replace highly regulated categorical programs and to spur local creativity.

Aid to cities has been moderated, streamlined, and deregulated, allowing increased State and local government control over their own budget decisions. When the Administration took office in 1981, a consensus was emerging that Federal categorical aid programs to State and local governments had proliferated to

Table III-2

Government Employment as a Percent of Total Civilian Labor Force

	Total government employment	Federal employment	State & Local employment
1960	24.7%	6.7%	18.0%
1970	26.5	5.7	20.8
1975	27.0	5.1	21.9
1980	25.1	4.4	20.7
1981	24.4	4.2	20.2
1982	24.1	4.2	19.9
1983	23.7	4.1	19.6
1984	23.0	4.0	18.9
1985	23.3	4.0	18.6
1986	23.3	3.9	18.4
1987	22.1	3.8	18.3

Source: Council of Economic Advisers, *Economic Report of the President, 1988*, Washington, D.C., Feb., 1988, Table B-43.

unmanageable numbers, spending in these Federal grant programs was out of control, and the national level of government was too overloaded with State and local issues to make wise decisions. The Administration has reduced the number of categorical grants and increased the proportion of funds distributed by block grants to more than 12 percent of total grant funds. The mix of grant-in-aid programs has shifted to emphasize redistributional grants to families and individuals, rather than grants to places that attempt to correct supposed inefficiencies in the market.

Reducing both the growth of Federal spending and the scope of Federal decisionmaking has been a basic tenet of Administration philosophy. As the role of the Federal Government has been redefined, more authority and responsibility have been returned to the private sector and to State and local governments that are directly accountable to local voters. State and local governments are assuming greater responsibility for place-specific problems. The Federal Government is stepping back into its more traditional role of concentrating on policies aimed at problems that are truly national in scope, i.e., economic growth, price stability, and the basic needs of lowest income families.

The result has been to stimulate creative problem solving and to promote healthy cooperation between levels of government in addressing local needs and exploring local opportunities. Service delivery systems in cities are changing. Improving public sector productivity is a major goal of many urban governments, and many are experimenting by providing services in various cooperative arrangements with the private sector. These range from simply contracting out parts of the service to removing the service from the public sector altogether.

Not all urban fiscal problems have been solved by renewed economic growth and increased State and local government control over local issues. Some cities have not fully benefited from the national recovery, particularly those economically dependent upon depressed or declining industries such as oil or some kinds of manufacturing and having to cope with changes in their basic economic functions. In general, the complex problems of economic adjustments are the sort that State and local governments are best able to solve. They are local problems of adjusting to change and they require creative local solutions, with help as needed from the State government and cooperation from neighboring local jurisdictions. The Federal Government has provided the basis for a strong fiscal environment; by exercising responsible leadership, States and localities can work together to ease the necessary adjustments to change.

For the most troubled urban places not responding to national economic growth, Federal assistance such as the Community Development Block Grants (CDBG) or Enterprise Zones may be required to cushion the adjustment process and help State and local governments as they develop long-term solutions to the problems caused by economic changes. In the next decade, however, the Federal Government must recognize the generally healthy condition of cities and their suburbs, the dominant and growing role of suburbs in contemporary urban life, and the political and fiscal strength of State and local governments. The revival of the political and fiscal strengths of cities must be not only welcomed but also wholeheartedly encouraged. The role of the Federal Government in aiding places suffering economic dislocation is often vital, but should be limited in both its scope and duration. The urban policy of the 1990s must be built upon that repaired and now solid foundation of fiscally healthy State and local governments that currently exists.

Table III-3

Government Debt as a Percent of Gross National Product

	Total Government debt	Federal debt	State & local debt	State debt	Local debt
1960	70.4%	57.4%	12.9%	3.4%	9.5%
1970	51.9	38.1	13.9	4.1	9.8
1975	51.0	35.8	15.2	4.8	10.4
1980	48.9	35.6	13.3	4.8	8.5
1981	44.8	32.9	11.9	4.4	7.5
1982	48.8	36.2	12.6	4.7	8.0
1983	53.9	40.6	13.3	4.9	8.4
1984	55.2	41.8	13.4	4.9	8.4
1985	59.8	45.6	14.2	5.3	9.0
1986	65.8	50.3	15.6	5.8	9.7

Source: Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism, 1988*, Washington, D.C., 1987, Table 4.

This chapter examines the fiscal condition of State and local governments in some detail. It begins by discussing city revenues and expenditures and then turns to a review of the grants-in-aid systems and a discussion of the changes in regulations, rules, and responsibilities. The final part of the chapter looks ahead to the urban fiscal debates of the 1990s.

The Fiscal Condition of Cities

The concept of urban fiscal conditions is vague and the methods for measuring it are often disputed. Crude as it is, the level of income is the generally accepted measure of a person or family's financial well-being. For a business, it is profits. No such generally accepted measure exists for a government. Just as for people and businesses, the fiscal health of local governments can be measured conceptually by the difference between the cost of providing goods and services required by their residents and the adequacy of the resources available to the government to meet those costs. Neither the resource side nor the demand side of this equation is easy to measure.

Local View

Two general methods are often used to determine how well a city is doing financially: the "local view" or bottom-up approach, and the "national view" or top-down approach.[1] The local view examines the budget of the individual city and asks the following types of questions:

- What is the government's record on balancing revenues and expenditures?

- Is the government running a surplus or deficit on its balance sheet? Fund balances give both a cumulative view of past budgetary performance and a measure of reserves available to meet unexpected financial demands on the government.

- Are tax rates stable or declining? Most local officials judge the need for increased tax rates as a symptom of problems in the government's finances.

- How able is the government to meet its cash needs internally or, if it borrows, to avoid cash flow problems? Can it repay the borrowing well before the end of the fiscal year?

- How good is the government's bond rating?

Answers to these questions provide useful information to budget analysts about a particular place. The answers, however, are less valuable in determining the fiscal conditions of cities as a group or the relative fiscal health of different cities. Two cities may provide the same answers for very different reasons. In one case the answer would be a cause for concern whereas in another it would be a sign of a strong and vibrant fiscal condition. For example, tax rates may increase because the citizens decide that they both want and can afford more public services. Conversely, they may rise because the tax base is falling and rates must be increased to hold revenues constant. In the first case, the fiscal condition of the place is healthy, while in the second it may be a cause for concern.

This approach has proven to be popular even though the results are sometimes difficult to interpret. Normally, the questions are asked in a survey and the answers are aggregated to provide information about all States or all cities.

The National Governors' Association, in conjunction with the National Association of State Budget Officers, recently surveyed the States concerning their fiscal conditions. The major findings of the survey were:

- States are keeping spending under control. The projected fiscal 1988 spending increase is 6.4 percent over 1987, or 2.3 percent after inflation adjustments. Governors are proposing budget increases for fiscal year 1989 of 5.9 percent, or 1.4 percent in real terms.

- Revenue growth continues in line with the growth in the economy. Revenues are expected to grow 5.6 percent in fiscal year 1988 and 5.8 percent in fiscal year 1989.

- No Governor is proposing a rate increase in personal income and sales taxes this year. Only 14 States have proposed (in a few instances already passed) a tax increase for fiscal year 1989, with a net revenue increase of $0.8 billion to $0.9 billion.

- State ending balances continue to be lean. Fiscal year 1988 ending balances equal 1.9 percent of total State expenditures, and for fiscal year 1989 the budgeted reserves total only 1.5 percent. In dollar terms, the ending balances are $4.4 billion and $3.7 billion, respectively.

Other findings include:

- Thirty-six States now have established budget stabilization or "rainy day" funds, and two additional States may do so this year.

- Education is once again a predominant budget issue. It leads the 1989 agenda in 31 States. Education is followed by economic development, human resources, tax reform, and fiscal stability issues as the areas most frequently listed as priorities by Governors for the coming year.

- Only 11 States implemented mid-year budget reduction plans after the State's budget was enacted for fiscal year 1988. These reductions saved $421 million during fiscal year 1988. This compares with the 24 States that had budget cuts totaling $3.0 billion in fiscal year 1987.

- Sixteen States recommended new and expanded programs to help local governments meet their 1989 budgets. These programs distribute increased aid through a variety of mechanisms. These States are assuming programs traditionally funded by local units of government, compensating localities for property exempted from local taxation, allowing expanded revenue raising capabilities, and expanding local aid programs.

- Tax and expenditure limitations continue to be critical issues in selected States.

• On a regional basis, the Northeastern States continue to enjoy strong economic growth. Midwestern farm States and western energy States appear to have bottomed out of their regional recessions and are beginning to see a few signs of improving economies. Southern States are diverse: some are experiencing robust economic growth, but others face a substantially less rosy economic picture.[2]

Two additional comments help to explain the importance of these findings. First, in 36 States that have instituted budget stabilization or "rainy day" funds (RDF), the constitutions of all but one, Vermont, mandate a balanced budget, and the RDFs have been used to disguise surpluses. This new fund explains the trend toward lean year-end balances.

Second, because of Federal tax reform initiatives, 1986 was a landmark year for tax reform. Approximately 80 percent of the $6 billion "windfall" was returned to the taxpayer. This result meant that 24 States had to reform their tax code, whereas in 1987 only 6 States considered tax reform initiatives. Last year, 34 States raised taxes in many cases simply to adjust for effects of tax reform; this year only 14 States are considering tax increases.

On the whole, these findings suggest that the States are in a strong fiscal position, with revenues keeping pace with expenditures. A number are actually increasing the amount of help they provide local governments. Recently, however, a few States—including California and Massachusetts— have reported misestimated receipts because of the effect of capital gains taxes and increases in State expenditures. This error indicates the need for critical caution by States, even in times of economic growth, to avoid overcommitments.

The National League of Cities has also used the survey method to summarize the fiscal conditions of cities.[3] Its 1987 study is based on responses to questionnaires sent to a sample of 545 cities.[4] In general, the study findings imply that:

• Two-thirds of the cities expect general fund revenues to remain stable or grow in fiscal year 1987. The three largest sources of tax revenue to cities continue to be property, sales, and income taxes.

• During the past year, about 58 percent of those cities have increased the level of user fees.

• Four-fifths of all the cities expect their general fund spending to remain stable or increase in fiscal year 1987. The larger the size of the city, the greater the percentage expecting this to occur.

• The loss of General Revenue Sharing (GRS), while not yet completely felt, is having an impact. Of those cities reducing capital spending in the past year, 81 percent said the loss of GRS was an influential factor.

• Federal tax reform legislation has made the acquisition of capital for local projects significantly more complex.

• The city workforce in three-quarters of the cities surveyed remained stable or expanded in 1987.

These findings imply that funds are sufficient to meet the public service needs of almost all of these cities. The survey did not uncover major financial problems; rather it found most cities to be fiscally quite healthy.

National View

The second method for determining a jurisdiction's fiscal powers, the so-called "national view," involves nothing more than comparisons of selected fiscal factors among various levels of government. These comparisons take different forms. For example, econometric studies have examined the determinants of city revenues and expenditures. Their goal is to quantify a city's needs and compare those needs with its revenue base. The needs depend upon the economic and social assets of the community. The greater the gap, the less favorable the fiscal condition of the city. Most of these studies suffer from major methodological problems.[5]

A second suggested comparison is with national aggregate trends, usually budget surpluses or deficits as measured by the national income accounts.[6] Long periods of surpluses indicate a healthy fiscal condition.

As a part of their survey of the fiscal conditions of the States, the National Governors' Association and the National Association of State Budget Officers asked States about general fund

Table III-4

States' General Fund Yearend Balances Fiscal 1978-89* ($ millions)

Fiscal year	Year-end balances	Balances as a percent
1978	$ 8,900	8.6%
1979	11,200	8.7
1980	11,800	9.0
1981	6,500	4.4
1982	4,500	3.0
1983	2,000	1.3
1984	5,600	3.3
1985	8,000	4.3
1986	5,400	2.6
1987	4,700	2.1

*Does not include balances from budget stabilization funds.

Source: National Governors' Association and National Association of State Budget Officers, *Fiscal Survey of the States*, Washington, D.C., Mar. 1988, p. 21.

year-end balances. The results are reported in Table III-4. These balances have fallen somewhat since fiscal year 1985, but they are still estimated to be about $4.7 billion, or 2.1 percent of State spending in fiscal year 1987.

These kinds of aggregate comparisons have been used in other studies as well. Based on this type of analysis, for example, the Office of State and Local Finance of the Department of the Treasury concluded in 1984 that "It is equally clear ... that the State-local sector as a whole is in fundamental equilibrium. Existing tax and spending policies are sustainable over the relatively long term, assuming that the economy continues to perform well."[7]

An examination of the national income accounts finds that the State and local government sector is in deficit in 1987 (Table III-5), the first time the sector has had a deficit since 1982. The deficit amounts to only about 1.2 percent of total State and local government expenditure for the year, and some experts have suggested that it may be explained by increases in capital spending.[8]

Because States and local governments are under continuing pressure to avoid large surpluses, or to return them to citizens in the form of tax rebates or lower tax rates, they are not likely even in prosperous times ever to establish high levels of reserves that would enable them to avoid occasional small deficits. As a matter of sound policy, it makes sense to leave potential surplus funds in the hands of productive taxpayers until it is absolutely necessary to use them for clear public purposes. So the fact that State and local balances walk the tightrope between small surpluses and small deficits is not by itself a matter of concern.

Finally, simple comparisons of revenue and expenditure components often provide insights into the fiscal conditions of places. These comparisons may be nothing more than aggregate revenue and expenditure trends, tax burdens, tax capacity, and/or tax effort. Sometimes these factors are even combined into indexes of fiscal stress.[9]

Table III-5

State and Local Government Budget Surplus ($ millions)

Year	Expenditures	Surplus/ deficit	Percent of expenditures
1975	$227,463	−$ 5,133	−2.3%
1980	357,767	866	2.4
1981	385,021	−75	−0.0
1982	414,300	−1,700	−0.4
1983	440,200	4,400	1.0
1984	475,900	19,800	4.2
1985	516,500	16,000	3.1
1986	561,900	7,400	1.3
1987	607,000	−7,300	−1.2

Note: Excludes social insurance funds.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, July 1975 (also 1980, 1981, 1982, 1983, 1984, 1985, 1986, and 1987, all July), Table 3.3.

The unit of comparison is important and sometimes actually determines the results of the study. For example, the taxing and spending of a city may be compared with those of another city, with the suburbs of that city, or with the city itself over time. The last comparison is the one most useful for purposes of this chapter.

State Government Revenues

Over the 1980s, State revenues have increased by an average of about $15 billion per year, or at an average annual rate of almost 8 percent, primarily as a direct result of economic growth (Table III-6). During the same period, consumer prices increased by 38 percent; thus, in real terms, average State revenues increased by about $2.4 billion per year or at an average annual rate of 4 percent. Only a small part was attributable to increases in State tax rates, and revenues actually went down in 1986 because of general tax rate reductions. As

Table III-6

Sources of Increases in State Tax Collections, Fiscal Years 1964-89

Fiscal year	Total tax revenue collection ($ billions)	$ Change in total tax revenue ($ billions)	% Change in tax revenue[1]	Net change resulting from political actions[2] (billions)	Change resulting from economic factors[3] (billions)
1964	$ 24.2	$ 2.1	9.6%	$ 1.0	$ 1.1
1965	26.1	1.9	7.8	0.1	1.8
1966	29.4	3.3	12.5	1.3	2.0
1967	31.9	2.5	8.7	0.5	2.0
1968	36.4	4.5	14.1	2.5	2.0
1969	41.9	5.5	15.2	1.3	4.2
1970	48.0	6.0	14.4	4.0	2.0
1971	51.5	3.6	7.5	.8	2.8
1972	59.9	8.3	16.2	5.0	3.3
1973	68.1	8.2	13.7	0.9	7.3
1974	74.2	6.1	9.0	0.5	6.6
1975	80.2	5.9	8.0	0.4	6.3
1976	89.3	9.1	11.4	1.0	8.1
1977	101.1	11.8	13.3	1.0	10.8
1978	113.3	12.2	12.0	0.5	11.7
1979	125.0	11.7	10.3	2.3	14.0
1980	137.1	12.1	9.8	2.0	14.1
1981	149.7	12.7	9.2	0.4	12.3
1982	162.7	12.9	8.6	3.8	9.1
1983	171.4	8.8	5.4	3.5	5.3
1984	197.0	25.6	14.9	10.1	15.5
1985	215.3	18.3	9.3	0.9	17.4
1986	228.1	12.8	5.9	1.1	13.9
1987	246.6	18.5	8.1	0.6	17.9
1988	N/A	N/A	N/A	6.0	N/A
1989	N/A	N/A	N/A	0.8 (est.)	N/A

Notes:

[1]Increase in actual tax collections divided by previous year collections.

[2]Political action includes discretionary legislative actions such as adopting or repealing a tax, raising or lowering a tax rate, and changing the tax base. Does not include administrative tax adjustments or changes in tax collection procedures. Generally does include temporary taxes that were made permanent (e.g., if a State adopted a 1-year temporary tax increase in 1982 and then extended it in 1983, and made it permanent in 1984, then the tax increase was counted for 3 years because it required legislative action to maintain a rate that was scheduled to decrease). If a tax change is phased in over several years, only the first year of the tax change is counted. Figures in this column represent legislative tax changes that resulted from actions passed in the prior legislative session (e.g., Fiscal 1989 tax changes were passed in the 1988 session); therefore, these figures represent revenue projections presented to legislators when they passed the tax change.

[3]Economic growth (or decline) and inflation's effect on revenue growth.

Source: National Governors' Association and National Association of State Budget Officers, *Fiscal Survey of the States,* Washington, D.C., Mar. 1988, p. 17.

long as the economy continues to perform well, most States can expect to capture the benefits of that national growth in their tax systems.

A number of States are reporting higher than expected personal income and capital gains tax collections. At least a part of this increase is attributable to the 1986 Federal income tax reform, which expanded the income tax base for Federal taxes and for States that tie their income tax base to the Federal tax base.

Urban Government Revenue Patterns

Cities raised more than $158 billion in fiscal year 1986, an increase of more than 66 percent in current dollars or 21 percent in real dollars above the amount they raised in 1980 (Table III-7). Consumer prices grew by 33 percent for this period, and thus real revenues grew at an average annual rate of 5 percent over this period.

The revenue mix was changing as revenues grew. The importance of grants-in-aid to municipal budgets peaked in the mid-1970s and has declined continuously ever since. The ratio of grants to total municipal revenues has fallen by almost 10 percentage points since 1975, meaning that cities now depend less on the political decisions of other levels of government and are better able to control their own budget fate.

The proportion of total revenue coming from local taxes, fees, and charges—own-source revenues that municipalities collect directly—started to fall in the 1960s and continued to fall until the mid-1970s. Since the mid-1970s, own-source revenues have grown faster than other revenue sources and now account for 53 percent of total municipal revenue. Much of this increase is a direct result of the past 5 years of uninterrupted economic expansion. Economic growth increases income, which enables the fiscal capacities of most urban areas to expand. As that expansion occurs, even if tax rates remain constant, tax revenue may expand.

Table III-7

Total City General Revenue ($ Millions)

	Total revenue	Total grants	Federal grants	State grants	Own source	Utilities	Misc.
1960	$ 14,915	$ 2,321	$ N/A	$ 1,868	$ 9,325	$ 2,790	$ 467
1970	32,704	7,906	1,337	6,173	18,153	5,047	1,158
1975	59,744	19,648	5,844	13,053	30,205	8,217	1,815
1980	94,862	28,270	10,872	15,939	47,786	15,472	2,220
1981	105,431	29,841	11,283	16,998	53,407	18,140	3,098
1982	115,416	31,636	10,998	18,947	59,823	20,128	2,145
1983	124,861	32,800	10,666	19,729	65,019	22,180	2,595
1984	134,376	32,899	10,282	20,532	71,799	24,074	2,629
1985	147,672	35,859	10,292	23,103	78,790	26,211	4,515
1986	158,885	37,117	9,813	24,626	84,931	27,555	2,085
Percent of Total Revenue							
1960	100%	15.6%	N/A%	12.5%	62.5%	18.7%	3.2%
1970	100	24.2	4.1	18.9	57.2	15.5	3.2
1975	100	32.9	9.8	21.8	50.6	13.8	3.0
1980	100	29.8	11.5	16.8	50.4	16.3	3.0
1981	100	28.3	10.7	16.1	50.7	17.2	3.8
1982	100	27.4	9.5	16.4	51.8	17.4	3.3
1983	100	26.2	8.5	15.8	52.1	17.8	4.4
1984	100	24.5	7.7	15.3	53.4	17.9	4.2
1985	100	22.6	6.5	15.8	53.4	17.7	4.6
1986	100	23.4	6.2	15.5	53.5	17.3	5.8

Source: U.S. Bureau of the Census, *City Government Finances in 1985-1986* (also 1984-1985, 1983-1984, 1982-1983, 1975-1976, 1970-1971, 1960), Table 1.

Utility fees, charged for electricity, water, and sewer services, make up a large proportion of certain cities' budgets and amount to almost nothing in other cities. Their size depends upon the division of service responsibilities between the city, other local governments, and the private sector. Regardless of their size, cities have little discretionary control over this money because in most cases it just covers the costs of the service. On average, these utility fees made up about 17 percent of total revenues during the 1980s. Miscellaneous revenues include interest earned, special assessment, and sale of property and are not important in most cities' budgets.

Property taxes remain the single most important source of municipal tax revenue, making up almost 30 percent of total own-source revenue (Table III-8). This amount is almost double that provided by sales taxes and more than three times their income tax collections. Sales taxes account for about 17 percent of municipal own-source revenue, while income taxes make up slightly more than 8 percent of the total. Fees and charges are also quite important, accounting for 40 percent of municipal own-source revenue.

As total revenue has grown, revenue sources have multiplied. For example, as other revenue sources have become more important, property taxes as a proportion of total own-source revenue have fallen by almost 15 percentage points since 1960, with almost one-third of that decline occurring since 1980. Sales taxes have gained in importance and now account for about 17 percent of total own-source revenue. Income tax receipts for cities have remained at about 8 percent of total own-source revenues because most cities lack the authority to collect taxes on income and those that do must generally operate within a tightly restricted range of rates.

A number of municipal budget experts argue for expanding the use of fees and charges because they are, first, like prices and therefore are more efficient allocators of resources than are taxes, and second, underused. Cities now depend upon them more than they did in the past. User charges have increased at an average annual rate of 11.6 percent between fiscal year 1975 and 1985. On average, they are now of greater importance than either the sales or income tax as a revenue source, accounting for more than 20 percent of own-source revenue.

User fees will likely remain an important revenue source for cities for some time; however, their rapid rate of growth may decline because: (1) they have been building off a narrow base, making the percent increases appear quite large; (2) they are not as feasible for some city services as they are for others, and very likely already are charged for the easy ones to implement; and (3) they can occasionally raise difficult equity questions. For some basic services, it is very difficult to deny the service to an individual simply because the individual cannot afford to make the payment.

Aggregate data on revenue sources hide large differences between cities in different States. Cities in some States, such as New Hampshire, depend almost exclusively upon the property tax for their revenue, while in other States, such as New York,

Table III-8

City Tax Sources as Percent of Their Own Revenue, by Year

Year	Total own source	Total tax	Property tax	Sales tax	Income tax	Other tax	Charges & Misc.
1960	100%	61.0%	44.6%	10.4%	N/A	6.0%*	19.0%
1970	100	72.3	48.1	13.3	N/A	10.9*	27.7
1975	100	70.5	42.8	15.4	N/A	12.3*	29.5
1980	100	63.9	34.2	16.8	8.5%	4.4	36.1
1981	100	62.0	32.6	17.0	8.3	4.0	38.0
1982	100	61.5	32.0	17.2	8.1	4.1	38.5
1983	100	60.9	30.7	17.4	8.3	4.5	39.1
1984	100	60.5	29.8	17.4	8.4	4.7	39.5
1985	100	59.9	29.5	17.3	8.3	4.8	40.1

*Other tax includes income taxes in 1960, 1970, and 1975 only.

Source: U.S. Bureau of the Census, *City Government Finances in 1985-1986* (also 1984-1985, 1983-1984, 1982-1983, 1975-1976, 1970-1971, 1960), Table 1.

Table III-9

City Tax Sources as Percent of Their Own Revenue, by State (1986)

State	Property tax	Sales tax	Local income tax	User charges
Alabama	6.8%	23.6%	3.3%	27.5%
Alaska	24.1	6.0	2.1	33.7
Arizona	11.9	24.9	0	24.9
Arkansas	9.1	7.2	0	31.2
California	19.2	16.8	0	22.6
Colorado	11.7	33.6	0	23.3
Connecticut	81.3	0	0	11.1
Delaware	22.1	0	17.9	35.7
Florida	21.6	0	0	26.4
Georgia	21.8	2.8	0	32.9
Hawaii	63.3	0	0	12.8
Idaho	41.1	0	0	38.5
Illinois	25.5	19.2	0	16.6
Indiana	42.8	0	0.9	28.1
Iowa	39.6	0	0	32.4
Kansas	21.4	7.4	0	18.2
Kentucky	14.6	0	22.9	27.5
Louisiana	17.0	27.2	0	24.7
Maine	73.3	0	0	18.6
Maryland	48.9	0	11.2	14.0
Massachusetts	68.4	0	0	20.6
Michigan	36.9	0	13.3	30.2
Minnesota	23.4	0	0	26.8
Mississippi	26.4	0	0	43.9
Missouri	10.3	17.4	11.1	22.8
Montana	26.7	0	0	21.3
Nebraska	33.9	14.1	0	28.9
Nevada	14.6	0	0	34.8
New Hampshire	78.9	0	0	12.6
New Jersey	69.7	0	0	14.5
New Mexico	8.6	15.4	0	19.1
New York	34.0	12.4	19.8	14.7
North Carolina	57.5	0	0	16.4
North Dakota	23.4	1.3	0	26.5
Ohio	12.5	0	46.2	22.2
Oklahoma	4.1	33.6	0	36.7
Oregon	38.3	0	0	23.0
Pennsylvania	23.6	0	37.4	16.7
Rhode Island	87.4	0	0	5.7
South Carolina	36.4	0	0	25.2
South Dakota	25.3	28.0	0	28.1
Tennessee	34.6	9.1	0	27.3
Texas	28.7	15.7	0	24.1
Utah	19.7	20.5	0	28.5
Vermont	59.5	0	0	27.3
Virginia	45.1	8.5	0	13.9
Washington	18.1	16.9	0	24.9
West Virginia	7.5	0	0	52.2
Wisconsin	44.2	0	0	26.8
Wyoming	8.8	0	0	27.9

Note: 0 means no revenue and 0.0 means less than 0.05 percent share.

Source: U.S. Department of Commerce, Bureau of the Census, *Government Finances in 1985-1986*, Table 29.

the municipal revenue picture is much more diverse (Table III-9). States determine municipal revenue sources and in some instances have increased city responsibilities without also increasing the revenue sources available to support those new activities. Many States could substantially enhance the fiscal conditions of their cities by allowing an expanded municipal revenue base that better matches the cities' expenditure responsibilities.

Table III-10 shows per capita revenue and expenditure patterns over time for the 10 largest cities. As the table indicates, during the 1980s revenues and expenditures per person have both been expanding. For the majority of those cities, revenues have been expanding faster than expenditures, again indicating the growing fiscal strength of these places.

Urban Government Expenditure Patterns

State and local government expenditures account for about 13 percent of GNP. State governments spend about 5 percent of GNP, while local governments, including counties, cities, towns, townships, and special districts, spend slightly more, about 8 percent. Cities alone spend about 3 percent of total GNP.

The proportion of spending contributed by the various levels of government remained quite stable during the 1980s. Real growth in spending did occur, but at about the same rate for each level.

Additional insights into the behavior of city finances can often be gained by dividing city spending into its operating and capital components. Operating expenditures include the current cost of providing education, social services, highways, public safety, housing, and general government. Each of those categories has been growing; however, the relative mix remained quite stable for highways, public safety, housing, and general government. From 1980 to 1986, the proportion spent on education fell from about 15 to about 12 percent of the total, while that spent on social services increased from almost 11 to about 14 percent of total municipal spending (Table III-11).

Capital spending behaved in a much more worrisome way, however. It has been growing very slowly in both real terms and as a proportion of total municipal spending (Table III-12).

It is difficult to analyze the slow growth in capital spending. It appears that capital spending fell from 1981 to 1984, reflecting the effects of the 1980 and 1982 recessions. Since 1984, it has been increasing at a very rapid rate, perhaps so rapidly as to be one of the causes of the current deficit in the State and local government sector.

Table III-10

Per Capita General Revenue and Expenditures–10 Largest Cities

Fiscal year	Phoenix, AZ Revenue	Phoenix, AZ Expenditure	Fiscal year	Los Angeles, CA Revenue	Los Angeles, CA Expenditure
1960	$ 53.69	$ 63.52	1960	$ 95.75	$ 98.45
1970	141.92	130.05	1970	188.75	169.25
1975	282.38	311.99	1975	339.76	306.12
1980	471.82	502.13	1980	502.70	408.10
1981	515.56	523.75	1981	571.23	451.21
1982	606.36	576.10	1982	600.57	492.69
1983	662.50	646.13	1983	609.18	563.64
1984	733.66	696.11	1984	700.76	618.02
1985	808.96	783.77	1985	753.85	626.64
1986	853.61	888.41	1986	778.55	655.11

Fiscal year	San Diego, CA Revenue	San Diego, CA Expenditure	Fiscal year	Chicago, IL Revenue	Chicago, IL Expenditure
1960	$ 79.54	$ 71.78	1960	$ 96.37	$113.95
1970	136.95	137.22	1970	183.25	205.04
1975	240.87	233.03	1975	340.63	310.20
1980	391.52	336.00	1980	552.11	522.41
1981	446.08	370.76	1981	587.13	609.70
1982	458.59	389.99	1982	630.03	589.42
1983	461.85	390.45	1983	686.35	694.39
1984	538.18	428.02	1984	679.82	671.00
1985	652.23	524.34	1985	723.71	665.74
1986	702.10	574.99	1986	756.06	734.67

Fiscal year	Detroit, MI Revenue	Detroit, MI Expenditure	Fiscal year	New York, NY Revenue	New York, NY Expenditure
1960	$ 134.31	$ 130.17	1960	$ 315.42	$ 285.81
1970	271.86	233.86	1970	838.71	838.30
1975	476.63	448.77	1975	1,677.57	1,522.37
1980	973.12	919.30	1980	2,212.13	1,862.73
1981	1,078.51	975.56	1981	2,370.66	2,036.34
1982	1,185.21	950.28	1982	2,508.82	2,220.90
1983	1,123.15	1,066.06	1983	2,727.55	2,320.77
1984	1,110.79	971.38	1984	2,924.67	2,603.31
1985	1,279.03	1,051.05	1985	3,216.87	2,873.81
1986	1,340.71	1,099.33	1986	3,350.43	3,064.04

Fiscal year	Philadelphia, PA Revenue	Philadelphia, PA Expenditure	Fiscal year	Dallas, TX Revenue	Dallas, TX Expenditure
1960	$ 127.50	$ 139.08	1960	$ 75.20	$ 77.37
1970	276.30	298.80	1970	142.84	158.50
1975	480.80	499.08	1975	273.03	300.72
1980	871.34	956.76	1980	416.42	408.48

(Continued on Next Page)

Table III-10 (Continued)

Per Capita General Revenue and Expenditures–10 Largest Cities

1981	926.97	965.90	1981	449.81	500.84
1982	1,023.59	979.81	1982	458.86	496.30
1983	1,093.88	1,078.93	1983	566.44	528.05
1984	1,166.86	1,104.16	1984	615.38	563.10
1985	1,204.19	1,116.89	1985	687.85	600.56
1986	1,279.15	1,170.30	1986	733.32	616.68

Fiscal year	Houston, TX Revenue	Houston, TX Expenditure	Fiscal year	San Antonio, TX Revenue	San Antonio, TX Expenditure
1960	$ 67.45	$ 75.25	1960	$ 38.33	$ 46.41
1970	111.87	111.90	1970	84.34	87.64
1975	238.76	224.36	1975	165.15	166.86
1980	399.34	392.60	1980	306.95	316.03
1981	472.38	481.44	1981	349.54	351.88
1982	529.15	552.41	1982	353.26	389.19
1983	628.65	668.22	1983	370.60	450.50
1984	620.10	567.65	1984	380.74	470.37
1985	688.69	600.43	1985	465.20	483.37
1986	730.06	705.14	1986	508.98	511.73

Source: U.S. Department of Commerce, Bureau of the Census, *City Government Finances in 1985-1986* (also 1984-1985, 1983-1984, 1982-1983, 1975-1976, 1970-1971, 1960), Table 6.

Table III-11

City Government Expenditures by Purpose ($ Millions)

	Total	Education	Social services	Highways	Public safety	Housing and com. dev.	Govt.
1980	$58,195	$ 8,896	$ 6,243	$3,562	$13,791	$1,962	—
1981	63,485	9,531	7,308	3,832	15,121	2,275	4,966
1982	69,239	9,766	8,285	4,184	16,670	2,508	5,617
1983	73,342	9,406	10,269	4,503	18,179	2,646	6,045
1984	79,463	9,999	11,339	4,783	19,568	2,734	6,585
1985	85,855	10,839	12,619	5,207	21,250	3,089	7,184
1986	92,845	11,735	13,025	5,758	23,110	3,332	7,895

Percent of Total Expenditures

	Total	Education	Social services	Highways	Public safety	Housing and com. dev.	Govt.
1980	100%	15.3%	10.7%	6.1%	23.7%	3.4%	—
1981	100	15.0	11.5	6.0	23.8	3.6	7.8%
1982	100	14.1	12.0	6.0	24.1	3.6	8.1
1983	100	12.8	14.0	6.1	24.8	3.6	8.2
1984	100	12.6	14.3	6.0	24.6	3.4	8.3
1985	100	12.6	14.7	6.1	24.8	3.6	8.4
1986	100	12.6	14.0	6.2	24.9	3.6	8.5

Source: U.S. Department of Commerce, Bureau of the Census, *City Government Finances in 1985-1986* (also 1984-1985, 1983-1984, 1982-1983, 1975-1976, 1970-1971, 1960), Table 1.

Table III-12

Current and Capital City Government Expenditures ($ Millions, 1967)

Year	Total expenditures	Current operating expenditures	Capital expenditures
1960	$17,194	$11,132	$4,161
1970	30,613	20,510	6,363
1975	37,657	25,714	7,478
1980	37,966	27,021	6,598
1981	38,352	27,090	6,821
1982	39,100	27,914	6,515
1983	40,367	28,855	6,371
1984	41,360	29,642	6,047
1985	42,631	30,238	6,509
1986	46,340	32,379	7,271

Note: Total expenditures include intergovernmental expenditures, interest on debt, assistance and subsidies, and insurance benefits and repayments which are not reported above.

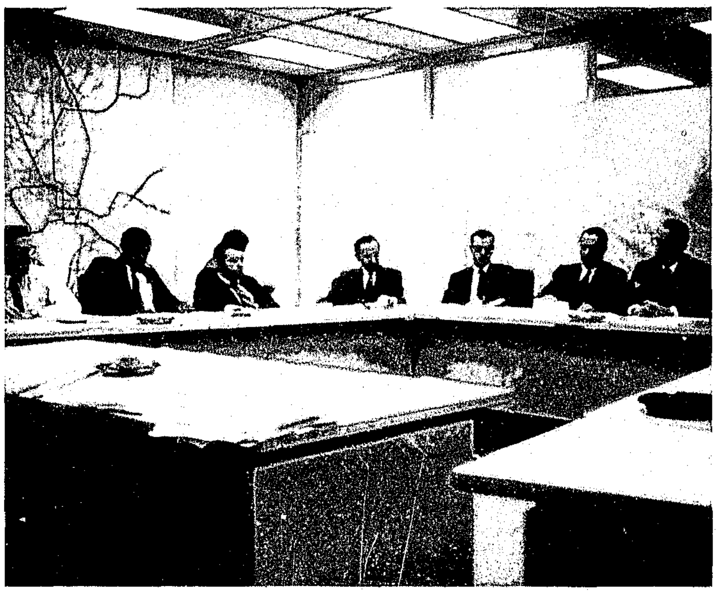
Source: U.S. Department of Commerce, Bureau of the Census, *City Government Finances in 1985-1986* (also 1984-1985, 1983-1984, 1982-1983, 1975-1976, 1970-1971, 1960), Table 1.

Summary

Judged by various measures of fiscal conditions, State and local government finances have improved over the past several years and are now quite healthy. As the national economy has grown, State and local government revenues and expenditures have both expanded. The balance between revenues and expenditures appears to be stable, suggesting that as long as the economy continues to grow, State and local governments can meet their fiscal responsibilities.

These indicators also suggest that most States are in a sufficiently strong position to shoulder increased fiscal responsibility for their own cities without undue financial strain. States could do much to help their cities adjust to the changing economic environment by simply increasing municipal tax flexibility, moving a part of the financial responsibility for certain services from the city to the State level, encouraging cities not to compete or interfere in the market in ways detrimental to the cities' economies, and encouraging cooperation between cities and their surrounding jurisdictions.

The municipal fiscal condition also appears to have improved during the 1980s as a direct result of the growth in the national economy. Municipal revenue sources have expanded, fees and charges are more important sources of municipal revenue, and cities are better able to exercise independent control over their own budget decisions.



A Federal strategy that emphasizes national growth as the key to helping cities to financial independence has proved to be extremely successful—much more successful than the results achieved during the 1970s, when the solution to all municipal problems was thought to lie in more direct Federal financial aid. State and local governments are managing well with their own resources and reduced Federal intervention.

As always, some exceptions exist. Cities in States that are heavily dependent on an industry that is not growing, such as oil, or cities in the midst of rapid economic changes may face some financial difficulties. The strong financial condition of the States suggests that even these cases are not a matter for Federal Government concern. Left to their own devices, States can and will support their cities when necessary. This sort of rethinking of the Federal role is required for the next decade.

Grants-in-Aid

In addition to stabilizing the national economy and returning it to growth, this Administration has, as a part of its urban strategy, reduced the growth in, streamlined, and deregulated Federal aid to State and local governments. In current dollars, Federal grants to State and local governments have increased every year except two since 1980, going from $91.5 billion in fiscal year 1980 to an estimated $116.7 billion in fiscal year 1988; however, by all other measures—grants in real dollars, as a proportion of Federal outlays, State and local government expenditures, and even GNP—grants have been reduced.

Why Have Grants?

The Federal Government has typically provided grants-in-aid to State and local governments: (1) to encourage them to provide additional amounts of particular goods and services—more than they would have if left to themselves; (2) to achieve a more equitable distribution of "fiscal capacity" among State and local governments; and (3) to redistribute income providing a "safety net" so that some minimum standard of living is available to all individuals in the United States. Categorical grants are used to address specific issues or problems; general purpose grants to equalize fiscal capacity between recipient governments; and block grants to do both.

Historically, categorical grants have been tightly controlled and regulated. These are used to correct what are believed to be relatively narrow market failures by subsidizing State or local governments to take some action that they otherwise might not have taken.

These kinds of grants, particularly those that encourage urban economic development and other types of capital investment, are often extensions of or holdovers from earlier years when suburbs were growing rapidly and cities were encountering great trouble in obtaining resources from rural-dominated State legislatures. Cities often turned to the Federal Government for help in attracting and keeping people and businesses.

In the area of increased State government capacity and responsibility, State governments have exceeded Federal initiatives in developing Enterprise Zones, welfare reforms, and educational initiatives, often enough that much of the rationale for categorical payments has become obsolete. State governments have been restructured and have become more representative, accurately reflecting the demographic character of their constituents. Thus, categorical grants are the kind that this Administration has most actively attempted to eliminate for a number of very practical urban policy reasons.

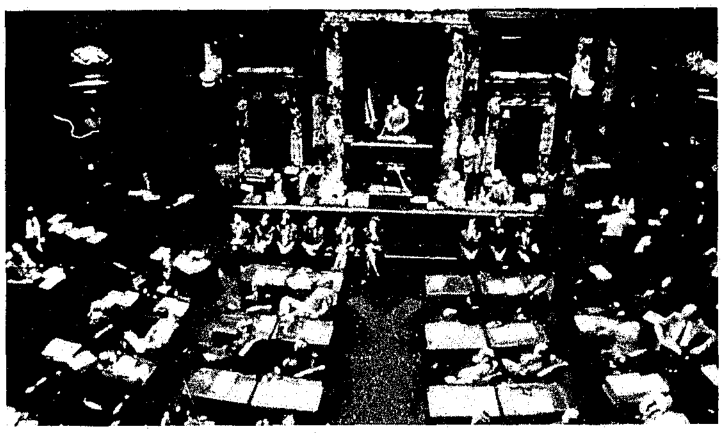
First, a number of these grants have not clearly achieved their intended purposes, and may have at times actually been detrimental to central cities and their residents. For example, Federal housing and transportation programs aided the growth of suburbs and the exodus of the middle class from central cities. Some Federal programs encouraging inner-city economic development actually tore down inexpensive housing and replaced it with offices and hotels, doing little to stem the flow of people from the city. Such grants may tend to accelerate, rather than correct, disparities between central cities and their suburbs.

These programs did not live up to their economic development promises. Rather than creating new jobs for city residents, some have simply moved jobs from one location to another, with no net gains in total employment.

Second, these categorical grants, particularly if they have relatively large matching requirements, stimulate State and local government spending and may distort local government decisionmaking. To receive the grant, cities must spend some of their own money on activities defined as "needed" by Federal decisionmakers and must spend that money according to often inflexible rules and procedures. More money is spent and it is used in ways that would not have been selected by the residents of the community if left to their own choices. Local creativity is stifled. Even in times of retrenchment, such grants also restrict the flexibility of local governments because local funding and other resources tied to the categorical grant cannot be redirected without additional loss of Federal dollars.

Finally, these grants are expensive. Both the administrative and the opportunity costs can be quite high. The most expensive grants-in-aid to administer are the tightly controlled categorical grants. Some, such as highway planning and construction grants, cost almost 2 percent of the total amount of the grant just to administer.[10]

The opportunity costs associated with these categorical grants are often excessive. Forcing resources from a low-cost location to a higher cost one, as is often the result of Federal urban economic development programs, reduces total output and slows economic growth from what it otherwise might have been. Often the result is fewer total jobs than would have existed had the Federal Government not become involved.



Block grants overcome some of the problems associated with categorical grants. In some cases, where eliminating the categorical grant was impractical, the Administration has combined a number of smaller categorical grants into large block grants.

Under this Administration, block grants have become an increasingly popular form of aid, accounting for about 12 percent of total Federal aid to State and local governments. They are typically more flexible than categorical grants, are aimed at broader policy areas, and require less regulation. At the same time, block grants typically allow the grant-making government to maintain some controls over the ways in which the money is used. Whether they stimulate local spending depends upon the way they are structured and whether they have matching requirements. If they have large matching requirements, they are likely to stimulate local government spending.

Block grants are also less expensive to administer. Programs such as the Social Services Block Grant and the Low Income Energy Assistance Program cost less than 0.2 percent of the total program to administer, one-tenth as much as the average categorical grant. These low-cost programs generally involve little more than the distribution of funds under a formula. There are few rules, regulations, or other controls.

The only completely unrestricted, general purpose aid provided by the Federal Government to State or local governments was general revenue sharing (GRS). Its purpose was to make more equal the capacity of State and local governments to provide services relative to the needs of the community. The needs of the community as well as its size were considered in the GRS distribution formula. The strong fiscal condition of many State and local governments relative to the Federal Government rendered this program unnecessary, and it was ended in 1987.

Administration Actions

To correct the problems of flexibility, cost, and unintended effects, this Administration has initiated four important changes in the Federal grants-in-aid system. First, while grants in current dollar terms have continued to grow, the rate of growth has slowed substantially. From 1970 to 1980, grants to State and local governments increased by $67 billion. (Table III-13). Between 1981 and 1982, for the first time in recent history, grants in current dollars actually fell. From 1982 to 1988, grants are estimated to have increased about $28.5 billion.

By most other measures, Federal grants have fallen in importance over the 1980s. In real terms, they fell by 14 percent from 1980 to 1987. Grants have become a smaller proportion of State and local government expenditures, even while State and local fiscal strength has improved.

Second, the Administration has focused assistance to individuals in need. Grants to individuals such as Aid to Families with Dependent Children (AFDC) and housing assistance have increased relative to grants for physical capital. Grants for physical capital make up about 21 percent of total grants. Payments to individuals, on the other hand, constitute about 52 percent of grants in 1988, up from only about 35 percent in 1980.

Capital grants have also fallen in importance as compared with total State and local capital spending. They now make up

Table III-13

Federal Grants-in-Aid to State and Local Governments ($ Millions)

	Dollars				Percent of Total		
	Total	Individuals	Capital	Other	Individual	Capital	Other
1960	$ 7,000	$ 2,500	$ 3,300	$ 1,200	35.7%	47.1%	17.1%
1970	24,100	8,600	7,000	8,400	35.7	29.0	34.9
1975	49,800	16,400	10,900	22,500	32.9	21.9	45.2
1980	91,500	31,900	22,500	37,100	34.9	24.6	40.5
1981	94,800	36,900	22,100	35,700	38.9	23.3	37.7
1982	88,200	37,900	20,100	30,200	43.0	22.8	34.2
1983	92,500	41,600	20,500	30,400	45.0	22.2	32.9
1984	97,600	44,300	22,700	30,600	45.4	23.3	31.4
1985	105,900	48,100	24,800	33,000	45.4	23.4	31.2
1986	112,400	52,800	26,200	33,300	47.0	23.3	29.6
1987	1[illegible],400	56,400	23,800	28,200	52.0	22.0	26.0
1988	116,700	61,000	25,000	30,700	52.3	21.4	26.3

Source: Office of Management and Budget, *Special Analyses, Budget of the United States Government, Fiscal Year 1989,* Table H-8.

about 26 percent of State and local government capital expenditures, compared with about 36 percent in 1980.

Third, the Administration has increased its reliance on broad-based grants, including block grants. Funds from broad-based grants now account for about 13 percent of the total, up from about 11 percent in 1980. With 372 different grant-in-aid programs, there is still a long way to go; however, 85 percent of the money is concentrated in about 95 programs.

Finally, the Administration has reduced municipal dependence on Federal funds. In 1980, Federal grants constituted 28 percent of total municipal revenues. By 1986, grants made up only 23 percent of these revenues.

George Peterson aptly summarized these changes in the Federal grants-in-aid system by noting that:

> The administration may not have succeeded in many of its attempts to eliminate intergovernmental aid programs, or in its efforts to return responsibilities to the States, but it has succeeded beyond reasonable expectation in resisting new commitments to intergovernmental assistance. At this point it is difficult to see how the momentum toward greater fiscal dependence could be restored. A political consensus—stretching beyond political party, and bridging the gap between Washington and the States and localities—appears to have been reached that lower levels of government are better off, and the Federal system healthier, when they possess greater self-sufficiency, both in fiscal resources and in policy design.[11]

Tax Expenditures

In addition to grants-in-aid, the Federal Government provides financial support to State and local governments with tax expenditures: tax breaks for activities that have public policy objectives. Tax expenditures are very similar to direct spending programs except that they are accomplished through tax reductions for certain activities performed by individuals and corporations and are not counted in the Federal budget. The two most important tax expenditures helping cities are the deductibility of State and local government tax payments from Federal income taxation and the general exclusion of interest on certain State and local government bonds from Federal income taxation. Until passage of the Tax Reform Act of 1986, all taxes paid to State and local governments could be deducted, and most interest paid by State and local governments could be excluded from income for Federal income tax purposes. The Tax Reform Act disallowed the deduction of sales tax payments and some interest payments, but continued the deductibility of all other State and local taxes.

Two points are important. First, allowing the deduction of tax payments encourages State and local government spending because it reduces the direct cost of services to the resident taxpayer. The higher the Federal income tax rate, the greater the value of the subsidy. For example, a taxpayer in the 28 percent tax bracket paying a dollar in State and local taxes would receive a $0.28 tax deduction on his or her Federal income tax. The dollar paid to the State or local government costs the taxpayer only $0.72, and the Federal Government contributes the other $0.28. The subsidy may behave in what some consider a perverse fashion, however, because communities with wealthier residents have the potential to receive the greater benefits. State and local government services are made less expensive for those most able to bear the costs.

The Tax Reform Act of 1986 reduced this subsidy both by reducing the maximum Federal income tax rate from 50 to 28 percent for most upper income taxpayers on the marginal dollar and by eliminating the deductibility of the sales tax. This change will discourage jurisdictions from imposing additional sales taxes because those taxes are now more burdensome than other types of taxes. It has been estimated that these two changes will reduce State and local government spending by between 1.9 and 0.9 percent below what it otherwise would have been.[12]

The deduction of State-local taxes provided more than $32 billion in subsidy to State and local governments in fiscal year 1987, making this program one of the largest Federal Government general assistance programs. (Table III-14). Not only is the current amount substantial, but it is also growing.

Second, the exclusion from Federal taxation of interest paid on certain State and local government debt subsidizes capital projects by allowing State and local governments to borrow at less than the market interest rate. A dollar earned on a taxable investment by a taxpayer in the 28 percent tax bracket is worth $0.72, whereas a dollar earned by the same taxpayer from an investment in tax-exempt debt is worth $1.00. The investor can accept a lower interest rate on the tax-exempt investment and still earn the same or a better rate of after-tax returns.

Table III-14 shows the value of these tax expenditures to State and local governments. In fiscal year 1987, the exclusion on public purpose debt alone was the equivalent of a direct subsidy to State and local government capital spending of almost $14 billion, or almost 60 percent of direct Federal Government aid for capital investment.

The Tax Reform Act of 1986 also changed and restricted rules governing these tax expenditures. It divided State and local government debt into two types, public- and private-purpose

Table III-14

Federal Tax Expenditures Aiding State and Local Governments ($ Millions)

	Deduction of State and local property tax	- Interest Exemption - Public purpose bonds	Private purpose bonds	Total
1983	$26,190	$11,800	$ 8,635	$33,665
1984	29,930	7,220	7,000	35,690
1985	31,030	7,480	7,965	37,700
1986	32,560	9,170	10,835	42,170
1987	32,765	13,790	15,100	46,940

Note: The estimate of total tax expenditures reflects interactive effects among individual items. Thus, the individual items cannot be added to obtain a total.

Source: Office of Management and Budget, *Special Analyses, Budget of the United States Government, Fiscal Year 1989* (also 1988, 1987, 1986, and 1985) Table H-2.

debt. It placed no restrictions on the tax-exempt nature of the public purpose debt, but added new rules governing private-purpose debt. The most important of these rules limit theamount of the private-purpose tax-exempt debt that could be issued.

Each State could issue debt in this category equal to a value of only $75 per capita or $250 million in 1987. Anything above that amount would be taxable. The cap becomes $50 per capita or $150 million at the end of 1988.

The courts recently clarified the rules again. The Supreme Court ruled on April 20, 1988, in *South Carolina v. Baker,* that States have no constitutional right to issue tax-exempt bonds. The exemption from Federal taxes on interest paid by State and local governments is a matter of legislation—not constitutional rights. South Carolina had objected to a Federal law requiring that all municipal bonds be registered. This ruling supports the limitations on private-purpose tax-exempt bonds contained in the Tax Reform Act of 1986 and earlier legislation.

Summary

Following the idea that a strong economy, not a strong Federal presence in the affairs of local government, is the best way to help cities, this Administration has deregulated Federal aid while continuing to support State and local governments in off-budget tax expenditure subsidies. The Administration has focused on the importance of grants to needy individuals rather than places, and reduced municipal dependence on Federal funds simultaneously providing the economic growth necessary to allow localities to make up for the lost funds with their own tax systems, at their own discretion.

Simplification, Deregulation and Creativity

This Administration has simplified, made more flexible, and reduced the regulatory requirements covering grants-in-aid, thereby giving State and local governments increased control over decisions covering the use of this money. The Administration has reduced the number and complexity of the regulations governing grants. In August 1985, the Domestic Policy Council established the Working Group on Federalism. One result of this Working Group was Executive Order No. 12612, "Federalism," which is currently being implemented. The order ensures that Federal agencies take federalism concerns into account when developing and implementing agency policy initiatives that have substantial, direct effects on States or their political subdivisions, or on the relationship or distribution of power among the various levels of government. Each department and agency must designate an official who is directly responsible for reviewing regulations to determine whether a "Federal Assessment Report" should be included in the review. When necessary, the report identifies those issues where it is appropriate to defer to State and local governments. The overall purpose of the federalism Executive order is to restore the balance of power among all levels of government.

The cornerstone of the Administration's federalism agenda consists of providing State and local governments relief from overly burdensome Federal regulations. Building upon the goal to provide State and local governments with flexibility in administering and participating in Federal programs, and eliminating unnecessary or burdensome regulations, the Administration has recently completed a review of more than 80 recommendations received from the National Governors' Association and others. In January 1988, the Office of Management and Budget (OMB) and the White House reported that 47 of the items identified had been successfully resolved to provide State and local governments regulatory relief.

In February 1988, the National Governors' Association presented the Administration with more than 170 new recommendations for Federal regulatory reform. The White House and OMB are now reviewing them to build upon the earlier success.

A number of other actions have also been taken to reduce the regulations controlling grants. These include a new Federal Government "common rule" to replace OMB Circular A-102. Its purpose is to eliminate redundant and inconsistent administrative requirements by rescinding all inconsistent grant administration provisions. States will no longer have to follow uniform Federal standards for financial management, but rather will be able to account for grant funds according to their own State procedures. In addition, except in the case of open-ended entitlement programs, uniform Federal administrative standards will no longer have to be applied to subgrantees: States can apply their own conditions to subgrantees according to their own State law.

State and Local Government Services

As a result of both their improved fiscal position and greater independence, State and local governments are developing new and creative ways to deliver services. Many of these involve cooperation among various local governments, improvements in local government productivity, and various unique arrangements with the private sector. For example:

St. Paul, Minnesota. City agencies have worked together to provide child care facilities to working parents who pay on a sliding fee basis. This program demonstrates what can happen with local support. At one site, the city rents underused space in a recreation center to a local child care provider. City staff helped win program support from the local school system, banks, and businesses. The school system donated surplus furniture such as tables and bookcases. A bank donated chairs, a desk, a filing cabinet, storage shelves, and boxes. Bank employees collected crayons, glue, and other supplies. A local insurance company donated funds towards the start-up costs.

Los Angeles, California. A local program makes quality child care affordable for more working parents. A group of 15 major downtown employers created a joint child care facility for 70 children, and the city is working to provide incentives to developers to include child care facilities by expediting permit applications, among other things.

Lincoln, California. User charges for water have cut consumption despite a 22 percent increase in population over a 2-year period. After installing water meters, the city discovered that a third of the users were using much more water than the others. By charging by amount used instead of a flat fee, most water bills have gone down, although those of heavy users have gone up. The city installed meters that can be read with a computer wand, allowing all the city's water meters to be read in 5 days. Previously only a few users were metered and it took 8 days to read them.

Baltimore, Maryland. The Enterprise Loan Fund was created in 1986 by the Enterprise Foundation to provide low-interest loans at below-market rates to nonprofit developers of low-income housing. The project offers philanthropic investors a 3 percent interest rate in a federally insured savings account and lends money to borrowers to buy homes at 6 percent at a time when the market rate is 10 percent or more. Any profits are used for further loans.

Homebuyers whose incomes are less than 45 percent of area median income are eligible for the reduced rate loans. Developers who obtain loans must mainly build apartments for families earning less than $10,000 per year. The loans are for 15 years, but are amortized over 25 years, which helps to keep the payments even lower. The fund financed 400 units in 1986 and 1987.

Ridley, Pennsylvania. Local businesses proved that the private sector could collect garbage more efficiently than the government and won a State Supreme Court case to take advantage of the savings. The township government tried to require downtown businesses to pay $65,000 per year for garbage collection. Several of the businesses hired a private firm that charged $20,000 for the same service. The businesses then stopped paying the township for the unneeded garbage collection. The court said that local governments could require use of their services only when they were more economical than the private sector.

Conclusions

This chapter has examined and summarized the changing fiscal condition of cities bought about by changes in the economy, Federal aid programs, assistance programs, and the role and responsibilities of State and local governments. It has identified the urban fiscal issues that will be of most pressing concern for the urban policy of the 1990s. The principal findings are:

- The Nation's State and local governments are in sound fiscal health. Five years of uninterrupted national economic growth have provided State and local governments with the necessary resources to meet their public service demands. Economic growth is the single most important ingredient in a successful Federal Government urban policy.

- Within the environment of a strong national economy, this Administration has been able to moderate the growth of Federal aid, focus aid on needy families rather than physical structures, remove unwanted restrictions on the use of Federal funds, and in general increase the financial independence of cities. Because of the strong national economy, cities have adjusted to these changes with substantial success.

- Tax expenditures, even with the restrictions imposed by tax reform and lower marginal tax rates, are growing as subsidies for both the operating and capital spending of State and local governments.

- Cities are demonstrating remarkable creativity in finding solutions for their local. concerns. To an extent greater than ever before, they are solving problems by cooperating with the States and other local governments, improving the efficiency of their own delivery systems, and working with the private sector. Much experimentation is taking place. The successful experiments will help improve service delivery systems well into the future.

In building an urban policy for the 1990s, the following should be considered:

1. The importance of economic growth to a national urban policy cannot be overemphasized. In an unstable economic environment, cities flounder. Increased Federal taxes and regulations are burdens on the economy that depress economic growth, and as such are dangers to cities' fiscal health; cities require a healthy national economy to grow and prosper.

2. Because cities and States are financially healthier and exercise superior fiscal responsibility compared with the Federal Government, they should increasingly be made the custodians of fiscal resources for domestic purposes. They balance their budgets. In some cases, taking from one local government to supply another with resources for local development or local capital projects may help neither, and can be detrimental to one or both of the places involved. Given the economic and political strength of urban and State governments and the heavily suburban character of all of urban America, the Federal Government's efforts to micromanage urban development are outdated.

3. Cities and State may continue to require some Federal support in their efforts to help needy people and to adjust to severe economic dislocations. That support should take the form of voucher-style assistance or be incorporated into existing transfer payment programs for individuals and as flexible block grants for places. Grants for capital projects and other grants that impede mobility, although often well-intended, may actually make it more difficult for the needy to return to the economic mainstream.

4. It is time to reconsider Federal tax expenditure policies affecting urban governments. These tax expenditures provide large amounts of aid to State and local government. But serious thought should be given to inequities and possible inefficiencies created by these attempts at indirect aid. It is possible that these resources could be used more efficiently and fairly.

5. A basic principle of urban policy for the 1990s is that cities and suburbs must be urged to work together and with their respective State governments to address policy matters that do not involve Federal transfer payments to individuals.

Footnotes

1. Philip M. Dearborn, "Fiscal Conditions in Large American Cities. 1971- 1984," in Michael G. H. McGeary and Laurence E. Lynn, Jr., eds,. *Urban Change and Poverty,* National Academy Press, Washington, D.C., forthcoming.

2. National Governors' Association and National Association of State Budget Officers, *Fiscal Survey of the States,* Washington, D.C., March 1987, pp. 1-2.

3. Because survey information reflects expectations rather than budgets and because it is usually prudent for budgetary purposes to assume the worst, especially when one is constrained to balance the budget, the results should be treated as illustrative, rather than definitive.

4. National League of Cities, *City Fiscal Conditions in 1987,* (National League of Cities, Washington, D.C., June 1987).

5. For a discussion of these problems, see Office of State and Local Finance, Department of the Treasury, *Federal-State-Local Fiscal Relations: Report to the President and the Congress,* Washington, D.C.: U.S. Government Printing Office, Sept., 1985, pp. 207-248.

6. For examples of these studies see *ibid.,* pp. 393-420.

7. *Ibid.,* p. 420.

8. For example, see Laura S. Rubin, "State and Local Government Finance in the Current Expansion," *Federal Reserve Bulletin,* Feb. 1988, pp. 79-88.

9. For example, see *op. cit., Federal-State-Local Fiscal,* pp. 153-202.

10. *Ibid.,* p. 169.

11. George E. Peterson, "Federalism and the States," in John L. Palmer and Isabel V. Sawhill, eds., *The Reagan Record,* Cambridge, Mass., Ballinger Publishing Company, 1984, p. 258.

12. Paul N. Courant and Daniel L. Rubinfeld, "Tax Reform: Implications for the State and Local Public Sector," *The Journal of Economic Perspectives,* Vol. 1, No. 1, Summer 1987, pp. 87-100.

Chapter IV

The Physical Environment

The essence of the Administration's National Urban Policy regarding the physical environment is to return to State and local governments the primary responsibility for responding to local priorities and needs, while maintaining Federal presence in regard to those elements of infrastructure and the environment that are clearly national in scope. Federal spending 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. The States, especially, have shown a will and capacity for addressing a wide range of environmental and infrastructure issues that might have previously been thought beyond them. The Federal Government in the future should assist and build on State and local standards and successes, supplementing rather than supplanting the activities of other levels of government.

Funding the Urban Infrastructure

Roads, bridges, sewers, water systems, and other public facilities are essential to the quality of life and economic productivity of the Nation's cities. The responsibility for building, operating, and maintaining these facilities is lodged almost entirely with State and local governments. The main Federal roles have been to set standards, particularly for water quality and hazardous waste sites, and to provide financial assistance to States and localities, primarily for Federal-aid highways, mass transit, airports, and wastewater treatment.

Much of the responsibility for community infrastructure rests with State and local governments. Most States and communities have sufficient financial resources to pay for these facilities, if they choose to exploit available sources of revenue. Certainly, State and local resources will be more adequate for infrastructure purposes than those of the Federal Government for the foreseeable future. Furthermore, if the inefficiencies associated with Federal funding are withdrawn, State and local authorities will have clearer responsibilities and incentives to make needed capital investments and to spend their resources wisely. In any event, the financial responsibilities of the Federal Government have changed during the 20 years or so since many of the grant programs were put in place, as income assistance and health programs have grown tremendously.

This is not to say that it will be easy for States and localities to assume the full cost of urban public works. It may be necessary to reverse a long-term decline in public capital investment as a percentage of gross national product. States and localities must meet the challenge, however, for their competitive position in the national and international economy ultimately depends on it.

Trends in Investment

It has been claimed that America is ignoring its infrastructure. This charge has been supported largely by a few dramatic examples of bridge failures or leaking water lines and by data showing a decline in investment in public works on a per capita and inflation-adjusted basis. Even though such failures can be dangerous and create extraordinary inconvenience for many people, the failure of a small number of bridges does not necessarily mean the great majority of the Nation's public works systems are being poorly maintained, and trends in spending do not by themselves demonstrate whether necessary services are being provided. A closer look at the situation yields uncertainty, but certainly not crisis, regarding the adequacy of current facilities and patterns of investment. [1]

Long-term Trends

Capital investment in public works has declined as a percentage of gross national product (GNP) for 25 years. On the other hand, spending for operations and maintenance of public works has held constant in proportion to GNP, and on a real per capita basis it has doubled. This pattern suggests that the Nation may have shifted from a major construction effort during the two decades following World War II to a period in which operations and maintenance gradually took on relatively more importance. It also suggests that maintenance may have been receiving appropriate attention in governmental budgets and that maintenance practices overall may not have been as bad as anecdotal stories have implied.

These expenditure trends may also reflect shifts in national investment priorities. During the 1960s, expensive interstate highway projects, with their high Federal cost share, dominated public works investment; but during the 1970s, highway investment declined relative to wastewater treatment and mass transit. In the 1980s, emphasis on highways continued a relative decline, and the Federal priority for wastewater treatment also began to decline. As a result, construction spending decreased relative to other public needs.

In parallel with both the shift in Federal investment priorities and the increase in operations and maintenance relative to capital investment, a change occurred in the relative share of total infrastructure spending by the three levels of government. The biggest change involved the increase in the local share from 41 percent in 1960 to 49 percent in 1985, while State and Federal shares both declined. This trend may be related in part to the relative increase in operations and maintenance in total infrastructure spending. For most functions, operations and maintenance is a local responsibility—a major exception being Federal and State highways. Another factor contributing to a larger local government role is the encouragement given by Federal grant policies in the 1980s to increase the local cost share of federally funded projects.

Some economists have expressed concern that public works investment has not kept pace with capital investment in the private sector. According to calculations by the National Council on Public Works Improvement, private capital investment was 15.2 percent of GNP in 1960 and 16.5 percent in 1985. Public works investment was 2.3 and 1.1 percent respectively for the same years. This concern assumes that, because public investment increases the productivity of private investment, the relative decline in public capital will lead to a decline in national productivity. While this consideration is undoubtedly important, it assumes that the technical relationship between public and private capital is constant. It is likely, however, that private-sector technical innovation, as in communications technology, has lessened the leverage of public works on national production, so the argument becomes less compelling.

Thus, while reason exists for some concern about a continued relative decline in public capital formation, existing information certainly does not permit heavy reliance on any conclusion that recent trends have been bad for the country. Local governments and the States, like all other investors, shift their available resources constantly in response to changing assessments of need. No evidence suggests that they are inclined to act less responsibly than, for example, the Federal Government, and they can usually readjust more quickly. As recent history has indicated, State and local capital investment is subject to rapid change as awareness of need increases. It is also important that the Federal Government's economic policies aid by keeping interest rates stable at lower levels.

Short-term Trends

While the long-term trend has been down, capital outlays by State and local governments jumped between 1984 and 1986, according to the latest Bureau of the Census statistics (Table IV-1). Total outlays for all purposes nationally rose from $70.7 billion in fiscal year 1984 to $90.4 billion in fiscal year 1986—a 28-percent increase in current dollars. This recent growth in outlays amounted to a recovery from the low levels of the early 1980s. During the prior 4 years (fiscal years 1980-84), the total increase was only 12.5 percent, which amounted to a decline after adjustment for inflation.

A similar pattern occurred for selected types of public facilities. During the 2-year period from fiscal years 1984 to 1986, capital outlays increased 32 percent for highways, 49 percent for water supply, 14 percent for sewerage, and 34 percent for education. Capital expenditures were unchanged for public transit. Conditions in the overall economy and the bond market during the 1984-86 period were favorable to State and local capital investment.

Table IV-1

State-Local Capital Outlays by Selected Purposes, Fiscal Years 1980-86 ($ Millions)

Fiscal year	All purposes	Highways	Sewerage	Water supply	Transit	Education
1979–80	$62,894	$19,133	$6,272	$3,335	$1,921	$10,737
1980–81	67,596	19,334	6,911	3,784	2,617	11,327
1981–82	66,414	18,178	5,894	3,717	3,044	10,928
1982–83	67,984	18,627	5,806	3,821	3,821	10,880
1983–84	70,748	20,366	5,664	3,438	3,873	11,596
1984–85	79,930	23,900	5,926	4,160	3,830	13,477
1985–86	90,457	26,807	6,461	5,134	3,830	15,490
Percent Increase						
FY 1980–84	12.5	6.4	–9.7	3.0	101.6	8.0
FY 1984–86	28.0	32.0	14.0	49.0	0.0	34.0

Source: U. S. Department of Commerce, Bureau of the Census, *Governmental Finances*, Series No. GF 5.

Financial Options for Localities

States and localities can draw on a wide array of revenue sources and financial instruments to solve infrastructure financing problems. New concepts and techniques are being created and tested almost weekly. This section discusses some ways to fund urban public works. The emphasis is on local sources of revenue rather than on borrowing arrangements.

The optimum funding of each infrastructure project is unique to the type and scale of the project, the community, the specific location within the community, the type and degree of private-sector interest in the project, and the borrowing approach, if any, that is used. In this sense, States and local governments are much more flexible than the Federal Government, which almost invariably ends up funding infrastructure through the national debt.

In choosing revenue sources for infrastructure finance, State and local officials consider many criteria, including ability to pay, relationship to benefits received, effects on the efficiency with which public facilities are used and provided, effects on land development, reliability and amount of the revenue stream, opinions of the financial community, administrative feasibility, political accountability, statutory limitations on borrowing and other legal considerations. In practice, these sometimes conflicting criteria often result in the use of a combination of revenue sources, rather than just one.

The available revenue sources are: (1) general taxes (principally on property, sales, or income), which may accrue to the general fund or be earmarked for a specific use, as in sales taxes earmarked for transit districts or property taxes earmarked in a tax increment financing district; (2) user fees, of which common

examples are charges on water use, bridge and highway tolls, transit fares, parking fees, and greens and swimming pool fees; (3) special taxes, which are often thought of as proxy user fees and include taxes on motor fuel, lodging, or vehicle licenses; (4) special assessment districts and other types of districts; and (5) charges on land development, including fees and in-kind contributions.

A threshold question in financing public facilities involves whether to charge users and beneficiaries. If government chooses to provide a free service, it must fund the activity with general taxes. If government desires that the user or the beneficiary pay for all or part of the cost, it may find one or more of the other revenue sources to be appropriate. Public primary and secondary education is a classic example of a service that is provided free because society deems the long-range benefits to extend beyond the future of the individual students to the well-being of the entire community and, importantly, because students do not overconsume the service. On the other hand, clean water is also considered essential to the well-being of the entire community; but because it is overconsumed if free, user fees are normally imposed to defray at least part of the cost.

User Fees

User fees, like prices, can serve as an efficient mechanism for equating the supply of and demand for public goods and services. To impose user fees, however, operating authorities must be able to exclude nonpayers from the use of the facility or service, and this is not feasible with all public functions. Not all streets and roads can be toll roads, for example; although fortunately, in the case of roads, a special tax, the motor fuel tax, can serve as a proxy for a user fee. However, user fees are very workable for several types of public works. These include water supply and wastewater treatment facilities, airports, some major highways and bridges, parking facilities, and mass transit.

While user fees are much more prevalent now than 10 years ago, they could still finance a significantly increased proportion of costs of some services. A recent survey found, for example, that three-fourths of the 80 largest wastewater treatment facilities obtained less than 80 percent of their operating revenues from user fees. [2] Artificially low sewer fees (which are based on metered water consumption) encourage a high use of water and therefore a high need for water supply facilities. Charging users the full cost of water supply can reduce water consumption dramatically.

The interest in toll roads has increased significantly in recent years. More than 500 miles of new toll roads are being planned; eight new toll roads will be on the Federal-aid highway system. Denver is planning a $1 billion beltway that will be built and maintained entirely without Federal funds. One source of revenue will be tolls, and special electronic express gates will read identification transmitters in cars that will not have to stop. Commuters with such transmitters will be billed automatically, like homeowners who make long-distance telephone calls. [3]

Special Assessment Districts

Special assessment districts are established and administered by local general-purpose governments to finance projects that will benefit, in a reasonably predictable way, real property in a specific neighborhood or district of limited extent. Sometimes referred to as dependent districts, these districts are not operating entities and should be distinguished from independent special districts, such as water or school districts, that operate independent of a local general-purpose government, often over a wide area. Independent special districts are operating entities and constitute a form of limited-purpose local government; they are not a source of revenue per se, although they are a widely used mechanism for delivering basic utility-type services such as water and sewerage, especially in unincorporated areas. Special assessment districts should also be distinguished from tax increment financing districts, in which all or part of the incremental general property tax revenue generated by growth in a district is earmarked to fund a public facility that presumably stimulates the growth.

For many years, special assessment districts were used only for very localized improvements, such as sidewalks or neighborhood water or sewer lines or streets. Typically, the facilities were provided in an area that had already been developed without such improvements or where major replacements were required. Recently, however, such districts have been used to finance all or part of the cost of major new facilities, such as arterial roads or water and sewer mains. In States where this greater flexibility is available, local governments have an important new capital financing tool.

A key feature of special assessment district financing is that a majority of the property owners in the district as well as the local government must approve formation of the district. Thus, the potential beneficiaries of a project have a direct say in whether they want to pay for it. Increasingly, local governments are cooperating with developers to set up special assessment districts that provide facilities for growing areas.

State and local governments are also allowing increased flexibility in how payments can be made in dependent districts. Traditionally, special assessments are allocated to property owners according to property frontage or area. Payments are either lump sum or, if a bond is issued, stretched out over perhaps 20 years. No particular reason exists, however, why the special assessment should be the only form of revenue used in a dependent district. Special user fees or development charges are feasible, and examples of this broadened approach include local improvement districts in Oregon and municipal utility districts in Texas. Texas' municipal utility districts are usually considered to be independent districts, but cities often control their creation and sometimes absorb their facilities into city regional systems. [4] The ancient concept of the special assessment district is evolving into a powerful, flexible, and sophisticated financing tool.

Development Charges

Many local governments are imposing special charges on developers to help finance major public works needed to serve urban growth. These charges, or impact fees, are the newest tool in the local revenue kit and their use is spreading rapidly. The Real Estate Research Corporation recently found that 72 percent of the local governments polled were already using development charges or were planning to use them. [5] These requirements go beyond developers' normal obligations to provide local streets, water and sewer lines, etc., that directly serve properties being developed; they extend to major roads, wastewater treatment facilities, and other communitywide systems.

These charges are controversial, and much needs to be learned about how they should be used. Developers have opposed them, pointing out that such measures force up the already high price of housing and commercial real estate and that localities may use development charges to deter the development of lower cost housing. In addition, developers have complained that municipalities sometimes administer these fees or exactions unevenly, often focusing on large projects while small projects go unaffected.

This revenue source may be most appropriate in rapidly growing areas where demand for housing and other developed real estate is very strong and an unfair burden would be placed on established residents if the total public capital cost of growth were funded with communitywide taxes or user fees.

Development charges appear in several forms. They may be negotiated deals or systematically calculated fees. Developers may pay cash or dedicate built facilities, equipment, or services, or a combination thereof—all in return for local government permits to subdivide land or construct buildings. Set fee systems are more evenhanded and predictable than negotiated arrangements, but critics have noted that such fees are sometimes based on overly conservative, "gold-plated" standards. If the charges are negotiated, developers at least have the opportunity to influence the design of the facilities and the manner and timing of payment. The form of the development charge and the way it is administered can also affect the extent to which the charge encourages efficient use of land in growing areas. If development fees are well known to developers and if the fees reflect the varying costs of providing public services to different zones or districts, developers will combine such public costs with private costs in their locational and design decisionmaking.

To local officials, development charges may appear as "other people's money." Thus, many State courts have set legal constraints on such charges, generally insisting that the facilities to be funded clearly benefit affected properties, and that the share of the cost borne by the properties be reasonable. Clearly, administrative systems that meet these legal requirements and reflect cost variations among zones or districts are not simple. They require careful structuring, sophisticated staff, computerized information systems, and highly professional planning of infrastructure and land use.

In conclusion, State and local experimentation with funding sources has already enabled them to allocate infrastructure costs in an increasingly efficient and satisfactory manner. It is reasonable to expect that, with firm Federal encouragement and creative partnerships with the private sector, State and local governments will meet their public infrastructure needs and, in so doing, will contribute to a strengthened Federal system.

Community Development Block Grant Program (CDBG)

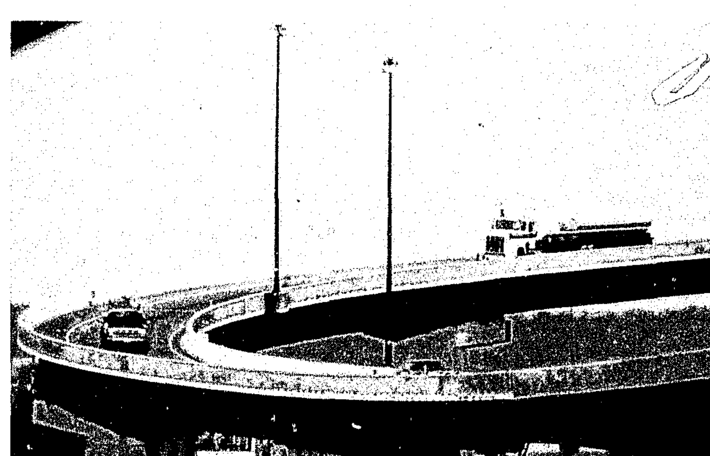
Operated by the Department of Housing and Urban Development, CDBG provides local communities with resources for infrastructure improvements as well as other purposes. From 1975 to 1987, communities allocated approximately $12.9 billion of their CDBG funding for public works projects. In 1987, localities budgeted a total of $657 million in CDBG funds for local public works. According to Congressional Budget Office projections, this amount represented approximately 3 percent of all Federal infrastructure spending for 1987. Since 1981, localities have expended these funds increasingly for economic development-related activities.

Urban counties and small cities (fewer than 50,000 people) use the CDBG program more extensively for public works than do larger cities. Small cities budgeted 51 percent of their CDBG resources for public works in 1987, while urban counties dedicated 35 percent. Larger cities (those assisted through the CDBG Entitlement program) budgeted 19 percent of their block grant funds for public works. The larger cities often programmed such moneys to improve aging public facilities in lower income neighborhoods. Another major use was to fund infrastructure needed in large-scale revitalization projects, where such funds often leveraged considerable private investment. (For a discussion of the CDBG Entitlement program, see Chapter II.)

Transportation

The transportation infrastructure of urban areas has improved in recent years. As a result of the Surface Transportation Assistance Act (STAA) of 1982, which raised the Federal gasoline excise tax 5 cents per gallon and dedicated 1 cent to public transit, States and localities launched an extensive program of new construction, repairs, and rehabilitation with the additional Federal funds and matching State and local funds. Since passage of the Act, the Nation has made much progress in first slowing and then reversing the tide of physical deterioration of urban highways and mass transit facilities. From 1983 through 1987, the Federal Government obligated annually some $12.9 billion to $14.2 billion for highways and $3.4 billion to $4.2 billion for transit.

Since passage of the STAA of 1982, pavement conditions on the Federal-aid highway systems have been stabilized and improved, according to standardized ratings reported annually by State transportation departments. The constant-dollar investment per unit of travel on the Federal-aid systems increased, even though travel on these systems has increased by more than 3.5 percent annually since 1982.



Highways and Bridges

Almost 4 million miles of public roads and streets, of which 691,000 are in urban areas, exist in the United States. Roads and streets in urban areas account for only 17.9 percent of total mileage but carry 58.8 percent of the travel. For both urban and rural areas, the Federal Government provides grants to States to assist in financing the construction and preservation of about 22 percent of the total mileage. These Federal-aid highways carry about 80 percent of total U.S. highway traffic.

Federal-aid System

Federal-aid highways are managed through a Federal-State partnership in which States and localities maintain ownership and responsibility for roads; State highway departments initiate projects subject to Federal Highway Administration (FHWA) approval of plans and cost estimates; and 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—the Interstate, Primary, Urban, and Secondary Systems—each of which has a different function and different standards. The Interstate and Primary Systems are located in both urban and rural areas. The Urban System includes urban arterial and collector routes, exclusive of urban extensions of the Primary and Interstate Systems. The Secondary System includes rural major collector routes designed to provide access to rural residents.

Federal-aid highway funds assist in the construction and reconstruction of highways and bridges on these Federal-aid systems. Although bridge projects can be financed under the regular Federal-aid highway program, a separate highway bridge replacement and rehabilitation program has been established because of the large number of deficient bridges. In 1986, States classified 8.0 percent of the urban Interstate bridges as structurally deficient and an additional 9.8 percent as functionally obsolete. For bridges on other urban arterials, the same classifications were 14.4 percent and 15.1 percent. Since its beginning in fiscal year 1979, the States have obligated $9.8 billion of Highway Bridge Replacement and Rehabilitation Program funds to improve deficient bridges. Of this amount, $1.2 billion, or 12 percent, has been obligated in urban areas. During this same time, an additional $2.8 billion of other Federal-aid funds have been obligated for the replacement or rehabilitation of bridges in urban areas.

Federal-aid expenditures. Total highway revenue collections and disbursements of the Federal-aid program reached all-time high levels in 1986. (Capital disbursements on the Federal-aid systems are shown in Table IV-2.) From 1982 to 1986, annual constant dollar growth of disbursement averaged 13 percent.

Legislative and policy initiatives. The Administration proposed legislation to the 99th Congress for major restructuring and redirection of the highway and transit programs. The proposal would have combined Federal-aid highway funds for the Interstate and Primary Systems to give the States more flexibility in deciding how to use the Federal-aid funds to best meet their major highway needs. Funding for the lower order systems would have been merged into a highway and transit block grant program that would have eliminated many Federal requirements and would have allowed State and local governments considerable flexibility in meeting their highway and mass transit needs. The proposal would have permitted States to use Federal-aid funds in conjunction with toll financing for new highways. Congress delayed reauthorization of the highway and transit programs for post-fiscal year 1986, primarily because of disagreements over special-interest demonstration projects and increasing the speed limit on rural Interstate highways to 65 miles per hour. Therefore, the Administration submitted similar draft legislation to the 100th Congress in January 1987.

Table IV-2

Total Capital Spending of the Federal-Aid Highway Program[1] 1982-86 ($ Billions)

	--- Interstate ---					
Year	Construction	4R[2]	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
1986	4.0	2.0	9.3	2.0	2.1	19.4

[1]Includes highways, bridges, and engineering costs, but not right-of-way costs.
[2]Resurfacing, restoration, rehabilitation, and reconstruction.

Source: U.S. Department of Transportation, Federal Highway Administration, unpublished tabulations.

Although the Surface Transportation and Uniform Relocation Assistance Act (STURAA) of 1987, which the Congress enacted into law on April 4, 1987, over the President's veto, essentially reauthorized the existing programs without the proposed new flexibility requested by the Administration, it did provide for:

- A Combined Road Plan Demonstration Program to allow up to five States to test the feasibility of using block grant procedures for the Urban and Secondary programs as well as for bridge funds not used on the Interstate or Primary System; and

- A pilot toll facilities program to permit Federal participation in seven toll facilities (the number was increased to eight by H.R. Res. 395, which contained the appropriations for the Department of Transportation for fiscal year 1988).

The results of these demonstration programs may provide information that will assist the Congress in giving further consideration to such proposals. The Administration believes that because of the critical need for new or expanded highway facilities, however, the enactment of legislation to permit

Federal-aid funds to be used in conjunction with toll financing should not be delayed until the results of the pilot program are available. For this reason, the Administration submitted draft legislation to the Congress on September 30, 1987, to permit the use of Federal-aid funds in conjunction with toll financing.

The STURAA reauthorized the highway program through fiscal year 1991 and provided the funding necessary to complete construction of the Interstate System.

Urban Mass Transportation

Created in 1964, the Urban Mass Transportation Administration (UMTA), an arm of the Department of Transportation, manages a $3 billion annual program of grants-in-aid to State and local public agencies for public transportation. The program has two major components: discretionary and formula. The discretionary grant program is funded by the Federal motor fuels tax at a level of approximately $1 billion and is used for major capital investments—new rail systems (new starts), modernizing existing rail systems (rail mod), major bus purchases, and constructing bus facilities.

The formula program, funded at approximately $2 billion from general revenues, is used for routine capital replacement, direct subsidy of day-to-day operating expenses, and a rural public transportation program administered through the States. In addition to the discretionary and formula programs, assistance is made available for elderly and handicapped service, research, technical innovation, and training.

The recipients of these grants are the agencies that provide mass transit in more than 300 American cities. All these agencies require subsidies, State and local as well as Federal, to maintain service. Passenger fares provide 44 percent of the $10.6 billion national operating costs, and none of the capital costs. Since 1980, however, transit agencies have succeeded in raising the portion of operating costs covered by fares from 39 to 44 percent, and State and local governments have devoted more resources to transit, increasing subsidies from 43 to 48 percent of costs, enabling dependence on Federal subsidies to drop from 18 to 8 percent.

This Administration, seeking to improve efficiency and productivity, create greater management accountability, and decrease the inequities in distributing a nationally collected tax to only a limited number of urban areas, as well as to respond to Federal budget pressures, has sought major program reductions, especially in operating assistance. While not achieving all of the proposed reductions, the program has been reduced 25 percent over the past several years and operating assistance has been capped at $805 million for fiscal year 1988. The Administration has also expanded efforts to improve the efficiency of the transit industry and the management of the Federal program.

Increasing Transit Industry Efficiency

UMTA has undertaken several initiatives to promote more efficient practices in the transit industry. They include:

Rail modernization. In 1987, the Agency completed an estimate of the cost of restoring to "good" condition all existing rail facilities and equipment in the country over a 10-year period ($18 billion in 1983 dollars). The study also assessed the relative cost-effectiveness of the improvements identified on a segment-by-segment basis. Different rail line segments were found to have widely differing ratios of benefits to costs. Because of these differences, the study showed that only half of the estimated $18 billion would be needed to achieve 85 percent of the desired benefits. These findings indicate a need to review carefully grant applications to stretch the effectiveness of available Federal funding.

New starts. The high cost of rail projects and the limited Federal funding available make it essential that only the most cost-effective projects be selected for funding. Congress has made this clear by enacting a requirement that Federal new-start funds may be granted only to those projects that have complied with the Federal planning process, including alternatives analysis, that are cost-effective and that have an acceptable degree of local financial support for both operations and capital replacement. This clarification codifies what has been UMTA policy since 1984, and holds the promise of ending the practice of premature Congressional earmarking of funds for specific projects.

Bus spare ratio. The massive public investment in transit equipment over the past 20 years has modernized the national bus fleet. Yet many operators continue to maintain fleets larger than reasonably required. The national spare ratio is more than 32 percent, or one bus in reserve for every three in peak service. Traditional industry practice has been to have a spare ratio of less than 20 percent. UMTA now requires maintenance of a 20 percent spare ratio before approving grant applications for buses. The Agency has also set 12 years as the minimum useful life for a bus and requires disposition of excess buses in the absence of an approved contingency fleet.

Financial planning. The critical first step in ensuring effective transit investments is to insist upon realistic, professional transit financial planning. This requirement means, among other things, planning with a full awareness of the changing local market for transit and a willingness to consider innovative service alternatives. UMTA last year issued a Financial Capacity Policy, reaffirming that it would make grants only where the financial ability exists to operate the facilities and equipment to be acquired as well as the balance of the system. The Agency also conducts financial planning seminars and provides both planning funds and technical assistance.

Leasing. UMTA proposed and the Congress adopted a modification to the formula grant program that permits leasing costs as an eligible expense, provided leasing is more cost-effective than outright purchase or construction. This provision offers transit systems cost savings and greater flexibility in managing cash flow and financial planning.

Advance construction. A program modification proposed by UMTA and adopted by the Congress makes certain interest costs eligible for Federal assistance if projects are constructed with UMTA approval. This change permits construction of major capital investment projects on the basis of efficient construction schedules, rather than at the rate Federal funds become available.

Public-Private Cooperation in Transit Services

Recent experience has shown that the key to improving transit services and their financing is to inject the discipline of the marketplace into transit decisionmaking through creation of a competitive environment and greater reliance on private financing. UMTA has undertaken several initiatives to improve transit through greater cooperation between the public and private sectors.

Entrepreneurial services. As long as human needs exist, entrepreneurs will strive to find creative ways to satisfy those needs more effectively and efficiently. The Entrepreneurial Services Program provides seed money to help start market-oriented services, often provided by small or minority businesses, in response to new transportation demands. Examples include reverse commute services designed to bring unemployed inner-city residents to suburban jobs, demand-response services for the elderly and handicapped, and local circulation services to supplement existing mainline transit service.

Suburban mobility. The suburban mobility initiative is designed to foster cooperation among public officials, developers, transit planners, employers, and the commuting public in addressing rapidly growing suburban traffic congestion problems. The program will focus on providing technical assistance and a limited amount of funding for feasibility studies and startup costs. The effort will begin with several regional seminars in areas with severe mobility problems, joint involvement of the public and private sectors, and local commitment sufficient to produce results.

Competitive services demonstrations. Statistics show that competitive contracting can save from 10 to 50 percent in transit operating costs. The Department of Transportation is sponsoring demonstrations aimed at introducing competition into transit systems for operations or maintenance. The Department has received proposals for competitive services demonstrations involving new or existing service that will be put out to bid in a manner designed to cause no harm to existing public transit employees. To date, nine urban areas around the country have offered or are about to offer all of part of their transit services for competition among public and private operators: Des Moines, Minneapolis-St. Paul, Cobb County (Georgia), Little Rock, Los Angeles, Miami, New Orleans, Cincinnati, and Austin.

Joint development. In the quest to provide transit facilities, joint development has been playing a larger role that could easily be expanded further. When a real estate developer and a transit agency cooperate to provide a transit improvement that is integrated into a development, the transit-riding public and taxpayers both benefit. Such developments provide an additional private source of funding, generate increased transit ridership, and often result in improvements that are completed faster and at lower cost than a publicly funded project.

Other Initiatives of UMTA

UMTA is alert to other opportunities to improve transit service for the public. For example:

Safety program. The Agency is creating an Office of Transit Safety to provide technical assistance, undertake research and demonstration projects, analyze and disseminate safety information, and sponsor training. The Office will assist local public agencies in meeting their responsibility for the safe operation of transit services, but will not preempt local responsibilities. The Agency can and will, however, conduct extraordinary safety investigations where major safety problems appear to exist.

Rural connection. In rural areas, where many communities have faced the loss of intercity bus service, a public-private partnership is being formed to preserve and improve service. The Greyhound-Trailways Corporation, recognizing that it could not afford to continue direct service to many communities, proposed to Rural America and the National Association of Transportation Alternatives, two nonprofit organizations interested in rural transportation, that local nonprofit and public operators develop connector services to feed a more streamlined intercity bus network. Service will operate in much the same manner as commuter airline links to major hubs, with the rural passenger guaranteed point-to-point passage. Both intercity and local operators will benefit through increased ridership and fares. Pilot services have begun in Tennessee, North Carolina, and Virginia. The pilot program, with UMTA support, will serve as a model for a national feeder system.

Anti-Drug Activities

One of the greatest potential dangers to people using the transportation systems of the country is drug abuse. Recognizing this danger, the Department of Transportation has rulemaking in place or underway to require those industries under their purview to promote a drug-free work place by instituting mandatory drug testing. The proposed rulemaking would include testing of sensitive safety and security-related employees in aviation, water, rail, motor carrier, pipeline, hazardous materials, and bus and urban rail transportation. Testing under these proposed rules would be conducted as follows: prior to employment, as part of required screening, randomly, after an accident, and based on reasonable cause. The proposed rules for the Federal Aviation Administration, Federal Highway Administration, and Federal Railroad Administration have been published. The Federal Railroad Administration already has a rule in effect that requires post-accident and preemployment toxicological testing for certain safety-related crew and testing for reasonable cause. The objective of the Department's proposed rules is to reduce and ultimately eradicate the incidence of illegal drug use within the transportation industries.

Urban Environmental Protection

Air and water pollution levels have been reduced in recent years, mainly because of greatly increased State and local efforts to control air quality and to the construction of municipal wastewater treatment plants. A greater degree of flexibility has recently emerged in designing stationary air pollution control systems, permitting lower costs than do 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 goals 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 passage of the Clean Air Act of 1963, the Nation has made considerable progress 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. To further reduce pollution from mobile sources, EPA has proposed to regulate emissions from vehicle refueling and has sought to restrict the volatility of gasoline sold in the summer months. The purpose is to reduce the formation of ozone at lower levels of the atmosphere, and thereby reduce smog.

Exposure to lead has been associated with serious health consequences in children; recent studies suggest 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 permits only 10 percent of the content formerly permitted.

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

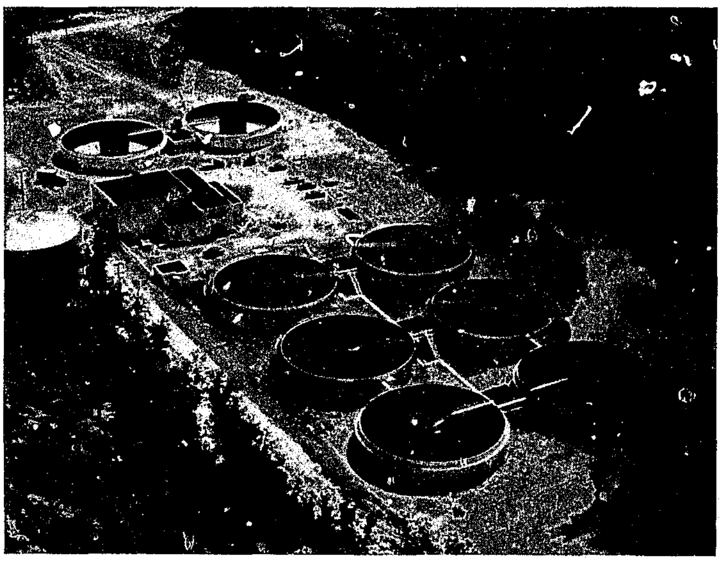
EPA continues to encourage industries to meet or exceed their environmental responsibilities through flexible approaches such as air emissions trading. Using EPA's 1982 interim Emission Trading policy, companies that reduce emissions more than required at some smokestacks can, in certain cases, receive 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. States have authorized an additional 40 bubbles under EPA-approved generic rules.

Clean Water

EPA administers three major laws in addressing water pollution problems: 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 protects marine and estuarine environments and includes the safe and effective disposal of wastes at sea).

One way in which the Federal Government has approached solutions to water pollution problems is through the construction grants program, which provides funding for municipal wastewater treatment plants. Since 1970, the construction grants program has been one of the largest inter-governmental assistance programs in the Federal Government.

Given recent 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 Administration's National Municipal Policy is intended to ensure, by July 1988, compliance with discharge limits for all publicly owned treatment works.

Pursuant to the Water Quality Act of 1987, EPA will begin, in fiscal year 1989, a phase-in of capitalization grants for State revolving loan funds to finance wastewater treatment plant construction and a phase-out of the existing Federal construction grant program. By 1994, the States will control the financing of the Nation's treatment plant construction program.

Studies by EPA and others have indicated that storm water from urban areas can adversely affect the quality of the receiving waters. EPA is developing regulations that address urban storm water runoff from the Nation's larger cities.

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 past year, EPA's emphasis in the public water supply program has been to propose standards for volatile organic chemicals and to ban the use of lead in plumbing systems. The program has also initiated regulatory activity to control more than 50 contaminants, including pesticide products, inorganic compounds, synthetic organic chemicals, micro-organisms, and radionuclides.

EPA has acted to address the problem of ground water degradation. Because almost half of the population depends on ground water for its drinking water, this issue affects many urban communities. The Ground Water Protection Strategy, released in 1984, establishes 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 water according to its use, value, and vulnerability to contamination. All this effort 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 to call attention to certain needs or standards and to provide Federal aid in a form that motivates State and local governments to focus on high-priority local needs and to allocate their resources efficiently.

Solid and Hazardous Waste

Waste management has become an important environmental concern in the United States. Currently, EPA administers two major waste management statutes: the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), designed to clean up the Nation's worst abandoned hazardous waste dumps, and the Resource Conservation and Recovery Act (RCRA), which provides a comprehensive management approach for hazardous waste and regulates underground storage tanks.

CERCLA, commonly known as Superfund, provided broad Federal authority and resources to respond directly to releases (or threatened releases) of hazardous substances that could endanger human health or the environment. The law also authorized enforcement action and cost recovery from those responsible for a release. The Superfund Amendments and Reauthorization Act of 1986 (SARA) reauthorized the program for 5 years; increased the authorized size of the Fund; strengthened and expanded the cleanup program; provided for research, development, and training programs; focused on the need for emergency preparedness and community right-to-know; and changed the tax structure for financing the Fund. EPA's Superfund program currently concentrates on removal actions to stabilize or clean up hazardous sites that pose a threat to human health, and remedial actions involving the study, design, and construction of longer term and usually more expensive actions aimed at permanent remedy.

Under RCRA, EPA began in 1976 to set standards for the disposal of municipal waste, generators and transporters of hazardous waste, and owners and operators of hazardous waste treatment, storage, and disposal facilities. Congress amended and reauthorized RCRA in 1984 in the Hazardous and Solid Waste Amendments. The revised law imposed new and far-reaching requirements on a vastly larger regulated community. The new RCRA represents a clear shift away from land disposal toward waste reduction, recycling, and innovative waste treatment methods. EPA is currently revising standards for municipal waste landfills and incinerators. Controls for hazardous waste land disposal will be tightened, while certain wastes will be banned from landfills altogether. The Agency is also developing a strategy to reduce the total municipal waste stream through recycling and source reduction.

Title III of SARA is the Emergency Planning and Community Right-To-Know Act of 1986. It strengthens provisions having to do with the involvement of State and local governments and the public in the regulation process. In particular, it contains requirements on the reporting on hazardous chemicals, including right-to-know provisions allowing the public to obtain information about the presence of hazardous chemicals in the community and releases of such into the environment.

Successful implementation of CERCLA, RCRA, and Title III of SARA will depend upon the close cooperation of Federal, State, and local governments, industry, public interest groups, and private citizens.

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.

Total expenditures from all sources for capital improvements to existing residential structures increased from $31.2 billion to $55.3 billion, or 77 percent, during the 3-year period from 1983 to 1986, according to the Bureau of the Census. Data for the first three quarters of 1987 indicate that the dollar value of residential improvements during 1987 stood at approximately the same level as in 1986. [6]

The positive result of essentially private efforts in neighborhood revitalization has become clearly evident in most major cities. Besides the "back to the city" movement of young professionals purchasing and renovating houses, incumbent homeowners and landlords have also reinvested in the housing stock.

Community-based groups such as the National Association of Neighborhoods have initiated self-help activities that both upgrade the neighborhood's physical environment and employ the unemployed in the neighborhood. Sometimes these voluntary neighborhood groups receive CDBG funds. 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 Administration streamlined the CDBG program to permit State and local governments great discretion in defining local community and economic development needs and to fashion programs to meet them. At the same time, the program continues to require communities to focus on needs of lower income residents and ensure that significant amounts of funds address those needs.

The Oasis Technique for neighborhood revitalization was developed in Florida by the Fort Lauderdale Housing Authority. The technique 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 include 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, high-focused effort.

Based on its success, the Fort Lauderdale Housing Authority established the Oasis Institute to help other communities apply the technique. To date, assistance has been provided to Gainesville (Florida), Houston, Louisville, Garden Grove (California), Minneapolis, Los Angeles County, Tampa, Miami, and Lawrence (Massachusetts).

The Federal Urban Homesteading program, aimed at reuse of abandoned property, also helps to stabilize neighborhoods and reverse decline. The Urban Homesteading program transfers federally owned unoccupied properties to communities that, in turn, offer the properties at nominal or no cost to homesteaders. Federal agencies owning such properties are HUD, the Veterans Administration, and the Farmers Home Administration. Federal funds reimburse the Federal agency for the value of the property. Local governments use the programs as part of their own locally determined approach toward neighborhood improvement.

The Urban Homesteading program has proved successful at returning properties to productive use. Since the program's inception, more than 10,500 single-family properties have been transferred to families who 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 home ownership has been extended to multifamily properties and properties acquired by cities through tax foreclosure and other means. More than 60 cities have established local urban homesteading programs, in which approximately 1,000 locally acquired properties have been rehabilitated, according to reports submitted to HUD in the fall of 1987. Examples include Springfield, Massachusetts, with 42 properties; Syracuse, New York, with 57 properties; and Minneapolis, Minnesota, with 123.

Another program that local governments use to great avail in neighborhood revitalization is the Rental Rehabilitation program. Authorized by the 1983 Housing and Urban Rural Recovery Act, this program is intended to increase the supply of affordable rental housing for lower income households. The program provides rehabilitation subsidies of up to $5,000 per unit to property owners, but allows project rents to rise to market level. At the same time, rental assistance (through Section 8 certificates or Housing Vouchers) is made available to tenants who are displaced or carry excessive rent burdens.

The tenants are free to remain in the renovated units or move elsewhere. Cities are allowed maximum discretion in using the Rental Rehabilitation program.

Examples abound of successful, innovative initiatives taken at the local level to solve a wide variety of neighborhood revitalization and housing problems. One is in Burlington, Vermont, where the Community Land Trust, a nonprofit corporation, places land in trust while selling the new or rehabilitated structures to families or cooperatives. The land lease agreement includes a limited equity resale provision to maintain affordability for future households of moderate income. Another is the Common Ground Community Economic Development Corporation in Dallas, Texas. Formed in 1982 by 12 neighborhood groups, Common Ground has rehabilitated more than 50 houses for lower income people, helped more than 215 people find jobs, and contributed greatly to the overall appearance of several neighborhoods. Most of the houses were moved from sites undergoing redevelopment to tax delinquent lots acquired from the city. The Community Corporation of Santa Monica, California, established in 1983, constructs and manages rental housing complexes. All projects involve tenant self-help and a creative blend of government and private funds for long-term financing.

Several national organizations have been set up to help local groups achieve their housing and neighborhood improvement goals with little or no governmental involvement. The Enterprise Foundation has been instrumental in establishing nonprofit housing development corporations in some 20 cities and providing them with direct technical assistance. Each local organization is strongly supported by local businessmen who devote substantial time and money to achieve aggressive programs of housing rehabilitation. Habitat for Humanity is an international organization that advises and assists affiliated local housing rehabilitation projects. Habitat receives financial and volunteer support from various Christian churches.

These organizations and hundreds of similar endeavors demonstrate how the American people will apply their creative energy to respond to the needs of less fortunate neighbors. This spirit must be encouraged if any headway is to be made in solving the problems of urban neighborhoods.

Conclusions

Most American cities have physically benefited from 6 years of sustained national economic growth. State and local governments have increased capital spending on roads, sewers, and other public facilities. Businesses and families have invested heavily in new construction and rehabilitation of commercial and residential buildings, often in innovative partnerships with local governments. The result has been refurbished downtowns, revitalized neighborhoods, and expanded suburban business centers.

Prosperity, of course, is to some extent a mixed blessing. Department of Transportation data show that pavement conditions on existing roads have improved nationwide, but that traffic congestion has increased in many areas as a result of urban growth. The EPA reports that water quality has improved as a result of wastewater treatment plant construction, but control of stormwater runoff in urban areas continues to be a tough problem, and solid waste disposal has become a major concern.

The experience of the 1980s demonstrates, however, that solutions to the transportation and environmental issues of the 1990s will come primarily from the places where the problems exist, not from Washington. Citizens will not expect results from massive Federal programs; they have learned to generate responses by working in and with their local and State governments, where the incentives and the flexibility exist to solve local problems in the most practical and efficient manner possible.

Footnotes

1. This section draws on reports by the National Council on Public Works Improvement, particularly *The Nation's Public Works: Defining the Issues,* Sept. 1986, pp. 48-53; and *Fragile Foundations: A Report on America's Public Works,* Feb. 1988, pp. 43-47.

2. National Council on Public Works Improvement, *Fragile Foundations,* p. 62.

3. *Infrastructure News,* Jan. 15, 1988.

4. Douglas R. Porter and Richard B. Peiser, Financing Infrastructure to Support Community Growth, Development Component Series, Washington, D.C., Urban Land Institute, 1984.

5. *Infrastructure News,* Apr. 13, 1988.

6. U.S. Department of Commerce, Bureau of the Census, Current Construction Reports - Residential Alterations and Repairs; Annual 1986, and Quarterly 1987. Washington, DC: U.S. Government Printing Office.

Chapter V:

Urban Social Conditions

The national economic expansion of the past 6 years has increased jobs, income, and the capacity to pay for public sector goods and services in cities and metropolitan areas throughout the country. Even the largest older cities in the North are benefiting from economic growth and restructuring, although they remain poorer than their suburbs, contain higher concentrations of poor and minority populations, and face disproportionately difficult social problems. The interaction of economic growth, population shifts, and the current fiscal strength of State and local governments offers new opportunities for cities to deal with their problems and to help the urban poor and disadvantaged children move toward more productive and self-sufficient lives.

Yet current developments in household and age composition, poverty, teenage pregnancies, and drug trafficking present additional challenges to cities already burdened by concentrations of poverty, crime, and low educational achievement. Increasingly, poor children are living in one-parent households, most with mothers only. Concentration of such minority families has been increasing in poor neighborhoods within large central cities. Continuation of efforts to integrate and rationalize policies concerning education, welfare, employment and training, and housing will be necessary to retain incentives for social and geographic mobility while aiding the needy who cannot care for themselves.

To provide the basis for examining policies aimed at improving urban social conditions in the 1990s, this chapter discusses the major trends affecting urban areas in terms of opportunities and challenges. After highlighting critical factors influencing policies in those cities facing the most severe challenges, the discussion of issues and of policy alternatives turns to three subjects of particular concern: neighborhoods, families, and children.

The Administration's National Urban Policy addresses social conditions in the context of three major premises: (1) Federal, State, and local governments have the responsibility to help the needy who cannot care for themselves, but in a manner that retains opportunities and incentives for geographic and social mobility; (2) the Federal Government should maintain its role in guaranteeing civil rights and enforcing vigorously the constitutional and statutory safeguards against discrimination; and (3) the Federal Government can and should espouse and cooperate with State and local governments in implementing and enforcing high moral and behavioral standards for families and individuals, as well as higher standards for education, the lack of which are the source of many urban social problems.

Policy reforms to increase economic opportunity for all Americans must be built on the themes of creating choice, motivation, and mobility; they must strengthen families, raise the academic achievement of children, and upgrade the capabilities of workers. But no single element is the answer: there must also be adequate and affordable housing, viable and safe neighborhoods, freedom from the menace of drug trafficking, adequate health care, and support for the disabled, infirm, and those temporarily out of work. Above all, local governments must effectively coordinate social policies and programs to cope with the reality of specific developments affecting their areas.

Major Trends Affecting Urban Areas in the United States

Past suburbanization trends—which were selective by income, household type, and race—have created wide disparities in resources between central cities and their suburbs, especially within those metropolitan areas with large old cities unable to annex growing fringes. Over recent decades, suburbanization and regional redistribution have resulted in slow population growth—or decline—and increasing minority concentrations in old Northern cities and some close-in suburban areas. In contrast, most Sun Belt cities have experienced rapid population growth and lesser city-suburban disparities, because their States have permitted them to annex many of the growing suburban fringes. Over three decades, the high levels of post-World War II suburbanization have shifted population, housing, and economic and political power decisively toward the suburbs. In 1986, 44 percent of the Nation's population and 52 percent of aggregate income was located in suburbs, in contrast to only 29 percent of the poor population. Employment opportunities have also shifted into the suburbs, and during the 1970s, decentralization appeared to be spreading further as people moved from metropolitan into nonmetropolitan areas.

Opportunities

Changes in several key characteristics of cities in the 1970s and particularly the 1980s suggest new opportunities and continued improvements for urban residents. These characteristics include population and income shifts, and migration and employment changes. Although encouraging, so far these changes have been insufficient to overcome the differences in opportunity that persist between older cities and their suburbs, particularly in the North.

Population Shifts

In the 1970s, suburbanization had slowed and become less selective, particularly in older Northern areas.[1] In the 1980s, the process of suburbanization slowed further, again particularly in the North, and differences in population growth and household income among cities, suburbs, and nonmetropolitan areas narrowed. Decentralization to nonmetropolitan areas also slackened as net migration to metropolitan areas resumed. Since 1980, both metropolitan areas and many cities have

Table V-1

Population Distributions by Type of Residence and Region, 1970-84

Region	Total U.S.	SMSAs 1 million + Cities	SMSAs 1 million + Suburbs	SMSAs < 1 million Cities	SMSAs < 1 million Suburbs	All nonmetro areas
Percent distribution within U.S., 1970						
U.S.	100.0%	17.2%	22.6%	14.3%	14.5%	31.4%
Northeast	24.2	6.0	6.9	2.5	3.9	4.8
North Central	27.9	4.6	6.4	3.8	3.8	9.3
West	17.1	3.7	5.5	1.9	2.2	3.7
South	30.8	2.8	3.8	6.0	4.6	13.6
Percentage point change, 1970-84						
U.S.	0.0%	−2.9%	1.0%	−0.6%	1.9%	0.5%
Northeast	−3.0	−1.5	−0.7	−0.4	0.0	−0.3
North Central	−2.8	−1.1	−0.1	−0.6	−0.2	−0.7
West	2.6	0.1	0.6	0.4	0.8	0.7
South	3.1	−0.3	1.2	0.0	1.3	0.8
Percent change in population 1984/1970						
U.S.	116%	97%	121%	111%	131%	118%
Northeast	102	86	104	97	115	109
North Central	105	87	114	98	110	108
West	134	120	128	138	158	139
South	128	104	153	117	150	123
Average annual change, 1970-80						
U.S.	1.2%	−0.7%	1.8%	0.5%	2.3%	1.5%
Northeast	0.1	−1.4	0.8	−0.6	0.8	0.6
North Central	0.4	−1.3	1.6	−0.6	1.4	0.5
West	2.5	1.0	2.4	3.0	3.9	2.9
South	2.0	−0.2	3.4	0.9	3.6	2.1
Average annual change, 1980-84						
U.S.	1.0%	0.9%	0.6%	1.5%	1.7%	0.7%
Northeast	0.3	0.1	−0.7	0.8	1.4	0.8
North Central	0.2	0.2	−0.4	1.0	−0.8	0.7
West	1.9	2.4	0.8	1.6	3.5	1.9
South	1.6	1.5	3.5	1.9	2.6	0.4

Source: U.S. Department of Commerce, Bureau of the Census, *Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Population, 1977 and 1970*, Current Population Reports, Series P-23; No. 75, and special tabulations of the 1980 and 1984 *Current Population Survey.*

benefited from the economic upturn in terms of both population and income.

Between 1970 and 1984, population continued to decentralize both from Northern regions to the South and West and from cities to suburbs within each region. The sharpest losses in population were suffered by the central cities of the largest (1 million or more) Standard Metropolitan Statistical Areas (SMSAs) in the Northeast and Midwest regions, and central cities in smaller SMSAs in those regions also lost population. However, the marked post-1980 slowing of previous trends in population decentralization can be seen directly from special tabulations in Table V-1 that compare developments in the 1980s against those in 1970s within constant (1970) metropolitan area definitions. The bottom two panels of Table V-1 show that population stabilized in large Northern central cities between 1980 and 1984, rather than continuing to decline; furthermore, in a distinct departure from previous trends, their suburbs experienced slight losses of population. In the South and West, meanwhile, both central cities and suburbs continued to grow vigorously.

Income Disparities

Income disparities between cities and suburbs also show new signs of stabilizing rather than widening further. Regional trends in median family income between 1969 and 1983 (the longest period for which comparable data are available) show a marked change after 1980 in central cities of large Northern and Western SMSAs. After falling during the decade of the 1970s, median family income in these cities grew more rapidly through 1983 than did the median family income of their suburbs. A shorter statistical series on city and suburban median incomes for all households (both family and nonfamily) in each of the four regions (Table V-2) documents income improvements after 1980 in large cities in the South and Midwest relative to the Nation, but also shows the remaining city-suburban income disparities in all four regions. These changes in trend may be quite important, although their significance must be interpreted with care because of the deteriorated aggregate economic conditions in 1980-83 and the lag in availability of statistics for the mid-1980s.

Migration Patterns

Migration has also shifted to become slightly more favorable to central cities. Data from the early and late 1970s and the early 1980s suggest that the population of Northern cities is stabilizing as a result of reduced rates of outmigration and slightly increased domestic inmigration to cities. Furthermore, although net outmigration from cities continued to occur and to be selective by status and race, its selectivity lessened: net outmovement to suburbs slowed most among college-educated whites. Central cities also grew from foreign immigration.

Sectoral Changes

The evolution from manufacturing toward advanced services has opened up new employment opportunities, even in regions and cities that had previously been competitively weak. The effect of the industrial, occupational, and geographic shifts documented in Chapter II is that white-collar skilled jobs have proliferated and unemployment rates have steadily declined since 1982.

Challenges

Many major developments affecting cities present both opportunities and problems. The average size of households in central cities has decreased from the average of the 1970s. The demand for housing was higher than population changes alone would have supported because slower population growth—or even population losses in Northern central cities—was offset by higher rates of growth in the numbers of households. Yet past increases in the number of households were a mixed blessing for cities because they increased the number of needy one-parent households as well as of affluent young professional households. Similarly, ongoing developments in the poor population, marriage and fertility patterns, labor force participation, and housing pose critical challenges to urban decisionmakers, particularly in the poorest neighborhoods where many problems interact. Failure to meet the challenges of poverty, crime, and academically disadvantaged schools, moreover, could jeopardize the opportunities described above. Despite the cultural and locational advantages of central cities, both advanced service employers and more affluent families will be tempted to leave neighborhoods and cities with severe problems.

Changes in Household Composition

The fast growth rates among one-parent families pose challenges to cities. The rapid growth rates among younger, one-person households experienced by cities in the 1970s are unlikely to continue because they were attributable primarily to the maturing of the baby boom cohort. However, relatively high growth rates among households maintained by young single parents, almost all of whom are women, are likely to continue. Although mother-only families are growing in number in the suburbs, they are particularly common in cities: indeed by 1984, 45 percent of the children in large Northern cities lived in such households. Moreover, the growth in one-parent households has been fastest among minority households, and minority concentrations have been increasing in large cities. From 1980 to 1984, data by region and size of city show that these trends, like related changes in poverty and income, are most pronounced in large Northern cities.

The number and proportion of children living in one-parent

Table V-2

Median Household Income by Type of Residence and Region, 1977-83 (Ratio of the Local/National Median)

Region	Total	All SMSAs	SMSAs 1 million + Cities	SMSAs 1 million + Suburbs	SMSAs < 1 million Cities	SMSAs < 1 million Suburbs	All non-metro
U.S.							
1977	100%	108%	87%	129%	90%	113%	87%
1980	100	108	86	130	90	112	87
1983	100	107	87	131	91	112	85
Northeast							
1977	105%	105%	78%	128%	82%	118%	106%
1980	103	103	76	125	83	117	101
1983	104	106	75	132	90	120	100
Midwest							
1977	105%	115%	86%	140%	94%	123%	90%
1980	103	115	83	138	96	123	85
1983	101	109	85	131	89	118	86
South							
1977	91%	103%	93%	129%	89%	103%	79%
1980	92	101	84	128	89	103	81
1983	93	105	88	135	89	107	78
West							
1977	103%	107%	95%	120%	93%	107%	91%
1980	107	112	105	127	92	106	92
1983	106	111	103	127	97	103	92

Note: SMSAs are defined as of 1970 Census.

Source: U.S. Department of Commerce, Bureau of the Census, *Current Population Survey*, P-60, Nos. 117 and 132.

households have continued to rise during the 1980s. These households are more likely to be poor and have high service needs, especially among black families. The rapid increase since 1980 in numbers of families maintained by black women has resulted primarily from increased shares of births to never-married mothers. A high proportion of these women are unemployed, and in 1983, 32 percent of households maintained by women in central cities were receiving public assistance.

Poor persons have become relatively more concentrated in large Northern central cities despite national drops in poverty rates since 1983. No longer a mostly rural phenomenon, poverty rates are now appreciably higher in large Northern cities than in the rural South. Within metropolitan areas, most poor people live in central cities. This tendency is especially true for the black population; in 1985, 61 percent of black poor lived in central cities, compared with less than one-third of the Nation's white poor. Moreover, almost half of the black poor lived in city neighborhoods in which poverty rates exceeded 20 percent, compared with only 15 percent of the white poor. In the Nation's 50 largest cities, both the number and relative concentration of black poor in such neighborhoods increased between 1970 and 1980 despite overall population losses.

A higher proportion of children now live in poor households than does any other age group, and the concentration of poverty in cities is especially acute among children in one-parent

Table V-3

Unemployment Rates of Central-City Males Aged 16-64, by Race, Region, and Years of School Completed, 1969-85

	White				Black			
Region and Schooling	**1969**	**1977**	**1982**	**1985**	**1969**	**1977**	**1982**	**1985**
All regions								
Did not complete high school	4.3	12.2	17.7	15.5	6.6	19.8	29.7	27.3
Completed high school only	1.7	8.0	11.0	8.3	4.1	16.2	23.5	18.4
1+ years of higher education	1.6	4.7	4.4	3.6	3.7	10.7	16.1	13.1
Northeast								
Did not complete high school	3.7	13.9	17.2	16.0	7.6	20.9	26.2	30.4
Completed high school only	1.7	9.4	10.3	9.7	3.4	18.2	21.9	13.6
1+ years of higher education	1.4	6.0	4.8	3.9	7.1	13.9	18.6	11.7
Midwest								
Did not complete high school	4.9	12.8	24.3	23.2	8.3	26.2	34.8	32.8
Completed high school only	1.1	8.0	14.5	10.8	3.3	18.0	35.8	24.9
1+ years of higher education	1.3	3.5	3.8	3.7	1.4	12.3	22.2	18.4

Source: Computed from U.S. Department of Commerce, Bureau of the Census, *Current Population Survey*, machine-readable files. Published in John D. Kasarda, "Economic Restructuring and America's Urban Dilemma," in Mattei Dogan and John D. Kasarda, Eds., *The Metropolis Era*, Beverly Hills, CA: Sage Publications, 1988.

families. This differential is worsening: poverty rates of "female householders, with no husband present" increased from 31 to 35 percent between 1983 and 1986 while poverty rates declined for all other household types. The central-city poverty rates of minority children in one-parent families are particularly distressing. For children in mother-only families, the overall poverty rate was 54 percent in 1986, and more than two-thirds of children in families with black or Hispanic mothers were poor. In central cities of the North and West in 1986, 80 percent of black children under 6 living in households maintained by mothers were poor.

Minority Employment

Black male participation in the labor force and full-time employment has decreased in recent decades, especially among unskilled black males in central cities. As Table V-3 shows, the recent economic upturn has reduced unemployment rates for inner-city, low-skilled black males below their 1982 peak, but the rates in the mid-1980s remain far above comparable rates in the 1960s and 1970s. This problem is especially acute in large Northern cities. In poverty areas within metropolitan areas, unemployment rates for black teenagers were above 39 percent in 1988. Sociologist William Julius Wilson has concluded that the disproportionately high unemployment of minorities and youth in the inner cities is attributable primarily to lack of skills and lack of access to suburban jobs rather than to racial discrimination.[2] This conclusion is buttressed by findings of business research groups (Table V-3) that new recruits lack job skills. Moreover, because skill requirements for employment are projected to increase, efforts at improving city education must chase a moving target. According to the report *Workforce 2000,* "between now [1987] and the year 2000, for the first time in history, a majority of all new jobs will require a post-secondary education."[3]

Economic recovery has helped minority employment generally. Since the beginning of the economic recovery in mid-1983, total black employment has increased by 22.7 percent from 9.1 million to 11.2 million, with the black unemployment rate currently registering 11.5 percent. Between 1983 and 1986, 900,000 black Americans escaped poverty and the black poverty rate fell by 4.6 percent, the largest 4-year decline since 1970. Total black employment grew by 20.9 percent from 1981 to 1987 compared with 9.3 percent from 1977 to 1981; and since mid-1987, the black labor force participation rate has averaged close to 64 percent, the highest level in 20 years. Today, the black employment ratio, the measure of the actual percentage of the adult population that are employed, is 55.5 percent compared with 53.8 percent in 1979. Black teenage unemployment, which had reached historic levels by the early 1980s, has dropped by nearly 40 percent since mid 1983 and currently registers at 28 percent, the lowest rate since 1973.

Key Factors

Educational weaknesses. Despite the obvious importance of improving education to equip students for employment and to overcome poverty, educational achievement had been declining nationwide over several decades. This Administration has made major efforts to encourage State and local education reform. Although some improvement in education has been registered, educational reforms "have largely bypassed big cities, leaving millions of children in deteriorating urban schools," according to the Carnegie Foundation for the Advancement of Teaching.[4]

Drug trafficking and use. These pervasive problems raise incentives and opportunities for criminal behavior and violence and contribute to poor performance and disciplinary problems in schools. Drug abuse is a problem in all areas of the country, not just in the major cities, but rates of drug use are higher in the more urban areas. Drug abuse rates are highest among nonwhite males, particularly young adults and youth. Although marijuana remains the most widely used illegal drug, cocaine abuse is growing most quickly, with highly addictive crack a rapidly growing problem in some cities.

Geographical mobility. Among the poor, mobility is impeded by unaffordable housing costs. In 1985, almost half of the poor households in the Nation spent more than half of their income on housing: indeed, the median for housing costs as a percent of income was 58 percent for households below the poverty level, even though 20 percent of the poor lived in inadequate housing.

Concentration of poverty. The conjunction of social and economic problems in the poorest neighborhoods has raised fears that a geographically concentrated urban "underclass" is growing that itself perpetuates socially unacceptable behavior. In response, a series of studies has examined relationships between persistent poverty, poverty concentrations, and behaviors such as teenage pregnancy, crime, welfare dependency, and unemployment.[5] Although available data are weak for these purposes, these studies suggest that neighborhood tracts with poverty rates above 40 percent apparently have particularly high concentrations of these social problems. These tracts do not comprise a major component of the Nation's overall poverty problem—in 1980 they housed only 7 percent of the poor—but they contain 17 percent of the black poor and 11 percent of the Hispanic poor. Indeed, concentrated poverty is almost entirely a minority problem: only 12 percent of the residents of high-poverty tracts were non-Hispanic whites.

Tracts with high and increasing poverty rates are themselves concentrated in relatively few of the largest cities. Fifty-five percent of the urban poor living in high-poverty tracts lived in seven large cities—New York, Chicago, Philadelphia, Baltimore, New Orleans, Detroit, and Newark— and five of these cities—New York, Chicago, Philadelphia, Newark, and Detroit—accounted for four-fifths of the decade's growth. Although some of the large cities studied experienced decreases in poverty rates and in poverty concentrations, the median large city had 27 percent of its black poor in high-poverty tracts in 1980, up from 18 percent in 1970.

These data suggest that increasingly high densities of largely unskilled poor populations are concentrating in a relatively small number of central cities. Ameliorating this condition will require both concerted efforts by State and local governments and creative uses of Federal programs that might provide mobility and training as well as efforts to reinforce family stability.

Urban Neighborhoods, Urban Families, and Urban Children

The sustained economic expansion of the past 6 years—the longest peacetime expansion in U.S. history—has helped almost all communities by creating new jobs without generating high inflation. More Americans than ever before are enjoying a high standard of living. Attractive communities are being developed and expanded across the Nation, and upscale shopping malls both in suburbia and in renovated downtown areas offer a broad assortment of consumer goods.

Urban social conditions in the United States today, although improved over a decade ago, have reached the point where success has brought into sharper relief the recalcitrance of the remaining urban problems. These problems do not appear to be functions of money. America spends about 35 percent of its income on government, and government funds targeted to the poor have increased dramatically throughout the 1970s and 1980s.

Education problems also seem unresponsive to levels of expenditure. Drug abuse and the drug-based economy appear to increase at an ever-accelerating rate, even as enforcement efforts reach new heights; expanding levels of government expenditures appear to have no predictable curative effect. Thus typical government activity seems inadequate for dealing with the causes of the urban problems that now stand in stark relief against the background of economic growth and general well-being. It is these problems at which the primary efforts of the next urban agenda must be directed. However, such efforts will call for creative ways of thinking about and acting on social problems, and for replacing misguided reliance on injections of cash. Discussion of these problems should focus on neighborhoods, families, and children—the foundations of the Nation's urban areas, whether city or suburban.

Urban Neighborhoods: Housing

A neighborhood should be much more than the place a family makes its home—it should afford access to the true wealth of the Nation. Good housing in a suitable neighborhood should provide not only a comfortable and safe place to live, but also access to neighbors, jobs, schools, churches, shopping, medical care, and community services.

The unprecedented economic expansion of recent years has gone a long way toward improving residential choice and quality of life: It has resulted in upgrading both housing and neighborhoods while increasing employment and the earnings needed to pay for good housing. These consequences of the national economic expansion stand out:

- Lowered interest rates and a growing economy have bolstered housing construction and the housing supply. Residential construction has experienced 5 consecutive strong years, particularly construction of multifamily housing: over the 5 years beginning in 1983, almost 2.5 million new apartment units were built, 30 percent more than in the 5 years preceding 1983. Indeed, in some markets, inability of the area to absorb all of the new units has led to high vacancies and a recent slowdown in further new starts.

- The vigor of local economies has benefited many neighborhoods. Cities have experienced renewed strength in retail businesses, both within and outside their central business districts. Cities' fiscal positions have improved, strengthening their ability to provide public services. Across the Nation, cities have reported renewed economic confidence and increased private residential investment in formerly deteriorating neighborhoods. Nationally, annual expenditures for home improvements increased steadily from less than $47 billion in each of the years prior to 1983, to more than $91 billion in 1986.

- Growth in employment and earnings, coupled with lower rates of mortgage interest and inflation, have enabled many families to purchase or improve homes, or to find better rental housing. The Council of Economic Advisers reports that a record 62 percent of the working age population is employed, unemployment has dropped to within 0.2 percent of its lowest level since 1974, and real median family income in 1986 (adjusted for family size) was the highest in U.S. history.

Although these benefits have not been shared equally by all regions, neighborhoods, or types of households, these substantial overall improvements in Americans' housing and quality of life are extremely encouraging.

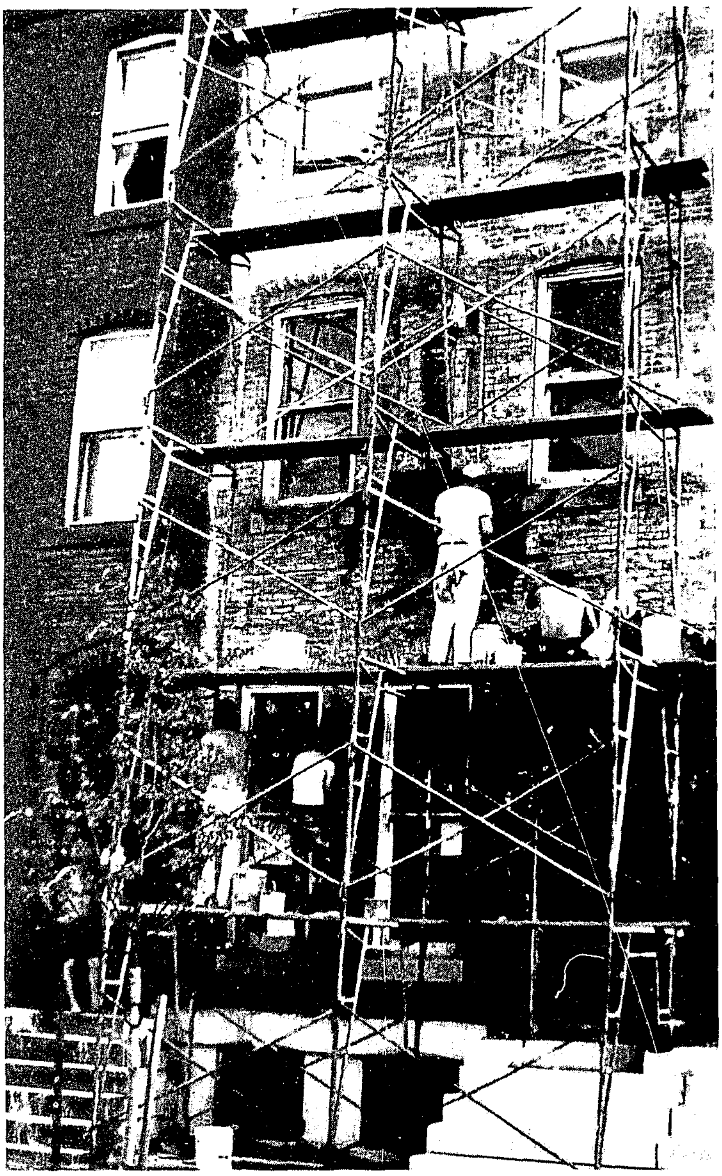
Data from the most recent Annual Housing Survey reflect general satisfaction with both housing and neighborhoods. In 1985, only 8 percent of the housing stock could be classified as inadequate, with only 2 percent displaying enough problems to be considered seriously inadequate. Furthermore, only 3 percent of the occupied units were overcrowded. On average, households rated both their housing units and their neighborhoods as "9" on a 1-10 scale.

Reflecting above-average concentrations of both poor persons and older housing, central cities had a higher incidence of housing problems. Ten percent of units in cities were physically inadequate, with notably high rates of severe inadequacy—6 percent in Northeastern cities and 5 percent in cities with population more than 1 million. Furthermore, both overcrowding and neighborhood problems appeared to be associated with inadequate housing in cities; 13 percent of the inadequate units were also overcrowded, and 64 percent of respondents in inadequate city housing reported problems with their neighborhoods, most commonly "people" and "crime."

Many low- and moderate-income families have benefited directly from recent improvements in their neighborhoods, employment, and residential choice. For those lower income families who have not benefited directly, however, the Nation today is better able to assist with their housing needs because of the broad, vigorous private housing market.

Three key barriers can limit families' access to good housing in good neighborhoods: (1) lack of affordability—housing on the market may cost more than families' incomes can bear; (2) inadequate supply—units on the market may be either too few, inappropriate, or in bad condition; and (3) discrimination—rental and sales practices may unfairly curtail residential choice of households because of their race, color, national origin, sex, or handicap. In partnership with State and local governments, the Federal Government is working actively to reduce all three barriers.

Homeownership is a vital key to urban health, lending stability to city neighborhoods. Two divisions of HUD are geared specifically to expanding homeownership for low- and middle-income Americans. The Federal Housing Administration (FHA) insures home loans made by private lenders to borrowers meeting certain criteria, and the Government National Mortgage Association (GNMA) develops securities based on



the loans, thereby providing lenders an outlet for the loans and investor opportunities in mortgage-backed securities. For 1987, FHA guaranteed 11 percent of the dollar volume of all single-family mortgage originations in the Nation, and GNMA guaranteed $91.4 billion in securities backed by FHA and Veterans Administration loans.

In addition to fostering homeownership opportunities, especially for low- and moderate-income families, the Federal Government through the HUD programs is providing financial assistance to 4.3 million lower income families—over a million more than in 1980—to enable them to live in decent housing. HUD's annual expenditures for housing assistance have also increased over this period, from $4.5 billion in 1980 to $11 billion in 1988. Even more significant than this increased financial commitment, however, are the improvements in how Federal housing assistance is being handled: The Administration is strongly committed to using housing assistance to increase families' residential choice. economic and spatial mobility, and quality of life. The Administration is also committed to delivering housing assistance in ways that increase effectiveness by restoring to State and local governments the lead role in devising housing strategies. This commitment has paid off. During this Administration, States have demonstrated an increased capability and interest in housing. Before 1980, the Council of State Community Affairs Agencies reported only 44 State-funded housing programs, primarily in 3 States. From 1980 to 1987, States created 112 housing programs. These new State initiatives will offer long-term benefits not only in housing itself, but also in better linking of housing policy to broader economic and social objectives and community needs.

Housing Affordability: Vouchers

In almost all local areas, affordability rather than inadequate supply is the key impediment to lower income families obtaining decent housing. For the Nation as a whole, housing supplies appear adequate, with the rental vacancy rate at the end of 1987 up sharply to 8.1 percent from the 1980 rate of 5.7 percent. Even among lower cost units, vacancies were high, with a rate of 8.3 percent among units with monthly rents in the $200 to $249 range, and 9.2 percent among units in the $250 to $299 range. These high vacancy rates tend to reflect the recent high rates of new construction and the inability of many local markets to absorb the resulting new units.

Despite rental vacancy rates that appeared normal in most areas, affordability remained the main housing problem facing many households. In 1985, monthly housing costs absorbed more than 30 percent of income for 29 percent of all U.S. households and 41 percent of renter households. Affordability was a particularly severe problem for poor households: 55 percent of households with incomes below the poverty level paid more than half their income for housing, and more than three-fifths of those with such high housing cost burdens were poor households.

Affordability problems were also most pressing in cities, especially in the Northeast and West. Twenty-three percent of all renters in cities devoted more than half of their incomes to housing, and for poor households the median figure for housing costs as a percent of income was 67 percent. This cost burden results in part from the greater concentration of the very poor in cities, particularly in the Northeast and Midwest; in the Nation, 42 percent of poor city households had incomes that were less than half of the poverty level, compared with one-third outside of cities. As discussed further below, these very poor households were all too often single parents with children: in 1985, 4 million such households lived in cities, 54 percent of them poor and 20 percent in inadequate housing.

Housing Vouchers are proving to be a straightforward and effective method of providing housing assistance. A Housing Voucher is a federally funded income supplement that is distributed by a local housing agency directly to a low-income family. It provides the family with the difference between what it can afford and the market rental for acceptable housing; the Voucher leaves the family free to make the best housing buy it can find based on its own desires for quality and cost. The Voucher Program is an improvement over the older Section 8 Certificate Program, and has proven so successful that the Administration has modified the Certificate Program to be more like Vouchers. Vouchers enable low-income families to live in private housing of their choice, have more control over where they will live, and gain greater control over the quality of their housing. Unlike tenants of federally assisted or public housing, who must depend solely on government inspectors to regulate property managers, families with Vouchers, like unsubsidized families, are free to take control by moving out of poorly managed buildings or bad neighborhoods.

Vouchers are also extremely flexible and cost effective: they are simple to administer, require little in the way of government regulatory or compliance mechanisms, require almost no paperwork on the part of property owners, and do not tie assistance dollars to locational decisions made years or generations ago by government officials. Unlike subsidies for new construction, vouchers increase rental dollars going to the existing housing supply rather than drawing tenants away to newly built subsidized housing. This reliance on the market makes assistance dollars go much farther, helping more families than would traditional subsidies to buildings or property owners.

Well over 1 million households are now able to live in good housing of their choice using Housing Vouchers, or Section 8 Certificates, to help them afford market rents. The Administration proposes to add another 100,000 Vouchers in fiscal year 1989. The funds for these additional Vouchers would fund only about 50,000 units if used in the subsidized, new construction programs.

There remain, however, some areas of the country with apparent localized housing problems other than affordability. Many are areas of decreasing population and employment, and are losing decent housing through undermaintenance; because tenant income is inadequate to pay full operating costs, owners are investing less than is needed to maintain quality. New construction is not generally the answer for such areas because new units tend to be even more expensive than existing units, and subsidies to new units accelerate vacancies and deterioration of existing housing. Neither is rent control the answer to affordable housing. Local rent restrictions, although they may appear humane, actually accelerate the loss of housing by reducing owners' incentives to maintain their properties and build new rental housing. In these areas of decreasing population and employment, clearly, the best way to increase the supply of affordable housing is to improve buying power of needy families by increasing earnings and supplementing incomes with Vouchers.

Other areas may face a temporary shortage of housing because of a sudden rise in employment and population. This problem does not arise from a physical shortage of the resources needed to produce housing, however, but more from a need for time to enable the market to respond with development. Local housing markets have repeatedly solved shortages of this kind in the past, provided local development regulations were not exclusionary or needlessly restrictive and provided rents were not artificially held down by local controls. In these areas, too, the housing shortage will ultimately be solved by the market; again, the affordability problem really reflects a need for higher purchasing power.

In neither type of low-vacancy market have rent control or other severe types of development control proven effective. Rent control is counterproductive to the provision of an adequate supply of affordable housing. Such controls at best benefit existing tenants at the expense of future tenants and existing landlords. Rent controls inevitably have a negative effect on supply by reducing incentives to build new units and to maintain existing units. In some instances, rent controls lead owners to abandon their units.

Local governments that need to bolster the supply of housing have demonstrated their ability to do so in other ways at relatively low cost, and without forcing low-income families to live in government projects. For example, State and local experience with HUD's Rental Rehabilitation Grant program, which many local governments have used as a model for their own programs, has shown that decent housing can be augmented by relying primarily on existing low-rent, privately owned housing as a resource, letting the market find appropriate levels of rehabilitation and investment, and using Housing Vouchers to deal with affordability.

Under this approach, the local government selects neighborhoods having lower rent levels and provides the participating owner of an existing rental property with a small grant to cover the lesser of half of rehabilitation costs or $5,000 per unit. The owner has the incentive to control rehabilitation costs carefully because they are real costs that must be repaid from future, unsubsidized rental income. After rehabilitation, the owner is free to charge market rents, but these rent levels are generally limited by the neighborhood market. To prevent tenant displacement and ensure affordability, the local government provides Housing Vouchers or Section 8 Certificates. Vouchers enable tenants to exercise the free choice of housing available to any other Voucher holder, and are not tied to the rehabilitated units.

Numerous States have created their own housing block grant programs. These programs have helped local governments to develop and implement tailored approaches for dealing with housing affordability and housing construction or rehabilitation for special populations.

Housing Supply: Public Housing and Assisted Housing

Traditional Federal housing assistance programs focused on directly expanding the supply of housing as well as providing subsidies to keep it affordable. These programs produced a large inventory of public housing and federally assisted private housing for low-income households. Today, the Federal Government provides substantial ongoing financial support for this housing, including operating subsidies and modernization funds for more than 1.3 million units of housing that are owned and managed by local public housing agencies, and rental and mortgage subsidies to more than 1.9 million units of multifamily housing owned and managed by private firms and not-for-profit agencies.

Beginning in the 1930s, public housing and—since the 1960s—assisted housing were built with financial assistance from a variety of Federal construction and rehabilitation programs. Subsidized construction programs were intended to add new units dedicated to occupancy by lower income households. These programs, however, had disadvantages that included their high cost, need for a complex set of direct and indirect (tax) subsidies to keep them viable, need for close government supervision to ensure quality and equitable access by lower income families, and a tendency to accelerate the deterioration of some existing properties by drawing away tenants to new subsidized units.

Federally subsidized housing has negative aspects that impinge severely on the quality of life of its low-income tenants:

- It concentrates poor people into projects, isolating them from the general population. This effect also concentrates problems associated with low incomes, making federally related housing difficult and costly to manage and often creating "ghetto" environments for residents.

- It is often located in less desirable neighborhoods. Such location means that tenants must live with the disadvantages of these neighborhoods, and is bad for the neighborhoods that are overwhelmed by the weight of the Federal projects.

- It traps many of its tenants, stifling economic and geographic mobility. Subsidies remain with buildings or owners, not with tenants. Therefore, a family that cannot afford to leave the Federal subsidy behind may have to forgo a desired move for better access to jobs, families, shopping, or good schools.

Because of these negative effects on tenants, the Administration, while maintaining its financial commitment to the existing stock of federally related housing, has focused primarily on the families living there rather than on the projects themselves; thus, the primary focus is on people and families rather than on places.

Each time a project requires additional subsidy, Federal, State, and local governments have a key opportunity to improve the quality of life for residents of federally related housing. The original construction subsidies that brought public and assisted housing into being, as expensive as they were, have not been sufficient to keep these units permanently affordable to low-income people and in good condition. Periodic additional subsidies are needed to keep projects physically and financially sound, and available to low-income families, because tenants' rental payments still fall short of the full costs of operations and capital replacements. Rather than simply extend previous subsidies, new ways can be found to turn these funds into vehicles of mobility and genuine improvements in tenants' quality of life. To ensure optimal benefits from this affordable housing, State and local governments must take increasing responsibility for crafting coherent local policies for using this existing supply of assisted and public housing within the broader context of the local housing stock available to low-income families.

Public housing. HUD assists public housing by providing to local public agencies annual subsidies as well as capital improvement funds for modernization. HUD's annual operating subsidies, in current dollars, increased from $0.9 billion in 1978 to $1.6 billion in 1988. In addition, from 1981 though the end of 1988, HUD will have spent nearly $9 billion to modernize public housing. At least another $7.5 billion from all sources will be needed to eliminate fully the backlog of project modernization needs. Public housing may need as much as $1 billion per year in additional funds to keep projects in full repair.

Given the magnitude of these ongoing costs, it is vital that, as Federal, State, and local governments invest in the stock of public housing, they continually reassess each project to ensure that its continuation as a low-income housing resource will best serve the needs of low-income families. State and local governments are in the best position to make this reassessment, and many have already begun to do so. The Federal Government should preserve as much flexibility as possible to enable States, local governments, and local public housing agencies to explore fully the most cost-efficient and cost-effective means of assisting poor households. What is being done?

- Local authorities have determined that a small number of projects are clearly not worth repairing; dismantling the projects and providing Vouchers for their tenants for relocation to other projects would be preferable to repair.

- HUD and local authorities have found that with help, many tenants are capable of moving to greater self-sufficiency; by creating public-private partnerships to help low-income adults with job training, child care, and other special needs, many are able to move beyond public housing.

- HUD and local authorities have also been exploring methods for improving the quality of life in public housing by giving residents greater control over their housing; initial efforts have been promising in the areas of tenant management and sale of units to tenants to help them join the majority of Americans who are homeowners.

In cooperation with HUD, local public housing agencies have been demonstrating approaches for using resources already available from Feder al, State, and local sources to enable public housing residents to improve their quality of life:

- HUD's Public Housing Homeownership Demonstration, involving up to 2,000 families in 17 locations, is helping tenants to purchase their own units in single-family and multifamily projects.

- The Minority Youth Training Initiative, operated in 18 locations, demonstrated that young men and women can learn housing management and maintenance while performing needed repairs on public housing projects. The success of this program led to inclusion of such training as an eligible use of HUD's modernization funds for projects.

- HUD's Small Business Opportunities project is encouraging tenants to become entrepreneurs by helping them develop skills and resources to launch their own businesses.

- Encouraging resident management and building on positive local experiences, with increasing tenant participation in maintaining and managing public housing, will enable more residents to control their physical environment.

These Quality of Life Initiatives are just a few examples of ways in which local governments can recast public housing subsidies into lasting improvements for low-income families. Their guiding theme has been an emphasis on the will and desire of poor families for self-improvement and the need for control of their lives. Significant proportions of the poor population have shown the desire and drive to establish their own communities and create for themselves higher standards than governments and bureaucracies ever envision. Examples abound of poor and minority parents seeking out private schools or using parent associations in local public schools to assert higher standards than were being expected. The Quality of Life Initiatives aim to build on those standards of the hard-working, family-oriented poor.

Assisted housing. Privately owned assisted housing is entering a time of anticipated turmoil because of a number of changes in various Federal laws and programs:

- The Tax Reform Act of 1986, in eliminating widely abused tax shelters, reduced major tax incentives that generated private investment in low-income housing.

- Many project-based Section 8 rental contracts, which for 15 or 20 years will have provided projects with assured income streams, will expire over the next 10 years.

- Many federally subsidized and federally insured projects built in the 1960s and 1970s are reaching their 20th mortgage anniversaries, at which time some owners will be free to prepay unilaterally the HUD mortgages that currently require that they serve lower income households.

These changes are bringing new pressures to bear on owners, forcing them to reemphasize economic and efficient operation, and to reevaluate each property based upon its assets relative to those of competitive properties. The result will be to make this stock of housing more responsive to disciplines of the private housing market and less subject to the constraints of Federal tax laws and other regulations.

The adjustments and transitions for assisted housing will not be easy and will require monitoring and assistance from government at all levels. It is vital that as HUD, States, and local governments deal with these transitions, they strive for three objectives:

- Protect the interest of low-income residents of these properties, while maintaining contractual commitments to owners.

- Strive to redirect subsidies in ways that will enhance tenants' economic and geographic mobility and quality of life, particularly by substituting Vouchers for unit-based subsidies.

- Enable the private market to operate efficiently and responsively.

Assistance to families must take precedence over blind commitment to particular projects, buildings, or owners. Some projects are inferior to other housing on the market and are not needed as a low-income housing resource; some projects will need new owners; and some projects are prohibitively costly to maintain for low-income use. The private housing market continually reveals its capacity to produce needed housing affordable by families using Vouchers or Section 8 Certificates. High local vacancy rates across the country demonstrate the vigor of the private housing market to respond to demand.

Several task forces and commissions, organized to address "preservation" of the assisted inventory, have expressed concern that these changes may result in the displacement of low-income families and the loss of affordable housing. For example, the National Low Income Housing Preservation Commission (NLIHPC) recently published a worst-case scenario under which more than half a million units of assisted housing would "disappear" over the next 15 years because of mortgage defaults and prepayments, leaving as many low-income families without decent, affordable housing.[6] Such concerns are overstated and somewhat misdirected.

The Commission's analysis resulted in unrealistically bleak forecasts for three primary reasons. First, it assumed that HUD will be passive over the next 15 years and fail to increase subsidized rents as repair expenditures increase, fail to continue current remedial measures (such as mortgage "work-outs" and "flexible subsidies") to prevent financial default of properties, and fail to honor its stated commitment to replace Section 8 subsidies upon expiration; in fact, HUD is committed to continue its loan management policies and assistance to low-income tenants through issuance of new Vouchers. Second, the NLIHPC assumed market conditions that would make mortgage prepayment more widely attractive than it would actually be in the neighborhoods in which most properties eligible for prepayment are located. And third, the Commission assumed that, if an owner defaults or prepays a mortgage, the housing disappears from the low-income housing stock; in fact, the housing itself generally remains in place and, with continued assistance, low-income tenants may continue to live there.

HUD is closely monitoring the effects of tax reform on assisted properties. One immediate effect has been a major reduction in property turnovers, which had been escalating in the mid-1980s as investors recycled exhausted tax shelters by selling projects to new owners. This reduction means that some current owners, having exhausted their tax shelter and having difficulty finding buyers, will have to view ownership of housing for low-income families as a long-term proposition and focus more on efficient operation and positive cash flows. Although in some cases, this effect could be beneficial, in others, owners may focus on improving cash flow at the expense of adequate maintenance, or may just give up and default on their mortgage.

In its role of providing subsidies and mortgage insurance on these properties, HUD must take extra care in monitoring the physical maintenance of the stock, and in ensuring the adequacy of assisted rents to cover operating costs. It is important to emphasize that even when an assisted property falls into default, tenants are not evicted. HUD first attempts to help the owner to work out financial problems. If this effort fails, HUD remains committed to the low-income residents by providing them with rental assistance, reselling the property to another owner who will maintain it as low-income housing, or both.

To compensate for reducing tax shelter benefits for investing in low-income housing, the 1986 Tax Reform Act created a new low-income housing tax credit that can provide new injections of private funds into troubled properties. This transitional provision, which will be available through 1989, authorizes States to allocate substantial credits to investors who acquire or rehabilitate housing for households having incomes less than either 50 or 60 percent of the area median income. These credits, which could support 75,000 to 200,000 low-income units per year, may be used alone or in conjunction with Federal, State, or local housing assistance programs. HUD is closely monitoring implementation of the low-income housing credit to help shape deliberations on the role of the Tax Code in low-income housing policy.

As project-based Section 8 contracts expire over the next 10 years, low-income tenants will not be left homeless or forced to seek new housing. In fact, they will be left as they are, or perhaps, be even better off. HUD is committed, upon expiration of these contracts, to provide low-income tenants with Housing Vouchers. This will enable tenants to remain in these properties, if they wish, or move to other housing if they can find a better deal. With Vouchers, tenants will have better mobility, while owners will be forced to compete in price and quality with other housing, if they wish to keep their tenants. Thus, owners of well-maintained properties for which there is a market will not be affected by the changeover to Vouchers. Owners of noncompetitive properties, however, will find tenants choosing to transfer their Federal subsidies to better housing.

Similarly, concern over possible prepayment of federally assisted mortgages is overstated. It is true that over the next few years, many federally assisted properties built between 1961 and 1973 will reach their 20th mortgage anniversary; thereafter, their owners will be free to prepay unilaterally their HUD-insured mortgages and convert their properties to uses other than housing lower income families. Except in a few very tight markets, however, this termination of use restrictions is unlikely to cause problems.

Of the 4.3 million federally assisted households, fewer than 400,000 live in properties that will be eligible, upon their 20th mortgage anniversary, to prepay their assisted mortgages without HUD's approval. Of these units, HUD estimates that at some point, owners of 84,000 will prepay and owners of another 70,000 probably will prepay. The reason that fewer than half of these owners will prepay is that they would not profit by doing so: many properties are receiving subsidized rents that are at or close to market levels for their neighborhoods; their owners would have little opportunity to upgrade facilities and substantially increase rental income. For many properties, the cost of replacing low- or subsidized-interest FHA mortgages with new market-rate mortgages would bring net returns below their current returns. Furthermore, many owners will choose not to prepay because of market risk, uncertainty, local ordinances, public pressure, or commitment to tenants.

HUD is committed to assisting, with Vouchers, low-income tenants living in properties whose owners do eventually prepay their assisted mortgages; these tenants may choose to remain in their current housing, or to shop for a better deal.

Fair and Equal Housing Opportunity

A strong commitment to fair housing is essential to ensure that all Americans—regardless of their race, color, religion, sex, or national origin—have an equal opportunity to purchase or rent housing that they can afford in neighborhoods of their choice. The improved purchasing power provided by better jobs or Housing Vouchers is worth little where discriminatory rental or sales practices block equal access to housing. This year, as the Nation celebrates the 20th anniversary of the Fair Housing Act (Title VIII of the Civil Rights Act of 1968), it can be proud of its accomplishments, and must continue to pursue this Administration's goal of eliminating all forms of unlawful discrimination against any Americans.

The principles of equal housing opportunity must become part of all institutions. The Administration has worked diligently to support fair housing enforcement by enlisting the commitment and resources of State and local governments in the battle against discrimination. Under the Fair Housing Assistance Program, HUD provides funding to State and local fair housing agencies to increase their capacity and help pay the costs of processing fair housing complaints. In 1980, at the beginning of the program, only 23 recognized agencies existed, and only 9 were accepting HUD referrals. Today, 110 fair housing agencies are recognized, and partially funded, by HUD. Additionally, requests for recognition from numerous other jurisdictions are outstanding, and still others indicate that they are in the process of enacting legislation that will enable them to obtain recognition. In 1979, only 211 complaints, or 7 percent of the total, were referred to State and local agencies. By 1987, 3,388 complaints—65 percent—were processed by State and local agencies. To improve management of the Fair Housing Assistance Program, the Administration is proposing to consolidate the current categorical funding mechanism into a consolidated, noncompetitive mechanism beginning in 1989.

The Administration further broadened the base for fair housing with the proposal, and enactment in early 1988, of the Fair Housing Initiatives Program. This major legislation strengthens the role of the private sector in achieving fair housing and builds on the already-expanded capacity of State and local governments. The program includes three major components:

- The Private Enforcement component will provide funds to enable nonprofit and other private organizations to conduct a variety of activities, including testing, in support of fair housing in judicial or administrative proceedings.

- The Administrative Enforcement component will expand support for State and local fair housing agencies to conduct innovative enforcement and training.

- The Education and Outreach component will provide funds to help public and private agencies to educate and involve the general public.

In April 1988, the Administration initiated a major new study of housing discrimination in America. This HUD study will provide fresh documentation of the level and nature of discrimination confronting those who seek to buy or rent housing. It will provide the first systematic information since 1977 on illegal treatment of minorities in housing markets and, for the first time, will gather nationwide data on discrimination faced by Hispanics. As in the 1977 Housing Market Practices Survey, HUD will seek to determine levels of discrimination occurring in today's sales and rental housing markets. The study will include audits in approximately 25 widely scattered locations and is scheduled for completion in 1990.

The Administration has proposed amendments to the Fair Housing Act to strengthen enforcement procedures and prohibit discrimination on the basis of handicap. These amendments would authorize HUD to: refer for action by the Attorney General any complaint where conciliation has failed; provide the Attorney General with independent authority to bring action; and significantly increase penalties for violations. These amendments go beyond current law by expanding the remedies available for individuals (rather than groups or classes) who have suffered from housing discrimination.

Special Assistance for Homeless Families and Individuals

Over the past several years, homelessness has become one of the most publicized human service concerns in America. It is an exceptionally complex problem to deal with because the lack of a place to live is usually only a visible symptom of a variety of problems that, among other factors, prevent people from obtaining or remaining in housing.

An increasing number of studies, many of them commissioned by local governments, have created an ever clearer picture of the homeless problem, first analyzed on a national basis in 1984 for HUD's *A Report to the Secretary on the Homeless and Emergency Shelters*. While some advocacy groups claim that millions of Americans are homeless on any night, the majority of local studies, based on careful counts, are consistent with a national estimate of 300,000 to 400,000 homeless people on a given night. The Administration has always maintained that even one involuntary homeless person would still be too many, and therefore is working to understand the phenomenon of homelessness. Nonetheless, the solutions needed to help a few hundred thousand people differ vastly from those that might be required to help millions. Moreover, many people are homeless for only a short period, some are homeless for a portion of every month, and still others have been homeless for periods extending beyond a year. Nationally, it is estimated that two-thirds to three-fourths of the homeless are single men; and 20 to 25 percent are members of homeless families, mainly single mothers with one or two children.

Knowledgeable observers agree that the problem of homelessness goes beyond lack of shelter. Many homeless individuals suffer from mental illness, drug or alcohol abuse, personal or family crises, medical problems, temporary economic dislocation, or a combination of these problems preceding their homelessness. Further, local studies make clear that key aspects of homelessness differ from community to community.

Since 1980, the Nation has greatly increased its efforts to ensure the availability of basic shelter for poor families as well as the homeless. By emphasizing Vouchers and other efficient programs, this Administration has increased the number of poor households receiving Federal housing assistance by more than 1 million, while reducing annual spending on housing programs. Over this same period, State and local governments have also increased substantially their housing assistance programs. The fact that, in 1984, 41 percent of all shelters in the Nation had been in operation for 4 years or fewer indicates increased awareness of the need to shelter the homeless.

Examples of increased local capacity are:

- Los Angeles added 1,200 shelter beds to supplement 1,000 beds in its Skid Row area.

- Boston more than doubled its shelter beds between 1983 and 1987.

- Denver has a capacity of about 1,000 beds but, based on its local assessment of need, supplements those with Vouchers for periods when the capacity is insufficient.

- St. Louis built a network of private shelter providers, supplemented by government support,

Because of its diversity and uneven occurrence in localities, homelessness is best addressed through local strategies and responses carried out by community institutions. States, local governments, and voluntary organizations are best able to understand their local homelessness problems, devise approaches to provide emergency services, and help homeless individuals and families strive for independent living and, where possible, self-sufficiency.

As a partner in helping alleviate homelessness, the Federal Government can be most effective by coordinating existing Federal programs, supplementing local resources, helping localities plan and coordinate their efforts, helping to stimulate effective local approaches, acting as a national clearinghouse to make successful efforts widely known, and supporting research, such as the forthcoming study by the National Academy of Sciences on health care for the mentally ill who are homeless. The Administration has efforts underway in each of these areas. Some of these efforts were authorized under the Stewart B. McKinney Homeless Assistance Act, which the President signed in July 1987.

The Interagency Council on the Homeless, authorized under the McKinney Act, has brought together the heads of 10 Cabinet departments and 6 independent agencies whose programs can be brought to bear on homelessness. This effort involves the Secretaries of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Housing and Urban Development, the Interior, Labor, and Transportation; and Directors of ACTION and the Federal Emergency Management Agency; the Administrators of General Services and Veterans Administration; and the Postmaster General. In the short run, the Council's focus is to coordinate Federal programs and establishing partnerships with States, local governments, and voluntary agencies to ensure effective use of the resources available under the McKinney Act. Over the longer run, the Council is working to strengthen these partnerships and provide exchanges of information and proven techniques developed in local communities.

The Federal Government has already become an active partner in State and local efforts across the Nation to alleviate homelessness. Local and State programs are using a wide range of Federal programs as components of their own broader efforts to alleviate or prevent homelessness, including HUD's housing and community development programs; the Federal Emergency Management Agency's Emergency Food and Shelter program; Health and Human Services' primary health care, community mental health, substance abuse treatment, social services, and income maintenance programs; and the Labor Department's employment services and job training programs. In addition, the Federal Government has, under the auspices of the McKinney Act:

- Stimulated the development of comprehensive homeless assistance plans in all 50 States, Puerto Rico, and the District of Columbia, and in 322 large cities and urban counties.

- Assisted States, localities, and voluntary agencies with financial support for emergency shelters, transitional housing, permanent housing for the handicapped, rehabilitation of single-room occupancy units, and demonstration of innovative approaches to helping the homeless.

- Identified underutilized public buildings that might be used to shelter the homeless.

- Provided supplemental funds for the Emergency Food and Shelter Program.

- Modified eligibility requirements and other rules to facilitate provision of food stamps to the homeless.

- Provided for grants for health and social services (including physical and mental health services, substance abuse treatment, and emergency community services for the homeless), education (including literacy initiatives for adult homeless and special services for homeless children and youth), job training, reintegration of homeless veterans into the labor force, and provided shelter for homeless veterans in Veterans Administration domiciliaries.

While the list of Federal programs that help homeless people is long, the real cutting edge of alleviating homelessness is at the local level. To make best use of the local partnerships that are working with homeless individuals and families, HUD has undertaken a national study of local approaches to homelessness. The Federal Government will use the findings of this study to help local providers sharpen their efforts and to assess the best use of Federal resources in strengthening, rather than distracting or weakening, these efforts.

Potential problems with the structure of McKinney Act programs are already being reported. Services for homeless people are frequently provided by private agencies and small organizations in cooperation with local governments. The competitive, categorical nature of the McKinney programs can put such agencies at odds with each other, and markedly increase staff costs by requiring extensive recordkeeping and the employment of professional grant writers. In addition, the funding pattern of the McKinney program may not match local needs, except for those of large comprehensive organizations and very large State and local governments. There also appears to be a growing danger that private sector contributors and voluntary support may wither if Federal programs are seen as eliminating the problem. This result would be extremely unfortunate, because many State and local governments, and even private agencies, may already be individually providing greater service and funding than all the McKinney programs combined for the Nation. The State local, and private resources are, and must continue to be, the major ones. The entire Federal Government should endeavor to make clear that Federal programs can do no more than supplement what is already a major effort by the American people.

Urban Neighborhoods: Bringing Crime and Drug Traffic Under Control

Crime

Crime and fear of crime are major barriers to the pursuit of independence and self-sufficiency. In addition to victimizing innocent people directly, crime drives business and job opportunities away from neighborhoods where they are often most needed.

The Nation continues to make progress in its fight against crime.

Consistent year-to-year decreases in the crime victimization rate have been recorded since 1981. The Department of Justice's Bureau of Justice Statistics within the Office of Justice Programs found through its National Crime Survey that between 1981 and 1986 actual crime dropped by 18 percent. The National Crime Survey also found that the rate of violent crime declined 6 percent in 1986, reaching a new low, and that violent crime has fallen 20 percent since 1981.

The percentage of American households victimized by crime dropped from 30 percent to 24.7 percent during the past 5 years. The drop included the personal crimes of rape, robbery, assault, and personal theft, as well as household crimes of burglary and household theft.

Crime continues to remain a more serious problem in cities than in suburbs or rural areas. In 1985, 29.6 percent of urban households were victimized by crime, compared with 25.8 percent of suburban households and 19.5 percent of rural households. These rates compare with 35.1 percent, 31.1 percent, and 23.6 percent, respectively in 1981. Even more dramatic was the drop in crimes most feared by urban residents: rape, robbery, assault by a stranger, or burglary. In 1981, 14.0 percent of central city households—equivalent to 3.5 million households—were victimized by these crimes; by 1985, this level had dropped to 10.1 percent or about 2.6 million households.

While the crime rate is declining, Justice Department statistics show a direct link between drug use and criminal activities. Studies show that use of drugs increases the likelihood that an individual will commit a crime by a multiple of four to six times. In 1986, more than one-third of all State prisoners were under the influence of drugs at the time they committed the crime for which they were incarcerated. In 1987, 53 percent to 79 percent of men arrested for serious offenses in 12 major U.S. cities tested positive for illicit drugs. Additional research shows that intensive narcotics users are heavily involved in violent crimes such as homicides, sexual assault, and arson.

In 1984, Congress passed major legislation to restore legitimate rights to victims of crime. The Office for Victims of Crime (OVC) was created within the Justice Department; in response to Federal leadership on victims' rights, 45 States have enacted laws establishing victim compensation programs. To meet the special needs of crime victims in inner cities, OVC has provided grant money to the National Organization of Black Law Enforcement Executives (NOBLE) to develop and implement structured police-based victim assistance programs in 12 metropolitan areas serving high-crime, inner-city jurisdictions. A Crime Victims Fund, financed by penalty assessments on all convicted Federal criminals, was established within the Department of the Treasury, and has thus far redirected $262 million to victims assistance and compensation programs operated by the Federal and State programs.

The key to the success of any crime prevention activity is a motivated, informed, and involved public. A major crime prevention initiative promoted by this Administration has been a comprehensive nationwide public education campaign supported by the Department of Justice through the National Crime Prevention Council. This campaign features McGruff, the Crime Dog, with his slogan "McGruff Takes a Bite Out of Crime." This highly successful effort continues to bring to the American people practical, easy-to-understand recommendations on how to make themselves, their children, their homes, and their neighborhoods safe from crime. The campaign works closely with local law enforcement authorities and encourages voluntary collective citizen efforts such as Neighborhood Watch, Block Watch, Apartment Watch, and Business Watch. The significant 2 percent reduction in residential burglaries experienced between 1981 and 1986 is attributable in part to these growing citizen-police community crime prevention activities. Also of importance, the National Crime Prevention Council's "Preventing Crime in Urban Communities; Handbook and Program Profiles" provides indepth information for citizens, law enforcement and criminal justice officials, political leaders, and policymakers on how to organize in urban communities.

Drugs

Illegal trafficking in and use of drugs have become problems in urban and rural communities and schools across the United States so serious as to threaten the very social fabric of the Nation. In addition to the pernicious influence on the minds and bodies of users, drugs have generated crime and violence in urban communities across the Nation, at times even stimulating gang warfare and the murders of teenage children involved in drug trafficking. The drug problem in central cities is particularly severe; solving that problem would be a major step toward making the central cities much more livable places.

This Administration's crackdown on drug suppliers has been the most vigorous in the Nation's history:

- By the end of this Administration, the Federal Government will have tripled the resources being put into Federal interdiction of supply and enforcement of drug laws by raising those resources from $1.2 billion in 1981 to more than $4 billion in fiscal year 1989. From 1981 to 1988, drug-related convictions have doubled and seizures have risen sharply.

- Treaties have been signed with foreign nations, and major attempts have been made to destroy drugs at their source.

- The First Lady has undertaken direct involvement in the war on drugs and has been personally involved in fostering a large number of drug-avoidance programs for young people, including the "Just Say No" clubs.

- The Administration implemented the Drug-Free Schools and Communities Act program, which is designed to rid schools, colleges, and communities of drugs, and began the "Challenge Campaign," which encourages schools to sign contracts with the community to implement programs based on the principles in the Education Department's publication, *Schools Without Drugs*.

- The Federal Comprehensive Crime Control Act of 1984 authorized holding serious drug offenders without bail, allowed tougher sentencing of drug violators, and encouraged State and local governments to seize the profits of drug trafficking.

- The Anti-Drug Abuse Act of 1986 stipulated mandatory minimum prison sentences ranging from 5 years to life imprisonment for various classes of drug offenses.

- In 1987, $225 million in block grant funds was awarded to the States in discretionary grants for enforcing State and local drug laws.

- The President's National Drug Policy Board, chaired by the Attorney General, was created to set and coordinate Federal policy for drug-related matters. It maintains a special Committee on High-Risk Youth.

- The Department of Justice in 1987 established a new Data Center and Clearinghouse for Drugs and Crime as a centralized source of data from Federal, State, and local agencies as well as from the private sector.

- In 1988, Congress authorized the executive branch to make greater use of the Armed Forces in interdicting drug smuggling from foreign countries. All the Armed Forces are now involved, providing airborne surveillance, ships, sensors, communications equipment, and other support such as planning and training without diminishing combat readiness.

This Administration has executed unprecedented leadership in the area of drug enforcement. In addition to providing direct financial assistance, the Justice Department has undertaken several initiatives to foster innovative approaches to control drug use at the State and local levels. Findings from the Drug Use Forecasting System (DUF), which employs voluntary drug testing, are being used by participating cities to plan strategically for drug enforcement, prevention, and treatment.

The enormous task of patrolling U.S. national boundaries, and the drug traffickers' easy access to rural drop locations in the United States by high-speed aircraft, make reliance on supply interdiction alone an unworkable approach. The President noted in a speech before the White House Conference on a Drug-Free America, on February 29, 1988, that "as significant as stopping smugglers and pushers is, ending the demand for drugs is how, in the end, we'll win."

The Administration's national strategy of zero tolerance is aimed at users of illegal drugs. Individuals who have been almost completely immune from Federal criminal charges in the past will be direct targets of prosecution along with the usual big-time dealers, members of U.S. drug rings, and international traffickers. Parents, schools, religious organizations, businsses, community groups, criminal justice practitioners, and Federal, State, and local governments must continue to work in partnerships to increase awareness to the dangers of drug use, restore traditional values, and strengthen the American family—the first line of defense against drug use. The family, particularly, plays the major role in making children aware of the purpose and joys of life that are most threatened by the oblivion of addiction and making them aware of the degenerative effects of drugs on their minds and bodies. However, the family role can and must be assisted by concerted efforts of local schools and governments, local print and broadcast media, local religious institutions, and local recreational associations.

To assist in these State and local efforts to deal with the demand aspects of the drug problem, the Department of Education in 1986 produced a publication entitled *What Works: Schools Without Drugs.* This booklet provides a practical synthesis of the most reliable and significant findings available on drug use by school-age youth. Exhibit V-1, "A Plan for Achieving Schools Without Drugs," has practical suggestions from that booklet for parents, schools, students, and communities.

Drug use continues to be unacceptably high, and the problem remains very serious. The latest data from the National Institute on Drug Abuse, however, indicate that the number of high school seniors who had ever used marijuana dropped from 66 percent in 1981 to 50.2 percent in 1987 and those who had ever used cocaine increased to a peak of 16.9 percent in 1986 and then dropped to 15.2 percent in 1987.

Winning the war against drugs will require strong bipartisan support at all levels of government and throughout the private sector as well as heightened efforts by families to combat the insidious influence of drugs on children, young adults, and parents.

Poorer Urban Neighborhoods: Access to Health Care

A broad array of Federal programs supplements the extensive health care activities of States, local governments, and private

Exhibit V-1

A Plan for Achieving Schools Without Drugs

Parents

1. Teach standards of right and wrong, and demonstrate these standards through personal example.
2. Help children to resist peer pressure to use drugs by supervising their activities, knowing who their friends are, and talking with them about their interests and problems.
3. Be knowledgeable about drugs and signs of drug use. When symptoms are observed, respond promptly.

Schools

4. Determine the extent and character of drug use and establish a means of monitoring that use regularly.
5. Establish clear and specific rules regarding drug use that include strong corrective actions.
6. Enforce established policies against drug use firmly and consistently. Implement security measures to eliminate drugs on school premises and at school functions.
7. Implement a comprehensive drug prevention curriculum for kindergarten through grade 12, teaching that drug use is wrong and harmful and supporting and strengthening resistance to drugs.
8. Reach out to the community for support and assistance in making the school's anti-drug policy and program work. Develop collaborative arrangements in which school personnel, parents, school boards, law enforcement offices, treatment organizations, and private groups can work together to provide necessary resources.

Students

9. Learn about the effects of drug use, the reasons why drugs are harmful, and ways to resist pressures to try drugs.
10. Use an understanding of the danger posed by drugs to help other students avoid them. Encourage other students to resist drugs, persuade those using drugs to seek help, and report those selling drugs to parents and the school principal.

Communities

11. Help schools fight drugs by providing them with the expertise and financial resources of community groups and agencies.
12. Involve local law enforcement agencies in all aspects of drug prevention: assessment, enforcement, and education. The police and courts should have well-established and mutually supportive relationships with the schools.

Source: U.S. Department of Education, *Schools Without Drugs,* Washington, DC: U.S. Department of Education, 1987, p. ix.

hospitals and clinics that make up the Nation's health care system. Federal funds support public and teaching hospitals, the Center for Disease Control's surveillance and disease prevention activities, community mental health and substance abuse treatment, maternal and child health services, the assignment of physicians to medically underserved areas, and urban Indian health clinic services. The Administration's strategy to increase services to underserved areas is to improve States' ability to target health care resources to those most in need and to restrain health care costs. Yet a number of federally funded programs with many services focus as well on low-income, underserved populations. These programs include community health centers, health care grants for the homeless, Maternal and Child Health Block Grants, Alcohol, Drug Abuse, and Mental Health Block Grants, and AIDS (acquired immune deficiency syndrome) Service Demonstration Projects.

Community Health Centers (CHCs) provide prevention-oriented comprehensive primary health care services to medically disadvantaged and underserved populations in their communities. In 1986, CHCs delivered primary care services to approximately 5.5 million medically disadvantaged and underserved persons. About 55 to 60 percent of these services were provided in urban areas. Sixty-four percent of those served were members of minority groups: 31 percent blacks, 28 percent Hispanics, and 5 percent others. About 60 percent of CHC users had incomes under the poverty level.

Support of health care to the homeless is provided through grants to 109 private and public health agencies. This effort will serve approximately 400,000 individuals, primarily in urban areas, in 1988.

Some new programs of the Department of Health and Human Services provide assistance to the States, which then determine how to use the funds most efficiently. The Maternal and Child Health Block Grant Program provides allocations to the States for a broad range of preventive, primary care, and rehabilitative services to lower income mothers and children. The Alcohol, Drug Abuse and Mental Health Services Block Grant provides funds to the States to support alcohol, drug abuse, and mental health prevention, treatment, and rehabilitation services. The Anti-Drug Abuse Act of 1986 created a new block grant for the States to be used to expand the capacity of alcohol abuse and drug abuse treatment programs and provide access to job training and education programs.

Thirteen AIDS Service Demonstration Project grants have been awarded in metropolitan areas that rank among the 25 areas with the highest cumulative prevalence of AIDS cases. These projects support the organization of systems of care for people with AIDS-related conditions, particularly measures to integrate and coordinate services in the community and reduce the cost of services outside hospital settings. Additional demonstration projects are planned to address the medical care needs of pediatric AIDS patients, the vast majority of whom face urban poverty and lack access to adequate care.

Urban Neighborhoods: Areas of High and Persistent Poverty

Various recent studies have identified sizable neighborhoods of high and persistent poverty in a few larger U.S. cities, predominantly in the Northeast and Midwest. One study, developed by John C. Weicher while at the American Enterprise Institute, identified some 12 neighborhoods of high and persistent poverty from 1970 to 1980 (and presumably continuing). Another paper in the same volume, written by Mary Jo Bane and Paul A. Jargowsky, identified concentrations of poor (more than 40 percent of population) in certain poverty areas of large cities and found the concentrations to have grown between 1970 and 1980.[7]

These poor neighborhoods are among the oldest and least livable in the Nation. They have a very high rate of social deviation, including high crime rates, joblessness, dropout and illiteracy rates, out-of-wedlock births, single-parent (mother-only) families, and welfare dependency. Weicher's study of 12 such neighborhoods found that one-third of the population of these neighborhoods of high and persistent poverty were children. Businesses by and large do not try to locate in these neighborhoods, and if they try they usually do not succeed.

William Julius Wilson found that some of these poor urban neighborhoods have a very high concentration of the most disadvantaged segments of the black urban population—he concluded that they are the ones left behind as middle-class black professionals leave the inner city, followed in increasing numbers by working-class blacks.[8]

In short, a number of large American cities have large, old, undesirable neighborhoods inhabited by people with personal and family limitations and few job skills.

The basic urban policy issue involves what, if anything, to do and at what level of government to do it. Should the Nation attempt a "people policy," working with the States to provide people with choices, enabling them to stay and improve their neighborhoods or to relocate away from these neighborhoods to alternative locations that may provide a better opportunity to reenter the economic mainstream? Or should the Nation adopt a "place policy" of spending—at various levels of government—the enormous sums that might be necessary to reverse market and demographic tendencies to turn these undesirable neighborhoods around, giving their residents a chance to reenter the economic mainstream while staying in the same urban neighborhoods? What evidence indicates that such "place" policies are effective enough to justify their enormous costs?

Several decades of experience show that it is naive to expect to have successful programs that fight powerful market forces, contradict the desires of residents, or lack strong backing of State and local governments. Hence, the Administration has redirected policy emphasis toward giving assistance to people rather than to places and now encourages and enables State and local governments to make the more specific decisions needed to revitalize problem areas. However, some urban places may require continuing place-specific Federal aid in order to turn around troubled neighborhoods. HUD's Community Development Block Grant (CDBG) is the Administration's favored vehicle for such aid, because it gives considerable discretion to local governments to innovate and to set local priorities and strategies.

The powers, authority, and knowledge of local needs required to reduce the concentrations of poverty in certain urban neighborhoods—or to prevent the concentration from occurring in the first place—are concentrated largely at State and local levels. The Federal Government can aid their efforts by ensuring that the forms of assistance provided by the Federal Government do not inhibit mobility, flexibility, or the ability to identify and pursue locally determined strategies.

Urban Neighborhoods: Community Development Block Grants (CDBG)

The CDBG is HUD's most important program for assisting States and local governments in dealing with troubled neighborhoods. The CDBG annually allocates almost $2 billion directly to needy cities and urban counties and another $1 billion to States for suballocation to needy smaller communities. The CDBG Entitlement program alone provides about

$900 million annually for housing-related activities, most frequently housing rehabilitation in a neighborhood setting, and about $200 million for local social and public services. Communities mold their CDBG-funded activities to address locally defined needs within broadly stated national objectives on community development. The result is a targeted yet highly flexible form of neighborhood and housing assistance. (For further discussions of the CDBG program, please see Chapters III and IV.)

Families in Urban Areas

Families are the foundation of society. Families nurture the coming generation, act as the first teacher, and transmit essential moral and religious values.

The number of families in the U.S. has been increasing in recent years, but the proportion of intact husband-wife families with children present has been sharply decreasing. In 1986, only 50 percent of families had children present (down from 56 percent in 1970). Some 78 percent of families with children were husband-wife families; the remaining 22 percent were single-parent households, usually mothers only.

Birth rates had been dropping across all age groups and races until 1975, when they flattened out for the 15-29 age group and increased somewhat for the 30-39 age group, particularly among whites. Birth rates among younger age groups, particularly teenagers, remain higher for blacks than for whites but are similar across races for women 25 and above. Birth rates among unmarried women for all ages have approximately doubled for whites since the early 1970s, but have declined slightly for blacks. The average number of children per family has been dropping over time for both married couples and among "female family householders with no spouse present." In 1986, the mean number of children for these "mother only" households was 0.95 for whites and 1.29 for blacks.

Families: Mothers Working Outside the Home

Labor force participation of women, including those in their child-bearing years of ages 25 to 34, has increased dramatically. Seventy percent of such women today are now in the labor force, in contrast with 35 percent in 1950. Furthermore:

- Today 45 percent of all workers are women, up from 30 percent in 1950.

- Today 57 percent of mothers with children under 6 are in the labor force, up from 12 percent in 1950.

- Today almost two-thirds of mothers with children under 14 are in the labor force.

Families: High Poverty Rates in Female Households (No Male Present)

In 1986, of the families with children present, 78 percent had two parents, 3 percent had fathers only, and 19 percent had mothers only. The 19 percent for mothers only is almost double the 10 percent in 1970.

The rapid increase in mother-only households with children results primarily from an alarming rate of increase in children born to unwed mothers. National Center for Health Statistics' data show that, in 1985, 22 percent of all live births in the U.S. occurred to unmarried women. Some 60.1 percent of all black infants that year were born to unwed mothers, of which one-third (126,000 babies) were born to teenagers; some 14 percent of all white infants that year were born to unwed mothers, of which one third (145,000 babies) were born to teenagers. In 1986, according to the Current Population Survey, mother-only households with children were particularly prevalent among younger families: 36 percent of such families with the householder aged 15 to 24 had mothers only.

The explosive growth of mother-only families poses problems because of the high and persistent poverty rates for such households. In 1986, for children in mother-only households, the poverty rate was 54 percent over all, and more than two-thirds of the children in single-parent households headed by blacks or Hispanics were poor. For 1986, in central cities of the Northeast and West regions, 80 percent of black children under 18 were poor; poverty rates in Southern cities for equivalent groups were approximately 10 percentage points lower. The poverty rates in mother-only families, unlike the rates in two-parent or father-only households, apparently are more resistant to general improvements in the economy.

Changes to improve opportunities for mother-only families and their children to move into the economic mainstream should take three forms: (1) attitudinal changes to foster traditional two-parent families, including training for parents and education about household economics; (2) welfare reform to provide better incentives for work and necessary work experience; and (3) improved provision for child care.

Attitudinal Changes with Respect to Childbearing and Families

The vast majority of children born out of wedlock are destined under today's conditions to live in poverty or relative poverty. Not only will these children make it difficult for their unwed mothers to enter the economic mainstream, but the children themselves also start their lives with enormous disadvantages of economic deprivation and of families who cannot guide them intelligently in acquiring a good education that enables them to enter the economic mainstream when they grow up. These disadvantaged children of unwed parents themselves often become unwed parents, and so the cycle of poverty rolls on with little hope that traditional family values can bring it to a halt.

The Committee for Economic Development (CED) observes that for every six babies born in the United States today, one will be the child of a teenage mother. In 1986, almost 30 percent of black girls under the age of 19 became pregnant, and half of them gave birth. Moreover, although the teenage pregnancy problem is most acute for black teens, it is not just a minority problem. Since 1970, the number of babies born to unwed white teenagers has more than doubled, surpassing the number born to black teenage mothers. The CED further notes:

- More than 50 percent of welfare expenditures go to families in which the mother began her parenting as a teenager.

- From 18 to 25 percent of all teenage mothers will become pregnant with their second child within 1 year of having their first. Up to 70 percent will have a second child within 2 years of the first.

- The United States has the highest rate of teenage pregnancy among all developed countries—seven times that of the Netherlands, three times that of Sweden, and more than twice that of Great Britain and Canada.

- Fewer than 50 percent of teenage mothers graduate from high school, and teen fathers are 40 percent less likely to graduate than are their peers who are not parents.

In this situation, a vital role is played by private and public institutions that bear the social costs of teenage pregnancies. An acute need exists both to develop an increased awareness among young people of the costs of maintaining a household and raising children so that they can make parenting decisions more responsibly, and to make literature and instruction available to these unwed mothers on how to be a more effective parent. There are important educational roles for local schools and colleges, the media, religious institutions, recreation and public health institutions, and public and private civic leaders.

Most importantly, the burdens of single-parenting fall disproportionately on women. Young women especially need to be informed about the real costs to their lives and futures—far beyond the costs of maintaining a household—of pregnancies that result from early sexual activity and deprive them of educational and career opportunities. A RAND Corporation study found that "where personal motivations exist for not getting involved in early unwed childbearing, young women managed not to. Young black women who hope to go to college have dramatically lower nonmarital birth rates than their peers."[9] Women from strong families and families that emphasize firm religious or ethical values and self-discipline have a major advantage in understanding the losses to their lives created by pregnancy resulting from early sexual experimentation. But many young women do not get the benefit of such family efforts and emphasis on standards of personal conduct. It is unlikely that the problems of unwed motherhood and single-parent families will be ameliorated unless there are major improvements in the availability of such ethical training and increased community emphasis on standards of personal conduct, with the high expectations these entail. Where the families do not provide such help, the schools, religious organizations, and local private organizations must give such help to both young men and women. These problems are unlikely to be stopped until satisfactory instruction is provided to young people to avoid early sexual activity and assert control over their own lives, which they can see extending into a productive and potentially improved future.

A related effort must be directed toward young men, who now are treated as anything but potentially responsible adults. State and community efforts should be directed at creating accountability of unwed, divorced, and deserting fathers. To deprive the children one has created of their basic support is worse than a crime. As a result of a 1984 law proposed by the Administration, child support enforcement agencies collected nearly $3 billion in overdue child care payments in 1986—twice the amount collected in 1980. Enforcement should be increased, and the laws of each State should be given full faith and credit by other States. One suggestion that has been made for improving enforcement and may be attempted by some States and localities is to record the Social Security number of the father at the time of birth of the child, and subsequently use this number as a means of gaining access to the father's payroll in case of default on child support.

The natural allies of such strategies are the large proportion of the poor who preserve, in extraordinarily adverse circumstances, high standards of personal and family conduct. It is they who suffer most when the laws are not enforced, when drug dealing is allowed to prosper in low-income areas, when the schools excuse poor performance and unacceptable conduct, and when community religious or ethical standards are not reinforced. Federal, State, and local governments need to forge alliances with such poor families and their neighborhood associations, resident organizations, and resident management corporations. They have sought—through their religious-based organizations, private associations, school and parent groups—recognition and representation in governmental policy. This Administration has begun a national effort to respond to this unorganized constituency among the poor by:

encouraging further development of resident management in public housing; promoting initiatives such as the Oasis Project, which involves residents of public housing in the preservation and protection of their own housing and neighborhoods; focusing Federal efforts on families through Executive orders organizing the assessment of the impact of Federal programs on families; encouraging the coordination of existing services through the Low Income Opportunities Board and waiving regulations to allow States to demonstrate coordinated services; and undertaking demonstrations such as Project Self-Sufficiency (see below). Emphasis on providing poor families the opportunity to become self-reliant and to gain control of their lives has been a long-time Administration priority and must remain part of the urban agenda.

Welfare Programs in Urban Areas and Welfare Reform

The principal Federal 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 somewhat to changing economic conditions: thus, an improving economy has reduced the number of persons receiving benefits under these programs.

The number of families receiving AFDC reached a high of 3.9 million (monthly average) in 1981. With legislative changes enacted in 1981, it dropped by 8 percent to 3.6 million. It remained at about 3.7 million the past few years, and is projected to rise slightly to 3.8 million in fiscal year 1989, largely because of demographic trends and the growth in single-parent families headed by women. The average monthly family benefit increased during this time from $311 in fiscal year 1983 to $360 in fiscal year 1987.

Although Medicaid expenditures have grown rapidly in recent years, the number of Medicaid recipients remained stable at 21.6 million from 1982 through 1984 before increasing to about 23.3 million in fiscal year 1987. The recent increase largely reflects general demographic trends and the extension of eligibility by States to groups and individuals previously not covered. The average payment per Medicaid recipient increased in current dollars from $1,078 in fiscal year 1980 to $1,822 in fiscal year 1986.

Participation in the Food Stamp Program is highly 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 since 1979. The average monthly participation rate was 20.6 million people in fiscal year 1981, reached a high of 21.6 million in fiscal year 1983, and is down to 18.4 million in the first quarter of fiscal year 1988.

Despite major increases in Federal welfare program funds, the poverty rate remains persistently high, and welfare dependency in some segments of the population seems to be increasing. This persistent poverty in the face of ever-increasing public expenditures and economic expansion has led to widespread questioning of the merits of the existing system of public assistance programs.

With regard to welfare reform, a broad consensus holds that able-bodied recipients of public assistance should be required to earn their welfare benefits and enabled to participate in work activities, as a majority of nonwelfare mothers do. Participants get work experience that develops and reinforces work habits and improves their long-term employability. This experience increases their ability to find regular employment and become economically self-sufficient. A study conducted by the Manpower Demonstration Research Corporation suggests that innovative, low-cost State welfare and work programs stressing job search and work experience lead to improvements in employment rates, earnings, and welfare rates. Moreover, these gains can be sustained over time and can prove costeffective to both the applicants and taxpayers.

The Administration has helped States in their efforts to strengthen employment opportunities for AFDC recipients. As a result of legislation proposed by the Administration, States since the early eighties have made significant progress through innovative work programs such as Employment Search, Community Work Experience, and Work Supplementation, in which the AFDC benefit may be used to subsidize a job for an AFDC recipient. More than half the States have implemented innovative work, education and training programs for welfare recipients.

HUD has developed a demonstration effort called Project Self-Sufficiency, which encourages the use of housing assistance as leverage to stimulate the use of public and private resources to assist the poor in entering the economic mainstream. It is a

coordinated approach to breaking the poverty-dependency cycle among very low-income, single-parent families. At the local level, public-private partnerships have also been formed to combine the resources of government, businesses, private industry councils, labor, educators, and community groups to address the needs of single-parent families. HUD contributed 10,000 Section 8 Certificates worth $48 million. Over 4 years, 155 communities participated in the demonstrations; progress is being evaluated. A number of communities have adopted this approach successfully, using their own Section 8 resources. The Department of Health and Human Services has launched a similar program of grants to local groups that are implementing comprehensive self-sufficiency initiatives.

The Administration has proposed and the Congress is considering legislation for major reform of welfare assistance. The Administration supports legislation that would:

- Allow States to test new ways to help recipients achieve financial self-reliance.
- Provide comprehensive employment and training programs.
- Provide needed assistance to parents for child care.
- Result in long-term net savings and lower administrative costs.

In the interim, the Administration is working closely with State and local governments and the private sector and encouraging them to test reforms. A number of States, working with the Interagency Low Income Opportunity Advisory Board established by the President, have undertaken reform of their own welfare systems in recent months under authority in existing law. The President chartered the Board to coordinate State requests for waivers of Federal requirements. The Board is committed to speed the process to the greatest extent possible.

Waivers have been approved for demonstration projects in Wisconsin and New Jersey, among others, and negotiations are proceeding with additional States. Up to 20 States are expected to propose reform demonstrations in 1988. Highlights of two approved projects are:

- **New Jersey.** The REACH Program combines a strong education, training and work program for most AFDC recipients (those with children age 2 and over) with transition benefits to provide child care and Medicaid for 12 months following an exit based on employment. This 5-year project was approved in October 1987.

- **Wisconsin.** This program includes a strong work and training component (exempting parents with children under 3 months of age) for adults as well as the requirement that teenage dependents and parents attend high school ("learnfare"). Transition benefits— 12 months of an earning disregard of $30 plus one-sixth of earnings and Medicaid benefits—are provided. This program was approved in October 1987.

Improved Access to Child Care

The changing role of women in American society is documented by the data presented above showing that about two-thirds of mothers with children under 14 are in the labor force. In January 1988, the Secretary of Labor named a task force of 12 senior officials of that Department to study child care. In early 1988, that task force issued a descriptive report, *Child Care: A Workforce Issue,* with these preliminary findings:

- The Federal Government is already addressing the child care issue on a large scale.

- State and local governments are dynamic in their response to the child care challenge. The evidence suggests that they will become even more aggressive in the future.

- Employers have a direct interest in addressing their employees' child care problems and many have already realized the economic benefits that result from attention to the issue. However, many others are still unaware of the effect of addressing the child care problems of their employees.

- Child care requirements of parents and families vary substantially. Therefore, child care policy cannot be addressed in an aggregate, inflexible fashion.

- Significant child care problems exist, but there is not an across-the-board availability crisis of national proportions.

- Most of today's child care is provided by relatives and family day care centers.

The Labor Department's task force report analyzes on the general problem of child care as a workforce issue, but does not propose solutions. Many issues remain to be resolved, such as who should and can pay for child care and how costs can be shared among users and private and public sector institutions, including different levels of government. Innovative child care responses are proliferating in the private sector and in local communities. These include, for example, changing zoning for urban hotels to give an extra floor to structures that design a child care facility into the building for their own or other urban employees, and enlarging responsibilities of local elementary schools to include day care for neighborhood children not yet old enough to attend school. These private and local responses should make it possible for the Federal Government to concentrate its child care efforts, using existing resources, to those most in need.

Families: Continuing Education

Job requirements in today's labor market demand higher skills than ever before. Family breadwinners entering the job market should expect to change jobs some five or six times in their careers, and most will require at least 1 year of education beyond high school. Local educational institutions will increasingly be called upon to upgrade skills in the existing workforce, including communication, computation, and logical reasoning. Areas that warrant immediate attention at the State and local levels include reviewing State unemployment compensation programs, retraining displaced workers, and developing better remedial education for young mothers.

Reviewing Unemployment Insurance

Current State unemployment insurance (UI) programs, based on Federal legislation enacted in the 1930s, generally retain the narrow focus of the original programs. They partially replace lost wages, primarily for involuntarily unemployed workers, to ensure stabilization of the economy and to allow employers to retain skilled workforces during short layoffs. Hence, State unemployment compensation laws require that workers must be "available" for work in order to maintain their eligibility for unemployment compensation, with the exception that unemployed workers in State-approved training, generally short-term, continue to be eligible for benefits. Given the current era of rapid structural change in the economy, many observers have questioned the appropriateness of the narrow focus of State UI programs that require being available for work, and particularly of not using periods of unemployment to upgrade or reorient workers' skills. Therefore, the Department of Labor is testing in a few States the concept of alternative uses of UI benefits. These include:

- A project that New Jersey launched in 1985 to identify structurally unemployed UI claimants early in their spell of unemployment. The purposes of the project are to provide claimants with reemployment assistance early in their claims period, to speed their return to work, and to improve linkages between UI and other services delivery agencies. The New Jersey project seeks to demonstrate the effectiveness of offering job-search assistance to UI claimants along with opportunities for training and relocation.

- Projects in Washington State and Pennsylvania testing the effect of offering a cash bonus to speed the UI claimants return to work.

- New projects in 1988 to help claimants get started in their own businesses. The demonstrations will test the effect of the offer of self-employment training and stipends in lieu of unemployment benefits.

Retraining Workers

The Federal Job Training Partnership Act (JTPA) program, which became fully operational in late 1983, has become a highly successful training and job placement program that has provided meaningful employment in the private sector for hundreds of thousands of displaced and disadvantaged workers. This program has provided a lead role for State governments in allocating funds and a shift in focus from reliance on public-sector employment to reliance on the private sector for training and job placement.

Under JTPA, local jurisdictions are given wide latitude in the design and operation of the federally funded program to address employment needs in their communities. Business plays a key role in the local programs through Private Industry Councils (PICs) composed of representatives of business, labor, education, government, and other local entities. Unlike earlier training programs, business representatives occupy a much greater role in operating local training programs. The private sector has lent its full support to this initiative, with some 10,000 representatives of business serving on PICs. 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 were already the responsibility of State governments.

The JTPA grant program consists of two major components. The first provides block grants to States to support local training programs for the economically disadvantaged and to support summer youth employment programs. In program year 1986 (July 1986 to June 1987), approximately 1,096,000 disadvantaged persons were served under this component. In addition, the summer youth employment program provided jobs for more than 600,000 during the summer of 1986.

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 in entering new fields 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 moving to a new job location. Approximately 211,000 persons participated in the dislocated workers program in program year 1986.

JTPA has achieved impressive results. In 1986, an estimated 62 percent of those terminating from the disadvantaged worker program entered employment, with an average hourly wage at termination for terminees who entered employment of $4.72. Sixty-nine percent of those terminating from the dislocated worker program were placed in employment, with an average hourly rate at termination of $6.36. Seventy-four percent of block grant funds for the economically disadvantaged were expended for training, with the remainder spent on supportive and administrative services. Of the total expenditures for the dislocated worker program, 83 percent have been spent on training, with the remainder being expended on supportive and administrative services.

Characteristics of new enrollees served by the programs have been compiled for program year 1986. Under the JTPA program for the disadvantaged, 93 percent of the 827,400 new enrollees served were economically disadvantaged, 47 percent were minority, 53 percent were women, 42 percent were youth, 42 percent were public assistance recipients, and 25 percent were high school dropouts.

The JTPA program for dislocated workers served 134,700 new enrollees in program year 1986. Compared with program year 1985, the largest changes in enrollee characteristics for dislocated worker programs were an increase in the percentage of males (65 percent versus 59 percent) and a decrease in the proportion of economically disadvantaged persons (32 percent compared with 39 percent). Enrollee characteristics for this dislocated-worker group have consistently been male, older, non-minority and less economically disadvantaged.

Educating Young Mothers

Another problem of continuing education is to encourage teenage mothers to complete high school. Studies show that the educational attainment of mothers has a major effect on the attitudes and motivations of children toward school. One important way of helping disadvantaged children to obtain job skills, and a greater chance to escape the cycle of poverty, is to find better ways to encourage young mothers to complete high school or equivalencies and go even beyond those wherever possible.

Children and Education in Urban Areas

Children are the hope of the future. To the extent that parents educate children to strive for excellence and motivate them to attain their full potential, they gird the Nation for higher standards of living and world leadership and maintain the special qualities that make the pursuit of happiness possible. Failure to educate and motivate children adequately wastes their talents; relegates them to a life of underachievement, poverty, and frustration; and saddles society with enormous future burdens of crime and other social costs.

The quality of educational achievement by a Nation or by a group of people is perhaps the best single indicator of its future economic strength. Recognizing that educational achievement took a significant downturn in the 1970s, this Administration early on established a National Commission on Excellence in Education. The Commission's report, *A Nation at Risk* (1983), served warning to all Americans by pointing out:

> Our Nation is at risk. Our once unchallenged preeminence in commerce, industry, science, and technological innovation is being overtaken by competitors throughout the world.... The educational foundations of our society are presently being eroded by a rising tide of mediocrity that threatens our very future as a Nation and a people. What was unimaginable a generation ago has begun to occur—others are matching and surpassing our educational attainments.
>
> History is not kind to idlers. The time is long past when America's destiny was assured simply by an abundance of natural resources and inexhaustible human enthusiasm, and by our relative isolation from the malignant problems of older civilizations. The world is indeed one global village. We live among determined, well-educated, and strongly motivated competitors. We compete with them for international standing and markets, not only with products but also with the ideas of our laboratories and neighborhood workshops. America's position in the world may once have been reasonably secure with only a few exceptionally well-trained men and women. It is no longer.[10]

The Secretary of Education reported 5 years later, in *American Education: Making It Work* (April 1988), that within 12 months after *A Nation At Risk* appeared, 35 States had raised their high school graduation requirements. Moreover, the National Governors' Association report, *Time for Results,* issued in August 1986, called for higher quality funding, better school leadership, increased parental choice, and yearly assessments of State reform efforts. From 1981 to 1986, State per capita spending for elementary and secondary education increased nationally by more than 40 percent in current dollars. In terms of student achievement, the Secretary noted that American educators have made some undeniable progress in the past few years. The precipitous decline of previous decades has been arrested, and the climb back has begun. Students have made modest gains in achievement, and they are taking more classes in basic subjects. Despite some improvements by black and Hispanic students, however, the gap between them and white students is still large and overall improvement is slow.

The Secretary's basic conclusion is that "we are certainly not doing well enough, and we are still not doing well enough fast enough. We are still at risk."

The evidence for this conclusion comes in several forms. Data from the National Association for Educational Progress (NAEP) show that improvement in test scores has occurred during the 1980s, but at a slow pace. Moreover, the skill levels of American students are still disappointingly low. For example, fewer than 5 percent of 17-year-olds in 1986 possessed "advanced" reading skills, those that NAEP deemed necessary to excel in academia, business, or government. International comparisons of test scores dramatically demonstrate the relatively low level of academic achievement of American students. For example, recent data on science achievement in 17 countries showed that American students scored on average at the lower end, particularly in advanced science courses.

It is vitally important for the future health of the U.S. economy that the Nation insist on higher educational achievement for all children and that more steps be taken to ensure that the same high-quality education is available to children regardless of where they live.

Children: Educating the Disadvantaged

While declining educational achievement has affected children at all income levels, the situation for less fortunate children is alarming. These disadvantaged children are typically found in poor or minority families, many of whom live in single-parent homes in less desirable neighborhoods in center cities that have older housing, higher crime rates, poor health conditions, weaker school systems, higher dropout rates, and few successful role models. The Administration has been trying to provide these disadvantaged families with a greater choice in their children's educational options.

The Committee for Economic Development report, *Children in Need* (1987), points out that the sheer numbers and growing proportion of the U.S. population of these children dramatize the need to address their plight and to train them to be productive citizens.

Minority children—principally blacks and Hispanics—have constituted steadily rising percentages of the population in recent years. This trend is expected to continue, and perhaps even to become stronger. In 1985, minorities represented about 17 percent of the U.S. population. In 1984, minority babies represented 36 percent of all new-born babies in the country. By 2000, the proportion of minority children under 18 will be at least 38 percent of the total children under 18, and minorities will constitute some one-third of the total U.S. population.

Poor children also represent a growing percentage of all children. Despite a decline in overall poverty rates, about 12 million children were poor in 1986. The rate of poverty was higher for children under 15 (21.2 percent) than for any other age group. The persistence of poverty among children is related to shifting family arrangements, especially the sharp growth in families headed by unmarried parents.

Exhibit V-2

Educating Disadvantaged Children

Schools

1. Mobilize students, staff, and parents around a vision of a school in which all students can achieve.
2. Create an orderly and safe school environment by setting high standards for discipline and attendance.
3. Help students acquire the habits and attitudes necessary for progress in school and in later life.
4. Provide a challenging academic curriculum.
5. Tailor instructional strategies to the needs of disadvantaged children.
6. Help students with limited English proficiency become proficient and comfortable in the English language—speaking, reading, and writing—as soon as possible.
7. Focus early childhood programs on disadvantaged children to increase their chances for success.
8. Reach out to help parents take part in educating their children.

Parents, Guardians, and Communities

9. Instill in children the values they need to progress in school and throughout life.
10. Demand the best from children and show this concern by supervising children's progress.
11. Get involved with the schools and with children's education outside school.
12. Invest in the education and future success of disadvantaged children.

Local, State, and Federal Governments

13. Ensure that education reforms make a difference for disadvantaged students.
14. Give local school officials sufficient authority to act quickly, decisively, and creatively to improve schools, and hold them accountable for results.
15. Assess the results of school practices, paying special attention to the impact of reform on disadvantaged students.
16. Support improved education for disadvantaged students through supplementary and compensatory programs, leadership, and research.

Source: U.S. Department of Education, *Schools That Work,* Washington, DC: U.S. Department of Education, 1986, p. vii.

A fundamental issue confronting the Nation, with regard to the ever-increasing proportion of disadvantaged children coming into the U.S. population, involves how to educate and train them to become mature and responsible adults, productive members of the workforce, and capable both of pursuit and achievement of happiness. An Education Department booklet, *Schools That Work: Educating Disadvantaged Children,* outlines recommended approaches. Exhibit V-2 summarizes the recommendations of that publication.

The Carnegie Foundation for the Advancement of Teaching report, *An Imperiled Generation: Saving Urban Schools* (1988), after surveying the school systems of six major cities—Chicago, Cleveland, Houston, Los Angeles, New Orleans, and New York—underscored the national urgency for major change with these findings:

> [W]e are deeply troubled that a reform movement launched to upgrade the education of all students is irrelevant to many children—largely black and Hispanic—in our urban schools. In almost every big city, dropout rates are high, morale is low, facilities often are old and unattractive, and school leadership is crippled by a web of regulations. There is, in short, a disturbing gap between reform rhetoric and results. The failure to educate adequately urban [center city] children is a shortcoming of such magnitude that many people have simply written off city schools as little more than human storehouses to keep young people off the streets.

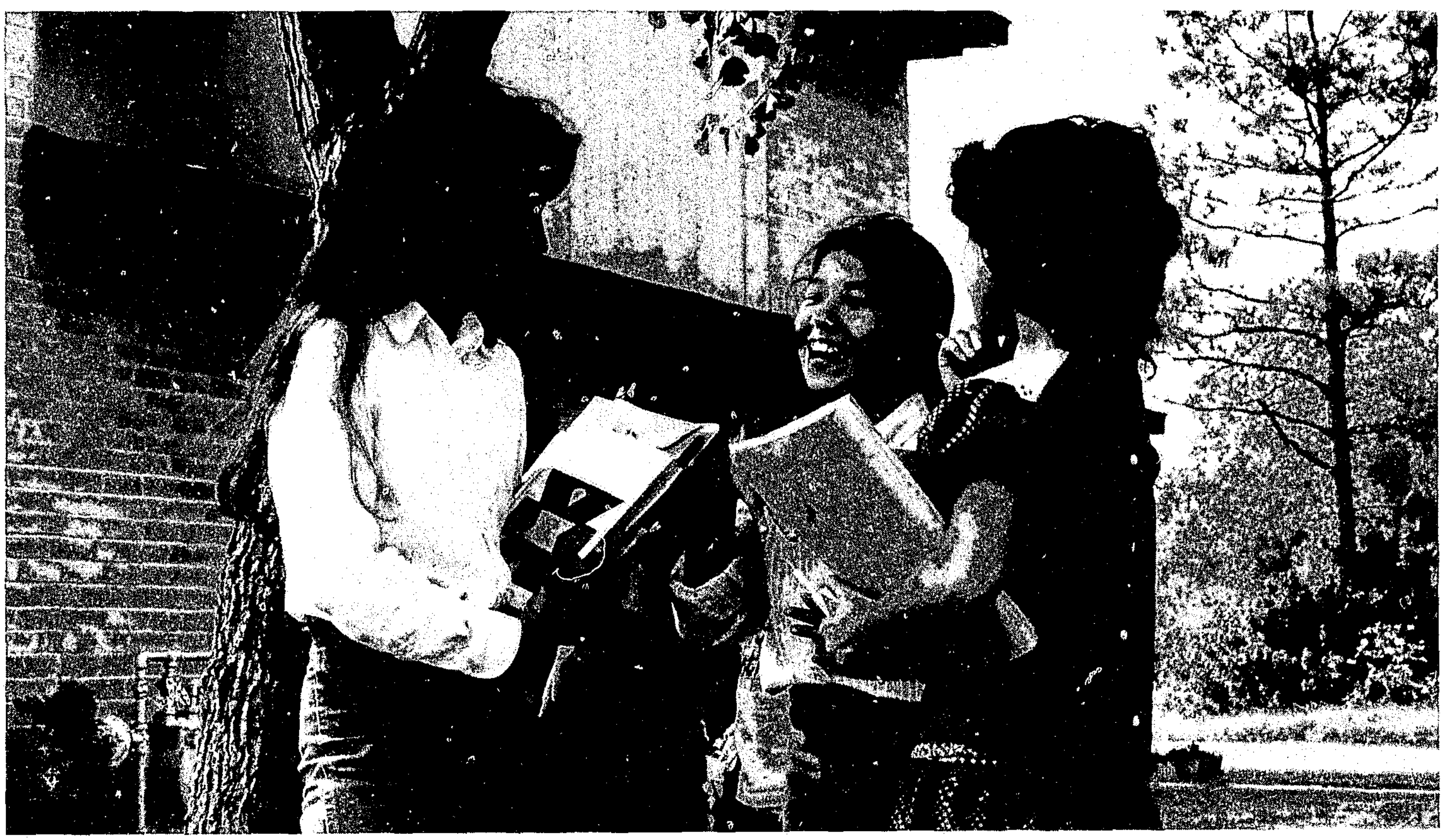
Children: The Federal Role in Public Education

The principal role in public education is vested with State and local governments. It constitutes the major budgetary expenditure at those levels. State and local school boards bear the principal responsibility for upgrading the quality of the curriculum, deciding whether to increase the school year to the 11 months as practiced in other major industrialized nations, increasing the amount of homework, and increasing the quality of school administration and instruction. In the past 5 years, the Nation has identified the urgent need for educational reform through studies by all levels of government and by the private sector. Moreover, and more important, the Nation has also identified both the general nature of the solutions and specific isolated schools and reforms that even today are succeeding. Knowledge on how to proceed is ample. What the Nation needs to do now is to get on with the job of improving schools.

Primary responsibility for educating children resides with parents and begins at home, from the time a child is born. This parental responsibility should be accompanied by giving parents choices in determining what schools their children attend. Increasing parental choice can improve education by encouraging competition and giving entire communities a sense of shared ownership in their schools. Moreover, interest in and support for parental involvement and choice in education seem to be increasing. In *Time for Results: The Governors' 1991 Report on Education,* the National Governors' Association called for States to pass laws permitting families to choose among public schools. Choice programs such as those in Cambridge, Massachusetts, and East Harlem, New York, as well as recent examples in Seattle, Washington, and in Minnesota are excellent examples of how States and local districts are responding to the call for greater choice and involvement.

The Federal role in public education is clearly a supplemental role of articulating national needs and assisting disadvantaged students, the latter in programs administered by the Departments of Education (Chapter 1 of Public Law 100-297), Health and Human Services (Head Start), and Labor (Job Corps, Job Training Partnership Act, and other programs discussed below).

The Department of Education shares the belief that the education of disadvantaged students is a top priority. In fiscal year 1989, the Department requested an increase of $238 million in Chapter 1 assistance to provide assistance to about 5.6 million disadvantaged children. Much of the proposed increase would aid school districts with large concentrations of children from low-income families. In addition, the Department led the debate on the reauthorization of Chapter 1. Components of the legisla-



tive proposal were designed to improve targeting of funds, require accountability for results, recognize exemplary school districts, and improve parental choice. The Congress accepted key components of the bill reauthorizing elementary and secondary education programs.

Another educational strategy designed to raise the quality of urban schooling involves magnet schools. Because magnet schools give parents greater choice, they are inherently more accountable. Magnet schools that provide their students a high-quality education push other non-magnet schools to improve. In fiscal year 1989, the Administration requested $115 million for magnet schools, an increase of $43 million. In addition, the proposal broadens the eligibility for magnet schools funds to other school districts that are not implementing desegregation. The Department also proposed to promote parental choice by making $5 million available for a demonstration program of open enrollment in the public schools.

The major Administration theme for education is accountability. Policymakers at the Federal, State, and local levels and the general public are beginning to demand that educational programs demonstrate that they are effective. A great deal of interest is evident at the State level in legislative proposals that require school districts to demonstrate their progress in meeting their objectives. Others have discussed the idea of having States intervene in districts that have failed to educate their students adequately, as New Jersey has recently done. A major Administration initiative is to integrate the principle of accountability in Federal education programs such as Chapter 1 (the largest Federal program in elementary and secondary education), the programs of the Drug-Free Schools and Communities Act, and the student aid programs.

The principal educational program of the Department of Health and Human Services is Head Start. This program provides comprehensive development services for preschool children and their families. Intended for low-income families, the program seeks to prepare these children for public schools by giving them readiness training so that they can receive a full benefit from their subsequent public schooling. Head Start programs emphasize cognitive and language development, physical and mental health, and parent involvement to enable the children to develop and function at their highest potential. Most of the funds are distributed based on the relative number of poor children and AFDC recipients in each State.

Head Start now serves approximately 454,000 low-income children per year, an increase of 395,000 over the 1982 level. Head Start in any given year serves approximately 20 percent of children age 3 to 5 years who are statutorily eligible for the program. Over time, 40 to 50 percent of eligible children enroll in Head Start, according to the Department of Health and Human Services.

Head Start is part of a growing network of public and private service providers. Data on preschool enrollment trends reported by the Department of Education show that nationwide, enrollment in preschool and kindergarten programs has increased substantially over the past several decades. Kindergarten is now almost universal, and State and local governments are making substantial commitments to prekindergarten education; for example, New York City is planning to offer public preschool to all 4-year-olds, and 23 States now have prekindergarten programs that generally are targeted to disadvantaged children.

The Department of Labor administers a number of programs oriented to disadvantaged young people, including the Job Corps, the Job Training Partnership Act Program (described earlier), and a number of experimental programs administered by the Employment and Training Administration.

The Job Corps is a major training and employment program designed to alleviate the severe employment problems faced by disadvantaged youth throughout the United States. It assists young people who both need and can benefit from the wide range of services provided in the residential Job Corps centers. These services include basic education, vocational skills training, work experience, counseling, health care, and related support services. Enrollees are impoverished and unemployed young people between the ages of 16 and 21 who have volunteered for the program. The typical youth served by Job Corps is an 18-year-old high school dropout who reads at the elementary school level, comes from a poor family, belongs to a minority group, and has never held a full-time job.

Job Corps operates through a partnership of the Federal Government, labor, and the private sector. The Federal Government provides the facilities and equipment for Job Corps centers and the funds for recruiting enrollees, center operations, and placement of enrollees upon termination. Major corporations and nonprofit organizations manage and operate 75 Job Corps centers under contractual agreements with the Department of Labor. Labor union and trade associations provide specialized training at many Job Corps centers. Since the first Job Corps center opened in 1965, the program has served more than 1 million young men and women.

The Department of Labor's Employment and Training Administration, under its Youth 2000 initiative, is currently funding research and demonstration efforts targeted at the following groups: in-school, dropout-prone youth; recent school dropouts and out-of-school youth; homeless, runaway, and foster care youth; teen parents; and developmentally disabled youth. The Department has identified these groups as being at-risk of not being prepared to make the transition into productive employment, and has taken measures to provide comprehensive and innovative solutions to assist these youths in achieving social and economic independence. JOBSTART, STEP, and High School Redirection are examples of demonstration projects that promote basic skills development among disadvantaged youth.

JOBSTART is a pilot program that combines remedial education, occupational skills training, job counseling, and placement assistance for school dropouts 17 to 21 years of age with below-eighth grade reading skills. This project is being demonstrated and evaluated in 14 sites, 3 of which are Job Corps centers. Preliminary data indicate that participants are obtaining high school equivalency diplomas at a significantly higher rate than are nonparticipants.

The Summer Training and Education Program (STEP) targets youth who are 14 and 15 years old, doing poorly in school, and eligible for the federally funded Summer Youth Employment and Training Program (Title II-B) of the Job Partnership Training Act (JTPA.) Program components include basic skills remediation, life-planning curriculum, work experience, and a school-year support program. Youth in this program maintain math and reading levels over the summer better than those who do not participate. STEP is being demonstrated in Boston, Fresno, Portland, San Diego, and Seattle.

The Department of Labor has awarded grants to seven Service Delivery Areas (SDAs) to replicate the alternative high school model, High School Redirection, that will provide educational services to potential high school dropouts. One unique feature of the program is its STAR component, an intensive reading program in which students receive reading and language arts instruction five periods each day. This project is viewed as a bridge between the education system and the job training system to help youths who are not succeeding in regular schools.

These demonstrations complete a triangle for the Department of Labor's youth program research: STEP is aimed at younger, in-school youth; JOBSTART emphasizes vocational training for older youth who have already dropped out; and High School Redirection emphasizes basic skills development for youth who are at the crossroads of dropping out or who have just recently dropped out.

Federal, State, and local officials are currently wrestling with redesign of the Nation's youth and welfare programs, the design of teenage pregnancy-prevention policies, and dropout-prevention programs. As Gordon Berlin and Andrew Sum of The Ford Foundation's Project on Social Welfare and the American Future point out, to be successful, these decisionmakers must recognize fully the interrelationship of these problems, the basic skills crisis, and current economic and demographic changes. Berlin and Sum observe that young people with limited reading, mathematics, and vocabulary skills are much more likely to experience some social pathology:[11]

- Some 46 percent of 19- to-23-year-olds who are poor rank in the lower quintile of test score distribution.

- Some 40 to 59 percent of young adults with special problems—the jobless, dropouts, welfare dependents, or unwed parents—score in the lowest quintile.

Perhaps the single most needed change in the Nation's approach to educating disadvantaged or poor youth should be an emphasis on the expectation that these young people can succeed—that they can be taught. The current generations of poor or minority students need not be relegated to second-class status by being deprived of the expectation that they can learn the things they need to succeed, as every poor generation before them has done. Examples abound of successful teachers and principals, relying on discipline and high expectations, bringing supposedly disadvantaged students to the highest levels of academic achievement. Minority parents across the country are sending their children to private religious schools whose religious beliefs they do not share, often at great cost, in a desperate search for quality education for their children. The Nation's parents and school boards should insist that their principals, teachers, and guidance counselors all expect disadvantaged students to succeed at least as much as do these parents of poor children.

Along with a change in expectations goes the recognition that there is ample basis for moral training and understanding in the principles upon which the Nation was founded and in the language of its greatest leaders. Schools need not teach in a relativistic bog that makes it impossible to explain to children why they should abstain from drugs, irresponsible sex, and criminal behavior. After children are taught to "just say no," leaders of the Nation must be prepared to explain to them why. Families with well-founded religious or ethical beliefs are prepared to answer those questions. In principle, the Nation, its families, and its schools can also answer these questions, but this will require teaching with the courage of the country's convictions. The educational systems can teach that there is a real basis for human rights, that certain truths are self-evident, that "all men are created equal, that they are endowed by their Creator with certain inalienable rights, that among these are Life, Liberty and the pursuit of Happiness."

The opportunities for well-grounded ethical training lie within a renewed understanding of American institutions and history. For his *Letters from a Birmingham Jail,* the Reverend Martin Luther King, Jr., built his understanding of the purposes and limits of civil disobedience on a tradition that reached back through Henry David Thoreau to St. Thomas Aquinas. About 150 years ago, Abraham Lincoln pointed out the duties of what he called transmitting generations:

> We find ourselves under the government of a system of political institutions, conducing more essentially to the ends

of civil and religious liberty, than any of which the history of former times tells us. We, when mounting the stage of existence, found ourselves the legal inheritors of these fundamental blessings. We toiled not in the acquirement or establishment of them—they are a legacy bequeathed us, by a **once** hardy, brave, and patriotic, but **now** lamented and departed race of ancestors. Their's was the task (and nobly they performed it) to possess themselves, and through themselves, us, of this goodly land; and to uprear upon its hills and its valleys, a political edifice of liberty and equal rights; 'tis ours only, to transmit these, the former, unprofaned by the foot of an invader; the latter, undecayed by the lapse of time, and untorn by usurpation— to the latest generation that fate shall permit the world to know.

What is needed in the American people's schools, lives, and organizations, especially but not exclusively, those of the poor, is a rebirth of education in the virtues required for freedom.

Urban Social Policy Agenda for the 1990s

Most urban areas today are better off than they were a decade ago. Yet their very success has highlighted special problems present in some urban neighborhoods where, in contrast, the concentrations of poor and minorities have been permitted to accumulate. Moreover, there is a general need to identify and adapt to the powerful forces of change that are impinging on urban areas.

The fundamental need for dealing with the social conditions of today's urban areas is to restore the cities, as part of their metropolitan areas, as places of opportunity where all who work hard can enter the economic mainstream. The major responsibility, the power and authority, as well as the resources and the knowledge of local conditions, are concentrated with State and local governments. The role of the Federal Government is to aid those governments to identify the nature of urban problems and to extend some supplemental assistance to the States, but especially to families and individuals in a manner that fosters mobility and flexibility for the residents and that assists the State and local governments in carrying out local strategies.

The bulk of new urban jobs to be created between now and the year 2000 will be service jobs, and these jobs will require higher skill levels and better educational preparation than today's jobs. Most of these new jobs will require at least 1 year of education after high school.

At the same time, the Nation's public education system has not kept pace with the international trends in raising education levels and public literacy. While other advanced industrial nations have been schooling their children for 220 or 240 days a year, American schools typically operate for only about 170 days, with shorter school days, much less homework, less demanding curricula, and lower expectations for educational achievement for all students. As a result, the academic achievement of American students, particularly those in urban areas, as measured by test scores, has been on a downward trend for several decades, and the center-city schools more often than not have been characterized by poor discipline, poor attendance, low expectations, high dropout rates, and deplorably low achievement even for those who received diplomas.

It is not surprising, therefore, in a situation of higher job-entry requirements and current low academic achievement for center-city youth, that unemployment rates among the young people in center cities are unacceptably high.

The demographic trends that will characterize the period between 1988 and the year 2000 are also reasonably clear:

- The population and workforce will grow very slowly—the rates of increase will be slower than at any time since the 1930s. Because of this, the Nation could face a shortage of workers rather than the surplus it has had since World War II.

- At the same time, the youth population is declining. Many employers who rely heavily on youth for entry-level jobs—businesses, colleges and the military—may find themselves competing and scrambling for 18-year-olds.

- However, the minority and low-income youth population is growing. This is the group with the highest unemployment rate, and one that has been in greatest danger of being left behind in this country,

- Most of the urban labor force growth will come from population groups that traditionally have been underused and have had trouble finding rewarding jobs. Women, minorities, and immigrants will account for more than 80 percent of the net additions to the labor force between now and the year 2000.

- Unless a major social change reverses the current trend, single-parent families and families where both parents work will become more common, thereby increasing the demand for urban support services such as day care during working hours.

- Many existing urban jobs will require higher levels of analytical and communication skills, and the level of literacy required will continue to rise above mere reading and writing ability.

- To meet the competitive challenge, urban employers will be paying increasing attention to human resource development and will continue to seek ways to reorganize work to make better use of people.

• In this rapidly changing environment, the average U.S. urban worker will likely change jobs several times in his or her work life, and many will change jobs five or six times. Also, many urban workers will undertake second careers and remain in the workforce longer than at present.

The agenda of urban social policy develops naturally from the recognition of the problems:

• The success of this Administration's National Urban Policy, in rebuilding the national economic foundation that rejuvenated State and local capacities, has provided the basis for concentrating on enduring social problems that are noneconomic in origin. These are the problems of single-parent families, poor educational performance and low expectations, insufficient training and mobility in the workforce, and the drug problem.

• All levels of government, but especially State and local governments, must form alliances with the hard-working, family-oriented majority of the poor, to reassert high expectations for all citizens, regardless of income, race, or ethnicity; to restore expectations of self-discipline and achievement, and, if necessary, faith and hope; and to enforce these expectations through law and regulation where necessary in the schools, in marital commitments, and parental responsibilities. Governments must protect those with the courage to be moral.

• More flexible means must be developed for assisting low- and moderate-income people in urban areas with their housing needs. Although some continuing, flexible, place-specific aid under programs such as the Community Development Block Grant may be required, most Federal assistance should be reoriented from places and from owners of structures to States and to urban people themselves, and should give the needy the choice to locate closer to the jobs and educational opportunities.

• Urban schools must prepare all young people for a labor force with far more demanding skill requirements. Millions of workers are prevented from getting jobs or moving to better jobs by their lack of basic competency in reading, writing and speaking English, poor math skills, and lack of reasoning and problem solving skills. In addition to schools, training programs, employers, and the individuals themselves should work to ensure that everyone in urban areas is fully prepared to contribute to a technologically complex society. People should expect to pursue continuing adult education, and they should gear urban educational institutions to provide it.

• Better ways must be developed to break the cycle of welfare dependency, especially in older central cities where poverty often has become concentrated, and facilitate the movement toward self-sufficiency. The Nation simply cannot afford to continue a situation in which many youth—primarily poor, minority school dropouts—face lives of unemployment and welfare dependency, compounded by problems of illiteracy, drug use, and teen pregnancy. Urban officials need to focus training and employment resources on young parents and adolescent children in families receiving AFDC, and make use of programs such as Housing Vouchers to enable families to locate in working communities outside areas of high-density concentration of social, educational, and crime problems.

• More and more women and single heads of households are entering the urban workforce and may have special needs such as child care that should be considered. Employers who recognize these needs are better able to attract and retain a quality workforce.

• The Nation needs to increase existing efforts to combat illegal drug use, which contributes so heavily to crime, economic distress, and flight from inner cities. Tougher law enforcement, increased social intolerance of drug use, stronger families, and better education about the physical dangers and legal consequences of drug use are key elements in winning the war on drugs.

• The private sector should be relied on more to address social needs. Consequently, all governments must be sensitive to the burdens they impose on the private sector to finance programs directly. Licensing, zoning, and permitting barriers to private provision of services will need to be reexamined and deregulated. Attempts by the poor and working classes to establish service businesses should not be frustrated by artificial barriers to entry.

• The Federal Government must avoid the temptation to substitute massive infusions of funds for effectively targeted local efforts, whether it be in helping to alleviate homelessness, improving educational standards, fighting crime, or other urban issues.

For 8 years, this Administration has emphasized that, with the Federal Government providing the foundation of a sound, growing, noninflationary economy, the Nation could rely on the American people in their families, private organizations, and local and State governments to mobilize the economic, social, and spiritual resources needed to shelter the homeless, educate children, provide economic opportunity to the poor, and ensure stable, peaceful, and prosperous communities to the limits of their capacity. That faith has been justified, and it should be renewed with every coming Administration. Much remains to be accomplished, but the energy released in this decade of growth and urban achievement has dispelled the illusion of malaise that predated this Administration's efforts. The pursuit of happiness in cities and suburbs has regained the pace and can be transmitted intact, in the hope and confident expectation that the American people can now bring their urban areas to even greater success.

Footnotes

1. William H. Frey and Alden Speare, Jr, *Regional and Metropolitan Growth and Decline in the United States: A 1980 Census Monograph,* New York: The Russell Sage Foundation, 1988.

2. William Julius Wilson, *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy.* Chicago: The University of Chicago Press, 1987.

3. William B. Johnson and Arnold E. Packer, *Workforce 2000,* The Hudson Institute, Indianapolis, Indiana, 1987, pp. xxvii.

4. The Carnegie Foundation for the Advancement of Teaching, Board of Trustees, *An Imperiled Generation: Saving Urban Schools,* 1988.

5. National Academy of Sciences/National Research Council, Committee on National Urban Policy, *Inner-City Poverty in America.* Draft Report, Nov. 1987.

6. National Low Income Housing Preservation Commission, *Preventing the Disappearance of Low Income Housing,* Washington, D.C., 1988.

7. National Academy of Sciences, *Report on Urban Poverty.* Forthcoming.

8. Wilson, *op. cit.*

9. *RAND Research Review,* Vol. XII, No. 1, Spring 1988.

10. National Commission on Excellence in Education, *A Nation At Risk,* Washington, D.C., 1983.

11. Gordon Berlin and Andrew Sum, *Toward a More Perfect Union: Basic Skills, Poor Families, and Our Economic Future,* Occasional Paper #3, Ford Foundation Project on Social Welfare and the American Future, The Ford Foundation, N.Y., 1988, p. 26.