THE ADMINISTRATION'S 1982 NATIONAL URBAN POLICY REPORT

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

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THE ADMINISTRATION'S 1982 NATIONAL URBAN POLICY REPORT

TUESDAY, JULY 13, 1982

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 9:30 a.m., in room 2359, Rayburn House Office Building, Hon. Henry S. Reuss (chairman of the committee) presiding.

Present: Representatives Reuss, Mitchell, Richmond, Heckler, Wylie, and Crockett.

Also present: Louis C. Krauthoff II, assistant director; Betty Maddox, assistant director for adminstration; and Bill Maddox, Deborah Matz, Robert Premus, and Nat Thomas, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE REUSS, CHAIRMAN

Representative REUSS. We'll be in order for a series of hearings on the President's 1982 National Urban Policy Report.

Section 703 of the Housing and Community Development Act of 1977 requires the President to "submit to the Congress, during February of every even-numbered year, a report on national urban policy."

I stress the words "the President" because I drafted those words, and I believe that it should be the President who makes the submittal.

The purpose in Congress mind was to require the President every 2 years to collect his thoughts on national policy toward our cities, which is where the vast majority of Americans live, and to present those thoughts for discussion and analysis to Congress and the Nation. We envisaged this interplay between the administration and the Congress on urban policy as somewhat similar to the interplay which occurs every year on economic policy in the President's Economic Report.

The urban report, as I said, was due last February, this year of 1982 being an even-numbered year. When it failed to reach Capitol Hill, I wrote to the President and to Housing and Urban Development Secretary Samuel Pierce a number of times. Finally, last month, since we still did not get the report, we of the committee felt that we had no choice but to schedule today's hearing on a ready-or-not basis. Happily, the urban policy report was issued last Friday, July 9, and is in its official form before us today.

I noted earlier that this is a report by the President. And I'm thus, a little disturbed that, according to press accounts, the President has denied his child. He has said that he doesn't object to the report, but that it really isn't his report.

Well, this is a little bit, Congressman Mitchell, as if in World War II, when you and I were fighting under the general leadership of General Eisenhower, he had said that he didn't object to the war, but, of course, he wouldn't want to be called upon to say whether he publicly supported it or not. [Laughter.]

I would hope that Secretary Pierce could perhaps clear up this matter of parenthood today.

After that, we'll hear from a number of witnesses on their general reaction to the report. We're going to have such witnesses as Mayor Coleman Young of Detroit, Mayor Charles Royer of Seattle, two of our energetic livewire mayors who, in the recent past, have shown zeal and enthusiasm about doing what they could for their beleaguered cities.

The press will, I know, be alert to detect whether it has impared their moral fiber in any way. And we'll have a chance to examine them on that.

Tomorrow, under the leadership of Congressman Mitchell, we'll hear other witnesses on particular problems of the city—health, welfare, education, infrastructure, jobs, economic opportunity, education, and public safety.

Then, this Thursday, our witnesses will zero in on how State and local governments may be made more modern and efficient and what the Federal Government can do to encourage that.

Next Monday we'll hear from a number of witnesses on ways in which the private sector may cooperate to help save our cities.

An on Tuesday, July 20, we'll focus on the problems of financing local government.

The President's Urban Policy Report presents, at the outset, a number of problems.

I'll just mention a few of them. While the report admits that the Federal Government "has a role to play" in helping cities rebuild their infrastructure, the only specific given is the role of "gathering information, and disseminating the results. Other aspects of Federal aid remain to be determined."

Well, I am afraid that many mayors, like the two who are going to testify this morning, when told that their bridges are falling down—which they are—are going to say, "Thanks for nothing." They knew that already and what they really need is an answer to the question of what are these other aspects of Federal aid that remain to be determined?

It's 6 months since the report was due, and one would have hoped that the Federal Government's role on infrastructure would not be, as it still is, a matter of high State secrecy.

Second, the report suggests that cities will be better off if Washington allows localities to "pursue their own interests."

Well, that sounds good. But the trouble with this every-man-for-himself approach is that it gives incentives to cities to do the least they possibly can for their poorer citizens, because if they try to do more, they'll find themselves subject to the competition of cities which lay claim to their businesses and wealthier taxpayers on a dog-eat-dog kind of basis.

A third problem presented by the report is the idea, which recurs in the report, that the central foundation of the President's urban policy is his economic program.

Well, to date, the economic program has brought this country to the highest levels of unemployment and bankruptcies since the Depression. And the mayors will certainly want to know how long this is going to go on and when is the President's economic policy supposed to actually come on stream.

Fourth and last, the report stresses that, and I quote, "central city fiscal problems may be the product of arbitrary boundaries and inadequate State and metropolitan fiscal equilization policies rather than of insufficient resources." I think this is a good point. I and others have been making it for years. The trouble is that the report contains, as far as I can see, not one single suggestion on how the Federal Government might encourage States and other local government to adopt less arbitrary boundaries and to provide more adequate fiscal equalization policies.

The report, which I have had the opportunity of looking at, contains much that is valuable. I think the summary of bright ideas and good thoughts which a number of enterprising cities have pursued is well worthwhile. I like the praise and consideration for neighborhood groups and the private sector. Heaven knows, we need them at the cornerstone of any sensible urban policies.

And I hope that after our weeks of hearings we can have some suggestions from the Congress which may conceivably repair some of those aspects of the President's urban policy which some of us may think of as being less than perfect.

Congressman Mitchell, would you care to comment?

Opening Statement of Representative Mitchell

Representative Mitchell. Yes, Mr. Chairman.

I just want to thank you for convening what I think will prove to be an invaluable set of hearings that establish the critical need for a comprehensive national urban policy.

I want to welcome the Secretary, Mr. Pierce.

I want to welcome my good friend, Mayor Coleman Young.

Mr. Mayor, I do not believe that you are a wiley stalker of Federal funds.

I certainly want to welcome Mayor Royer from Seattle.

Mr. Mayor, I do not believe that the good citizens of Seattle are rendered ambitionless simply because they receive some Federal funds.

I looked at all the national policies that we have set forth since World War II, industrial policy, agricultural policy, energy policy. But strangely enough, urban policy has not gotten the attention that it should have. And I think it's the key to all of the other policies that we develop. You can't have a national industrial policy unless you have a national comprehensive urban policy.

It has been 4 years since the Congress was presented a blueprint for a comprehensive national urban policy, despite the fact that many of the conditions in urban areas have worsened. Most of the major cities are experiencing an astronomical, devastating rate of black unemployment, both for adults and young people.

Almost all of these problems have focused on our cities, and I don't see much change taking place.

There has been a steady decline in the tax bases of cities because industry continues to leave cities. The lack of affordable housing will be even further exacerbated because of the budget for housing this year.

I think we have a very serious problems.

Some obtuse persons will argue that the condition of our cities and the economic status of the persons living in those cities persisted because of Federal Government intervention. That in my opinion is really a specious argument. I think the contention is wrong.

Urban problems are national problems, and therefore Federal programs must be made available to the cities. It's just that simple.

I will be the first to admit that some Federal programs in the past have not worked. They have not been successful in eliminating the adverse conditions in our cities. Yet there remains a critical need to target a Federal effort to cities.

Rather than totally eliminating Federal programs, the administration and the Congress should begin to develop a comprehensive national urban policy that forms a nexus with other policies—policies in education, policies in housing, and policies in health.

Unfortunately, the administration has only intimated that we need a comprehensive national urban policy, and that the urban enterprise zone program is the basis for comprehensive national policy. It is not. The urban enterprise zone program cannot be conceived as a comprehensive national policy.

The Secretary and I discussed this some time ago, and he chided me for my evaluation of the problem. I pointed out that it is simply a good tax program, rather than a comprehensive urban national policy.

The President is visiting my city of Baltimore today to sell the urban enterprise zones concept. He is also discussing his New Federalism, which, in my opinion, will have little or no impact on the plight of cities.

The present course of discussion about national urban policy ignores the problems that we should have learned from the past. And to omit a critical evaluation of at least the fragmented urban programs during this period, I think, will be a fatal mistake. Cities are in desperate condition. I am very anxious to hear from all of the witnesses today given these conditions.

Mr. Chairman, I just have one question. You said the President doesn't quite accept this illegitimate child, the report—is that what you said?

Representtive REUSS. Well, I didn't put it as colorfully as that. [Laughter.]

I did say that I had read somewhere that the President said, "Well, this isn't really the President's report. It's some department's report."

Secretary PIERCE. [Inaudible]—correct that [inaudible].

Representative REUSS. Please. Mr. Pierce.

Secretary PIERCE. Larry Speakes, who speaks for the President, said that the President approved the report. What you read was that some staff assistant said that the report was sent over to the White House and there was no objection to it. The President did not say that. His official representative did not say that. The President has approved this report.

Representative REUSS. Good. Well, I'm delighted to hear it. That's the way it will be. General Eisenhower has assumed command of the Army, and can go on. [Laughter.]

Representative MITCHELL. If I can finish my line of inquiry. I'm only going to take a second. I want to know who were some of the authors of the report? That is, whether the same persons who described mayors as wiley stalkers of Federal funds wrote this report? Whether the same persons who said that cities could benefit by terminating the funding for day care programs wrote this report? Whether the same persons who said that employees in cities in civil service status should not be allowed into collective bargaining units wrote this report?

I am sure we will have lots of time for an indepth inquiry into this now legitimate, fully endorsed report. Thank you, Mr. Chairman.

Representative REUSS. Thank you. Congressman Richmond, welcome.

Now, before we call upon Secretary Pierce, I have an opening statement from Senator Paula Hawkins and a statement from Congressman Ron Dellums that I will supply for the record at this point, without objection.

[The statements referred to follow:]

OPENING STATEMENT OF SENATOR HAWKINS

I commend the Secretary of Housing and Urban Development, Mr. Samuel R. Pierce, Jr., for his comprehensive National Urban Policy Report prepared for transmittal by President Reagan to the Congress. This report outlines the problems and opportunities for America's urban areas and identifies the substantial steps already taken by the administration toward urban renewal.

This administration has taken significant steps toward increasing the health of our cities. For example, the Reagan administration has launched a long-term economic recovery program by decreasing Federal outlays and taxes. Economic recovery is crucial to the revival of our cities. The administration has taken many specific initiatives: Block grants; creation of the President's Commission on Housing; a voucher public housing program; rental rehabilitation; eased ERISA regulations to encourage pension fund investment in mortgage instruments; enterprise zones; restored decisionmaking authority to local governments in the use of community development block grants; assured job training through the Training for Jobs Act; and encouraged Criminal Code reform. While all of these steps will improve urban America, additional steps must be taken.

Nearly three-fourths of the Nation's population—226.5 million people—reside in our urban areas. There have been significant economic and social changes affecting the condition of regional and local economies. Some cities are growing, while others are declining in population and the size of the job market. Each urban area has a unique combination of circumstances which requires a unique response by that locality. For example, some areas have experienced increased manufacturing unemployment, but increased financial and selected service employment. Since these changes have a varied impact among different urban communities, there is a real need for regional and local flexibility in responding to local trends.

Communities must respond to three problems in particular: The problem of housing affordability; the problem of increasing crime; and the problem of a deteriorating infrastructure. These are the primary challenges affecting American cities. This report offers several ways for a city to respond to them. For example, decreasing city housing regulations will result in an expanded supply at more affordable prices. To address the problem of decaying infrastructure, cities must make capital financing adjustments to preserve its basic infrastructure. For example, New York City at one time spent 30 percent of its capital budget on existing facilities; it now earmarks 70 percent of the city's capital budget. Third in addressing the crime problem, States and local communities will benefit greatly by proposed legislation in the Congress to combat crime. S. 2572 is now on the Senate Calendar and is strongly endorsed by the administration. This bill was introduced by the Chairman of the Judiciary Committee, Senator Thurmond. As chairman of the Senate Drug Enforcement Caucus, I fully endorse this legislation. However, most offenses are not Federal violations, but break State and local laws. This means that law enforcement must remain in many ways a local matter.

This report on the administration's urban policy is exactly what the American voters have asked for; namely, less regulation, less Federal Government interference in local affairs, less redtape, more flexibility, and less complexity as a result of decentralization.

Statement of Hon. Ronald V. Dellums, Chairman, House Committee on the District of Columbia

Mr. Chairman and members of the committee, I would first like to thank Chairman Reuss publicly—as I already have in private correspondence—for the great concern that he continues to show for our country's urban areas. These hearings on the administration's Urban Policy Report come at a critical juncture in the troubled history of America's cities, and I think the chairman and members of the Joint Economic Committee are to be commended for taking the time to examine the administration's policy proposals for addressing the ills of our cities.

Mr. Chairman, the late release of the Urban Policy Report precluded any detailed examination of it prior to this hearing, but I have had a chance to familiarize myself with it in summary, enough to realize that it does not differ in substance from the "draft" Report which came to all of our attention several weeks ago. And it is this—the overall substance and direction of the Report—that I would like to address my comments to.

The fundamental thrust of the administration's Urban Policy Report is to deny that cities are incapable of solving the myriad problems that they face without federal support. While it wantonly and drastically cuts back job training programs, aid to small businesses, health care, and just about everything else that might contribute to the revitalization of our cities, the administration speaks wishfully of a local environment where all sectors are self-sustaining. It is a glorious wish, but wholly inconsistent with the facts. This is nothing more than vain ideological thinking which flies in the face of well founded facts regarding the urban environment in our society. It is also a dangerous posture which threatens to hasten—if not directly accelerate—the demise of our urban places. If the Federal Government disengages its already inadequate support for cities it will be tantamount to inviting a plague upon all our houses, for the cities are not disconnected entities with a fate apart from other areas of our country. They are one of the most vital links in the chain of affairs that bind the country together. The cities are still our greatest centers of commerce and culture, and we can no more afford to let them degenerate than we could afford to allow our rich and abundant countryside to lay fallow.

Mr. Chairman, I came here today for the purpose of making a part of the record the findings of the committee that I chair, the House Committee on the District of Columbia, on the plight of urban centers, I felt it critical to do so because these findings suggest the need for an entirely different approach from that being proposed by the administration. Indeed, the administration's approach either overlooks or facilely dispenses with a number of urban problems which should be regarded with some urgency.

Shortly after I assumed the chairmanship of the D.C. Committee, the committee initiated a series of hearings designed to explore the full magnitude of social and economic ills endemic to cities. This undertaking was the result of my belief that Washington, D.C., because it is a city engaged in a unique relationship with the Federal Government, offered a great opportunity for understanding just what might constitute a healthy and constructive partnership between an urban locality and the Federal Government when both wished to solve some of the difficult problems that cities face. And I would like to add here—with emphasis—that we were not intent soley upon exploring what could be done with the aid of the Federal Government, we were just as concerned to know which local efforts were better left alone by the Federal Government. It was also one of our objectives to discover whether the most familiar and tenacious problems confronted by cities and pretty much the same everywhere or whether they very from one city to another.

The committee held hearings for 10 days in four cities: Washington; Philadelphia; Los Angeles; and Houston. More than 60 witnesses contributed over 2,000 pages of testimony. The witnesses included nationally respected urbanologists, officials from the prior administration, Members of Congress, local officials, and the representatives of national and local community organizations. The following general findings emerged from what we learned from these hearings:

(1) Many of our cities are tender boxes of potential violence; the wonder is that so few have exploded in recent years.

(2) Minority youth unemployment has risen to the point of constituting imminent danger in many of our cities. There is an increasing disparity between black and white income and the rate of unemployment.

(3) The shortage of decent affordable housing (especially rental units) has reached the crisis level in many of our cities and is lilely to worsen if present trends in condominum conversion continues.

(4) Public school systems are deeply troubled and failing in many localities.

(5) Police-community relations—having never been really good in most cities—have rapidly deteriorated over the past decade as federal support dollars (LEAA) for training and programs continued to dwindle.

I think that we will probably introduce four or five pieces of legislation as a result of what we learned, but presently, my immediate concern is with the policy implications of these findings.

Most partciularly, Mr. Chairman, I want to note that one of the most salient facts underlying these findings was the opinion of every witness asked—and we asked most of them—that a number of urban problems were absolutely beyond the singular ability of localities to solve them. Some of our witnesses differed in their opinion of how widespread some problems were, but not one of those asked could agree that cities stood a chance of solving alone the largest problems that they face. Such problems include the crisis level of unemployment of young people, the shortage of affordable housing, and the enormous problem of infrastructural decay, some aspect of which is known in just about every major city in the country.

"Misguided programs" and resulting "dependency" is not the problem or the issue. The problem is that our cities have been physically decaying for a number of years, and the rapid loss of significant portions of their tax base over the last two decades have further weakened their already limited ability to respond to crisis conditions. The issue which this problem gives rise to is that of whether the federal government will assume a responsible posture or proceed to cut-off its nose to spite its face. The cities of this country represent the capital accumulation of generations. They are also the repositories of most of what makes us proud of our past and expectant about the future. I find it staggering to believe that anyone would place so much at peril to prove a theory.

Mr. Chairman, in addition to chairing the D.C. Committee, which has greatly enlightened me about what is happening to American cities, I am a member of the Armed Services Committee. This means that I spend a great deal of my time being tossed between points of equal incredulity. I am, on the one hand, horrified when witnesses come before the D.C. Committee's urban problems hearings and tell of how the young people of their city are ravished by poor schooling and unemployment; how the streets are rife with crime—yet L.E.A.A. programs are being terminated, then, on the other hand, I am appalled—and I really think it is shameful—when I see this administration—which has a problem supporting school lunches—steaming straight ahead with plans to spend somewhere between $2.5 and $3 trillion on the military during the decade of the 1980's.

Everyone knows that this cannot be done without drastically depriving some other sectors of the economy, and everyone knows who that is going to be—the people in our society who are politically least able to fend for themselves. I realize that some people think this is just fine, because they fail to see how they are affected by such a distorted set of priorities. But I believe an incredible disaster awaits us all if this continues. I do not believe that we can ignore the calamity and misfortune in our cities without paying a high price for such ignominy. There is a saying which cautions that "when the rain falls it doesn't fall on one man's house."

There can be no mistake about it, the Federal Government still has a very considerable role to play in the rehabilitation and future health of American cities. Any philosophy suggesting otherwise is just that—philosophy and nothing more. Problems such as the devastating affects of widespread youth unemployment (which will affect many families for generations) and the physical decay of the urban infrastructure, are simply not within the resource capability of single cities to solve them. The solution to these kinds of problems will require a long-term commitment of the Federal Government to aiding and working in partnership with our cities. This is dictated not by choice, but by the sheer magnitude and intensity of what cities are up against. Actually, the need for cooperation is not very difficult to understand when you begin from the premise that our cities are not vassal states or entities apart from the United States. It is unfortunate—and I think we have to fight such notions—when an American Administration insists on perceiving various subdivisions of the country as something other than the country itself. The United States, without its cities, is a thought that assaults the imagination, and I do not believe that any of us should accept this. On the other hand, if we believe that the cities are a significant part of the whole of what our country is, we will not permit another part of the whole, which we call the Federal Government, to forsake and abandon our urban places.

Mr. Chairman, I offer to you and the members of the Joint Economic Committee the findings of the House Committee on the District of Columbia on Problems in Urban Centers. We now have over 900 pages in print with another one thousand or so pages forthcoming soon. I have requested that my staff make everything that we have available to you as soon as possible.

Again, I thank you for pursuing what I think is a very serious national problem in these hearings.

Representative REUSS. All right, Mr. Secretary, we're honored to have you with us.

I personally am particularly pleased that we have a bond between us. We both attended the University in Ithica, N.Y., which we love very much. And we're tickled to have you with us.

Your statement will be received in full into the record.

Would you now proceed in whatever way is congenial to you.

STATEMENT OF HON. SAMUEL R. PIERCE, JR., SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary PIERCE. Well, I would like to make an opening statement if I may, Mr. Chairman.

Mr. Chairman, members of the committee, it's a pleasure to appear before you to discuss the National Urban Policy Report for 1982.

This report clarifies and reaffirms the administration's commitment to help improve the quality of life in our cities. We are pledged to work constructively with state and local governments and the private sector to reach this goal.

Far from abandoning our cities, as some claim, we are actually seeking new and better means to meet the needs of urban America. We are committed to working actively together with cities to reorder responsibility at all levels of government. We want our cities to have greater authority, flexibility, and the revenue resources necessary to carry our their increased role.

Historically, our cities have been vitally important to the strength and diversity of our country. They have been symbols of hope and opportunity for immigrants, as well as American citizens from all walks of life. People brought to the American city their ambitions and values, their energies and skills, their hopes and dreams. Our citizens became proud and thriving extensions of ourselves and our families. They captured and distilled the very essence of America in an abundance of neighborhoods with distinct ethnic and cultural characteristics.

We invested enormously in our cities, both in resources and in spirit. And the return on that investment seemed a promise of endless opportunity. Industries prospered, employment grew, and trade expanded.

As our economy flourished and our cities thrived, America became an international symbol of progress and promise. Today, we remain a great country, with new horizons still to reach. Yet, some cities have serious problems. Some have budgets stretched to the breaking point, with aging and undermaintained sewers, roads, and bridges, and with deteriorating physical plants. Crime and drugs are persistent problems. Some cities are losing population, while others must cope with explosive growth.

No single approach can solve the differing needs and priorities of our cities, for they are not homogeneous. Their problems and opportunities are as diverse as the roots of our Nation. Aspirations and conditions differ so greatly that no one approach is satisfactory for all.

Despite this diversity, certain broad judgments can be made about the kinds of actions and policies that are necessary to improve the quality of life in our cities. The national urban policy is based upon these judgments and our fundamental values as a free and caring people. It is also framed with careful attention to the leasons of recent decades and to our belief that such policy should be a dynamic evolving one that is designed, in part, to strengthen our federal system of government.

In brief, the priorities of the national urban policy are:

One, to place greater emphasis on economic growth;

Two, to seek a proper balance of responsibilities among the different levels of government, acting as partners within the federal system;

Three, to encourage private sector institutions to help shape a healthy urban society;

Four, to support effective approaches being developed by local leaders to better their communities; and

Five, to focus Federal assistance on distresed communities by creating experimental enterprise zones which will produce jobs and revitalize those areas, complemented by a continuation of CDBG, UDAG, and other initiatives.

In addressing these priorities, the following basic premises are guiding the development of the administration's urban policy:

One, that cities are a valuable asset;

Two, that our urban policy should be broad enough to encompass the diversity of our cities;

Three, that States and cities, properly unfettered, can manage themselves more wisely than the Federal Government can;

Four, that Federal, State, and local governments have responsibility to care for the needy who cannot help themselves;

Five, that the administration is committed to guaranteeing civil rights, to enforcing vigorously the constitutional and statutory safeguards against discrimination, and to insuring that no one is denied equal treatment and participation in publicly funded programs because of race, sex, creed, or national origin;

Six, that certain problem in cities, such as crime and infrastructure needs, require special attention.

Seven, that certain forms of Federal aid should be directed to cities bearing the brunt of economic dislocation;

Eight, that the private sector, both corporate and voluntary, contains important sources of strength and creativity that must be tapped for the Nation to progress; and

Nine, that, ultimately, the key to healthy cities is a healthy economy.

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

The administration recognizes and respects the critical role cities and their leadership have played—and continue to play—in the forging of America's destiny. That leadership has come from locally elected officials, business leaders, and the voluntary sector, as well.

It is our goal to promote and encourage such broad local guidance and support in meeting needs and priorities that are primarily local in nature as we continue to work with State and local officials in arriving at a more rational distribution of responsibility and authority among the three levels of government.

I submit the National Urban Policy Report to the committee today. As it states, the foundation for the administration's urban policy is the economic recovery program. If cities are to prosper, our economy must be healthy and vital. That is the same conclusion, incidentally, which this committee reached in 1980, when it said:

> The single most important thing that the Federal Government can do to meet the needs of state and local governments is to stabilize the national economy and return it to a path of stable economic growth.

That is exactly what this administration is trying to do.

To supplement this overall economic revival effort, the administration believes the Federal Government should focus aid toward severely distressed cities to overcome the effects of economic dislocation. Thus, we are strongly in support of the concept of enterprise zones to create jobs and revitalize depressed communities. We have reinforced the proven strengths of the community development block grant and the urban development action grant programs, with greater stress on economic development.

The Federal initiative, too, is a fundamental part of our urban policy. This sorting out of responsibilities and the return of revenue resources to State and localities, which are the administration's long-range goals, are to be achieved by dialog among all three levels of government.

It is based on our confidence in the ability of mayors and Governors to formulate local solutions to local needs and to work creatively with the private sector.

In recognition of the strong contributions that private enterprises has made to the revitalization of so many of our communities, President Reagan established a bipartisan Task Force on Private Sector Initiatives to help encourage greater activities on behalf of America's communities and to help bring to the Nation's attention successful examples of private initiative and community partnership.

The Overview section of the National Urban Policy Report indicates that the urban policy is an evolving one, tied to our federalism initiative, and that the cornerstone of that policy is our economic recovery program. It also briefly sketches what the administration is going to help improve the quality of life in urban America.

Chapter 1 discusses the economic recovery program—comprising tax cuts, reductions in the rate of government spending, regulatory relief, and monetary restraint. Restoring economic growth and reducing inflation will not solve all urban ills. But without an expanding economy, all other programs which focus on the symptoms of recession and inflation will falter.

Chapter 2 summarizes economic trends that effect cities, metropolitan areas, States, and regions.

In chapter 3, we discuss conditions and trends of housing, infrastructure, and crime, and their specific impact on life in urban America. The housing and infrastructure of existing cities are tremendous assets which should be conserved.

In addition to examining previous trends and innovative strategies being undertaken by State and local government, we analyzed the destructive effects of crime, which especially afflicts the poor and minorities in America's central cities.

The administration considers fighting violent crime to be a fundamental priority. The report discusses steps already taken in working with State and local government officials to improve their ability to combat crime and an anticrime legislative package which has been proposed to Congress.

Chapter 4 discusses in detail the evolution and essence of the President's Federalism Initiative and documents impressive new directions taken by States that enhance State capacity and State responsiveness.

Chapter 5 describes numerous successful attempts by cities to develop effective strategies for economic development and service provision, often in partnership with the private sector and their neighborhoods.

The administration has already taken a number of steps to improve the quality of life in urban America:

The inflation rate has been reduced from 12.5 percent to 6.7 percent over the past year through the economic recovery program.

Private sector investment has been stimulated in urban areas through the Economic Recovery Tax Act.

The use of block grants has been increased to return decisionmaking closer to the people.

The burden of Federal regulations on cities has been reduced.

New approaches to the Nation's housing problems have been taken or proposed, including vouchers to house many poor families, a rental rehabilitation block grant to improve existing housing stock, the Joint Venture for Affordable Housing to reduce housing costs, and the encouragement of pension funds to invest in mortgages.

Existing programs have been revamped—for example, stronger emphasis has been placed on economic development in the UDAG program.

We've simplified the application process for community development block grants and have afforded States which have the capacity the opportunity to administer the small cities' block grant program.

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Job training legislation has been proposed, with a focus on training rather than income maintenance.

We've increased the volume of fair housing complaints that have been successfully resolved.

Criminal justice legislation has been proposed to bring about bail reform and sentencing reform, and to protect victims.

Equality of housing opportunity is vital to a just urban society. The President shares my commitment to fair housing. It is a goal this administration is pursuing through implementation of the Federal Fair Housing Law and through education and conciliation.

Mr. Chairman and members of the committee, I have touched briefly this morning on key elements of our Nation's urban condition.

The thrust of the National Urban Policy Report and this administration's urban policy perspective is that the Federal Government will continue to deal strongly with the problems of our cities.

A thriving economy is the cornerstone of this approach.

So is a more sensible sharing of responsibilities among all levels of government.

So is an orderly and equitable return of revenue resources to State and local governments.

So is a national commitment to help distressed cities to deal with their economic problems.

There are those who allege that this administration is turning its back on the needs of urban America.

Mr. Chairman, I suggest that a careful reading of this report will put those allegations to rest.

We are not getting out of the business of dealing with urban problems. We want to solve those problems in the most effective and efficient way possible.

Working together with care, compassion, and creativity, I am confident we can improve the lot of all who live in urban America. Thank you very much.

Representative REUSS. Thank you very much, Mr. Secretary.

I would like to welcome our friend and colleague, Congressman Crockett of Michigan.

Won't you join us, Mr. Crockett.

We will now examine Mr. Pierce under the 5-minute rule.

ONE NATION—OR FIFTY

Mr. Secretary, in your statement, you called for a different sharing of responsibilities of various levels of government. Specifically in the report, chapter 1, page 14, there's a call to strengthen the role of local governments by transferring to them the responsibility for programs whose benefits are local rather than national. As examples, there are listed programs in health, education, welfare, nutrition, and so on.

There are, indeed, two philosophies which might govern this Nation.

One is that embodied in the pledge of allegiance which we all make to the flag, is a pledge to "one nation under God, indivisible, with liberty and justice for all."

And the other is that each local community is a financial law unto itself. And if a given community finds that it's going to be losing wealthy taxpayers or businesses by exerting a level of taxation in order to do the right thing by the welfare, education, health, and nutrition of its people, well, it just might not provide those services.

Now, in rejecting the notion of liberty and justice for all as a national responsibility and saying that, at least in these social fields of nutrition, education, and welfare and health, the major responsibility has to be on the local government, was there adequate consideration given to the abandonment of the national responsibility inherent in the pledge to the flag, which I've just read?

Secretary PIERCE. Well, if we go back into our history, we will find that the State and the individual existed in the first instance. It was the State and the individuals who created the Federal Government.

In our first years of history—in fact, from the beginning of the republic up to about 1935, we existed with what was called dual federalism, whereby the Federal Government basically was involved with national affairs and the State and local governments handled what was considered to be State and local problems, which were things other than those that involved the National Government. The National Government did not interfere very frequently—or even get involved in State and local affairs.

This all changed during the Depression years. The Federal Government became involved in State and local affairs, and it has continued to do so.

Consequently, when you tell me about the pledge of allegiance to the flag and how this Nation was formed, I think one has every right to say that this Nation was formed with three levels of government in mind, with the National Government to do certain things and the State and local governments to do certain things. But as time has gone by, the National Government has become more and more unsuccessfully involved in State and local affairs. For a variety of reasons, which we have gone into great detail in our report, program after program has encountered failure when run from the Federal Government level.

So, I can't agree with your premise at all. We think that what needs to be done is that there has to be dialog among the three levels of government; and in the course of this dialog, reassign responsibilities so that the National Government will once again do things that are of national significance and State and local governments will do those things that relate to their levels of government.

We think that this can be worked out. We believe it must be worked out. We know, from past history, that the other way has not worked.

We've gotten the Federal Government so involved in State and local affairs that the Federal Government has been calling the tune with respect to a great many State and local matters, and it has not been doing it successfully. If these programs had been working, if this system had been working, there would be no need for change. But the system has not worked.

Representative REUSS. Well, you've stated, Mr. Secretary, the issue very sharply and clearly. And I don't really quarrel with your historical recounting that for the first 140 years or so of the Republic the main job of the National Government was to fight wars and provide for the national defense; and the job of State and local government—so far as it was carried out at all—was with the help of private charity, to take care of the health, most of the education, and practically all of the welfare and nutrition needs of the people at the local level.

Indeed, it was President Hoover who, until the end of his administration, stuck up for that principle, saying that this was the proper division of powers. Things, however, changed following 1933, and there was that assumption of major national responsibility for the social welfare of the people of the United States that we've had ever since.

Are you saying that it is the policy of the administration to go back to the Hoover days and to the days before that, when it was said by President Hoover, that the job of taking care of the health, education, welfare, and food and shelter needs of the country was that of local government and private charity, and the Federal Government should not enter into it?

Secretary PIERCE. No, I'm not saying that, Mr. Chairman.

As you noted, things have changed. We've learned lessons. We have to take those lessons into account, and we've indicated that in the report.

What we are trying to do is to redistribute certain responsibilities. And it is very important in that process to shift revenue sources so that the State and local governments can effectively do their jobs.

REDUCING UNEMPLOYMENT

Representative REUSS. Turning, because my time is almost up, to one other question. You point out that a firm component of this administration's urban policy is its economic policy. And you mention that private sector investment has been stimulated in urban areas through the Economic Recovery Act and the burden of Federal regulations on cities has been reduced, et cetera.

What you don't say is that unemployment has gone up very sharply and is now nationally at 9½ percent and that in the cities it is even at a tragically higher level.

I presume the answer of the administration would be: "Give us a little time. We're going to get this down."

The reduction of unemployment would be a great gift from the Federal Government to our struggling cities.

When, can you tell us, you will be able to reduce unemployment in this country to the levels, let us say mandated by the Humphrey-Hawkins law?

The mayors would like to know.

Secretary PIERCE. Well, I would suppose everybody would like to know exactly.

Let me put it this way. It has taken us, I would say, over 40 years to get to where we are, through the policies of throwing money at problems, wasting money, poorly administrating programs, all resulting in running the deficits of this Government up higher and higher.

If you do something wrong for 40 years, you can hardly straigthen it out in a couple of days. So, it'll take us a little time, and it's going to be hard. But we will straighten it out. We believe we can straighten it out. We do need some additional time, but we think we are going in the right direction.

Incidentally, I believe that what happened in Massachusetts provides an interesting microcosm of what this administration is trying to do on a nationwide scale.

The State of Massachusetts was running into a lot of financial trouble. And what that State did was to start cutting government programs, cutting its spending. The officials of that State continued to reduce government spending. There was a push to increase taxes, but they would not increase taxes. They held that position; they worked at it. And today, the State of Massachusetts is beginning to show surpluses; and its rate of employment is increasing. They are moving very much toward prosperity. The officials of that State used pretty much the same type of economic recovery formula that we are using, and it worked successfully.

We believe what we are doing will work. We believe we should have sufficient time to do it. And the amount of time we've had is virtually nothing when you think that it took over 40 years to get ourselves in this predicament.

Representative REUSS. Well, are you suggesting it will take 40 years to get us out of this predicament?

Secretary PIERCE. No, I'm not suggesting that at all. I'm suggesting that we'll get out of it relatively soon.

But you do have to keep in mind, sir, that when it takes that long and when so many mistakes have been made, and when our deficit is going crazy and when our Government, in a sense, from a financial point of view, is going out of control, it does take a little time to straighten that out. Bear with us.

Representative REUSS. Thank you. My time is up. Congressman Wylie.

Representative WYLIE. Thank you very much, Mr. Chairman.

Mr. Secretary, congratulations on an excellent statement. You have, indeed, drawn a crowd this morning, which indicates a considerable amount of interest in you and your subject.

And may I say that I did not sense any indication in your statement of abandonment of "liberty and justice for all," nor have I sensed any abondonment as far as the administration is concerned in those basic principles. And I think your answer was most appropriate.

URBAN POLICY EVOLVING

You indicated that the administration's urban policy is actually in an evolutionary stage.

Could you elaborate on that for the panel, Mr. Secretary?

Secretary PIERCE. Yes. Our urban policy is tied to the federalism initiative. And as that is developed, our urban policy will also be more developed.

The President is in Baltimore today speaking about the federalism initiative. We hope, in the not-too-distant future, to have legislation presented to the Congress on our federalism initiative. It goes very much hand-in-glove with our urban policy.

Representative WYLIE. You also indicated that the administration's policy is intended to fuel a national debate on the structure of Government and on its policies of federalism.

Could you elucidate as to what consultations are underway in that regard?

Secretary PIERCE. Well, there have been many. There have been about 1,700 people from State and local governments that the President and members of his staff have talked to. And many of the departments have advisory committees to work on this. We, at HUD, have one chaired by Governor Bond.

So, there has been a great deal of work done and a great deal of dialog already. And we expect more.

NO WINNERS OR LOSERS

Representative WYLIE. As you know, Mr. Secretary, there are some States which are in some financial difficulty. And I refer to my own State of Ohio as being one of those. And we want to be sure, as Representatives to Congress from States like Ohio, that the administration policy does not add to the cost of burden to some of those States.

And you said that the administration's urban policy will not have any winners or losers among the States.

Is there some assurance that you can give us that that principle will be adhered to or carried out as far as the State of Ohio is concerned, for example?

Secretary PIERCE. That is a very basic principle. The President will reiterate that today when he makes his speech in Baltimore. There will be no winners or losers, and we will work out the program so that will be true.

IMPROVEMENTS IN STATE GOVERNMENT

Representative WYLIE. Well, may I say that I have been impressed that the report indicates that there have been some improvements among the States?

Would you care to elucidate on that a little more, as to where you think improvements have been made?

Secretary PIERCE. Well, I think a lot has changed in the last 20 years with respect to States. In many States, 20 years ago, the basic power was in the rural areas. But there have been a couple of Supreme Court decisions which have upheld the principle of "one man, one vote." And with that, there has been more equitable representation in statehouses throughout the land, so that legislatures have improved.

Also, legislatures have become more professional. They have better staffs. And the legislators have taken their jobs much more seriously.

Governors' offices have increased their staffs, added to their professionalism. They've done a lot in that direction.

So, on the whole, there have been great improvements made in State governments over the past 20 years. And I think it's very important to notice that, because they're not the same States that we were dealing with 20 years ago.

ADMINISTRATION'S URBAN COMMITMENT

Representative WYLIE. Mr. Secretary, the President's "National Urban Policy Report" does have some critics, as you know. And it seems to me as if, in criticizing the report as it has come down, those who would criticize have overlooked some of the initiatives which have been taken and which are spelled out on pages 15, 16, and 17 of the report. And I'm referring there to the enterprise zone reference, to the urban development block grant initiative, and to the community development block grant.

It seems to me as if these programs clearly show a commitment on the part of the administration to improvement in urban development as far as the States and cities are concerned.

And I would ask, Have the critics overlooked those particular programs or those initiatives?

What would be your response to that?

Secretary PIERCE. Well, I think that that's probably right. Some of the critics have maybe not overlooked them, but have just not taken them into account.

Representative WYLIE. We often hear the comment that the infrastructure facilities of our older urban areas are in a state of disrepair.

And would you care to comment on how the Reagan administration and you, as Secretary of the Department of Housing and Urban Development, would address the problem of obsolete infrastructure?

And I might say that that applies mostly to the Northeast quadrant of the United States, of which my State is a part.

Secretary PIERCE. Well, actually, we think of infrastructure as a definite asset for a city to have. And I think what will happen more in the future is that that asset will be repaired more than it has been in the past.

I noticed that my home city, the city of New York, has now set aside most of its money for capital outlays to repair its infrastructure, not build a new.

I think that that's what will be done. Maintaining infrastructure is a very serious problem everywhere in the United States, whether it's an old city in the Northeast or a new city in the West. It is a problem that we intend to work on with the State and local governments concerned and to try to find the best way to solve this particular problem.

Representative WYLIE. Thank you very much, Mr. Secretary, for an excellent statement. My time has expired.

Representative REUSS. Thank you, Congressman Wylie.

Congressman Mitchell.

AUTHORSHIP OF REPORT

Representative MITCHELL. Mr. Secretary, I'm going to probe a little further about the authorship of the report, primarily because there appear to be some inconsistencies in the report.

Now, could you tell me who were the chief three individuals who put this report together?

Secretary PIERCE. Well, I'd say that would be very hard because there were so many of us who were involved with it that I would hesitate to say who the chief three people were. I might offend somebody.

Representative MITCHELL. Well, I don't want you to offend anyone.

Could you tell me who were the chief three persons to give final approval to the report—excluding yourself?

Secretary PIERCE. I was the one who gave final approval to the report for HUD.

Representative MITCHELL. No one else?

Secretary PIERCE. I will take the responsibility for giving the final approval. I mean, people recommended to me that I give final approval, but it was my responsibility.

Representative MITCHELL. Then, that being the case, I'll have to ask you to explain what I consider to be inconsistencies.

INCONSISTENCIES IN REPORT

On page 1 of the report, or your review, the administration pledges to "work jointly with State and local government in the private sector to improve the quality of life in our cities."

Then, throughout the rest of the report, it goes on to elaborate why the Federal Government should virtually withdraw from State and local affairs and revolve most of the programs to State and local governments.

Is that an inconsistency?

Secretary PIERCE. No; because what I think we're really doing here, we are working together—we are working together to reorder responsibilities and authority.

Representative MITCHELL. All right.

Secretary PIERCE. And when we do that, we believe that more responsibilities will go to the State and local governments.

But we will work together on it. We will have dialog on it. We will try to reach a general agreement. Certainly it will not be unanimous; nothing ever is. But we think we can reach general agreement on these things.

Representative MITCHELL. Then, I would ask you to take a stab at eliminating a second apparent inconsistency—I am concerned by the way, that you really have not addressed the first inconsistency.

Secretary PIERCE. Well, I don't think I could ever satisfy you.

Representative MITCHELL. It would be tough because of the perspective from which you come. [Laughter.]

The report cities the virtues of neighborhoods. It's scattered with phrases that suggest that neighborhoods must be maintained in a strong and viable fashion. But the administration has eliminated the Assistant Secretary for Neighborhoods at HUD. The administration has also terminated or sharply reduced the funding for many neighborhood programs. Is that an inconsistency?

Secretary PIERCE. No; I don't think so, because we believe neighborhoods are very important. But they should work through their local governments.

We think one of the big mistakes in some of the programs of the past was that the Federal Government was reaching down into neighborhoods bypassing city governments. There were great complaints about that—great complaints in the community action program, for example, and others, where the Federal Government just bypassed the city government and went right down into the neighborhoods.

We think the neighborhoods should be basically responsible to their local governments.

Representative MITCHELL. Neighborhoods are necessary. The States are going to go back to the old pattern or to some patterns that are still maintained. For example AFDC in some States is so miserably low that people are close to starving.

Now, certainly no one is—I'm not going to vote with my feet by walking to a State where, if I'm out of work, I would not get a pittance sufficient to provide for my family. That is the inconsistency.

Secretary PIERCE. Well, I think that that certainly can—if that is the fact—be recitified.

One of the things that the Federal Government will always do is to watch the various programs to make sure that nobody's constitutional rights are violated. That's very important.

Representative MITCHELL. You don't want to do that, because that will be meddling with the States.

Secretary PIERCE. No, no; that's a part of a national function.

Representative MITCHELL. All right.

Secretary PIERCE. Take housing for example, as I said a little while ago in my opening remarks, we're working on discrimination in housing—we're down in the States working on that—trying to get people not to discriminate. We seek to accomplish this objective through legislation and through conciliation or education. We are working at that. We've done a great job on that. That is a Federal function.

Representative MITCHELL. My time is up.

I want to thank you. You really did not address the inconsistencies for me.

And let me just indicate that I think the Attorney General, William French Smith, would be an excellent person, in light of his statements in opposition to affirmative action, for us to look to for the safeguarding of civil rights.

My time has expired.

Representative REUSS. Congressman Richmond.

STATE-BY-STATE DISPARITIES

Representative RICHMOND. Judge Pierce, Representative Mitchell touched on the matter that interests me most.

Would't you say that probably the main reason for the disproportionate level of the economies of some of the older cities versus those of some of the newer cities, would be the enormous amount of Americans who moved into Chicago, Detroit, New York, Los Angeles or Boston in order to look for work and also in case they need Aid to Families with Dependent Children?

Now, Congressman Mitchell said a woman living in Houston with two children whose husband has recently been hit by a truck would receive the inadequate amount of $142 a month to support her in that city.

In other words, we know for a certainty the people in Houston, Tex., are really telling that woman, "Please do us a favor and vote with your feet and get out of State," even though Texas happens to be the richest State in the Union at the moment.

And what does that woman do?

She comes to New York City, where she can receive a sensitive amount of support while she's bringing up her children and finding herself a job and everything else she needs to become a taxpayer instead of a tax user.

But wouldn't you say that the major job of the Federal Government is not to just cut the cities adirft, but to recognize the fact that we do have a great deal of mobility among our citizens, including poor people and unemployed people in the United States, due to this disproportionate amount of support people can get in various cities?

And wouldn't you say it's the Federal Government's obligation to do something about helping out cities like New York, which is the gateway from Puerto Rico, and the gateways from the South?

You know, Judge Pierce—we've lived in that city a long time—one of the major problems we have in New York City is the enormous immigration of very poor people. New York has been the city of hope throughout our lifetimes.

Now, wouldn't you say it's the job of the Federal Government to help New York City and the other older cities of the United States with their enormous amount of in-migration of people from other States?

The average poor person in New York City is not a New Yorker, as you and I well know. The average poor person in New York City came from Mississippi, came from Puerto Rico, came from Texas, came from Florida.

Florida, the third richest State in the Union, also pays around $142 a month for welfare. How could a poor person—a poor person couldn't live there. And they must go somewhere else.

Now, isn't that the job of the Federal Government?

You said the Government—the Federal Government—is going to do something about it.

What can you possibly do if you want to keep a hands-off position on the States?

Secretary PIERCE. No. As we work out these shifts of responsibilities and authority, we can work out problems like that. These problems will come up. I'm sure, as the legislation comes up here to Congress, these matters will be discussed. Methods of doing it will be worked out.

Representative RICHMOND. Judge Pierce, we know that the entire lower block of States of the Union pay a pitiful amount of money on AFDC and really don't want poor people to live in their States.

That's the bottom line. They tell poor people: "Vote with your feet. Get out."

Now, should that be a national policy? I mean, do we want people to be told, "Vote with your feet, and get out"?

Secretary PIERCE. Well, actually, I don't think that's really so, because if you trace population trends, you will find those Southern States that you've been talking about have been increasing in population, while the Northeast has been losing population.

Representative RICHMOND. Increasing with trained people, not increasing with untrained people.

We don't notice any sort of sensitivity in the Southern States toward poor people.

Secretary PIERCE. Yes. I'd say that a lot of the people who are going into the South are not doctors, lawyers, engineers, but people who are of the rank-and-file labor force.

Representative RICHMOND. Factory workers.

Secretary PIERCE. And that's——

Representative RICHMOND. People who have the skill.

Secretary PIERCE. No; that's not necessarily skill. That's rank-and-file labor force, unskilled labor.

Representative RICHMOND. But people are going from Detroit down South——

Secretary PIERCE. Yes. In New York we've been losing population, as you know. We're going to have fewer Congressmen. We're losing them. All of those people who are going South are not doctors and lawyers, believe me. [Laughter.]

Not to lose numbers like that. You don't have that number of professional people——

Representative RICHMOND. Well, they're not doctors and lawyers.

Secretary PIERCE [continuing]. Not even in New York.

RESPONSIBILITY FOR THE POOR

Representative RICHMOND. But they're also not widows and orphans.

What I worry about is who is going to take care of the poor people in the United States who are unable to work? Who is going to train or retrain those who want to work. Who is going to set up day care centers for them? Who is going to do something about helping to move toward a productive future if we depend on the States to do it? Because we know very well the Southern States aren't going to do it?

Secretary PIERCE. I don't say that we know that, but——

Representative RICHMOND. The administration and the Southern and Sun Belt States seem to be saying it.

Judge Pierce, have you ever thought about the counterproductivity of poverty, the fact that our two major industrial competitors in the world, Germany and Japan, don't have poverty, the fact that they've been able to wipe out poverty even though they lost World War II. They've wiped out poverty and we haven't been able to do it.

We have 40 million poor people in the United States, most of whom live in cities.

Secretary PIERCE. Well, that depends on what you call poverty. Poverty is a relative thing, as we well know.

What is poverty? What income does somebody have to make to be poverty stricken in this country? Do you know?

Representative RICHMOND. Are you suggesting that there may be "only" 25 to 30 million poor in the United States?

Secretary PIERCE. What is it?

Representative RICHMOND. Right now the poverty level is roughly $8,000 for a family of four——

Secretary PIERCE. And that's——

Representative RICHMOND [continuing]. In the United States.

Secretary PIERCE [continuing]. For anywhere in the United States?

Does it vary from State to State, or locality to locality?

Representative RICHMOND. Yes.

Secretary PIERCE. Of course it does, because it is based on the median income for the particular area.

Representative RICHMOND. Food is basically the same price anywhere in the United States.

Secretary PIERCE. No; it's not the same. It's not the same. I travel a lot, and it's not the same.

Representative RICHMOND. Food is not the same?

Secretary PIERCE. No. Not all over the country. You don't pay the same money for food in one place as you do in another. You can buy cheaper food in some places then you can in others. And I'm sure if you traveled a lot, you'd find that out.

Representative RICHMOND. We know, for a fact, that food is much more expensive in every ghetto in the United States compared to every middle class or wealthy neighborhood. That's a different story.

Secretary PIERCE. Oh, no. I wouldn't say that. I think that——

Representative RICHMOND. Oh, you don't?

Secretary PIERCE [continuing]. That when I go downtown in New York and eat at some of those fancy restaurants——

Representative RICHMOND. Well, we're talking about——

Secretary PIERCE [continuing]. The bill that I get down there is much higher than when I go to a chicken joint up in Harlem. [Laughter.]

Representative RICHMOND. Judge Pierce, poor people don't go to restaurants. I'm talking about grocery stores and supermarkets.

We know for a fact that ghetto grocery stores and ghetto supermarkets are considerably higher than those on Madison Avenue and Lexington Avenue in New York City. We've tested that any number of times.

I, myself, have followed trucks back and forth and seen them take the grocery food from Madison Avenue supermarkets and bring them to Bedford-Stuyvesant. We know that happens all the time.

Secretary PIERCE. No, I don't know that happens all the time.

Representative RICHMOND. We can document it. CBS has done a documentary on it—many of us have documented the fact that the vegetables that are in the fancy supermarkets in Manhattan on Monday and Tuesday find themselves in Bedford-Stuyvesant and Harlem on Wednesday and Thursday. We know that——

Secretary PIERCE. Well—well, no.

Representative RICHMOND. We know that on welfare day—on welfare Tuesday—Monday prices have gone up overnight in ghetto supermarkets. I've looked in the window and seen them raising the prices myself.

Secretary PIERCE. Well, let me say this. I know that there are some small stores——

Representative RICHMOND. No; I'm talking about the big supermarket chains.

Secretary PIERCE. You mean like a Safeway and something——

Representative RICHMOND. Like a Safeway, like an A&P——

Secretary PIERCE [continuing]. Will charge much higher in Harlem than it does——

Representative RICHMOND. Of course, they're going——

Secretary PIERCE [continuing]. Downtown?

Representative RICHMOND [continuing]. To charge more——

Secretary PIERCE. Yes?

Representative RICHMOND [continuing]. By areas, especially food, as you know. And we monitor that very closely.

Food prices in Bedford-Stuyvesant and in Harlem are higher and the quality is much, much lower than anywhere else in the city.

Secretary PIERCE. What has the Federal Government been doing about that in the last——

Representative RICHMOND. Nothing.

Secretary PIERCE [continuing]. Twenty years?

Representative RICHMOND. Nothing.

Secretary PIERCE. It exists, doesn't it?

Representative RICHMOND. I think something ought to be done; don't you?

Secretary PIERCE. Well——

Representative RICHMOND. You know, you just can't have the Federal Government keep its hands off the cities. We're one nation.

Secretary PIERCE. You mean the Federal Government should make the cities and the independent private companies put the food where the Federal Government wants it and tell them what price to charge; is that what you want?

Representative RICHMOND. I think it's basically—we have a set of Federal laws in the United States. I don't know why the prices should be higher in a ghetto than in a middle-class neighborhood. I don't know why the greatest hope of any poor woman living in a ghetto is to get a ride to go to a supermarket outside of her neighborhood so that she can buy fresh food cheaply.

Why should a poor woman have to leave her neighborhood to go shopping because this——

Secretary PIERCE. Well, tell me this. Why haven't you introduced legislation to take care of that long before now? You've had the Federal system. You've had the way to do it. Why didn't you do it?

Representative RICHMOND. Well, it's basically——

Secretary PIERCE. I mean, why haven't you——

Representative RICHMOND [continuing]. The job of the——

Secretary PIERCE [continuing]. Done it?

Representative RICHMOND [continuing]. Federal Trade Commission. We haven't been able to get much done with them.

Secretary PIERCE. All right.

Representative RICHMOND. But, Judge, I go back to this whole concept of poor people voting with their feet. And should the Federal Government just sit by and allow them to do it?

Secretary PIERCE. I think I've given you the answer to that. We've gone over this quite a few times.

Representative RICHMOND. Thank you.

Representative REUSS. Congresswoman Heckler.

HIGH INTEREST RATES

Representative HECKLER. Thank you, Mr. Chairman.

Mr. Secretary, the Urban Policy Report says the administration's economic recovery program is the foundation of its urban policy. While that premise seems basically correct, it would seem that all of the critics and some of the analysts of the economic recovery program point to the obvious cost of money as being the greatest handicap, the greatest barrier to the use of the incentives in, for example, the tax changes.

I wonder how you view the interrelationship of the high interest rates which we presently have and the potential of the economic recovery program to achieve an urban policy reconstruction, which is the goal of the administration?

Secretary PIERCE. Well, there's no doubt that interest rates will have to go down further. But I would like you to keep in mind that just about a year and a half ago interest rates were about 20 percent. So, they were up, and they've come down to some extent. They need to come down much more.

We are hopeful that the economic recovery program will result in reducing interest rates.

Representative HECKLER. Well, it would seem that we have had so many meetings with Chairman Volcker of the Federal Reserve Board. We have debated for so many years the independence of the Federal Reserve System. I have earlier supported that very adamantly.

And I'm now rethinking—not that I see another alternative that's acceptable, but I do see the continuation of the interest rates at the present level as stymieing any economic recovery in the whole country.

Now, you are the Secretary of Housing and Urban Development, and I know how committed you are to the goals of the urban development of this country. I wonder how you can interact? Is it possible for you—do you speak to Chairman Volcker, do you discuss this issue of the interest rates?

Unless something is done about interest rates, I don't see how even the most effective program on the books can be translated into an economic recovery.

Is this something that you can discuss with Chairman Volcker—a subject that you can deal with as Secretary?

Secretary PIERCE. Well, he's certainly a person I can talk to. He's a good friend. We worked in the Treasury together some years ago when I was General Counsel. He was Under Secretary. So, he's a very good friend, and I certainly can talk to him.

Actually, I think Paul Volcker has, under the circumstances, done a very good job. When I look at inflation and see where that was at one time and where it is now, I think he is responsible, in a very substantial measure, for that improvement.

So, I think Paul Volcker is sensitive, and I think he realizes that a short-term fix will not really rectify our situation. We have to work on a long-term basis. We've been making too many short-term fixes. And that's the way we're going to have to go if we want our economy to have constant and stable growth.

Representative HECKLER. I would agree that there is no band-aid that would be effective today. At the same time, I wonder how long the interest rates can continue at the present level without severely handicapping the possibility of the economic recovery program of the administration to be effective at all?

Because of these interest rates, and because the cost of money continues to be as high as it is now, I don't see how urban development can be afforded by private entrepreneurs. And so much of the essence of the report is on the development of the private sector, with which I concur.

But I say how can the private sector invest in growth when the ocst of money remains that high? And doesn't it become counterproductive for the Federal Reserve System to keep money that high and make it impossible for a recovery to actually occur?

Secretary PIERCE. We are working at that, and we believe that in due time we will be able to get interest rates down. And I would agree with you, they are still too high. They are going down slowly. There has been some up-and-down movements in them recently. But I think on the whole they're moving downward. And I believe that they will go much further down by the end of the year.

OPPOSITION TO REPORT

Representative HECKLER. Mr. Secretary, most of the mayors that we've heard from seem to be very opposed to the President's Urban Policy Report.

Why do you believe this is so? And how would you analyze it? And how do you rebut their objections to the report?

Secretary PIERCE. Well, I'd have to let the mayors speak for themselves. A number of the mayors that I've talked to consider the report a fair one, an equitable one, and one that can possibly work.

There are others who do not, who think that this is the wrong way to go.

I think it's basically a matter of philosophy. I think that what the mayors are saying is:

> We want to go the same way we have been going since the time of Roosevelt. We want the Federal Government to give us some money, throw some money at problems. We know how to deal with that. But now you want to change horses in midstream, and we don't know how to deal with that. We know and like the old way. We do not know and are apprehensive about the new way. And so, therefore, we want to stay with what we are used to and what we have been doing since the time of Roosevelt.

And I think it's a difference in philosophy and approach, two different ways.

We think that the approach that we have set forth in this report is correct, and they think that the old way is right.

We think that program after program under the old way has shown that it is the wrong way and something needs to be done to try to alter the situation. Otherwise, we're going to continue with higher and higher deficits and with this country coming closer and closer to 1929 again.

Representative HECKLER. Well, Mr. Secretary, my time has expired. But I am pleased that you have continued the support for the urban development action grant program, because no particular program in my congressional district has generated more private-sector jobs and long-term career opportunities for people than that program. Because it is so valuable, it should be preserved.

I understand my time has expired.

Representative REUSS. Thank you, Representative Heckler. Congressman Crockett.

Representative CROCKETT. Thank you, Mr. Chairman.

STATES RIGHTS

I'm not a member of your committee, but I certainly do appreciate this opportunity to participate in the hearing.

Mr. Secretary, I regret that I was not here in time to hear your formal presentation. And about all that I know about the new economic policy for urban areas promulgated by the administration is really what I read in the newspapers.

I have one basic question, however, on which I think you might be able to help me. I'm at a loss to understand the difference between the so-called philosophy of "States rights" and this so-called New Federalism.

I come from a district in Michigan that is roughly about 75 percent nonwhite. Most of them trace their roots back to the Deep South in the period prior to 1935, which I think you indicated was the date for the terrific change in our economic and social attitude as far as the Federal Government was concerned.

So, I am constantly being asked by my constituents whether or not New Federalism, for them, means going back to the kind of existence that they had in the Deep South during the Hoover period and before the Federal Government became interested in such issues as education, housing, health, and employment.

I'm at a loss to answer that question, because as I view your policy of New Federalism, it seems to me like sort of a dressed-up version of States rights.

And when I remember some of the campaign oratory of our President, I have some difficulty understanding what the basic difference is.

Perhaps you can help me.

Secretary PIERCE. Well, I think there is a basic difference. And let me try to explain what we're trying to do with the federalism initiative.

What we're attempting to do is have the responsibilities and authority for Government reassigned or redivided among the three governments.

Now, when those responsibilities are redivided, it does not mean that the Federal Government will say, "I am no longer interested in seeing to it that the constitutional rights of individuals are taken care of." We will.

You said you were not here when I spoke, when I talked substantially about the efforts that we're making with fair housing and that, no matter what happens, we will have the means of pursuing our fair housing goals.

I made a statement here today that the Federal Government will continue to see to it that the rights of the individual are upheld, that no one will be discriminated against because of race, creed, color, sex, or national origin. That is what we say. That is our position.

And I think what your people are worried about is that the States will take over and then start doing things that are discriminatory with tax moneys that they get from revenue sources that may be even primarily Federal, because we may shift certain revenue sources to States and localities to do certain things.

But when we shift that money, that will not mean that we will abandon the rights of people.

STATE AND LOCAL CAPACITY

Representative CROCKETT. My second question has to do with how the administration expects States and local governments to assume this increased responsibility when the Federal Government continues to take such a major share of the tax pie and funnels such a large portion of that share into the so-called defense budget?

Secretary PIERCE. Well, as I say, we intend to try to redivide and to give back certain revenue sources to State and local governments so that they will be better able to handle some of these added responsibilities.

Now, exactly how much there will be will depend on a number of things. But the biggest thing we think it will depend on is a thriving economy.

We believe that if our economy grows and becomes strong and stable, there will be sufficient revenue sources to take care of national needs—such as a strong defense—as well as State and local needs.

Representative CROCKETT. Thank you, Mr. Chairman.

Representative REUSS. Thank you.

Secretary PIERCE. Incidentally, may I just add one more thing?

I don't know whether you know this or not—but you weren't here when I made the statement—but in 1980, this committee said the best thing the Federal Government could do would be to bring about a strong economy. And that would be the best thing to help cities, to help the urban areas.

Representative REUSS. Thank you very much, Mr. Secretary.

We said that in 1980, and we'll say it again today. And would that it might happen.

You've put it yourself very well. We appreciate your being before us and your frankness and responsiveness to our questions.

Secretary PIERCE. Thank you very much, Mr. Chairman.

Representative REUSS. And we look forward to seeing you again down the line to see how we're doing.

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Secretary PIERCE. Well, I'm sure we'll see each other. Thank you very much.

Representative REUSS. Thank you very much, Mr. Secretary.

We'll now hear from a blue ribbon, gilt-edged panel, Mayor Charles Royer of Seattle, vice president of the National League of Cities; Professor Roy Bahl of Syracuse University; Milton Kotler, a leader in the neighborhood movement, who is now vice president of the Center for Responsive Governance; and our old friend Bob Embry, a former Assistant Secretary of HUD, now a consultant in Baltimore.

Mayor Coleman Young of Detroit was scheduled to be with us and has been with us until a few moments ago. His statement is available at the press table and is herewith released. He will be with us at 9:30 tomorrow morning to answer questions about his statement. His reason for leaving is one that we have to understand. He is taking off for Baltimore, where he's about to have lunch with the President.

And since Mayor Young played a valiant role at the U.S. Conference of Mayors convention just a few weeks ago, shortly after the first version of the President's National Urban Policy Report surfaced, and led the hue and cry against it, which resulted in the second version, it is not beyond the realm of possibility that, should the seating arrangements at the Presidential lunch permit, he might have an opportunity to get in a few licks and maybe there will be a third version tomorrow and we can start the hearings again.

Until that time, however, we will start. And because Mayor Royer of Seattle has a time problem, too—and we're very grateful to him for coming all the way across the continent to be with us—we're going to hear your statement first.

Representative MITCHELL. For heaven's sake, you aren't going to have lunch in Baltimore with the President, too, are you? [Laughter.]

Mayor ROYER. I had a previous engagement, Congressman Mitchell, and I was unable to attend.

Representative MITCHELL. So did I. [Laughter.]

Representative REUSS. Mayor Royer.

STATEMENT OF HON. CHARLES ROYER, MAYOR, SEATTLE, WASH., AND FIRST VICE PRESIDENT, NATIONAL LEAGUE OF CITIES

Mayor ROYER. Mr. Chairman, Congressman Mitchell, I'm Charles Royer, mayor of the city of Seattle.

I guess you might say that Coleman is voting with his feet in going down to Baltimore today——

[Laughter.]

Mayor ROYER [continuing]. To speak with the President. His last minute invitation is somewhat illustrative of the kinds of activities that have gone on in the National League of Cities and in the U.S. Conference of Mayors with regard to the urban policy and the development of the New Federalism proposals.

We have tried, as mayors, city council members from around the country, through our public interest organizations, to carry on a discussion with the administration. And we have had a discussion.

We have, through the National League of Cities, evaluated the New Federalism proposal, the framework for federalism in the beginning, and now the Urban Policy Report.

And I would like to submit for the record, after nearly 2 years' experience in dealing with these urban initiatives, the National League of Cities' statement on the federalism and urban policy proposals.

If I could quickly summarize the National League of Cities' statement——

Representative REUSS. Your prepared statement will be admitted into the record in full.

Mayor ROYER. Thank you, Mr. Chairman.

The National League of Cities' statement on the Urban Policy Report rejects the notion that Federal grants in aid have contributed to cities' decline, and NLC is concerned about the disengagement of the Federal Government from the Federal-local partnership that's meant so much to cities.

The conditions that the cities laid down for acceptance of the Federalism proposals have not been met. And therefore, the National League of Cities, which is an organization representing 15,000 towns and cities across the country, in a consensus vote at our board meeting this weekend, stated that we could not, in their present form, support the federalism proposals.

That was not an easy position for the National League of Cities to come to. The National League of Cities is, because of the diversity of its membership, a rather careful organization and attempts to reach policy decisions through a process involving a grass roots effort around the country—big cities and small, working together to try to determine what is best for their cities.

I think I can summarize the feeling of the board members meeting in North Carolina this weekend; in their views the Urban Policy Report and the New Federalism proposals, taken together, are, in effect, an effort on the part of the administration to rationalize some serious budget-cutting on the domestic side, with a certain amount of rhetoric which has attracted a tremendous amount of attention from the President of the United States and from the Congress—and for which we're grateful.

But we believe that the urban policy basically was written to justify the fact that cities would pay the price for what I think I can characterize as a "radical" economic program. The word was used at the board meeting, a "radical" economic program, a "radical" view toward American cities.

Since urban aid is cut, urban programs are denounced as harmful to cities. Since the unemployed are destined to be set adrift, the authors seem to make a virtue of mobility and dislocation.

The unemployed are now free to load the family in a battered car and wander in search of work, providing they can afford the gasoline.

It's a program which seems to be straight out of the pages of the "Grapes of Wrath." And the new Joad family, I guess you could find on the pages of the Washington Post this morning. In Texas, they call them "black tag people," people who have moved from Michigan and the unemployment in the auto industry to Houston and to Dallas. And the report in the Washington Post this morning said they were identified in the South in an ironic reverse migration, identified by the black tags—license tags on their cars.

Since the Federal role is to be limited to defense and foreign policy primarily, the policy promotes the States as the new champions of urban areas.

Coleman and I had a long discussion last night about our States and how well they're doing. And again, in the paper this morning—and I don't know who edits that paper, but someone was very pressing in deciding what stories to put in today, because the whole urban policy was stretched from the collapse of the Boeing Co.—"collapse" is a little strong, the decline of the Boeing Co., along with the airline industry to the collapse of the fiscal capacity of State government.

All 50 States were characterized in the Washington Post today in terms of their ability to deal with fiscal problems, from Texas, which is building new colleges and universities and financing education, to Washington State, which just put a sales tax on food in an emergency session to try to balance the budget. Food does cost more in Washington State—and not just in the restaurants.

I think what we're talking about, Mr. Chairman, is a tremendous amount of rhetoric that conjures up an urban fantasy: where State legislatures are not in any way affected by special interest groups; where State governments do the right thing; and where, in metropolitan areas, cities are all equal—unlike in my city, my metropolitan area, where our tax revenues went down 1 percent, while in the fourth largest city in the State, a suburb of Seattle, they went up 15 percent.

There are disparities, not only among States but among cities.

This document contemplates a world in which there are no such disparities, in which everyone does the right thing.

And I think, without being too terribly critical of the motive, the fantasy, while interesting, is probably not at all relevant to the practical day-to-day happenings in American cities.

And those of us who work in cities are looking all of the time for practical things: what works; what is relevant; what's practical; and what can happen within the short lifetime of a mayor. And the mayors' lifetimes are getting shorter these days.

Let me just try to relate very quickly, Mr. Chairman, some of those relevancies and practicalities to what is in the document and what is contemplated in the New Federalism.

First, the States. My own State has suffered through two regular sessions and four special sessions in 18 months. They've cut services by more than $1 billion, and they've increased taxes by an equal amount. A budget of $8.1 billion is now $6.9 billion, including $1 billion in new taxes. We are getting less for more, in short.

Washington's problems are magnified by the depression in the timber industry caused by, in large part, a disengagement of the Federal Government from a 40-year responsibility in housing—not just housing for the poor, but housing for the country. Our housing industry, without stimulus, is in severe decline. In some counties in my State, unemployment is 30 percent.

The National League of Cities' survey of 43 cities around the country, cities in all 4 regions of the country, shows us that cities are in the same kind of distress as are the States.

And the same kinds of disparities exist around the country: In Tucson, a $30 million cut in the capital improvement program; and in Little Rock, the laying off of 42 people, including police and firefighters.

Those cuts are in concert with tax increases. Every city, almost every city, we looked at has increased taxes and fees to the extent that city can.

We are putting fees on everything now. We're raising the price of going to the zoo in my city, and we've raised the price of the parking meters until there's a near revolution in my city.

Cities are trying to do what they can with limited fiscal capacity. Most cities are facing similar problems. Revenues are not keeping up with the demand for expenditures.

And there is a kind of sickness that is developing in our older cities—more than a sickness. We are postponing capital expenditures because of the budget problems. And we are allowing our urban teeth, if you will, to decay because we can't afford the preventive dentistry to do what we need to do.

The older cities are getting older and more deteriorated. The newer cities, trying to accommodate growth, are unable to do that, even if that growth provides jobs for people.

In my own city, to paint a bridge costs $650,000. If you don't paint the bridge, the bridge falls down and my children will replace the bridge at some time in the future. Those are choices, hard choices, that cities are making.

I've watched the public-spirited business people in my city try to make up for some $20 million in social services cuts through something called "Project Transition," and they were able to raise $2 million. And that was a wonderful thing for people to do, but it fell far short of the need.

It's difficult to understand how the authors of this policy can assume the private sector will be motivated to renew distressed cities and to make new investments when the Federal Government itself, in a most highly publicized way, is writing off investment in cities as not being effective.

Now, consider that for a moment.

I go to the banker in my city and suggest to that person that he invest in the central city. And he says to me, "The Federal Government, in an official urban policy report, said to the U.S. Congress that investment in cities makes no difference, that you cannot turn around the kind of decay you're talking about with investment in cities."

The administration, in this report, is, in essence, damaging the same public-private partnership it says it wants to encourage by the kind of rhetoric they are using the policy decisions that are being made.

Let me try to finish up as quickly as I can, Mr. Chairman, by talking about my city briefly and what we have done and the resentment some of us feel when we are told that we throw money at problems, that are addicted to Federal funds.

I wasn't even around when Mr. Roosevelt was President, and I don't remember, therefore, what it was like then. But I do remember what it was like when there was an activist Federal Government and an activist, interested mayor and an activist, interested, concerned citizenry in Seattle and we pulled outselves out of the greatest depression in our city since the Great Depression. It was a time when the Boeing Co. went from 110,000 workers to 50,000 workers in a little over a year.

With the Federal Government, the private sector, new economic development ideas—leadership from the Federal Government and the State government and the local government—we were able to pull ourselves out of that depression, in which we were even ahead of Detroit in terms of unemployment, which is hard to do.

But the Federal Government played a role in trying to help provide some programs that would give the unemployed some dignity, that would give those people who were disconnected from their jobs some choice other than to move out of what, some 10 years later, national magazines called "the most livable city in the country."

We were able to turn that situation around, but only with a partnership. And the notion that we are not innovative or not inventive or simply, like some kind of urban methadone freaks, tied to some mainline in Washington, D.C.—that's a wrongheaded notion.

And I believe my views are shared by mayors of cities, big and small, around the country.

In our city, when the section 8 program declined and we had 8,000 people on a waiting list for housing, the citizens of my city taxed themselves to the tune of $48 million on the property tax to build 1,000 units of low-income, elderly housing. We won 76 percent of the vote last November for that proposal.

Tell me that people in this country are unwilling to pay taxes for a good idea or unwilling to stimulate the housing industry. In less than a year, the very-first units authorized by that bond issue will be constructed even though the interest rate on municipals is nearly 12 percent.

But that's an indication, Mr. Chairman, of the kind of spirit there is in the cities. Unfortunately 1,000 units will not last us very long, because there are 7,000 still on waiting list. And we can't go to the bond market again for another $48 million, because we don't have the debt capacity. But we're willing to help, and we need the Federal Government as a partner. We've paid a very heavy price in our city, with very high excise taxes, with extremely high demand on the energies and resources of business.

The person who headed the bond issue campaign for those elderly housing units is the chairman of the State's second-largest bank. He was also the opponent of a rent control issue that was on the ballot just before we went out to produce housing.

The rent control advocates and the bank president sat down together and, with an army of elderly people, got 76 percent of the vote. That kind of cooperation exists in cities. And it needs to stimulated and recognized by the Federal Government with some of the tools and the instruments that we have had in the past.

With each shift of responsibility as contemplated in the New Federalism proposals, with each shift of responsibility contemplated in the Urban Policy Report, there seems to be a concurrent shift of the tax burden.

Our people are now, as I said, paying a tax on food in order to make up for some of the shortfalls.

The shift has meant, for cities—with their disproportionate share of the elderly and poor—that we must now pay a disproportionate share of the costs of meeting human needs.

When the State government cannot support mental hospitals in Washington State, the streets of Seattle become the mental asylum of last resort. We deal with those people in our cities.

I guess, Mr. Chairman, in conclusion, the question that comes to mind in reading the Urban Policy Report—and I read most of both—the first draft, where the language was aggessive, belligerent, nearly insulting, and the second, where that language was removed—the substance remains roughly the same. The language has been changed to protect the guilty, if you will.

But the question that comes out by reading both of those documents is: Do we have a national purpose? Are we one nation, or are we an aggregation of States, linked together only by a common army? Or are we a national community?

Part of our tradition is the belief that we have a national interest that keeps us together. This belief has not been a partisan issue—never has been a partisan issue.

It began in 1949, with the effort to rebuild blighted areas under the leadership of Senators Robert Taft, Allen Ellender, and Robert Wagner. It continued under Eisenhower, Kennedy, and Johnson, with new housing programs. It continued with Presidents Nixon, Ford, and Carter; major efforts to rebuild public transit, clean the air and the water, and focus city renewal efforts on economic development.

Throughout three decades, a cooperative, bipartisan national effort has evolved, drawing the very best from each level of government—from the Federal Government those resources from a fairly progressive tax system which is not duplicated in very many States around the country; enabling legislation from State legislatures to allow us to deal with 100-year-old constitutions; and local bankers like mine and local housing activitists like mine getting together to make those laws work.

The effort hasn't been perfect, but I think it's proved effective in creating more livable cities and offering some measure of hope to the poor.

It's that record of cooperation among levels of government, that record of steady but difficult progress that is new perceived as coming to an end.

The National League of Cities must reject that notion.

We have had a good partnership. We are just beginning to learn how to use it. And we're not tied to the old ways.

Mr. Chairman, I'd be happy to answer any questions that you might have. Thank you.

[The prepared statement of Mayor Royer follows:]

PREPARED STATEMENT OF HON. CHARLES ROYER

Chairman Reuss and distinguished members:

I am speaking today on behalf of the National League of Cities, which represents nearly 15,000 cities, the hometowns of a majority of the American people.

In beginning my remarks, I must say that I found it somewhat difficult to prepare for this hearing because the object of the Committee's interest--the Administration's Urban Policy report--has been in a state of constant revision until the last few days. Two weeks ago, when the news media revealed a 160 page draft urban policy, which branded the nation's local officials as "wily stalkers of federal funds," the President quickly disavowed the document. Secretary Pierce, suprised at the anger of the Nation's Mayors, suggested the report was only a staff paper that was unlikely to gain his approval. Our anger, the Secretary assured us, was premature.

And so it was. But only by a fortnight. For the urban policy released by the Secretary 72 hours ago bears a startling resemblance to the draft disavowed by the President. The rhetoric is less inflammatory, but the message is the same. To paraphase

Felix Rohatyn: the draft document told the cities to "drop dead." In the final version, in more refined language, we are invited to expire if that is the will of inexorable economic and social forces.

We cannot be absolutely certain that this new document is the final version of the urban policy, and not another trial balloon. The reports from the White House are confusing on that point. The President is reported to have read and approved this policy, and yet the White House press office continues to refer to it as a "HUD document."

I can only assume that this document does truly articulate the Administration's urban policy, because the President and the Secretary have clearly devoted a great deal of attention to it in the past few weeks. Any document which receives so much of the President's concern clearly merits careful analysis.

I must also view the document as an accurate statement of policy because it so closely parallels the Administration's past actions with regard to the cities. As John Mitchell once said" "watch what we do and not what we say." Those who govern America's cities have watched the Administration's performance for eighteen months now, and we have listened closely to their words. We have found gaping differences between the two.

The earlier draft of the urban policy did not have that problem. Unlike so many other federal documents of our time, the draft did not hide its intent--or its disdain for local officials--

behind a curtain of euphemisms. The basic values that drove its authors were exposed for all to see. In the latest version, these values are obsured by a rhetorical fog - a veil of patriotic imagery that is difficult to penetrate. But the underlying values - so vivid in the earlier draft - continue to cast a shadow over the future of American cities. They are values I consider to be outside the mainstream of the American tradition - radical values that rationalize human misery and seek to justify a policy of abandonment.

As the New York Times wrote in its editorial of June 28: "To say that cities should take care of their own problems is not an urban policy, not even a conservative conviction. It is a camouflage for a cruder approach to poverty in America. Let someone else worry. Let someone else suffer. Let someone else pay."

This document is not an urban policy, Mr. Chairman. It is a blue-print for surrendering America's cities. With this document, the federal government admits it is incapable of winning the battle for the cities, and announces its intention to go AWOL. It is ironic that so much effort by so many creative minds has been expended to rationalize this desertion in patriotic terms.

In fact, the direction of this Administration's policy toward the cities was set long before anyone went to work on an urban program. The content of the urban policy was pre-ordained by the Administration's economic program - a program which was fully enacted through

- large tax cuts for those who needed them least;
- unprecedented increases in expenditures for the arms race; and,
- tight money policies by the Federal Reserve resulting in high interest rates.

To compensate for the deficits created by these measures, domestic programs had to be slashed. This urban policy was developed to justify the fact that the cities would pay the price for the radical new economic program. Since urban aid had to be cut, the policy denounces federal programs as harmful to the cities. Since the urban poor were destined to be set adrift, without training and without jobs, the authors chose to make a virtue of dislocation. No longer would the urban poor be the unwitting victims of the federal aid that had enslaved them. They, too, would be free to load up the family in the battered car and wander in search of work like the Joad family in Steinback's Grapes of Wrath -- providing they could afford the gas.

As the Administration limits the federal role to national defense and foreign policy, it promotes the states as the new champions of urban areas, and passes much of the responsibility for our future to them.

Since the government--at all levels--is defined by the authors as the enemy, the very meaning of the word "public" is re-evaluated. Under the new definition, neighborhoods, private firms, and the family are thrown into the battlelines in the hope they will make up for the absence of the federal government.

All these devices show a good deal of imagination. It is not easy to conjure up an urban fantasy in which the theories of Adam Smith can be strictly applied to the twentieth century, where extreme special interest politics don't control state legislatures, where there is no imbalance of wealth between the central cities and the suburbs or among the states. But this document creates such an imaginery place. It is a world where the races and the poor can be evenly distributed, and equal opportunity prevails for all through the forces of the market place. A world where each city can create clean streets, public transit and solid infrastructure without help. It is an interesting fantasy. But it isn't relevant to America's cities. It is a diversion from reality.

Let me take just a few minutes to examine the premises of this policy in terms of our experience in Seattle.

The cornerstone of the policy is an awesome shift in responsibility to state and local government. On the surface, this policy has immediate appeal, for it promises to bring power a step closer to the people, and reduce their frustration with the fact that decisions affecting their lives are made thousands of miles away. That is the rhetoric - what is the reality?

In the first eighteen months, the Administration succeeded in combining more than fifty categorical programs in nine block grants to the states. In most cases, the states received only 75% of the funds the federal government had formally dedicated to such purposes before the election of 1980. In some cases, programs were eliminated altogether on the theory that state and local government or the private sector would assume these responsibilities. The results of this first round of new federalism are now becoming clear for the states - and for the cities.

The Washington State legislature has suffered through two regular sessions and four special sessions in the past eighteen months. They have cut state services by more than a billion dollars and increased taxes by an equal amount. A budget of $8.1 billion is now $6.9 billion, including $1 billion in new taxes.

Washington State's problems are magnified by the depression in the housing industry, because we depend heavily on the wood products industry. But these problems are not unique to the timber states of the northwest. More than half the Nation's states have struggled during the past year to balance their budgets with cuts in services, tax increases or both. Many states, like Washington, have chosen to use a third method as well: they have passed the problems on to the cities. When the states close wards at mental hospitals, it is the city streets that become the asylum of last resort for the mentally ill. When the state and federal government cut off promised assistance to Indochinese refugees, it is the cities that are left to pay the price.

Seattle is not alone. At our meeting a few days ago, the Board of the National League of Cities reviewed a survey of forty-three cities across the country. It showed that most cities are already facing difficult financial problems because of the early stages of the new federalism and the continuing recession. The cities are already cutting basic services and postponing capital projects that are badly needed.

Now, the Administration is proposing a second stage in the new federalism. The details remain hazy, but the basic outline has emerged. Medicaid will be assumed by the federal government, while the responsibility for most welfare programs is cast off the states. Forty additional federal programs will become state responsibilities -- including community development, employment and training programs, public transportation, water systems, and a host of others. These are not the marginal federal programs. These are the basic tools of urban survival.

To compensate for these new responsibilities, the Administration promises to shift taxing authority to the states. Yet, even if the states choose to use that authority, the resources will not equal the added responsibilities. An estimated $20.6 billion in taxing authority is offered to pay for $30.6 billion in programs. Further, these new revenues have a sunset clause. The federalism trust fund is designed to self-destruct by 1991, leaving the states and cities to make up the difference entirely from their own resources, or do without the services.

When state and city resources give out the Administration suggests we rely on the private sector. I have watched the good business leaders of my city struggle to piece together $2 million in a special fund drive to offset more than $20 million in health and human services cutbacks. It was a valiant effort, but it fell far short of meeting the need. It is difficult to understand how the authors of this policy can assume the private sector will be motivated to renew distressed cities when the federal government itself has given up the task. By abdicating its role, the federal government has taken a giant step to crush the public-private partnership that is a key ingredient of its own strategy.

The same can be said of the remaining pillars of strength, the neighborhood and the family. The policy of encouraging the urban unemployed to move elsewhere in search of work will divide families and diminish the strength of neighborhoods. Neither institution can thrive in a nation of migrants.

All of the people of my city, like many others, have struggled during this past year to make up for what we were losing in Olympia and Washington, D.C. When the federal government abandoned its forty year commitment to build housing for the low-income elderly, the people of Seattle voted to tax themselves to build 1,000 units of housing for the elderly poor.

When the Administration decided to walk away from the Public

Health Service hospitals, we chartered a public development authority to keep our public health hospital open. As the state and the federal administration cut back on aid to education, the people of Seattle voted to tax themselves again to save our schools. Our city, and many others have paid a heavy price to maintain the quality of urban life during the past 18 months, but we <u>cannot</u> afford to pay much more.

I agree with the Administration that the outmoded practices of state government have contributed to the problems of the cities and must be reformed. Like most mayors, I spend a good deal of my time in the state capitol pushing for the very reforms the Administration appears to advocate - for flexibility on annexation, for tax reform, and urban home rule. But my state capitol is controlled by those who share the Administration's policital theology: those who ran their campaigns against the fundamental ideas of government activism at any level. Far from becoming the champions of the urban poor, these ideologues have passed the bill for their doctrine directly to the people of the cities, and especially to the poor.

With each shift of responsibility to a lower level of government, there has also been a corresponding shift in the tax burden from the rich to the poor, from a relatively progressive federal income tax to regressive taxes at the state and local level. This shift has meant that the cities, with their disproportionate share of the elderly and poor, must pay a disproportionate share of the costs to meet basic human needs. It has meant that states like Washington, Oregon and Michigan which suffer severe economic hardship, must face their burden alone, without the help of the rest of the Nation.

In light of the wide disparities among the states and among the cities, this policy raises a fundamental question: are we one Nation? Or are we fifty sovereign provinces united only by the need to support a common army?

Part of our tradition is the belief that we do have a national interest that unites us. For decades, that national interest has included the well-being of America's cities and the people who live in them. This belief has not been a partisan issue. It began with the national effort to rebuild blighted areas in 1949 under the leadership of Senators Robert Taft, Allen Ellender, and Robert Wagner. It continued under Presidents Eisenhower, Kennedy, and Johnson in the 1950's and 1960's with new housing and rehabilitation programs. It continued with Presidents Nixon, Ford, and Carter in the 1970's, with major efforts to rebuild public transit systems, to clean up the Nation's air and water, and to focus city renewal efforts on economic development.

Through all of these periods, a cooperative national effort evolved, drawing the best from each level of government: federal resources from the greater fiscal capacity of the national government; state enabling laws for local renewal efforts and mortgage credit through housing finance agencies; and local determinations of need, within broad national priorities, and locally-designed approaches to meet those needs in partnership with the private sector. This cooperative effort has not been perfect. Some programs are less successful than others, some more administratively burdensome, and so forth. But the overall effort to create more livable cities and offer some measure of hope to the urban poor, must be judged a success.

It is this record of cooperation among federal, state, and local governments, this record of common commitment to agreed-on ends, this record of steady if difficult progress, that is now coming to an end. According to the Administration, there is no urban problem that requires a national solution; to the extent that there is a problem, it is up to each state to deal with it or not as it wishes, with its own resources.

The National League of Cities totally rejects this truly radical approach.

As the Mayor of Seattle, I too must reject this policy. For I have seen with my own eyes, in my own city, what this alliance can create.

Twelve years ago, Seattle would have failed the Administration's test of economic viability. Our major industry, the Boeing Company, had laid off two-thirds of its workforce. Tens of thousands were thrown out of their jobs, the area's population declined, and the city's revenue fell sharply at the same time services were most needed by our people. The situation became so bad that billboards were put up that said "will the last one to leave Seattle please turn out the lights."

But the city recovered from those hard times. There were a variety of reasons, including many that the Administration would hold dear - private initiative, budgetary restraint, economic development, neighborhood organizing. But anyone who lived through that period in Seattle's history remembers the vital role played by the federal government. The aid came in a variety of forms -- food for the hungry, public employment to bolster the self-respect and retain the skills of the unemployed, economic development grants to diversify the economy and restore the City's historic market district, summer jobs for the frustrated young people who stood no chance of finding work in the private sector.

We used those federal investments well, like many other cities have. We restored the health of our local economy and began to return to the federal treasury far more than we had received.

By 1978, less than a decade after our city had been at its lowest point, national magazines called Seattle America's most livable city. We owe a part of that successful recovery to the federal government, and to a tradition of compassion that dates back through eight Presidents.

Mr. Chairman, federal programs have worked. They have sped the recovery of cities like Baltimore and Minneapolis and relieved the suffering of countless families in large and small cities during the past five decades. We must learn from that history.

With the release of this document, the Administration has forced the Congress to make an historic choice. It is a choice between abandonment and reinvestment. The Administration has advocated the first course, but they call it by other names. They urge the unemployed to leave their roots behind to "vote with their feet." They suggest we leave major industries behind and call it "picking the winners."

There was a time in our history when planters took that attitude. They used the soil for what it could give and then moved on. When those fields gave out, they moved on again. For hundreds of years you could do that in this country. When the dust bowl came, or the factory gates closed, people could always move further west to build a promised land on the frontier.

But I am the Mayor of a frontier city, and I can tell you that things have changed. Those who come from Gary and Detroit to seek opportunity in my city today meet people from Nome and Bangkok and Mexico City seeking the same opportunity. They find the same problems, the same issues, they left behind.

But perhaps I have one advantage as a Mayor from the Pacific Northwest. Since I have lived on the frontier, I know its limits. I know that the opportunities we are seeking must be created by working together, with the participation of all elements of society, and an activist federal government. There is no promised land beyond the horizon. We shall have to build it where we stand.

Representative REUSS. Thank you. I'll be very brief.

SURVIVAL OF THE FITTEST

What do you say to the argument advanced by those who hold some of the views set forth in the urban policy statement? For instance, that, just as under Darwin's law of evolution there was a survival of the fittest and a bird or animal that couldn't shape up was due to pass away from the scene, the same fate should befall cities which can't make it on their own? If you recall that doctrine was applied to society by Herbert Spencer and others in their doctrine of social statics, which said that we should just leave things alone and everything will work out all right—the fittest will survive and those who aren't fit will go the way of Nineveh and Tyre. What do you say to that?

Have those people got a point? Why shouldn't we simply say of your city, for instance, that since the high cost of jet fuel and the worldwide recession produces difficulties for Boeing and high interest rates produce horrible difficulties for the lumber industry and Douglas firs no longer go crashing to the ground with the frequency that they used to, therefore you aren't surviving and you ought to leave your city to the glorious cascades, where it all started?

How about that? How would you answer the learned Dr. Smell Fungus, or whoever proposed that theory? [Laughter.]

Mayor ROYER. Well, I think the chilling part of the—and I'm always, Mr. Chairman, when I'm around you, I'm always getting a little tonguetied because of your eloquence. But the chilling part of that approach is that those people are right. Without attention we will never go back to what we were, because in my part of the country, we have cut down a lot of those Douglas firs. But they're right, that without activist participation, we will, in fact, move backward in time.

The Secretary talked about Massachusetts, how it achieved growth in the economy by cutting the budget. My reading of the situation in Massachusetts is different—and while I am not a real wiley stalker of Federal funds these days, I am a wiley stalker of new jobs.

And as we go out and begin to look for those new industries that will provide jobs, we keep hearing from those industries who have located in Massachusetts that they're chasing brains, they're chasing research capacity, generated by one of the finest educational establishments in the world. Keeping that up is fairly important.

They're not chasing tax abatement, certainly they could come to my State. We don't have a corporate income tax. But they're not, they're going to Massachusetts, where they're producing engineers and research capacity and the brains that are necessary to meet the new economic realities of our time.

So, I think there are some wrongheaded notions about what works. And I can only say that I know some of what works was in the "old days" of just a couple of years ago. We don't want all of that back. No one really does. Some of it didn't work, and we're quick to point that out.

But those things that worked have to come from a sense that intervention makes a difference, that the Federal Government is not evil—I mean, the report seems to say that all levels of government are somehow bad.

The notion that the Government can make a difference is one that we have to instill, and that's a function of our credibility in politics with the American people. I think we've lost a tremendous amount of it. We have to get some of it back, and here we have an opportunity; by intervening and making a difference—in a well-publicized way at this point.

Representative REUSS. Thank you. Congressman Wylie.

Representative WYLIE. Thank you, Mr. Chairman.

Thank you very much, Mr. Royer, for an excellent statement.

HISTORY OF URBAN PROBLEMS

May I say I think that you gave us an excellent statement—in favor of some change, however, if I may be so bold.

You spoke of sickness and decay, of unemployment in the cities, of insufficient jobs, of depressed housing markets, of fiscal distress.

That didn't just all happen within the last year, did it?

Mayor ROYER. No, that's been a continuing process, which I believe has been reversed in many cities.

Where the President is going today is a classic example. Baltimore was a city that literally, in 1968, when I was there, it was on its back. Today the National Aquarium is there.

Secretary Embry—former Assistant Secretary Embry—understands very well what Federal intervention can do in a major American city.

And that city has literally turned around. It still had problems. But the housing rehabilitation, the downtown redevelopment, what's happened to that marvelous waterfront, those are all direct results of a Federal partnership that can reverse decay.

STATE AND LOCAL CAPABILITY

Representative WYLIE. Well, you're not—you're not against restoring, then, some of the State and local government's position of preeminence that it once had?

Mayor ROYER. Well, again, I'm not certain when the city of Seattle ever had preeminence in a debate that really turns on our national——

Representative WYLIE. Well, let me rephrase the question then. You're not suggesting that you feel that State or local governments are incapable of providing services to their cities?

Mayor ROYER. No, no.

Representative WYLIE. No.

Mayor ROYER. We're very good at providing many services.

We do a good job in public safety. I think we have the best fire department in the country. We do a good job there. That's our basic responsibility.

We do a fair job in maintaining our system—our system of parks and recreation. But we found in our survey of 43 cities, that many cities were cutting back on maintaining their parks.

And in Baltimore, while they have a great new waterfront, Don Schaefer, the mayor, says that he'll have 50,000 black kids without jobs this summer while he's closing parks and swimming pools.

Now, the city can do a good job of public safety, of chasing those kids around the street. But the city cannot create an employment program that will give them some training and some kind of threshold skills to get into work.

While the Federal Government partcipates in building the waterfront, it leaves an enormous maintenance burden on the city, which very often the cities don't have the capacity to take up.

Now, you could argue that they shouldn't even get into that in the first place. But many of us have. If we don't maintain those systems, I'm just afraid we're leaving a tremendous demand on future generations to replace them at costs that are way out of line.

Representative WYLIE. Well, I come—I guess I'm fortunate in that I come from a city which is not having the distress that many of the other cities apparently are having across the country, Columbus, Ohio. You know my mayor, Mayor Tom Moody, who is president of your League of Cities—the international president.

But I've been a Member of Congress now for almost 16 years, and I've been hearing this about urban decay, about unemployment, about inefficiency, about depressed housing, and so forth.

And it just seemed to me as if it was time for a change, and that perhaps the Reagan administration is suggesting some changes which ought to alleviate some of these problems which have been ongoing, one of them being that maybe the cities can decide better for themselves how best to use their money.

And I might say that I'm one of those who have been in favor of revenue sharing and was when I was in the State legislature. It seems to me as if that's a concept whose time arrived a long time ago.

But how far should the Federal Government go in suggesting to the cities how they solve their problem? I guess that's really where we're coming out here. There must be a fine line of distinction there someplace.

Mayor ROYER. I keep hearing all the time that it used to be that the Federal Government dictated to cities what they would do. I've been mayor for 5 years and only recently has the Federal Government dictated what I do—and this is reduce my budget.

I cut 500 positions out of the 1982 budget.

FEDERAL AID REDUCTIONS

Representative WYLIE. The Federal Government dictated that you reduce your budget?

Mayor ROYER. Well, 16 percent of our budget is in Federal funds. We've taken severe reductions. We've had to pick up where we can.

Representative WYLIE. Maybe the Federal Government said, "We can't afford all that anymore." Maybe the dollars weren't well spent.

Mayor ROYER. I think——

Representative WYLIE. Maybe there was some inefficiency.

Mayor ROYER. Congressman Wylie, the fundamental point is the one that the Secretary made at the outset and the one that this committee set forth in 1980, that the best thing that can happen to cities is for the economy to be healthy.

But there are many things that go into making the economy healthy.

Is the central city a good place in which to invest and to create jobs?

Is there cultural and educational activity in the central cities that will attract and inspire new development, new industry?

Our city is—Tom Moody's city, Columbus, is a great one. Tom Moody has got UDAGs and waste water treatment grants and all sorts of things that go to help make Columbus a healthy——

Representative WYLIE. And they also were the first——

Mayor ROYER [continuing]. City.

Representative WYLIE [continuing]. City in the country to develop a city income tax and some others. There's a lot of local-based tax——

Mayor ROYER. That's right.

Representative WYLIE [continuing]. That other cities don't have, I might add.

But anyhow, the chairman has given me a note that my time has expired. And I think we could probably go on with this philosophical discussion for some time, but——

Mayor ROYER. Thank you, Congressman Wylie.

Representative REUSS. Congressman Mitchell.

Representative MITCHELL. Mr. Mayor, I, too shall be very brief.

AID REDUCTIONS AFFECT BALTIMORE

Let me just tell you—you've talked about the city of Baltimore, the new National Aquarium there. But that's the same city in which trash collection is going to be reduced from twice a week to once a week during the winter months because the city can't afford to pay the workers.

You talked about the beautiful new Harbor Place, and I'm sure you've been over to see it. It is an attractive place.

But the first effort was to eliminate 100 teachers from the public schools because the city can't afford to pay them. It is now 200 teachers that are to be eliminated.

You talked about the revitalization in my city of Baltimore, and it is becoming revitalized. But that's the very same city in which almost one-third of the public libraries either have to close or operate on a part-time basis, denying children education.

All of those things are taking place simply because of the draconian cuts in Federal funds for my city.

I have one quick question. The administration says that its economic recovery program is the foundation for its urban policy. That economic recovery program began very quickly after the President was elected—it began in February.

ACCOMPLISHMENTS DUE TO ECONOMIC RECOVERY PROGRAM

Would you, for the sake of the record, cite three magnificent new accomplishments that you've been able to achieve in your city because of the economic recovery program of the Reagan administration?

Could you name three? Try for two.

A VOICE. Try for none. [Laughter.]

Representative MITCHELL. Give me one.

[No response.]

Representative MITCHELL. Has the economic recovery program benefited your city?

Mayor ROYER. To the extent, Congressman Mitchell, that the inflation rate has come down; 95 percent of our employees are in labor unions. What happens to the CPI is of real importance to us. It's starting to go up again, it appears—unfortunately in July, which is when we determine the CPI. So, that, too, is ebbing away as a benefit.

Representative MITCHELL. And is that, in your opinion, in any way the result of the reduction in inflation? Is it in any way linked to the increase in unemployment?

Mayor ROYER. You'll be delighted to know, Congressman Mitchell, that I'm not an economist, and I'm not going to try to be one. [Laughter.]

Representative MITCHELL. Nor am I, but I'm a reasonable observer of economic facts.

And it's very simple. We have brought down inflation by maintaining high unemployment.

Mayor ROYER. That's right.

Representative MITCHELL. That's very simple. If you don't have the money to buy, the price is going to drop.

Thank you very much, Mr. Mayor.

Mayor ROYER. Thank you.

Representative REUSS. Thank you. Congressman Richmond.

QUALITY OF LIFE

Representative RICHMOND. Mr. Pierce spoke so glowingly about Massachusetts, but he didn't mention the city of Boston, which has unbelievable unemployment, the worst racial tensions of probably any city in the United States, a wall between neighborhoods—you've got areas called Dorchester or Roxbury, which are totally black. And then next to them, you have other areas like Brookline and Jamaica Plain, which are totally white.

The most critical racial problems of any city in the United States I know of are in Boston. Why? Because of poverty, unemployment, poor education, poor communication, aging city, insufficient funds.

And, Mayor, Secretary Pierce thinks that Massachusetts is a great example of what could be done when we leave States and cities on their own.

What do you think of page 1 of the administration's report, where they say they're dedicated to improving the quality of life, working with mayors and Governors of the States?

How do you improve the quality of life in our cities and States if the Federal Government refuses to put up any money?

Mayor ROYER. Well, you—you don't. Let me give you one example. This is close to Boston. In my city, there are 15,000 brandnew residents from Indochina. Many of them come without a written language or have never been in school; 15,000 refugees in the country by virtue of national policy.

We try to deal with health needs, housing needs, emergency food needs, and the like with primarily city resources, because the Federal Government has now chopped off, at the end of 18 months, aid to those refugees.

Now, by virture of national policy, we have a problem specific to Seattle, because there is really no national policy that will place these people around the country, just as there is no way for a national policy to place the poor around the country.

So our refugees in Seattle become the problem of the city and of the State, and most of them concentrated in the city because that's where some leadership of the Hmong came, that's where—St. Paul is another example—cities which have taken on a national responsibility without national help.

Now, that's not just bad policy. That's unfair.

We pay taxes to the Federal Government. We were not involved in the policy decision to admit 14,000 Indochinese refugees every month. We were not involved in making decisions that would allow those refugees to be placed around the country in some orderly fashion. There's a secondary migration.

Now, there will be another migration—to California, where the benefits are better, and to other States.

The Sun Belt States may soon wake up to the outcomes of the policy of migration and find that it may not be in their best interests, because all migration is not helpful to cities.

VOTING WITH FEET

Representative RICHMOND. In other words, you think perhaps this idea of people voting with their feet isn't the best idea in the world?

Mayor ROYER. It may be for one city which is trying to solve its refugee problem.

Well, I'll give you an example that I think most of you know about. It's called the California option in South Dakota.

In South Dakota, someone blew up a courthouse, fled to California. The Governor of California refused to extradite the person. The Governor of South Dakota said, "If they like that criminal, we'll give them many more," and created what is called now in South Dakota the California option, which is if you are a nonviolent, first offender felon, you have the option of going to California. That's a policy of—of vote with your feet——

[Laughter.]

Mayor ROYER [continuing]. Which California is not amused at. [Laughter.]

Representative RICHMOND. Thanks, Mr. Mayor.

Mayor ROYER. Thank you, gentlemen.

Representative REUSS. Thank you, Mayor Royer. You've acquitted yourself nobly, as always.

We will excuse you now so that you can make your appointment. And we're grateful for your contribution.

Mayor ROYER. Thank you, Mr. Chairman.

The cities are grateful for you and your excellent staff for the urban policy work you've done over many years. This isn't a new issue to you and your committee, and we appreciate that very much.

Representative REUSS. Thank you.

We'll now hear from the valiant members of the panel, Mr. Embry first, and then Mr. Bahl and Mr. Kotler.

Your statements, by the way, are much appreciated and are received, under the rule and without objection, in full for the record. And would you now proceed in whatever way you like, Mr. Embry.

STATEMENT OF ROBERT C. EMBRY, JR., CONSULTANT, BALTIMORE, MD., AND FORMER ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. EMBRY. Thank you, Mr. Chairman.

Let me, if I might, skip through my prepared statement and just touch on a few points that I think are of importance.

I'd like to second Mayor Royer's thanks to you for your many years of service. We will miss you. You are particularly needed at this time in our country's history because your voice has been one of the few that have been raising urban issues consistently over the last few years.

I had the good fortune to spend 10 years in local government in Baltimore and was responsible, under President Carter and Secretary Harris for the first two urban policies in 1978 and 1980. So, I'm very interested in this discussion.

The draft report that was issued a few weeks ago—and quickly disowned—was, in my opinion, a more candid statement of the administration's view than the final report. The draft, in essence, stated that the urban problem of this country was not a Federal problem and that the Federal Government could do nothing to solve it. In effect, the national urban policy was to have no policy. Such a position is consistent with the administration's actions since January 1981 and should be praised for its candor, if not its wisdom or its compassion.

Both the final report and draft stress the most important thing the Federal Government can do for cities is to have a stable, growing economy. I believe we all agree on that. But the statement is repeatedly made in a manner that implies that effective national aid to cities is inconsistent with a strong national economy, though no evidence is given in support of that conclusion.

Unfortunately, cities are getting neither aid nor a strong economy. The economy is not growing. Interest rates, bankruptcy, and unemployment are at record highs. In fact, the Reagan urban policy, to the extent it exists, consists of a triple whammy for cities. First, financial assistance is cut for poor cities and poor people. Then, funds are shifted to defense industries located largely in non-distressed areas that employ few low- and semi-skilled workers. And finally, an economy is created which results in high unemployment and high interest rates—again, unemployment particularly afflicting minorities and unskilled workers.

The report repeatedly makes the point that the problems of distressed cities were created by forces beyond governmental control. Various regional, national, international, technological, energy, economic, or social trends are cited as controlling the destiny of cities. The report states it is the private sector that is the primary determinant of urban health and it is to the private sector that we should turn—we should stop expecting Government to solve all problems.

It is, of course, true that most decisions affecting the health of urban areas were, are, and will be privately made. It is useful to point this out and teach us all some humility as we discuss urban problems. But it's not enough to say that the private sector is or should be more important than the public sector.

The "Urban Policy Report," which this Congress requested from the administration due to your amendment a few years ago, Mr. Chairman, is not the report of private business. It's not that of neighborhood organizations or charitable foundations. It is supposedly the strategy and analysis of the Federal Government, a state of what the Federal Government thinks the problem is and what it's going to do about it.

Even after all the budgetary cuts of the past year, the Federal Government spends about 20 percent of the gross national product directly. And it affects much more of the economy through its taxing and regulatory functions. Action or inaction by the Federal Government has and will have a tremendous impact on where people live and where they invest, whether the Federal action is intentional or unintentional.

The central thrust of the Carter policy was not to spend more money or establish new programs or usurp local functions. It was to make Federal decisionmakers aware of the impact of their actions and, where possible, to have these decisions strengthen, rather than weaken, distressed places and distressed persons.

To say that most decisions are private, that the private sector should do more is true, but inadequate. The private sector will not educate poor children. It will not provide affordable housing for the poor. It will not undertake economic development in distressed areas and will not provide job training for significant numbers of the hard core poor. All the rhetoric about volunteerism and private sector initiatives and corporate giving will not substitute for the programs being cut.

President Reagan repeatedly asked why some Federal bureaucrat can spend money more wisely than I can. One might better ask why some wealthy individual or business is better able to decide how much of their wealth to spend on social causes and which causes than the elected representatives of the people in Congress. Is it in the national interest to educate a poor child rather than buy a Mercedes? To expand a port rather than to finance a merger?

Another oft-repeated theme of the report is restoring balance to our Federal system. The statement is made that various programs funded by the Federal Government will be better run if turned over to the States. States, it's contended, are more accountable to their citizens than the Federal Government.

It is interesting that the recipients of these programs, as evidenced by Mayor Royer, the mayor and the citizens of distressed cities, are not asking that the Federal programs be turned over to the States. If they're not complaining, who is? It's difficult to avoid the suspicion that, since the people being helped are against the changes, the changes are being made for another reason—to end the programs.

In fact, the report does state that urban problems are beyond governmental control. If so, why turn them over to the States? A more candid statement of the intent of the authors of this report would be that the administration does not think these urban programs are necessary and is ending them.

Raising the issue of federalism is no more than a very clever red herring. The Federal programs being turned over to the States are already administered by either the State or the local government. There is no evidence that a city housing, community development, or manpower program will be better or worse run if the funds come from the State, as opposed to the Federal Government.

The report continually uses "State" and "local" interchangeably. This reflects not only a serious misunderstanding of the problem, but another cleaver distriction from the important issues. Nothing is being "turned over" to local government. The report's proposal is to transfer programs to States. Local governments will not receive one iota of additional control and, in fact, will lose control to the extent they have less clout with the State government than with the Federal Government.

The report further states it is transferring revenues to State and local governments. It is, of course, transferring no funds to local governments. If anything, it's taking them away. Those funds transferred to State governments are temporary. After a few years, the States will have no more money than they now have, but they will have the responsibility for programs that are now funded by the Federal Government.

Further, the policy states that by collecting less Federal taxes, States and localities will be able to collect more. This assertion is also without any basis in fact. The ability of State and local governments to tax has nothing to do with Federal taxation levels. Governments in distressed cities cannot raise their taxes because they're already higher than the surrounding nondistressed suburbs. To raise taxes would be to drive the remaining middle class and job base out of the city. All Federal cuts mean is less money to already strapped cities. States are in a similar competitive position.

By the way, reference was made to Baltimore. Congress Mitchell very eloquently stated the real fact in Baltimore, contrary to the national perception. Baltimore has done a great deal, both in its neighborhoods and downtown, with Federal money. But it's tax rate is $6. The tax rate of the surrounding suburbs averages about $2.50. What is happening in Baltimore as the result of the Reagan Urban Policy is the laying off of teachers, as the Congressman pointed out the closing of libraries, and cutting down on trash collection.

The report makes the additional non sequitur that such a transfer would reduce the need for coordination of programs at the local level. The report cites the difficulty of coordinating economic development with housing, with education, with job training. These, of course, are separate local problems requiring solution. Whether or not local agencies dealing with them are funded by the Federal or

State government, the need for coordination of these disciplines does not go away.

Furthermore, it was because of federal programs that cities became concerned with and established offices to deal with poverty for the first time, to construct housing, to undertake economic development and manpower training and community development. Without federal programs, most cities would not be addressing these important determinants of urban health.

The Secretary went back to the mid-1960's and cited the community action program. Baltimore City would not—up till the mid-1960's, ever have concerned itself with the problems of the poor if the Federal Government had not led the way. Congressman Mitchell was incidentally, the first director of the community action program.

The issue of neighborhoods versus city hall, referred to by Secretary Pierce, was fought and resolved in the 1960's. It hasn't been an issue of any significance for 15 years. And yet there's some perception on the part of the National Government that the Federal Government helping neighborhoods is something that hurts rather than helps cities. They just are not familiar with what has been happening in our urban areas.

Federal programs are criticized for attempting to insure that recipients of Federal funds use the funds correctly. I assume any efficient State government would do the same. Similarly, programs like 701 are criticized for encouraging the creation of coordinating mechanisms for all the political jurisdictions in metropolitan areas. Again, the need for coordinating numerous governments in metropolitan areas did not arise because of Federal programs. It arose because of fractionated local government. The fact that every metropolitan area now has a planning agency can be directly credited to Federal programs, particularly 701.

The report, interestingly, concludes that the three most pressing issues facing cities are crime, housing, and infrastructure. And this conclusion appeared for the first time in the final report. Why these issues are more important than jobs or education, for instance, is unclear. The administration then proceeds to do nothing new about any of these three major problems. Housing aid is being cut dramatically. The Federal Government can have no significant effect on local street crime, and therefore recommends no significant course of action that will have an effect.

And it is cutting funds for infrastructure improvements, while at the same time pursing economic policies that have resulted in record-high interest rates which cities must pay in order to borrow money to try to improve their infrastructure.

The report's discussion of each issue are full of reference to building code reforms or user fees or special assessment districts. All of these measures can be undertaken locally now and have been undertaken without Federal assistance. In fact, all of them are being undertaken by some locality. If implemented cumulatively by all localities, the collective impact on the urban situation would be helpful but not determinative.

The Federal Government should play a role in providing technical assistance. In fact. the report praises technical assistance. So, what does the administration do? Cut funding for technical assistance. [Laughter.]

A further distraction is the chapter on urban leadership. After repeatedly making the point that much of the urban problem is created by forces beyond government control, it calls on mayors for leadership. By some leap of logic, cutting Federal aid to cities or transferring Federal programs to States will somehow enable mayors to exercise more leadership. Various anecdotal citations of strategies are given, with no analysis as to whether the strategies have had a significant impact on the problem of the city in question.

Again, discussion of such ideas as privatization, user fees, lease financing, public-private partnerships is interesting, but largely irrelevant. All of these approaches can and are being adopted by the cities. All of the cities adopting them are still very distressed and getting more distressed. Many of the projects cited., Fanueil Hall in Boston, Harbor Place in Baltimore, downtown Toledo, downtown Pittsburgh, were only made possible by millions of dollars from the urban renewal program and other Federal programs so roundly criticized in the report.

Let me conclude with two observations and submit the rest of the testimony for the record.

One is that there are things that States can do and should do. There is nothing in the historical discussion that you held Secretary Pierce earlier—there's nothing in the Federal Constitution about cities. Cities were created by States as a convenience in order to decentralize the administration of various programs, a very praiseworthy objective.

The problem has been that the boundaries of those cities have been frozen for 40 or 50 years and that the growth that has taken place in metropolitan areas has taken place outside the cities.

The very useful citation was made in the urban policy report of Indianapolis and St. Louis. If Indianapolis continued with its same central city boundaries, it would be a distressed city. If St. Louis drew its boundaries around the total metropolitan area, it would no longer be a distressed city. It has been clear for half a century that if cities could expand beyond their boundaries, if States were to permit them to, many of the problems of cities, as such—not of the poor people in the cities, but the problems of cities would be resolved.

Nothing is suggested in the urban policy report to affect this. Nothing has been done by the Federal Government, since I've been aware of Federal issues, to deal with this issue. And it would be a very useful step on the part of this administration or any other administration.

And finally, recently there has been extensive media coverage on various projects in downtowns throughout the country that conclude that the urban crisis is resolved. If you look at the statistics in the 1980 census, compared to the 1970 census, distressed cities are worse off today than they were in 1970. The poor have a greater unemployment rate. The crime rate is higher. The percentage of poor in cities is higher. The percentage of illegitimacy is higher, the percentage of dropouts is higher. By almost every measure, the distressed cities of America are more distressed than they were 10 and 20 years ago when the programs that are presently being challenged came into existence.

To say that programs providing training or housing or education—that if they're done away with, the problem will be resolved is some Kafkaesque fantasy that is difficult for me to follow.

The only real justification for these cuts is the argument that has been given by conservatives ever since the Federal Government started taking an interest in the poor—they don't want to take their money and spend it on other people. And that essential motivation is being covered by a lot of rhetoric that is really irrelevant to that central issue. Thank you, Mr. Chairman.

[The prepared statement of Mr. Embry follows:]

Prepared Statement of Robert C. Embry, Jr.

Thank you Chairman Reuss, for inviting me to testify on the 1982 Urban Policy Report prepared by the Reagan Administration. As a local government official for 10 years and as the person in HUD responsible for preparing, under President Carter and Secretary Patricia Harris, the first two Urban Policy Reports, those of 1978 and 1980, I have a very deep interest in the particulars of this document.

Even though I am a Democrat, I am quick to acknowledge that the urban policies of the Democrats are not without their weaknesses and that the Republicans have useful points to make in their Report.

The Report must be praised for not contending that the urban crisis is over. While painfully inadequate in its analysis of the current urban situation, it does not generalize from a few rehabilitated inner city neighborhoods to the conclusion that the urban problem is solved. An example of such simplistic thinking was the 60 Minutes Show this past Sunday on Cincinatti. The commentator concluded the urban crisis was over for Cincinnati and the nation because one neighborhood had undergone a transformation from low income black to middle income white. The fact is, as documented in detail by the 1980 census, that the distressed cities of 1970 are more distressed in 1980. The percentage of their population that is poor is greater, crime is up, unemployment is up, illegitimate births are up, middle class population is down, etc. Acknowledging then this positive aspect of the Report, I will turn to the Report itself and the draft that preceded it.

The draft report issued several weeks ago and quickly disowned, was, in my opinion, a more candid statement of this Administration's views than the final Report. The draft, in essence, stated that the urban problems of this country were not Federal problems and that the federal government could do nothing to solve them. In effect, the national urban policy was to have no policy. Such a position is consistent with the Administration's actions since January of 1981 and should be praised for its candor, if not its wisdom or compassion.

Both the final Report and the draft stress the most important thing the federal government can do for cities is to have a stable, growing economy. I believe we can all agree on that. But the statement is repeatedly made in a manner that implies that effective national aid to cities is inconsistent with a strong national economy though no evidence is given in support of this conclusion and it is just not true.

Unfortunately, cities are getting neither aid nor a strong economy. The economy is not growing, interest rates, bankruptcy and unemployment are at record highs. In fact, the Reagan Urban Policy consists of a triple whammy for cities. First financial assistance is cut for poor cities, and poor people. Then funds are shifted to Defense industries located largely in non-distressed areas, that employ few low and semi-skilled workers. And finally, an economy is created which results in high unemployment and high interest rates, particularly for minorities and unskilled workers.

The Report repeatedly makes the point that the problems of distressed cities are created by forces beyond governmental control. Various regional, national and international, technological,energy, economic, social or demographic trends are cited as controlling the destiny of cities. The Report states it is the private sector that is the primary determinent of urban helath and it is to the private sector we should turn. We should stop expecting government to solve all problems.

It is, of course, true that most decisions affecting the health of urban areas, were, are, and will be privately made. It is useful to point this out and teach us all some humility as we discuss urban problems. But it is not enough to say that the private sector is and should be more important than the public sector. The Urban Policy Report is not that of private businesses or neighborhood organizations, or charitable foundations. It is the strategy and analysis of the federal government - a statement of what the federal government thinks the problem is and what it is going to do about it. Even after all the budgetary cuts of the past year the federal government spends about 20% of the GNP directly and it effects much more of the economy through its taxing and regulatory functions. Action or inaction by the federal government has and will have a tremendous impact on where people live and where they invest whether the federal action is intentional or unintentional.

The central thrust of the Carter Urban Policy was not to spend more money, to establish new programs or to usurp local functions. It was to make federal decision makers aware of the impact of their actions and, where possible, to have these decisions strengthen, rather than weaken, distressed places and distressed persons.

The Report we are considering ignores this basic point. If the federal government is going to rent or build office space, why not locate it in distressed areas? Why finance a sewer line or a highway that makes possible a regional shopping center that destroys the healthy downtown of a medium sized city? Why not target defense and other federal procurement to the distressed rather than the healthy regions of the country when the costs are comparable?

To say that most decisions are private and that the private sector should do more is true, but inadequate. The private sector will not educate poor children, it will not provide affordable housing for the poor, it will not undertake economic development in distressed areas, it will not provide job training for significant numbers of the hard core poor. All the rhetoric about volunteerism and private sector initiatives and corporate giving will not substitute for the programs being cut. President Reagan repeatedly asks why some federal bureaucrat can spend money more wisely than I can. One might better ask why some wealthy individual or business is better able to decide how much of their wealth to spend on social causes, and which causes, than the elected representatives of the people in Congress. Is it more in the national interest to educate a poor child than buy a Mercedes; to expand a port than finance a merger?

Another oft repeated theme of the Report is restoring balance to our federal system. The statement is made that various programs funded by the federal government will be better run if turned over to the States. States, it is contended, are more accountable to their citizens than the federal government.

It is interesting that the recipients of these programs, the Mayors and the citizens of distressed cities, are not asking that the federal programs be turned over to the States. If they are not complaining, who is? It is difficult to avoid the suspicion that since the people being helped are against the changes, the changes are being made for another reason - to end the programs. In fact, the Report does state that urban problems are beyond governmental control. If so, why turn them over to the States. A more candid statement of the intent of the authors of the Report would be that the Administration does not think these urban programs are necessary and is ending them. Raising the issue of federalism is no more than a very clever red-herring. The federal programs being turned over to the States are already administered by either the States or the local government. There is not one scintilla of evidence that a city run housing, community development, or manpower programs will be better or worse run if the funds came from the State, as opposed to the federal government.

The Report continually uses "State and local" interchangeably. This reflects not only a serious misunderstanding of the problem but another clever distraction from the important issues. Nothing is being "turned over" to local government. The Report's proposal is to transfer programs to the States. Local governments will not receive one iota of additional control and in fact will lose control to the extent they have less clous with their State government than the federal government.

The Report further states it is transferring revenues to the State and local governments. It is, of course, transferring no funds to local governments. Those funds transferred to State governments are temporary. After a few years the States will have no more money than they now have but they will have responsibility for programs that are now funded by the Federal government.

Further, the Policy states that by collecting less federal taxes States and localities will be able to collect more. This assertion is also without any basis. The ability of State and local governments to tax has nothing to do with federal taxation levels. Governments of distressed cities cannot raise their taxes because they are already higher than the surrounding non-distressed suburbs. To rais taxes would be to drive the remaining middle class and the job base out of the City. All federal cuts mean is less money to already strapped cities. States are in a similar competitive position. If States with low growth and high unemploymenet raise taxes to provide funds to substitute for the decrease in federal funding they will drive industry and jobs to States with low taxes. There is no federal program for cities that States could not undertake now if they desired and the scope of federal programs neither increases no decreases State ability to undertake such programs.

The Report makes the additional non-sequitor that such a transfer would reduce the need for coordination of programs at the local level. The Report cites the difficulty of coordinating economic development with housing, with education, with job training, etc. These, of course, are separate local problems requiring solution whether or not local agencies dealing with them are funded by the federal or state government. The need for coordination of these disciplines does not go away if State funding is substituted for federal funding. Furthermore it was because of federal programs that cities became concerned with and established offices to promote housing, economic development, manpower training, community development, etc. Without federal programs most cities would not be addressing these important determinants of urban health.

Federal programs are criticized for attempting to insure that recipients of federal funds use the funds correctly. I assume any efficient State government would do the same thing. Similarly, the 701 program is criticized for encouraging creation of a coordinating mechanism for all the political jurisdictions in a metropolitan area. Again, the need for coordinating the numerous governments in metropolitan area did not arise because of federal programs. It arose because of fractionated local government. The fact that every metro area now has a planning agency can be directly credited to the 701 program.

The Report interestingly concludes that the three most pressing issues facing cities are crime, housing, and infrastructure. Why these issues are more important than jobs or education is unclear. The Administration then proceeds to do nothing about any of these problems. Housing aid has been cut dramatically; the federal government can have no significant affect on local street crime and therefore recommends no course of action that will have an effect; and it cuts funds for infrastructure improvements while at the same time pursuing economic policies that have resulted in record high interest rates which cities must pay to borrow money to make infrastructure improvements. The Report's discussions of each issue are full of reference to building code reform, or user fees, or special assessment districts. All of the measures discussed can be undertaken locally with or without federal assistance. In fact all of them are being undertaken by some locality. If implemented cumulatively by all localities the collective impact on the urban situation would be helpful, though not determinative. The federal government should play a role by providing technical assistance to help local governments learn what other cities are doing. In fact the report praises technical assistance. So what does this administration do -- cut funding for technical assistance.

A further distraction is the chapter on Urban leadership. After repeatedly making the point that much of the urban problem is created by forces beyond governmental control it calls on Mayors for leadership. By some leap of logic, cutting federal aid to cities or transferring federal programs to States will somehow enable Mayors to exercise more leadership. Various anecdotal citations of strategies are given with no analysis as to whether the strategies have had a significant impact on the problems of the city in question. Again, discussion of such ideas as privatization, user fees, lease financing, and public-private partnership is interesting but largely irrelevant. All of these approaches can and are being adopted by cities. All of the cities adopting them are still very distressed and getting more distressed. Many of the projects cited - Fanueil Hall in Boston, Harborplace in Baltimore, downtown Toledo and Pittsburg - were only made possible by millions of dollars from the urban renewal program so roundly criticized in the Report.

Ever since the workable program and the Community Renewal Program (CRP) the federal government has encouraged the development of local strategies. This is praiseworthy. There is a need for increased information and thought at all levels of government. In fact, the federal government, as evidenced by this report, could take some of its advice to cities and use it to develop an effective national urban strategy. Many cities have followed this advice and some useful results have been accomplished, the most useful being where federal funds were used. But none of these strategies have dealt with the central problem of distressed cities, or healthy cities that are threatened with distress.

The reasons why a large number of cities are distressed is that they are the location of the original development in their metropolitan area and have the oldest and therefore the least expensive housing. Almost without exception most of the poor within a metropolitan area live in the central city. The problem of the city, and of its population, is that the poor of the region are concentrated within the city boundary. If the low income population was not concentrated in the central city many urban problems would disappear and many of the problems, though not all, would be reduced.

The 1982 Urban Policy report correctly, I believe, touches on this problem though it recommends no signifcant action to deal with it. Much of the urban problem is caused by the fixed boundaries and property tax system established by States. As pointed out in the Report, there is nothing in the U.S. Constitution that rerquires the establishment of cities. They were established by States in order to decentralize government administration. Boundaries of cities expanded as the city population expanded. Beginning in the early part of this century States began to take away the power of annexation from cities thus denying them the opportunity to encompass the residential and economic development taking place beyond their borders. The middle class wanted new houses with ample yards, cities had no vacant land to build on. Industry wanted land to spread out on, to move away from multi-story buildings, the cities had no land available. As the St. Louis and Indianapolis example of the Report shows if city boundaries were expanded to include the surrounding suburbs there would probably be no distressed city left in America.

Central cities, as their percentage of the State population decreased because of a decline in City population and an increase in that of the suburban and rural areas, have little ability to persuade their State to permit such boundary change If this is a major cause of the urban problem, what is the federal government prepared to do to persuade States to confront it.

Property taxes are another State created problem. Fixed boundaries become important when local jurisdictions must look to their local population for the taxes needed to run the local government. A jurisdiction having the largest number of poor will have the most people needing governmental help and the least amount of per capita resources to help them. The fact that Baltimore City with most of the State's poor children spends less than one-half the amount affluent Montgomery County spends per child on public education is a national disgrace considering similar statistics are found in distressed cities nationwide. In terms of the need for public education the ratio should be reversed.

If we can or will do nothing significant as a society about boundaries or local tax structure then we can do something about equalizing the choice our citizens have as to where they will live. The Section 8 existing housing programs introduced and passed by a Republican administration was a revolutionary step in this direction.

The Voucher system referred to in this Report is in essence the Section 8 program. The problem is that to make freedom of choice possible for the poor three things are necessary. Effective enforcement of fair housing laws, as many poor are minorities. Adequate funding of the housing program so that a significant number of poor can move if they desire. And counseling programs to help poor people, who have often never been out of their neighborhood, find an apartment they like, locate the nearest public transportation, health facility, market, etc. and learn of employment opportunities. Unfortunately the Administration is cutting or ending all these programs. In fact, the most effective program in providing housing opportunity, the Areawide Housing Opportunity Program (AHOP) of HUD has been recently terminated.

An even better way for the poor to gain mobility is to help those who are able to obtain middle class status. Not only is this opportunity being denied by high unemployment rates that are particularly devastating in low income areas, but the education and training programs needed to permit the poor to seize what opportunities are available are being cut.

One lesson conservatives could teach liberals is the importance of motivation. Whatever programs are made available and whatever level of government administers them the recipients must be motivated to take advantage of them or the money will be wasted. The issue is not either/or. Both the opportunity and the motivation are necessary. While this Administration should be vigorously condemned for transferring money from the poor to the rich, past more liberal administrations are at fault for ignoring the motivational impact of their programs. Ambition and morality are essential components of an effective urban policy and will do more to counteract crime than the most vigorous program of prison building. We should rethink our public programs to determine how they can be used to encourage strong families, hard work and respect for one's fellow man. It is the presence of these values that make organized society possible, it is their absence that makes civilization impossible.

Thank you again, Chairman Reuss, for the opportunity to testify before your Committe.

Representative REUSS. Thank you, Mr. Embry. Mr. Bahl.

STATEMENT OF ROY BAHL, PROFESSOR OF ECONOMICS AND DIRECTOR, METROPOLITAN STUDIES PROGRAM, MAXWELL SCHOOL OF CITIZENSHIP AND PUBLIC AFFAIRS, SYRACUSE UNIVERSITY, SYRACUSE, N.Y.

Mr. BAHL. Mr. Chairman, I may be your first objective witness today. I don't represent cities or States or counties or the chamber of commerce.

I was not associated with the Carter administration, and I'm not associated with the Reagan administration.

Representative REUSS. We will thus expect total truth and objectivity. [Laughter.]

Mr. BAHL. I did read the last administration's urban policy statement very carefully. And with all due respect to the learned Mr. Embry, I didn't like that one very much. I have read both the draft and the final statement of the Reagan report carefully, and I am no more impressed.

What I'd like to do today is give you a statement of what I think is right and wrong with this administration's urban policy statement. In fact, it's not all bad.

First, one ought to address the notion of what is an urban policy. It's really two things, isn't it? One is a philosophy, and the other is a set of specific initiatives.

The Reagan administration gets good marks on telling us what their philosophy is, but in this document, they get bad marks in telling us how they would implement this program.

The general thrust of the Reagan proposals is clear. It's less Federal aid, more self-reliance for State and local governments, more reliance on private sector initiatives, an increased role for State governments, to encourage the use of benefit charges rather than general taxation, less direct government involvement in the redistribution of income, and a general shift of financial responsibility from Federal to State and local governments.

This is clearly a point of view. It's maybe not the one we like, but it is a pretty clear statement of what they intend.

On the specifics, how they would do this, they don't go very far beyond their general restatement of the proposals of the New Federalism.

I would like to concentrate just briefly on:

What I think to be three important strengths of this proposal, three things that I think are omitted, and a couple of places where I think the proposal is badly flawed.

First, on the strengths. On the issue of regional shifts, the administration is clear. There are two policies one can take: The first is that we can introduce a set of Federal subsidies to reverse the direction of the flow of people and jobs from the Northeast and Midwest to the South.

The other possibility is to say there are good economic reasons for this migration, and to let it go on. This strategy would call for aid to the declining regions during the transition period. The latter is a sane policy, and that's the kind of policy we see in this statement of urban policy. I would applaud that. Unfortunately, however, the administration does not go on to talk about how to aid the declining region in a period of transition. In fact, what seems to be proposed would make the pain of the transition even worse.

Second is the question of the role of State governments. State governments have been increasing their share of the financing of State and local government services and their share of the direct expenditures of State and local goverment service for many years. Moreover, it is within the State governments' jurisdiction to deal with the annexation and consolidation issues, and to directly address the boundary problem. They can do this by liberalizing annexation laws; creating regional financing devices; altering State aid formulas for the allocation of State moneys more to cities than to suburbs; allowing central cities to levy different kinds of taxes on commuters, and so forth.

Unless the State government is involved, we're never really going to solve the city-suburb disparities problem.

The question that we're going to have to raise is how do you make the State government address these kinds of problems.

The administration is right, I think, in saying that States ought to be the dominant partner. Again, however, they don't tell us how they're going to make that work.

The third point is they go to some lengths to make is that one should encourage effective financial management. One way to encourage financial management by State and local governments is to simply pull Federal dollars away, and leave a greater premium on efficient management. In some ways that is a sensible proposition.

While these are three good things that we can pull from the report, at least in terms of philosophy, there are three glaring weaknesses.

The first one: If the cornerstone of this policy is really the national economic recovery program—if there is credit to be taken for urban areas improving as the economy improves—then isn't there a responsibility for the Federal Government to compensate cities that are most hurt when the economic recovery program doesn't work? There is a choice reflected in the misery index, the unemployment rate plus the inflation rate. This index hasn't changed much in the last year, but there has been a shift to more unemployment and less inflation. This is, in effect, an urban policy. The Federal Government has made a choice that we'll have a higher rate of unemployment and a lower rate of inflation. And cities, I would submit, are hurt the most by that kind of a choice. Isn't it a responsibility of the Federal Government to somehow compensate State and local governments for the effect of recession if recession is, in fact, created by Federal policy? I haven't heard of any situation where the State and local governments have been partners in the discussion of what Federal macroeconomic policy ought to be. Business cycle considerations ought to be part of intergovernmental policy. They tried to do it in the last administration, before there was an urban policy statement, in the form of the economic stimulus package. That kind of a principle might make some sense.

The second place where the administration's statement is weak has to do with income redistribution.

I've been teaching public finance at the university for a long time, and like everyone else I know, I begin the first lecture by saying that government does three things: They worry about the allocation of resources; the stabilization of economic growth; and redistribution of income. The first two issues are addressed in this report, but the question of redistribution of income is noticeably omitted. It's as though the Federal Government has no responsibility to correct what are undesirable features of the distribution of income.

Now, on this business of voting with ones feet and the New Federalism's swap and turnback.

One possibility is that people will, in fact, vote with their feet. Poor people could migrate toward where the benefits are better. Wealthier people cold migrate away from States that try to keep the benefits high. I think a reasonable guess would be that because of interstate competition to keep the level of taxation down, the net effect is that we won't get a lot voting with our feet. But we'll get a general lowering of the kind of benefits provided to the poor.

Take a case like New York State, which is way out of line in terms of its level of taxation relative to other States in the country. There's no way that New York State is going to increase taxes to offset the kind of reductions they've made in the last 5 years. So, one could guess, I think reasonably, that the effect of the New Federalism will be a reduction in services provided to the poor, even in those States that have a tradition of providing those services.

The second point regarding income distribution has to do with encouraging user and benefit charges. The principle is that people who can afford to pay for public services ought to receive public services, and people who cannot afford ought to be excluded. I think there was an example of day care in the original draft. Well, this approach has obvious implications for the distribution of income through the public sector.

The third point is privatization. I think Congressman Mitchell really said it all in his Baltimore example. We ignore the distribution of income when we encourage the private sector to renovate central cities. The discussions of, for example, Minneapolis and Dallas mentioned in the Urban Policy Report do not even raise the question as to what might be the impact on the distribution of income.

In terms of flaws, I saw a few places that I was unhappy with the discussion. One has to do with regional shifts. There is a painful adjustment period while a State is declining and losing people and jobs. We all know who is going to bear the greatest burden or the greatest pain during the transition period. It's going to be the people who become unemployed first and the people who benefit most from the public services that are cut back. There ought to be some kind of a policy to help State and local governments through this period of adjustment. The proper stance of the Federal Government ought to be to ask how can we structure a kind of transition aid to help a State like New York go from being the wealthiest State in the Union, with the best level of public services, to a State with the average income in the country and a level of services that's commensurate. We don't find that here.

Second, the question of the State government role in all of this calls for a notion of defining the States to be more important actors in the Federal systems. But States have a very bad track record. The city-suburb disparities have been with us for a long, long time, and the State legislatures haven't done much about them. As a matter of fact, it's fallen to the courts to try to do something with city-suburb disparities. Now, as you remember, from a reading of the administration's statement, they have a long discussion of why this won't happen again. It says this is because State legislatures are better, they meet more frequently, that the legislators themselves are better trained. This really missed the point. The real problem is and always has been that the constituency in State legislatures is suburban-dominated or a suburban-rural coalition. There's no constituency for the central cities. With the recession and with the cutback in Federal aid, States are going to be less willing to aid cities than ever before. The third problem I found is this. I have studied these matters for a long time. This is the first time that I ever heard anyone argue that competitive subsidies among the local governments in the form of tax incentives are in the national interest. This is simply a poorly thought-through issue in this report.

I would close, Congressman Reuss, by saying that I would hope that one of these days someone is going to come here and pose a New Federalism. The New Federalism I would like to see would have two components:

First a clearly defined State role, but one that says to States that "unless you address the city-suburb problem that you won't receive the incentives of additional grant money"; second, a clear statement that income transfers have no business at the State or local government level. AFDC, food stamps, medicaid, all are a Federal responsibility and the financing of it ought to be 100 percent—completely at the Federal level. Thank you.

[The prepared statement of Mr. Bahl follows:]

PREPARED STATEMENT OF ROY BAHL

An Urban Policy Report should be a statement of the general approach which the Administration will take toward urban problems, and a listing of the specific initiatives proposed. On the first count, the Reagan Administration is to be commended for giving a clear statement of their philosophy of how urban problems can best be resolved. These principles suggest marked changes in federal involvement: less federal aid to cities; a dominant role for state governments; much more reliance on private sector and voluntary organization initiatives; increased user charges, revenue bonds, and special district financing; much less concern with direct governmental efforts to redistribute income through the financing of pro-poor services; and a general shifting of financing responsibility from federal to state and local governments. Such a program is quite consistent with the Administration's general approach to Economic Recovery. If the economy can be strengthened by giving incentives to higher income investors, the benefits will eventually trickle down to the poor. The Urban Policy is to reduce federal assistance to cities, shift financing responsibility and service choices to those who are willing and able to pay, and hope that the poor will eventually share in the fruits of the improved financial position and management of cities. One may not like this thrust, but it is an approach. The Carter Administration's Urban Policy, by contrast, tried to please so many different interests that No A clear statement of policy emerged.

In terms of specific initiatives, the Reagan Administration's Report is less impressive. It proposes the "newest federalism" with its swap and turnback components, but does not provide estimates of the impact of these changes on cities, on the urban poor, or on the detail of the amounts of

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funding involved. Likewise it is silent on how to encourage increased private sector involvement, how to make state governments behave more responsibly toward cities, and how declining and distressed local governments can cope with their short run fiscal problems.

In the three sections below, I discuss what I think to be the greatest strengths of the Report, its important weaknesses, and some areas where I see the basic analysis as flawed. I will say at the outset that I do not think this is the right urban policy for the United States of the 1980s. Its impacts on poor cities and poor people will result in social problems that the Administration apparently has ignored or ruled out as unimportant. In some ways the policy goes in the right direction, but it goes too far.

STRENGTHS OF THE ADMINISTRATION'S REPORT

I am in agreement with three basic tenants of this report: that federal policy ought not to be built around reversing the snowbelt-sunbelt shifts in economic activity; that the role of State governments is pivotal and ought to be clearly stated; and that local governments ought to be pushed to improve their financial management and planning practices and to better understand what they can afford.

Regional Shifts

One might take either of two positions about proper federal policy toward the shift of population and economic activity from the Northeast and Midwest to the growing Southern and Western regions. One policy would be to create a set of competitive subsidies to attempt a reversal of the current trend; i.e., to use government subsidies and penalties to offset the comparative disadvantages of the declining region. This would seem to be the tack taken by the Carter Administration's Urban Policy Statement of 1978, which included a National Development Bank, the targeted employment tax credit, neighborhood commercial reinvestment programs, and expanded UDAG funding. The problem with this approach is that there is little evidence that such revitalization programs work or can have any effect on the economic base of declining cities. Certainly the European experience with such regional subsidies is not encouraging. At a time of slow National economic growth, the United States can scarcely afford the creation of such inefficiencies.

An alternative approach is a kind of compensation policy which accepts the notion that market forces are affecting a reallocation of population and income within the country and attempts to compensate the most financially pressed governments and families during the transition or adjustment period. The Reagan Administration proposes such a policy, but comes up short in several respects. First, they do not elaborate on what kind of program could be worked out during the transition period to ease the pain of regional shifts. Moreover, other policies in this Urban Report suggest that low income families would not be protected from the pain of economic decline and that central city public services would not be subsidized during the transition period. For example, the swap, turnback, and federal aid reductions would leave declining area governments in the position of doing less for those families most hurt by economic decline.

In short, the Administration is correct in realizing that the issue is how to help governments through a painful adjustment period and not how to reverse the pattern of regional shifts underway. On the other hand, they are unwilling to face the issue that federal assistance is an important element of such an adjustment program.

State Government Role

The Administration's Policy gives state governments the key role in strengthening and financing urban governments. This reverses a longstanding ambiguity wherein the state government shares of total state and local government financing and spending have been increasing while federal assistance has increasingly bypassed the states. The role and responsibility of state governments had become so unclear by the time of the New York City emergency aid, that the question--of how far New York State had to go before federal aid would flow--was never even raised. Moreover, boundary problems lie at the heart of urban fiscal problems and city-suburban fiscal disparities in the declining regions. Whether these problems are to be dealt with by annexation, consolidation, or regional financing schemes, it is clear that reform must begin at the state government level.

The Reagan program properly recognizes the need for state governments to play a key role in dealing with urban problems, but they have not addressed the issue of what steps the federal government will have to take to insure that state governments will address metropolitan fiscal disparities. After all, the track record of state governments in this respect has not been good.

Financial Planning

The Administration's program encourages improved financial management practices of local governments, and will increase the incentives for such improvements by reducing the flow of federal aid. The New York City crisis and its aftermath convinced many city/administrations that financial planning and control was essential. The experience since that time has shown that significant improvements can be made in using control systems, fiscal forecasting techniques, debt and cash management models, etc. The Administration's Policy, by placing more responsibility in the hands of state and local governments, increases the premium for improved financial management.

WEAKNESSES OF THE ADMINISTRATION'S REPORT

The Reagan Urban Policy statement does not address three important issues which are essential to formulating a complete urban policy. The first is whether or not the federal government has any responsibility for the adverse effects of business cycles on state and local government finance. The second is the consequences of the Administration's policy for the urban poor. The third is the position which will be taken about the comparative tax advantage of resource-rich states in the West and Southwest and the distribution of future federal assistance.

Business Cycles

The foundation for the Administration's Urban Policy is the Economic Recovery Program. The argument is that cities will benefit from whatever national growth occurs. However, the Administration's economic recovery program has so far produced a nine percent unemployment rate, a "misery index" (unemployment rate plus inflation rate) not much different from the 20 percent of the Carter recession, and central cities in the declining region with particularly high unemployment rates. The Administration's report does not raise the possibility that it has some responsibility to compensate state and local governments for the compromising effects of inflation and recession. Surely if the cornerstone of the Administration's Urban Policy is its economic recovery program, then it must also have a compensatory policy to bear some of the responsibility for the failure of this recovery program.

The business cycle and inflation have quite dramatic effects on the financial health of state and local governments. Indeed, it was the severity of the last recession that pushed New York City over the edge and brought many other local governments and at least one state dangerously close to fiscal insolvency. Because swings in economic activity do induce substantial changes in relative fiscal health, one might argue for an explicit recognition of business cycle effects in federal intergovernmental policy.

In a sense this was done with countercyclical aid and the stepping up of other components of Economic Stimulus Package in the 1975-1978 recovery. The present Administration does not propose such a policy. State and local governments are on their own in coping with the effects of recession and inflation on their budgets.

Income Redistribution

The Administration's policy is not targeted on the needs of the urban poor. Indeed, one could argue that if this urban policy succeeded, it could markedly worsen the distribution of income. First, by proposing the swap and turnback components of the new federalism, it is proposing that the federal government view income redistribution as much more of a state and local government responsibility than before. It is not only that the states would have responsibility for AFDC and food stamps, but that the total amount of federal assistance would be cut. Since state and local governments must compete with one another with tax and expenditure policy (and the Administration's proposal encourages such competition), then it seems clear that state and local governments themselves can place much less emphasis on providing redistributive type services.[1] Even if state and local governments did move to increase taxes to offset some of the federal grant loss and to provide improved services, the net effect would be a shift from a progressive federal income tax to a proportional or regressive set of state and local government taxes.

Second, there are other aspects of the Reagan proposal which are not pro-poor. The increased use of user or benefit charges to finance public services can effectively exclude those who cannot afford to pay the charge. What are the social costs of pricing the poor out of the use of public facilities? Similar problems emerge in the Administration's proposal to increase the involvement of the private sector. The "privatization" of services such as day care will certainly have impacts on low income workers. The Administration's citation of examples of private sector involvement in urban renewal is another example. This may be a good way to reconstruct parts of the city, but the experience in recent years does not suggest that the poor are direct beneficiaries of this renewal. This may not damn such programs, but these effects need to be recognized.

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[1] I expanded on this point in my Joint Economic Committee testimony of February, 1982.

Resource-Rich States

An important policy issue on the horizon is what will be done about those states which have gained a substantial comparative advantage in their fiscal position due to the location of natural resources within their boundaries. With deregulation, the various types of severance and extraction taxes in the energy-rich states have markedly improved their comparative fiscal positions. The Courts have now ruled that under certain conditions, these states may continue to tap the energy base and thereby further increase their comparative fiscal advantage. What is the proper response of the federal government? In particular, will the distribution of federal assistance among the states somehow take into account this increased taxable capacity? The Administration's Urban Policy Statement, which deals with many similar issues, is silent on this one.

IMPORTANT ISSUES NOT CLEARLY ADDRESSED

A number of issues raised in the Urban Policy Report were either not fully addressed or not properly thought through. In some cases, the policy statement raised the problem, suggested the desired outcome, and went no further. In others, the reasoning appeared flawed. These issues include (a) how to implement the new state role in dealing with urban problems, (b) what to do about the infrastructure problem, (c) how to help declining regions adjust to regional shifts, (d) what methods to use in stimulating public-private cooperation, and (e) the wisdom of promoting the idea of enterprise zones and competitive subsidies among local governments. The discussion of each of these subjects needs further attention.

The State Role

State governments have always had the power to effectively deal with urban problems. They could liberalize annexation and consolidation regulations, they could create regional financing districts, or they could adjust state aid formulae to recognize the particular needs of cities. In fact, historically, they performed poorly in all of these areas. So poorly, in fact, that it has fallen to the Courts to correct city/suburb fiscal and service level disparities. Particularly in the Northeast and Midwest regions, where most distressed cities are located, states have not done what was necessary to address the urban problem.

The Administration's Policy places the responsibility for Urban Policy at the state level by giving the state governments more control over federal assistance. But there is no safeguard, other than a few passthrough regulations, that will insure a change in state attitude toward cities. Indeed, there are reasons to believe that states will be even less sympathetic to city problems. The recession and federal aid reductions have cut into state revenues, a factor which will likely lead to reductions in state aid. Moreover, state legislatures are increasingly suburban dominated, which means they may be even less responsive to the needs of central cities than before.

There is probably a great opportunity to deal with urban problems by increasing the role of state governments, but more is needed by way of giving states incentives (and penalties) to properly address these problems.

Infrastructure Issues

As is noted in the Urban Policy Report, the infrastructure problem is a major national issue. While much ado is made about public-private cooperation, elimination of cumbersome regulations, and better financial and capital facility planning, it seems pretty clear that the Reagan proposals will further reduce the amount spent by state and local governments on capital investment and maintenance. The simple fact is that with further reductions in federal aid and with tight fiscal positions, state and local governments will defer those expenditures which are most easily deferred--capital spending and maintenance. Especially if governments are required to borrow the funds for major renovations or construction projects, high interest rates provide a further incentive to postpone.

This approach is strongly inconsistent with the Administration's economic recovery plan, which emphasizes capital investment. But public as well as private investment adds to the productivity of the economy. Is it not reasonable to believe that further deterioration of the capital infrastructure in urban areas--e.g., roads, public utilities, ports--can impede productivity increases? Could not a similar statement be made about investments in human capital, i.e., education and health services?

The President's statement, while arguing that public infrastructure investment is important for the country, is silent on how to increase the rate of such investment. Indeed, the fiscal strains of the newest federalism and the fiscal 1982 budget deficit may combine to dry up state and local government capital project activity.

Structural Adjustments

The Administration is correct in arguing that regional shifts in economic activity probably can't be reversed and that subsidies to hold jobs and people in declining regions are not good public policy. They also correctly recognize that in the transition period, the governments and low income people in declining regions face quite severe problems of adjustment. What they do not raise is the way in which the federal government could begin to ease the pain of this adjustment period.

A comprehensive urban policy would begin by addressing the needs of poor people and poor local governments which resulted from population declines. Indeed, one might ask whether it would be possible to give structural adjustment assistance to local governments as part of a program whereby they would bring their budgetary activities in line with the realities of their new, lower level of population and economic activity. The Administration's urban policy report does not offer any suggestions about how one might deal with such adjustments. In effect, the declining areas will be left to their own devices, with less federal aid and more servicing responsibility.

Public-Private Cooperation

A great deal is made in the Urban Policy Report about the possibility of making use of the market, and about relying more heavily on public-private cooperation. The report gives a number of examples of private sector initiatives which have led to substantial physical renewal in the center of metropolitan areas. However, very little was reported about the impact of these activities. Were they truly successful in increasing the net employment in the region? Did they have any negative effects--such as displacing the poor from certain areas of the city? Have they contributed substantially to a revitalized city economy, and where they have not, has the city shared in the losses? Have local governments gained back more in increased tax revenue benefits than they gave up in the form of fiscal subsidies?

The public-private cooperation in urban renewal may be an important way to physically revitalize cities, but it also has its costs. There is much more that we need to know about the impact of these activities than was reported here.

Enterprise Zones and Tax Incentives

The Administration's Urban Policy Report is different from most other studies in this area in that it encourages the use of tax incentives, etc. by local governments as a competitive device. The usual argument is that competitive subsidies are probably a windfall gain to the business concern, i.e., an unnecessary giveaway by the local government. When local governments compete by offering these subsidies, they shift part of the burden of financing local services from the owners of business to local residents. The Administration's recommendation for more use of competitive subsidies is almost startling in light of the great amount of evidence that these subsidies do not work in attracting jobs. Certainly competitive subsidies are not in the national interest.

The Administration also is proposing the establishment of enterprise zones. Presumably, the enterprise zone will attract jobs and economic activity to areas of the city where such activity would not ordinarily have located. In this report, they also claim that the activities attracted may not have been initiated without these subsidies. This should immediately such continue to.

cause one to ask whether activities will ~~even~~ exist without the subsidy, and if not, is their establishment in either the national or the local interest.

Again, one would think that a great deal more homework needs to be done on this issue. It is not at all clear that enterprise zones can accomplish the objectives set for them, indeed, the initial proposals to establish enterprise zones can be questioned on many grounds. Again, the report is quite vague as to the evidence on the potential impact of this program.

NATIONAL URBAN POLICY

It was pretty clear to most observers that the national urban policy of the Carter Administration did not address many of the important issues. In particular, the following were more or less ignored: whether the federal government ought to attempt revitalization of declining regions or compensation for their losses during a period of financial adjustment; what to do about declining city economies; whether inflation and recession ought to be viewed as a part of intergovernmental policy; what roles should state governments play in the intergovernmental system; and what will be the federal policy toward big city financial disasters?

The Reagan Urban Policy Report addresses two of these problems. It identifies the state governments as the key actors in the state and local government sector, and it would not favor policies to reverse regional shifts. On the other hand, the Administration does not go very far in spelling out the implementation problems in these areas.

Like its predecessor, this Administration has not dealt with the other issues. On the one hand, there are discussions of enterprise zones as methods of revitalizing central cities, but no consistent policy regarding how to deal with regional disparities has emerged. Surely the federal government has a major role to play in this area, i.e., the regional allocation of substantial increases in defense spending, the allocation of federal grants, deregulation of energy, the method of taxing energy resources, etc.

Finally, the Administration is making no statement about intentions to compensate state and local governments for the effects of inflation and recession. Indeed, the Administration has increased the hardships on state and local government budgets associated with increasing unemployment. Unemployment compensation benefits have been altered to the detriment of local government areas with substantial amounts of unemployment, state and local governments will be left to their own devices to finance a larger share of welfare-related costs, and countercyclical assistance and public works programs have been eliminated.

Representative MITCHELL [presiding]. Thank you very much, Mr. Bahl. Our chairman will return in just a moment. Mr. Kotler, please proceed.

STATEMENT OF MILTON KOTLER, VICE PRESIDENT, CENTER FOR RESPONSIVE GOVERNANCE, WASHINGTON, D.C.

Mr. KOTLER. Chairman Reuss and members of the committee, I am pleased to testify before you on the "National Urban Policy Report."

In the past, you have invited me to speak on urban problems because of your personal concern that the conditions and interests of our urban neighborhoods are not ignored in formulating urban policy; and also because of your own conviction that a neighborhood perspective upon urban affairs often discloses new ways of viewing these problems.

You want this perspective to enrich your understanding. I hope to fulfill your expectations. And I will be brief, because it has been a long morning.

[At this point, Representative Reuss resumed the Chair.]

Mr. KOTLER. In the Auburn-Gresham community on the South Side of Chicago, the neighborhood organization would like to complete the last phase of its community crime prevention program. Members of the project team now meet buses at major stops in the neighborhood and dispatch alighting residents in groups to walk to their different blocks. Block captains then escort residents to their apartment buildings, where building captains see that residents get safely to their apartments. The last step of this program would be to place volunteers on buses with walkie-talkies to contact the street dispatchers in case of trouble.

When Federal funds for this program terminate next month, the program is likely to dissolve. All volunteer programs need professionals to administer activity. Private funds are not likely to be available for this loss of public support.

Without this program, Auburn-Gresham will be reduced further to an encampment for poor people pushed around by whoever is mightiest at the time. With Federal support for community crime prevention, the Auburn-Gresham neighborhood can operate a militia to preserve a degree of civil order.

What does this tell us? First, Auburn-Gresham is the real, human side of those statistics about the threefold increase in crime in our cities since 1960. Its poverty and crime tell the human story of a radically altered urban economy, in which unskilled, outskilled, and old-skilled workers cannot find a place to stay or to go. In the normal course of our market economy, aided by the kind of public support we have seen over the past decade, the number of these people increases.

Since the late 1950's, our cities have rebuilt their downtown centers of finance and communication with expressways to transport skilled suburban workers. The latest ornament of this basic urban model has been a ring of gentrified neighborhoods surrounding or astride downtown for the residence of a young professional class that could use downtown's cultural investment. The rest of the neighborhoods of the city, based upon the residence of an older, industrial working class—and new migrants to the cities—were neglected, along with the manufacturing base of the city.

This neighborhood erosion has been steady, retarded here and there by the vigilant organization of community advocacy groups and development groups that have won back to the neighborhoods a very small measure of service and capital resources from city government's basic orientation to downtown development.

The Auburn-Gresham community raises the crucial question of whether the contemporary city, based upon an intensely developed downtown with transportation arteries to the suburbs and a small ring of gentrified neighborhoods, can survive the decline of its neighborhoods and the pressure of massive unemployment and crime.

I happen to think it can survive, if bold policies of massive economic development are instituted by our cities and properly supported by Federal and State government. The hope of realistic policy can sustain a lot of pressure. I do not think it is realistic to say that our urban problem is a matter of natural decline, best faced by shifting investment from older to younger cities. The roots of this pressure of unemployment and crime reach to every city.

Most enlightened opinion on urban affairs today will agree that the major thrust of our cities must be economic development to quietly expand employment opportunities for distressed groups. The progress of economic development in our cities over the past two decades will also be generally recognized. But there are disagreements about the agency and scale of economic development. One group applauds the role of the Federal Government in the economic development of our cities. They applaud UDAG, EDA, CDBG, CETA, and a host of other Federal instruments for local economic development. They also applaud the variety of tax, fiscal, and organizational devices of which local government has invented to expand its economic development capability.

While the present urban policy report is less clear about any objection to local government involvement in economic development, it does reject a good part of the active Federal role on local economic development in place of a stronger emphasis on removing tax and regulatory constraints on investment.

There is something to be said for both sides. Clearly excessive constraints on development must be removed to enlarge the scope of development, but it is not clear that removal of the kinds of constraints that the enterprise zones envision will be enough to initiate the scale of capital funding that the public sector can provide, or that is necessary.

But the major issue of agency is really the matter of incentive. The Federal Government declares its primary concern with the national economy. Private enterprises uses mobility wherever it is to their advantage. State government has a large orbit of interest than its declining central city populations. None of these sectors have the incentive to make a durable commitment to large-scale economic development in our cities. The only unit that has a real incentive is the city government itself. It is an inescapable article of realism that city government must be the prime initiator of large-scale economic development in our cities. It must use every power of city government for this purpose, and it must be appropriately supported by other units of government, as well as the private sector.

The second issue of difference has to do with the scale of development. For most cities, the economic development agenda has largely been downtown-centered. There has been support to firms outside the downtown perimeter, and certainly the formulation of plans for enterprise zones will strengthen this outward trend. But by and large, the development agenda has not been comprehensive enough to address massive unemployment.

The major obstacle to the scale of local economic development over the past decade is the present political mission of city government itself. While an economic development capacity has been growing in our cities over the past decade, that growth has been limited as much by the fact that our cities remain primarily wedded to service delivery as by the lack of Federal and private dollars to invest in economic development. As inflation and economic decline reduces service levels in our cities, mayors recommitted themselves to improved service delivery. As the service dollar continued to shrink, groups that were certain to get less came to expect more.

There were two classes of exception to this rule. In cities like Cleveland and New York which came close to financial ruin, public demand for increased service abated while they got their municipal house in order. Now that they've corrected their credit ratings, they are back on the saddle of promising more direct service, while riding a weak horse.

The more interesting exception is the southwestern city, like Houston, which never had a high devotion to service delivery. With its classic freedom from zoning, it always emphasized economic development. It is not unreasonable to hypothesize a direct correlation between its economic growth and its primary city mission of economic development.

So long as direct service delivery remains the primary commitment of city government, it is very doubtful that our cities can muster the intellectual and financial resources, and the organizational capability to achieve large-scale economic development.

A city cannot have two master directions, especially where one, like service delivery, has such short-term advantages to its citizens. Homeowners pay their property taxes and want their services. Being employed in the short run, they feel safe enough to demand that the city pick up their garbage, fill their potholes, patrol their streets, and do a host of other daily services. The chief complaint against an incumbent mayor is poor performance of municipal services. So long as direct service delivery is the top priority of city government, the quality of its delivery will overwhelm all other considerations. For massive economic development to ever be accomplished by our cities, direct service delivery must be removed as a priority mission of city government.

Cities must contract these services out to nonprofit neighborhood organizations and to private business, and limit their concern with services to monitoring these contracts. Private business already performs numerous contract services for city government, primarily in housekeeping, but also in direct services. Many neighborhood organizations have a decade of contract experience in housing and community development, as well as federally supported health and social and human service delivery.

In saving this. I am not convinced that the free market or non-profit sector can provide superior services. City government must unload an old function in order carry a new function. The old function can be adequately performed by neighborhood organzations and the private sector.

For our cities to withstand the terrible pressure of unemployment and crime, with hope of economic development for massive employment, we must have a change in the 100-year-old mission of city government. In the 1880's, political economists announced that since the Federal and State governments were sufficient protectors of liberty, municipalities were really no longer necessary to serve political purposes. They should turn their attention to the business of business and perform those infrastructure development functions and direct operating services needed for growing cities, with expanding populations and industry. Pipes had to be laid; residents had to get to factories; public health had to be safeguarded where people worked and lived in close quarters. That was the origin of the mission of service delivery.

In 1982, the urban picture for many of our cities is different. Populations are shrinking; people have more space in highly desolate environments; ridership on public transportation declines; employment disappears. It is not service delivery that our cities are aching for; it is massive economic development to employ our pitiful and dangerous encampments of the unemployed. I hate to sound extreme and pit one mission against the another. We would all like to have our cake and eat it, too. But what mayor could politically survive massive economic initiatives today so long as he or she were measured by the test of service delivery?

Let me end with a final lesson of the Auburn-Gresham neighborhood organization. An organization that can develop an impressive defense against its internal despair and chaos can play a larger role in the future. Like many organizations across the country, it can preserve its housing, revitalize its commercial strip, feed elderly citizens, and operate day care facilities.

These organizations have done these things under contract for years and can expand their contract service responsibilities over park and vacant lot management, trash collection, alcohol and drug abuse, arson prevention, multiservice center management, and a host of neighborhood-based public services. They would politically accept this new responsibility, if political leaders begin the forthright task of educating the public and carefully promulgating this new urban mission. Thank you.

Representative REUSS. Thank you very much, Mr. Kotler.

Let me take up a point made by both Mr. Embry and Mr. Bahl.

ENCOURAGING BOUNDARY CHANGES

You both said that, in your view, the urban policy report was right in stating that the problems of local boundaries and problems of the allocation of tax revenues within metropolitan areas are a large part of the problem.

You then went on to say that these problems are solvable by States, which created local governments, and therefore, local governments have to look to the States for their solution.

And then, finally, you pointed out that nowhere in the report is any mention made of any devices to give incentives to the States—positive or negative—to encourage local governments to solve these problems of boundaries and fiscal distribution.

I think this is a very important point. What could be done about that?

Mr. EMBRY. It was recommended in the Carter Urban Policy Report—I think for the first time—and there were many discussions with States on this issue—that, beginning with revenue sharing for States, that unless States came up with an effective urban strategy to deal with their urban problems, of which boundaries and tax base were part—and also the disparity of education and the fact that, for instance, Baltimore City spends $2,300 per child to educate their children, whereas Montgomery County spends double that—it should be the reverse if you look at the needs of the students—that unless the States were willing to face up to these problems and deal with them, the Federal Government would not aid the States as significantly as they had in the past and as significantly as they would aid other States that were willing to address these problems.

I would recommend again, as we did several years ago, that Federal carrots or sticks be used to prod the States into action. I would prefer taking away something they're getting rather than adding something more if they comply.

The Federal Government is often accused of interfering. But what the Federal Government is saving is: "I won't give you this benefit unless you do something. If you don't want to do it to get the benefit, you don't have to do it. We have no power to make you do it." It seems to me the Federal responsibility of spending money effectively is to not spend the central thrust of the Carter urban policy.

So, I would say that the Congress should give very serious thought to withholding benefits that are now being paid to States until States begin to address this problem.

Representative REUSS. Mr. Bahl.

Mr. BAHL. I would take the same position. But I think that the policy of the 1970's was different. Beginning in the early 1970's, there was a bypassing of State government, channeling money directly to local governments to do what States had been unwilling to do, such as target assistance on jurisdictions that were hard pressed.

Now, that's not the way to make a State behave, because what that does is it takes the discretion away from the State and gives it no incentive to deal with the problem.

I remember reading about a proposal, before general revenue sharing, where the State share of general revenue sharing would somehow be tied to the States addressing the city-suburb disparities.

Representative REUSS. Yes, I advanced such a proposal in 1970 when general revenue sharing was first used, and it got nowhere. Then, when general revenue sharing was renewed in 1976, it was advanced again with a little more support behind it and actually cleared the House Government Operations Committee and was reported out to the floor. This would have conditioned general revenue sharing on the adoption by the States of reasonably meaningful programs for permitting localities to adjust boundaries and to divy up the fiscal resources equitably.

That second round proposal, however, did not get anywhere either.

Now, however, I see a possible opening because this Urban Policy Report does make the point, very clearly, that it is an evil thing that the States permit great disparities in fiscal capabilities in metropolitan areas. Somehow—by annexation, consolidation, metropolitan sharing of resources, whether you do it a la Jacksonville, or a la Nashville, a la Indianapolis, Minneapolis, or a la San Francisco, where they don't have a separate county, those solutions should be encouraged.

Now, one trouble is we don't have the vehicle of general revenue sharing, for States anymore. That's been done away with.

What could be used instead? How about the Federal Government picking up medicaid expenditures if a State modifies local boundaries? Could that be a device for saying the Federal Government will pick up these expenses, but not unless the State comes through with some indication that it is going to do something about local disparities.

Mr. EMBRY. My sense is that it would be a very powerful kind of incentive. A better one yet would be the package of medicaid, AFDC, and food stamps.

I think if you look back to the Urban Policy Report, there are those pages where the administration is talking about why we need not fear repeat of the poor performance by States.

The argument is that legislators are—State legislatures are simply smarter than they used to be.

Representative REUSS. Do you find evidence that State legislatures have found their soul in recent years?

Mr. EMBRY. I think they might be smarter than they used to be. But I don't think that means that they're going to do more for cities. The suburban representation in State legislatures is much greater than ever before.

A VOICE. That's right.

Mr. EMBRY. Mr. Chairman, I think, realistically though, if the States were to act in this way, it would be helpful for cities, it is not something they're going to do. There is no Federal carrot of significant size to get a Baltimore County legislator to agree to have his suburban jurisdiction added on to Baltimore City or a regional tax based created, it's much to be desired; but I don't think it's going to happen.

If that, in fact, is the case, the cities are going to continue to house most of the poor people in the metropolitan area, and that is the essence of the urban problem. And the Federal Government has to accept that as a given fact and not wish for something that is unattainable.

If that is the case, then the Federal Government has a responsibility for helping those poor people that can move out of proverty into middle-class status, which is the greatest mobility that you can have; for those poor people who cannot move out of proverty, to help house them and care for them and not expect local governments to do it on their inadequate tax base.

Representative REUSS. Mr. [inaudible].

A VOICE. Excuse me. I have [inaudible].

Representative REUSS. Thank you for being with us and for staying. We know you do have an appointment. Congressman Mitchell.

Representative MITCHELL. Mr. Embry you made some very startling observations which I wanted to pursue. But I think we can do it at another time or through correspondence.

If I were king, obviously you would be the Secretary of HUD. I think he would serve the advocacy role which is not being served in this antiurban administration. I think you would continue to do through reasonable persuasion what you've always demonstrated. You would sensitize the administration. but I'm not king. Not yet. [Laughter.]

INFRASTRUCTURE PROBLEMS

Mr. Kotler, you have made some truly remarkable recommendations for a shift in terms of the ways we should assist cities. I'm not at all sure that I can comment fully on them, because they are very radical recommendations.

Your recommendation that the city drop all of its service delivery is radical given the fact that every major city is facing the deterioration of its infrastructure. It is estimated that it will cost a trillion dollars over the next 10 years to rebuild the infrastructure.

How in the world could you minimize such a priority at the very critical moment when the bones of cities are breaking because of their brittleness?

Mr. KOTLER. Congressman Mitchell, I do not minimize the importance of services, but only say that nonprofit agencies, including neighborhood organizations, and the business community can delivery many of these services by contract. Let us free city government to focus on those services tht are essential to massive economic development, including infrastructure repair and development.

Representative MITCHELL. I don't necessarily disagree with your objective. Rather, what I'm trying to ascertain is how do you view eonomic development in the city of Baltimore or the city of Washington or the city of Detroit in which the actual physical infrastructure has deteriorated to the point where it is not reasonable to assume that the private sector can make the expenditures necessary to improve the infrastructure.

Mr. KOTLER. Infrastructure development must be an integral part of economic development planning.

BALANCE OF RESPONSIBILITIES

Representative MITCHELL. One last question for both of you gentlemen.

The administration's report states that one of the priorities of the administration's urban policy is to insure the proper balance of responsibility between the various levels of government.

Both of you read the report.

Do you believe that the proposals contained in that report, in fact, seek a proper balance of responsibilities among the various levels of government.

A VOICE. Well, to answer that first, no, on two points.

One is that I think the local government will be less able to act as a result of these recommendations, if approved, because they'll have less resources.

And second, I think States will be less inclined to act because they will be put into a more competitive position with other States, as—as we pointed out many times this morning. And it will be in their self interest to reduce their efforts to correct disparities rather than to increase them.

Representative MITCHELL. Mr. Kotler.

Mr. KOTLER. I don't think this report addresses the kind of partnership that I think is realistic, around massive economic development.

Representative MITCHELL. Then, in fact, you're saying the proposals do not provide the proper balance of responsibility.

Mr. KOTLER. Not around a new purpose of city government.

Representative MITCHELL. Thank you.

No further questions, Mr. Chairman.

Representative REUSS. Mr. Kotler, Mr. Embry, and Mr. Bahl, we are very grateful for your fine presentations.

And we will stand in recess until 9:30 a.m. tomorrow in this place, when we will hear a number of witnesses on the plight of the urban areas.

[Whereupon, at 12:34 p.m., the committee recessed, to reconvene at 9:30 a.m., Wednesday, July 14, 1982.]

THE ADMINISTRATION'S 1982 NATIONAL URBAN POLICY REPORT

WEDNESDAY, JULY 14, 1982

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 9:30 a.m., in room 2359, Rayburn House Office Building, Hon. Parren J. Mitchell (member of the committee) presiding.

Present: Representatives Mitchell, Coyne, and Crockett.

Also present: Deborah Matz, Robert Premus, and Nat Thomas, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE MITCHELL, PRESIDING

Representative MITCHELL. Good morning. This hearing will now come to order.

Today represents the second session in a series of hearings on the development of a comprehensive national urban policy. Yesterday, we received testimony from the Secretary of Housing and Urban Development, Mr. Samuel Pierce, and other distinguished witnesses on the administration's urban policy report. The purpose of today's hearing, "Life in Urban America," is to examine the socioeconomic status of the urban population, including its employment, education, health, housing, and community development status, and to determine whether the scope of the President's national urban policy is adequate to address the problems of the urban population, particularly the urban poor.

While the States and local governments are, in some cases, best able to determine the most effective use of resources, there are numerous problems affecting them that require the direct involvement of the Federal Government. Any examination of the needs of urban areas and their population will reveal that certain conditions require the attention of the Federal Government—urban poverty is one such condition. But, despite the fact that during the last 10 years the number of persons living in poverty has risen, the administration's urban policy report suggests that only a limited responsibility by the Federal Government should be taken for addressing the needs of the poor. What does such an approach say to the approximately 30 percent of white families and 60 percent of black families living in poverty in our central cities? Moreover, does the evolving urban policy of the administration take into account poverty among urban residents as a permanent condition, particularly since the underclass appears to be separated from the benefits of economic growth—a central premise of the President's national urban policy.

I'm going to ask that my entire opening statement be submitted for the record to save some time. I do want to highlight one or two points that are included in the statement. In my opinion, one of the major difficulties with national urban policy in the past, and certainly in the President's report, has been that it has focused in on the place, not the people. It has looked at the city, and I don't think any national urban policy can really be a policy unless it examines the totality of all of these socioeconomic conditions that beset cities.

And the No. 1 condition or one of the major problems or if I had to single out the most important problem it's urban poverty. It's absolutely ludicrous for some people to assume, as they falsely assume, that poverty is no longer in existence in this Nation. It's very much present and it's very much concentrated in urban areas.

From 1969 to 1979 the rate of poverty rose from 14.9 to 15.8 and it's interesting to note that that increase took place as the programs for the poor were being cut; they were being eroded. Certainly one of the major difficulties associated with urban poverty is the matter of female head of households; 32.7 percent is the average of female households in poverty. However, it's 45.4 percent of black female household heads, and for hispanic female head of households it's 51.3 percent.

Certainly we know the devastating impact of unemployment in our urban areas and in particular black unemployment. The astronomical rate of 18.9 percent unemployment for blacks across the board is almost one out of every five blacks unemployed. The youth rate is even more astronomical and more menacing, in my opinion, to the well-being of cities. There's no doubt that we need a comprehensive urban policy and that's one of the reasons why the Joint Economic Committee is having this hearing on life in urban America.

[The opening statement of Hon. Parren J. Mitchell follows:]

Opening Statement of Representative Mitchell

Good morning ladies and gentlemen.

Today represents the second session in a series of hearings on the development of a comprehensive national urban policy. Yesterday, we received testimony from the Secretary of Housing and Urban Development, Samuel R. Pierce, and other distinguished witnesses on the Administration's urban policy report. The purpose of today's hearing "Life in Urban America" is to examine the socio-economic status of the urban population, including its employment, education, health and housing and community development status, and to determine whether the scope of the President's national urban policy is adequate to address the problems of the urban population, particularly the urban poor.

While the States and local governments are, in some cases, best able to determine the most effective use of resources, there are numerous problems affecting them that require the direct involvement of the Federal Government. Any examination of the needs of urban areas and their population will reveal that certain conditions require the attention of the Federal Government--urban poverty is one such condition. But, despite the fact that during the last ten years the number of persons living in poverty has risen, the Administration's urban policy report suggests that only a limited responsibility by the Federal

GOVERNMENT SHOULD BE TAKEN FOR ADDRESSING THE NEEDS OF THE POOR. WHAT DOES SUCH AN APPROACH SAY TO THE APPROXIMATELY 30 PERCENT OF WHITE FAMILIES AND 60 PERCENT OF BLACK FAMILIES LIVING IN POVERTY IN OUR CENTRAL CITIES? MOREOVER, DOES THE EVOLVING URBAN POLICY OF THE ADMINISTRATION TAKE INTO ACCOUNT POVERTY AMONG URBAN RESIDENTS AS A PERMANENT CONDITION, PARTICULARLY SINCE THE UNDERCLASS APPEARS TO BE SEPARATED FROM THE BENEFITS OF ECONOMIC GROWTH--A CENTRAL PREMISE OF THE PRESIDENT'S NATIONAL URBAN POLICY.

NATIONAL URBAN POLICY IS ALMOST TOTALLY DIRECTED TOWARD PLACES, RATHER THAN ON THE PERSONS LIVING IN THEM. THIS TOTAL EMPHASIS ON "PLACE" IS A MISTAKE. GIVEN THE DECENTRALIZATION OF FEDERAL PROGRAMS BEING ADVOCATED BY THE ADMINISTRATION, IT IS INEVITABLE THAT THE ORIENTATION ON "PLACE" WILL CONTINUE. HOWEVER, IT IS IMPORTANT THAT A NATIONAL URBAN POLICY IS DEVELOPED THAT RECOGNIZES ALL OF THE CRITICAL ISSUES BECAUSE THE SOCIO-ECONOMIC CONDITION OF A LARGE PROPORTION OF THE URBAN POPULATION IS ESSENTIAL TO THE SUCCESS OF ANY COMPREHENSIVE NATIONAL URBAN POLICY.

MANY URBAN RESIDENTS, UNFORTUNATELY, HAVE NOT BENEFITED FROM MORE RECENT ECONOMIC PROGRAMS. URBAN POVERTY IS STILL A CRITICAL NATIONAL PROBLEM. BETWEEN 1969 AND 1979, THE INCIDENCE OF POVERTY IN ALL MAJOR CITIES INCREASED FROM 14.9 PERCENT TO 15.8 PERCENT. THE POOR IN URBAN AREAS ARE CONCENTRATED IN FAMILIES HEADED BY A SINGLE FEMALE PARENT WITH AT LEAST ONE PRE-SCHOOL CHILD, THE ELDERLY AND DISABLED PERSONS--ALL GROUPS SUPPOSEDLY PROTECTED BY THE REAGAN "SOCIAL SAFETY NET".

POVERTY IN THIS COUNTRY HAS BECOME INCREASINGLY CONCENTRATED IN HOUSEHOLDS HEADED BY WOMEN. OVER THE LAST TWO DECADES, THE NUMBER OF SUCH FAMILIES HAS GROWN ENORMOUSLY: THE 8.3 MILLION FEMALE-HEADED HOUSEHOLDS IN 1980 REPRESENTED AN 80 PERCENT INCREASE SINCE 1960. AMONG BLACKS, THE NUMBER OF THESE HOUSE-HOLDS HAS NEARLY TRIPLED--FROM 840,000 IN 1960 TO 2.3 MILLION IN 1980.

WHILE ABOUT 10 PERCENT OF ALL FAMILIES HAD INCOMES BELOW THE POVERTY LINE IN 1980, THE POVERTY RATE AMONG FEMALE-HEADED FAMILIES WAS 32.7 PERCENT. A SHOCKING 45.4 PERCENT OF BLACK FEMALE HOUSEHOLD HEADS AND 51.3 PERCENT OF HISPANIC FEMALE HEADS HAD FAMILY INCOMES BELOW THE POVERTY LEVEL. MOREOVER, NEARLY 48 PERCENT OF ALL POOR FAMILIES IN 1980 WERE HOUSEHOLDS HEADED BY WOMEN, COMPARED WITH 24 PERCENT IN 1960.

LOOKING AT THESE FIGURES ANOTHER WAY, FEMALE-HEADED FAMILIES ACCOUNTED FOR 20 PERCENT IN 1980 OF ALL FAMILIES WITH CHILDREN UNDER 18 AND NEARLY HALF (48.6 PERCENT) ALL BLACK FAMILIES WITH CHILDREN. ALMOST 10 PERCENT OF ALL CHILDREN UNDER 18--AND OVER 30 PERCENT OF ALL BLACK CHILDREN--ARE GROWING UP IN POVERTY IN FAMILIES HEADED BY WOMEN, WHICH MEANS THAT IF PRESENT TRENDS CONTINUE, ANOTHER FEMALE-HEADED FAMILY WITH PRE-SCHOOL CHILDREN WILL BE THERE TO TAKE HER PLACE.

HIGH UNEMPLOYMENT AND UNDER-EMPLOYMENT ARE SERIOUS PROBLEMS THAT ACCOUNT FOR A SUBSTANTIAL PORTION OF THE URBAN POVERTY PROBLEM. ANOTHER DIMENSION OF URBAN POVERTY, ALBEIT NO LESS IMPORTANT, IS THE CRITICALLY HIGH UNEMPLOYMENT AMONG BLACK TEENAGERS, WHICH CURRENTLY EXCEEDS 52 PERCENT. THE BLACK ADULT

UNEMPLOYMENT RATE MOST RECENTLY STOOD AT 18.5 PERCENT. INDEED, CLOSE SCRUTINY OF THE DATA REVEALS THAT THE HIGHEST CONCENTRATION OF BLACK ADULT AND TEENAGE UNEMPLOYMENT IS IN MAJOR URBAN AREAS OF THE COUNTRY. HOWEVER, WITH RESPECT TO THE UNEMPLOYMENT AND UNDER-EMPLOYMENT CONDITIONS OF OUR URBAN POPULATION, THE ADMINISTRATION CONTINUES TO RELY ON A JOB CREATION STRATEGY THAT IS RELATED TO THE PRIVATE SECTOR AND ITS ECONOMIC RECOVERY PROGRAM IN GENERAL. THIS IS ONE OF THE MOST PROFOUND SHORTCOMINGS OF THE ADMINISTRATION'S URBAN POLICY BECAUSE OF THE MAGNITUDE OF THE PROBLEM NATION-WIDE.

THE CONDITION OF THE URBAN POPULATION CAN ALSO BE MEASURED BY ITS EDUCATION AND HEALTH STATUS. THE NUMBER OF BLACKS AND HISPANICS WITH A HIGH SCHOOL EDUCATION HAS INCREASED; THE RATES OF INCREASE HAVE BEEN MUCH LOWER IN CENTRAL CITIES THAN IN OTHER PARTS OF THE COUNTRY. EVEN SO, LARGE NUMBERS OF CENTRAL-CITY STUDENTS COMPLETE HIGH SCHOOL FUNCTIONALLY ILLITERATE. ALSO, AMONG THE LARGE CITY SYSTEMS THE AGGREGATE BLACK DROPOUT RATE IS NEARLY 50 PERCENT, WHICH INFLUENCES THEIR ABILITY IN MOST CASES TO PARTICIPATE IN THE LABOR FORCE. THE IMPORTANCE OF THE CORRELATION BETWEEN EDUCATION AND LABOR FORCE PARTICIPATION MUST BE AN INTEGRAL FACTOR IN THE DEVELOPMENT OF A COMPREHENSIVE NATIONAL URBAN POLICY. HOWEVER, THE ADMINISTRATION'S PROGRAM OF REDUCED FEDERAL SUPPORT FOR PUBLIC SCHOOLING AND COMPENSATORY EDUCATION PROGRAMS WILL NOT BENEFIT CENTRAL CITY SCHOOLS AND THE STUDENTS THEY SERVE.

THE ADMINISTRATION HAS APPARENTLY FAILED TO CONSIDER HEALTH AS A FACTOR IN IT'S NATIONAL URBAN POLICY. THERE ARE THOSE WHO WOULD AGREE THAT HEALTH IS NOT AN APPROPRIATE INGREDIENT OF AN URBAN POLICY. I DISAGREE BECAUSE A SIGNIFICANT DISPARITY REMAINS BETWEEN THE DIVERSE SOCIAL ECONOMIC GROUPS. THE HEALTH STATUS OF BLACKS AND THE POOR IS STILL FAR WORSE RELATIVE TO THE REST OF THE POPULATION. MANY OF THE NEW FEDERAL INITIATIVES IN HEALTH HAVE NATIONAL RAMIFICATIONS, BUT THEY ARE PARTICULARLY IMPORTANT TO THE URBAN POPULATION.

MOST OF THE URBAN INITIATIVES IN HOUSING AND COMMUNITY DEVELOPMENT HAVE BEEN UNVEILED IN EARLIER PRESENTATIONS BY THE ADMINISTRATION, HOUSING VOUCHERS AND THE RENTAL REHABILITATION PROGRAM. HOWEVER, THE HOUSING PROBLEMS OF THE URBAN POPULATION WILL REQUIRE ADDITIONAL INITIATIVES THAT ADEQUATELY ADDRESS AFFORDABILITY, AVAILABILITY, ADEQUACY AND DISPLACEMENT. TO THE EXTENT THAT PRESENT TRENDS IN HOMEOWNERSHIP AND RENTALS PREVAIL FOR A LARGE PROPORTION OF THE URBAN POPULATION, THE ADMINISTRATION'S URBAN POLICY WILL HAVE A MAJOR VOID.

I CANNOT STRESS THE CRITICAL IMPORTANCE OF A COMPREHENSIVE NATIONAL URBAN POLICY THAT ADDRESSES ALL OF THE AFOREMENTIONED ISSUES. THEREFORE, I AM DELIGHTED THAT YOU COULD PARTICIPATE IN TODAY'S JOINT ECONOMIC COMMITTEE HEARING ON "LIFE IN URBAN AMERICA." I HAVE HAD THE PRIVILEGE OF WORKING CLOSELY WITH SEVERAL OF TODAY'S WITNESSES ON AN URBAN POLICY ISSUES REPORT WHICH I ENDORSED EARLIER THIS YEAR.

WE HAVE WITH US TODAY JOHN JACOB, PRESIDENT, NATIONAL URBAN LEAGUE; GERALD JAYNES, ASSOCIATE PROFESSOR OF ECONOMICS, YALE UNIVERSITY; ISABELLE SAWHILL, ECONOMIST, THE URBAN INSTITUTE; PHILLIP CLAY, ASSISTANT DIRECTOR, HARVARD-MIT JOINT CENTER FOR URBAN STUDIES; DEBORAH JACKSON, SENIOR RESEARCHER, ABT ASSOCIATES; RONALD EDMONDS, PROFESSOR OF EDUCATION, MICHIGAN STATE UNIVERSITY, AND GEORGE STERNLIEB, DIRECTOR, CENTER FOR URBAN POLICY RESEARCH, RUTGERS UNIVERSITY.

Representative MITCHELL. I want to welcome all the witnesses and all the guests. I know so many of the witnesses. I've worked closely with them for many years. I want to especially thank Mayor Coleman Young and Mr. Jacob. Mayor Young was here yesterday and had to go dine with the President of the United States in my city of Baltimore. I hope the meal was good. Mr. Jacob was kind enough to sandwich us in between flights and engagements around the country. You were both very, very gracious and I appreciate your generosity in being with us this morning.

Because of the timetable that you have, I will ask both of you to come and present your statements, with Mayor Young first because he's a holdover from yesterday, and then we will address questions to both of you. Gentlemen, thank you very much for being here and I'll thank all of the other experts a bit later. Mayor Young and Mr. Jacob.

STATEMENT OF HON. COLEMAN A. YOUNG, MAYOR, DETROIT, MICH., AND PRESIDENT, U.S. CONFERENCE OF MAYORS

Mayor YOUNG. Thank you very much, Congressman.

Representative MITCHELL. It's always good to see you.

Mayor YOUNG. Thank you. You have before you a copy of my prepared statement that I submitted yesterday and which sets forth the position of the U.S. Conference of Mayors.

I'd like to say that the President's approach to urban policy represents less than an urban policy. As a matter of fact, it seems to be preoccupied at this point with the dismantling or the denial of the necessity for the urban policy that was in existence at the time the President took office.

We have two discussions running concurrently: a question of the New Federalism on the one hand, and the question of an urban policy on the other. When we advanced the New Federalism as a concept, it amounts in many cases to an oversimplified getting the Government off the backs of, in this case, the States and the cities; the question of a transfer of responsibilities from the Federal Government to the States and cities; and it seems to me raises some pretty basic concepts of our Federal Government.

The last time the question of States rights—and that's what federalism amounts to—was in serious question in this country was the Civil War, and that war was fought precisely over whether or not the States had the responsibility for enforcing the Federal Constitution in order to guarantee freedom for all the citizens of this country.

Now I submit that that issue was settled during the Civil War and I lived with the settlement arrived at at that time and I look with grave suspicion on any attempt to revive the issue of States rights. Looking at it from a point of view of minorities, States rights can only be a negative consideration. Looking at it from the point of view of a mayor of a city, we all know that cities exist as creatures of the State. Cities are not equals with the State. So anybody who talks about a round-the-table discussion between three equals—the Federal Government, the city, and the State—misrepresents the relationship of the cities within this triumvirate. So as a mayor of a city, I would have some serious questions about how well cities will fare in a troika discussion involving the Federal Government and the State.

I don't see anything to be gained in that for cities or for minorities with the imposition of a new concept of federalism of States rights.

Now as far as urban policy is concerned the President in the report, for which on his behalf the Secretary claimed paternity yesterday before this committee—and I was glad to determine the father at long last—at any rate, the statement was made that the cities depend upon the fiscal integrity, the prosperity of the Nation. I think that's true. The converse is also true. The Nation depends upon the economic stability of the cities. If this is a two-way street, and most streets are, then it's very obviously in the interest—it is the responsibility of the Federal Government to provide for the fiscal stability of the cities in order to guarantee the fiscal stability of the Nation.

There's precedent for this and I noticed also yesterday the Secretary talked about going back 40 years. He mentioned about 40 years of foulup and 4 years of corrective room and he opined that 4 years was enough. Well, if you go back 40 years, you just about wiped out the New Deal and there's no doubt that it was during the New Deal, during the days of Roosevelt, when we had a crisis in agriculture alongside the Great Depression that President Roosevelt determined that he saw that there could be no stable nation unless there was a stable agricultural system, and so the full resources of the Federal Government then were thrown into stabilizing agriculture in order to save the Nation.

Today it seems to me that cities face the same kind of crisis and this situation demands that the Federal Government take the responsibility for stabilizing the cities in order to stabilize the Nation.

I guess I would say that the economic demands of today dictate that the Federal Government must continue its responsibility for the cities and cannot in the name of New Federalism or revived urban policy escape from that responsibility and that's in the self interest of the Federal Government itself.

I believe that the enterprise zones which the President advocates which at this point are not clearly definable inasmuch as these enterprise zones have not cleared as far as I know any committee of Congress, so we don't know what final form they will take—there's no evidence at this point that any great amount of money will be included with the enterprise zones—but I'm certainly willing and I'm sure all other mayors would be willing to look at these enterprises zones with great interest as a part of an urban policy and by no means as a substitute for an urban policy.

I consider an enterprise zone, along with the continuation of UDAG which the administration has indicated it would continue, and a continuation of the community block grant program, as the beginning—as the base of an urban policy. To that, we must quickly add immediate consideration for the relief of unemployment that devastates this country.

My city has 20 percent unemployment, for instance, across the board with some 40 percent of the black citizens of the city of Detroit unemployed, with well in excess of 60 percent of young blacks—some say as high as 70 percent of young blacks unemployed in my city, and more and more my city has become typical of the industrial cities across this Nation. The situation demands Federal attention to unemployment. This is the key it would seem to me to the economic stability of the Nation and must be a part of any urban policy.

In addition to that, next to the automobile industry, the housing industry is the most depressed in our Nation. I believe there must be a Federal recognition of that and there must be some sort of Federal support for the housing industry and provision for housing for the people who need it in this country.

And finally, as a basic part of any urban policy, I would see the necessity for support by the Federal Government for the infrastructure of our cities, for the sewers, for the streets, for the bridges, for those parts of the public sector that have been built quite often with Federal help, and certainly support for public transportation which is essential for the existence of any city in any urban area and which cannot exist without subsidy from some source.

You have, as I indicated before, my prepared statement from yesterday and I'd be glad to answer any questions after having heard from Mr. Jacob.

[The prepared statement of Mayor Young follows:]

PREPARED STATEMENT OF HON. COLEMAN A. YOUNG

Mr. Chairman. Members of the Joint Economic Committee. I am Coleman A. Young, Mayor of the City of Detroit and President of the United States Conference of Mayors. On behalf of the nation's Mayors, I thank you for this opportunity to testify today on the Administration's National Urban Policy Report, a report which has generated substantial concern and reaction from Mayors during the last few weeks.

The U.S. Conference of Mayors believes there is a legitimate, important role for the federal government in aiding cities -- and doing so directly, rather than through the states. Community and economic development, transportation, housing, education, employment and training programs, and programs which directly serve the needy, are important elements of a federal urban strategy. These programs address the special social and economic problems of cities and their residents. Programs such as Community Development Block Grants, General Revenue Sharing, and the Urban Development Action Grants program are especially critical to the longer-term economic viability of cities. We have been given assurances that these three programs will be continued as direct federal-city programs.

However, the report clearly states that, "The Reagan Administration intends to devolve the maximum feasible responsibility for urban matters to states and through them, to their local governments."

The U.S. Conference of Mayors is deeply concerned with this basic philosophy.

The argument for turning over all responsibility and resources to the states, as opposed to local governments, a pro-state philosophy which permeates the report and undergirds the New Federalism, is based on a tenuous foundation. While there have been improvements in state responsiveness to urban areas, they have been relatively few in number. Most states still do little or nothing to target assistance to their distressed cities; instead, state dollars are spread around to all communities, regardless of wealth, often on a per capita basis. The stories I have heard from my mayoral colleagues are instructive in illustrating what the states have not done, especially with respect to the block grants enacted last year. The state record in helping cities has not been good, failings which were documented in a recent report of the ACIR entitled, "The States and Their Distressed Communities."

Moreover, there seems to me to be no reason to build the interstate highway system, of great benefit to states and suburbs, but ignore the roads, streets, and bridges in our cities, as the Administration proposes to do. Or to help states with infrastructure improvements, but ignore the deteriorating infrastructure of our cities, where most of our citizens and industries are located.

Finally, let me lay to rest the final tenet of the Administration's philosophy -- that somehow the private sector will pick up the responsibilities abdicated by the federal government. I believe it is simplistic and naive to assume, as the National Urban Policy Report suggests, that private business, religious organizations, civic and neighborhood groups, and other organizations will become the providers of care for the elderly, the handicapped, the sick, poor, orphans, and the providers of day care and firefighting services. Moreover, even the tax incentives provided under the Administration's enterprise zone proposal will not, I fear, be sufficient to evoke such behavior on the part of the private sector. Much more assistance is needed.

The enterprise zone proposal has been billed as the centerpiece of the Administration's urban policy, the route to revitalization of cities through unrestricted private sector investment. The idea is consistent with supply side notions that cutting taxes and reducing local government regulations, taxes and expenditures will somehow stimulate massive private investment and creation of new job opportunities in distressed neighborhoods.

The Conference of Mayors has commented extensively on the Administration's proposal. We believe that to be an effective urban program, enterprise zones must be combined with other federal efforts and activities, including special help for new ventures, job training, economic and community development, and infrastructure assistance. In addition, we have urged flexibility in allowing state and local governments to design their commitment to the zone, expansion of the program to include the designation of more zones each year, and greater employment incentives and tax breaks for small businesses.

It seems to me that one of the major arguments for federal assistance to cities is the role of the federal government in managing, or as is currently the case, in mismanaging, the economy. High unemployment, high interest rates, trade policy, and federal budget and tax cuts have adversely and disproportionately affected the cities -- some cities and regions more than others. Moreover, current economic and fiscal policies have particularly hurt the residents of cities -- the unemployed, the poor, minorities, the elderly, young people, the small business sector, manufacturing firms, and the housing industry. The negative effects of federal policies on cities and their residents argue for special federal efforts to ameliorate the effects of these policies -- to create jobs, help those individuals and groups particularly hurt by the economy, and assist priority economic sectors devastated by high interest rates. Yet, the federal government is undertaking no special efforts in this regard, and in fact has cut back or eliminated the programs which did exist.

Just as federal policy affects the cities, the economic health of cities is vitally important to the health of the United States economy. I believe there can be no sound and lasting economic recovery until the cities are economically healthy and all geographic regions and economic sectors are on the orad to recovery.

The Urban Policy Report emphasizes the role of local leadership in restoring economic health to the cities. While no one would dispute the importance of enlightened city leaders, there is little they can do to reduce interest rates, high unemployment, or redress other economic conditions controlled at the federal level, nor little they can do by themselves to reverse chronic economic decline. Such efforts require not only the commitment of the local community, but also significant state aid, the active support of the private sector, and an active federal presence. The elimination of even one of these elements will make urban revitalization efforts extremely difficult, and in most cases, impossible. Certainly, local leadership alone cannot carry the entire burden.

I have two additional comments. First, the report cites the relatively small amount of federal aid flowing to distressed cities, presumably as justification for cutting hearly all federal assistance (since these governments are not "dependent" on federal aid). It seems to me their figures offer proof that federal assistance has too often been misdirected to wealthy communities, and that insufficient aid has been given to our most distressed central cities.

There are elements of the Urban Policy Report which I believe many Mayors would support. Certainly, the cities' experiences with federal aid programs over the decades have convinced me, and many of my colleagues, that it is essential to decentralize much of the decision-making authority for programs in cities to city leaders themselves. The U.S. Conference of Mayors need make no apology for its record in this regard. We were in the forefront of efforts a decade ago to consolidate, streamline, and free from unnecessary regulation, programs in the community development, law enforcement, and job training areas. The enduring success of the General Revenue Sharing and Community Development Block Grant (CDBG) program is a testament to the depth of commitment local officials brought to the difficult process of changing from a myriad of categorical programs to the current block grant model.

Similarly, we agree with the report when it criticizes some aid programs in the past for being insufficiently targeted or poorly administered. The Conference of Mayors for years has maintained that the Congress must make hard choices and set national goals for the use of federal funds. These choices should provide funding on a priority basis for the neediest in our society. We supported strongly the revised formula for CDBG which better targeted those funds for distressed cities. We worked hard to create the UDAG program, which is severely restricted to distressed communities. The Conference of Mayors convened the only effective working group of Sunbelt and Frostbelt officials to hammer out an approach towards "pockets of poverty" which assured participation by otherwise fiscally healthy communities in aid programs targeted to their most distressed areas and needy residents. Congress adopted this approach in UDAG amendments.

We take issue with the urban policy report because it cites the "failings" of some federal programs to condemn and destroy decades of progress at all levels of government. If we took the same approach to our national security program, with planes that won't fly, guided missiles that can't be guided, tanks that can't dig holes or fit on airplanes to be moved to battle theatres, we wouldn't have a national security program. We don't think that's an appropriate response to the Pentagon's problems, and we don't think it's an appropriate response to ours.

The Conference of Mayors believes there is an important role for the federal government in addressing the problems of our cities and our economy. We believe it is particularly urgent that the federal government mount a concerted effort to reduce unemployment and raise productivity. It is an important point and one often overlooked by this Administration that productivity improvement will be achieved only with investment in our human and our public capital. The Administration has focused almost exclusively on raising business investment -- and certainly that is important. But, it is equally important to invest in the education and training of our work force, to create jobs for our young people and minorities so they can gain valuable work experience. Moreover, investment in public capital is also indispensable for future economic growth and productivity improvements, especially increased investment in our urban infrastructure and the economic development of our cities. While much of this investment is private in nature, some must of necessity be public. Nearly all successful development efforts in cities have been public-private joint ventures. The U.S. Conference of Mayors calls upon the Administration and the

Congress to strengthen and enact federal programs to improve and invest in the human and public assets of our nation.

I thank you for this opportunity to present the Conference's concerns about the Administration's Urban Policy report. I especially applaud you for your past recognition of many of the points I have raised today. You have served a valuable role in regularly surveying the fiscal crises of cities, and in working with us on our recent survey of youth unemployment.

The Conference of Mayors looks forward to working with you and the Congress as you continue to formulate a sound and coherent economic and urban policy.

Representative MITCHELL. Thank you very much, Mayor Young. While you're waiting for questions, I would wish you would just cogitate for a moment on a line of thought that constantly haunts me; that is, the extreme right of the Republican Party has indicated time and time again that it wants all Federal programs ended—all of them. To the extent and degree that the New Federalism would place the burden for these programs on the States which are not really able to take on that burden, would not the administration and the far right accomplish its objective? Is that a hidden agenda in New Federalism? I wanted to throw that out just before you testified, Mr. Jacob. It's good to see you again, Mr. Jacob. Thanks so very much for fitting us into your schedule.

STATEMENT OF JOHN E. JACOB, PRESIDENT, NATIONAL URBAN LEAGUE, INC., NEW YORK, N.Y.

Mr. JACOB. Thank you so much, Congressman.

I'm John E. Jacob, president of the National Urban League. Representative Mitchell and members of the committee, as president of the National Urban League, I thank you for the opportunity to appear before you to discuss what life is like today for too many blacks and poor people in our Nation's cities. My reference point is this administration's urban philosophy, one that lacks both a unifying vision of America and hope for impoverished city residents left out of the economic mainstream.

A comprehensive prepared statement embodying our view of the administration's urban policy has been submitted for your consideration. It includes policy recommendations we especially call to your attention. Today I would like to speak briefly about some of our concerns. To us, no discussion of urban policy can be serious unless it addresses the needs and aspirations of the people who live in the cities and to a large extent that means the needs and aspirations of minority Americans. Black people are the most urbanized Americans. Over four out of five black Americans live in metropolitan regions and over half live in central cities. Black people are also the poorest Americans. Half of all black children are growing up in black poverty. Typical black income is barely half that of whites. The average black family earns less than the U.S. Department of Labor says is necessary for a decent standard of living.

We are a tenth of the population, a fourth of the jobless, and a third of the poor. Understated official black unemployment figures peg the black jobless rate at almost 20 percent, with 52 percent for teenagers.

In whatever city you choose, blacks experience serious disadvantage. Even in low unemployment States we have jobless rates three and four times those of whites. In every area of urban life—jobs, health, housing, education—blacks suffer both quantitative and qualitative disadvantage.

Congressman Mitchell, I submit to you that any urban policy that does not deal constructively with this ugly fact of American urban life is no urban policy at all.

I therefore must reluctantly suggest that the administration's urban policy statement does not reflect an urban policy worthy of the name.

I should stress that this is not a partisan statement. The National Urban League's views are conditioned by those of our constituents and are drawn from exhaustive data received from our 117 affiliates and from the "Black Pulse" study we conducted—the most comprehensive survey of the black condition ever made.

Just as we have in the past vigorously criticized the urban proposals of Democratic administrations, we now must also add our voices to those critical of this policy produced by a Republican administration. In this, we are joined by citizens whose political affiliation is secondary to their concern for the future of our cities.

This is not to condemn everything in this urban policy. It does contain several positive aspects. It provides some suggestions as to the elements of strategic thinking necessary for urban revitalization, urging the fostering of public-private partnerships. It also encourages States to address the issue of ways to assure that their municipalities have adequate revenue bases.

That said, I must admit that it is hard to find any redeeming social value in a document that fails to acknowledge the Federal Government's responsibility for stabilizing troubled cities and for insuring their participation in any future economic growth.

It is hard to accept as a serious document one that so brazenly ignores the connection between urban poverty and urban health; one that ignores the need for Federal policies that reduce the incidence of poverty and increase the availability of opportunities.

However appropriate reliance on individual effort and market mechanism may be in other sectors, they are inappropriate as the foundation for a national urban policy. The cities are in trouble not because of inadequate communication among local leadership but because of national economic changes and policies.

Beginning with the massive Federal effort that built highways and backed mortgages in suburbia, Federal policies have helped drain cities of their tax base and weakened their economic foundations. Industrial decline, along with insensitive Federal policies that hurt urban economies have accelerated the problems of the cities.

So the Federal Government, as a partial maker of the urban dilemma, has an inescapable responsibility to be a full partner in stabilizing urban economies and in restoring the cities.

And Washington can't tell the cities to look to their State governments for help. Besides being strapped for funds and victimized by Federal policies themselves, it is State neglect that forced city governments to go to Washington for aid and joint Federal-city programs in the past.

Nor can we rely on local public-private sector efforts alone, although these are very important. Even in a better environment public-private cooperation offers no panacea; in a raging depression like today's it can be no more than a part of the solution.

While some urban-oriented programs leave much to be desired, most are right on target. Instead of seeing them as leading to urban dependency, whatever that is, we should see them as meeting the human, social and economic needs of Americans who happen to live in cities.

This supposed urban policy must be seen in the context of the administration's proposal for a New Federalism and its deep cuts in social programs that assist the poor, the working poor, and low income families just above the poverty line.

The seductive idea of transferring programs and powers to the States is a nonstarter. Those programs and powers came to Washington because of State abuses and turning them back to the State is bound to lead to new abuses.

The New Federalism was a mistake when it was limited to packaging various Federal health and social welfare programs into block grants to be administered by the States. The new plan to turn basic survival programs like welfare and food stamps to the States promises nothing less than a disaster.

Logic is missing from the plan, I submit. Why does the administration acknowledge that care for the elderly is a Federal responsibility, while care for younger people is a State one? What makes medicaid, a health plan for the poor, a Federal responsibility while welfare and food stamps become a State responsibility?

The conceptual flaw behind the New Federalism is the idea that local governments can best deal with local problems. But poverty is not a local problem. It is national.

Fully federalizing welfare would acknowledge that. It would recognize that national problems require national solutions; that hunger in Michigan is the same as hunger in Mississippi and that fairness demands poor people receive the same treatment wherever they reside.

Making welfare a State responsibility means that poor people will be treated differently depending on where they live, the strength of their State's finances, and the willingness of State legislatures and local power blocks to deal fairly with the poor.

Experience shows the States are likely to deal callously with their poor. Real welfare benefits are down 30 percent in the past decade due to inflation and the refusal of State governments to raise those benefits to keep pace with lost purchasing power. There is a tremendous disparity among the States on a range of benefits poor people are entitled to.

The President has often said that if people don't like the way their State governments treat them, they are free to move elsewhere. That view is implied in the urban policy statement. That's an extraordinarily insensitive way of looking at things. The mass black exodus northward in the past exemplified people voting with their feet to escape oppressive local segregation and imposed poverty. But think of the tremendous cost to individuals and the Nation of that kind of human and social disruption.

The new States rights practically invites States to export their poverty by making conditions so tough for their poor that they will want to move elsewhere. I can't see our National Government adopting the sort of caveman ethics that allow this.

The budget cuts are an integral part of this urban policy, too. They should be looked at on two levels. The first relates to the loss of aid to city governments and to urban economic development, mass transit, housing, and other important areas. Yesterday you heard testimony indicating the devastating effect of such cuts. Clearly, even a supposedly neutral urban policy cannot ignore the deterioration of the urban infrastructure and the effect on the entire Nation's economy of the persistent disinvestment in our cities.

But the budget cuts for social programs are even more devastating. Cuts in welfare, health assistance, education aid, food stamps, and other programs are destroying the human infrastructure of urban life. While those programs never reached all the poor and never eliminated the blight of poverty, they did blunt its edges; they did give sustenance and hope to a multitude of society's victims.

There can be no justification for cuts in programs that have been proven successful in helping poor inner city children to master basic educational skills, in programs that have proven successful in helping poor people maintain a rock-bottom minimum living standard, in programs that have proven successful in putting unemployed people in jobs and skills training programs.

The administration's contention that an improved economy will reverse urban decline is demonstrably false. Urban decline is due to many factors and improvements in the general economy rarely reach the black poor without special Federal efforts. After every recession our unemployment rates have been higher than at the recession's bottom, and a booming economy that demands high levels of skills and education is equivalent to a busted economy in impoverished inner city neighborhoods.

The changes in our economy mean that opportunities are no longer available for anyone with a strong back and a willing spirit. Employers don't need brute strength and they don't pay for willingness. They want basic literacy levels, skills in manipulating information and concepts, and the work habits instilled by previous job experience. Many young black people lack all three, thanks to inadequate education and closed job opportunities. So it is naive to suggest that in an economy clamoring for computer programers, unskilled black dropouts have realistic hopes for meaningful work in urban economies transforming themselves into headquarters cities and information centers.

I have for a long time believed that we as Americans too often tend to forget the lessons of history, not just the failures but also the successes. History tells us that one of the most humane successes that America ever carried out was the Marshall plan to relieve the pain of war-ravaged Europe after World War II. That now prosperous continent was hungry, without fuel, and with devastated housing that left millions inadequately sheltered and homeless. Its industries—now exporting so heavily to the United States—were flat on their backs.

But the United States stepped in and for 4 years shipped tremendous amount of goods overseas to help put Europe back on its feet. Dead factories were brought to life, homeless people were sheltered and hungry people fed by a revived agricultural system.

It was a massive undertaking. Ten percent of the Federal budget was earmarked for Marshall plan aid. In its first year, that aid took almost 3 percent of our gross national product—the equivalent today would be about $100 billion.

By the end of the 4 years Europe was on the road to prosperity. Today the nations of Western Europe, taken together, are as prosperous as we are. Some even have higher living standards today than we do.

The Marshall plan was no act of charity. Policymakers of the time knew that an economically dormant Europe would not be able to buy our goods and that the way to avoid a return to the prewar depression was through pumping up their economy so that Europe could be a trading partner and American factories could be running full blast.

That shows that sometimes the best self-interest lies in helping the other guy. Ten years after the Marshall plan ended its work successfully, Whitney Young proposed a domestic Marshall plan to do for American's own poverty-ridden areas what we did for foreigners.

Had a domestic Marshall plan been adopted then we would have escaped many of the problems that afflict us today. Instead, our cities declined still further until today parts of the United States are as devastated as were bombed-out parts of Europe during the war. Pockets of abandoned buildings and deserted areas in big cities are an outrage, as is the tragic decline of America's industrial heartland.

Abandoned plants that once offered productive work to thousands stand lifeless. Stores are empty, unemployment offices crowded. Unemployment checks are running out and no work is in sight. And this was the areas whose industries helped put Europe back on its feet. Today it is slowly sliding into hopelessness born of the depression of the 1980's.

Congressman, this is the right time to start thinking about another Marshall plan—a Marshall plan for Americans, as Whitney Young proposed 20 years ago. A Marshall plan for the 1980's would rebuild the cities and get our dying industries producing again for the benefit of all.

Most important, it would reach out to the poor and the unskilled with job training opportunities so that they too could share in the benefits of a revived economy.

Like the original Marshall plan, doing good for the poor would wind up with America doing well again. We'd have full employment instead of over 10 million jobless. And they would be paying taxes and using fewer resources just to survive. Our cities would be strong centers of meaningful activity again, instead of decaying remnants of greatness.

Measured by the potential a domestic urban Marshall plan, measured even by more modest standards of appropriate Federal actions that relieve urban poverty and provide job and training opportunities, I must confess, Representative Mitchell, that this new urban policy statement must be judged a failure.

Thank you. I would entertain any questions.

[The prepared statement of Mr. Jacob, together with an attachment, follows:]

Prepared Statement of John E. Jacob

INTRODUCTION

Mr. Chairman, Members of the Committee. As President of the National Urban League, I thank you for the opportunity to appear before you to discuss the League's view of what life is like today for too many blacks and poor people in our nation's cities. My reference point is this Administration's urban philosophy, one that lacks both a unifying vision of America and hope for impoverished city residents left out of the economic mainstream.

The National Urban League is a 72-year old non-profit community service organization which has historically been concerned with seeking equal opportunities for all Americans in all sectors of our society. Through our network of 118 affiliates nationwide, we are dedicated to bringing about changes in those governmental and social systems that produce disparities among groups of Americans. We accomplish this through advocacy, services, bridge-building, and belief in an open, pluralistic, integrated society.

In advocacy, the League's basic constituency is the black poor and by extension, all of America's disadvantaged. We believe we have the inescapable responsibility to speak out loud and clear on their behalf.

In services, our professional staff and volunteers exist to provide the services our constituents need in job training, health, housing and educational services. Every year one million and a half people come to the offices of our 118 affiliates in search of caring help.

In bridge-building, the League tries in a society torn by class and racial polarization to serve as a force to heal the wounds of our nation.

In our belief in an open, pluralistic society, we have fought to make ours a nation that demonstrates equal opportunity in action, a nation in which no artificial barriers block the upward path of its people.

We believe we have as much if not more reason as anyone to be concerned about the precarious situation of the cities. The National Urban League was born in the cities at a time when so called "employment agents" were scouring the South, recruiting young black women with offers of "Justice Tickets" to a northern land of employment and opportunity. Instead when the verdict was in, these young women found racial discrimination as recalcitrant as they had left -- exclusion from jobs, housing and education.

Throughout the years our charge has remained the same although the specific challenges have varied with the times. But always, equal opportunity and employment have been at the top of the League's list of priorities -- during the Depression years when blacks even in menial jobs were supplanted by whites; in the post-World War years when blacks found themselves being frozen out of the workplace by returning white GI's.

It is therefore significant that my first appearance before this Congressional body should address those concerns in which the NUL had its genesis -- the urban poor and their conditions in this nation's cities.

URBAN POLICY IN PERSPECTIVE

Many of those scheduled to speak before you on urban policy will address the financial and physical concerns of the cities. But But I want to talk about the human capital involved, and what we stand to lose if we do not firmly and agressively act to reinvest in the people of the cities.

First, let me share with you some of the realities for poor blacks in this nation -- and it does not much matter whether its a northern city or a southern city, an eastern or a western one. Over 80 percent of America's 28 million black citizens live in metropolitan areas. More than half live in our nation's central cities.

Therefore, when the cities suffer, black Americans disproportionately suffer.

Traditionally, the cities have offered a harsh existence for large numbers of blacks--relegating them to low-paying jobs, under-financed schools and substandard housing. Yet, during the 60's there was a spirit of decency afoot that began to make life better for some urban black Americans. But it was smothered by the selfishness of the 70's, undernourished with inadequate and improperly-targeted resources. For the one most important fact in discussing a national urban policy, is that this country has never really been serious about a national urban policy--preferring to prescribe aspirin for the cities' cancer.

And so the cankerous realities remain.

If you're a black baby born in America, you're twice as likely as a white child to die before you reach your first birthday. You're four times as likely to be born in poverty and its even money that you'll be reared in a single-parent home. When you're old enough to hold a job, the oddsmakers have no choice but to make you a long shot--at least as long as black teenage unemployment is over 50 percent, as high as 70 percent in some of our inner cities.

This astronomical unemployment rate among black youth means that millions will be deprived of the work experience, discipline and skills needed to enter the economic mainstream.

If you're a black adult today in America, there's a one in five chance that you can't find a job; haven't held a job for months and may not have a job two months from now. And it is not for want of trying. Statistics show that even in the best of times that a black person with a college education is guaranteed a no more lucrative or stable place in the work force than a white high school drop-out. While we know that the country is grappling with a recession,and that we, too, want to see a revitalized economy, we also know that if past experiences serve as a guide, blacks and poor people will be the last to benefit from economic recovery.*

In recent months, it has also become apparent that the lean economic times may have provided the excuse for new racial tensions and revived intolerance in the cities.

Just a few weeks ago, the media told us of an attack by a group of white youths against three black transit workers in Brooklyn. And we are all familiar with "rockings" and harassment of blacks in Boston.

Yet, we also know that the problems of the cities, in terms of the people living there, transcend the current recession. Recently, the U. S. Commission on Civil Rights confirmed what many of us already knew as previously spelled out in the Kerner Commission Report years before -- that the 1980 Miami riots which left 18 dead and hundreds injured could be traced to the isolation and exclusion of blacks from that city's economic mainstream. This is one reason that the National Urban League has decided to concentrate resources on four of the problems found often in the cities--high incidence of teenage pregnancy, crime, the plight of the female-headed household and low voter participation.

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*Robert B. Hill, State of Black America 1980 and 1981, National Urban League.

At the same time that the League and thousands of other individuals and groups are working to try to improve the life of urban dwellers, we firmly believe that the federal government needs to play an integral role in assisting our cities to give themselves new life, new jobs, and a new future.

Therefore, the Administration's urban policy which only cursorily addresses the important issues of job training and employment--issues so important to those who live in the cities--fails the test. For as Shakespeare wrote, "What is the city, but the people?"

As we look at the plight of Urban Americans and seek to focus on a national urban policy, there are certain areas which serve as socio-economic indicators of the status of urban residents. The following discussion therefore looks at some of those areas from the perspective of the National Urban League's constituency --a majority of whom reside in those communities.

Employment

Unemployment is the number one problem in the black community. By official figures, nearly one out of every five black adults is jobless. National Urban League figures, which include discouraged workers, put unemployment for black adults even higher - nearly one in three. (See attached excerpt from NUL Research Department's Quarterly Report, April 1982.)

Among black teenagers the official rate is over 50 percent while League statistics say black teenage unemployment is at 65 percent, and even higher in some of the inner cities.

The Administration's answer to employment and almost every other problem has been economic revitalization for America. This has basically been outlined as a four pronged approach.

1. Reduced federal spending
2. Reduced taxes
3. Strict control of money supply
4. Regulatory reform

In this policy's implementation, blacks and poor people are being adversely and disproportionately affected by this approach. Budget cuts have caused economic hardships on the poor of which blacks are a large number; the tax cut will put few dollars in the pockets of the low-income; a tight money policy has kept interest rates high, reduced purchasing power, and placed in jeopardy the fragile black middle class; and certain efforts at regulatory reforms have threatened basic hard earned civil rights protections.

Importantly, even the Administration has conceded that when the recession ends, employment will lag -- therefore joblessness is and undoubtedly will remain the number one problem in the black community.

The Administration, has talked about the need for the poor to become mobile in order to find jobs; but this approach does not adequately address one of the most important components of unemployment--lack of job training.

Take for example the most disadvantaged segment of the black community -- the female-headed household. The percentage of black female single parents has increased sharply during the last decade and now represents the most concentrated area of poverty in the black community.

Half of all black children are being reared in these homes, and half of them are poor. These families are primarily poor, not because there is no husband present, but because these women do not have jobs.

Stimulus of the economy through tax cuts will not benefit female single parents because they do not have the skills to take advantage of newly created jobs.

Fortune magazine, in its June 28 issue, predicts that "Even after the recovery takes hold, millions of manufacturing jobs - many of them in the auto, steel and rubber industries - will vanish because of foreign competition and automation. Millions of new jobs will be created mostly in information systems, but they'll be so different that today's laid off workers will be hard pressed to fill them."

Training the black community for jobs with a future is of priority significance, especially when recognizing that many low-skilled jobs now held by people in coming years will be filled by robots, who work cheaper and need no fringe benefits. Importantly, job training should not be left solely to the private sector.

We also believe that as long as interest rates remain high that the capital sector of our economy will be content to trade money, rather than invest for expansion and development. And without investment, there will be no growth, no recovery and no jobs.

In discussing employment, we would be remiss if we did not mention the role that minority businesses should play. Always a too small sector of the economy, black businesses have been particularly hard hit by the current recession.

A comprehensive urban policy should look at ways to increase the economic viability of black businesses, which hold the yet underveloped potential for making a dent in black unemployment.

Education

Blacks have made significant gains in educational attainment over the past two decades. According to our State of Black America 1982, by 1977, 70 percent of blacks in the 18-34 age group were high school graduates. That figure represents a 12 percent increase for blacks over 1970.*

Blacks have made gains in higher education as well, and today blacks make up 11 percent of the total enrollment in the nation's colleges.

It is also important that as we focus upon education, that we continue to applaud one program which has a proven track record of success -- the Head Start program. As the Children's Defense Fund has pointed out -- it is cost effective. Graduates of the

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*The Status of Children, Youth and Families 1979, Health and Human Services, Office of Human Development Services, DHS Publication No. (OHDS) 80-30274. August, 1980. pp. 67 and 88-90.

programs are less likely to have to repeat a grade or require expensive special education than non-graduates. In addition, program participants -- economically disadvantaged three to five year olds -- received medical, dental, nutritional, educational, social and mental health services.

However, at the same time we acknowledge our successes and new signs of hope, we should make it known that the quality of education received by black and Hispanic children in many cities is still inadequate. These youngsters attend schools beset with the major problems of under-financing, violence, low expectations and vandalism.

In this period of retrenchment, schools which already have few resources are being asked to cut back even more--teachers and teacher's aides, and such "frills" as library services, music and art classes are being eliminated. With these new realities, urban schools are becoming the repository for those who have few if any options, the poor and minorities.

In the face of this assault on public education some have proposed that tuition tax credits would offer these youngsters an alternative. But the National Urban League disagrees, believing tuition tax credits would undermine the already troubled public school system, presenting little evidence to indicate they would increase the choices of poor and minority children.

For tuition tax credits will do nothing to change these realities recorded by the League, that desperately need attention.

- Among all black children between the ages of 14-17, one in six is out of school
- Black children are disproportionately placed in classes for the educable mentally retarded, 1 in 30.
- One black family in four reports that it has had at least one child suspended from school.
- For every two black students who graduated from high school, one drops out.

For those who would propose the voucher system, our response is the same.

As we focus upon these two approaches -- tuition tax credits and vouchers -- we must remember that as long as public schools must take all students, and private or parochial schools take only those they wish to, even turning away those who can afford to attend, we must continue our opposition.

But despite these realities, public confidence in public school education seems to have reached a plateau. In many cities and states, competency test scores are going up, even though problem-solving abilities seem to be going down.

While in this discussion on education we have not focused upon post-secondary education, we note, however, that even for those youngsters getting through whatever public school system exists in their communities there is no assurance of a slot in any other educational institution. They must be prepared to compete for those limited technical slots in the vocational skills training schools as well as those in the often too expensive college or university. As we further examine that reality along with the cutbacks in educational grants and loans, as well as the plight of the black colleges, the path from the inner city, urban school becomes rockier.

There remains, therefore, a requirement that we provide all necessary resources needed for "optimum learning" for all of this nation's people. That requires commitments from parents, teachers, and the corporate community -- but most importantly a commitment from the youth within those environs to learn.

Housing/Community Development

Housing affordability for all Americans has become an issue for the 80's. For the poor and minorities, housing affordability has reached a crisis stage, intensified by federal cuts in subsidized housing programs.

In examining the housing issue for urban blacks, several points should be taken into consideration.* First, the percentage of rental units out of the total housing stock has declined over the same period that the percentage of all rental units occupied by blacks has increased.

Second, the percentage of the black population that rents far exceeds the percentage of the white population that rents (in 1970 58 percent for blacks to 35 percent for whites). Third,

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*Dr. Wilhelmina Leigh, Shelter Affordability for Blacks, Transaction Books, to be published 1982.

in both 1979 and 1978, a larger percentage of black renters than nonblack renters paid 35 percent and more of their income for rent (31 percent to 25 percent).

In its many statements on housing, we can agree with the Administration on at least one point -- that urban renewal programs destroyed housing in black communities that it did not replace.

The Community Development Block Grant Program, which was enacted to give local communities a larger role in the development of their neighborhoods, has achieved much even though political considerations in some instances superceded the program's Congressional mandate. Instead it has become more of a revenue sharing program than one designed to develop "viable urban communities by providing suitable living environments and expansion of economic opportunities principally for persons of low and moderate income."

In part, some of its failings can be explained by discrimination; in part they can be explained by inadequate local capacity, a fact which should disturb those who propose that local administration is always the best and pledge allegiance to the block grant concept.

The Administration has proposed a voucher program of direct payments to the poor. While its approach points to some advantages - reducing the problem of housing-siting and providing greater freedom to look for and seek scattered housing -- it leaves many questions unanswered. For example, if a voucher system is implemented, will there be adequate funding? Even more importantly, what about the major problem of low and moderate priced housing supply?

Under the Section 8 existing housing assistance program we have witnessed high rental costs for substandard housing. The voucher system may exacerbate this problem since there will be no fair market guidelines to restrain landlords and there are no programs to increase the supply of low and moderate income housing.

Another major concern of blacks relative to available housing is that discrimination is still very prevalent -- especially in the suburbs -- an issue which a voucher program will not and cannot address. Therefore, if there are no strong fair housing laws, and no strong enforcement of anti-discrimination laws, then a voucher system would fail in its stated purpose of making blacks more mobile.

Health

The League's State of Black America 1979 reported that key indices such as infant mortality, maternal mortality rate, and life expectancy indicated some improvement in health care for blacks.

This information, however, must be put in the context of inner city communities' dire need for more physicians, health service providers, hospitals, and health centers. Some 80 percent of those who utilize neighborhood health centers are minorities.* Unfortunately, the response from government on all levels has been attempts to reduce funding for medical centers and inner city hospitals.

Dr. Alan Sager, a Brandeis University researcher, concluded in 1980 after a 40 year study of hospital closings that the racial composition of a hospital's neighborhood and not economic conditions tended to determine whether a hospital was closed or relocated. He found that as the neighborhood's proportion of black citizens increased, local hospitals tended to close or relocate to the suburbs this despite the fact that many blacks use the emergency room of inner-city hospitals as their private doctor.

Thus, health care continues to be an issue of concern for blacks in the cities.

A related issue should also be discussed under the banner of health -- the problem of teenage pregnancy. The negative health, social, educational and economic consequences of early and unplanned childbearing are devastating to young parents, their children and, ultimately, society. According to statistics compiled by the Alan Guttmacher Institute, the research division of Planned Parenthood Federation of America, Inc., teenage pregnancies for all races increased to near epidemic proportions

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*"Health and the Disadvantaged," Chatbook DHEW Publication No. (HRS) 77-628, p. 43.

during the 1970's (Eleven million Teenagers, 1976). Sexual activity of unmarried teenage women rose by nearly two-thirds. A 1978 study of the U.S. Government's Commission on Population says 15 percent of the nation's 13-14 year olds engage in sexual intercourse. Other studies concur that 1/3 of all girls and 1/2 of all boys become sexually active by their 16th birthday. During 1978, teenagers represented approximately 55 percent of all out-of-wedlock births and 31 percent of all abortions.

More recently, more than one million 15-19 year olds have become pregnant, annually. Two-thirds of these, almost 700,000 are conceived out of wedlock. In addition to the older teenagers, as many as 30,000 girls below the age of 15 become pregnant each year. Since the early 1960's, the proportion of all out-of-wedlock babies born to younger adolescents have risen, steadily, by 18 percent, and to older adolescents by 40 percent.

Numerous researchers and practitioners have repeatedly asserted that the time in a young person's life when the first child is born is of crucial and strategic importance. Research has documented the correlation of early motherhood with poor health for mother and baby, the obtaining of less formal education, higher divorce rates among parents who subsequently marry to legitimize a birth, increased fertility rates, and later, poverty.

For many, teenage pregnancies are the beginning of what may be called the "syndrome of failure", for the adolescent and her child. There is a failure to remain in school and attain adequate training for a vocation. There is a fai' :e of normal growth and development of both mother and child. Often there is inadequate mothering. The adolescent mother often fails to develop a stable family unit. The burden of teenage pregnancy also falls, not only on the mother and infant, but also the mother's family and often, the community.

Unplanned pregnancy affects teenagers of all races and classes; however, black and other minority teenagers are disproportionately represented among those giving birth to unplanned and unwanted children. Approximately 55 percent of all births to unwed females under age 19 were nonwhite. This is an alarmingly high rate when compared to the much lower percentage of nonwhites in the general population. We believe that this rate is higher because nonwhite teenagers do not have sufficient access to proper and acceptable information on family planning and contraception. Historically, society delegated the responsibility for imparting information and knowledge about family life and sex education to the parents. While many argue that this would, and should be, the appropriate process for imparting information of this nature, all too often and for a variety of reasons, parents are unable to fulfill this responsibility. In many instances, a communication gap exists between parents and children. None of the aforementioned are phenomena among black parents but many parents; they are not endemic to poor parents but to parents across socio-economic lines.

In other cases, parents are uncomfortable with thier own sexuality or lack sufficient knowledge about the subject to effectively communicate the information. As a result, much of the information obtained by teenagers comes from sources external to the family. Myths and misinformation emanate from, and are pertetuated by, peer groups and other sources, such as the media.

The negative health, social, education and economic consequences of early and unplanned childbearing are repeatedly documented. The consequences are serious for all teenagers; however, they are magnified for poor minority teenagers.

Public Assistance

Current welfare policies being executed by this Administration not only punish the poor but create disincentives for recipients to work. In the late 1960's Congress saw work for adult welfare recipients as a way to provide a higher standard for their children and eventually get the family off the welfare roll through self-sufficiency. The Work Incentive Program (WIN) was established to provide training, employment, and social services to adult welfare recipients. Since that time, the rules had been regularly liberalized, with increasing opportunity for families to work their way off welfare.

In 1981, however, Congress cut funds for the Aid to Families with Dependent Children program, changed the rules, and in effect penalized those AFDC recipients who have sought to increase family income through employment. Many of these families now face the choice of losing their AFDC benefits and Medicaid coverage because of their earnings, though marginal, exceed the low limits prevailing in many states; or of limiting their work efforts significantly; or quitting work altogether to maintain Medicaid benefits.

Earlier this year, the National Urban League conducted 16 field hearings to determine how the Administration's cuts in the AFDC program are affecting poor families. The end result of that effort was a document entitled "Don't Just Stand There and Kill Us," the title coming from the testimony of an AFDC mother in Peoria, Illinois.

Those hearings reinforced the significance of that program to this nation's poor. Because the Administration proposed and Congress has acceded, a workfare program has been planned to make AFDC recipients "earn their keep so as not to undermine their personal ambition for self-betterment." However, we call your attention to the fact that 69 percent of the 11.1 million recipients are children.

For most recipients, AFDC is a temporary measure. About 57 percent of all AFDC families have only been continuously on the rolls for less than 37 months and 28.5 percent have been receiving assistance for less than 13 months.

We know that no one is guaranteed a free lunch in this country, but we should also be humane enough to at least ensure that poor children are not allowed to go without any lunch.

Therefore, while critics chip away at the benefits for AFDC families they should at least know the truth about the program. They should know that even with current federal over-

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sight that there is great disparity between the benefits provided by the states. They should know that actual payments to families of three with no other income currently range from $96 per month in Mississippi to $571 per month in Alaska. Twenty-six states provide less than $300 per month to such families and only nine states provide more than $400 per month. And a final truth about AFDC is that it keeps families together. For without it, some other method would have to be found to care for them, probably outside the home and at a much greater cost both in terms of money and the child's well-being.

By no means does the National Urban League think the present welfare system is the ideal one. For years, the League has been an advocate of welfare reform. True conservatives have favored a solution that puts cash directly into the hands of the poor, and reduces the red tape and regulations that have such arbitrary power over poor people... The new program of cash for food stamp recipients in Puerto Rico should be evaluated for potential applicability in the States.

That has been the direction pointed to by our proposal -- an income maintenance system based on a refundable income tax.

The cost of such a program depends upon the amount of the tax credit and the level of the primary tax rate, but it could amount to not much more than the cost of the present system that leaves poverty intact.

Crime

It is time to discard the stereotypes associated with crime -- blacks as victimizers and whites as victims. The evidence clearly shows that blacks, especially in urban areas, are disproportionately victims. Moreover, the poorer you are, the more likely you are to become a potential crime victim.

Low economic status neighborhoods in urban areas have higher crime levels than high economic status urban neighborhoods. The rates of both theft and violent victimization are substantially higher in neighborhoods characterized by relatively higher unemployment rates than neighborhoods having lower unemployment rates. Rates of victimization are about twice as high in structurally dense neighborhoods than in less structurally dense neighborhoods. These are the neighborhoods in which blacks most often reside.

The above facts take their toll on those growing up black. According to the National Center for Health Statistics, the murder rate for black males 15 to 24 years old is 66 per 100,000, compared to 12.4 per 100,000 for whites.

In addition, Justice Department statistics say that blacks account for 44 percent of all arrests for violent crimes, even though blacks are only 12 percent of the population. Many of these acts are perpetrated against other blacks..

However, we do not, as some have suggested, view these statistics as a matter of black self-hate. Rather we realize that the numbers are rooted in a history of economic deprivation and social frustration. But, yet, we cannot sit idly by and allow this trend to continue.

The National Urban League has designated crime and criminal justice as one of four focus areas. We are presently designing a program model that our affiliates can use in mounting a campaign against crime in black and poor communities. Two elements included in this program will be education in crime prevention and the encouragement of neighborhood crime-watch programs.

Various administrations and sessions of Congress, including the present, have called for more prisons. Yet prisons have never, and will never, make our streets safe. The Bureau of Justice statistics in a report released earlier this year called, "Prisons and Prisoners" described state prison inmates as predominantly poor, young adult males with less than a high school education. Importantly, the report said, that among the inmates entering prison after 1977, 20 percent had had no income in the 12 months before their arrest and another 20 percent had earned less than $3,000.

Any federal government policy designed to deal with crime must focus on its underlying causes. Serious attempts to reduce crime must certainly focus on programs and policies to reduce high black unemployment, and improve the quality of education in inner city schools.

It is clear, however, that whatever view is taken of the problem of urban crime, the criminal justice system as the final arbiter of the right of the victim and the victimizer must be fair and equal. Employment, appointments, sentencing, and all aspects of the system, must reflect liberty and justice for all.

THE FEDERAL RESPONSE

The current Administration is now proposing a half dose of a previously impotent prescription.

I should say out front that the League's criticisms and concerns are non-partisan; for comments from the Administration may lead some to believe that those who take issue with current policies are somehow partisan, unfair and unpartiotic. To the contrary: Our criticisms, questions and concerns are based on the needs of our constituents, responses from black and poor people around the country and data from our affiliates in their respective cities.

The National Urban League viewed former President Carter's urban policy initiative as well-meaning, yet found it lacking in terms of commitment to the problems of blacks in the cities. Today, we find that this Administration, too, has neglected to adequately address the human issues of urban America.

From what we've read and heard, we do think that the Administration's urban philosophy may contain several positive aspects. It provides some suggestions as to the elements of strategic thinking necessary for urban revitalization, urging the fostering of public-private partnerships. It encourages states to address the issue of ways to assure that their municipalities have adequate revenue bases. It recognizes in some circumstances the benefits of mixed zoning, which would allow the creation of rental unites in some homeowner neighborhoods.

On the other hand, we cannot countenance an urban policy that calls for experimentation with urban governance which is not based on sound principles of social justice, a policy which unjustifiably makes the urban crisis a crisis of government, rather than the victim of evolving industrialization that it is. Neither can we accept a policy that puts so much emphasis on an economic recovery plan that has yet been shown to work.

Specifically, we are concerned about any urban policy that would:

1 1) Seek to arbitrarily extend concepts of free-market contracting to the dynamics of neighborhood development, while abdicating federal responsibility and reneging on federal resources for promoting urban progress. The Administration claims to envision a greater role for local government and community-based organizations in improving life in the cities, but its major thrust is geared toward advancing the idea of profit-making firms as competitors for public service.

2) Say that government regulatory intervention will be measured by weighing the benefits against the costs to "promulgate only those regulations whose benefits clearly outweigh the costs". The thesis unconscionably attempts to put a price tag on everything from the value of clean water to civil rights. True, we may save some dollars in the short-term, but we also ask what this will mean for our children. Do we want to leave them with a socially bankrupt nation?

3) Recognize that economic restructuring is putting pressure on low-skill and no skill individuals--particularly female headed households--to remain in communities experiencing high unemployment and economic stagnation; but neglects to examine a myraid of underlying causes. While the Administration cites the low participation rate of female heads of households, it simultaneously ignores the strong work ethic and struggle of the working poor.

4) Content that the well-being of the cities is primarily dependent on a city's role in the regional economy, de-emphasizing the impact of federal policy on regions and cities. Case in point is the redistributive impact of defense contracts which may shore up a city or region from recession. U.S. News and world Report magazine reported in its May 10, 1982 issue that 10 states account for 65 percent of all defense prime contracts.

   The regional economy thesis also ignores the effects of past federal policies to the degree that on-going responsibilities are required. Beginning with the massive federal effort that built higheays and backed mortgages in suburbia, federal policies have helped drain cities of their tax base and weakened their economic foundations. Industrial decline, along with insensitive federal policies that hurt urban economies have accelerated the problems of the cities.

   So the federal government, as a partial maker of the urban dilemma, has an inescapable responsibility to be a full partner in stabilizing urban economies and in restoring the cities.

5) Put overemphasis on urging state and local governments to follow the lead of the private sector in a stragegic plan to compete with other jurisdictions for industry locations, while failing to closely examine the disparities between the two sectors. For example, industry operates from a variety of geographic locations--corporations have offices around the country--and has discretion to move wherever it wishes on its own terms but local and state governments cannot.

6) Suggest the need for mobility by the poor but primarily rely on the private sector to link the poor with jobs. This approach during the recessionary times could create large numbers of economic refugees. Based on the principle of "voting with the feet", this concept of a disciplining force in urban government belittles the serious consequences of such a widespread practice for the municipal bond markets and fiscal strategies for both cities gaining citizens and losing citizens.

NUL RECOMMENDATIONS:

As Americans too often do, we forget the lessons of history, not just the failures but also the successes. History tells us that one of the most humane successes that America ever carried out was the Marshall Plan, a progressive policy to relieve the pain of war-ravaged Europe after World War II. That now prosperous continent was hungry, without fuel and with devastated housing that left millions inadequately sheltered and homeless. Its industries--now exporting so heavily to the U.S.--were flat on their backs.

But the U.S. stepped in and for four years shipped a tremendous amount of goods overseas to help put Europe back on its feet. Dead factories were brought to life, homeless people were sheltered and hungry people fed by a revived agricultural system.

It was a massive undertaking. Ten percent of the federal budget was earmarked for Marshall Plan aid. In its first year, that aid took almost three percent of our gross national product--the equivalent today would be about $100 billion.

However, by the end of the four years, Europe was on the road to recovery and now those nations' standards of living challenge ours.

The Marshall Plan was no act of charity. Policymakers of the time knew that an economically dormant Europe would not be able to buy United States goods and that the way to avoid a return to the pre-war Depression was through pumping up their economy and that in turn would keep our factories running full blast.

A decade after the Marshall Plan ended, the National Urban League's past deceased President Whitney Young proposed a domestic Marshall Plan for America's own poverty-ridden areas. Had a domestic Marshall Plan been adopted then, it is quite possible that we would have escaped many of the urban problems that afflict us today. Instead, our cities have further declined until today parts of the U.S. are as devastated as bombed out Europe four decades ago. Pockets of abandoned buildings and deserted areas in big cities are an outrage. And so too is the decline of America's mid-western heartland.

Could it be that this is the right time to start thinking about another Marshall Plan, a Marshall Plan for Americans based on local, state and federal cooperation, which would reach out to the poor with job training, offering them hope and a stake in a future which we should begin to build today.

Theodore H. White, writing about the European Marshall Plan said, "The conditions that brought about the Marshall Plan could be described metaphorically as that of a beached whale that has somehow been stranded high beyond the normal tides and which if not rescued, will die, stink and pollute everything around it. Europe was the whale and its carcass could not be left by Americans to rot."

Today I ask you whether we can anymore allow our cities to become beached whales than we did devastated post-World War II Europe?

We should not graciously accept the notion that federal assistance strategies that have concentrated on low-income and unemployed persons in declining cities are stalling the inevitable, and should be terminated. Indeed such a philosophy leads us to question the Administration's commitment to its own enterprise zone proposal, offered as an experiment for bringing economic vitality to distressed urban areas. Although the League has endorsed the concept as a creative approach, we clearly believe that the most meaningful consideration of this program is the determination of whether it becomes a business assistance measure or a job creation effort.

Obviously, the bill contains elements of both. But if the plan is to create enough jobs, then its business assistance components must be targeted at job-creating incentives. A final bill that tilts toward labor-intensive companies and small businesses would cut urban unemployment. On the other hand, if the final bill induces capital-intensive industries that are highly automated to move into the zones, without accompanying job training programs, it would not end up creating many jobs for the people who need them most.

In the past, Congress has targeted economic development programs into broad aid programs covering both the affluent and the poor sections of the community, with nobody getting enough to make an impact.

If enterprise zones are indeed approved by the Congress, they should bring with them resources for training, housing and social services needed by the zone's residents to benefit from the program. Yet, even then, enterprise zones as this country's sole federal urban initiative is untenable.

Between 1976 and 1978, the National Urban League's Research Department conducted a comprehensive two-year study of effective economic and job development strategies in inner city areas using Community Development Block Grant funds. We found that some of the more effective strategies for enhancing the economic opportunities for the disadvantaged in inner-city areas included:

1) Attraction of industries that provide demand for the skill levels of the unemployed and location of industrial parks in areas accessible to workers in low-level jobs.

2) Providing venture opportunity to minority businessmen through industrial recycling and reuse and also providing city contracts as a support base.

3) Involving community-based organizations in the planning and development of commercial centers and industrial parks.

4) Substantial capitalization and operating subsidies for minority investment corporations.

5) Concentrated commercial revitalization in low-income and minority neighborhoods.

6) Training for careers in growth industries and business education for minority youth.

GENERAL RECOMMENDATIONS

The National Urban League's 72-year history suggests that the present proposal reflects unwise social policy and unproven economic policies.

- we call on this Administration to develop a domestic marshall Plan reflective of the European experience, but encompassing an array of local state and federal cooperation.
- The Federal government must acknowledge its national responsibility for a comprehensive urban policy that takes into account the severe problems confronting the black urban poor.

- A national urban policy must include permanently authorized employment and training program
- Governments on all levels must adopt a strong anti-displacement policy to guard against dislocating the poor when designing and implementing urban policies and programs.
- Necessary federal budget cuts should be made in areas other than those that are basic survival programs for the poor-such as income maintenance, employment and low-income housing.
- Equal Opportunity laws and regulations must be agressively enforced in programs and policies of urban revitalization.

Recommendations in specific issue areas follow.

EMPLOYMENT

- Federal employment and training programs should be permanently authorized; for FY 83, funding should be at least $5 billion. At least 50 percent of funds should be used to serve youth aged 16-24.
- Community-based organizations of demonstrated effectiveness, because of their sensitivity to the needs of the disadvantaged, should be used in every aspect of service delivery--from counseling to training, to job search--as well as policy formulation activities.
- Private industry, specifically small and mid-size businesses where most of the nation's jobs are located, should be encouraged through such inducements as tax incentives, wage subsidies, work study, etc., to employ and train youth and individuals with limited job skills.
- It is imperative that federal minority business programs be perceived as economic programs and not as social welfare. To this end, the federal government must improve its delivery of services to the minority business community: the 8(a) program should continue to provide minority enterprises the opportunity to participate in government procurement activities; majority-owned and operated enterprises should be encouraged to assist and use the services of minority businesses.

EDUCATION

- Head Start should be funded to the level commensurate with the need. Over the last 15 years, it has provided medical, dental, nutritional, educational and social services to over 7.5 million children with results that prove its worthiness and cost effectiveness.
- Federal resources should continue to be targeted to provide quality educational opportunities for the disadvantaged.
- The corporate community should provide resources to assure the expansion of alternative educational programs that have as their major objective the improvement of the academic and non-academic achievement levels of public school students.
- Congress should reject legislation to give tuition tax credits to parents with children in private schools. The Administration's bill, when fully implemented would cost the federal treasury $1.5 billion per year. If the nation can afford to lose that much in revenue, the better option would be to increase appropriations for educating the disadvantaged.
- The federal role in education must be maintained.
- For blacks, vocational education has been able to provide neither substantive, nor sufficient opportunities. To rectify this situation, the League recommends that greater emphasis be placed on the post-secondary level; that adequate funding be provided and that more attention be paid to the entrepreneurial aspect.

HOUSING

- The urban policy of state governments should be designed to promote the development of existing localities and to discourage metropolitan sprawl. States can do this in a number of ways: (a) by refusing to finance further sewer, water, or highway extensions, and (b) by requiring public service commissions to increase utility rates in those fringe areas which are costly to serve.
- Until this country has strengthened its fair housing law, reform of administrative procedures, including the use of existing authority for affirmative action, should include the development of regional housing strategies.
- Continued federal support in housing production for the poor is needed.

HEALTH

- The Administration should ensure that adequate resources are available to support a major comprehensive family planning program.
- Medicaid should remain a federal program and its benefits made uniform among the states.
- The Administration should encourage partnerships with community-based organizations for the design and implementation of local programs in community health education, physical fitness and disease prevention.
- Governments on all levels must be urged to reverse the trend of closing inner-city hospitals.

PUBLIC ASSISTANCE

Basic components of the NUL income maintenance proposal include:

- A basic annual grant, or tax credit to all.

- The grant would be taxed away from the affluent, while those below a certain income would keep all or part of the grant. This means that working people of modest incomes would get the income assistance they need but for which they do not qualify under the present system.

- Automatic payments through the tax system as a matter of right. The elimination of means tests and coercive regulations would do away with the stigma.

- Almost everyone would pay taxes at a flat rate. But because everyone gets a tax credit and because all loopholes would be closed, the tax system would be far more fair than the present system.

CRIMINAL JUSTICE

- Alternatives to incarceration should be aggressively pursued as a method of rehabilitation. These alternatives should have a specific focus on education and skills that will increase the individual's employability. Innovative sentencing designed to make the victims whole or provide some community service needs to be pursued.

- The policy of the federal government should be a complete ban on the importation, manufacture, sale and possession of handguns except for law enforcement officials, the armed forces, pistol clubs that keep the guns on their premises and authorized guards.

- Blacks must be employed at every level of the criminal justice system, particularly at the policy making level.

CONCLUSION

Overall, this nation cannot realistically afford a fragmented urban policy based on piecemeal contributions from 50 states if we are to compete in the global market, for the economic issues deal with world-wide composition, not interstate competition. We should not and must not adopt a horse-and-buggy urban philosophy for a space-age society. Instead we have to insist on a socially progressive urban policy, one that proposes to treat the problems rather than relocate the victims. We have to insist on an urban policy that provides training for those who want to learn; opportunity for those who want to work and hope for those who are growing old before their time.

Only then can we redo the portrait in words that John Langston Gwaltney painted so vividly in his book Drylongso of a young woman growing up in an urban housing project. In her words, he wrote: "I have lived 16 bad years, but I am a good person. Because my life has been hard, I am very tired. It isn't just being a good person that has made me tired, but being any kind of person at all. No matter how good most of the people I know live, their lives are hard. A lot of people feel their lives will be short."

Again I say to you, "What is the city but the people?" We cannot as a nation appear to countenance the perpetuation of cities filled with people who are filled with hopelessness.

ATTACHMENT

From the NUL Research Department's Quarterly Report on the social and economic conditions of black Americans in the first quarter of 1982.

- In the first quarter of 1982, total unemployment in the United States reached a post World War II high of 9.5 percent or 10.3 million workers as calculated by the U.S. Department of Labor. However, according to the National Urban League's Hidden Unemployment Index, the true unemployment figures were 16.8 percent with 19.3 million workers idle during that period.
- Nonwhite unemployment jumped to a record 4.5 million, according to the NUL Hidden Unemployment Index, raising the unofficial unemployment rate from 26.2 percent in the last quarter of 1981 to 29.1 percent in the first quarter of 1982. White unemployment increased from 12.8 percent to 14.9 percent during the same period.
- According to the NUL Hidden Unemployment Index, 927,000 nonwhite teenagers were jobless in the first quarter of 1982--almost two and a half times the DOL jobless figure of 365,000 unemployed nonwhite teenagers. Thus the actual unemployment rate for nonwhite teenagers was 65.6 percent which is the highest unemployment rate of all groups of workers.
- The number of unemployed nonwhite men reached 1,048,000 or 16 percent according to the NUL. This was the highest jobless rate among all adult workers, followed by nonwhite women whose joblessness reached 813,000 or 13.2 percent.
- Nonwhite married men who traditionally have the lowest jobless rates among blacks, were severely impacted by unemployment during the final quarter of 1981 and the first quarter of 1982. The jobless rates during both

these quarters were 8.9 percent and 10.2 percent respectively, which were higher than the rates for all unemployed persons, as reported by the Department of Labor.

- During the first quarter of 1982, unemployment among adult nonwhite workers increased by 522,000 to 3.6 million (25.4 percent) while the number of unemployed white workers increased by 1.9 million to 11.9 million (13 percent). According to the NUL, joblessness among both adult nonwhite men and women increased to 15.8 percent and 13.2 percent respectively.

NOTE: The numbers of rates of unemployment used are provided by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor (DOL). According to their definitions, only those people are considered unemployed who did not work during the survey week <u>and</u> who actively searched for work within the four week period preceding the survey <u>and</u> who were available for work (except for temporary illness) during that week. Those ready and willing to work who had become discouraged by their inability to find a job or who lacked the means to look, are not included. These numbers, therefore, underestimate the true extent of unemployment.

The NUL unemployment numbers and rates seek to correct this deficiency. Based on a formula developed by the Joint Economic Committee of the U.S. Congress, both the "discouraged workers" and those who work part-time for economic reasons are included. For the number of "discouraged workers," we refer to those persons not in the labor force who indicated that they "want a job now." The figure for "discouraged workers" added to both the DOL labor force total and to the number of unemployed is thus included in the totals for both the NUL civilian labor force and the DOL unemployed. Part-time workers are already counted in the official (DOL) labor force; thus they are added to the figures summed to yield the NUL unemployed, only. Forty-six percent of those who work part-time for economic reasons are included among the NUL unemployed to represent the amount of employment lost by them.

Nonwhites include blacks and others (e.g., Orientals, American Indians) but not Hispanics. Blacks include black only.

Representative MITCHELL. Gentleman, thank you very much for very provocative and disturbing testimony. Mayor Young is an old hand in front of these committees of the Congress and, Mr. Jacob, I understand this is your first appearance before a congressional committee. Based upon your eloquent testimony, it's clear that you'll be before many committees many times in the future.

Mr. JACOB. Thank you.

A PERMANENT UNDERCLASS

Representative MITCHELL. I wanted to indicate that we have Congressman Bill Coyne from Pittsburgh who's joined us. I'm delighted that you have, and I saw Michigan Congressman Bob Traxler come in to greet his friend Mayor Coleman Young.

The poor and especially blacks are concentrated in large central cities, the declining industrial areas of the country. About 30 percent of white families and 60 percent of black families are living in poverty in our central cities. More and more, I hear the phrase being used that this is the urban underclass, and more and more I hear the phrase being used that suggests that unless something is done there will be a permanent underclass in this Nation.

What are your thoughts about the possibility of that horrendous development taking place, a nation as rich, prosperous, and powerful as ours permitting a permanent underclass to develop, if that's a possibility? Mayor Young.

Mayor YOUNG. Well, I think that that is a totally unacceptable possibility and it addresses itself to urban policy and even to the new federalism. If we accept as responsibility of the Federal Government a guaranteeing of certain rights of the people, a guaranteeing the welfare of the people and, indeed, guaranteeing pursuit of happiness, I think that included in that pursuit would be at least a right to a decent living and certainly a right to share equally in economic benefits of this country.

Again, as I said earlier, we fought the Civil War about having part of our citizenry enslaved. That was a subclass. That was an underclass, the slave was, and it is now projected that economic conditions will produce a new underclass. I would say that this new underclass is just as unacceptable today as slavery was in 1860.

Representative MITCHELL. Mr. Jacob.

Mr. JACOB. Thank you. Mr. Douglas Glasgow, a noted social scientist and professor at the Howard School of Social Work, published a book last year called "The Underclass," and he defined it as a group of people unwanted and perceived as being unneeded. I think that what it reflects is a conscious decision on institutions in our society to abandon a significant group of people in this country.

It is my judgment, Congressman, that we can do nothing other than weaken the fiber of America by discarding so many worthy people; that if America is to be strong internally as well as strong externally, it cannot hope to be so with so many people being unused in our society.

The theory about the underclass is that they would disappear. The reality is that they are not going anyplace and that America will have to deal with them in one fashion or another.

I think it would be wise for America to choose to use them constructively rather than to have them deal with destructively.

GENTRIFICATION

Representative MITCHELL. Thank you. A number of cities and mayors of various cities are striving mightily to prevent any further deterioration of their cities. Some cities are using a tactic that is known as gentrification or regentrification in an attempt to save their cities. Those cities are making strenuous efforts to lure whites, particularly the young, middle class, professional whites, back into the cities.

The argument that these mayors raise is that we must bring these people back in in order to provide a tax base for the city on which it can grow and prosper.

It seems to me that there's another inference here. It seems to me that to the extent and degree that you press for gentrification or regentrification—and I have no particular problem with it—it seems to me inferentially you're saying to those who are possibly the permanent underclass that there will be no change in your life or you're saying to the majority of blacks and Hispanics who are living in cities that there will not be sufficient upward mobility for you to ever become a source of revenue for the city.

Could I get your thoughts on this approach to urban problems, gentrification or regentrification?

Mayor YOUNG. I would say that we have that problem obviously in Detroit. We have attempted to approach this from the point of view of rebuilding our city. It is the central city. It is the oldest section of the city. It's also the central city that historically has been occupied by blacks and other minorities.

In some cases the central city has been rebuilt. Washington I guess is a prime example of that and Philadelphia. There was a national TV program about it Sunday I believe with regard to Cincinnati.

We do not seek in Detroit to attract middle-class whites, young or old, back into our city at the expense of the residents already in the city. We are attempting to improve, to create new housing, to rebuild housing, so that both black and white can remain—blacks can remain and whites can come back into the central city and that middle-class people can live alongside lower income people.

We believe this integration, both economically and racially of the city is essential to a city's continued economic and social stability.

If we were to allow the present gentrification to proceed to its logical conclusion, we would find that the suburbs of today would be the slums of tomorrow. As a matter of fact, that process has already begun where gentrification is in an advanced stage as in Washington, as you no doubt very well know. The whites who move in come from somewhere and generally I guess around here they come from Maryland or Virginia, whatever your suburbs are, and the blacks are being forced out of the ghetto or the central city into the newly created slums. It's a constant round robin with the poor being the inheritor of that which is cast aside.

We attempt in Detroit and I think we've had some success with it—we are attempting to rebuild a city along a democratic standard that would have room for all, and I think that we are inviting polarization and racial division, economic division, if we proceed with the gentrification method. I think it has great, great danger in it. And I also believe it's a result, by the way, of past Federal policy, and that is why the Federal Government having contributed so much to the present condition of the cities cannot possibly justify a new policy which says we will withdraw from any responsibility for changing that situation.

Representative MITCHELL. Mr. Jacob.

Mr. JACOB. I would like to associate myself with Mayor Young's comments. I remember a couple years ago in Washington a study was done on the disappearing people, people who lived in the inner city and one day were there and the next day they were gone because of the influx of whites who had not moved into inner city Washington.

The question was, What happened to those people? Prince Georges County had made it impossible for them to relocate into Prince Georges County any longer. They simply could not afford Montgomery County and nearby Virginia. What was revealed was that the people who had been displaced from inner-city Washington had been forced to double up with friends and relatives in other areas in central Washington communities creating the kind of social dynamite that can only be explosive and deterimental to the moral fiber of this community. And I think that just like the Federal Government created the suburbs, there is a strategy that they can employ to save our cities. The strategy is not the one that they are proposing with their housing policy. I submit to you that that is exactly what will generate gentrification, one that does not take into account increasing housing supply for poor people and consciously making housing available for poor people.

We mentioned in our statement a domestic Marshall plan because the solution to the problem of making housing available for people in the cities is to give them employment so that they can work and pay for the housing. A housing policy for this Nation that does not include the expenditure of moneys to deal with upgrading the lives and abilities of people in the inner city will indeed create and resegregate America to the pre-1960 days, an America that I am certain no one in his right mind would want to return to.

Representative MITCHELL. Thank you. I have one more question but I want to make a comment first.

A MARSHALL PLAN

I think the Marshall plan when it was first offered was an excellent idea. I still believe that such a plan represents the salvation for our cities. I also am firmly convinced that given the attitudes of the current administration and the prevalent attitudes in the Congress, those attitudes I can best describe as a ledger psychosis—balance the budget and make sure the books are all in order—I would not be optimistic about action on a Marshall plan unless there is an enormous groundswell from the people for it.

My colleagues and I serve in this Congress every day. That which has the highest priority is military spending, the creation of weapons of death and destruction. That which has the lowest priority it seems to me is really our most precious asset, human beings. This is a curious administration. It puts out little things and then says, "Oh, we're sorry. We made a mistake." It said something about tampering with social security and then a furor developed and they said, "Oh, no, social security is sacrosanct." They put out another little feeler in terms of tuition tax credits as a means of financing private school education. You're familiar with the tuition tax credit approach and a furor developed and they said, "Oh, no, we didn't realize what this meant." Of course, they realized what they were doing. They were testing. And then they withdrew it.

TUITION TAX CREDIT

I'm willing to wager that another attempt will be made by this curious administration to push through a tuition tax credit plan.

What would be the impact of this kind of tuition tax credit on the urban poor? Both of you in your testimony indicated that you have dropouts, undereducation, faulty education for children in our public schools, despite the best efforts of public school administrators.

What, in your estimate, would be the impact of a tuition tax credit on public schools with which you're familiar?

Mayor YOUNG. I would say at this time to impose a tuition tax credit or any other form of parochial aid on top of the withdrawal—the drastic cut in funds for education that has already taken place as a result of action by this administration and the Congress, would be adding insult to injury. It would certainly exacerbate an already very serious problem.

I think it goes to the problem Mr. Jacob mentioned in his statement of the absolute necesssity of investment in our social, our human infrastructure of providing the type of education and training for our people that that will be essential. It could be almost a death blow to any chance for quality education, any chance for quality education in our public school system. I say that because the chance has already been gravely damaged by the cuts and lack of support that has taken place up to this point both from a Federal and from a State point of view, and in many, many cases by the refusal of local taxpayers to the board of education. It seems to me that some of these cases we've run into a know-nothing society in which government at every level denies the responsibility for the education of our young people and a lot of that leadership is coming out of Washington and this would be another, in my opinion, serious blow the public education.

I believe that any parochial aid at this juncture or any other juncture would threaten public education as we know it.

Just one other point on that. As you know, we still have not settled the question of the protest around discrimination in public schools. Just recently here in Washington the issue of private schools and of tax consideration being given to private schools was very, very much alive. We all know that many of these private schools came into being in the expectation of tax breaks which they did receive from several of the States, which was another commentary of States rights and New Federalism, and this is in conjunction with that same grand plan. You know, the more I talk about it the worse it sounds. Mr. Jacob.

Mr. JACOB. We, too, are opposed to the tuition tax credit, Congressman, for all of the reasons that the mayor has given. We believe that it would devastate the public school system at a time that educational aid is being reduced. Also, I think what is most damaging about it is that it sends a signal to America that the Government and the Government leadership does indeed have no faith in the public educational system and would therefore encourage an abandonment and a withdrawal from the public education system. And that comes at a time when the Department of Defense released a study that showed the performance of blacks and whites and Hispanics on standardized tests. It showed the low performance and obviously they have misinterpreted what those figures mean.

It seems to me what the data says is that, given the fact that we have a population of people operating below level, it is an indictment against public education and therefore government has a responsibility to make sure that public education is upgraded to the point that we equalize the educational opportunities for all of our people. So we would oppose and we are opposed to the tuition tax credit.

Representative MITCHELL. Thank you. I'm delighted that Congressman Crockett has joined us, a very able and effective Member of Congress. Congressman Coyne, do you have questions at this time? We'll bear in mind your timetables.

Representative COYNE. Well, I would just like to commend both Mayor Young and Mr. Jacob for their testimony and to congratulate particularly Mr. Jacob for his proposal about the Marshall plan. I think in the environment that we operate in in Washington today many people are reluctant to propose such a plan, but I think it's needed. I think that's exactly what we have to do. I think that without providing people an economic opportunity, a job, the housing and the education and the other essentials that we need, a good quality of life in this country will be absent; and as Congressman Mitchell pointed out so eloquently, it's not something that might be advocated during this administration in the environment that exists here today. But I would be derelict if I didn't point out that even during Democratic administrations many people would not even propose such a thing and it's so vitally needed and necessary. I congratulate you for having the courage to come here and propose it. I just would hope that the Congress of the United States would have like courage and enact something like that. Thank you.

Representative MITCHELL. Thank you. Congressman Crockett.

STATES RIGHTS

Representative CROCKETT. Thank you, Congressman Mitchell.

Yesterday morning I think we heard the testimony from Secretary Pierce and I believe the question-and-answer period came about after Mayor Young had departed the chamber.

I inquired of Secretary Pierce if he could distinguish between the current administration's New Federalism and what I grew up with in the South and was referred to as States rights, and his answer was that the current administration would like to renew assurances that in New Federalism there would be absolutely no discrimination, and that was the basic difference.

I recall, however, that even during the so-called period of States rights which according to Secretary Pierce was supposed to have come to an end with the first Roosevelt administration around 1934–35, we still had the 13th, 14th, and 15th amendments in the Constitution guaranteeing against discrimination.

So I would like for each of you gentlemen to address yourselves to the question that is continuously raised among my constituents in Detroit. What is the difference between New Federalism and States rights?

Mr. JACOB. Congressman, I happen to believe that there is not a difference, and I have said on the public record around this country over the last 7 months that the New Federalism is just a new tightening of the old States rights notion.

I, too, grew up in the South pre-1960 and I remember that States rights meant separate drinking fountains, separate schools, and separate and unequal lives, and I take no comfort in anyone who would try to return us to that kind of a strategy to deal with the needs of my constituency and of black people.

Mayor YOUNG. By way of information, this Congressman, Congressman Crockett, is my Congressman. I live in the 13th District of Detroit.

Representative MITCHELL. You're blessed.

Mayor YOUNG. I recognize that fact.

Representative CROCKETT. Thank you.

Mayor YOUNG. I have heard the same question from the constituency that we share in Detroit and before you came in I had commented that as far as I'm concerned I'm personally opposed to New Federalism, period. I think it's a mistake to get lost in the question of whether or not certain responsibilities should not be transferred from the Federal Government to the local or the State government.

In the first place, transfer of any responsibility from the Federal Government to the State and local actually means a transfer to the State inasmuch as everyone knows the city is a creature of the State and has absolutely no rights at all except those rights granted by the State and just as easily taken away by the State. Any city in America exists at the sufferance of the State government. So you don't do us any favor at all by saying I'm going to transfer these responsibilities to you and the State and you sit down and discuss with the State who shall be responsible for and how they shall be divided. As a matter of fact, I have no rights that the State does not give me.

This was a question on which the Civil War was fought. I wasn't around then. I was, like the two gentlemen here, born in the South but my father used the good judgment to get out of there before I was old enough to know what was happening, but I do know that it took Federal intervention to change the conditions that we all know existed in the South, the discrimination, and so forth. It has taken Federal intervention to deal with the question of discrimination in the schools which by the way has not been confined to the South. In fact, the chief resistance to the Federal mandates along this order comes very often from the North and has not yet subsided.

So anyone who indicates that at any time now and in the future we can transfer responsibilities for the protection of human rights, for the protection of minority rights, for the protection of women's rights to the States advocates a form of government which has been repudiated in this country since the Articles of Confederation were defeated in the Constitution and reaffirmed by the Civil War.

As I said, this question came up, States rights, which is New Federalism, in the Civil War, and I would accept the verdict of the Civil War and do not see the necessity of reraising it now.

Representative CROCKETT. Of course, given the increased political influence of the nonwhite vote in certain of our urban areas, it's possible that even under New Federalism we will not degenerate to the status that minorities had to share in the pre-1935 period. I see the mayor shaking his head. I think the 13th Congressional District in Detroit and the First Congressional District can insure that there's no discrimination as far as New Federalism in Michigan is concerned, but I wonder what the score would be in places like my home State of Florida or Georgia, Mississippi, or Alabama.

Mayor YOUNG. Congressman, in my opinion, black folks might be better off in Florida or Alabama simply because it's a larger plurality. In Alabama I believe that about 23 or 24 percent of the population is black and in Mississippi it varies according to estimates but it goes up to in excess of 40 percent. I would like to point out that in no State in the Union do blacks constitute a majority or even come close to a majority and the majority rule is what the American form of government is all about and rights are vested in States, not in congressional districts, if you please, not even in cities. That is why I view any shift right now the Federal Government has direct relationships with the congressional districts or the cities. The minorities within those areas where they exercise political control or influence can exercise influence.

Now you're familiar with Lansing and Michigan, on a comparative basis, is not a backward State, but I sure wouldn't take Detroit's State and put it in the hands of the Michigan Legislature. I served in that body 10 years and you can go to any State legislature in the country and find the same condition.

Mr. JACOB. I would agree that the States that I've looked at most State legislatures are dominated by rural legislators and protectiveness of their communities has never allowed them to be sympathetic or empathetic to urban communities.

I would also hasten to add that it creates another problem for those of us who see our responsibilities as advocating the position and the concerns of the poor and the disadvantaged. Now we have the ability to come and petition one central government to deal with the needs of our constituency. The New Federalism would force us to have to go to 50 different governments and 50 different power blocs to deal with our basic constituency and I submit to you that that is a problem for us and it is a problem for the private sector which they have not recognized at this point because now they can put lobbyists here in Washington to deal with regulatory bodies. The New Federalism will allow States to impose their own regulations surrounding what they are doing. I submit to you that it's not in the best interest of our constituency and, equally as important, it is not in the best interest of the private sector.

Representative CROCKETT. Thank you, Congressman Mitchell.

Representative MITCHELL. Gentlemen, thank you both very much. Let me just lay on your mind as you depart, in my opinion, we are now at a juncture of a 10-year plan, a plan designed to end, slow down, erode the gains of blacks, the poor, and Hispanics. It's a very well planned scenario. It began with a very simple little phrase, "benign neglect," and it was more than 10-years ago, and they moved from benign neglect to Bakkeism. We've moved from Bakkeism to outright antiaffirmative action, and then we've moved from outright antiaffirmative action to outright hostility, and that's the battleground that we're now confronting, and it's going to call on all of your energies, sagacity, courage, and wisdom to get us back on track.

Thank you both very much. I hope you can make your plane connection.

Just before we hear from our next panel, I'm going to ask that this entire report "Urban Policy Issues," which I had the pleasure of being associated with through the Joint Economic Committee—that this entire report be submitted for the record.[1]

I wanted to do that as of this time because a number of the panelists from whom we will hear made singularly important contributions to that report.

I would also indicate for the members of the audience that there are a few copies of this report available, in case you want it, and you might see one of the staff to get it.

Our next panel will consist of Mr. Jaynes and Ms. Sawhill. We are very pleased that you could be with us this morning. Isabel Sawhill is an economist at the Urban Institute. Mr. Jaynes is an associate professor of economics at Yale University. I thank both of you for taking your time to come and give us testimony this morning. I think we've received copies from both of you. I wouldn't dare say who would go first in this situation. I would lose on too many counts. Why don't you two decide?

STATEMENT OF ISABEL V. SAWHILL, ECONOMIST, THE URBAN INSTITUTE, WASHINGTON, D.C.

Ms. SAWHILL. I appreciate the opportunity to be here, Congressman. I hope that the record will show that I am speaking as an individual and not on behalf of any organization.

In the letter of invitation that I received, I was asked to address particularly the issue of urban unemployment and the way in which it affects youth in those areas.

Obviously, one factor, although not the only one, that is seriously impacting on all urban residents right now is the overall state of the economy. To see how this affects different types of urban areas, I looked at the data for Houston and St. Louis—the examples that HUD has used in its report of very divergent types of urban areas.

Between 1979 and 1980 when the overall unemployment rate went up from 5.8 percent to 7.1 percent, in Houston the rate crept

[1] The report referred to for the record may be found in committee files.

up from 3.3 percent to 4.2 percent. In St. Louis it went up from 5.4 to 8.1 percent. So certain areas are clearly going to be more impacted than others but this recession is having a devastating impact on our urban areas.

We also know from research that youth, and especially minority youth, unemployment rates are particularly sensitive to the state of the economy, so that they are disproportionately impacted by a period of very high national unemployment such as we are experiencing now.

My view is that the labor market works very much like a queue. In good times employers hire people toward the end of the queue but in bad times they don't. And when you ask who's at the end of that queue it turns out to be the least skilled and the least job ready labor market participants and those with the least contacts for getting jobs. And this is disproportionately, again, minorities and the poor.

Not only does a bad economy restrict job opportunities in urban areas, but through its effects on revenues at the State and local level it forces these governments to curtail spending for social services and other forms of assistance. I think that is especially true now because we have had a number of years in which States and localities have been passing their own forms of limitations on spending and taxes, reducing their flexibility to respond to both the recession and to the Federal cutbacks that are occurring now.

In the past, of course, the Federal Government would have responded during a period like this with various forms of countercyclical revenue sharing and jobs programs. These forms of assistance currently appear to have been relegated to the Smithsonian. In fact, the Federal Government and the Federal Reserve plan to take no steps at all to counter the current recession and the administration's own projections suggest unemployment will remain historically high for at least the next several years.

My own view is that the administration is quite correct to give priority to economic recovery, but so far they haven't achieved that goal. The distinguished chairman of the Joint Economic Committee, Representative Reuss, has I think rightly suggested that we need a more relaxed monetary policy. It is argued, of course, that this will reignite inflation, but it's not clear to me why, with an unemployment rate of over 9 percent and capacity utilization rates at around 70 percent.

Now, moving beyond the general problem of the economy, it's also clear that a lot of urban unemployment is structural; that is, there's a mismatch between the skills of the labor force residing in those areas and the skills required by the jobs that are available.

Many central cities have been losing jobs, especially in manufacturing, but they have been losing population as well. So in a time when the economy is healthy it's not clear that the problem is so much an inadequate supply of jobs as it is a poor match between the jobs and the people.

In 1977, for example, the overall average unemployment rate in all central cities in the country was 9.2 percent; for all suburban areas it was 7.3 percent—for about a 2-percentage point difference. I have looked at how much of that difference is attributable to the different compositions of the populations in the two areas and have calculated that about 40 percent of that 2-percent differential was due to the fact that cities have a higher proportion of youth, minorities, and women than suburban areas do.

Next, what should we do about this kind of structural unemployment? In the past, we have attacked it from both the demand side—that is, in terms of job creation programs—and the supply side, in the form of training programs. These programs have had a rather mixed record of success. What has characterized the better programs?

First, where disadvantaged groups are concerned, I believe that what has worked best is intensive and comprehensive remedial programs. The Job Corps is probably the best example here. It has been cut in half recently and this is in spite of the fact that the funds that are invested in Job Corps programs produce benefits in the future which are greater than their initial costs.

I think a second characteristic of successful programs is local leadership and involvement of either the private business sector or community-based organizations of various kinds. I think that the administration is correct to stress the importance of such involvement.

However, I don't think we should get carried away about what the private sector can do all by itself for two reasons.

First of all, the private, nonprofit sector, which has been playing an increasingly important role in delivering various services in recent years, doesn't have the resources to mount an effort on anything like the scale required.

In the case of the business or corporate sector, they clearly have more resources but not necessarily the incentive to use them for these purposes. It's all very well to talk about corporate social responsibility but the first priority of any corporation has to be its stockholders.

The reason, of course, that the Government got involved in funding employment and training programs in the first place is because of these two reasons.

Finally, the administration believes that State and local governments will pick up what was heretofore a Federal role. Again, one has to ask about their resources and their incentives for doing so. I've already mentioned the difficulties that such governments are facing now in terms of their fiscal capacity to respond. What about the incentives? It's true that there have been some efforts on the part of States to use, for example, customized vocational education programs as a way to attract business to their areas and the administration cites this and other examples as an indication that they will respond. But these programs which are used to attract business into an area typically don't serve very many disadvantaged people. If one is trying to attract business one does not want to emphasize the fact that one is also trying to accomplish a social purpose in the process. And, of course, as I think Mr. Jacob pointed out, no State or locality wants to become a haven for the chronically poor or hardcore unemployed. So, again, we have a problem of what will be the incentives for the State and local government sector as well as for the private sector to pick up some of the responsibilities that are being shed by the Federal Government.

Finally, for your information, I'd like to point out that we estimate that employment and training programs will be cut by about 63 percent between 1981 and 1983 if all the administration's proposals were accepted. The service level cuts would be even greater because the numbers I just gave you are not adjusted for the cost of living.

Thank you. I will stop there and be glad to pursue anything further that you'd like.

Representative MITCHELL. Thank you. You have provoked a number of questions and I will get to those questions after we've heard from Mr. Jaynes. It's very good to see you again, Mr. Jaynes. Please proceed.

STATEMENT OF GERALD D. JAYNES, ASSOCIATE PROFESSOR OF ECONOMICS AND AFRO-AMERICAN STUDIES, YALE UNIVERSITY

Mr. JAYNES. Good morning. I was also asked to address myself to unemployment problems.

Representative MITCHELL. I think you need to pull your mike closer and speak directly into it. We've had problems with the mike ever since former Secretary of State Haig used this room. Sometimes we have some difficulties with it.

Mr. JAYNES. Current high levels of urban unemployment may be attributed to several causes. Most important are the current recession induced by discriminatory and cruel monetary policy which seeks to cure a fever by prolonged strangulation of the patient's knees.

These policies connected with a fiscal policy with necessarily high budget deficits contradicts the espoused objective of the monetary restraint, severely aggravate the effects of a premeditated policy of wringing inflation out upon the back of working people and the poor.

Add to this the longer term problems of severe competition from foreign firms whose lower price labor is causing a permanent reduction in U.S. manufacturing industries which in response are relocating and seeking to cut labor costs, and we have the two major causes of unemployment which stem from factors affecting aggregate demand.

With respect to the labor force itself, the primary problem as I see it is the fact that a great proportion of the urban labor force in particular is undereducated and ill-trained to make the transition to decent paying jobs in the growing high technology and service sectors of the economy. This ill-trained labor force will be a continuing social cost for the American people for many years unless some appropriate responses are made.

With respect to these important problems of providing a social environment conducive to the growth of decent employment opportunities, the National Urban Policy Report of 1982 embraces three areas. The first is an undaunted optimism in the ability of the economic recovery program of 1981 to stimulate overall economic growth and well-being.

Second, in regard to the problems of urban communities in particular, the report places special emphasis upon the proposed creation of urban enterprise zones to alleviate the chronic unemployment problems of distressed inner cities. This second program is a manifestation of the general policy of promoting more responsibility upon the private and public sectors of local jurisdictions under a more decentralized Federal Government termed in the report, "federalism."

In regard to the first two programs my skepticism of their success was made a matter of public record last year. There it was predicted that "the combination of expansive tax policy, increased military spending, and restrictive monetary policy" would result in larger budget deficits, continuing high interest rates with no improvement in aggregate business investment, and an increase in unemployment which would impact disproportionately upon black and hispanic urban workers.

At this date I see no events which would lead me to alter my recommendations of last year. At that time it was stated:

> Any attempt to avoid this outcome would have to acknowledge the contradictory nature of these budget, tax and restrictive monetary policies. If the purpose of the Administration's program is to reduce inflation through increases in investment, then a better policy mix would be a stable non-contractionary monetary policy combined with an altered, but tight fiscal policy. A stable monetary policy would lower interest rates and provide sufficient credit for capacity expansion. Moderate monetary growth combined with reserve controls on near monies and alternate credit sources should be sufficient for the economy's credit needs without arousing undue fear of renewed double-digit inflation.
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> A better way to apply fiscal stimulus to investment would be to shift most of the tax cut to business in the form of targeted tax relief. Tax cuts could be aimed at those sectors which look promising in terms of growth and employment. Such a policy would have to be combined with a national economic policy to identify the sectors and industries that would best benefit from these kinds of cuts in light of an overall plan for American reindustrialization.
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> Finally, the budget policies of the administration must be revised so as to avoid the harsch distributional consequences for poor and lower middle class families. Among other things, this will require substantial cuts in military spending, and the development of alternative public employment and job training programs. This, combined with a gradualist monetary policy and investment stimulus, should raise employment and income levels among the urban poor and lower middle classes.

The vital issue with respect to the role of urban enterprise zones is concerned with their role in the entire urban policy of the Federal Government. If, as previous analysis indicates, the probable success of the program would be the creation of a limited number of low-paying jobs with little future; the fact that the stated urban policy contains no urban program specifically designed to revitalize older cites, it is questionable how productive for minorities a program will be that is designed to prop up certain sections of those cities, making it temporarily less attractive to relocate.

The answer depends upon the extent to which urban enterprise zones are proposed to be used as substitutes or complements for alternative programs. If the policy of attempting to stimulate the growth of jobs by development of small business in urban poverty pockets is seen as one aspect of an integrated program to bring significant change in the social condition of the urban poor, it should be welcome. But if this policy is construed as a comprehensive program, it will fail drastically to make any meaningful change in the lives of unemployed or underemployed individuals who live in urban areas.

The above conclusion relates closely to what I preceive as a serious error in the specific philosophy embraced by the administration's concept of federalism. That concept of federalism is clearly predicated upon the presumption that all governmental decisions should be made and financed by the smallest governmental unit with jurisdiction over those citizens who will receive the benefits of the decisions. For certain very simple governmental or collective undertakings, such as potholes in local streets, a reasonable but not necessarily compelling argument for this position can be made. But many collective decisions simply should not be made under this rule.

Since Americans are not only in principle mobile but have historically proven themselves to be so, certain collective decisions invariably impact upon the Nation as a whole with respect to the distribution of benefits and costs they generate. Although there exist many examples, two of the most important are of special concern here. Policies concerned with education, job training, and employment generally should allow considerable local decisionmaking to allow for certain regional differences, but cannot be isolated from the national public concern.

The President's National Urban Policy Report expressly defines the "responsibility for the education and training of local work forces" to be the sole province of State and local governments to "determine the quality and responsiveness of public education to the needs of prospective employees and employers." While there is some legitimacy in this policy, and neglecting at this time important considerations of possible regional inequities in the delivery of education and training to various groups, the tremendous national costs of such a policy is surely attested to by the continuing legacy of having allowed the education and training opportunities delivered to our black population to be dictated by the pathetically low requirements of cotton and tobacco agriculture.

One of the first priorities of a strong American economy is the qualitative improvement of the education of the urban poor. This issue is important for all Americans and not just the urban poor. Current discussions of economic policy focus most attention upon business tax incentives to increase investment in plant and capital equipment arguing that this will also provide an impetus to overall growth and employment. The discussion above was intended to convey the idea that while this policy is correct as far as it goes, it is an incomplete picture of our economic problems. Investment in human capital skills is an area that requires stimulation just as much as physical capital.

What can Federal policy do to stimulate private sector investment in worker skills that will be equitably distributed so that the poor are benefited? Most of the investments that firms make in employees endow them with general skills that can be transferred to other employers. It is a well-known fact among economists that worker training that creates general skills involves extra-market costs to firms that reduce the overall investment level they will undertake below the socially optimal amount.

Our society does not consider a policy of leaving general educational training to the individual profit motives of the private sector and it is beyond me why we should do so when it comes to more specific vocational training. Private sector firms that have or could institute training programs would be providing a social service if these programs were expanded and the public should be willing to underwrite part of the costs.

Indeed in a society that subsidizes college education and is considering tuition tax credits for precollege schools, such a policy would not only be wise but equitable.

In my prepared statement I have offered a couple of alternative training programs and in fact work study programs which could complement an attempt to revitalize students contact, and in fact prolonged contact or incentives to stay in school, and to do the best job that is possible for them to do as individuals while there. I think I should stop at this point and I could elaborate upon that if it is so desired.

[The prepared statement of Mr. Jaynes follows:]

PREPARED STATEMENT OF GERALD D. JAYNES

With respect to the important problem of providing a social environment conducive to the growth of decent employment opportunities, the President's National Urban Policy Report 1982 embraces three areas. The first is an undaunted optimism in the ability of the Economic Recovery Program of 1981 to stimulate overall economic growth and well-being. Secondly, in regards to the problems of urban communities in particular, the Report places special emphasis upon the proposed creation of urban enterprise zones to alleviate the chronic unemployment problems of distressed inner-cities. This second program is a manifestation of the general policy of promoting more responsibility upon the private and public sectors of local jurisdictions under a more decentralized federal government termed in the Report, federalism.

In regard to the first two programs my skepticism of their success was made a matter of public record last year.* There it was predicted that "the combination of expansionary tax policy, increased military spending and restrictive monetary policy" would result in larger budget deficits, continuing high interest rates with no improvement in aggregate business investment, and an increase in unemployment which would impact disproportionately upon black and Hispanic urban workers.

At this date I see no events which would lead me to alter my recommendations of last year. At that time it was stated;

> Any attempt to avoid this outcome would have to acknowledge the contradictory nature of these budget, tax and restrictive monetary policies. If the purpose of the Administration's program is to reduce inflation through increases in investment, then a better policy mix would be a stable non-contractionary monetary policy combined with an altered, but tight fiscal policy. A stable monetary policy would lower interest rates and provide sufficient credit for capacity expansion. Moderate monetary growth combined with reserve controls on near monies and alternate credit sources should be sufficient for the economy's credit needs without arousing undue fear of renewed double-digit inflation.

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*Urban Policy Issues (Washington, D.C., 1981), prepared for U.S. Department of Housing and Urban Development, pp. 49-63. Authors Gerald Jaynes and Glenn C. Loury.

In order to forestall any possibility of a new burst of inflation, the Administration and Congress should restructure the tax cuts enacted in August. At present, the cuts, which take effect July 1, 1982, direct 80% of tax relief towards individuals. While this policy is consistent with the Administration's overall belief that investment is low due to a shortage of investment finance, experience indicates that only between seven and eight percent of the tax cut will be saved. Hence, most of the cuts will go into consumption, raising aggregate demand and possibly raising interest rates and inflation in an era of restrictive monetary policy.

A better way to apply fiscal stimulus to investment would be to shift most of the tax cut to business in the form of targeted tax relief. Tax cuts could be aimed at those sectors which look promising in terms of growth and employment. Such a policy would have to be combined with a national economic policy to identify the sectors and industries that would best benefit from these kinds of cuts in light of an overall plan for American reindustrialization.

Finally, the budget policies of the Administration must be revised so as to avoid the harsh distributional consequences for poor and lower middle class families. Among other things, this will require substantial cuts in military spending, and the development of alternative public employment and job training programs. This, combined with a gradualist monetary policy and investment stimulus, should raise employment and income levels among the urban poor and lower middle classes.

II

The vital issue with respect to the role of urban enterprise zones is concerned with their role in the entire urban policy of the federal government. If as previous analysis indicates, the probable success of the program would be the creation of a limited number of low-paying jobs with little future; the fact that the stated urban policy contains no urban program specifically designed to revitalize older cities, it is questionable how productive for minorities a program will be that is designed to prop up certain sections of those cities, making it temporarily less attractive to relocate. The answer depends upon the extent to which urban enterprise zones are proposed to be used as substitutes or complements for alternative programs. If the policy of attempting to stimulate the growth of jobs by development of small business in urban poverty pockets is seen as one aspect of an integrated program to bring significant change in the social condition of the urban poor, it should be welcome. But if this policy is construed as a comprehensive program, it will fail drastically to make any meaningful change in the lives of unemployed or underemployed individuals who live in urban areas.

The above conclusion relates closely to what I perceive as a serious error in the specific philosophy embraced by the Administration's concept of federalism. That concept of federalism is clearly predicated upon the presumption that all governmental decisions should be made and financed by the smallest governmental unit with jurisdiction over those citizens who will receive the benefits of the decisions. While for certain very simple governmental or collective undertakings, such as potholes in local streets, a reasonable, but not necessarily compelling, argument for this position can be made many collective decisions simply should not be made under this rule. Since Americans are not only in principle mobile, but have historically proven themselves to be so, certain collective decisions invariably impact upon the nation as a whole with respect to the distribution of benefits and costs they generate. Although there exist many examples two of the most important are of special concern here. Policies concerned with education, job-training, and employment generally, should allow considerable local decision-making to allow for certain regional differences, but cannot be isolated from the national public concern.

The President's National Urban Policy Report expressly defines the "responsibility for the education and training of local work forces" to be the sole province of state and local governments to "determine the quality and responsiveness of public education to the needs of prospective employees and employers." [pp. 2.21 and 4.28]. While there is some legitimacy in this policy, and neglecting at this time important considerations of possible regional inequities in the delivery of education and training to various groups, the tremendous national costs of such a policy is surely attested to by the continuing legacy of having allowed the education and training opportunities delivered to our black population to be dictated by the pathetically low requirements of cotton and tobacco agriculture.

One of the first priorities of a strong American economy is the qualitative improvement of the education of the urban poor. This issue is important for all Americans and not just the urban poor. Current discussions of economic policy focus most attention upon business tax incentives to increase investment in plant and capital equipment arguing that this will also provide an impetus to overall growth and employment. The discussion above was intended to convey the idea that while this policy is correct as far as it goes, it is an incomplete picture of our economic problems. Investment in human capital skills is an area that requires stimulation just as much as physical capital.

What can Federal policy do to stimulate private sector investment in worker skills that will be equitably distributed so that the poor are benefitted? Most of the investments that firms make in employees endow them with general skills that can be transferred to other employers. It is a well-known fact among economists that worker training that creates general skills involves extra-market costs to firms that reduce the overall investment level they will undertake below the socially optimal amount. Our society does not consider a policy of leaving general educational training to the individual profit motives of the private sector and it is beyond us why we should do so when it comes to more specific vocational training. Private sector firms that have or could institute training programs would be providing a social service if these programs were expanded and the public should be willing to underwrite part of the costs.

It is generally agreed that far too great a proportion of Federal funds and services are directed towards short-term countercyclical public works projects that have proven ineffective as a means of improving the career prospects of program participants. There also seems to be a consensus that any changes in governmental policies towards the urban unemployed should:

1. Involve the private sector; and
2. Provide training and skill development that is in demand in the private sector.

I would like to suggest that future urban policy also meet two additional criterion:

3. It is imperative to recognize that the urban poor population, have very different individual needs and should therefore be presented with different programs and alternatives.
4. Participation in programs should be truly voluntary in the sense that individuals have a choice of programs they might enter on a self-selection basis with appropriate incentives to foster self-help.

Program for increased Skill Investment in the Labor Force: An Industrial Training Scholarship Program

i. Eligible workers would be provided with vouchers that guaranteed the employer a wage subsidy for some stipulated length of time.

ii. To economize upon bureaucratic red tape the subsidy could be taken as a tax write-off for the firm and/or a reduction in the employer's payment of social security tax.

iii. Special tax reductions on capital investment outlays could be provided for firms that provide training to unskilled workers.

iv. Training vouchers should be awarded to individual workers on a competitive basis, ensuring that appropriately designated disadvantaged workers get a fair share of participation by stipulating eligibility requirements for participants. The competitive approach would guarantee that Federal funds were not being wasted by giving scholarships to individuals who may be totally unprepared to succeed in the competitive private sector. It makes no sense to expect the individuals who are in effect functionally illiterate to be aided in this way. The existence of a competitive scholarship program would also provide incentives for those members of the urban labor force who are willing to invest in themselves to seek educational improvement in order to gain a scholarship. As a result the program would not be filled with people who were there only because they had to be, and this would guarantee success. It would be important that scholarship recipients be allowed to take their voucher to any firm in the United States providing appropriate training. This mobility would allow workers to relocate to areas where jobs are expanding most rapidly. Under this program scholarship recipients would to some degree be able to choose the type of employment and training they received. Employers would have incentives to provide jobs and training in areas that are in demand by the private sector.

v. It is important to restrict scholarships to men and women beyond secondary school age so that the program does not interfere with schooling decisions, but provides reinforcement to do well in school. To economize on costs certain requirements might be made such as making holders of vouchers ineligible for unemployment insurance for some specified length of time. This would also help to select prospective applicants who are not really serious about making the effort to upgrade themselves. In general, the benefits of this kind of program would far outweigh its costs. The increased supply of skilled workers would:

a. increase the productive capacity of the country by implementing the increased capital investments induced by tax incentives in that sphere;
b. serve to alleviate inflationary pressures on wages in the labor market; and
c. provide new hope and incentives for urban youth to stay in school and work hard.

The importance of awarding these scholarships on a competitive basis cannot be overstressed. Competition will aid in allocating scarce resources efficiently. Just as importantly a competitive selection system will provide information to private industry that scholarship recipients are capable individuals and this will avoid the attachment of stigma to the program. We emphasize that this program should not be restricted to the urban poor. The market failure caused by underinvestment in worker skills is an economy-wide problem and our society should move to correct it. Care must however, be taken to insure that the urban poor and minorities in particular receive a fair share of the scholarships. This requires the adoption of a feasible procedure for affirmative action policies.

With teenage unemployment currently approaching staggering proportions, it is extremely disappointing that the Urban Policy Report makes no special provisions for this important social problem other than the hope that an urban jobs and enterprise zone program will solve the problem. Such optimism is unwarranted given the epidemic rates of unemployment among urban teenagers. But even worse, the program is short-sighted, because it does not attack the more basic problem of providing incentives for poor urban teenagers to remain in school and perform to the best of their abilities while there.

One method of providing incentives for youths to remain in school is to involve the schools in student employment activities either directly through a special type of public sector employment and/or indirectly by validating private sector student employment. Consider the public sector approach first. For the last decade or so Federal funds have been channelled through local governments during short periods such as summer employment programs. Suppose that similar funds were channelled through: (a) local school systems upon a continuing basis throughout the year. Eligibility for student work participation should be tied to: (b) enrollment in school upon a continuing basis.

Other eligibility requirements such as satisfactory school performance should be examined before a detailed proposal is made. For example, we do not want to limit jobs to only outstanding students, but job eligibility might require satisfactory educational progress similar to eligibility requirements for participation in athletics. Students could work as tutors, library aids, clerical staff, and in other service capacities. There is much room for creativity in designing useful jobs and this end of the program might best be done by local school parent groups. This is not intended to include programs that allocate students to private firms for part of the school day where they do menial tasks, developing neither educational nor job skills. We are against programs that give up on our youth by taking them out of school under the rubric of vocational training that often fails to train.

If these jobs are channelled through the school systems they will not compete with private sector jobs and this allows us to address an important budgetary problem. If teenagers are willing to work for less than the minimum wage there is no reason why school packaged employment programs should be constrained to pay that wage. If students are willing to work for two dollars an hour, let them do so. With a given budget more jobs of longer duration and a more equitable distribution of income could be achieved. If it proved infeasible to pay sub-minimum wages, the available jobs could be expanded by specific limits upon the maximum number of hours worked. The entire cost of the program could be kept within limits by allowing local governments to designate school districts which must qualify based upon criteria similar to those in the UJEZ proposal. A small experimental program might be the best way to introduce and test this idea.

Another method of introducing a sub-minimum wage for teenagers while maintaining the student status would be to make satisfactory performance in school an eligibility requirement for all teenagers seeking employment under the program. Suppose again that the social security tax were eliminated for all qualified members of this age group. To be qualified a teenager would have to be issued a card by his school. Eligibility requirements could be constructed along the lines discussed in the school-public sector program above. Teenagers need not participate, but the reduced social security tax would both increase take-home pay and reduce the cost to the employer. Thus not only would eligible teenagers make more money when employed, they would have a greater chance of finding a job. It cannot be doubted that this would provide a stimulus for remaining in school and performing scholastically in order to receive an employment card. Graduates from secondary school could remain eligible for a period of time, say until the age of 21.

COSTS OF TRANSFER PAYMENTS

Representative MITCHELL. Thank you very much for, as usual, a very cogent and compelling statement.

I will address questions to both of you, if I may. We've got more than 10 million people unemployed in this country, more than 10 million, and that number is going to increase. Even if through divine intervention or divine providence the present national Republican program should get into high gear, miraculously, next week, we would still have a lag period before any impact was felt on unemployment and the rate would go up. I predict that it's going to get to 10 percent at a minimum.

While we face this situation, the Reagan administration, with the cooperation of the Congress, is terminating programs. For example, the CETA program will be terminated in 1982 and other programs are slated to go. This is in the name of fiscal responsibility, reducing the budget deficit, and so forth.

My question to both of you is, Do you have any idea as to whether or not money saved by eliminating these programs will be greater than or less than the amount of money that the Government will have to spend in transfer programs? Up to this point I don't think this Nation has reached the kind of mentality where it's going to see people hungry or out in the street with no shelter. We're going to institute and continue transfer payments, AFDC and unemployment compensation benefits, and so forth. Do either of you have any idea as to the costs? Do we save more by eliminating these programs as compared with the cost in terms of transfer payments? Do either of you have thoughts on this?

Ms. SAWHILL. I can't give you any specific estimates but certainly there are some offsets to the cost savings of the sort that you're talking about and I think, more broadly, the issue is the extent to which dependency generally will be increased.

You asked earlier about whether we are developing some sort of underclass. I'm not sure what that term means, but one definition might be people who don't have much attachment at all to the labor market. And clearly many of the programs that are being cut back were precisely the kinds of programs that were designed to move people out of the state of dependency and to cut back on those programs does seem to be a rather shortsighted policy.

PRIVATE SECTOR JOB TRAINING

Representative MITCHELL. Both of you have mentioned the private sector in your statements. I want to focus in a little more sharply on the role of job training by the private sector. You both have touched on that. You have indicated that without the sufficiency of incentives it's not going to be done. The private sector has to satisfy its stockholders. In your statements you suggested some involvement of the private sector.

I guess my specific question is, In the opinions of both of you, what percent—and I hate to use that word—but what percent of job training could be accomplished in the private sector to actually meet existing manpower needs? I say what percent because I just don't think the private sector can ever do it all. There's no doubt in my mind about that. But it certainly has a more substantial role to play than it has played. Am I making my question clear?

Mr. JAYNES. I would think that the primary problem is not so much asking what percent of actual training is going to take place in the private sector versus the public sector, but, rather, what will be the involvement of the private sector in the training that might take place irrespective of where it emanates from. So if the public sector undertakes to do the 95, 99, 20, whatever percent of the actual training that actually takes place, if we are not going to be moving toward an economy where the public sector is ultimately going to be providing career job opportunities for a large percentage of the population beyond the sorts of jobs which are now offered in the public sector, then those individuals would have to be taken into the private sector and we can't expect that to happen unless the training is tailored to the desires of the private sector. And the only way I could see that happening would be for the private sector to be involved at the planning stage and during the monitoring stage of the programs.

So, in that sense, I think it's not the percentage of actual people who may be in a given plant or in a given office being actually trained by the private sector.

Ms. SAWHILL. I would simply add that by far the greatest proportion of training right now is being conducted in the private sector.

The question is, when you're talking about people who have various kinds of labor market handicaps that go beyond simple vocational skills, it then becomes I think difficult for the private sector to do the job, and that's why I mentioned a program like the Job Corps as being particularly appropriate for working on a number of fronts to make people more job ready.

I think once they're job ready in the sense of having the basic education skills and the work attitudes and so forth that employers seem to want, then the specific vocational training is better delivered at least in the private sector.

The other thing that I wanted to mention is that an enormous amount of training is going on in the military and that is one area where the budget is increasing and I think a creative scheme might involve seeing how to mesh that fact with some of the training needs of our youth.

BLOCK GRANTS

Representative MITCHELL. Of course, you know I'd have some concerns about that. I think there is excellent training being done in the military, but talk about landing the Marines in Lebanon and other places sort of frightens me and I'd be very wary of any kind of mixing of that sort.

The population growth of minorities is not decreasing at the same rate as that of the overall population and therefore we would expect to see a larger percentage of minorities in the most troublesome age bracket, 16 through 21, in the future. There is a shift of categorical programs back to the States, block grant programs and so forth.

In the opinion of both of you, what specific steps should we take to insure that this high unemployment group is not ignored in the implementation of these block grant programs? Do you have any ideas on that? How can we almost guarantee that there's going to be targeting?

Mr. JAYNES. If the funds being transferred from the Federal Government to the States are truly block grants, as I understand, means that money is given under very broad categories for the States to do with as they please, I fail to see how any kind of controls of the nature that you're asking for could be underwritten. So, in fact, I guess what I'm saying is that there can't be just block grants.

There has to be some expenditure, some flow back to local areas which are targeted to needs which are nationally considered to be in some sense more important or at least of more immediate importance to the country.

Representative MITCHELL. Do you have any ideas on that, Ms. Sawhill?

Ms. SAWHILL. I don't think I could add to that.

Representative MITCHELL. That's my big concern with the block grants. Throughout yesterday's hearing and today's we've heard testimony relative to who controls State legislatures, who has the greatest impact. State legislative bodies have historically been antiurban, and I'm desperately groping for some means by which we can make sure that those who really need the programs are going to get them.

Mr. JAYNES. I'd like to add something to that. It's not merely the problems of antiurbanism on the part of rural dominated State legislatures. In the testimony of the earlier panel, individuals were noting the particular problems that they had had growing up in Southern States. What I'd like to add is, having grown up in a Northern State and in fact then worked in what is predominantly a rural area where lots of corn is grown, if you were to go to my hometown which is a very small place of about 16,000 people with——

Representative MITCHELL. I missed your hometown.

Mr. JAYNES. Streeter, Ill., which is about 90 miles southwest of Chicago. If you were to go there and see the minority population, you would find every single problem on a smaller scale that you would find if you were to go to the Southside or Westside of Chicago or to the South Bronx or to the fifth ward in Houston, Tex. And those problems for the last 30 years when most of the minority population started to come into that town have not been addressed by the people in the town or the State legislature either. So I think it's a much deeper problem than just urban bias.

Representative MITCHELL. Well, I certainly didn't mean to indicate that that was the sole and exclusive problem area.

Congressman Coyne.

PRIVATE SECTOR INITIATIVES

Representative COYNE. Thank you, Congressman Mitchell.

Ms. Sawhill, you indicated that the private sector is carrying out the bulk of the training today as a result of many of the cutbacks at the Government level. I wonder if you could elaborate some on what those initiatives are.

Ms. SAWHILL. I really meant to imply that the private sector has always been involved in the bulk of the training in this country because there's so much on-the-job training that goes on and it's very hard to separate when someone is being trained on the job and when they're actually doing the job. The estimates of that are very crude, but they certainly would indicate that that's where most of it is going on.

I think that there have probably been some initiatives in addition that have been taken just recently in response to the cutbacks. I'm not terribly familiar with them although there has been a book put out recently by the American Enterprise Institute which has a whole chapter in it that does nothing but list these kinds of initiatives and mentions the efforts of Control Data Corp., for example, which I see that Bill Norris will be testifying here, and their programs have been enormously creative and quite successful as far as I can detect.

But most of these programs are quite small, quite isolated. I just don't think we should jump to the conclusion that because there's some innovative ideas in the private sector and because the private sector knows how to deliver the training even if it's not paying for it, that they are necessarily going to solve the problem.

JOB CORPS

Representative COYNE. Thank you. You also pointed out about the Job Corps being an example of a public inititative that has been very successful. Would you hold the Job Corps system out as the most successful Government job training program?

Ms. SAWHILL. For disadvantaged youth, yes.

Representative COYNE. Thank you.

Representative MITCHELL. Thank you both. I have 12 more questions and I'm not going to put them to you now. Is it all right if I send them to you and would you respond to them?

Mr. JAYNES. Sure.

Ms. SAWHILL. Thank you.

Representative MITCHELL. Thank you very much for being here with us.

Now we will come to our last panel, Mr. Ronald Edmonds, professor of education, Michigan State University; Deborah Jackson, a deputy area manager at ABT; Phillip Clay, assistant director, MIT-Harvard Joint Center for Urban Studies; and Mr. George Sternlieb, who just made it under the wire. We were beginning to get worried about you.

I think we have received prepared statements from as least three of the witnesses and if those persons so desire they can summarize, making the high points in the statement, which would benefit us in terms of time. Mr. Edmonds, would you lead off, please?

STATEMENT OF RONALD R. EDMONDS, PROFESSOR OF EDUCATION, MICHIGAN STATE UNIVERSITY, EAST LANSING, MICH.

Mr. EDMONDS. Certainly, Congressman. I am one of those who have submitted a prepared statement and so I will summarize in the interest of time.

Representative MITCHELL. Without objection, all four prepared statements will be submitted in their entirety for the record.

Mr. EDMONDS. My purpose is twofold. First, some general remarks as to urban education at this moment, but second, a particular discussion of education in light of two interesting bodies of information. I refer to the final, most recent version of the President's National Urban Policy Report for 1982 and then to the probable effect of that policy on urban education in light of recently completed federally funded studies of the role of State government in educational policy together with a federally funded analysis of the aggregate effect of all federally funded education programs.

It's interesting that those two federally funded studies became recently available. They offer a very substantive, nonspeculative basis for being able to predict the virtually unavoidable consequences of the President's National Urban Policy Report in light of what these two studies tell us about the history of State governments in the United States in relationship to education together with an analysis of the effect of all federally funded programs that have been in existance since at least the middle of the 1960's.

I need not invest any time at all in describing the critical nature of urban education. Since there's some modest reference to it in the prepared statement I won't remark on that at all. I will say, however, I did undertake in the prepared statement to point out something else. The urban record in public education is not uniformly bleak. That's a very important observation.

The bright spot in this area derives from two interesting developments over the last several years. One is we now know that the cumulative effect of title I and all of the other federally funded programs have been incredibly productive with respect to what the President's policy calls special needs children. That is, since the middle of the 1960's, the Federal Government has been responsible for an unprecedented initiative on behalf of children who have not traditionally either substantially participated in or profited from the American experiment in mass education. These special needs children are defined as children who are of color, from low-income families, handicapped, of limited English-speaking capacity, and otherwise disadvantaged in ways that make these children function at the margin of our society.

The summary point to be made here is that both the quantity and quality of education that has been made available to such children represents a gain in the distribution of education in the last 15 years to a portion of the American school age population virtually untouched by the American public school in the previous 150 years. So that's one bright spot. Title I and its companion programs work, obviously not uniformly well, but work in cumulative and aggregate ways that are absolutely unprecedented in the history of the United States.

The second bright spot in this discourse is that in the last 10 years there has grown into existence a body of educational research literature called school effects which I describe in my prepared statement. This research has demonstrated over the last 10 years that there exists right now a very significant number of city schools throughout the United States in which the distribution of achievement is virtually independent of the distribution of social class. I am one of the researchers that have contributed to this work and I mention briefly some of the others in my prepared statement. What our work has shown is that we have been able to identify over the last 10 years public, nonexperimental city schools in which astronomical proportions of the black children demonstrated achievement and astronomical proportions of the low-income children demonstrated achievement and that this effect can be detected even when these schools are uniformly inner city, low income, minority. In other words, despite the accuracy of the observation that urban education is in crisis, it is still possible to point out that that doesn't have to be so. Since we have been able to both identify and describe city schools in which instructional effectiveness is distributed on a virtually uniform basis, it has allowed us to conclude that public schools as they presently exist have the financial capacity, the public policy capacity, the instructional capacity, to deliver demonstrable levels of academic achievement to virtually any portion of the pupil population to whom attention is paid.

There is some discussion in the paper of the characteristics that distinguish those schools from the rest and obviously that's important. The point is that while I'll have to join in the summary observation that urban education is relatively speaking a bleak circumstance, I do not have to join in the observation that it is uniformly so. It is important to point out that the existence of the schools to which I refer do give us the opportunity to describe with considerable specificity the conditions under which we can demonstrate the educability of school age children in the United States even if those children are going to a school that is a part of the depressed urban environment and even if those children are going to a school that is predominantly low income and predominantly minority.

Now the general context of that information is to put the question of what will be the effect of the President's urban policy on urban education in general and, most especially, on the record of accomplishment I describe with respect to title I and other federally funded programs, as well as the effect of that policy on the initiatives now getting underway throughout the United States to exploit what my colleagues and I have been reporting in the research literature as the characteristics of instructionally effective urban schools.

With respect to the general question of the effect of the President's policy, I ground these few remarks in the following two documents paid for by Federal funds, both of which were recently published by the Rand Corp. which as you know is often under contract to do this kind of analysis for the Federal Government.

The two particular documents to which I refer which are cited in the paper are "Educational Policy and the Role of the States" which is an analysis of the attention of State legislatures and State government to education in general and to education for special needs children in particular.

The second study, also by the Rand Corp., "The Aggregate Effects of Federal Education Programs" is a critique of the influence of all federally funded education programs in existence since the middle of the sixties. It is not only an analysis of the individual effects of those programs on the children that are eligible for the service; it is also an analysis of the extent to which the programs in their interaction with each other influence achievement for the kinds of children under discussion.

Finally, then, in terms of setting the stage for the few conclusions that I will offer in this matter is the following: The President's policy with respect to education is grounded in two important premises as to the nature of Government. No. 1, the President's policy is grounded in a commitment to the idea that education in the cities will work best as Federal participation diminishes and disappears. That is, the prospects for urban education are likely to be greatest under circumstances investing in the State government the greatest authority with respect to educational issues of public policy and a comparable authority with respect to local educational officials.

That is an unprecedented restoration of virtually unfettered local control if you regard the Federal participation in education of the last 15 years as having diminished local control. This local control issue is a critical part of the President's urban policy.

The second critical part is the belief that the principal instrument of deliverance for the cities in general and urban education in particular is a flourishing economy. Thus, if the economy thrives, then not only will a thriving economy benefit the general welfare such an economy will in particular benefit those children I referred to and who are referred to in the President's policy as special needs children.

All of this introductory data allows me to end this summary by saying there is absolutely no substantive, factual, historical basis for reaching such a conclusion for the following reasons: Our analysis of the role of State government in education establishes two facts incontestably. No. 1, State governments, whether with respect to the legislature or with respect to the executive, do not historically pay much attention to education in general.

Second, they pay no attention at all to children who are referred to as special needs. There is no reason on the basis of the historical record and neither is there any reason on the basis of present practice to predict that any increase, however modest, in State prerogatives with respect to education will accrue one bit to the benefit of precisely those children that have profited most from Federal participation in public education in the United States over the last 15 years. In fact, what the record shows is that in financial terms, in public policy terms, in legislative terms, and otherwise, the whole of the U.S. educational investment in children who function at the margin of our society derives from Federal initiative. In its absence, there is nothing in the basis of the present record or the past record to indicate that the State governments will do anything other than to revert to their preference to pretend either that such children do not exist or if they are attended to to dismiss them on the grounds that after all, since they constitute such a minority, that there is no real reason to attend to them.

Congressman Mitchell, I suspect that you understand as well as I do that the fundamental explanation of the failure of State governments in the United States to attend to children of special needs is because they are politically impotent. Local and State government is the most direct manifestation of majority politics in the United States and I applaud that. I do not hesitate to endorse the idea that local control of education is a virtue and that the general welfare profits from the dispersal of educational authority.

Special needs children are the exception to that phenomenon. The interests of special needs children are not served by the politics of the States of the United States. Neither are the needs of special children served by the local politics of the municipalities and school districts that describe the distribution of educational authority in the United States.

The urban policy proposed by the President will, if enacted in its proposal to give to State and local government untrammeled authority will not only interrupt the progress that has been made for these children in the last 15 years, it will preclude the possibility of even protecting the modest services presently available to such children.

The final issue on which I want to remark, has to do with the policy's focus on a thriving national economy as the premier instrument of urban revitalization and a healthy public school system in particular.

It isn't that we don't know what it's like for such children when the economy does thrive. After all, most of the time the American economy is relatively healthy and most of the time employment is a good deal higher than it is now and most of the time local and State governments have many more discretionary resources at their disposal than is presently the case.

Since we know a great deal about these matters, it permits us to ask the question, when the economy does thrive, to what extent does the public treasure accure to the benefit of special needs children? The answer is, it doesn't. There is no reason to believe that the combination of what is called the New Federalism and the combination of a revived economy will accrue to the benefit of these marginal children. Such a prediction either derives from a grotesque distortion of the record, a profound ignorance of the history of these matters, or a very callous indifference to the fact that when the economy is at its best State and local decisionmakers do not divert resources thus generated on behalf of those children who I hope are the focus of a good deal of this discussion.

While in general I can endorse the notion that there is some intrinsic virtue in local control, I can only endorse that idea in discussions of the general welfare because under conditions of the general welfare the American political system has been shown to adequately protect the interests of the preponderance of our people. But the history of these matters makes it amply clear that if the rights and the needs of children not represented by powerful political interests are left to the tender mercies of the distribution of political authority these children will be compelled to revert to their former position which was one of neglect and abuse and a denial to them of the most fundamental things to which they are entitled.

So I am, in sum, appalled at the implications of this policy and that distress on my part derives primarily from what present practice with respect to economics and government allows us to observe as well as the fact that the history of these matters ought to cause all Americans to be extremely angry and outraged at the idea that having demonstrated the educability of children who are handicapped and the educability of children who are minority and the educability of children who are low income, that we would now move in a direction that will undo the extraordinary gains that I think have been made over the last 15 years. Thank you.

[The prepared statement of Mr. Edmonds follows:]

PREPARED STATEMENT OF RONALD R. EDMONDS

It is my purpose to briefly explore the nature of American urban education in light of two bodies of information: "The President's National Urban Policy Report - 1982", and a number of research and evaluation studies that fix on policy and program issues discussed in the President's Report.

Urban education is in crisis. That of course comes as no surprise and is easily illustrated by the observation that the high school drop-out rate among low income students stands dangerously near 50%. That dangerous condition derives in large part from a cumulative academic deficit that describes most low income students beginning at about grade 4. The deficit accelerates over time and by the years of early adolescence persuades many low income students that they have no realistic prospects for satisfactory high school achievement.

I could of course go on with this grim recitation but it may be well to pause and note that the American experiment in mass education, whatever its failures, may be the most successful in recorded history. Among the mass societies of the modern world the United States is unrivaled in both the quality and quantity of schooling available to its school age children.

It is thus necessary to note that while American education does not equitably serve "special needs" children it serves more such children better than any nation of comparable size and demographic complexity.

My summary point is that while there is much that should be done in the name of educational equity we know what is needed to obtain what

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is wanted.

Now comes the question will the President's urban policy advance the educational gains obtained in the last quarter century especially for those children who are handicapped of color and from low income families.

The President's urban policy derives from certain important premises regarding government and its role in the lives of its citizens. Chief among those premises is the belief that the federal government should sharply reduce its participation in education. Of equal importance is the belief that a healthy economy is the single most important prerequisite to the revitalization of the American city. The policy thus derives from the vision that as the national economy improves local and state policy makers would become increasingly free to exclusively determine the form and direction of the public schools under their control.

I join with all other Americans in the hope that our economy will flourish. I also join in the general approval of local control of education. There are however important cautions to be noted on behalf of special needs children.

First even if the economy should flourish there is no basis for believing that the treasure thus generated will profit disadvantaged children. The Rand Corporation recently published federally funded studies of Educational Policy and the Role of the States and The Aggregate Effects of Federal Education Programs. These two studies describe the probable policy consequences of the President's focus on the economy and local control as the basis for advancing the educational interests of special needs children. The state governments of the

United States have never expressed a great interest in education in general and education for special needs children in particular. Even when their economies have flourished the states have never invested in the educational future of special needs children. There is thus no reason to believe that the politics of local and state government will protect or advance the interests of special needs children.

For example the President's policy proposes to reduce federal regulations governing local expenditure of federal funds in compensatory education. Local educators have historically complained about the burden of such regulations. In addition to the virtue of reduced paper work in federally funded education programs the lack of regulation could permit a more cohesive local approach to programs of instruction for special needs children. On the basis of the studies cited above there is no reason to believe that the absence of federal regulation will accrue to the benefit of special needs children. The evidence of present and past educator practice establishes that left to their own devices local and state educators will use their renewed discretion to ignore the educational interests of special needs children.

State and local educational policy derives from the politics of local and state governments. Such politics do not respond to the interests of those children whose spokespersons are not powerful parties to the politics of local and state government. Thus the diminution of federal regulation will be inequitable unless it reserves sufficient regulation to protect the interests of children served least well by the politics of local and state government.

The historical record does not justify the President's proposal to depend on the economy and local control to advance the educational interests of special needs children.

Since the middle of the 1960's special needs children have enjoyed an unprecedented advance in the quantity and quality of their schooling. The federal contribution to this phenomenon has been far greater than the federal funds invested in public schooling. The principal federal role has been to compel local and state policy makers to attend to a group of children to whom they had historically been indifferent. Title I is illustrative.

One of the unheralded accomplishments of Title I is the extent to which its funds have been focused on those intended by the Congress to be its beneficiaries.

The discussion that follows is intended to illustrate certain particular changes that could enhance the gains already made by Title I. The discussion is also intended to illustrate the necessity for continued federal regulation of Title I funds. Title I aid per pupil is approximately five times as great in low income school districts as in high income school districts. In fact, among the poorest school districts Title I support has approximated 30% of the total district budget even though Title I is less than 5% of the national K-12 educational expenditure. Excepting only that the Title I per pupil allocation has been tied to state average per pupil expenditure Title I funds have gone to the most needy and in the greatest amounts to those districts that have the greatest concentrations of low income children. The Title I allocation has been greatest for those cities whose states include high per pupil expenditure suburban school districts. This is so because the Title I district allocation rose and fell as a function of average statewide per pupil expenditure.

Despite these fluctuations in Title I's per pupil allocation it is still true that Title I serves only 66% of eligible students. The Congressional allocation has never been sufficient to serve 100% of the eligible students.

Eligibility begins with pupil family income as measured by a weighted formula that combines family AFDC eligibility and free lunch eligibility. These data determine the amount of Title I monies that are sent to a school. After the funds arrive at the school, their in-school distribution depends on levels of pupil achievement. Only pupils well below the district achievement norm are served by Title I funds. Modification of this limit could lead to much greater Title I efficacy since, at present, students least likely to be served by Title I are often precisely those students most likely to profit from being served by Title I. Low income children whose achievement is only slightly below the acceptable norm are denied Title I service, although such children if served would be most likely to rise to and above the norm. In the absence of any program of educational treatment, children who were marginal in their early years of schooling slip farther and farther behind eventually becoming eligible for Title I. By the time such eligibility occurs these students describe some of the most difficult and intractable instructional problems faced by compensatory education instructional strategies.

Longitudinal evaluative Title I data consistently demonstrate the instructional efficacy of Title I when three conditions obtain.

First, Title I programs are most likely to be effective in the early grades. Second, Title I programs are most likely to be effective when carefully organized and well administered. Finally, Title I programs are most likely to be effective when they do not use "pull out" and substitute in class, whole group, supplementary instructional services.

Furthermore, children participating in Title I programs that meet these three conditions tend to consistently show math and reading gains of at least one month for each month in the program. Children showing these gains do not lose them over the summer.

In sum, Title I is an instructionally effective program for eligible and needful children when organized and administered appropriately. Most instructional activities supported by Title I are consistent with prevailing practice in school districts throughout the United States. Title I is neither especially inventive nor is it experimental. Achievement variations across programs tends far more to be a function of organization and administration than differences in program materials or instructional strategy.

The President has already begun a reduction in Title I funding that will exacerbate the educational problems that derive from our failure to serve all children who are Title I eligible. This is also an instance in which increased local control will diminish the frequency with which Title I programs reflect the conditions under which Title I works best.

Instead of moving to deny more children access to Title I opportunities, the Congress should be planning how to make it an even greater instrument of educational improvement. A first step in this would be to alter the Title I funding formula so that per pupil Title I support does not rise and fall as a function of average statewide per pupil expenditure. As things now stand, poor children attending school in states with low per pupil expenditure are doubly penalized. First such children are penalized because statewide support for their schooling is below national norms. They are next penalized by the failure of Title I support to rise to levels that describe support for their peers in other states. Since all other financial aspects of Title I have a predistributive effect that favors poor children it seems needlessly contradictory to have the statewide average per pupil expenditure partially undo other deliberate financial effects of Title I.

Next, Congress should alter Title I eligibility to remove family income and social class as relevant variables in assessing pupil eligibility. Title I's major limitation as an instrument of instructional reform derives from the use of family characteristics as major determinants of pupil eligibility.

This preoccupation with family background derives from, and reinforces, the "familial effects" analysis of the interaction between pupil performance and family background. Such analysis concludes that how well children do in school depends principally on the nature of the family from which children come. Consistent with such analysis most Title I compensatory programs concentrate on altering children in ways that will teach them to learn in conformity to the school's perferred way to teach.

The limitation of this approach is its failure to alter the school environment against the possibility that pupil performance depends more on the character of the school than on the nature of the family. For so long as Title I derives from family background, Title I programs must imply that pupil disability derives from some familial limitation as contrasted to a school's inadequacy. Title I eligibility is a critical ingredient in this syndrome. Much better simply to make pupil progress as measured by standardized achievement tests the sole criterion for eligibility. Members of the House of Representatives proposed consideration of such a change as long ago as 1974 but NIE has consistently argued that the absence of a national testing program makes this proposal impractical.

However, since Title I would be strengthened by abandoning family background eligibility criteria, it makes sense to accept a state by state testing program. This is an instance in which a federal requirement for a state program would advance the local interest as well as the federal interest. The ideal basis for evaluating pupil achievement is a criterion based standardized measure of pupil performance. Some states already have such a testing program. Where they exist these programs are especially useful in evaluating the achievement of special needs students. Federal encouragement of this kind of testing would reinforce the federal focus on the children that are the focus of this discussion. The costs of such a testing program whether borne by state or federal government, are not dramatic. The change in Title I allocations would not be great but special needs children would be certain beneficiaries.

Further reform of Title I requires the guarantee that disparate instructional activities not consistent with the school's summary purposes not be introduced., Title I programs should conform to the school's mission, and should remain subject to the administrative and instructional personnel in the school. The effectiveness of administrative instructional leadership is a fundamental ingredient in school success and Title I programs should reinforce and reflect such leadership.

Finally, there is the irony in the Title I situation that academic progress for low-income children can jeopardize a district's allocation. All Title I legislation together with its administrative rules and regulations should be reviewed to permit Title I support for improving students to continue for at least two years following the initial year of improvement. Clearly such changes would have to be accompanied by funding formulae that did not prompt districts to support greviously deficient students while ignoring those of slight or marginal deficiency.

The most efficient way to solve this problem is to fund Title I at a level that would support service for 100% of Title I eligible students. A reduction in Title I funding will exaggerate the problem of failure to serve students who, with only modest service, could meet and exceed national standards of skills mastery.

The summary points of this discussion of Title I are as follows. Title I, despite its limitations, has been responsible for unprecedented academic gains for special needs children. Reducing its funding jeopardizes precisely those children for whom public education is the last best hope. The reduced funding for Title I exacerbates historic difficulties that have characterized the program. Diminished federal regulation of the program will also jeopardize its effectiveness unless specific safegaurds remain on behalf of Title I eligible children.

Title I illustrates the role of a particular program in advancing the equity interests of special needs children. The body of educational research known as school effects illustrates more general educational conditions under which the equity interests of special needs children are advanced. School effects researchers have both identified and described city schools in which dramatic proportions of low income children demonstrate satisfactory achievement.

I remarked earlier on a familial effects analysis of the origin of achievement. That was a reference to those educational researchers who have concluded that pupil achievement derives primarily from the nature of the family from which pupils come.

School effects researchers offer the alternative conclusion that pupil achievement derives primarily from the nature of the school to which children go. Educational researchers like Weber, Madden, Brookover and Lezotte have conducted studies that identify schools in which high proportions of students of all social classes demonstrate academic mastery. These are important studies partly because they describe aspects of urban education that are the basis for cautious optimism regarding the future of public schools in American cities. I want now through reference to my own work to illuminate the proposition that under certain conditions pupil acquisition of basic school skills can be made independent of pupil family background.

My colleagues and I at Harvard began in 1974 a research project that collected income, social class and family background data on children in elementary and intermediate schools in a number of urban districts throughout the United States. We followed our collection of income and social class data by collecting achievement data for the same children especially for grades three through seven. We analyzed the data in search of schools that had gone far toward abolishing the relationship between pupil achievement and family background. Such a school had to deliver basic school skills to the full range of its pupil population.

Our analysis of school effectiveness followed two steps. We first used our data on social class to assign each student to one of five social class subsets. Once having established, with great specificity, how many children in each grade were poor, middle class, and so on across the five social class subsets, we used our data on achievement to analyze the interaction between pupil achievement and pupil social class. By this means we found a number of elementary and intermediate schools that were academically effective with the full range of their pupil population.

Having identified these schools we set about to determine what else distinguished them from less successful schools. We maintained sufficient controls to be certain that if we did identify institutional differences it would be those institutional characteristics that accounted for the variation in achievement from school to school. There was, then, insufficient variation in the character of the pupil populations, the neighborhoods, or the circumstances under which the schools functioned to explain away dramatic achievement differences. Next, we paired the effective schools with ineffective schools and assigned observers to each of the pairs. The observers recorded various aspects of school life, with written instruments we designed for that purpose and then sent the data to us at the university. We then analyzed the descriptions of school life to see whether any set of characteristics consistently described the effective schools as contrasted to the ineffective schools. We concluded that five institutional characteristics consistently obtained in the effective schools and were absent in whole or in part in the ineffective schools.

Those five characteristics are: the style of leadership in the building; the instructional emphasis in the building; the climate of the school; the implied expectations derived from the teacher's behavior in the classroom; and finally the presence, use, and response to standardized instruments for measuring pupil progress. Schools that have those five characteristics all together and all at once consistently represented the population of effective schools.

These five characteristics are much more than research findings. They are in fact the basis of an instructional reform agenda that has been the guiding principle of New York City's "School Improvement Project." In its effort to translate educational research findings into day-by-day professional educator behavior, the Project has pioneered a new pedagogical context for the implementation of Title I imperatives. Together they present a formidable force for school improvement. The research, the know-how, and the funds are essential.

Our work was guided by three premises. First, that all the children in the New York City public schools are educable. Premise two is that the educability of the children derives far more from the nature of the school to which they are sent than from the nature of the family from which they come. The third and perhaps most important premise is that pupil acquisition of basic school skills is not determined by family background. It is the school response to family background that determines pupil performance.

Two points should be emphasized here. First, these references to pupil performance refer to math and reading skills as measured by pupil performance on standardized achievement tests. Such tests are of course only a basis for evaluating a school's minimum obligation. The focus on measurable minimums is merely meant to assert that school effectiveness precedes educational excellence. A second major point to be emphasized is that effective schools are not necessarily characterized by identical levels of achievement for the social class subsets that describe most urban schools.

My standard of effectiveness merely requires that the proportion of poor children obtaining minimum mastery approximate the proportion of middle class children obtaining minimum mastery. As a group middle class children may still outperform poor children as a group but no significant proportion of either group in an effective school will fail to obtain the prerequisites to successful access to the next level of schooling.

Evaluation of existing school practices was basic to the School Improvement Project. School liaisons were trained and assigned to the schools that are participating in the School Improvement Project. Their job is to guide the administrative and instructional personnel of the schools through an evaluation of the school's relative strength and weakness with respect to each of the characteristics to which I referred. The outcome of that examination is what we call the Needs Assessment Document. The documents have been prepared primarily by the liaison people but in close collaboration with a representative group who have been convened in each participating school.

Each document talks with some specificity about the relative strength and weakness of the instructional leadership in the building, the relative strength and weakness of the instructional emphasis of the building, the relative strength and weakness of the climate of the building and so on through all of the characteristics. These documents are then used as a basis for making decisions about what kind of technical assistance would bring the school the characteristics we wanted it to have. Bear in mind that the premise from which all this proceeds is that any school that has obtained the five characteristics all at once would begin to show improvement in skills acquisition for precisely that portion of the pupil population that ordinarily profits least from the way we approach teaching and learning in city schools.

For example, if the needs assessment shows the principal in the building is found wanting in some aspect of instructional leadership then the question is put "what might be done that would improve that principal's skills in the exercise of instructional leadership?" One of our very firm conclusions is that the principal of the school has to be the person to whom the instructional personnel look for instructional leadership. We know that one of the measures of instructional leadership is that the principal has to visit classes, systematically observe, and respond to the observations. Therefore, if we discover that the principal seldom does that, we would respond by assigning a person to work with the principal to teach what he or she might need to know in order to be a sophisticated and consistent evaluator of teacher performance in the classroom. If the needs assessment shows that the teachers are insecure about their use of achievement data, we might assign to the school a professor of measurement and say that we want the teachers to participate in seminars on interpreting assessment data or evaluating achievement outcomes. Or we might assign a curriculum person because we want teachers better trained in how one uses achievement data as a basis for program design and so on.

The point I'm trying to make is that this process of intervention does not alter per pupil expenditure, does not add in any permanent way to the resources with which the school works, does not reduce class size, and does not add to the repertoire of services that the school has to offer. The project merely sets out to help the school people see that there are ways to make better use of the resources already in the school.

The results have been both dramatic and unambiguous. Pupil performance on citywide, nationally normed, standardized tests of math and reading have dramatically improved each school year since 1978. The 1982 spring tests showed an aggregate performance in the New York City Public Schools in excess of national norms.

There are programs like the School Improvement Project now underway in numerous urban school systems throughout the country. Although different in their designs all such programs point to an increasing willingness of urban educators to assume responsibility for greater achievement for special needs children. These programs are all relatively new but they are a bright spot in the general discourse on urban education.

These programs are likely to be jeopardized by certain aspects of the President's urban policy. Educator interest in special needs students derives primarily from the federal focus on such students. The President's policy represents a dramatic decline in that focus. Title I funds remain the principal local investment in low income children and the federal funds have the effect of attracting local funds for such children. The President's policy will diminish both federal funds and local funds and their role in programs of school improvement. Federal policies and regulations require more local attention to special needs children than either state policy or local policy. The President's policy will permit state and local officials to virtually ignore special needs children and the history of these matters predicts that they will do precisely that.

I have not up to now mentioned the President's initiatives regarding tax support for private schools. That public policy posture reinforces the extent to which the urban policy under discussion will neither protect nor advance the interests of those children who have been the focus of my discussion.

The President's National Urban Policy Report for 1982 may offer a reasonable basis for contemplating matters of the General Welfare in the urban environment. I have felt compelled to focus on the extent to which the policy will not advance the particular welfare of those children who live at the margins of our social order.

We know now the means by which we can advance the educational interests of all of our children. I hope therefore that this discussion may focus some attention on the need to adapt all our policies to the equity interest of all our children.

Representative MITCHELL. That was an excellent statement. Ms. Jackson.

STATEMENT OF DEBORAH C. JACKSON, DEPUTY AREA MANAGER, HEALTH AND INCOME SECURITY RESEARCH AREA, ABT ASSOCIATES, CAMBRIDGE, MASS.

Ms. JACKSON. Thank you, Congressman Mitchell, I'm Deborah Jackson. I'm a deputy director of the Health and Income Security Research Area at ABT Associates and I'm very pleased that I have an opportunity to be here and comment on the health status of the urban poor.

The purpose of my presentation today is fourfold. First, I would like to document the progress that we have made over the past few decades in achieving social parity with respect to health status but to illustrate the gap that remains to be closed.

Second, I would like to document the importance that public programs have played in closing the gap that we have today.

Third, I would like to illustrate the importance of pursuing national cost containment strategies with respect to health care.

And finally, I would like to comment on some of the initiatives that are proposed by this administration to cite the ways in which they threaten to erode the progress we've made to date and to offer some suggestions for the kinds of incentives that we might want to build into our health care system that will not necessarily erode all this progress that we have made.

Americans today are healthier than at any other time in our history. As Mr. Edmonds has discussed with respect to education, we have in this area made great strides. There is no doubt that we have improved our knowledge about and our behavior toward the factors that affect our health status. We have greatly improved medical technology and ways to detect and treat disease. We have greatly improved the access of all people in this country to receiving health care. The benefits, however, have not been shared equally by all social and economic groups in this country.

Despite what many observers would choose to believe, there remains a great disparity between the health status of the poor, the nonpoor whites, and minorities in this country.

In my prepared statement, I submitted to you a rather detailed discussion of health status based on several commonly used indicators used in the health status research field. I would like at this time to just summarize those going through the key types of indicators and get on to more discussion about some of the initiatives that we're considering at this time.

Based on about six different categories of commonly used health status indicators, I would like to present you with the following information.

First, with respect to mortality and life expectancy, minority mortality is one-third higher than that of white mortality. Minorities are likely to die 5 years younger than their white counterparts in this country.

With respect to infants and maternal mortality, we are still one generation behind that of whites. In 1977, a black baby was twice as likely to die in its first year of life as a white baby. The infant mortality rate is a very interesting indicator of health status because it reflects a number of different factors. It reflects the health of the mother and it reflects the general environmental conditions. There are a number of different factors that have to do with whether or not a baby will survive during the first year of its life, so it's clearly a factor that reveals a number of disconcerting conditions that exist in our inner city areas today.

Representative MITCHELL. I'm sorry to do this. You heard the bells. There is a vote on an amendment dealing with a mandatory balanced budget. Could we take a 10-minute recess? We'll run over and take that vote and come right back.

Ms. JACKSON. Certainly. I'll mark my place.

[A brief recess was taken.]

Representative MITCHELL. I thank you for your indulgence and I think it's always proper and fitting that you learn a little bit about the wisdom of the Congress. The first vote was the Walker amendment to a bill to construct a monument to Franklin Delano Roosevelt. Mr. Walker's amendment would have held that the monument could not have been built until such time as there was a balanced budget. That was handily defeated and was followed immediately by the vote for the construction on the FDR monument. Keep faith.

Ms. Jackson, if you will resume now. Again, I apologize. Our lives are not our own.

Ms. JACKSON. OK. I left off having just presented some data on infant and maternal mortality rates.

Next is reproductive and genetic health. The minority birth rate in 1978 was 50 percent higher than the white birth rate. Minorities and the poor have higher rates of teenage pregnancy, out-of-wedlock pregnancy, venereal disease, mental retardation, and lower use rates of prenatal care.

With respect to acute and chronic disease conditions, while for most acute disease conditions the reported incidence rate is higher among nonminorities, there is no clear assumption here that that means that the conditions actually occur less among minorities. One reason for the low reporting rate that we suspect is that minorities simply use services at a later stage than do nonminorities. They wait until the disease has progressed to a more serious stage and at that point it is no longer considered a mild acute condition. So while there may be indeed a higher incidence of mild acute conditions among minorities, the reported incidence is lower and this, in fact, represents some interesting patterns with respect to how we use services and how nonminorities and persons with higher incomes use services.

With respect to chronic diseases, however, minorities are twice as likely to die from diseases like cirrhosis of the liver which is very much tied to nutritional deficiency and alcohol intake. Overall chronic conditions are much more prevalent among minorities than they are among nonminorities.

Accidents and injuries are reported less often by minorities than by whites, however the impact of accidents and injuries is greater for minorities and the poor. The impact is measured based on disability days and other indicators like that, how serious the accident or the injury was.

With respect to mental, dental, and preventive health, minorities are more likely than whites to be in public versus private psychiatric institutions, to be involuntarily committed, and to be clients at drug abuse centers. The disparity in dental service utilization is increasing and dental health remains one of the major areas of concern with respect to closing the gap.

Minorities have a higher number of missing and decayed teeth which is an indication of the unmet need for dental care. They, however, have a lower number of filled teeth which is an indicator of care having been received.

Minorities and the poor are also less likely than whites to receive pregnancy care, immunization and preventive checkups such as Pap smears, and other types of routine physical examinations.

Two conclusions can be drawn from the data that I have just presented. The first is that for both the poor and the nonpoor, whites and minorities, the investment of resources directed toward improving the Nation's health status has yielded positive results. Federal policy during the 1960's was specifically directed at redressing the health status inequities among minorities and the poor and we have indeed achieved success in this area. We have focused our resources at financing health care through medicare and medicaid and in turn have greatly improved access to care among these groups. By 1978 13 percent of poor persons had not seen a physician in the previous 2 years. This is compared to a figure of 28 percent in 1964, so clearly utilization has increased. Access has been improved.

Categorical programs such as family planning, teenage pregnancy, hypertension, have also yielded positive results with respect to the decline that we have seen in mortality rates, out-of-wedlock pregnancies, teenage pregnancies, and overall morbidity.

The second conclusion, however, is that based on the data that I have given you the gap remains large. The problem still exists and we still have health status problems to address with respect to the residents of our urban areas.

The question, however, that seems to be at the heart of current Federal policy is, but at what cost? Health care cost containment is and should be of central concern to this administration. Annual health care expenditures are nearly 10 percent of the Nation's gross national product, up from 5.2 percent 20 years ago. Expenditures are increasing at a rate of 10 percent annually. Federal expenditures for health care constitute nearly 10 percent of the Federal budget and collectively, Federal, State, and local government finance about 42 percent of all health care expenditures in this country, up from 25 percent a decade ago.

For the Federal Government, medicare and medicaid represent the single largest categories of expenditures; $56 billion were expended for those two programs in 1981. The figure has doubled since 1976. It is not surprising, therefore, that the administration tends to focus their efforts in terms of reducing Federal spending and budget deficits on controlling health care spending. Not surprising, but distressing, that many of the initiatives that are currently being considered are at the expense of the poor and the minorities, the residents of our urban areas.

Currently the President's urban policy report has presented changes in health and social service programs that will affect health care in two ways. The first is a transfer of responsibility for previously categorical programs into block grants which reduce Federal funding for these programs. And the second is the proposed transfer from States to the Federal Government of total responsibility of the medicaid program.

With respect to block grants, I won't go into a detailed discussion about some of the possible outcomes. Every single one of my previous colleagues here have cited for you the possible outcomes of block grant funding, and clearly with respect to health services there's no difference to be expected. It is very likely that minorities and the poor will suffer disproportionate losses when broader community concerns are considered at state and local levels than they would if these programs were continued to be funded under categorical funding.

With respect to medicaid, we've already made drastic changes in the program by repealing a number of previous requirements that now allow States greater freedom in limiting eligibility, reducing benefits, and also limiting the freedom of choice that recipients now have in selecting their provider.

We are now proposing a $15.2 billion cut in projected medicare and medicaid spending over the next 3 years. Of the cuts in the medicaid program, 60 percent of these will be achieved at the expense of the elderly poor. We are proposing to eliminate the medicaid part B buy-in requirement which will therefore return to States responsibility for covering certain categories of the elderly poor. We are proposing to allow States to put liens against the property of nursing home residents. In effect, what this does is transfer back to the beneficiaries responsibility for paying for their nursing home care. We are, in effect, going to increase the burden on the poor, people who are suffering from catastrophic, long-term illnesses which require nursing home care, and the elderly who are the principal residents of nursing homes.

With respect to the Federal Government's proposal to accept responsibility for medicaid, without further detail on how this program will be operationalized, it's hard to comment on what the effects will be, but there are two things I can say at this point.

One is that under medicaid's current structure the only requirement for States is that they cover persons who are eligible under AFDC. However, in 32 of the States additional coverage is provided for persons who are termed medically indigent. These are people who we call the near poor. They're not eligible for AFDC, but they are very much in need of assistance with respect to paying medical bills. Medical bills are often catastrophic, as we all know, and we have many persons who would in some circumstances be categorized as middle class, but faced with catastrophic illnesses they spend their income down to a level where they become medically indigent.

So, if the Federal Government does indeed take back control of medicaid, unless they provide benefits to this group as well, the States will either have to continue providing a supplemental program for the medically indigent, or these persons will no longer be eligible for assistance with respect to medical bills. We're hurting not only in this case the poor and minorities, but we will hurt many middle income families who become medically indigent when they are faced with catastrophic illnesses.

Second, the whole notion of federalizing medicaid may indeed have some positive outcomes. One of the problems we have faced with respect to medicaid is one that has been cited in many other areas, and that is that across States we see gross inequities with respect to how social service programs are treated. The poor in one State are not considered poor in another State and this applies to medicaid as well. You have people who are eligible in Arkansas who would not be eligible for care if they were in California.

Federalization may indeed address some of these inequities. Nonetheless, unless federalization raises benefits to the limit of the States that are providing care at the highest level, we will still see people in other States losing benefits. We can't at this point project what the effect will be until we see more detail, but these are two possibilities.

In effect, our new Federal policies will allow States to reduce benefits, will eliminate coverage for certain persons, and will increase the burden on the elderly and the poor for paying for their health care services.

Aside from the impact on people, one of the principal concerns, as Congressman Mitchell pointed out at the outset of this discussion, is for our cities as an entity, and there's a direct impact that these policies will have on cities. At this point within our cities the urban public hospital is the provider of last resort. That is, if you have nowhere else to go for care, if you cannot pay for care, you may go to a public hospital and receive care free of charge.

As unemployment increases, as we reduce benefits under medicaid, as categorical programs are eliminated because States are having to make choices between competing programs and therefore current services are no longer provided, the prevention that they're providing is no longer there, and the diseases that they are preventing increase, the number of persons seeking care in public hospitals is certainly going to increase.

At this point, the experience of public hospitals over the past 5 years provides a clear testimony to the fact that they are unable to provide the services that the demands on their resources are currently incurring. They cannot stay afloat given the current demands on their resources.

If you look at any of the major cities—New York, Philadelphia, Boston, St. Louis, Los Angeles, and the list goes on—our public hospitals are distressed. The response to this distressed situation is either one of two things. They close or they simply are unable to provide services, and in some cases they have been rescued by Federal demonstration funds.

With respect to closure, the burden is simply transferred elsewhere. In cases such as the Philadelphia instance, the public sector has contracted with the private hospitals to provide services. So we're still paying for the services. They're simply not being provided in the institution called the public hospital.

Demonstration funds provide only temporary relief. They offer the public hospital an opportunity to increase their operational efficiency but even the most efficient hospital will not be able to respond to the increased demands that we're surely going to see in the face of the new Federal initiatives which respect to paying for health care costs.

So what are the alternatives? Clearly, the first imperative is to address the inflationary cost of health care overall, rather than focusing our attention on ways to reduce expenditures and providing care for the poor. Unless we address the former, the only way that we will continue to achieve our goals of reducing health care expenditures will be to continue reducing the level of services we currently provide.

Much discussion has transpired in this Congress about different means of enacting competition in the health care sector, something that the health care sector is currently criticized as not having. I believe that this idea must be pursued and with respect to providing care for the poor, one possible way of pursuing the competition mode is through medicaid vouchers.

Vouchers are attractive for three reasons. The first one is that the recipient has an incentive to obtain care in a cost-effective way. If you have a voucher that is at a fixed dollar amount as your cost of care increases, your out-of-pocket cost increases. So there is an incentive there to look at competing plans and select the one that is not necessarily the cheapest but provides you the best buy, the best services for the least costs.

The second is that the recipient has freedom of choice. If you have a voucher you can take that voucher anywhere. And if you recall, one of the main principles on which medicaid legislation was passed was that we wanted to provide the poor access to mainstream medical care, not just to medical care at the fringe or to second-class care. Vouchers will also enable that.

The third is that this concept is consistent with current Federal policy initiatives to both deregulate and encourage competition. I've listed in my prepared statement some of the operational issues to consider in a medicaid voucher plan. I won't go into detail on those at this point but will take questions on them if they arise. You can refer to the prepared statement as well.

Second, I think that we need to encourage the HMO model and clearly using medicaid vouchers can be coupled with an HMO approach to achieve savings. HMO's have been shown to be effective in controlling costs. They provide an incentive to both the provider and the careseeker to obtain cost-effective care. In addition, HMO's will continue to encourage the kind of careseeking behavior that we'd like to see among minorities and the poor. Right now, as I mentioned earlier, persons who have lower income, lower educational levels, and minority persons tend to delay seeking care until the condition is at a very advanced stage. This behavior is more costly, both directly and indirectly. The person is now at a more advanced stage of illness and will require hospitalization and this could oftentimes be avoided if care were sought at an earlier stage.

Finally, there are administrative reasons why an HMO model would be effective with a voucher. The pool of eligibles under medicaid fluctuates as people's status changes, whether or not they're eligible for AFDC today or tomorrow, and this creates an administrative problem when you're dealing with third-party insurers. This would not administratively be a problem if the HMO model were coupled with the medicaid voucher approach.

My final recommendation is that in the spirit of this administration's policies to encourage participation of the private sector in responding to the Nation's social needs, the Federal Government must enforce compliance of Hill-Burton requirements from private hospitals. Under the Hill-Burton Construction Act, hospitals that received capital construction investments from the Federal Government entered into a contract, a bargain, which said that in return for receiving funds for capital investment they will provide free care to the medically indigent in their community. This requirement has not been enforced.

There has been debate about whether or not the States should enforce it, whether or not the Federal Government will continue to enforce it, and there have been lawsuits—there is currently a lawsuit pending by the AHA to reduce the level of compliance that will be required by these private hospitals. Again, it is imperative that we enforce compliance among private hospitals.

In 1981, 4,900 Hill-Burton hospitals would have provided 400 million dollars' worth of free care if they had been forced to comply with Hill-Burton requirements.

In summary, we still have a large gap to close with respect to the health status of the poor and minorities in this country and we have made great strides, and I would urge this Congress to consider alternative mechanisms that will achieve two things. They will reduce health care spending overall, contain inflation in our health care sector, but however we'll achieve those goals without putting the burden totally on the shoulders of the poor which is what it appears the outcome will be of the current initiatives that are being proposed. I thank you.

[The prepared statement of Ms. Jackson follows:]

Prepared Statement of Deborah C. Jackson

INTRODUCTION

Americans today are healthier than at any other time in our history. There is no doubt that over the past few decades we have achieved significant improvements in our nation's health status. We have made great strides in our knowledge about and behavior towards the factors affecting our health, in the development of medical technology to detect and treat disease, and in the provision of accessible medical care to the population. The benefits of these accomplishments, however, have not been equally shared by all social and economic groups in our society. Despite what many observers would choose to believe, the health status of the poor and of racial minorities remains far worse than that of the white and the non-poor in this country.

The purpose of my presentation is fourfold:

(1) To document the progress that has been made in achieving social parity in health status -- and to illustrate the gaps that remain to be closed;

(2) To document the importance and effectiveness of public sector programs in helping to redress these imbalances during the past generation;

(3) To illustrate the importance of pursuing national cost containment objectives as an essential component of any concerted policy to provide needed services to disadvantaged persons; and

(4) To identify some of the effects of incentives within the President's approach to cost containment, and to offer some suggestions about the types of cost containment mechanisms and incentives which will not erode the progress we have made as a society in providing needed services to our disadvantaged citizens.

Based on a set of commonly used indicators, the relative health status of minorities and the poor may be summarized as follows:

1. Mortality and Life Expectancy. Minority mortality (death rate) is one-third higher than white mortality. Minorities are likely to die about five years younger than whites.

2. Infant and Maternal Mortality. Infant and maternal health among minorities is still one generation behind that of whites. In 1977, a black baby was twice as likely to die in its first year of life as a white baby.

3. Reproductive and Genetic Health. The minority birth rate in 1978 was 50 percent higher than the white birth rate. Minorities and the poor have higher rates of teenage pregnancy, veneral disease, and mental retardation, and lower use rates of prenatal care. Almost 50,000 blacks suffer from sickle-cell anemia.

4. Acute and Chronic Disease Conditions. For acute disease incidence, the gap between minorities and whites is closing. However, chronic conditions are much more prevalent among minorities. Minorities are twice as likely to die from cirrhosis of the liver (tied to nutritional deficiency and alcohol intake), and the incidence is growing rapidly.

5. Accidents and Injuries. Accidents and injuries are reported less often by minorities than by whites. However, the impact of accidents and injuries (as shown by the accident death rate and days disabled due to injury) is greater for minorities and the poor.

6. Mental, Dental, and Preventive Health. Minorities are more likely than whites to be in public versus private psychiatric institutions, to be involuntarily committed, and to be clients at drug abuse centers. The disparity in dental service utilization is fast decreasing, but dental health remains closely tied to income and education. Minorities and the poor are less likely than whites to receive pregnancy care, immunizations, and preventive check-ups, and are more likely to have nutritional deficiencies.

Mortality Rates and Life Expectancy. The death rate of the U.S. population as a whole has been declining from 8.4 deaths per 1000 population in 1950, to 6.1 in 1980 (a 27.2 percent decrease). The rate of improvement has been greatest for black females. Nonetheless, for both males and females, blacks continue to have a higher mortality rate.

Non-whites are more likely to die younger than are whites. Life expectancy is 73.8 years for whites and 68.8 years for non-whites. This relationship holds true for both males and females. Life expectancy is lower for those with less income and education.

Infant and Maternal Mortality. The infant mortality rate is considered an important indicator of the health status of a population. The first year of an infant's life, on which the rate is based, is the period during which infant health is most influenced by the health of the mother and general conditions of the environment. Thus, the rate reflects the influence of factors which affect all age groups in the population.

Infant mortality rates in the United States have declined sharply since 1950. Although the rate is still high compared with some other industrialized nations it has decreased 47 percent from 1950 to 1977 (from 29.2 deaths per 1000 live births to 13). A great disparity still exists, however between white and minority infant mortality rates. In 1977, a black baby had a 90 percent greater chance of dying in his first year of life than did a white baby (25.1 deaths per 1000 compared to 13.3 for whites). There is also substantial variation in infant mortality rates of urban versus non-urban areas. Metropolitan areas have the highest infant mortality rates while suburban areas have the lowest. This pattern has remained stabled over a number of years, however, black infant mortality in central cities has not declined at the same pace as in other areas.

The factors causing infant mortality are complex, interrelated, and not fully understood. Infant mortality is strongly related to low birth weight, especially for non-whites, as is infant morbidity (illness). In 1977, the incidence of low-birth-weight babies was more than twice as high for black infants as it was for white infants -- 12.8 percent compared to 5.9 percent. The high rate of low-birth-weight babies appears to derive from a network of factors that are present disproportionately among minorities and the poor: high rates of teenage pregnancy, high rates of out-of-wedlock births, low educational levels, poor nutrition, smoking, high parity (number of children already borne), and poor medical and prenatal care. It is unclear whether race as a single factor has an independent effort on this outcome. However, it is clear that minorities and the poor face a greater risk given the associated factors.

Maternal mortality shows a trend similar to that of infant mortality: it has declined sharply for the population as a whole, as well as for whites and non-whites separately; however, the disparity between the two groups remains.

Abortion is no longer a leading cause of maternal death. The legalization of abortion was probably a major factor in reducing maternal mortality from this cause. Other family planning measures to prevent teenage pregnancy, out-of-wedlock births, and high parity have also contributed to reducing the disproportionate share of high-risk pregnancies and maternal mortality among non-whites.

Reproductive Health. Closely related to infant and maternal mortality is reproductive health. Minorities have a disproportionately higher share of reproductive health problems and a birth rate that is 55.6 percent higher than whites (for blacks only the rate is 52.1 percent higher). Birth rates for both groups have been declining in the last half of the century, however, the rate of decrease has been slower for minorities. Much of the differential in birth rates is attributed to a higher teenage fertility rate among minorities. These tend to be out-of-wedlock births which also occur at a higher rate among minorities and are directly related to the lower rates of contraception among minorities. The fact that minority women are also less likely to receive prenatal care clearly affects the high incidence of infant mortality, low-birth-weight babies and maternal mortality among this group.

Acute and Chronic Disease Conditions. The incidence of acute disease does not appear to have a straightforward relationship to race or income level. According to the Health Interview Survey (HIS), the incidence of reported acute conditions is higher for whites than non-whites, for each age, sex, and income level. Among whites, the highest incidence is reported by the highest income group, while among minorities, the highest incidence is reported by the lowest income group.

It appears that it is important to study mild and severe conditions separately. The HIS definition of an acute condition is one for which medical attention is sought and activity is restricted. This definition may lead to under reporting by low-income persons who may be less likely to seek medical attention for a mild condition. Treatment is delayed until later stages of disease more frequently among minorities than among the white population.

Of the leading causes of death, only pneumonia, influenza, and cirrhosis of the liver are classified as acute conditions, and these are closely tied to chronic factors. While minority mortality from pneumonia and influenza is decreasing sharply, the death rate is still 53 percent higher than for whites. However, the death rate from cirrhosis is growing, and primarily among minorities. Though in 1950 whites were likelier than minorities to die from cirrhosis, in 1976 the minority death rate was almost twice that of whites. Cirrhosis is commonly associated with alcohol intake, but its connection with poor nutrition is receiving increased attention. Some investigators feel that dietary deficiencies put minorities at greater risk of developing this disease.

Analysis of the leading chronic conditions also shows minorities to be far worse off. Heart disease, which caused almost 50 percent of all deaths in 1977, is more prevalent among minorities than among whites (245.2 deaths per 100,000 compared to 217.2 for whites), though the racial difference is slowly decreasing. Deaths from cancer, the second leading killer, increased from 1950 to 1977 by six percent. However, the decrease was smaller for Black females (1.6 percent) than for white females (9.3 percent). Stroke, the third largest killer, was responsible for 10 percent of all deaths in 1977. Most stroke deaths occur in persons over 65, however, early deaths (between the ages of 25 and 64) occur for blacks at a rate of 2.5 times that of whites.

Through minorities report lower rates of limitations from chronic conditions, their limitations are likely to be more severe. A more marked difference is found for low-income persons, who have three times the activity limitations of high-income persons.

Dental Health. Studies in dental health have shown a significant relationship between dental health status (the rate of tooth decay and peridontal disease for example) and income, education, and race. Minorities have historically had poorer dental health than whites. While the gap has narrowed in recent years, minorities are judged to need dental care at rates 50 percent higher than whites. Although the need for dental health care is higher among minorities, the utilization of dental services is significantly lower for minorities and low-income persons.

The number of decayed or missing teeth is an indication of an unmet need for dental care, while the number of filled teeth indicates the extent to which dental care has been obtained. For the poor, the average number of missing or decayed teeth per person for persons six through 17 years of age is significantly higher than for the nonpoor. The converse is true for the number of teeth filled. The poor have relatively fewer than the nonpoor. Although the need for dental care is higher, utilization of dental services is lower. The porportion of poor persons with no dental visits decreased from 62 percent to 49 percent from 1964 to 1978. For the non-poor, the decrease was from 41 to 33 percent. The differential in service utilization is decreasing, but not in proportion to the more serious need for services among the poor. The lack of availability and access (particularly financial access) to dental services in low-income neighborhoods is a major factor accounting for the differentials in dental health status and utilization.

Preventive Health. Minorities and the poor use preventive health services at a much lower rate than do non-minorities and higher income persons. For pregnancy care, minorities, the poor and low-educated are less likely to have a physician visit in the first trimester of pregnancy. For postnatal visits, there is no difference between whites and minorities, but the poor and low-educated are less likely to have such a visit. The poor and less educated are less likely to have other physical check-ups as well (for example, pap smears, eye exams, and routine physicals).

Minorities are less likely than whites to obtain immunizations. Furthermore, the rate of immunizations for minorities is decreasing with the greatest differential observed for polio vaccinations. With respect to nutrition which has a direct impact on one's health, minorities have dispro-proportionately higher rates of deficiencies for most vitamins and minerals.

Two conclusions can be drawn from these data. The first, is that for both the poor and the non-poor, whites and minorities the investment of resources directed towards improving the nation's health has yielded positive returns. Federal policy during the 1960's was specifically directed at redressing the health status inequities among minorities and the poor and we have achieved signs of success in this area. Resources directed at financing health care (specifically, Medicare and Medicaid) have greatly improved the poor's access to care. By 1978 only 13% of poor persons had not seen a physician in the previous two years compared to 28 percent in 1964. Categorical programs such as family planning, teenage pregnancy, sudden-infant death syndrome and hypertension have yielded reductions in infant and maternal mortality, teenage and out-of-wedlock pregnancies, and overall morbidity. We have clear signs of the positive impacts of these programs.

The second conclusion, however, is that for minorities and the poor, we still have a long way to go to close the gap that remains between their health status and that of their non-poor white counterparts. The questions that seems to be at the heart of current Federal policy is "But at what cost?"

Health care cost containment is and should be a central concern of this administration. Annual health care expenditures are nearly 10 percent of the nation's gross national product, up from 5.2 percent 20 years ago and expenditures are increasing at a rate of 10 percent annually. Federal expenditures for health care constitute nearly 10 percent of the Federal budget and collectively, Federal, state, and local government finance about 42 percent of all health care expenditures, up from 25 percent a decade ago. For the Federal government, expenditures for Medicare and Medicaid, which totalled $56 billion in 1981 represent the largest categories of health care expeditures. Furthermore the costs of these programs have risen at an alarming rate, more than doubling from 1976 to 1981.

It is not surprising therefore, that the Administrators should focus attention on reducing spending for health service and programs as part of its overall attempt to control Federal spending. Not surprising, but distressing that the impact of these efforts will most certainly be to reduce benefits that are so critically needed by the poor and the near-poor residing in urban areas. While many critics of the Medicaid program charge that increase in costs are due to providing services to the young and able-bodied and that exorbitant profits are being reaped by hospitals, physicians and nursing homes, the facts simply do not support this premise. Soaring Medicaid costs are not occurring because people receive too much care, nor because the government pays exorbitant rates for care. Medicaid costs are high in large part due to the increases in the numbers of eligibles under AFDC since 1965, the rise in medical prices generally and the growing numbers of impoverished aged and disabled populations. Children, the disabled and the elderly are the principal recipients of Medicaid benefits.

The President's Urban Policy Report has presented a plan for implementation of "New Federalism" policies. This plan will alter health programs and services in two ways; the transfer of responsibility to states for a variety of categorical health programs by combining these programs into blocks and reducing Federal funding levels; and the transfer from states to the Federal government of total responsibility for the Medicaid program.

It is most unlikely that conversion to block grant fundings will improve benefits to the poor. It is also doubtful that benefits will be maintained at levels currently provided for under the categorical programs. The trust fund strategy that the Federal government proposes for implementation of block grants allows total discretion on the part of the state's in allocating their trust fund allotments for the previously funded categorical programs or other programs as they so choose. There is a great risk that minorities and low-income persons will suffer disproportionate losses vis-a-vis broader community concerns.

Medicaid revisions of the current fiscal year repealed a number of program requirements thereby allowing states greater freedom in limiting eligibility, reducing benefits and limiting recipient freedom of choice in provider selection. Of the Medicaid portion of the $15.2 billion cut in projected Medicare and Medicaid spending over the next three years, 60 percent of the savings will be achieved at the expense of the poor elderly. Elimination of Medicare Part B "buy-in" will return to the states responsibility for covering certain categories of the elderly poor. If the states do not assume the burden, coverage for these persons will simply be eliminated. Allowing states to attach liens to the property of nursing home residents in effect reduces the benefit to the elderly poor or others facing catastrophic long-term illnesses. The effects of the administration's current proposal to assume full responsibility for Medicaid is difficult to project without greater detail regarding the operation of the program. On the face of it, however, having Federalization may improve benefits for poor persons in some states while reducing benefits in other states. Medicaid's current structure requires coverage for all persons covered under AFDC, however, thirty-two states provide additional coverage for medically needy persons who are not welfare recipients. If coverage under a fully Federal Medicaid program is limited to AFDC recipients, the burden will remain with these states to provide medical care for the near-poor and medically indigent, under a supplementary program, without the benefit of matching funds from the Federal government. Conversely, however, one problem with the current structure is the inequities of Medicaid coverage across states. As a result of variations in state eligibility requirements, persons who receive benefits in one state may not be eligible to receive benefits in another. Thus, currently, Medicaid does not cover all poor persons equally. Federalization of Medicaid may redress these inequities.

The net effects of the New Federalism policies on the urban poor will be to reduce services to targeted needy groups as trade-off decisions are made regarding the allocation of reduced block grant funds; to eliminate Medicaid coverage for certain categories of needy persons and to increase the burden on the poor, specifically the elderly, for absorbing the costs of receiving medical care. The impact on city health resources will be direct, the public municipal hospital is the provider of last resort for the uninsured person and increases in this population will lead directly to increases in the utilization of public hospital services. In cities with large urban poor populations, public hospitals provide about one-third of all inpatient care and one-half of all outpatient care delivered in the city. The users of public hospital services are predominantly the unemployed or persons employed in business that offer little or no health insurance, self-employed persons in marginal businesses, and illegal aliens. Most of these persons are not eligible for Medicaid.

The experience of public hospitals across the nation over the past five years presents a clear testimony to their inability to meet the demands on their resources and remain afloat. Public hospitals in many major cities, New York, Philadelphia, Boston, St. Louis, Los Angeles, and the list goes on, are "distressed." Many hospitals in these instances have either closed or been rescued by Federal demonstration funds. Demonstration funds have enabled public hospitals to improve operational efficiency but they can provide only temporary relief. Closures shift the burden elsewhere generally through municipal contracting with private hospitals. Declining municipal revenues, coupled with growth in the uninsured population resulting from unemployment and Medicaid restrictions will strain even the most efficiently operated public hospital. The solution is not provided by simply shifting, both directly and indirectly, the burden from one level of government to the next without effecting structural changes in our health care system.

What are the alternatives? Clearly, the first imperative is to address the inflationary cost of health care overall, rather than focusing on ways to reduce expenditures for providing health care to the poor. Unless we address the former, the only way we will achieve our budget control goals will be continued cuts in the level of service provided to the most needy.

Much discussions has transpired in the 97th Congress over the effectiveness of competition in the health care sector. The idea must be pursued; however, safeguards must be provided to assure that the poor are not excluded and relegated to receiving second-class care. Recall that a principal goal of Medicaid was integration of the poor into mainstream health care. A recent study by the Rand Corporation revealed that competition in health care does have its merits. In a study of physician location decisions, an area that has for so long been considered immune to traditional marketplace pressures, physicians did indeed shift away from areas with physician gluts to locate in relative shortage areas. This behavior, however, did not extend itself to areas predominantly populated by poor or uninsured persons -- that is inner-city urban areas. I offer several recommendations for consideration.

First, the use of Medicaid vouchers represents one alternative that warrants serious consideration. Whether Medicaid is ultimately administered by the Federal or state government, vouchers should be explored as a feature of any competition bill that may be ultimately passed by this Congress. Vouchers are attractive for several reasons:

- The recipient has an incentive to obtain care in the most cost-effective fashion (out-of-pocket expenditures increase as the cost of care increases).
- The recipient has freedom of choice, therefore access to mainstream health care.
- The concept is consistent with current Federal policy directions to deregulate and encourage competition.

Operational questions that must be addressed in designing a voucher system include:

- At what value will the voucher be set and will it be a fixed dollar value or proportional? Voucher values must at a minimum match current reimbursement rates for Medicaid or the poor will be no better off and providers will have less incentives to participate in the program.

- Who will the pool of beneficiaries be? The pool of Medicaid eligibles shifts as AFDC elibility changes, and as others shift in and out of the medically indigent category it faced with a catastrophic illness. If voucher validity is tied to a period of Medicaid eligibility, insurors may be reluctant to accept voucher recipients and the administrative task of monitoring eligibles as they attempt to receive care could be cumbersome and expensive.

- What safeguards and regulations will be features of a voucher plan in order to assure that beneficiaries are informed and protected against fraud and abuse when faced with selecting between competing, complex insurance plans.

An important consideration in design of new reimbursement vehicles, like vouchers, is the type of incentives they provide to providers and patients. Coupling vouchers with HMO enrollment for the poor would seems to promise progress in <u>both</u> cost containment and more effective delivery of services. Several reasons include:

- Some forms of HMO's have been shown to be effective in controlling health costs -- they provide an incentive to providers to make prudent choices about the types of care they recommend for patients.

- By encouraging financing approaches which require patients to access all forms of care through a single organized care setting like an HMO, the care seeking behaviors of the poor will be improved. HMO's encourage the use of preventive care and continuity of receiving care.

- Administratively, the HMO model which circumvents the use of other third-party payors provides a manageable structure for providing care to a population that fluctuates because of eligibility changes. The use of an effectively designed MIS can provide immediate retrieval of eligibility status information.

Finally, in the spirit of the Administration's policies to encourage participation of the private sector in responding to the nation's social needs, private hospitals must be required to accept their responsibility for providing medical care for the poor. Under the Hill-Burton Hospital Construction Act, hospitals receiving grants for capital investment are required to provide free care to the indigent in their community, based on three percent of the facility's operation cost or 10 percent of the amount of Federal assistance. The responsibility for monitoring and enforcement of Hill-Burton requirements is currently vested with the Federal Bureau of Health Facilities.

The future of Hill-Burton is now in question and, at a minimum, it is taking a step backwards. DHHS is considering proposals to modify or eliminate the Federal role in enforcement of this requirement. The Bureau of Health Facilities Conversion and Compliance (BHFCC) has proposed options that include ending Federal enforcement of the Hill-Burton compliance requirement, ending Federal oversight of state enforcement, and acquiescence to demands of pending lawsuits by the American Hospital Association. BHF's position is that they have enforcement responsibility without the necessary resources to implement them.

Returning responsibility to the states, however, offers no solution to the problem, especially if Federal oversight is removed. Past performance is evidence of states' inability to enforce the regulations. This is further evidenced by the fact that under 1979 amendments, states had the option of assuming primary authority for Hill-Burton in a cooperative arrangement with BHF oversight. Only four states (South Dakota, California, Minnesota, and Ohio) chose to contract with DHHS to take over the responsibility for Hill-Burton programs. "Responsibility without resources" will simply be shifted from BHF to the states with all too predictable results.

Private hospitals will continue non-compliance, thereby increasing the burden on the public hospital. The magnitude of the loss of Hill-Burton care is substantial. In 1981, 4,900 Hill-Burton hospitals would provide nearly $400 million worth of free care.

In summary, this presentation has attempted to provide an overview of the health status of the urban Americans -- the poor and minorities. The picture has improved but we have a long way to go before we achieve parity in health status between whites and minorities, the poor and the non-poor. The overall effects of many of this administration's policies on health services and programs may be to allow state's to elect to reduce benefits to the poor, and increase the burden on local municipalities to absorb the costs of being the provider of last resort. If our goal is to contain health care spending as one means of reducing our budget deficits, we must address the problems of our health care system not just the costs of caring for the poor. This administration has abandoned regulation as a suitable vehicle. The competition model has many advocates and warrants serious consideration with appropriately designed mechanisms to safeguard the needs of the poor.

Representative MITCHELL. I thank you. I've learned so much in these hearings. Mr. Sternlieb.

STATEMENT OF GEORGE STERNLIEB, DIRECTOR, CENTER FOR URBAN POLICY RESEARCH, RUTGERS UNIVERSITY, NEW BRUNSWICK, N.J.

Mr. STERNLIEB. Thank you very much, Congressman. It's a great privilege to be present here.

I have presented a prepared statement together with a more detailed paper which I assume will go into the record and I am not going to replicate them. Let me make my remarks as brief as possible because I look forward to my colleague, Mr. Clay, who I've known for many, many years, and the comments which he will be making.

So, without more ado, first, What is the function of the President's Urban Policy Report? As I understand both the report and the original enabling legislation, it is essentially a road map. The concept of this road map, in common with a good many others, is to tell you, one, where you are; two, where you would like to get to; and three, to give you some reasonable routing to cover the gap with a minimum level of pain and strain between the here and now and the anticipated future.

I would suggest within that conceptual apparatus it is a very faulty document. Its description of where we are now is a description which looks much more at the sins of the past in terms of government funding, in terms of particularism, in terms of interference from above which didn't make a lot of sense to the people who were supposed to use the program.

It does not look at the realities of now in which we have paid a rather substantial price for experience. We are far higher on the learning curve than was once the case, but it rather turns away to look at the horror tales of yesteryear.

A fair amount of space, for example, is given to these sins of urban renewal. While I certainly would defer to Martin Anderson's thesis on urban renewal—we shared offices while he was writing it—which is a 20-year-old document and it's time we laid that particular ghost to rest.

It is grossly inadequate in terms of where we are going, even if you accept the goal structure of the routing.

First, on the economic base of cities, the document indicates that we are in a rapidly changing economy. Many of our cities basically are not European cities nor cities of government, but rather they are the cities of business. They arose in the era of manufacturing. One doesn't have to go very far into the Midwest or to my own section of the country to discover that manufacturing is no longer a growth activity in the United States as a whole and certainly not within cities. One can accept that.

The issue, however, of how do you get to the new city of tomorrow is not covered. How do you generate the postindustrial functions? How do you incorporate the people who are trapped in cities, our last generation of agricultural migrants. And remember, a generation ago we had the largest migration off the land in the history of the world. It is those people, and the children of those people, who went to the land of opportunity, just as their predecessors had. The land of opportunity was cities.

The issue of the moment is not how to reinvent the city of 1910. The issue, rather, is to match the city that we could achieve in 1990 and the year 2000 with the people and the children of the people who presently are in cities to once again create opportunity. Those tools simply are not there.

In terms of the rising-tide-floats-all-boats thesis, again, that is a statement which is a generation old. It was made by one of America's most promising Presidents. We all know that. But we have also had 20 years of experience and we know that the rising tide may float a good many boats, but there are some boats that have holes in their bottoms. There are some boats that are adapted to a previous age. And the issue which is not faced up to is that once we secure that rising tide, which is a necessary but not sufficient condition, that all the boats will be properly affected. It's not there.

In terms of infrastructure, the document points to the fact that what we are seeing is the end of decades of delayed maintenance. It is a delayed maintenance which I'm sure has been of enormous importance to people who make springs for automobiles. It has been a terrible detriment, let's face it, to our older areas and some of our new ones as well.

The phrasing of let everybody use their own resources to provide for these infrastructural requirements—after all, that's what freedom of choice is about—says to the fat man, you can reduce, and tells the skinny guy, you can shrink.

The turn to the CDBG as a sort of cornucopia is practically a baroque incongruity if you look at the realities of the asking budget. We have now turned to the CDBG for roughly 300 percent of its contents. It is the universal solvent of all those who do not want to face reality. It ain't there.

I think one of the elements which certainly was crucial to the success of Mr. Reagan as a candidate for the Presidency and, in turn, engendered his constituency—we always rally around the new President, we're all Americans—one of those principal elements was the concept of the safety net, and if I can merely add a very brief word to the details that previous speakers have made, the safety net simply is not there.

Let me turn further to some examples of this. The document accepts the concept that many of our cities are going to shrink and certainly this would be an extension of the current wisdom. Once again, however, the road map is faulty. Where are the elements to provide for mobility? We have nothing in the nature of an admittedly abortive program, an imperfect program—but once again, a decade ago, a Republican program—for example, of a guaranteed minimum income for families. Instead, we still have the local secularism of local unemployment. You can't leave that lifeline, of local welfare. You're terrified. Suppose you do go to the Sun Belt. What happens if you can't get back on welfare, if it doesn't work out? We have immobilized our population in central cities on the one hand in this document, and on the other hand, we recommend mobility. You can't have it both ways.

There is no closing of the loop. There is no provision for the road from here to there.

The issue which is raised of State aid as a surrogate for Federal implementation and Federal support again has been touched on very heavily in your hearings. I can only further report some of the erring on the side of abstract numbers which turn away from a functional reality. That was a very esoteric kind of description. Let me bring it down to Earth for a moment.

In the document Newark is indicated as getting someplace in the order of 6 percent of its total budget from the Federal Government. The reality is that 60 percent of Newark's total spending comes from the State and Federal Government. The bulk of the State provision comes strictly with the State acting as a conduit for Federal funding. Because of CAP's and the like, we have a good deal of the budget—the nominal operating budget—expenditures. This is not unique to Newark. In either my prepared statement or the attached paper we have looked at what we call the genus of intergovernmental cities, the cities of dependency. This is characteristic now of somewhere in the order of 25 to 30 percent of all of America's major cities.

Now, when the report says we should get away from this dependency—that's the goal—but the failure to understand where we are, which is highly dependent, that's the reality. How do we bridge the gap between the here and now—for the moment even accepting the administration's own desired goals—how do we get to them without going out of business? That's not in the document.

Turning to annexation, as an example of what State programing or State options are, again, flies in the face of 100 years of history. In the Northeast, unlike the Southwest, we have rain, so we no longer or are not in a position to annex our suburbs by saying that we're not going to give them any water. The water empires, if you will, of the Southwest are a unique genus. And certainly, again, at the risk of using harsh language, this seems to me to be a most blatant wiggling off the stick of reality.

This is not a document for propaganda. This is a road map for public policy and it fails in this regard.

There is an enormous incongruity between the realities of the Federal asking budget and the rhetoric of the document. One can turn, for example, very simply to the housing issue. We have recently had one in a long series of Presidential commissions on housing costs and, as we all know, this is a very crucial issue of our time.

At the same time, within this document, we have an endorsement of user charges citing with approval the case of the California community that charges a front-end loaded cost of $3,000 per bedroom for school erection. You can't get it both ways. In my own area we now have sewer hookup charges of $5,000 a unit. Well, if you're going to have a sewer charge and if you're going to have a water charge which is what we're going to have with the reduction of the 208 funding and the like, we're going to end front loading housing so only a thin strata of the rich—to say nothing of excluding the middle class and the poor—are going to be able to afford anything representative of housing in the past.

There is special pleading presented here which is enormously incongruous with the administration's own rhetoric elsewhere, certainly in the Presidential Commission's Report, and similarly, at the other end of the stick, in the budget procedure.

I could go on at some length here and turn to the crime issue. We are all against crime. With no exceptions that I can think of, practically all Americans are against crime, and so is this document. The particular tools for the moment which are advocated here let us assume are appropriate tools. They involve a much higher level of institutionalization of offenders. Where is the wherewithal to house those offenders and the like?

I cite this as merely one of a rather startling number of incongruities within the document.

A last word. The United States, unlike our principal competitors, Germany and Japan, has had an enormous growth in the size of the labor force. In the decade of the 1970's, for example, the American labor force grew by 25 percent. The German labor force actually went down. They just sent the guest workers home when things weren't good. Japan's growth of labor force was a third of ours. One of the startling achievements of the 1970's, perhaps costly in terms of productivity, perhaps costly in terms of inflation, was that we were able to absorb a unique increment, the largest increment in labor force in our entire history, in one fell swoop, and we did a pretty good job of it.

Now we did a good job but squeezed to the side what impacted minorities. Certainly the talented tenth became the happy or nearly happy 30 or 40 percent, but stuck in our central cities, no longer a land of opportunity, were a great many people who did not get on the train.

The realities of American demographics are such that the baby boom has been succeeded by the baby bust. The same phenomenon that emptied out so many of our grammar schools, our high schools, that is beginning to impact our colleges, will soon impact the accession rate into the labor force. By 1985 the number of people turning 18 to 20, the prime age level, will be down by 20 percent. The redundant youth, largely concentrated in our central cities who have never been able to get on the train, now will become a necessary national resource.

One of the issues of our time is whether this is going to be a resource? Or essentially have we left the central city and its occupants in such a state of dependency, such a state of no-growth, such a state of not providing all of the discipline and training and opportunity of jobs, so that when we do turn to these people—not because we love them and not because we love cities, but because we have a national necessity—will they be a resource? Or do we have a situation which will continue the two nations that have arisen over time?

And if I were to indict this document on any one major thrust, it is this failure to understand the long line trends of American development and the role of the cities and the people that are within them, within those long line trends. Thank you.

[The prepared statement of Mr. Sternlieb, together with the paper referred to, follows:]

Prepared Statement of George Sternlieb

Introduction

The Report has a number of criticisms of previous federal government aid to cities which have long been needed. The growth of rule and regulation from above has proven to be wasteful in time and resource. The basic reforms proposed in concept have much to commend them -- particularly the observation that detailed decisionmaking should be as close to the scene as possible. What is missing however, is a detailed routing of how we get from our present relationships to a more responsive, and hopefully more appropriate, future.

1. The Changing Economic Base of Our Major Cities

The Report recognizes that both on the national scene and even more so in our cities, the economic base of yesteryear is not that of today, nor certainly that of tomorrow. The relative stagnancy of manufacturing and its absolute decline within major municipalities is a harsh reality. But the tools proposed to aid cities -- and even more importantly the people within them -- of making the conversion to tomorrow's needs and potentials are lacking. The Enterprise Zone, the principal initiative -- is at best a barely outlined trial effort.

The report for the first time endorses the UDAG concept (and it is most striking to note that the same English economic development advisors responsible for the concept of the Enterprise Zone are now going full steam toward the development of an equivalent English UDAG) but the realities of the asking budget suggest that this is much more a verbalization than a fiscal strengthening. Indeed throughout there is a very substantial incongruity between the rhetoric of the report and the realities of the budget in areas such as job training and the provision of infrastructure.

2. The Improvement of the National Economy

There is no question that without a stable growing national economy, the realities of cities must worsen, but improvement in the national economy in and of itself, is a necessary, but not sufficient tool to address the realities of growing urban decay.

3. Infrastructure and the Role of the Federal Government

The great weakness of the Enterprise Zone concept -- among others -- is the failure to provide front-end money. And this applies not only to support new firms, but also to provide infrastructure. The report as presented turns to CDBG. But at best the funds incorporated within the latter are inadequate. However, one finds it continuously used as an escape hatch for federal inaction. This flies in the face of America's history. Without direct federal intervention and infrastructure Arizona would still be a desert, Los Angeles, a sun-stricken small community sweating out its water policy in every draught season.

At its simplest, the range of perspective on the future grows shorter and shorter as we go down to the local level of government. The future does not vote locally. One of the most important roles of the national government in an increasingly harsh world economy is to establish national priorities of accomplishment -- not of methodology alone -- but rather of substantive reality. This does not deny the validity of the critical analysis of previous programs. But the sins of the past are only one dimension toward shaping our futures.

4. Where is the Safety Net?

One of the most important elements of the Administration's pre and post election pledges, has been the concept of the safety net, i.e. while there may be reductions in certain forms of wasteful, social spending, there is a clear-cut safety net of services and support for the needy. The very reason for the New Deal is not, as suggested in the Report, a sudden softening of the Supreme Court, but rather a national concensus on the necessity to impose national order and national priority.

Certainly our present economic plight strongly suggests that this is still a live requirement. The sheer wastefulness of unemployment levels, particularly among urban minority youth, requires very specific targeting. These are not momentary issues, but rather may impact a lifetime -- making it either a positive contribution both to the individual involved as well as to the national economy -- or a continuous detriment. There is little in the Report which faces this reality.

5. Mobility

The changing economic realities of America have been accompanied by alterations in areal growth sectors. The report endorses mobility and I certainly would second this -- but where are the complements to make this feasible? The relocation support, the nationalization of welfare and unemployment benefits? Certainly the latter two are far from easily achieved but they are none the less essential.

6. The Issue of State Aid as a Surrogate for the Federal Government

Much of the nominal increase in state aid to municipalities are federal funds utilizing the states as conduits. With few exceptions, there are few states that are running substantial surpluses. (Data on this point are deceptive incorporating as they do pension payments which are earmarked for future dispersement.) Thus the role of the federal government in terms of current municipal expenditures is vastly understated by the report. Table 4-2 for example indicates that Newark receives only 6 - 1/2 percent of its total city revenues through federal aid. The reality is that approximately 60 percent of its revenues are secured through the state and federal government with the former very substantially acting as a conduit for the latter. Budget caps on municipalities have created a necessity for providing much of these funds outside of the regular budget -- but they are indeed central to the operations of the community.

7. Annexation As the Answer

The concept of getting the "lamb" of the suburbs to lie down with the "lion" of the central city is a very old one. Secretary Romney tried desperately to promulgate the idea of "the real city". The report as presented suggests that first this is a potential cure for the city's fiscal ills and secondly, suggests further that it is a state option and responsibility. Anyone looking at the crumbling of many of the older suburbs around our most impacted central cities can see the weakness of the first argument. The failure to provide some carrots to states in order to foster this approach is equally clear-cut. Should this have been an alternative that was vigorously promoted generations ago? Certainly! But one cannot reverse historical fact. The report puts the federal government in the role of washing its hands of the issue. This is a completely inadequate response.

8. Housing

There is a monumental down shift in the national priority given housing. And indeed the level of housing starts has shrunken to a level which has alarmed the Administration. Yet at one and the same time we have task force after task force bewailing housing costs and an endorsement of front-end loading of local user charges and capital costs projections for housing construction. Thus the Report endorses a $3,000 per bedroom charge in one California municipality for school construction. Sewer hook-up fees are running as high as $5,000 in some jurisdictions.

This may make some level of abstract economists' sense -- it flies in the face of the market realities. Its end result will make the housing standards which have been one of the great American post-World War II achievements a vision of things past -- leaving new housing as an abode strictly for the rich -- and of a small proportion even of them. The Administration has not sorted out its priorities appropriately.

9. Crime

A somewhat similar contradiction lies in the area of crime. On the one hand, we have the Administration endorsing much more vigorous sentencing, reductions in paroles and the like. On the other hand, there is no provision for support for local communities in terms of providing physical accommodations for the increased numbers of prisoners.

While certainly harsh criticism can and should be leveled at some of the excesses of previous federal programs, the necessity is much more for reform and reinvigoration, as well as the input of the new federalism which provides the maximum level of local option. But this must be within a context of overall practical shaping and targeting. It is this element which is most lacking -- and which must be incorporated into the future political economic realities of America, both on the urban and non-urban scene.

GROWTH AND CHARACTERISTICS OF THE TRANSFER-DEPENDENT, INTERGOVERNMENTAL CITY

(Submitted in concert with testimony before the Joint Economic Committee, Congress of the United States, on the National Urban Policy Report)

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OVERVIEW

The process of painful review of urban fiscal and service strategies is now underway; the level of guides available, however, are all too inadequate for what gives every evidence of being a long, drawn out effort. The procedures of accommodating growth have long dominated the learned literature -- but have often proven to be elusive in practice. No-growth, and even more so, decline are mysterious and difficult terrain.

To a very substantial degree, however, one does not have to invent the future. The observations incorporated in this paper indicate that the reshaping processes are already at work. What is evident from both the secondary data, as well as conversations with municipal administrators, is that over a period of time what conventional accounting wisdom viewed as variable costs, i.e. associated with specific caseload and the like, growing with the latter and retreating with it as well, had become largely entrenched in the municipal fabric. In part, this process was fortified by unionization, by civil service, and perhaps even more noticeably, by habit.

Encouraged and nurtured by transfer payments, the municipal budget burgeoned even while the physical reality of cities tended to decline, particularly in terms of population. The selective migration from central cities meant that own-source revenues, which were largely linked to resident wealth and spending power, also tended to shrink. At the same time, however, the burdens of poverty have remained, if not in absolute numerical growth, than certainly as a proportion of total.

This situation led to the growth and presence of a special class of cities in the United States. These cities have become dependent upon a variety of revenues, primarily from federal and state governments, to support an array of local public services which were basic to the needs of their citizens.

The term used to describe this category of cities is "intergovernmental." Intergovernmental cities are those locations where revenue raising is substantially shared by multiple levels of government. Direct revenue transfers are made from state and federal governments to the general fund of local governments to augment insufficient revenues. Further, indirect revenues flow to the residents of these cities and then to local economic entities in the form of social security, unemployment, food stamp payments, etc., which further bolster the economies of these geographic areas.

A strong case can be made that the flow of external funds may well have been a mixed blessing. On the one hand, in many cases, it addressed -- in a most useful fashion -- immediate problems of the municipalities. On the other hand, however, in a much less salubrious way, it encouraged a weight of staffing and of bureaucratic overhead which may have yielded little in the way of effective throughput, while raising the overall ambient costs of municipal services.

To quote Samuel Johnson in his well-known phrase "There's nothing like the sight of a noose to concentrate one's thinking", the rumblings of potential reduction, if not in the absolute level, then in the growth of transfer payments, has long been heard. The sad example of New York City's fiscal crisis has sharpened the focus of municipal administrators. In turn, there has been a significant effort to reduce costs both in operations secured by own-source funds as well as those underwritten by transfers.

The long-term impact of these elements upon the ecology of municipalities is still far from evident. In many cases, significant cutbacks in expenditure and staffing have yet to result in much in the way of noticeable loss of service and amenity. There is some indication however, that this has been accomplished at the cost of longer term maintenance and reconstruction.

In general, the intergovernmental cities are older and their physical plants suffer from all of the geriatric deseases. User charges have been inadequate and now in several cases, the very user base has been attenuated. While not directly in our study, a principal prototype would be the New York City mass transit system, put into operation for a city of 8 million people, projected to encompass 9 million -- and now supported by a base of only 7 million residents -- and that shrinking!

The more complex the infrastructure, the more costly and demanding are both the operating and maintenance charges associated with it. To use the biological analogy, the more specialized an organism may be, the more sophisticated and highly adapted its life patterns -- the more vulnerable it is to major changes in its context. Within that concept, there evidently is a much greater level of adaptation available to newer cities, predicated upon the technology of the present rather than the past, with much less in the way of antique infrastructure -- and perhaps even more strikingly, of antique patterns of behavior and operation.

Intergovernmental cities now must learn to live with markedly less. The problems of attrition in own-source revenues would be difficult enough to encompass much less the major downward step functions as transfer payments are cut. Non-intergovernmental cities on the other hand, in general, have much more modest patterns of total expenditure. Further, more of it is dedicated to current and future need. They represent, at least in part, the advantage of coming last, carrying with them much less of the burden of things past. By offering a much more privatized, atomized, and in some cases reduced set of services, they are not quite so vulnerable to City Hall's functioning and vigor for their futures.

But what is the future of these agglomerations of people and functions in the levels of concentration which we call cities? It is evident that the more blessed among the municipalities discussed here are those which have generated a meaningful, post-industrial level of competence and pulling power; cities whose functions no longer depend upon manufacturing, but rather on information processing or face-to-face contact. The least fortunate are those dependent upon the relatively perilous areas of blue-collar employment which is fast shrinking. But even in the former case, clearly what has evolved is a city within a city phenomenon: a relatively small core dominated by office buildings and central city hotels sometimes coupled with major entertainment and recreational elements. In very large part, the differentiation as we view it in the future between the city of dependency and the city as a relative independent entity lies within the relationship of the pulling power and potency of tax base generated by its post-industrial sectors versus the levels of expenditure and frictions engended by its older "conventional" sectors. And once again, both of these must be viewed within the pattern of service delivery costs and infrastructure requirements that are a function of history and habit.

In retrospect, the fiscal crisis of New York City marked a turning point in the perception of municipal finance. While part of the lesson was obscured by the panic driven levels of coping with inflation, and further muted by the last flows of new transfer payments a la CETA and countercyclical measures which were introduced to the central city, the new calculus of relationships with municipal employees became evident.

The requirements of cutting fiscal expenditures to meet a largely municipally self-derived purse is well underway. The issues are not merely what services should the city provide but also how they are to be provided. While the utilization of private vendors is still much more discussed than implemented, certainly a very substantial beginning has been made in using external sources of public services. This in turn, has significance both in light of potential and direct cost savings, and perhaps even more so, as a yardstick of performance for those directly provided and administered by the city.

But this is the more positive side of the coin. The issues of how do we get from the present day to a more efficient and realistic future for the intergovernmental city presents some ominous elements. Clearly much will be required in the way of state alleviation. Continuous reordering of function and division of responsibilities, not only with the state house but also with the federal government will be essential as well.

As of this writing, the financial exigencies required by reindustrialization clearly have national priority. Once these hopefully have been attained, given a reduction of inflation and basic interest rates, a time for consolidation of central cities and a measured restoration of essential infrastructure, should be forthcoming.

But these measures must be viewed within the context of a substantial reduction in function for all but a very few of the cities in question. While certainly new growth should be supported wherever possible, the first order of priority must be stabilization and a careful reappraisal by municipal leaders of the services that they are offering, levels of priority that should be accorded them, and wherever possible, the restoration of self-generated revenues.

The remerchandizing of the cities, will involve drastic reappraisal of user fees and internal investment procedures commensurate with the multipliers of growth and reinvigoration. Balancing these new priorities with the sustenance requirements of the poor and the helpless, of sustaining the basic safety net at the same time, will require leadership, flexibility, and, some measure of outside support as well.

The discussion which ensues describes the economic, social and fiscal fabric of transfer-dependent cities. In addition, there is documentation on both the growth and the beginnings of dismantling of fiscal dependence in these cities. Throughout the discussion comparisons are made between the condition of fiscally-dependent cities and other large cities which are not tied to other levels of government for revenue support. The results of these comparisons show a class of cities in the United States which by all standards are economically, socially, and fiscally fragile. It is in just these cities that federal assistance cutbacks are taking place. And while in most instances these cities have been able to pare down their municipal labor forces significantly, there is no question that their residents and elected officials have difficult times ahead.

CONCEPTUAL UNDERPINNINGS -- THE RISE OF INTERGOVERNMENTALISM

The conceptual frame of the intergovernmental city is woven around: (1) the role of the city, (2) the causes of urban disinvestment, (3) the demographic effects of capital flight and (4) the rise of the publicly supported economy.

National and international economies, technological innovation, transportation shifts, obsolescent capital plants, and the unresponsiveness of city hall have rendered the city non-competitive. The loss of investments in the central core depletes the city's revenue generating base. Further, the socioeconomic shifts engendered by disinvestment as well as sustained demand for municipal services, place greater pressure on expenditures. The result of the growing mismatch between revenues and expenditures is acute budgetary strain. Unable to obtain increased resources from the private sector or to favorably compete in the public bond market, the city is forced to procure resources from the only sources left -- the state and federal governments. An intergovernmental city is born.

During the 1960's state and federal governments began to actively engage in transfers to local governments. States opted to provide the enabling statutes for property tax relief measures aimed at generating increased revenues, i.e., city income taxes, regional tax base sharing, etc. Many states also created direct urban aid packages to those cities that were most depressed.

Likewise, the federal approach focused on resource distribution. An entire array of direct revenue transfers to people supplemented the revenue flows to cities. While state programs provided the larger share of transfers to cities, especially for education, federal aid quadrupled from 1968 to 1975. And it was during this period that, faced with potential collapse, many municipal governments willingly opened their coffers to intergovernmental support.

Private disinvestment remained a fact of life for many central cities throughout the 1970s. Assistance from both state and federal levels was viewed by most municipalities as the only route towards financial security. Intergovernmental transfers became not a supplement, but rather, the primary support for local public services. At the end of the 1970s, trends toward fiscal conservatism at both state and federal levels emerged, significantly curtailing the flow of transfer funds. A new age of resource conservatism and necessary fiscal solvency arrived. Local governments now had to work to increase locally provided revenues and to limit locally-initiated expenditures. Cities had to learn to build private-public partnerships as never before.

Yet, clearly intergovernmental versus nonintergovernmental is not an "either-or" question. There exists varying degrees of intergovernmental transfer in all cities, thus the experience intergovernmental cities could easily be applicable to these locations less dependent upon revenue transfers from other levels of government. Further, resource depletions synonomous with intergovernmental cities, could easily be present in the growth belt if, as indicated in recent reports, the economies of these cities do not keep growing.

THE INTERGOVERNMENTAL CITY - EMPIRICAL VERIFICATION

How do you empirically define an intergovernmental city? Once defined, which cities fall within this range of definition? Are there other cities where intergovernmentalism is not a fact of life? How do these city sets differ and compare? In order to view more closely the social, physical and economic structure of cities characterized by intergovernmentalism, two groups of cities are isolated: one representing fiscal dependence (intergovernmental), the other fiscal independence (non-intergovernmental). These groups serve as the observation points for most subsequent data comparisons.

Cities are selected from a 1980 population size range of 220,000 to 1,000,000. The lower level of this population threshold is used to isolate for study cities of definite reasonable size and complexity of service system. Approximately 64 cities fall within this range. The upper threshold was utilized to eliminate from this total the seven largest cities (New York, Chicago, Philadelphia, Los Angeles, Houston, Dallas, and Detroit), as well as Honolulu and Washingtin, D.C. These cities are not included due to their unique servicing patterns, in part reflecting international roles, and resultant overly-high expenditure levels.

The remaining 55 cities are categorized as either declining, stable, or growing. Declining communities are defined as those that lost households or had percentage population losses more than the average percent in shrinkage of household size. Stable communities are defined as those that lost no households or that experienced total population losses at about the local rate of household shrinkage. Finally, growing communities are those that had gained households or that had total population losses less than the local rate of household size shrinkage. These city sets are then viewed for their association with intergovernmentalism. Intergovernmentalism is defined as large aggregate (municipal and school) per capita expenditures, a majority of which were paid for by intergovernmental transfers. Highly correlated are intergovernmentalism and cities of declining population as well as an absence of intyergovernmentalism and cities of expanding population. Moderate levels of intergovernmental transfers are found in cities of stable population.

EXHIBIT 1

GENERAL REVENUE[1] AND INTERGOVERNMENTAL TRANSFER LEVELS IN INTERGOVERNMENTAL AND NON-INTERGOVERNMENTAL CITIES

Intergovernmental Cities (I)[2]	*Mean Intergovernmental City Fiscal Indices*	*Non-Intergovernmental Cities (II)*[2]	*Mean Non-Intergovernmental City Fiscal Indices*
AKRON		*ANAHEIM*	Per Capita General Revenues $843
BALTIMORE	Per Capita General Revenues[1] $1160	*AUSTIN*	
BUFFALO		*BATON ROUGE*	
CINCINNATI		*COLUMBUS*	Per Capita Intergovernmental Transfers $340
CLEVELAND	Per Capita Intergovernmental Transfers $630	*NASHVILLE-DAVIDSON*	
LOUISVILLE		*OKLAHOMA CITY*	
MILWAUKEE		*SAN JOSE*	
MINNEAPOLIS		*TULSA*	Percent Intergovernmental Transfers 39%
NEWARK	Percent Intergovernmental Transfers 55%	*VIRGINIA BEACH*	
ROCHESTER		*WICHITA*	

[1]Includes Municipal and School.
[2]Group I significantly different from Group II at .01 level (Duncan Multiple Range Test).

Source: U.S. Census of Governments, City Government Finances 1979-1980; School District Finances, 1979-1980.

Ten cities are then chosen from each of the declining and growing population categories. The ten "intergovernmental" cities drawn from the declining city category are those that required the greatest amounts of revenue per capita to cover the cost of public services, and those most dependent upon state and federal assistance to meet this need. Conversely, the ten "non-intergovernmental" cities drawn from the growth city category are those that raised the smallest amount of revenue per capita, and also those least dependent on fiscal transfers from state and federal governments(Exhibit 1).

The remaining sections of this paper use this distinction to compare the physical, economic, and social structure of these two groups of cities as well as the rise and fall of intergovernmentalism over their most recent history.

ECONOMIC HARDSHIP IN THE INTERGOVERNMENTAL CITY

A much different economic picture is present in intergovernmental versus non-intergovernmental cities. This difference is vividly apparent by viewing classic measures of economic performance. The economic performance criteria used to exhibit these differences are: (1) primary economic indicators, (2) industrial base characteristics, and (3) private investment. The variables employed here are culled from various studies on the measurement of economic performance. They include population, employment, unemployment, and income trends. Industrial base characteristics consist of establishments, employment, sales, and value of production. Private investments comprise new capital expenditures in manufacturing as well as new units authorized in housing.

The results of the analyses point to weak economic performance of the intergovernmental cities. According to population, employment, and per capita income performance indicators, intergovernmental cities experience either actual decline or at best, an extremely slow rate of growth relative to both non-intergovernmental cities and the nation as a whole. Job growth, firm expansions, sales figures, and capital construction in intergovernmental cities all are down (Exhibit 2). Further private residential and non-residential capital investment is off significantly. While there are relatively small differences in household income levels in the two categories of cities, it should be noted that not only has income in intergovernmental cities been historically high, (a difficult position to retrench from even in hard times) but a share of the aggregate income of intergovernmental cities is composed of non-salary assistance payments to individuals which contribute to a further unnatural inflation of the income profile of these cities. Economic inferiority is quick to be recognized by national thrift institutions. Bond ratings in most intergovernmental cities have fallen over the past 20 years. This reduces the possibility of and makes more costly future debt extensions. Given increasing fiscal conservatism on the part of state and federal governments, intergovernmental cities must come to grips with very severe economic problems with only very limited, and largely unaugmented, local resources.

EXHIBIT 2

TOTAL EMPLOYMENT 1960 TO 1977
(Thousands)

				CHANGE					
	1960	*1970*	*1977*	*1960-1970 Absolute*	*1960-1970 Percent*	*1970-1977 Absolute*	*1970-1977 Percent*	*1960-1977 Absolute*	*1960-1977 Percent*
INTERGOVERNMENTAL									
AKRON	137	128	118	- 9	- 16.6	-10	- 7.8	- 19	- 13.9
BALTIMORE	425	405	362	-20	- 4.7	-43	-10.6	- 63	- 14.8
BUFFALO	262	220	183	-42	- 16.0	-37	-16.8	- 79	- 30.2
CINCINNATI	278	262	252	-16	- 5.8	-10	- 3.8	- 26	- 9.4
CLEVELAND	508	443	371	-65	- 12.8	-72	-16.3	-137	- 27.9
LOUISVILLE	177	204	207	+27	+ 15.3	+ 3	+ 1.5	+ 30	+ 16.9
MILWAUKEE	356	320	280	-36	- 10.1	-40	-12.5	- 76	- 21.3
MINNEAPOLIS	285	272	243	-13	- 4.6	-29	-10.7	- 42	- 14.7
NEWARK	224	196	168	-28	- 12.5	-28	-14.3	- 56	- 25.0
ROCHESTER	205	207	181	+ 2	+ 1.0	-26	-12.6	- 24	- 11.7
MEDIAN	270	241	225	-29	- 10.7	-16	- 6.6	- 45	- 16.7
NON-INTERGOVERNMENTAL									
ANAHEIM	35	82	131	+47	+134.3	+49	+59.8	+ 96	+274.3
AUSTIN	75	113	182	+38	+ 50.7	+69	+61.1	+107	+142.7
BATON ROUGE	70	82	NA	+12	+ 17.1	NA	NA	NA	NA
COLUMBUS	216	260	273	+44	+ 20.4	+13	+ 5.0	+ 57	+ 26.4
NASHVILLE-DAVIDSON	NA	183	NA	NA	NA	NA	NA	NA	NA
OKLAHOMA CITY	155	215	259	+60	+ 38.7	+44	+20.5	+104	+ 67.1
SAN JOSE	90	135	169	+45	+ 50.0	+34	+25.2	+ 79	+ 87.8
TULSA	120	154	207	+34	+ 28.3	+53	+34.4	+ 87	+ 72.5
VIRGINIA BEACH	NA	48	NA	NA	NA	NA	NA	NA	NA
WICHITA	89	107	136	+18	+ 20.2	+29	+27.1	+ 47	+ 52.8
MEDIAN	90	113	182	+23	+ 25.6	+64	+56.7	+ 92	+102.2
U.S. Total (Mil)	65.8	78.6	90.5	+12.8	+ 19.5	+11.9	+15.1	+ 24.7	+37.5

Sources: U.S. Department of Commerce, Bureau of the Census, Census of Population, Subject Reports, "Journey to Work," 1960 and 1970; U.S. Department of Commerce, Bureau of the Census, County and City Data Book, 1972. Changes calculated by the Center for Urban Policy Research.

When levels of economic activity decline, and fiscal assistance is limited, the intergovernmental city experiences increasing internal strain and external pressure. Poverty and crime flourish as welfare and unemployment payments replace payroll checks. The level of social need generated by residents further increases.

SOCIAL HARDSHIP IN THE INTERGOVERNMENTAL CITY

The social structure of a city is defined, largely through the performance of its residents across basic social indicators. These indicators include: (1) income and poverty, (2) health statistics, (3) public safety, (4) levels of public assistance, and (5) educational skills and performance.

A composite ranking of social distress derived from these individual indicators, shows that social hardship is significantly concentrated in large, old Northeastern and North Central cities. The highest levels of social distress are thus found, in the economically stagnant, intergovernmental cities. Newark, Cleveland, Baltimore, and Buffalo are the types of cities which exhibit severe levels of social hardship across most specifically-chosen, social indicators.

In these locations: (1) incomes are declining; (2) mortality data (fatalities by specific cause) showing deaths from cancer, influenza/pneumonia, and tuberculosis are twice as high; (3) incidents of total crime are 1.5 times as frequent; (4) welfare caseloads are at three times the level (the welfare payment per case is also 20 percent higher); and (5) educational achievement and performance are significantly lower (Exhibit 3).

Social conditions tend to be much better in the high growth, non-intergovernmental cities. None of these cities rank among those cities of high social distress. At worst, a few non-intergovernmental cities show moderate levels of distress, while well over half of the non-intergovernmental cities delineated fit into the category of low need. The most distressed non-intergovernmental cities -- Baton Rouge and Columbus -- exhibit distress levels only slightly higher than Minneapolis and Milwaukee, the best of the intergovernmental cities. The next group -- Oklahoma City, Nashville-Davidson, and Wichita -- exhibit much lower levels of distress. Finally, the category of low social need is characterized by the younger, economically vibrant non-intergovernmental cities -- San Jose, Anaheim, Austin, Tulsa and Virginia Beach.

EXHIBIT 3

PERCENT OF TOTAL POPULATION RECEIVING PUBLIC ASSISTANCE AND PER CAPITA MONTHLY BENEFIT AMOUNT

	Percent Receiving AFDC	*Per Capita Benefit Amount*
INTERGOVERNMENTAL		
NEWARK	24.4%	$23.68
BALTIMORE	16.8	13.09
CLEVELAND	15.9	14.56
LOUISVILLE	11.5	7.49
MILWAUKEE	10.8	14.23
ROCHESTER	10.8	12.39
BUFFALO	10.6	11.96
MINNEAPOLIS	10.5	12.24
CINCINNATI	10.1	8.90
AKRON	8.6	7.57
WEIGHTED MEAN	13.5	12.99
NON-INTERGOVERNMENTAL		
COLUMBUS	7.3	6.57
BATON ROUGE	6.3	2.91
SAN JOSE	5.8	7.10
WICHITA	4.2	4.38
OKLAHOMA CITY	3.9	3.29
NASHVILLE-DAVIDSON	3.7	1.58
TULSA	3.3	2.79
ANAHEIM	3.0	3.56
AUSTIN	1.9	1.65
VIRGINIA BEACH	1.8	1.32
WEIGHTED MEAN	4.4	3.86

Sources: 1964, U.S. Department of Health, Education and Welfare. Welfare Administration, Bureau of Family Services, Division of Program Statistics. "Recipients of Public Assistance and Total Assistance Payments by Program, State, and County, June 1964."

1973, U.S. Department of Health, Education and Welfare, Social and Rehabilitation Service, Program Statistics and Data Systems, National Center for Social Statistics, "Recipients of Public Assistance, Money Payments, and Amounts of Such Payments by Program, State, and County, February 1973."

1980, U.S. Department of Health and Human Services, Social Security Administration, Office of Policy, Office of Research and Statistics, "Public Assistance Recipients and Cash Payments by State and County, February 1980."

HOUSING IN THE INTERGOVERNMENTAL CITY

The housing of intergovernmental versus non-intergovernmental cities is older, much more often multifamily, and considerably larger. The median age of housing in intergovernmental cities is fifty years; 2-1/2 times the median age of housing in non-intergovernmental cities. Sixty percent of the housing in intergovernmental cities is multi-family, approximately double the proportion of multifamily housing in non-intergovernmental cities. Thirty-five percent of multifamily housing in intergovernmental cities contains five rooms or more; the equivalent for non-intergovernmental cities is less than 15 percent. The size of single-family housing units, especially in terms of number of rooms, is approximately equivalent.

Although housing in intergovernmental cities is more frequently lacking basic amenities (kitchens, baths) or in a worse state of disrepair (presence of cracks/holes, more frequent sightings of vermin), it is generally of reasonably high quality. Fewer than 3 percent of the units in intergovernmental cities lack complete plumbing, and no more than 10 to 15 percent are severely deteriorated by most definitions (Exhibit 4).

The owners of housing in intergovernmental cities are increasingly resident, minority families, adequately-educated and inferiorly paid. The cash flow from real estate holdings is sufficiently low to necessitate full-time occupations in other professions.

The residents of housing in intergovernmental cities are often minority with significant shares of the remaining white population of spanish origin. Residents are poor, households are often female-headed, very old or very young in age, with a significant share of household income coming form non-salary sources. Residents of intergovernmental cities are often forced to remain in these cities because housing is not available elsewhere and, as such, encourage their off-spring to leave the city before they too have no choice. While for the most part these are gritty people they have growing complaints about public service operations, particularly sanitation services and mass transit facilities.

THE RISE OF INTERGOVERNMENTALISM

There has been explosive growth in federal grants-in-aid to states and local governments over the past two decades along with a sharp increase in state transfer payments to cities. At the federal level, this has been part of a general trend which witnessed a relative decrease in defense spending from 1960 to 1980, and upsurge in human resources and community/economic development allocations. These allocations grew ten-fold over a decade; twice as fast as the national budget as a whole. From 1960 to 1980 human resources and community/economic development allocations went from 60 percent to over 200 percent of defense outlays.

EXHIBIT 4

HOUSING CONDITION
(PERCENT OF UNITS WITH)

CRACKS OR HOLES IN WALL OR CEILING[1]	*Multi-Family Cracks or Holes*	*Single Family Cracks or Holes*
Intergovernmental	10.8	6.1
Non-Intergovernmental	6.7	5.0
Newark	14.5	23.4

BROKEN PLASTER - OVER ONE SQUARE FOOT[2]	*Multi-Family Broken Plaster*	*Single Family Broken Plaster*
Intergovernmental	7.7	4.1
Non-Intergovernmental	2.7	2.6
Newark	9.5	11.6

TOILET BREAK LAST THREE MONTHS[3]	*Multi-Family Toilet Break*	*Single Family Toilet Break*
Intergovernmental	6.3	4.5
Non-Intergovernmental	2.5	5.7
Newark	6.2	8.0

USE OF AUXILIARY HEATER	*Multi-Family Auxiliary Heater*	*Single Family Auxiliary Heater*
Intergovernmental	19.8	4.3
Non-Intergovernmental	5.4	0.8
Newark	30.3	6.7

SIGNS OF MICE OR RATS IN LAST THREE MONTHS[4]	*Multi-Family*		*Single Family*	
	Anywhere	*In-Building*	*Anywhere*	*In-Building*
Intergovernmental	13.6	6.0	13.0	6.8
Non-Intergovernmental	3.3	0.0	15.0	5.4
Newark	20.2	20.0	14.0	8.0

Source: U.S. Department of Commerce, U.S. Department of Housing and Urban Development. Annual Housing Survey, 1977[3,4], 1978[1,2].

The major functional areas within which grants-in-aid are structured consist of: (1) income security; (2) community and regional development; (3) education, training, employment and social services; (4) health; (5) transportation; and (6) general state and local fiscal assistance. Within these structural areas, there has been massive growth of: (1) AFDC and School Lunch/Breakfast programs; (2) CDBG, Public Housing, Section 8, UDAG, EDA/SBA Business Loans, and EDA Public Works and Planning Grants; (3) Job Corps, Head Start, BEOG and CETA grants; (4) Medicaid and Community Health Centers Grants; (5) UMTA: and (6) Revenue Sharing assistance. These grants typically favor intergovernmental cities by margins of 2-3 to one.

In addition to direct federal aid to cities and their inhabitants state aid, through 1980, has increased significantly. On average, states have increased aid to local governments by factors of 3-5 to 1. In almost all cases they are targeted to "high need" cities or school districts. Further, the likelihood that these "high need" locations are also respositories of additional federal funding is also very high.

REVENUE AND EXPENDITURE EMPHASES IN THE INTERGOVERNMENTAL CITY

Revenue and expenditure emphases vary considerably in intergovernmental and non-intergovernmental cities. Where differences exist, the least healthy position is almost always found in the intergovernmental city.

On the expenditure side, the data show the intergovernmental city to be at a definite disadvantage. It spends significantly more than the non- intergovernmental city across most areas of public service. Intergovernmental cities spend a proportionally higher share of local resources for essential services (police, fire, general government, health/welfare), though employee wages per job category tend to be lower. Furthermore, declining intergovernmental cities show lower "other expense" and debt service costs. The former indicates that money not spent on services, equipment and supplies means that repairs usually are not being made; the latter suggests that, in addition, few public works projects are being initiated.

On the revenue side, intergovernmental cities again appear at a distinct disadvantage. Having higher levels of expenditure, older intergovernmental cities must generate substantially greater revenue than non-intergovernmental cities. This is complicated by their shrinking tax bases which reflect significant private disinvestment. Further, intergovernmental cities raise revenues primarily through property tax and increasingly through local income taxes -- revenues where the ability to secure more is extremely limited. Thus, intergovernmental cities recurringly face revenue shortfalls.

EXHIBIT 5

RATIO OF INTERGOVERNMENTAL CITY AID REVENUES TO THOSE OF NON-INTERGOVERNMENTAL CITIES BY PROGRAM - 1980

Programs	Ratio
Aid to Families with Dependent Children	3.4
Social Security Retirement Insurance	2.5
Social Security Disability Insurance	3.2
Social Security Survivors Insurance	2.3
Unemployment Insurance	2.2
Food Stamps	1.3
School Lunch Program	.8
Community Development Block Grants	3.2
Low-income Housing (Public Housing)	2.8
Housing Assistance (Section 8)	2.6
Basic Education Opportunity Grants	1.8
Comprehensive Employment and Training Centers	.8
Medicaid	2.4
Urban Mass Transit Grants	2.3
Wastewater Treatment Grants	18.5
Revenue Sharing Payments	1.1
Antirecession Fiscal Assistance	8.4

Source: Burchell, Carr, Florida & Nemeth, Restructuring the Intergovernmental City (New Brunswick, CUPR, 1982) Chapter 6.

Non-intergovernmental cities on the other hand, have expanding property tax bases and an array of revenue resources. The sales tax, user charges and fees/permits are significant revenue contributors in nonintergovernmental cities. As for capital expenditures, the vast majority of roads/highways, bridges, sewer plants/lines are rated good to excellent in growing (non-intergovernmental) cities; the same percentage are rated fair or poor in declining (intergovernmental) cities.

Intergovernmental cities, by definition, are significantly more reliant on revenue transfers than are non-intergovernmental cities. Overall, on average, intergovernmental cities receive twice the dollar amount of federal and state aid than do non-intergovernmental cities. Two-thirds of overall revenue transfers are from the state and are largely concentrated in educational (school district) support. The federal government, typically spending less money overall than state governments, is however, a large supporter of municipal service activities.

THE DISMANTLING OF INTERGOVERNMENTALISM

Those cities defined as intergovernmental, as well as others which may or may not meet the criteria, have been receiving a variety of federal funds in significant amounts for over a decade. Depending on the program, many cities in their recent histories have been dependent on these sources of funds as stabilizing influences. The programs from which these funds flow are now in the process of being restructured, if not dismantled.

Direct federal aid, in the form of grants to cities has been reduced and restructured as block grants to states. These grants now have the authority within broad federal guidelines, to allocate funds according to their own formulas. These new "super grants" are constructed from a host of categorical grants, many of them appearing small but, with an underlying endemic nature to them. Significantly reduced funding is another characteristic of these new grants. The impact is thus felt in both the level of funds to cities, and the method of allocation, necessitating a complete restructuring of past political realities.

Where grants are not being consolidated with reduced funding, they are being phased out, forcing cities to drop programs outright or attempt to maintain them with their own locally-raised funds. Demands for some services, meanwhile, have increased as economic conditions have deteriorated and income maintenance programs are cut.

The majority of the budget reductions have taken place in areas which are inextricably and fundamentally related to older, declining cities. Also, while these programs affect these declining localities disproportionately, they also have an impact on cities generally.

EXHIBIT 5

PERCENT AND DOLLAR CHANGES IN MAJOR GRANT-IN-AID AND ENTITLEMENT PROGRAMS

	1980 Ratio of IGC to N-IGC Federal Assistance	$ BILLIONS			CHANGE			
					Actual 1982-1987		Percent 1982-1987	
		1982 Current	1987 Current	1987 Constant	Current	Constant	Current	Constant
AFDC	3.4	7.6	5.6	3.7	- 2.0	- 3.9	-26	-51.3
Social Security (S.I.)	2.3	156	233 [1]	154	+77	- 2	+49.4	- 1.3
Unemployment	2.2	25.2	13.2[1]	8.7	-12.0	-16.5	-47.6	-65.5
Food Stamps	1.3	10.3	10.4	6.9	+ 0.1	- 3.4	+ 1.0	-33.0
Nutrition Assistance*	0.8	3.7	4.3	2.8	+ 0.6	- 0.9	+16.2	-24.3
CDBG	3.2	4.0	3.5	2.3	- 0.5	- 1.7	-12.5	-42.5
Public Housing	2.8	1.3	0.9	0.3	- 0.4	- 1.0	-30.8	-76.9
Section 8[2]	2.6							
UDAG	NA	0.5	0.4	0.3	0.1	0.2	-20.0	-40.0
CETA	0.8	4.2	2.4	1.6	- 1.8	- 2.6	-42.9	-61.9
Medicaid	2.4	17.8	24.3	16.0	+ 6.5	- 1.8	+36.5	-10.1
UMTA	2.3	3.7	3.0	2.0	- 0.7	- 1.7	-18.9	-45.9
Wastewater Treatment	18.5	4.1	2.1[1]	1.4	- 2.0	- 2.7	-48.8	-65.9
Revenue Sharing	1.1	4.6	4.6	3.0	0.0	- 1.6	0.0	-34.8

*Includes school breakfast and lunch programs only.
NA=Not applicable. The average non-intergovernmental city did not receive UDAG assistance.
[1]Assumes 1982-1985 rate of increase to continue unchanged through 1987.

Source: Burchell, Carr, Florida & Nemeth, Restructuring the Intergovernmental City (New Brunswick, 1982) Chapter 6.

THE FUTURE OF INTERGOVERNMENTAL CITIES

Numerous, older intergovernmental cities have become outmoded and inefficient in America's domestic economy. They may actually be physical and spatial relics of a by-gone era. Most have been left virtually without significant function in the face of a new engine of economic expansion.

These aging cities are, for the most part, totally built-up. Except where abandonment has been rampant, few possess large tracts of open land. When sites in these cities are available, they are seldom attractive for industrial development because of their prevailing problems of crime, inadequately trained workforce, transportation access difficulties, and so on. Unable to annex, they have expanded to their ultimate borders. Their infrastructure is old and dilapidated. Much of their housing stock is also old and actuarily and realistically unsuitable for rehabilitation. There thus remains only modest hope that market forces can significantly rejuvenate many intergovernmental cities.

The distressed situation of most of these aging cities is likely to worsen over the course of the 1980s. Only a few older cities, due to unique characteristics related to college populations or regional location, e.g. Boston and Minneapolis, have attracted new high-tech industries and services. Even in these selected cases, the new jobs that have been created are not nearly sufficient to replace the tremendous losses in manufacturing employment that have occurred there. What has developed here parallels the city within a city phenomenon, of which Manhattan's relationship to New York City is exemplary; an inner borough of tall office buildings involved in service activities ringed by luxurious hotels, gentrified neighborhoods, and cultural amenities, surrounded by vast stretches of outer-borough unemployment, poverty and physical/social deterioration.

Thus, cities which have lost their former roles as regional manufacturing centers will, in the short run, probably continue to decline. Residential and nonresidential deconcentration will continue, as a share of the remaining ethnic and middle-income minority households also leave the city for surrounding suburban enclaves. The resultant unemployment problem facing the older cities of the Manufacturing Belt will also continue. Eastern cities like, Newark, Baltimore, and Buffalo have already lost a significant share of their high-wage blue-collar jobs; others in the Midwest and elsewhere -- like Cincinnati, Cleveland and Louisville -- may soon follow. In these cities jobs may continue to disappear, even if plants and industries remain. Basic manufacturing industries are becoming more technologically-intensive in the face of escalating international competition. Increasingly automated factories will produce goods more cheaply, utilizing less labor.

In the immediate future, the most pressing problem confronting declining intergovernmental cities will be budget shortfalls. Most of these cities have lost a substantial portion of their ratable bases over the past two decades. As such, they are currently pushing their taxing capacities to the maximum. These cities depend on federal and state aid just to remain solvent. The impact of the current and subsequent rounds of budget cuts on intergovernmental cities will surely be felt.

In these cities, the combination of national austerity and fiscal dependency translate into lean public service infrastructures over the next several years. Continuously faced with fiscal insolvency, the only solution open to them is to drastically curtail both the quality and quantity of local public services. This type of retrenchment is already occurring in many intergovernmental cities. Inevitably, such harsh austerity measures may have interim negative feedback before their full benefit is realized.

THE FUTURE OF NON-INTERGOVERNMENTAL CITIES

Non-intergovernmental cities may also encounter a few of the socioeconomic problems faced by aging intergovernmental cities. There is growing sophistication in the interpretation of the economy of the Sunbelt. The Sunbelt, and non-intergovernmental cities within it, are being viewed as heterogeneous and diverse. Reflecting these differences, the South Atlantic region and Southern California, due to concentrations of manufacturing and high technology industries, are more susceptable to recession than originally imagined. The "Oil Patch" region and the Mountain States have experienced a slowing of growth related to lagging oil prices. The growth of Florida and Arizona is limited by existing public service infrastructure and inadequate water supply.

Yet, most non-integovernmental cities in these subregions possess robust local economies which contain more than adequate amounts of young, high-growth industries. While social problems may be present, they are surely not on the scale of the problems facing older cities. Budgetary conditions in these cities will remain stable, at least for the short-to-medium term period.

The vibrance witnessed in younger non-intergovernmental cities over the past decade may diminish in intensity but basically continue. The industrial base of these cities is rooted in the fastest growing sectors of the U.S. economy. Economic indicators show an unusually consistent trendline across cyclical downswings. The effect of recessions on these cities is simply a shift from fast to slower rates of expansion. Upswings, even when they are slight, also disproportionately benefit the cities of these regions.

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Representative MITCHELL. Are you doing any teaching now? I just love to listen to you. Thank you very, very much for a very informative and provocative statement.

Mr. Clay, at long last.

STATEMENT OF PHILLIP L. CLAY, ASSISTANT DIRECTOR, MIT-HARVARD JOINT CENTER FOR URBAN STUDIES, AND ASSOCIATE PROFESSOR, MIT, CAMBRIDGE, MASS.

Mr. CLAY. Thank you very much, Representative Mitchell and Representative Coyne. I very much appreciate the opportunity to make a statement before this committee on the President's conception of what our national urban policy ought to be.

This is a long awaited statement and the first complete presentation by the administration on this important issue. It's long overdue.

The Reagan administration is offering the biggest challenge to the underlying assumptions of urban policy since the election of Franklin Roosevelt and I guess on that point alone I would agree with Secretary Pierce yesterday. For five decades and especially in the last 20 years the Federal Government under both Republican and Democratic administrations has recognized the important role that the Federal Government must play in meeting the goals of the National Housing Act, that there be a decent home and a suitable environment for every American family.

In several amendments to the 1949 act and in various programs over the last 20 years the Congress has tried with a great deal of effort, though not always successful, to achieve these goals. Each Congress has sought to improve the machinery and expand resources for achieving urban policy goals. While a major portion of that machinery has in fact been Federal machinery, the active search for effective partnership has been the hallmark of Federal efforts in the last 10 years. There have been major and sustained efforts to increase the flexibility of Federal funds, take account of the responsibility and capacity of States, to give cities and localities greater control over resources and priorities, and to harness the energies of the private sector and individuals. These were not tentative movements. They have been rather substantial, and the first point I would make about the report is that it fails to recognize the substantial learning that we have had in this area.

Let me say at the outset that money is not the central issue in my suggestions with respect to urban policy, though obviously more money is needed; we have to balance alternative priorities for the social as opposed to housing and physical development as well as development and expenditures in other areas. I recognize the need to strengthen the economy and view it as a necessary but not sufficient first effort in achieving our policy goals.

I would urge that the spending levels for housing and community development programs be enhanced and that it represents as necessary an investment in the future as any area of our national spending.

Now most of the problems which cities face are not local in origin. The problems of unemployment, low income, inflation, high interest rates and even regulations do not have in their origins in what local communities do in most cases. At some level the fate of a community or a city or the people in them is tied directly to the fate of the region, the Nation, even the world's economy.

In the last decade most American major cities lost population. Some lost population at the level of more than 20 percent. A couple States lost population as well and that's an interesting point because if you look at those States and if you look at the trends regarding some of the other States we can expect several other States to suffer losses in the decade of the eighties.

The situation is not likely to be significantly different in the near future. The poor are not going to be better off in any substantial way in the near future. We have already heard predictions of sustained levels of high unemployment. We cannot expect any broad-based economic development which will turn the tide of inner cities or of the persons with limited skills. The resources that communities need to deal with their own problems, in partnership with the Federal Government or by themselves, will shrink in real terms as communities have declining increments in their taxable value, a declining aggregate personal income, and other indicators of their overall economic capacity.

Now up to this point I have noted the distress which cities experience in general. The President's report makes a good deal of note of the revitalization which some American cities have experienced. Indeed, it is true that rundown housing is reclaimed, neighborhoods are revitalized, commercial investment grows, and the administration is fond of pointing to Baltimore, Boston, San Francisco, and other cities. But there are a couple points I would make in counterpoint to their conclusions in this regard.

The first is by HUD's own analysis and reports, the growth in urban distress continues and concentrations of poverty far exceed any revitalization or gentrification which can be measured. HUD estimated a couple years ago that for every neighborhood that experiences revitalization, four neighborhoods move into deeper distress.

The second point I would make with respect to this revitalization is that in all cases the revitalization does not extend to the city generally. It is limited to small areas, sometimes very small areas, and does not extend to revitalization of extensive areas of low and moderate income housing of neighborhoods.

But the final point I would make is that the reinvestment and gentrification only highlights the growth of the underclass. Consistent high levels of unemployment, poor education, changing job structures, and technology are combining to make the cities virtual incubators of an urban underclass.

Unlike what the report charges, the underclass was not created by Federal programs nor did Federal programs make their situation worse. Indeed, some of the Federal programs have served to make members of the underclass active or prolong the number of days they spend in school or training programs. Federal programs while they lasted shielded the underclass from disastrous experiences with the current labor market and shielded the rest of us from their wrath.

Cities did not create the underclass and I would suggest that their role in helping to ameliorate the problems of the underclass can be aided through greater administrative responsibility, but not through the abrogation of Federal responsibility.

Another issue raised by the report has to do with the role of States. Recent administration proposals in a number of areas have reopened the issue of a state's responsibility discussed extensively earlier today. The point is that very few States have taken any significant action to deal with the problems of their communities or their distress. I would confidently only suggest five or six States that might reasonably be put in that category.

So the question is, if only a few States have been active in the past, why would States previously inactive with less money and their own fiscal problems to deal with, become interested in helping the underclass or revitalizing decaying communities? I suggest there would be no activity in this area and that the administration's optimism is ill-founded.

Let me just say a few words about housing. I think the Federal Government is involved in housing in a number of ways, through subsidy, through capital, through insurance and through its tax laws which encourage or discourage certain kinds of investment. The Federal Government's activities over the last four decades in the housing area in terms of housing assistance have focused mainly on production programs. The Federal Government has provided us with about 3 percent of the existing housing stock and I would regard that as a valuable resource to be supported and revitalized because it does serve an important need.

The reports make the point, however, that we've made a great deal of progress in removing the one-third of the housing which Franklin Roosevelt observed in the Depression was dilapidated. The report does not mention, however, that by HUD's own estimate 18 million families still are ill-housed, 6 million of those in substandard housing, 10 million spending more than 25 percent of their income, and 2 million living in crowded units. This, in my view, is the central issue facing us and how we assist these 18 million people will be the litmus test of the Federal urban policy.

The outlook for housing investment privately is quite bleak and this is true even if interest rates were to return to their former more reasonable levels. The economy's ability to produce additional housing of a non-luxury private nature is gradually—well, perhaps even rapidly being eroded.

The problems here are not local. Local governments do not create interest rates. They did not set overall labor rates. They do not set land prices. And while in many cases they contribute to the problem, certainly if they remove the obstacles the problems of housing affordability would not go away.

Now the Reagan administration proposes to discharge its obligations to providing housing assistance by moving from production programs which have their problems that we can discuss if you like to a system of housing vouchers. The idea of a housing voucher has some good points to commend it and I would not want to dismiss it or even speak in opposition to it as long as it's part of a larger strategy.

The experimental housing allowance program several years ago pointed out a number of potential benefits to the direct assistance approach. But to make the point brief, let me suggest what I fear is the ultimate danger of a voucher program, and that is that for the 40 years that we've had a national housing policy we have had a coalition that's been fairly broad-based, including builders, developers, labor, housing groups, local officials, mayors, lenders, each with a not entirely selfless reason for coming to Washington yearly to advocate this or that version of an additional housing package.

If we move toward a program of housing assistance through a voucher, we essentially dissolve this coalition. There's no reason why any of those groups other than the housing advocates for the poor would make a big effort to advance a housing voucher program; and indeed I'm reminded of a comment that former HEW Secretary Califano made in 1975 when he suggested that the Federal Government might save a little bit of money if they adopted a voucher program to simply give him a few more billion dollars and he would add it to the welfare and social security checks and we could do away with HUD. That sent shivers through 7th Street—HUD Headquarters—no doubt, but it points out what I view as a real possibility.

I view housing assistance not just as a matter affecting the poor, though that obviously should be the focus of the effort, but the Government has been involved in housing in many more ways—in production, in rehabilitation, financing, and regulation and economic management—and if we move from a strategy or an urban policy which focuses on all of these issues in an appropriate way we remove the Federal Government from its role of the central activity that shapes the creation of communities and the lifestyle of our people

American Government and private enterprise as DeTocequille observed more than a century ago is not characterized by ideology. The fact that we have always been practical and guided by a pursuit of the general welfare by practical concerns is a major part of our genius. I urge you to stick with the best of the practical judgment reflected in three decades of Federal urban policy, and change it only to the extent that practical consideration requires it. Ideological journeys on important matters of housing and community development promise certain disaster and deep suffering. Thank you very much.

[The prepared statement of Mr. Clay follows:]

PREPARED STATEMENT OF PHILLIP L. CLAY*

In its report on urban policy, the Reagan Administration is offering the biggest challenge to the underlying assumptions of urban policy since the election of Franklin Roosevelt. For five decades, and especially in the last 20 years, the Federal government in both Republican and Democratic administrations has recognized the important role that the Federal government must play in achieving the goals of the 1949 Housing Act: that there be "...a decent home and a suitable environment for every American family."

In several amendments to the 1949 Act, and in the Economic Opportunity Act, the Model Cities Program, Community Development Block Grants, and in a host of housing programs enacted over the years, each Congress has sought to improve on the machinery and expand the resources for achieving urban policy goals. While a major portion of the machinery has in fact been federal machinery, the active search for an effective partnership has been the hallmark of Federal efforts in recent years. Since the revenue-sharing and block grant approach was first introduced ten years ago, there have been major and sustained efforts to increase the flexibility of Federal funds transferred to local communities, to take account of the responsibility and the capacity of states, to give cities and localities greater control over program design and priorities, and to harness the energy of the private sector and volunteer and community groups. These were not tentative movement; they are rather substantial, even though the draft report of the Administration on urban policy would lead one to believe they were in fact minor or if present at all.

The Administration would also have us believe that decades of Federal urban and social programs were unwise and counterproductive. The urban policy report suggests that had distressed people and distressed cities been left to their own resources, they might be better off. With false or misleading information, intellectual sleights of hand, blaming the victim, statistical hocus-pocus, and false standards of evaluation, the Administration is asking the Congress to accept its argument that the Federal government should get out of the business of urban development, dismantle a generation of efforts, and accept a "new federalism" where the Federal role is reduced to "cheerleading" and to the allocation of what will ultimately be token fiscal transfers.

Despite demonstrable distress, the Administration would leave the fate of urban communities and their distressed individuals to the marketplace, volunteer action, and to tens of thousands of local conceptions of what the regional and national public interest is with respect to housing and community development. There is nothing in our history to suggest this laissez-faire theory of urban policy works. Indeed, the prorams emerged because of demonstrable disinterest or lack of capacity on the part of local government.

In my comments I want to address both community development and housing issues. Administration reports and actions raise several issues on both that I want to address separately.

***The views expressed here are those of the author and do not express the views of the Joint Center for Urban Studies.**

Let me say at the outset that money is not the central issue in my argument, though obviously it is an important one since resources are needed to carry out any activity, indeed, to stand still. While I recognize the need to strengthen the nation's economic fiscal condition and to rationalize its spending priorities, I view the strengthening of American communities and the provision of housing opportunity as sufficiently central to justify a high priority treatment for urban policy.

In this regard, I urge the maintenance of a reasonable spending effort to make our housing and community development programs work. In my view, programs to build and preserve communities are as critical to our national welfare as spending for social security or medical assistance is in providing life support to the poor and elderly. Our cities would hardly benefit if they were divided into two camps -- one, wealthy, economically well capitalized and the other devastated, under-maintained, and filled with members of the underclass.

Unlike the report would have us believe, the question of federal role is not one of whether it is sensible for HUD to fill Boston's potholes. The question really is, what is the interest of the Federal government in the survival of American cities, and what can the Federal government do best to assist local communities in their locally-designed efforts.

Community Development

Many of the problems communities face are not local in origin. The problems of employment, low income, inflation, high interest rates, and even regulation, do not have their origins in anything that local communities do. At some level, the fate of a given community or city is tied directly to the fate of the region and to the fate of the nation. Because communities differ in their composition, history, and specialized function in diverse regions, communities are affected differently by the fate of the nation's or even the world's economy. Thus, industry grows in one region, because changing technology or other factors give that region a competitive edge. The losing region and its people suffer. Thus the issue of assisting communities in distress is not a matter of assuming that communities fail because they are shortsighted or without intrinsic value. There is a network that ties the fate of our nation to the health of its urban areas. In my view, every community is entitled to assistance to meet its problems.

Urban Distress

In the last decade, most major American cities lost population. In some cases the loss was substantial, exceeding 20 percent of its 1970 population. The total share of the population living in the larger cities declined. The Administration offers this point to suggest that a natural regional shift has moved much of the population out of areas of distress and inequality. They offer this as a basis for reducing development assistance. Yet the fact is that if cities have shrunk, they have also become the locus of greater poverty, fewer opportunities for vertical mobility, jobs, and for obtaining the kind of skills that would make workers useful participants in the economy in their native cities as well as in other places in the country. It hardly does much good for an unskilled young person to move from Manhattan to Houston, when the chance to get an unskilled job is not much different.

The greater poverty reflected in cities and its increased concentration there means the cities are increasingly unable to self-finance their own revival. Declining population and greater concentration of poverty means that there is a declining real aggregate personal income. The cities have to tax increasingly to meet operating costs. Many of them (and the states in which they're located) have found it impossible to do this in recent years without the substantial transfer of funds from the federal to the local level. A great deal more distress would have occurred than in fact did had increased aid not been forthcoming.

This situation is not likely to be significantly different in the near future. The poor are not going to be better off in any substantial way, nor will substantial and broad-based economic development return to these declining cities. Thus the resource needs in these communities in the years to come will be at least as great and perhaps greater than they are now. Indeed, this problem may extend to include all cities and not just large cities. During the '70s, Pennsylvania and Rhode Island lost population. New York barely avoided losing population. Yet in the decade to come, several other states, including some in the Midwest will find themselves in a net population loss position and they too will be left with an increasing concentration of dependent individuals and less private or public resources to support community development activities.

When population loss occurs, we cannot turn our back on the people who remain in distressed cities and regions. The people who are in serious need are nevertheless human resources. As the Administration report points out, there can be in some cases a reversal of the declining economic fortunes that cities face. Baltimore and Boston are offered as recent examples of cities which ended the decade in a stronger position than they did in the beginning. Yet this cannot and was not done by a bootstrap effort. Those two cities in particular were able to make the progress they did in revitalization because they were skillful in using the programs that were available. Rather than being examples of what cities can do on their own, these cities are examples of what can be done with federal resources and local ingenuity.

Up to this point in my testimony, I have noted the distress which cities experience in general. There are nevertheless substantial bits of evidence of some revitalization in major American cities. Run down housing is reclaimed, neighborhoods are revitalized, and commercial investment is growing. However, three points need to be made with respect to this revitalization, and in counterpoint to the Administration report's observation on this score. The first is that urban distress, or more specifically urban decline, exceeded urban revitalization. HUD has estimated this ratio to be for every one neighborhood that experiences revitalization, four enter distress or more serious decline. While there is progress, it is not clear there is net progress.

The second point is that the revitalization that takes place increasingly occurs in small, limited areas. This applies to both residential revitalization and development of office and commercial activities. These activities add housing, add tax value, add jobs, but only for a small section of the city. Spillover and positive externalities by definition are limited.

Third, the reinvestment sometimes exacerbates difficulties and differences within cities, creating such negative externalities as displacement. Moreover, the shining new galleries, chic restaurants, and glass-enclosed office buildings highlight the great differences in our cities, especially the difference between a more visible, if not larger, central city middle class, and a growing underclass in its shadow. Persistent high rates of unemployment, poor education, and changing job structures and technology are combined to make cities virtual incubators of an urban underclass. Unlike what the report charges, this underclass was not created by Federal programs, nor did Federal programs make its situation worse. Indeed, some of the Federal programs have served to make members of the underclass employed or active, or to prolong the number of days they spend in school. Federal programs, while they lasted, shielded the underclass from disastrous experiences with the marketplace, and shielded the rest of us from their wrath.

The underclass represents a byproduct of on-going social and economic trends. What this all means is that we face a growth in this underclass, an increased concentration of its members in central cities, and a growing division between the economic city (which is prospering) and the residential city (which is in ever greater distress).

Cities did not create this gap; Federal programs did not create it; indeed, it is hard to point a finger of blame. While there may be strong arguments for greater administrative responsiblity in local communities, it can hardly be argued that cities be set adrift with these problems or that the federal government has no overall responsiblity to financially support solution to the problem of the underclass.

There are some other points. A great deal is made of the differences between older cities in the Frost Belt and newer cities in the Sun Belt. The Report argues that in recent years there has been a convergence of regional socio-economic indicators to the point that Federal policy directed for regional redistribution is no longer necessary. The problem with the conclusion of the administration's urban policy report is that it confuses rate of growth with the condition. True, in all measures relating to disparities in income, rate of growth, and so forth, there has been convergence in regional rates, and in some cases, in fact, the Sun Belt exceeds the Frost Belt. Yet with respect to conditions, the fact is that poor conditions and regional variation in them still exist. Some of the worst housing in the country, including virtually all of the housing without plumbing and sanitary facilities is located in the South. Some of the worst poverty and the greatest mismatch of skills of local residents, job requirements, and jobs, are in the South. While the current situation might argue for different approaches being taken in different communities, it hardly argues that the decline of disparity means that the problems for which Federal programs were designed have disappeared.

Moreover, the condition of poor cities regardless of whether they are in the Sun Belt or the Frost Belt is similar. They have growing problems, ever-increasing tax burdens, and only a limited (and insufficient) capacity to do more. The statistics are made fuzzy by the incidence of annexation in the South, so that core city statistics are lumped together with what would otherwise be suburban statistics. Nevertheless, there are ghettoes (that house a comparable share and similar type people) in Houston that are not fundamentally different from the ghettoes of Manhattan. New York already spends a great deal of state funds and local funds to meet the needs of its needy people and needy communities. The role of the Feds then should not be to cut New York because Texas could do more, or cut Texas because it fails to do as much as New York. Rather, the job is to figure out ways of promoting a national standard of efficient and creative community development so that the Federal dollars are used most efficiently and that unlucky poor Texans are not at a disadvantage because they were unlucky enough to be born in a stingy state, and that New York is not forced into bankruptcy to meets its reasonable obligations.

Another issue raised by the report and by the actions of the Administration has to do with the role of states. Recent Administration proposals have reopened the issue of a state's responsibility in development efforts. Few states have made major strides toward helping communities face their urban problems or contributing state resources toward solving these problems. States that have been somewhat active include Massachusetts, Minnesota, New York, Maryland, and California. The remaining states do little to address urban needs and their problems. In many cases these states have been obstructions to local communities' self-help, often through tax and regulatory impediments. Most of the urban states not listed above are dominated by rural or suburban interests that define for themselves and for state government a limited role in urban problems.

If only a few states have been active in urban policy in the past, one has to search for evidence why, given the opportunity to have a greater role, the other 45 states, especially those in the South and West, would become more interested and active under a "new federalism." The expectation is especially tenuous given the austere conditions in which many states find themselves. Attempting to substitute state/federal for federal/local relations as a fundamental vehicle for intergovernmental transfer, and for reducing those transfers, serves no obvious advantage for promoting the general welfare.

I would recommend to the Committee a view that decentralized administrative responsibility is an important objective to push, and would acknowledge that the lack of local flexibility was one of the problems in past Federal programs. It seems clear that we have made some progress toward redressing that, and more progress should be made, but it hardly makes sense for the federal government to abdicate its responsibility, given the points we have made earlier, and given the reluctance, even resistance in many areas to be interested in advancing the quality of life for the less well off, or for sharing resources with the distressed communities within states. This was highlighted by the experience with the CDBG program. By 1977, the Congress recognized that many communities were not willing, left to their own judgment, to target the funds to the needy individuals, or to needy communities, or to spend the funds in systematic ways designed to make progress on national community development goals. The amendments led to substantial improvements in program administration since 1977; the experience demonstrates that with guidance, state and local government can be equal or senior partners in achieving national urban goals.

Over the years since 1975, the value of the CDBG allocations in real dollars has declined, even as the problems for which the program was enacted have increased. The Administration proposes more substantial declines. My recommendation is that we stop this decline and that the Congress commit itself again to a view that there is a national interest in promoting community development, and that the Federal government must play a major role in promoting that development.

Housing and Urban Policy

The Federal government is involved in housing in several ways. The government provides subsidy, capital, insurance, and through its tax laws encourages or discourages investment in housing. The Federal government activities over the past four decades (along with improved income, etc.) largely explain the general improvement in the overall housing provided the American people. Franklin Roosevelt's America, where 1/3 of the population was ill-housed is only a memory, yet America now has a new kind of housing problem, fundamentally one of affordability and the declining attractiveness of the existing stock of housing as an investment and a resource to be conserved.

The Administration report on urban policy makes the observation about the overall improvement in housing, but fails to make a point about the present crisis, or makes little of it. It does not note, for example, that over 18 million households in this country stand in need of some form of housing assistance. This includes 6 million families living in substandard housing by current standards, 10 million families spending a share of their income that exceeds 25 percent, and 2 million familes living in crowded units. The largest number of families required assistance because of the substantial costs associated with obtaining shelter. The cost problem has been made more serious in recent years because of the high interest rates and rapidly rising construction costs.

There is also a matter of the cost of new housing. In 1970, more than half the households could afford to purchase the median-priced new home. In 1980, less than 10 percent of the population was able to afford this housing, and existing housing now parallels new housing in terms of price, a consequence of depressed construction levels in recent years, and climbing vacancies. Interest rates and construction costs stand in the way of solving this problem.

The outlook for investment in housing is increasingly bleak, and the housing industry is already in a depression, having been there since the late '70s. The inability of the economy to produce additional housing makes it difficult for growing numbers of households to improve their own housing status, to achieve ownership, or to upgrade their shelter. These problems are not local. They are not created locally and they can not be solved by local action. Housing assistance and economic planning to improve the environment for housing are fundamentally federal responsibilities. As in community development, there is a substantial role for local administration or for decentralized or locally defined policies. The Federal government, however, cannot be a cheerleader in this process. It must exert leadership and allocate resources.

Production programs have been the principal means that the Federal government used to provide housing assistance. Over the years, this has resulted in the Federal government being responsible for providing 3 percent of the housing stock. This policy is under review, and a search is in progress for program alternatives that will help more of the needy (and not just the lucky), foster greater choice, improve efficiency, and be less costly to the government.

The Administration advocates a voucher approach and recently a great deal of support has surfaced for this idea. The idea has much to commend it. If it reached the group for whom it is intended, namely low and moderate income households, it would prove helpful in improving the housing opportunities. It would be less beneficial, of course, if a small program reached only a limited proportion of the needy in the population, or if the level of the voucher does not close the gap between local housing costs and the incomes of the needy.

During the 1970's, HUD sponsored a number of experiments to determine how a housing allowance would work. A number of important findings from those studies are helpful in considering the usefulness of this approach. The experiments suggest the following:

1. The housing allowance experiment helped a greater portion of the needy households than the construction program which more often helped those at the higher end of the range of eligibility.

2. The rent burden of tenants was reduced as a result of payments.

3. While many of the recipients did not move from their current housing, those who did move improved their housing situation.

4. Those who moved improved their neighborhood conditions.

5. The experiment did not generate inflationary pressures in local rental markets.

6. Total per household cost for the program, including administrative costs was $1,150 (in 1976 dollars) which is less than public housing ($1,650), Section 8 Existing ($1,500), and Section 8 New and Rehabilitation ($4,000).

7. Half of the eligible familes in the various sites participated. This is roughly comparable to the proportion of persons eligible for welfare who actually get it.

There are a number of issues raised by the housing allowance idea on which no data were provided, or on which negative findings are noted.

1. In some communities, there is now a shortage of decent private rental housing. National vacancy rates are at under 5%, and in several large cities rates are substantially lower. Moreover, the experiments were carried out during a time when rents were not increasing as fast as other prices or incomes. There is concern now that localized rent increases might wipe out the benefits of a voucher program.

2. The allowance program does not deal with homeownership for the poor. While home purchase may not be prohibited, the poor are not so substantially helped that they could buy a home.

3. The HUD experiments suggest that blacks do much less well in an allowance program than others. Only 53% of blacks who applied for allowance payments actually got them, while 77% of white applicants did. This is in part explained by the poorer quality housing in black areas and by their inability because of discrimination to move to other areas.

4. A major reason for the proposed adoption of a voucher program is the high cost of production programs. A voucher program does not obligate the Feds long term, but it is not cheap; a modest program may be more expensive in yearly costs than production programs.

A major concern, however, is what a voucher means for housing as a national priority. To be sure, current programs have problems, but housing -- in most cases very good housing -- has been provided and exists as a resource for low income families. The coalition that advocated housing for over 40 years has been broad-based and has included builders and developers, labor, housing groups, local officials, lenders, etc. Each has its own, not entirely selfless, reasons for advocating housing. A policy switch away from production will have, in my judgment, the effect of breaking up this coalition and will put housing vouchers in the same legislative context as welfare. In fact, former HEW Secretary Califano suggested several years ago that instead of housing vouchers, we might simply increase welfare and SSI payments. I view this possibility as a real one and for that reason am supportive of a voucher program as only part of the housing element of a national urban policy. There is more to housing than assistance programs, and federal involvement in the full range of housing issues -- production, rehabilitation, financing --is a national priority. As past experience shows, every household benefits, not just the poor.

My suggestion is that consideration be given to combining allowances with a housing block grant program. The combination would depend on local conditions and communities would have significant influence in establishing the mix. The block grant might be a separate program or it could be included in the existing community development block grant funded at a higher level (with the extra funds mandated for housing). Specialized production programs (such as housing for the elderly and public housing should be retained and funded at appropriate levels).

The housing aspects of our urban policy will increasingly be viewed as the key element of urban policy. Attention to the needs of the first time buyers, the housing industry, and financial institutions must also be addressed. But in every element, the role of the federal government must be as an active partner in the process. A callous view of housing or an abrogation of federal responsibility in areas where local government can do little to change their fate would have disastrous results for cities.

Representative MITCHELL. Thank you. I thank all of you. This entire hearing has been recorded on videotape and certainly the level of sophisticated expertise that has been demonstrated at this hearing today and the very sensible analysis that has been made of the administration's proposed policy ought to be given as much widespread publicity as possible. I'm not quite sure how we would do this, but it certainly seems to me that this almost has been a model of how a congressional hearing should go and we might want to disseminate to students on college campuses. We might want to make it available to the general public. This was an exciteful, thoughtful, rational analysis of what is given to us as the President's report on urban policy which is not by any measure acceptable to any of the witnesses that we had today nor any of the witnesses that we had yesterday, except Mr. Samuel Pierce, who was gallant and loyal in his defense of the President's program.

I know that you're pushed for time, but I just feel compelled to raise one or two questions if I may.

TITLE I—ESEA

Let me deal with some questions on education first. I was very glad, Mr. Edmonds, that you indicated that title I and some of the other programs have had a positive impact. We have raised the learning level of children. Yet last year the Congress when it approved that Omnibus Reconciliation Act significantly altered title I.

The basic change was the consolidation of title I of the Elementary and Secondary Education Act into a block grant which provides funds to the State educational agencies.

What kind of impact do you think that will have on the progress that has been made up to this point and the progress that both you and I agree to in terms of title I?

Mr. EDMONDS. Well, it will have several which I don't think will be desirable. I will only mention two.

One is that title I has been historically the largest single source of educational programs for low income students from any source. Title I has had the interesting effect of also attracting local funds. That is, because of the local administration of the title I programs, it has also resulted in the fact that the particular children who are eligible for title I in the history of title I ended up receiving a much greater proportion of the local district's local funds than they had ever historically received.

One of the financial effects of last year's legislation is that we cannot only expect this decline in per pupil expenditure which derives from the reduction in title I, but we can also expect that local school districts and State agencies will, with their new discretion, also reduce per pupil expenditure for title I eligible children. That's one effect.

A second that we can predict is in the area of policy. Title I more than any single Federal initiative compelled both local and State education officials to invest more policy attention and more public attention in such children than had ever before been the case. I mean, more public discussion of their achievement levels, more implied educational or accountability for the welfare of these children than had ever been the case before, and it was incredibly clear that the major impetus for this interest was driven by the Federal insistence that these children had to be paid attention to.

The concept in the Federal title I regulation that you could only use title I funds to supplement, that they could not supplant, was an enormously effective device in compelling local school officials to not pay for these programs solely on the basis of title I moneys. Given the nature of the block grant, given the nature of the increased discretion in the State education agencies, and given the demise of the Federal insistence on the policy focus on these children, then we have no reason to believe that we will not see a very substantial diminution in the policy discussions directed at such children in the extent to which there will be public reports of their achievement levels as a separate group and, therefore, a comparative basis for judging how they are doing in relationship to other children.

The final remark I would make is that I recently prepared a paper for the National Institute of Education that asked the question, "What are the program uses to which NIE sponsored research, including my own, has been put over the last 10 years?" In my paper I was able to describe from one end of the country to the other scores of urban school districts with programs that have gotten underway that have as their particular purpose to raise achievement for low income children and their general purpose to raise achievement for everybody else. Many of those programs—in Milwaukee and St. Louis, in New York City and elsewhere—have shown very dramatic results. There are scores of such programs and they derive from the fact that superintendents, and boards of education continue the policy obligation to make these reports to the Federal Government about what's happening to the children that are eligible for title I and these other Federal programs.

Given the fact that they will no longer be required to do that, then it may mean the demise of the impetus for the use of federally funded research that has been responsible for so much that makes one cautiously optimistic about urban schools. I would also expect the demise of that in consequence of the particular kinds of legislative changes you're talking about.

INFRASTRUCTURE FUNDING

Representative MITCHELL. Thank you. I would address this question in particular to Mr. Clay and Mr. Sternlieb.

Yesterday, in the hearing I indicated that some urbanologists are predicting that it's necessary to spend something like $1 trillion over the next 10 years merely to shore up the infrastructure of cities. I don't think we can delay much longer in doing that unless we plan to just wipe cities off the map. The longer we delay, the more costly it's going to be to build that infrastructure.

Certainly nothing in the President's report indicates an approach to that enormous problem and it's obvious to me that the cities simply do not have the wherewithal to do it themselves. I would assume that there would be a reluctance on the part of the States to take over that responsibility.

Therefore, we come down to some things on which you touched. Maybe user fees should be instituted to raise money, maybe the municipal bond market as a source of financing such projects. Were do we go? That's my basic question. Where do we go to find the funds to shore up the Nation's infrastructure that is in deplorable condition? Mr. Clay or Mr. Sternlieb or both?

Mr. CLAY. Well, I'm not familiar with that particular number, but I would not be surprised if that is in fact the right number, and I don't know where the trillion dollars would come from. That comes out to $100 billion a year. That's over and above the operating obligations that cities have, the maintenance obligations, the underfunded pension obligations, as well as the development opportunities and obligations they have. So I don't know where the money would come from.

I certainly don't think the bond market is the way to go because I would also—if you ask me where the money for housing is going to come from, I would say that they should come from the bond market.

I think one of the underlying points that I would make is that the Federal Government has a greater capacity to deal with these large revenue issues and I think if we turned it over to tens of thousands of small jurisdictions that it would create a monetary havoc and probably not in that period achieve our goal.

Mr. STERNLIEB. I think the issue that you turn to there very properly spotlights a much broader question of who's in charge of the boat. We are all locked in and certainly in my own case locked into the United States. The issue of how do you optimize these 50 States and the people's lives within them is of enormous importance.

Now the administration in part in this document has pointed to perhaps a level of oversight on the part of people much removed from local problems and suggested that in many cases programing on the national level and supervision on the national level has been wasteful. This does not, however, leave out the responsibility of what is the national responsibility; who is in charge of the mix and match? The attitude as expressed in the report is that there is a very, very limited role for the National Government, that essentially we are rolling back not merely to the era of the New Deal, but we are moving back before the infrastructure provided by Mr. Hoover who was a very big dam maker, and that's sometimes forgotten. We are rolling back before the development of the crosscontinental railroads. And before you know it, we are all dressed up in those colonial wigs and the like.

It's a very primitive notion of the role and responsibility, the merchandising, if you will, the mix and match, of national resource. You can't cover everything at any one time certainly, but it is the role of the National Government to set priorities and within that conceptual apparatus I'm afraid—and I speak somewhat sadly here—I speak as a conservative, not particularly as an avante guard liberal—that the response of let private industry do it, let it be disposed of by the market is simply an inadequate response.

The market perspective is a perspective of the here and now. It is a cash flow perspective. It is a perspective limited by this year's operating statement. The criticism leveled at American industry by American industry and by American industrial leaders is that their perspectives perhaps are too short. So we find ourselves within these 50 States the last nondirected economy.

If you turn to France, if your turn to Germany, if you turn certainly to Japan, you do not have a directed economy in terms of the government in everybody's hip pocket, but certainly you have a level of priority making, a level of conceptualization, that the business of the national government is to make sure that the nation as a whole stays in business, a realization of how competitive the world is and a capacity and a will and a recognition that only the national entity has the types of perspective and the investment capacity now to cope not merely with the immediacies but also the preparation for the future.

The track record of the United States within this regard has been lagging and if I can use the administration's rhetoric for a moment—and it's a rhetoric I'm very familiar with since I'm a practitioner of it—the United States is not meeting the test of the market. Our per capita gross national product now has shrunk down to 10 or 12. We were just passed by France. We were already passed by Germany and the Japanese are well on our trails.

So when one looks at this long-term perspective, the issue of the maintenance of the infrastructure, that business of the United States, that enabling capacity of the United States, certainly as represented in this document, there has been an inadequate attention, an inadequate focus on what the harsh realities of competitive life are. It is a document that pretends to be a market document, but it is a market really viewed as a very local, very parochial scene rather than a market in the real broad test of American Government capacity.

HEALTH AND PRODUCTIVITY

Representative MITCHELL. Of course, some genius just recently made the statement that New York City is dying. I don't know whether you recall that—"Everything dies and maybe it's the best thing in the world." Let the cities die and we start building new cities. I'd better be careful. I'm on tape.

Ms. Jackson, I hate to add to your burden. Your testimony was excellent in terms of the negative impact of these kinds of health cuts in health care. Somewhere in ABT, would you be able to show the loss of productivity, the loss of manpower hours, the loss of so many of these things necessary for the economy prior to the institution of these health programs that have obviously benefited people, and then be able to show the impact of the cuts that are being imposed—could you translate those into predictions about future lost manpower hours, future loss of productivity, and so forth?

Ms. JACKSON. To the extent that I can, Congressman Mitchell, I will attempt to get you any data that are available. One of the problems in this field is that understanding fully and trying to make direct statements about the relationship between health status and productivity loss, workdays lost, et cetera, is as you know not a very precise science, and clearly with respect to the body of literature that is available pre the 1960's programs that were enacted I would venture so say at this point it's probably very limited. But to the extent that the data are there, I will make an effort to get them and to send you the information that is available.

Representative MITCHELL. I would really appreciate it.

Ms. JACKSON. If it is there, I will be able to find it.

Representative MITCHELL. Thank you. That's my emphasis. We started out by saying national policy is focusing in on the place, the institution, and not the people, and we've got to show that the neglect of the people really has serious long-range consequences for the future of this Nation.

Ms. JACKSON. Clearly, the whole concept of cost and benefits of providing health care, not just looking at the cost of paying the physician or hospital, is a big area right now and a big concern. People are beginning to recognize that the economic loss of having sick people is also quite great.

Representative MITCHELL. I want to thank all of you.

You were very, very patient to stay with us all day. You lift my spirits, though; I swear you do. I feel very discouraged at times, but if we've got people like you and the other witnesses who have testified—thinking, sensitive people—this situation cannot remain in place for long. We will change it around somehow. Thank you very, very much.

The committee stands in recess.

[Whereupon, at 1:10 p.m., the committee recessed, to recovene at 10 a.m., Thursday, July 15, 1982.]

THE ADMINISTRATION'S 1982 NATIONAL URBAN POLICY REPORT

THURSDAY, JULY 15, 1982

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 2359, Rayburn House Office Building, Hon. Henry S. Reuss (chairman of the committee) presiding.

Present: Representative Reuss.

Also present: James K. Galbraith, executive director; and Deborah Matz and Robert Premus, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE REUSS, CHAIRMAN

Representative REUSS. Good morning. The Joint Economic Committee will be in order for a continuation of its hearings on the President's Urban Policy Report.

The hearings so far have shown much concern and disquiet by representatives of our cities at the fiscal dismay that they are going to suffer as a result of the withdrawal of a large part of the Federal assistance which has kept the cities afloat during the last quarter century.

This morning we are going to focus particularly on the question of whether there are things that the States and cities themselves are doing wrong or not doing well which, were these problems rectified, could make their plight a little less miserable.

The President's Urban Policy Report does very specifically put its finger on a fiscal problem of the cities when it says that part of the cities' problems "may be a product of arbitrary boundaries and inadequate State and metropolitan fiscal equalization policies." Truer words were never spoken. Most of the States do not have any comprehensive urban policies themselves. The States are sovereigns. They are the ones who created the cities. Yet, by their own lack of concern for the cities they are responsible for a good part of the problems. Many States permit cities to be surrounded by iron rings of suburbs because the deny them decent annexation consolidation policies. Last year we heard from Mayor David Rusk of Albuquerque, N. Mex., who compared his city to Cleveland, Ohio. Albuquerque has a very aggressive incorporation and annexation policy. Cleveland has a very restricted annexation and consolidation policy, with the result that over the years Albuquerque has spread itself over something approaching the metropolitan area whereas Cleveland has shrunk. Thus, Albuquerque is better able to finance public services than Cleveland, despite lower per capita income.

Other progressive arrangements have been made around the country. In Jacksonville, Fla., and Nashville, Tenn., for example, the wasteful and redundant coexistence of cities and counties has been done away with. Indianapolis has made some strides in that direction. Minneapolis and St. Paul, the Twin Cities area, have an innovative arrangement under which, while there isn't consolidation, there is fiscal equalization that applies to all new values since 1971 when the system was set up.

But outside of those and a few other bright spots, all is a desert from Maine to California.

The President's Urban Policy Report, as I have mentioned, very adequately points up the problem. It is terribly costly to have duplicative governments all over the lot, as we do, threshing the same wheat; and it is very unfair that in most of our metropolitan areas the central city takes it on the chin while people in the more affluent suburbs a free ride.

You are here this morning to try to give this committee some guidance as to what a sensible national urban policy might do to improve the situation. Whether the Federal Government does the kind of job which it ought to do for its cities, it is certainly true that God helps those who help themselves. The alternatives are for the States and cities to pull up their socks and get themselves into a position where they can live at a bare minimum of existence, particularly if the Federal Government continues to ignore them.

If the Federal Government should come to its senses, there are a number of things it ought to do to encourage State cooperation.

The Federal Government by congressional enactment, with vigorous presidential leadership, could simply require each State, as a condition of getting one or another form of Federal aid, medicaid, food stamps, revenue sharing, or 100 other things—to file a plan, and pledge to work for its implementation. This would eliminate the terrible waste and duplication of local government and would also eliminate the terrible inequities now prevailing fiscally in metropolitan areas. Congress could then, over the years, monitor the good faith by which the States were pursuing these plans. Down the line, if some of the States showed no inclination to behave in a more sensible way, it would be open to Congress to see what measures might be taken to get better cooperation.

Well, this is the subject matter of the hearing and we are most interested in your advice. We'll now hear from each member of the panel and then I know there will be some questions.

Mr. DeGrove, it's good to see you again.

Mr. DeGrove. It's good to see you.

Representative Reuss. Would you sound off? You have been very helpful to this committee for many years.

STATEMENT OF JOHN M. DeGROVE, DIRECTOR, JOINT CENTER FOR ENVIRONMENTAL AND URBAN PROGRAMS, FLORIDA ATLANTIC AND FLORIDA INTERNATIONAL UNIVERSITIES, FORT LAUDERDALE, FLA.

Mr. DEGROVE. Thank you very much, Mr. Chairman. It's a pleasure to be here. I must say I'm here at considerable sacrifice. I came out of the cool hills of North Carolina down to the humid plains of Washington, but it's still a pleasure to be here.

I''ll start my remarks by saying that I agree with everything you just said and it might save me saying some of those things I was going to say.

My name is John M. DeGrove, and I'm director of an applied research center in the Florida State University system. I'm a member of the National Academy of Science/National Research Council, Committee on Urban Problems, and I was a member of the Douglas Commission some years ago. I must say most of the things we tried to do along this line then still need doing. So in that sense——

Representative REUSS. Had your advice been followed, we probably wouldn't need this hearing this morning.

Mr. DEGROVE. Let's hope we would have been a little better off.

On the issue of modernizing local government structure, making boundary changes, conforming the political boundaries to the service delivery needs, however we put it, the first question we have to ask is, does it matter? Some say, no, it doesn't matter; it's the least important thing; and it's been a fashion in the last decade or so of some of my colleagues to pronounce that the more local governments, the better, to draw analogies to the private sector, and to conclude that in any event, even if it does matter, it's not going to happen, and the record shows that, they say, and we'd better concentrate on other kinds of things.

Well, like most generalizations like that, there's some truth to it. Local government boundary changes and structural-functional reallocations are very hard. Yet, the fiscal functional mismatch that's been decried for decades is still there.

Those of us who persist in saying that part of the solution to this might be boundary changes are sometimes accused of being disciples of salvation by structure, but it seems to me that's putting it too strongly. I do think that local government boundaries—the jungle of local governments that are out there and the problems that are occasioned by that—do matter, do make a difference.

So we address the issue of what's wrong with the way it is? Well, the case for change has been made many times. It's a little discouraging to look back at how long ago proposals that at least I think were well founded were made. The Committee for Economic Development made a classic statement more than 15 years ago on local government structure. It was quoted in the final report of the Douglas Commission and I'll just take a second to read a little bit of that that I think puts it in focus.

> The most pressing problems of local government in metropolitan areas may be stated quite simply. The bewildering multiplicity of small piecemeal, duplicative, overlapping jurisdictions. These cannot cope with the staggering difficulties encountered in managing modern urban affairs. The fiscal effect of duplicative suburban separatism create great difficulty and costly central city services benefiting the

whole urbanized area. If local governments are to function effectively in metropolitan areas, they must have suffficient size and authority to plan, administer and provide significant financial support for solutions to areawide problems.

Now I, for one, believe that's a pretty accurate statement and if it were true then, the question arises, does the Reagan domestic program, at least as reflected in the recent National Urban Policy Report and other places, give the problem new urgency?

It seems to me that it does. The whole Reagan initiative is assuming a greater role for State and local governments. There are some worthy components of those proposals, and I think States do need to do more. The National Urban Policy Report illustrates fiscal disparity very nicely, somewhat along the same lines you just did, Mr. Chairman, by pointing to St. Louis and Indianapolis, comparing Baltimore and Nashville. Indianapolis is a semiconsolidation, and a rather complete one; and it's true, if you look at per capita income across those metropolitan areas compared to St. Louis and Baltimore, the consolidated jurisdictions win.

You have to quickly point out that once a moderate-sized metropolitan area like that is consolidated, usually nothing else happens, and the metropolitan area grows out beyond the consolidation. Nashville now probably has half its whole metropolitan area population outside the consolidated city-county of Nashville—Davidson County. That's not as true of Jacksonville because it hasn't grown very much since its consolidation, but it is true of Indianapolis where the metropolitan area I believe is cited as having 1.2 million people and there are about 700,000 people in the consolidated area.

Surely this whole devolutionary philosophy demand the most effective State and local governments possible, yet it seems to me that the greatest single quarrel with this statement of national urban policy is the fact that it does not raise and analyze the local government capacity question.

It's simply assumed States are more or less capable of responding to any new demands upon them. In Florida, when we were given the opportunity to respond to the turnback proposals sometime ago, one of our people in the health and rehabilitative services area termed it as the "swap and dump" approach. Well, I don't know if that's fair, but the question of capacity is serious. There are issues of legal and policy development, and fiscal capacity and, above all, political capacity that are critical and have to be raised if substantial transfers of authority from the national to the State and local governments are to take place in any kind of equitable and responsible framework.

My colleague, Charlie Warren, with whom I conspire frequently, is I think going to look at that fiscal capacity issue in more detail.

So we ask the question: Will the new federalism, or whatever we choose to call it, create new pressures for modernizing local government? I think the needs were great enough to begin with, but it may well do that and a scenario could go like this: We know, first, that efforts at sweeping local government restructuring and reform have been not successful. The typical effort fails. I know. I've got blood and scars all over me from many, many efforts. Once in a while we have a success and we're heartened to try again.

Jacksonville is one of those. I worked hard for that and constantly expected it to be defeated. When it won, I said, "Well, I must not understand much about why these things succeed and fail." I worked hard in the Charlotte, N.C., Mecklinburg County consolidation and confidently expected to succeed and it was defeated roundly, and I again concluded that I didn't understand much about what made the things work. Now with hindsight, I can explain both of those very nicely, I'm happy to tell you. At least I can do that.

City-county consolidation succeed when States mandate them without a referendum. That's the greatest prescription for success of all. There were five in the 19th century starting with New Orleans, Boston, Philadelphia, San Francisco, and New York City. Those were dramatic consolidations. As I recall New York City combined the two largest cities in the country at one time.

In the 20th century, the suburbs were growing and people began to raise their heads and say: "Wait a minute. We don't want to be in the city. We want to be out in the suburbs." They ran to the State legislature and got all kinds of rules and regulations about easy incorporation, hard annexation, and in this century, the last time I counted, 85 attempts at city-county consolidation had occurred in 57 places with only 17 successes. Those numbers aren't current. There are a few more than that now, a couple more successes, 8 or 10 more failures, and I just tried a city-county consolidation in Florida and I thought we had it. All the business community and everybody was for it, except the people voted it down.

Well, if city-county consolidation doesn't work, what about two or multitier efforts? Are they easier? You might think so. They don't disturb the status quo as much. That doesn't turn out to be the case. They're just about as hard. Dade County's effort passed, for a variety of reasons. Toronto got it done because in Canada they do it a little differently. The Provincial government does the reorganization without benefit of a referendum.

We can look at what causes success if one believes these boundary changes are desirable. The one thing that seems to me that's necessary in almost every case is a sense of crisis, a perceived crisis of some kind. It doesn't necessarily have to be a real crisis. It might be even better if it's real, but there has to be some feeling that something is really wrong—throw the rascals out, let's get things right. In Jacksonville we indicted a large number of old city and county officials, and that was very helpful in getting voter approval.

Some of my good government friends object to that interpretation, but it was the most important factor bringing success. We had a friendly legislative delegation. We had some State help. We had an old constitutional amendment from 1935 that allowed the city and the county to have a vote overall to accomplish it. That's so often missing—with double majorities, triple majorities required. That kind of thing is all too common.

So what about this scenario brought on by the new Reagan administration initiative? Well, we might have a new interest in efforts at structural reorganization induced by a crisis, precipitated by revenue shortfalls as Federal dollars decline and State dollars make up only part of the shortfall, since right now we're into a situation where State dollars are declining. Tax projections are falling short, so we have double whammies hitting local governments.

If you get desperate enough, you might do unthinkable things like consolidate governments or perhaps at least functions. Now I don't personally think that a new wave of successful efforts at city-county consolidation is going to sweep the nation, even if cities really get desperate. I hasten to say that some already are.

So far city-county consolidation has been common to only one kind of metropolitan area, and that's the relative small, one dominant central city, with just a few unincorporated area that you let stay out if you want to and pat them on the head, and then you get the main part together. Well, there aren't many places like that, but that might happen in some cases.

What about multi or two-tier approaches? Charlie Warren is an expert on that, probably the greatest expert around. He'll talk about that. Portland is an example, Mr. Chairman, of the only elected regional government in the Nation now. They elect their board directly, unlike Minneapolis-St. Paul. Very interesting. It's working pretty well out there. Charlie and I both had a little hand in that and we're proud of it. We feel kind of like parents. But Minneapolis-St. Paul is still a model because it combines a two-tier, multitier really, effort addressing the fiscal problem. A lot of people have cast scorn and made fun of the fiscal component of the Minneapolis-St. Paul system. I made some inquires not long ago, now that it's been in effect since 1971 as you point out—what impact is it having? Has it made any difference in the distribution of revenues across that metropolitan area? Well, the impact grows all the time and it's beginning to have a very substantial impact. It's a model that it's a shame that more areas haven't followed. It doesn't require absolute structural governmental consolidation.

Now all these efforts will continue an already solidly established trend that I think will be pushed along faster by the initiatives in the Reagan program—assuming that they continue to be implemented—and that's the upward movement of fuctional responsibility. That's been going on for a long time, moving functions up, say, from the city to the county level, moving others up perhaps to the regionwide level, and State assumption of functions formerly provided by local governments. That's been going on and more often than not it happens in response to pressing fiscal problems that causes the local government to be willing to give up a function. It doesn't often really happen as a result of some wise and rational decision about what function ought be offered at what level. That's an imprecise science, at best. When I began my job as chairman on the Governor's Commission on Local Government in 1974, two or three members of the commission said, "We're going to absolutely decide what function ought to be at the State level and what function ought to be at the local level and what function ought to be in between at some regional level," and I said: "Good luck to us if we're going to try to do that because that's extremely difficult."

But I do know that in metropolitan Dade County 21 at last count of the municipalities had transferred their fire department to the county government, not because they had to in any legal sense, but because they had a hard time balancing their budget. That was the one prime cause. In Dade County that's the way you balance your budget if you're a city in Dade County and you really get in trouble; you transfer another function to metro. That's a little bit of an oversimplification, but fiscal pressures certainly have a great deal to do with this.

Now counties in many areas of the country need to play a stronger role because they do have a boundary advantage, if nothing else. When I began saying that 10 years ago, I thought I was going to be laughed out of the profession and everyplace else. The reaction was how can a archaic, horse-and-buggy, unprofessional, unprepared, and unqualified government, like a county, do anything sensible and useful to solve our urban problems? Well, counties have also come a long way. The county modernization movement continues to have great strength.

Regional agencies are going to have to play a stronger role, but two things are happening there now in the face of the 701 program phaseout and other things. Some that had no ties to the State and sources of financing from the State are probably going to fade away, but where the State uses regional agencies, and they have this sort of in-between status—they go down to the locals and up to the State—as in Florida. They have a strong future. We made far-reaching changes in 1980 in how our regional councils of government are constituted. The Governor now appoints one-third of the members of our COG's. The COG's receive some State funding. They have an important role in our land and growth management area and we don't think we've gone far enough. We need to tie them more tightly to the State in some ways.

So that brings us to the key determinant, and that is the State. As you pointed out, Mr. Chairman, the States have the power and the authority. We keep saying that cities are creatures of the State and indeed they are, but we all know that State legislatures have been remarkably reluctant to exercise that authority for some very good, well-understood reasons.

The first thing you have to do is clear the State barriers away, constitutional or statutory prohibitions, on really doing any kind of consolidation, functional or structural. But that's not enough. We did that in Florida in 1968. We provided what I thought was a nice, neat easy mechanism for county charters to bring counties into the 20th century and to allow them to take on a lot of urban services since we couldn't get the annexation laws changed. In fact, after 5 years of effort, the annexation laws were worse than when we started.

So most of Florida's growth is outside of cities in urban, unincorporated areas. That makes counties into deliverers of urban services. But then they need to be charter counties. They need to have strong leadership, in many cases elected political leadership in the form of a mayor. A charter allows you to do that. Local citizens can do it any way they want to. You put up a charter. It's a countywide vote. No single city can veto. I'll tell you it's been a great disillusionment and disappointment to me in our efforts to implement that in Florida. We have attempted in some 20 cases in some 15 counties to bring about county charters and we've succeeded in only 4. That's about the same ratio as city-county consolidation or far-reaching multitier efforts.

And what defeats us in Florida? The sheriff comes out of the woodwork and says, "Wait a minute. We elect all these fôlks—property appraisers, tax collectors, and supervisors of elections—

and under a charter they can be made charter officers and they can be changed to appointed positions." Even if you don't touch them and assure them you love them and they will be elected forever more, they see it as a foot in the door and they fight it tooth and nail. There are a few exceptions, but it's been very tough. And yet, I'm happy to say that most of our counties of over 100,000 people have gone to a county administrator with a more professional approach, even if they haven't become chartered counties. But counties are going to have to play a more important role.

Greater county responsibilities do help ease the fiscal mismatch between central cities and suburbs. Annexation is a viable tool if it's available. For all practical purposes, it's typically not available for one of two reasons: either the area around a city is all filled up with little, incorporated places, or the laws are so hard to implement.

I happen to admire Oregon inordinately, but Oregon has probably the worst annexation laws in the country. They require a triple majority—majority of the assessed value, a majority that of the property owners, and a majority of the people—they've got so many majorities that annexation is virtually impossible. It needs to be changed. I give them credit. They're trying very hard, a number of groups, to change that.

Well, we turn for a moment to issues of capacity and equity and, Mr. Chairman, I've almost used my time up.

Representative REUSS. Go right on.

Mr. DEGROVE. Issues of capacity and equity. Boundary changes can improve if not solve fiscal capacity and fiscal equity issues. They don't solve them permanently because even where we bring about a city-county consolidation, the metropolitan area grows out beyond that, and further consolidation does not take place.

Consolidations may or may not improve political equity, by the way. That's a mixed picture. It is by no means a picture where blacks are always disadvantaged. On the other hand, in Indianapolis, blacks felt originally and still feel that they had it put to them by a Republican legislature in terms of their access to the Government.

In Jacksonville, the black community was split originally, but now it's pretty solidly in favor because blacks have profited from the new system because the old system was at-large elections only and the new system went to a 19-member council, 14 of which were single member districts, and blacks were elected to 3 or 4 of those and continue to elect 1 or 2 at-large council members in Jacksonville.

I talked to the black political leader who would have been the mayor of the old city of Jacksonville by any reasonable prediction, Earl Johnson, and I said, "Well, why did you support consolidation? You would have been mayor of a city of over 200,000." He said, "Well, why should I preside over a city going into bankruptcy? We had nothing but problems. We had no reasonable fiscal base. I'd rather be a part of a fiscally viable metropolitan area."

Representative REUSS. Have you taken steps to erect a statue to that gentleman?

Mr. DeGrove. Well, I have to say that he's still being elected at large. He's never run from a single member district seat in Jacksonville.

POLITICAL FAIRNESS

Representative Reuss. As long as I've interrupted your train of thought—why can't this whole problem of political fairness, the black minority problem, the problem of avoiding giantism through consolidation—why can't that be avoided by doing two things: having large-scale governments for fiscal equality and efficiency and neighborhood governments or near governments for all of the schools, libraries, trash, police, and neighborhood functions, without duplication and with plenty of local self-government? I'm not enamored of a huge monolith in which people in a given neighborhood are lost in the swamp.

Mr. DeGrove. And there is great fear of that.

Representative Reuss. Why can't you do both?

Mr. DeGrove. There is no reason why you can't do both. There are many reasons why its board does both, but it is possible to do both and I think Charlie is going to address some of the multitier things.

I would say that I think that's going to be the approach we're going to have to take to get these things on-line.

STATE MANDATE

Representative Reuss. If so, why doesn't Congress, with vigorous presidential support, hitch on to the next law that winds its way through which gives goodies to the States under the New Federalism, a proviso that the Governor has to file its plan for achieving fiscal fairness by metropolitanizing the area so that fiscal equity can be obtained, combined with neighborhood self-government? Those are the two goals and why not lay it on to the Governors? They could earn their salaries by putting out something like that together and then if it's not practical, let local competitors point that out and argue it out. That would be better than what we're doing now it seems to me.

Mr. DeGrove. Which is largely nothing. I agree with that. I'm going to make a couple of recommendations at the end here that in essence follow along exactly what you say. I think some effort along those lines using the two or multitier approach and the fiscal equity component are far more apt to be successful than governmental consolidation efforts which are still very difficult.

Now if States are the key to the new New Federalism, Mr. Chairman, I would like to say a word or two very briefly about whether or not they can or will rise to this new challenge that's being put on them.

I agree with many of the conclusions about the changing role of the State that is cited in the Urban Policy Report. States have come a long way. They're not the same creatures they were 20 years ago. I think where the report fails to face reality is in the almost casual, some would say callous, assumption that all States have the capacity now to take up any slack left by the withdrawal by the National Government from direct support of cities and counties. Capacity must include, furthermore, more than fiscal capacity and even that raises serious questions.

The issue of policy development capacity is critical. If you're going to hand new responsibilities under block grants to States, they ought to be able to put the programs together, and put them down to the local governments in a logical and a fair way.

Political capacity, the will to act responsibly even when the fiscal capacity is there is of major importance. I'm hopeful that over the long haul all States will have it, but States are now clearly uneven with regard to this capacity issue. In the politics of the New Federalism and the State response there are going to be new pressures brought on States, a lot of lobbying and interest groups are going to find their way to their State capitals almost for the first time. You're seeing that begin to happen. Some people have learned how to buy a ticket in Florida to Tallahassee. They didn't know how to do that before. They just came to Washington.

Mayors and county commissioners will find their way to State capitols. In the Florida example it's already happened. A mayor strike force was organized last year. They went to every metropolitan area in the State and buttonholed every single State legislator and said:

> We want a 1-cent increase in sales tax because we're going to lose this money from the Federal level; we're going to have shortfalls and because of the recession we need more flexible revenue sources. We can't live with the property tax.

Politically it's impossible, and so in an extremely unlikely year, this year, 1982, the Florida Legislature—it's an election year; it's a reapportionment year—raised taxes by increasing the sales tax by 1 cent. Now Florida is a low-tax-capacity-effort State, so I don't want to pat it too hard on the head for doing that, but I think it was a remarkable effort at a very hard time, speaking well for the Florida political capacity to utilize its fiscal capacity. The leadership of Governor Graham and the Speaker of the House in that was very important.

Other States will respond, some much sooner and some more fully, but if swap and turnback isn't going to turn into swap and dump, some attention has to be paid to the uneven capacity of the States. In Florida the original proposal for swaps and turnbacks would have cost us about $700 million, that's just a little less than the proceeds from a 1-cent increase in the sales tax. And then when you take into consideration the revenue shortfalls over the last couple of years and project it a little, that's another $700 million. So if you look at it that way we can't win for losing.

Now, to conclude, if local governments' structural or functional or fiscal equity mechanisms need to be strengthened, how can they be encouraged or even mandated? I think there's an important Federal role here. I think the Douglas Commission laid it out originally by recommending that revenue sharing and other kinds of Federal aid be tied to a requirement that a State mechanism be put in place requiring a study of the adequacy of the organization and structure and fiscal equities of the local governments. A report had to be made and there was a provision for withholding funds—a recommendation as I recall—if nothing happened or it turned out to be a farce. Those are still sound recommendations that are consistent with what you were just suggesting.

If we're going to have a new urban policy, a "giant general revenue sharing" I believe is the phrase, if we're going to have something like that, tie a few—I know this violates the philosophy of the administration—but tie a few neat worthy strings to it to try to make the whole thing a little more responsible.

The State role is the key. Where things have happened in this regard you always find the State in a supportive or positive role. Of course, in Indianapolis it was a very paramount role since it was put in place by the legislature without a referendum.

I think this whole issue of federalism is critical to our Nation's future. One thing I am grateful to the administration for is precipitating this discussion, this debate, this argument about what should the Federal system be like. I think that's healthy and it's important. I think the Congress, if the administration wants some of these things badly enough, can tie on some worthy additions as the implementing legislation goes through, and add requirements that at least force States to address the issues, such as local government capacity.

Mr. Chairman, thank you very much.

Representative REUSS. Thank you very much, Mr. DeGrove.

We'll now hear from Charles Warren of the National Academy of Public Administration.

STATEMENT OF CHARLES R. WARREN, SENIOR RESEARCH ASSOCIATE, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION, WASHINGTON, D.C.

Mr. WARREN. Mr. Chairman, my name is Charles R. Warren and I am a senior research associate with the National Academy of Public Administration.

First, I'd like to thank you for your invitation to be part of this panel and I'd also like to thank you for sending me a copy of the administration's draft urban policy report. I subsequently received the sanitized version from HUD and I think it's remarkable what a good editor can do to improve a document.

I'd like to direct my remarks in four areas. First, some reactions to the 1982 urban policy report; second, some hindsight comments on my experience with the Carter administration and its efforts to develop a State role proposal; third, discussion of State aid to distressed communities; and, fourth, the broad topic of local and metropolitan government reform, I'll keep my remarks on government reform very brief because John has covered many of the things I would have said.

First, the 1982 Urban Policy Report. At the outset, I agree with much of what is said in the 1982 Urban Policy Report. It contains a number of positive examples of what the States, the private sector, and cities themselves can do to cope with urban problems and challenges. I also endorse the general proposition that greater reliance on State governments to assist their localities is appropriate. I have argued in a recently published article that State capacity is better than many of us have thought, and that States are continuing to improve. My conclusion in that article, which I have attached to my prepared statement, was: "The question is no longer whether the States have the capacity, but how the State role can be strengthened further."

There is, however, one major point of disagreement I have with the 1982 report, and that is, its failure to recognize the fiscal disparities issue. The disparities in wealth and tax base between regions of this Nation, between the 50 States, and between central cities and suburbs cannot be alleviated without national action. Page 2-25 of the 1982 report asserts: "States have a roughly equal ability to pay for governmental functions that their citizens require."

This assertion is based on data presented which show the convergence of per capita income levels among the States. Yet, ACIR has concluded: "Increased State revenues from nonincome related sources have tended to make per capita income an even less reliable measure of tax capacity."

The 50-State rundown of fiscal and budget conditions which appeared in the Washington Post on July 13 demonstrates the wide differences in State tax capacity. When Alaska provides each of its residents $1,000 from oil revenues in a $400 million share the wealth program, and Illinois ended its fiscal year with a $47 million deficit and laid off 300 State employees and plans to layoff another 1,200 next year, it is difficult to believe that "States have a roughly equal ability to pay."

The Reagan Urban Policy Report recognizes the insensitivity of per capita income as a measure of State tax capacity in a footnote to the report which notes that ACIR "has developed a representative tax system, which measures fiscal capacity based on combining a wide variety of taxable resurces and applying a representative set of tax rates." That quote is from a footnote in the report. Now the representative tax system has been used successfully in Canada. The Canadian equalization program distributes grants only to those provinces having capacities below the national average; these are not provided to provinces with above average capacity. ACIR also points out: "In other countries with a Federal structure, fiscal equalization has been a traditional function of the national government." The examples of West Germany, Australia, and Canada are cited.

The Reagan Urban Policy Report concedes the fact that: "Despite Federal efforts to allocate resurces on the basis of objective indicators of need, Federal funds have not always been consistently targeted to the neediest people and jurisdictions."

Instead of recommending ways to change that situation, the report then adds: "The political process renders this almost impossible to do." Now, I submit that indictment of, I assume, Congress, is also an apology for a failure of Presidential leadership, and it says a great deal about the need to reexamine the general revenue sharing and whether some States, but certainly not all, ought to be included in the program.

Let me just conclude my remarks on the fiscal disparity issue by saying that while the States can take actions to reduce the fiscal disparities between their communities, only the national government can deal with disparities between the States. Fiscal equity and income redistribution is a national responsibility; the denial of that responsibility by the authors of the 1982 report subverts the otherwise positive positions on federalism that it contains.

Let me next turn to some comments about the State role. I'd like to recall briefly for the committee the experience of the Carter administration and its efforts to develop a role for the States in the 1978 urban policy. In 1977 and 1978, I worked in the Commerce Department and the White House as part of the group which was developing the Carter Urban Policy. Strong arguments were made for including an important role for the States, yet there was great difficulty in deciding what that role should be. The substantive problem was the diversity of the States and the variety of actions which could and have been undertaken to help local governments. There was no single thing we could urge each of the 50 States to do such as education finance reform. Some had already done it. Some had systems where it didn't apply. So, as a consequence, we developed a proposal called the "State Community Conservation and Development Act of 1978," which was submitted to Congress and there were brief hearings held upon it. That act would have authorized Federal grants to States for developing strategies that dealt with fiscal and governmental reform and public investments. I played a major part in putting together the content of that legislature.

However, in hindsight, I think that the proposed legislation should not have been enacted and my reasons are this: The actions which it suggested the States undertake were extremely broad and included basic policy decisions of the State legislature and Governor. The strategies were to be submitted to and approved by the Secretary of HUD. While the act was noble in purpose, this proposal would have placed a Federal bureaucrat in the position of approving the decisions of elected State officials. Its potential for Federal intrusion in State policies and politics was far greater than acceptable, and would have outweighed the virtue of promoting State action.

INVOLVING STATES

Representative REUSS. If I could interrupt briefly—I think your hindsight is 20/20 and that it was probably good that this wasn't enacted as I can see several flaws in your description. I really don't see the point of giving States Federal grants for doing what they ought to be doing by themselves. You can get the same result without larding them with those grants by telling them they aren't going to get other funds unless they do come up with such a program.

But more than that, as you point out, the idea that the HUD Secretary had to approve it is intrusive, and I think——

Mr. WARREN. Well, it wouldn't have been the HUD Secretary. It would have been a GS-15.

Representative REUSS. Yes; so anyway, somebody in Washington, faceless or not, would have been doing this and that isn't good.

But having said all that, I wish the plan you or I had proposed would have required the Governors to file publicly in the State capitol, a plan for promoting efficiency by eliminating duplication and promoting fairness. This would be achieved by having higher levels of government bear the fiscal burden, and by promoting democracy by "neighborhoodizing" things as much as possible. This plan would serve as a condition for getting further general revenue sharing or other goodies.

If we had done that, then at least in the 50 States there would be public discussion. If the Governor came through with a foolish plan then somebody would run against him in the next election pointing out how foolish the plan was, and there would be debates on it and people would get interested in it.

Isn't it a shame that that wasn't done?

Mr. WARREN. Well, I guess my major joint and reaction is, as I say in my prepared statement, that the Federal Government should cajole, encourage, and assist reform, but that it should not mandate it.

Representative REUSS. I agree. But neither under the Carter administration nor under the Reagan administration are we, the Federal Government, encouraging and assisting reform.

Mr. WARREN. No; we are not.

Representative REUSS. We're simply saying, as the current urban policy says and you quoted it, "The political process renders this almost impossible to do," to which I say horsefeathers. It doesn't at all if somebody had the gumption to mandate it. Would't you agree?

Mr. WARREN. I agree with you and I think that's why we need some national leadership on this issue. We can't just say the political process won't let us. We can change the political process. Shall I continue?

Representative REUSS. I wish you would.

Mr. WARREN. Let me talk just briefly about some of the things that States have been doing to help distressed communities.

The National Academy of Public Administration and the Advisory Commission on Intergovernmental Relations has been producing a series of annual reports; a scorecard of State actions. We've developed some 20 indicators or program areas that were considered important by local and State officials—programs that would assist needy communities. The reports we have been putting forth have chronicled which States have those programs. It's a somewhat simplistic thing but it has proven to be a very helpful document especially on that part of people in State government to find precedents of actions in other State governments.

These reports demonstrate that there are a wide variety of powers and tools that States have at their disposal. Now I understand that this report was cited in earlier testimony I believe by Mayor Coleman Young and the interpretation of State performance from those reports is sort of like the half empty or half full glass. I think here again we recognize the diversity of States and the fact that not all States need the kinds of programs that target assistance that other States do.

And while our report shows that some States—for example, Connecticut and Massachusetts and New Jersey—have adopted most of the 20 programs, we also find out that some of those States have the worst record in fiscal equalization.

Representative REUSS. Like not having an income tax in Connecticut and stealing every corporate headquarters not nailed down, for example?

Mr. WARREN. That's correct.

Representative REUSS. And in New Jersey, what do they do? They wanted to steal Wall Street.

Mr. WARREN. Probably.

Representative REUSS. It's terrible.

Mr. WARREN. Anyway, that report, though, indicates that there is a substantial amount that has to be done by States in the area of fiscal equalization.

Some figures on that. Only 23 States had State-local revenue sharing programs which met an equalization standard. Only 18 States had enacted school finance reforms where within-State discrepancies in per pupil expeditures have actually declined, and only 25 States have assumed 90 percent of the State-local share of public welfare expenditures.

And I think while a small but important activity of the Federal Government should be to continue to highlight those States which are doing a good job and which are taking innovative actions and, conversely, the ones that aren't.

Representative REUSS. Again—I interrupt simply because your testimony is so good and provocative—to say that, yes, it's fine for the Federal Government to continue to report on who does good and who does bad and I think the annual reports you refer to are very well done and very helpful. But they are read very largely by professionals. If, on the other hand, there was a Federal law requiring the State Governors to set forth a number of things—we've already detailed some of them—such as: does your State have a State-local-revenue sharing program meeting the equalization standard; does your State have a school finance reform where within-State discrepancies are progressively being eliminated; and do you assume the 90 percent of the State share of public welfare expenditures which 25 States do? If you required "His Nibs" to put that down in a public report every year, you would then get public discussion going and right now public discussion is zero throughout this great land of ours.

So yours is an excellent point, but all I would say is that these little heavily footnoted reports lack the grandeur of a Governor's statement. That's what's really needed.

Mr. WARREN. Well, at least they do provide the politicians some information upon which to make their comments.

Representative REUSS. True, but to follow that through, suppose State X is a real turkey—it's not doing any of these good things—but has a genial Governor, a great communicator, and he's on the tube every day and people love him. Well, if somebody wants to run against him that existing do-nothing Governor is really protected because he can spew forth clouds of words about the great things he's doing. But since he isn't pinned down by a statement he's likely to be able to escape detection for 4, 8, or 12 years and thus prolong the agony.

Mr. WARREN. Mr. Chairman, I think that that could help to some degree, but one of the major problems we face is the fact that some States don't have equalizing revenue sharing programs is because there's one set of very strong local officials who don't want equalizing revenue sharing programs because they don't want to share their wealth with another set of city officials. So it may not cause him to lose the election.

Representative REUSS. Well, that's the big problem. Mr. DeGrove has pointed out that in the 19th century, New York, Philadelphia, San Francisco, New Orleans, and Boston achieved the fantastic breakthrough of dissolving a city or a county. I am sure that the dissolved officials before they finally expired, did their darndest to save their jobs, but somehow or other they were wumpfed as they ought to have been.

Mr. WARREN. I agree with you.

Representative REUSS. All I'm saying is that we really need a political science device to make this a State issue. We've got the 50 States. We're going to keep that. And they ought to start earning their salaries.

Mr. WARREN. OK. Let me just conclude my remarks to say something briefly about Government reform.

I do understand that there has been appointed in Louisville, Jefferson County, Ky., a study commission to look at the feasibility of a two-tier government there; that is, where the county takes on certain functions and the municipalities take on others. And John DeGrove and I worked on a project for 5 years that advocated this multitier concept and let me just read a quote from a handbook that I produced back in 1980 which explains that concept.

> It is the decentralization of certain functions and activities, the centralization of others, and a sharing of other responsibilities between levels. The ultimate objective is to develop a series of rational relationships among the neighborhood or community level of government, some intermediate unit or units, and the metropolitan or regional level of governments.

And this, I continue to think, is a very viable approach to governmental modernization and one which States should encourage and would be acceptable to the voters. That is to divide up the fiscal and functional responsibilities within a metropolitan area. Metropolitan-wide financing can do a great deal to resolve some of the problems.

Representative REUSS. If I could interrupt you again at that point, I think that little 1980 statement of yours is excellent. Isn't the following what you were saying: That there are really three principles which ought to be observed; one, save dough by eliminating duplication as much as possible; for instance, don't have two police forces, a county and a city getting in each other's way, and a county health department and a city health department both feeling the same pulse. Second, in the interest of fairness and doing something about less fortunate people, make the taxpaying area as broad as possible. That may mean make the function statewide. It may mean Minneapolising things. But use as large an area as you can so you get some wealthy people to tax as well as poor people. And third, get as much decisionmaking as possible back to the neighborhood level. What is a neighborhood? Oh, 10,000, 20,000, 30,000, 40,000, 50,000 people. You can argue about about that, but something like that.

Aren't those three commandments about all you need?

Mr. WARREN. Yes; that's right, sir, and I can even put it more succinctly. That fragmentation is not the problem; it's what those fragmented units do that is.

Well, just in conclusion, I would restate with some caveat to accepting some of your positions on requiring certain studies and statements, that the Federal Government cannot and should not mandate reform. It is a Federal system and I think the Federal Government has to play a role. It has to exert some kind of leadership. It has to encourage. And the President has to take a role on this too if he's going to have an effective urban policy to deal with the problems, the fiscal inequities, and the other inequities caused by a fragmented system of government and the duplication and so on.

But I would be wary of too strong a Federal role in this respect and I'll conclude my remarks there, Mr. Chairman.

[The prepared statement of Mr. Warren, together with the article referred to, follows:]

Prepared Statement of Charles R. Warren

Mr. Chairman and Members of the Committee,

My name is Charles R. Warren. I am a Senior Research Associate with the National Academy of Public Administration, a non-profit research and advisory organization located at 1120 G Street, N.W., Washington, D.C. I am speaking today as an individual. My views do no necessarily reflect those of the Academy or its members. First I would like to thank you for your invitation to be a part of this panel. I would also like to thank you for sending me the Administration's draft urban policy report. I subsequently received the "sanitized" version from HUD. It is remarkable what a good editor can do to improve a document.

I would like to direct my remarks in four areas. First, some reactions to the 1982 urban policy report; second, some hindsight comments on my experience with the Carter Administration and its efforts to develop a state role proposal; third, discussion of state aid to distressed communities; and, fourth, the broad topic of local and metropolitan government reform

The 1982 Urban Policy Report

At the outset, I agree with much of what is said in the 1982 urban policy report. It contains a number of positive examples of what the states, the private sector, and cities themselves can do to cope with urban problems and challenges. I also endorse the general proposition that greater reliance on state governments to assist their localities is appropriate. I have argued in a recently published article that state capacity is better than many of us have thought, and that states are continuing to improve. My conclusion in that article, which I have attached to my written remarks, was: "The question is no longer whether the states have the capacity, but how the state role can be strengthend further."[1]

There is, however, one major point of disagreement I have with the 1982 report, and that is: its failure to recognize the fiscal disparities issue. The disparities in wealth and tax base between regions of this nation, between the fifty states, and between central cities and suburbs cannot be alleviated without national action. Page 2-25 of the 1982 report asserts:

> States have a roughly equal ability to pay for the governmental functions that their citizens require.

This assertion is based on data presented which show the convergence of per-capita income levels among the states. Yet, ACIR has concluded:

> increased state revenues from non-income related sources have tended to make per capita income an even less reliable measure of tax capacity.[2]

The fifty state rundown of fiscal and budget conditions which appeared in The Washington Post on July 13 demonstrates the wide differences in state tax capacity. When Alaska provides each of its residents $1,000 from oil revenues in a $400 million share the wealth program, and Illinois ended its fiscal year with a $47 million deficit and layed off 300 state employees; it is difficult to believe that "states have a roughly equal ability to pay."

The Reagan Urban Policy Report recognizes the insensitivity of per capita income as a measure of state tax capacity in a footnote to the report which notes that ACIR "has developed a Representative Tax System, which measures fiscal capacity based on combining a wide variety of taxable resources and applying a representative set of tax rates."[3] The Representative Tax System has been used successfully in Canada. "The Canadian equalization program distributes grants only to those provinces having capacities below the national average; these are not provided to provinces with above average capacity."[4] ACIR also points out: "In other countries with a federal structure, fiscal equalization has been a traditional function of the national government."[5] The examples of West Germany, Australia and Canada are cited.

The Reagan Urban Policy Report concedes the fact that:

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

And, then it adds:

> The political process renders this almost impossible to do.

That indictment of Congress is also an apology for a failure of Presidential leadership. It says a great deal about the need to re-examine General Revenue Sharing and whether some states, but certainly not all, ought to be included in the program.

While the states can take actions to reduce the fiscal disparities between their communities, only the national government can deal with disparities between the states. Fiscal equity and income redistribution is a national responsibility; the denial of that responsibility by the authors of the 1982 report subverts the otherwise positive positions on federalism.

<u>The State Role</u>

I would like to recall briefly for the Committee the experience of the Carter Administration and its effort to develop a role for the states in the 1978 urban policy. In 1977 and 1978, I worked in the Commerce Department and The White House as part of the group which was developing the Carter Urban Policy. Strong arguments were made for including an important role for the states, yet there was great difficulty in deciding what that role should be. The substantive problem was the diversity of the states and the variety of actions which could and have been undertaken to help local governments. No single policy area or program could be identified as the centerpiece for a state role. As a result, we developed the "State Community Conservation and Development Act of 1978," which would have made federal grants to states for developing strategies that dealt with fiscal and governmental reform and public investments.

Congress held brief hearings on the Bill, but it was not enacted. In hindsight, I think that proposal should not have been enacted. The actions which it suggested the states undertake were broad and included basic policy decisions of the state legislature and governor. The state strategies were to be submitted to and approved by the Secretary of HUD. While noble in purpose, this proposal would have placed a federal bureaucrat in the position of "approving" the decisions of elected state officials. Its potential for federal intrusion in state policies and politics was far greater than acceptable, and would have outweighed the virtue of promoting state action.

Fiscal and governmental reforms at the state and local level is a state and local issue. These reforms must be decided upon and adopted by the elected state and local policymakers and/or the voters. The federal government can cajole, encourage and assist state and localities in initiating reform, but it cannot, nor should it, mandate reform.

State Community Assistance Initiatives

The U.S. Advisory Commission on Intergovernmental Relations and the National Academy of Public Administration have been preparing annual reports on State Aid to Distressed Communities.[6] The 1981 Annual Report was released recently, amd we are now putting the finishing touches on our 1982 Report. These reports, which I understand have been mentioned in earlier testimony, have chronicled the scorecard of state-local assistance. They demonstrate the variety of powers and tools that states have at their proposal to help needy communities. The interpretation of state performance from those depends upon your perspective—it is either a glass that is half-full or half-empty. Again the question of diversity is raised, not every state has a need for the local assistance programs included in the report. States in the Northeast have adopted numerous urban programs, but tend to have the poorest record in fiscal equalization.

The 1981 Annual Report indicates that a great deal could be done by the states in fiscal equalization. Only 23 states had state-local revenue sharing programs which met the equalization standard. Only 18 states had enacted school finance reforms where within-State discrepancies in per pupil expenditures have declined. And, only 25 states have assumed 90 percent of the state-local share of public welfare expenditures.

A small but important activity of the federal government is to continue to report on and highlight those states which are doing a good job and have taken innovative steps to help their cities.

Government Reform

Structural reform of local government can make a significant contribtution to resolving urban problems. However, the past several years have seen a considerable decline in the interest and support for metropolitan government and city-county consolidation. The National Academy provided assistance which led to the creation of the first directly elected regional council in the nation in Portland, Oregon in 1978. That organization is evolving and continues to receive voter support. As John DeGrove points out, Florida has strengthened its regional planning councils through state legislation. Beyond these examples, and a few small consolidations, there is little activity on the local government reform front.

I understand that a study commission is being appointed in Louisville, Jefferson County, Kentucky to explore the feasibility of a two-tier form of metropolitan government. Two-tier or multi-tier government provides a promising alternative to consolidation. In 1980, I prepared a handbook for local government study commissions with support from HUD, which promoted the multi-tier concept: "the decentralization of certain functions and activities, the centralization of others, and a sharing of other responsibilities between the levels. The ultimate objective is to develop a series of rational relationships among the neighborhood or community level of goverment, some intermediate unit or units and the metropolitan or regional level of governance.7 I continue to believe that this model is a viable approach and one which would be acceptable to the voters.

City-county consolidation may become a more attractive option in the years ahead, especially if the fiscal pressures on local governments continue to increase. Yet, its use is probably limited to those 73 SMSAs which are single county in character, and especially to the smaller urban areas.

Annexation is another approach which should be made easier for cities to undertake by state legislatures. Yet, its utility is limited to cities in areas where the suburban development is not already incorporated.

A more promising arena for institutional change should exist at the substate regional level. The most numerous form of local government in the United States is the special district—25,962. While many of these are small and have few or no employees, a number of them are metropolitan in scope and deliver services across local government boundaries. Regional financing and delivery of public services should be encouraged by the states, however, fragmentation of regional agencies should be discouraged. Consolidation of regional authorities is one of many alternatives that should be explored. There are other measures which states can undertake to promote greater coordination of regional services. Increased state control over the borrowing and spending of public authorities is also needed.

Metropolitan-wide financing of services deserves far greater attention,especially those services which are regional in character, for example, mass transit, water, sewer, solid waste disposal, hospitals. State creation or authorization of regional financing mechanisms may have more appeal and more payoffs than structural reform.

Conclusion

Mr. Chairman, I have tried to keep my remarks brief in the interest of time. I would be happy to expand on these points in response to questions. Let me conclude by repeating, in my opinion, the federal government cannot and should not mandate reform of state and local government finance and structure. Its proper role is to encourage and assist in the promotion of sound reforms. National leadership is needed on the part of the President and Congress in advocating fiscal and governmental modernization. I hope these hearings will lead to a national urban policy that recognizes the responsibility ensuring a balanced federal-state-local fiscal system.

Citations

1. Charles R. Warren, "State Governments' Capacity: Continuing to Improve," National Civic Review, Vol. 71, No. 5, May 1982.

2. Robert B. Lucke, "Rich States—Poor States: Inequalities in Our Federal System," Intergovernmental Perspective, Vol. 8, No. 2, Spring 1982.

3. The 1982 National Urban Policy Report, quoted from footnote 38, Chapter 2.

4. Lucke, Op. Cit.

5. Lucke, Op. Cit.

6. The States and Distressed Communities: The 1981 Report, Washington, D.C.: Advisory Commission on Intergovernmental Relations, May 1982.

7. Charles R. Warren, Metropolitan Governance: A Handbook for Local Government Study Commissions, Washington, D.C.: U.S. Department of Housing and Urban Development, June, 1980.

State Governments' Capacity: Continuing to Improve

by Charles R. Warren*

The Reagan Administration intends to rely more and more on state government for carrying out domestic programs. Nine block grants to states have been enacted and more will be proposed. White House officials have advocated an end to federal-local aid programs and the cessation of federal involvement in the cities. This shift to the states has raised the anxiety level of mayors, and led many to question whether the states are capable of managing such new responsibilities and burdens. City and urban interests have raised the alarm and argue that a "shift to the states is a shaft to the cities." Strong concern and doubt has focused on the "capacity of state government"; the point made repeatedly is that the states simply lack the capability to do the job.

Two points should be made right away about these assertions. First, it is impossible to generalize about the capacity of 50 states as diverse from one another as California and South Dakota, or Michigan and Alabama. Second, there is no reliable test of capacity which we can administer to a single state and determine whether it passes or fails. Given these caveats, the states are far more capable than their critics believe, and in the future the state capacity to govern will continue to improve.

There are three types of capacity: fiscal, managerial and political. The first, fiscal, is the more readily measured. Fiscal capacity varies widely among the states. For those states fortunate enough to have their landscapes dotted with oil derricks or scarred by strip mines, fiscal health is assured. For most, the state of their finances depends on the national economy and auto sales or housing starts. The combination of a national recession, federal budget cuts, and tax and expenditure limitations has diminished the fiscal capacity of most state governments in recent years. It should be noted, however, that state fiscal capacity has increased dramatically in the past two decades. The states have emerged as the domi-

*Charles R. Warren is senior research associate, National Academy of Public Administration. This is his address at the National Conference on Government, November 16, 1981, in Pittsburgh. It was adapted from an earlier article published in *American Federalism in the 1980s: Changes and Consequences* by the Lincoln Institute of Land Policy, Cambridge, in August 1980.

nant fiscal partner in the state-local relationship. Today, the state share of state-local taxes is approximately 60 percent. States have modernized their fiscal systems: 41 states have a broad-based individual income tax; 45 have a corporate income tax; and 45 states levy a sales tax. Given a healthy economy, almost all of the states could be in relatively good fiscal condition.

Managerial capacity involves policy execution, program design and implementation, and the delivery of public services. Political capacity is more difficult to define, but most would agree that it relates to the ability to articulate needs, weigh conflicting and competing demands, establish priorities and allocate resources. Clearly, it is this last aspect of capacity that most concerns state critics.

The Transformed States

According to the Advisory Commission on Intergovernmental Relations (ACIR), the states are playing a major intergovernmental management and financing role. ACIR has documented the extensive modernization of state constitutions, legislatures, courts, executive branch organization, and management and personnel systems:

> State governments have been transformed. Continuing a reform period unparalleled in their history, they are emerging, for the most part, as competent, vigorous, and assertive governments. They are more open, more responsible, more accountable than they were in the past. While all are not equally so, and much work remains to be done, the change has been phenomenal.[1]

This building of state capacity occurred during a period when national politics and programs held the spotlight and attention at center stage. While the celebrity status of the federal government detracted voter interest from the importance of state government, the states still matured. Ignorance and disinterest in the potential and actual role of state government has been evident in the decisions of federal policy makers and the platforms of associations of local officials. The growth in state capacity chronicled by ACIR is remarkable given this environment of disinterest.

The transformation of state governments is even more remarkable when one considers the deleterious effects of federal programs and regulations on state policy making and management. Federal categorical programs have imposed a fragmented, single function mind set on the states through single state agency requirements, isolated planning processes, separate fiscal accountability and audit standards, and other mandates which have

1. Mavis Mann Reeves, *The Roles of State and Local Governments: Adapting Form to Function* (Washington, D.C.: U.S. Advisory Commission on Intergovernmental Relations), 1981.

strengthened the specialist and sapped the capacity of generalists. Reversal of these factors should be an inherent byproduct of the federalism of the eighties. The decade ahead will see greater voter attention to state politics and policies, and widespread unshackling of state authority from federal controls. Given the freedom to act and a greater imperative to respond, the capacity of state government should continue to increase.

The New Politics

The issue of state political capacity will be decided in the years ahead. The major question, of course, is what will be the outcomes of the decisions reached by the states given their new responsibilities and greater discretion and flexibility. One thing is certain, we face a new politics. The federalism of the 1980s will be accompanied by a radical shift in domestic politics. The reduced role of the federal government will place the political monkey squarely on the back of state government. Devolution of functional responsibility, coupled with undiminished expectations toward government, will shift the locus of political pressure and action from the Congress to the state capitols. Thus, the political imperative and substantive necessity for state action will increase in the decade ahead.

The 1960s and 1970s witnessed a growing professionalization and sophistication of special interest groups and lobbyists at the national level. Their capacity to shape public policy and ensure legislative outcomes which benefited their members and constituencies has been remarkable. Special interest political power rose in a context of federal expansion and increasing affluence. These conditions are now being reversed. Yet, while the environment in which they have operated is changing, the organizational competence and influence of special interest groups will remain.

The importance of national domestic policies to special interest groups will be diminished, while the significance of state policies will rise. In the past, some groups have been able largely to ignore state legislative and executive actions. State policy makers, in turn, have been able equally to ignore the demands of certain groups with full knowledge that Congress would respond and save them from difficult or controversial decisions. In the future, state inaction could result in no action.

The policy agenda of state legislatures is bound to change during the 1980s as the federal government cuts back its domestic role and, through the block grant mechanism, places the onus of resource allocation and priority setting on the state political machinery. Issues which previously preoccupied state legislative agendas—drinking ages, motorcycle helmets, legalized gambling, professional licensing, and so on—will be pushed to the background. More fundamental resource allocation questions will have to be dealt with—hospitals or universities; highways or mass transit;

vocational education or tax incentives to industry; crime control or prisons. Overall, the stake of state politics will be higher and more fundamental. The interest groups, including city lobbyists, will rapidly discover that state politics and politicians cannot be treated lightly or ignored.

Consequences for Management and Planning

The sixties and seventies were characterized by a federalism that was often antagonistic to the generalist manager and the elected state and local official. One observer called it "picket-fence federalism," in which program specialists in federal, state and local government allied themselves and defended their functional fiefdoms through the powerful combination of single purpose government bureaus, congressional subcommittees and special interest groups. An explicit goal of Reagan federalism is to break up this particular power bloc and to free state and local governments from administrative agents of the federal bureaucracy so that they may become self-directed political bodies which set their own policy agendas. The changes proposed in the federal aid delivery system—from categoricals to blocks, minimal federal mandates, national retreat from selected programs—should combine to strengthen the power of the state and local elected official and generalist manager.

The further enhancement of executive management and strategic planning in state and local government should be one of the more positive consequences of Reagan federalism. The dominance of functional specialists cannot continue for long if the umbilical cord of categorical aid programs is severed. In addition, greater discretion and flexibility at the state and local level, combined with tight budgets, should force a stringent priority-setting and budget process, and require a closer relationship between planning and implementation.

Despite the new intergovernmental context in which political groups will operate, their demands are not likely to lessen, but to become even more sophisticated. State management will be under the spotlight. The governor and legislature will be forced to defend and justify their spending decisions more than ever. The imperative of greater rationality in public budgeting and more efficiency and effectiveness in program performance will exist. The more fundamental and difficult public policy choices become, the more important it is for policy makers to construct a rational and defensible basis for their decisions.

Consequences for State-Local Roles

The character of state-local relationships under the federalism of the 1980s will be determined largely by the conditions of fiscal austerity and resource scarcity which will prevail for most of the decade ahead. In the past, fiscal crisis at one level of government has produced pressures for centralization to the next higher level of government. This trend toward fiscal centralization may continue somewhat since state revenue systems are generally superior to local systems. In the years ahead, however, fiscal austerity will be imposed on all levels of government.

ACIR has identified the major developments in state-local relations during the past two decades:

- Emergence of the states as senior partners in state-local expenditures;
- Increased sharing of expenses between the two levels;
- A rise in the amounts and purposes of state grants-in-aid to local governments;
- Direct state assumption of certain functions in which local governments previously participated;
- Diversification of local revenue sources; and
- Imposition of more limitations on revenue raising and spending.

The continuation of these trends will be strongly affected by the shift of federal responsibilities to the states, and some of these developments may well be altered.

One consequence may be a clearer distinction between the functional and fiscal roles of state and local government. State assumption of local functions is unlikely to increase outside of those areas in which state government is already involved. The four major functions of education, public welfare (including Medicaid), health and hospitals, and highways account for 63 percent of state expenditures and 83 percent of state-local aid. These are precisely the areas in which the largest federal budget cuts are being made and costs are rising fastest. The resulting fiscal pressures on the states may preclude expansion of state-local aid in other areas. Yet, there may be a state-local tradeoff possibility. Total state financing of education, health and hospitals, and public welfare would "free up," on a national average, 26 percent of municipal expenditures, thus enabling cities to concentrate on traditional and basic public services—police, fire, sanitation, parks and recreation, housing and urban renewal, and sewerage. Local fiscal pressures may require some of these city functions to be handled by regional authorities or special districts.

Despite the strong and persistent demands of local officials for greater taxing authority and more autonomy from state controls, state-imposed limitations on local revenue raising and spending are likely to continue and may increase. The intertwined nature of state-local fiscal systems may force state governments to regulate and control local taxing and borrowing even more closely. State and local revenue sources are shared or divided. The revenue sources are assigned, however; what the state taxes, the locals can't and vice-versa. The critical shortage of investment capital combined with the recent tax reforms that have reduced the attractiveness of state and local bonds may also force the states to police the borrowing of their local governments.

Financing and managing investment in physical infrastructure is one of the more serious problems facing state and local government, and it is a problem they face together. Economic development is a priority issue for almost every state government, and it is axiomatic to say that the financial viability of a state depends on the strength of urban economies. *Business Week* magazine in a recent special report reminded its readers of the fact that growth is dependent on a balance between private and public investment, and it warned that:

> There is no reason to believe that this historical necessity for balanced investment has come to an end. So even if, initially, President Reagan's economic program does unleash a surge of private investment, it would be likely to abort if state and local government cannot find the wherewithal to build the public facilities needed for support.[2]

The necessity of state capacity is nowhere more evident than in this area of physical infrastructure. Pat Choate and Susan Walter conclude in their recent book, *America in Ruins:*

> . . . we can no longer afford the luxury of pork or special interest politics. We must construct at each level of government both executive and legislative procedures that imbue public works investment with the long-term perspectives required for a sound, long-range, carefully timed capital investment program.[3]

American business is beginning to recognize the importance of state and local capacity and viability. Private economic growth depends on public investment and support. The same interdependence needs to be understood by the states and their local governments. While over the short term state-local conflict will probably increase simply because the rules of federalism have been changed so rapidly and drastically, in time the necessity for state-local cooperation will be clear.

Federal retrenchment has increased, not lessened, the interdependence of state and local government. The scarcity of resources at the state and

(Continued on page 258)

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2. "State and Local Government in Trouble," Special Report, *Business Week*, October 26, 1981, p. 136.
3. Pat Choate and Susan Walter, *America in Ruins: Beyond the Public Works Pork Barrel* (Washington, D.C.: Council of State Planning Agencies), p. 82.

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(Continued from page 239)

local level demands a closer coordination between state and local taxation and expenditure. Local governments are now more than ever dependent on fiscally viable, managerially competent and politically responsive state governments.

Conclusion

President Reagan's domestic policies and the current underlying economic conditions have made the question of state capacity a matter of fundamental importance. Capacity is no longer a luxury, it is now an essential prerequisite to survival. The fiscal, political and managerial capacity of state government has improved dramatically during the past decades. States will begin to play a much more significant role in American government, not simply because they have the capacity to do so, but because they must now respond to the substantive and political pressures arising from a changed and reduced federal role. The question is no longer whether the states have the capacity but how the state role can be further strengthened.

Representative REUSS. All right. I'll be back at you later to find out what is too strong a Federal role.

Mr. WARREN. OK.

Representative REUSS. We want just the right Federal role.

All right, Mrs. Annmarie Walsh of the Institute of Public Administration.

STATEMENT OF ANNMARIE WALSH, PRESIDENT, INSTITUTE OF PUBLIC ADMINISTRATION, NEW YORK, N.Y.

Mrs. WALSH. Thank you, Mr. Chairman. I am Annmarie Walsh, the president of the Institute of Public Administration, which is a 75-year-old, private, nonprofit research organization. I have prepared a statement for the record and I appreciate the opportunity to summarize it here this morning.

By way of introduction, it seems to me that the national urban policy report before you today stresses two themes with inherent contradictions which outline our problem.

The first theme is that the cities can be self-reliant, that somehow local leaders, private and public, have the capacity, the means and the power to rebuild and regenerate cities.

The second theme is that the natural changes in the market economy will inevitably leave some cities with departing private leadership and increasingly dependent populations and deteriorating infrastructure.

Now if the second thesis is true, there must be some very awesome exceptions to the first. In fact, they are both extreme theories. It is true that a democratic government can't engineer major

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trends in society but there are thousands of examples from the last 15 years of the intergovernmental partnerships being able to make some real improvements within cities with declining populations.

It is true that intergovernmental roles need to be resorted, but any rational new scheme for federalism has to recognize a national responsibility for mediating the dislocations, the social and human dislocations, that result from major economic shifts. And experience in Western Europe has shown in order to continue economic progress one has to have some regular structures for mediating the short-term dislocation.

Well, in addition, we have to look at the fact that problems that we classify as urban problems are no longer isolated in cities that can be seen to stand apart. A traveler from abroad that didn't understand our municipal jurisdictions wouldn't even notice cities in the nationwide sprawl of urban structures and cross-cutting regional patterns of commutation and commerce.

Urban problems are increasingly felt in urban suburbs, particularly the large, older suburbs, many of which are over 50,000 in population, which if they had been freestanding would have qualified as central cities. Urban problems are increasingly felt in strip-developments, in commercial towns around the Nation. Even the new boom towns of the Southwest are beginning to experience some of the difficult problems of growth management that the older regions had 30 years ago.

In fact, the locational trends of the last 20 years show continual spreading out of commercial, industrial and residential functions that used to cluster.

So I have some real problems with the stress on boundary changes and metropolitan government and even city-county consolidation as being resolutions for the future in any but a few places.

GOVERNMENT REFORM: IMPORTANT TO URBAN POLICY

Representative REUSS. Perhaps I should interrupt there just to say that no one, certainly myself, has suggested that. A national urban policy has to do the things about infrastructure, about minimum income support, about jobs that you set forth. I suggested the focus at this morning's hearing because whatever you do about the important things—infrastructure, minimum income support, jobs, economic development, the real needs of urban areas—it seems to me these things would be a lot easier to do if urban areas where as efficient as possible, as equitable in their tax systems as possible, and as democratic as possible.

The mere fact that the subject matter of this morning's hearing is only a part of the whole urban question—it's perhaps 10 percent of it—doesn't mean that that 10 percent is not worth considering, does it?

Mrs. WALSH. Certainly not, no. I would come up with different approaches than boundary changes, much closer to your idea of mandating some specific actions at the State level.

I think what I'm speaking to is that the kinds of changes we need in State and local government have to be put in an overall context of resorting functions in the Federal system and that, in fact, what we're finding in many of the States that I've been working in is that when the States are experiencing severe budget problems and the cities are experiencing severe budget problems, that is precisely the time when they don't want to hear talk about regional planning, constitutional conventions, reorganization efforts.

I do think that the effort to strengthen State and local government is inextricably related to the Federal Government getting its act together on the question of income support and welfare. And basically, fiscal equalization can only take place primarily on the basis of income tax and that means for income redistribution functions you're talking about Federal reform of welfare.

The burdens on the States right now, for example, the bureaucratic burdens in the States and the cities each time the Federal Government changes welfare eligibility standards—and the growing bureaucracies in all the cities and the States have to deal with that—are enormous. But fiscal equalization has to take place within a jurisdiction which has control over income tax for the large part, which is the Federal and State government. It's very difficult, if not impossible, to provide a great deal of fiscal equalization on the basis of a property tax for obvious reasons. It's elastic and it's bounded by geography.

So I do think in the long run that the overall questions of swapping functions and new federalism are absolutely key to getting some improvement at the city and State level in order for them to focus on the problems that they really should be dealing with.

I think the implication that the cities can do anything in terms of internal reorganization that will make a major change in the job structure—in the unemployment rate within their boundaries, has to be looked at very carefully. The national dislocations in the job market cannot be dealt with by interregional competition and mobility because those movements are not going to do a great deal in the short term for the chronically unemployed in the cities, nor for what we're getting now, larger and larger numbers of long-term blue collar workers who are being laid off by industries which are going to continue to decline, industries which are nationally declining in employment.

Both of these problems could be looked at as national problems and then we see urban problems as really quite spread and the inner cities no longer become the primary jurisdictions within which action has to be taken.

That leads me back to the States. I think it those problems were taken care of, then I think most of the things we call urban programs can be carried out within State and local governments, but with one large caveat—the Federal Government is simply going to have to mandate some of the kinds of reforms you're talking about. I agree 100 percent that real reform in State and local government is going to require some very strong inducements from the Federal Government.

Most of the reforms that the report before you lists as reforms that States can carry out, as has been said here this morning, have been proposed for decades and have been defeated repeatedly for decades. The Federal Government has to help strengthen the capabilities of State and local government particularly in three areas.

One is the problem of raising investment capital. The traditional source of self-reliance for State and local government is the municipal bond market. The fact is that municipal bond market is providing less resources to State and local government for public projects at the very time when the need for infrastructure investment has been growing.

In 1968 when Congress decides that the tax subsidy drawn down by industrial revenue bonds was too high, their volume was $2 billion. In 1981, it was $25 billion. The tremendous growth of private purpose bonds, the pressure of competitive Federal borrowing, and tax law changes are really leaving State and local governments with much lower volumes of capital from the marketplace for investment in infrastructure, and this is a large part of what it takes to attract business into urban areas.

Several surveys have shown that among location factors for job generating enterprises, the quality of public services and of community facilities is much more important than targeted tax or credit subsidies. That's why urban enterprise zones should have a very limited impact. Tax subsidies are not going to draw large employers into South Bronx in its present condition. Providing stabilizing sources of capital for cities and States to invest in their own critical needs as they define them locally would have much more payoff in terms of generating jobs. And your own reports show that time is running out on capital investment in the old regions and more and more the requirements for new capital construction in growing regions are going to become a problem.

So I know that you have had investment bank proposals before you dozens of times, but I think some method has to be found to stabilize the source of not just operating funds in budgets, as discussed by my colleagues, but also capital funds. If you shut down on private purpose bonds you'd have substantial Federal tax savings that could go into funding something like an infrastructure finance corporation that could borrow and relend to State and local governments when the market becomes very expensive or very difficult.

Some States and towns are actually—not just New York City—being closed out of the market altogether. So I think that's another area in which the Federal Government has to take a very hard look at increasing the capacities of State and local governments to take care of their own infrastructure problems.

The second area that I would stress is the area we've all been talking about this morning and that is strengthening regional capabilities to take care of regional problens. As I said, the patterns of our urban growth now are spreading out. The technical aspects of many industries don't require clustering so that the patterns are going to be very different 10 and 15 and 20 years from now.

I would agree that developing regional capabilities to deal with regional issues is probably the most important remaining problem of government organization in this country that we haven't faced, but it's not going to come about unless the Federal Government mandates something. And I think requiring plans from the Governors that would bring about fiscal equalization, regional capital planning, and some of the other results talked about here this morning is imminently sensible.

I would only urge you to mandate the results. Don't mandate the means. What happened in the past efforts of the Federal Government to induce regional planning was that the means of going about it were mandated in such great detail that regional planning got bogged down in producing documents for the Federal Government.

But right now, the abrupt withdrawal of HUD 701 funds, the pending proposals to revise the OMB circular A-95 regional review process and the continued application of very complex transportation and environmental planning regulations, both at State and regional levels, seem to me to reflect much more confusion on the part of the Federal Government than a real reform in its regional policies.

I think you should mandate State plans for fiscal equalization, but you should do it the way the courts mandated some school district equalization. Just say that they must do it and let them come up with their own ways to do it. In some places, metropolitan level governments will not be needed because of the changing patterns. In some cases, in New York City, a small neighborhood is 250,000, not 30,000 or 40,000. So I would urge you to mandate the results.

The court mandates for school fiscal equalization have produced some action. Mandate regional capital plans, mandate Governors' reports on fiscal equalization, and/or local government capacity, but let them define regions internally and let them find their own processes, and then I think there would be some large improvements.

There's one other area in which the Governors and the mayors need help. Help for a beleaguered Governor or mayor can come from a Federal mandate that pushes him—what he wants to do—through a difficult situation. Here I'd like to mention what's usually the unmentionable. State bureaucracies have grown very rapidly in recent years, while Federal civilian employment stabilized. We have to be a little bit cautious about replacing parts of the Federal bureaucracy with 50 State bureaucracies, which is unlikely to reduce the public sector as a whole. But the power of organized public employee groups in States and many city governments is becoming increasingly key to getting any kind of productivity improvement or structural reform. Mayors and Governors need help in their own efforts. They're having great difficulties. In fact, mayors and Governors will tell you all over the country, well, civil service reform is desperately needed but we simply can't get it through. Productivity reforms are needed but we can't get them through. So I think that's another area in which the Federal Government could help; whether you add bonus systems to operating assistance, saying we're going to reward improvements in productivity by certain formulas, or simply mandate improvements of productivity for repeated aid applications. There's no question about the fact that the Governors and the mayors need political help to do what they themselves want to do.

Finally, I'd like to say a word about privatization. It's a new label for an old device. Municipal governments have been contracting out since the 19th century. In New York, at least 9 out of 10 fiscal transactions of the city that come before the financial control board for approval is a contract. School lunches, school buses, bus shelters, senior citizens programs, hospital staffing, public housing repair—I could go on and on—all of these are contracted out functions. So it isn't terribly helpful for the Federal Government to say at this point to privatize, to contract out. That's been going on for years.

There are marginal opportunities for doing a little more of it, but there aren't major opportunities. It won't make major changes. In fact, the municipalities do need some help in improving the contracting systems. They need technical assistance. They need new formats. There are enormous problems of cost control, of delay, of patronage in the contracting business.

So basically, in closing, I would reiterate three things that have been said this morning. I think the key is the States, not metropolitan government. It may be really too late in many parts of the Nation to develop metropolitan governments that can encompass anything that is internally united. I think the Federal Government will have to mandate improvements from State government, and, hopefully, will mandate the results and not mandate in detail the means that the States use to get there. And, third, I think fiscal equalization must involve capital as well as operating budget resources. Thank you.

[The prepared statement of Mrs. Walsh follows:]

Prepared Statement of Annmarie Walsh

There are two basic assumptions in the 1982 President's National Urban Policy Report that are difficult to reconcile with each other. The first is that "self-reliance" and private participation can significantly improve cities, that "urban leaders can find the means to rebuild...." The second is that the natural adjustments of the market economy will inevitably leave some cities distressed, with growing dependent populations and deteriorating infrastructures, with departing private participants. While the report recognizes major shifts that must take place in both economic locations and intergovernmental relations, it underplays the dislocations, the time lags, the inefficiencies that these cause. And it fails to come to grip with the basic federal responsiblity to cope with these in the national interest.

Many writers have commented on the anti-urban biases rooted in American tradition, biases that prolong an image of cities as creatures that are bounded, apart from the mainstream of society, probably diseased, and perhaps not curable.

The economic and demographic profile of the nation belies this image. But for the persistence of old political boundaries, cities as such would be hardly distinguishable within the nationwide sprawl of urban functions and cross-cutting currents of regional commutation and commerce. Metropolitanization is the predominant trend of demography and economic location dynamics. The vast and still spreading web of specialized, interdependent settlements can no longer be said to start "here" and end "there".

In 1960, 63% of the U.S. population resided in statistical metropolitan areas. In 1980, 75% resided in metropolitan areas but the definition was breaking down as metro areas ran together in urban regions, many of them with "suburban" municipalities that have large enough populations to have been designated central cities under the original definitions.

The United States has lost its earthbound frontier. Intra-metropolitan and interregional homogenization is widening the spread of urban functions and the concomitant demands on government.

In fact, it may be too late to be formulating a "National Urban Policy" at all. The issues at stake are fundamental issues of national development policy, of jobs, of quality of life, of civilization. Farm populations as well as metropolitan populations are affected by urban consumption patterns, urban prices, taxes and decisions of urban financial institutions. Both farm and town families are affected by changing regional land use and the stresses of unemployment. Urban problems cannot be confined within artificial boundaries.

Loss of population in old cities represents not the decline of urbanization but the spread of urbanization. And today's explosive growth in younger urban regions creates all the problems of growth management that the older regions experienced twenty years ago.

The Governor of Florida recently urged the formation of a "Southern Common Market" to deal with a list of problems that sounded very like what used to be cited as urbanization problems of declining cities in the Northeast and Midwest. Florida is a growth area, but the crime rate in the Florida "Gold Coast" ranks higher than in many northern cities and water supply may be a source of critical problems. Migration across our national borders, from excess labor force in Central and South America, will generate problems of unemployment and dislocation in the Sunbelt despite continuing job growth there. Even the "oil patch" of Texas is experiencing slowdowns in job growth, and land use and environmental problems associated with urban sprawl.

To take solace from the fact that certain distressed inner cities have declining populations, to suppose that national urban problems will shrink with their size or by sheer will of local leaders, private and public, is to miss key issues. It is national development and well being that are at stake:

1) in preserving the public infrastructure needed for economic activity and community life;

2) in providing minimum income support for shelter, nutrition, and health of poor people;

3) in beginning to fulfill the goals of full employment that Congress endorsed thirty six years ago.

If we could devise cooperative intergovernmental arrangements to deal with these three issues--infrastructure, welfare, and jobs--we would not need special policies dealing with cities. If we could devise appropriate government structures to deal with regional issues, inner cities would no longer seem unique. Developing regional capabilities to deal with regional problems remains a major unfulfilled challenge of political organization in the United States.

What is the appropriate federal role in income support, jobs policy, infrastructure development and regionalization?

In any rational scheme for intergovernmental assignment of tasks income support functions are federal. Federal assumption of welfare support (including AFDC or its replacement) and insurance for the medically indigent has long been argued by students of intergovernmental relations. Responsibilities which effect income redistribution must be organized on the basis of the largest taxing jurisdiction which encompasses the widest range of resources. Minimum standards of health care, nutrition, shelter and employment opportunity entail costs and benefits that cannot be internalized within localities. They are aspects of citizenship in the federation that affect the stability of democracy and the will to compete internationally.

No national development policy can assume that cross regional income redistribution is unnecessary. In fact, of course, our tax and subsidy systems--both urban and agricultural--do make cross-regional redistributions.* So too must our income support systems, precisely because of the factors of shifting wealth described in the Urban Policy Report.

Location of the poor is not a trend over which towns and cities can be masters of their own destiny, and differential welfare support levels should not be based upon locational factors, as all other industrialized nations of the world have recognized. Remarkable spots of economic vitality can be found within most so-called distressed cities, but these developments are seldom helping the cities' own resident poor. And disheartening enclaves of decay can be found within wealthy suburbs. We must stop talking about distressed areas in order to focus on distressed people.

Therefore, federalization and reform of health care and welfare subsidy systems to provide social equity (while limiting the problems of runaway costs associated with uncontrolled third party payments) should be the first priority of a national development policy. If such reform takes place, what is good for the nation will be good for its cities.

* For example, the federal government collected $8.7 billion more in revenues than it spent in the Tri-State New York Urban Region in 1975. (Regional Accounts, by Regina Belz Armstrong, et. al., Regional Plan Association, 1980.)

Jobs policy is and should be shared by all levels of government, but large-scale dislocations in the national labor market are a source of problems in urban society that require national action. Several changes are in order in programs aimed at increasing employment and employability. First, the U.S. Labor Department should be called upon to provide stronger analysis and policy on labor market conditions, and on trends in productivity and vocational training needs. It has designated 1099 jurisdictions in the United States as labor surplus areas, but comparative information on interregional opportunities is totally inadequate and the U.S. Employment Service fails to provide essential functions across state boundaries.

Second, it is past time for a major National Commission on Full Employment Policy. Is government an employer of the last resort? If not, what are the implications for magnitude of income support, for crime and unrest at least during protracted periods of economic recession and adjustment? Can we develop new strategies in partnership with the private sector to deal with structural unemployment, skills gaps and lagging productivity growth that persist even when national unemployment rates go down? These problems cannot be dealt with entirely by job training or by voluntary mobility to seek job opportunities elsewhere. Many city economies <u>are</u> adapting to the shift from traditional manufacturing to services and high technology industries. But two types of potential workers are trapped. The first trapped group includes long-term, blue collar workers laid off by industries in which aggregate employment is declining nationwide. Manufacturing jobs in Texas and California are not expanding enough to absorb the newly unemployed from St. Louis and Detroit. The second trapped group is the unskilled underclass, swelled by both legal and illegal migration, hemmed in by inadequate labor market information, by housing discrimination and high housing costs near new job markets, by lack of cash for movement, and lack of saleable skills. There is no evidence for concluding that "national economic growth, regardless of its regional distribution, has the potential to increase job opportunities for all people in society" within their lifetimes.

Third, the federal government should induce the states to organize regional jobs plans and regional labor market information and programs. Metropolitan areas are job markets with severe internal obstacles to mobility.

Fourth, less emphasis should be put on intermunicipal and interstate competition for location of economic activities. Cities and states are making massive efforts in this respect, but the diversion of their budget and credit sources into tax subsidies, private purpose bonds, and other business supports is counter productive. I will return to this point.

After income support and jobs policy, the third cornerstone of a national development policy is development and maintenance of the public infrastructure that is a precondition to private enterprise and community life. From the nation's beginnings, publicly supported ports, canals, bridges, roads, communications and utilities provided the environment for commercial development. We are in grave danger today of letting our local infrastructures deteriorate beyond repair as we--alone in the industrial world--let much of our rail network deteriorate (reducing the efficiency of aggregate freight movement).

Public works investment in the nation has steadily declined for nearly twenty years, with a dramatic fall of 21% in annual investment between 1965 and 1977 in constant dollars. The results are outlined in a study by the Council of State Planning Agencies.* The problems reach far beyond old cities

* America in Ruins (1981) by Pat Choate and Susan Walter. Public works investment equaled 4.1% of Gross National Product in 1965 and 2.3% of GNP in 1977.

into roads, bridges, dams and municipal water and sewer facilities in all sorts of settlements. Declining population in some cities, towns, and older suburbs must certainly be planned for, but the older metropolitan areas also represent fixed investments the nation can ill afford to abandon and replace elsewhere. To squander public works investment will increase, not decrease, total public sector cost.

Moreover, deteriorating plant and equipment are reducing productivity of municipal labor and thereby increasing the burden on municipal operating budgets. Deterioration of public facilities also counteracts targeted economic development activities by state and local governments. One survey of large office employers in New York City conducted by the Institute of Public Administration showed transportation, education, and community facilities to be sited ahead of tax relief as location factors. Cities are stimulating expensive private construction amidst rotting pipes, rutted roads and inadequately educated labor market entrants.

The federal government is a large part of this problem and must be a major part of the solution. Proliferating mandates and regulations, unstable financial support and grant programs that favor new construction over maintenance and repair have discouraged local public works investments that should have been given priority in many older regions. Over 1,000 specific investment mandates are still imposed by the federal government on state and local governments, with total cost well above levels of federal aid.

Regulations attached to transportation, waste treatment, and other community facilities grants should be completely scrapped. Local and state governments are in the best position to decide whether to spend highway dollars on interstate systems or state roads, on construction or maintenance; whether to spend waste disposal dollars on tertiary treatment or storm sewer separation; how to go about improving air and water quality. The Urban Policy report recognizes diversity; federal regulations still do not.

<u>Supply of investment capital and inducements to effective regional capital planning should be the major federal roles in community infrastructure development</u>. But on balance, federal actions and national trends are draining investment capital from state and local governments.

The single largest source of state and local investment capital has historically been private investment through the tax exempt municipal bond market. Now competitive federal borrowing, tax law changes, high interest rates, and private purpose bonds are strangling that source. And the towns and states with the most severe budget and infrastructure problems are the ones being cut out of the market by increasingly discriminating investment bankers.

Interest costs of state and local bonds have escalated faster than interest costs of federal borrowing. The total volume of the tax exempt market has ceased to grow with inflation. And well over half of state and local borrowing is being channeled into private purposes by the very competition for economic base which is recommended by the President's National Urban Policy Report. Thus 79% of the cities surveyed by the Conference of Mayors believe that elimination of Industrial Revenue Bonds would have serious impacts on them, although there is mounting evidence that those bonds in fact do little to add to net job totals.

The private purpose bond game is diverting public investment in myriad ways: Alaska and Nebraska trying to aid fishermen and farmers; Cedar Rapids and New York City trying to rescue marginal businesses; municipalities in Massachusetts and South Carolina buying out costly power projects from troubled investor-owned utilities. In 1968, Congress decided that the federal tax subsidy inherent in a volume of $2 billion for industrial revenue bonds was too high, and the federal tax law was amended to limit them. In 1981, the total of private purpose bonds was $25 billion by some estimates. Meanwhile, general obligation borrowing by state and local government actually declined between 1976 and 1981 (from $16 to $14 billion in unadjusted dollars). By 1982, many jurisdictions are being pressured into assuming dangerously high levels of short-term debt and borrowing by gimmick.*

The federal government should severely restrict private purpose tax exempt bonds,** and use the resulting federal tax savings to fund an Infrastructure Finance Corporation authorized to borrow and to relend, as well as to allocate community development capital grants. Development bank proposals have been before this committee several times. Perhaps there is hope in the precedent that a Republican Administration established the Reconstruction Finance Corporation. Studies completed for this committee over the past year amply demonstrate that time is running out for satisfactory resolution of the

* State budget squeezes have eliminated surpluses that some states experienced in the late 1970's and capital expenditure growth of 1980 and 1981 is unlikely to continue. For example, early this year Illinois' governor clamped a freeze on new state construction to reduce bond market borrowing.

Revenue bonds are faring better than GO bonds. For example, the State of Washington recently raised $119 million by an issue that included compound interest bonds that had to be repriced to sell. In contrast, the troubled Washington Public Power Supply System borrowed $850 million through an issue that was oversubscribed in February, 1982, raising its total 8-year borrowings to $7.65 billion for power plants that are not cost effective (2 of which have been terminated in mid construction.)

** The legislative history is rich with compromises of uncertain impact in this area, such as the Mortgage Subsidy Bond Act of 1980 and a provision recently approved by a conference committee to weaken the IRS freeze on composite issue IDB's.

budget problems of hundreds of municipalities. Despite widespread layoffs, tax and fee increases, and service reductions, local governments in a majority of states are threatened with serious budget crises in fiscal years 1983 and 1984.

Income Maintenance, Jobs Policy, Capital Assistance--If the federal government adequately fulfilled these responsibilities, most of the rest of the tasks of urban development could be carried out by state and local government. But they will not be carried out efficiently in many places without federal inducements to overcome inherent political obstacles to improving government.

The President's National Urban Policy Report before this committee recommends a number of reforms of local government that have been proposed for decades, are long over due in many places, and have been repeatedly defeated. These include: reforming civil service, redrawing boundaries, regionalizing finance, and strengthening land use controls. Seventy-five percent of local government reorganization proposals that go to a vote fail.* Consolidations tend to occur only in single county regions. Even in highly rural states, metropolitan sprawl is spilling over county boundaries. Regional councils have been weakened by federal actions. The three-state New York urban region of nearly 20 million people has just dismantled its regional planning organization, collapsing its interstate compact with abrupt withdrawal of HUD planning support.

* The States and the Metropolis, by P. S. Florestano and V. L. Marando, (1981), p. 74.

The political and financial limitations of states were a large part of the reason that our founding fathers abandoned confederation for a federal system. Those of us who have been involved in efforts to bring about significant changes in urban government structures for twenty years can assure you that it is simply unrealistic to expect them to occur soon on a widespread scale without the application of federal incentives.

Most states have reorganized their executives and reapportioned their legislatures. They have balanced their budgets more effectively than the federal government. Many of them are attempting some degree of civil service reform. But state government employment per capita grew 182 percent in the last twenty years when federal employment per capita grew less than 2 percent.* Organized state and municipal employees have competed with political party organizations in many states to become important factors in financing and organizing elections. The political weakness of states and cities dealing with their own bureaucracies argues for caution in trying to replace parts of the federal bureaucracy with 50 state bureaucracies that will in the long run swell, not shrink the public sector.

The federal government should apply incentives for productivity improvement relating to wage and service levels to most of its subsidy programs. For example, transit operating assistance could be designed to provide bonuses based upon productivity improvements (passenger-mile per dollar). The federal government should help develop a state and local executive service corps with mobility across state boundaries.

The federal government should provide incentive grants to match regional financing mechanisms such as commuter taxes. (Connecticut's Governor recently vetoed a commuter tax bill to avoid a "border war".)

* "The Real Big Government is in the States," Washington Monthly, April, 1978.

Finally, and most important, regional capital plans should be a prerequisite to application to the Infrastructure Finance Corporation or for other capital aid.

Strategic regional planning is an absolute precondition to improving state and local action on metropolitan problems. But the abrupt withdrawal of HUD 701 planning assistance, the continued application of cumbersome transportation and environmental planning regulations, and pending proposals to replace the OMB A-95 project review process reflect more confusion than reform of federal policy on regional planning.

The structure of metropolitan planning organizations was built up with federal support over 20 years. It was misused and misdirected by proliferating federal requirements for scores of documents and processes, but it remains an organizational asset. In the Tri-State New York Region, some 150 representatives of businesses and civic groups recently agreed that a new framework for regional intergovernmental cooperation was needed.

Legislate a simple, straightforward requirement for regional capital plans, with modest incentive matching grants. That is no more than a prudent investor or lender requires of an enterprise, public or private. And regional capital plans will improve the credit of state and local governments in the bond market. Leave it to the states to decide how to organize the strategic planning process, how to define regions (metropolitan, statewide or interstate), how to pursue consensus among communities or investment priorities.

The United States is at a crucial turning point. Our position in the world economy demands a new drive toward efficiency and productivity. Government must be part of that drive. Mayors and governors need help. We are one nation, indivisible. Whether you call it national urban policy or national development policy, make the federal government an active participant in a drive for excellence. Popular faith in democracy depends upon it.

Representative REUSS. Thank you very much, Mrs. Walsh.

I'm now going to declare a 7-minute recess. There's a roll call on and I hope you rest easy. Mr. Hand, we will start with you when I return.

[A brief recess was taken.]

Representative REUSS. The committee will be in order. Thank you for your patience.

We will now hear from Mr. Irving Hand, director of the Institute of State and Regional Affairs at Pennsylvania State University on behalf of the American Planning Association.

STATEMENT OF IRVING HAND, CHAIRMAN, GRADUATE PROGRAM IN URBAN AND REGIONAL PLANNING, AND DIRECTOR, INSTITUTE OF STATE AND REGIONAL AFFAIRS, PENNSYLVANIA STATE UNIVERSITY, ON BEHALF OF THE AMERICAN PLANNING ASSOCIATION

Mr. HAND. Thank you, Mr. Chairman. I am Irving Hand and I'm here in my capacity as immediate past president of the American Planning Association, and I'm a bit torn in terms of how best to proceed at this point. Perhaps your guidance would be in order. When one is the last speaker in a panel, indeed everything has been said and we can shout "Hallelujah," and there is so much with which I agree with which my remarks in the prepared statement that has been provided is very consistent.

On the other hand, being the last speaker also gives me the opportunity to comment on some of the things that have been mentioned, and I'd like to perhaps devote a few minutes to that if you will permit me, Mr. Chairman, and then make some abbreviated reference to my prepared statement.

Representative REUSS. That would be very useful, Mr. Hand. Your entire statement will be entered in full in the record so why don't you proceed in whatever way is congenial.

Mr. HAND. I appreciate that, and in the interest of carrying our discussion forward and also permitting for some general questions and discusssion I think that might be the way to go.

In that connection, I also would point out that I might be helpful in responding to any particular questions you might have. Reference has been made to Nashville several times this morning. I choose to view those references—and I don't think we need to strain at it—in a very complimentary fashion. It just so happens that I was the planning director in Nashville for a dozen years during which period of time the consolidation of governments occurred. I was part of that entire process, had the opportunity to see why annexation didn't work in that circumstance, what was involved in getting enabling legislation at the State level. I served the charter commission during the one effort that failed, and served the charter commission in the second effort when the referendum approved the consolidation, being very close through the planning commission to the kind of leadership that was provided by the then mayor of the city of Nashville, Ben West, whom you may recall. Among other things, he was the chap who brought the *Baker* v. *Carr* case to the U.S. Supreme Court.

The planning commission in those days had a very nontraditional planning program. We were involved in something like metropolitan government. We were involved in something like reapportioning State legislatures. And I mention that along with the reference to the county executive at the time in commenting on the point that John DeGrove made. Maybe these things happen more fortuitously when there's a crisis to relate to and perhaps that's one of the problems in the functioning of our Federal system of government—we're so crisis oriented—and somehow unable to do things unless and until that kind of occasion comes about.

I would submit that the circumstances were a little different in Nashville and we found there a very happy confluence, over about a 12-year period of a quality of leadership in terms of the executive leadership in the city, the county, and the business community. That was very instrumental in bringing that governmental reform about, and it was a quality of leadership that had a sustained commitment to achieving what they felt was a larger aim for that metropolitan area.

Now there may be some other aspects of that experience that can appropriately be brought forward in our discussion this morning. I'll be more than willing to share my recollections with you and the others in that regard.

I also have served as executive director for the Pennsylvania State Planning Board under three Governors and it was during that period of time that a policy of substate regionalism as well as multistate regionalism with respect to the Commonwealth came into being and there are some experiences we can share in relationship to the discussion we've had this morning about the importance of regionalism.

We also during that period of time—and I mention it because of the very strong executive leadership that was being demonstrated by those several Governors—saw a particular development of the capital improvements program as a device for dealing with capital needs and capital facilities within the Commonwealth of Pennsylvania.

But your reference to mandating a plan on the part of Governors couldn't help but bring to mind early on in my period of service with the Commonwealth of Pennsylvania urging then Governor Scranton to formulate a statement and to use the State planning staff to help formulate that statement and to indeed identify a capital program, and being advised by perhaps his closest adviser in the cabinet structure. "Don't you dare do that because the more you identify the options, the things that you might be willing to undertake, the more you're closing out the options that might be available to you in dealing with a specific situation." And it took a period of years to bring forward another kind of a sense of purpose in terms of what a planning statement might represent and how it might be used usefully by a political leadership in that particular vantage point.

I would up front, Mr. Chairman, make it very clear that I support your judgment that the Federal Government should mandate these kinds of expressions from State government, expressions that deal with issues in the State and how a gubernatorial administration might propose to deal with them. I think we're very vulnerable, regardless of the capacity that has evolved in the last 10 or 20 years in the fuctioning of State government—we are very vulnerable to whether or not, or how these expressions otherwise are brought forward. The performance is very uneven and I think there is a national role to be played, a Federal expression that can usefully be brought forward in helping to bring that about.

May I turn at this point, Mr. Chairman, to simply refer to several items that we have listed in our prepared statement as particular considerations that the Congress should consider in relating not only to the National Urban Report that is presently under consideration but what appears to be important to us in terms of what's happening with respect to national policy and national leadership in this regard.

As recently as just a couple of weeks ago at the Pennsylvania State University capital campus we had a conference of local officials, local business people, on the New Federalism and its economic meaning with respect to the Pennsylvania State capital region. Just to locate you on what that capital region means, it's the area that generally focuses on the cities of York, Lancaster, Harrisburg, and Lebanon and the metropolitan areas around those respective cities.

At that conference we had the mayors of those respective cities. We had council people from those respective cities. We had county commissioners from those counties, as well as State representatives and local representatives from the business community, and it underscored that there are some very creative things being done in those respective communities in trying to deal with their conditions and they look with a certain amount of favor and willingness, if you will, on a reallocation of responsibilities that indeed would give them greater authority to exert their creativeness, their imagination. But almost to a person, they pointed out the budget cutting that's been going on is hurting the urban areas, is placing them in a position, however willing they might be to undertake responsibilities, their capacity to do so from a fiscal point of view is severely limited and at a national level we need to be very conscious of the kind of erosion that has been occurring in that regard and what that means if we realistically expect local areas, regional areas to pick up these chores.

Reference has been made this morning and we would underscore a recognition of regionalism that has evolved over the last number of decades and the important place that a regional structure will play in the functioning of State and local government. This touches on the third item, the intergovernmental communication process that Congress established, the A-95 process, and the fact that a great deal of a positive nature has been gained by providing the opportunity for that kind of regional and statewide review and what we see happening today is the very clear possibility that that may be lost.

There's a communication link there that may be lost and I would submit, Mr. Chairman, that indeed a mandated expression from the Congress on that kind of responsibility is very important and is one of the considerations that I would commend be kept very much in mind.

A point that has not been mentioned directly this morning relates to the fourth item, Mr. Chairman: Reverse the draining off of key data for planning policy and program purposes. We're familiar with what has been going on in the reorganization of OMB and the kind of central capacity that was available there dealing with data and information undertaken through various of the channels in the Federal Government. We are aware of cutbacks that have been authorized as far as the Bureau of the Census is concerned, the Bureau of Labor Statistics.

We feel that if that kind of key information is eroded in terms of being compiled, being available for the very things we're talking about today—the formulation of a national policy, the making of decisions dealing with a variety of responsibilities—it will weaken the validity of those actions and indeed anything possible should be done to reverse the draining off of that kind of data.

As a final observation—and again, it's been touched on several times this morning—to guard very much against the overzealous and ideological, if you will, abandonment of Federal responsibilities for urban affairs. Urban affairs are a matter of national concern and they need an expressed position in terms of a national policy dealing with these concerns and it's just terribly important that we indeed guard against the kind of abandonment that our very brief statement suggests may be happening.

With those remarks, Mr. Chairman, let me conclude and express appreciation for the opportunity to be here, to be part of the presentations and the discussions that we've had this morning and to assure you that the American Planning Association places itself at your disposal, the disposal of the Congress, to be of assistance in whatever way we can as you review these considerations.

I would like to add one additional point, if I may, sir. In a recent release from our office, copies of which we have made available, we have a statement that deals with the magnitude and diversity of the issue of equity among the States and using data from the ACIR we have a couple of tables on each State's per capital Federal assistance received in 1980.

Representative Reuss. I've seen that, Mr. Hand. It's a most valuable study. I'm grateful for your testimony.

Mr. Hand. Thank you, Mr. Chairman.

[The prepared statement of Mr. Hand, together with a publication entitled "Summary of Planning Policies of the American Planning Association," follows:]

Prepared Statement of Irving Hand

MR. CHAIRMAN AND MEMBERS OF THE JOINT ECONOMIC COMMITTEE:

MY NAME IS IRVING HAND. I AM PROFESSOR OF STATE AND REGIONAL PLANNING, CHAIRMAN OF THE GRADUATE PROGRAM IN URBAN AND REGIONAL PLANNING, AND DIRECTOR OF THE INSTITUTE OF STATE AND REGIONAL AFFAIRS OF THE PENNSYLVANIA STATE UNIVERSITY AT THE CAPITOL CAMPUS. IN MY 35 YEARS IN PLANNING, I HAVE BEEN EXECUTIVE DIRECTOR FOR THE PENNSYLVANIA STATE PLANNING BOARD (1964-1972), PLANNING DIRECTOR FOR THE NASHVILLE, TENNESSEE, METROPOLITAN GOVERNMENT (1953-1964) AND DIRECTOR OF THE TULSA, OKLAHOMA METROPOLITAN PLANNING COMMISSION (1950-1953). I AM A MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PLANNERS (AICP). I AM ALSO IMMEDIATE PAST PRESIDENT OF THE AMERICAN PLANNING ASSOCIATION, AND IT IS IN THIS CAPACITY THAT I APPEAR HERE TODAY.

I WELCOME THIS OPPORTUNITY TO TESTIFY ON BEHALF OF THE AMERICAN PLANNING ASSOCIATION, AND RESPECTFULLY REQUEST THAT THE COMPLETE TEXT OF MY PREPARED STATEMENT BE INCLUDED IN THE HEARING RECORD.

THE AMERICAN PLANNING ASSOCIATION IS A NATIONAL ORGANIZATION OF 20,000 CITY, COUNTY, METROPOLITAN, REGIONAL AND STATE PLANNERS, INCLUDING ELECTED AND APPOINTED OFFICIALS AT ALL LEVELS OF GOVERNMENT, PROFESSIONAL PRACTITIONERS, EDUCATORS, INTERESTED CITIZENS AND STUDENTS. OUR MEMBERSHIP BELONGS TO 46 CHAPTERS COVERING VIRTUALLY EVERY STATE AND CONGRESSIONAL DISTRICT, AND TO 18 DIVISIONS, SUCH AS AN ECONOMIC DEVELOPMENT DIVISION AND A CITY PLANNING AND MANAGEMENT DIVISION, COMPOSED OF MEMBERS WITH SPECIAL PLANNING INTERESTS.

THE AMERICAN PLANNING ASSOCIATION IS THE RESULT OF A 1978 CONSOLIDATION OF THE AMERICAN INSTITUTE OF PLANNERS, ESTABLISHED IN 1917, AND THE AMERICAN SOCIETY OF PLANNING OFFICIALS, FOUNDED IN 1934. THE ASSOCIATION'S PRIMARY OBJECTIVE IS TO ADVANCE THE ART AND SCIENCE OF PLANNING FOR THE UNIFIED DEVELOPMENT OF COMMUNITIES, CITIES, REGIONS, STATES AND THE NATION. WITHIN APA, THE UMBRELLA ORGANIZATION, IS THE AMERICAN INSTITUTE OF CERTIFIED PLANNERS, WHICH FOCUSES ON PROFESSIONAL DEVELOPMENT AND WHOSE

MEMBERS ARE DISTINGUISHED BY HAVING PASSED AN EXAMINATION ON PLANNING PRINCIPLES AND PRACTICE.

I WANT TO TAKE THIS OPPORTUNITY TO DISCUSS BRIEFLY THREE TOPICS PERTINENT TO THE SUBJECT OF THESE HEARINGS. THE FIRST IS THE QUESTION RAISED BY THE COMMITTEE ON REFORM IN GOVERNMENT STRUCTURE TO CREATE A MORE FAVORABLE FISCAL CLIMATE. THE SECOND, DEALING WITH THE THEME OF THESE HEARINGS, CONCERNS WHAT WE IN THE AMERICAN PLANNING ASSOCIATION BELIEVE WARRANTS ATTENTION IN AN EFFECTIVE URBAN POLICY. THE THIRD ADDRESSES THE PARTICULAR NECESSITY FOR A NATIONAL URBAN POLICY AS A FRAME OF REFERENCE FOR THE FORMULATION OF AN ACHIEVABLE NEW FEDERALISM IN FACT AS WELL AS IDEOLOGY.

GOVERNMENTAL STRUCTURE AND FISCAL CLIMATE

APA APPRECIATES THIS OPPORTUNITY TO COMMENT ON THE NATION'S URBAN POLICY AND THE REFORMS OF GOVERNMENT STRUCTURES AND INTERGOVERNMENTAL RELATIONS NEEDED TO MAKE SUCH A POLICY EFFECTIVE.

APA AND ITS PREDECESSOR ORGANIZATIONS HAVE URGED GREATER USE OF PLANNING AT ALL LEVELS OF GOVERNMENT FOR MANY YEARS. THE NATION'S URBAN POLICY SHOULD BE CONSIDERED A MAJOR PLANNING DOCUMENT. IT SHOULD GUIDE FEDERAL PROGRAM LEGISLATION AND BUDGET PRIORITIES. IT SHOULD FACILITATE INTERAGENCY COORDINATION WITHIN THE FEDERAL ESTABLISHMENT, PARTICULARLY ON ISSUES CENTRAL TO THE NATION'S URBAN COMMUNITIES, AND LEAD TO SMOOTHER AND MORE PRODUCTIVE INTERGOVERNMENTAL RELATIONSHIPS IN THAT REGARD.

A NATIONAL URBAN POLICY THAT HOPES TO STAND THE TEST OF EFFECTIVENESS AND ACHIEVABILITY REQUIRES:

1. THE EXISTENCE OF STRONG PARTNERS AT EACH LEVEL OF GOVERNMENT HAVING RESPONSIBILITIES FOR URBAN CONDITIONS;
2. THE USE OF SOUND PLANNING PROCESSES AT EACH LEVEL OF GOVERNMENT; AND
3. ADEQUATE FINANCING AND MANPOWER (PERSONNEL) CAPACITIES TO MEET URBAN NEEDS.

FOR MANY YEARS, THE FEDERAL GOVERNMENT HAS CONTRIBUTED IN MAJOR WAYS TO THE REALIZATION OF THESE PRECONDITIONS FOR IMPROVING THE NATION'S URBAN CONDITION. FEDERAL PROGRAMS HAVE HELPED STATES TO BECOME MORE DEEPLY INVOLVED IN URBAN PROGRAMS AND TO ORGANIZE AND STAFF STATE AGENCIES CONCERNED WITH THOSE PROBLEMS; FEDERAL PROGRAMS HAVE INTRODUCED PLANNING INTO STATE GOVERNMENTS AND SUBSTANTIALLY ENHANCED THE PRACTICE OF PLANNING AT THE LOCAL LEVEL; FEDERAL PROGRAMS HAVE PLAYED A DECISIVE ROLE IN ORGANIZING AND PROMOTING ACTIVITIES OF BOTH METROPOLITAN AND MULTI-STATE REGIONS NEEDED TO ADDRESS ISSUES THAT SPILL ACROSS FIXED LOCAL AND STATE POLITICAL BOUNDARIES; THEY HAVE BEEN SIGNIFICANT IN FURTHERING INTERGOVERNMENTAL COMMUNICATION PROCESSES THROUGH WHICH GOVERNMENTAL AGENCIES AND THE RESPECTIVE LEVEL OF GOVERNMENT CONFER CONCERNING PROJECTS AFFECTING EACH OTHER; AND FEDERAL PROGRAMS HAVE RESPONDED TO URBAN FINANCIAL NEEDS NOT BEING MET ADEQUATELY BY STATE AID OR BY LOCAL ABILITIES TO TAX. IN SUM, THE FEDERAL ROLE IN URBAN AFFAIRS HAS BEEN IMPORTANT AND

USEFUL FOR AT LEAST THREE DECADES--AND, ON BALANCE, OF POSITIVE EFFECT.

NEVERTHELESS, THERE HAS BEEN INCREASING CRITICISM OF CERTAIN ASPECTS OF FEDERAL URBAN POLICY. PERHAPS THE THREE BIGGEST COMPLAINTS HAVE BEEN THAT IT HAS BEEN UNDULY RIGID, ILL-COORDINATED, AND ADDICTIVE:

--RIGID IN THE SENSE THAT IT TOO OFTEN TIED THE USE OF FEDERAL FUNDS TO SPECIFIC TYPES OF ORGANIZATION FOR STATE AGENCIES, LOCAL GOVERNMENTS AND REGIONAL BODIES; TOO OFTEN PROVIDED FUNDS FOR ONLY THE MOST NARROW OF PROGRAM OBJECTIVES; AND TOO OFTEN PERMITTED DUPLICATIVE PROCEDURES FOR BUDGETING, PLANNING, CITIZEN PARTICIPATION, AUDITING, AND THE LIKE;

--ILL-COORDINATED IN THE SENSE THAT SOME FEDERAL PROGRAMS TRIED TO REVITALIZE CENTRAL CITIES WHILE OTHERS MADE IT EASIER TO ABANDON THAT AREA; AND

--<u>ADDICTIVE</u> IN THE SENSE THAT LOCAL GOVERNMENTS, MOST REGIONAL ORGANIZATIONS, AND EVEN SOME STATE AGENCIES BECAME HEAVILY DEPENDENT UPON FEDERAL FUNDING FOR KEY URBAN PROGRAMS.

APA SENSES THE NEED TO RESPOND TO THESE COMPLAINTS AND BELIEVES THAT THE NATIONAL URBAN POLICY REPORT THAT CONGRESS REQUIRES THE PRESIDENT TO PREPARE EVERY TWO YEARS IS THE APPROPRIATE VEHICLE FOR DOING SO. OBVIOUSLY, THE ISSUES BEING ADDRESSED IN THE EMERGING FORMULATION OF THE NEW FEDERALISM WILL HAVE A MAJOR BEARING ON THAT PROCESS THIS YEAR. APA SHARES THE CONCERN FOR SIMPLIFYING THE GRANT SYSTEM AND GIVING STATE AND LOCAL GOVERNMENTS GREATER DISCRETION OVER HOW TO PLAN FOR AND MEET THEIR URBAN NEEDS.

SORTING OUT FUNCTIONAL AND FINANCIAL RESPONSIBILITIES AMONG THE NATIONAL, STATE AND LOCAL GOVERNMENTS KNOWS NO "NAY-SAYERS"; IT IS A CONTINUING TASK CHARACTERIZING THE FEDERAL SYSTEM OF GOVERNMENT IN THIS COUNTRY. AS ONE SORTS OUT RESPONSIBILITIES,

CONCEPTUALLY AND IN TERMS OF ACHIEVING OPERATIONAL FEASIBILITY, HOWEVER, POTENTIAL SHIFTS SHOULD MEET AN OVERRIDING CRITERION: IS THIS SOMETHING THE PARTICULAR LEVEL AND UNIT OF GOVERNMENT CAN DO BEST AND WHAT IS THE STATUS OF ITS CAPACITY TO DO SO?

WE MUST AVOID A DOMESTIC ISOLATIONISM MASQUERADING AS A BUDGET POLICY AND A NEW FEDERALISM. WITH RESPECT TO A GREAT MANY IMPORTANT ISSUES, WE SHOULD NOT ACCEPT A FRAGMENTED PORTRAIT OF AMERICA AS A CONFEDERATION OF 50 STATES OR 80,000 LOCAL GOVERNMENTS WITH IMPENETRABLE WALLS. TWO HUNDRED YEARS OF GROWTH AND CHANGE AND PROGRESS DOCUMENT THIS NATION'S CONSTITUTIONAL COMMITMENT TO SOCIAL AND ECONOMIC DECENCY AND INTEGRITY.

THE RESTRUCTURING OF PROGRAMS MUST REFLECT A DELIBERATE EXAMINATION WITH NO SMALL ATTENTION TO HOW RESPONSIBILITIES MAY BE BEST SHARED AND HAVING THE REQUIRED RESOURCES IN PLACE OR ACCOUNTED FOR (AND THAT MEANS PEOPLE AND DOLLARS) AS CHANGES OCCUR.

APA BELIEVES THAT SOME CURRENT MOVES THREATEN CONTINUED AND EVOLVING VITALITY OF NATIONAL LEADERSHIP NOT ONLY IN THE EXPRESSION OF URBAN POLICY BUT, MORE CRITICALLY, IN ITS IMPLEMENTATION.

SINKING URBAN BUDGETS. FEDERAL BUDGET CUTS ARE FALLING DISPROPORTIONATELY ON THE GRANT SYSTEM, MUCH OF IT INVOLVING URBAN PROGRAMS. IN THE PROCESS, MANY PROGRAMS REQUIRING AND ASSISTING PLANNING AT STATE AND LOCAL LEVELS HAVE BEEN TERMINATED OR MERGED INTO NEW BLOCK GRANTS WITHOUT PLANNING REQUIREMENTS. STATE AND LOCAL GOVERNMENTS ARE BEING CONFRONTED WITH SEVERE FUNDING CONSTRAINTS AND A HIGHLY UNCERTAIN FINANCIAL AND MANPOWER CAPACITY. IN THIS ENVIRONMENT OF FEDERAL BUDGET CUTS ON TOP OF NEW LIMITS ON STATE AND LOCAL TAXING ALONG WITH AN ECONOMY IN RECESSION, PLANNING HAS BECOME INCREASINGLY VULNERABLE NOTWITHSTANDING THE FACT THAT WHEN RESOURCES ARE SCARCE, WHEN PRIORITIES ARE URGENT, WHEN DIFFICULT CHOICES MUST BE ADDRESSED, PLANNING BECOMES EVEN MORE IMPORTANT.

WITHERING REGIONS. THE FEDERAL GOVERNMENT HAS CEASED ITS PARTICIPATION IN THE TITLE II RIVER BASIN COMMISSIONS (MANY OF WHICH AFFECTED URBAN WATER SUPPLIES) AND THE TITLE V MULTISTATE ECONOMIC DEVELOPMENT COMMISSIONS (ALL OF WHICH WERE CONCERNED WITH THE ECONOMIC HEALTH OF THEIR LOCAL COMMUNITIES). AT THE METROPOLITAN AND NONMETROPOLITAN LEVEL, AREAWIDE REGIONAL ORGANIZATIONS AND COUNCILS OF GOVERNMENT HAVE LOST MUCH OF THEIR FEDERAL SUPPORT; SOME ALREADY HAVE GONE OUT OF BUSINESS, WHILE MOST HAVE CUT BACK THEIR ACTIVITIES VERY SUBSTANTIALLY.

RECEDING A-95. THE ADMINISTRATION HAS PROPOSED TO TURN OVER TO THE STATES RESPONSIBILITY FOR CONTINUING THE CONGRESSIONALLY MANDATED INTERGOVERNMENTAL COMMUNICATIONS NETWORK THAT HAS OPERATED TO GREAT BENEFIT FOR WELL OVER A DECADE UNDER OMB CIRCULAR A-95. FEDERAL FINANCIAL ASSISTANCE FOR THIS PROCESS ALREADY HAS BEEN CUT AND NON-FEDERAL DISAPPOINTMENT WITH FEDERAL AGENCY INATTENTION TO STATE AND LOCAL COMMENTS SUPPLIED IN THE PAST HAS BEEN GREAT. UNDER THESE CONDITIONS, MANY STATES MAY OPT OUT.

DISAPPEARING DATA. OMB HAS DISMANTLED ITS STATISTICAL POLICY OFFICE, STOPPED PUBLICATION OF DATA ON THE GEOGRAPHIC DISTRIBUTION OF FEDERAL OUTLAYS, AND EFFECTED BUDGET CUTBACKS THAT ARE CRIPPLING CRUCIAL DATA COLLECTION AND DISSEMINATION ACTIVITIES AT SUCH KEY AGENCIES AS THE CENSUS BUREAU AND THE BUREAU OF LABOR STATISTICS. WITHOUT SUCH DATA, PLANNING AND DECISION MAKING AT ALL LEVELS ARE HAMPERED. AT THE NATIONAL LEVEL, PREPARING A NATIONAL URBAN POLICY WITHOUT ACCESS TO SUCH IMPORTANT DATA IS UNTHINKABLE. JUSTIFICATIONS IN THE NEW FEDERALISM POLICIES, ALSO, REST UPON A THOROUGH ANALYSIS OF SUCH DATA. AS HAS BEEN POINTED OUT IN ANOTHER CONGRESSIONAL HEARING: "WE MAY NO LONGER HAVE ENOUGH QUALITY INFORMATION TO KNOW JUST WHERE THE ECONOMY IS GOING, LET ALONE FUNDS TO PUBLISH THOSE DATA FOR OTHERS TO INTERPRET." REPLACE THE WORD "ECONOMY" WITH "HEALTH," "HOUSING," "EDUCATION" OR "CRIME," AND THE SAME STATEMENT APPLIES.

FADING FEDERAL RESPONSIBILITIES. APA'S CURRENT ADOPTED POLICY ON NEW FEDERALISM STRESSES THAT THIS PRESIDENTIAL INITIATIVE

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SHOULD BE NEITHER A SUBSTITUTE FOR A NATIONAL URBAN POLICY NOR AN EXCUSE FOR ABANDONING IMPORTANT NATIONAL INTERESTS. APA BELIEVES THAT THE FEDERAL GOVERNMENT HAS CONTINUING RESPONSIBILITIES FOR URBAN GROWTH, NATIONAL SETTLEMENT PATTERNS, LAND USE, ENERGY, ENVIRONMENTAL PROTECTION, TRANSPORTATION, ECONOMIC DEVELOPMENT, INCOME MAINTENANCE FOR INDIVIDUALS, AND OTHER PROGRAMMATIC ELEMENTS OF A NATIONALLY EXPRESSED URBAN POLICY FOCUSED ON WHAT WE, AS A NATION, ARE ALL ABOUT. THAT POLICY ALSO MUST BE DIRECTED TO THE STRENGTHENING OF THE REGIONAL BODIES AND THE STATE AND LOCAL GOVERNMENTS THAT ULTIMATELY ARE RESPONSIBLE FOR PROVIDING MOST URBAN FACILITIES AND SERVICES.

IN LIGHT OF THE FOREGOING, APA URGES CONGRESS TO EVALUATE THE 1982 NATIONAL URBAN REPORT CAREFULLY AND TO

- STEM FURTHER CUTS IN THE URBAN BUDGET;
- RESTORE SUPPORT TO ESSENTIAL REGIONAL ORGANIZATIONS;
- RESCUE THE A-95 INTERGOVERNMENTAL COMMUNICATION PROCESS;
- REVERSE THE DRAINING OFF OF KEY DATA FOR PLANNING, POLICY AND PROGRAM PURPOSES; AND

- GUARD AGAINST OVERZEALOUS ABANDONMENT OF FEDERAL RESPONSIBILITIES FOR URBAN AFFAIRS.

SUBSTANCE OF THE NATIONAL URBAN POLICY

LET ME ADDRESS BRIEFLY NOW SOME OF THE CONSIDERATIONS TO BE TAKEN INTO ACCOUNT WITH RESPECT TO THE SUBSTANCE OF NATIONAL URBAN POLICY.

OUR MEMBERSHIP IS IN THE BUSINESS OF PLANNING. AS PLANNERS, WE BELIEVE THAT THE BEST DECISIONS BY GOVERNMENT AT ALL LEVELS AND BY THE PRIVATE SECTOR WILL BE MADE WITH THE HELP OF CONTINUOUS PLANNING.

APA, LAST YEAR, ADOPTED A SET OF POLICIES COVERING THE MAJOR ASPECTS OF HUMAN CONCERNS AND OUTLINING POLICIES TO GUIDE GOVERNMENTAL ACTION AT ALL LEVELS--FEDERAL, STATE AND LOCAL.

THESE POLICIES ARE SUMMARIZED IN THE PUBLICATION THAT WE HAVE SUBMITTED TO THE COMMITTEE AS AN APPENDIX TO THIS STATEMENT.

TWO BRIEF QUOTATIONS FROM APA'S POLICIES DESCRIBE THE MAJOR CHARACTERISTICS OF WHAT WE BELIEVE IS CALLED FOR IN A NATIONAL URBAN POLICY:

> THE FEDERAL GOVERNMENT SHOULD SET LONG-RANGE, INTER-RELATED NATIONAL GOALS AND POLICIES IN REGARD TO GROWTH, SETTLEMENT, LAND USE, ENERGY, ENVIRONMENT, TRANSPORTATION, AMONG SELECTED ECONOMIC, SOCIAL AND CULTURAL CONCERNS.
>
> AND
>
> THE FEDERAL GOVERNMENT SHOULD TRANSLATE NATIONAL POLICY INTO CONSISTENT PROGRAMS THAT PURSUE THE ACHIEVEMENT OF INTERRELATED NATIONAL GOALS AND COORDINATE THE MANAGEMENT OF NATIONAL PROGRAMS TO THE SAME END.

IN SHORT, WE BELIEVE THAT A NATIONAL URBAN POLICY SHOULD:

- ADDRESS NATIONAL GOALS. THESE INCLUDE, ILLUSTRATIVELY, THOSE THAT WE HAVE BEEN ADDRESSING IN THE PAST AS WELL AS EMERGING ONES, MOST CURRENTLY, OUR NATION'S

DECAYING INFRASTRUCTURE, A CONDITION CRITICAL TO ECONOMIC INVESTMENT AND DEVELOPMENT.

- INTERRELATE THESE GOALS SO THAT THEY WORK IN CONCERT WITH ONE ANOTHER. NATIONAL TRANSPORTATION GOALS, FOR EXAMPLE, SHOULD BE A PART OF A NATIONAL COMPREHENSIVE POLICY ON GROWTH, LAND USE, ENERGY AND THE ENVIRONMENT.
- CONSIDER LONG-RANGE GOALS AS WELL AS IMMEDIATE ACTION. FOR EXAMPLE, A NATIONAL ENERGY GOAL OF SELF-SUFFICIENCY THROUGH A DIVERSE MIX OF ENERGY SOURCES MAY ALSO INCLUDE CONSERVATION MEASURES AS THE BEST SHORT-TERM OPTION FOR BALANCING ENERGY SUPPLY AND DEMAND.
- LINK POLICY WITH IMPLEMENTATION THROUGH FEDERAL LEGISLATION AND EXECUTIVE ACTION.

WE BELIEVE THAT IT IS AGAINST THESE CRITERIA THAT A NATIONAL URBAN POLICY SHOULD BE EVALUATED.

NATIONAL URBAN POLICY AND THE NEW FEDERALISM

MANY ADMINISTRATION PROGRAMS AND PROPOSALS SPRING FROM A COMMON IDEOLOGY AND ARE RELATED TO ONE ANOTHER BY THAT IDEOLOGY. THESE INCLUDE ACTIONS TO DEAL WITH INFLATION, TRANSFERRING PROGRAMS TO STATES AND LOCAL GOVERNMENTS, DEREGULATION, ENTERPRISE ZONES, GREATER SELF-RELIANCE ON THE PART OF CITIES, NEIGHBORHOOD SELF-RELIANCE, AND PRIVATE SECTOR INITIATIVES. TO THE AMERICAN PLANNING ASSOCIATION, THESE APPEAR IN THE ADMINISTRATION'S NATIONAL URBAN POLICY REPORT NOT AS A CONSISTENT POLICY STATEMENT, BUT RATHER AS A SERIES OF ISOLATED ELEMENTS TIED TOGETHER ONLY BY A COMMON IDEOLOGICAL SOURCE.

WE BELIEVE THAT THE ADMINISTRATION'S PROGRAMS, AND PARTICULARLY ITS NEW FEDERALISM, NEED A NATIONAL URBAN POLICY FRAMEWORK TO ASSURE THEIR CONSISTENT DIRECTION AND APPLICATION.

AS HAS BEEN INDICATED, NATIONAL URBAN POLICY SHOULD HELP RECOGNIZE AND DEFINE THE APPROPRIATE AND VARYING ROLES OF EACH LEVEL OF GOVERNMENT, INCLUDING:

- A CLEAR AND EQUITABLE ASSIGNMENT OF GOVERNMENTAL FUNCTIONS AND THE AUTHORITY FOR THEIR PERFORMANCE;
- SHARED RESPONSIBILITIES, DUTIES AND AUTHORITY;
- INTERACTION TO ACHIEVE IMPROVED FUNCTIONAL PROGRAM PERFORMANCE AS WELL AS OVERALL GOVERNMENTAL PERFORMANCE; AND
- INTERACTION TO ENABLE PROGRAMS TO MEET THE NEEDS OF GEOGRAPHIC AREAS AND GROUPS OF PEOPLE ACROSS GOVERNMENTAL BOUNDARIES, ECONOMICALLY AND EFFECTIVELY.

RATHER THAN A BLANKET TURNOVER OF PROGRAMS TO THE STATES, WHAT IS REQUIRED IS A CLEAR DEFINITION OF THE APPROPRIATE ROLE OF GOVERNMENT--FEDERAL, STATE, METROPOLITAN AND LOCAL--FOR EACH OF THE DIVERSE NATIONAL CONCERNS, INCLUDING ECONOMIC DEVELOPMENT, HOUSING, COMMUNITY INFRASTRUCTURE, AND PUBLIC SAFETY.

FOR EACH URBAN FUNCTION THERE IS AN APPROPRIATE MIX OF GOVERNMENTAL RESPONSIBILITIES FROM FEDERAL TO LOCAL. THE DEFINITION OF SUCH A MIX SHOULD BE PART AND PARCEL OF A NATIONAL URBAN POLICY.

FURTHERMORE, THE NEW FEDERALISM NEEDS SPECIFIC GOALS THAT REFLECT NATIONAL OBJECTIVES. I AM REFERRING TO THE KINDS OF GOALS AND RELATED STANDARDS THAT WOULD BE AN INTEGRAL PART OF NATIONAL URBAN POLICY, AND THAT WOULD BE REFLECTED IN CONGRESSIONAL LEGISLATIVE INTENT. WHAT LITTLE EVIDENCE WE HAVE SO FAR, IN THE IMPLEMENTATION OF THE NEW FEDERALISM STYLE BLOCK GRANTS, POINTS TO THE NEED FOR EXPLICIT GOALS.

A CASE IN POINT IS THE ADMINISTRATION BY HUD OF THE SMALL CITIES COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM. NEW RULES PROPOSED BY HUD UNDER THE GUISE OF GIVING COMMUNITIES "GREATER FLEXIBILITY IN MEETING LOCAL NEEDS" WOULD IN FACT ELIMINATE THE CONGRESS'S INTENDED EMPHASIS ON ACTIVITIES THAT DIRECTLY CONCERN THE POOR AND THEIR WELL-BEING.

STATES AND LOCAL GOVERNMENTS NEED FEDERAL AND CONGRESSIONAL GUIDANCE IN THE FORM OF INTERRELATED, REALISTIC AND EXPLICIT GOALS FOR HEALTH CARE, FOR INCOME MAINTENANCE, FOR PUBLIC TRANSPORTATION, FOR HOUSING AND FOR OTHER URBAN NEEDS.

WHETHER UNDER THE NEW FEDERALISM OR NOT, THE FEDERAL GOVERNMENT MUST MAINTAIN AN ACTIVE ROLE AND CONTINUE PROGRAMS THAT ARE INTENDED TO PROVIDE AMERICANS WITH:

- ECONOMIC AND SOCIAL EQUITY;
- ENERGY AND RESOURCE DEVELOPMENT AND CONSERVATION;
- EDUCATION;
- EMPLOYMENT AND A SOUND ECONOMY; AND
- PRESERVATION AND ENHANCEMENT OF THE QUALITY OF THE ENVIRONMENT.

FINALLY, A NATIONAL URBAN POLICY MUST ADDRESS ITSELF TO THE <u>IMPORTANT ISSUE OF EQUITY</u>. THE FEDERAL AID SYSTEM HAS BECOME A MAJOR SOURCE OF REVENUE FOR STATE AND LOCAL GOVERNMENTS, MILDLY EQUALIZING THE CAPACITIES AMONG STATES TO UNDERTAKE THE MANY PROGRAMS AND MEET THE MANY STANDARDS ESTABLISHED BY THE FEDERAL GOVERNMENT. AS THIS MAJOR SOURCE OF REVENUE IS WITHDRAWN, THE DIFFERENCES IN FISCAL CAPACITIES AMONG THE STATES WILL INCREASE SUBSTANTIALLY.

A NATIONAL URBAN POLICY THAT RECOGNIZES REGIONAL AND FISCAL DISPARITIES WILL PROVIDE A FRAMEWORK WITHIN WHICH A PERMANENT FEDERAL TRUST FUND AND OTHER MEASURES COULD BE DESIGNED TO EQUALIZE TAX WEALTH AMONG THE STATES.

MR. CHAIRMAN, I WANT TO THANK YOU AND THE MEMBERS OF THE COMMITTEE FOR THE OPPORTUNITY YOU HAVE PROVIDED THE AMERICAN PLANNING ASSOCIATION TO PRESENT OUR VIEWS ON WHAT WE BELIEVE TO BE A NATIONAL NEED, YET TO BE MET: THAT OF COMPREHENSIVE AND EFFECTIVE NATIONAL URBAN POLICY. WE WOULD BE GLAD TO WORK WITH THE COMMITTEE AND ITS STAFF ON ACHIEVING THIS IMPORTANT OBJECTIVE.

Summary of Planning Policies of the American Planning Association

American Planning Association

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Copies of the unedited policy statements, from which this *Summary of Planning Policies* is abstracted, can be obtained upon request from the American Planning Association, 1776 Massachusetts Ave., N.W., Washington, D.C. 20036.

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Introduction: The Role of Planning

Managers of public and private American enterprise recognize that their best decisions will be made with the help of continuous planning. Management must anticipate events, not merely react to them, and must create its own opportunities, not merely hope for rescue from its problems. The question was once whether to plan; it is now how best to plan.

Community residents want to see their communities prosper, be healthy, work efficiently, look attractive, and treat everyone fairly. As individuals—and as communities—we want to make our own choices about how to meet those goals.

The purpose of planning is to facilitate the choices. Planning should free us from facing the impact of change with no policy chosen in advance. Planning should free us from making lasting decisions under pressure, with too little information. Planning should lead to agreed upon priorities about how to spend limited public funds. Planning's role, in short, is to develop the communities we want by design and with forethought.

Good planning requires:

1. Agreeing on the objectives to be reached in solving problems, using resources, and exploiting opportunities. Because agreement is the outcome of political debate among contending interests, planners should help in finding a creative balance that seeks to satisfy diverse interests, assure that all interests are considered, and display the results expected from alternative objectives. The choices among alternatives need to be specific enough to show what will be given up, as well as what will be gained.
2. Fact-finding and analysis. Planning's role is to provide an understanding of problems, trends, opportunities, and the probable consequence of alternative choices. The planning agency is also a main source of data needed in private decisions.
3. Recommending plans and policies. It is a central role of planning to devise what is to be done: to propose plans and policies, prepare programs, and recommend actions.
4. Coordinating planning among specialized, functional agencies and coordinating comprehensive planning with other levels of government.
5. Carrying out plans and applying policies. It is the role of planning to develop the budgetary and legislative means of getting things done in accordance with plans and policies. Capital improvement programs, development plans, regulatory codes, and ordinances are prepared by planning agencies. Their administration also may be combined with the responsibility for planning.
6. Checking the results. It is the role of planning to study what happened after plans were followed: Were the plan recommendations effective? Did their implementation work out well? Were conflicts and duplication among public policies eliminated?

These activities are not consecutive steps that are completed once and for all. Specific developments may reach completion, but the planning activities that produce them are as continuous as the flow of development problems and decisions.

The Content of Planning

The subjects that public planning deals with cover as wide a range as the decisions that the public must make. At the beginning of the 1980s, city, rural, and regional planning commonly addresses programs in:

Capital Budgets
Economic Development
Education
Energy Management
Environmental Quality
Growth Management
Historic and Architectural Preservation
Housing and Community Development
Land Use
Natural Resource Conservation
Public Safety
Recreation
Social Services
Transportation
Urban Design

The key characteristic of comprehensive planning is that the plans prepared for any one of these subjects are studied in relationship to all the others. With study and coordination, plans produced independently, function by function, can help a community achieve its objectives.

The Responsibility for Planning

Planning is a function of each unit of government that makes decisions affecting the future of our communities. With the independent power to make decisions goes the need for an independent source of planning advice. Planning, therefore, takes place at city, county and state levels of government. With many separate units clustered in metropolitan areas, planning also takes place at the regional or areawide level to coordinate among the separate jurisdictions. In rural areas, small local governments can benefit from the professional assistance of a regional planning agency. In larger cities, there has recently been more planning by neighborhoods, although this is not a level of independent government. Such planning is helpful because of the diversity of neighborhood views and problems, as well as the perception that plans will better fit people's needs if there is more local responsiveness and control.

The nation has a stake in local and state planning: The good things that we want as a nation depend on the sum of many local decisions. It is the federal role to encourage the effectiveness of local planning—to help support the process rather than to direct a decision.

The federal government also has a role: It must do its own planning effectively. At the federal level, planning can help to coordinate the activities of the several executive agencies, especially as they impinge on the work of states and localities. The quality of planning will affect the equity and fairness with which budgets and regulations treat individuals and different groups in society. Further, duplication and inconsistency of federal effort can be reduced by planning. Above all, the national interest requires a planning function that considers the long-run as well as the short-run consequences of a decision.

The Role of Planning for Rural Areas

In recent years, the migration trend away from rural areas has reversed; more and more Americans are now moving into rural areas. These new rural residents have helped dramatize long-existing rural problems which, although different in intensity, are often the same as problems in urban areas.

Government policies and programs have long neglected rural areas, and there is little coordination of existing programs. New policies and programs are needed that recognize the complexity of the problems and that aim to maintain viable, healthy, and productive rural areas. Policies that fully cover rural planning problems encompass the full range of the APA policy document.

Planning Policies
Part I: The Planning Function

Intergovernmental Relations

Introduction

In the American federal system, governmental powers, resources, structures, and programs are frequently shared among governments at different levels or among governmental units at the same level. Thus, intergovernmental relations—the set of processes, procedures, and organizational structures that facilitate the exercise of shared responsibilities, duties, and authority—are of key importance to planning.

Effective intergovernmental relations require:

a. A clear and equitable assignment of governmental functions and of authority to perform them;

b. Shared responsibilities, duties, and authority for technical analysis as well as for political decision making;

c. Interaction to achieve improved functional program performance as well as overall governmental performance; and

d. Interaction to enable programs to meet the needs of geographic areas, and groups of people across governmental boundaries, economically and effectively.

A. Policies on Intergovernmental Planning and Policy Making

1. Planning should seek improved procedures, processes, and organizational structures to facilitate the exercise of shared powers with respect both to overall coordinative policies and to individual functional programs.
2. Planning should help define the appropriate roles for government and institutions in formulating and implementing unified policies that reflect and respond to diversity and pluralism.
3. Every level of government should have an opportunity to express its views about decisions made at other levels that would have a substantial impact on its jurisdiction.
4. All levels of government should periodically reexamine their planning laws and structures, to assure that the final product of the planning process is comprehensive, integrated, and linked to action programs.
5. As much as is possible, each level and unit of government should be allocated sufficient powers and resources to carry out its responsibilities.

B. Policies on Governmental Reorganization and Regionalism

1. Governments should be reorganized and restructured when necessary to assure adequate geographical jurisdiction, legal authority, and financial bases to develop and implement comprehensive plans for urban and rural areas.
   a. Public development corporations should be established when they can help implement coordinated state, regional, and local development plans.
2. All levels of government should cooperate to establish consistent regional boundaries and effective regional organizations.
   a. The federal government should ensure that its program boundaries are consistent with state designated substate regions and federally designated interstate regions. This might be done through the Federal Regional Councils.
   b. Where a region is solely contained within a single state, the state should designate boundaries and encourage the establishment of appropriate regional organizations. In interstate areas, the federal government should encourage and assist such efforts.

C. Policies on Intergovernmental Aid

1. Federal and state planning assistance grants should encourage recipients to:
   a. experiment prudently with innovative solutions to local problems while contributing to the solution of national problems;
   b. provide training and development of planning capabilities;
   c. secure such technical assistance as they may require; and
   d. fund state and federally mandated planning and review processes.
2. Special purpose aid programs frequently should be consolidated into broader grant programs to improve coordination, increase recipient discretion, and reduce paperwork and duplication.
3. The concept of integrated grants and joint funding of multiple programs through a single, simplified application review and administration process should be applied.
4. The Federal Regional Councils should help coordinate federal grants in aid to state and local governments and to multistate and substate organizations. They should also serve as ombudsmen for grant recipients.
5. Each level of government should use intergovernmental project and program reviews to increase coordination of planning and implementation activities.
6. The proliferation of federally imposed reviews, rapidly changing program requirements, time-consuming administrative reorganizations, and other impediments to effective planning and implementation should be minimized through coordinated federal, state, and local action.
7. At each level of government, and among the levels, every effort should be made to streamline and simplify procedures for issuing permits, processing applications for funding, and managing or supervising programs.

Jurisdictional Responsibilities for Planning

Introduction

In the American federal system, the several levels of government share responsibilities extensively. Within that context, each level of government has a distinctive planning role reflecting its particular responsibilities.

Comprehensive planning, a goal emphasized in these policies, takes place in varying degrees in the various levels of government. The federal government has established rules and criteria for other levels of government, but has not yet formulated a comprehensive planning program for the nation as a whole. Regional or multijurisdictional organizations, playing a largely advisory role, seek to link the respective governmental agencies; their attempts deserve special recognition.

A. Federal Role

1. The federal role in planning should be:
   a. To set long-range, interrelated national goals and policies in regard to growth, settlement, land use, energy, environment, transportation, and economic, social, and cultural concerns;
   b. To prepare and enact legislation and to promulgate unified planning guidelines including project review processes and planning assistance programs that further national policies;
   c. To facilitate and stimulate long-range comprehensive planning by all levels of government and by regional organizations;
   d. To streamline and coordinate administrative procedures for capital and operating purposes, with appropriate provisions for intergovernmental decision-making authority to allocate and use such funds;
   e. To coordinate federal fiscal and monetary policy in a way that supports national policy goals;
   f. To support each state's efforts to coordinate plans and programs through its comprehensive planning process.
2. The federal government should translate national policy into consistent programs that pursue the achievement of interrelated national goals and coordinate the management of national programs to the same end.

3. National programs should aim to achieve the highest and most imaginative efforts by private enterprise and by government at all levels to promote the common good of society.

The Role of Congress

4. Congress should set long-range goals, policies, and priorities relating to the management of national growth.
5. Congress should accept responsibility for developing a legislative framework to manage national growth and change and should establish the necessary staff capability.
6. Congress should establish an adequately staffed Joint Committee on National Development Policy, with representation from the several congressional committees that deal with domestic affairs. This committee should assess the actual impact of national growth and community development policies, forecast their future impact, and focus legislative attention on critical environmental and behavioral problems and opportunities.

The Role of the Executive Branch

7. The President should accept responsibility for developing a framework to manage national growth and change, establish the necessary interdisciplinary capability in the Executive Office, and use appropriate government agencies for implementation.
8. The President's Biennial Report on National Growth should be expanded in scope to include current social, economic, and ecological data and indices, as well as information regarding the geographical distribution of federal expenditures and the past impacts of major federal policies, programs, and projects. This information may improve development program coordination and assist in the formulation of needed legislation.
9. At the federal level, functional policies and planning by all cabinet departments and executive agencies should support national goals and policies within a framework clearly enunciated by the President and approved by Congress.

Federal Planning Requirements

10. The federal government should encourage states to charge a single multijurisdictional and multifunctional substate agency in each substate district with the responsibility for implementing all federally assisted areawide comprehensive general-purpose planning. It would also coordinate all functional planning and satisfy all multijurisdictional federal planning requirements. Where federal planning funds are channeled through the states, federal agencies should work with the states to ensure that areawide planning can be carried out effectively by substate regional agencies.
11. Block grants furthering an established national development policy are an appropriate step toward integrated funding and administrative simplification of federal and state programs.
12. Guidelines for the use of planning grants should stress:
   a. Strengthening the recipients' organizational and administrative abilities to develop and implement comprehensive plans, within a framework of open public access to the decision-making process; and
   b. Strengthening coordination of functional planning for the delivery of public facilities and services.

13. There should be enough funds in local and state planning budgets to allow coordination of planning activities with the executive and legislative branches of government.

Federal Research and Information Programs

14. A complete census of population and housing should be conducted every ten years. Five years after every full census, samples should be employed to improve understanding by all governments of their geographic areas' dynamics.
15. The Bureau of the Census should certify the summary tape processing centers only if they meet acceptable standards and should review their performance periodically.
16. Sustained funding is needed to continue, expand, and improve the existing national geocoding system, building upon the techniques used by the Bureau of the Census.
17. An interdepartmental office of small area statistics should be organized. Its function would be:
   a. To articulate the federal small area data program in detail to the various users of such data; and
   b. To carry out a research program in small areas' data problems and needs. This program would provide local officials, planners, and other users with ready access to data and would help them translate such data into information required for policy decisions. Special funding should be continued for demonstration and research projects at each jurisdictional level.

B. State Role

1. States should use their constitutional powers to provide a rational framework to deal with the nation's domestic problems by integrating adopted local, regional, state, and national goals.
2. Comprehensive, multifunctional state policies, plans, and programs should be designed in close cooperation with local governments to further planned goals.
3. Such plans should be legally adopted and reevaluated at regular intervals. To the extent consistent with state policy, they should incorporate the results of local, metropolitan, and regional planning processes as a basis for determining statewide needs and priorities and for allocating resources.
4. Planning should be institutionalized within state government and structured for the benefit of the governor, state agencies, and the legislature.
5. Through appropriate legislation or constitutional amendments, the states should formally recognize the governor as the chief state planning officer and establish a mechanism for directing and coordinating a state planning and development process at the gubernatorial level.
6. State programs should encourage local and regional planning analysis and innovation, and allow maximum flexibility in local implementation. But if a local jurisdiction fails to act to meet demonstrated needs or to solve critical problems, the state should act directly or through an appropriate instrument empowered to do so.
7. States should exercise responsibility for facilities and areas of statewide concern such as state highways, coastal areas, power plants, toxic waste disposal sites, and state-owned lands and resources.

C. Multijurisdictional Role

1. Substate regions acting through umbrella multijurisdictional organizations should:

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a. Identify needs, establish priorities, and adopt plans and programs within each region based on a statewide comprehensive planning and resource allocation framework. This framework should consider the links between planning and implementation in all the governmental jurisdictions affected;

b. Allocate federal and state capital and operating assistance funds not allocated directly by formula to operating agencies and construction;

c. Provide a forum for coordinating planning and programming and to resolve conflicts among various levels and units of government, operating authorities, and citizen groups; and

d. Provide or help localities secure requested technical and financial assistance.

2. Enabling statutes should require interjurisdictional special-purpose authorities to coordinate their plans with those of umbrella multijurisdictional organizations and with general-purpose local governments.

3. Multistate regional commissions provide an important forum in which states and federal agencies can reach consensus on common issues. They should draw heavily on the work and experience represented by substate regional organizations.

D. Local Role

1. Local governments should control planning for local land use and facility systems, local social and economic goals, and local environmental goals.

2. Local governments should control local revitalization, historic, and neighborhood preservation activities and should seek methods for improving design standards in all types of developments.

3. Local governments should cooperate with and participate in multijurisdictional and state planning and programming activities.

4. Local governments should increase their capability to coordinate programs and activities within their jurisdictions.

5. Where practical, local government should have the right to review and recommend revisions to a plan made by a higher level of government when it affects local affairs and thus be part of the planning process.

Citizens in the Planning Process

Introduction

Citizen participation is an essential part of our form of government, long typified by town meetings and public hearings held by legislative bodies. Such participation should be made available to everyone affected by the planning process; citizens can gain the information they need to participate effectively through readable written information and the use of workshops, seminars, conferences, exhibits, and other techniques.

A. General Policies

1. Citizens should be involved in formulating programs as well as in evaluating their effectiveness at all levels of government.

2. As part of the planning process, information about citizen needs and desires should be gathered and used. Citizens and their organizations should be involved by public agencies in programs at all levels and should have access to information concerning all phases of planning.

3. All planning budgets should have sufficient funds to support citizen participation activities.

4. Low-income citizens, the elderly, the handicapped, and other minorities with special needs should get special consideration regarding participation.

5. Continuing community liaison among citizens, planners, and administrators should be maintained at all planning stages. Citizens should have the opportunity to reevaluate a project whenever there are significant revisions or time lapses following hearings.

6. Responsiveness summaries should be prepared and made available to the public after hearings, so that the participants may determine the degree to which their recommendations have been incorporated into the plan.

7. Adaptations of traditional citizen participation techniques must be developed for rural areas.

B. Federal Role

1. Federal regulations should continue to require citizen involvement in commissions and public hearings. This guarantees citizen comment on programs and projects being planned and implemented by federal agencies.

2. Federal program budgets should provide representative citizen and interest groups with the resources to develop alternative solutions, where it can be demonstrated that alternative solutions were inadequately evaluated in the initial planning stages.

3. Federal regulations should emphasize goals, not procedures. This gives local communities greater latitude in formulating programs that meet the needs and wishes of their citizens.

C. Regional Role

1. Local residents may have regional concerns. Regional agencies, therefore, should ensure citizen participation by conducting forums at which the staffs of special-purpose agencies present their recommended programs. At the forums, the regional staff should discuss how the various area-wide programs complement or contradict one another.

D. State and Substate Roles

1. Generally, states should include citizens at the start of the planning process and continue to involve them in the implementation and evaluation phases.

2. Public agencies should provide citizen groups with information on an ongoing basis, through newsletters or other means.

E. Local Role

1. Membership on local planning boards should be representative of the community.

2. Local governments should involve citizen organizations during comprehensive planning, capital budgeting and grant application development and should establish a reporting system for program accomplishments that can be

reviewed annually by all citizens.

3. Neighborhood and community groups should receive local staff and financial support for their participation in the planning process.

Part II: Planning Goals

Growth Management

Introduction

Planning should find ways for the nation, the states and local communities to satisfy legitimate growth objectives with minimum negative impact. Growth management requires priority setting, resource allocation, and sensitivity to the varied interests of a pluralistic society. Because these kinds of skills are basic to planning, the planning profession is centrally involved in growth management.

A. General Policies

1. Growth management should be an integral part of a comprehensive planning process that considers numerous needs: to promote development and redevelopment; to retain productive resources; to conserve energy; to preserve environmentally sensitive lands and historic resources; to finance new growth in a way that is fair both to new and existing residents; and to provide at least a minimum level of public facilities and services.

Growth management policies should include the preservation, maintenance and strengthening of all communities and their overall quality of life through a variety of community services and infrastructures. Quality education and safe streets must lead the list; public transportation and adequate water, sewer, and other community facilities should also be included.

2. The main focus of any growth management program should be to produce benefits for society, not merely to reduce local tax burdens. Growth management programs should avoid undue restrictions on lower income housing or on employment for low-income persons.

3. The private ownership of land bears with it the responsibility of assuring that its use and development will serve the public interest while fulfilling private goals. Since land is a limited resource, it should not be treated simply as a commodity to be developed and exchanged for profit. Private owners should become more aware of the need for, and benefits of, carefully controlled use of land in the interest of society as a whole. At the same time, the private sector needs and deserves to know the ground rules for future development.

B. Federal Role

1. The federal government should set long-range goals, policies, and priorities relating to the management of national growth.

2. The federal government should monitor, evaluate, and distribute information regarding the impact of major programmatic decisions on regional growth. Such a poilicy should be directed toward minimizing the economic problems caused by rapid development or decline of any community or region, and should be the basis for evaluating proposed federal expenditures which will affect community development.

3. One of the most serious rural problems is the use and misuse of rural land and water. Because of the complexity of the subject and the many interrelationships with other policies, this problem can be resolved adequately only at the national level in cooperation with state and local units of government.

4. The federal government should implement a policy of urban containment that maintains the productivity of existing investments, conserves energy, and avoids displacing agriculture and other productive activities. The policy should influence the location of growth within a given area but not be so restrictive as to constrain overall growth.

5. Federal and state governments should provide incentives to local jurisdictions and regional planning organizations to encourage areawide growth projections and development plans.

C. State and Substate Roles

1. State, regional, and local jurisdictions have a responsibility to plan and allocate resources in accordance with anticipated growth rates. Local plans should be made in the context of the growth policies of larger jurisdictions, but such policies should recognize the constraints on local governments.

2. Interrelated rural and urban jurisdictions should adopt complementary growth management programs that preserve the areas' distinctions while making needed improvements.

Economic Development

Introduction

Economic productivity is the basis upon which all communities are established. Only so long as economic activity is strong enough to support the life of the people can a community continue to exist over the long term. A community that seeks to grow (and even a community that seeks to avoid decline) must foster and encourage economic development.

State and local governments have devised ways to assist the private sector, including land write-down tax incentives, financing assistance, investment infrastructure, and employment tax credits. At the same time, they have used federal programs where possible to support investments in industrial parks and commercial revitalization. But the impact of these efforts has been limited, for they have not been linked to a comprehensive economic strategy.

It is time to change this approach to economic development. Economic development should no longer be the stepchild of national economic policy but, rather, an integral part of the efforts to raise the gross national product, maintain employment, and improve the standard of living. At the same time, national policies must not be permitted to overwhelm state and local development efforts.

A. General Policies

1. New economic policies are needed to advance the competitive economic position of American firms. Government, business, and labor all play a role in determining this position.
2. Economic development planning should place equal importance on efficiency and equity.
3. Actions of government, management and labor that influence capital formation, labor quality, technological innovation, and markets for products must be evaluated in terms of their impacts on industries and sectors in the nation's communities.
4. Better links should be forged between all levels of government and the private sector to plan for long-term profitability of firms in a given area. In this effort, the federal government should take the lead in working with state and local governments to develop appropriate strategies.
5. There should be a major effort to coordinate the activities of the many agencies at all levels of government whose responsibilities affect industrial performance. This will affect the process of achieving economic development, rather than the structure of the entities involved.
6. Better and more timely forecast information is necessary for economic policy making at all levels of government. This will enable government, management, and labor to cooperatively develop strategies which enhance the performance of U.S. firms.
7. Determining the role of government, management, and labor requires negotiation in a setting that is cooperative, rather than adversarial.
8. Government and the private sector should work together to meet the needs and aspirations of the public. Government efforts should be designed to encourage and facilitate private capital investment, provide needed employment and human development opportunities, offer services, and contribute wherever possible to orderly community growth, development, and environmental excellence.

B. Federal Policies

1. A National Economic Development Policy should be established that is directed to measurable goals: improving productivity, expanding output, and stabilizing or increasing market share.
2. Major national-level economic policies should be evaluated to determine their impact on vital industries. These major national policies are: fiscal, monetary, trade, regulatory, and area development.
3. Federal financial incentives should be directed to those areas where unemployment and poverty are most severe.

C. State and Substate Policies

1. State and substate economic development planning should analyze national economic policies for their potential impact on business and industry.
2. Economic development planning should suggest marketing strategies linking the area's resources to the needs of specific industries.
3. State and local governments should provide an early warning mechanism to signal anticipated industrial problems.
4. State and local governments should coordinate their efforts with the educational system to ensure that the labor needs of local business and industry are met.

Community Development

Introduction

Although community development depends primarily on the private sector, history has clearly shown that the private market will not in every case create and maintain a quality urban environment. Therefore, local governments must ensure that land and other natural resources are used properly; public services are provided effectively; and a suitable living, working, and leisure environment is offered to all their citizens. It is the responsibility of federal and state governments to support these local community development efforts and to ensure that national and state policies and programs do not undermine the huge investment in the physical and social structure of our cities, small towns, and rural areas.

The need for sound community development is widely accepted. In practice, however, such planning is often nonexistent or ineffective. At the national level, there is no planning to produce a national growth policy or to recommend management of federal domestic expenditures that promote sound community development. Few states have developed urban growth policies; rather, they have permitted haphazard and unplanned development to shape their urban regions. At the local level, community development planning is becoming increasingly fragmented, as individual federal and state funding programs promote functional planning in isolation from any integrated, comprehensive planning approach. Moreover, as local governments become increasingly pressed with immediate fiscal problems, little thought or local resources can be devoted to planning for the future.

The community development block grant program, which was originally established by Congress to provide local flexibility in solving community development problems, is burdened increasingly by federal guidelines and regulations. The cumulative effect is to severely limit local ability to target monies and to exercise innovation and creativity. The narrow definition of benefit to low- and moderate-income persons has encouraged ameliorative approaches that have little long-term benefit.

A. Federal Role

1. The federal government should revise and coordinate the planning requirements of its various functional programs (community development block grant, economic development, transportation, coastal zone management, water quality, energy, urban parks, law enforcement, etc.) to promote a central, comprehensive planning process at the local level, within the context of which specific functional planning can take place.
2. The federal government should make an integrated, comprehensive, continuous planning process at the local level a requirement for community development assistance.

Moreover, it should provide financial support for such planning, allowing local governments to count on a specific level of financial support each year to maintain an integrated, comprehensive planning program.

3. The guidelines and regulations governing application for and allocation of community development block grant funds should be revised and simplified.

4. Local elected officials should retain the power to manage and allocate community development block grant funds. Citizen participation in an advisory capacity is critical to the community development process; however, it should not be designed and directed by the federal government so as to undermine local officials.

B. State and Substate Roles

1. State governments, individually and through interstate cooperation, should strengthen regional planning efforts to reduce the negative effects of suburban sprawl and central- and small-city abandonment.

2. Local governments should establish a centralized planning process that would produce a comprehensive community development strategy, updated regularly. This planning/policy document should guide the expenditure of all federal, state, and local funds that affect community development.

3. Priority should be given to public incentives for private investment, such as the federal Urban Development Action Grant (UDAG), so that limited public dollars can have the maximum impact on community development objectives.

Neighborhood Planning

Introduction

Neighborhoods should be recognized as the fundamental building blocks of overall community development, and the contribution of neighborhood groups should be recognized.

A. General Policies

1. The central community planning process should be linked with neighborhoods to promote information sharing. Technical support should be provided to neighborhoods to help them organize and plan.

2. Neighborhood-level planning should consider communitywide plans and policies.

3. Planning decisions that have limited impact on the community as a whole should be made by, or on the basis of advice given by, those neighborhood groups primarily affected. On the other hand, planning decisions that affect the community as a whole should not be unduly influenced by a single neighborhood's needs or desires.

4. Neighborhood organizations should be encouraged to form corporations to undertake development projects. Such activities should be coordinated through the central comprehensive planning process to assure that they are mutually supportive.

5. Neighborhood groups should be able to participate in the communitywide budgetary process to advise on the allocation of community development block grant funds and capital improvement priorities.

6. Neighborhood-based federations can assist in the development of individual neighborhood organizations, articulate neighborhood views on communitywide issues, and facilitate coordination in the planning process. Such federations should be encouraged and supported.

7. Advocacy planning for neighborhoods should be accepted as a legitimate role for professional planners.

Housing

Introduction

Decent housing in a suitable environment for all families and individuals is essential to the nation's well-being. These basic shelter requirements are now denied to vast numbers of low- and moderate-income households, and the growing gap between household income and the cost of housing is pricing more and more middle-income households out of the housing market as well.

Another gap is that between goals for the construction of new low- and moderate-cost housing and the actual production of such housing. Local governments set housing production goals commensurate with the actual need, while federal and state funding is available to meet only a small portion of this need.

The private sector is, and will continue to be, the primary provider, owner, and manager of housing. Government's role is catalytic, supplementary, and regulatory, ensuring that the cumulative effect of individual housing market decisions does not deprive any segment of society of the chance to live in decent housing.

A. General Policies

1. Decent housing in a suitable living environment should be accepted as a basic human right and vigorously pursued.

2. Governments at all levels should promote the maximum choice of housing type and location for all segments of society.

3. Existing housing should be recognized as the major source of future housing; every effort should be made to maintain and rehabilitate housing. Housing should be eliminated only when its occupants can be assured of acceptable substitute accommodations in the same or an equivalent neighborhood.

4. Housing should be designed and located to promote energy conservation. Higher density patterns should be encouraged where supporting systems such as streets and utilities permit.

5. All levels of government should support and encourage the use of modern technology to reduce the price of housing and increase the productive capacity of the housing industry. The mobile home should be recognized as one acceptable form of lower cost housing.

6. Housing plans and funding mechanisms should be designed to make a greater range of dwelling units and cooperative ownership patterns available for all income groups. In some cases, home ownership counseling programs will be necessary.

B. Federal Role

1. The primary role of the national government should be to provide necessary funds and funding mechanisms. These funds should be allocated throughout urban regions, to increase the geographic choice for lower-income households. In many instances, regional planning bodies can advise on allocation.

Federal funds such as revenue sharing, federal highway monies, Environmental Protection Agency grants, and recreation programs should be shaped to encourage the local community's willingness to work toward achieving national housing objectives.

2. Sufficient housing subsidies should be made available by the national government to ensure that no household will have to pay an excessive proportion of its income for satisfactory shelter or be denied access to decent housing altogether. If a sufficient funding level cannot be maintained to meet the need fully, national and state governments should permit and encourage local governments to develop their own innovative funding mechanisms, including local tax exempt revenue bond financing, focused upon the needs of lower income households.

3. The role of federal housing subsidies and other incentives should be reexamined in the light of other subsidy structures within the federal and local taxation system; land ownership and control policies, and similar issues. The free market system should be recognized as the prime mechanism for providing housing.

4. The federal government should encourage and support the development, maintenance, and implementation of a housing planning process, related to a comprehensive planning process, at the local level. This process should specify needs, outline production and rehabilitation objectives, and detail actions needed to achieve the national goal of decent housing. Where a local government has prepared a housing strategy deemed acceptable by the federal funding agency, that agency should enter into an annual or multiyear partnership with the local government and provide a specific level of funding if the local government delivers viable qualifying applications in a timely fashion. Alternatively, if a housing development block grant program is adopted, the local government should be required to develop a housing strategy consistent with any existing regional housing plans.

C. State and Local Roles

1. The primary role of local government should be to ensure that all housing is produced and maintained to meet standards of decency, safety, and sanitation and to help provide low- and moderate-incôme housing in accordance with regional plans.

2. No local government should adopt or implement policies that directly or indirectly exclude low- and moderate-cost housing from development or rehabilitation within its boundaries.

3. Local governments should revise zoning ordinances, redefining "family" to include provisions for cooperative living arrangements.

Community Design

Introduction

Community design deals with the relationships between the major elements of an area's patterns, uses, and structures. It extends into both time and space in that its constituent parts are distributed in space and are constructed at different times by different persons. Design concerns both the built and natural environments.

While most design concerns to date have dealt with urban space or natural areas as separate entities, the interrelation of the built and natural environments grows increasingly more critical.

Thus, the concept of community design is broadened to include a full range of decisions regarding the physical environment and its impacts on the lives of people. Historic preservation and conservation of remaining open areas are two key components of this broadening and should be carefully considered in design decisions. As an overall topic, community design should be considered to encompass any spatial element of either urban or rural environments.

A. General Policies

Community design programs and plans at all levels should:

1. Deal with relationships between the major elements of the activity patterns.

2. Regard conservation of both the built and natural environments as major elements for planning. It should protect and enhance areas of architectural, historical, or cultural importance.

3. Coordinate the development of space to achieve a more balanced mix between the past, present, and future.

4. Stimulate, protect, and create a functional and perceptual quality in the built and the natural urban environment.

5. Welcome interdisciplinary input from professionals in related fields.

6. Determine the impacts of physical design features on the social environment, encourage the sensitive application of appropriate design elements and encourage participation from all segments of the community.

7. Develop a vivid, coherent and satisfying overall community form and character.

Environmental Quality

Introduction

Man's environment is a finite quantity subject to depletion and degradation to the detriment of the health and welfare of mankind. The nation's attempts to first arrest and eventually reverse the destructive impact of man's actions on the environment have been characterized by a number of single-purpose programs and administrative procedures. While effective for their limited purposes, many of these ignored their connection with other aspects of national policy and programs. In some cases, single-purpose solutions have created problems that were worse than those they set out to solve.

A. General Policies

1. Environmental planning should be an integral part of the comprehensive planning process at all levels of government. Conservation and management of basic natural resources should be a key element in a national environmental policy, which should recognize the need to make tradeoffs to further social and economic goals. The basic principles underlying an environmental policy should include:

a. Minimizing consumption of nonrenewable resources;

b. Replenishment or recycling of renewable resources;

c. Effective protection of unique or critically endangered resources by controlling the side effects of development;

d. Effective preservation and protection of living areas.

2. Environmentally hazardous technologies should be carefully managed and controlled.

3. Natural resources should be extracted only with a full guarantee of restoration of affected areas and no irreversible damage to the environment.

4. All levels of government should recognize and respect the unique ecological characteristics of the nation's regions and subregions and take into consideration the human and environmental tolerances for the impacts of development and pollution.

5. Federal and state governments should accelerate research to identify the protection and conservation measures required for varying levels of development and urbanization. Included should be studies of the water cycle, land suitability and vulnerability, wildlife and plant habitats, and other critical or fragile ecological systems. The federal government, in particular, should support systems capability studies by localities.

6. The planning process should identify and promote alternatives that would minimize or eliminate environmental degradation. Specifically, the federal water resources planning and development agencies should consider replacing structural with nonstructural means of attaining their goals.

7. The Atlantic and Pacific Oceans, the Gulf of Mexico, and the Great Lakes, all mountains, wetlands, and other unique natural areas represent critical environmental resources and fragile ecological systems, and require federal, state, and local regulation to prevent environmental degradation. All governmental efforts should be coordinated, including appropriate international regulatory systems.

Coastal Zone Management

Introduction

The acute deterioration of coastal environments and the depletion or exhaustion of their resources gave rise to the Coastal Zone Management (CZM) Act of 1972. This act seeks to confine, mitigate, or reverse the effects of development practices that threaten coastal environments, while fostering the wise use of coastal areas and resources.

The Coastal Act is unique in federal legislation; it is a first attempt to require a coordinated intergovernmental approach to environmental problems, an approach that APA endorses. Despite some disappointments and occasional failures, the Coastal Zone Management Act of 1972 has proved to be a workable document. Although significant improvements and refinements of the law and its administration will be necessary, the CZM Act could serve as a model for future legislation for effective environmental management in the public interest.

A. General Policies

1. Federal, state, and local regulation and land acquisition programs must give high priority to natural areas for protection, preservation, and restoration. Marshes, wetlands, estuarine areas, barrier islands, reefs, and dunes must be protected through the implementation phases of state coastal management programs. In selecting areas for restoration, priority should be given to land already owned by the government.

2. Federal, state, and local statutes and programs must be coordinated to control and monitor the following activities in coastal areas: dredging, soil disposal, impoundments, and solid and liquid waste disposal.

3. Federal policies, enacted through state coastal management programs, must establish procedures to evaluate the impact on coastal resources of any new development activities, whether or not they originate in coastal zones. The states, too, should intervene against significant actions that will negatively affect the coastal zone.

4. Cumulative impacts of proposed development projects within or affecting coastal zones must be assessed and appropriate limits planned, legislated, and implemented through state coastal management programs.

5. Federal, state, and local housing programs must ensure a diversity of housing types within the coastal zone so that the current social, economic, and ethnic diversity of coastal populations can continue. Any public agency program that displaces residents in the coastal area must include appropriate relocation benefits.

6. Archeologically, architecturally, or historically significant sites in coastal zones should be identified, restored, and preserved. Historic preservation and adaptive use of existing structures should be encouraged by planning, regulatory, and financial assistance programs at all levels of government.

7. Recreation needs of all people should be met through provision of public beaches and programs in beach and coastal areas.

8. The use of the coastal zone for energy facility development should be opposed where such development:

a. Endangers existing areas of natural beauty;

b. Poses a threat to ecological systems;

c. Would emit air pollutants at levels significantly higher than those permitted by the state at inland locations.

B. Federal Role

1. Federally supported urban waterfront development plans must require:

a. Continuation and promotion of critical water-dependent uses;

b. Creation of a safe environment;

c. Promotion of multiple use for land and buildings;

d. Promotion of recycling or renewal of underutilized areas;

e. Promotion of techniques to overcome physical barriers;

f. Protection of shoreline visibility;

g. Creation of parks, open spaces, or shoreline pathways;

h. Restoration of critical natural environments;

i. Protection of the shoreline from environmental degradation.

2. There should be a strong federal policy supporting state efforts to protect beaches and ensure public access to them. This policy should:

a. Require a determination of all publicly owned beach areas within a state;

b. Provide public access to publicly owned beach land consistent with natural resource protection and beach capacity.

3. Federal funding must be sustained for all states engaged in developing or implementing coastal management programs and engaged in Coastal Energy Impact Program (CEIP) activities.

4. The Office of Coastal Zone Management (OCZM) must provide technical assistance on complex coastal issues. This should include:

a. Direct assistance by experts in various fields;

b. A repository of technical information available to state and local governments;

c. Training programs and workshops on coastal issues;

d. An interstate communication network to help adapt one state's program accomplishments for use by other states;

e. Funds and staff for in-service education and training for practicing professionals such as planners, engineers, landscape architects, and surveyors working in the coastal zone.

5. It should be a top priority of OCZM to identify and correct inconsistent federal programs and to initiate, formulate, and clarify federal coastal zone policies. OCZM should also be more diligent in coordinating other federal environmental programs, such as air and water quality programs, as they relate to coastal areas.

6. There should be federal financial incentives for states in which coastal zone management programs are conducted effectively.

7. Federal consistency requirements of the CZM Act must be enforced by OCZM. This might include litigation to establish precedents ensuring the protection and predictability of approved coastal management programs in participating states.

8. Federal approval of coastal management plans and operating programs must be established by applying predictable and consistent standards and guidelines, openly agreed upon. Major standards and guidelines will apply to all participating states; special provisions and exceptions should be based only on specific conditions unique to an individual participating state.

This policy applies equally to federal reviews for approved state coastal management plans and to programs seeking refunding.

9. Coastal engineering activities involving significant alteration of natural processes should take place only when absolutely necessary. Whenever possible, they should be confined to existing industrial and commercial areas. When the goal is to prevent shoreline erosion, nonstructural rather than structural techniques should be used. These include building setbacks, dune stabilization and revegetation, and beach nourishment.

C. State Role

1. Incentives for state implementation of coastal management plans, including state purchase of coastal areas, must be increased by providing more appropriate funding levels for that purpose. The level of funding should be keyed to the effectiveness of each state's effort in coastal management.

2. Some coastal states have not initiated coastal management programs, and others have withdrawn from participation. It is in the public interest to ensure the participation of all coastal states in coastal zone management. Inactive states should be encouraged to join or rejoin the national program.

3. Urban containment should be established in coastal zones in approved state coastal management programs.

4. State support for intergovernmental communication and coordination of city and county coastal plans and policies should be added to the federal requirements for approval of state coastal management plans.

5. States should encourage multijurisdictional planning for emergency warning systems, evacuation routing, and long-range preparation for the winds, storms, and floods that occur in coastal zones.

6. States should enact legislation requiring full disclosure, at the time of purchase, of the hazards that potentially affect coastal property. The history of catastrophic events in the area should be provided to purchasers before the sale.

7. State resource agencies with statutory authority to protect and manage critical coastal resource areas should be provided with adequate funding to accomplish their duties. Local, regional, state, and federal coordination is essential to implementing these policies effectively.

8. Fishery management by states is essential in order to maintain an important food stock as a renewable resource:

a. States should continue or initiate support for aquaculture;

b. States should continue or inititate regulation of fish harvests;

c. States should improve the protection of nursery areas for both fin and shellfish. Fishery management should include the restoration of areas damaged by outflows, spills, dredging, and dumping;

d. Sufficient space in coastal zones must be reserved for commercial fishing activities, including docking, loading, provisioning, processing, and distributing;

e. Sport fishing should be considered a favored activity in coastal plans.

D. Local Role

Local governments should fully exercise their authority to protect or manage the use of critical coastal resource areas. Specific ordinances should be adopted to protect and manage beach areas, dune areas, wetlands, estuaries, and other critical habitat areas and resources.

Energy

Introduction

OPEC's 1973 decision to institute "full cost" petroleum pricing underscored the growing scarcity of nonrenewable energy resources. In 1977, well over two-thirds of the energy used by the U.S. was still oil and gas, but the concern over scarcity goes beyond those two resources. Uranium supplies are also limited and also vulnerable to international disruption. The supply of coal is finite, and its increased use will accelerate its depletion.

Our energy production patterns must shift to renewable resources. There are currently two primary choices for renewables: solar and breeder reactors, with fusion a remote third possibility. The social implications of this choice are equally diverse, in terms of technological scale and centralization of authority. The shift to producing energy through solar power in all of its guises (biomass, photovoltaic, hydropower, wind, and so on) appeals to the American tradition of local control. The emotional appeal of solar is strengthened by its environmental cleanliness. Moreover, a ceiling in economies of scale has apparently been reached for large-scale energy technologies. However, the ultimate limit to technology may be a managerial rather than an economic one; that is, the limits to human control over increasingly complex technological systems. Three recent energy system dysfunctions—the New York blackout in 1977, the Three Mile Island accident in 1979, and the rupture of the Colonial pipeline in Fairfax County, Virginia in 1980—were all blamed on human error.

The American Planning Association supports the long-range goal of using renewable resources (primarily solar) to the maximum extent possible. In developing the national strategies for this shift, consideration should be given to questions of social, interregional, and international equity and to choices about and opportunities for lifestyle change. In the short- and mid-range, during the transition to the use of renewables, strategies must be developed that will manage current energy production and consumption patterns through a much stronger emphasis on conservation, matched with emphasis on social equity, personal choice, and environmental quality.

A. General Policies

1. There should be a coordinated and comprehensive national energy program whose goal is national self-sufficiency. The timetable for reaching this goal should be as short as possible.
2. Where possible, the national energy plan should function through market mechanisms and avoid creating new bureaucratic levels. Planning goals should be met by providing incentives and disincentives to local government and the private sector.
3. Conservation is the best short-term option for balancing energy supply and demand. Programs emphasizing conservation and efficiency are also significant in the long run.
4. The short- and mid-range strategy for energy supply should be the development of a more diverse mix of energy sources.
   a. Where possible, coal should be substituted for petroleum-based fuels for use in generating electric power. Such substitution should not be at the expense of local and national environmental goals but should emphasize reduction of pollution related to coal-based power production.
   b. Safety and reliability standards and enforcement procedures for existing nuclear reactors should be subject to comprehensive review and should be improved where necessary.
   c. Solar energy in all forms (biomass, direct radiation, wind power, wave power, and hydropower) can supply a large share of America's energy needs in the future. As the only real renewable and largely nonpolluting source of energy, solar power must be recognized as the basis of any long-term energy plan. A real commitment of resources over the next 20 years will enable America to produce more than 20 percent of its energy from solar power sources. Solar energy production at this level will require a vast investment in research and development by the federal government, and tax and loan incentives to the private sector to encourage the development and deployment of solar technology.
5. Greater costs for conventional energy consumption will have an adverse affect on low-income citizens. Efforts should be made at all levels of government to mitigate this negative impact.
6. Because any energy production, conversion, and consumption has an environmental impact, efforts should be made at all levels of government to ensure that environmental quality as a long-range goal is not sacrificed for short-term expediency.

B. Federal Role

1. Federal energy planning should include coordination with other federal programs, particularly in economic and community development.
2. The federal government should coordinate and implement the national energy program and conduct periodic reviews of effectiveness and achievement. At the federal level, there should be a strong focus on managing energy supply programs. Demand reduction programs can be managed by local and state governments. The role of the federal government should diminish over time as state and local governments respond to federal incentives for encouraging economic and lifestyle changes.
3. The federal government should provide financial assistance to state and substate levels of government for energy planning and implementation, especially energy emergency planning. However, the federal government should encourage more local financial support for energy planning.
4. The federal government should assure dissemination of information to subnational levels of government and to individual citizens. The Energy Information Administration (EIA) of the Department of Energy should be the main source of energy planning data and should coordinate all energy information banking activities, including regional data if necessary.

   The EIA should provide in its annual report to Congress:
   a. Forecasts of energy supply and demand;
   b. Analysis of trends by consuming and producing sectors;
   c. Analysis broken down to at least the regional level to assist in subnational energy planning.
5. The federal government should provide financial and technical assistance to mitigate the adverse social and land-use effects of energy facility—boomtown—developments.
6. The federal government should encourage the use of a variety of conservation techniques and solar technologies at the household level. This should include more funding for solar research and development and increased tax incentives.

C. State and Local Roles

1. State and local governments must prepare and implement local energy conservation plans.
2. State enabling legislation and related statutes should be adopted to provide appropriate incentives and constraints to encourage energy-efficient development.
3. State and local governments should find financial bases for funding a part of their own energy planning and implementation. Such bases might include gasoline taxes, coal severance taxes, and utility surcharges.
4. State and local governments should participate with private industry and utilities in programs to recover and use waste heat (cogeneration). They should also encourage land-use development surrounding energy facilities that produce and consume energy, when such development is compatible with the facility's use.
5. State and substate efforts should be directed toward preparing energy emergency plans as well as plans to mitigate the effects of energy crises on low-income citizens and on those whose jobs would be affected by an energy crisis.
6. State and substate proposals should recommend technologies appropriate for low density and rural areas, such as windmills and solar power for irrigation.
7. States and multijurisdictional organizations should provide technical assistance to local planning agencies as needed.
8. Local plans should reflect state utility siting plans when such plans exist.

Transportation

Introduction

Transportation decisions can have dramatic impacts on the quality of the natural and built environments by changing settlement patterns, energy and resource consumption, and all phases of economic activity.

Some of the major transportation related policy issues that planners must confront in the future are the declining financial resources from gasoline taxes; the shift of goods movement from truck to rail; the rehabilitation of existing transit systems; the excessive costs of population mobility; energy conservation; and the sharp decrease in auto dependence. Transportation policies, plans, and programs must be developed in the context of overall social, economic, and environmental goals at national, state, regional and local levels.

A. General Policies

1. Transportation should be fully integrated in the comprehensive planning process at all levels of government. This process should be a prerequisite for all federal funding of significant transportation projects.
2. All levels of government should plan for and provide the financial assistance necessary to maintain a balanced multi-modal transportation system. The use of fuel-efficient cars should be facilitated.
3. Federal, state, and local transportation policies should address the needs of all the people. This mandate must include those who do not have access to private automobiles (the aged, the poor, the young and the handicapped) and those who do not have complete access to public transportation (the handicapped). The handicapped need not have access to all public systems; substitution of alternate transportation modes should be acceptable.
4. Projects should be encouraged that maximize use of existing facilities while meeting travel demand and/or reducing congestion, pollution, and energy consumption. Such projects should be preferred over the construction of new facilities, when this is determined to be cost-effective.
5. Programs and measures that reduce excessive peak period travel demands and promote more efficient distribution of travel demands should be encouraged.
6. Multiple use of transportation facilities and joint development of transportation and nontransportation projects should be encouraged. Policy funding guidelines and state regulations should be streamlined to simplify the packaging of joint development projects.
7. Land development patterns that conserve energy, preserve open space and agricultural lands, and reduce travel requirements should be fostered by all relevant government policies and regulations.
8. All levels of government should develop emergency transportation plans in case of fuel shortages.

B. Federal Role

1. The federal government should establish national transportation goals as part of a comprehensive national policy on growth, land use, energy, and the environment.
2. The federal government should allow local flexibility in selecting strategies and improvements to meet national goals.
3. The federal government should facilitate long-range multimodal transportation planning as part of the comprehensive planning process at state, regional, and local levels.
4. The federal government should base the administration of aid programs more on performance standards than on detailed regulations.
5. Federal financial assistance should be provided for either capital or operating purposes with some discretion open to the receiving levels of government, as long as capital improvements are consistent with the region's overall transportation/land use planning.
6. All modes of urban passenger transportation should be funded under similar arrangements on a multiyear basis.
7. The federal government should consult state and local governments in formulating plans for transporting hazardous materials and developing alternative strategies for meeting potential disasters.

C. State and Substate Roles

1. States should stimulate and support regional and local transportation solutions.
2. States should provide financial assistance to substate governments and agencies for transportation planning as well as for implementation programs that conform with state and regional plans.
3. States should establish substate multijurisdictional transportation planning processes and require that they be open to participation by all affected jurisdictions.
4. Where special purpose authorities exist, state statutes should require that such authorities be included in the transporation planning process and that their plans and programs conform with adopted regional plans and programs.
5. States and local governments should ensure the availability of adequate transit and highway rights-of-way.
6. Statewide rail planning should be more strongly coordinated with overall multimodal transportation and land-use planning in relation to line abandonments, urban rail relocations, and preservation of urban rail rights-of-way for future transit.

D. Airports

1. Airport planning and funding priorities should be based on a careful determination of desired and necessary levels of service.
2. Maximum possible environmental protection for existing land uses adjacent to airports should be pursued. The efficient and safe operation of airports should also be protected through appropriate land-use controls in their environs.
3. Airport planning approaches should be reevaluated to encompass personal comfort and convenience in addition to movement of people and goods.

E. Bicycling and Walking

1. Federal, state, regional, and local transportation planning and funding should encourage programmatic and physical measures designed to enhance the safe and pleasant use of bicycles, particularly in dense urban areas.
2. Walking should be encouraged by eliminating conditions that discourage it. This could be achieved, for instance, by establishing auto-free areas in central business districts and other major centers of activity. Laws protecting pedestrians at intersections and other dangerous locations should be adopted and enforced.

F. Movement of Goods

1. Goods movement concerns must become an integral component of the transportation planning process.
2. Regulatory rates and restrictions should be modified to allow for the most efficient movement of freight.
3. There should be a concerted effort to shift from truck to rail transportation. Local rail distribution systems should be developed as appropriate.

G. Urban Transportation

1. Increased capital investment is required for highway and transit improvements in order to maintain current levels of mobility, including peak-hour and off-peak access to work, shopping, education, and community services.
2. Metropolitanwide transit services have necessary limits to the convenience they can provide passengers, particularly in delivering them close to their ultimate destinations. To increase the number of transit riders, local governments should be encouraged to provide local transportation that will collect passengers from the areawide transit systems and deliver them to a large number of points within the destination area. Although portal-to-portal transportation will not always be possible, these local circulation and distribution systems will increase passenger convenience, increase transit productivity, serve more diverse travel needs, and expand the general market served by public transportation.

H. Intercity Transportation

1. AMTRAK's severe financial problems, the possible future needs of intercity buses (marginal routes, new routes, new terminals), and further implications of air fare deregulation should all be carefully studied to ensure the maintenance or improvement of intercity transportation.
2. A national rail rehabilitation and modernization program should be implemented.

I. Energy Concerns in Transportation Planning

1. Increased funding should be provided for public transportation, to take advantage of its greater energy efficiency and to achieve other social goals as well.
2. When alternative transportation improvements are analyzed, the full range of energy impacts should be evaluated. This includes the impact of making no improvements at all.
3. The impacts of fuel shortages and rising prices on different groups in society should be evaluated and steps taken to mitigate hardships.

Education

Introduction

Access to high-quality education is a right, enabling people to develop their capabilities to the fullest. This means, at a minimum, that there should be equal access to equal quality public education for persons of all income levels. Existing methods of financing education, primarily out of the proceeds of the local property tax, create major disparities in the ability of local school districts to pay for educational services, thereby denying equal educational opportunity to those living in the poorer school districts.

The nation must reaffirm its commitment to the constitutional imperative of school desegregation. Every effort must be made to maintain integration where it has been achieved and to increase the number of integrated schools throughout each metropolitan area by all means available. Restrictions on the courts' ability to choose among all available appropriate means would not be in the interest of sound urban development. Freedom of choice in education will also be greatly enhanced by policies and programs to develop alternative educational forms such as "schools without walls" and "open" schools. Vocational education too often suffers from the "second best" attitude many place on it.

The major burden of teaching formal skills during the critical years of childhood and adolescence falls upon the school system. Therefore, it is important that the educational system be bolstered by the support of the business and industrial community, libraries and museums, and a network of strong public and private institutions of higher learning.

A. General Policies

1. Alternate and specialized forms of education, including adult education and training opportunities, should be expanded and made responsive to societal and technological changes.
2. Language programs enabling children with limited English-speaking ability to become full participants in the social, political, and economic life of the nation should be expanded.
3. A broad program of career education that provides young people with the concepts, values and attitudes necessary for successful participation in the work world should be fostered.
4. Vocational education should be expanded, made relevant to present and future occupational requirements, and coordinated with the public and private sectors of the economy.
5. The nation's libraries and cultural institutions should be used increasingly as modern educational, informational, and cultural resources.

B. Federal Role

1. The federal government should help equalize the funding of public education among the states to enable them to eliminate fiscal disparities among their school districts.
2. The federal government should provide states with additional aid to reflect the higher cost of educational services in urban areas and in areas with high proportions of children from poor families.
3. The federal government should lead in the development of innovative programs, such as early childhood education.

C. State Role

1. The states should reform their education finance systems to equalize educational opportunities among school districts, while leaving control of educational policies and programs with the local communities.
2. The states should also review school district boundaries to help prevent resegregation of newly integrated school districts and to facilitate regional desegregation of schools.

Health

Introduction

Health planning represents a commitment to enhance the health of society as a whole. Therefore, health planning should help society set priorities and ensure that resources are used in the public's interest. To this end, many segments of society must participate actively in the health planning process. The public and the private sector, health care consumers, and health care providers must all be involved.

Professional health planners now work under the auspices of governing boards and councils on which consumers are in the majority. Consumers must become more knowledgeable about the effective use of the health care system and must learn how to become more responsible and accountable citizen-advocates in the formal health planning process. The process itself must respect consumers for their unique contributions, rather than try to re-educate them to approximate the mind set of the professional health planner or provider.

The role of the health care provider in planning is also important. Providers must be exposed to health planning early in their careers, so that they will become willing participants in determining goals and strategies and in communicating these to their communities.

Inasmuch as the health care delivery system is dominated by private and nonprofit organizations, it is unrealistic to anticipate that federal and state governments will assume responsibility for a system they do not financially control. Continued and expanded governmental intervention, involvement and participation within the health care system is, however, appropriate and necessary to reduce gaps in both services and resources. In this intervention, regional comprehensiveness and local prerogatives must be carefully balanced.

A. General Policies

1. The nation should reaffirm its commitment to health as a positive concept by advocating the development of a truly comprehensive health care system, one that provides a full spectrum of services addressing the physical, mental, social, and environmental aspects of health care.
2. In cooperation with other responsible agencies, health planning must help design and implement programs to combat manmade environmental problems such as noise pollution, toxic and hazardous wastes, automobiles, and food additives. To this end, standards established under the Clean Air and OSHA Acts should be supported and legislative efforts that would exempt many workplaces from regulation and inspection should be resisted. In turn, economic and technical support should be given to these agencies to support the research necessary to develop defensible standards at the federal level and to support adequate staff and resource capabilities at the state level.
3. The commitment to primary care services must be continued and strengthened.
4. A renewed commitment should be made to developing and supporting rural health initiative programs such as the National Health Service Corps. In addition, new programs should be instituted; for example, federal and state tax incentives might be created to effect a more equitable distribution of health care personnel throughout rural, low income, and disadvantaged areas.
5. While support should continue for biomedical and technological advances, considerable effort should be directed to the philosophical, demographic, and service considerations associated with these advances.
6. While cost containment must be a major concern of the health planning sector, it should not be pursued as an isolated goal, but rather in relation to the need for equitable access to the health care system and to adequate, ongoing quality control of the care provided. All health care systems should include some incentives for both health care providers and consumers to make appropriate use of health services.
7. Our system of third-party reimbursement should be reexamined.
   a. Alternatives to cost-based reimbursements, such as prospective reimbursement, should be tested through adequately supported, long-term demonstration projects.
   b. The "usual, customary, and reasonable" system of reimbursing health providers should be revamped to encourage the type, mix, and location of health providers necessary to deliver comprehensive health services equitably.
8. The systems approach to health planning should be reaffirmed. Individual concerns must be addressed in relation to the total health system's needs, and expanded support must be given to the concept of the regional center and its associated satellite levels of service and manpower needs. Furthermore, primary care centers must be linked appropriately with the other regional elements in the comprehensive health planning and delivery structures.

B. Federal Role

1. Congress must ensure equitable and dignified access for all to a comprehensive system of health care services. To this end, it must identify an adequate minimal level of care, ensure its delivery and accessibility, and devise the most efficient way to generate and distribute the necessary economic support. One alternative is the adoption of some form of national health insurance. Planners must work with others to develop the specifics of such an insurance scheme. In doing so, the following principles should be addressed: uniform eligibility, comprehensive coverage, maximum choice, and distributive equity in costs and benefits.
2. Health planning must have continued and adequate financial support at the national level to reach its full potential.

C. State and Substate Roles

1. Consumer health education should be stressed in the schools, workplaces, community organizations, and via the mass media. Such efforts must receive adequate funding to support and evaluate the effectiveness of these programs.
2. Determining the need for reliable and timely health information should be a primary responsibility of the state. State data systems must be open to participation and access by regional agencies. Only major metropolitan areas should consider undertaking a counterpart responsibility at the regional level.
3. Coordination between health planning agencies and other state and regional planning agencies is necessary for the success of both A-95 reviews and Proposed Use of Federal Funds reviews. To this end, coordination must be strengthened between Health Systems Agencies and regional clearinghouses and between State Health Planning and Development Agencies and state clearinghouses.

4. Deinstitutionalization is the process of taking people out of institutions and providing them with community and home support services instead. In order for deinstitutionalization to succeed, there must be active legislative and economic support at both the state and regional levels. Health planners must work at both levels to provide the legal sanction for the necessary changes and to provide economic and community support for the placement of alternative service sites and support services.

5. Those providing care for the elderly or infirm in their own homes need community support. The following incentives should be made available to them: tax deductions or income supplements, respite or relief services, day care allowances to make additions to or alter existing homes.

Introduction to Policy Statements on Planning Human Development Services

These three policy statements are recommendations made by planners particularly concerned with the social consequences of decisions made at every level of government. All decisions, whether they be social, physical, or economic, may have a negative effect on some individuals or groups; and all planning that results in a positive change for one part of the total system will affect every other part of the system—either positively or negatively. Planning should be used to maximize equity and to ensure the availability of services.

All individuals share the same basic needs: survival needs; the need to grow and develop pride and self-reliance; the need to overcome specific pathologies; the need for support in times of hardship and crisis; and the need for comprehensive and supportive health care services. Especially since the Social Security Act of 1935, every piece of major federal social legislation, as well as state and local enactments, has been predicated on one or more of these needs.

Many of these needs could be met by changes in the environment or in the social structure as well as by changes in the service systems. All proposed plans, whether physical, economic, or social, should assess their effects on human development potential and on the services to be delivered.

A comprehensive planning document must include not only physical and economic development components, but a social development component as well.

Individual and Household Services

Introduction

The 1980 census documents that certain groups within our society are more likely to be poor than others, among them: blacks or Hispanics; women, especially elderly widows; and children living in households headed by women.

Because previous censuses have produced the same findings, it must be acknowledged that there are institutionalized barriers such as racism and sexism in American society.

The proposals developed by planners can either reinforce these barriers or help ensure that physical, environmental, and social systems respond effectively to the needs of all individuals and families. Plans, policies, and programs should work to promote social justice and to facilitate the changes necessary to achieve equality among all citizens. The policies that follow suggest how this goal may be accomplished.

A. General Policies

1. Comprehensive planning should not be limited to physical and economic planning. A social component should be developed and integrated with the other proposals. The comprehensive plan should also explicitly show the social impacts of the plan's recommendations.

2. Services should be provided in ways that strengthen individuals' and households' ability to function independently. Services provided to the elderly should enable them to remain in their own homes as long as possible and to continue in the mainstream of life.

3. The economic and labor policies of the national government should be revised to reflect a serious commitment to employing the chronically unemployed and underemployed.

4. Job training programs should be restructured to provide more diverse skills for all groups, including those with specialized training and placement needs such as women and minorities. Job finding, placement, counseling, and monitoring services should be enlarged in both the public and private employment sectors. Training programs should be directed to meet skill shortages.

5. Programs should be established to minimize the hardships experienced by victims of crime.

B. Federal Role

1. A fixed percentage of federally financed human resources programs should be allocated for local planning purposes.

2. The federal government should assume responsibility for all public assistance programs and, within the realities of the economic system, seek innovative ways to encourage or provide such assistance.

3. Longer participation in the work force should be encouraged by eliminating mandatory retirement and penalties for full-time or part-time work in the Social Security payment schedule.

4. The federal government should encourage private industry to provide greater workday and workweek flexibility.

C. State and Substate Roles

1. There should be a full complement of community-centered facilities and services to meet the needs of individuals and families.

2. Local schools should be used more as community facilities to provide a wide range of social services that are developed and delivered according to the needs of the local population.

3. Crisis intervention programs should be expanded to include services such as transitional housing, medical and psychological care, and counseling for individuals who have been through traumatic experiences such as abuse or eviction.

Public and Personal Safety

Introduction

Responsibility for protecting life and property rests mainly with state and local governments and is carried out primarily through their fire and police departments, courts, corrections and other programs. Except for the fire department, these agencies are often assumed to operate together as a "criminal justice system."

The Law Enforcement Assistance Administration (LEAA) was established in 1968 through passage of the Omnibus Crime Control and Safe Streets Act. Its purpose is to reduce crime and improve the criminal justice system by providing state and local governments with grants to strengthen their law enforcement and criminal justice programs. The LEAA grant program has been a driving force in establishing processes for coordination.

Improvement in criminal justice programs is impeded by the complex and highly fragmented nature of American local government. Responsibility and authority for criminal justice at the state and local levels are widely dispersed among relatively autonomous officials, as well as among different jurisdictions and levels of government. Inertia and tradition, lack of research and disagreement over policy and program objectives also appear to be significant impediments to change. Little has been accomplished to break down the barriers of autonomy and fragmentation—information and communication systems notwithstanding.

These factors, as well as others; seem to have established the framework for the modified policy directions set forth in the most recent amendment of LEAA, Public Law 96-157, the Justice System Improvement Act of 1979. This law offers different directions for planning. Thus, these policy statements focus primarily on planning functions that might cause more productive changes at the state, substate, and local jurisdictional levels.

A. General Policies

1. All levels of government should support efforts to upgrade the functioning of agencies responsible for planning, implementing, and evaluating improvements to the justice systems. These efforts should include:
   a. Coordination among autonomous units of the criminal justice system as well as among governmental jurisdictions;
   b. Identification of problems that contribute to safety hazards or crimes against persons and property;
   c. Collection and analysis of social and economic data about the causes of crime or safety hazards;
   d. Identification of positive and negative impacts of physical, social, and economic development decisions on different income, racial, ethnic, age, and sex groups. This should be related to an assessment of special safety measures (including facilities or services) for individuals or groups suffering negative effects;
   e. Development of plans and programs to house and treat criminal offenders in rehabilitative environments.
2. Contingency planning is needed to reduce loss of lives and property from natural disasters.

B. Federal Role

1. Responsibilities of the federal level include:
   a. Providing to local and state governments the results of research on preventing and reducing crime; providing to local and state governments technical and financial assistance to prevent and reduce crime;
   b. Collecting and analyzing statistical information concerning the relationships between crime, unemployment, and other social conditions;
   c. Providing assistance in planning and constructing decent, safe, and sanitary facilities for persons held for trial or incarcerated by court judgment in local community corrections institutions.

C. State Role

1. Efforts at the state level should strive for integrated and comprehensive planning closely allied to the governor, the budget office, and the state legislature. This includes decompartmentalizing the traditionally separate planning units set up for each categorical function funded by the government.
2. State planning efforts should:
   a. Establish priorities and programs to solve the problems confronting the justice system;
   b. Provide mechanisms which assure coordination among the separate parts of the state and local criminal justice systems;
   c. Provide means for integrated and comprehensive planning to occur at substate levels.

D. Local Role

1. Local planning efforts should emphasize:
   a. Coordination of planning activities among local government jurisdictions where substate planning areas have not been designated by the state, and integration of categorical planning where substate planning areas have been so designated by the state;
   b. Planning for special safety measures (services or facilities) for groups who have suffered or will suffer the negative social impact of economic, social, or physical development decisions made for the general welfare;
   c. Assurance of citizen, neighborhood and community participation in planning and implementation processes related to public and personal safety services, programs, and facilities.
2. Every effort should be made to ensure that local building codes reflect adequate safety standards.

Leisure, Recreational, and Cultural Opportunities

Introduction

Leisure, recreational, and cultural opportunities have traditionally been regarded as amenities in America. The development of city parks by local governments beginning in the mid-19th century, as well as the provision of recreational programs by social service organizations, paved the way for expanded park, recreational, and cultural efforts by the federal government during the 1930s. The pressures of population growth and increased mobility have heightened the public's recreational needs, needs that are still not given the attention they deserve.

Leisure, recreational, and cultural opportunities should no longer be considered amenities; they should be considered essentials in American cities, suburbs, and rural areas, as they are intertwined with human development, economic development, urban revitalization, education, health, land use, growth management, environmental quality and community cohesiveness and pride.

In the 1980s, the provision and expansion of leisure, recreational, and cultural opportunities will be influenced by limited growth in public funds, slower growth in disposable income, the participation of women in the labor force, and rising energy costs. At the same time, a growing elderly population, early retirement, shorter work weeks, and high unemployment among the young have led to an increase in Americans' leisure time and in the demands they make for exploiting it. Parks, recreational, and cultural opportunities can make an enormous impact on the quality of life; these opportunities must be maximized.

A. General Policies

1. All levels of government must provide adequate funding for leisure, recreational, and cultural opportunities.
2. A role for the arts and culture should be promoted strongly.
3. Wherever possible, government efforts to expand recreational and cultural opportunities should include incentives to maximize the involvement of the private sector and of voluntary, quasi-public and nonprofit organizations.
4. At all levels of government, parks, recreational, and cultural planning must be coordinated with housing, economic development, education, employment, historic preservation, and transportation programs.
5. Leisure, recreational, and cultural opportunities must be accessible to all, regardless of income, age, sex, race, or ethnic background. Special attention should be given to the needs of low-income, elderly, handicapped, and institutionalized persons.
6. A balanced program of parks, open space, and recreation should include renewed and adaptively reused existing facilities, as well as new facilities.

B. Federal Role

1. The federal government should develop a national recreation policy that recognizes the humanistic, educational, economic, and environmental impacts of parks, recreational, and cultural programs.
2. Existing federal programs and agencies should be reoriented to meet recreational needs more effectively. The community development block grant program, general revenue sharing, and the land and water conservation fund are examples of financing options which can be modified by eliminating unnecessarily narrow restrictions.
3. Land and water resources should be used more effectively for recreation.

C. State, Regional, and Local Roles

1. There should be an emphasis on providing recreational and cultural opportunities close to home.
2. The current and potential users of local parks and recreational facilities should be involved in their design, programming, construction, and maintenance. This is especially important for neighborhood facilities.
3. The joint use of existing facilities by various private and public agencies (schools, community centers, etc.) should be encouraged.
4. During the planning stages for parks, recreational, and cultural facilities, financial support for their maintenance, management, and security should be ensured. Equitable methods for assessing user fees to support these costs should also be considered.
5. State and local governments should develop legislative, economic, regulatory and administrative incentives for conserving and preserving open space.
6. There should be regular, scheduled public transportation to park, recreational, and leisure facilities.
7. Planning for major sport facilities should recognize the importance of professional sports in providing opportunities for passive recreation. The impact of these facilities on surrounding neighborhoods should be taken into consideration in the planning process.

Representative REUSS. We are now at the hour of noon and I want to express our appreciation to all the witnesses for a very valuable contribution.

The subject of this morning's discussion has been divided into three parts: One, lessening the cost of local government while retaining its quality by the elimination of duplication; two, achieving fiscal fairness by drawing better boundaries and by fiscal equalization of policies at the State or metropolitan level; and three, devolving back to the neighborhood, large or small, as many governmental functions as possible. There has been somewhat of a consensus on these points this morning.

Those three points happen to be, while just a small part of the urban problem, points on which the President's Urban Policy Statement comes out in what seems to me to be a right-headed manner. It doesn't offer any suggestions as to how to achieve them, but at least it recognizes them as goals.

That being so, it would be helpful if you could suggest ways in which Congress, with administration leadership, could attach some kind of a generalized mandate to appropriate legislation which would require Governors to think through how they could do what States need to do in these three areas—avoidance of duplication, fiscal fairness, and neighborhood democratization. It would seem to me useful, and I think all the witnesses agreed, if positive programs at the State level were forwarded by the various Governors. And to the extent that you can give us any help on that, we would appreciate it.

So with many thanks for your very helpful participation, the committee now stands in recess.

[Whereupon, at 12:05 p.m., the committee recessed, to reconvene at 10 a.m., Monday, July 19, 1982.]

[The following information was subsequently supplied for the record:]

American
Planning
Association

Please reply to.
1776 Massachusetts Ave. NW
Washington, DC 20036
Phone 202.872.0611

1313 East 60th Street
Chicago, Illinois 60637
Phone 312.947.2105

Reply to:

Institute of State and Regional
Affairs
Penn State Univ./Capitol Campus
Middletown, PA 17057

July 29, 1982

Congressman Henry S. Reuss
Chairman
Joint Economic Committee
Washington, DC 20510

Dear Congressman Reuss:

I appreciated the opportunity to appear before the Joint Economic Committee at its hearing on National Urban Policy, Thursday, July 15.

As is so often the case, time does not permit the fullness of discussion that the subject demands. While the statements for the record provide a substantial expression of views, it is the discussion at the hearing itself which often brings a more incisive focus to the considerations involved.

Your concern about state and local government capacity to deal with the issues is well taken; your determination to seek a Congressionally mandated charge to the states to deal with those issues in terms of "efficiency, equity and democracy" formulated in a plan prepared by each Governor warrants every attention.

In your concluding remarks at the hearing, you asked for any further thoughts we might have in that regard. That's what prompts this letter.

I have been thinking about what I understand you to have in mind: that is, to amend a bill as simply as possible in order to achieve the foregoing. As it turns out, on reflection, that may be the most difficult kind of amendment to gain.

Governors and Governors' Offices are not unfamiliar with preparing a variety of state plans; what happens concerning putting those state plans to work is another matter. I have enclosed a book review on State Urban Strategies which I prepared for the current issue of the Journal of the American Planning Association; it touches on this point. The member states of the Appalachian Regional Commission have become more comfortable preparing state plans, an objective not viewed with great enthusiasm or favor during the first half dozen years of ARC's activity; I know since I was Executive Director of Pennsylvania State Planning Board at the time and that office provided the planning support for the Commonwealth's involvement in the ARC. That office prepared the materials and documents which became the early expressions of a state plan, including the consideration of economic development and governmental reorganization in so far as it had a bearing on economic development. As time has gone on, and through two Gubernatorial Administrations (Milton Shapp, Democrat, and Dick Thornburg, Republican) further expressions have come forward. Pennsylvania's Future: Issues and Choices, December 1978 was a report of the State Planning Board in two volumes setting forth an agenda dealing with economic development, community and social development, earth, energy and environmental resources, and land policy. The Thornburg Administration, again, through the mechanism of the State Planning Board, developed its statement of Choices for Pennsylvanians, a report published some six months ago after about a year and one-half of analytical work, regional meetings, public surveys and several drafts for review and critique. And other states have had parallel experiences.

But what happens as a result of these efforts? How do these very good statements get used? How are they intended to be used? How is their use monitored and addressed and how are they revised and brought forward in light of that experience? What is the capacity and commitment to do something? What resources are there and how do they relate to these formulations; how have they been used in preparing the subject policies, plans and programs, a consideration of no small moment in determining how those resources best might be used in the implementation of those policies, plans and programs?

Those questions immediately touch on how limited or comprehensive should your amendment be; what does it need to include in order to have an effect.

I am reminded that when I was president of the American Institute of Planners some eighteen years ago, Senator Hugh Scott introduced a bill seeking to establish a planning office in the White House. We haven't had that kind of a presence in the Executive Branch since the days of the National Resources Planning Board. Perhaps that's what is needed, charged with the mission you have described.

Or it may be that this responsibility could be housed in OMB and tied to an activity that was somewhat related. The kind of inter-governmental communication generally covered by A-95 and that family of circulars might offer a possibility. But OMB is stripping itself of those activities (and people) and at least currently would not likely provide a sympathetic environment for this charge.

It may be that a Congressional committee might take a lead role in this endeavor; perhaps the Joint Economic Committee itself. A carefully phrased statement about what is desired and why, how often, and the benefits to be gained by its preparation and application, in terms pertinent to the structure and activities of the Joint Economic Committee would seem to be necessary.

Perhaps, at this time, a couple of options suggest themselves as the most feasible possibility.

One would be to amend the text of the Housing and Community Development Act that deals with the preparation of the National Urban Policy Report. That language might be amended charging that the Urban Policy Report, in addition to drawing from sources already specified, must also take into account a bi-annually prepared state plan prepared by each Governor dealing with the issues otherwise indicated in that title of the Act. If, indeed, that possibility has merit, then the text of that title might usefully be examined from the perspective of the questions I have listed above and a determination made whether or not some language needs to be included that would provide some incentive for such a state plan to be provided and some sanction if it were not.

The other would be to include in any Community Development Block Grant amendments, New Federalism Trust Fund legislation, or some other appropriate urban policy bill, language to the effect that prior to receiving Federal funds under that act each year, the Governor would be required to prepare and publish for public comment in his state a public statement concerning the State's Urban Strategy, and that such strategy include policies for modernizing local government and regional structures and processes.

I share these thoughts in the interest of supporting your conclusion that it is time to seek a Congressional action that mandates the preparation of a plan (and the functioning of a planning process) dealing with urban affairs in each state.

This is being done with respect to local planning in an increasing number of states (mandating a local comprehensive plan as a basis for implementation regulations and procedures).

You know as well as I do the spectrum of the response such a proposal will bring out. Be assured of my interest and support in whatever way may be possible and that of the American Planning Association as well.

Before I close, let me make one final comment relating to the discussion at the hearing July 15.

In touching on various experiences with boundary change and governmental structure, the relative usefulness and achievability of annexation, consolidation, charter local government, etc., were the subjects of some exchange. I would simply add that in undertaking such an effort, the leadership involved should be prepared for a long term effort, with some defeats along the way. There is a public information dimension; there is a necessary understanding to be gained; there is a leadership to be identified that has credibility in all parts of the community; there is a dialogue to be experienced, arguments to be had, and hopefully a consensus to be reached; there are negotiations to be experienced in arriving at supportable positions. All of this, along with the substantive analytical work that fashions the particular approach. In Nashville, that took a dozen years and one charter defeat and one successful annexation action before the consolidation was approved and metropolitan government established. But it was worth it. The government structure for that area has been a strategic factor in the economic well-being it has enjoyed.

My good wishes.

Sincerely,

IRVING HAND
Immediate Past President

/tms

The States and Urban Strategies

Executive Summary

Charles R. Warren, September 1980. 6 pp.

California's Urban Strategy

Lizette Weiss, September 1980. 42 pp.

Connecticut's Urban Strategy

Morton J. Tenzer and Carol W. Lewis, September 1980. 43 pp.

A Communities Strategy in Florida

Richard G. RuBino, September 1980. 30 pp.

Massachusetts' Urban Strategy: The Dukakis Years

William R. Capron, September 1980. 34 pp.

Michigan's State Urban Strategies

David Cason, Jr., September 1980. 32 pp.

New Jersey's Urban Strategy

Richard Lehne and James Robinson, September 1980. 38 pp.

North Carolina's Balanced Growth Strategy

Deil S. Wright, September 1980. 50 pp.

Ohio's Urban Policy: A Non-Intervention Approach

James G. Coke, September 1980. 28 pp.

Oregon's State Urban Strategy

John M. DeGrove and Nancy Stroud, September 1980. 43 pp.

State Urban Policy in Pennsylvania

Charles M. Christian and Connie L. Williams, September 1980. 30 pp.

A Comparative Analysis

Charles R. Warren, September 1980. 54 pp. and Appendices.

These reports were prepared for the U.S. Department of Housing and Urban Development. For information on their availability, contact HUD USER, P.O. Box 280, Germantown, Maryland; telephone (301) 251-5154.

Planning in state government continues to struggle for definition, purpose, application, accomplishment, and continuity of effort. These monographs profile a recent chapter in the evolution of that experience.

Ten case studies portray an attempt by states to understand, confront, and redirect activities and events that deal with the urban condition. What results is another set of documents reiterating that planning is politics and action to implement planning is political action. Given those qualities, it remains to be determined whether or how planning may be institutionalized in the organization and operation of state government. In particular, is it possible to extend the richness that can be gained from the experience of one administration to another without reverting back to "GO?" Usually, when one administration succeeds another it spends its first (and perhaps only) term in office once again stating the obvious (albeit in its own words), inviting the oft-repeated condemnation of planning: "another study, another report, but when are you going to do something?"

For those who toil in the vineyards of planning in state government, these reports may lend some small comfort. Charles Warren notes in concluding his *Comparative Analysis*,

> Whether one's expectations are modest or more expansive, those who advocate and formulate comprehensive strategies do so on the assumption that the judicious application of state powers in the regulatory area, in land use and environmental protection, and through the timing and staging of public investments, can shape and influence private market decisions and yield positive, long term results. The state efforts reported upon . . . would seem to justify these beliefs.

To this reviewer, Mr. Warren seems to be right at the edge of saying that planning and its application can and do make a difference.

That consideration has been addressed in each of the case study states. Attention is directed to the origin and politics of urban strategies, the participants in these endeavors, the substance of what has been experienced, and the relative permanence of this endeavor in the structure and functioning of state government.

A research framework was provided each of the participating authors and their efforts were shaped accordingly:

I. State or areawide context (10 pp.)
II. Origins of the strategy and process of strategy development (20 pp.)
III. Substance of the urban strategy (15 pp.)
IV. Strategy implementation (15 pp.)
V. Strategy assessment and conclusions

These categories were intended to guide each case study author to produce as mutually consistent and comparable a result as the experience of the particular state would permit. However, as the North Carolina report notes: "Planning, of course, has different meanings for different persons, especially governors."

The range of that difference of view is reflected in the balanced growth policy experience of North Carolina and the non-intervention approach of Ohio. In North Carolina

THE ADMINISTRATION'S 1982 NATIONAL URBAN POLICY REPORT

MONDAY, JULY 19, 1982

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 2359, Rayburn House Office Building, Hon. Henry S. Reuss (chairman of the committee) presiding.

Present: Representative Reuss.

Also present: James K. Galbraith, executive director; and Deborah Matz and Robert Premus, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE REUSS, CHAIRMAN

Representative REUSS. Good morning. The Joint Economic Committee will be in order for its continued hearings into the national urban policy.

This morning we will concentrate on the contribution of the private sector to urban development.

Firms and people have been migrating to the suburbs and the Sun Belt and this has hurt the economies of many cities, particularly older industrial cities. Since jobs are essential to the welfare of people and business is essential to jobs, the private sector must play a vital role in any city's vitality.

The notion of public-private partnership was stressed in the Carter administration. Under the Carter administration the Federal Government offered incentives for businesses and industries to locate, remain, or expand in economically troubled central cities. The Carter administration pledged that, to the extent possible, Federal disincentives for locating in troubled central cities would be ended.

In addition, the Carter administration supported programs to improve social services, make good housing available, remove barriers to neighborhood choice, and encourage middle class people to remain in or to return to central cities.

The Reagan administration in its National Urban Policy Report likewise pledges itself to working jointly with State and local governments and the private sector to improve the quality of life.

In the report, numerous examples of successful private-public partnerships are cited. There is, however, absent a description of the Federal role in some of these partnerships. For example, in section 5 of the administration's National Urban Policy Report the private sector role in Toledo, St. Paul, and Pittsburgh is set forth in some detail. But what is not set forth is that in Toledo at least 35 million dollars worth of Federal funds was involved; in St. Paul, $16 million; and in Pittsburgh, almost $300 million.

Today Federal funding for economic development programs such as EDA, community development block grants, UDAG's, SBA, UMTA and highway programs have been drastically reduced. The funding was cut from $24 billion in fiscal year 1981 to $19 billion in fiscal year 1982, a 20-percent cut, with an additional 15-percent cut proposed for fiscal year 1983.

These are the programs which provide local governments with the wherewithal to improve their business environment and rebuild their tax bases. The shortfall in economic aids is compounded, of course, by the severe current recession.

As for charitable contributions by corporations to cities—even in good economic times business contributions to social, cultural, and educational activities have not been particularly large. Last year, for instance, of the $44 billion from private philanthropy, business contributions accounted for only about 7 percent or $3 billion of the total.

Robert Embry of Baltimore, who testified here last week, was pessimistic about the likelihood of private contributions as a major solvent for public problems. According to Mr. Embry, "the private sector will not educate poor children; it will not provide affordable housing for the poor; it will not undertake economic development in distressed areas; it will not provide job training for significant numbers of the hardcore poor."

And in a recent Conference Board survey, businesses themselves concurred. Of the 400 major corporations surveyed, only 6 percent indicated that they planned to increase their contribution to offset all or part of the Federal budget cuts.

Our witnesses this morning include citizens who have themselves and through their corporations made a major contribution to the private sector approach. We're delighted to have with us James Rouse, chairman of the Rouse Co. of Columbia, Md.; William C. Norris, chairman of Control Data Corp., Minneapolis: Thomas Muller, principal research associate for the Urban Institute; and Mayor Ruth Yannatta Goldway of Santa Monica, Calif. Later on this morning we shall also hear from Patricia Harris, former Secretary of Housing and Urban Development.

Mayor Goldway and gentlemen, we are honored to have you here this morning. We thank you for your prepared statements which under the rule will be included in full in the record and we would now like to ask you to proceed, with Mayor Goldway first.

STATEMENT OF HON. RUTH YANNATTA GOLDWAY, MAYOR, SANTA MONICA, CALIF.

Mayor Goldway. Thank you, Chairman Reuss. Thank you for the opportunity to appear here today. I bring you warm greetings from the city of Santa Monica, a city that bucked the conservative tide and elected a liberal Democratic majority to its council in 1981. I wish I could bring you our political climate and our cool breezes as well.

Our seaside city has been dubbed the "People's Republic of Santa Monica," by our Reaganite opponents and the conservative press. Frankly, if such a label reflects our dramatic departure from Reaganomics, then I can't be insulted. The vast majority of Santa Monicans, unlike the Reaganites, believe that it is the proper role of government to provide services for people, to regulate the excesses of the private sector, and to actively plan for a balanced and healthy local economy. Our winning campaign slogan was "Make Santa Monica a City Where People Come First."

Citizens want government to act aggressively with innovation and old-fashioned entrepreneurial spirit to improve the quality of urban life.

Two summers ago, five lifeguards who work at Santa Monica beaches were diagnosed with cancer. Toxic chemicals which are poorly regulated by both Federal and State programs were being dumped into storm drains feeding into Santa Monica Bay and the ocean. In the late 1970's, real estate speculation resulted in rampant unchecked building in our city causing traffic jams, increased crime, enormous demand for affordable housing, and sewer backups and overflows. Our beaches and palisades were being dwarfed by high-rise monolith office buildings. The specter of the future of Los Angeles as seen in the new movie, the "Blade Runner" was all too readily apparent to our citizens as it is, no doubt, to New Yorkers, Detroiters, or Houstonians, and residents of other urban cities.

Our citizens understand that private business activity produces social costs to the city. They believe businesses should share these costs. They support the notion that there is a public balance sheet and that Government should protect the public's bottom line.

Years ago it was considered radical to require developers to provide adequate parking for the auto traffic their buildings generated. Now it is commonplace. In the 1970's, urban dwellers began experiencing the negative impacts of uncontrolled growth and uncontrollable capital flight such as crime, pollution, demand on infrastructure, shift in employment opportunities, and housing shortages. In fact, the urban problems of cities in decline is not unlike the urban problems of cities with too much growth.

The generous tax breaks which the Reagan administration has lavished on business make it difficult for government to afford to cleanup the mess the private sector leaves in its wake. In Santa Monica, therefore, we are planning ahead, requiring developers to agree in advance to share social costs. We have successfully negotiated several development agreements with the private sector. In return for the city providing the right to develop profitable buildings, these businesses must provide affordable housing, public parks, day care centers, community-oriented business uses, and mass transit incentives.

For example, Welton Beckett Associates will be developing a 1 million square foot commercial and hotel complex on 15 acres. They have agreed to build 100 low- and moderate-income apartments elsewhere in our city, provide 5.5 acres of privately maintained publicly accessible park, a child care center and community room onsite, provide bus fare subsidies to employees, and implement affirmative action hiring programs.

Greenwood Development is building the largest office-condominium complex in California in our city, but it is also building 30 affordable apartments, a day care center, a community room, and small public outdoor play area on just under 30 percent of the land that that had originally planned for offices.

Kendall Associates had planned a nine-story office building just one block from the beach. Instead, they are proceeding with a three-story building with 11 apartments on the third floor, offices on the second floor, and food-serving uses, especially grocery-store-type uses, which the neighborhood requested, on the first floor.

All these and other development agreements we have enacted assure housing subsidies for 40 years paid for entirely by the developer, stringent energy conservation measures, and funding for public art displays in the buildings.

Our city council is also actively planning for new economic opportunities for small businesses. We have proposed an independent Tourist and Convention Bureau made up of representatives from the council and the local chamber of commerce and local hotel owners. Both public and private sectors are anxious to capitalize on our beautiful location.

We have used city staff to manage a weekly farmers' market, the most successul in southern California, locating the market in an area which is suffering retail decline in order to attract new visitors, as well as to provide cheaper, fresher food for residents.

We are taking inventory of our local economy, trying to understand what jobs are currently provided by businesses in our community, what trends and shifts are occurring and, most importantly, what kinds of jobs our residents need. Before we venture into large-scale revitalization, redevelopment, or new economic development schemes, we will assess the full social costs as well as benefits.

Santa Monica's rent control law has had a beneficial effect on our local economy. A UCLA study found that rent control saved tenants over $54 million in the first 1½ years of the law's implementation. That figure is close to $100 million after 3 years of implementation. Money that tenants would have otherwise given to out-of-town landlords and investors now stay in our city. This is one of the reasons why—for the last 2 years—Santa Monica has been among the leaders in retail sales growth in California. Because our city receives 1 percent of the State sales tax, city revenues have improved, compensating for some Federal cuts. For example, Santa Monica's total taxable sales rose 11.5 percent, compared to a 2.1 percent rise statewide in the first quarter of 1982.

Another way in which we are successfully making economic decisions is by deliberately seeking community input and providing new mechanisms for citizens participation.

Past Santa Monica Councils, dominated by conservatives, planned to tear down our historic pier and build a causeway out to an artificial island of high rise condominiums in the Santa Monica Bay. We are preserving the pier and have appointed a special citizens' task force composed of businessmen, artists, architects, and residents to develop plans for an expanded and revitalized recreation area and which can also be a moneymaking-enterprise for the city. We have already restored the famous Merry-Go-Round immortalized in the movie, "The Sting." We Californians can't refrain from using our cultural heritage from the movies. Rather than leaving it to a private business to run it, we have contracted with a private nonprofit organization affiliated with the National Carousel Association. They have agreed to take only enough money for their modest salaries and carousel maintenance. All remaining proceeds are returned to the city.

Santa Monica was the first city in California to carry out a curbside recycling program in apartment zoned neighborhoods. We received a grant from the State Solid Waste Management Board and have contracted with a local private recycling business in another model, joint public-private venture which provides new services to city residents and may, over time, reduce public garbage collection costs.

We have established a new set of fees for sewer and water hookup to more fairly allocate the costs of new infrastructure to the new construction which makes it necessary.

Our city attorney is reviewing city contracts, franchises, and leases to assure that the public receives the best possible bargain. The private sector is not used to such aggressive stances. For instance, we may be renegotiating our cable franchise agreement with group W because they may not have fulfilled certain legal and procedural obligations. When our 40-year right-of-way lease with Shell Oil expired, we insisted upon outside expert financial appraisal and an independent safety analysis before signing a new contract. The city's appraiser recommended that our underground pipleline lease was worth over $400,000 per year. Shell had been paying $1,000 per year for the last 40 years. Our city attorney offered to accept less than half of our appraiser's figure, yet Shell Oil refused. More importantly, they refused to implement the safety improvements recommended by their own consultants and even their own safety consultants. Shell is suing Santa Monica, claiming they are protected by Federal preemptions.

Will the Reagan administration support their oftstated preference for local control on this issue? Unfortunately, I doubt it. Their concept of local control is decontrol, or, in practice, the affirmative impositions of dangers, air and water pollution, enterprise zones, offshore oil drilling, noisy aircraft, and private market excesses.

Santa Monica has adopted a toxic chemical disclosure law requiring businesses likely to use such substances to disclose them at the time they file for business licenses. The local chamber of commerce supported this legislation as a reasonable attempt to control illegal dumping. Yet, the administration is considering legislation to preempt even this small step forward in toxic control. I will be testifying tomorrow in Los Angeles before OSHA on this matter.

Our ability to negotiate cable TV franchises may be preempted by new legislation. A local attorney has used the recent Supreme Court decision regarding municipal liability under the Sherman antitrust laws to bring suit against our wonderful recycling program. Santa Monica's municipally owned bus company will be forced to reduce service and put more people back into cars when next year's proposed mass transit cuts are enacted.

And most importantly for the 70 percent of our residents who are renters, the President's Housing Commission and conservative

Congressman are pressing for sanctions on cities with rent control. In 1980, despite more than $6 million in campaign expenditures, landlords in California were defeated in their attempt to remove local rent control ordinances by defining rent control as a statewide issue. Now conservatives claim it must be decided nationally.

The Reagan administration has forgotten that cities are the people who live in them. This Urban Policy Report totally ignores the human perspective. There is no mention of measurements of nutritional levels, of health care delivery, of adequate education, of air quality effects, of convenience of jobs and shopping, or of voter participation. They encourage the destruction of the family through the dispersal to growth areas of individual family member undermining the church, school, cultural, and traditional ties that are, after all, the fundamental basis of our American society.

Therefore, the most important element of a real urban policy must be a neighborhood and housing policy. The elimination of funding for subsidized new construction, the heartless assessment that there is a existing adequate supply of decent, affordable housing in our Nation's cities, attacks on such programs as rent control which seek to protect and preserve existing housing stock and, of course, the Federal Reserve's policy of high interest rates, add up to the most negative antiurban policy of the post-war era.

CONCLUSION

What we're doing in Santa Monica, we believe, could be tried in other cities and we hope it will, but we don't think that we can go it alone.

Chairman Reuss is correct. All of the major economic improvement initiatives of the last few decades have either been instigated by or in large measure supported by Federal funding.

Our senior citizens have been hurts by Reagan's social security reductions. Santa Monica has 22 percent of its population consisting of senior citizens. One of my fellow councilwomen, a widow, has had her son's education threatened by cuts in survivors benefits. Another council member, a county parole officer who works with juvenile delinquents, may lose his job due to budget cuts. Medical cuts in the county affect our poorer citizens access to health care. More unemployed drifters than ever before are wandering on our beaches and sleeping in our parks. High interest rates caused by the Federal Reserve's tight money policy have stifled many small local businesses.

We endorse the efforts of Chairman Reuss and this committee to develop a national economic policy which begins with people and strives to improve the quality of urban life.

We endorse such needed reform as a national urban development bank, elimination of tax breaks for real estate speculation, advance notice of plant closings and retraining for displaced workers, democratization of the Federal Reserve and credit allocation to housing and small businesses, and increases in public spending for education, health care, and mass transit.

Thank you for the opportunity to speak. I have a few additional articles to submit for the record.

Representative REUSS. Under the rule, they will be received in full and thank you very much, Mayor Goldway, for your excellent presentation and also for your efforts to keep Santa Monica from being martyred once again.

[The articles referred to follow:]

Commentary

City Pressures Developers for Trade-Offs

By SAM HALL KAPLAN,
Times Urban Affairs Critic

An unusual $10-million complex combining stores, offices and apartments is slowly rising out of the ground in Santa Monica like a phoenix from the still smoldering ashes of the war there between builders and the city.

The evolution of the complex from a nine-story office tower as originally proposed to a low-rise two- and three-story development containing housing can be traced to an evolution—if not revolution—in the city's planning philosophy.

The philosophy, simply put, is for a city to become more aggressive in negotiations with developers in an attempt to extract from them designs it feels better meets the public needs. In return, the developer is allowed to build.

End of Moratorium

The mixed-use development at Ocean Avenue and Colorado Boulevard is one of the first projects approved by the City of Santa Monica under its controversial "interim permit procedures" following the end of a bitterly contested building moratorium.

Successive moratoriums had been imposed by Santa Monica to curb what it considered the avaricious growth of high-rises and condominiums that was destroying the city's scale and aggravating the local housing market of rental apartments.

The interim procedures incorporate guidelines generally reducing allowable heights and densities. This down zoning can be expected to become part of a new package of planning and building laws the city is drafting.

More Amenable Designs

What the guidelines in essence give the city is a flexible and powerful tool to use in negotiations with developers to gain various items it considers vital to Santa Monica's future. These include moderate income rental apartments and more amenable designs respecting scale and encouraging street life.

"In our review of projects, we are in effect utilizing a public balance sheet weighing the costs of development against the benefits to the residents of the city," says City Manager John Alschuler. "We look to the equation to favor the quality of life in the community."

While some developers have accused Santa Monica and its self-described progressive city council of using the guidelines for "extortion," the city actually is doing what many other municipalities have done in various forms since assuming the right to enforce building and zoning laws.

For years suburban communities considered conservative bastions have demanded that developers wanting to subdivide assume the cost of such public improvements as road and sewer construction. They also have insisted that developers donate land for public parks, schools and firehouses and even build them.

"We are in fact trying to translate the rights affluent suburban jurisdictions have exercised without

Please see TRADE-OFFS, Page 9

much protests from builders and apply them to the urban environment of Santa Monica," observes Alschuler. He adds that instead of requiring such items as new schools, Santa Monica is asking for such items as low- and moderate-income housing.

Other cities also have been increasing their attempts to extract concessions from developers, such as the dedication of plazas in front of office buildings for public use and percentages of apartments to be leased with federal subsidies to low-income families.

One of the more ambitious efforts was in downtown Los Angeles, where as part of the planned $1.2-billion California Center the city's Community Redevelopment Agency got the developers to agree to construct about $50 million of public amenities. These include a contemporary art museum, an outdoor amphitheater and extensive landscaping and parks.

The days when developers simply marched into a municipality, bought up a few parcels of land, perfunctorily filed their plans and built are long gone. Now, they must negotiate with cities which, because of dwindling revenues and federal grants and subsidies, are hard pressed to fund local needs.

This fact of life has been a particularly bitter one for developers to accept in Santa Monica, where for years a mild-mannered city council dominated by business interests simply rubber-stamped most plans. All that was changed when in recent years a new council was elected, dedicated to bringing the city's rampant growth under control.

Caught in the shift of power and philosophy was H.J. Kendall Associates, which owned the 30,000-square-foot site on Ocean Avenue. It had developed plans for a nine-story tower on the site to contain about 99,000 square feet of office space, confident of approval by the old council.

However, the plans first had to be approved by the state Coastal Commission, which recommended the tower to be cut to six stories so as not to block the view of Santa Monica Place, a new regional shopping mall a block to the east.

By the time the new plans were ready for review by the city, a new council was in office and the first of two moratoriums had been imposed. "And we were left sitting with the site and about $145,000 already spent on plans," recalls Herbert Kendall of the company bearing his name.

When the moratoriums were followed by the interim guidelines, Kendall adds that he thought it was time for him to meet with Santa Monica Mayor Ruth Yannatta Goldway and other city officials and find out what they would like to see on the site.

"I think I could have fought the procedures in court, won and built the tower, but instead of spending the effort and legal fees, I decided to explore what accommodations could be made," Kendall says.

"What we were looking for was a project that could serve as a link between our downtown and the pier, provide some activity on the streets and some desperately needed housing," Alschuler says. "We did not want a deadening wall of offices."

Kendall says that at first he thought the combination would be economically unfeasible but then he thought back to experiences as a builder and resident of Princeton, N.J., and the successful development there known as Palmer Square. It is an attractive low rise complex of stores, offices and apartments.

The results of further talks and negotiations between Kendall and the city was a design by architects Donald Prochnow and Stephen Frew allocating 21,500 square feet for stores on the ground level and 29,500 square feet for offices and 9,000 square feet for 10 apartments on the upper levels. Parking for 172 cars will be underground.

"It won't be as profitable as the office tower, but it is something I can be proud of," Kendall says.

"And it is something that will benefit the city," Alschuler adds. "And that is why it was approved."

May 30, 1982
Los Angeles Times

Back-Scratching Makes Project Go

Santa Monica Exacts Price for $90-Million Complex

By LAUREN TSUJIMOTO

It appears the City of Santa Monica is saying, "I'll scratch your back if you'll scratch mine," with the ratification of the development agreement for a $90-million office condominium complex to be built on the southeast corner of Colorado Avenue and 26th Street. It will become the largest office condominium project in California.

Developers have long included elements such as parks or fire stations in construction plans to help gain city approvals. A condition of the development pact for the 3.2-acre Greenwood Center project is that the developers, Campeau Corp. California and Greenwood Development Co., also build 30 residential apartment units.

Included in the residential element will be 11 one-bedroom, 15 two-bedroom and 4 three-bedroom apartments in a three-story structure with subterranean parking for 45 cars, according to Barry Rosengrant, Greenwood's director of marketing.

To be built at the eastern end of the project site, the residential area will also have a day-care center with a playground and a community room. The units will be made available first to Santa Monica residents working for firms in Greenwood Center.

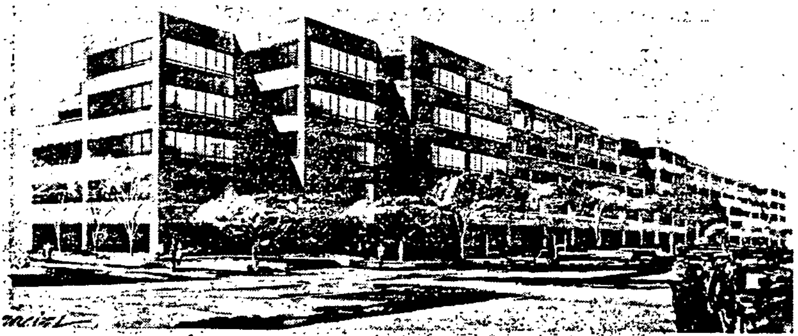
Scheduled to start construction in midsummer, the remainder of the complex will consist of 312,000 square feet of office space in a five-story structure with three levels of subterranean parking for more than 1,000 cars. Completion is expected in early 1984.

Office space will be sold in increments ranging upward from 2,000 square feet. Floor sizes range from 17,000 to 23,000 square feet, with each floor expected to be divided into four or five sale units.

Designed by the Landau Partnership, the building exteriors will be brick with dark gray glass in black anodized aluminum window frames. It will be possible to open the lower portions of the windows, a feature lacking in many new office buildings.

Campeau Corp. California, formed in 1978, is a subsidiary of Campeau Corp., a publicly held Toronto-based real estate development firm. Other projects the developer has been involved in include Oakmead Village, 450-acre industrial park in Sunnyvale; Plaza Figueroa, $400-million, mixed-use project in downtown Los Angeles; Birtcher Business Park, Lake Forest, and San Francisco Executive Park, San Francisco.

Sales office for the project is open daily from 9 a.m. to 5 p.m. at 2001 Wilshire Blvd., Santa Monica. Greenwood Development Co. is also serving as sales agent. Williams Burrows Inc. of Tustin is the general contractor.



Rendering shows Greenwood Center, $90-million office condominium project in Santa Monica reported to be the largest such project in California. It has been approved for development.

Los Angeles Times, May 30, 1982

Los Angeles Times
Sunday, June 20, 1982

$100-Million Commercial Project Rising Out of Santa Monica Battle

By RUTH RYON, *Times Staff Writer*

Now that the dust has settled, so to speak, N. David O'Malley just wants to look ahead.

Ahead to what one of his companies is designing and another of his companies is developing:

The $100-million, 15-acre Colorado Place in Santa Monica.

That's right: Santa Monica, which has hardly been known lately for its pro-development stance.

Santa Monica, where a building moratorium last year threatened to kill O'Malley's project but wound up delaying it by six months.

"The city came along after we had tenants, financing and contractors," he said, and demanded that work be stopped. "They were unwilling then to look at the underlying concepts of Colorado Place and decided that development is bad and big development is worse.

"We maintained that to transfer a garbage dump into a first class business and community center is an honorable thing to do. So we were always puzzled by the city's attitude."

Puzzled, but O'Malley, president of Welton Becket Associates, Architects & Engineers, and a director of Becket Investment Corp. (developer of Colorado Place, which it owns in joint venture with the Krantz Interests), didn't give up though he once called the project "dead."

Through a development agreement with the city, O'Malley's firms and the contractor, Tishman Construction Corp. of California, were allowed to go ahead. Not exactly as planned. But, as O'Malley put it, "the results were not all bad."

For example, there is now a child care center proposed that was not in the original design. There is also a three-acre park envisioned that O'Malley said is "a nice thing to do. But, as a result, the buildings got taller." He liked the lower scale better; for instance, the three-story hotel plan instead of the seven-story one.

"So there were some trade-offs," he acknowledged, "but the city probably feels it made some trade-offs too."

Besides other concessions in the plan, though, the city will get 100 new units of low-income rental housing on other sites that Becket Investment Corp. is negotiating to buy.

"Fifty of the units are to be associated with the first phase (of Colorado Place) and 50 are to be associated with the second phase," O'Malley explained. "They're required to be under way within 18 months of the certificate of occupancy of each phase."

The first phase—three office buildings or "linked pavilions," as O'Malley described them—is expected to be completed in late 1983. The second phase—a 350-room hotel owned and operated by Becket Investment Corp., a major restaurant, retail facilities and a health and racquet club—is scheduled to open in late 1985. About 750,000 square feet of office space is planned. Crocker Bank is financing construction.

Altogether, the project was designed to become a "multifunctional urban" setting, a "human environment," said O'Malley, where people might go every day.

It will be headquarters for Welton Becket Associates, the Tosco Corp. and System Development Corp. but it also will house the Village Square with its art exhibitions and live performances and The Market with its cafes and shops.

There also will be three levels of underground parking—enough for more than 3,500 cars—where natural lighting will filter down through landscaped courtyards and a glass-enclosed elevator.

"We feel people must be treated with the same sense of dignity in the parking area as they are at the top," O'Malley said. "The choice of the name 'Colorado Place' was not frivolous. It is not a building. It is a place."

On the equivalent of three city blocks, Colorado Place is bounded by Colorado Avenue, Broadway, 26th Street and Cloverfield Boulevard: a site that was a quarry where clay was obtained for tile roofs. Later it became a garbage dump.

JAMES FRANCAVILLA / Los Angeles Times

N. David O'Malley, president of Welton Becket Associates and a director of Becket Investment Corp., looks ahead to the completion of Colorado Place, where work was allowed to progress through an agreement with the City of Santa Monica.

As a result, said O'Malley, "we'll have to excavate the whole property about 45 feet."

A few industrial buildings built just after World War II also will have to be torn down. That might have meant trouble if the development agreement had not been signed. The city looks dimly on demolishing buildings.

O'Malley looks dimly on cities expecting investors to build housing in addition to the investors' plans.

"Unreasonable demands will force investors to look elsewhere," he said. "But when Colorado Place opens, the fact that we had to build low-income rental housing will not be relevant to the people using Colorado Place."

Popular Planning

THE NEW YORK TIMES, TUESDAY, MARCH 16, 1982

By Derek Shearer

SANTA MONICA, Calif. — As the economic renaissance promised by Reaganomics fails to appear, calls for economic planning will be heard from leading businessmen and politicians. Will such planning, when it inevitably comes, be participatory?

The investment banker Felix G. Rohatyn and the economist Lester Thurow advocate a system of top-down national planning whereby financial experts, appointed Government officials, and a few labor leaders spend public money to prop up the economy. Neither Reaganomics nor Mr. Rohatyn's top-down planning addresses the legitimate complaints most Americans had when they supported candidate Ronald Reagan's call for local control and a reduced national bureaucracy.

Santa Monica's city government, elected in 1981 on a platform of economic democracy, is striving to be an exemplar of locally controlled planning. The City Council and other officials believe that President Reagan's "new federalism" should be built on principles of participation, not royalism. For example, the city required one developer to include 100 units of affordable rental housing, a day-care center, a public park, and incentives to use public transit. In another development, a proposed 12-story office building downtown was reduced to three stories in which offices, apartments, and food stores are mixed.

Like most cities, Santa Monica, which is surrounded on three sides by Los Angeles, faces both reduced growth in local revenues and drastic cutbacks in funds formerly received from the Federal and state governments. At the same time, high interest rates make the bond market increasingly inaccessible to Santa Monica, and other cities.

Santa Monica's new government will be struggling just to find enough revenues to maintain the city's roads and sewers. The city does not have the capital resources necessary for extensive economic planning. Reaganomics, offered as a stimulus to business and a return of power to local government, is wreaking havoc on local economies and reducing the ability of citizens to control their own lives.

Some national planning will be necessary. The Federal Government should take an equity position in key industries — for example, steel, cars, energy, finance — and then require board representation for union and community leaders. A genuine "safety net" — a decent, guaranteed family income — should replace the maze of welfare payments. With a system of real economic security and greater participation in corporate decision-making, workers would be more willing to plan jointly with management for the equitable short-term sacrifices needed to revitalize industry.

Local democratic planning would begin with neighborhood-based programs that provide residents with technical help to come up with an assessment of the goods and services needed by their community. This might include public amenities like parks and street repairs, and private needs like particular kinds of stores or, simply, jobs for the unemployed.

Most important, cities would obtain capital to plan for new jobs and neighborhood improvements from municipally owned banks that would loan funds and provide equity for development projects.

In Santa Monica, democratic local planning is heading in this direction:

A neighborhood organization includes a new supermarket in its assessment of needs. The city planning staff does a feasibility study, then the city development bank provides the loan. The store is set up as a cooperative, owned and managed by neighborhood residents; jobs are provided for youth in the area, and residents gain a local market that includes day-care facilities and a nutrition center.

The city development bank might also make loans to small-scale manufacturing businesses in, say, new technology, but insist that the firms be organized as employee-owned enterprises, have profit-sharing plans, or at least employ Santa Monica residents. The city could form joint ventures with private developers and take a piece of the action in return for loans or start-up capital. Santa Monica might do this on its municipal pier. Instead of turning over redevelopment to a private firm, the city would act as its own innovative developer.

Nationally, local development banks and planning commissions could stimulate development of new enterprises and balanced growth by fostering a mixture of enterprises — some public, some joint ventures with private firms, some employee-owned, especially in communities hard-hit by plant closings.

A system of public investment and democratic planning would not solve all of America's ills overnight, but it would call on the millions of Americans from neighborhoods to shop floors who are currently excluded from economic decision-making.

Derek Shearer, director of urban studies at Occidental College and co-author (with Martin Carnoy) of "Economic Democracy: Challenge of the 1980's," is a member of the Santa Monica Planning Commission. His wife, Ruth Goldway, is Mayor of Santa Monica.

In Santa Monica, a council-chamber alliance brings the farm to the city

By Sally Jenkins
Herald Examiner staff writer

"Mushrooms here. Fresh — picked them last night. Take some home to Mother and Aunt Tillie."

Hel Noel hawked his fresh mushrooms yesterday in the Santa Monica Mall, part of the town's business district. He was there with about 12 other Southland farmers for the grand opening of the Santa Monica Farmers' Market.

Hundreds of people lined the streets, trying to squeeze to the front before the farmers sold out. The market was supposed to open at noon, but by 11:45 a.m. the crowd was so large that some of the vendors opened shop.

"This one is a boomer," said Noel, a farmer from Huntington Beach and a veteran of Los Angeles-area farmers' markets. "This one is off to the best start of any of them."

Everyone benefited: Farmers offered fresh produce for 30 to 40 percent less than retail supermarket prices, and some farmers made double their usual profit.

It also signified an unusual marriage between the liberal City Council and the city's Chamber of Commerce.

The Santa Monica market joins a network of nine others in the Los Angeles area: Gardena, Pacoima, Pasadena, Long Beach, Boyle Heights, Baldwin Park, central Los Angeles and Pomona.

It's a state-certified program set up by the Department of Food and Agriculture in 1977 to re-establish the link between consumers and farmers in Southern California.

For Santa Monica Mayor Ruth Yanatta Goldway, it was the end of a long battle. She helped plan the original state project when she worked with the Agriculture Department. At that point, she tried to establish a market in the city but was bitterly opposed by a conservative council.

After the council elections this past April, however, a liberal coalition gained a majority and immediately told members of their staff to "run with it," said Councilman Jim Conn.

This time, the program had the support of not only the council, but also the Chamber of Commerce, which Conn said had previously fought against it, fearing that local businesses would be hurt.

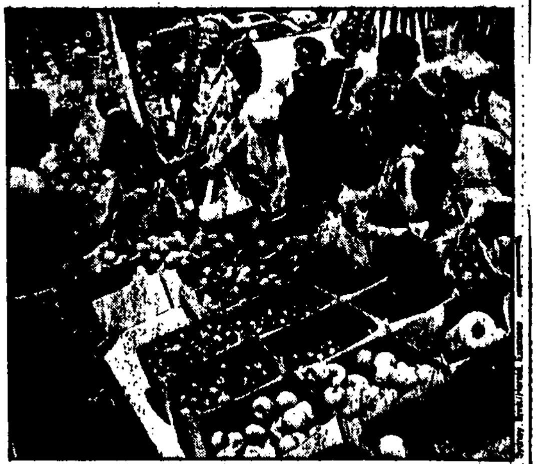
Nearby shop owner David Khedr said he thought the market attracted more people to the mall and was optimistic it would bring in more business.

Santa Monica's grants administrator, Bruce Murray, was assigned to oversee the program and organized it in the record time of one month, a process that took other towns four months.

Conn and Goldway said the unusual cooperation between the Chamber of Commerce and the council made it possible. Although tension still exists, they have found a common ground in revitalizing the mall, they said, which had been devastated by the construction of a shopping complex, Santa Monica Place, only a few blocks away.

"It's a unique thing," said Goldway. "The entire city government is absolutely behind it."

The market will operate every Wednesday from noon to 6 p.m.



Shoppers sample food at new Santa Monica Farmers' Market.

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Los Angeles Herald Examiner, July 16, 1981

Toxic Chemicals Law Could Be 1st in State

By KENNETH J. FANUCCHI, *Times Staff Writer*

Santa Monica businesses using toxic chemicals will have to disclose the types of substances and their disposal methods under a proposed new toxic chemical disclosure ordinance given preliminary approval by the City Council.

Final approval of the ordinance is expected at a council meeting next month. Sources within the liberal majority bloc on the council said approval is a foregone conclusion.

They maintained the ordinance will be the first of its kind in a California city and the second nationwide. Philadelphia is reported to be the only city to have such a law.

City Atty. Robert M. Myers estimated between 1,000 and 2,000 of the city's 16,000 businesses will be required to disclose types of toxic chemicals used when the firms file for annual renewal of their business licenses.

Businesses whose activities fall under the proposed ordinance's provisions include those engaged in vehicle painting, auto body work, laundry, dry cleaning, photo

Please see TOXIC, Page 14

LA Times —
Sun Sept 27

TOXIC: Proposed Law

Continued from First Page

processing, metal and plastic cutting or forming, printing, pest and weed control and medical, dental and chemical laboratories.

They will be required to file disclosure forms, which are being developed by the city attorney's office, within 90 days of final adoption of the measure. A $5 fee will be charged each affected business to cover administrative costs of the ordinance, Myers said.

The purpose of the ordinance, according to Myers, is to provide data on the extent of toxic chemical use in the city, give comprehensive details to the Fire Department, which may have to put out fires in firms using chemicals, and to plug what he said was an informational gap on toxic chemical use at all governments levels.

"There is no state or federal law requiring such disclosure," Myers said.

The measure was developed in response to two well-publicized events: pollution last year in the Pico-Kenter storm drain and the discovery two years ago of the existence of a toxic chemical in some Santa Monica water wells.

A council effort a year ago to pass a similar law failed after businesses that would have been covered by the law voiced their opposition.

It is expected to be passed this time because of the election of a majority of liberal council members in the April election who favored such an ordinance and because the measure was drawn up in collaboration with the Santa Monica Chamber of Commerce.

The chamber, which opposed the first attempt to draft a toxic chemical disclosure proposal, did not testify at the public hearing held before the council's preliminary approval.

The measure deals solely with disclosure. It does not regulate the use, processing or disposal of hazardous materials.

How the Progressives Won in Santa Monica

by Derek Shearer

It might have been the final scene from an inspirational Frank Capra movie of the 1940s: a motley group of tired campaign workers seated together on folding chairs in the WPA-built city hall at five-thirty in the morning, waiting for the final campaign results to see whether they had defeated the Big Money crowd and won a victory for the People.

Title it *You Can Fight and Win*. Central casting sends over the perfect mix of characters to play the insurgent candidates: a middle-aged widow, mother of four, who works for a local union; a liberal Methodist minister who looks like a cross between Alain Delon and Groucho Marx; an intense, intellectual community organizer, son of a retired steel worker; a friendly, witty probation officer, a "people's cop"; and a good-looking woman in her thirties, an expert in low-cost housing.

Give the film an upbeat theme: people's need for housing and control over their own city versus the real-estate speculators and banks. Make certain the screenplay has plenty of drama: crowd-filled rallies at city hall, demonstrations by angry tenants against rapacious landlords, confrontations between the people's candidates and the front men for the chamber of commerce.

DEREK SHEARER is director of urban studies at Occidental College, Los Angeles.

If the film could be made in today's Hollywood, would it sell? Populist films with a progressive message are not "in" these days. The conventional marketing wisdom is that audiences want escapism: science fiction, horror, vigilante movies. The country is supposedly moving to the right.

Yet, the imagined film is political reality. On April 14, 1981, the progressive slate of candidates for the city council in Santa Monica, Calif., won majority control of the city government in a landslide victory over a conservative slate of candidates fielded by local chamber of commerce/real-estate Republican forces. *The Village Voice* hailed it as "A Victory in Reagan's Backyard," and the national press—the *Wall Street Journal, Los Angeles Times, Washington Post*—and international press—the *Manchester Guardian, Le Monde, Information*—all printed major stories on the selection.

Of course, *any* victory by New Left forces in the year of the Reagan sweep would be national news. Does the victory in Santa Monica hold more than curiosity value for activists in other parts of the country?

THE SETTING

"All politics in the U.S. is local." House Speaker Tip O'Neill has observed. It is necessary to understand the local context of the Santa Monica victory to appreciate the possible lessons that it holds for other cities and states. While Santa Monica is not prototypical, it is also not unique; it is not some mellow land of quiche eaters, joggers, and roller skaters whose brains have been affected by the sun or their hot tubs.

Santa Monica is an incorporated city of approximately 90,000, surrounded on three sides by the city of Los Angeles and on the west by the Pacific Ocean. It is not a city of upper-middle-class professionals nor a city of minority poor. Almost 70 percent of the population is of moderate income. The medium household income in 1975 was $11,088, close to the national average. Almost three-quarters of the households are renters. The population is a relatively balanced mix of seniors (16 percent), families with children (23 percent), Hispanics (13 percent), Blacks (4 percent), and Asians (4 percent).

The city has been called "sleepy," an Oshkosh by the Sea. Throughout the fifties and sixties the town was dominated by Republican homeowners, the chamber of commerce, and the local conservative newspaper, the *Evening Outlook*. Working-class homes filled the southeastern end of the city near a large Douglas aircraft plant. In the southwest, near the beach, working-class renters, many of them retired Jewish workers from the Los Angeles garment industry, lived in the Ocean Park section, once billed as "the Coney Island of the West."

The awakening of sleepy Santa

Monica was a gradual process, which began in the late 1960s when the old bungalows in Ocean Park were razed to make way for Miami Beach-style high-rise developments. It was a classic case of post World War II urban renewal: a so-called lower-income "blighted" area was demolished and lower-income residents displaced. In 1966, a new freeway was completed that connected the city "more efficiently" to greater Los Angeles, making more intensive land use economically feasible. Hundreds of small bungalows in the southern section of town were demolished and replaced with apartment buildings.

Renters as a group tend to be more Democratic and less well-off than homeowners, and by the early seventies the city was voting Democratic in national elections. In 1972 George McGovern carried Santa Monica in the Presidential election—but participation in local elections, which were held in the spring, one week *after* Los Angeles held its municipal elections, remained a meager 20 percent. Many renters assumed that they lived in Los Angeles, if they thought about local government at all.

At the same time that the forces of urban development were changing the demography of the city, many sixties activists found their way to the Ocean Park section of Santa Monica in search of a pleasant and inexpensive place to live. They began to build a "community" for themselves, utilizing such "alternative" institutions as a food cooperative, a community newspaper, and a community-oriented church—and, most important, they turned their organizing skills to local political issues, particularly the protection of the coastal environment and the maintenance of affordable housing. Using the legal redress provided by the state's Coastal Commission (established by statewide referendum in 1972), Ocean Park activists fought against high-rise, expensive development of their beach neighborhood. Activists waged a successful referendum battle in 1973 to "Save the Pier," which was threatened by a city council plan to turn the municipal pier into an island of condominium towers.

As the Vietnam War wound down, local activists turned their attention to electoral politics at the local level as a way of bringing about social change. Most Santa Monica activists did not view electoral politics and community organizing as mutually exclusive. Their experience with an insensitive business-oriented local government convinced them that progressives could not leave the area of government to their opponents.

In 1976 Santa Monica was the statewide headquarters for the Hayden for Senate challenge against John Tunney in the Democratic primary. The following year many Hayden campaign workers joined in a hard-fought battle for the state assembly seat, representing Santa Monica and neighboring Venice and West Los Angeles. Although the candidate, a progressive consumer advocate named Ruth Yannatta Goldway, narrowly lost the Democratic primary to a wealthy lawyer supported by the party establishment, the campaign was a turning point in local politics. During the campaign, Santa Monica activists learned firsthand the technology of modern electoral politics: computer-aided voter targeting, direct-mail literature appeals, and intensive Big League fundraising. These skills were combined with the activists' existing knowledge of Alinsky-style community organizing and sixties protest politics.

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The nearly successful assembly race demonstrated that New Left activists could translate a progressive theme (democratic control over economic decision-making) into a viable campaign effort—but the time was not yet right for winning a majority victory.

RENT CONTROL AS AN ISSUE

The political breakthrough for Santa Monica progressives did not come from a startling theoretical insight but from practice. In 1978 a small group of senior citizens, angered and worried over rising rents in the city, organized a petition drive to place a rent-control referendum on the June ballot. Belatedly, younger activists endorsed the effort, but did not wholeheartedly involve themselves in the campaign. The local measure was defeated in the same statewide election in which Howard Jarvis's tax-reduction initiative, Proposition 13, passed by a substantial majority. Santa Monica real-estate interests spent over $250,000, compared with $25,000 by the rent control advocates. Anti-rent-control literature mailed to voters claimed that rent control would fast make Santa Monica another South Bronx.

During the Prop 13 campaign, Jarvis had publicly promised renters that if they supported his property-tax-reduction scheme, then apartment owners would pass some of the savings on to them in the form of lower rents. However, rents in Santa Monica jumped following the June election, and conversion of apartment buildings to condos pushed an increasing number of middle-income tenants out of their homes. Between 1977 and 1979, over 2,000 units of rental housing in Santa Monica were demolished or converted to condominiums.

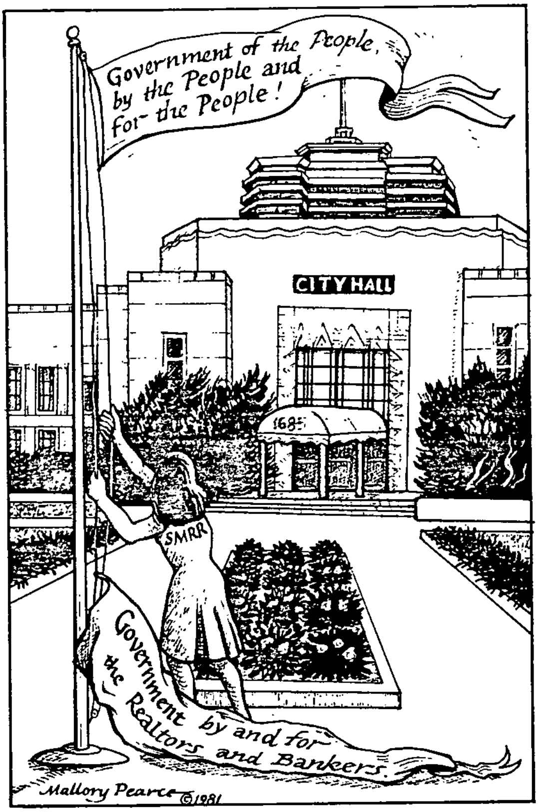
Local activists decided to place rent control on the ballot for the April 1979 municipal elections. A tough law that included controls on condominium conversions and "just cause" eviction conditions was drafted by Robert Myers, an attorney with Legal Aid, and a city-wide political coalition was formed under the banner of Santa Monicans for Renters' Rights (SMRR).

SMRR was established in the fall of 1978 as an electoral coalition of three groups: the Santa Monica Democratic Club, affiliated with the liberal wing of the state Democratic party through the California Democratic Council; the Santa Monica chapter of the Campaign for Economic Democracy, a statewide organization of younger activists founded by Tom Hayden after his unsuccessful Senate race in 1976; and the Santa Monica Fair Housing Alliance, a local organization of housing activists, many of whom are senior citizens whose primary concern is affordable housing. Together, these three organizations provided a core group of 45 to 100 activists, most of whom had participated in previously unsuccessful electoral efforts.

SMRR sought out possible candidates for the city council to run on a ticket with the rent-control initiative. After an interview process, SMRR endorsed two candidates for the possible three open seats, therefore implicitly supporting an incumbent, a liberal Republican woman and environmentalist, for the third seat. The two SMRR candidates were consumer advocate Ruth Yannatta Goldway and William Jennings, a liberal lawyer and past president of the Santa Monica Democratic Club. Both candidates pledged to support rent control. The campaign for the council seats and for the initiative was run as a cohesive, unified effort, with a single campaign structure and a sharing of all funds.

In a bitter and hard-fought campaign, local and state real-estate and financial interests spent over $250,000 against the initiative. Right-wing anti-rent-control candidates for the city council spent an additional $50,000 in their own behalf. The SMRR coalition won a solid victory, with the rent-control proposition passing by a 54.3 percent to 45.6 percent margin and the two SMRR council candidates easily winning in a crowded field. The third council seat was narrowly taken by the liberal Republican incumbent who had run as an independent and neither opposed nor supported rent control.

SMRR had learned some lessons from the previous rent-control battle. This time the pro-rent-control forces simplified the electoral message by focusing on the issue of human needs and by personifying rent control through the lives of Santa Monica renters. One SMRR postcard sent out



The Ocean Park Perspective

to voters displayed a picture of an elderly couple with the word EVICTED stamped across their chests. On the back of the card, there was a message from the couple's son, who said that although he was a Goldwater Republican, he was now voting for rent control because his parents had been evicted and couldn't find an apartment they could afford. Another piece of SMRR campaign literature featured a reprint of a newspaper article headlined "Man Dying of Cancer," in which a terminally ill tenant explained that he had been evicted and vowed to vote for rent control before he died.

Utilizing the periodic campaign-reporting statements required by California law, SMRR reprinted the list of the hundreds of real-estate brokers, developers, bankers, and landlords and the amounts they had contributed to fight rent control, and asked voters, "Is Santa Monica for sale?"

SMRR's aggressive campaign tactics offset the vigorous "red baiting" attack by the opposition's professional campaign firm, whose approach was to conjure up the specter of a city on the verge of being seized by Jane Fonda and turned into a Stalinist concentration camp.

The SMRR campaign made use of its grounding in Alinsky tactics by holding a well-covered press conference in front of the bank where the incumbent Mayor worked to highlight the existing council's bias toward real-estate development.

Passage of the rent-control amendment and election of two candidates in April 1979 ended the "resistance" phase of the Santa Monica movement. SMRR simultaneously now had to build a parallel power structure by operating inside the city government as a minority on the council and to defend its victory outside in the community by maintaining and broadening its base.

BUILDING A PROGESSIVE ALLIANCE

The Santa Monica rent-control charter amendment established an *elected* rent-control board, the only such body in the country. Elections for the five seats were held in June. Again, the SMRR coalition recruited and interviewed possible candidates. The coalition's leadership made a decision to broaden the electoral alliance by including progressive labor locals. Two of the five candidates selected for the rent board race had labor backgrounds: Jerry Goldman—a labor lawyer who represented the United Auto Workers, United Farm Workers, and many other local unions—and Dolores Press—a medical benefits specialist with the local Retail Clerks union. The other SMRR candidates were: René Gould, a liberal, middle-class homeowner and former city planning commissioner: Bill Allen, an architect who specialized in housing; and Neil Stone, a former VISTA and civil-rights organizer turned low-income-housing developer.

The real-estate industry put forward its own opposition slate of five candidates—but the SMRR team won all five seats.

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Over the summer of 1979, hundreds of law suits were filed against the law. Initial decisions by judges failed in halting the city from enforcing the law, so in the fall the real-estate industry qualified its own ballot initiative—an anti-rent-control measure deceptively titled the Fair Rent ordinance—and formed a front organization, the Fair Rent Alliance, to support the initiative on the November ballot.

Due to illness, one of the conservative incumbents on the council resigned, and the filling of an open council seat was also at issue in the fall election. SMRR selected Cheryl Rhoden, a single parent and longtime community organizer, as its candidate, and again ran a combined campaign effort. Although once more outspent by a ratio of ten to one, SMRR defeated the real-estate industry's ballot measure and elected Rhoden to the council, giving SMRR three of seven seats on the city council. SMRR's labor outreach efforts paid off in contributions from a number of unions and in the endorsement of Rhoden by the Los Angeles County Federation of Labor.

In the postelection reorganization of Santa Monica's council-manager form of government, the three SMRR council members supported a moderate Republican for the Mayor's position (the Mayor is elected from among the council members as the leader of the council) in return for his vote to make SMRR council member Ruth Goldway Mayor pro tem. The working alliance with the moderate Republican Mayor provided SMRR with a fourth vote on many issues in the months that followed. Although in the minority, the SMRR council members managed to pass some legislation: a fair-housing law, which banned "Adults Only" buildings (except for senior citizen projects); a consumer law requiring that stores show the price on all items, even if the store installs an electronic scanner at the check-out stand; increased funding for paramedics; increased funding for social-service agencies; a new city-sponsored recycling center; and a consumer affairs staff in the city attorney's office. Most important, the city voted funds to operate the rent-control administration and to defend the law in court.

SMRR council members also successfully redirected Community Development Block Grant funds to neighborhood organizations in the city's poorer and minority sections. Previous councils had ignored HUD regulations on the use of CDBG funds—which SMRR exposed—and the council was pressured to redress past funding inequities. City funding for neighborhood-based organizations is an important element in SMRR's overall goal of democratizing urban life and empowering citizens to participate in decisions that affect their own lives.

On the rent-control front, the state real-estate industry took the Fair Rent ordinance and qualified it for the statewide June 1980 ballot by hiring students to gather signatures, often on campus where potential signators were deceptively told that this was a rent-control initiative. Santa Monica activists played key roles in the statewide effort that defeated the Fair Rent initiative by an overwhelming margin of almost two to one. The victory was impressive, given that the state's real-estate industry spent $5.5 million against the renters' rights advocates' $160,000—an overkill ratio of 40 to one. Vital to the progressive victory were television commercials that exposed the duplicity of the Fair Rent Alliance. These were prepared by Bill Zimmerman and his associates at Loudspeaker, one of the few progressive campaign firms in the country. Zimmerman, a Ph.D. in psychology from the University of Chicago who gave up his academic career for the antiwar movement, learned his trade as campaign manager for the Hayden for Senate effort and later as media director for a statewide initiative sponsored by the United Farm Workers.

The rent-control forces were aided in their media efforts by public-interest lawyers who specialize in communications law, and who used equal-time regulations to win $400,000 in free air time for Zimmerman's commercials.

The statewide victory against the anti-rent-control forces demonstrated how objective circumstances (inflation) and subjective action (the leadership from activists in Santa Monica and other housing organizers around the state) could dramatically alter public opinion about an economic issue. In only three years, between 1977 and 1980, public opinion in California shifted from two-thirds opposed to rent control to two-thirds supporting rent control and supporting the general proposition that affordable housing was a basic right that the government should help ensure.

THE 1981 VICTORY

After having successfully defended rent control in the statewide elections, SMRR activists began in the fall to prepare for the coming spring municipal elections when a majority of the council seats would be up for a vote.

In December SMRR convened an issues conference to debate programs and platform for the council race. Position papers on housing, crime, neighborhood planning, women's issues, and economic development were presented and discussed, and a set of "Principles of Unity" was adopted to which council candidates would commit themselves.

Over Christmas, while the policy discussions were underway, SMRR received a sudden shock. One of SMRR's three council members, lawyer Bill Jennings, abruptly resigned as co-chair of the coalition and denounced SMRR to the local press as an authoritarian organization that demanded "ideological purity" from its elected representatives. Jennings's position was attributed to his growing corporate law practice and to his own "macho" personality. "Bill couldn't stand going to meetings and having to discuss issues with the grass-roots organizers," commented one SMRR activist. "He also couldn't stand being overshadowed by two strong women, Ruth [Goldway] and Cheryl [Rhoden], on the council."

Jennings's action was a timely reminder of the importance of picking trustworthy candidates for the coming election battle. To gain a two-thirds majority on the seven-member council, SMRR had to win all four seats up for election.

After the interview process, SMRR selected four candidates for the council: James Conn, a Methodist minister and longtime organizer of community-based organizations; Ken Edwards, a probation officer and leader of the local Democratic Club; Dolores Press, a Retail Clerk union employee and chair of the Rent-Control Board; and Dennis Zane, a key organizer and manager of previous rent-control campaigns and a leader in the local chapter of the Campaign for Economic Democracy. For the one open seat on the Rent-Control Board, SMRR endorsed Leslie Lambert, an urban planner and housing expert with the state's Housing and Community Development Department.

SMRR began its campaign organizing early. A mailing went out over Christmas to previous SMRR supporters and raised over $5,000 to get the campaign rolling. A canvass operation was organized in which five full-time paid workers went door-to-door every evening and solicited contributions from renters for SMRR. During the campaign, the canvass produced a net

From the left, James Conn, Ruth Yannatta Goldway, Dolores Press, Leslie Lambert, Dennis Zane profit of over $10,000. As in previous campaigns, an official campaign structure was adopted with campaign management, field operations, fund-raising, volunteer coordination, and press all being handled by full-time, experienced, but low-paid people. A professional poll was commissioned to test SMRR's stands on issues, including voters' perceptions of rent control and their opinion of various candidates and public figures.

From the poll results, it was clear to the SMRR campaign staff that the candidates could not and should not run solely on rent control. Crime was heating up as an issue in the city, fueled by a few particularly violent crimes in the homeowner area of town and by excessive media coverage of violent crime all over Los Angeles county. The media's tendency to highlight crime was intensified by the end-of-the-year ratings sweep and their desire for an increased audience share.

A right-wing group in the city called Santa Monicans Against Crime (SMAC), which had been agitating for increased police protection in the R-1 residential areas, decided to place a strong law-and-order initiative on the April ballot. It appeared that SMAC's head, Pat Geffner, a twice-defeated conservative candidate for city council, intended to "ride" the crime initiative to victory in the election.

Early in the New Year, the conservative organization, the Santa Monica Citizens Congress, which had been formed the previous year in opposition to SMRR, endorsed a slate of four candidates for city council and adopted a strong anticrime position. Anti-rent-control forces lined up behind the Citizens Congress's law-and-order slate.

While SMRR shares a radical analysis of the root causes of crime, it also understood that fear of crime is a reality in American society and that progressives must face up to it and not let the right exploit the issue as their exclusive property. There are ways that communities can tackle crime in a nonracist, community-oriented fashion; the key is to involve the community through a broad-based neighborhood effort at crime control.

The SMRR council members agreed to place a counter-crime initiative on the ballot to give SMRR its own anticrime measure to campaign for while fighting against the right-wing measure. Both initiatives allowed increased city spending for police over the limitations imposed on local spending by the statewide Gann initiative (passed the previous November). However, the right-wing initiative included a property-tax break for apartment owners, placed the police chief above the city council in his authority over the police budget, and called for the city to sell off "unprofitable" municipal enterprises to raise money for the police.

The SMRR initiative simply called for increased spending for protective services. In SMRR campaign literature, the coalition argued for a balanced, community-based approach to crime prevention that included better street lighting, safer physical design of streets and buildings, neighborhood watch programs and stronger locks and doors on apartments, as well as more police on the streets. The SMRR mailings to voters on crime were not hysterical in tone nor defensive: the material was straightforward and practical. One SMRR piece consisted of a crime prevention guide that detailed helpful hints on burglary protection (taken from a guide prepared by the police department for the local Rotary Club) and that explained the city's existing crime prevention program such as Operation Identification and Ride-Along. At campaign forums, the SMRR candidates—led by Ken Edwards, an expert on juvenile crime, and Jim Conn, who had organized a neighborhood-based anticrime program in Ocean Park—explained SMRR's anticrime program and attacked the right-wing rhetoric of the opposition as fear-mongering and counterproductive.

The Citizens Congress ran a single-issue campaign, utilizing slick mailings that charged that SMRR was "soft" on crime and wouldn't protect citizens from criminals. One Citizen Congress mailing featured Ronald Reagan and linked the attempt on his life in Washington, D.C., to the alleged crime wave in Santa Monica.

SMRR knew from its door-to-door canvass and from its telephone outreach program that while voters were concerned about crime, they were also concerned about housing costs and about environmental issues such as toxic pollution and high-rise development in the city.

On crime, SMRR met the right's attack and neutralized it with a positive program, not a defensive response. In other issues, SMRR went "out front" early to define issues for voters. Using photos of new high-rise office buildings under construction in downtown Santa Monica, SMRR sent out a giant-size postcard calling for public control over helter skelter commercial development to preserve the city's human-scale character. Another postcard to voters featured a young boy getting a drink of water from the kitchen tap, and asked: "Is this water safe?" On

the back, SMRR candidates pledged to pass a local toxics disclosure ordinance—an issue of concern after traces of cancer-causing substances were discovered in the city water supply a few months before.

SMRR candidates promised to defend rent control againt the continued attack in the courts by real-estate-initiated law suits, while the Citizens Congress maintained that rent control was "not an issue in the campaign." SMRR's position gained added impact during the campaign when a local judge, in one of the many suits against the rent-control law, offered a "tentative" opinion that parts of the rent-control law were unfair to investors and therefore unconstitutional. The judge asked the city and rent board to respond within three months to his opinion, making the composition of the council an even more crucial issue to renters. A council majority hostile to rent control could have refused the rent board attorneys the resources necessary to appeal an adverse judgment from the court in the case, and such a majority could have hired a city attorney who would compromise the rent board's efforts to enforce the law.

Defending the Santa Monica rent-control law was important to renters who—according to a UCLA study—had collectively saved $54 million a year in potential rent increases, an average of $126 a month per unit. In addition, the rash of demolitions and condo conversions in 1979 was still very much in renters' minds.

After taking their own poll—which showed majority support for rent control, for limits on high-rise development, and for controls on toxic substances—the Citizens Congress did a "me too" on these issues and announced that they were for "reasonable" environmental protection. In its campaign roundup story, the *Los Angles Times* commented:

> SMRR has become, through organization, hard work and political acumen, the dominant political force in the city. . . .
>
> The group's opposition—the Santa Monica Citizens Congress, which is backing a four-member city council slate, is running more on antagonism to SMRR than on its own political program. . . .
>
> Except for a proposal to add more police, the Citizens Congress candidates have reacted to avowed SMRR goals rather than developed an alternative philosophy of their own.
>
> "In that sense," acknowledged Russ Barnard, one of the candidates endorsed by the Citizens Congress, "The SMRR candidates have run the positive campaign, we the negative."

As in past campaigns, SMRR sent voters a list of the opposition's campaign contributors, who raised more than $250,000, and were mostly from real-estate and downtown business interests, and said to voters, "And now they say they're for rent control. Who are they kidding? Santa Monica is still not for sale."

SMRR candidates received the endorsement of the Los Angeles County Federation of Labor and many local unions, as well as support from many leading Democratic party leaders in southern California, even many who had mixed feelings about rent control as a strong party program. In addition to the direct mail and door-to-door fund-raising, SMRR organized fund-raising events featuring Ralph Nader, former Arkansas governor Bill Clinton (now an official of the Democratic National Committee), and television star Ed Asner. In particular, the Nader event was both a fund-raising operation and an effort to link the local battle in Santa Monica to similar progressive efforts around the country.

SMRR again used its organizing skills to fill city hall when anti-rent-control council members tried to weaken the city's legal stand on defending the rent-control law. And when a local newspaper revealed the existence of a secret business-sponsored "good government" committee, which was funneling money to the Citizens Congress, the SMRR campaign held a press conference in front of the committee chair's savings and loan and had a field day with the television press coverage.

By combining door-to-door voter preferencing with an active telephone operation, SMRR identified over 15,000 supporters, whose names and addresses were transferred by computer to individual door hangers that displayed the voter's polling place. At four a.m. on election day, Tuesday, April 14, over 100 SMRR volunteers were up at daybreak in the final get-out-the-vote effort. The Citizens Congress had to resort to hiring fraternity members from UCLA and local high school kids at $50 each to remove SMRR's door hangers. Roving SMRR squads chased the hired hands off the streets and protected most of the SMRR literature.

Although once more outspent ($250,000 or more to $80,000), the SMRR coalition won an impressive 57 percent to 43 percent victory and elected all four of its council candidates, its single rent board candidate, and the two candidates it endorsed for the school board late in the campaign. The SMRR-supported anticrime initiative passed overwhelmingly, while the right-wing law-and-order measure went down in defeat. It was a clean sweep for the progressive slate and program.

THE FIRST 100 DAYS

SMRR campaigned on the slogan of making Santa Monica "a city where people come first." Beginning with its first night in office, the new progressive majority has attempted to make the slogan a reality. In its first 100 days in office it began the process of opening up city government to citizen participation, revised and revamped the city staff to carry out its new policies, and acted quickly in policy areas where law and economics allowed swift action.

Initial steps included:

- The new council selected incumbent Ruth Yannatta Goldway as Mayor and immediately named Legal Aid attorney Robert Myers, author of the rent-control charter amendment, as the new city attorney.
- Its second day in office, the council enacted an emergency six-month moratorium on construction, aimed at high-rise office development and condominiums. Three citizen task forces on the future growth of the city were named to consider new zoning requirements in the downtown district and in residential areas, and changes in the planning and permit process. These task forces began meeting twice a week over the summer.
- The council immediately appointed a citizens' task force on community crime prevention to come up with a comprehensive program for increased spending for protective services. Rank-and-file police were named to the task force along with public defenders, urban sociologists, and community organizers.
- The council appointed progressives to open seats on all city commissions and boards.
- The council established a new Commission on the Status of Women and made plans, through citizen task forces, to consider establishment of a

municipal arts commission and a municipal health program.

- Under the leadership of the Mayor and city attorney, the city opposed a rate increase request by General Telephone that was put before the state public utility commission. To support the city's case, public opinion polls on phone service were placed in local newspapers, which drew thousands of responses from citizens and local businesses upset over poor service.
- The new council revised the already proposed 1981–82 city budget. While keeping within fiscal restraints, the council created new positions such as community liaison, public information officer, neighborhood planner, and a new office of Municipal Enterprise whose task was to improve revenues from existing municipal enterprises and consider new revenue-generating projects for the city.
- The council began a nationwide search for a progressive city manager, advertising the position in both the *Wall Street Journal* and *In These Times*.
- The city attorney informed Shell Oil, whose pipeline runs under city streets, that the fees in their expired contract had been raised from $1,000 a year to $50,000.
- The city organized and sponsored an open-air farmers' market on a downtown city street near the city's decaying mall. On its first day, the farmers' market was packed and drew more business than any other farmers' market in southern California. The project won the support of the small businessmen and -women with stores on the mall.
- Outstanding employee relations issues with the police stemming from a sick-out two years before were settled amicably, and the council removed a "hard-nosed" personnel director and pledged to move employee relations in the direction of greater worker participation and democratic management. The changed atmosphere encouraged one city janitor to send the Mayor a memo on how to improve maintenance at city hall.
- The council began to develop criteria for "Planning Agreements" with private developers in which the developers would agree to mixed-use projects, which included affordable housing, community-oriented business facilities, and added concern for environmental factors in building design.
- The city planning commission began public hearings on innovative housing policies for the city, including city sponsorship of a Community Housing Development Corporation and city financing of tenant-managed housing. The city planning commission also opened public hearings on a new energy conservation ordinance and a new city sign ordinance.
- The council demonstrated its support for organized labor by adopting a policy of requiring union label printing for city stationery and publications and by publicly supporting strikes by probation workers and retail clerks.

City funding for neighborhod-based organizations is an important element in SMRR's overall goal of democratizing urban life and empowering citizens to participate in decisions that affect their own lives.

- The council also issued resolutions on El Salvador and on nuclear proliferation.

LESSONS FROM SANTA MONICA?

Is what happened in Santa Monica unique or exceptional—or can such progressive alliances be built and won in other cities?

In most cities, urban government is dominated by a land-based local elite consisting of real-estate developers, financial institutions, and downtown business interests. Together, these people and institutions make up what Harvey Molotch calls the Growth Machine. In some cities, they rule directly through chamber of commerce-picked councils, and in others they dominate both liberal and conservative politicians through campaign contributions and elite policy-making task forces and advisory bodies. In older cities, they have co-opted the old Democratic machines by offering some share—some jobs and income—to unionized workers in return for uncritical support of Growth Machine policies.

The power of the land-based local elite is based on the politics of one dollar, one vote, rather than one person, one vote. It is most easily sustained in a period of real economic growth such as the fifties and sixties. In a period of inflation and urban fiscal crisis, the hold of the Growth Machine can be challenged by a well-organized grass-roots movement—what Dennis Kucinich called a "new urban populism."

A democratic movement, which argues that a city exists first for the needs of its citizens rather than for the needs of capital, has the potential of winning majority support in municipal elections.

The citizens who supported SMRR are not students nor upper-middle-class environmentalists. They are a mix of moderate-income individuals and families. Using the strategy of building a left-liberal electoral coalition as has been done successfully in Santa Monica and using some of the tactics tested in Santa Monica, progressives could build locally based progressive alliances in other cities across the country. The trick is to combine modern electoral techniques with the grass-roots base of community organizing and to infuse the effort with a clear progressive theme and ideology of economic democracy and citizen empowerment through neighborhood-based planning and organization. Local labor unions and at least the liberal wing of the Democratic party can be united in this new urban populist effort that finds its leadership from among the democratic left, not from the old urban growth elite. Such a new urban populism could be one of the building blocks of a truly progressive national movement that could pose a genuine and far-reaching alternative to Reaganism and the New Right in this decade and the next. ■

Planning And The New Urban Populism: The Case of Santa Monica, California

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In the post-war era, the powers of the city-planning, zoning, legal and financial--have frequently been tools of socio-economic change.

In almost all cases, these tools have been used by city governments on behalf of special-interest constituencies, most typically involving the building of downtown corporate head quarters, sports complexes, or shopping malls, and the protection of single family homeowner districts. Urban politics has been dominated by what Harvey Molotch calls "the growth machine:" a land-based political elite, which promoted urban renewal in the downtown and suburban development in the periphery.[1]

The results of political dominance by the "growth machine" has been a profoundly uneven form of development and an urban society segregated by both class and race. Planners as a profession were for the most part, the loyal servants of the "growth machine". Only in a few cases did planners side with the forces that resisted massive urban renewal programs or challenged the segregated suburbs.[2] In most cities, [redacted] Democratic mayors, who might have been expected to side with the working class and minorities, championed urban renewal programs. Labor unions, dominated at the local level by the conservative building trades and Teamsters, jumped on the "growth machine" bandwagon.[3]

The development of a "new urban populism" (Cleveland mayor Dennis Kucinich's phrase) fell to the New Left generation. New Left activists began urban organizing efforts in the 1960's, heavily influenced, at first, by the work of Saul Alinsky. Alinsky's style of organizing involved an avoidance of electoral politics and an inherent distrust of political power which rubbed off on many activists.[4] This dislike and avoidance of the electoral arena was fueled by the experience of activists in the civil rights and antiwar movements where they saw first hand the moral failure of elected officials.

By the beginning of the 1970's, many activists had matured in their views of the electoral system and had begun to involve themselves in urban electoral politics, initially in university towns like Berkeley, Austin, and Ann Arbor and spreading into major urban centers like Cleveland, Detroit, San Francisco and New York. Some activists ran and won for local offices. As representatives of community-based organizations, these "new urban populists" began to develop a set of programs which would alter (in their view) the biased operation of city government and create a city government which would serve all the residents of a city, not just the owners of property and the upper-middle class. These activists met in annual meetings organized by the Conference on Alternative State and Local Public Policies, founded in Madison, Wisconsin in 1973, to exchange ideas on urban program and strategy. A loose, informal network of urban political activists interested in shifting the focus of city government came into being.[5]

This grouping, operating either as political independents or a leftwing Democrats, began to explore how the tools of city planning could be used to provide for greater democratic participation in urban life and greater democratic control over the urban economy. To test their ideas, the new urban populists needed to change the political control of city government. The electoral struggles of the seventies had resulted in victories for individual new left candidates but not for majority control of any city governments.[6] Finally, in 1981 three California cities--Santa Monica, Santa Cruz, and Chico--elected what can be termed urban populist governments. Of the three, Santa Monica is the only city in which the electoral victory did not rest at all on student votes, and it is the only city of the three located in a major urban area (greater Los Angeles).

The new majority came to power in Santa Monica in April, 1981.[7] While a year is a very short time in which to evaluate the policies of a new government, a one year assessment can provide important information on both the potential and the problems of new urban populists in power. A critical look at what the press has called "The People's Republic of Santa Monica," does offer some tentative conclusions about just how far the planning powers of a city can be redirected.

Housing as a Human Right

The successful political movement in Santa Monica is based on the protection of tenants' rights and the proposition that affordable housing is an economic right in an advanced industrial society. Santa Monica is an attractive coastal town of almost 90,000, surrounded on three sides by the city of Los Angeles and on the west by the Pacific Ocean. A combination of new freeway development, rezoning, urban renewal, and rapid building in the sixties and seventies transformed a sleepy city of wooden bungalows into a city composed fo seventy percent renters. Inflation and speculation in California real estate in the mid and late 1970's threatened to transform Santa Monica from a moderate and middle-income community into a Beverly Hills by the sea. In 1979, tenants rejected a laissez-faire ideology at the polls that would have uprotted them from their homes and adopted, by charter amendment, the strongest rent control in the country. Two years later, after numerous legal and electoral defenses of the rent control law, Santa Monica voters gave the city council stlate of Santa Monicans for Renters Rights (SMRR)-the organizers of the rent control movement-an overwhelming majority.

The Santa Monica rent control law does not produce new affordable housing; it is a community stabilization program. The law controls rents on all apartments except owner-occupied dwellings of three units or less and on new buildings constructed after passage of the law. Landlords are allowed a general annual increase and may petition for additional increases to cover justified maintenance costs. Tenants may petition for decrease in rents when landlords fail to maintain apartments. The law also effectively prevents almost all condominium conversions of existing apartments.[8]

The rent control law is administered by an elected rent control board--the only such board in the country. The Renters Rights coalition elected all five members to the board in elections in 1979 and 1981. The rent control board hires and maintains its own legal and administrative staff in semi-independence from the rest of the city hall staff.

Passage of the rent control law in 1979 was greeted with legal and political opposition from city property owners and from real estate interests around the state. Two attempts by the real estate industry to modify the law by ballot initiative--one at the local level and one in statewide elections--were defeated. Numerous legal challenges to the law have been filed, and of the cases heard to date, all have upheld the constitutionality of both the law and its administration.

Initial meetings of the rent control board were marked by angry disruptions by land lords, and members of the rent control board received death threats, harassing phone calls, and acts of petty violence against their homes and cars. After a major judicial decision in February went in favor of the rent control law, the local apartment owners association announced that it was forming a "secret army" to disrupt administration of the law.

Continued resistance to the law by landlords and the local real estate industry has served to mobilize majority public sentinment on behalf of the new Santa Monica government.

While the rent control board administers and defends the rent control law, the city planning commission and city council have attempted to develop a comprehensive housing policy for the city which aims to produce more affordable housing and insure that the mixed income nature of the city's population is maintained. Under California law, each city is required to have ah Housing Element as part of its general plan. Formulation of this element has been the focus of debate on the city's intended housing policy.[9]

Public hearings before the Santa Monica Planning Commission in the summer on the draft Housing Element brought out conservative homeowners who had been led to believe that the city intended to build public housing for minorities in the R-1 homeowner neighborhoods. The hearings were acrimonious and had racial overtones. The city council went out of its way to assure homeowners that the new majority had no intention to punish homeowners by forcing low-income housing into their neighborhoods. Opposition to the Housing Element will continue to come from conservative homeowners groups who oppose the council majority on ideological grounds.

Given the state of the economy and the elimination of most federal housing programs by the Reagan administration, it is difficult for Santa Monica to plan to produce much affordable, nonmarket rate housing. The city has taken a multi-faceted approach. It has tried to channel the private sector's impetus for commercial development in Santa Monica into some new affordable housing. In a development agreement signed with Welton Becket Associates, a nationally known architectural and development firm, the city allowed Becket to proceed with construction of its new headquarters if Becket would include a public park and day care center within the project and build 100 units of affordable rental housing off-site. While complaining to the press that the requirement was "legal extortion", Becket did agree to the city's conditions. In another development agreement, a planned twelve story office building overlooking the ocean was scaled down to a three-story mixed use building which includes ten units of housing and pedestrian oriented food stores. A seaside condominium project, initially approved by a previous council, was allowed to proceed after the developer agreed to include on-site affordable units and to contribute $7 million to a fund to build additional off-site housing and community service facilities.[10]

By using its legal powers over commercial development, the city can, at least in some cases, negotiate development agreements with private developers which result in mix-used projects which include affordable housing. Such an approach works best with large commercial projects in desirable locations where the profit margins allow for such trade-offs.

However, the new city government does not want to set loose an overabundance of commercial development simply to obtain some additional affordable housing. As much as is economically feasible, the city intends to produce non-market affordable housing itself by using existing public land. To avoid the problems of old-style public housing, the city has funded the establishment of a nonprofit community development housing corporation which has hired professional staff and which will build, manage and in some cases, own new affordable housing. The city would like to see some of the new housing established as limited-equity cooperatives. The city is exploring sources of finance for this new community housing, including the floating of municipal housing bonds and the channeling of public employee pension funds into housing.[11]

It is clear to the new city government that market forces in housing can only provide new housing for the upper middle class. For example, the average selling price for condominiums in Santa Monica at the end of 1981 was $150,000. The draft Housing Element calls for a policy of inclusionary zoning which only allows new upper income housing to be built in the city in strict ratio with affordable units. The exact ratio and whether it will apply on a project by project basis or on the overall annual production of new housing is still unresolved. The operative principle that housing is not soley a market good is firmly entrenched in city policy.

Planning in the Public Interest

One of the first and most controversial acts of the newly elected council majority was immediately to enact a six month moratorium on all construction in the city. The moratorium was challenged in court by the carpenters union but upheld as a legal exercise of city powers. The council acted dramatically because of the pressure of new high rise office contruction in the city's downtown which threatened the "human-scale" atmosphere of the city. The demand for office space in the Los Angeles region coupled with Santa Monica's smog-free air makes it an ideal location for commercial development. Unchecked, this development would have transformed the downtown into a mini-Manhattan.

The city council views office development as a low priority. Because of the lower property tax assessments available under Proposition 13, the income reasons for office development are weak. High rise-office development brings with it public costs in terms of traffic congestion, strain on sewers and other utilities, and a "spill-over" effect on local small businesses (office-worker oriented uses begin to replace resident-oriented uses).[12] The council's goal is to increase the number of residents in the downtown and to make the downtown a pedestrian-oriented area. One of the council's first successful downtown projects was to sponsor a farmers market one day a week on a closed-off city street in the downtown. Working with a state-certified project, the city arranged for small family farmers to bring in produce one day a week and sell it at wholesale prices to consumers. The Santa Monica farmers market is one of the most successful in the state. It has proved popular with residents, particularly senior citizens living in or near the downtown and has added life to the downtown area.

To plan for a new set of development policies after the moratorium, the city council appointed citizen task forces to study the downtown and commercial areas, to assess residential areas needs, and to reorganize the city planning process. These task forces included a wide range of citizens. Each task force was assigned city staff from the planning department to assist in gathering information, and each task force invited additonal public participation in their meetings.[13]

The recommendations of the task forces are being drafted into ordinances and winding their way through the process of required public hearings and legal adoption. The basic approach of the downtown and commercial task force has been downzoning to dicourage intensive, high rise overbuilding, coupled with specific zoning for mixed-use projects. In line with the overall goal of mixed use development and pedestrian-orientation the council has hired a transit plannner to design a downtown tram or mini-bus system. The council is also working with downtown small business groups to redesign and improve an existing downtown pedestrian mall.

The council is not relying solely on zoning to redirect development. While zoning can stop the worst excesses of untrammeled private development and can encourage some mixed-uses, it still leaves the planning initiative in private hands. The city has hired economic development specialists to work out mechanisms whereby the city itself, through a city development department, corporation or municipal bank, can more directly plan and finance needed mixed-use developments which generate both jobs and services for local residents. These economic development specialists will also help develop new policies for existing city-owned properties, which include a municipal auditorium and a municipal pier (home of one of the oldest wooden merry-go-rounds in the country). As with the downtown, the council has appointed a citizen task force to recommend new policies for the development of the pier. Rather than turn the pier over to a private developer, the city plans to be its own developer.

The council's task force on neighborhood planning has recommended that the city recognize and encourage democractically constituted neighborhood organizaions and assist them in participating in the city planning process. The council has already directly funded two neighborhood organizations, one in the black and hispanic area (the Pico Neighborhood), and one in a poorer tenant area (Ocean Park). Using Community Development Block Grant funds which previous councils had funneled to wealthy areas of the city, the council made grants for to pay staff expenses to assist the neighborhoods in getting organized. The council hired new city staff to work with existing community organizations, particularly churches, to encourage neighborhood organizing.

It is the new city government's goal to institutionalize city participation in planning based on neighborhoods. The neighborhood organizations will develop their own neighborhood needs/assessments and neighborhood plans and bring them to the city planning commission for approval and for assistance in carrying them out. One such neighborhood plan has already been developed by the Ocean Park Community Organization working with small businessmen in their neighborhoods business district. The plan became the basis for a rezoning of the Ocean Park commercial area.[14]

Other cities, mainly in the northwest, have sponsored similar neighborhood participation plans and Santa Monica is studying their experience.[15] The goal in Santa Monica is not simply participation, but enpowerment. This means city assistance to neighborhood organizations in establishing community development corporations, cooperatives, and other business enterprises which directly generate jobs and needed services in the neighborhood.

Community Crime Prevention

In the 1981 municipal elections the conservative opposition conceded the issue of rent control and focused their campaign on crime. The conservative slate fielded by the Santa Monica Citizens Congress ran on a "law-and-order" platform, called for increased hiring of police. The Renters Rights' slate met the conservative attack head on by putting forward their own community-based crime prevention strategy. Two crime prevention initiatives were placed on the ballot, one sponsored by conservatives, and one by the renters rights group; the renters rights' measure passed overwhelmingly.

The newly elected council appointed a citizens task force on crime prevention, and included among its members uniformed police as well as a public defender, a parole officer, and a sociologist. The citizens task force studied the crime problem in Santa Monica, then held public hearings and heard testimony from citizens in different neighborhood locations.

The task forces' report, accepted and ~~being~~ implemented by the council, recommended a comphrehensive, community-based crime prevention program.[16] Santa Monica is a beach city, and three-fourths of all crimes are committed by persons living outside the city. There is no evidence that simply adding more police to the force would in any way reduce crime. The task force did recommend adding 10-15 new police and funding the new personnel by increasing the city's parking fine from $5 to $10. The new police personnel will include a new burglary suppression team (theft is the major crime in the city), and a new domestic violence unit.

Most important, the report recognized the important role that active neighborhood organizations can play in reducing crime and reducing fear of crime.[17] The police department and the rest of the city administration will work jointly to assist neighborhood organizations in developing Neighborhood Watch programs, lock installation, building security assessments, and "defensible space" programs in which street lighting, park design and other environmental factors which can reduce crime, are analyzed.

The new Santa Monica government realizes that one city cannot solve the crime problem, and understands that criminal activity is related to unemployment and other social causes. However, it strongly feels that crime prevention should not be left to conservatives, and that left populists in power must take seriously the public's fear of crime. San Monica is trying to develop an approach to crime prevention which is based on the strengthening of neighborhood and community ties.[18]

New Public Services

Past city governments in Santa Monica, dominated by conservative business interests, offered little in the way of consumer or public services other than police and fire protection and garbage pickup. The new city government has moved forward in a number of new areas.

The city appointed its first commission on the status of women in 1981 and charged it with assessing women's needs in Santa Monica and proposing new services and programs to meet them. The new majority also appointed the city's first arts commission which will draw up a plan for greater public support of the arts and a community arts program for the city. The council created a new social services commission to assess community social service needs, and appointed a health task force to investigate citizens health needs and the feasibility of the city sponsoring a cooperatively-run health maintenance organization for city residents and employees. The city manager has hired a consultant to assess the city's contract with a private cable TV company and to report to the council on options for improving public access and possible municipal or cooperative management of the cable system.

At the urging of the city's mayor Ruth Goldway, a consumer advocate, the city attorney's office has aggressively intervened in rate request hearings before the state public utilities commission. The city opposed a rate request increase by General Telephone, arguing that GTE should improve its service before receiving more money from consumers. When challenged by GTE to demonstrate that service was poor, the city ran a poll in the local newspaper and included the results (overwhelmingly critical of the phone company) in the complaint to the public utilities commission. Mayor Goldway made a special trip to the state capital to meet with Governor Brown and his staff to request that the Governor discuss the issue of the phone rate requests with the PUC.

The new council also has moved aggressively on environmental protection measures. Santa Monica is one of the few cities in the country to have passed a Toxic Disclosure law which requires firms to disclose to the public which chemical substances are used in their businesses. The city has also cracked down on illegal dumping of waste chemicals into city storm drains and sewers. Standard Oil of California runs a pipeline under the streets of Santa Monica and had been paying only $1,000 per year for the past thirty years for the right to do so. The contract came up after the new council was elected, and the newly appointed city attorney, Robert Myers, a former Legal Services lawyer, informed Standard Oil that the fee would be $50,000, citing the danger of accidents with the line. Santa Monica has also become one of the first cities in Calfiornia to operate a curbside recylcling program, and the city council has established a municipal solar program which provides low-interest loans to home owners and apartment owners willing to install solar hearing. The city has funded volunary energy audit programs run by neighborhood organizations. There is a wide variety of consumer and environmental services which a city can provide to its citizens. Conservative opponents have indiscriminately opposed almost all of these efforts, even though it appears that these programs--particularly the curbside recylcling and the criticism of the phone company are popular with conservative homeowners as well as with more militant tenants.

Conclusion

In most states, the powers of cities are substantial. What Santa Monica is doing in the areas of housing, planning, crime prevention, and public services could be carried out, in large measure, by other city governments. City governments have their limits, of course, particularly financial limitations due to the uneven nature of American economc development--and the new urban populism is not a substitute for national programs in health insurance, full employment and income security. Nevertheless, city government does offer opportunities for democratic participation unmatched by higher levels of government . If urban populations can be mobilized into political action and shift political power in a populist direction at the city level, then the new political consciousness which brought about the shift in power by voting can be translated into greater participation in the running of the city government after the election. A democratic movement in the nation's cities could give real substance to the phrase "new federalism".

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[9]Copies of the Draft Housing Element are available from the Planning Department, City Hall, 1685 Main Street, Santa Monica, CA 90401.

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Representative REUSS. We now turn to several wily stalkers of the private sector. Jim Rouse of Baltimore, who has always been a hero to this committee, we welcome you and would like to have you tell us what you think the private sector can and ought to do in saving our cities.

STATEMENT OF JAMES ROUSE, CHAIRMAN, ROUSE CO., COLUMBIA, MD.

Mr. ROUSE. Thank you, sir. I do not have a prepared statement. I have some scattered notes here.

It's a privilege to participate in this important part of the democratic process in a hearing before a congressional committee and especially to appear before this eminent committee of the House and Senate. I come not representing any constituency or any cause but because I have been invited or asked to come and I have to assume that that is out of my role as one who has worked in the economic aspect of city growth as a developer and also in some instances as a counselor to cities.

Your heading is public-private cooperation, which seems to me is a more precise description of what we're about than a public-private partnership. That's always given me a little trouble.

There's nothing new in this. We have been about the issue of public-private cooperation as long as there have been cities because there's nothing that a private developer can do in a city without the city also playing its role. So, cooperation is essential, but when it's unique is when in some way the private forces in our society combine with the public forces to produce something that otherwise could not happen.

I guess the most celebrated beginning of that was the Allegheny Conference in Pittsburgh, a city that was over the hill and couldn't get a new symphony conductor because they didn't want to come to Pittsburgh, it was such a dirty, uninteresting, degraded city, the dirtiest city in the United States in terms of air pollution, and it was at that point that the business community got together and said, We'll take on this task, and they did.

The clean air of Pittsburgh really was the result of the Allegheny Conference getting passed in the city a clean air control law long before that was thought of, and then calling one by one the industrial monarchs and demanding that they clean up the air, and in 12 years Pittsburgh became one of the cleanest cities in the country.

They also undertook what became the Golden Triangle—this huge area at the convergence of the Allegheny and the Menongahela Rivers and made this industrial slum into a first-rate new commercial center. They succeeded in it, and the revitalization of Pittsburgh through the Allegheny Conference became a landmark event in the revitalization of an old deteriorating city. It was a model for the old Philadelphia Corp., for the Greater Milwaukee Corp., for the Greater Baltimore Committee, and for many others, and it demonstrated the potential for changing the life and the physical environment of the city through effective business leadership working with city government.

This all is at odds with the fundamental description of the urban condition in this report. There are many words and phrases and philosophies here that one might applaud, but the overlying emphasis here is that what happens to cities is the result of economic and technological change and that that economic and technological change is an immutable force that cities will kind of move with the tide of these forces and there's very little they can do about it. Certainly they are strong forces.

Although it mentions almost parenthetically the human forces, the institutional forces, the physical environment, they really are tremendously neglected and the economic result can be as much an effect of what happens in the urban environment as the cause of it and that can be readily illustrated.

Look at the revitalization of the American city, for which there's enormous hope today—this really is a new day with respect to the cities. It's very different than it was 10, 20, or 30 years ago. But to look at it, let's take for a minute how we got this way and I think this is very different than this report.

We got this way through a set of forces that really began the wave after World War II with the automobile. It became a new method of transportation, not newly invented but new in its numbers, its power, its impact, that swept into the city, congested the streets. The old cities had no way of accommodating this new method of transportation. One-way streets became rushes of automobiles through residential areas, deteriorated residential areas and nowhere to park. People were frustrated. And this whole process of congestion and deterioration led to the creation of outlying suburban centers of all kinds—residential, office parks, and shopping centers.

It was forced upon the metropolitan areas and supported by the Federal Government through an elaborate highway program that built the freeways, cut through the land, first widened the old roads from two lanes to four, created service stations, hotdog stands, and as they became so packed with cars and people, then came the expressways through the landscape to intersect with the now old four-lane highway. That created a cloverleaf. Then came all of the suburban decentralization.

We could have seen this happening. We might have managed it better, but we didn't. We somehow don't see the future of our cities and metropolitan areas. We wring our hands as if we have no capability of managing these changes.

The second major force in this deterioration was the lifestyle that emerged—the "American dream," a quarter acre lot and picket fence, a station wagon, an outdoor barbeque, a set of golf clubs. This became the pressure outward, financed by 30-year mortgages at moderate rates.

In the inner city, almost no financing—10 years, 6 years, 5 years—not really because of redlining and because banks were being vicious, but because no values were seen there. Everything was going downhill and therefore why make a long-term mortgage? This exacerbated the decline of the center city and the emergence of the outer city.

And then, most important of all, was race. The historic inmigration into the American city which we had accommodated for generations of people moving into the heart of the city, growing up, becoming more successful, moving out, was blocked because in this case there was a label on these people. They were black and therefore they were confined into a smaller area of the city. The new inmigration piled on top, outrageous congestion, inferior schools, inferior health care. We created the urban jungle that surrounded the downtown.

We look at all those forces and they bled away the heart of downtown, not essentially economic and technological change, but we made the city unworkable through the forces that were at play. This is changing, massively changing. And I would predict that over the next 20 years the change in the center of American cities will be as radically important as the suburban sprawl and clutter that were created in the 1950's, 1960's, and 1970's, and most of the forces now at work are biased in favor of the center of the city rather than the suburbs.

Consider, first of all, in the typical center of the American city. We have a cumulative set of piecemeal experiences, unfortunate that it's piecemeal rather than by some more comprehensive plan and development program. But it's easier to get to the center of the city today than it was 25 years ago, easier to park when you get there, more office buildings there, probably more jobs than there were 25 years ago, a lot of public institutions, and public squares. Hospitals, universities, and art museums have expanded. It is not well tied together but, nevertheless, this is now a cumulative force for the inner city.

Second and maybe most important is the changing lifestyle and values. The American dream for millions and millions of young Americans is no longer a quarter acre lot and a picket fence. It's rehabilitating a house in the central city or buying one that's rehabilitated, typically two people who are working; 65 percent of the American households today have two people working; 50 percent have no children. This kind of a household doesn't find its life best lived out in the suburb but in the center of the city with its convenience and vitality. It finds the suburbs sterile. It prefers a Volkswagen to a station wagon, a pair of skis to a set of gold clubs, baking bread in an oven to an outdoor barbeque. It's a whole new way of living and a good one.

At this same time, we have been, at long last, opening up the city to black people. The most stubborn resistance in our society has been in housing where we have been able to maintain a kind of a de facto segregation against all the laws of the country. But this is now passing, thank God, and white people are discovering that it's quite all right to have a black family living next door. It's nothing to fear.

In Columbia we've had the experience of being a 20 percent black city in the midst of suburbs largely white and there's just no question that open occupancy in housing in Columbia has been a major force in attracting white families to Columbia.

A study was made by the people of one of our villages—we are now 60,000 people—of what motivated people to come to Columbia, and when this was collated, 63 percent of the people said that open occupancy in housing was the major reason or a major reason for their moving to Columbia. The myth of black and white people not being able to live together is being exploded and by the end of this decade a black family will be able to live wherever they want in the American metropolis not because they're tolerated or accepted but because it's unimportant that they're black.

That's important because that in turn opens up the center of the city and makes it possible for the center of the city to become an integrated area. Young white couples are willing to move into a black block, a black neighborhood. They don't share the fear that their parents did. This is a highly important thing that's happening.

In addition, the economy favors the center of the city. You can get more space for less cost per square foot than in a new house in the suburbs. The energy factor is clearly biased to the center city with the efficiency, the greater convenience. We've got to do something more and better about public transportation. We can't ignore, just from an energy standpoint alone, the need for technological development of our transportation systems.

The decline of our cities was brought about by forces that are understandable and the reorganization of our cities is being brought about by forces that are understandable. The danger is that we won't recognize them until after the fact and we will create a disorder in the center of the cities comparable to the disorder on the edge, but we are capable of taking hold of these forces and marshaling them to make our cities what they ought to be. I applaud much of what Mayor Goldway has said and the basic approach that cities can be managed. They can be organized. We don't have to live by whim and accident and allow the technological and economic forces that are elevated and dignified here just to sweep our people back and forth across the country or even back and forth across the metropolis.

Baltimore is a wonderful example of the potential. In 1952 a report was made on Baltimore—a very responsible report—that said unless radical action is taken, the municipal corporation faces bankruptcy within a generation. And that was a straight trendline examination of what was happening to the assessible base, what was happening to the cost of services. It showed that out there is a handful of years they would close and then the city would get into this difficult position which almost every old city in America has faced.

This caused a group of businessmen, to say we've got to take the radical action. They formed the Greater Baltimore Committee modeled after the Allegheny Conference, determined not to bring in an outside planner to plan the city, created a planning council outside of city government but alongside of it to make a new plan for the center of the city, 500 acres, and started to work on it. At the end of a few months they came in and said:

> This is ridiculous. We find no business in the center of Baltimore that plans to expand in the center of the city. There's no way of dealing with the future of the center city. There is no visible future to be planned for.

This led to a shortcircuiting of that process to do the largest and most dramatic doable project that could be done. Unlike the Alleghenny Conference, and better I think, instead of saying that the center of the city was OK and we'll go to the ragged edge and spruce it up, the decision in Baltimore was that the city was obsolete at its heart and therefore the 33-acre project involving the 100-percent retail blocks were wiped out. A parking garage built by the city the year before for $1 million was demolished. A lot of actions were taken which were very bold and would not be possible today I think but were right then. This provided the city the plan for Charles Center—laughed at the time. The man on the street said, "My grandchildren will never live to see it." But it has now been almost entirely completed.

Before it was a few years underway a new mayor said, "I want to go to the inner harbor," which was not the direction which the city was moving. The inner harbor was a downtrodden, tawdry mess of fallen down frame wharves, warehouses, unused. The harbor was a stench. The stink from it was almost unbearable but this mayor, a remarkable man, Theodore Roosevelt McKeldon, had a vision. So we recreated the planning council that had planned Charles Center and moved into the inner harbor, 250 acres this time because there was a new sense of the possible, a new expectancy in the city.

The important thing is that in two plans the city of Baltimore accounted for 283 acres at the heart of the city. Well, over the last 18 years there has been built in the city that previously had had no new office building in 30 years—a poor city, very few home office headquartered companies, ethnic, blue-collar, 60 percent black—that would be the death of the city under popular wisdom—that had little belief in itself, saw itself as a poor second-rate city—in the last 18 years there have been 22 office buildings built in downtown Baltimore for over 8 million square feet of space, three hotels, a new convention center, a new science center, a new national aquarium, 2,000 new apartments, 7,000 dwellings have been rehabilitated within 10 minutes of the center of the city. The whole harbor now is just an extraordinary picture of what the American city can be.

Harbor Place, a retail center along the inner harbor shore which everybody looked upon nervously, attracted 18 million people last year to the center of the city. I had a group from around the world there over the weekend, the International Institute of Environment and Development, took them down to the inner harbor and on a little boat trip down and back and they couldn't believe that this was an American city, with the crowds of people along the streets and the waterfront.

Of course, this has had a strong financial impact. The tax revenues from those areas has gone from $1 million a year to over $11 million a year and with the building now under construction it will go to $15 million; 15,000 new jobs have been created. Harbor Place, which simply would not have been possible except as a part of this whole plan, created 2,300 jobs in one day. The mayor's manpower commission came down to the harbor, and 1,000 previously unemployed people, 900 black, were employed there; 19 black merchants were created and are doing business there successfully. It's an extraordinary revitalization.

Some $150 million of Federal funds went into the city to create the platform by which this could occur. I think that it's the most dramatic statement in the country of what is possible and and it's only the beginning. The momentum is gathering in the whole harbor area. There will be in Baltimore within the next 10 years a half a dozen new hotels; there will be 10,000 to 20,000 new dwelling units built along the harbor.

Baltimore has become a tourist city. A friend of mine from Cincinnati the other day was talking with me about a problem in Cincinnati, and he said, "Of course, Cincinnati is not a tourist city like Baltimore." To a Baltimoran that's incredible. But Canadian bus companies now come to Baltimore on their way to Washington and Florida. A whole group of British travel agents were in Baltimore making deals with hotels and restaurants on package trips to come to Baltimore as a center to go to Washington and Williamsburg and the other places.

It's an extraordinary revitalization because the physical environment has been made to work for the people who live in the city as a democratic place. It's black and white and old and young and rich and poor and everybody is there in the heart of the city, and that's basically what people want to have happen. People want their city to work. People in the metropolis want the heart of the city to work. There's a lack of personality when it doesn't.

The administration is earnest about its desire for economic development and that's crucially important, but there are so many things that can be fostered if one sees what's happening in the city and wants to help make it happen.

The enterprise zone is a good phrase and it's a good purpose to create enterprise zones. It's what the cities ought to be about in terms of creating areas in the inner city that meet modern demands of business and industry where they can locate effectively, create jobs. They can have a tremendous advantage over suburban locations.

I was one day coming over to Washington to a hearing and I called the man in charge of industrial development in Columbia where we have created two businesses a week for 3 years on the average. We have an average of 100 to 110 new businesses in Columbia a year. This is not Texas. This is the Baltimore-Washington region, but the environment is attractive and businesses come. We have 29 foreign corporations that have established their headquarters in Columbia. We have created 70 new industrial corporations in Columbia, people going in business there. I talked to the man in charge of industrial development and I said, "What would you think if in Baltimore they created an industrial center, an executive office center, comparable to what we have in Columbia?" He said, "It would be the most fierce competition we could have." I said, "Why?" He said, "Because they have so many advantages. They've got a labor force right at hand. They've got transportation for that labor force to the work place. They've got all the amenities of the city for the executives and the workers. It would be a tremendous thing."

My concern—I wouldn't oppose the enterprise zone as it's being proposed because cities can take all the help they can get wherever it comes from—is that you don't typically buy businesses to do things they don't want to do, not even by tax advantages, and, on the other hand, if you create the environment in which they want to be, businesses will come.

I would like to see the enterprise zone stimulated and supported by a focused application of a UDAG-type operation that made money available to write down land to the point where it could be competitive at the outset with suburban land. That's what's had to happen in the center of the city. We brought 140 merchants to Harbor Place in 1 day. None of them would have come there if it hadn't been that the environment was created that made it attractive and the opportunity to be successful.

So it would be with an enterprise zone that was made competitive with where businesses now choose to go. There's nothing wrong with the Middle Atlantic area. There's nothing wrong with New England and the Northeast. The center of the cities are obsolete and that obsolescence needs to be corrected and I think it does take Federal money to do it.

A lot of important things are happening in this area of private-public cooperation. There really is a new spirit. When I gave a talk to a group of 200 businessmen in a city 5, 10, 15, or 20 years ago—and I feel like I've been talking that long—I could get interest and people listened, but I knew perfectly well they forgot it when they went out the door.

Today the business community is beginning to take seriously its responsibility for the life of its cities. The President's task force can be extremely useful in saying to business that if you want to get the Government off your backs you'd better put your backs out to some of these problems, and businessmen are understanding that and a CED report made the same kind of emphasis. There are meetings around the country all the time trying to capture this new spirit and accept this new responsibility. Nobody is a more magnificent demonstration and symbol of this than Bill Norris. The Control Data Corp. has been finding ways for a profit motivated corporation to make money out of unique services to cities and to people and to little hamlets as well as in the center of the city.

Five Percent Clubs were kind of alone in Minneapolis for many years, but Five Percent Clubs are now springing up all around the country. We started one in Baltimore 2 years ago with 22 members and now there are 35. The city of Norfolk started one with 56 members—companies that pledge to give 5 percent of their pretax profits to charity. Big corporations with the growth stock syndrome are concerned about the next quarter's earnings, but if we can get the whole country moving we can lift the 1 percent that corporations give to 2, 3, 4, and 5 percent and half a dozen years from now the hope would be that the chief executive officer of an American business corporation would be embarrassed to be among his peers if he isn't giving 3, 4, or 5 percent of his pretaxed earnings to charity.

There are wonderful things potentially happening. There are wonderful forces at work. The new sense of responsibility is just a tip so far, but the new sense of responsibility in business can be harnessed, can be put to work. There's a new sense of need in the cities and here's the soil for a new kind of cooperation. But the platform on which a lot of this has to occur is going to demand Federal funds, the use of the UDAG system—the UDAG system is one of the most brilliant processes for Federal Government-local relationship that has been fashioned because it does not prescribe a Federal program and lay it on the city. It says we have money and we have very limited criteria. It's got to increase jobs. It's got to add to the taxable base and it's got to produce a big multiplier in private funds, and those are good tests. And then it sets up a competition and chooses winners ever 3 months in distributing those funds.

You could use the same thing in housing for the poor. You could do the same thing in economic development in the cities and the country would proift from it.

Representative REUSS. Thank you very much, Mr. Rouse. You've already given an able introduction of our next witness, Mr. Bill Norris, from Minneapolis, who with his Control Data Corp. has indeed been proving for a good long time that the private sector, if it puts its mind to it with some gumption, can perform a large part of the task. Mr. Norris.

STATEMENT OF WILLIAM C. NORRIS, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, CONTROL DATA CORP., MINNEAPOLIS, MINN.

Mr. NORRIS. Thank you, Mr. Chairman. I'm pleased to have the opportunity to review public-private cooperation.

For some 15 years Control Data has been participating in such efforts as part of our company's primary business strategy of addressing major unmet needs of society in cooperation with other sectors as profitable business cooperation. In other words, Control Data is investing extensively in urban economic and human development because it is good business to do so.

Our programs have included establishing plants in poverty-stricken areas, providing high quality, less costly, and more accessible education and training in schools, communities, prisons, helping small business, and rebuilding the fabric of urban communities, and we work in the toughest of environments.

I want to emphasize the importance of public-private cooperation because we all know that the major unmet needs of society are massive. Therefore, they require massive resources, far beyond those of any single sector in the society. Hence, the necessity for cooperation, for partnerships reaching down to the neighborhood level.

In broadest terms, the rationale for public-private partnerships can be stated this way: It is clear that traditional approaches which depend on Government and private charity rather than private investment have not been adequate to meet the needs of our society.

Our many years of experience with urban economic and human development programs show that the public-private partnership approach works. Participation is not a result of our being philanthropists, but because we have developed products and services that address society's needs. We've been successful through our willingness to accept lower short-term returns on investment in favor of more substantial, long-term gains and to use, creatively, limited Government support.

CITY VENTURE

For example, to be most effective in urban revitalization, Control Data joined with 10 other companies and two church organizations to form a consortium called City Venture, which is an efficient pooling of the resources of individual members. City Venture plans and manages the implementation of programs for the revitalization of urban communities.

City Venture has been in existence for 3 years and has a number of urban revitalization projects underway. The most advanced City Venture project is in the Warren-Sherman community of Todedo, Ohio.

In Warren-Sherman, small businesses are being started, jobs are being created, disadvantaged residents are being trained and employed, and housing and education in the high school are being improved. Progress has been excellent.

POVERTY-AREA PLANTS

Control Data's first program took jobs to people in poverty-stricken areas by establishing manufacturing plants in blighted communities. We built the first plant on the north side of Minneapolis a few months after fires and rioting in that area in 1967. Since then we have built six additional plants and announced plans to build two more in depressed communities. Total employment in the seven plants now exceeds 2,000 with annual payrolls totaling nearly $40 million. By working closely with local community organizations and with partial Government funding for training, Control Data has succeeded in making poverty-area plants as profitable as its conventional operations. At the same time, we are serving the interests of each community and providing a path for disadvantaged persons to enter the mainstream of industry.

EDUCATION AND TRAINING

Control Data's largest program addresses the need for better, more available, and less costly education and training. The only practical way to make significant progress in addressing this massive and urgent need is through the use of technology. Television, audio-video tapes, and telephone and satellite transmission, all coordinated in a network learning system with computer-based education, offer cost-effective jobs training never before available.

Control Data has been engaged in developing such a system, called PLATO computer-based education, for 20 years. The effort includes scores of cooperative projects with the Government, universities, foundations, large companies, small companies, and individuals.

To facilitate the delivery of PLATO courses, Control Data learning centers have been established as rapidly as feasible, and there are now more than 100 in the United States. We also operate 44 vocational training schools called Control Data Institutes, where annually over 10,000 students complete courses in computer programing, operation, and maintenance and a number of more specialized courses such as bank teller training. Soon to be added is robotics technician training.

"FAIR-BREAK"

PLATO is also central to a program called Fair Break, aptly named because it prepares disadvantaged persons to find and keep a job—and helps make jobs more available to them. More than 50 Fair Break centers are now operating throughout the country; each center delivers innovative training in basic skills, job readiness, life management and job-seeking skills. Many students in the centers also work part-time, which not only provides them with a source of income but also helps identify any problems which should be resolved before they attempt full-time employment. The program is delivered in cooperation with public schools—and with funding primarily from government programs.

More than 5,000 students have enrolled at the centers since they started 3 years ago; 83 percent have successfully completed training with a job placement rate of nearly 80 percent.

SMALL BUSINESS

Having already launched major programs for taking jobs to people and getting people job-ready, we decided in 1975 to complete the employment spectrum with a program to create jobs by assisting small businesses to start up and achieve profitable growth.

You no doubt are aware that more than 80 percent of the new jobs created in the last 10 years have been provided by companies with 100 or fewer employees. Yet the environment for small business has been deteriorating because of increasing competition from large companies, increasing Government regulation, and decreasing availability of technology and capital. At the same time, most of the technology, management, and professional expertise and capital resources are in big business—and are underutilized.

Recognizing the need and opportunity, Control Data has developed a wide range of offerings for small enterprise including financial assistance, data processing services, education and training, management and professional consulting, and the transfer of technology. Another very important service is our "Business and Technology Centers," which provide various combinations of consulting services; shared laboratory, manufacturing and office facilities; and other services to facilitate the startup and growth of small businesses. Economies of scale make it possible to provide occupants of the "Centers" and small companies located nearby with needed facilities and services of much higher quality and considerably lower cost than any would be capable of obtaining or providing for itself.

There are five "Business and Technology Centers" in operation and two more will open later this year. All are located in poverty-stricken inner city areas. They are a powerful stimulant to helping those communities start up small businesses that create desperately needed jobs. And we have made the centers an integral part of City Venture—the cooperative urban development program I described earlier.

REPLICATION

While I could provide still other examples of urban development programs, I believe the few described earlier illustrate our conviction that participation in public-private partnerships for urban development is good business. In addition, these public-private partnerships work, but to expand such efforts, especially those creating jobs, we need Government actions that will encourage broader participation by the private sector.

ENTERPRISE ZONES

A significant increase in support could come from enterprise zones. Enterprise zones, properly conceived and structured, offer a good means of targeting public-private sector efforts in the most distressed communities and providing incentives for obtaining the participation of the private sector on the scale required for job creation.

There have been many variations on the enterprise zone concept that confuse and obscure what can be accomplished. What I am advocating is a simple, straightforward approach which emphasizes incentives to stimulate the creation of small businesses within the zone. These would include tax credits to encourage big companies to assist small business start ups and provide them with technology, financing and management assistance, and credits, too, which might encourage communities to convert closed schools into "Business and Technology Centers." As an aside, I should mention that restoring a closed school facility to productive use—especially for job creation, provides great inspiration for a poverty-stricken community.

Furthermore, an enterprise zone concept emphasizing development from within avoids one of the frequent criticisms of the zones; namely, the possibility of simply transferring jobs from a nearby area to the zone.

Tax incentives, by themselves, however generous, cannot substitute for direct Federal spending to improve infrastructure, clear and assemble land, train the unemployed, and provide other basic services that neither the private sector nor local and State governments alone can reasonably be expected to provide.

It is essential that such direct government funding be leveraged by private funds. An example where this has been accomplished is the Warren-Sherman neighborhood revitalization project in Toledo which is managed by City Venture, mentioned earlier. In the Warren-Sherman neighborhood, a deteriorated infrastructure made private investment in the area very unattractive, however, a $7.5 million commitment from EDA and UDAG has led to over $30 million in private commitments from the Toledo Trust, Control Data, Owens-Illinois, and several other firms. One goal of the project is the creation of 2,000 new jobs. Control Data established a "Business and Technology Center" in the neighborhood. A computer-based job training and education program has been established in the local high school. Small and large firms are opening plants and businesses in the area. Residential development is proceeding. As the project progresses, it will attract still more private investment.

Warren-Sherman shows that public funds, if effectively targeted, can lead to large private commitments.

There is also proposed legislation, House Resolution 6100, which has a number of commendable features. For example, it provides direct financial assistance for much-needed infrastructural improvements and for comprehensive economic development planning, and it encourages the cooperation and commitment of both public and private sectors. Also, it is better targeted and seemingly would be simpler to administer than the current EDA program. Finally, the bill would provide a firm foundation on which the tax incentives in Federal and State enterprise zone legislation could be built.

CONCLUSION

In conclusion, I would like to come back to job creation, because it is pivotal. Without jobs, meaningful and lasting urban economic and human development cannot occur. Creating private sector jobs through public-private cooperation isn't easy. Nor are quick payoffs to be realized from corporate investment in such effort. But it has been proven that public-private investment in job creation works and, with appropriate tax incentives, business can achieve an attractive return in a reasonable length of time from investing in it.

Of course, tax credits represent costs to the government and taxpayers. But tax credits are not full reimbursement. Also, they provide maximum flexibility whereby the private sector is free to take the initiative in partnership with government. In reality, a tax credit is a sharing of the investment which will ultimately provide an attractive return to both sides. Without more significant tax incentives, government will have to make large outlays for welfare and a continuing dependency on such expenditures.

If government alone has not been able to do the job in the past, less government will be less adequate. What we must do is utilize the private sector which has the managerial, financial, and technical resources to deal most effectively in addressing social ills. The essence of public-private partnerships is that both government and business must work together—must cooperate—if we are to have any chance of adequately responding to the issues which face us a society.

Representative REUSS. Thank you, Mr. Norris.

The last member of our panel from whom we will now hear is Mr. Thomas Muller of the Urban Institute.

STATEMENT OF THOMAS J. MULLER, PRINCIPAL RESEARCH ASSOCIATE, THE URBAN INSTITUTE, WASHINGTON, D.C.

Mr. MULLER. Thank you, Mr. Chairman. I appreciate the opportunity to appear at this series of hearings on urban policy. I have had the pleasure in the past to testify on related issues when you were chairman of the House Banking and Finance Committee and it is evident from the current hearings that at least some problems facing our cities, particularly those in the northern industrial regions have remained with us.

In this respect, I was particularly pleased to hear the views expressed on the future of the American city by Mr. Rouse whose views I greatly respect. Although I'm somewhat less optimistic than he is on the future of American cities, there's no question that we now see many opportunities which, if taken advantage of, can reduce the imbalance between our older industrial cities, their suburbs, and the growing metropolitan areas of the country.

What are the causes of migration from cities to suburbs and from the northern industrial region to the Sun Belt?

As has been noted earlier, there are a combination of factors, some economic, others technological, and there are also social causes, many of which were addressed earlier. I will not dwell upon the history of our cities but rather talk about the Federal role.

There is no doubt that a combination of Federal activities, including FHA mortgages, also noted earlier, during the 1930's and 1940's, in particular, the interstate highway system which in my view is probably the most important single program ever in terms of affecting migration between and among urban areas. No doubt these and other Federal activities had an impact on the location of housing, commercial investment and other capital investments outside the central city.

However, these were not the dominant factors in the process of decentralization. Both economic and social factors outside the control of the Federal Government dominated this process.

The conclusion one could reach is that while Federal activities complement the process of decentralization, the effects of these activities were not crucial. This is not to argue, however, that the fiscal and social problems cities with sharp population losses such as Cleveland and Detroit face are any less serious. The imbalance which results from a growing low-income population in many of these cities create serious long-term adjustment problems, and while we have examples in some cities of high income, small numbers of affluent households returning to the urban core, this process is unfortunately not evident in all our older cities.

The interaction between Federal actions and growth at the regional level appears, however, quite strong. An examination of Federal expenditures and Federal tax policies over the last 50 years indicates massive distribution from the urban areas of northern industrial States to the South and West. This process of income redistribution has been going on since the beginning of the New Deal and in fact even earlier.

In some cases, the redistribution was a result of a conscious policy to help less developed, depressed areas of the Nation. In other instances, this was not the result of any policy but rather caused by a particular set of circumstances such as defense needs and migration patterns. But whatever the nature of the policy—and some of it was conscious and some not—the cumulative effect of these activities has been to contribute to the rapid growth in parts of the South and West, particularly during the 1970's when northern areas had losses in private sector economic activity.

The reason Federal policies and Federal activities were so important is that typically the net flow of dollars went to areas which were already growing as a result of private market forces. The State of California is an example of this process.

In this context, it's interesting to note that the President's National Urban Policy Report stated that in their view, national economic trends made the major contribution in equalizing the fiscal capacity among the Nation's States and regions. A table in the report illustrates that per capita income has been growing in many Southern States, remaining very high in the Western States while it fell in the northern industrial regions.

Our analysis suggests that Federal tax policies and Federal programs contributed to the rising income in the South and the ability of the Pacific States to maintain above average income. Thus, while the data shown in the National Urban Policy Report is correct, the implication that trends shown were unrelated to Federal activity are certainly highly questionable.

In discussing the Federal role in assisting distressed urban areas, it is useful to recognize that the current and past residents of the Nation's industrial heartland stretching from New York to Wisconsin now undergoing a severe economic crisis, particularly the Midwest, was responsible for much of the income distribution to other parts of the country.

We are currently examining the effect of the Reagan administration's tax cuts, reductions in domestic programs and defense increases to determine their differential impact, if any, on the regional flows of Federal funds and regional economic activity and we hope to have that work ready relatively soon.

We need to recognize that the comparative advantage many of our cities enjoyed in the last decade, particularly in the production, the distribution, and the sale of goods, has been reduced. And this problem is not limited to our large industrial cities. Our smaller industrial cities such as those in central Pennsylvania and West Virginia face an uncertain future as a result of both technological change, international competition, and regional realinement which has reduced the demand for steel and other basic products.

In addition to manufacturing, retail and wholesale trade has been a major source of employment in our native cities, and trade remained a large component in city economics until recently, although retail business has been dispersing to the suburbs.

However, the advent of the regional shopping mall has changed the traditional retail role most central business districts had with the new downtown more likely to be found near a suburban interchange of two interstate highways than in the central business district. The relocation of business to these malls is particularly disturbing to small cities such as Burlington, Vt. and Appleton, Wis.

Our own research suggests that enclosed shopping malls downtown are typically successful in stemming the outflow of retail activity from the urban core. The mayor of Santa Monica indicated how successful the city has been in this respect. I was in Santa Monica a few weeks ago and found crowds in their downtown mall to be so large I had trouble even making a purchase at Sears. There's no question that a downtown mall was successful.

Unfortunately, in order to construct a downtown mall, it typically requires public funds because there is a differential cost to begin with and thus there is a need for public funds—Federal, State, or local—to provide the seed money to have such development take place in a downtown. So there is, I believe, a Federal role in this regard.

In contrast to manufacturing, older cities have been able to maintain their locational advantage as the centers of government activity and other public life, activities including universities, and health centers, and it is my view that the Federal Government can assist in strengthening this base by continuing to give preference in its own construction activities to downtown facilities when suitable sites are available. And this, as you may recall, Mr. Chairman, was one of the initiatives the Carter administration took in the development of its urban policy.

While we emphasize economic changes affecting our central cities, we do need to also recognize the demographic changes which are taking place. If present trends continue, the majority population in perhaps half our older cities, indeed the majority of our large cities, will be nonwhite or of Spanish origin, and this is already the case in many of our very large cities. The implications of these changes on service costs, revenues, and jobs, as well as the more elusive cultural and social effects are not known and will require our attention in the future. I believe this change in the ethnic composition has some distinct positive elements. However, it also results in added costs, where again, Federal and State intervention may be required to maintain adequate service levels.

This brings about the question of what should be the Federal role in urban policy. While some may argue that Federal programs became so dominant during the 1970's that older cities became over-dependent on such aid, thereby reducing their efficiency, statistical data does not support this contention. We looked at what happened to public employment, public employee wages in older cities as well as growing cities during the period of rapid increases in Federal assistance from 1971 to 1979 and found that almost all aging northern cities reduced public employment and kept wage increases to a level below the rate of inflation, in contrast to cities which are growing, mostly in the West. There's no indication that cities receiving increased Federal aid tended to maintain large payrolls or not to utilize Federal funds inefficiently. I recognize that this issue is not resolved yet. It will be discussed I'm sure by others in the future, but the argument that because we have not resolved the fiscal difficulties in older cities this is evidence that these programs have not been successful is invalid.

In my view, in the absence of such aid, the economic and social conditions would have been much more serious than they currently are. But we also have to recognize that the national fiscal situation does not allow massive Federal aid to cities at least in the very near future. This suggests that we focus any assistance on specifically targeted programs which are affordable, taking into account other domestic priorities.

The UDAG program, as has been mentioned frequently by others this morning, does require a private-public partnership and should be continued, but focused even more than in the past on direct economic development. Downtown development assistance in addition to UDAG, again including the private-public sector partnership can assist agencies who cannot on their own raise the necessary capital to improve the downtown. It is generally agreed, as Mr. Norris also stated, that Federal-State funds to maintain the aging infrastructure are also necessary, although the sums required may be so vast that only part of the need can be realistically met in the near future.

One can argue that States should assume the full responsibility for assisting their cities. While this is not an unreasonable proposition, the fact remains that even if States were willing to undertake such responsibility—and I'm not sure all States are—the fiscal capacity of States varies tremendously.

Take, for example, the case of Arkansas, the second poorest State in the Nation; and neighboring Texas, quickly becoming one of the wealthiest States. Clearly the capacity of these two States to help their urban areas varies greatly.

Similarly, Connecticut, a very high income State, is in a better fiscal position to aid its cities than Maine or Vermont which are poor States—in fact, the two poorest States outside of the South.

If one believes that one function of the Federal Government is to reduce the fiscal imbalance between more affluent and less affluent States, there is a role for the Federal Government beyond direct technical assistance, just as there is a State and private role.

It could also be argued the cities themselves should raise additional funds to meet the needs. However, as the urban report indicates, the economic disparities between cities are actually rising; thus, to impose higher rates of taxes would be counterproductive.

Let me turn finally to enterprise zones because, Mr. Chairman, you suggested this should be discussed by this panel.

The concept of enterprise zones as expressed in the urban policy report is to strengthen the free market environment in depressed areas through relief from taxes, regulations, and other government burdens, improvement of some city services, and involvement of private, neighborhood organizations.

Surely, no one can dispute the merit of such a policy. It is my view that enterprise zone proposals such as the one supported by this administration have a reasonable chance for modest success. This view is based on examining the experience of Great Britain where this concept has been applied for several years recognizing both similarities and differences between the two nations. However, the oversea experience indicates that enterprise zones are most likely to be successful in areas which have a strong economic base.

This suggests, for example, that a blight area in Houston or Denver would undoubtedly attract new business. This, however, may not be the case in Youngstown or Detroit even though Federal incentives would be identical.

The importance of Federal tax incentives has been reduced by the Economic Recovery Act of 1981 which sharply curtailed but not eliminated potential tax incentives based upon reduction of the corporate income tax. The importance of tax incentives, particularly for smaller corporations, has been reduced.

Deregulation is considered by the administration to be an important carrot for investment in the enterprise zones. It is my view, however, that such relief will not be a characteristic of the zones likely to attract new business. While regulations clearly impose costs on business, urban blight seems unrelated to regulatory excesses. Because of limitations in the proposed act it's unlikely that one would in fact see major deregulation take place in the areas declared EZ's.

Most of the enterprise zone benefits would be indirect and be reflected in high property values. There is no doubt that enterprise zones do provide a mechanism for close cooperations between the public and private sector. However, Federal incentives alone will not be enough to attract new business. Together with States and local incentives, the total package can be developed to become more attractive.

Finally, it is necessary to recognize that even with the best incentives it will take several years before we can determine the real costs and benefits associated with enterprise zones. While it appears that such zones could be an effective tool in aiding blighted areas which are islands in a sea of relative prosperity, it is unrealistic, in my view, to expect such zones to significantly change the economic outlook in declining cities where blight is pervasive, attributable to structural economic changes and regional stagnation.

Let me conclude by summarizing briefly my comments. While we cannot blame the Federal Government for the movement to the suburbs, this does not alleviate the serious difficulties this movement has caused.

The Federal Government has contributed to the growth in the South and West, to some extent at the expense of Northern industrial States.

It does not appear that Federal funds to distressed cities during the 1970's reduced their efficiency.

In my view, older central cities will continue to face severe economic and fiscal problems and will require direct outside assistance, both State and Federal, in the lengthy process of transition. Such assistance needs to be focused on changing their economic base as was suggested by speakers earlier today.

Joint public and private financing and close interaction with the private sector are essential to the success of any program aimed at revitalizing cities.

Enterprise zones, while they can improve conditions in particular blighted areas, cannot by themselves, have a substantial impact on the economic and fiscal conditions of our cities. Thank you.

[The prepared statement of Mr. Muller follows:]

Prepared Statement of Thomas J. Muller

Mr. Chairman:

I appreciate the opportunity to appear at this series of hearings on urban policy. I have had the opportunity to testify on related issues when you were chairman of the House Banking and Finance Committee during the 1970s, and it is evident from the current hearings that the problems facing our cities, particularly those in northern industrial regions, have remained with us.

I have been asked to comment on several issues within and outside the context of the recent urban policy report, including causes for migration from our cities, the changes in city economies, and enterprise zone proposals. The subsequent testimony discusses these issues.

Causes for Migration to Suburbs and the "Sunbelt"

The movement of households and firms from cities to suburbs and the rapid growth of the sunbelt compared to northern industrial states can be attributed to a mixture of economic, technological, and social causes. Since these causes have been discussed elsewhere, I will not review what is known on this subject. Rather, my comments will focus on the extent to which we can attribute the redistribution of economic activity to federal actions. Although this issue has been discussed over the years, particularly during the 1970s, much of what is known remains speculative.

While a combination of federal activities, including the Federal Housing Administration loans during the 1930s and 1940s and in particular the construction of the interstate highway system in more recent decades had a role in increasing housing, commercial, and other capital investment outside the central city, these and similar programs were not the dominant elements in the process of decentralization. The movement from high-density urban locations to lower-density areas has been observed in all industrially advanced countries, including those which have strong policies aimed at preserving the urban core. While such policies have reduced the rate of decentralization in Germany and England, for example, the movement has not been reversed.

In almost all areas of the nation one observes new development at a considerable distance from the urban core. Even in areas of general decline, such as in central Pennsylvania, there is some development activity outside municipal boundaries. The conclusion one can reach is that while federal activities in general complemented the process of decentralization, the overall net effect of federal activities were not crucial. This is not to say, however, that the economic, fiscal and social problems that cities with sharp population losses, such as Cleveland and Detroit, face are any less serious. The imbalance which results from a residual lower-income population creates serious, long-term adjustment problems.

The interaction between federal activity and growth at the regional level appears stronger. An examination of federal tax and expenditure flows at the regional level indicates that over the last century, and particularly since the 1930s, the federal government has redistributed large sums from northern industrial states to the South and West. (1) To a limited extent, this redistribution was a matter of conscious policy to aid economically depressed areas of the nation. More typically, however, the redistribution could not be attributed to broad policies but were rather the result of topographic characteristics, defense needs, and migration patterns. Whether a matter of conscious policy or not, it nevertheless appears that the cumulative effect of federal activities has been to contribute to the rapid growth in parts of the South and West during the last half century, while most northern industrial states, particularly during the 1970s, had relative losses in economic activity.

The cumulative impact of federal policies appears to have been of some importance because the net flow of federal funds was typically into those areas where growth attributable to private market forces was already present. For example, California was growing during the early part of the twentieth century when federal activities comprised only a small percentage of the GNP. When federal funds flowing into California accelerated during the 1940s, those funds further strengthened an already expanding economy.

In this context, it is interesting to note the following statement from the President's National Urban Policy Report--1982:

> Ironically, it appears that national economic trends may have contributed in greater measure to the equalization of fiscal capacity among the nation's states and regions than Federal efforts to redistribute income through grant programs. (2)

An accompanying table in the report illustrates how per capita income relative to the nation declined in northern industrial regions since 1950, while it climbed close to the national average in the South, and stabilized in the Pacific states during the last decade, remaining at a level higher than any other region.

Our analysis suggests that federal tax polices, purchases of goods and services, and grant programs contributed to rising income in the South and the maintaining of above-average income in the Pacific states. While a shift to the South and West would have taken place even in the absence of any federal activity, the rate of movement was undoubtedly affected by federal activities. Thus, while the data shown in the report are correct, the implication that these trends were unrelated to federal activity is certainly questionable.

The general direction of federal fiscal redistribution should not be viewed as negative. Gaps in income between the Deep South and the industrial North were so vast during the 1930s and 1940s that reducing the disparities by federal activities was not only equitable, but no doubt benefited the nation as a whole. Nonetheless, when discussing the federal role in assisting distressed urban areas, it is useful to recognize that current and past residents of the nation's industrial heartland, now undergoing a severe economic crisis, were responsible for much of the income redistribution.

In my view, the federal role in regional growth has been more important that its role in the movement of population and economic activities between cities and suburbs. We are currently examining the effects of the Reagan tax cuts, reductions in domestic programs and defense increases to determine their differential impact, if any, on the regional flows of federal funds and regional economic activity. We plan to have this work completed in September as one part of a broader review of the Reagan programs as of this summer, which will include chapters on economic development, taxation, and other issues relevant to the subjects discusses at these hearings. (3)

Loss of Comparative Advantage by Cities

Many large older cities during the last two decades lost their comparative edge in the production, distribution, and final sale of goods. Most of these cities were the product of nineteenth century manufacturing activity, and their economic base was production. However, the loss of comparative advantage is not restricted to large cities. For example, such smaller urban areas as Coatesville, Pennsylvania, and Whierton, West Virginia, are among those facing an uncertain future as technological changes, international competition, and regional realignment reduce the demand for steel and other basic products.

In addition to manufacturing, retail and wholesale trade have historically been a major source of employment in central cities. Trade remained a large component of central city economies until recently, despite a continuous decentralization of retail trade to suburbs since the 1950s. The advent and proliferation of the regional shopping mall have changed the traditional retail center role cities served, with the new downtown more likely to be found near an interchange of two interstate highways than at Broad and Market street within the Central Business District. The relocation to these malls is particularly disturbing to smaller cities, such as Burlington, Vermont, and Appleton, Wisconsin.

Our own research suggests that enclosed shopping malls downtown are typically successful in stemming the outflow of retail activity from the urban core. Thus, if public and private funds for capital investment are available, it is feasible to maintain the downtown as one regional center of retail trade.

Mr. Rouss, who testified earlier this morning, has been particularly effective in taking advantage of what the urban core has uniquely to offer, such as the harbor in Baltimore. The same approach, on a more moderate scale, has been applied to smaller jurisdictions. However, in many of these communities, federal funds provided the catalyst for community action.

In contrast to manufacturing, almost all older central cities have been able to maintain their locational advantage as the centers of government activity and professions, including law, which relate to government functions. Indeed, in the absence of public sector activity, little would be left downtown in distressed cities such as Newark, New Jersey. The federal government can assist in strengthening the government base by giving preference in its own construction activities to downtown facilities when suitable sites are available.

Can we rebuild the comparative advantage cities enjoyed in the past? It is evident that most cities cannot, and indeed should not, attempt to recover their role as centers of large-scale production. This suggests that cities which continue to depend on manufacturing can expect further declines in population and eonomic activity. Retail activity can be maintained, but on a more modest scale than during the 1960s, if cities adopt to changing market conditions.

While we have emphasized economic changes affecting our central cities, it is important that we recognize shifts in their demographic and ethnic composition which, in the long run, could be as significant as the economic adjustments cities need to face. If present trends continue, the majority population in perhaps half our large cities will be non-white or of Spanish origin by the end of the decade. Natural increase, continuing outmigration of white families, as well as immigration, both legal and illegal, are all factors contributing to the changing racial and ethnic composition of our cities. The implications of these changes on service costs, revenues, and jobs, and the more elusive cultural and social effects are not known and will increasingly require our attention. The recent U.S. Supreme Court decision on educating children of undocumented workers suggests that the responsibility for providing services, including education for those whose native language is not English, will remain with states and localities, although immigration control is a federal responsibility. As in the case of certain federal mandates imposed on localities, a requirement is separated from financial obligation. Since immigrants are mostly concentrated in central cities, service costs, particularly education, can be expected to be high, despite the continuing outmigration of white and more affluent non-white households.

The Federal Role

What role, if any, should the federal government have in assisting our distressed cities to regain their former economic vigor? In part, our response should depend on how well federal programs aimed at assisting cities worked in the 1970s, other competing domestic priorities, and one's philosophy of the proper role of the federal government. Unfortunately, it is difficult to quantitatively assess any of the three criteria.

While some may argue that federal programs became so dominant during the 1970s that older cities became over-dependent on such aid, thereby reducing their efficiency, statistical data and personal observations do not support this contention. While federal aid to cities did increase dramatically, federal aid did not dominate revenue requirements. Indeed, older cities typically had to increase their own tax burden during a period of expanding federal aid. Direct federal funding accounted for 15 percent of all local funding (including schools) in distressed cities even at their peak. About a fifth of this total was derived from revenue sharing, which was also available to counties and states. As shown in a study prepared for this committee, federal mandates promulgated during the 1970s also required additional local outlays. (4) Thus, the net increase in federal funds available for operating local services was less dramatic than gross flows in federal dollars would suggest.

Despite federal aid increases, all but one in a group of distressed cities examined by us reduced their municipal work force between 1973 and 1979, while wage increases for municipal workers in those jurisdictions were below cost-of-living increases. In contrast, economically strong cities increased their work force and higher wage increases above the rise in the cost of living. These statistics do not suggest that federal funds maintained high employment levels or high wages in distressed cities. While federal funds to cities did not resolve their fiscal problems, one should not conclude that in the absence of such aid, the economic and social situation would not have been more serious.

The positive effects of federal assistance are most visible in smaller cities, where a combination of federal and non-federal resources assisted in rehabilitating the downtown areas, improving their ability to compete with their suburbs. While effects in large cities are more difficult to isolate, there are specific examples, such as that of Baltimore cited earlier. Many central business districts (CBDs) have sprouted new skylines in recent years, suggesting that private investment will take place if cities can maintain reasonable public services and their infrastructure.

Regardless of how effectively federal funds were utilized during the 1970s, and this will no doubt remain a subject of debate, federal deficits and rising defense outlays indicate that massive federal aid to cities is unlikely in the near future. This suggests that the focus of any assistance be on specifically targeted programs which are affordable, taking into account other domestic priorities.

The UDAG program, which requires a private/public partnership, should be continued, but focused more than was the case in the past on direct economic development. Downtown redevelopment assistance, with a federal/state/local partnership including the private sector, can assist aging CBDs in cities which cannot, on their own, raise the necessary capital. It is generally agreed that federal and state funds to maintain the aging infrastructure are also necessary, although the sums required are so vast that only part of the need can be realistically met.

One could argue that the states should assume the responsibility for assisting their cities. While in general this is a reasonable proposition, the fiscal capacity of states to undertake such a role varies substantially. Certainly, the fiscal capacity of Arkansas, for example, to assist its urban areas is substantially lower than neighboring Texas. Similarly, Connecticut is in a better fiscal position to aid its cities than Maine or Vermont. If one believes that among the functions of the federal government is the reduction of the imbalance between more affluent and less affluent states, there is a role for the federal government in urban policy beyond direct technical assistance, just as there is a state and private role. It could also be argued that cities themselves should raise additional revenue to meet their needs. However, as the Urban Report indicates, economic disparities between cities and suburbs are rising. Thus, to impose even higher rates of taxation could only be counterproductive

The administration has acknowledged an explicit federal role in one area, the establishment of so-called Enterprise Zones (EZs), which you asked me to comment on specifically.

Enterprise Zones

The underlying concept of Enterprise Zones, stated in the President's National Urban Policy Report--1982, is to "strengthen the free-market environment in depressed areas through relief from taxes, regulations, and other government burdens, improvement of some city services, and involvement of private, neighborhood organizations." (5)

Enterprise Zone proposals, such as the one supported by the Reagan administration, have a reasonable chance for modest success. This view is based on the experience of Great Britain, recognizing both similarities and differences in economic incentives provided by the legislation and economic conditions in depressed areas within the two nations. The overseas experience, while preliminary, indicates that Enterprise Zones are most likely to be successful in areas with a strong economic base. This suggests, for example, that a blighted area in Houston or Denver declared an EZ would undoubtedly attract new business. This, however, may not be the case in Youngstown or Detroit, although the federal incentives would be identical. (6)

Federal tax incentives (or "tax relief") are most likely to be found attractive by larger, profitable firms who could take advantage of their provisions and thereby increase their rate of return. Small and less profitable firms would not have the same incentives to locate in an EZ. An analysis by a researcher at The Urban Institute indicates that the Economic Recovery Act of 1981 (ERTA) has substantially reduced, but not totally eliminated, potential tax incentives based on the corporate tax. (7) From the perspective of federal taxes, nevertheless, the incentive to locate in an EZ has been curtailed by ERTA. While states and localities have the option to reduce their taxes in the EZ, no direct federal incentive is provided to offset part of the cost to states and localities of such actions.

Tax credits to employees are unlikely to have any measurable impact on the success of EZs, since the maximum proposed annual tax credit of $450 is probably insufficient as an incentive to attract more productive workers. Given rates of unemployment in depressed areas, obtaining workers should, in any case, not be a serious problem unless highly skilled labor is required.

Deregulation is considered by the administration to be an important carrot for investment in the EZ. However, a federal regulatory body will require formal requests from both state and local governments to change a regulation, and such changes will be limited to those not specifically imposed and spelled out by statute. In my view, regulatory relief will not be a characteristic of EZs likely to attract new business. While regulations clearly impose costs on business, urban blight seems unrelated to regulatory excesses.

Most benefits of EZs, if the experience of Great Britain is a guide, will be indirect, and reflected in higher property values within the zone. The key issue, which remains unresolved, is to what extent activity in the EZ will represent net added economic activity in contrast to a relocation of economic activity. For example, a relocation of a retail store to an EZ from outside the zone, while potentially helpful to zone residents, will provide little if any new activity, while import-substituting production could result in a net benefit.

There is little doubt that EZs do provide a mechanism for close cooperation between the public and private sectors. Federal incentives alone will not be sufficient in most instances to attract new business. Together with states and local incentives, the total "package" could become more attractive.

Even with the best incentives, it is necessary to recognize that several years will elapse before we can determine the real costs and benefits associated with EZs. While it appears that such zones could be an effective tool in aiding blighted areas which are islands in a sea of relative prosperity, it is unrealistic, in my view, to expect such zones to significantly change the economic outlook in declining cities where blight is pervasive and primarily attributable to structural economic changes and regional stagnation.

Concluding Comments

My comments have included a wide array of issues and problems both within and outside the context of the National Urban Policy Report. Let me briefly summarize these as follows:

- We cannot blame the federal government for the movement to suburbs, but this does not alleviate the serious problems this movement has caused.
- The federal government has contributed to the growth in the South and West, to some extent at the expense of northern industrial states.
- It does not appear that federal assistance to distressed cities reduced their efficiency.
- Older central cities will continue to face severe economic and fiscal problems, and will require direct outside assistance, both state and federal, in the lengthy process of transition. Such assistance needs to be focused on economic development.
- Joint public-private financing of major projects and close interaction with the private sector are essential to the success of any program aimed at revitalizing cities.
- Enterprise zones, while they can improve conditions in particular blighted areas, cannot, by themselves, have a substantial impact on the economic and fiscal condition of our cities.

References

(1) Thomas Muller, Federal Activities and Regional Development--1931-1981. Washington, D.C.: The Urban Institute Press (forthcoming).

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(3) John L. Palmer and Isabel V. Sawhill (eds.), The Reagan Experiment, Washington, D.C.: The Urban Institute Press (forthcoming 1982).

(4) Thomas Muller and Michael Fix, The Impact of Selected Federal Actions on Municipal Outlays, Joint Economic Committee, Special Study on Economic Change, Volume 5.

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(6) Roger Tym et al., Monitoring Enterprise Zones--Year One Report, London, 1982.

(7) Charles Hulton, Enterprise Zones and the Corporate Tax, 1981.

FEDERAL POLICY TO AID CITIES

Representative RUESS. Thank you very much, Mr. Muller.

Mr. Muller, in the late 1970's the Federal Government had a number of policy statements and regulations in place which said that Federal activity should be directed at saving installations and jobs in central cities and that Federal policy should not be used directly or indirectly for enticing central city activities out to the suburbs of the countryside.

Mr. MULLER. That's right.

Representative REUSS. What's happened to that body of law in practice? Is it still in place? I don't find anything in the urban policy statement either way about it.

Mr. MULLER. There is no reference to it. It's my understanding that the Commission which is reviewing regulations has examined these. I believe that some are no longer in effect. Others in this group of policies seem to be held in abeyance but I don't believe all were formally eliminated. Some of these were executive orders. Certainly the policy to require an impact evaluations, where large-scale commercial development outside central cities may have been encouraged by Federal activity, is no longer in effect.

Representative REUSS. What policy statements, executive orders and other expressions have been abolished?

Mr. MULLER. It's my understanding that one which is no longer in effect deals specifically with reviewing those cases where Federal funds may have been used to entice the relocation of activities from a central city. That's my understanding.

Representative REUSS. Well, to go out of effect it takes a piece of paper signed by somebody, doesn't it?

Mr. MULLER. I have not seen that, Mr. Chairman. I know an individual I work with who's been tracking this and we could let you know as to exactly what the status is on this policy as well as some others such as the location of Federal facilities in central cities which I mentioned was part of a group of policy statements by the previous administration. I don't believe those have been formally abolished.

Representative REUSS. It would be very helpful to this committee if you could, in consultation with your colleagues at the Urban Institute, develop some kind of an interim report on what has happened to this body of legislation. I would appreciate it if you would do this and file it with the committee. It would be a big service.

Mr. MULLER. We'll let you know what the current status is of the specific regulations.

[The following information was subsequently supplied for the record:]

THE URBAN INSTITUTE,
Washington, D.C., July 27, 1982.

Hon. HENRY REUSS,
House of Representatives,
Rayburn House Office Building,
Washington, D.C.

DEAR SIR: During the Joint Economic Committee hearings held on July 19th, you requested information on the status of various "urban initiatives" undertaken by the Carter administration.

My associate, Michael Fix, has obtained the following information on the status of several initiatives discussed in my testimony.

Executive Order 12074, which called for urban and community impact analyses, was promulgated in order to ensure that federal actions under the Carter administration did not inadvertently contradict the goals of federal urban policy. It was repealed by Executive Order 12350 issued by President Reagan on March 9, 1982.

Executive Order 12072, which ordered the GSA to give first priority to cities in locating or relocating federal facilities, has not been formally repealed to date. However, a memorandum has been circulated by GSA to all of its regional offices suspending the implementation of that order while GSA and OMB consider its revision.

The Community Conservation Guidelines were promulgated as a Memorandum to All Agencies by the Carter White House—not as an Executive Order—and therefore have no continuing legal status. Under the Conservation Guidelines, federal agencies were to prepare impact analyses of pending federal actions which would have led to the construction of major commercial developments likely to affect the business districts of older places.

I hope this information is useful to you.

Sincerely,

THOMAS J. MULLER,
Principal Research Associate.

FUTURE OF SUBURBAN SHOPPING CENTERS

Representative REUSS. Mr. Rouse, what have you to say about the future of suburban shopping centers? You, in your day, built a lot of very successful ones. Is the bloom off the rose or is it likely to continue?

Mr. ROUSE. Well, I think there was a tremendous vacuum around. If you were planning a perfect city of a million people I think you would have a very strong detailed core at the center and there would be also regional centers around the edge to accommodate that population, and I think the vacuum existed with the automobile, the growth of the metropolitan areas in the United States. And for the most part, that vacuum has been filled.

Where there is substantial growth, there will be new centers built. The retail centers at the center of the city still have within their radii more people with more purchasing power than any regional center in the area typically.

We did the Gallery at Market East in Philadelphia and I can remember in talking to one of the department stores before we even made the study, I said, "I'll make you a bet that there are more people with incomes over $15,000 a year"—that would now be like $20,000 or $25,000 a year—"within 10 minutes of 9th and Market Streets than within 10 minutes of any regional center of the Philadelphia metropolitan area." Then we made a study and it was overwhelmingly true, plus the fact that the center of the city has the enormous advantage of the office workers, all of the cultural and institutional activities. The center of the city is not diminished in retailing because of the regional shopping centers. it's diminished in retailing because it's obsolete and the center of most cities, if made to function effectively, is an overwhelmingly superior competitor than any regional center in the area.

Representative REUSS. Mayor Goldway, did you want to add something to that?

Mayor GOLDWAY. My experience in our city is that it's terribly important to plan for people to live in the central cities as well. Otherwise there are problems of isolation on the streets at night and crime. Shopping centers can be effective but if people are not living in the downtown as well you won't have a successful downtown center.

Representative REUSS. That's what I've been saying. You need not only shops for people but people for shops. That's a perfect combination.

Mr. NORRIS. I've already expressed my admiration for what Control Data has been doing as outlined in your statement. Without really knowing about it, I presume that Control Data's business today is less ebullient than Control Data's business before we had a recession in this country. As I say, I don't know, but it would be remarkable if you had been able to buck the trend.

My question is, therefore, is my general hunch about Control Data's business true; and, if so, how have you faced up to the cutback problem? Maybe you haven't had one.

Mr. NORRIS. Well, we've seen some segments of our business fall off in revenues simply because the economy is in recession. On the other hand, we haven't noticed any difference with respect to our programs in the inner city. Those needs are still there and we're still committed. The program funding hasn't changed as far as the commitment of Control Data. So the recession, if anything, has encouraged us to stimulate our efforts in addressing the problem of the needy.

SUPREME COURT DECISION

Representative REUSS. Mr. Muller, you spoke of the recent Supreme Court decision saying that local schools had to supply education to the children of illegal immigrants, a decision which was hailed by all liberals as a noble decision. You pointed out that the Court, in its wisdom, didn't provide any means of paying the teachers or heating the schools.

Mr. MULLER. That's one of the difficulties in the decision. As in the case of some regulations which came about over the last few decades the Federal Government imposes a requirement, in this case a court decision—and this was true in the educationally handicapped and bilingual education, et cetera—but Congress in its own wisdom has not appropriated the necessary funds to meet the requirement.

Now I believe no one would argue with the point that education is a very basic service and ought to be provided to all residents, be they legally or not legally. On the other hand, immigration is a Federal responsibility and I think a case can be made that where a large number of immigrants are concentrated in a small area some assistance ought to be provided by the Federal Government to aid these districts.

Historically, for example, we've had since 1952, I believe, Public Laws 814 and 874 which have provided Federal assistance to those areas where the Federal Government has large military facilities and it has been in effect up through a year ago. So there is substantial precedent for the concept where Federal policies or Federal requirements result in a very large outlay which typically is the responsiblility of local government some assistance will be provided.

So my view on the Supreme Court decision is that while, as you indicated, most people laud the merits of the idea these children require an education, there is some question as to what should be the responsibility and the proper role of the Federal or State government in this instance.

Representative REUSS. The Supreme Court could have, I presume, made a two-part ruling: one, children of illegals have to be educated; and second, since the illegals got there by virtue of the responsibilities and in some cases the defaults of the Federal Government, the Federal Government is herewith ordered to pony up the extra cost. That could have been done, couldn't it?

Mr. MULLER. That's my understanding. Now the court did specify that one reason it did not take such action, at least implicitly, is it did not know what the fiscal implications are of these immigrants. Now there's no real data that we have as to exactly what the net costs are. Most seem to pay taxes. We don't know what burdens they impose. There's been information from Illinois. In fact, we're going to be undertaking a study of this particular issue since so little is known about it. But there's no question that the court could have modified its decision along the lines that you suggested.

PUBLIC SECTOR ASSISTANCE NEEDED

Representative REUSS. We had what seemed to me very significant testimony by the mayor, Mr. Norris and Mr. Rouse on private sector cooperation. The testimony of the witnesses differed. Santa Monica tends to lean on the private sector which wants to take advantage of the comparative advantages of beautiful Santa Monica sitting on the sea. Jim Rouse has stressed love and affection toward the private sector which has worked extremely well, and Mr. Norris' company has stressed "do-it-yourself."

Each in its own way, it seems to me, is an excellent example of private sector cooperation. I now come to my question. Would you all agree that private sector cooperation by itself is not enough—that the various levels of government have to do their part in infrastructure, in health, in education, in taking care of the poor and all the other responsibilities of municipal life? Let's just ask Mr. Rouse whether he thinks the private sector can do it alone or substantially do it alone.

Mr. ROUSE. No, it can't. It can't possibly, and I think that I do hope, though—I think this still has to be regarded as hope—that as business faces up, as it must, to the situation in the cities, that it can think in the way Bill Norris has thought and begin to figure out in a much more imaginative and resourceful way how it can put its resources, its management capability, its special knowledge and capacity to work on behalf of human public social needs in the city.

There's a tremendous resource there and it's very possible to invent new processes and new ways of meeting the needs of the cities. I think we need to do it.

Before this administration, even under the leadership of as noble a cabinet member as we have here, the cities were in lousy shape in the United States and we had to do something a lot better about it, and if there's any perverse gain—and I think there is—in the current situation, it's that the business community, having been so extensively responsible and in accord with this administration, now can be drawn to accept a responsibility that it heretofor hasn't recognized as being its own.

There are very few examples in the United States like Control Data and yet the potential within the American corporate industrial mechanism for assistance to the cities is enormous. If everybody was thinking and innovative like Bill Norris, by gosh, it would be a new day in the city, and I also have to say with some caution that I applaud the initiative of Mayor Goldway. I think cities have got to demand more, have the right to demand more. Cities have got to see themselves as being in the business of city. They've got to see what they have as a resource to be used, a potential to be developed. They've got to preside over it and when they're making deals with developers they've got to demand a part of the action and see themselves as developers of the city and that spirit, combined with a new spirit on the part of the private sector, can result in a sparkling new relationship and new gains in providing a better life and better environment in the city.

Representative REUSS. That's very interesting. Mayor Goldway has testified that although a developer came in and wanted to just build an office and condominiums, however, before they were through they were building daycare centers and reading rooms for the old folks and moderate income housing and so on.

You're a developer. Does it bother you to be leaned on?

Mr. ROUSE. I have to say I speak with some caution because we happen to be a developer in Mayor Goldway's city.

Mayor GOLDWAY. They were leaned on by the Coastal Commission to some degree.

Mr. ROUSE. Santa Monica Place, which we developed in the heart of Santa Monica, is a demonstration for the potential for recovery of retail business in the heart of the city. This was done under the previous administration of Mayor Goldway and I expect the demands that would have been made upon the company would have have been much more severe under Mayor Goldway, but I now have a new company and we are developing the waterfront in Norfolk, Va., and this was a project that would not have occurred under the conventional combination of city development; but by working with the city on how this could be done and bringing in the banks—the bank put in money, the city put in money—the city has 50 percent of the cash flow from the project—that little project on the Norfolk waterfront on the basis of a forecast of its cash flow will—the city is putting up money and taking a risk and no developer would have undertaken it on the conventional method—that I think the city will wind up in 30 years in getting $25 million in taxes, all of its money back at 11.75 percent interest, and I think it will make a profit, the forecast says, of $48 million. That's a city going in business to make something happen and requiring a lot of the developer also. There's got to be more innovations like this.

Mayor GOLDWAY. Chairman Reuss, several of the developers in Santa Monica, while reluctant at first, have agreed ultimately that the conditions we required will make better financial sense if the long-term financial benefits of the project are measured as opposed to the short-term capital gains.

Mr. ROUSE. That's sound philosophy.

Representative REUSS. Mr. Norris, would you agree that private sector cooperation—even the imaginative and massive kind that has been testified to this morning—alone is not enough; that it takes a substantial Federal contribution to make it work?

Mr. NORRIS. Certainly, there's soundness there, but I would stress that it is the private sector, particularly businesses, that have most of the resource of planning, management, technology, professional, and so forth. And, therefore, it ought to take the initiative and it's been our experience when you do that you find vigorous activity in all levels of government, including the Federal up to the extent of their pocketbook.

Representative REUSS. In your judgement, if the enormous amount of mental agility and skill now being shown in this country by the thousands of highly educated people engaged in corporate takeovers, mergers, and acquisitions were turned to the private sector betterment of our cities, would that be a good thing?

Mr. NORRIS. Oh, no question about it. I think this is a real drag on our society, all these billions of dollars that are put in or used by one company to buy another. You're not creating anything and there's no question that that money, if put into urban development, would have enormous effect, Jim would be doing 10 times as much as he is today.

Representative REUSS. Any dissent from that statement by the member of the panel?

Mr. ROUSE. I think if one were king, he would deny this diversion of money and that, as Bill says, it performs no useful purpose when a steel company acquires an oil company which is kind of a turning away from making its steel business more effective and puts it into oil to make money because it abandons its incentive to be a more efficient steelmaker. Better put that money into making the steel business more effective than acquiring the oil company.

Representative REUSS. You wouldn't even need to be a king. All you'd need to do is deny the tax deductions on interest paid on money borrowed for the acquisition.

Mr. ROUSE. Right.

Represestative REUSS. Well, we are most grateful to you, Mayor Goldway and you, Mr. Muller, and Mr. Rouse, for a very fruitful morning discussion which the nub is that private sector cooperation is all important but that it also takes public sector cooperation. It takes two to tango in city life. Thank you very much.

We are now delighted to turn to the lady who presided over HUD in its golden age, Mrs. Patricia Harris. Secretary Harris, we're delighted to have you before us and I'm glad you were able to get a little bit of the good flavor that's floating around here this morning. Your statement is received in full, of course, in the record. Would you proceed?

STATEMENT OF PATRICIA ROBERTS HARRIS, FORMER SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mrs. HARRIS. Mr. Chairman, thank you for the opportunity to appear before you this morning. I wish I could say that the pleasure of being among old friends and familiar surroundings makes this visit a happy one. But it is no pleasure to attend the unveiling of Mr. Reagan's "approach" to urban problems.

As a nation, we can weather a sick economy and absorb the shocks of recession and depression; we can endure Mr. Reagan's saber-rattling, a common enough practice to distract people from domestic woes and excuse government inaction; we can suffer these years of social stagnation, and quietly and patiently work toward a renewal of commitment to justice. But we cannot survive the physical destruction of our cities. We simply do not have resources enough to replace them once they are gone. We cannot afford to throw away two centuries of planning and building.

Five years ago, Mr. Chairman, you reminded all of us that the city is worth saving, that cities in trouble mean a nation in trouble. The policy offered today represents more than a Federal abandonment of our cities. It is worse than that. It underscores this administration's decision to single out the disadvantaged of every age, race, and part of this country to make up the greatest sacrifices.

Behind these urban policies is nothing more than a short-sighted and mean-spirited attempt to convince the Nation that those who have little are too great a burden for those who have much. The Reagan administration has withdrawn support from people in need and now has officially pledged to end Federal commitments to the cities in which they live. No, this is hardly a happy day in the life of our Nation. It is a sad day for America's cities.

Mr. Chairman, for almost 50 years we have made the long but steady march toward social justice—what Franklin Roosevelt called "the simple and basic things that must never be lost sight of . . ." These are the words of the first political figure for whom I ever worked and they are as significant today as they were when the Commission put them down. And what are these goals as he described them?

Equality of opportunity for all; jobs for those who can work; security for those who need it; the ending of special privilege for the few; and the preservation of civil liberties for all. These are the elements of a just society. They are the least our people have a right to expect of their political and economic system.

We have, over the years, strengthened this commitment to justice, often regrettably prodded by the terrible price of injustice—the waste of human potential, the destruction of families, the deep frustration and anger which arise from lack of education, dilapidated housing, no jobs. We paid the price only 15 years ago when riots erupted in over 100 cities. More than 12,000 people were arrested. More than 4,000 people were injured. More than 100 lives were lost. And the cost of the damage reached billions.

The Douglas Commission warned:

> We must ease the tension between the central city and the suburb, between the rich and poor, and especially between black and white. Too few have recognized how these basic democratic issues are related to local government structure and finance, to zoning policies, land and housing costs, to national policies. . . . It is not really a question of whether we can afford to do the things we recommend. It is simply a matter of whether we still have faith in freedom, in equality, in justice, enough to make sacrifices in their cause.

But have we learned these lessons? How many more billions must be wasted, or lives lost, before the Reagan administration understands that economic and social justice is not a luxury we can live without, however inconvenient the cost? As we read this Reagan urban policy, I almost wonder if its authors live in this Nation. Surely, if they do, they must see the urgent need for continued Federal commitment to our cities. And if they do not, I will take pains to show them, to show all of you. Come with me and see the suffering endured within sight of this very building. Look, with me, at the faces of those condemned to hunger and disease, ignorance, and hate. See for yourselves if just one city, Washington, D.C., can afford to give up Federal aid and make a go of it on local resources alone.

The policy under review here today simply disregards the facts of life in America. And it insults us by its premise that national health, well-being, and prosperity are divorced from and independent of the health, well-being, and prosperity of our cities.

The Reagan administration would have us believe that cities are expendable, forgetting that they hold our complex society together. In the aggregate, the central cities of our Nation are where basic economic decisions are made; where financing is concentrated; where communications networks arise; where culture and entertainment thrive; and, yes, where government operates. Sacrifice the cities and we cripple the country.

And this is exactly where the Reagan policy points. Strip away the rhetoric and you have a proposal to abandon Federal involvement with cities. The proposed plan condemns them, and those who live in them to suffer from social and economic forces neither of their own making nor within their control—concentration of the poor; shrinking tax bases; deterioration of infrastructure; high energy costs; high interest rates.

The Reagan administration sees no Federal obligation to deal with consequences of these problems in our cities. Contrast the President's attitude toward cities with his attitude toward defense and it is apparent that this administration lacks any real conviction about America's urban future. Yet the problems of cities are no less a question of national defense than a threat posed by a foreign enemy. Our cities are crucial to our strength as a country. That is a simple and basic fact which we ignore at our greatest peril. It is a fact known by the American people, and one which they choose not to ignore.

As you know, as Secretary of HUD, I prepared the Nation's first comprehensive urban policy report in 1978. In preparing that report, unlike this administration, we asked Americans about government policies toward cities. Over 10,000 people helped prepare the first national urban policy. We held hearings around the country, took a poll, met nine times in the White House including meetings with the President and Vice President. The American people at that time showed an understanding of urban problems far beyond the vision of the present administration. Americans agreed that:

Federal spending should be directed to areas, people and local government of greatest need, even if this means that some areas receive more in Federal benefits than they pay in taxes and other areas receive less in benefits than they pay in taxes.

Federal and State taxes should be spent to help revitalize the economies of places in the U.S. which have been losing population and jobs.

The Federal Government should spend funds to help bring jobs to places where people are unemployed.

The Federal Government should attempt to influence the location of people and business within the United States in order to help assure that some areas of the country do not suffer long-term decline while others experience explosive growth.

Public opinion today remains ahead of public policy. The American people know that cities are not islands, unrelated to the society as a whole. They know that Federal leadership and commitment is crucial to urban success or failure. They expect leadership from their government and, if the President fails to provide it, it is even more important that you in Congress fill the breach.

If you were to ask me the major difference between the urban policy of 2 and 4 years ago and today's proposal, it would be simply this: Today the President of the United States and his policymakers do not care about our cities or the people who live in them. They do not care about the hardships caused by withdrawing Federal aid to jobs, housing, education, and basic health needs. They do not care if cities cannot fulfill the legitimate expectation of people for simple justice. And, as St. Augustine wrote, "If justice is taken away, what then is the city except a great robbery."

Every Member of Congress has two homes, his own and this great city. Look around you and ask yourselves if there is justice enough. As you see, people who want to work, are able to work, go without jobs—more than 30,000 people in our city. Among Washington's teenagers, more than one-half are unemployed, and in some neighborhoods three out of four are without jobs. Families here are without decent, affordable housing. One-tenth of this city—over 70,000 people—depend on continued Federal support for public housing which is threatened with a 40-percent cutback. The Reagan administration wants to eliminate all funding for construction of new and substantially rehabilitated low and moderate income housing—ending a 40-year Federal commitment to a decent home and living environment for every American.

Nutrition programs, food stamps, income security, maternal, and child care—the real safety net woven over the last two decades—is being torn apart, and the city's inability to bear the burden is ignored, lost amid the rhetoric about private sector and voluntary organizations coming to the rescue.

I have worked in the public service for most of my life, and I can say that the utter cynicism of this administration toward the effects of its policies is unsurpassed. Reading the President's urban policy is like reading "newspeak." Euphemisms like "streamlining," "sensible job training." "creative force of the private sector," "obstacles to local incentive"—all these add up to is the loss of billions of dollars in critical aid to cities.

There is not one piece of evidence that this administration hopes to reshape the forces that affect the prosperity of cities. Instead, we hear lip service paid to the need for private-public partnerships. But the two critical urban programs which help cities attract private investment have been cut back—community development block grants and the Urban Development Action Grant Program. If the Reagan administration wants to show its good faith toward urban policy, these programs would be restored to adequate funding levels. Congress should move immediately to consider cost-effective alternatives to expand the supply of low- and moderate-income housing.

And instead of the vague mention of a "practical jobs training program," people should be put to work repairing deteriorating roads, streets, and bridges in our cities which the Reagan administration acknowledges, but about which it proposes to do nothing.

If it truly means what it says about private sector involvement, the Reagan administration would lead the national business community to focus its resources on city problems. In the wake of the 1967 riots, the Nation's insurance companies put up $1 billion mortgage pool for investment in the cities.

If the President is so confident cities can create local private-public partnerships, then let it begin at the national level in the Oval Office. Let the first significant action of the President's Task Force on Private Sector Initiatives be a commitment to raise real dollars—a goal of $1 billion. Let's see the President practice what he preaches to the local governments, and demonstrate his active support for cities. Let him prove he believes in the cities' future by personally encouraging initiatives at the local level.

At the local level we must do all we can to improve the operation of government, to use limited resources as efficiently and effectively as possible, and to encourage the efforts of our citizens toward imaginative and creative enterprises.

But in the final analysis, what happens here, in these national halls, will largely determine the fate of American cities. We can turn away—as obviously President Reagan has—and the ultimate result, to quote Robert Kennedy, "will bring repression, steadily increasing human pain and civil strife, leaving a problem of far more terrible and threatening proportions" than what we face today. Mr. Chairman, we must fight for America's future.

The Nation's first black newspaper was published 150 years ago. It was called "Freedom's Journal" and its motto was "Righteousness exalteth a nation." In its first editorial the founders stated their social perspective: "We form a spoke in the human wheel, and it is necessary that we should understand our dependence on the different parts, and theirs on us in order to perform our part."

Mr. Chairman, America's cities, and particularly the people of the Nation's Capital, are ready to perform their part. Let us see to it that all parts perform in keeping with our deeply held principles and our national aspirations. Thank you very much for this opportunity to appear today.

Representative REUSS. Thank you, Mrs. Harris.

SOCIAL DARWINISM

Inherent in the administration's National Urban Policy is the idea that cities are subject to biological and social laws like the survival of the fittest and if things go badly, if industry closes or there are large numbers of unemployed or distressed people in the city, they can just migrate someplace else where conditions are better.

What would you have to say to that philosophy?

Mrs. HARRIS. Whatever may be the validity of Darwinism in general, social Darwinism is a very dangerous concept. Under that theory, the acropolis could fall. Under that theory we would not care what happens to the Sphinx.

It is in the nature of human beings that they preserve what they have created and in so doing seek to preserve the best that our society can provide. Certainly to say that people vote with their feet when there are people who do not have shoes in our cities is to suggest that we will leave them in conditions that are so unjust that it is unacceptable.

In addition, when we have a choice between actions by our government that will reduce suffering and those actions will cost us no more in either the short run or the long run that this laissez-faire—or as I call it all the time "fairly lazy"—approach to the real suffering of people, I cannot accept that theory of social Darwinism.

ENTERPRISE ZONES

Representative REUSS. Are you familiar with the administration's enterprise zone proposal?

Mrs. HARRIS. I am familiar with the series of proposals and with the description given in the urban policy report here. The details are shifting and unclear in my judgment, but I am familiar with what has been said about them.

Representative REUSS. Taking the matter as set forth in the urban policy report, do you have a reaction to it?

Mrs. HARRIS. Yes; I am of the opinion that were the urban enterprise zone to be added to that panoply of programs providing subsidies and aids that was in effect at the time this administration came in, that it could represent a forward movement.

When I was Secretary of Housing and Urban Development, we designed a program called the neighborhood strategy areas which provided for the concentration of Federal aid in particular areas. The only difference between that program and the urban enterprise zones is that there is Federal tax relief available and some, again not clearly specified, relief from some not specified regulations.

However, the enterprise zone by itself is not designed to encourage either those marginal businesses which have particular need for write-down of land cost, for subsidy of interest cost in this high interest period, or indeed for the support of neighborhood revitalization that requires such now abandoned programs as the 312 low interest loans. Standing alone, it is, to be as frank as I can, a fraud and a delusion.

MISTAKES IN URBAN ASSISTANCE

Representative REUSS. If you look back at the last 40 years in which the Federal Government under both Republican and Democratic administrations has displayed an interest in our cities, you find, in my view, many instances of great successes and some instances of failures; of mistakes.

Do you agree that mistakes have been made in urban policy in the last 40 years, from time to time?

Mrs. HARRIS. Yes, I do agree. However, there is no human institution from a marriage to the corporation which has not seen errors made. I for one have for many years been very critical of the original urban renewal program. Urban renewal programs were set in the highest goals for our city and in the long, as you can see from Southwest Washington nearby, have come forth with change that is on the surface desirable.

It has always been my opinion that mistakes were not reason to change the goals that led to the programs that were imperfect, but were the basis for learning. One of the reasons the urban development action grant was designed by us in HUD, as you will recall, early in the Carter administration in February of that administration in 1977, was we had learned from urban renewal that you do not clear first and bring business in later.

Our mistakes should be the tools for learning, not an excuse for abandonment of the goals that led to the imperfect programs.

Representative REUSS. It has been pointed out that in the past certain high rise public housing for families such as Pruit-Iago in St. Louis, which eventually got demolished, was not well conceived.

Would you say that if the criticism is valid, as I happen to think it is, that the remedy is to cease building high rise, block-type, family public housing and concentrate on more effective types of public housing or to cut out public housing altogether?

Mrs. HARRIS. High rise public housing is an example of the refusal of certain political forces to acknowledge error before the error was made. I remember before I every came to Washington—and I've been here for 33 years—opposing the building of high rise housing for the poor under the public housing program because it was seen as acceptable to warehouse the poor. Such structures were built with all of the problems that were predicted.

It is not that we did not know. It is that we chose to concentrate housing for the poor in lower cost areas. It was very interesting to me to discover after I became Secretary that there was very strong opposition to the building of Pruit-Iago for family housing. This is not generally known, but many of the professionals in the Department, felt that it was a mistake.

Of course, the other side of that is that Pruit-Iago also received a number of architectural awards at the time it went up. I, for one, am not yet able to accept the suggestion that it was necessary to demolish Pruit-Iago. Pruit-Iago structurally was not unsound. It was demolished for social reason, not for structural reasons, and is another example of the way in which political forces who do not like the idea of public housing have used their own mistakes to cast doubt on the housing.

Obviously, from what I have said, since I never believed it should have gone up for family housing, I do not believe now, as I've been saying the last few months, that children and elevators should ever meet in low and moderate income families. I suppose if your family can afford a co-op on Park Avenue that that restriction would not exist. However, high rise public housing for the elderly works extremely well. So it is children, teenagers, and elevators in middle and moderate income housing that I would say we should never put together.

INFRASTRUCTURE ASSISTANCE

Representative REUSS. In the administration's Urban Policy Report with respect to infrastructure—streets, bridges, sewer, and water systems, ports and so on—it is said that the Federal Government ought to provide information to the cities and that for the present, at least, that is the extent of its role.

Do you think that the ruin that now besets so many American cities can, in fact, be effectively combated without rather substantial Federal financial aid?

Mrs. HARRIS. No; I do not. This is an emergency that we are rapidly rushing to. We could avoid the emergency if we were now to design capital maintenance and repair activities in our cities which I think I saw an estimate recently may cost us about $4 trillion, and our cities are about to fall in on themselves.

The Federal Government is the way we marshal our resources in this Nation and assign them on the basis of need.

Mr. Chairman, if you would indulge me for a moment, you asked me about public housing and I responded directly to your question, but there is another aspect to the public housing tragedy in this country and that is the move by the Reagan administration to reduce already inadequate operating subsidies for housing currently in place for people currently living in that housing by 40 percent. I must tell you I was never comfortable as HUD Secretary fighting for the maximum amount that we could get for operating subsidies. With the amount 40-percent-cut is rushing us toward a tragedy for people who now are only—what, you've changed it to 50 percent of the median—these are the poorest of the poor, and to reduce our support of housing we caused to be built, housing for which we have a continuing responsibility, is such an abandonment of the poor that it is beyond my intellectual ability to comprehend.

Representative REUSS. The reduction of these housing expenditures for other than new construction—namely, expenditures for repairing the roof if it leaks—is a particularly devastating kind of copping out of responsibility, is it not, because it's going to make slums of housing projects throughout the country?

Mrs. HARRIS. Well, it's going to excuse public housing authorities that are badly managed already in their failure appropriately to maintain them. Many of our public housing authorities do not manage well. New York manages to do a very good job and Plains, Ga., does a good job; but there are others in between that do not.

This will give an additional excuse. Also, it will mean that New York, which is a first-rate authority, will not be able to do the job that they have been doing under the most adverse circumstances because they won't have money. And these are poorest people in our community. It is also a tragedy because we will not be able to replace housing units because of the elimination of new construction in housing.

Representative REUSS. Mrs. Harris, you've made a real contribution to our set of hearings and we are very grateful to you.

Mrs. HARRIS. Thank you very much.

Representative REUSS. We now stand in recess until this time tomorrow morning when we will continue our hearings on the national urban policy.

[Whereupon, at 12:15 p.m., the committee recessed, to reconvene at 10 a.m., Tuesday, July 20, 1982.]

THE ADMINISTRATION'S NATIONAL URBAN POLICY REPORT

TUESDAY, JULY 20, 1982

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 2359, Rayburn House Office Building, Hon. Henry S. Reuss (chairman of the committee) presiding.

Present: Representatives Reuss, Mitchell, and Wylie.

Also present: James K. Galbraith, executive director; and Deborah Matz and Robert Premus, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE REUSS, CHAIRMAN

Representative REUSS. Good morning. The Joint Economic Committee will be in order for a continuation of its hearings on the administration's urban policy.

This morning we're going to concentrate on the fiscal plight of our cities—and fiscal plight it surely is. Cities generally have been forced to reduce services, and to increase taxes and fees, and still many cities, particularly large ones, are running severe deficits. States are having their own problems with the majority of them in deficit. Many of the fiscal problems of cities and States are due to situations brought about by the Federal Government. For instance, overall problems like the recession, and more specific ones like the recent Supreme Court decision compelling local school districts to serve the needs of the children of illegal immigrants while providing no financial help to serve those needs create and exaserbate fiscal stress.

The panel of witnesses this morning consists of people who have an outstanding reputation as students of municipal finance: John Petersen of the Government Finance Research Center of the Municipal Finance Officers Assocation; John Shannon of the Advisory Commission on Intergovernmental Relations; Felix Rohatyn of the Municipal Assistance Corp.; Philip Braverman of Chase Manhattan Bank; and J. Chester Johnson of Government Finance Associates, Inc. They will tell us why Federal assistance may conceivably be needed to counter the fiscal problems of the cities. In addition, there's also a role for Federal policy in equalizing capacity among the States.

According to the Advisory Commission on Intergovernmental Relations, Federal grants play a very small role in equalization. For example, in 1980, Alaska had the highest fiscal capacity and Mississippi had the lowest, yet Alaska received the second highest per capita dollar amount for urban programs, the highest for highways, and the third highest for social services; while Mississippi received per capita amounts that were 16th, 26th, and 16th respectively.

Likewise, South Carolina, which ranks 51st in terms of fiscal capacity, is 47th in terms of per capita assistance for urban programs, 37th in terms of highway assistance, and 22d in terms of Federal dollars per capita for social services.

All of the witnesses have supplied us with prepared statements which under the rule and without objection will be received in full and we would now like to call upon each one of them for an oral summary.

Mr. Rohatyn, would you start out? I understand that you have to leave shortly after 11 o'clock.

STATEMENT OF FELIX G. ROHATYN, CHAIRMAN, MUNICIPAL ASSISTANCE CORP., NEW YORK, N.Y.

Mr. ROHATYN. Yes, Mr. Chairman; I'll read rapidly. Mr. Chairman and members of the committee, I thank you for the opportunity to speak to you on the health of our cities and on the administration's urban policy report.

Like the administration, I agree that a healthy economy is a necessary first step to healthy cities. But unlike the administration, I do not believe the responsibility of our National Government stops there.

For more than a year now, we have both witnessed and participated in this country's most radical economic and social experiment since the New Deal. Its aims were impeccable. Lower taxes and lower Government spending, reduced inflation, reduced regulations, a stonger defense. But the application of the program was incoherent and the results, so far, are rather frightening.

Even though changes in direction were clearly required in our consumption and investment patterns, in our runaway social costs, and in our dismal productivity record, the remedy in some respects has turned out to be worse than the disease. Interest rates have remained prohibitive while unemployment has soared, Federal deficits have risen higher and higher and the financial structure of States, cities, and of entire industries and regions of the country have become dangerously fragile. A dramatic lowering of the inflation rate has indeed been achieved but mostly be creating a steep recession and as a result of luck with food and energy prices. How to create growth without inflation remains as elusive as ever.

Many of our most serious chronic problems will continue to deteriorate unless a different Government philosophy is applied. Supply-side economics and monetarism both foster the notion that abstract and impersonal market forces can turn our economy around and resolve our many problems. But "hands-off" Government is not an acceptable or effective policy for troubled times. For the first time since World War II, we have a worldwide economic contraction, together with real deflationary forces superimposed on fragile financial structures. Industries, financial institutions and a host of governments find themselves overburdened with debt and without sufficient cash flow to service their obligations, much less for investment in the future. The effects are being felt by million of individuals, their families, their communities and whole regions of the country.

A "hands-off" government cannot revive the economy, keep inflation down, deal with our regional and industrial problems, our chronic poverty and education problems, or reduce interest rates. These objectives can only be achieved by governments actively involved in a process of cooperation with business and labor.

"Hands-off" government did not save New York City; active New Yorkers, together with active government did. It would not have been possible without a reasonable level of interest rates and economic growth.

Every member of the community did his part. Everyone who was part of the problem was also part of the solution. Political courage on the part of the Governor and legislative leaders in Albany; a new mayor willing to face reality and live within his means; responsible labor leadership with a keen understanding of the havoc that a bankruptcy would wreak on their members and their retirees; the financial and business leadership heavily involved; forebearance on the part of New Yorkers whose services were heavily eroded.

Business-labor-government cooperation coupled with courageous political leadership saved New York City. I believe this can apply to other cities, and to the nation as a whole as well, even though the current theology is just the opposite.

Any program of national recovery must start with an accord among the President, the Congress and the Federal Reserve that will credibly balance the budget over a finite time period and result in significantly lower interest rates quickly. We need leadership from the President, and cooperation in the Congress and on the part of the Fed. A budget resolution is not enough. The budget package must be credible and long-range. There must be a credible slow down in defense growth and recurring, growing revenue measures such as energy taxes. The growth in indexed entitlement programs such as social security must be curbed. Neither the Senate nor the House Resolution have realistically addressed any of these issues. The financial markets are not illiterate; we will need better than just a set of numbers that ignores the real world.

We are witnessing a similar pursuit of form over substance on a grander scale with the call for a constitutional amendment for a balanced budget. The idea of providing Congress with a plausible excuse to do the right thing is obviously appealing. However, distracting the country over the next few years with such a proposal is too high a price to pay for an illusion. Because it is only an illusion: New York City has always had a balanced budget requirement; it never stopped anyone until the money actually stopped.

What we need now is an accord among the President, the Congress and the Fed. It will not solve all of our problems, but it could avoid imminent disaster.

Once we have stopped the current dangerous downward slide, we can turn to more basic problems. We must restructure our basic industries, we must rebuild our cities, and we must dispel our current illusion that the energy crisis is over.

Some terribly destabilizing tides are running in this country, regionally, socially, industrially. The danger in relying solely on the market system to provide adjustments is that the market system does not provide the leadership to act until it is too late. The automotive industry, both management and the U.A.W. waited until Chrysler was effectively bankrupt, the rest of the industry on its knees, and 300,000 people laid off, before beginning—and it is only that—a new relationship.

New York City lost 500,000 manufacturing jobs, 1 million taxpayers had an operating deficit of $1½ billion annually and $6 billion of short-term debt before we restructured the city. And New York is not alone.

During the last decade, Chicago lost 12 percent of its population, Baltimore 14 percent, Cleveland 24 percent, and St. Louis 28 percent. The proportion of taxpayers moving out was undoubtedly greater.

During the same period some of the most important American industries have been failing badly.

The industrial locomotives that have driven this country for the last century are in the throes of a self-eviscerating cycle. Racked by high interest rates and continued weak demand, beset by harsh foreign competition, unable to raise the vast amounts of capital needed to modernize, they live from hand to mouth, shortchanging the future in order to survive today. They are affected by deep structural shifts not only in regional prosperity, but in the basic nature of American work.

We are deluding ourselves if we believe this erosion will be limited to our older industries. From computers to microchips, from aircraft to video games, we are going to be subjected to fierce attacks from Japan and elsewhere. Even today, we might see distress in certain areas of electronics not dissimilar to our older industries, if some companies had not been acquired by giant companies such as Schlumberger and United Technologies.

Allocating blame for all these trends is easy—there is enough for everyone. Government policies and programs have been costly and ill-advised, particularly with respect to energy, especially the cowardly avoidance of taxing gasoline at much higher rates. Weak managements and short-sighted unions have collaborated in the development of inefficient organizations whose costs are high and productivity low.

It is no coincidence that the cities under the greatest strain are tied to the industries in the most severe difficulty, particularly in the region extending today from Baltimore to St. Louis, but elsewhere as well. The dismal performance of the economy, together with last year's tax and budget cuts, have created enormous fiscal pressures on local governments in practically all but the energy-producing regions of the country.

The State of Ohio, which recently passed a tax increase of $1.3 billion together with budget cuts to close its budget gap, now faces a new additional deficit of about $1 billion as a result of the recession; New York City, coming off a $250 million surplus in the current fiscal year, is raising taxes and freezing employment levels to cope with a potential $800 million gap next year. The State of New York is considering similar actions for the same reason. Whereas 4 years ago the Municipal Assistance Corp. was selling long-term bonds to finance New York City's capital budget at 7.5 percent interest, we are doing so today, with increasing difficulty, at over 14 percent free of city, State, Federal income taxes. This situation is repeated in city after city, State after State.

This is not just a "snow belt/sun belt" phenomenon. The administration's urban policy report says that distressed cities are found in every region of the country. The same report notes that regional income differences have declined sharply, but within regions the gap between the fortunate and the needy is wide. The median income of central cities is barely two-thirds of the surrounding suburbs. Even well-managed State and local governments are strapped. The State of California, facing a budget deficit originally estimated at over $1 billion, has cut aid to cities and counties by $270 million and made other cuts in education and medical care. Many cities in the sun belt suffer fully as much from unemployment, poor housing, poverty and limited economic opportunities as the cities in the Northeast and Midwest.

Existing trends are likely to aggravate rather than attenuate this situation; the result of another decade like the last one will be to divide individual cities and the country as a whole into "have" and "have-not" regions, with unpredictable but probably highly unpleasant consequences. Other than 11 energy-producing States, every State in this country is facing budgetary difficulties. In these trends is the making of social strife.

At the same time, with much of State and local government in terrible straits, the administration brought forth a proposal for a new federalism that even the administration now recognizes as unacceptable; it was a plan that burdened our budgets with billions of dollars in additional programs, but without permanent new revenues.

This country's goals must be twofold: First, to have a functioning economy, with stable growth and emphasis on the creation of private sector jobs; and second, to have all elements of our society and all regions of the country participate in that growth as fully as possible.

The United States today in its basic industries needs a second industrial revolution. The notion of "backing the winners instead of the losers" is facile as it is shallow. The thought that this Nation can function while writing off basic industries to foreign competition is nonsense.

We must be realistic about how badly our basic industries have slipped when judgments are made about such issues as protectionism, Government regulations, tax relief, and management and labor agreements. But realism must not be an excuse for inaction. The motto cannot be "back the losers" but rather "turn the losers into winners."

This kind of economic revitalization is obviously essential to healthy cities and it requires sound macroeconomic policies, but there are other tasks as well for Government. Government at all levels is the nursery of industry; it provides the economic infrastructure—the roads, the ports and harbors, and the communications and transportation networks—that enables business to function.

The administration's draft urban policy report seems to take a different view. Other levels of Government with weaker tax bases, as well as neighborhood groups and volunteers are to assume tasks now borne and paid for by the Federal Government: Maintaining infrastructure; providing housing; fostering energy conservation; and job training. In areas such as these, responsibility would pass from Washington to already burdened States, cities, and towns. But, the administration's plan will not provide the tax revenues to go along with them; the plan is, therefore, basically flawed.

The administration fears that State and local governments will become dependent upon Federal aid to the detriment of self-reliance. They are mistaken. A Federal role must not be equated with a Federal role. The quality of our cities cannot depend solely upon the happenstance of political boundaries and tax bases. The administration report correctly points out that "Central city fiscal problems may be the product of arbitrary boundaries and inadequate State and metropolitan fiscal equalization policies." However, the Federal Government should use its boundary changes instead of simply washing its hands of the problem. The problem will not go away and benign neglect will have anything but benign effects.

First, we need a fair federalism. It should provide for Federal assumption for the financing of all poverty programs—welfare, medicaid, food stamps—and transfer funding and full authority to the States and localities those programs they already administer or are capable of managing. But the administration and funding are different matters. Permanent revenues should be provided to the States to make up any net loss resulting from such a swap and local tax reduction should be an objective. Revenue sharing should be increased, not cut. Too many States are going through an endless cycle of service reductions and tax increases. They cannot be forced to pay for programs in which there is an important national interest from local tax bases, some of which are ample and others not. The present proposal does not meet these goals. A new and fair federalism is needed. It should be done right and it should be done soon.

Second, to redevelop the parts of the Nation that need help, as well as to provide a safety net for any of our major financial institutions in a sudden emergency, a Reconstruction Finance Corporation should be created for the 1980's. The original RFC was created by Herbert Hoover—not exactly a liberal spokesman—in 1918. Under Franklin Roosevelt, it was run by the Texas businessman, Jesse Jones. The RFC of the 1930's saved numerous banks, some cities, and many businesses and prevented much larger dislocations from taking place. It financed a vast number of defense plants as well as the development of synthetic rubber during World War II. And it made money for the taxpayer.

In order to see that an RFC is justified, we need only look at how Government works without one. The case of Chrysler is an example of how not to proceed. Providing Government-guaranteed loans at close to 20-percent interest to a company which has too much debt and no net worth can buy some time, but little else. Companies like Chrysler needs permanent equity capital in the form of new common stock. Only equity capital can help make a company's survival credible, and impel other participants—the unions, the lender, the suppliers—to make the major efforts and sacrifices that have to be made if they are going to be put back in shape.

Chrysler is hardly an isolated case. A good many large industrial companies, airlines, savings and loan associations, and possibly banks could be in serious difficulties if we cannot break out of our current economic straitjacket of high interest rates, low growth, and low productivity. Instead of improvising expensive half measures in the heat of crises and politics, we should have a safety net to deal with an economic emergency affecting a number of large organizations at the same time.

We have to be realistic about the fragility of many of our larger financial institutions. They are cause for serious concern. We do not know how much of the capital of the FDIC or the FSLIC has been committed to the rescues of those banks and savings institutions affected so far. We do know that the number of savings institutions which may have to be rescued down the road is several times in excess of what has been done so far, and the amounts required may be considerable.

The international financing situation creates other types of risk. An unexpected default by a large debtor like Argentina, caused by political rather than economic events, could create both liquidity and capital problems for some of our large banks. The Federal Reserve Bank could handle the liquidity problem but only an RFC-type institution could handle the capital problem.

Those of us who have been involved in major financial problem situations know how critical it is to contain a financial crisis before it spreads. We need an RFC as a financial insurance policy, which was the basis for its reactivation in 1932.

An RFC could also play a major part in an urban capital reconstruction policy. Throughout the country, city after city faces budgetary problems and crumbling infrastructure. The Boston Transit System was recently shut down for lack of funds; the New York MTA operates a subway system so old that it poses physical dangers, and it will need $15 million over 10 years to provide adequate service. Across the country, bridges and sewers, sanitation and mass transit, schools and firehouses have all been allowed to deteriorate. The RFC could provide low-interest, long-term loans to enable municipalities to maintain their physical plants. By improving the quality of city life, such investments would help to retain taxpayers while providing jobs to help the existing tax base. As in the case of industrial investments, the RFC could ask for participation by other parties: the various States, business, and the local labor unions and banks. As with industry, reform and restructuring would, in many cases, have to be the quid pro quo for receiving capital on favorable terms.

One of the unexpected effects of last year's tax legislation was to destroy the traditional subsidy to local government financing—the municipal bond market. By last December, the advantages of the tax exemption on interest had shrunk to the point that municipal bonds were yielding only 1 percentage point less than long-term Treasury bonds. To balance a Federal approach that already requires local governments to bear a larger burden of operating costs, there must be means to reduce the cost and increase the availability of capital. Capital is needed to reduce costs and increase productivity in government as much as in private industry. The RFC could provide it.

And the RFC could do so affordably. As you well know, the history of Federal grant and development funds, whether from the Economic Development Administration [EDA] or elsewhere, has been the constant victory of the politically influential over the truly needy. EDA grants were originally intended to be highly targeted, but under the political pressures faced by a Cabinet department, exceptions were made and standards relaxed until 90 percent of the Nation was eligible. We simply don't have the resources to finance everything; and I believe the choice we face is either to continue the dilution of our efforts or to create an independent agency like the RFC that can say "No" when necessary to focus on our real problems.

But RFC assistance must be temporary. It should act as a revolving fund which can be used when necessary, and whose holdings should be sold in the marketplace when it has done its job. The RFC is not a permanent dole; it is a temporary bridge. It should self-destruct after a maxium of 10 years.

The RFC, of course, will be said to interfere with the free market system. But, at present, the price of our energy is not freely set, nor is the price of our food, or the price at which we must borrow money. Free markets are clearly desirable, but we do not in fact live in a free market economy and never will. We live in a mixed economy in which prices and capital are, and will be, subject to government influence and to agreements between labor and business.

The administration's proposal to set up "enterprise zones" indicates a recognition that a serious problem exists and that it must be addressed. The program has merit and should be put into effect. It is, however, only a drop in the bucket. It clearly lacks the horsepower that is required by the magnitude of the problem.

If it were high taxes that kept business out of the South Bronx, perhaps the enterprise zone might ultimately be sufficient. However, taxes are too small a part of overall costs to be nearly as important as whether factory and office facilities and transportation are adequate and convenient, the marketplace close by, the work force able and the neighborhood safe. Some—but by no means all—of these problems can be overcome by a judicious use of government funds, to help construct needed facilities and infrastructure and, by negotiating with private institutions, to leverage government participation with other equally important contributions by others.

This cannot be done by the Tax Code, for books of regulations do not negotiate. Nor can it be accomplished by a government agency that must say "Yes" to every request from a powerful politician. It requires an independent agency of limited duration, but real authority.

The United States today is a country in transition. It is in transition from being the world's dominant military power to sharing that power with the Soviet Union; it is in transition from an industrial to a service society; from being a predominantly white, northern European society based in the Northeast and Midwest to being a multiracial society with its center of gravity in the Sun Belt. A society in transition cannot be governed by a rigid dogma. On the contrary, it requires a government that is flexible, pragmatic, even sometimes deliberately ambiguous. Shared values must be clear, but the means to the end cannot be rigid.

The critical issues we face today are not simply the levels of interest rates or what kind of package finally comes out of budget negotiations. These things are important, but they must not obscure the real issues. The problems of our cities, of our older industries, of our growing and permanent underclass have to rank high on any list.

Today's conservative experiment will fail because it has no relevance to the world we live in, just as yesterday's liberalism failed for somewhat different reasons. The appropriate role of government remains the major unanswered question and we are soon going to run out of time for experiments.

Today, we are all looking for permanent and perfect answers to excrutiatingly complicated problems. In government and public life, there may not be any such thing as the right answer. There may, at best, exist a process whereby trends can be affected and the direction of social and economic behavior temporarily influenced. This is the antithesis of the planned, central domination of government, but it means government committed to oppose destabilizing trends before they become floodtides.

And it is a process that must include the major institutions and constituencies of our society—political, labor, and business.

The answers to our problems, imperfect and temporary that they may be, must come from such a process.

There is no reason why a hardheaded liberalism cannot live with the reality that we cannot spend ourselves into bankruptcy.

There is no reason why an economy geared mostly to private sector growth cannot, at the same time, permit limited government intervention where needed, such as a modern version of the Reconstruction Finance Corporation.

There is no reason why limited and temporary protection for our hard-hit industries cannot be conditioned on restrained wage and price behavior by labor and management.

There is no reason why large savings cannot be effected in defense, and particularly in reducing nuclear delivery systems, if we are willing to pay the price of better supported conventional forces and the distasteful possibility of a peacetime draft.

One must admit, however, that although there is no reason why these results cannot be achieved, we must be realistic about the political difficulty of bringing this about. Without the active support of the American people and a process which encourages the active cooperation of business, labor, and government, it will not happen.

Cities have traditionally provided the bottom rungs for all those trying to climb the ladder of opportunity. They have provided a working environment for people of various religions, races, backgrounds to live side by side and create the stuff a democracy is made of. The aspiration of minorities are not dissimilar, the dream of Martin Luther King can be found in the Diary of Anne Frank. It is in the cities that these dreams can find fulfillment, but only in cities that live. Cities that are abandoned by the well-to-do are dying cities, and that is now happening all over the country.

The President last week chose the city of Baltimore's Inner Harbor project area as the place to present his revised New Federalism and to argue for a reduced Federal role in our cities. It is interesting to note that the project at which he spoke was crucially dependent on the very government programs he criticized as unnecessary and pernicious. Baltimore is a shining example of partnership between the Federal and local governments.

Equally important to Baltimore's success is the extraordinary cooperation between the city government and the business and labor community. Baltimore's success is an example, not of an imaginary independence, but of an active partnership. It is an example from which we have much to learn. Thank you, Mr. Chairman.

[The prepared statement of Mr. Rohatyn follows:]

Prepared Statement of Felix G. Rohatyn

Mr. Chairman, members of the Committee, I thank you for the opportunity to speak to you on the health of our cities and on the Administration's urban policy report.

Like the Administration, I agree that a healthy economy is a necessary first step to healthy cities. But unlike the Administration, I do not believe the responsibility of our national government stops there.

For more than a year now, we have both witnessed and participated in this country's most radical economic and social experiment since the New Deal. Its aims were impeccable. Lower taxes and lower government-spending, reduced inflation, reduced regulations, a stronger defense. But the application of the program was incoherent and the results, so far, are rather frightening. Even though changes in direction were clearly required in our consumption and investment patterns, in our runaway social costs, and in our dismal productivity record, the remedy in some respects has turned out to be worse than the disease. Interest rates have remained prohibitive while unemployment has soared, federal deficits have risen higher and higher and the financial structure of states, cities and of entire industries and regions of the country has become dangerously fragile. A

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DRAMATIC LOWERING OF THE INFLATION RATE HAS INDEED BEEN ACHIEVED BUT MOSTLY BY CREATING A STEEP RECESSION AND AS A RESULT OF LUCK WITH FOOD AND ENERGY PRICES. HOW TO CREATE GROWTH WITHOUT INFLATION REMAINS AS ELUSIVE AS EVER.

MANY OF OUR MOST SERIOUS CHRONIC PROBLEMS WILL CONTINUE TO DETERIORATE UNLESS A DIFFERENT GOVERNMENT PHILOSOPHY IS APPLIED. SUPPLY-SIDE ECONOMICS AND MONETARISM BOTH FOSTER THE NOTION THAT ABSTRACT AND IMPERSONAL MARKET FORCES CAN TURN OUR ECONOMY AROUND AND RESOLVE OUR MANY PROBLEMS. BUT "HANDS-OFF" GOVERNMENT IS NOT AN ACCEPTABLE OR EFFECTIVE POLICY FOR TROUBLED TIMES. FOR THE FIRST TIME SINCE WWII, WE HAVE A WORLD-WIDE ECONOMIC CONTRACTION, TOGETHER WITH REAL DEFLATIONARY FORCES SUPERIMPOSED ON FRAGILE FINANCIAL STRUCTURES. INDUSTRIES, FINANCIAL INSTITUTIONS AND A HOST OF GOVERNMENTS FIND THEMSELVES OVERBURDENED WITH DEBT AND WITHOUT SUFFICIENT CASH FLOW TO SERVICE THEIR OBLIGATIONS, MUCH LESS FOR INVESTMENT IN THE FUTURE. THE EFFECTS ARE BEING FELT BY MILLIONS OF INDIVIDUALS, THEIR FAMILIES, THEIR COMMUNITIES AND WHOLE REGIONS OF THE COUNTRY.

A "HANDS-OFF" GOVERNMENT CANNOT REVIVE THE ECONOMY, KEEP INFLATION DOWN, DEAL WITH OUR REGIONAL AND INDUSTRIAL PROBLEMS, OUR CHRONIC POVERTY AND EDUCATION PROBLEMS, OR REDUCE INTEREST RATES. THESE OBJECTIVES CAN ONLY BE ACHIEVED BY GOVERNMENTS ACTIVELY INVOLVED IN A PROCESS OF COOPERATION WITH BUSINESS AND LABOR.

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"HANDS-OFF" GOVERNMENT DID NOT SAVE NEW YORK CITY; ACTIVE NEW YORKERS, TOGETHER WITH ACTIVE GOVERNMENT, DID. FROM 1975 TO 1981, WE TURNED AN ANNUAL OPERATING DEFICIT OF $1.7 BILLION TO A SURPLUS OF $250 MILLION AND BROUGHT $6 BILLION OF SHORT-TERM DEBT DOWN TO ZERO. TO CLOSE THE BUDGET GAP, WE ENACTED TEMPORARY INCREASES IN TAXES. WE NEGOTIATED WAGE DEFERRALS AND A WAGE FREEZE WITH OUR MUNICIPAL UNIONS. WE SHIFTED $100 MILLION ANNUALLY IN PENSION COSTS FROM THE CITY BACK TO THE WORKERS. THE BANKS AND THE UNION PENSION SYSTEMS ACQUIRED $3 BILLION IN N.Y.C. AND M.A.C. BONDS. THE CITY ESTABLISHED TUITION AT THE CITY UNIVERSITY FOR THE FIRST TIME IN 120 YEARS. TRANSIT FARES WERE RAISED. THE STATE ASSUMED THE COSTS OF HIGHER EDUCATION AS WELL AS COURTS AND CORRECTION. AND THE FEDERAL GOVERNMENT GUARANTEED A SMALL, BUT SYMBOLICALLY IMPORTANT PORTION OF OUR DEBT. RIGID CONTROL ON THE EXPENDITURE SIDE OF OUR BUDGET TOGETHER WITH THE GROWTH RESULTING FROM A BUOYANT ECONOMY WAS THE FORMULA FOR OUR SUCCESS. IT WOULD NOT HAVE BEEN POSSIBLE WITHOUT A REASONABLE LEVEL OF INTEREST RATES AND ECONOMIC GROWTH.

EVERY MEMBER OF THE COMMUNITY DID HIS PART; EVERYONE WHO WAS PART OF THE PROBLEM WAS ALSO PART OF THE SOLUTION: POLITICAL COURAGE ON THE PART OF THE GOVERNOR AND LEGISLATIVE LEADERS IN ALBANY; A NEW MAYOR WILLING TO FACE REALITY AND LIVE WITHIN HIS MEANS; RESPONSIBLE LABOR LEADERSHIP WITH A KEEN UNDERSTANDING OF THE HAVOC THAT A BANKRUPTCY WOULD WREAK ON THEIR MEMBERS AND THEIR RETIREES; THE FINANCIAL AND BUSINESS LEADERSHIP HEAVILY INVOLVED; FOREBEARANCE ON THE PART OF NEW YORKERS WHOSE SERVICES WERE HEAVILY ERODED.

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Business-labor-government cooperation coupled with courageous political leadership saved New York City. I believe this can apply to other cities, and to the nation as a whole as well, even though the current theology is just the opposite.

First Step: Agreement to Reduce Deficits and Interest Rates

Any program of national recovery must start with an accord among the President, the Congress and the Federal Reserve that will credibly balance the budget over a finite time period and result in significantly lower interest rates quickly. We need decisive leadership from the President, and cooperation in the Congress and on the part of the Fed. A budget resolution is not enough. The budget package must be credible and long-range. There must be a credible slow down in defense growth and recurring, growing revenue measures such as energy taxes. The growth in indexed entitlement programs such as Social Security must be curbed. Neither the Senate nor the House Resolution have realistically addressed any of these issues. The financial markets are not illiterate; we will need better than just a set of numbers that ignores the real world.

We are witnessing a similar pursuit of form over substance on a grander scale with the call for a Constitutional amendment for a balanced budget. The idea of providing Congress with a plausible excuse to do the right thing is obviously appealing.

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HOWEVER, DISTRACTING THE COUNTRY OVER THE NEXT FEW YEARS WITH SUCH A PROPOSAL IS TOO HIGH A PRICE TO PAY FOR AN ILLUSION. BECAUSE IT IS ONLY AN ILLUSION: N.Y.C. HAS ALWAYS HAD A BALANCED BUDGET REQUIREMENT; IT NEVER STOPPED ANYONE UNTIL THE MONEY ACTUALLY STOPPED.

WHAT WE NEED NOW IS AN ACCORD AMONG THE PRESIDENT, THE CONGRESS AND THE FED. IT WILL NOT SOLVE ALL OF OUR PROBLEMS, BUT IT COULD AVOID IMMINENT DISASTER.

NEXT STEPS: FACING BASIC PROBLEMS

ONCE WE HAVE STOPPED THE CURRENT DANGEROUS DOWNWARD SLIDE, WE CAN TURN TO MORE BASIC PROBLEMS. WE MUST RESTRUCTURE OUR BASIC INDUSTRIES, WE MUST REBUILD OUR CITIES, AND WE MUST DISPEL OUR CURRENT ILLUSION THAT THE ENERGY CRISIS IS OVER.

SOME TERRIBLY DESTABILIZING TIDES ARE RUNNING IN THIS COUNTRY, REGIONALLY, SOCIALLY, INDUSTRIALLY. THE DANGER IN RELYING SOLELY ON THE MARKET SYSTEM TO PROVIDE ADJUSTMENTS IS THAT THE MARKET SYSTEM DOES NOT PROVIDE THE LEADERSHIP TO ACT UNTIL IT IS TOO LATE. THE AUTOMOTIVE INDUSTRY, BOTH MANAGEMENT AND THE U.A.W., WAITED UNTIL CHRYSLER WAS EFFECTIVELY BANKRUPT, THE REST OF THE INDUSTRY ON ITS KNEES, AND 300,000 PEOPLE LAID OFF, BEFORE BEGINNING -- AND IT IS ONLY THAT -- A NEW RELATIONSHIP.

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NEW YORK CITY LOST 500,000 MANUFACTURING JOBS, ONE MILLION TAXPAYERS, HAD AN OPERATING DEFICIT OF $1-1/2 BILLION ANNUALLY AND $6 BILLION OF SHORT-TERM DEBT BEFORE WE RESTRUCTURED THE CITY. AND NEW YORK IS NOT ALONE.

DURING THE LAST DECADE, CHICAGO LOST 12 PERCENT OF ITS POPULATION, BALTIMORE 14 PERCENT, CLEVELAND 24 PERCENT, AND ST. LOUIS 28 PERCENT. THE PROPORTION OF TAXPAYERS MOVING OUT WAS UNDOUBTEDLY GREATER.

DURING THE SAME PERIOD SOME OF THE MOST IMPORTANT AMERICAN INDUSTRIES HAVE BEEN FAILING BADLY. AMERICAN MOTORS LOST $137 MILLION LAST YEAR. CHRYSLER AND FORD TOGETHER LOST A TOTAL OF OVER $1.5 BILLION. INTERNATIONAL HARVESTER AND KAISER STEEL LOST NEARLY A HALF BILLION DOLLARS EACH.

THE INDUSTRIAL LOCOMOTIVES THAT HAVE DRIVEN THIS COUNTRY FOR THE LAST CENTURY ARE IN THE THROES OF A SELF-EVISCERATING CYCLE. RACKED BY HIGH INTEREST RATES AND CONTINUED WEAK DEMAND, BESET BY HARSH FOREIGN COMPETITION, UNABLE TO RAISE THE VAST AMOUNTS OF CAPITAL NEEDED TO MODERNIZE, THEY LIVE FROM HAND TO MOUTH, SHORT-CHANGING THE FUTURE IN ORDER TO SURVIVE TODAY. THEY ARE AFFECTED BY DEEP STRUCTURAL SHIFTS NOT ONLY IN REGIONAL PROSPERITY, BUT IN THE BASIC NATURE OF AMERICAN WORK.

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WE ARE DELUDING OURSELVES IF WE BELIEVE THIS EROSION WILL BE LIMITED TO OUR OLDER INDUSTRIES. FROM COMPUTERS TO MICRO-CHIPS, FROM AIRCRAFT TO VIDEO GAMES, WE ARE GOING TO BE SUBJECTED TO FIERCE ATTACKS FROM JAPAN AND ELSEWHERE. EVEN TODAY, WE MIGHT SEE DISTRESS IN CERTAIN AREAS OF ELECTRONICS NOT DISSIMILAR TO OUR OLDER INDUSTRIES, IF COMPANIES LIKE FAIRCHILD SEMICONDUCTOR AND MOSTEK HAD NOT BEEN ACQUIRED BY GIANT COMPANIES SUCH AS SCHLUMBERGER AND UNITED TECHNOLOGIES.

ALLOCATING BLAME FOR ALL THESE TRENDS IS EASY -- THERE IS ENOUGH FOR EVERYONE. GOVERNMENT POLICIES AND PROGRAMS HAVE BEEN COSTLY AND ILL-ADVISED, PARTICULARLY WITH RESPECT TO ENERGY, ESPECIALLY THE COWARDLY AVOIDANCE OF TAXING GASOLINE AT MUCH HIGHER RATES. WEAK MANAGEMENTS AND SHORT-SIGHTED UNIONS HAVE COLLABORATED IN THE DEVELOPMENT OF INEFFICIENT ORGANIZATIONS WHOSE COSTS ARE HIGH AND PRODUCTIVITY LOW.

IT IS NO COINCIDENCE THAT THE CITIES UNDER THE GREATEST STRAIN ARE TIED TO THE INDUSTRIES IN THE MOST SEVERE DIFFICULTY, PARTICULARLY IN THE REGION EXTENDING TODAY FROM BALTIMORE TO ST. LOUIS, BUT ELSEWHERE AS WELL. THE DISMAL PERFORMANCE OF THE ECONOMY, TOGETHER WITH LAST YEAR'S TAX AND BUDGET CUTS, HAVE CREATED ENORMOUS FISCAL PRESSURES ON LOCAL GOVERNMENTS IN PRACTICALLY ALL BUT THE ENERGY-PRODUCING REGIONS OF THE COUNTRY. THE STATE OF OHIO, WHICH RECENTLY PASSED A TAX INCREASE OF $1.3 BILLION TOGETHER WITH BUDGET CUTS TO CLOSE ITS BUDGET GAP, NOW FACES A

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NEW ADDITIONAL DEFICIT OF ABOUT $1 BILLION AS A RESULT OF THE RECESSION; NEW YORK CITY, COMING OFF A $250 MILLION SURPLUS IN THE CURRENT FISCAL YEAR, IS RAISING TAXES AND FREEZING EMPLOYMENT LEVELS TO COPE WITH A POTENTIAL $800 MILLION GAP NEXT YEAR. THE STATE OF NEW YORK IS CONSIDERING SIMILAR ACTIONS FOR THE SAME REASON. WHEREAS FOUR YEARS AGO, THE MUNICIPAL ASSISTANCE CORPORATION WAS SELLING LONG-TERM BONDS TO FINANCE NEW YORK CITY'S CAPITAL BUDGET AT 7-1/2% INTEREST, WE ARE DOING SO TODAY, WITH INCREASING DIFFICULTY, AT OVER 14% FREE OF CITY, STATE, FEDERAL INCOME TAXES. THIS SITUATION IS REPEATED IN CITY AFTER CITY, STATE AFTER STATE.

THIS IS NOT JUST A "SNOW BELT/SUN BELT" PHENOMENON. THE ADMINISTRATION'S URBAN POLICY REPORT SAYS THAT DISTRESSED CITIES ARE FOUND IN <u>EVERY</u> REGION OF THE COUNTRY. THE SAME REPORT NOTES THAT REGIONAL INCOME DIFFERENCES HAVE DECLINED SHARPLY; BUT WITHIN REGIONS THE GAP BETWEEN THE FORTUNATE AND THE NEEDY IS WIDE. THE MEDIAN INCOME OF CENTRAL CITIES IS BARELY TWO-THIRDS OF THE SURROUNDING SUBURBS. EVEN WELL-MANAGED STATE AND LOCAL GOVERNMENTS ARE STRAPPED. THE STATE OF CALIFORNIA, FACING A BUDGET DEFICIT ORIGINALLY ESTIMATED AT OVER A BILLION DOLLARS, HAS CUT AID TO CITIES AND COUNTIES BY $270 MILLION AND MADE OTHER CUTS IN EDUCATION AND MEDICAL CARE. MANY CITIES IN THE SUN BELT SUFFER FULLY AS MUCH FROM UNEMPLOYMENT, POOR HOUSING, POVERTY AND LIMITED ECONOMIC OPPORTUNITIES AS THE CITIES IN THE NORTHEAST AND MIDWEST.

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IN AN ANALYSIS PUBLISHED EARLIER THIS YEAR IN THE NEW YORK TIMES, SEVEN OF 19 SUNBELT CITIES HAD WORSE HARDSHIP RATINGS THAN NEW YORK. THE SUN BELT'S GOLDEN GLOW CANNOT HIDE THE DIFFICULTIES FACED BY NEW ORLEANS, MIAMI, BIRMINGHAM, ATLANTA AND OTHER CITIES WITHIN ITS MIDST. THEIR PROBLEMS ARE NATIONAL.

EXISITING TRENDS ARE LIKELY TO AGGRAVATE RATHER THAN ATTENUATE THIS SITUATION; THE RESULT OF ANOTHER DECADE LIKE THE LAST ONE WILL BE TO DIVIDE INDIVIDUAL CITIES AND THE COUNTRY AS A WHOLE INTO "HAVE" AND "HAVE-NOT" REGIONS, WITH UNPREDICTABLE BUT PROBABLY HIGHLY UNPLEASANT CONSEQUENCES. OTHER THAN 11 ENERGY-PRODUCING STATES, EVERY STATE IN THIS COUNTRY IS FACING BUDGETARY DIFFICULTIES. IN THESE TRENDS IS THE MAKING OF SOCIAL STRIFE.

AT THE SAME TIME, WITH MUCH OF STATE AND LOCAL GOVERNMENT IN TERRIBLE STRAITS, THE ADMINISTRATION BROUGHT FORTH A PROPOSAL FOR A NEW FEDERALISM THAT EVEN THE ADMINISTRATION NOW RECOGNIZES AS UNACCEPTABLE; IT WAS A PLAN THAT BURDENED OUR BUDGETS WITH BILLIONS OF DOLLARS IN ADDITIONAL PROGRAMS, BUT WITHOUT PERMANENT NEW REVENUES. COMING ON TOP OF PROPOSED FEDERAL BUDGET CUTS IN SUPPORT FOR STATE AND LOCAL GOVERNMENT FROM $55 BILLION IN FISCAL 1981 TO $41 BILLION IN FISCAL 1985, IT WAS SIMPLY TOO MUCH.

LONG-TERM GOALS

THIS COUNTRY'S GOALS MUST BE TWOFOLD: FIRST, TO HAVE A FUNCTIONING ECONOMY, WITH STABLE GROWTH AND EMPHASIS ON THE CREATION

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OF PRIVATE SECTOR JOBS; AND SECOND, TO HAVE ALL ELEMENTS OF OUR SOCIETY AND ALL REGIONS OF THE COUNTRY PARTICIPATE IN THAT GROWTH AS FULLY AS POSSIBLE.

THE UNITED STATES TODAY IN ITS BASIC INDUSTRIES NEEDS A SECOND INDUSTRIAL REVOLUTION. THE NOTION OF "BACKING THE WINNERS INSTEAD OF THE LOSERS" IS AS FACILE AS IT IS SHALLOW. THE THOUGHT THAT THIS NATION CAN FUNCTION WHILE WRITING OFF BASIC INDUSTRIES -- AUTOMOTIVE, STEEL, GLASS, RUBBER AND OTHERS -- TO FOREIGN COMPETITION IS NONSENSE. NOTHING IS MORE INHUMAN THAN UNEMPLOYMENT, NOTHING IS ULTIMATELY MORE INFLATIONARY THAN UNEMPLOYMENT.

WE MUST BE REALISTIC ABOUT HOW BADLY OUR BASIC INDUSTRIES HAVE SLIPPED WHEN JUDGEMENTS ARE MADE ABOUT SUCH ISSUES AS PROTECTIONISM, GOVERNMENT REGULATIONS, TAX RELIEF, AND MANAGEMENT AND LABOR AGREEMENTS. BUT REALISM MUST NOT BE AN EXCUSE FOR INACTION. THE MOTTO CANNOT BE "BACK THE LOSERS" BUT RATHER "TURN THE LOSERS INTO WINNERS".

THIS KIND OF ECONOMIC REVITALIZATION IS OBVIOUSLY ESSENTIAL TO HEALTHY CITIES AND IT REQUIRES SOUND MACROECONOMIC POLICIES, BUT THERE ARE OTHER TASKS AS WELL FOR GOVERNMENT. GOVERNMENT AT ALL LEVELS IS THE NURSERY OF INDUSTRY: IT PROVIDES THE ECONOMIC INFRASTRUCTURE -- THE ROADS, THE PORTS AND HARBORS, AND THE COMMUNICATIONS AND TRANSPORTATION NETWORKS -- THAT ENABLES BUSINESS TO FUNCTION.

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THE ADMINISTRATION'S DRAFT URBAN POLICY REPORT SEEMS TO TAKE A DIFFERENT VIEW. OTHER LEVELS OF GOVERNMENT WITH WEAKER TAX BASES, AS WELL AS NEIGHBORHOOD GROUPS AND VOLUNTEERS ARE TO ASSUME TASKS NOW BORNE AND PAID FOR BY THE FEDERAL GOVERNMENT: MAINTAINING INFRASTRUCTURE, PROVIDING HOUSING, FOSTERING ENERGY CONSERVATION, JOB TRAINING -- IN AREAS SUCH AS THESE RESPONSIBILITY WOULD PASS FROM WASHINGTON TO ALREADY BURDENED STATES, CITIES AND TOWNS. BUT, THE ADMINISTRATION'S PLAN WILL NOT PROVIDE THE TAX REVENUES TO GO ALONG WITH THEM; THE PLAN IS, THEREFORE, BASICALLY FLAWED.

THE ADMINISTRATION FEARS THAT STATE AND LOCAL GOVERNMENTS WILL BECOME DEPENDENT UPON FEDERAL AID, TO THE DETRIMENT OF SELF-RELIANCE. THEY ARE MISTAKEN. A FEDERAL ROLE MUST NOT BE EQUATED WITH A FEDERAL DOLE. THE QUALITY OF OUR CITIES CANNOT DEPEND SOLELY UPON THE HAPPENSTANCE OF POLITICAL BOUNDARIES AND TAX BASES. THE ADMINISTRATION REPORT CORRECTLY POINTS OUT THAT "CENTRAL CITY FISCAL PROBLEMS MAY BE THE PRODUCT OF ARBITRARY BOUNDARIES AND INADEQUATE STATE AND METROPOLITAN FISCAL EQUALIZATION POLICIES". HOWEVER, THE FEDERAL GOVERNMENT SHOULD USE ITS LEVERAGE TO PROD UNWILLING LEGISLATURES TO EFFECT APPROPRIATE BOUNDARY CHANGES INSTEAD OF SIMPLY WASHING ITS HANDS OF THE PROBLEM. THE PROBLEM WILL NOT GO AWAY AND BENIGN NEGLECT WILL HAVE ANTHING BUT BENIGN EFFECTS.

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A NEW FEDERALISM

FIRST, WE NEED A FAIR FEDERALISM.

IT SHOULD PROVIDE FOR FEDERAL ASSUMPTION FOR THE FINANCING OF ALL POVERTY PROGRAMS (WELFARE, MEDICAID, FOODSTAMPS) AND TRANSFER FUNDING AND FULL AUTHORITY TO THE STATES AND LOCALITIES THOSE PROGRAMS THEY ALREADY ADMINISTER OR ARE CAPABLE OF MANAGING (EDUCATION, TRANSPORTATION, ETC.). BUT THE ADMINISTRATION AND FUNDING ARE DIFFERENT MATTERS. PERMANENT REVENUES SHOULD BE PROVIDED TO THE STATES TO MAKE UP ANY NET LOSS RESULTING FROM SUCH A SWAP AND LOCAL TAX REDUCTION SHOULD BE AN OBJECTIVE. REVENUE SHARING SHOULD BE INCREASED, NOT CUT. TOO MANY STATES ARE GOING THROUGH AN ENDLESS CYCLE OF SERVICE REDUCTIONS AND TAX INCREASES. THEY CANNOT BE FORCED TO PAY FOR PROGRAMS IN WHICH THERE IS AN IMPORTANT NATIONAL INTEREST -- PROGRAMS LIKE ECONOMIC DEVELOPMENT, EDUCATION AND SUPPORTING THE POOR -- FROM LOCAL TAX BASES, SOME OF WHICH ARE AMPLE AND OTHERS NOT. THE PRESENT PROPOSAL DOES NOT MEET THESE GOALS. A NEW AND FAIR FEDERALISM IS NEEDED. IT SHOULD BE DONE RIGHT AND IT SHOULD BE DONE SOON.

A NEW RECONSTRUCTION FINANCE CORPORATION

SECOND, TO REDEVELOP THE PARTS OF THE NATION THAT NEED HELP, AS WELL AS TO PROVIDE A SAFETY NET FOR ANY OF OUR MAJOR FINANCIAL INSTITUTIONS IN A SUDDEN EMERGENCY, A RECONSTRUCTION

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FINANCE CORPORATION SHOULD BE CREATED FOR THE 1980'S. THE ORIGINAL RFC WAS CREATED BY HERBERT HOOVER IN 1918. UNDER FRANKLIN ROOSEVELT, IT WAS RUN BY THE TEXAS BUSINESSMAN, JESSE JONES. THE RFC OF THE 1930'S SAVED NUMEROUS BANKS, SOME CITIES, AND MANY BUSINESSES AND PREVENTED MUCH LARGER DISLOCATIONS FROM TAKING PLACE. IT FINANCED A VAST NUMBER OF DEFENSE PLANTS AS WELL AS THE DEVELOPMENT OF SYNTHETIC RUBBER DURING WWII. AND, IT MADE MONEY FOR THE TAXPAYER.

IN ORDER TO SEE THAT AN RFC IS JUSTIFIED, WE NEED ONLY LOOK AT HOW GOVERNMENT WORKS WITHOUT ONE. THE CASE OF CHRYSLER IS AN EXAMPLE OF HOW NOT TO PROCEED. PROVIDING GOVERNMENT-GUARANTEED LOANS AT CLOSE TO 20 PERCENT INTEREST TO A COMPANY WHICH HAS TOO MUCH DEBT AND NO NET WORTH CAN BUY SOME TIME, BUT NOTHING ELSE. COMPANIES LIKE CHRYSLER NEED PERMANENT EQUITY CAPITAL IN THE FORM OF NEW COMMON STOCK. ONLY EQUITY CAPITAL CAN HELP MAKE A COMPANY'S SURVIVAL CREDIBLE, AND IMPEL OTHER PARTICIPANTS (THE UNIONS, THE LENDERS, THE SUPPLIERS) TO MAKE THE MAJOR EFFORTS AND SACRIFICES THAT HAVE TO BE MADE IF THEY ARE GOING TO BE PUT BACK IN SHAPE.

THE RFC AS SAFETY NET

CHRYSLER IS HARDLY AN ISOLATED CASE. A GOOD MANY LARGE INDUSTRIAL COMPANIES, AIRLINES, SAVINGS AND LOAN ASSOCIATIONS AND POSSIBLY BANKS COULD BE IN SERIOUS DIFFICULTIES IF WE CANNOT BREAK OUT OF OUR CURRENT ECONOMIC STRAITJACKET OF HIGH INTEREST

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RATES, LOW GROWTH AND LOW PRODUCTIVITY. INSTEAD OF IMPROVISING EXPENSIVE HALF MEASURES IN THE HEAT OF CRISES AND POLITICS, WE SHOULD HAVE A SAFETY NET TO DEAL WITH AN ECONOMIC EMERGENCY AFFECTING A NUMBER OF LARGE ORGANIZATIONS AT THE SAME TIME.

WE HAVE TO BE REALISTIC ABOUT THE FRAGILITY OF MANY OF OUR LARGER FINANCIAL INSTITUTIONS. THEY ARE CAUSE FOR SERIOUS CONCERN. WE DO NOT KNOW HOW MUCH OF THE CAPITAL OF THE FDIC OR THE FSLIC HAS BEEN COMMITTED TO THE RESCUES OF THOSE BANKS & SAVINGS INSTITUTIONS EFFECTED SO FAR. WE DO KNOW THAT THE NUMBER OF SAVINGS INSTITUTIONS WHICH MAY HAVE TO BE RESCUED DOWN THE ROAD IS SEVERAL TIMES IN EXCESS OF WHAT HAS BEEN DONE SO FAR, AND THE AMOUNTS REQUIRED MAY BE CONSIDERABLE.

THE INTERNATIONAL FINANCING SITUATION CREATES OTHER TYPES OF RISK. AN UNEXPECTED DEFAULT BY A LARGE DEBTOR LIKE ARGENTINA, CAUSED BY POLITICAL RATHER THAN ECONOMIC EVENTS, COULD CREATE BOTH LIQUIDITY AND CAPITAL PROBLEMS FOR SOME OF OUR LARGE BANKS. THE FEDERAL RESERVE BANK COULD HANDLE THE LIQUIDITY PROBLEM, BUT ONLY AN RFC-TYPE INSTITUTION COULD HANDLE THE CAPITAL PROBLEM BY PURCHASES OF PREFERRED STOCK OR OTHER SIMILAR INSTRUMENTS.

THOSE OF US WHO HAVE BEEN INVOLVED IN MAJOR FINANCIAL PROBLEM SITUATIONS KNOW HOW CRITICAL IT IS TO CONTAIN A FINANCIAL CRISIS BEFORE IT SPREADS. WE NEED AN RFC AS A FINANCIAL INSURANCE POLICY, WHICH WAS THE BASIS FOR ITS REACTIVATION IN 1932.

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THE RFC AS AID TO URBAN POLICY

AN RFC COULD ALSO PLAY A MAJOR PART IN AN URBAN CAPITAL RECONSTRUCTION POLICY. THROUGHOUT THE COUNTRY, CITY AFTER CITY FACES BUDGETARY PROBLEMS AND CRUMBLING INFRASTRUCTURE. THE BOSTON TRANSIT SYSTEM WAS RECENTLY SHUT DOWN FOR LACK OF FUNDS; THE NEW YORK MTA OPERATES A SUBWAY SYSTEM SO OLD THAT IT POSES PHYSICAL DANGERS, AND IT WILL NEED $15 BILLION OVER TEN YEARS TO PROVIDE ADEQUATE SERVICE. ACROSS THE COUNTRY, BRIDGES AND SEWERS, SANITATION AND MASS TRANSIT, SCHOOLS AND FIREHOUSES HAVE ALL BEEN ALLOWED TO DETERIORATE. THE RFC COULD PROVIDE LOW-INTEREST, LONG-TERM LOANS TO ENABLE MUNICIPALITIES TO MAINTAIN THEIR PHYSICAL PLANTS. BY IMPROVING THE QUALITY OF CITY LIFE, SUCH INVESTMENTS COULD HELP TO RETAIN TAXPAYERS WHILE PROVIDING JOBS TO HELP THE EXISTING TAX BASE. AS IN THE CASE OF INDUSTRIAL INVESTMENTS, THE RFC COULD ASK FOR PARTICIPATION BY OTHER PARTIES: THE VARIOUS STATES, BUSINESS, AND THE LOCAL LABOR UNIONS AND BANKS. AS WITH INDUSTRY, REFORM AND RESTRUCTURING WOULD, IN MANY CASES, HAVE TO BE THE QUID PRO QUO FOR RECEIVING CAPITAL ON FAVORABLE TERMS.

ONE OF THE UNEXPECTED EFFECTS OF LAST YEAR'S TAX LEGISLATION WAS TO DESTROY THE TRADITIONAL SUBSIDY TO LOCAL GOVERNMENT FINANCING -- THE MUNICIPAL BOND MARKET. BY LAST DECEMBER, THE ADVANTAGES OF THE TAX EXEMPTION ON INTEREST HAD SHRUNK TO THE POINT THAT MUNICIPAL BONDS WERE YIELDING ONLY ONE PERCENTAGE POINT

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LESS THAN LONG-TERM TREASURY BONDS. TO BALANCE A FEDERAL APPROACH THAT ALREADY REQUIRES LOCAL GOVERNMENTS TO BEAR A LARGER BURDEN OF OPERATING COSTS, THERE MUST BE MEANS TO REDUCE THE COST AND INCREASE THE AVAILABILITY OF CAPITAL. CAPITAL IS NEEDED TO REDUCE COSTS AND INCREASE PRODUCTIVITY IN GOVERNMENT AS MUCH AS IN PRIVATE INDUSTRY. THE RFC COULD PROVIDE IT.

AND THE RFC COULD DO SO AFFORDABLY. AS YOU WELL KNOW, THE HISTORY OF FEDERAL GRANT AND DEVELOPMENT FUNDS, WHETHER FROM THE ECONOMIC DEVELOPMENT ADMINISTRATION (EDA) OR ELSEWHERE, HAS BEEN THE CONSTANT VICTORY OF THE POLITICALLY INFLUENTIAL OVER THE TRULY NEEDY. EDA GRANTS WERE ORIGINALLY INTENDED TO BE HIGHLY TARGETED, BUT UNDER THE POLITICAL PRESSURES FACED BY A CABINET DEPARTMENT, EXCEPTIONS WERE MADE AND STANDARDS RELAXED UNTIL 90% OF THE NATION WAS ELIGIBLE. WE SIMPLY DON'T HAVE THE RESOURCES TO FINANCE EVERYTHING; AND I BELIEVE THE CHOICE WE FACE IS EITHER TO CONTINUE THE DILUTION OF OUR EFFORTS OR TO CREATE -- FOR A LIMITED PERIOD OF TIME, NO MORE THAN TEN YEARS -- AN INDEPENDENT AGENCY LIKE THE RFC THAT CAN SAY "NO" WHEN NECESSARY TO FOCUS ON OUR REAL PROBLEMS.

BUT RFC ASSISTANCE MUST BE TEMPORARY. IT SHOULD ACT AS A REVOLVING FUND WHICH CAN BE USED WHEN NECESSARY, AND WHOSE HOLDINGS SHOULD BE SOLD IN THE MARKETPLACE WHEN IT HAS DONE ITS JOB. THE RFC IS NOT A PERMANENT DOLE; IT IS A TEMPORARY BRIDGE. IT SHOULD SELF-DESTRUCT AFTER A MAXIMUM OF TEN YEARS.

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THE RFC, OF COURSE, WILL BE SAID TO INTERFERE WITH THE FREE MARKET SYSTEM. BUT, AT PRESENT, THE PRICE OF OUR ENERGY IS NOT FREELY SET, NOR IS THE PRICE OF OUR FOOD, OR THE PRICE AT WHICH WE MUST BORROW MONEY. FREE MARKETS ARE CLEARLY DESIRABLE, BUT WE DO NOT IN FACT LIVE IN A FREE MARKET ECONOMY AND NEVER WILL; WE LIVE IN A MIXED ECONOMY IN WHICH PRICES AND CAPITAL ARE, AND WILL BE, SUBJECT TO GOVERNMENT INFLUENCE AND TO AGREEMENTS BETWEEN LABOR AND BUSINESS.

THE ADMINISTRATION'S PROPOSAL TO SET UP "ENTERPRISE ZONES" INDICATES A RECOGNITION THAT A SERIOUS PROBLEM EXISTS AND THAT IT MUST BE ADDRESSED. THE PROGRAM HAS MERIT AND SHOULD BE PUT INTO EFFECT. IT IS HOWEVER, ONLY A DROP IN THE BUCKET; IT CLEARLY LACKS THE HORSEPOWER THAT IS REQUIRED BY THE MAGNITUDE OF THE PROBLEM.

IF IT WERE HIGH TAXES THAT KEPT BUSINESS OUT OF THE SOUTH BRONX, PERHAPS THE ENTERPRISE ZONE MIGHT ULTIMATELY BE SUFFICIENT. HOWEVER, TAXES ARE TOO SMALL A PART OF OVERALL COSTS TO BE NEARLY AS IMPORTANT AS WHETHER FACTORY AND OFFICE FACILITIES AND TRANSPORTATION ARE ADEQUATE AND CONVENIENT, THE MARKETPLACE CLOSE BY, THE WORKFORCE ABLE AND THE NEIGHBORHOOD SAFE. SOME -- BUT BY NO MEANS ALL -- OF THESE PROBLEMS CAN BE OVERCOME BY A JUDICIOUS USE OF GOVERNMENT FUNDS, TO HELP CONSTRUCT NEEDED FACILITIES AND INFRASTRUCTURE AND, BY NEGOTIATING WITH PRIVATE INSTITUTIONS, TO LEVERAGE GOVERNMENT PARTICIPATION WITH OTHER EQUALLY IMPORTANT CONTRIBUTIONS BY OTHERS. THIS CAN NOT BE DONE BY THE TAX CODE, FOR BOOKS OF

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REGULATIONS DO NOT NEGOTIATE. NOR CAN IT BE ACCOMPLISHED BY A GOVERNMENT AGENCY THAT MUST SAY "YES" TO EVERY REQUEST FROM A POWERFUL POLITICIAN. IT REQUIRES AN INDEPENDENT AGENCY OF LIMITED DURATION, BUT REAL AUTHORITY. IN SHORT, IT REQUIRES AN RFC.

THE ROLE OF GOVERNMENT

THE UNITED STATES TODAY IS A COUNTRY IN TRANSITION. IT IS IN TRANSITION FROM BEING THE WORLD'S DOMINANT MILITARY POWER TO SHARING THAT POWER WITH THE SOVIET UNION; IT IS IN TRANSITION FROM AN INDUSTRIAL TO A SERVICE SOCIETY; FROM BEING A PREDOMINANTLY WHITE, NORTHERN EUROPEAN SOCIETY BASED IN THE NORTHEAST AND MIDWEST TO BEING A MULTI-RACIAL SOCIETY WITH ITS CENTER OF GRAVITY IN THE SUNBELT. A SOCIETY IN TRANSITION CANNOT BE GOVERNED BY A RIGID DOGMA; ON THE CONTRARY, IT REQUIRES A GOVERNMENT THAT IS FLEXIBLE, PRAGMATIC, EVEN SOMETIMES DELIBERATELY AMBIGUOUS. SHARED VALUES MUST BE CLEAR, BUT THE MEANS TO THE END CANNOT BE RIGID.

THE CRITICAL ISSUES WE FACE TODAY ARE NOT SIMPLY THE LEVELS OF INTEREST RATES OR WHAT KIND OF PACKAGE FINALLY COMES OUT OF BUDGET NEGOTIATIONS. THESE THINGS ARE IMPORTANT, BUT THEY MUST NOT OBSCURE THE REAL ISSUES. THE PROBLEMS OF OUR CITIES, OF OUR OLDER INDUSTRIES, OF OUR GROWING AND PERMANENT UNDERCLASS HAVE TO RANK HIGH ON ANY LIST.

TODAY'S CONSERVATIVE EXPERIMENT WILL FAIL BECAUSE IT HAS NO RELEVANCE TO THE WORLD WE LIVE IN, JUST AS YESTERDAY'S

LIBERALISM FAILED FOR SOMEWHAT DIFFERENT REASONS. THE APPROPRIATE ROLE OF GOVERNMENT REMAINS THE MAJOR UNANSWERED QUESTION AND WE ARE SOON GOING TO RUN OUT OF TIME FOR EXPERIMENTS.

TODAY, WE ARE ALL LOOKING FOR PERMANENT AND PERFECT ANSWERS TO EXCRUTIATINGLY COMPLICATED PROBLEMS. IN GOVERNMENT AND PUBLIC LIFE, THERE MAY NOT BE ANY SUCH THING AS THE RIGHT ANSWER. THERE MAY, AT BEST, EXIST A PROCESS WHEREBY TRENDS CAN BE AFFECTED AND THE DIRECTION OF SOCIAL AND ECONOMIC BEHAVIOR TEMPORARILY INFLUENCED. THIS IS THE ANTITHESIS OF THE PLANNED, CENTRAL DOMINATION OF GOVERNMENT, BUT IT MEANS GOVERNMENT COMMITTED TO OPPOSE DESTABILIZING TRENDS BEFORE THEY BECOME FLOODTIDES. IT IS A PERMANENT BUT EVER-CHANGING PROCESS.

AND IT IS A PROCESS THAT MUST INCLUDE THE MAJOR INSTITUTIONS AND CONSTITUENCIES OF OUR SOCIETY -- POLITICAL, LABOR AND BUSINESS. THE CHANGES WE WILL UNDERGO WILL DEMAND EFFORT AND SACRIFICE BY MANY, A SACRIFICE THEY WILL NOT MAKE UNLESS THEY HAVE A STAKE AND A CHANCE TO PARTICIPATE.

THE ANSWERS TO OUR PROBLEMS, IMPERFECT AND TEMPORARY THAT THEY MAY BE, MUST COME FROM SUCH A PROCESS. SUCH A RATIONAL MIDDLEGROUND, HOWEVER, NEED NOT BE WISHY-WASHY.

THERE IS NO REASON WHY A HARD-HEADED LIBERALISM CANNOT LIVE WITH THE REALITY THAT WE CANNOT SPEND OURSELVES INTO BANKRUPTCY.

THERE IS NO REASON WHY AN ECONOMY GEARED MOSTLY TO PRIVATE SECTOR GROWTH CANNOT, AT THE SAME TIME, PERMIT LIMITED GOVERNMENT INTERVENTION WHERE NEEDED, SUCH AS A MODERN VERSION OF THE RECONSTRUCTION FINANCE CORPORATION.

THERE IS NO REASON WHY LIMITED AND TEMPORARY PROTECTION FOR OUR HARD HIT INDUSTRIES CANNOT BE CONDITIONED ON RESTRAINED WAGE AND PRICE BEHAVIOR BY LABOR AND MANAGEMENT; THIS MIGHT BECOME THE MODEL FOR AN INCOMES POLICY WHERE WAGE AND PRICE BEHAVIOR COULD BE LINKED TO PRODUCTIVITY.

THERE IS NO REASON WHY SAVINGS AND INVESTMENT CANNOT BE ENCOURAGED WHILE ENERGY USE AND OTHER CONSUMPTION ARE TAXED AT HIGHER RATES, TO PRODUCE GROWTH AND JOBS. SOME OF THESE JOBS COULD BE DIRECTED, WITH GOVERNMENT ASSISTANCE BUT UNDER PRIVATE-SECTOR MANAGEMENT, TO INNER CITY GHETTOS TO PROVIDE A FUTURE WHERE NONE CURRENTLY EXISTS.

THERE IS NO REASON WHY LARGE SAVINGS CANNOT BE EFFECTED IN DEFENSE, AND PARTICULARLY IN REDUCING NUCLEAR DELIVERY SYSTEMS, IF WE ARE WILLING TO PAY THE PRICE OF BETTER SUPPORTED CONVENTIONAL FORCES AND THE DISTASTEFUL POSSIBILITY OF A PEACETIME DRAFT.

THERE IS NO REASON WHY OUR TAX SYSTEM CANNOT BE IMPROVED, SIMPLIFIED AND MADE MORE EQUITABLE BY A FLAT TAX ON ALL INCOME AT SIGNIFICANTLY LOWER RATES OR SOME VARIANT THEREOF SUCH AS THE PROPOSAL OF SENATOR BRADLEY AND CONGRESSMAN GEPHART. THE PRESENT TAX SYSTEM IS A DISGRACE, BOTH INTELLECTUALLY AND EQUITABLY.

ONE MUST ADMIT, HOWEVER, THAT ALTHOUGH THERE IS NO REASON WHY THESE RESULTS CANNOT BE ACHIEVED, WE MUST BE REALISTIC ABOUT THE POLITICAL DIFFICULTY OF BRINGING THIS ABOUT. WITHOUT THE ACTIVE SUPPORT OF THE AMERICAN PEOPLE AND A PROCESS WHICH ENCOURAGES THE ACTIVE COOPERATION OF BUSINESS, LABOR, AND GOVERNMENT, IT CANNOT HAPPEN.

CITIES HAVE TRADITIONALLY PROVIDED THE BOTTOM RUNGS FOR ALL THOSE TRYING TO CLIMB THE LADDER OF OPPORTUNITY. THEY HAVE PROVIDED A WORKING ENVIRONMENT FOR PEOPLE OF VARIOUS RELIGIONS, RACES, BACKGROUNDS TO LIVE SIDE BY SIDE AND CREATE THE STUFF A DEMOCRACY IS MADE OF. THE ASPIRATIONS OF MINORITIES ARE NOT DISSIMILAR, THE DREAM OF MARTIN LUTHER KING CAN BE FOUND IN THE DIARY OF ANNE FRANK. IT IS IN THE CITIES THAT THESE DREAMS CAN FIND FULFILLMENT, BUT ONLY IN CITIES THAT LIVE. CITIES THAT ARE ABANDONED BY THE WELL-TO-DO ARE DYING CITIES, AND THAT IS NOW HAPPENING ALL OVER THE COUNTRY.

THE PRESIDENT LAST WEEK CHOSE THE CITY OF BALTIMORE'S INNER HARBOR PROJECT AREA AS THE PLACE TO PRESENT HIS REVISED NEW FEDERALISM AND TO ARGUE FOR A REDUCED FEDERAL ROLE IN OUR CITIES. IT IS INTERESTING TO NOTE THAT THE PROJECT AT WHICH HE SPOKE WAS CRUCIALLY DEPENDENT ON THE VERY GOVERNMENT PROGRAMS HE CRITICIZED AS UNNECESSARY AND PERNICIOUS. BALTIMORE IS A SHINING EXAMPLE OF PARTNERSHIP BETWEEN THE FEDERAL AND LOCAL GOVERNMENTS.

EQUALLY IMPORTANT TO BALTIMORE'S SUCCESS IS THE EXTRAORDINARY COOPERATION BETWEEN THE CITY GOVERNMENT AND THE BUSINESS AND LABOR COMMUNITY. BALTIMORE'S SUCCESS IS AN EXAMPLE, NOT OF AN IMAGINARY INDEPENDENCE, BUT OF AN ACTIVE PARTNERSHIP; IT IS AN EXAMPLE FROM WHICH WE HAVE MUCH TO LEARN.

AN ACTIVE PARTNERSHIP BETWEEN BUSINESS, LABOR AND GOVERNMENT TO KEEP OUR CITIES AS WELL AS OUR INDUSTRIES FROM DECAYING IS THE KIND OF PARTNERSHIP THAT AN ADVANCED WESTERN DEMOCRACY REQUIRES TO FUNCTION, AND THAT, IN ONE FORM OR ANOTHER, HAS BEEN MADE FOR YEARS IN EUROPE AND JAPAN. THIS PARTNERSHIP WILL HAVE TO BE AS INDIGENOUS TO OUR CULTURE AND TRADITIONS AS THOSE OF GERMANS AND JAPANESE HAVE BEEN TO THEIRS, AND IT WILL HAVE TO BE COMPETITIVE. MUCH IS AT STAKE IN MAKING SUCH A PARTNERSHIP WORK: OUR ABILITY TO PROTECT OURSELVES, AND TO DETER OUR ENEMIES, DEPENDS ON MAINTAINING A STABLE, SOLID ECONOMIC, INDUSTRIAL AND SOCIAL BASE AT HOME. OUR NATIONAL SECURITY, OUR INDUSTRIAL POWER, THE STRENGTH OF OUR SOCIAL SYSTEM ITSELF, ARE ALL TIED TO ONE ANOTHER AND TO THEIR NEED FOR A NEW PATTERN OF COOPERATION TO EMERGE.

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Representative REUSS. Thank you, Mr. Rohatyn. Because you have to leave shortly after 11, I think I will ask you a few questions first.

CREDIT ALLOCATION

You have made very forcefully the point that you have been making for several years now that there ought to be an RFC to give expanded credit to older cities, older industries and distressed financial institutions.

If those institutions and industries and municipalities need more credit—and I agree they do—who has to get less and how are you going to achieve that?

Mr. ROHATYN. Well, Mr. Chairman, first of all, I believe that what the cities need and what a lot of our older industries need is cheaper credit, not necessarily more. It's the availability of credit at low interest rates.

Just to give you an example, when we were borrowing money at 7 percent at the Municipal Assistance Corporation for every billion dollars we borrowed over the normal life of a bond we would pay back $2 billion. Now at the current rates of interest, we pay back $3 billion. We are burdening the future of both cities and industries with intolerable burdens.

Representative REUSS. Well, isn't the remedy for the exorbitant interest rates that now plague us sensible fiscal and monetary policies; fiscal policies that don't run so large a deficit, and monetary policies that don't squeeze the money supply as mercilessly as our present one does?

Mr. ROHATYN. I think that is true to some extent, Mr. Chairman, but I think it would be unrealistic to ignore the fact that a lot of our current problems in terms of interest rates are the result of losing really incredible amounts of money over the last decades. Our western banking system has made loans abroad of maybe half a trillion dollars over the last 10 years and most of that money is just not coming back.

Representative REUSS. I agree with mergers. Would you also agree that there's been a considerable amount of leakage in the financial system not only to reckless lending abroad but to grubstaking commodity speculators like Bunker Hunt and to support the wave of corporate takeovers which has led to a whole new profession of takeover artists instead of bright people tending to the business of increasing productivity?

Mr. ROHATYN. Well, Mr. Chairman, I must stand up for the professional mergers which has kept me in at least a relatively high standard of living.

Representative REUSS. Had you been taken care of by some kind of an RFC, then——

Mr. ROHATYN. I must dissent from my colleagues.

Representative REUSS. They use so much of the Nation's scarce supply of credit in takeover which in my city of Milwaukee are making us a creature of absentee landlords nowadays, not all of whom are benevolent.

Mr. ROHATYN. I would agree with the notion, Mr. Chairman, that a lot of the takeovers have been done with very poor financing, that a lot of short-term credit was used to buy businesses where short-term credit should not have been used to buy businesses, just as short-term credit was used to build factories and finance real estate speculation and do lots of things that short-term credit is not used for normally.

Representative REUSS. Short-term credit is the great source and foundation of our takeover madness nowadays, is it not?

Mr. ROHATYN. Well, it used to be that if you were acquiring a company you would use long-term financing or equity because that is the rational way to do things.

In the mid-1970's things got a little out of hand and people started buying businesses as if the world would never end and as if inflation would never end, and therefore they assumed amounts of short-term debt in the expectation that they would refinance it later on when the long-term markets came back. And because the long-term markets never came back and inflation abated you now have a lot of industries and financial institutions in deep difficulty. And I think that is as much to blame, together with the reduction of OPEC balances and the Government deficit, for high interest rates. I think the past is probably as responsible as the prospect of future deficits and current deficits for high interest rates which is just a long way of saying that I think it will take a long time for this thing to work itself out. Therefore, there is a need for an RFC to provide relatively cheap credit, relatively quickly, to organizations and cities in difficulty because I think it will take much longer than most people think for this situation to be turned around.

RFC AND CREDIT ALLOCATION

Representative REUSS. Well, my point, though, was that whatever the merits—and they may be considerable—of an RFC channeling and allocating credit at reasonable rates to needy cities, industries and financial institutions, if you're going to channel it to those worthy sources, don't you have to do something to channel it away from less worthy sources. For instance, shouldn't we do what almost evey other country in the world does about foreign lending by its own financial institutions—put some kind of a hiatus on it—have the Federal Reserve frown, as it unfortunatley refuses to do, on Bunker Hunt type commodity speculation lending, and put some kind of a tax or diminution of interest deduction on bank lending for corporate takeovers to make it more expensive?

Mr. ROHATYN. I think all of these things have merit—certainly I have no objection to any of them. I think the foreign lending aspect is something that we have gone way overboard on in providing credit all over the world, including to Eastern Europe which I think is a completely lost cause. And, secondly, I would support the notion of curbing lending for speculative purposes of any kind.

But still one has to put money to work relatively soon and on relatively reasonable terms in order to get the economy going again because I don't think we've got very much time left the way we're going.

Representative REUSS. Yes, I was not arguing against an RFC approach. I was simply saying if you do allocate credit to good and needy things by an RFC or any other way, it seems to me that you have to accompany that by some method of discouraging the exfoliation of credit going to less worthy causes. Otherwise, you just create an inflation of credit.

Mr. ROHATYN. Of course. And at the same time, as you said earlier, Mr. Chairman, one has to reduce the prospect of Government borrowing by both a combination of taxes and reduction of spending down the road.

Representative REUSS. I would have just one other question. You say, "There is no reason why our tax system cannnot be improved, simplified and made more equitable by a flat tax on all income at significantly lower rates."

Well, I agree that it would be very good to tax all income and eliminate the loopholes and that that would yield significantly lower rates. But a flat tax? Even if you eliminate the loopholes, I don't think it's fair to charge the working poor the same flat rate as the clipper of coupons.

Mr. ROHATYN. I don't argue with that, Mr. Chairman. I think in that same sentence you'll find support for the Bradley-Gephardt version of——

Representative REUSS. You went on to say, "or some variant thereof such as the proposal of Senator Bradley and Congressman Gephart." Did you mean specifically the Bradley-Gephart proposal, because theirs is not a flat rate?

Mr. ROHATYN. No, I know. I meant quite specifically or some variant of the Bradley-Gephart proposal.

Representative REUSS. I may be being captious, but by someone as respected as you, very respected, using the word "flat rate," you give the flat rate people a free ride that they don't deserve.

Mr. ROHATYN. I will be happy to amend that statement to reflect what you're saying because that was the intent.

Representative REUSS. Great. Congressman Mitchell.

Mr. ROHATYN. You flatter me, Mr. Chairman. I've never found my support for anything making much difference.

ECONOMIC DEVELOPMENT ASSISTANCE

Representative MITCHELL. Thank you for very provocative and stimulating testimony, concur that we desperately need some type of RFC. The fact that cities are going to have to spend $1 trillion over the next 10 years to maintain their infrastructure strongly suggests to me that an RFC is needed.

However, unless I'm terribly wrong, I can hear the wails of anguish arising as we try to move legislation through the House of Representatives. Some people will be screaming, "This is interference in the so-called free enterprise system," I'm saying that as much as I am enamored with the idea, I think the prospects of moving it during this session of the Congress would be almost nil.

Therefore, my question is, in the event that we can't move that kind of legislation quickly, what sort of fall back options do you offer us, a more targeted Economic Development Administration? What would you recommend absent an RFC?

Mr. ROHATYN. Well, I would say, Mr. Mitchell, probably a better version of federalism that does take some of the budgetary load off the cities and provides some permanent revenues.

Representative MITCHELL. What about a tightly administered Economic Development Administration?

Mr. ROHATYN. Well, Congressman Mitchell, you're dealing in such large numbers here—you're dealing with such large problems that I am disinclined to support what is really a palliative without really going to the heart of the problem.

I think you really have to face the issue that most of the cities in this country are going to need major infusions of capital and that the EDA is not going to provide that and that there is going to have to be some variant of business-labor-government cooperation, both at the local and national level, to make it happen.

Now I'm fully aware of the political difficulties of an RFC today. On the other hand, if there's a major financial emergency tomorrow I think you might find a very different political climate.

Representative MITCHELL. If you wait until the absolute bottom falls out, then the task is magnified 10,000 times.

Mr. ROHATYN. I must tell you that in the business community, for instance, or in conservative circles that I do frequent from time to time, I have not found nearly—I have found a great deal of support for an RFC that would be limited to urban capital financing. I think the real ideological problem comes with industrial intervention where you begin to see questions about socialism. But in terms of urban financing, I think you could find—you could certainly find rationale in saying, look, last year's tax bill took away practically speaking the subsidy to local government finance and we've got to get it back one way or another.

ENTITLEMENT PROGRAMS

Representative MITCHELL. All right. Let me move from that rather broad question to a more finite one, and it's one that I wrestle with almost daily.

In your testimony you indicated that we've got to do something to cap entitlement programs. Objectively, I would have to answer, yes. On the other hand, being very subjective, how do you establish a cap when inflation is still close to 7 percent with the possibility of it beginning to zoom up again?

I was in Kansas City the other day and a private community organization was supplying fans to senior citizens' homes. The senior citizens had air-conditioning but they were loathe to turn on the air-conditioning because they thought they couldn't pay the bills on their limited incomes.

How do you, under the kind of circumstance, broadly cap entitlement programs when we have not solved the problem of inflation in any meaningful fashion? I don't know the answer. I'm honestly seeking some suggestions.

Mr. ROHATYN. Well, obviously, I don't have any miracles. I believe, for instance, that some kind of an incomes policy whereby wages and price—where there's some regular negotiation between government, business, and labor with respect to price levels and wage levels so that you can keep—and budgets so that you can keep inflation within tolerable bounds—I think that you could limit the COLA's, for instance, in your entitlement programs if you had a structure such as you have in Germany and Italy whereby there was a reasonable prospect for a reasonable level of inflation.

I'm not saying that that's a perfect answer and there is no perfect answer, but it's clear to me that there is one thing that can't continue, which is what we have today.

Now some of this money may have to come from taxing gasoline at much higher rates. You're going to have to do a lot of other things. You're going to have to slow down the growth of defense. You're going to have to activate the economy. But I think that that is something that has to be faced just as on a different level the question of inner city unemployment has to be faced, and obviously I can't come here and say we've got to cut support payments in the inner city unless we can provide some kind of an employment opportunity for inner city youngsters.

Representative MITCHELL. My time is up, but that's a catch-22 situation. On the one hand, you have a large-scale objective for a nation to get back to a sound vigorous and viable economic state. On the other hand, you have the person, the man, the woman, the child, who really should be the end object of government. However, undue pressure is being exerted on their already pitiful state because of the cap on COLA, and the elimination of job training programs. I guess that's our dilemma. I will be opposing caps until we come up with a better solution.

Thank you very much, Mr. Chairman.

Representative REUSS. Congressman Wylie.

FOREIGN COMPETITION

Representative WYLIE. Thank you, Mr. Chairman.

Mr. Rohatyn, in your prepared statement you have something interesting. It says, "The thought that this nation can function while writing off basic industries—automotive, steel, glass, rubber, and others—to foreign competition is nonsense."

May I say that I fully agree with that suggestion and as fortune would have it I came over this morning on a plane from Columbus with a resident of a Cleveland scale company who was complaining bitterly that they are not able to market in Japan right now because of restrictions on trade vis-a-vis manufacturing and sale of scales, and yet the Japanese are able to compete here and, as a matter of fact, his words were, "They're dumping scales on us."

Don't we need some sort of an arrangement there maybe through the GATT agreements to address the imbalance that at least this gentleman perceived? What would be your thought on that and how would you have responded to him if you had been asked that question?

Mr. ROHATYN. I sympathize with him, sir. I'm on the board of an American automobile company, the American Motors Co., not the biggest one. There's been a very substantial infusion of capital from Renault or otherwise it would have gone bankrupt.

Representative REUSS. That was one takeover I applauded.

Mr. ROHATYN. Thank you, Mr. Chairman. I thought you might. It's all in the perspective, like modern art.

Representative WYLIE. Everything is relative.

Mr. ROHATYN. We are facing Japanese competition which is based on a yen that is probably 20 or 25 percent under where it should be. So, for instance, we get very upset when the Canadians sell subway equipment to our transit system with subsidized credit, but nobody pays attention to Japanese automotive companies selling into this market with the yen undervalued by about 20 percent and facing the American companies with the need to either give away the car without a profit or give away half the market.

So I think sooner or later there has to be a really basic nonprovocative but very, very determined negotiation with our trading partners and I guess more certainly with Japan than with the Europeans because we have a very strong and favorable balance of payment with Europe but we cannot afford to sit here and absorb the kind of trade war, because that's what it is, that is coming in here, and it will not be limited to automotive. It will go on to everything else. It is already happening in micro processes and microchips. It will happen in airplanes. It will happen in computers.

And if we have to at some point, for a limited period of time, limit this kind of invasion that we're being subjected to, then I think we have to consider it very seriously. On the other hand, I wouldn't do it without requiring both the labor leadership and the business leadership in this country to commit themselves that if we do provide some temporary protection it will be used to make our companies more competitive and not simply raise prices to the customer. But I would make that trade.

Representative WYLIE. You're suggesting we do it on a bilateral arrangement with the countries involved rather than on a multilateral arrangement through something like the General Agreements on Tariffs and Trade?

Mr. ROHATYN. Our problems are more bilateral than multilateral. We clearly have no balance of trade problem with Germany, France, or Italy. We might as well deal with the problems that we have.

NEW FEDERALISM

Representative WYLIE. Would you agree that the role of the State and local governments is needed to strengthen our Federal system which is the concept of the New Federalism?

Mr. ROHATYN. certainly. We saved New York City I would say 80 or 90 percent by local effort with the State, the city, the banks, the local unions; but we couldn't have done it without that last 10 or 15 percent involvement from the Federal Government. We put together 12 billion dollars' worth of financing in the last 6 years and I couldn't have done it without the $1.6 billion that was guaranteed by the Federal Government that was the lynchpin of that whole financing plan and that turned out to be 15 percent of all the financing and we couldn't have done it without that terribly important thesis, and that's why I think I have a great sympathy for the notion of the New Federalism provided it's fair and equitable, but the federalism cannot mean the disappearance of the Federal Government in terms of its responsibilities at the local level.

ASSISTING CITIES

Representative WYLIE. Well, then, you spoke about the New York situation and in your presentation here you say, "Throughout the country, city after city faces budgetary problems and crumbling infrastructure. The Boston Transit System was recently shut down for lack of funds; the New York MTA operates a subway system so old that it poses physical dangers, and it will need $15 billion over 10 years to provide adequate service."

Might it not be cheaper to allow some of those services which are performed, say, in a city like New York which has some problems, and Boston, as far as the country as a whole—to allow them to go to other cities, for example, to Columbus, Ohio, to which American Electric and Gordon have recently gone with its corporate headquarters. They could go to cities like Columbus, Ohio, which has a rather sound infrastructure at the present time.

Mr. ROHATYN. Congressman Wylie, I have no problem in suggesting that if we had an RFC it should provide capital at reasonable rates to the city of Columbus because the city of Columbus maybe on a different scale is going to require new facilities, whether they're mass transit facilities, whether they're sewers or schools, and the more Gordons and Electric Powers go to Columbus, the more capital investment is going to have to take place in Columbus and the more money you're going to need to provide services.

So this isn't to suggest that ony cities like New York and Boston need the availability of low-cost capital. It is practically every city in this country that needs it.

I was in Dallas a couple of months ago and I was invited to make a speech which was purely based on the fact that Dallas is looking at the possibility of needing large amounts of capital to handle its immigration of people and its transportation requirements, schools, et cetera.

Certainly this was not intended to be limited to helping the large cities of the Northeast.

Representative WYLIE. Thank you. I've been given a note that my time has expired.

Representative REUSS. Thank you very much, Mr. Rohatyn.

Mr. ROHATYN. Thank you, Mr. Chairman. If you will excuse me, I'll go do one of those terrible mergers.

Representative REUSS. We will now hear from Mr. Petersen.

STATEMENT OF JOHN E. PETERSEN, DIRECTOR, GOVERNMENT FINANCE RESEARCH CENTER, MUNICIPAL FINANCE OFFICERS ASSOCIATION, WASHINGTON, D.C.

Mr. PETERSEN. Chairman Reuss and members of the committee, my name is John Petersen and I'm director of the Government Finance Research Center, Municipal Finance Officers Association. My remarks this morning do not necessarily reflect the views of the center or of the association.

I greatly appreciate the opportunity to testify on the outlook of State and local government finance. My prepared statement which I provided for the record gives a general review of current trends in State and local government revenues, expenditures, and debt financing. In my oral statement this morning, which I hope is appropriately concise, I will focus on what I see to be major problem areas during what I consider to be a continuing contraction of activities and fiscal stringencies in the State and local sector.

My emphasis is on the overall fiscal fabric of the sector where the strands of particular problems and issues are woven together. Tough times are certainly not unique in the economy and no doubt the downturn of State and local public finances is, to a large degree, a matter of conscious public choice. A smaller, leaner public sector is the announced objective of many, and a responsive, more efficient one should be the objective of all.

Still, the intense fiscal pressures now being experienced are not without cost, risks, and inequities. These have been the subject of much of the testimony already received by this committee.

The last year has been one of transition for State and local governments as the realities of economic recession, of reversal of years of growth in Federal aid, and a tax-revolt induced erosion of revenue systems began to close in on State and local finances. With few exceptions, the recent changes in State and local budgetary behavior, while often painful, have not been unexpected.

Through 1979 and 1980, State and local governments in the aggregate have seen their expenditures rising faster than their revenues. Governments had been spending off previously accumulated surpluses to sustain outlays as they attempted to gear down current receipts to the tax-cutting desires—the very popular tax-cutting desires—of the late 1970's.

Now during that period, certain inflation induced revenues and a continuing increase in federal aid had kept this sector growing, albeit at a slower rate both in terms of real spending and employment. But events in 1981 marked the end of that growth and its replacement with contraction.

A changing political philosophy as reflected by the new Federal administration and deteriorating economic conditions jointly grabbed ahold of State and local finances in 1981. The gathering clouds of recession throughout last year and a dramatic curbing of Federal domestic expenditures, especially grants to State and local governments, were convincing evidence that wearing the fiscal hair shirt was no longer simply a matter of good politics but rather a matter of political practical necessity.

Thus, in the aggregate, State and local governments have reined in expenditures and begun to restore revenue systems that had been subject to widescale snipping and slicing in the late 1970's. But the rapid retreat of Federal aid and flagging economic conditions are making adjustment more rapid and painful than most would have wanted or expected.

In my prepared statement I detail national trends in revenues and expenditure and borrowing up to the present time. To expedite these proceedings I will now summarize what I think are the major prospects for the coming year.

The financial prospects for State and local governments are dreary, a continuation of the slump commenced last year. The State and local sector's economic activity is destined to continue to slow down in current dollar terms and to shrink in real, price deflated terms. As a matter of national policy, the prevailing mood is that resources need to be redirected from domestic government expenditures. Now, this may be the correct remedy needed to restore productive vigor and stable prices. It may also provide the setting needed in which to sort out responsibilities among governments and to design an affordable public sector. But, the path to those objectives will mean hardships for many, including the fiscal systems of State and local governments.

Such difficulties and uncertainties such as have been recited before this committee over the past few days are really a clinical fact of life. Acknowledging their existence does not necessarily mean a mandate to do something about reversing them. Many problems, in my opinion, are irreversible in the near future. We have commenced on a national experiment, as the previous witnesses pointed out, to overall smaller government and I think the gravity of the Federal Government's own financing problems sinks any prospect of that level doing much to help states and localities. But while it may not be able to do much in spending more money, I think it is incumbent upon the Federal Government not to do things that positively damage the State and local sector's financial circumstances.

Below are some of the key trends and emerging problems as I see them for the immediate future. Overall general expenditures of State and local governments, that is, combined own-source and Federal aid, will grow only about 5 percent this year. Own-source revenues of these governments will grow relatively slowly at 8 percent, with recent increases in tax rates and expansions of tax bases helping to counter the effect of the recession on revenues. Federal Government aid will continue to drop about 10 percent to a level of $80 billion or less for the year. That's down from $87 billion in 1981.

An emerging problem is that there may be a second round of taxpayer revolts against lagging property-tax assessments that do not reflect the recent deterioration in real estate values. Through this year, there will be decline in residential home prices which will adversely affect market values and assessments. The major culprit is high interest rates which have decapitalized housing values. Almost every factor is working against a recovery in housing prices. We find that about one-half percent of all outstanding home mortgages are in foreclosure. Now that's a record since that data started being collected in the early seventies. Obviously, we've seen capital gains expectations in housing largely wiped out from last year's experience. The Supreme Court's recent ruling to allow savings and loan associations to enforce "due-on-sale" clauses in mortgage agreements will further intensify downward pressure on home prices. Last, the drop off in commercial and industrial building and declining rents and prices for existing properties will further erode local tax bases.

My point here is that the old mainstay of local taxation, the property tax, appears headed for another round of difficulty. At one point property taxes were growing too rapidly in the consideration of the public and, now, just holding them at current levels would be too much due to the decline in housing values and general real estate values.

Total expenditures by State and local governments will continue to slow in growth to the vicinity of about 6 percent for the current year. With the sector's price deflator rising by about 7 percent, this means approximately a 1-percent decline in real activity, coming on the heels of a 2-percent decline over the last year.

Here we have the manifestation of a sector that was shrinking in its real economic activity.

Construction spending by State and local governments will continue to be depressed for the foreseeable future as Federal grants disappear rapidly, bond funds are used up, and new tax-exempt borrowing for governmental capital purposes, as opposed to private purposes, is limited. I estimate that State and local construction will be at the $40 billion level this year; about $4 billion and 10 percent below the 1981 level.

I might point out that over the seventies Federal aid supported about 37 percent of State and local capital spending. Of course, the contraction in that assistance is simply not being made up out of local resources or borrowed funds.

State and local employment is now declining at a rate of about 2 percent a year and will continue to do so through this year. This is one manifestation of declining service levels. By year-end 1982, there should be approximately 500,000 fewer State and local workers than there were at the beginning of 1981. That's roughly a 2-year interval during which approximately 500,000 employees have been knocked off. Public employee wages will be under great pressure and should not be expected to keep up with inflation even at its reduced rates. I believe the focus will shift to the retention of public jobs and there will be widespread concessions by public workers, just as there has been by industrial workers, on wage rates and fringe benefits. While some key skill areas will suffer, soft labor markets will insure plenty of applicants for public service.

The municipal bond market—especially if tax legislation now pending before the Senate is passed—will enter yet another round of ferocity, with high interest rates fostered by intense competition between governments borrowing for their own uses and the credit demands of other tax-exempt borrowers. A weakening of investment by commercial banks caused by tax changes now before the Senate would knock out a major, if not growing, source of support to the market. The direct, if limited, application of Federal income taxes to interest income from "tax-exempt" securities under the individual minimum income tax would, in my opinion, have no revenue consequences for the Federal Government and would severely damage new issue demand through its psychological impacts in that market. Furthermore, the threat that 1982 may be the last year to issue a "truly" tax-exempt security may set off a stampede to the marketplace during the second half of this year.

Another factor intensifying State and local borrowing difficulties is the large overhang of short-term debt, most of which will come to market at the slightest break in rates, and, thus, keeping them up at high levels. Without a significant reduction in nontraditional demands in the tax-exempt market, governments will be outbid for funds by stronger, more flexible private-purpose oriented borrowers. The shortage of borrowed funds will be a primary contributor to the continued slide in State and local construction spending because available funds will be diverted to operating costs.

Now, I'd like to end my statement with a comment on the role of the State and local sector in the overall economy. Current shrinkage in spending and employment by that sector coupled with the need to increase revenues by raising taxes and fees present a strong contrast to the way in which the State and local sector has behaved during past recessions. For the first time since World War II, the sector is actually leading the economy in the slowdown, acting in a procyclical fashion, rather than behaving in a fiscally stimulative, anticyclical manner. While it may be coincidental that the drive to prune Government is coming at a time of a national economic decline and perhaps cutting back on Government is desirable for other reasons, it is nonetheless true that cutting expenditures, laying off workers, and raising revenues are all depressants on the economy both at the local and national level.

That's the end of my remarks. Thank you.

[The prepared statement of Mr. Petersen follows:]

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Prepared Statement of John E. Petersen

This statement provides a general review of current trends in State and local government revenues, expenditures, and debt-financing. Throughout are observations on what appear to me to be some major problem areas during a continuing contraction of activities and fiscal stringency in the State and local sector. Tough times are certainly not unique in the economy and, no doubt, the down-turn in state and local public finances is to a large degree a matter of conscious public choice.

A smaller, leaner public sector is the announced objective of many and a responsive, more efficient one should be the objective of all. Still, the intense fiscal pressures now being experienced are not without costs, risks, and inequities.

Because this review covers a good deal of ground, I have taken the liberty of including as appendices some brief recent analyses that explore certain aspects of state and local finances in more depth. These are noted as the subjects arise in the text.

The year 1981 was one of transition for the state and local governments as the realities of an economic recession, a reversal of years of growth in federal aid, and tax-revolt-induced erosion of revenue systems began to close in on their finances. With few exceptions, the recent changes in state and local budgetary behavior, while often painful, have not been unexpected. Through 1979 and 1980, state and local governments in the aggregate had seen their expenditures rising faster than revenues. Governments had been spending off surpluses to sustain outlays as they attempted to gear down current receipts to the tax-cutting desires of the late 1970s. During that period, inflation-induced revenues and increasing federal aid had kept the sector growing, albeit at a slower rate, both in terms of real, price-deflated spending and employment.

A changing political philosophy -- as reflected by the new Federal Administration -- and deteriorating economic conditions grabbed a hold of state and local finances in 1981. The gathering clouds of recession throughout last year and a dramatic curbing of Federal domestic expenditures -- especially grants to state and local governments -- were convincing evidence that wearing the fiscal hairshirt was no longer simply a matter of good politics, but rather a political necessity.

In the aggregate, governments have reined in expenditures and have begun to restore revenue systems that had been subject to wide-scale snipping and slicing in the late '70s. But the rapid retreat in Federal aid and flagging economic conditions are making adjustment more rapid and painful than most would have wanted or expected.

Revenues

As depicted in Table 1, the rate of growth in state and local own-source revenues (those receipts other than federal payments) was 11 percent in 1981, thanks to an overall strong performance by personal income tax receipts, sales taxes, and miscellaneous other taxes and fees and charges (not shown separately in Table 1, but enjoying a growth of about 16 percent). A healthy increase in own-source revenue was no luxury because with the rapid decline in Federal assistance total general receipts (own-source plus Federal help) grew by only 8 percent, slightly faster than the growth in total outlays.

TABLE 1

SELECTED STATE AND LOCAL GOVERNMENT RECEIPTS AND EXPENDITURES

	Annual Levels (Dollars in Billions)				Percent Rate of Change			
	1978	1979	1980	1981	1978-79	1979-80	1980-81	1981.1-1982.1p 1/
Receipts:								
Own Source Revnues 1/	225.5	242.6	264.5	293.6	7.6	8.9	11.0	7.0
Property Taxes	63.9	64.4	67.5	72.9	1.0	4.8	7.6	9.5
Sales Taxes	71.0	76.9	82.8	92.7	8.3	7.7	12.0	5.0
Personal Income Taxes	35.5	38.8	45.0	51.9	7.0	16.0	15.3	9.1
Corporate Income Taxes	11.7	13.0	12.2	11.7	11.1	-8.5	-4.1	-36.6
Federal Aid	77.3	80.4	88.0	87.1	4.0	9.3	-1.0	-9.7
Expenditures:								
Total Purchases	279.0	305.9	335.7	361.0	9.6	9.8	7.5	4.9
Employee Compensation	157.5	172.3	187.4	203.3	9.4	8.8	8.5	7.4
Other Goods and Services	121.7	133.6	148.3	157.6	9.8	11.0	6.2	1.2
Transfers to Persons	32.8	35.0	38.9	42.2	10.5	11.1	8.5	8.5

1/ Items do not add to totals
2/ Change from first quarter 1981 to first quarter 1982. Preliminary data used for 1982.

Source: U.S. Department of Commerce, Survey of Current Business

Property tax revenues began to gain some momentum (growing by 7.6 percent between 1980 and 1981), despite numerous restraints that had been placed on them in the late '70s. There seems to be little evidence that jurisdictions were raising effective property rates. Rather, the most important factor has been the lagged impact of rapidly rising market values in real estate on assessed values. That will soon end. As discussed below, the rapid increase in property values of the late 1970's and 1980 has sharply been reversed. The currently declining market and assessed values for real estate will pose a mounting threat to the property tax and local government revenue systems. 1/

A major factor in rising revenues in 1981 and so far in 1982, besides the continuing inflationary growth of tax bases, has been the growing resistance by governments to cutting taxes and their willingness to raise them selectively when faced with rapidly diminishi-- fund balances and operating deficits. Last year, more than one-half of the states increased taxes on gasoline, and several raised general sales taxes as well. (Evidently 1981 was the first year since 1977 that legislated increases added to rather than subtracted from sales tax revenues). 2/

At the state level, the corporate income tax has proved to be a major soft spot in finances. Receipts in 1981 were down by 4 percent from 1980, reflecting deteriorating economic conditions and reductions induced by changes in the federal corporate tax to which most state bases are coupled. It is estimated that for the two years 1981 and 1982, Federal tax reductions for corporations is in for massive and protracted retreat for the foreseeable future. Without the New Federalism initiative, it is estimated that under the 1983 Federal budget, payments to state and local governments will decline rate through this calendar year to a level somewhat below $80 billion for 1982.

Expenditures

State and local government curtailed the growth in spending decisively last year, with total purchases of goods and services growing by only 7.5 percent, down from a growth rate of 9.8 percent between 1979 and 1980. This was the smallest year-to-year percentage change in spending recorded by the sector in the past 20 years. Employee compensation and transfers to persons both grew faster than total outlays, but at rates lower than those of the previous two years. Purchases other than employee compensation experienced the sharpest curtailment, dropping from an 11 percent rate of growth during 1980 to a 6.2 percent increase in 1981. A major factor in the downturn of such spending was the shrinkage in spending on capital outlays -- enough to largely offset the continuing rapid growth in medical vendor payments, which rocketed ahead at a 14 percent annual rate of growth.

Results for the first quarter of 1982 show an even stronger decceleration in spending, with purchases of goods and services up by less than 5 percent for the year interval 1981.1 to 1982.1 (see Table 1). As is discussed below, the continued decline in public construction spending continues to lead the way in spending cutbacks.

In real terms, total spending by the sector between 1980 and 1981 sustained a decline of approximately one percent. This occurred because the state and local price deflator (see Table 3) grew at 8.4 percent last year, which was faster than the 7.5 percent increase in total spending on goods and services those governments. More recently, the curtailment in real growth in the sector for the year-interval 1981.1 to 1982.1 has been dramatic. With a 4.9 increase in current-dollar purchases and a 7.9 percent increase in prices, outlays in real terms have decreased by nearly 3 percentage points.

The current shrinkage in spending and employment coupled with the needs to increase revenues present a strong contrast to the way in which the state and local sector has behaved during past recessions. For the first time since World War II, the sector is actually leading the economy in the slow-down (acting in a pro-cyclical fashion) rather than behaving in a fiscally stimulative, anti-cyclical manner. [5] While it may be coincidental that the drive to prune government is coming at the time of national economic decline (and may be desirable in itself or longer-term reasons), it is nonetheless true that cutting expenditures, laying off workers, and raising revenues are all depressants on economies, both local and national.

Employment and Construction

During 1981, state and local governments continued to slowly whittle away at their workforces; with total employment (as shown in Table 2) dropping a little less than one percent from the preceding year. At year end, there were approximately 25,000 fewer employees than at the beginning of 1981. Since total employee compensation grew at 8.5 percent, it appears that real, price-deflated compensation

TABLE 2

STATE AND LOCAL GOVERNMENT

BORROWING, EMPLOYMENT AND CONSTRUCTION

	Annual Levels				Percent Rate of Change			
	1978	1979	1980	1981	1978-79	1979-80	1980-81	1981.1-1982.1 1/
Borrowing (dollar billions)								
Long-Term	46.2	42.3	47.1	45.3	-8.6	9.5	-3.8	38.0
Short-Term	21.6	20.9	26.5	34.3	-3.2	27.0	29.4	45.5
Total	67.8	63.2	73.6	79.7	-7.3	15.2	8.3	35.5
State and Local Employment (millions)	12.92	13.15	13.30	13.28	1.8	1.1	-0.7	-2.0
State and Local New Construction (dollar billions)	37.5	40.2	45.1	44.0	7.2	12.1	-3.9	-19.1

Note: Employment and construction are in seasonally adjusted annual rates; Borrowing at annual rates unadjusted

1/ Preliminary Data.

Sources: The Daily Bond Buyer, U.S. Department of Commerce, Survey of Current Business and Construction Reports.

TABLE 3

SELECTED PRICES AND INTEREST RATES

	Annual Averages				Percent Rate of Change			
	1978	1979	1980	1981	1978-79	1979-80	1980-81	1981.1-1982.1 1/
Gross National Product Deflator (100=1972)	150.1	162.8	177.5	93.7	8.5	9.0	9.2	7.3
State-Local Price Deflator (100=1972)	156.9	169.8	184.7	200.3	8.2	8.9	8.4	7.9
Tax Exempt G.O. Bonds (%) 2/	6.07	6.53	8.71	11.37	7.6	33.4	30.5	30.0
Tax-Exempt Rev. Bonds (%) 3/	NA	7.90	9.42	12.26	NA	19.2	30.1	27.2
Taxable Corporate Bonds (%) 4/	9.07	10.12	12.77	15.06	12.0	26.2	17.9	13.2
Ratio of Tax-Exempt to Taxable 5/	.67	.65	.68	.76	-3.0	4.6	11.8	16.0

1/ Preliminary Data
2/ *Bond Buyer* 20 Bonds
3/ Bond Buyer Revenue Bond
4/ Moody's All-grade Corporate Bonds
5/ Ratio of Bond Buyer 20 to Moody's Corporate Bond rates

Sources: *The Daily Bond Buyer*, U.S. Department of Commerce, *Survey of Current Business* (real wages) per worker dropped slightly in the fact of 10.4 percent increase in the consumer price index. A major factor in the drop-off in state and local employment last year was the cessation of public employment under CETA, which lopped off 150,000 jobs. Education-related jobs were also down, reflecting a growing squeeze on school budgets and declining enrollments.

State and local construction experienced a moderate decline in 1981 after the pronounced but brief uptick that occurred in 1980 as a jolt of the Federal aid helped boost outlays. After a record-setting level of spending in the first quarter of 1981 ($51 billion annual rate), construction spending went into steep decline caused jointly by terminations in and uncertainties surrounding federal aid, sustained high interest rates, and the need to shift available funds to operating purposes as opposed to capital outlays. Spending on sewerage and education construction appeared to be particularly hard-hit due to reductions in federal assistance programs.

The secular decline of investment in public infrastructure and its current imperiled state has gotten lots of press. The fact is that no amount of documentation of needs -- even were there agreement on the magnitudes, responsibilities, and urgency -- can produce the political will or financial substance to do much about raising the capital needed for improvements. State and local governments relied upon Federal government to supply about 37 percent of their capital outlay funds in the 70s. Changing over to own-source funds in the face of fiscal stringency and unreceptive capital markets will be a difficult chore. For the near future, a depletion of the state and (primarily the acceleration of depreciation) will saw off $700 million in state corporate income tax receipts. This will be only slightly offset by increases of $100 million in state personal income tax collections because of the smaller deductions allowed individual because of small Federal tax payments. 3/

At the local government level, the biggest factors in the growth of own-source revenues have been in non-property taxes and fees and charges. Almost all local governments have or are in the process of raising rates or expanding bases of these alternative sources of revenue. As intergovernmental assistance slowed in growth or declined and with the property tax generally held in disrepute, public sentiment has seemed to accept placing more local activities on a "user-pays" basis, in order to maintain expenditures. 4/

The biggest turn-around in state and local revenues has occurred in grants from the Federal government level. After peaking at an annual rate of $91.8 billion (National Income Accounts definition) in the last quarter of 1980, Federal aid payments began to shrink. by the first quarter of 1982, Federal aid payments were $9 billion a year less, having dropped by about 10 percent during the year 1981.

Major declines programatically have occurred so far in the state share of General Revenue Sharing (which ceased in September 1981) and public employment grants under the Compre hensive Employment and Training Act (CETA). Highway and sewer construction grants were also reduced. The budgetary strains in 1981 were but a precursor of more stringencies. Federal actions throughout last year and into 1982 leaves few doubts that direct federal aid to state and localities local capital stock seems inevitable as new investment is limited. 6/

State and Local Borrowing

The last year has seen very high and generally rising -- and extremely volatile -- interest rates in the tax-exempt securities market. This has been accomplished by sudden swings in the dollar volumes of debt sold. Overall, according to the Bond Buyer data shown in Table 3, a total of $80 billion in financing was done last year, in a frequently chaotic market. All growth in borrowing came in the shortterm area, which experienced another year of dramatic (30 percent) growth. Results so far this year show a continuation of high volumes of borrowing, with heaviest growth coming in the short-term markets.

Although the past year has been difficult for all the capital markets, the tax-exempt market has encountered special problems. Essentially these are related to changes in the Federal Income tax, the impact of recessionary conditions on major buyers, real (and potential) changes in Federal regulations pertaining to tax-exempt bonds, and the repercussions of the cutbacks of federal grants on state and local budgets. Surges of offerings for non-traditional uses (industrial development and pollution control bonds) are keeping unrelenting upward pressure on interest rates as new issues meet with declining and uncertain demand in the market. The added flood of hospital bonds, public power issues, and student aid debt have more than offset the decline in housing bonds that resulted from the passage of restrictive federal legislation in late 1980.

Upward pressure on interest rates has been sustained and universal in the municipal bond market. The Bond Buyer 20 annual average rose for the fourth year in a row (since 1977), and each successive quarter has set new records for the last seven quarters (from 1980.2 through

1982.1). In 1981, long-term tax-exempt rates rose nearly twice as fast as those on taxable securities. This resulted in a rapid increase in the ratio of tax-exempt to taxable rates, a sure sign of the extraordinary pressures of supply against a costly lack of demand by investors. As of the first quarter of 1982, the ratio of rates was at 81 percent and, I believe, it is destined to go even higher.

Two corrollaries to the high interest rates have been the extensive use of short-term borrowing and the high level of purchases by the household sector. In the former case, both investors and issuers have found that temporary (as opposed to long-term) financing is attractive -- neither wanting to make long-term commitments at present. Much of the creative financing in the municipal bond market amounts to various ways to protect investors against future interest rate risk. Typically, this means absorbtion of that risk by the borrowers, making them less liquid (or paying others to absorb some of it through guarantees of various sorts).

The second corrollary to high interest rates has to do with the protracted shortage of institutional demand for tax-exempts and the need to sell bonds to individual investors. With low taxable profits and a plethora of tax shelters available, banks and insurance companies have largely taken a walk on municipal bonds. Marketing bonds to individual investors historically has been related to high interest rates and the present circumstances are no different, only worse.

The municipal bond market will not recover its former stature as a privileged provider of low-cost capital to governments. The reasons for this are many but essentially come down to there being too many bonds for the limited number of buyers in need of tax shelter. While tax-exempt rates will track those in the economy, tax-exempt borrowing will remain relatively expensive. In fact, it could get even more expensive. The tax legislation being now considered by the Senate will further exacerbate borrowing problems of states and localities because of inclusion of municipal bond interest income in the revamped minimum tax on individuals and the limitation on interest cost deductions when borrowing has been presumptively done to acquire or carry tax-exempt. These two measures, according to our estimates, would raise tax-exempt rates by another 1 to 1.5 percentage points in current markets and would shove the ratio of tax-exempt to taxable rates from its current 80 percent level to 85 percent or more. (see Table 3).

Moreover, the tax-exempt market will continue to see large volumes of borrowing. The supply on non-traditional debt will be forthcoming so long as there exists a 2 to 3 percentage point spread between taxable and tax-exempts rates. The Senate tax measure, despite some limitations on private-uses, in my opinion, will do little to cut the volume of industrial development bond (IDB) financing. Thus, there will be head-to-head competition between governments and private capital needs in the tax-exempt market.

Prospects for the Coming Year

The financial prospects for state and local govenments are dreary. The state and local sector's economic activity is destined to continue to slow down in current-dollar terms and to shrink in real terms (as measured by its purchases of goods and services). As a matter of national policy the prevailing mood is that resources need to be redirected away for domestic government expenditures. This may be the correct remedy needed to restore productive vigor and stable prices. It may also provide the setting needed in which to sort out responsibilities among governments and to design an affordable public sector. But the path to those objectives will mean hardships for many, including the fiscal systems of state and local governments. Such difficulties and uncertainties are clinical facts of life and acknowledging their existence is not necessarily a mandate to do something about reversing them. Many problems, in my opinion, are irreversible in the near future. We have commenced on a national experiment in overall smaller government and the gravity of the Federal government's own financing problems sinks any prospects of that level doing much to help states and localities.

Below are some of the key trends and emerging problems, as I see them, for the immediate future:

- Overall general revenues (combined own-source and Federal aid) will grow at only 5 percent this year. Own-source revenues of goverments will grow relatively slowly at 8 percent, with recent increases in rates and expansions of bases helping to counter the effects of the recession on revenues. Federal aid will drop by about 10 percent to $80 billion or less for the year.

- An emerging problem is that of a second round of taxpayer revolts against lagging property-tax assessments do not reflect the deterioration in real estate values. Through this year, there will be a decline in residential home prices which will adversely affect market values and a assessments. The major culprit is high interest rates which have decapitalized housing values. Almost every factor is working against a recovery in housing prices:

About 1/2% of all home mortgages are in foreclosure, a record since that data started being collected; Capital gains expectations in housing have been largely wiped out by the past year's experience. The Supreme Court's recent ruling to allow savings and loan associations to enforce "due-on-sale" clauses in mortgage agreements will further intensify downward pressure on home prices. Last, the drop off in comemrcial and industrial building (and declining rents and prices for existing properties) will further erode local tax bases. The old mainstay of local taxation, the property tax appears headed for more difficulty.

o Total expenditures by state and local governments will continue to slow in growth to the vacinity of a 6 percent increase for the current year. With the sector's price deflator rising by about 7 percent, this means approximately a one percent decline in real activity, coming on the heels of a two percent decline over the last year.

o Construction spending by state and local governments will continue to be depressed for the foreseeable future as Federal grants disappear rapidly, bond funds are used up, and new tax-exempt borrowing for governmental capital purposes (as opposed to private purposes) is limited. I estimate that state and local construction will be at the $40 billion level for the year, about $4 billion and 10 percent below the 1981 level.

- State and local employment is now declining at a rate of 2 percent a year and will continue to do so through the year. This is one manifestation of declining service levels. By year-end 1982, there should approximately 500,000 fewer state and local workers than there were at the beginning of 1981. Public employee wages will be under great pressure and should not be expected to keep up with inflation even at its reduced rates. I believe the focus will shift to the retention of public jobs and there will be widespread concessions by public workers on wage rates and fringe benefits. While some key-skill areas will suffer, soft labor markets will issue plenty of applicants for public service.

- The municipal bond market -- especially if pending tax legislation is passed -- will enter yet another level of ferocity, with high interest rates fostered by intense competition between governments borrowing for their own uses and the credit demands of other tax-exempt borrowers. A weakening of investment by commercial banks caused by tax changes would knock out a major, if not growing, source of support to the market. The direct, if limited, application of Federal income taxes to interest income from "tax-exempts," while having virtually no revenue consequences for the Federal government, would severely damage new issue demand through its psychological impacts. Furthermore, the threat that 1982 may be the last year to issue "truely" tax-exempt securities may set off a stampede to the market place during the second half of this year.

- Another factor intensifying borrowing difficulties is the large overhang of short-term debt, most of which will come to market at the slightest break in rates, and, thus, keeping them up at high levels. Without a significant reduction in non-traditional demands in the tax-exempt market, governments will be outbid for funds by stronger, more flexible private-purpose oriented borrowers. The shortage of borrowed funds will be a primary contributor to the continued slide in state and local construction spending.

FOOTNOTES

1/ See Appendix A, "Another Fiscal Downer in the Wings," Resources in Review (May 1982), page 5.

2/ David Levin, "State and Local Fiscal Position, 1981," Survey of Current Business (January, 1982), pages 23-25.

3/ Advisory Commission on Intergovernmental Relations, Intergovernmental Perspective (Spring, 1982), page 7.

4/ See Appendix B, "Charge!" Resources in Review (March, 1982), page 5.

5/ See Appendix C, "State and Local Behavior in Past Recessions," Resources in Review (November, 1981), page 5.

6/ See Appendix D, "Public Capital Crisis," Resources in Review (July, 1982), page 5.

7/ See John E. Petersen, "Has the Municipal Bond Market Undergone Fundamental Change?" Remarks before the annual conference of the American Public Power Association. Reprinted in The Bond Buyer (June 14, 1982), page 1.

Financial Roundup for State and Local Governments

John E. Petersen
Director, Government Finance Research Center

Spring has brought no greening for state and local governments in 1982. On the basis of sparse and preliminary data, it appears that first quarter results will show state and local spending continuing to grow more slowly than the rate of inflation, resulting in a general decline in real activity. State and local construction in February and January was, on an annual rate, eight percent below the severely depressed levels of the fourth quarter of 1981, and employment is dropping at an annual rate of nearly one percent. Because of the effect of recession on revenues and the continuing slide in federal aid, it is unlikely that the sector will experience any real growth and, more likely, will continue its contraction. Continuing high interest rates will be a further depressant to capital outlays, as will the overriding need to husband fiscal reserves to meet current operating needs.

Another Fiscal Downer in the Wings

It seems only yesterday that the taxpayers were in widespread revolt against the billowing growth in property values, assessments and, correspondingly, property tax levies. The extreme inflation in property values, fueled by escalation in building costs and compounded by massive speculation in real estate, was a major contributing factor in the multitude of taxing limits and expenditure caps that were enacted throughout the mid to late 1970s. The popular belief was that with such restraints, public officials would no longer be able to enjoy a free ride by counting on rising property values to automatically swell local government tax receipts. Resultingly, property tax receipts collections have slowed nationally, with the growth rate generally below the rate of inflation, a major brake on local government receipts and spending.

But that's not enough, it seems. The property tax is still in trouble, this time as a result of the depression in the housing and real estate sector. What many tax cutters hoped to achieve by fiat, the economy is doing by more traditional means: the value of residential housing is beginning to tumble in the face of high interest rates and depressed purchasing power. As is discussed below, the shrinkage in real estate values as reflected in housing prices has been in part disguised by the creative financing devices now being used to accomodate what sales are possible. But, as these become factored in, the depressing news is clear. Already circumscribed property tax bases of local jurisdictions are being drawn tighter. Public officials had best gird themselves for declining assessed values in current dollar terms because property values are falling. As this occurs, more jurisdictions, just to maintain the same dollar amount of property tax revenues, may have to raise tax rates—just the reverse of the "free ride" when property values were ballooning in the 1970s.

TABLE 4
ANNUAL RATES OF GROWTH IN CONSUMER PRICES AND HOME PRICES
1976–early 1982

Year	Consumer Prices, Index	Home Prices, Index
1976	5.7%	5.0%
1977	6.5	6.6
1978	7.7	9.5
1979	11.3	13.4
1980	13.5	14.0
1981	10.3	5.3
1982.1[1]	3.3	–.1

[1]January and February figures only
Source: Consumer Price Index, U.S. Bureau of Labor Statistics

In the meantime, quantifying the downturn in property values is causing assessors fits. This happens primarily because housing prices do not reflect the values of different properties, but rather the attractiveness of the financing packages that the owners are able to offer.

Assessors normally have pegged property tax assessments to sales prices since the vast majority of houses were sold using conventional 30-year fixed-rate mortgage loans from banks or thrift institutions and a lump-sum down-payment. But under creative financing, the sellers have become the mortgage lenders, maintaining housing prices because they are willing to make concessions, such as taking back mortgages or deed trusts or allowing assumptions of mortgages at interest rates below those prevailing in the market. For example, if a seller sells a house for $75,000, takes a $15,000 downpayment, and for the remaining $60,000 accepts a 12 percent rather than the prevailing 17 percent 25-year mortgage, the sale price for the house corrected for the concessionary financing would be $59,000 rather than $75,000.[1]

By recent reports, creative financing and seller concessions constitute part or all of the financing of 60 to 70 percent of housing and condominium sales over the past year. And, assessors are already under pressure to start correcting nominal house sale prices for the "water" caused by financing arrangements in arriving at fair market values.[2]

How bad the erosion in property values will be is not clear, although given existing property taxing practices, it will take several months for the declining market values to reflect themselves in reduced assessments. Table 4 on this page compares the Home Price Component of the Consumer Price Index with the overall index in terms of rates of growth. Although the Home Price Component shows greatly reduced growth in 1981 and no growth in 1982, it no doubt understates the actual deterioration in the market values of housing real estate. According to the National Association of Realtors, the widespread seller financing at below market rates may be resulting in an overstatement of housing sales prices by up to ten percent at present. As assessors and Boards of Equalization begin to shave assessments down, local governments will have the lamentable choice of raising rates or further cutting expenditures. A rebound in the economy with lower interest rates may reverse these trends in the future, but over the next year the downward momentum in many local property tax bases is established.

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[1]For a discussion of assessing values in such arrangements, see Bernard W. Saler, "Adjusting for Terms of Financing in the Assessment Process." *Assessment Digest* (March/April, 1982).

[2]LaBarbara Bowman, "Creative Financing Makes Fair Assessment Difficult," *Washington Post* (April 4, 1982) p. B1.

CREATIVE CAPITAL FINANCING SEMINAR SCHEDULED

A seminar to review the options available to state and local governments with capital financing needs is scheduled for June 28–29, 1982 in Chicago, Illinois. Sponsored by the Municipal Finance Officers Association, the seminar will review innovative debt finance approaches as well as leasing arrangements that might help governments cope with the practical problems of raising capital. Further information on the seminar can be obtained from MFOA's Career Development Center, 180 N. Michigan Avenue, 8th Floor, Chicago, IL 60601 (312) 977-9700.

Appendix B

Financial Roundup for State and Local Governments

John E Petersen
Director, Government Finance Research Center

Preliminary results for the year 1981 show clearly the extent of the recessionary forces gripping the state and local government sector Although comparisons of the yearly average for 1980 and 1981 in Table1 show a continuing decline in real growth in revenues and expenditures, it is the examination of the fourth quarter results for the two years that provides the best insights into the depth and speed of the present slide. Between 1980 4 and 1981 4, own-source general revenues of state and localities managed to stay about even with the rate of inflation; but with the rapid decline in federal grants, total current receipts grew by only 4.4%, or only about half of the sector's rate of inflation (8.5%) Particularly worrisome on the revenue side was the softness in sales tax revenues and declining corporate income tax accruals. Together, these grew at a rate of only 3% for the latest 12-month period.

Not surprisingly, government spending for goods and services continued to slow (although not as rapidly as revenues), showing growth of 6 3% for the last four quarters. As Table 2 indicates, government employment declines are continuing and the cutbacks in construction spending are particularly severe. Amid the tightness in the bond markets, governments have increasingly shifted their borrowings to the short-term market While long-term borrowing increased, the purposes of aiding private industry through pollution control and industrial development bonds and the mortgage market through the issuance of single-family housing bonds accounted for the bulk of the higher volumes. Through the first quarter of 1982 it became apparent that the tax-exempt market was going to be the hardest hit of the credit markets for some time to come.

Charge!

Recent surveys of local governments provide substantial evidence that cities and other local governments are becoming more accomplished practitioners of the pricing system where the user/benefiter pays for the service as opposed to its being financed out of general revenue. As of late, local user charges, fees, and miscellaneous revenues have been rising at a rate of 13 to 14% a year, well in excess of the 9 to 10% increase in general revenues A recent survey by the Municipal Finance Officers Association and the Advisory Commission on Intergovernmental Relations concluded that over the past two years, fully 84% of the 307 responding cities took some action to adopt new charges, raise rates, or extend the base of their nonproperty tax revenues during the interval 1980 through 1981 (see Table 4). Not surprisingly, cities located in states with tax and expenditure limitations were more inclined to take actions to enhance their revenue base

The most frequent objection to user charges is that they are regressive (a criticism reported by 33% of the cities that took actions to adopt or enhance them) However, in nearly half the cases there was no public opposition.

The shift to charges and fees was also spotted by a recent survey of the 48 largest cities which reported 30 had increased rates during the most recent fiscal year (as opposed to 12 that raised their property tax rates) [1]

[1](Joint Economic Committee, *Emergency Interim Survey Fiscal Condition of 48 Large Cities*, January 1982)

Enthusiasm for the recent growth in non-tax revenues must be tempered by the fact that it has been spurred by high interest rates and inflationary conditions Those delving into the miscellaneous revenue category must keep in mind that interest earnings are a major factor in explaining recent performance. Between fiscal years 1979 and 1980, interest earnings increased by a whopping 49% and accounted for 40% of the total increase in user charges and miscellaneous revenues During the period, local government assets (not including t funds) grew by 12% and interest rates on short-term investments increased by approximately 30% (9 5% to almost 12 5%) Fiscal year 1981, when results are in, will show another spurt in interest earnings, as short-term money market rates have advanced by another 20% (from 12.5% to almost 15% for the fiscal year). When short-term rates drop, so will interest earnings as a source of local govenment miscellaneous revenue.

How high can user charges, fees, and miscellaneous revenues go in meeting future revenue needs? The answer to the question is difficult, given the diversity of these revenue miscellany and their role in local government revenue systems. At present (using 1980 figures), user charges and miscellaneous non-tax revenues amount to $14.4 billion out of a total of $76.1 billion in city government general revenues nationwide. If city-operated utility charges (gas, electric, transit, etc.) and total revenues are included, combined charges and other own-source non-tax revenues come to $32 3 billion out of a total of $91.8 billion—35% of combined city general and utility revenues. This total of charges and miscellaneous non-tax revenues in 1980 was nearly 3 times the $10.9 billion of direct federal aid received that year by city governments and surpassed total tax receipts of cities ($31 3 billion, of which $16.9 billion were property tax receipts).

For purposes of debate, we might envisage a total drying up of direct federal aid to cities by 1990, eight years from now order to sustain an average annual rate of growth in total revenues of 7%, while making up for the loss of federal grants, user charges and miscellaneous revenue would have to grow at a rate of 10 9% per annum over the period. (If all city revenues other than federal grants grew at 7% as the grants dwindled to zero, the growth in city revenues would be only 5 3% over the eight-year interval.)

Thus, if city charges and non-tax revenues can grow twice as fast as tax revenues, they might offset the loss in federal aid But that's on average for cities receiving high levels of aid and or already heavily reliant on charges, the task would be much more difficult.

TABLE 4
CITY ACTIONS INVOLVING INCREASED USE OF NONPROPERTY TAX REVENUES

	All Cities	Without TELS[2]	With TELS
ACTION TAKEN[1]	84.[illegible]%	75.0%	87.2%
User Charges	77.[illegible]	75.0	79.2
Special Assessments	25.[illegible]	16.7	27.[illegible]
Local Sales	7.8	—	[illegible]
Local Income	5.2	—	7.[illegible]
Other	5.9	—	6.6
NO ACTION TAKEN	15.6	25.0	12.8

[1]New adoption, increase in rate or extension of revene base during period 1980-81
[2]TELS = Tax and Expenditure Limitations
Source John Shannon, "ACIR MFOA Municipal Revenue Survey, Some Preliminary Results Washington, DC Advisory Commission on Intergovernmental Relations (February 1982)

Appendix C

Financial Roundup for State and Local Governments

John E. Petersen
Director, Government Finance Research Center

Its official. Economists and Administration officials agree that th' ''onomy has drifted into a recession. The condition is not un.,,.,ected. Last year, the GNP teetered on the brink of recession and (primarily on the basis of a sharp downturn in the second quarter) actually declined slightly in real terms (price-deflated) between 1979 and 1980. Recessions are typically defined as two or more successive quarters when there is a decline in real GNP, and latest reports indicate there have been consecutive declines in the second and third quarters of 1981, with more to come before recovery commences in mid-1982.

Of course, nobody knows the depth or duration of the current recession. But it seems evident that one thing will be different from the previous contractions—the role played by the fiscal behavior of state and local governments. Over the past twenty years, the sector has acted to stabilize national income in downturns, largely because of the momentum of its growth and short-term budgetary inflexibility. However, recent changes in state and local fiscal circumstances probably will mean that the governments will be more sensitive to a downturn and may well contribute to—rather than dampen—the economic contraction.

State-Local Behavior in Past Recessions

Prior to World War II—and especially in the Great Depression of the 1930s—recessions severely affected state and local finances, causing tax increases and spending cuts. This pro-cyclical reaction to downturns was called "fiscal perversity" on the part of governments because it intensified rather than re? ?d the impact of recession, thus running counter to a na ?al policy of economic stabilization. Soon after World War II, the state and local sector entered an era of growth that resulted in two things. First, sustained growth propelled the sector relatively unscathed through most of the postwar recessions. Second, state and local fiscal behavior became more important in the nation's economy, as state and local spending rose from 8 percent to 15 percent of GNP between 1950 and 1975. However, since 1975 the sector's growth in spending has abated sharply. Moreover, most of its growth in the mid-to-late 1970s was fueled by federal assistance—local and state government revenues from own sources were unable to keep up with inflation and grew more slowly than GNP.

Table 4 shows for the three most recent periods of economic contraction (1960, 1969-70, 1973-74) the annualized rate of growth in state and local expenditures and receipts. (For comparative purposes, the rate of growth of private domestic GNP during the recessions is also shown.) In each recession, state and local expenditures grow more rapidly than receipts, as governments dipped into accumulated surpluses (or borrowed) to sustain outlays. Thus, the sector in the aggregate acted in a stabilizing, countercyclical fashion—increasing aggregate demand during the recession periods. Moreover, in each recession since 1960 the behavior was more pronounced. Analysis has indicated that governments hit the recessions with a good deal of fiscal momentum and that their traditional inflexibility in budgetary behavior, inelasticity of tax bases, and accumulated reserves accounted for the countercyclical behavior.

TABLE 4

STATE AND LOCAL FISCAL BEHAVIOR DURING RECESSIONS: ANNUAL RATES OF GROWTH OF EXPENDITURES AND REVENUES

Recession Period[1]	State-Local Expenditures	State-Local Receipts	Private Sector[2] GNP
1960.1—1960.4	8.7%	7.8%	3.0%
1969.3—1970.4	13.9	11.6	4.6
1973.4—1975.1	14.0	10.5	4.5

[1]Peak and Trough Quarters of real GNP as identified by U.S. Department of Commerce
[2]Private Sector GNP in nominal (current dollar) terms

Table 5 reflects much the same story, focusing on employment. During past recessions, private employment has declined (as did federal employment), but state and local employment remained impervious to the swings, growing (in the countercyclical fashion) right through the contraction.

TABLE 5

STATE, LOCAL AND PRIVATE SECTOR GROWTH: ANNUAL RATES OF GROWTH IN EMPLOYMENT, 1960-1975

Recession Period[1]	State and Local	Private
1960—61	4.7%	-1.0%
1969—70	4.3	-0.9
1973—75	3.1	1.4

[1]Periods chosen to align with Peak and Trough measures of recessions.
SOURCE: Advisory Commission on Intergovernmental Relations, *State-Local Finances in Recession and Inflation* (May, 1979).

Of course, the flip side of the sector's sustained growth was its potential contribution to intensifying upswings and, thereby, intensifying inflationary pressures. Recent research on this score, however, has found that the sector was not a driving force in inflations and has tended to lag or dampen cyclical upswings in the rest of the economy.[1]

Past state and local behavior in recessions is not prologue for their role in the present one. On the spending side, state and local government (joining housing and automobiles) is becoming a declining rather than a growing sector. The statistical data on the facing page are only beginning to pick up the recessionary trends. Looking at the changes between the first and second quarters of 1981, reflected in Tables 1 through 3, total purchases are growing very slowly (albeit, total revenues are not growing at all), construction spending is down by $8 billion, and employment is dropping. Exceedingly chaotic financial markets make recourse to borrowing to sustain spending costly and, usually, unlikely. Yet to be reflected are the impacts of the reductions in federal aid that should reduce those receipts by approximately $10 billion over the next year. This time out, stagnant or declining tax revenues and depleted budgetary reserves will most likely generate continued reductions in spending and employment by governments—reinforcing, rather than offsetting, declines in the private economy. This time, it's up to the private sector—consumers, producers, and investors—to lead the economy out of the woods.

[1]Advisory Commission on Intergovernmental Relations, *State-Local Finances in Inflation and Recession*, pp. 14-15.

Financial Roundup for State and Local Governments

John E Petersen
Director, Government Finance Research Center

After so many quarters of retarded activity in the state and local sector, it is hard to think of synonyms for slow-down, slump, and nose-dive. The first quarter results depicted in Table 1 contain no surprises—except, perhaps that expenditures have slowed down sharply, showing an annual rate of growth of only 4 9 percent between the first quarters 1981 and 1982. But that is not so surprising when the progress (or lack thereof) of revenues is examined. Own-source general revenues plodded ahead at 7 percent over the past year, but federal aid—accounting for 21 percent of all receipts—dropped by nearly 10 percent. Thus, total receipts were up by only 4 percent over a year ago. Clearly, the nearly $7 billion drop in federal aid could not be made up by increased own-source revenues in the face of recession

While the property and personal income tax receipts held up relatively well, sales tax receipts grew slowly. Meanwhile, corporate income taxes—reeling under the impact of the recession on profits and their frequent tie-in to the federal corporate tax base—plummeted by an estimated 37 percent below last year's level.

On balance, the sector is rapidly shrinking and heading toward a current account deficit in the national income accounts Over the past year, expenditures have grown by 4.9 percent, but the prices states and localities pay have gone up by 7 9 percent. Resultingly, in real terms, sector spending has declined by 2.7 percent This decline in activity is also reflected in the steadily dropping employment in the sector (see Table 2) which is down by 2 percent from a year ago

Contained in Table 2 is an intriguing contrast between what is happening to state and local borrowing (35 percent ahead of last year's levels) versus construction spending by those governments (down 19 percent from a year ago) The first thing to note is that much of the borrowing is short-term—over 40 percent of the total during the last two quarters But more important, and not shown in the table, is the high proportion of borrowing that represents funds being channeled through the tax-exempt market to private corporations and households This financial intermediation on the part of state and local governments does not lead to public capital outlays but rather to support private spending. All told, such borrowing on behalf of private sector uses probably accounts for 30 to 40 percent of all long-term tax-exempt borrowing (but, the data on this subject are admittedly shaky)

Reflecting a host of problems (including the volume of private-purpose borrowing) that are discussed elsewhere, interest rates in the tax-exempt market continued to wander around 13 percent [1] *The Bond Buyer* 20 Bond Index (Table 3) equaled 81 percent of the corporate bond yield in the first quarter of 1982 But the two percentage point plus spread between rates on t[illegible] exempt revenue bonds and comparable taxable securitie[illegible] still sufficiently large to entice private purpose borrowers to use industrial revenue pollution control and mortgage bonds for raising capital

Public Capital Crisis?

Almost daily, national media and local papers report on the currently sorry and rapidly deteriorating condition of the public's capital stock. And as the latest construction figures for the state and local sector reported in Table 2 reflect, no dramatic turn-around in investment seems to be in the offing, despite all the publicity On the contrary, our own rough calculations and those of others indicate that for the entire nation such infrastructure items as roads, bridges, sewers, and schoolhouses are wearing out at a faster rate than they are being replaced.

The problem—both locally and globally—is pretty well documented (although measures of physical condition and need are subject to debate), but the means for doing something about it are lacking. In fact, both the cutting back of federal grants (which financed some 37 percent of state and local capital spending in the 70s) and prolonged bond market difficulties (high interest rates and dropping credit ratings) have further weakened prospects for a debt-financed resurgence in activity More likely the sector will continue to defer improvements and hold the line on outlays until both economic and political c[illegible] ditions provide the substance for an upswing in public rever[illegible] or a dramatic reordering of spending priorities

Table 4 on this page provides some historical perspectives on the waxing and waning of state and local construction spending over the past five decades and thus far that of the 1980s

As may be seen, state and local construction spending over the five-decade span 1930 through 1979 averaged over 2 percent of GNP, reaching peaks in the decades of the Depression-era 30s (based on limited evidence) and again in the high-growth 1960s The decade of the forties stands out for the low levels of capital spending because of shortages and controls during World War II (between 1942 and 1945 state and local capital spending was less than 0 5 percent of GNP). After peaking in the 60s, construction spending began to slide, despite the infusion of massive federal grants during the '70s Part of the explanation is the slower national growth, but tightening fiscal constraints were also important The share of GNP now being devoted to state and local construction, 1 6 percent so far in the 80s, marks the lowest level recorded since the mid-1940s

The second [illegible] gives a broader perspective [illegible] the [illegible] of construction [illegible] total state and local [illegible] the contrasts are even stronger [illegible] excepting the war-time decline in the '40s, construction represented around one-quarter of the state and local spending from the 30s through the 60s That share began to fade rapidly in the 1970s as the sector became more labor-intensive and

(continued on page 10)

TABLE 4

STATE AND LOCAL CONSTRUCTION SPENDING AS PERCENTAGES OF GNP AND STATE AND LOCAL EXPENDITURES: By Decade, 1930–1980s

Period	Construction Spending as Percent of. *Gross National Product*	*State Local Expenses*
1930s[1]	2.6%	25.4%
1940s	1.0	17.0
1950s	2.3	26 7
1960s	2.6	23 4
1970s	2 0	14.1
1980s[2]	1 6	7.5

[1]Based on 1929 1932, 1939 totals
[2]Based on 1981 and 1980 totals.
Source: *Economic Report of the President* (February 1982). Tables B-8, B-46.

[1] For a recent discussion of changes in the tax-exempt bond market see John E Petersen "Has the Municipal Bond Market Undergone Fundamental Change?" Government Finance Research Center Washington D C 1982

Appendix D (continued)

Financial Roundup
(continued from page 5)

service-oriented and as transfer payments grew. By the first two years of this decade, construction outlays had sunk to only 7.5 percent of total spending by state and local governments

Deteriorating capital stock is a "wasting disease" that only slowly shows up in reduced efficiency and higher costs for the private sector Temporary mechanical disruptions may occur in sewer services, for example. but the real costs of a worn-out system will likely be hidden in rising treatment and maintenance costs (or in corrupted water supplies in the next community or generation). Moreover, the immediate beneficiaries of construction spending (contractors construction workers, and suppliers) have limited political clout compared to public employees and the recipients of transfers

The problems of an aging capital facility are manifested in most jurisdictions and the major cause is widespread: 'Maintenance and capital improvement budgets are easier to cut than operating funds. When funds are short, why paint a bridge instead of paying a policeman s salary?"'

Boulder Decision

Representative REUSS. Thank you. Mr. Braverman.

STATEMENT OF PHILIP BRAVERMAN, VICE PRESIDENT, CHASE MANHATTAN BANK, NA, NEW YORK, N.Y.

Mr. BRAVERMAN. Thank you, Mr. Chairman and members of the Joint Economic Committee. My name is Philip Braverman. I am vice president of the Chase Manhattan Bank and the senior economic adviser of the bank's capital markets group which is a leading bank underwriter of State and local securities. Today, however, I am testifying as an individual.

It is a privilege to address the Joint Economic Committee. Unfortunately, the outlook for State and local government finance in the 1980's appears bleak. A broad spectrum of problems is constraining State and local revenues, creating a shortfall in municipal services and capital investment and significantly curtailing the ability of tax-exempt authorities to borrow in the credit markets. The result is an impairment of the economic and financial health of many States, municipalities, and tax-exempt borrowing authorities. Indeed, the problems are in concert potentially so pronounced that they could conceivably push some tax-exempt entities to or beyond the brink of bankruptcy.

The current economic environment, with the worst U.S. and worldwide recession and the highest unemployment since the Depression, increases State and local government burdens while lessening the revenues to pay for them. Moreover, this is not a problem of just the moment, but one that is likely to be sustained through the years ahead, as structural unemployment becomes more pronounced, as the economy becomes increasingly susceptible to recession, and as the high interest rate environment persists.

The United States is not only in a prolonged recession, but in the throes of economic and financial transition. And State and local and other tax-exempt authorities bear the brunt of the distress both of the recession and that transition. We are a society moving from old urban centers to the suburban, from the North and Midwest to the Sun Belt. We are moving from heavy industry to high technology and from an emphasis on production to services.

Perhaps most significantly, we have moved from an economy benefiting from prolonged periods of recovery and low interest rates to prolonged periods of recession and high interest rates. And every one of these changes has profoundly adverse consequences for State and local governmental finance. This is all the more distressing since in many instances State and local governments have little or no control over these developments.

The middle-class tax base is shifting from many of our major cities to the suburbs and the Sun Belt, while the recession compounds the problem by reducing the revenue stream from the tax base that remains. The shifts leave behind a heavy burden because of the poor, a requirement for minimum services and rapidly deteriorating capital plant, but with lessened tax revenues or borrowing potential to meet these obligations. Though suburban areas surrounding some cities of the North and Midwest have gained in population and jobs, they, like the communities of the Sun Belt, have a different set of problems. While they have the benefit of an improving revenue base, the revenues are insufficient to meet the increasing demands for services and capital investment thrust upon them.

Inadequate revenues is a problem shared by all taxing authorities. But the problems of some States and cities are particularly onerous, not only because of the narrowness of their tax base but for other very important reasons. When State or local tax burdens are relatively high, they are economically and financially counterproductive. They contribute to the out-migration of industry, jobs, and consequently wage earners. As this phenomenon has become more clearly recognized, there has been an effort to reduce such tax burdens. These efforts, however, have run into such obstacles as the requirement to provide minimum services, the urgent need for remedial capital investment to merely preserve our rapidly deteriorating infrastructure, the highest sustained level of interest rates in our history, a persistently weak economy and the scaleback in revenue sharing. These are all restraints on this intent to reduce the burden of State and local taxes.

As a consequence of these problems, the reductions in State and local taxes have clearly come to a halt. And in their place are new increases in taxes, drastic cutbacks in services and new postponements of desperately needed capital investment. For example, State and local government capital spending is plunging in dollar terms and declining even more sharply in both real terms and as a percentage of State and local revenues.

In real terms, State and local capital spending is now only three-fifths of what it was in the late 1960's. And as a percentage of State and local revenues, the 12 percent currently spent on capital improvement is less than half the proportion back in the late 1960's. Critical bridges, roadways, water, and sewer systems have been kept in operation for years with band-aid measures. This has created a huge deficiency of urgently needed capital investment that easily exceeds $200 billion and quite possibly a multiple of that figure. Indeed, if a allowance is made for the eventual replacement at inflated prices, the requisite capital investment is vastly higher.

The Sunday New York Times spelled out the dimensions of this decay and I'd like to focus your attention on it. These forced cutbacks on spending for investment and parallel cuts in services have taken place despite increases in taxes by some 30 States and numerous local governments. However, in many instances, these tax increases only offset the loss of other revenues.

For some States and local governments with taxes tied to Federal tax rates, the Federal tax cut in combination with the effects of the recession, is actually reducing their effective tax take. As a consequence, they are merely running on a treadmill and in many cases losing ground. The result is likely to be an intensification of both the economic decay and the financial problems of the most beleaguered communities of the Midwest and Northeast corridor, and a reacceleration of the out-migration of jobs, population, and income.

The financial markets certainly do not offer State and local governments a way out merely by increasing their indebtedness. The municipal market is already concerned by the heavy debt and interest burdens borne by States, local governments, and revenue authorities. Moreover, the willingness and ability of the municipal market to accept new intermediate and long-term debt has deteriorated drastically. This stems from many factors. There has been a dramatic reduction in the liquidity of secondary market issues. As a result, the municipal sector has become largely a new-issue market. And even in the new-issue market there is now pronounced caution.

The reasons are obvious to those who are participants. Casualty insurance companies, traditionally the primary buyers or municipal bonds, have experienced a prolonged period or record catastrophe losses that have reduced their investment potential. Similarly, banks, typically the largest investors in intermediate-term municipals, have also become less eager buyers. Both dealers and these institutional investors are currently far less willing or able to expose themselves to risk. Bond portfolio managers, including those at banks, have taken substantial losses in recent years as interest rates have trended higher. Just since 1979, for example, the yield on seasoned bonds has more than doubled, from 6.3 percent to almost 13 percent, virtually cutting the value of an average bond portfolio in half.

There have been major consequences stemming from both the markets' pronounced caution and the reduced ability of traditional bond investors to invest. First, municipalities have been forced to increase their reliance on short-term borrowing, for which there is a strong investment demand. This has added to municipal financial vulnerability, as short-term borrowings have to be continually rolled over in an uncertain market environment. And in some instances, restrictions on the ability of municipalities to refinance in the short-term market.

Second, municipalities have had to pay higher interest rates on intermediate and long-term borrowings to attract the investment of individuals, either directly or through bond funds, in order to make up for the deficiency in purchases by traditional institutional investors. However, for individuals, the decline in the marginal tax brackets, from a top rate of 70 percent to 50 percent, the availability of IRA accounts, industrial development and mortgage bonds, and all-savers certificates have together reduced the value of the tax exemption of interest on municipal securities. At the same time, the many municipal problems have generated an increased interest rate risk premium.

Considering these factors, it should be no surprise that municipal bond yields were pushed to record levels. Though yields are now below their high, the interest costs to municipalities remain burdensome. Certainly, proposals for legislative change that the market views as unfavorable to the municipal sector do not help.

The municipal bond market, of course, also suffers from the same crowding out problems as the corporate market. This stems from a number of factors, but principally from the conflict with huge U.S. Treasury net market borrowing needs, which should easily top $150 billion in fiscal 1983, from the destructively simplistic dictums of monetarism which argue that Federal budget deficits don't matter, and from the misguided Fed overemphasis on controlling the money supply. U.S. Treasury borrowing by itself is likely to equal 5 percent of GNP in 1983, roughly the same as the percentage of GNP saved by individuals, leaving little or no room for a noninflationary expansion of credit to other borrowers. This burdensome Federal budget deficit financing also clearly contributes to high inflation expectations.

The Federal Reserve's misplaced overconcern on limiting money growth leads them to excessive interest rate responses which keep U.S. rates exceptionally high and the dollar excessively strong, thereby reducing the U.S. capacity to compete in world markets. In combination, interest rates have been forced to the unprecedented levels necessary for the market to ration credit to municipalities, corporations, and individuals.

This brief description of just some of the many problems besetting State and local governments and the municipal market not only suggests the appropriateness of congressional concern but of alarm. Like the proverbial single straw that broke the camel's back, it is not the weight of the added straw that matters, as much as the burdens with which State and local governments are already saddled. Indeed, in view of the risk of bankruptcies in the muncipal sector and the profound adverse impact that could have for the U.S. economy and financial system, consideration should be given to establishing a Municipal Assistance Corporation-type authority under Federal auspices that could lead troubled municipal credits away from the brink and hopefully prevent their even moving to the brink.

We have all lived through the New York City crisis and can hopefully benefit from the experience. The central lessons are that a municipality is profligate in spending beyond its means and placing excessive reliance on short-term borrowing. Unfortunately, the U.S. Government is following the same approach. This is the road to financial disaster. However, for cities that face the same problems as New York City, the solutions are also instructive. With the vital assistance of MAC and with the leadership of Mayor Koch and Felix Rohatyn, the support of the private sector and the banks, New York City has made major strides in getting its own financial house back in order. Few cities or States faced with the same problems would be able to achieve as much alone.

Accordingly, a national RFC-type fiancial entity seems appropriate to provide assistance so that cities on the brink of bankruptcy that are willing to make the hard sacrifices will be given the opportunity to restore themselves to financial health. The IMF provides such assistance to nations. We should be prepared to do no less for our own cities should the need arise, and unfortunately the risks are high that it will.

Representative REUSS. Thank you very much, Mr. Braverman. Mr. Shannon.

STATEMENT OF JOHN SHANNON, ASSISTANT DIRECTOR, ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, WASHINGTON, D.C.

Mr. SHANNON. Mr. Chairman and members of the committee, my name is John Shannon. I am Assistant Director of the Advisory Commission on Intergovernmental Relations. The views I express this morning may not necessarily coincide with that of the Commission.

I was asked in the letter of invitation, which I certainly appreciate receiving, to predict how New Federalism might affect the finances of States and local governments over the next several years. I think it might be helpful first to take a quick glance back over our shoulder and find out just what was old federalism and why did it depart from the intergovernmental scene.

Old federalism—and I will give it an arbitrary life period of 1950 to 1978—had two very distinct characteristics: The sustained, rapid State and local growth; and, two, expanding Federal involvement into areas via the grant system, that had traditionally been the exclusive preserve of State and local governments. I will skip some of the statistics here.

Old federalism became a casualty of the tax revolt at the State and local level and the growing budget crunch at the Federal level. Thus, New Federalism can be viewed as the flip side of the old federalism coin. It has two significant characteristics: Virtually no real growth on the State and local front—in fact, as John pointed out, some slippage; and two, a diminished role yet to be defined for the Federal Government in the State and local area, but the role will be diminished.

Moreover, there is sufficient evidence to suggest that New Federalism—I prefer to call it austerity federalism—will be around for sometime to come. It is now quite clear that the political message of the tax revolt has produced a new equilibrium between the private sector growth on the one hand and State and local expenditure growth on the other. For most of our 50 State and local systems, the nominal growth in their expenditures either parallels or in most cases lags slightly the growth in their economies.

Moreover, there has been a sharp decline in the relative importance of Federal aid flows to State and local governments. In relation to State and local own-source receipts, the Federal aid has dropped from 32 percent of State-local money in 1978 to an estimated 22 percent for 1983.

There is reason to suspect that the Federal aid situation will continue to deteriorate for the next several years. This prognosis rests on the fact that Federal policymakers have lost the four great trump cards that created the relatively easy budget situation during the golden era of Federal aid expansion from 1950 to 1978. Now growing defense and social security expenditure pressures, the cutbacks in the income tax, and the drive to at least check if not reduce deficits all add up to an extremely tight Federal budget situation for at least the next 2 to 4 years.

What would it take to recreate an easy budget situation that could then permit a sustained increase in Federal aid flows to States and localities? In my judgment, it would take at least one, and now I'm beginning to think two, of the following very dramatic changes: A real lessening of international tensions that permit substantial defense cuts; and a rapid and sustained economic recovery; or public acceptance of even far larger deficits than we presently worry about; or congressional take-back of most of the major recent tax cuts or the enactment of some hefty new tax like the value-added tax.

To get right down to the basic issue then, New Federalism's effect on States and localities will be determined in large part by congressional reaction to this fiscal austerity reality. Federal aid is likely to claim a decreasing share of the Federal budget for the next several years. In that event, Congress really has three retrenchment alternatives.

Congress can fight a bitter rear guard action along the entire extended 485 categorical aid programs, retreating slowly in the face of very heavy budgetary cutback pressure. That's the first.

The second alternative—to carry out our military analogy—is to draw in the extended categorical aid lines and retreat to more defensible consolidated positions, the block grant approach.

Or the third is to negotiate a new Federal-State-local arrangement, a far-reaching change, in which the Federal Government first withdraws completely from many categorical aid positions—this is the tax and program turnback policy that the administration has advanced—and second, to stake out an even stronger fiscal and administrative position in a few areas deemed to be of critical national interest. This could be the program sort-out approach that also is part of the New Federalism.

Mr. Chairman, in my estimation, it would be most unfortunate for our Federal system and State and local governments in particular if the Congress pursues the first strategy, that is, to withdraw slowly along the entire Federal aid front. When compared to the other two strategies, it scores the lowest markets on equity, efficiency, and accountability. To put the issue most bluntly, it is the worst-case situation for most State and local officials—fewer Federal dollars, but no real reduction in Federal strings.

The second alternative, the block grant approach, is almost everybody's second choice and mine is no exception to that rule. The consolidation of many narrow categorical aid programs into broad functional block grants certainly provides more flexibility for State and local officials and enables them to absorb more easily the projected budget cuts. It still allows Congress, of course, some opportunity to shape and influence program outcomes. Unfortunately, the block grant approach also has a very obvious defect. In the world of special interests, it is extremely vulnerable to "recategorization." At best, if you are a purist on this thing—we have been urged by Mr. Rohatyn to be pragmatic—if we take a pure view, the block grant represents a very uneasy compromise between Federal control on the one hand and local autonomy on the other.

In my view, the third alternative, to work out a new concord type of arrangement between Federal, State, and local represents the best strategy. Congress is in a unique position to insure that truly national responsibilities are strengthened under any major plan to decentralize our Federal system. For example, the Congress can insist that the quid pro quo for the turnback of certain tax and program responsibilities to the States and to the localities—that quid pro quo be a stronger set of Federal safeguards to protect the losers in our system from losing too much. The "losers" are poor people, poor central cities, poor States and those jurisdictions hardest hit by economic recession.

Mr. Chairman, you indicated, for example, in your opening statement that there is a tremendous variation in the ability of our States to generate revenue. On the scale of 100, Alaska is approximately 260; and Mississippi is down around 69. Any system of devolution or turnback has to take into consideration that type of fiscal reality. So turnbacks will have to be accompanied by some type of overt fiscal equalization between the States if equity is to have any voice at all in the arrangement.

To sum up, while it is ironic, it is also true that the best opportunity for streamlining our overloaded intergovernmental system occurs during periods of severe fiscal stress. It is only during tough times such as the present that we at least have the chance to make political virtue out of a fiscal necessity.

To put the issue very harshly, fiscal austerity both prevents Federal policymakers from constantly increasing the number and cost of Federal aid programs as we did in the past, and it also tends to force them to allocate diminished Federal aid resources to those programs of greatest national priority. Thank you, Mr. Chairman.

[The prepared statement of Mr. Shannon follows:]

PREPARED STATEMENT OF JOHN SHANNON

Mr. Chairman,

Before attempting to predict how "New Federalism" will affect the finances of states and localities over the next several years, it might be helpful to take a quick glance back over our shoulder and find out what was "Old Federalism" and why it has departed the intergovernmental scene.

"Old Federalism" (about 1950-1978) had two distinct characteristics--(a) rapid state-local growth and (b) expanding federal involvement in areas that had traditionally been the exclusive preserve of the state governments. The rapid growth of the state-local sector is dramatically underscored by the fact that its expenditures grew almost twice as fast as the economy--rising from about 8% of GNP in 1950 to almost 15% of GNP by 1975. The steady growth in federal involvement in state-local affairs is reflected in the massive increase in federal aid flows and the dramatic proliferation of federal categorical aid programs.

Even though state and local own source revenues were growing at a faster rate than the economy, federal aid grew at an even faster clip. As a result, federal aid rose steadily as a percentage of state-local own source funds-from 12% in 1955 to almost 32% by 1978.

During this same period, the number of separate federal aid programs to states and localities shot up from about 50 in 1950, 132 in 1960, approximately 500 by 1978 (Appendix Item 1). For a brief analysis of the specific factors that created the environment for both rapid state-local public sector growth and the dramatic expansion of the federal aid system, see Appendix Items 2 and 3.

Old Federalism became a casualty of the tax revolt at the state-local level and the growing budget crunch at the federal level. (Chart 1) Actually, Mr. Chairman, the tax revolt and the federal budget crunch are shorthand references to a sweeping set of fiscal, economic, demographic, and political changes that hit our federal system broadside during the late 1970s and early 1980s. These great trend changes are traced out in Table 1 and also analyzed in Appendix Items 2, 3, and 4.

"New Federalism" can be viewed as the flip side of the "Old Federalism" coin. Its significant characteristics are--(a) virtually no real growth on the state-local expenditure front and (b) a diminished role--yet to be defined--for the federal government in the state-local area. Moreover, there is sufficient evidence to suggest that "New Federalism"--Austerity Federalism--will be around for some time to come. It is now clear that the political message of the tax revolt has produced a new equilibrium betweem private sector growth on the one hand and state-local expenditure growth on the other. Since 1977, for most of our 50 state-local systems, the nominal growth in their expenditures either closely parallels or lags slightly nominal growth in the economy.

There has been a significant decline in the relative importance of federal aid flows when compared to state and local own source revenue--a drop from nearly 32% in 1978 to an estimated 21% for 1983 (Appendix Item 1).

There is reason to suspect that the federal aid situation will continue to deteriorate for the next several years. This bleak prognosis rests on the fact that federal policymakers have

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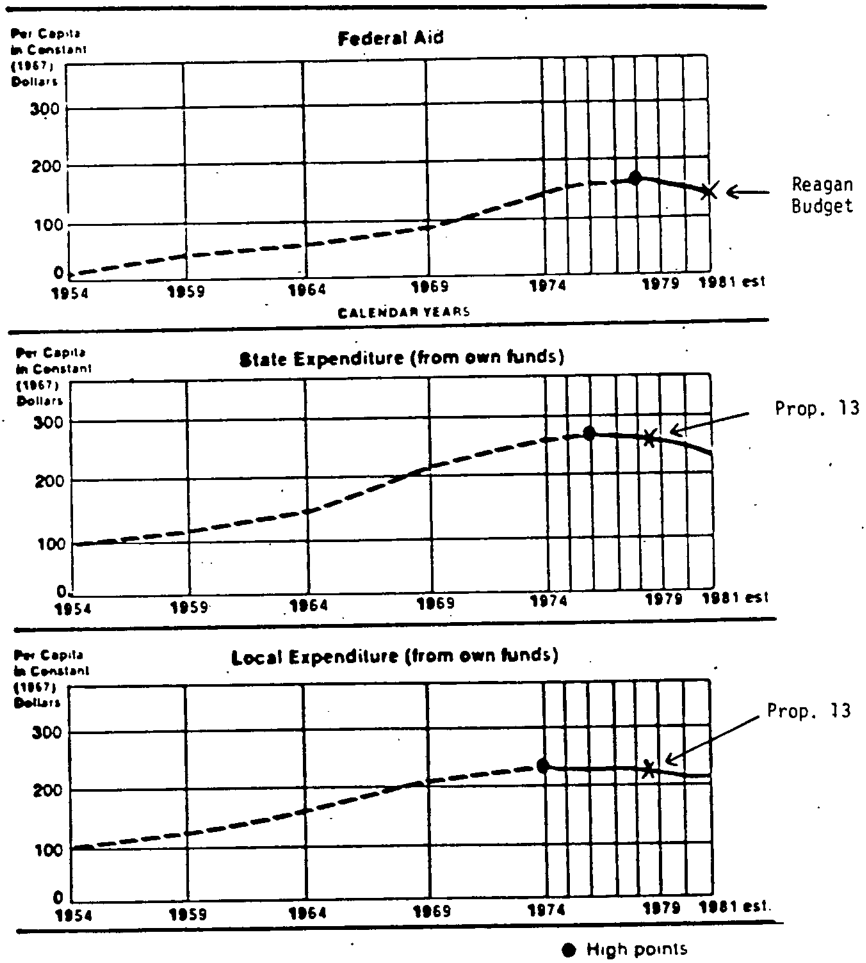
Chart 1

THE RISE AND DECLINE OF OLD FEDERALISM
(An Up-From-The-Grass-Roots Phenomenon)



Source: ACIR staff.

lost the four trump cards that created the relatively easy budget situation during the golden era of federal aid expansion (1950-1978). Growing defense and social security expenditure pressures, the cutbacks in the income tax, and the drive to reduce deficits all add up to an extremely tight federal budget situation for at least the next two to four years (Appendix Item 3).

What would it take to recreate an easy budget situation that could then permit a sustained increase in federal aid flows to states and localities? In my judgment, it would take at least one or more of the following significant changes--developments that do not appear imminent:

(a) a dramatic lessening of international tensions and a rapid and sustained economic recovery, or

(b) public acceptance of even larger deficits than we presently have, or

(c) a congressional take-back of most of the recent tax cuts or imposition of a major new tax.

"New Federalism's" affect on states and localities will be determined in large part by congressional reaction to the fiscal austerity reality--federal aid is likely to claim a decreasing share of the federal budget for the next several years. In that event, Congress has three retrenchment options:

(a) fight a bitter rear guard action along the entire extended categorical aid front while retreating slowly in the face of heavy budgetary cutback pressure;

(b) draw in the extended categorical aid lines and retreat to more defensible consolidated positions (the block grant alternative);

(c) negotiate a new federal-state-local arrangement in which the federal government (1) withdraws completely from many categorical aid positions (the tax and program turnback policy) and (2) stakes out an even stronger fiscal and administrative position in a few areas deemed to be of primary national interest (program sort-out approach).

Mr. Chairman, in my estimation it would be most unfortunate for our federal system if the Congress pursues the first strategy, that is to withdraw slowly along the entire categorical aid front. When compared to the two other major strategies, it scores the lowest marks on equity, efficiency, and accountability tests. To put the issue more bluntly, it is the worse case situation for most state and local officials--fewer federal dollars but no real reduction in federal program strings.

The block grant approach (alternative b) is almost everyone's second choice and mine is no exception to that rule. The consolidation of many narrow categorical aid programs into broad functional block grants certainly can provide greater flexibility for state and local officials to absorb more easily the projected budget cuts while still allowing Congress some opportunity to shape and influence program outcomes. Unfortunately, the block grant approach also has an obvious defect. In the world of special interest politics it is extremely vulnerable to "recategorization." At best it represents an uneasy compromise between federal control and local autonomy.

In my view, alternative (c) represents the best strategy. Congress is in a unique position to insure that the truly national responsibilities are strengthened under any major plan to decentralize our federal system. For example, Congress can insist that the quid pro quo for the turnback of certain tax and program responsibilities to states and localities is a stronger set of federal safeguards to protect the losers in our intergovernmental system--poor people, poor central cities, poor states, and those jurisdictions suffering the most severe economic recession damage.

While it is ironic, it is also true that the best opportunity for introducing badly need reforms into our intergovernmental system occurs during periods of most severe fiscal stress. It is only during "tough times" such as the present that we at least have a chance to make political virtue out of fiscal necessity. To put the issue more harshly, fiscal austerity both prevents federal policymakers from constantly increasing the number and cost of federal aid programs and tends to force them to allocate diminished resources to those programs of greater national priority.

APPENDIX ITEM 1

FEDERAL GRANTS-IN-AID IN RELATION TO STATE-LOCAL RECEIPTS FROM OWN SOURCES, TOTAL FEDERAL OUTLAYS, AND GROSS NATIONAL PRODUCT, 1955-1983

(Dollar Amounts in Billions)

	Federal Grants-in-Aid (Current Dollars)					Exhibits: Federal Grants in Constant Dollars (1972 Dollars)		Exhibits: Estimated Number of Federal Grant Programs	Exhibits: Grants Primarily for General Government Purposes	
			As a Percentage of--							
Fiscal Year 1/	Amount	Percent Increase or Decrease (-)	State-Local Receipts From Own Source 2/	Total Federal Outlays	Gross National Product	Amount	Percent Increase or Decrease (-)		Amount	Percent of Total Grants
1955	$3.2	4.9	11.8	4.7	0.8	$5.8	5.5	n.a.	$1.6	50.0
1956	3.7	15.6	12.3	5.3	0.9	6.6	13.8	n.a.	2.0	54.1
1957	4.0	8.1	12.1	5.3	0.9	6.9	4.5	n.a.	2.2	55.0
1958	4.9	22.5	14.0	6.0	1.1	8.2	18.8	n.a.	2.8	57.1
1959	6.5	32.7	17.2	7.0	1.4	10.6	29.3	n.a.	4.1	63.1
1960	7.0	7.7	16.8	7.6	1.4	11.5	8.5	132	4.5	64.3
1961	7.1	1.4	15.8	7.3	1.4	11.3	-1.7	n.a.	4.2	59.2
1962	7.9	11.3	16.2	7.4	1.4	12.1	7.1	n.a.	4.7	59.5
1963	8.6	8.9	16.5	7.8	1.5	12.4	2.5	n.a.	5.1	59.3
1964	10.1	17.4	17.9	8.6	1.6	14.4	16.1	n.a.	6.3	62.4
1965	10.9	7.9	17.7	9.2	1.7	15.7	9.0	n.a.	7.0	64.2
1966	13.0	19.3	19.3	9.6	1.8	18.1	15.3	n.a.	8.5	65.4
1967	15.2	16.9	20.6	9.6	2.0	20.3	12.2	379	10.2	67.1
1968	18.6	22.4	22.4	10.4	2.2	23.5	15.8	n.a.	12.3	66.1
1969	20.3	9.1	21.6	11.0	2.2	24.2	3.0	n.a.	12.8	63.1
1970	24.0	18.2	22.9	12.3	2.5	26.9	11.2	n.a.	15.0	62.5
1971	28.1	17.1	24.1	13.3	2.7	29.6	10.0	n.a.	17.1	60.9
1972	34.4	22.4	26.1	14.8	3.1	34.4	16.2	n.a.	20.0	58.1
1973	41.8	21.5	28.5	16.9	3.3	39.7	15.4	n.a.	27.5	65.8
1974	43.4	3.8	27.3	16.1	3.1	38.1	-4.0	n.a.	28.1	64.7
1975	49.8	14.7	29.1	15.4	3.4	39.7	4.2	448	32.4	65.1
1976	59.1	18.7	31.1	16.2	3.6	43.9	10.6	n.a.	38.1	64.5
1977	68.4	15.7	31.0	17.1	3.7	47.2	7.5	n.a.	44.5	65.1
1978	77.9	13.9	31.7	17.4	3.7	50.3	6.6	498	51.9	66.6
1979	82.9	6.4	31.5	16.9	3.5	49.4	-1.8	n.a.	54.1	65.3
1980	91.5	10.4	31.7	15.9	3.6	50.0	1.2	n.a.	57.3	62.6
1981	94.8	3.6	29.4	14.4	3.1	47.8	-4.4	539	54.9	57.9
1982 Est.	91.2	-3.8	25.7	12.6	3.0	42.6	-10.9	441 3/	49.7	54.5
1983 Est.	81.4	-10.7	20.8	10.7	2.4	35.5	-16.7	n.a.	43.8	53.8

n.a.--Not available.

1/ For 1955-1976, years ending June 30; 1977-1983 years ending September 30.

2/ As defined in the national income accounts.

3/ Seventy nine programs have been folded into nine block grants, and at least another twenty six programs have not been funded as of November 1, 1981.

Source: ACIR staff computations based on U.S. Office of Management and Budget, Budget of the United States Government, annual; and unpublished data. U.S. Department of Commerce, Bureau of Economic Analysis, The National Income and Product Accounts of the United States, 1929-76, Statistical Tables; Survey of Current Business, various issues; David B. Walker, Toward a Functioning Federalism, Cambridge, MA., Winthrop Publishers, Inc., 1981, p. 79; and ACIR staff estimates.

APPENDIX ITEM 2

FOUR FACTORS INFLUENCING THE SPEEDUP AND SLOWDOWN OF STATE-LOCAL REVENUE FLOWS

FOUR FACTORS	OLD FEDERALISM--SPEEDUP ERA (State-local revenue grew at a faster rate than the economy) 1950-1978	NEW FEDERALISM--SLOWDOWN ERA (State-local revenue grows at a slightly slower rate than the economy) 1979-?
Economic Conditions	When the economic pie was growing fairly steadily it was easier for pro public sector growth advocates to claim a larger slice via tax increases. The most dramatic increases in state income and sales taxes took place in the 1960s--the decade of steady economic growth.	When the economic pie stops growing or grows very slowly, the state-local sector is hard put to hold on to what it has much less increase its share via tax hikes.
Demographic Trends	When public school enrollments were increasing steadily, a powerful school lobby led the charge for higher state and local taxes.	When school enrollments are declining, the school lobby can not run political interference for those supporting an expanded state-local sector.
Political Climate	Pro fast growth because the voters supported or at least tolerated frequent state-local tax increases for program expansion.	Now as a legacy of the tax revolt, the fiscal landscape is littered with tax and spending lids. Of more significance, however, was the "go slow" message from the public. Tax increases now permitted only to maintain solvency.
Federal Aid Policy	During the 1950s and 1960s, the proliferation of federal categorical aid programs with "matching" provisions whetted state-local tastes for various public goods and services and accelerated state-local tax effort.	Now federal aid cutbacks and closed end block grants have the opposite effect--that of dampening the demand for public sector goods and removing a support for higher state and local taxes.

CONCLUSIONS

1. State and local revenues could grow at a faster rate than the economy during the 1950-78 period because economic conditions, demographic trends, and federal aid policies were pro state-local tax growth and the tax revolt was just a gleam in Howard Jarvis' eye.
2. State and local revenue is now growing at a slightly slower rate than the economy because these same factors--economic conditions, demographic trends, and federal aid policies--now favor a go slow state-local tax approach. Moreover, the memory of the recent tax revolt is still fresh in the minds of most state and local policymakers.
3. With the exception of a few energy rich states, most state-local revenue systems can be expected to operate on a go slow basis for the next several years because: (a) major increases in state income and sales taxes are apt to be few and far between; (b) without fairly periodic increases in these two major taxes, most state-local systems can not generate sufficient "automatic" revenue growth to keep pace--much less exceed--the growth rate in the economy; and (c) public hostility to higher effective property tax rates is not likely to subside; in fact, it can be expected to increase dramatically if there is a pronounced softening in residential sale prices.

Source: John Shannon (July 19, 1982)

APPENDIX ITEM 3

FOUR FISCAL FACTORS INFLUENCING THE EXPANSION AND CONTRACTION OF FEDERAL AID TO STATES AND LOCALITIES

FOUR FISCAL FACTORS	THE EXPANSION OF FEDERAL AID DURING THE "EASY" BUDGET ERA: Old Federalism Era--1950-1978	THE CONTRACTION OF FEDERAL AID DURING THE "TIGHT" BUDGET ERA: New Federalism Era--1979-?
Defense Spending	Defense spending fell from about 13% of GNP in 1954 to 6.5% of GNP by 1978 and thereby freed up resources to help finance the growth of federal domestic programs in general and federal aid in particular.	Now there is widespread agreement that the nation under-invested in defense during the 1970s. As a result, defense spending is now rising as a percentage of GNP and is placing a squeeze on resources available for federal domestic programs.
Deficit Financing	Deficit financing was generally viewed as an acceptable way to cover revenue shortfalls and helped federal policymakers expand federal aid programs without having to raise taxes or cut back on other programs.	Deficit financing is now viewed as contributing to inflationary expectations and higher interest rates. The growing demand to balance the budget is placing a squeeze on all domestic federal programs and before long probably on defense spending as well.
Income Tax	Inflation as well as real growth automatically pushed income taxpayers into higher tax brackets. The impressive growth performance of the income tax served as a major argument for federal revenue sharing with states and localities.	Now the scheduled income tax cuts and indexation will both take most of the inflationary wind out of the federal income tax sails and introduce greater fiscal discipline into the budget process.
Social Security Financing	Until recently, social security financing contributed to an "easy" budget situation because, in most years, the surpluses in the social security trust funds reduced the deficit in the unified federal budget. Moreover, there was little public opposition to repeated social security tax increases to finance expanded coverage.	Now, social security financing problems make a tight budget situation even tighter because deficits in social security trust funds now increase total deficit in the unified federal budget. In addition, there is growing opposition to higher social security tax rates to finance expanding coverage commitments. Also, federal income tax cuts are now being justified, in part, as necessary to offset the heavy and growing social security tax burden.

CONCLUSIONS

1. Because of its highly discretionary character, federal aid grows very rapidly during an "easy" budget era and declines fairly sharply during a "tight" budget period.
2. A resurgence in federal aid spending is not likely until federal policymakers once again find themselves in an "easy" budget situation.
3. An "easy" budget situation is not likely to materialize until one or more of the following developments takes place:
   (a) a dramatic lessening of international tensions and a rapid and sustained economic recovery or
   (b) public acceptance of massive deficits or
   (c) a congressional take-back of most of the recent tax cuts or imposition of a major new tax.

Source: John Shannon (July 19, 1982)

APPENDIX ITEM 4
GOVERNMENT EXPENDITURE, FROM OWN FUNDS,1/ SELECTED YEARS 1929-1982
(The Dominant Federal Role in the Public Sector)

Calendar Year	Total Public Sector	Federal Total	Federal Defense 2/	Federal Domestic 3/	State 4/	Local 4/	Exhibit: Gross National Product, Population, and Personal Income
	Amount (Billions of Current Dollars)						GNP (In Billions)
1929	$10.3	$2.6	$1.1	$1.5	$2.1	$5.5	$103.4
1939	17.6	8.9	1.5	7.4	3.7	4.9	90.9
1949	59.3	41.3	22.0	19.3	8.9	9.1	258.3
1954	97.0	69.8	47.0	22.8	12.7	14.5	366.8
1959	131.0	91.0	53.4	37.6	18.7	21.3	487.9
1964	176.3	118.2	63.7	54.5	27.3	30.8	637.7
1969	286.8	188.4	95.0	93.4	50.3	48.1	944.0
1974	459.9	299.3	104.5	194.8	86.1	74.5	1,434.2
1975	534.3	356.6	113.3	243.3	96.6	81.0	1,549.2
1976	574.9	384.8	118.3	266.5	104.1	86.0	1,718.0
1977	624.0	421.5	127.9	293.6	110.0	92.5	1,918.0
1978	681.9	460.7	139.2	321.5	120.6	100.6	2,156.1
1979	753.2	509.2	156.6	352.6	134.0	110.0	2,413.9
1980	869.0	602.0	185.0	417.0	148.2	118.8	2,626.1
1981	981.7	688.4	220.3	468.1	163.7	129.6	2,925.5
1982 est.							
	As a Percent of GNP						Population (000)
1929	10.0	2.5	1.1	1.5	2.0	5.3	121,767
1939	19.4	9.8	1.7	8.1	4.1	5.4	130,880
1949	23.0	16.0	8.5	7.5	3.4	3.5	149,188
1954	26.4	19.0	12.8	6.2	3.5	4.0	163,026
1959	26.8	18.7	10.9	7.7	3.8	4.4	177,830
1964	27.6	18.5	10.0	8.5	4.3	4.8	191,889
1969	30.4	20.0	10.1	9.9	5.3	5.1	202,677
1974	32.1	20.9	7.3	13.6	6.0	5.2	213,854
1975	34.5	23.0	7.3	15.7	6.2	5.2	215,973
1976	33.5	22.4	6.9	15.5	6.1	5.0	218,035
1977	32.5	22.0	6.7	15.3	5.7	4.8	220,239
1978	31.6	21.4	6.5	14.9	5.6	4.7	222,585
1979	31.2	21.1	6.5	14.6	5.6	4.6	225,055
1980	33.1	22.9	7.0	15.9	5.6	4.5	227,658
1981 P	33.6	23.5	7.5	16.0	5.6	4.4	229,800
	Per Capita in Constant Dollars (1967 Dollars)5/						Personal Income (P/C)5/
1929	$165	$42	$18	$24	$34	$88	$1,359
1939	323	163	28	136	68	88	1,330
1949	557	388	207	181	84	85	1,937
1954	739	532	358	174	97	110	2,207
1959	844	586	344	242	120	137	2,476
1964	989	663	357	306	153	173	2,800
1969	1,289	847	427	420	226	216	3,391
1974	1,456	948	331	617	273	236	3,700
1975	1,535	1,024	325	699	277	233	3,633
1976	1,546	1,035	318	717	280	231	3,742
1977	1,561	1,054	320	734	275	231	3,849
1978	1,568	1,059	320	739	277	231	3,959
1979	1,539	1,041	320	721	274	225	3,973
1980	1,547	1,071	329	742	264	211	3,845
1981 P.	1,568	1,100	352	748	262	207	3,841
1982 est.							

p--Preliminary. est.--Estimated.

1/ National Income and Product Accounts.

2/ National defense, international affairs and finance and space research and technology. Also includes the estimated portion of net interest attributable to these functions.

3/ Includes Social Security (OASDHI) and all federal aid to state and local governments, including general revenue sharing payments.

4/ The National Income and Product Accounts do not report state and local government data separately. The state-local expenditure totals (National Income Accounts) were allocated between levels of government on the basis of ratios computed from data reported by the U.S. Bureau of the Census in the annual governmental finance series.

5/ Based on the Consumer Price Index.

Source: ACIR staff computations based on U.S. Department of Commerce, Bureau of Economic Analysis, The National Income and Product Accounts of the United States, 1929-76: Statistical Tables and Survey of Current Business, various years; U.S. Bureau of Census, Government Finances, annually; Budget of the United States Government, various years; unpublished budget data; Economic Report of the President, February 1982; and ACIR staff estimates.

Representative REUSS. Thank you, Mr. Shannon. Mr. Johnson.

STATEMENT OF J. CHESTER JOHNSON, PRESIDENT, GOVERNMENT FINANCE ASSOCIATES, INC., PRINCETON, N.J.

Mr. JOHNSON. Chairman Reuss and distinguished members of the Joint Economic Committee, in the interest of time I will summarize my statement.

I appreciate the opportunity to appear before this committee and express my ideas on the important topic of capital financing capacity and opportunities for State and local governments.

At the outset, I would like to underscore the fact that there is considerable difficulty in coming to generalizations about the current financial condition of and capital financing for subnational governments. For example, among our clients are AAA-rated cities and also cities with non-investment-grade ratings. Obviously, the financing capacity and availability of capital to the highest rated governments far exceed those of governments that have not met minimum credit requirements.

Nevertheless, there are general trends and developments that apply to the wide range of subnational government. As capital demands for basic public needs increase, the outlook for the States and local sector having the market and financing capacity to meet these requirements has become particularly questionable. This forecast is dominated in part by a crippled and struggling credit market to which the State and local governments must turn for the purpose of raising capital to meet their needs. In addition, many governmental entities, particularly among cities, have declined in their financial capacity to incur and service debt, as evidenced by the fact that among the 50 largest cities in the investment grade categories, not one was raised by Moody's Investors Service over a recent 3-year period into a higher generic investment grade category. Against this background, the Federal and related budget cuts reduce further the financial stability of State and local governments and impair the ability of many governments, particularly cities, to carry indebtedness sold to meet their public service requirements.

Recent studies have shown large, unfunded capital requirements among States and local jurisdictions, including the more mature areas of the country, but options available for capital financing of these purposes to States and local governments are declining. Tax policies and weakened economic conditions have led to a relative deterioration in the availability of funds which could be applied to the purchase of State and local debt obligations. For instance, because of the diminished value in the tax-exempt feature of State and local government securities, the relative differential between taxable and tax-exempt rates has narrowed considerably.

Historically, the range between long-term taxable and tax-exempt bonds of comparable credit quality has amounted to approximately 30 to 35 percent. Recently, we have seen this differential narrow. For example, we have found that this differential, in the latter part of 1981 and the early part of 1982, has fallen to less than 20 percent, a major negative trend for the financing of State and local needs. In addition, recent inflation trends have depreciated the value of existing tax-exempt portfolios; because of the effects of inflation on their portfolios and the fear of the impact of future inflation on new purchases, investors have become increasingly reluctant to buy long-term debt obligations.

Two principal responses have occurred as a result of these conditions. First, many State and local governments have felt it mandatory to sell debt with shorter maturities. Second, the tax-exempt market has had to become incrasingly creative in satisfying financing requirements. A number of credit instruments have been fashioned in or transferred to the tax-exempt credit market, including "put" bonds, variable rate securities, and similar devices.

Belatedly, we have seen a progressive enlargement of the use of short-term debt. For the first 6 months of 1982, short-term debt with maturities of 12 months or less, compard with the same period for 1981, rose by over 35 percent, from $16.1 billion to $21.8 billion. Furthermore, the total short-term debt sold in 1981 amounted to $34.4 billion, or over 65 percent above the short-term debt sold in 1979. Over the same 2-year period, long-term debt expanded by only $4 billion, or less than 10 percent.

For the State and local sector generally, there is considerable vulnerability to significant increases in short-term debt, a sizable portion of which will have to be retired through future bond sales. Further, because States and municipalities have shortened the lives of their bond issues, the amount of principal that must be retired in any 1 year increases, which adds pressure to the Government's operating budget. Also, because of the higher interest rate paid on their debt obligations, the governments are assigning large amounts to debt service.

In this context, it is important to stress that during periods of high interest rates and diminished buying of tax-exempt securities, a form of credit allocation actually develops in which higher quality borrowers are rewarded on a relative scale, and lower quality borrowers are penalized. Because cities are frequently rated in the lowest investment categories, they are hurt most severely by high rates and market volatility.

The intergovernmental transfer system does not adjust automatically and smoothly to major changes. Therefore, we should not be surprised to see disruptions in service and finance, particularly at the local level, in the early stages of any New Federalism. If many Federal programs are transferred to the States, we can envision, using history as precedent, situations in which a part of the financial obligations for the transferred programs would be passed on to the local governments, with such programs adding to the obligations of fiscally strained local governments. In these circumstances, we could anticipate some financial emergencies before the State-local adjustments have resolved themselves.

Regarding the capital financing aspects during this period, because of increased budgetary pressures, access by many governments to the capital markets could be further jeopardized and, at a minimum, more costly to the State and local sector—all of which will contribute to diminished capital financing programs.

It is obviously incumbent upon State and local governments to take those actions which allow them to adjust to changing policies and conditions. In this respect, the more negatively impacted governments will have to adjust most, and many of these governments have shown an ability to change when circumstances warrant. As the value of the property tax has deteriorated in terms of a revenue source for supporting indebtedness for capital construction purposes, we have seen expanded use of fees and charges in many cities. Over the past few years, Boston, Philadelphia, and Baltimore, for instance, have all increased the flexibility of their debt management practices by applying water and sewer charges to the payment of debt service on securities sold for water and sewer capital construction purposes.

Cities have shown a capacity to adjust by other actions. Over the last year and a half, for various reasons, some of which relate to Federal actions, certain of our urban clients have reduced their payrolls by as much as 20 to 25 percent. Quite frankly, a good portion of this reduction has removed water from the system, but in many instances blood has in the process also been squeezed out of the city's life organs, rendering them weaker and less able to meet present and future challenges.

There are some adjustments that could make life a little more bearable for State and local governments in the financing of their capital needs. In addition to securing a healthy economic environment and providing an equitable intergovernmental financial arrangement—two criteria for a stable capital financing program for the State and local sector—the Federal Government could also be helpful by adopting the following measures.

First, controlling the use of tax exempt securities. In recent years, the use of industrial development bonds of various types has grown to consume approximately 20 percent of the tax-exempt securities market. Undoubtedly, there are times when the use of this subsidy for economic development warrants its use. However, by the better controlling this type of program, the Congress will have reduced the volume of tax-exempt financing and would have therefore improved the attractiveness of the tax-exempt feature for other public purposes.

Second, protecting tax exemption for State and local sectors. The cost of capital financing for State and local governments is directly related to the relative attractiveness of the tax-exempt status of securities sold by these governments.

Obviously, giving tax-exempt status to various worthy causes will from time to time be attractive and hard to resist. However, if the Congress desires for the State and local sector to have a viable and continuous market for the financing of capital projects, restraint on awarding tax exemption for many other causes is advisable and, indeed, necessary.

Third, establishment of capital funding by State and local governments as a Federal priority. To the extent that capital financing and the adequate maintenance of the life support, physical facilities of States and local governments throughout the country are priorities of the Federal Government, then the Federal Government has an obligation to reflect the recognition of these purposes as priorities in Federal tax policy and other relevant decisions.

You have also requested my views on certain matters involving municipal defaults. The one lesson we can learn from a look backward to the Great Depression is that a close relationship exists between defaults and prevailing economic conditions. To prevent most municipal defaults, a sound economic environment can prove to be decisive and effective protection.

At the same time, the cure for a default can be excruciatingly long, hard, and painful. For example, in the extreme, municipalities have had to be entirely reconstituted. Moreover, there are other instances in which States have become receivers for the defaulting units. In fact, there are municipalities still under various aspects of receivership to States dating back to the Great Depression.

In most instances, some external body or higher stratum of government must become involved when imminent default or actual default becomes evident. It tends to be unworkable, in most cases, for the local governmental and political environment, without some external pressure, to develop a process or program to extricate itself out of the financial predicament that has been created. For instance, during the Great Depression, there were many defaults among the local governments in the States of Michigan, New Jersey, and North Carolina. In order to establish some effective system for dealing with the crises, a State agency in each case was established to resolve the defaults. These State agencies remain in place today.

When a municipal financial crisis presents itself, it takes little time, under most circumstances, for all parties, including the business, labor, and the political communities, to recognize that it is ultimately to the benefit of everyone to resolve the existing difficulties. For its part, the private sector's role can include being the objective observer, cooperative enabler, or an element of the enforcement apparatus, but only rarely does the private sector have the willingness or authority to serve as the principal catalyst for change; only in concert with some higher unit of government can it usually take on this very significant status.

Thank you for your attention. I will be happy to answer any questions you may have.

[The prepared statement of Mr. Johnson follows:]

PREPARED STATEMENT OF J. CHESTER JOHNSON

Chairman Reuss and distinguished members of the Joint Economic Committee. You have requested my views on various matters affecting the financial condition and capital financing capacity and opportunities for state and local governments. I appreciate the opportunity to appear before this committee and express my ideas on this very important matter. I am chief executive officer of Government Finance Associates, Inc., a firm that provides financial advisory services, primarily with respect to the issuance of securities, to a number of sizeable governments, including several large cities.

At the outset, I would like to underscore the fact there is considerable difficulty in coming to generalizations about the current financial condition of and capital financing possibilities for state and local governments. For example, among our clients are triple-A rated cities and also cities with non-investment grade ratings; obviously, the financing capacity and availability of capital to the highest rated governments far exceed those of governments that have not met minimum credit requirements, and the challenges facing each type of borrower will be entirely different. At the same time, regarding those issues you have requested for me to address in testimony, I will try to offer several observations that could apply generally to the state and local government sector, but then I will highlight certain special impacts on particular components of the sector.

Initially, I would like to point out that over the last fifteen years, the attention given to debt management by policy makers has substantially changed. Until recently, mayors often followed the course of debt management from afar, but mayors now have become much more knowledgeable about the financing aspects and debt management affairs of their governments. Indeed, a city's financial advisor has greater access to the mayor's office and to overall local policy discussions than he has had in the past. The reason for this change results, in part, from the political visibility that is now attached to fiscal and debt financing crises, which have increased from several unfortunate developments and trends in the financing of capital requirements by state and local governments. My testimony will address several of these trends and developments.

The Unfortunate Landscape

As capital demands for basic public needs increase, the outlook for the state and local sector having the market and financing capacity to meet these requirements has become particularly questionable. This forecast is dominated, in part, by a crippled and struggling credit market to which the state and local governments must turn for the purpose of raising capital to meet their needs. In addition, however, many governmental entities, particularly among cities, have declined in their financial capacity to incur and service debt, as evidenced by the fact that among the fifty largest cities in the investment grade categories, not one was raised by Moody's Investors Service over a recent three year period into a higher generic investment grade category. Against this background, the Federal and related budget cuts reduce further the financial stability of state and local governments and impair the ability of many governments, particularly cities, to carry indebtedness sold to meet their public service requirements. In many instances, the borrower is caught between the proverbial rock and a hard place, of increased requirements and diminishing capital resources. This condition, this unfortunate dialectic, produces one of two results: either the capital improvement is foregone, with the consequent effect of ultimately producing greater costs for the particular capital facility or improvement, or debt is incurred, frequently resulting in a decline in the government's debt capacity, thus affecting the ability of the government to borrow in the future for other purposes.

Contracting Options for State and Local Capital Financing

Recent studies have shown large, unfunded capital requirements among states and local jurisdictions, including the more mature areas of the country. I will not reiterate the various studies or findings that have attempted to quantify the size of the unfunded requirements on a national scale. Suffice it to say, the numbers are staggering. For example, the Port Authority of New York and New Jersey has identified capital spending needs for the public sector for the New York Metropolitan Region (which includes New York City, Long Island, Westchester, Rockland, and the eight northern New Jersey counties) at $40.0 billion over the next ten years.

There is reason to question the capacity of the state and local government sector to pay for these improvements; relatedly, one must wonder whether there is a sufficient pool of monies available to cover these estimated costs, even if governments could afford to incur significantly enlarged indebtedness for raising money to apply toward capital improvements and rehabilitation.

The options available for capital financing purposes to states and local governments are declining. Tax policies and weakened economic conditions have led to a relative deterioration in the availability of funds which could be applied to the purchase of state and local debt obligations. For instance, because of a diminished value in the tax-exempt feature of state and local government securities, the relative differential between taxable and tax-exempt rates has narrowed considerably. Historically, the range between long-term taxable and tax-exempt bonds of comparable credit quality has amounted to approximately 30 to 35 percent. Recently, we have seen this differential narrow. For example, we have found that this differential, in the latter part of 1981 and the early part of 1982, has fallen to less than 20 percent, a major negative trend for the financing of state and local needs. In addition, recent inflation trends have depreciated the value of existing tax-exempt portfolios; because of the effects of inflation on their portfolios and the fear of the impact of future inflation on new purchases, investors have become increasingly reluctant to buy long-term debt obligations.

Two principal responses have occurred as a result of these conditions. First, many state and local governments have felt it mandatory to sell debt with shorter maturities; similarly, these governments have also increasingly sold long-term debt that looks like short-term debt. This approach leads to a discussion of the second response. The tax-exempt market has had to become increasingly creative in satisfying financing requirements. A number of credit instruments have been fashioned in or transferred to the tax-exempt credit market, including "put" bonds, variable rate securities, and similar devices.

With respect to the use of creative financing tools and shorter maturities, it is important to emphasize the following points. First, we have seen progressive enlargement of the use of short-term debt. For example, for the first six months of 1982, short-term debt with maturities of twelve months or less, compared with the same period for 1981, rose by over 35%, from $16.1 billion to $21.8 billion. Furthermore, the total short-term debt sold in 1981 amounted to $34.4 billion, or over 65% above the short-term debt sold in 1979; over the same two-year period, long-term debt expanded by only $4.0 billion, or less than 10%. The use of short-term debt can be a dangerous tool. While it gives a borrower the ability to better gauge entry into the long-term market, the advantages are diminished if everyone follows the practice, for at the moment long-term rates drop, a massive amount of short-term will be converted to long-term debt, with the result of driving long-term rates up again from the growth in supply. Because of the thinness of the current long-term, tax-exempt market, this problem is further exaggerated.

Unfortunately, there are numerous examples of governments developing serious financial crises, many of which ultimately produce defaults because the governments are unable to convert large amounts of short-term notes into long-term securities. For the state and local sector generally, there is considerable vulnerability through significant increases in short-term debt, a sizeable portion of which will have to be retired through future bond sales.

Second, because states and municipalities have shortened the lives of their bond issues, the amount of principal that must be retired in any one year increases, which adds pressure to the governments' operating budgets. Further, because of the higher interest rates paid on their debt obligations, the governments are assigning larger amounts to debt service with less monies available for other operating purposes.

In this context, it is important to note that during periods of high interest rates and diminished buying of tax-exempt securities, a form of credit allocation actually develops in which higher quality borrowers are rewarded on a relative scale, and lower quality borrowers are penalized. For example, over the last three years, the spread between Aaa borrowers, the most credit worthy, and Baa, the lowest class of investment grade, has widened from approximately 75 basis points to over twice that figure. Because cities are frequently rated in the lowest investment categories, they are hurt most severely by high rates and market volatility. And to the extent that Federal fiscal, monetary and borrowing policies have contributed to high rates, cities have been more adversely impacted by such policies.

This is not to say, however, that state and local governments can not improve their own lot by taking certain measures that facilitate access to the capital markets. Many state and local governments are prohibited from using the new types of securities more appealing today in the note and bond markets. While a large number of sub-national governments have developed a more flexible debt management operation, many have not, and it would serve many of these govenments to move ahead aggressively with the constitutional, statutory or administrative changes that would enable them to better adjust their capital financing programs to prevailing conditions.

Effects of Cutbacks of Federal Transfer Payments on State and Local Financing

One aspect that is often given little attention in the context of reduced intergovernmental assistance is the effect of decreased operating money on a government's ability to service debt to meet perceived and actual capital requirements. To the extent that operating funds decline, but public service needs remain the same or, in fact, escalate, then the capacity of the particular government to carry indebtedness has been damaged. Repeatedly, the national credit rating agencies and investors in the credit markets underscore this fact when evaluating securities sold by state and local governments. And to the extent that capacity and needs accelerate in opposite directions, such as the condition in many of our cities, the investors' reluctance to buy the securities sold by governments experiencing this situation is enlarged.

The intergovernmental transfer system does not adjust automatically and smoothly to major changes. Therefore, we should not be surprised to see disruptions in service and finance, particularly at the local level, in the early stages of any "New Federalism." If many Federal programs are transferred to the states, we can envision, using history as precedent, situations in which a part of the financial obligations for the transferred programs would be passed on to the local governments, with such programs adding to the obligations of fiscally strained governments. In these circumstances, we could anticipate some financial emergencies before the state/local adjustments have resolved themselves. Regarding the capital financing aspects during this period, because of increased budgetary pressures, access by many governments to the capital markets could be further jeopardized and, at a minimum, more costly to the state and local sector -- all of which will contribute to diminished capital financing programs. As demonstrated in evaluations conducted at the time, the effect of the New York City debt crisis raised the borrowing costs of the state and local sector generally, and in particular, among urban governments.

It should also be borne in mind that state and local governments were encouraged over the years by the Federal government to serve as conduits for Federal employment and economic policies, to build up state and local employment roles and to engage in large-scale public projects, some of which probably had dubious positive effects and added net operating burdens to state and local governments.

One ingredient frequently left out of the "New Federalism" discussion is the way to place state and local governments on a firm financial base, requiring less Federal monies, without substantial financial and social misery being felt in the interim; for political as well as financial reasons, many of the cutbacks can not be achieved at the state and local levels immediately.

It is certainly true that there are numerous mayors who have stated over the years that the state and local sector has relied too heavily on intergovernmental transfers from the Federal government to make ends meet. In fact, considerable sympathy does exist for less Federal dependency, but getting there will be painful and will have deleterious effects on the credit quality of state and local governments, particularly among our cities. There is always the threat when a new direction appeals to the imagination that an immoderate rush will emerge toward the envisioned goals. During times of important policy shifts, such as the one we are currently experiencing, it is well to remember a few words from James Russell Lowell, "Such power there is in cleareyed self-restraint."

One of the more ironic aspects of the reduction in intergovernmental transfers of funds is that to the extent the state and local government sector can not provide mandatory, life support services, such as water and sewer and other pollution control facilities, the necessity for greater Federal involvement probably increases. Therefore, the financial strength and capacity of states and local governments can not be an irrelevant or indirect concern of Federal policy makers.

It is obviously incumbent upon state and local governments to take those actions which allow them to adjust to changing policies and conditions. In this respect, the more negatively impacted governments will have to adjust most, and many of these governments have shown their ability to change when circumstances warrant. For example, cities have been creative in dealing with their difficulties. As the value of the property tax has deteriorated in terms of a revenue source for supporting indebtedness for capital construction purposes, we have seen an expanded use of fees and charges. Over the past few years, Boston, Philadelphia and Baltimore, for instance, have all increased the flexibility of their debt management practices by applying water and sewer charges to the payment of debt service on securities sold for water and sewer capital construction purposes.

In addition, cities have shown a capacity to adjust by other actions. Over the last year and a half, for various reasons, some of which relate to Federal actions, certain of our urban clients have reduced their payrolls by as much as 20 to 25 percent. Quite frankly, a good portion of this reduction has removed water from the system, but in some instances, blood has in the process also been squeezed out of the city's life organs, rendering them weaker and less able to meet present and future challenges.

Improving the Capital Financing Prospects for State and Local Governments

In light of the current environment described above, what can be done to improve the capital financing prospects for states and local governments? There are some fundamental shifts that overwhelm most options that would be available, unless the country is prepared to allocate much greater resources to alter the tide of the economic fundamentals. This expanded approach does not, at present, seem likely in the face of the public policies being followed at the national level and, in many ways, at the local level. On the other hand, there are some adjustments that could make life a little more bearable for state and local governments in the financing of their capital needs. In addition to securing a healthy economic environment and providing an equitable intergovernmental financial arrangement -- two criteria for a stable capital financing program for the state and local sector -- the Federal government could also be helpful by adopting the following measures:

1. Controlling The Use Of Tax-Exempt Securities

The private sector receives many subsidies with respect to financing capital facilities and equipment through various parts of the Federal tax code. In fact, these subsidies, including depreciation and the investment tax credit, are often much greater than the historical interest rate differential between taxable and tax-exempt securities rates. In recent years, the use of industrial development bonds of various types has grown to consume approximately 20% of the tax-exempt securities market. The growth of industrial development bonds has soaked a good portion of the investable pool available for the purchase of tax-exempt securities, particularly among commercial banks. Undoubtedly, there are times when the use of this subsidy for economic development warrants its use; however, by better controlling this type of program, the Congress will have reduced the volume of tax-exempt financing and would have therefore improved the attractiveness of the tax-exempt feature for other public purposes.

2. Protection of Tax-Exemption for State and Local Sector

The cost of capital financing for state and local governments is directly related to the relative attractiveness of the tax-exempt status of securities sold by these governments. To the extent that the value of the tax-exempt status is eroded by applying tax exemption to other purposes, then the advantage to the state and local sector of this feature has been harmed, and the ability to raise capital for infrastructure purposes and the cost of related borrowings have been adversely impacted.

Obviously, giving tax-exempt status to worthy causes will, from time to time, be attractive and hard to resist. However, if the Congress desires for the state and local sector to have a viable and continuous market for the financing of capital projects on a tax-exempt basis, providing state and local governments with a reasonable subsidy, then restraint on awarding tax-exemption for many other causes is advisable and, indeed, necessary.

3. Establishment of Capital Funding By State and Local Governments as a Federal Priority

To the extent that capital financing and the adequate maintenance of the life support, physical facilities of states and local governments throughout the country are priorities of the Federal government, then the Federal government has an obligation to reflect the recognition of these purposes as priorities in Federal tax policy and other relevant decisions. In fact, a worthy goal of Federal fiscal, monetary and borrowing policies would be to assure that states and local govenments have the ability to secure financing for capital purposes at reasonable costs, so that governmental operating funds are not significantly pressured by financing costs, and acceptable amounts of capital construction and rehabilitation can be achieved.

Certain Matters On Municipal Default

You have also requested my views on certain matters involving municipal defaults. It is important to stress the point that these comments are in direct response to specific questions and should not imply that there is any judgment on my part that a deluge of municipal defaults is in the offing. The causes of default can range from real financial distress to political aggression or retribution. However, in those cases when most defaults have occurred, they have resulted from real financial problems, and we can derive understanding by a review of the period of wholesale defaults, which were present during the Great Depression. The one lesson we can learn from a look backward at the Great Depression is that a close relationship exists between defaults and prevailing economic conditions. To prevent most municipal defaults, a sound economic environment can prove to be decisive and effective protection. This fact tends to confirm that the most important contribution the Federal government can make for the purpose of preventing municipal defaults would be to take those actions which will provide a healthy economy, nationwide.

The cure for a default can be excruciatingly long, hard and painful. For example, in the extreme, municipalities have had to be entirely reconstituted. Moreover, there are other instances in which states have become receivers for the defaulting units; in fact, there are municipalities still under various aspects of receivership to states dating back to the Great Depression. In most instances, some external body or higher stratum of government must become involved when imminent default or actual default becomes evident. It tends to be unworkable, in most cases, for the governmental and political environment, without some external pressure, to develop a process or program to extricate itself out of the financial predicament that has been created. For instance, during the Depression, there were many defaults among the local governments in the states of Michigan, New Jersey and North Carolina. In order to establish some effective system for dealing with the crises, a state agency in each case was established to resolve the defaults. These state agencies remain in place today. The Financial Control Board, established by the State of New York in 1975, to oversee and monitor the actions designed to stem the New York City credit crisis, represents another example of the need for participation by external and higher units of government in municipal credit crises.

Notwithstanding these comments, however, when a municipal financial crisis presents itself, it takes little time, under most circumstances, for all parties, including the business, labor and the political communities, to recognize that it is ultimately to the benefit of everyone to resolve the existing difficulties. The private sector's role can include being the objective observor, cooperative enabler, or part of the enforcement apparatus, but only rarely does the private sector have the willingness or authority to serve as the principal catalysis for change; only in concert with some higher unit of government can it usually take on this very significant status.

Thank you for your attention. I will be happy to answer any questions you have.

Representative REUSS. Thank you, Mr. Johnson.

PROBLEMS IN MUNICIPAL BOND MARKET

The panel has painted an extremely somber picture of the future of municipal borrowing. Mr. Braverman has pointed out that misguided overconcern by the Federal Reserve on controlling the money supply has led to excessive interest rates. I believe that's an honest appraisal of the situation. I note that you're speaking for yourself only.

Mr. BRAVERMAN. Yes.

Representative REUSS. But I think you're right on target and I wish some of those who may read your testimony would join you.

Second, you've all pointed out that the tax system is increasingly loaded against municipalities. Mr. Petersen, in particular, pointed out the wide proliferation of other tax-exempt devices—municipal nonpublic purpose bonds, all-savers certificates—are increasingly taking the attractiveness out of municipal bonds.

Mr. Petersen also pointed out that the Senate Finance Committee's tax bill contains some devastating, if little noticed, further blows to municipal bond financing. I believe you're talking about the extension of the minimum tax to a large portion of the tax-exempt interest, plus something else.

Mr. PETERSEN. Yes; it invalues the reduction of the allowable deduction on interest cost for that portion of portfolio that is assumed to be used for the purchase or carrying of tax-exempt securities. It relates primarily to commercial banks.

Representative REUSS. And finally, you've all pointed out that there is no place in the Federal Government where concern over municipal borrowing is lodged. It doesn't seem to be in the Treasury. It doesn't seem to be in HUD. Heaven knows where it is. I suspect it's no place. And it is significant that in the vast reaches of the administration's urban policy report there isn't a line or a syllable expressing concern over the impending crisis in municipal bond financing.

IMPENDING CRISIS

But let me hasten to avoid putting words in your mouth. I've just used the words "impending crisis" in municipal borrowing. Is that too strong a term as far as you're concerned, Mr. Petersen?

Mr. PETERSEN. No. I might quibble with "impending". I think perhaps it's here and has been now for some time, expecially in view of the fact that the municipal securities market, the tax-exempt market, traditionally has been the provider of capital. Its ability to resume that role with the reduction of Federal assistance is now very much in question. It's suffered repeated blows over the last year and a half and I'm afraid many of those blows track right back to new Federal policies involving tax treatments plus the overall poor economic condition. If you're not making profits, you don't need a tax shelter.

Representative REUSS. I'll just ask the rest of the panel to comment on my statement which Mr. Petersen found a little meak and mild; namely, that there is an impending crisis in the municipal financing. Do you disagree with that?

Mr. BRAVERMAN. No; not in the least. I believe that the risk is that increasingly some cities and local financing authorities will be shut out of the credit markets which with the reduction in revenue sharing reduces their options for dealing with the problems and may indeed force some of them into bankruptcy. That is indeed a very significant risk and one that should not be dismissed.

Mr. SHANNON. I have no quarrel with your generalizations.

Representative REUSS. Mr. Johnson.

Mr. JOHNSON. I'd like to make one addendum here and that is that if we recall the crisis in New York City, what created the initial crisis was the large amount of short-term debt that New York City had. We are now facing a situation in which the whole State and local sector has built up a very large supply of short-term debt. And to take a large portion of that short-term debt, we need a viable long-term bond market and we do not at present have a viable long-term market. To the extent that certain emergencies will exist among municipalities, I think that we would get an indication of a number of municipalities not having capacity to rollover their short-term or to sell them into the long-term market.

Representative REUSS. Well, you've all made a historic contribution and let nobody, particularly in the administration or in the Congress, say that timely warning has not been given. We can't go on being deaf to the pleadings of municipal finance officers and blind to the realities of the market and dumb overall as we have been.

To make matters worse, Mr. Braverman, I've just been informed that the Federal Reserve System has this morning proclaimed that it's going to keep the same 2.5 to 5.5 percent monetary range which has led us to the gates of hell. It beats me. Congressman Wylie.

FEDERAL BLAME

Representative WYLIE. Thank you very much, Mr. Chairman.

I, too, detected a note of pessimism in your testimony this morning as to the ability of governments to solve their local problems and I think that the chairman summed up very well as to where you came out.

I, too, would say I think you have made a significant contribution. You are experts in the field and you have knowledge of the problems that we now face.

As I understand it from what you each say—and this is a very general statement—you are all suggesting that there ought to be more rather than less Federal Government involvement vis-a-vis New Federalism. Is that a fair bottom line statement?

Mr. PETERSEN. Mr. Wylie, I think that the course has been charted as to the Federal Government's financial role in State and local government, one of diminishing involvement, perhaps more rapidly than a lot of us would have liked to have seen. I do think it's incumbent on the Federal Government and the policymakers to do what they can in terms of protecting State and local governments from mindless, needless sideswipes in this scurry to achieve a smaller governmental sector.

In particular, I refer to the tax legislation. Given the focal point of capital financing problems in this sector today, anything which is done that further deteriorates the municipal securities market is harmful. In fact, I suggested, as we have suggested for many years, things which could be done to enhance that market as the proper preserve for governmental uses of credit. And here, again, we get into the problem of the necessity of raising Federal revenues, which is clearly with us because we nearly demolished the Federal tax system a year or so ago. Cutting grants to close the deficit means that there is a passing of the burden to State and local governments. I don't think that the Federal Government is going to be in a financial condition to increase grants. But I do think it can take steps which will help protect this sector from needless injury.

Representative WYLIE. Well, I want to get on to the other members of the panel but I want to follow up on what you said about the tax problems that we've encountered. Are you talking about the tax program which we enacted last year?

Mr. PETERSEN. Yes, I am. For example, reference was made to the all-savers certificate. In the case of safe-harbor leasing, in a brief interval, approximately $22 billion in new tax shelter was created and, here, you were creating another form of tax shelter with which State and local governments have to compete.

I'm not arguing the merits of the tax bill, necessarily. But, what I'm arguing is that the system is closed and the Federal Government cannot proceed as if somehow it is insulated from all these other concerns in the government sector and throughout the rest of the economy. A rapid withdrawal of Federal assistance, and unfortunate tax policy implications have to be taken into consideration when we're thinking about public policy.

MONEY MARKET FUNDS

Representative WYLIE. Speaking of competing, are money market mutual funds to blame at all for the problems in the municipal financing market?

Mr. PETERSEN. Well, let's put it this way. There certainly has been—we detected and the underwriters have discovered—a great demand for short-term municipal paper and that market remained resiliant and was able to absorb a lot of borrowing. That's a good, short-term solution, but it's only a short-term solution. As Mr. Johnson pointed out, and I think the others would testify to, we now have a large accumulation—I would estimate somewhere in the vicinity of $30 billion—in tax-exempt financing looking for a long-term home.

It's very difficult to contemplate any protracted period of time when you're financing water and sewers and roads with 7-day paper. So it is a Hobson's choice. On the one hand, everybody agrees that it's nice to stay short for a short period of time; but, unfortunately, there was no greening in the spring of the long markets and no place to fund out the debt. And now States and localities are having to compete with the Federal Government's tremendous credit demands which are absorbing about 75 percent of the net available savings.

FEDERAL BLAME

Representative WYLIE. Mr. Braverman, I think I'm detecting another catch-22 problem, the problem of timing. You're suggesting that the Federal Government is partly to blame because we are financing a huge public deficit, with which I agree, and yet you want more Federal involvement.

Mr. BRAVERMAN. I think that's exactly the point, that to a considerable extent it's a zero-sum game. What we attempt to do in one area we pay a price in another area. Unfortunately, what we have attempted to do in terms of fiscal policy, monetary policy, has had a consequence for State and local governmental finance that has been disastrous in many degrees and it seems to me that to the extent that Federal Government policies are responsible it shares a responsibility for picking up the pieces or preventing the disaster that I think increasingly is at risk, default of State and local governments, and that's why a program similar to the one that Felix Rohatyn suggested or concern over it would be appropiate.

FEDERAL ASSISTANCE

Representative WYLIE. I want to just ask something in reference to that and then you can go on. Mr. Rohatyn suggested an RFC finance corporation type of operation and in your prepared statement you suggest a MAC.

Mr. BRAVERMAN. A MAC-type.

Representative WYLIE. Right.

Mr. BRAVERMAN. Something of that nature. I don't want to spell out the specifics. That I think is best left up to the Congress and the individual problems of the different States.

Representative WYLIE. But in any event, you're suggesting some new Federal involvement, some new super-governmental agency to help in the financing of that municipal debt.

Mr. BRAVERMAN. It does not have to be a Federal Government agency per se, but some corporation that can interpose itself between the marketplace and the cities or States that suffer distress so that there is some agency that the market can look to to provide funds through borrowings that can be temporarily substituted for the borrowings of the city that may no longer be welcome in the credit market if the financial situation becomes more distressed.

Representative WYLIE. Mr. Shannon, do you think that's a good idea?

Mr. SHANNON. We may come to it. My general point is that, on balance, I think it's quite clear we're going to have less Federal involvement, not more, looking at the whole spectrum. Now there may be certain areas that will come up where the national interest gets so strong that we will have a new initiative such as a modified RFC, but I think the realities of the defense situation, the income tax cut, of minimizing deficits and facing up to what we have to do on the social security front—all of these things mean there's going to be less, not more, involvement on the State and local front in balance. And what we're facing are hard choices and the municipal market is one of the obvious areas that's being squeezed by much larger priorities.

Representative WYLIE. Senator Moynihan is waiting to testify but I would like to have your comment, Mr. Johnson.

Mr. JOHNSON. Well, in terms of the RFC, my concern is that we might be developing an institution which is to provide long-term financing for distressed muncipalities when in fact what we need is a little more attention to the equitable financial arrangements—Federal, State, and local governments. And I worry about the impact of a long-term debt-securing entity in terms of increasing demands on the credit markets and how that will affect the overall interest rates at a time when localities, particularly municipalities, are in need of just making operating requirements and resources meet. The Federal Government can be particularly helpful, in this respect.

Just one footnote. In terms of the money market funds you mentioned, I think it's important to emphasize that there are money market funds that not only buy short-term but also long-term paper, and the principal purchasers of the long-term money market funds are individuals, and as institutions, such as insurance companies and commercial banks, have gotten out of the long-term tax-exempt market, these individuals have picked up the slack. And without the individuals purchasing obligations directly or through money market funds, we would have a thinner and more difficult long-term market for municipal debt obligations.

Representative WYLIE. Thank you very much.

Representative REUSS. Thank you, Congressman Wylie. Mr. Petersen. Mr. Shannon, Mr. Braverman, and Mr. Johnson. We are grateful for your very helpful testimony. The news you have given us is not good, but you told it like it is and we appreciate it. Thank you very much.

We will now hear from the astute and delightful Senator from New York, Senator Moynihan.

STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM THE STATE OF NEW YORK

Senator MOYNIHAN. Mr. Chairman, you're very generous to give me an opportunity to speak to you today and I hope I will not abuse your patience if I address myself principally to the origins of the idea of a national urban policy and the transformation we see in this over the not very long span, and I think it fair to say that I was present at the creation.

I drafted the first national urban policy set forth by the U.S. Government. This came about in somewhat curious circumstances. In 1968, I was Director of the Joint Center for Urban Studies at MIT—Harvard. I was a Democrat, as I am, and I campaigned for Robert Kennedy and for Senator McCarthy and then for Hubert Humphrey, but in the end Richard Nixon was elected and he asked me if I would come and serve as his assistant for urban affairs, a position that had not previously existed and, of course, I accepted.

The first official act of the new President on January 23 was to sign an executive order establishing the Council on Urban Affairs. This body later was reconstituted as the Domestic Council which we have today and the idea of national urban policy was central to the enterprise, and if I may read to you very briefly from the President's statement as he signed this, he said:

We have become an urban nation, and for all this, however, the American national government had responded to urban concerns in a haphazard, fragmented and often woefully short-sighted manner, as when the great agricultural migrations from the rural South were allowed to take place with no adjustment for relocation arrangements whatever. What we have never had is a policy, coherent, consistent positions, as to what the national government would hope to see happen, what it will encourage, what it will discourage.

Having a policy in urban affairs is no more a guarantor of success than having one in foreign affairs, but it is a precondition of success. With the creation of the Urban Affairs Council we begin to establish the precondition, the formulation and implementation of a national urban policy.

And this later, the Congress, wisely I think, directed that the Secretary of HUD prepare for the President and send to the Congress an annual report called the National Urban Policy.

But again just a bit of background because this report is such a striking contrast in its assumptions than the one that went forward just 14 years ago, and I don't want to speak too much about my own thinking in this, but at this time I was the one who was supposed to be doing it and so two propositions occur so it seems to me.

The first was that the great industrial cities that had grown up and the great manufacturing cities that had grown up in the 19th century had entered a period of sharp decline for the simple reasons that the economic functions they once served, especially those associated with density, were no longer decisive.

We have a sort of rule, steam concentrates; electricity disperses; and it's that technological in its basis. The cities would no longer serve the economic function they once had done and there would be much social disruption. If you wanted to go back, you could find the great enclosure acts in 17th century Britain which produced a more efficient agriculture, but it hugely disrupted agriculture population. I mean, I knew this was coming to New York City, the city I'm closest to and know most about. In 1964 I had gone up to New York. I was Assistant Secretary of Labor and had set forth the decline in manufacturing jobs that were taking place in the city at that time. It was just a hemorrhaging, and you could in 1964 see the South Bronx coming.

We knew that this was—and rather curiously, this has not just happened in New York. If you go to London today, you'll find huge chunks of London that are abandoned in the same way, and I think one of the—I don't want to do amateur psychology, but the free enterprise zone which has so fascinated this administration and Secretary Pierce speaks about it in his letter of transmittal—is a British idea, as you know. It orginates with the British Ambassador. And I think it's kind of nostalgic for those great booming, black, steamy 19th century cities where you had no regulations but they were full of people, and it won't work, but that's all right. Nostalgia has other proposes besides functional—I mean, it has functional purposes besides being effective or something like that.

And I knew this was also going to come to the populations most exposed, particularly the minority population. This you could also see in the mid-1960's.

This morning, Mr. Chairman and Mr. Wylie, we learned that last year the rate of poverty for all children in this country rose to 20 percent, one child in five. For minority children it rose to 44.9 percent, the highest in our history. That you could foresee. It may surprise people every time it happens, but you could foresee it.

The second thought I had or belief, because these are not readily proven propositions, was that urban affairs were responsive to government policy. This is a big proposition. It might be so; it might not be so. It's something you really have to ask yourself whenever you get near a question like this. Would government policy make any difference?

It seemed to me it had done; first of all, because we had a large number of hidden urban policies, or so I called them. For example, the interstate highway program was the largest public works program in the history of the world. President Eisenhower used to say he regarded it as the most important achievement he had had domestically in his administration. It was called the interstate highway program, but it was basically an urban highway program and it was going to actually wreck central cities.

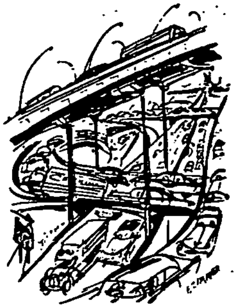
And if I can, Mr. Chairman, I'd like to put in the record an article I wrote in 1960, "New Roads and Urban Chaos." This was going to just smash up cities and you weren't going to recognize them when this was all over.

Representative REUSS. Without objection, the article will be received.

[The article referred to follows:]

New Roads And Urban Chaos

DANIEL P. MOYNIHAN



The *Wall Street Journal* does not commonly describe any undertaking of the Eisenhower administration as "A vast program thrown together, imperfectly conceived and grossly mismanaged, and in due course becoming a veritable playground for extravagance, waste and corruption." It must, to the White House, seem notably unkind for the *Journal* to speak thus of an enterprise the administration has declared "the biggest public works program ever undertaken anywhere or at any time throughout the world." But even the President has conceded that all is not well with the $45-billion Interstate and Defense Highway program.

The program provides for the construction of 41,000 miles of superhighway, connecting ninety per cent of the nearly three hundred cities of the continental United States with populations of 50,000 or more. When completed, the system will carry twenty per cent of the nation's traffic. Up to ninety-five per cent of the cost will be paid by the Federal government. Half of it will be spent in the cities the system connects.

Washington abounds with administration task forces, Congressional committees, and special-interest groups—all investigating this program. Those in Congress who are looking for scandal will likely find no end of it. Those in the President's office looking for ways to cut back the program will have an even easier task, although they may encounter more difficulty getting their findings published during this election year. But very few seem to be asking whether, quite apart from corruption or extravagance, the program is bringing about changes for the worse in the efficiency of our transportation system and the character of our cities.

One of the best-publicized resolves of the administration that took office in 1953 was to redress the balance of Federal-state relations by divesting the national government of such usurpations of state sovereignty as vocational education and aid to the dependent blind. While almost nothing has come of this endeavor, an important change in Federal-state relations has in fact taken place during the Eisenhower years. The Federal government, through the Federal Aid Highway Act of 1956, has assumed the direction of highway construction—one of the few areas of significant government activity in which the states still had the initiative after the New Deal.

Although the Federal government has been providing some highway aid to the states since 1916, road building was almost entirely a state and local affair until 1956. The Federal Bureau of Public Roads was, as late as 1939, a small agency in the Department of Agriculture helping to "get the farmer out of the mud" by supplementing state highway budgets. The states spent the money pretty much as they pleased.

The system was permissive but not disorganized. Standards for highway construction, for example, and national routes (the familiar US sign) were successfully established on a voluntary basis. For the most part, however, these roads followed trails that had originated far back in frontier history. With the coming of the automobile they were just surfaced, and widened and straightened somewhat. Our counterparts of the "rolling English drunkard" who laid out Chesterton's "rolling English road" were the Iroquois war party and the Conestoga wagon: more purposeful but not less circuitous as they sought out the passes and water-level routes north and south, and across the continent. The Roman roads Hilaire Belloc has written of, struck like a lash across the conquered provinces, were not reproduced in America until we too established a dominant central government.

The idea of a Federal system of superhighways arose during the First World War. It was revived by the Roosevelt administration as a public-works project for building 14,000 miles of transcontinental routes. A study made by the Bureau of Public Roads, which the President commended to Congress in 1939, revealed that there was surprisingly little cross-country traffic and suggested that the concept be changed to a 26,700-mile intercity system. The idea was popularized by General Motors' Futurama exhibit at the New York World's Fair.

In 1944, after some further study, Congress authorized construction of a National Interstate Highway system on this basis. The size was increased to 40,000 miles. Thus, from the outset there has been more mileage authorized for the system than anyone knew exactly what to do with.

More Roads for More Cars

Authorization is the first step in a Federal public-works program. It more or less commits Congress to appropriate money at a future date and provides time for plans and other necessary arrangements to be made. Plans for the interstate system went ahead. In 1947 the Federal government and the states agreed on the location of 37,700 miles of the system, leaving the rest for additional urban connections. The roads were to be limited-access, multilane high-speed routes designed to the highest standards. But no special funds were appropriated to build them; only regular Federal highway-aid funds were made available, on the standard fifty-fifty matching basis. This required the states to take sizable amounts of money from regular projects to spend on interstate mileage.

THE RESULT was that the interstate mileage didn't get built. Highway-construction expenditure multiplied by nearly eight times from 1945 to 1952, but the states just wouldn't use their money on interstate highways. It had never, after all, been their idea. Special funds were thereupon appropriated and the Federal share increased to sixty per cent, but still with little effect. By 1952, less than one per cent of the system had been completed. Three years later President Eisenhower declared: "At the current rate of development, the interstate network would not reach even a reasonable level of extent and efficiency in half a century."

For the highway transportation industry this raised a serious question. Automobile registrations had almost doubled in the first decade after the war. By 1955 there was a motor vehicle for every seven hundred feet of lane in both directions on all the streets and roads of the nation. It was expected that registrations would rise another forty per cent in the following decade, to a total of eighty-one million. Yet already the cities were chockablock with cars. Unless more room was made for automobiles, the automobile industry itself might feel the pinch. "Either the roads must be made adequate for the traffic," stated the *Engineering News-Record*, "or the end of national expansion as we know it must be accepted."

Few pains were spared to popularize this notion. General Motors even went into the essay-sponsoring business, offering $25,000 for the best theme on "How to Build the Roads We Need." (The prize was won, naturally, by Robert Moses.)

But the Eisenhower administration needed little persuading. Highway transport had become, in the words of the Brookings Institution, "the greatest single combination of economic activities in men's history."

In July, 1954, the President proposed a "grand plan" for a national highway system. His plan was to build the interstate system Roosevelt had proposed and Congress had authorized. He next appointed a committee composed of General Lucius D. Clay and assorted men of substance, including Dave Beck, as was *de rigueur* in those days, to devise means for doing so. The committee quickly reported that the system would cost only $27.5 billion, and could be built, with borrowed money, in ten years. It proposed that the Federal government pay ninety per cent of the cost generally and up to ninety-five per cent in states with extensive untaxed Federal landholdings. The President submitted this proposal to Congress in February, 1955.

Something for Everybody

Introducing a highway program in today's Congress is like letting a tariff bill loose in the old days: the figures go up and up and up. The economic interest in highways affects not only General Motors but also countless numbers of garage owners, automobile dealers, road contractors, real-estate developers, and similar large and small businesses throughout the land. Conservatives think of roads as good for business. Liberals think of them as part of the litany of public investment they so love to chant: "Better Schools, Better Hospitals, Better Roads . . ." Plain politicians think of roads as the indispensable means by which the owners of seventy million motor vehicles derive the benefits from what is for most of them the largest or second largest investment they ever make.

Highway construction is especially important to the professional politicians, since it provides the largest single supply of money available these days to support their activities. The alliance of the county leader and the contractor is ancient and by no means dishonorable. Public works represents the most beneficent outlet yet devised for the politician's need to make a living and at the same time please the public. If it occasionally takes the form of paving stream beds in Kansas City, it may also produce a New York State Thruway.

IN MOST STATES a symbiotic relationship has been established between the contracting firms and the local political organizations which obviates the usual forms of corruption. The contractors pay an honest tithe to the parties' exchequers out of fair profits, which are large mostly because the sums involved are vast. It is a point of pride with many contractors to make all contributions by check and often, as it were, in public through advertisements in party yearbooks. To the extent that this system works, it provides an excellent if informal means of financing our parties out of tax funds: contractors are normally apolitical, asking only that there be just a little more than enough work to go around. The politicians usually do their best.

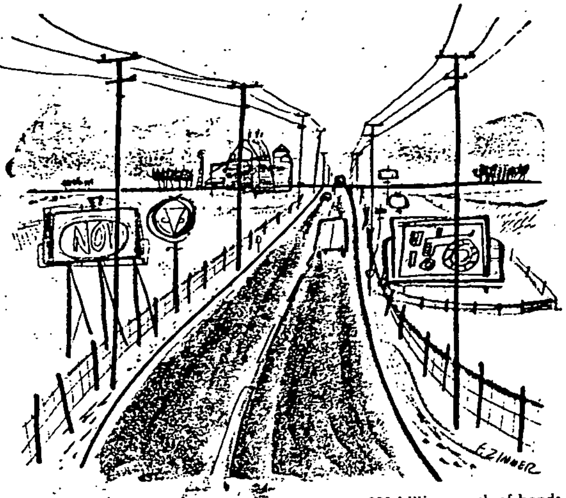
One special attraction of the interstate program was that these roads, for the most part, would be brand-new. Seventy-two per cent of the mileage, both in urban and rural areas, would be on entirely new locations. Along most of these thirty-thousand-odd miles, property values are destined to soar. This is sure to please the owners, whether the property has been in the family for years or, by good fortune, recently acquired. The redoubtable George Washington Plunkett of Tammany Hall was not the last American politician who could suggest as his epitaph "He Seen His Opportunities, and He Took 'Em."

In a Democratic Congress dominated by Southern and Western representatives, the program had the further advantage of providing a considerable subsidy to those parts of the country. Far the heaviest concentration of traffic and automobiles in the nation is located in a parallelogram running from Boston to Milwaukee down to St. Louis over to Washington and back up to Boston. The area's fourteen states and the District of Columbia had just under half the nation's motor vehicles in 1955. However, only a quarter of the interstate mileage is located in these states. Mississippi, with one-third to a half as many automobiles as Massachusetts, is to get almost one and a half times the mileage. Texas, with five-sixths as many automobiles as New York, is to get almost three times as much mileage.

It was fortunate for the President that there were so many sound political reasons to support his program. There weren't many others. With the railroads running at fifty per cent of capacity, a sudden, sharp increase in intercity transportation facilities represented, if anything, a threat to the economic stability of the entire transportation industry. Almost certainly the 40,000-mile figure was too large: it had no basis other than the enthusiasm of the wartime Congress for a peacetime program that might be years away. In 1944 Congress had little idea where this mileage was to be located, much less whether it would be needed. Ten years later the Clay Committee appointed by President Eisenhower found that only 8,500 miles of the system could expect enough traffic to pay for themselves as toll roads—and of these, all but 3,500 were already built or being built.

There was no question that city streets were jammed, and it was always understood that half the cost of the program would go to urban arterials. But this aspect of the program should have evoked the Malthusian specter raised by New York City's Deputy Administrator Lyle C. Fitch: the number of automobiles increases to fill all the space provided.

A few months after the program was adopted, Geoffrey Crowther of the London *Economist*, returned from a trans-American tour, told a New York meeting of the Committee for Economic Development: "I have driven myself with my own hands over 12,000 miles. . . . I could tell you a great deal about the . . . fabulous development of the highways in the United States. I find myself



puzzled by the statements—that are taken for granted in this country now—that your highways are obsolete. I think I can claim to know as much about them now as anybody in this room and I say it is not so. Your highway system is magnificent. It is overburdened in the immediate vicinity of the large cities; but get away from the large cities and your highways are empty.

"I wonder," said Crowther, speaking of the new interstate program, "if the matter has been investigated as thoroughly as it should be." It had been. Any number of congressmen had wondered if it could not be made bigger. It was. The President's proposal was adopted with only one other important change. Ever alert to the call of patriotism, Congress lengthened the title to make it the Interstate *and Defense* Highway program.

Who Pays the Bill?

The urge to have the highways was not matched by an urge to pay for them. From the outset the financing of the program has been the object of much controversy and muddle.

The Clay Committee had proposed that the program be financed through an independent Federal Highway Corporation which would sell some $20 billion worth of bonds to raise money to build the highways in a ten-year period. The bonds would be retired over thirty years by the returns on the two-cent Federal gasoline tax. This would have permitted an increase in government borrowing and spending of billions of dollars each year, without any increase in the debt limit, the budget, or taxes.

The fiscal conservatives in Congress were upset by this proposal for deficit financing. The partisan Democrats were loath to let the President carry off such a political coup. The two groups combined to insist on what is substantially a pay-as-you-go program, matching increased expenditures with increased taxes. After some difficulty over which taxes would be increased, a bipartisan program passed the House in April, 1956, by a vote of 388-19. The Senate approved its measure and the President promptly signed the conference bill.

The Highway Act of 1956 gave the President the $25 billion he had asked to construct the interstate system (to be matched by $2.5 billion from the states) and provided a third more than he had asked for regular highway aid. The authorized mileage of the interstate system was increased to 41,000. It was to be built over a thirteen-year period, at a rate of Federal expenditure rising to $2.2 billion per year.

To provide the money, the fuel tax was increased from two cents to three cents per gallon and the tax on new tires from five cents to eight cents per pound. These increases, together with some smaller ones on other taxes, brought an increase of almost two-thirds in taxes on highway use. A Highway Trust Fund was set up to receive these and some related taxes. The receipts of the Trust Fund would be used to pay for the highway program.

The device of the Trust Fund satisfied the administration's wish to keep the increased level of government spending from showing up in the budget. The bulk of highway expenditure is now carried as a separate item, similar to Social Security payments. Thus in the budget for fiscal 1961, highway expenditures are shown as $3 million, although they will actually be something like $3 billion.

THE PROGRAM got under way on July 1, 1956, but it was in trouble even before it began. The financial plan provided for the Highway Trust Fund to incur some deficits during the peak construction years. These would be balanced by surpluses obtained during the early period when the program was still on the drawing boards and during the latter years as it was tapering off. At the last minute, Senator Harry Byrd of Virginia, supported by Secretary of the Treasury George M. Humphrey, added an amendment that forbade the Trust Fund ever to incur a deficit. This meant the scheduled program would have to be cut back as soon as the small initial surplus was used up.

A deficit seemed imminent in March, 1958, when the President asked Congress to permit the expenditure of an additional $600 million on the interstate system as an anti-recession measure. Congress eagerly responded with $800 million. The 1958 recession thus caused an increase in expenditures and at the same time a decrease in receipts because of lowered economic activity. In January, 1959, the Secretary of Commerce reported to Congress that unless receipts were increased the fund would soon be exhausted. There would be no interstate funds apportioned for fiscal 1961 and only $500 million for 1962.

To prevent this the President asked that fuel taxes be increased from three cents to four and a half cents a gallon. This aroused opposition from the oil companies, and for a time it seemed that the program might be seriously interrupted, but at the last moment Congress enacted a one-cent gas-tax increase. The President asked for the other half cent in his recent budget message, but nothing will be done until after the election.

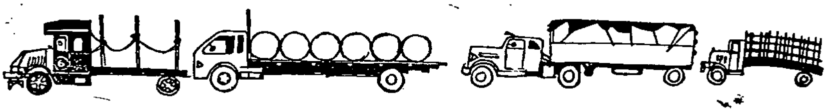
SOMETHING will have to be done soon, however, for the financial problems of the interstate system have become more difficult than simply maintaining the level of expenditures envisioned in 1956. Since then the estimated cost of the system has almost doubled.

In January, 1958, the Secretary of Commerce announced that revised estimates indicated that instead of $25 billion, the Federal share of the interstate cost would be nearly $34 billion. This was for only 38,548 miles, however, which, it turned out, was all the routes laid out in 1947 required. To build the remaining 1,452 of the 40,000 miles originally planned (never any question of just dispensing with them as a tribute to efficient management) and the extra thousand miles authorized in 1956 will require another $2.2 billion. Technically the revised estimate did not even cover all of the 38,548 miles, since it did not include the cost of reimbursing the states that had already built parts of the system with their own funds or as toll roads. This would add perhaps $4.3 billion. There is also the matter of some $1.5 billion for relocating railroad tracks, telephone lines, and other utilities disturbed by the new highways, as authorized by Congress. Also, another half billion dollars might be needed to provide the extra 1.5 per cent of the cost to states that forbid billboards along the new routes, as authorized by Congress. This could bring the total Federal-state cost to something like $45 billion. The sole prospect of economy is that the states aren't taking up the no-billboard option.

Who Runs It?

This is not the end of it: rising costs are built into the interstate system. From the outset the program has been undermined by the administration's desire for Big Government achievements without Big Government. The Clay Committee envisioned the largest public-works program in history being carried on with no increase in public personnel. ". . . The Federal Highway Corporation should consist only of a board of directors with secretarial assistants"—a kind of bureaucratic fantasy in which almost everyone is a member of the board and there is no overhead. The Clay Committee proposed that the interstate program be operated through the Bureau of Public Roads as an ordinary Federal highway-aid program, with all the work of picking sites, drawing plans, letting contracts, and so forth, done by the states. For extra help the states, many of which were altogether incapable of doing such work anyway, would turn to the "private engineering organizations capable of providing sound engineering in this field." All of this, in some way, would further "the President's stated desire for 'a cooperative alliance between Federal Government and the States so that government . . . will be the manager of its own area.'"

The President has had his desire. The Bureau of Public Roads, with only a handful of extra help, depends on the states, which depend on consulting engineers. The consulting



engineers, normally paid by a percentage of cost of the projects they design, depend on the Rotary Club for forecasts of the traffic potential of whatever town they happen to be tearing up.

Where Is It Built?

Many instances of almost incredible mismanagement have appeared in scathing reports by the Comptroller General, but there is nothing to be done about it. The interstate program is not a Federal enterprise; it is only a Federal expense. Washington is simply committed to keep supplying money until it is finished. But the states have no real freedom of action either. The basic decision to build the system has been made for them: the enormous "bargain" of the 90-10 money makes it politically impossible to do anything but take the money as fast as possible and try to match it. Since all contracts are closely scrutinized by the U.S. Bureau of Public Roads, the states hardly see it as their responsibility to control the costs of the program, as indeed it is not. But the bureau, under equally heavy pressure to keep the program rolling and Congress happy, exercises little real control. It functions rather as a company comptroller who fusses over items on an expense account without ever daring to ask if the trip was necessary. In fairness, the bureau could hardly do otherwise: in 1958 it had two investigators to cover the entire United States.

The Comptroller General's men recently came upon a three-mile segment in "a very sparsely settled area" of Nevada on which three interchanges have been built at a cost of $384,000. They will handle a daily traffic load of eighty-nine vehicles, serving, in the words of the General Accounting Office, "some old mines, a power line, four or five small ranches, and a house of ill repute."

From Arkansas the state auditors reported: "On every hand among both employees and commissioners we encountered a strange and distressing apathy at any extravagant use of highway funds." In Indiana apathy was replaced by enthusiasm: the boys had organized a syndicate with highway-department employees to take *all* the risks out of speculating on capital gains from right-of-way condemnations. The Pennsylvania highway department, one hundred per cent patronage, was performing less than ten per cent of the preliminary engineering on interstate routes, while passing out contracts to consulting engineers at the rate of a $1 million a month. In West Virginia, ". . . only about ten per cent of the state's project engineers . . . were registered or graduate engineers."

With no strong direction of the program, there has been no way to resist the political pressures to build a little bit of interstate highway in every county along the 41,000-mile route. Limited-access highways over

new locations are more like bridges than ordinary roads. Until they make the complete crossing from one city to another they are relatively useless, starting, likely as not, at one of the cities and ending in a cornfield. A minimum of businesslike management would have arranged for the system to be built in complete segments, concentrating on the more important ones. Instead it is being built in fragments strewn across the continent. It will be years before these are connected into anything like a national system.

THE REPEATED financial crises of the program have created a mistaken impression that it is slowing down. Apportionments of funds for the next two fiscal years will be down as much as $600 million, but this will no more than offset the increases provided in 1958. According to Federal Highway Administrator Bertram D. Tallamy, who built the New York State Thruway and is in charge of the interstate program, expenditures are running some four per cent ahead of the schedule envisioned by the 1956 legislation. Fifteen thousand miles of the system are either in the contract stage or have actually been completed. Routes have been located and plans are in process for ninety-five per cent of the remaining mileage.

True, unless more funds are made available, the program will stretch out. But there is much support for providing more funds. The President's recent budget message, which calls for cuts in housing, hospital, water pollution, and similar programs and makes clear that a serious education bill will be vetoed, nonetheless proposes more funds to "permit the construction program for the Interstate System to proceed at a higher and more desirable level." Congress continues to share the President's unflagging interest in highways. Senator Albert Gore, who sponsored the 1956 legislation, was talking awhile back about adding another seven thousand miles.

A few legislators such as Senator Paul Douglas of Illinois have questioned whether this is the very best way to spend our money. Senator Eugene McCarthy of Minnesota has asked whether the program wasn't merely hastening the day when "You'll be able to drive eighty miles an hour along superhighways from one polluted stream to another, from one urban slum to another, from one rundown college campus to another."

The only certain consequence of the rising costs of the program is that there is no longer much serious possibility of reimbursing the states that built sections of the system as toll roads. In the postwar years, after the outlines of the interstate system had been established, a number of states did this. From the outset of the present program it has been recognized that justice entitled these states to be reimbursed so that they might either remove the tolls or build additional roads. Five years ago it seemed unthinkable that this would not be done. An administration spokesman told the House Committee on Public Works that not to reimburse these states would be like saying, "Boys, we are sorry, you took care of yourselves, so you do not get anything."

The 1956 legislation declared the intent of Congress to settle this matter, but as one financial crisis has followed another, the intention has grown weaker. It is now practically settled that those states which did not wait around for Uncle Sam to look after them will in fact get nothing. So much for the fate of the bird dogs in the Eisenhower years.

Not surprisingly, seventy per cent of these toll roads are located in the states of the northeastern parallelogram, which as a result will get even less than a quarter of the interstate mileage.

This development only compounds the inequity of paying for the interstate system with gasoline taxes. Drivers on the Massachusetts Turnpike, the Indiana Toll Road, the New York State Thruway, and similar highways will not only have to pay tolls to use their portion of the interstate system, but they will be paying extra gasoline taxes to build the other portions.

Who Benefits Most?

Apart from any regional imbalance, the gasoline tax is still a highly questionable way of distributing the burden of paying for the interstate system in terms of the benefits that will be derived from it. The fuel levy really amounts to a household tax—more than fifteen dollars a year on the average—on the seven out of ten American families that own an automobile. Most of these families will use the interstate from time to time, but hardly enough to get their money back.

By contrast, the system will provide a great subsidy to industry in the form of cheap road transport. The nature of this subsidy has been obscured by the endless arguments concerning the precise share of highway costs that should be paid by trucks as against private automobiles. (The Federal government and the states are currently spending $22 million running tractor-trailers over a road near Ottawa, Illinois, to determine just how much they damage the pavement.) Although it appears that truckers do not pay a fair portion of highway costs, this in itself is not the secret of their economic success. The truckers' main advantage is that railroads must pay *all* the cost of building and maintaining their transportation system, while trucks pay only when they actually use the roads. Of each railroad revenue dollar, twenty cents goes to right-of-way costs. For trucks the figure is four and a half cents.

As a result of this advantage, in the words of the industry's trade association, "Within one generation, trucking has become the dominant form of transportation in the United States." This dominance will be confirmed by the completion of the interstate system, at a presently estimated cost of some $45 billion. The net investment in our entire 220,000-mile railroad system is only $28 billion. Were it not for the trucking subsidy, the railroads would almost certainly be running at better than their current fifty per cent of capacity.

Some of this imbalance could be righted if the Interstate Commerce Commission were authorized to take the road subsidy into account in fixing trucking rates. But actually only a third of the road transport is conducted by firms operating as common carriers in direct competition with railroads and under regulation by the ICC. Railroad analyst A. Joseph Debe of Standard & Poor's estimates that two-thirds of it is conducted by or for private industries hauling their own products. It is these companies, spread across the entire range of American industry, that benefit most from the highway subsidy.

Because two-thirds of truck traffic is subject to no rate regulation, the only practical way to restore any economic balance in intercity transportation would be to impose a toll on the commercial users of the interstate system. A permit system would not send trucks to parallel routes: they gladly pay as much as ten cents a mile to use a road like the New York State Thruway. (This may give some indication of the size of subsidy on free roads.)

THE QUESTION of tolls must also be asked in connection with the problem of how the system is to be maintained by the states once it is built. Running a limited-access highway is a complex, exacting job requiring intensive, continuous supervision, much as does running a railroad. The great turnpikes are, in fact, very much like railroads; they are not public facilities nearly so much as they are public enterprises. Their headquarters are elaborate communications centers receiving information and dispatching orders, often of much urgency. The forces required to keep the routes open in winter, repair damage, keep up with maintenance, and generally look after things are far greater than those required on ordinary roads. The costs run as high as $10,000 per mile per year. Few states have this kind of money; fewer have the organization to spend it effectively. Only tolls can really be expected to provide either.

The problem will be vastly enlarged by the absence of any food or fuel facilities on the interstate system. Limited-access highways are isolated travel corridors; it is essential that they be as self-contained as possible. Restaurants and service stations are automatically included in plans for any large toll road. Anyone who has used a turnpike knows how busy these facilities are. They produce income from concessionaire fees and provide indispensable services to motorists. But the Highway Act of 1956 specifically provided that there should be *no* service facilities on the system.

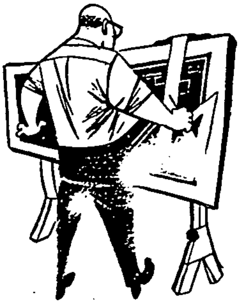
A motorist on the interstate system who has car trouble or needs gas will have to leave the main road at an interchange to find a service station. At four in the afternoon he will almost certainly find one open. At four in the morning he will almost certainly find them all closed. The oil companies are thus free of any obligation to set up stations on interstate routes where their prices might be regulated, where they might have to share their profits with the state governments, and most particularly where they might have to stay open in the unprofitable hours of the early morning. And, of course, nothing will help real-estate values at those interchanges like a gas station and a honky-tonk or two. As far as the public is concerned, it means the interstate routes will almost certainly be poorly maintained and will be dangerous to drive on at night or at any time during the winter.

Chaos in Concrete

It is not true, as is sometimes alleged, that the sponsors of the interstate program ignored the consequences it would have in the cities. Nor did they simply acquiesce in them. They exulted in them. Thanks to highways, declared the Clay Report, "We have been able to disperse our factories, our stores, our people; in short, to create a revolution in living habits. Our cities have spread into suburbs, dependent on the automobile for heir existence. The automobile has restored a way of life in which the individual may live in a friendly neighborhood, it has brought city and country closer together, it has made us one country and a united people."

This rhapsody startled many of those who have been concerned with the future of the American city. To undertake a vast program of urban highway construction with no thought for other forms of transportation seemed lunatic.

The 1939 report that Roosevelt sent to Congress—prepared in the Department of Agriculture—took it as axiomatic that the new highways would be part of, and provide the occasion for, a "radical revision of the city plan," which would coordinate other urban programs such slum clearance and provide for 'reintegration of facilities for the various forms of transportation." The 1944 legislation had much the same intent. But so far as the Highway Act of 1956 goes, there is no form of transportation but the automobile, and the act has no objective save providing more room for it.



It had always been understood that a large portion of the interstate funds would be spent in the metropolitan areas, but the 1956 legislation went further to declare that "local needs . . . shall be given equal consideration with the needs of interstate commerce," thus authorizing construction of arterial highways only by courtesy connected with the interstate system.

It was clear at the time that locating the metropolitan portions of the interstate system would constitute an unprecedented venture into national planning. It was estimated that the size of our metropolitan areas would double by 1975. For good or ill, the location of the interstate arterials would, more than any other factor, determine how this growth would take place. Yet no planning provisions of any kind were included.

In the absence of any other provisions, the "planning" would be done by highway engineers. Theirs, admittedly, is an unjustly maligned profession. Nothing in the training or education of most civil engineers prepares them to do anything more than build sound highways cheaply. In the course of doing this job they frequently produce works of startling beauty—compare the design of public highways with that of public housing. Yet, in the words of John T. Howard of the Massachusetts Institute of Technology, "It does not belittle them to say that, just as war is too important to leave to the generals, so highways are too important to leave to the highway engineers."

Highways determine land use, which is another way of saying they settle the future of the areas in which they are built. It stands to reason that engineers should be required to conform their highway plans to metropolitan land-use plans designed in the context of more general economic and social objectives.

Yet in 1956 we had no metropolitan area plans, as we had no metropolitan area governments. The only one we have now is in Dade County (Miami), Florida, which is just getting started.

In this predicament, there was considerable sentiment for a moratorium on the urban interstate program until planning requirements could be imposed. Most of those concerned, however, as the distinguished transportation economist Wilfred Owen is frank to say, felt if the program went ahead it would precipitate such a crisis that something would have to be done at last about our metropolitan areas.

Across the nation there seemed to be an increasing awareness among those who actually run the cities and suburbs that to do nothing more than build bigger highways only produced bigger traffic jams. There seemed a growing belief that a complex system of mass transit had to be preserved, or revived, or even indeed created—if only to make automobile transportation feasible.

The sorry results of carrying on a number of Federal urban-development programs completely independent of each other had become increasingly evident. Thus the American Municipal Association formally requested legislation requiring that the urban-renewal and highway program be co-ordinated.

THE CRISIS has come. It has been impossible for the cities to resist the offer of unprecedented amounts of money, however futile they might know it will be to spend it on highways alone. In one metropolis after another the plans have been thrown together and the bulldozers set to work.

Here and there, as in Milwaukee, a vigorous and established city planning authority has been able to get intolerable plans redrawn. But in general the program is doing about what was to be expected: throwing up a Chinese wall across Wilmington, driving educational institutions out of downtown Louisville, plowing through the center of Reno. When the interstate runs into a place like Newburgh, New York, the wreckage is something to see. Down the Hudson, Robert Moses is getting set to build the Canal Street Expressway, the first hundred-million-dollar mile.

The Bureau of Public Roads recently considered an edict requiring that some area plans be developed before interstate funds are allocated, but the idea was abandoned. Some felt it was too late anyway. As for relating the highway program to urban renewal, a recent policy statement of the American Institute of Planners said simply: "Except for the coordination which may be supplied at the local level . . . each one is apparently operating entirely independently of the other." The legislation asked by the Municipal Association was never introduced. It was with compassion that Paul Ylvisaker of the Ford Foundation recently addressed a meeting of city planners as the "Beaten Profession."

Just ahead for all of us, perhaps, is Los Angeles, in the words of Harrison Salisbury, "nestled under its blanket of smog, girdled by bands of freeways, its core eviscerated by concrete strips and asphalt fields, its circulatory arteries pumping away without focus . . . the prototype of Gasopolis, the rubber-wheeled living region of the future."

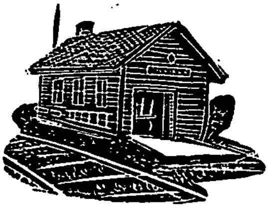
Money Talks

Yet we may be learning our lesson after all: Owen may be right. All across the country, area planners and highway engineers are discussing what they recognize as their common problems with a new sense of urgency. It is clear that if the areas in which Federal highways are to be built were required to work out adequate plans for the use of land and transportation before the money was handed over, the planning would almost certainly be done. The demand for 90-10 highway funds is so great that there is almost nothing, however sensible, that local governments would not do to get their share.

It is true that metropolitan-area planning will not be an easy matter to bring off. Dennis O'Harrow, director of the American Society of Planning Officials, says candidly: "There is a shortage of planners, a shortage of information, a shortage of money to support studies, and more fundamentally, a shortage of information as to what should be done if you could do what you wished." But this is a normal condition of human affairs. Almost any effort to think a bit about what we are doing would help.

Simply by providing some flexibility in the program, we could produce great savings. If the cities were permitted to do what they thought best with, say, fifty per cent of the more than $20 billion of interstate funds allotted to them, much of it would almost certainly go to mass transit and commuter facilities. This kind of money could reshape urban transportation in America: our total national investment in public transit is less than $4 billion, and a combined highway-mass transit-commuter program could almost certainly produce the same results at lower cost than a program dependent on highways alone.

It is becoming increasingly apparent that American government, both national and local, can no longer ignore what is happening as the suburbs eat endlessly into the countryside. Since the spreading pollution of land follows the roads, those who build the roads must also recognize their responsibility for the consequences. There are a number of obvious steps that could be taken. Public authorities could, for example, buy up the development rights of open land in the suburbs—not the property itself, but only an easement to prevent it from being turned into a factory site or a housing development. This could be done, as it is in England, in accordance with an area land-use plan that fixes the perimeter of the metropolitan area, or alternates built-up sections with open spaces. What this really amounts to is effective zoning regulations.



How could the money be found to pay for the development rights? A practical solution would be the technique of "excess-taking" as proposed by President Roosevelt in his 1939 message to Congress. As he put it: "The government, which puts up the cost of the highway, buys a strip on each side of the highway itself, uses it for the rental of concessions and sells it off over a period of years to home builders and others who wish to live near a main artery of travel. Thus the government gets the unearned increment and reimburses itself in large part for the building of the road."

This "unearned increment" can be staggering; a five thousand per cent increase in land values is not uncommon. At a time when state and local governments are reaching a limit of the money they can get out of taxpayers, here is an opportunity to get money that doesn't belong to anyone: it doesn't exist, as it were, until the government builds the highway. It represents a legitimate source of government revenue of great potential. Used to shape the development that the highways make possible, it could transform the suburbs of the next half century.

All these possibilities are enlivened by the investigation of the interstate program now getting underway in Congress. So much thieving, mischief, and blunder will be uncovered (if not, it will be necessary to investigate the investigators) that the public should be prepared for a serious reappraisal of the program by the next administration, Democratic or Republican.

We may yet impart some sanity and public purpose to this vast enterprise. We may yet establish some equity in paying for the highways and restore some balance between them and other elements of our transportation system. We may even refute Belloc's dictum, "The general rule in history is that a city having reached its highest point of wealth becomes congested, refuses to accept its only remedy, and passes on from congestion to decay." But we shall not escape his rule that "the Road moves and controls all history."

Roads can make or break a nation.

Senator MOYNIHAN. And we have, for example, heard this morning about the problems—I'm on the Finance Committee and there were changes in certain tax laws that will have consequences on municipal borrowing and so forth which are real, and even if you don't intend them you're having them, so you might as well know about them. That's the whole point here.

Just one last general remark. If you don't think policies make a difference, I have this little story, the "Tale of Three Cities." In 1920, there were three cities on the Bay of Bengal, a little distant from your direct, immediate concerns, but still—and they were identical cities. They each had been founded by the British East India Co. Mr. Galbraith visited most of them I expect. They looked alike. They had the same English law in their courts. They had a fine morning newspaper. They had a hotel where Somerset Maugham always stayed and they had a busy agriculture, commerce, and so forth.

Move 50 years later, and one of those cities has become an acropolis. Half a million people live and die on sidewalks. The other city has disappeared. There's no city. It's gone. There's grass there. And the third city has got the highest urban standard of living in the world. I would make that argument if I had to, all things considered. And they were respectively, Calcutta, Rangoon, and Singapore. It makes a difference how you behave.

Well, at the first meeting of the Urban Affairs Council, I was instructed to set about drafting a national urban policy. I did this and it was decided that I would deliver it at a university—in this case, the University of Syracuse—in a manner that these things are sometimes done, but I would like to stress—because we're not saying this is a fixed, finished document but rather this is a set of propositions we put forward to guide us and see what the response was. Nonetheless, I would emphasize that the policy had the advance approval of a Republican President and the Republican Cabinet members who were members also of the Urban Affairs Council.

In the 2 years I stayed in the White House I think there was a more or less consistent effort to act in accordance with these policy guidelines. I don't wish to exaggerate the result, but this was at least the beginning.

On the general principle that propositions of these kinds, that 11 points are too many and 9 too few, we had 10 points on urban policy. I will go through two of them and then stop.

I would like to go through two of them, Mr. Chairman, because they are central to what we are now hearing from the administration.

The first was—this is point one of urban policy—"the poverty and social isolation of minority groups in central cities is the single, most serious problem of the American city today. It must be attacked with urgency, with a greater commitment of resources than has heretofore been the case, and with programs designed especially for this purpose."

Now I have to say this is exactly what is not in this urban policy. It doesn't recognize the problem exists as such and, to the contrary, it's associated with a proposal to abolish the single most important Federal Government program dealing with these populations, which is title IV of the Social Security Act, the Aid to Families With Dependent Children.

A year ago or so I was able to do a little research and reconstructed a mathematical formula for forecasting the proportion of children who would be dependent on the AFDC program by age 18 and with no more than—given the limits of any kind of forecast of this sort, I came up with the result that 32 percent of all the children born in New York in 1982 could expect to be dependent on the AFDC program before they reached age 18. And that was a year and a half ago. It fits entirely with the information in the morning's newspapers this morning about the children and poverty. One child in five is poor today. Over time, it is clear that it would not be much farther to say one child in three would at some time be in that condition.

The second proposition we made was simply this: "Economic and social forces in urban areas are not self-balancing. Imbalances in industry, transportation, housing, social services, and similar events of urban life frequently tend to become more, rather than less, pronounced, and this tendency is often abetted by public policy. The concept of urban balance may be tentatively set forth: a social condition in which forces tending to produce imbalance induce counterforces that simultaneously admit change while maintaining equilibrium. It must be the constant object of Federal officials whose programs affect urban areas—and there are few who do not—to seek such equilibrium."

Now, Mr. Chairman, that's why I'd like to ask that my prepared statement be put in the record and would say to you, sir, to that second point, it seems to me that the most conspicuous assertion in our document here is that there is a self-correcting tendency in the cities, that if things were left alone would take place. I can't prove my point two, but I argue neither can they prove the opposite contention. And I do point out to you that 14 years ago a conservative Republican administration came to office and its first act was to set forth an urban policy and its first point of the urban policy was that the poverty and social isolation of groups in the central city, minority groups, was the first problem of our cities and that had to be dealt with; and second, that you could not allow nature to take its course, that there were certain elements of imbalance which tended to grow more, not less. They did not automatically compensate themselves.

Economic and social forces in urban areas are not self-balancing. The idea of returning to an equilibrium is deep in a lot of imagery and a lot of economics, but it isn't necessarily so. And anybody who has seen some of the central cities of this country would know it isn't necessarily so, and I think it is a long journey from those proposals of 1969 and these of 1982 and I don't know whatever happened to the Republican Party on the way. Congressman Wylie, I'm sorry.

I just wanted to give you that little background, sir, and answer any questions that you or your distinguished colleague might wish to ask me.

[The prepared statement of Senator Moynihan follows:]

Prepared Statement of Hon. Daniel Patrick Moynihan

Mr. Chairman and colleagues, I appreciate the opportunity to appear before you to discuss the President's recent National Urban Policy Report. I would ask your indulgence while offering a brief background to this subject.

I drafted the first "National Urban Policy" in 1969. This came about through a somewhat odd sequence of events. In 1968 I was director of the Joint Center for Urban Studies of M.I.T. and Harvard. A Democrat, I had campaigned for Robert F. Kennedy, after his death for Eugene McCarthy, and still later for Hubert H. Humphrey. Even so, after the election the President-elect Richard M. Nixon asked if I would join the White House Staff as Assistant to the President for Urban Affairs, a post he proposed to create.

I agreed to do this, and set about preparing for the task On January 23, as more or less his first official act, the President signed an Executive Order establishing the Council for Urban Affairs. (This body was later reconstituted as the Domestic Council.) The idea of a national urban policy was central to my thinking at the time, and was central to the President's statement on the occasion:

PRESIDENT RICHARD M. NIXON
STATEMENT ON SIGNING EXECUTIVE ORDER ESTABLISHING THE COUNCIL FOR URBAN AFFAIRS. January 23, 1969

The establishment of the President's Urban Affairs Council is an historic occasion in American Government. Half a century ago the census of 1920 revealed that a majority of Americans had come to live in cities. But only decades later did the American National Government begin to respond to this changed reality. By 1960, 70 percent of the population was urban and today probably 73 percent is.

For all this, the American National Government has responded to urban concerns in a haphazard, fragmented, and often woefully shortsighted manner (as when the great agricultural migrations from the rural South were allowed to take place with no adjustment or relocation arrangements whatever). What we have never had is a policy: coherent, consistent positions as to what the National Government would hope to see happen; what it will encourage, what it will discourage.

Having a policy in urban affairs is no more a guarantor of success than having one in foreign affairs. But it is a precondition of success. With the creation of the Urban Affairs Council we begin to establish that precondition: the formulation and implementation of a national urban policy.

I would reconstruct my argument as follows:

First, it seemed to me that not just in the United States, but all over the industrialized world, the great manufacturing cities that grew up in the 19th Century had entered a period of sharp decline for the simple reason that the economic functions they once served -- especially those associated with density -- were no longer decisive. The cities would no longer serve the economic function they once had done, and there would be much social disruption, comparable in ways to the agricultural disruption in Britain associated with various enclosure acts of the 17th Century which produced a more efficient agriculture, but a huge displaced peasantry.

I knew this was coming to New York City, for example, and had spelled this out in a paper in 1964 which documented the decline in manufacturing employment there. You could see, if you like, the South Bronx coming.

I knew this was coming to the populations most exposed. This morning, we learn that the poverty rate for all children under 18 rose to 19.8 percent last year, and for black children under 18 rose to 44.9 percent. Without wishing to overstate, it was possible by the mid 1960s to see this coming also.

My second thought -- or belief, for these are not readily proven propositions -- was that urban affairs were responsive to government policy.

At the first meeting of the Urban Affairs Council, on January 23, 1969, I was instructed to set about drafting a

National Urban Policy. I did this without great effort, as I came to the task with a general outline in mind. It was decided, that I would present the policy in an address on a university campus, with the thought that this was more a set of ideas being presented for discussion, than a final and fixed decision.

Nonetheless, I would emphasize that the policy had the advance approval of the Republican President and the Republican cabinet members who were members of the Urban Affairs Council. In the two years that I served in the White House there was a more or less consistent effort to act in accordance with these policy guidelines. I don't wish to exaggerate the result, but this was the beginning.

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With no intent to be tedious, I should like, simply, to state the "Ten Points" I postulated in 1969. By having some sense at how we arrived at them, we might better understand how the Reagan administration's National Urban Policy Report leads us in precisely the wrong direction.

"1. The poverty and social isolation of minority groups in central cities is the single most serious problem of the American city today. It must be attacked with urgency, with a greater commitment of resources than has heretofore been the case, and with programs designed especially for this purpose."

Rather than focus on relieving poverty, the Administration proposes as part of the New Federalism to abolish Title IV of the Social Security Act, which since 1937 has paid benefits to dependent children and the parent who cares for them. This proposal comes at a time when we know that dependency is increasing. In the Spring 1981 issue of The Journal of the Institute for Socioeconomic Studies, I published an article, "On Children and Welfare Reform," with data showing that 32 percent of all babies born in 1980 would depend on the Aid to Families with Dependent Children (A.F.D.C.) program at some point prior to their eighteenth birthday. On June 9, 1982, I published an article in The New Republic entitled "One Third of a Nation" showing that for New York City the proportion is fifty percent. I would expect this not to be much different in other large cities, as the 1980 Census documents the rise in the number of children living in poverty in heavily urbanized states. It rose in every Northeastern State save Maine and Vermont, and every Midwestern state except Wisconsin. In my own state of New York, it rose 21.7 percent, while the total number of children fell 2.9 percent.

"2. Economic and social forces in urban areas are not self-balancing. Imbalances in industry, transportation, housing, social services and similar elements of urban life frequently tend to become more rather than less pronounced, and this tendency is often abetted by public policies. The concept of urban balance may be tentatively set forth: a social condition in which forces tending to produce imbalance

> induce counterforces that simultaneously admit change while maintaining equilibrium. It must be the constant object of federal officials whose programs affect urban areas -- and there are few who do not -- to seek such equilibrium."

To repeat, the administration's urban policy report assumes that the economic and social forces in urban life -- indeed, in all America -- are self-balancing. To quote the report: "It is the position of this Administration that the Nation's individuals, businesses and communities will realize greater and longer-lasting benefits if the Federal Government creates the conditions under which all can productively pursue their own interests than if it tries to protect them from the consequences of the inevitable changes to the status quo." To this end, the Administration intends, in its own words, "to devolve the maximum feasible responsibility for urban matters to States and through them, to their local governments, and to limit Federal Government responsibilities to those matters where a clear national interest is at stake." After having documented the tremendous capital needs of the cities, their decaying infrastructure, the lack of available and affordable housing, and the pervasiveness of crime as a fact of urban life, it is good for the administration to state clearly that its goal is to send these problems elsewhere so that it can, instead, "be free to concentrate on foreign affairs and on those domestic activities that promote national economic growth... Gone is any notion of maintaining an equilibrium for the urban center. Even if the patterns of "national economic growth" can be shown to exacerbate the deterioration of the cities, the need for careful federal policymaking is no longer extant as the responsibility has been shifted elsewhere.

"3. At least part of the relative ineffectiveness of the efforts of urban government to respond to urban problems derives from the fragmented and obsolescent structure of urban government itself. The federal government should constantly encourage and provide incentives for the reorganization of local government in response to the reality of metropolitan conditions. The objective of the federal government should be that local goverment be stronger and more effective, more visible, accessible, and meaningful to local inhabitants. To this end the federal government should discourage the creation of paragovernments designed to deal with special problems by evading or avoiding the jurisdiction of established local authorities, and should encourage effective decentralization.

Rather than encourage decentralization, the Administration urges states to incorporate suburbs into city limits, and cities to push for annexation. Consolidation would ease many urban problems by providing cities with a stronger tax base. Ours is a consensual government, however, and consolidations should not -- in most states, cannot -- proceed without two willing parties. The Administration offers no evidence of support for consolidation on the part of suburban residents, many of whom might wonder what they would gain from joining with a city with a shrinking tax base whose government may not want, or know how, to meet its needs. Nor does the report encourage one factor that might increase that suburban support, greater citizen participation in government decisions. Instead, the Administration urges local governments to contract with private firms or create Special Districts to provide services.

"4. A primary object of federal urban policy nust be to restore the fiscal vitality of urban government, with the particular object of ensuring that local governments normally have enough resources on hand or available to make local initiative in public affairs a reality.

In the New Federalism the Administration would turn over to the states programs estimated to cost $30.6 billion, and give them additional taxing authority of $20.6 billion. Either states and localities will have to raise taxes or cut services.

Not all states are equally able to raise taxes. Tax Wealth in Fifty States, a 1978 publication of the National Institute for Education, attempts to measure states' "tax capacity" and "tax effort." New York, with a tax capacity index of 102, and a tax effort index of 152, would find it difficult to raise taxes. So would Wisconsin, with a tax capacity index of 110 and a tax effort index of 120. In contrast, Wyoming, with a tax capacity of 147 and a tax effort of 73 would be able to maintain whatever services it chose. Additionally, the hardship imposed upon a state would be some relation to the size of state welfare benefits. A.F.D.C. benefits vary from $96 for a mother and two children in Mississippi to $571 for the same family in Alaska. The lower the benefit, the better a state can support the cost.

"5. Federal urban policy should seek to equalize the provision of public services as among different jurisdictions in metropolitan areas."

The Administration's urban policy rejects the notion of equalizing resources as artificial --and harmful-- intervention in market operation. Title I of the Elementary and Secondary Education Act of 1965 provides compensatory funds for education children in poor areas. The FY 1982 budget cut Title I by $400 million, and the FY 1983 budget, written in Congress but endorsed by the Administration, cut funding $200 million from current services levels. Clearly, equalization of resources is not a priority for the Administration.

"6. The federal government must assert a specific interest in the movement of people, displaced by technology or driven by poverty, from rural to

> urban areas, and also in the movement from densely populated central cities to suburban areas."

The Administration would let nature take its course, and not assert an interest in the movement of populations. Its emphasis on market ideology will surely add to migratory movements, as urban centers with declining tax bases and employment opportunities will be unable to retain population. While the Urban Policy Report looks upon large migration to areas with greater opportunity as a favorable development, it makes no policy pronouncements about how to assist migrants who find their skills unwelcome or unnecessary in the new job market. Texas has responded to the problem of inmigration by publishing and distributing a leaflet describing its skimpy welfare system.

> "7. State government has an indispensable role in the management of urban affairs, and must be supported and encouraged by the federal government in the performance of this role."

To its credit, the Administration's report departs from the philosophy that city government is bad and state government is worse. It recognizes that state governments properly play a role in urban affairs. Yet the report continually regards "state government" and "local government" as interchangeable. That is a fundamental misunderstanding. While cities may be the creatures of the state, state interests and local interests are not always synonymous, and urban policy should reflect this.

> "8. The federal government must develop and put into practice far more effective incentive systems than now exist whereby state and local governments, and private interests can be led to achieve the goals of federal programs."

The Administration's Urban Policy Report reflects a profound distrust of federal goals. The Clean Water Act's goal of "fishable-swimmable water" is attacked because it imposes costs on state and local governments they may be unwilling to pay. There are some nationwide goals that demand nationwide policies. A clean environment is surely one. No good purpose would be served by allowing each community to set its own environmental regulation in the absence of a minimal federal standard, for the spillover effects from communities with lax standards would render stricter regulation in neighboring communities moot. Rather than devise a policy for encouraging local governments and their residents to meet federal goals effectively and willingly, the Administration attacks the very concept.

"9. The federal government must provide more and better information concerning urban affairs, and should sponsor extensive and sustained research into urban problems."

It is not surprising that the report does not mention the importance of learning more about urban problems, for the Administration has actively discouraged the undertaking. They have, for instance, discontinued the Community Services Administration's Geographic Distribution of Federal Funds series, making it far more difficult to quantify imbalances between states and the Federal government and among the states themselves. It might strike some as a strange priority to advocate more federally-sponsored research at a time of cuts in the federal budget, but we shall never know how budget cuts really affected cities and states unless we have measured it.

"10. The federal government, by its own example, and by incentives, should seek the development of a far heightened sense of the finite resources of the natural environment, and the fundamental importance of aesthetics in successful urban growth.

The psychological and physical health of urban residents should be a paramount concern of urban policy. The connection between urban environment and vitality --not to mention peace!-- is fundamental. The Administration's urban policy ignores the connection, and its actions undermine it both implicitly and explicitly. The Administration advocates relaxing auto emission standards from their current levels as an amendment to the Clean Air Act, an action calculated to affect heavily congested areas -- center cities. Through its budget cuts the Administration worsened the quality of the urban environment, intentionally or not. By cutting operating subsidies for public housing the Administration reduces the chances that those buildings will be well maintained. By cutting funds for housing rehabilitation, the Administration indicates that it places no premium on creative design. Beauty and amenity are discouraged, and urban dwellers will only suffer as a result.

Representative REUSS. We're very grateful to you, Senator Moynihan, and I would add a good word for the Republicans too. I would say Richard Nixon looks better every day. The 1968 policy statement which you have the grace to say was supported by the Nixon administration, and it was——

Senator MOYNIHAN. Oh, yes.

FISCAL CRISIS

Representative REUSS. It makes a lot of sense. While you've only taken 2 of the 10 points, I've been looking at the other 8, and they stand up very well indeed.

Point four, for example, says, "A primary object of Federal urban policy must be to restore the fiscal vitality of urban government." That's what the session earlier this morning was about. It was pointed out that there wasn't a word about that in the urban policy statement. And all the witnesses, including leading representatives of the investment banking community in your leading city, leading representatives of the commercial banking community, scholars, agreed that the cities are facing a fiscal crisis. Yet, there's not a word about it in the report.

Senator MOYNIHAN. May I say, Mr. Chairman, that a direct result of that point four was revenue sharing which passed through State governments in certain proportion to city governments. That was a policy. We made the decision. We said the mayor should have some money so he can make some decisions and be an important person. I mean, government is not going to mean anything at urban levels if it can't do anything, and absent resources, it can't do anything. This policy had effects, good or bad. You can see where things happened as a result of it.

STATE RESPONSIBLITY

Representative REUSS. Several of your 1968 points make what seems to me a vital point—that the Federal Government should do what it can by way of incentives and disincentives to get the States to assume their sovereign responsibility for rationalizing the cities. Well, it's probably true that the Nixon administration didn't do too much about that, but neither has anybody else, and the idea has now atrophied and doesn't even appear.

Senator MOYNIHAN. It says the State government has an indispensible role in the management of urban affairs and must be supported and encouraged by the Federal Government in the performance of this role.

Representative REUSS. At least it's better to state something and have a goal and maybe be a little slow in following it, than not to state it at all. So we could do worse than simply plagiarize your 10 1968 points because I don't find them dated. It's amazing.

Senator MOYNIHAN. I thank you.

Representative REUSS. They're not archaic at all.

Senator MOYNIHAN. Mr. Chairman, I guess one of the things—this document appears to have discovered the free market. Now point eight says, "The Federal Government must develop and put into practice far more effective incentive systems than now exist whereby State and local governments and private interests can be left to achieve the goals of Federal programs."

We knew that markets existed, but we thought market incentives ought to be directed to some object you had.

PUBLIC SECTOR ASSISTANCE

Representative REUSS. As two leading private sector movers and shapers before this committee yesterday testified—Bill Norris of Control Data and Jim Rouse of Rouse & Co.—private sector involvement is vitally important, but that doesn't mean that you can get by without public sector involvement, which I think is about what you're saying.

Senator MOYNIHAN. Exactly. Look what Rouse has been able to do where he's had a chance. It works and the combination works.

Representative REUSS. Well, I'll turn to Congressman Wylie.

DO GOVERNMENT POLICIES MAKE A DIFFERENCE?

Representative WYLIE. Thank you very much, Mr. Chairman, and we certainly are honored by your presence here this morning, Senator Moynihan. You indeed have a wealth of background and experience in some of these areas and I can recall your meeting with some of my Republican colleagues in 1968 when you came up with your paper.

We all agree, I guess—every one that I've listened to this morning, and I would agree with that too—that there is fiscal crisis as far as our cities and local governments are concerned, and I'm well aware that you're not ready to play the pipe and parade for the Reagan economic policies or for their urban policy statement there. But may I suggest respectfully, sir, that I did not hear this morning any suggestion as to how the problem might be solved except by a reference back to what you suggested maybe in 1968 and I thought I heard you say that urban policies of the past have not been successful in restoring the vitality and prosperity to our declining urban centers that we had hoped they would.

Senator MOYNIHAN. I think I responded, with great respect, sir, by saying first that——

Representative WYLIE. And you asked the question yourself, would Government policy make any difference?

Senator MOYNIHAN. Well, the point is that when you have a situation in which there is a true change, transformation, in an economic base, if you care about people, you ease that transition. It can take a generation. It can take two. But you work at it.

One of the ways you work at it is you do things that are not themselves immediately economic because you have some other object and we are having a little debate on the balanced budget amendment over on the Senate side and the committee report starts out quoting at great length for some reason from the Italian economist Paretto and Senator Leahy has pointed out that Paretto was a great advocate of tuberculosis because he thought it got rid of the weak and unfit and it did, but it's still not a very good thing.

And the cities are—the densities of our cities for manufactruing purposes is no longer functional and need help in the transition. In the meantime, you have high levels of dependency and you can see them coming and they basically affect the disappearance of a certain kind of employment base.

But the one thing you don't do is say we will abolish the one program which for 45 years has cared for dependent children and let's turn that over to the cities who will have the choice of letting the weak die and the strong survive—I don't know.

Representative WYLIE. Well, may I respectfully suggest that I don't think anybody is suggesting that we abolish the program. The idea is that perhaps people at the local level know their problems better than we do in the Federal Government and are in a better position to try to solve some of those problems at the local level, and perhaps if we provided the wherewithal through a community block grant or revenue sharing arrangement—the aid to dependent children problem has not been solved. It's only grown. And pointing out historically that we have had this problem doesn't seem to hold water from my vantage point.

Senator MOYNIHAN. Now, sir, what would you know at the local government about the needs of an 18-month-old baby that you don't know in this committee room? We know they need to be fed.

Representative WYLIE. We know where they are at the local level.

Senator MOYNIHAN. Well, we find out where they are. These are all locally administered as a matter of fact under social security, but the Federal Government, since Franklin D. Roosevelt——

Representative WYLIE. I think I know more about what the needs of the young people in Columbus, Ohio, are than I would know about the needs of the young people in New York or Singapore or Calcutta.

Senator MOYNIHAN. I'll bet you we could agree that $8 a month is not enough for them to live on and $800 is more than we can afford. We have the same thing with respect to an aged person, a disabled person, a person who is blind. We have national standards of payment and that's all we're talking about. And returning it to local governments without returning resources means half of them will just drop the program.

Representative WYLIE. I think we have to provide some sort of a resource.

Senator MOYNIHAN. Well, now I heard you say that, sir, and I would hope you would vote that way.

Representative WYLIE. I've been in hearings since 1963 when I got up on the legislative floor of the Ohio Legislature and called on the Federal Government to share some of its resources with the States.

Senator MOYNIHAN. Of course. That is your record. Well, let's not transfer AFDC.

Representative WYLIE. What is the lessen, I respectfully ask, to be learned from the three cities, Calcutta, Singapore, and Rangoon?

Senator MOYNIHAN. It makes a difference how you govern yourself.

Representative WYLIE. Singapore is separately governed. Yes, it's how you govern yourself, but it's sort of a government unto itself, I guess.

Senator MOYNIHAN. It's a country.

Representative WYLIE. It's a free enterprise.

Senator MOYNIHAN. Very much, but an awful lot of government too and they worked out a very good combination of those things frankly.

Representative WYLIE. But it's sort of a free enterprise city in the nicest concept of the word, I guess.

Senator MOYNIHAN. Sure. But it is a free enterprise city in which half the people live in public housing and they sell Bold magazine in the newstands in the lobby.

Representative WYLIE. Well, there's something to be learned there. Calcutta, of course, being in India, has been beset with all kinds of problems.

Senator MOYNIHAN. About a third of the population of Singapore is Indian too.

Representative WYLIE. But it doesn't have anything to do directly with India.

Senator MOYNIHAN. No.

Representative WYLIE. Rangoon, what happened?

Senator MOYNIHAN. Well, exactly. Whatever the devil happened to Rangoon? How did we lose that? When I was last there the grass was growing in the streets.

Representative WYLIE. Was there a pestilence or a tornado or what?

Senator MOYNIHAN. No. They just decided not to have a city there anymore.

Representative REUSS. It's called green space.

Representative WYLIE. Well, thank you very much for your appearance here.

Senator MOYNIHAN. Thank you. Thank you, Mr. Chairman. I don't know if I will have the honor to appear before you again and if this is the last time let it be recorded that this Senator will remember it as the opportunity to appear before one of the distinguished public men of his time. I wish you every fortune when you turn to other matters.

Representative REUSS. That's very nice. I much appreciate it.

We will now hear from Mayor Richard Carver of Peoria. We are delighted to have you, Mayor Carver. Over the weekend, as it happened, I was sitting at Pabst Brewing Co. in my city trying to help them with some of their problems when I got a note from our colleague, Congressman Rousselot, saying you were available to testify. Of course, I said by all means, and I'm most grateful to you for waiting around. You understand we had rather a heavy schedule, but we want you to take as much time as you want.

Before you start, it's interesting that Senator Moynihan was just testifying about the great success of Singapore. Well, Singapore is a city which, not having to contend with a state or a federal government, runs its own foreign policy and if they can make a rupee or two repairing Soviet ships they do it.

Peoria is not in control of the foreign policy of this country and, hence, when somebody far away decides that we ought to boycott a pipeline that the Europeans hope to get gas from, Peoria suffers. So your timing here is excellent and we're delighted to hear from you. You may now proceed.

STATEMENT OF HON. RICHARD E. CARVER, MAYOR, PEORIA, ILL.

Mayor CARVER. Well, Mr. Chairman, I appreciate the opportunity to be here and I frankly apologize for not having a written statement but, honestly, was unaware that I was going to be able to speak until yesterday. I was not in my city. I flew in here from another city. So as a result, I'm simply going to give a verbal statement. However, if it's acceptable, I would like to submit a prepared statement at a later time.

Representative REUSS. It is acceptable and if you can get it in we'll see that it's included in full in the record. But there's nothing wrong with you proceeding extemporaneously.

Mayor CARVER. Mr. Chairman, I appreciate again the chance to be here. It's interesting, by the way, that you make reference to the Pabst Brewing Co., a company that just absented itself from my city, among a few other economic downturns we've had in recent years.

Representative REUSS. I took no joy in that. In fact, for a long time I've been trying to keep the wolf from Pabst's door—the wolf in the form of corporate raiders—making trouble for it by asking the Federal Reserve to reduce the use of credit for such purposes, but to no avail. And Peoria and perhaps Milwaukee has suffered because of that.

Mayor CARVER. Well, I hope not too greatly. I could probably give quite a few side comments, including the fact that my good friend, Bob Tiemann, will now become the manager of the Pabst plant in Milwaukee. So, our loss is Milwaukee's gain.

The major reason, however, I wanted to testify relates to the feeling that I got as I read some of the newspaper commentaries concerning some of my fellow mayors who chose also to come forward to testify, I suspect, by your request. I am, as you may know, a past president of the United States Conference of Mayors and a former member of the Advisory Commission on Intergovernmental Relations, but I'm also a businessman. I'm a director of the Illinois State Chamber of Commerce and in the retail lumber business in the city of Peoria. Just recently I concluded serving on the President's Commission on Housing where I chaired the Committee on All Housing Programs and became involved in the writing of the section on housing finance. I'm also a director of a federally chartered savings and loan, so in many ways I find myself kind of intermixing into the problems of urban America from a variety of perspectives.

One of the things that I think is very clear and one of the points that I think, unfortunately, far too many of my fellow mayors tend to pass off too quickly, is as was pointed out this morning—the States have a very valid role in the problems of cities and, unfortunately, over the last 14 or 15 years, in my judgment, the States have been allowed to "take a pass" in many instances in serving some of these needs.

The city of Peoria has 10 percent of its population living in public housing. Peoria is only one-third of our metropolitan area, yet all of the public housing is inside my central city. All of the support, for the most part, for libraries, park systems, airports, and those kinds of services that support the entire metropolitan area are, in fact, generally supported by my city alone. As a result, I'm very aware of some of the problems and, I might add, some of the solutions the State could provide.

Let me cite just a couple of examples. This morning it was interesting to listen to the testimony related to the problems of going to market. The city of Peoria last week went to market with a $7.5 million issue, a tax increment financing issue, legislation that was passed by the State of Illinois enabling us to use this particular technique. I might add every one of those dollars is going to be used in the most heavily blighted section of my city as part of a very aggressive and very ambitious effort to acquire in excess of 1,000 homes to create major redevelopment and to cause not only the economic well-being of my community, but also the individual well-being of many families who have been caught up in this blighted area that exists within my city. A very small proportion of the funds to be used are Federal. A vast majority, if not all, of the funds will be city.

Two weeks ago we opened a $65 million city of Peoria Civic Center. Not one dime of Federal money was spent on that. That was a partnership between the State of Illinois and the city of Peoria, with us paying two-thirds of the cost, for a facility that will benefit the metropolitan area, but for which we will be paying for, for the most part, ourselves.

We're paying for it through three special taxes that were passed because the Illinois constitution gives us home rule powers which allow us to do this.

I think the issue is simply this. As was pointed out by Congressman Wylie, there have been 14 years of concern about urban America expressed by Federal administrations, but during that period of time many of the central cities have gotten worse, not better, and where they've gotten better, typically they've gotten better for a variety of reasons, generally not that related to the amount of Federal dollars expended within that city, but related to the strength of the private economy, the commitment of the private economy and, in many instances, to the ability of the States to facilitate that kind of renaissance taking place. Unfortunately, some of the worst examples are those where cities, States, or the Federal Government have tried to force certain kinds of development to take place when they didn't make good sound economic sense.

I kind of enjoyed listening to the Senator talking about Rangoon and Calcutta and Singapore and, I might add, Mr. Chairman, genuflect to Singapore where they don't have to worry about a state or a federal government, but simply can resolve their own problems utilizing their own resources. In my judgment, that example points out another example, and that's simply that if a city is unwilling to use its resources, if a city is unwilling to use its ingenuity and make its own individual commitment, I don't think the State or the Federal Government can do it for them.

If we want to go one step further, I think that the next step is at the State level, not the Federal level. And I happen to believe—and I testified, by the way, on previous occasions under different circumstances, on this same line—that the opportunity that the States can provide the central cities of America far exceeds the programs of the Federal Government, the resources of the Federal Government available to dedicate to the problems of urban America through direct assistance.

I gave a speech in Pittsburgh, Pa., to the U.S. Conference of Mayors 3 years ago when Mr. Carter was in the White House. I suspect that if Peoria, Ill., and most cities in this country could get the type of legislation that would facilitate the operation of cities from our States, we could virtually do away with most of the Federal assistance.

On the President's Housing Commission, one of the issues that we examined was the problems of public housing, and one of the conclusions we came to was that if we rely on the existing system we would probably rely ourselves into bankruptcy and into what I would consider to be unlivable conditions in much of the public housing in the United States of America. And the essence of our recommendation is that there has to be restored a sense of local accountability. This cannot any longer be viewed as Federal housing. It has to be viewed as "our" housing and "our" citizens and "our" problem, just as I think the States have to become a part of this program.

Now I've heard references—and I've got a copy of the President's Urban Policy Statement in here—I've heard reference to a number of absences, absences in terms of certain kinds of statements that used to be made about cities. Well, I'd like to say this, and I'm going to deal with it in the context of Peoria, Ill., because that's what I know best, even though I've visited many of the cities in the country, and I know most of the mayors of this country.

In Peoria, Ill., we have been able to reduce the number of employees in city government during the past 4 years. We've been able to cut taxes in face of the highest unemployment in the history of my city. We've been able to encourage more private investment in the central part of the city than ever before in its history only because we have been willing to make a long-term commitment to the restoration and renovation of the city.

And in that regard, we have gone to the State to gain some of the enabling legislation—tax-increment financing I mentioned earlier. Tax-increment financing legislation was written by my legal staff, proposed by legislators from the city, and was passed through our heavy effort in terms of the lobbying effort to get it adopted.

My city paid for the constitutional test of that legislation and clearly, as you must know, we're not in the largest city in Illinois by a long shot.

But we did that because we were convinced that it was a tool we had to have in order to solve the problems that we confront in my community.

I happen to believe that the block grant program has worked better because it's given us an opportunity to begin to marshal the resources effectively and deal with the problems as we see them, not as somebody at a regional or central level sees them.

I don't think all the conversation in the world by all the mayors that say, "We can't afford to give up Federal dollars; we can't afford to go to the States because the States have rejected; we can't afford to change what we're doing because we don't have enough resources now," is simply denying that throughout our entire lifetimes most of what we have is changed, and those who are able to adapt such as the city of Peoria confronting the worst possible period in terms of the economy, can still succeed.

I agree with you. I wish that the administration would allow the Caterpillar Tractor Co. to sell pipe layers to the Soviets because I happen to believe that the Japanese will sell them instead, and I do think that my community will be penalized because of a foreign policy that in many respects does not relate to what I consider to be the economic realities.

I'm also willing to concede that the realities are much greater than economic. For better or worse, I'm a colonel in the Air Force Reserve and still very active, and I have some appreciation at least to a small extent, of the problem of dollars not being the sole problem with which this country is confronted. But it's interesting that most of my community, even though I came out against the decision by the administration back in December when it was originally made, because I happen to believe what's really going to happen to the Caterpillar Tractor Co. will be to deny it future sales of a much greater magnitude than just the sale of a few pipe layers because of their becoming an unrealiable supplier. I said that in December. Obviously it's clear today that the Caterpillar Tractor Co. has lost more than just those sales.

But I think the issue is this: Interestingly enough, even confronted with that, my citizens, if they believe what they are doing, in some instances by having to give up their jobs because of reduction in our economy, is in the best interest of this country, I think they will do it. We, to the best of my knowledge, were the first city in the country to pay more than the relocation benefit in order to move people out of the areas as were acquiring with the tax-increment financing funds, among other things, because we believed that we needed to do something that was in their best interest, and the Federal guideline was inadequate.

Well, I could cite example after example, and I think the only point that I wanted to make is really twofold: Any mayor who says "I need more Federal regulation;" any mayor who says I need more Federal dollars;" or any mayor who says "the solutions to the problems of my city lie in Washington, D.C.," is selling his city very short.

The second point is simply this: I suspect that we could go through the President's urban policy statement, which I don't find to be particularly detailed in most instances, and read different things depending upon how we want to view it. But, in my judgment, there is one message that comes through very clear. The States have to become a greater part of the process, and the decisions, if they're to be effective in utilizing the very scarce resources that we have in the public sector, both at the local, State, and national level, when they involve the people on the streets of urban America, need to be made in the centers of urban America.

Now, the comment was made earlier by yourself, Mr. Chairman, about where does the concern for the municipal lending controls or nontaxable lending as it relates to municipality center? Mr. Chairman, I'd like to answer that question. In my opinion, the center is in the city halls of America and those cities that misuse that ability will likely have to pay a penalty. The city of Peoria, even with the problems that I've described, went to market on some short-term lending just a few months ago and borrowed below the rate of the State of Pennsylvania; a small city from the Midwest who has tried to use good business practices, who's tried to involve the private sector of the community and has tried to make a commitment to sound management over a long period of years, has been able to enjoy that small benefit, among others, even in this very serious period concerning the state of our economy because they exercised a sense of responsibility. And that's what has to happen in city halls, and that's what has to happen in State capitals, and if that happens, it's my personal opinion that we will, in fact, see cities far better off than they're ever going to be if we simply continue the current practices and change nothing else.

Mr. Chairman, I thank you very much for the chance to speak and I really do appreciate being allowed to speak on such short notice.

[The prepared statement of Mayor Carver, together with a speech before the U.S. Conference of Mayors, follows:]

PREPARED STATEMENT OF HON. RICHARD E. CARVER

Although it can be said that certain issues, such as the current financial stress being experienced by most municipalities, have not been given emphasis in the Report of The President, it is clear to me that this has not occurred because of a lack of recognition of the issue. Rather, it seems that the Report is designed to underscore the absolute need for a change in the focus of the urban policies and programs of the federal government.

For many years it has been obvious to some that the underlying strength of any city is related to the soundness of its private economy. Combining this with efficient management and the appropriate structure of local government which allows for the equitable spread of the cost of urban services, and sufficient authority and accountability on the part of elected officials, most cities can successfully cope with virtually any problem.

This suggests that the emphasis on State action is not only appropriate, but necessary. As the Report points out, the states have had the ability for many years to facilitate economic development and the efficient management of urban resources.

It is clear that there continues to be an important federal role, equally as much as local communities must have sufficient authority to manage their affairs. The purpose embodying my very brief commentary is the hope that the Committee will look beyond the issues of the moment and examine the need to restructure the federal relationship as a means to provide for the basis of long-term solutions to the problems of urban America.

The vast majority of the comments I have heard or read related to the President's Report express very short-term concerns with little regard for the long-term opportunity provided for in the basic concepts of the reexamination of the degree of involvement of the states in problems of the cities. In fact, I noted that Mayor Coleman Young, who is my friend and colleague, stressed the failure of the states in the past to provide the assistance to distressed cities as an argument for not supporting the President's Report. I would suggest that one could take the opposite view and argue that until the states become affirmative members in solving urban problems, there is little the federal government can do regardless of the amount of dollars spent.

It is obvious to me that the Administration has indicated a great degree of flexibility not only in their proposals for a New Federalism, but in the comments contained in the Urban Policy Report. As one mayor who believes very strongly in the importance of the private sector and the absolute need for an efficient, effective, as well as accountable, structure of local government, I hope that the Committee, as well as other Members of the Congress, will not become so focused on the problems of today that they lose sight of the opportunities for the future this philosophy embodies.

In my testimony I attempted to offer a number of specific examples of both problems and solutions we have undertaken in my city. In fact, there have been books written on the subject when comparing efficient structures of local government to the sometimes chaotic structure embodied in the over 7500 units of local government in the State of Illinois. I would be most willing at anytime to go into as much detail as anyone would like in outlining the nature of this problem or, for that matter, the successful solutions we have used in Peoria to stimulate our local economy and efficiently operate our city.

In 1972, the Peoria Downtown Development Council funded the cost of a City study on the redevelopment of Downtown Peoria. During the past seven years, we have been in the midst of implementing the results of that study. At this point, there is over $500 million of new construction, with only twenty percent of it representing public expenditures. The totality of this effort involves four separate Urban Development Action Grants and will ultimately produce 4,000-5,000 new jobs and $600-800 million of new investment. This constitutes a classic example of the public/private relationship involving multiple layers of government, with local government being the principal partner in terms of planning and implementation. This type of situation can be repeated city after city and, in many instances, it is, in fact, occurring elsewhere today. It is a prime example of the type of philosophy I have tried to convey in my earlier comments, and I hope you find it helpful.

I thank you again for the opportunity to offer this information, and I commend the Committee for the quality of work they have done in the past, as well as what I anticipate will come from the deliberations of the present.

Speech Before the United States Conference of Mayors

FELLOW MAYORS, HONORED GUESTS, LADIES & GENTLEMEN:

I CONSIDER IT A GREAT HONOR AS WELL AS A PRIVILEGE TO STAND BEFORE YOU TODAY TO NOT ONLY SPEAK AS YOUR PRESIDENT, BUT TO DISCUSS THE MANY IMPORTANT ISSUES WITH WHICH WE WILL BE CONFRONTED DURING THE COMING YEAR. PRIOR TO DOING THIS, I WOULD FIRST LIKE TO EXPRESS MY PERSONAL APPRECIATION, AND I AM ABSOLUTELY CERTAIN THE APPRECIATION OF EVERY MAYOR IN THIS NATION, FOR THE OUTSTANDING JOB THAT BILL McNICHOLS HAS DONE FOR OUR CONFERENCE DURING THE PAST YEAR. LET'S SHOW HIM BY OUR APPLAUSE, THE KIND OF THANKS I KNOW WE FEEL. (APPLAUSE)

I HAVE BEEN THINKING ABOUT THIS SPEECH FOR SOMETIME, AND NOW AS I AM ABOUT TO ADDRESS YOU, I RECOGNIZE THAT MANY MAYORS HAVE EITHER LEFT TOWN OR THAT ALL OF YOU WILL SOON BE RUSHING TO GET BACK TO YOUR CITIES AFTER OUR FIVE-DAY MEETING. AS A RESULT, I AM ASKING JOHN GUNTHER TO SEE THAT THIS SPEECH IS PRINTED AND SENT TO ALL OF THE MEMBERS OF THE CONFERENCE OF MAYORS. I HOPE WHEN YOU READ IT, THAT YOU WILL TAKE A MOMENT TO SEND ME YOUR REACTION. I WANT TO KNOW IF YOU AGREE OR DISAGREE WITH MY PHILOSOPHY FOR THE CONFERENCE OF MAYORS AND WHAT IT OUGHT TO BE AS WE APPROACH THE 1980's. I BELIEVE THE THINGS I HAVE TO SAY ARE SERIOUS AND HAVE REAL IMPLICATIONS FOR THE U.S. CONFERENCE OF MAYORS AS AN ORGANIZATION. I BELIEVE THAT SOME OF THE THINGS I WILL BE SAYING PUBLICLY ARE THE VERY SAME THINGS MANY OF US HAVE BEEN SAYING PRIVATELY FOR SOMETIME.

MANY PEOPLE MIGHT EXPECT THAT AS ONE OF THE FIRST REPUBLICAN MAYORS EVER TO BE PRESIDENT OF THE U.S. CONFERENCE OF MAYORS, I MIGHT SUGGEST A SLIGHTLY DIFFERENT APPROACH OR SLIGHTLY DIFFERENT TACT TO SOLVING THE VERY SERIOUS PROBLEMS THAT CONFRONT OUR CITIES. BUT, I AM CERTAIN THAT THOSE OF YOU WHO KNOW ME, AND KNOW ME WELL, REALIZE THAT MY CONCERN IS NOT A PARTISAN ONE, BUT RATHER A REALISTIC RECOGNITION THAT WE, WORKING TOGETHER, MUST FIND THE SOLUTIONS TO THOSE PROBLEMS THAT CONFRONT ALL OF US IN ONE WAY OR ANOTHER. I SPEAK TO YOU SIMPLY AS A MAYOR WHO HAS COME TO BELIEVE THAT AS WE MOVE INTO THE 1980's, WE ARE ALSO MOVING INTO A NEW ERA OF GOVERNMENTAL RELATIONS. THE QUESTION IS, WILL THE U.S. CONFERENCE OF MAYORS AS AN ORGANIZATION MOVE GRACEFULLY INTO THIS NEW ERA AND LEAD THE FORCE FOR CHANGE, OR WILL THE CONFERENCE OF MAYORS LAG BEHIND AND BECOME AN INSTITUTION OF FOLLOWERS?

LET'S LOOK AT HISTORY FOR A MINUTE, AND LET ME COME BACK LATER TO TALK ABOUT WHAT I BELIEVE IS GOING TO BE A SIGNIFICANT CHANGE IN FEDERAL, STATE AND LOCAL RELATIONS IN THE NEXT DECADE. OUR ORGANIZATION, THE UNTIED STATES CONFERENCE OF MAYORS, FOUNDED IN 1932, WILL SOON BE COMPLETING A HALF CENTURY OF SERVICE. LET ME QUICKLY REVIEW THAT HISTORY. THE CONFERENCE OF MAYORS WAS FOUNDED WHEN THE COUNTRY WAS IN THE MIDST OF THE GREAT DEPRESSION. THE CONFERENCE RESPONDED BY PUSHING FOR THE ADOPTION OF THE NEW DEAL. TEN YEARS LATER THE CONFERENCE OF MAYORS SERVED AS AN ADMINISTRATIVE CONDUIT ON THE HOME FRONT AS THE FEDERAL GOVERNMENT NOT ONLY KEPT THE COUNTRY IN A STABLE DOMESTIC SITUATION, BUT ALSO RAISED ONE OF THE MIGHTEST WAR MACHINES IN HISTORY. IN THE 1950's

THE CONFERENCE OF MAYORS ONCE AGAIN REFLECTED THE TIMES. IT ENDORSED AND FOUGHT FOR THE INTERSTATE HIGHWAY SYSTEM; FOUGHT FOR NEW FUNDS TO CONSTRUCT EXPANDED MUNICIPAL AIRPORTS; AND PUSHED FOR FUNDS FOR URBAN RENEWAL PROJECTS AND SUBSIDIZED HOUSING PROGRAMS. BY THE 1960's THE STAGE WAS SET FOR GIGANTIC EXPLOSION IN DOMESTIC PROGRAMS AS WELL AS MAJOR EFFORTS ON THE ISSUE OF CIVIL RIGHTS, AND THE CONFERENCE OF MAYORS WAS OUT FRONT LOBBYING VIGOROUSLY FOR THE WAR ON POVERTY AND THE GREAT SOCIETY. IN THE 1970's DURING THE NIXON ADMINISTRATION, THE CONFERENCE OF MAYORS WAS A VIGOROUS EARLY SUPPORTER OF GENERAL REVENUE SHARING, AND FOUGHT FOR THE BLOCK GRANT CONCEPT WHICH RESULTED IN THE CENTRALIZING OF SUCH CATAGORICAL PROGRAMS AS THOSE ADMINISTERED BY THE DEPARTMENT OF HOUSING & URBAN DEVELOPMENT & THE DEPARTMENT OF LABOR. UNDER THE PRESENT ADMINISTRATION, THE CONFERENCE OF MAYORS LOBBIED FOR THE 1977 ANTI-RECESSION PACKAGE, INCLUDING A VAST EXPANSION OF THE CETA JOBS PROGRAM WHICH PRESIDENT CARTER PROPOSED IN THE FIRST YEAR OF HIS ADMINISTRATION. AND WHEN PRESIDENT CARTER ANNOUNCED HIS NATIONAL URBAN POLICY ON MARCH 27, 1978, THE CONFERENCE OF MAYORS ENDORSED THAT PROPOSAL.

SO, THIS YEAR MY ELECTION AS PRESIDENT OF THE U.S. CONFERENCE OF MAYORS MARKS THE END OF ANOTHER DECADE. NOW, AS WE MOVE INTO THE 1980's, I ASK YOU TO LOOK TO THE FUTURE. IF THE CONFERENCE OF MAYORS DEALT WITH THE DEPRESSION IN THE 1930's; WORLD WAR II IN THE 1940's; THE HIGHWAY SYSTEM OF THE 1950's; THE WAR ON POVERTY IN THE 1960's; AND GENERAL REVENUE SHARING IN THE 1970's, - WHAT WILL THE 1980's BRING?

DURING THESE NEARLY FIFTY YEARS, WE HAVE FOUGHT HARD AND HAVE WRITTEN INTO THE BOOKS NEARLY 500 FEDERAL PROGRAMS WHICH AID OUR CITIES. OUR LOCAL BUDGETS OFTEN CONSIST OF UP TO ONE-THIRD IN FEDERAL DOLLARS. BUT, WE STILL MUST ASK - WHAT DO THE 1980's HOLD FOR OUR CITIES AND FOR OUR ORGANIZATION, THE U.S. CONFERENCE OF MAYORS. ARE WE AT THE END OF A NEW ERA AND AT THE DAWN OF A NEW AGE? PROPOSITION 13 AND BALANCE THE BUDGET FEVER, PLUS RAGING INFLATION AND SOURING ENERGY COSTS, ALONG WITH A SLUGGISH NATIONAL ECONOMY, SPELL OUT A DIFFERENT PERIOD FOR DOMESTIC AMERICA AND OUR GREAT CITIES. LET ME BE CAREFUL AS WELL AS CLEAR ABOUT WHAT I MEAN. I AM NOT HARPING AGAINST THIS GREAT TRADITION THAT GOES BACK NEARLY A HALF CENTURY. I AM NOT SUGGESTING WE SPEAK OUT AGAINST THE FEDERAL HEALTH OR EDUCATION PROGRAMS. I AM NOT HOLDING OUT AS WRONG ATTEMPTS TO CLEAN UP OUR AIR OR PURIFY OUR WATER. I DO NOT SUGGEST THAT WE RETREAT FROM FEDERAL HOUSING OR MASS TRANSIT PROGRAMS, BUT TELL ME, MY FELLOW MAYORS, ARE YOU NOT SICK TO DEATH OF BURDENSOME, CONFLICTING, ALMOST NIGHTMARISH, ZIGZAGGING RULES AND REGULATIONS WHICH TOO OFTEN STIFLE THE SUCCESS OF MANY OF THESE 500 PROGRAMS AIMED AT HELPING OUR CITIES? THESE COMPLAINTS WE HAVE WHISPERED TO OURSELVES HAVE NOW BECOME A PUBLIC CLAMOR. INDIVIDUALLY, IN PRIVATE, WE HAVE BEEN ASKING OURSELVES DIFFERENT QUESTIONS THAN WE HAVE BEEN ASKING IN PUBLIC. MY FELLOW MAYORS, IT IS TIME TO GO PUBLIC. LET'S TALK ABOUT A BALANCED BUDGET, ABOUT THE LOSS OF JOBS, TAX BASE, AND PRIVATE INVESTMENT IN MANY CENTRAL CITIES, ABOUT INFLATION AND ENERGY. CONGRESS MUST REALIZE THAT ITS PROGRAMS IN SUCH AREAS AS HOUSING AND COMMUNITY DEVELOPMENT, THE ENVIRONMENT, TRANSPORTATION, ECONOMIC

DEVELOPMENT AND HEALTH CARE ARE ONLY AS GOOD AS THE MECHANICMS AVAILABLE AT THE GRASS ROOTS LEVEL FOR THEIR IMPLEMENTATION. SOLUTIONS ARE UNDERMINED BY GUIDELINES AND REQUIREMENTS FROM A MYRIAD OF FEDERAL AGENCIES WHICH ARE OFTEN CONFLICTING, USUALLY DUPLICATIVE, AND ALWAYS SUBJECT TO UNILATERAL CHANGES IN INTERPRETATION BY THE FEDERAL AGENCY INVOLVED.

ANYONE WHO DOESN'T REALIZE THAT WE ARE GOING TO HAVE LESS RESOURCES TO WORK WITH IN THE FUTURE SIMPLY ISN'T UNDERSTANDING WHAT IS HAPPENING. THERE IS NO QUESTION IN MY MIND THAT THE NUMBER OF DOLLARS THAT WILL BE AVAILABLE TO SOLVE ANY OF THE PROBLEMS WITH WHICH WE ARE CURRENTLY CONFRONTED WILL BE MORE LIMITED. THE PUBLIC HAS SIMPLY STATED, AND IN MANY WAYS RIGHT-FULLY SO, THAT THE EXPERIENCE OF THE PAST YEARS - WHERE WE HAVE THROWN MILLIONS AND OFTEN BILLIONS OF DOLLARS AT PARTICULAR PROBLEMS, IS SIMPLY A PROCESS WHICH THEY WILL NOT ALLOW US TO CONTINUE. THIS IS PARTICULARLY TRUE IF YOU RECOGNIZE THAT EXCESSIVE SPENDING IS ONE OF THE UNDERLYING CAUSES OF INFLATION, WHICH MORE THAN ANYTHING ELSE, IS THE MOST DEVASTATING AS WELL AS MOST HIDDEN TAX OF ALL. THERE IS A LIMIT TO OUR RESOURCES, AND THEREFORE THERE IS A NEED FOR US TO RECOGNIZE MORE THAN EVER BEFORE THAT THE QUALITY OF HOW WE INVEST THOSE DOLLARS BACK INTO OUR CITIES IS AS IM-PORTANT AS THE QUANTITY OF DOLLARS AVAILABLE. WE MUST SIMPLY GET THE FEDERAL BUREAUCRATS OFF OUR BACKS!

THE FEDERAL GOVERNMENT IS HOPEFULLY BEGINNING TO REALIZE THAT FAR TOO OFTEN WHEN THEY WERE PROMISING DOLLARS WITH THE RIGHT HAND FOR SOLVING PROBLEMS OF HOUSING, BLIGHT, AND ECONOMIC DEVELOPMENT, THEY WERE WITH THE LEFT HAND, THROUGH EXCESSIVE REGULATIONS, MANDATED PROGRAMS AND COSTS, TAKING MANY OF THOSE SAME DOLLARS BACK. I AM SURE THE PEOPLE OF MY COMMUNITY WANT CLEAN AIR AND CLEAN WATER, AND YET AT THE SAME TIME, NO ONE TOLD THE POOR IN MY COMMUNITY, WHO ARE NOW HELPING PAY FOR CLEAN AIR THROUGH THE COST OF THEIR UTILITIES, THAT THEY WERE GOING TO IN SOME INSTANCES MAKE THE CHOICE BETWEEN CLEANER AIR OR NOT EATING AND COLD HOMES.

THIS KIND OF AWESOME CONFRONTATION WITH REALITY IS THE VERY THING WITH WITH WHICH MANY OF US ARE HAVING TO DEAL AND WILL BE DEALING IN THE NEXT DECADE.

WE MUST BEGIN TO REARRANGE OUR PRIORITIES AND, FRANKLY, WE MUST TAKE THE LESSONS OF THE PAST AND APPLY THEM TO THE FUTURE. I HAPPEN TO BELIEVE THAT SOME OF THE ACTIONS THAT TOOK PLACE LAST YEAR IN THE CHANGE TO THE TAX LAWS RAISING THE AMOUNTS FOR INDUSTRIAL DEVELOPMENT BONDS, AND EXPANDING THE USE OF INVESTMENT TAX CREDITS FOR THE IMPROVEMENT TO OLDER BUILDINGS ARE BUT THE TIP OF THE ICEBERG IN RELATION TO OUR ABILITY TO TARGET BACK INTO COMMUNITIES NEW DOLLARS, NEW IMPROVEMENTS THAT WILL BE FAR MORE PERMANENT THAN EVER BEFORE BECAUSE THEY WILL INVOLVE NOT JUST THE PUBLIC SECTOR, BUT THE PRIVATE SECTOR AS WELL. WHAT GOOD WOULD THE MILLIONS OF DOLLARS PUT INTO NEIGHBORHOODS TO BUILD NEW HOUSING, TO BUILD NEW STREETS AND SIDEWALKS, AND TO IMROVE THE OTHER PUBLIC FACILITIES IF AT THE VERY SAME TIME THOSE DOLLARS ARE FLOWING INTO THE INNER CITIES, THE PRIVATE DOLLARS TO PROVIDE JOBS AND ECONOMIC OPPORTUNITIES ARE FLOWING OUT.

WE MUST REALIZE THAT THIS NEED TO ATTRACT PRIVATE INVESTMENT BACK INTO CITIES; THIS NEED TO RESTORE THE ECONOMIC VIABILITY AND VITALITY OF OUR MAJOR CITIES, IS CRITICAL TO THE SOLUTION OF OUR PROBLEMS FOR THE 1980's. HOW OFTEN HAVE WE SAID THAT IF WE COULD SIMPLY SPEND THE FEDERAL DOLLARS COMING INTO OUR COMMUNITIES IN THE WAYS THAT MAY NOT HAVE BEEN QUITE THE SAME AS THE FEDERAL GUIDELINES, THAT IN THAT PROCESS WE WOULD HAVE GLADLY GIVEN UP SOME OF THOSE DOLLARS, BECAUSE THE DOLLARS THAT REMAIN WOULD HAVE PRODUCED FAR MORE.

WE CAN NO LONGER AFFORD TO REPEAT THE MISTAKES OF THE PAST. WE CAN NO LONGER AFFORD TO REPEAT THE SPENDING OF THE PAST. WE CAN NO LONGER AFFORD TO REPEAT MANY OF THE PROCESSES OF THE PAST. WE DON'T HAVE THE MONEY; WE DON'T HAVE THE TIME, AND OUR CITIZENS DON'T HAVE THE PATIENCE. WE MUST INSIST THAT THE FEDERAL GOVERNMENT PROVIDE THE TYPE OF COMPREHENSIVE SUPPORT THAT WILL GIVE US ALL THE TOOLS WE NEED. WE MUST DEMAND THAT THE FEDERAL TAX LAWS BE REEXAMINED. WE MUST DEMAND THAT THE TYPE OF INCENTIVES ARE PROVIDED TO BUSINESS AND INDUSTRY TO ATTRACT PRIVATE DOLLARS BACK INTO OUR MAJOR CITIES, TO PRODUCE PRIVATE JOBS. WE MUST DEMAND THAT THE MANDATED COSTS THAT HAVE BEEN IGNORED IN THE PAST; THE MANDATED COSTS THAT HAVE BEEN DEALT WITH IN THE PAST; OR, FOR THAT MATTER, THE GUIDELINES AND STRINGS THAT HAVE BEEN TIED TO FEDERAL DOLLARS IN THE PAST, WHICH HAVE CAUSED US TO SPEND THESE DOLLARS FAR MORE INEFFICIENTLY THAN WE WOULD DESIRE, BE CHANGED. FRANKLY, WE MUST DEMAND THAT THE TOTALITY OF THE FEDERAL PROGRAMS, BOTH IN TERMS OF COST AND SUPPORT, FINALLY BE PRESENTED AS A TOTAL STRATEGY.

MUCH OF WHAT THE PRESIDENT SAID OVER ONE YEAR AGO IN HIS NATIONAL URBAN POLICY; MUCH OF THE MEANS BY WHICH HE SUGGESTED WE WOULD STIMULATE NEW PRIVATE INVESTMENTS, AND FRANKLY, YES, MUCH OF WHAT HE TALKED ABOUT IN THE WAY OF RECOGNIZING THE ROLE OF THE PRIVATE SECTOR IN THE DEVELOPMENT AND REDEVELOPMENT OF CITIES, IS AS TRUE TODAY AS IT WAS THEN. IT IS AS TRUE FOR REPUBLICANS AS FOR DEMOCRATS. IT IS AS TRUE FOR A NORTHERN CITY AS FOR A SOUTHERN CITY. FIVE OUT OF EVERY SIX JOBS IN THIS COUNTRY

ARE IN THE PRIVATE SECTOR. THE SOLUTIONS TO THE PROBLEMS OF OUR CITIES ULTIMATELY LIE IN OUR ABILITY TO WORK WITH THE PRIVATE SECTOR. AND, THE MEANS BY WHICH WE ATTRACT THOSE PRIVATE DOLLARS, AND THE ELIMINATION OF THOSE DISINCENTIVES THAT HAVE, IN EFFECT, CHASED AWAY THE PRIVATE DOLLARS, MUST BE ACHIEVED.

ARE WE COMING INTO A NEW ERA? OBVIOUSLY, THE ANSWER IS YES. ARE THERE GOING TO BE CHANGES THAT WILL CONTINUE? OBVIOUSLY, THE ANSWER IS YES. AND, IS THERE THE ABILITY TO PROPERLY PROVIDE MORE SUCCESS FOR OUR CITIES? I THINK THE ANSWER IS YES.

I WOULD LIKE TO SUGGEST THAT WE HAVE COME OUT OF AN ERA OF QUANTITY AND ARE ENTERING AN ERA OF QUALITY - QUALITY IN MANAGEMENT; QUALITY IN LOCAL GOVERNMENT CONTROL AND LOCAL GOVERNMENT STRUCTURE; DEMANDS FOR QUALITY IN THE SPENDING OF ALL PUBLIC DOLLARS, WHETHER STATE, LOCAL OR FEDERAL. THE STATES MUST BE A PART OF THIS SYSTEM. THE STATES MUST PROVIDE AN EFFICIENT STRUCTURE OF LOCAL GOVERNMENT IN ORDER FOR US TO SUCCEED. WE MUST OBTAIN METROPOLITAN SUPPORT FOR METROPOLITAN SERVICES. WE MUST OBTAIN WAYS TO MAKE PEOPLE A PART OF THE CITY INSTEAD OF MOVING OUT OF THE CITY. BEYOND ALL THAT, WE MUST ACHIEVE WORKING WITH THE CONGRESS WORKING WITH THE FEDERAL ADMINISTRATION, UTILIZING THE EXPERIENCES OF THE PAST, QUALITY IN THE MEANS BY WHICH WE ARE PROVIDED AND THE MEANS BY WHICH WE USE THE FEDERAL DOLLARS, DOING IT IN SUCH A WAY THAT WE RECOGNIZE THAT THERE IS A FINITE LIMIT TO THE RESOURCES OF THE FEDERAL GOVERNMENT, AND THAT THE HIGH DEFICITS OF THE PAST FEW YEARS, IN LARGE MEASURE, HAVE PROVIDED THE INFLATION OF TODAY.

THE FEDERAL GOVERNMENT MUST NOT ONLY GIVE US THE QUALITY TYPE PROGRAMS AND TOOLS TO SOLVE OUR PROBLEMS, BUT THEY MUST USE THE SAME APPROACH TO SOLVING THEIR OWN. HOPEFULLY, BY PURSUING THIS COURSE; AND IN THE PROCESS OF BRINGING THE FEDERAL BUDGET MORE IN BALANCE (ONE OF THE IMPORTANT COMPONENTS OF ELIMINATING INFLATION) - THAT THE CITIES NOT BE FORGOTTEN; THAT THE PROBLEMS OF THE PEOPLE LIVING IN THE CITIES NOT BE FORGOTTEN; AND THAT WE DEMAND THAT THE FEDERAL GOVERNMENT AND HELP THE FEDERAL GOVERNMENT DEVELOP, AS I HAVE MENTIONED, THE TOOLS FOR US AND NEW PRIORITIES FOR THEMSELVES. IF WE SUCCEED, AND I THINK WE WILL, THE COMPLETION OF THE 1980's WILL BE VIEWED AS ONE OF THE GREAT TURNING POINTS IN THE HISTORY OF OUR COUNTRY - THE TIME WHEN OUR NATION WENT BACK TO SOME OF ITS FUNDAMENTAL STRENGHTS; THE TIME WHEN THE COUNTRY RECOGNIZED THE TRUE ROLE OF GOVERNMENT, THE TRUE ROLE OF THE PRIVATE SECTOR AND THE TRUE ROLE OF THE INDIVIDUAL - THE TIME WHEN WE NOT ONLY LEARNED HOW TO BECOME A GREATER PARTNER IN THE COMMUNITY OF NATIONS, BUT A TIME WHEN THE FEDERAL GOVERNMENT LEARNED HOW TO BE A GREATER PARTNER IN THE COMMUNITIES OF <u>OUR</u> NATION. ASKING AND RECEIVING FROM THE FEDERAL GOVERNMENT AND STATE GOVERNMENT THE ASSISTANCE REQUIRED ACCORDING TO THE PRIORITIES SET BY THE CITIZENS OF OUR COMMUNITIES, AND BY YOUR PARTICIPATION AND PARTICIPATION OF OTHERS IN NOT ONLY THE IMPLEMENTATION OF THESE PROGRAMS, BUT THE MODIFICATION AND FUTURE DEVELOPEMNT OF NEW PROGRAMS AND NEW APPROACHES. THIS WILL ENSURE THAT IN THE NEXT 10 YEARS, WE IN THE UNITED STATES WILL ENJOY NOT ONLY THE GREATEST OPPORTUNITY FOR FREEDOM, BUT ALSO THE GREATEST OPPORTUNITY TO BE CERTAIN THAT WE DO NOT BECOME THE INSTRUMENTALITY OF GOVERNMENT; RATHER THAT THE GOVERNMENT BECOME THE INSTRUMENTALITY OF US.

JESSE JACKSON SAID" THE KINGDOM IS WITHIN. NOBODY WILL SAVE US FROM US BUT US."

Representative REUSS. Well, thank you very much, Mayor Carver. Although you're a Republican and I'm a Democrat, I don't find myself in pronounced disagreement with anything you said. I think the first obligation to civic help is on the part of the city. God helps those who help themselves.

Your fellow Illinoisian, Abraham Lincoln, had something to say on that subject and I think he was right.

Also, I think the second line of defense is that sovereign government which created the cities and makes them live or die—the State. And then, in my view, the Federal Government should confine itself to nationally significant aspects of cities. I don't find that expression vastly different from what you just had to say.

STATE RESPONSIBILITIES

You did come down rather hard, and I think justifiably, on the fact that the States can and should do a great deal more for their cities, not just financially but administratively than they have been doing.

The one example you gave of your State of Illinois was an example where the State did pretty well. Its legislature passed, and its Governor signed a tax incremental financing law which I know about. We have them too in Wisconsin. They are excellent things. They get things done.

That aside, what is your view on you own State? Do they adequately assume their responsibilities toward the cities or are there some other things more they should be doing?

Mayor CARVER. Well, Mr. Chairman, as you may recall, I began in part in my statement citing the fact that my city, although it's only one-third of my urban core, metropolitan area, still has to provide virtually all the metropolitan services. Illinois has one of the more archaic annexation laws in the United States. Clearly there's a great deal more they could do.

The real issue I think though is should we be here or should we be there in Springfield, Ill.? And I guess the point I'm trying to make is as the mayor of the city of Peoria for 9 years many of my fellow mayors who I've known over those same periods of years, have grown far more accustomed to coming to Washington, D.C., than going to their State capitals; far more willing to seek some kind of a solution from Washington, D.C., than they have from their State capitals. And I happen to feel very strongly that that trend has to be changed, and it isn't going to be changed by either using the carrot-stick approach any more than I think it's going to be changed by simply saying that one of these days we're going to get around to it.

I think if there's any other message, any other philosophy that flows through the urban policy statement that has more significance, I don't know what it is, because in that one message alone the decision to turn around current process and suggest the States will become more a part of the solution—I think the States, by the way, can very adequately handle the problems of AFDC. I think the States clearly understand the problems of their citizens and they're closer to their citizens.

I might further add—I could go through a long litany of things. I happen to chair the Governor's Committee on Block Grants. My United Way, as a result of the change in the delivery of services through the block grant approach that was provided last year, has become far more effective in working with State government to provide a nonprofit type of delivery mechanism inside the community that's much more adapted and much more a part of the problems of the very people that we might be describing.

I disagree with the Senator, by the way. I think of an 18-month-old child when somebody says, "I already know what the problems are," I don't think they clearly understand. I've often said I know the problem of public housing because I lived in public housing as a boy. That's not true. All you need do is go visit public housing in New York or Chicago or Peoria, Ill., to find out. And I think those people who work with those 18-month-old children, particularly in the nonprofit agencies, understand better than anybody else.

I had a bishop of the Catholic church, the diocese from Peoria, who went to Springfield to argue with the Governor, ultimately successfully, saying that their program was better than the State's, and because of some greater degree of flexibility they are now able to provide some of the services the State used to provide through a much more bureacratic system.

Representative REUSS. You mentioned that Peoria has to assume the cost of a large part of the metropolitan area of which it constitutes only, I think about a third.

Mayor CARVER. Yes, sir.

Representative WYLIE. That could certainly be improved on, couldn't it?

Mayor CARVER. Absolutely.

Representative REUSS. Well, why doesn't the State of Illinois do what the neighboring State of Minnesota did. They set up a system whereby localities like the Twin Cities, for instance, and their surrounding seven-county area can produce some fiscal equalization while still retaining local and even neighborhood political autonomy. Wouldn't that be a good idea?

Mayor CARVER. Well, I think you could cite a number of examples, Mr. Chairman. Indiana, a variety of other States, Kentucky—there are other examples equally—I've had long discussions with Henry Maier about some of the problems he has trying to get the legislature of Wisconsin to have a more enlightened view of the problems of the central city.

I guess the real issue, though, is do the States recognize that they have a role? Have they really been thrust into the middle of what's going on, or have they felt they're at the periphery so that in effect we worry about the State highways and the State patrol, and you and the Federal Government worry about the problems of the city?

I'm confident that if I asked the State of Illinois, "Do you feel a responsibility for the condition of public housing," even though I happen to know how public housing was created, the laws involved in the creation of public housing and the role the State plays, they would say, "No, that's Federal housing; it's not a State responsibility." And I would say that they're wrong.

Now we changed—you mentioned going together—the tax increment financing. We're doing a better job as a city in dealing with our legislature, but it's taken time because we have had legislators who have not been convinced that some of the issues that I've described were really the things that they ought to be concerned about. The condition of the central city of Peoria was their responsibility. I believe we can convince them of that, and I think we can convince them even more if they become a main part of the process of delivering aid to urban America. And that's the point I was trying to make before.

Representative REUSS. Don't you think you could convince them more quickly if they were subjected to at least mild pressure by the Federal Government to adopt urban policies at the State level? Illinois doesn't have one.

Mayor CARVER. Mr. Chairman, the most effective policy I think we could get is an aroused electorate who holds them accountable for some of the problems of the central city, and I think that, more effectively than any other thing, is what's going to cause it to happen. Right now the easy response that a legislator can give is, "That's the mayor's problem or that's the Congressman's problem." And that's not a satisfactory answer.

FEDERAL INCENTIVES

Representative REUSS. I agree. Wouldn't the likelihood of a satisfactory answer be heightened if the Federal Government said to the State governments, "Look, we are going to be putting a lot of assistance into State treasuries if the State recognizes that they have an obligation to their urban areas? Wouldn't that make your task easier?

Mayor CARVER. Well, Mr. Chairman, I'd like to take the easy way out and say, yes. About 2½ years ago I testified before Senator Muskie on the State and Senate program. That was a part of the Carter urban policy and involved a fairly limited amount of money to do the very thing you're talking about, and the same question was asked by Senator Muskie; and I guess the same answer I gave then I would give now. That is, if we have to rely on the financial incentive, I suspect in most of these instances the Federal Government simply doesn't have enough money to give to the States to cause that to happen.

Representative REUSS. I'm not talking about the Federal Government paying the State additional money. I'm simply saying why doesn't the Federal Government, for whatever sums of money it does make available to the States—and even you agree that some funds should be made available by the Federal Government to the States—condition that on the States consciously adopting the idea that they have a major responsibility toward the cities?

Mayor CARVER. Mr. Chairman, I'd come back to the same point. I happen to think that accountability at the local level by the electroate who holds these legislators responsible for certain conditions within an urban area is the most effective tool. I would grant to you that you could set up all types of incentives involving the funding that could, in fact, include the totality of urban funding as it currently exists, and, in fact, you might be successful to some extent. I happen to believe that you're still going to be more successful with a State legislator who knows that in the absence of doing that which is supposed to be done in order to improve the conditions of a central city or any city for that matter, their reelection could be held in the balance, that's a legislator that's going to be more responsive.

Represenitive REUSS. Well, aren't you being a little rough on your local Peoria State legislators if they're to be scourged from office because they were unable to persuade the rural majority in the Illinois Legislature or for that matter the county majority to do what's right for Peoria? It would seem to me cruel and inhuman punishment to beat them even though they had knocked themselves out trying to get these things done.

Therefore, I come back to my point. Wouldn't it be useful if the Federal Government used such incentives as they may have to get the State to adopt a more benign view of Peoria.

Mayor CARVER. Well, Mr. Chairman, you know, I'm in my third term of mayor and I've often wondered whether it's cruel and unusual punishment to reelect me or to not elect me, and I haven't decided yet which is the better, but setting that side, I still happen to believe very strongly—and I understand your point. The point obviously is a point that has achieved a number of objectives in past years, whether it's open housing or a variety of other things, where there were certain communities which through the incentive of having certain funds made available are States where a certain action was taken.

In this case, however, we're talking about a continuum. We're talking about an existing relationship. We're talking about a relationship that transcends some of the Federal programs. We're talking about laws that might relate to annexation or a variety of other things. And I'm suggesting that the only way that you're going to be effective—and I'm not trying to cause any of my legislators, who I might add, were the same fellows who went to my State capital and worked very hard for the tax increment financing—to have to bear the burden of not being successful.

I'm really suggesting that it goes beyond that because I happen to believe in the job that my legislators have done, both Democrat and Republican. What it goes on to is the fact that I happen to believe that legislators across America have got to become a more active part of the problems of urban America than they've been in the past, and I think this can be achieved by a reordering of the Federal system. I think they can, in fact, be made more an active part and, as a result, can contribute significantly to the well-being of the people who live in the cities.

Representative REUSS. Well, I don't want to take any more time and we aren't going to resolve this friendly dispute by taking more time. I would say, however, that your successful experience with the tax increment financing doesn't really prove too much because tax increment financing doesn't hurt anybody very much. It helps people but it doesn't hurt them. Whereas, when you get into the nitty-gritty of metropolitan fiscal responsibility, annexation and other such matters, you do hurt some people. You hurt the suburbs and unless you can put together a coalition, you don't win. So far you have not been winning, as you testified.

I thought it might help you to get a little Federal muscle, not costing additional money, but attached to whatever moneys the Federal Government is placing at the disposal of the States. But on this one, I guess we just don't agree.

Mayor CARVER. Well, Mr. Chairman, let me just add one thing. I know that time is becoming late, but about a year ago—I mentioned that we were one-third of the metropolitan area. That obviously means that there are other communities, none of which are very large. We happen to have in the three-county area which constitutes our SMSA 260 separate taxing units. So when you talk about the levels and layers of government, Illinois has been very successful. We have almost twice as many as any other State in the Union—almost 8,000. So it's a very difficult State in which to administer local government.

I might add that's one of the reasons why the city of Peoria, which has to depend upon a sound airport to provide the necessary services to support our economic base, has to pay for it, because we have to have it, while other communities can simply ride along. But interestingly enough, about 1 year ago as a part of this continual process, I made up my mind that I was going to become a more effective part of dealing with my legislature and formed a three-county mayors association. And about 6 months ago, in a meeting with legislators who represent our area, including the four that represent my city and two suburban cities immediately adjacent to my community, without my request, told all of the legislators who were there that whatever was good for the city of Peoria, was good for theirs because we're in the same economic boat together. We are, as a result, making significant progress in getting out legislators to take forward legislation that might not be in the best interest of those suburban communities on a very narrow and direct basis, but in terms of the improvement of the overall economic climate within the metropolitan area of Peoria, it is clearly in the best interest of all.

I think that says something else. It says if we keep focusing on too narrow a perspective of the problem, we're going to miss it entirely. The problem is so much greater and that's the real issue. That's why Federal muscle behind Federal dollars in order to get the States to do something doesn't get the job done, in my judgment, because it never really gets the total problem on the table, and the total problem is a strong private economy that provides the kind of jobs and opportunity that allows us to do some of the things that we want to do in terms of improving our community and in terms of improving the well-being of our citizens.

I could put almost everybody to work in my city if I've only got 2 or 3 percent unemployment. Today, I don't care how many Federal dollars you provided, with what is approaching 15 percent unemployment, it's extraordinarily difficult to put people back to work.

Representative REUSS. Well, I congratulate you on getting 2 of the 262 vulcanized governments in your area to come out for Peoria. I wish you luck with the remaining 260.

Congressman Wylie.

Representative WYLIE. Thank you very much, Mr. Chairman. I'm glad I stayed around to hear you, Mayor Carver. I think you've acquitted yourself very well and I say that I think you've made an impressive appearance before our committee. As you might guess, I would associate myself pretty much with some of the views you have expressed here and also with your tone of optimism about the future of our cities and their ability to solve their own problems. You talk a little bit like my own mayor, Mayor Tom Moody.

Mayor CARVER. Tom is a good friend of mine.

Representative WYLIE. I know you're good friends. I would just say it seems to me when we talk about cities that are in some difficulty or in most difficulty, that those are the cities which have become the most dependent, if I may use that phrase, on the Federal Government over the years. The cities that have seemed to try to provide for themselves, like Peoria and Columbus, that those cities have seemed to come through this difficult period better than those who have become dependent on the Federal Government over the years. I don't know if that's a cogent observation as far as you're concerned, but I have a feeling it might be. That's statement on my part, but I want to congratulate you for your leadership and for providing a catalyst to make your city what sounds like a very exciting and interesting city in which to live and to work.

What is the population of Peoria?

Mayor CARVER. 130,000.

Representative WYLIE. Well, with all due respect, I would say that Peoria has a little bit different problem than a city like Chicago or New York where there are manifold more people living and working and trying to raise their children, but I think you have made a significant contribution to the discussion of this committee.

Mr. Chairman, I have no further questions.

Representative REUSS. I share my colleague Wylie's appreciation of your coming here. You have acquitted yourself extremely well and good luck.

Mayor CARVER. Thank you.

Representative REUSS. We now stand adjourned.

[Whereupon, at 1:05 p.m., the committee adjourned, subject to the call of the Chair.]

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