CHAPTER 1

Economic Challenge in American Cities

Central cities are clearly under fiscal pressure. Cities in recent decades have undergone a socio-demographic transformation in that a predominantly black and Hispanic population replaces a predominantly white middle-class population. With the shifting of job opportunities from central cities to predominantly white suburban areas, the confinement of minorities to inner-city neighborhoods has resulted in rising urban unemployment.[1] This higher concentration of the needy has placed an increasing demand on city services in low-income neighborhoods. However, just when the more affluent residents are replaced by the needy, central cities encounter a shrinking local tax base. Indeed, since the 1950s, median family income in central cities has fallen behind that of the suburban areas regardless of regions. In 1980, for example, the central-city median income averaged only 85% and 75% of that in the suburban areas in the six largest metropolitan areas in the ''sunbelt'' and in those in the ''snowbelt'' respectively.[2] The declining local fiscal sources are clearly inadequate to meet the rising service needs. Given this new fiscal reality, a new generation of urban analysts began to challenge the proposition that local political forces primarily determine policy. Instead, many now argue that cities are not altogether free to do what they prefer.

THE "ECONOMIC CONSTRAINT" MODEL

This ''economic constraint'' model, which can be traced back to Tiebout's ideal world of fiscal equilibrium,[3] has been most systematically presented in Paul Peterson's *City Limits*.[4] According to this perspective, urban policy choices are ultimately constrained by structural economic factors. Local communities are less free than nation-states to pursue their economic interests and social responsibilities. For example, local governments cannot regulate the flow of productive resources (e.g., labor and investment) and do not have control over monetary and tariff policy.[5] Instead they have to compete with one another in luring investment, in attracting property owners, and in exporting their goods. While the federal and state governments enjoy more elastic taxing mechanisms (such as income tax), localities have to raise their revenues largely through the more restrictive ''benefits-received'' principle. Local revenue-raising mechanisms that are based on ''benefits received'' range from parking fees and building inspection charges to monthly utility payment by consumer families. Between 1977 and 1983, these local user charges increased at an annual rate of 11%. By 1983, according to one study, local charges amounted to 64% of all local tax revenues.[6]

Three Policy Choices

Given the pervasiveness of these structural constraints, individual cities are expected to behave as if they are "rational actors."[7] Localities have to allocate their priorities among three distinct arenas of policy: redistributive, allocational, and developmental.[8] Developmental policies lead to public programs that enhance the economic position of the city in its competition with other areas. These policies strengthen the local economy, enhance the local tax base, yield a relatively high benefit/tax ratio for taxpayers, and generate additional resources that can be used for the community's well-being. Typical developmental projects include downtown revitalization, expansion of transit systems, and low-interest business loans. By contrast, redistributive policies are those programs that benefit low-income residents but at the same time may negatively affect the local economy by attracting the needy from nearby communities and discouraging entry of productive resources. One can roughly calculate whether a policy is redistributive or not by estimating whether those who pay for the service in local taxes are those who receive the services. If there is no overlap at all, such as in welfare assistance to non-taxpayers, it is a case of pure redistribution. Finally, allocational policies consist of local housekeeping functions, such as fire and police protection, locational issues, minor tax questions that have modest effects on the city's long term interests, and, most important, public employment.[9] Although in many cases city services reinforce developmental activities, Peterson suggested a middle classification for allocational programs because these services have "neither much of a positive nor much of a negative effect on the local economy."[10] Routine services (e.g., fire and police) only marginally affect a city's competition with other communities because all localities have to provide a reasonable range of municipal services for their residents.

Thus, the critical choice is between redistribution and development. In order to maintain or improve the city's fiscal base, local governments are constrained to place economic development objectives ahead of any concern they might have for social equality.

A city's fiscal policy clearly determines the extent to which these two distinct sets of policy choices are pursued. In this regard, the critical measure is whether those who pay for the services are also those who receive the services. This service/tax ratio, as it may be called, is an estimate of the amount of services taxpayers received in return for their taxes paid. A city's service/tax ratio falls within a range between one and zero. The closer the ratio is to one, the more services the taxpayers are getting. When the service/tax ratio is one, which is sometimes referred to as the Tiebout ideal of fiscal equilibruim, services received by the taxpayers perfectly correspond to the amount of taxes they paid. Conversely, a low service/tax ratio means that taxpayers' money is used to finance services for the non-taxpayers (assuming that the amount of money wasted is negligible).

In analytical terms, the value of this ratio can be expressed in terms of two competitive policy goals, efficiency and equality. A high service/tax ratio suggests a high level of efficiency in the city's fiscal policy. In this situation, taxpayers are receiving a service worth of what they paid for. On the contrary, a low service/tax ratio often results from the provision of services to the non-taxpaying population. In other words, a decrease in the service/tax ratio is likely to occur when the city pays more attention to the issue of equality and addresses the needs of the poor.

From the ''economic constraint'' perspective, development policy is more closely associated with efficiency, while redistributive programs address equality. While developmental policy yields a higher level of service benefits for the taxpayers, redistributive policy decreases the service/tax ratio for the taxpaying residents. A shift toward a lower service/tax ratio means that taxpayers are receiving fewer services. Under these circumstances, non-taxpayers are likely to receive more services. Ideally, redistribution can be achieved with a modest level of city spending, but in the real world, programs for the poor most likely come about at a higher expenditure level. Given the implications of these competing goals, the city's fiscal interest is to produce as high a service/tax ratio as possible and to move away from redistributive activities.

To be sure, cities often use taxing and spending as tools to achieve developmental goals. Tax abatement is said to have created incentives for potential investors outside of the city. Generous tax credits can be granted to businesses that participate in downtown revitalization. City-subsidized low-interest loans for small businesses and low- and moderate-income home-buyers are popular developmental activities on the spending side. But developmental tools are not limited to spending and taxing. Planning activities and zoning legislations are expected to promote an orderly growth plan with the general objective of preserving land value. Promotion of tourism has become a valuable source of income for many communities, some of which have further invested in sports and convention activities.[11] Finally, a variety of strategies are used to stem neighborhood decline.[12]

Economic Determinants of Policy Choices

Moreover, specific outcomes (e.g., the level of spending) in each of the three policy arenas are predominantly shaped by a distinct set of economic factors. The policy impact of socio-economic variables has long been established. Numerous earlier studies have related state and local expenditures on welfare (an example of redistributive policy), and on highways and natural resources (both are examples of developmental policy), to measures of affluence (e.g., per capita income, home value), economic demands, and supply of services (e.g., the level of industrialization and urbanization, size, and population density).[13]

Using a larger sample of across-time budgets for 34 competitive northern states (i.e., a pooled design), Winters[14] reconfirmed the Fry-Winters[15] findings that alteration in partisan control did not bring about changes in the level of redistribution, as measured in terms of the ratio of expenditure benefits received to tax revenues paid for each income class in each state. Although the political history of the state remained relevant, Winters argued that redistribution has been "historically determined by levels of economic development and need within the states."[16] In a comprehensive review of state welfare policy, Dawson and Gray concluded that "our analysis tends to support the relative importance of the socio-economic conditions" in interstate variation in numerous measures of welfare policy outputs, and that "socio-economic conditions predict a larger portion of the variance than political factors."[17] Gray further demonstrated that state economic resources (namely, per capita personal income) accounted for 58% of welfare policy changes within a state over time.[18] Similar observations on the significance of economic factors were found in studies that focused on local expenditures.[19]

Expanding on these earlier themes, Peterson provided empirical evidence that the level of outputs in each policy arena is determined by a specific set of economic variables.[20] More specifically, developmental programs in any given city are substantially shaped by local economic demands (such as the level of industrialization). Allocational policy is largely determined by a mix of local fiscal capacity, service demand, and cost of service provision. Finally, redistributive programs are primarily dependent on the jurisdiction's fiscal capacity and are only modestly related to the needs of the poor. Only the more fiscally sound communities are expected to be more capable of delivering services for the needy. Local political factors are not important.

Modest Importance of Politics

Needless to say, the economic character of each policy arena (i.e., the fiscal impact on the locality) defines the arena's politics. Redistributive politics is characterized as a "non-issue," where interest groups are largely absent and political elites, given their concerns for the economic well-being of the city, are generally "biased" against redistribution. Because of their detrimental economic impact, redistributive demands are unlikely to gain political support. Even when there is organized action, such as in the Harlem rent strike of 1964,[21] the city leadership is able to employ delay tactics to dissipate public attention, to impose allocational policy response to redistributive demands, and, in cases of prolonged disputes, to shift the local political structure (such as by decentralization of certain authorities) in order to avoid making real economic concessions that are detrimental to the city's competitive position.

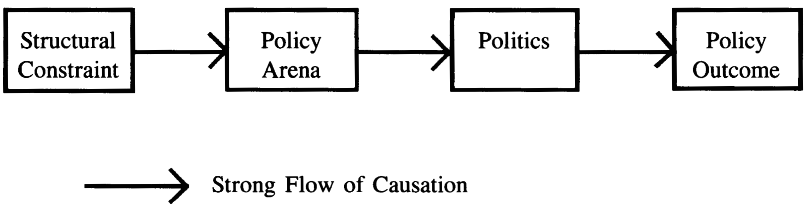
The politics of development, however, are highly consensual. Developmental projects often involve private-public cooperation and a widespread public endorsement of central direction. The benefits of a developmental policy are widely enough distributed that policy makers are not likely to suffer much criticism for their efforts from broad-based constituency groups. In the case of the "able servant" that Peterson cited, for example, Mayor Richard Lee of New Haven was able to enjoy years of public support for his efforts to revitalize the city's downtown area.[22] Finally, it is only in allocational policy, an arena least susceptible to intercity competition, that interest-group politics occurs. Organized interests that are based upon ethnic, class, and occupational cleavages most visibly dominate policy outputs in this arena. To the extent that certain kinds of city resources can be disaggregated (such as municipal jobs), political conflict over allocational policy is resolved through bargaining and compromise.

These characterizations of arena politics, to be sure, are derived from the assumption that there is a consensus between elites and citizens not only on the pervasiveness of environmental constraints but also on the generally pro-growth strategy as a central public function of the local polity. The extent to which these assumptions reflect the political reality may be subject to a great deal of controversy. First, that the electoral process offers an effective means to facilitate sharing of policy concerns between elected leaders and citizens remains far from certain, as suggested in my review of the literature on citizen participation later in chapter 4 of this book. Further, interest groups may "distort" such a consensus. Indeed, in an earlier study of Chicago school politics, Peterson recognized the difficulty in applying a "unitary actor" approach to domestic decisionmaking: "Power is so decentralized, so divided among a wide variety of competing participants, that even in Chicago, which has more centralizing institutions than many cities, use of a unitary model seems precluded."[23] To make a "unitary" model operational in the domestic policy-making process, one has to assume an elite-citizen consensus. And yet, given the uneven distribution of power in the polity, the "unitary-actor city" inevitably assumes an "elitist" character. Second, in assuming an elite-citizen interest congruence, the "economic constraint" model tends to underestimate class-based conflict within a polity. According to the "social control" perspective, class cleavage constitutes the dominant source of local political conflict. In this context, the pro-growth, anti-redistribution policy choices can be seen as mechanisms employed by the ruling class to maintain its political legitimacy over the ruled, and hence, the perpetuation of the capitalistic economic system.[24] In other words, the validity of these assumptions on elite-citizen congruence over policy choices has been a subject vigorously pursued by others in both the "social control" tradition and the "citizen participation" literature. However, these concerns are beyond the scope of this book. My primary goal here is to consider how the "economic constraint" model can explain policy choices in big American cities.

Core Elements of the Model

In short, the "economic constraint" model presents a "unidirectional" view of local policy making. The model's underlying assumption is that cities are expected to act rationally in response to unalterable environmental constraints. As suggested in figure 1, the pervasiveness of structural constraint in American cities defines three distinct sets of policy arenas, each of which in turn governs not only policy outcomes (such as expenditure patterns) but local politics as well. To the extent that the policy arena produces economic benefits for the polity, the specific kind of politics will follow. In other words, economic considerations are primary while the political ones are secondary. According to this model, political factors are not expected to alter the policy tendency of the structural constraint. Localities can be expected to pursue developmental policy and resist redistributive activities.

Figure 1. The "Economic Constraint" Model of Urban Policy-Making



Functional Division in the Federal System

To be sure, the primacy of economic distinctions in the "economic constraint" model has led to three largely mutually exclusive policy arenas that allow for the model's operational power.[25] In this regard, given the differences in the economic capacity between the local, state, and federal governments, redistribution as a major policy concern is expected to vary among the three levels of the federal system. According to the "economic constraint" perspective, the federal government is most capable of delivering redistributive policy in part because it encounters fewer structural constraints and in part because it raises its revenues on the ability-to-pay principle.[26] Localities, on the contrary, are less willing to pursue redistributive activities because their taxation is primarily based on the benefits-received principle. Instead, they are most likely to adopt development programs that promote economic growth in response to economic demands and provide allocational services that correspond to a certain level of efficiency that is acceptable to the taxpayers. Compared to local governments, American states are more likely to provide redistributive services because they enjoy a broader revenue base that draws on the more elastic state income tax, command a larger pool of capital, labor, and natural resources, and encompass a bigger geographical boundary that tends to reduce the threat of resident emigration. Thus, given their somewhat broader fiscal capacity, state governments are expected to be more responsive to redistributive needs, while at the same time, both allocational and developmental objectives are expected to be pursued less vigorously than by the local communities.

An analysis of aggregate expenditure patterns among the three levels of government in the U.S. federal system suggests the utility of the policy typology. Such an analysis is conducted with two methodological considerations. First, because state and local governments do not carry out foreign policy and defense functions, we have excluded these functions from the federal government in order to make possible an inter-level comparison. Only domestic expenditures are included. Second, to sort out the policy objectives of each of the three levels of government, we have focused on spending only from own resources at each governmental level. Federal intergovernmental transfers, for example, are counted only once as federal spending and are excluded from state and local figures. The methodology on our fiscal analysis is explained in the Appendix.

As shown in table 1, aggregate spending trends over the past two decades have shown a distinct division of functional responsibilities between the local, state, and federal government. Most obviously, redistributive policy remains the responsibility of the federal and the state governments. Localities have allocated only 12% of their own revenues for these activities over the years. However, localities have spent much more on both allocational and developmental functions. In 1983, for example, the developmental portion of the local budget became twice as large as that of the redistributive realm.

The functional division of responsibilities is also distinct in intergovernmental transfers from both the federal and the state government. Over the past two decades, regardless of partisan changes in the White House and Congress, the federal government provided states and localities an increasing amount of grant dollars for redistributive purposes. As suggested in table 2, by 1983, for example, almost 60% of the federal domestic transfers were used to help the needy. The importance of developmental activities, however, has been sharply reduced in terms of dollar amount, from 38% to 17% of the federal transfers between 1962 and 1983. Similarly, only a very modest amount of the state transfers were focused on developmental purposes. Instead, education has consistently consumed over 60% of these funds, while redistributive activities accounted for somewhere between 15% and 20% of all state subsidies. In other words, over the past twenty years, federal and state grants have increasingly been used for redistributive purposes.[27]

FEDERAL DEVELOPMENT AND REDISTRIBUTIVE PROGRAMS IN EDUCATION AND HOUSING

The "economic constraint" perspective also provides for a more systematic understanding of public policy. Even within a substantive policy

Table 1. Governmental Expenditures From Own Fiscal Resources (Percentage Distributions Among Functions)

	1962	1967	1973	1975	1979	1983
LOCAL						
Redistributive	12.9	12.9	13.8	12.5	11.4	12.2
Allocational	26.8	26.4	28.5	27.3	28.0	28.6
Developmental	22.4	20.8	17.5	19.7	21.6	24.1
Education	33.4	35.2	34.2	31.7	28.0	24.8
Interest and Other	4.5	4.7	6.0	8.9	11.0	10.5
Total (%)	100.0	100.0	100.0	100.1	100.0	100.2
Total ($m)	33,591	45,853	77,886	106,356	149,291	227,086
STATE						
Redistributive	28.2	23.2	34.8	32.5	31.3	33.7
Allocational	12.4	12.9	8.4	6.6	9.1	9.0
Developmental	20.7	19.5	13.6	13.8	11.9	10.9
Education	33.6	39.5	38.4	40.4	41.3	38.0
Interest and Other	5.2	4.9	4.9	6.8	6.6	8.5
Total (%)	100.0	100.0	100.0	100.1	100.2	100.1
Total ($m)	29,356	45,288	89,504	114,015	161,468	249,799
FEDERAL (domestic only)						
Redistributive	46.7	51.5	55.1	60.1	59.4	57.7
Allocational	4.6	4.5	3.8	3.8	4.3	2.9
Developmental	32.5	22.9	17.1	14.7	16.2	15.8
Education	3.2	7.2	8.2	7.1	5.3	4.1
Interest and Other	13.1	13.9	15.7	14.4	14.9	19.7
Total (%)	100.0	100.0	99.9	100.1	100.1	100.2
Total ($m)	58,960	86,852	186,172	240,557	407,721	618,854

Sources: 1962, 1967, and 1973 figures are taken from Peterson (1981, p.79, Table 4.3). 1975, 1979, and 1983 figures are my own calculations. On my methodology, see the Appendix.

area, such as education, programs that clearly aid the poor can be distinguished from those whose purposes are less socially restrictive. These distinctions seem most visible among programs enacted at the federal level because the national government has played an active role in both redistributive and developmental goals. In this regard, we shall focus on four federal programs. Local programs are not selected in this study for several reasons. Given their competitive structural context, very few localities have enacted redistributive programs solely

Table 2. Intergovernmental Expenditures by State and Federal Governments (Percentage Distributions)

	STATE						FEDERAL					
FUNCTION	1962	1967	1973	1975	1979	1983	1962	1967	1973	1975	1979	1983
REDISTRIBUTIVE												
Welfare	16.3	15.2	18.4	15.8	13.9	13.1	31.6	28.2	29.0	35.2	47.6	45.3
Health	1.8	1.6	2.1	2.3	2.4	3.1	2.2	2.7	4.2	4.2	3.2	4.2
Housing	.3	.4	.4	.4	.3	.4	4.1	4.5	5.1	6.6	7.0	6.4
Social Insurance	...	...	...	...	...	...	6.0	3.8	1.9	2.0	1.7	2.8
Subtotal	18.4	17.2	20.9	18.5	16.6	16.6	43.9	39.2	40.2	48.0	59.5	58.7
ALLOCATIONAL												
Housekeeping	...	...	...	...	...	...	.9	.9	2.1	5.5	6.3	3.7
DEVELOPMENTAL												
Transportation	12.2	9.9	7.4	6.4	5.8	5.4	36.3	27.4	13.2	12.1	11.3	14.9
Natural Resources	.2	.2	.2	.4	.3	.3	1.8	1.6	1.6	1.8	1.6	2.4
Subtotal	12.4	10.1	7.6	6.8	6.1	5.7	38.1	29.0	14.8	13.9	12.9	17.3
Education	59.4	62.2	57.1	60.6	63.4	63.1	15.1	26.1	20.1	18.3	12.4	14.3
Other/Undesignated	9.7	10.6	14.4	14.0	13.9	14.7	2.0	4.9	22.0	14.2	8.9	6.1
Total (%)	100.0	100.1	100.0	99.9	100.0	100.1	100.0	100.0	100.0	99.9	100.0	100.1
Total ($m)	10,906	19,056	40,822	51,318	72,911	100,055	7,735	15,027	41,666	48,886	92,002	87,543

Sources: Refer to Table 1.

on their own. Even when local programs for the poor are present, they seldom share the same set of programmatic standards and mandates and so seldom allow for intercity comparison. This latter consideration also applies to many state-enacted programs. Variation also occurs among local developmental projects, where different localities employ only those programs that seem to work best in their specific economies.

Federal policies can be distinguished in terms of their fiscal impact on the city's economic well-being. While developmental policies are designed to lure local business investment, promote productivity, and revitalize decaying neighborhoods, redistributive programs address the needs of the impoverished, the aged, and the disadvantaged, at the expense of remunerative undertakings. Local administrations, however, have their own set of priorities and have often overlooked the provision of basic services to the disadvantaged. Consequently, to make sure that local governments do not deviate from the redistributive program intent, federal officials have written tighter regulations and created complex administrative arrangements to govern local allocative decisions. Developmental objectives, on the other hand, are largely compatible with existing local practices because they tend to strengthen the city's fiscal capacity. With shared federal-local concerns, city officials are more ready to reinforce developmental goals even without a set of clear guidelines and accountability procedures. Unlike their redistributive counterparts, developmental programs are accompanied by broad policy goals and loosely-defined program requirements. Although the federal regulatory role became more assertive during the Carter years, these structural differences between the two policy types remained significant over time.

To find out how cities have responded to federal developmental and redistributive goals, we examined two federal housing and two education programs in two declining cities, Baltimore and Milwaukee, as they operated in the 1970s and through the early 1980s. Title I (now Chapter I) of the Elementary and Secondary Education Act (ESEA Title I) and the Section Eight Rent Subsidy for Existing Housing Program, commonly kown as "Section 8," were the two programs that were the more redistributive in nature. The two primarily developmental programs were the vocational education and Community Development Block Grant (CDBG) programs. The differences between developmental and redistributive programs are exemplified by the objectives and administrative arrangements for the four programs. Table 3 classifies these programs in terms of these distinctions.

TWO DEVELOPMENTAL PROGRAMS

The major thrust of vocational education and the Community Development Block Grant is to strengthen the local fiscal capacity through the distribution of supplemental federal funding in areas of local concerns. Federal

Table 3. Classification of Federal Programs By Objectives And By Policy Areas

SUBSTANTIVE POLICY AREAS	FEDERAL PROGRAM TYPES BY OBJECTIVES Redistributive	Developmental
Housing	Rent Subsidy for Section 8 Existing Housing	Community Development Block Grant (CDBG)
Education	Compensatory Education (ESEA Title I)	Vocational Education

developmental aid is governed by relatively few legislative provisions while program priorities are established by local administrative agencies. Subsequent legislative amendments in the late 1970s enacted new reporting procedures, citizen participation requirements, and accountability guidelines. But despite these regulatory changes, the developmental objectives of these two programs remain intact while the localities continue to enjoy an extensive degree of discretion.

Community Development Block Grant

The Community Development Block Grant was the clearest example of federal developmental policy where localities were granted extensive latitude in their pursuit of revitalization goals. Consolidating numerous categorical programs into a single block grant, Title I of the 1974 Housing and Community Development Act, more commonly referred to as the Community Development Block Grant (CDBG), was often cited as a major federal policy innovation to bring about the revitalization of local economies. To enhance local discretion and to restrain an excessive federal role, the CDBG incorporated and phased out a total of seven "complex and overlapping" programs which had provided localities with federal assistance for open space, waste and sewer facilities, public facilities, urban renewal, neighborhood development, model-cities services, and housing rehabilitation.[28] No longer dependent upon federal appropriations for specific projects, all urban communities were entitled to an annual federal allocation which, in many cases, exceeded even that of federal revenue sharing. As suggested in table 4, these entitlements increased most rapidly during the Carter years, but became more stabilized in the early 1980s.

The block grant marked a compromise between those senators who wanted a greater federal presence at the local level and the Nixon Administration's "New Federalism" proposals for a more restrained federal role.[29] Nevertheless, the ambiguous legislative intent did not deviate substantially from the spirit of the "New Federalism" in that localities were free to use federal CDBG resources as long as their projects related to "the development of viable urban communities, by providing decent housing and a suitable living environ-

Table 4. Federal Outlays (in current $ million) For Housing and Education Programs

	1960	1964	1968	1972	1976	1980	1982	1984
Developmental								
Vocational Ed.	45.2	54.5	255.2	416.9	590.9	680.7	660.5	854.5
CDBG	...	...	...	...	2,434.0	3,902.0	3,456.0	3,468.0
Redistributive								
Compensatory Ed.	...	...	1,049.1	1,507.4	1,760.8	3,005.6	3,063.6	3,501.4
Rent Subsidy								
-Outlays for Newly Reserved Units	...	...	...	...	248	147	85	99
-New Reservation (in '000s units)	...	...	...	...	128	50	23	54
-Cumulating No. of Tenant-Occupied Units (in '000s)	...	...	...	...	156	593	689	757

Sources: U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics* (Government Printing Office, 1982, 1985). *The Budget of the United States Government*, Fiscal Years 1978, 1982, 1984, 1986. *Department of Housing and Urban Development—Independent Agency Appropriations for 1978, 1983, 1984, 1986;* Hearings before a subcommittee of the House Committee on Appropriations, 95 Cong. 1 sess.; 97 Cong. 1 sess.; 98 Cong. 1 sess.; 99 Cong. 1 sess. (GPO, 1977, 1981, 1983, 1985). U.S. General Accounting Office, *Rental Housing: Potential Reduction in the Section 8 Existing and Voucher Inventory*, October, 1986.

ment and expanding economic opportunities, principally for persons of low and moderate income.''[30]

As a major pillar of the Nixon Administration's ''New Federalism,'' the CDBG legislation allowed a maximum degree of local discretion in the area of community development by offering a series of broadly-defined objectives and a list of eligible activities, which were further amplified by subsequent legislative amendments. In sharp contrast to its categorical predecessors, the 1974 legislation broadly identified seven areas where federal funds could be used. These included: (1) the elimination of slums and blight; (2) the elimination of conditions which were detrimental to health, safety, and public welfare; (3) the conservation or expansion of the nation's housing stock; (4) the expansion and improvement of the quantity and quality of community services; (5) the more rational utilization of land and community resources; (6) the reduction of the isolation of low income groups and the promotion of neighborhood diversity; and (7) the restoration and preservation of properties for historic, architectural, and aesthetic reasons.[31] Two additional areas were included in subsequent legislative amendments: (8) economic development activities and (9) energy conservation.[32] The 1978 legislation also allowed CDBG dollars to be used for the relocation of the displaced residents from all sources, while limiting expenditure on administrative and planning activities to 20% of the federal allocation.[33] Thus, the CDBG covered a wide variety of local activities, ranging from capital improvement and neighborhood revitalization to human services.

Unlike categoricals, the block grant was governed only by loosely defined requirements with respect to application, evaluation, and audit procedures. Legislative provisions were intended to minimize federal involvement in virtually all major aspects of program administration. The primary responsibility of the federal government was to appropriate federal funds to localities with ''maximum certainty and minimum delay.''[34] Unless the federal government found an applicant's proposed community development programs ''plainly inconsistent'' with and ''plainly inappropriate'' to its needs and objectives, each CDBG application had to be approved ''within seventy-five days'' after its submission.[35] Program evaluation and audit review were unrelated to grant distribution. Instead, communities were given their choice between two allocation formulae, whichever they considered more favorable as of 1977. ''Formula A'' was based upon the community's total population, poverty level, and the extent of housing overcrowding; while ''Formula B'' took into consideration the jurisdiction's population growth lag, poverty level, and the age of its housing stock.[36] Unlike previous categorical programs, the CDBG did not require local authorities to create specialized administrative agencies.

While the emphasis on local discretion remained intact, subsequent legislative amendments in 1977 and 1978 focused on the provisions related to citizen participation, housing assistance plans, and the more targeted use of funds. The major ''stick'' attached to the block grant ''carrot'' was the

"Housing Assistance Plan," often referred to as the HAP. Local communities receiving CDBG dollars were required to establish "realistic annual and three-year goals" indicating the total number of households for whom housing assistance would be provided.[37] In the absence of clarification regarding what "realistic" might mean in the original legislation, most local HAPs were reported not feasible and degenerated into a bunch of figures.[38] Subsequent federal guidelines were designed to make the local plans more focused and practical. Since 1978, HAPs have included the following six standardized components: (1) statements of housing conditions and needs; (2) proposed overall housing assistance goals; (3) proposed goals relative to different household needs (such as elderly, displaced, small and large families); (4) proposed goals in terms of unit types relative to household needs (such as renter and owner units); (5) proposed general locations (on the basis of census) of tracts for new construction and substantial rehabilitation; and (6) local strategies for achieving greater housing opportunities for lower-income households and minorities.[39] Despite these detailed guidelines, the HAP was less a federal effort to ensure housing assistance than a legislative move to make sure that localities' community development and housing activities were operated in a mutually supportive manner. These exhaustive housing surveys notwithstanding, local administrations were not mandated to follow their plans in a rigid manner. Because housing assistance was primarily contingent upon federal appropriations, the CDBG provisions did not furnish a strong federal role to enforce the proposed goals in HAPs. Instead, the federal government was often said to have adopted a "lenient posture with respect to localities that fail to comply with equal opportunity and related program regulations" in implementing their HAPs.[40]

While categoricals like urban renewal and model cities programs called for the establishment of resident committees in affected neighborhoods, the CDBG legislation did not specifically prescribe the structure and extent of citizen involvement. While their remarks on program performance were encouraged, citizen approval of the local CDBG application was not necessary.[41] Several modest steps toward greater citizen participation were suggested in the 1974 Act, requiring that program information be disseminated to citizens, that public hearings be held to solicit citizen views, and that opportunities be provided to the public in the development of the CDBG application.[42] The 1977 amendment expanded the scope of public involvement, by stipulating a "written citizen participation plan" with special attention given to "residents of blighted neighborhoods and citizens of low and moderate income."[43] Federal guidelines further introduced a "two-tier" participation process at the community-wide and neighborhood levels.[44] Nonetheless, these guidelines fell short of defining the specific kinds of citizen advisory structures required at the local level, and continued to recognize compliance as long as these local bodies showed "adequate representation of low- and moderate-income persons, members of minority groups, and other persons directly affected by the program.''[45] With this latitude, local communities were found to have encountered very little difficulty in carrying out the citizen participation procedures.[46]

Federal guidelines on how communities should meet the program objectives remained vague, as expressed in the following federal policy statement: ''All projects and activities must either principally benefit low- and moderate-income persons, or aid in the prevention or elimination of slums and blight, or meet other community development needs having a particular urgency.''[47] Obviously, the ''either . . . or'' language came to reflect the legislative victory achieved by those who wanted to maintain the three co-equal objectives over those who inclined toward a stronger emphasis on targeting federal funds for the poor.[48] Nevertheless, during the Carter Administration, several administrative and legislative changes were introduced to address the needs of the poor. For example, according to the ''social targeting'' regulations, 75% of the CDBG dollars had to be spent on programs in which low- and moderate-income residents were the major beneficiaries over a three-year period. But this criterion was not considered as a standard for determining noncompliance. While compliance was presumed where the 75% level was achieved, noncompliance was not instantly ruled where the benefit level was less.[49] Moreover, during the last 2 years of the Carter Administration, CDBG applications were required to indicate how each proposed community development project was intended to benefit low- and moderate-income residents.[50] Finally, the federal government mandated that community development activities be predominantly carried out in ''Neighborhood Strategy Areas'' (NSAs), which were slum and blighted areas designated by the local authorities themselves for more intensive attention.[51]

However, local latitude in the use of CDBG monies was not likely to be infringed upon by these seemingly restrictive guidelines. The decentralized administrative arrangement continued to assign major decision-making to local communities, which were encouraged by numerous legislative provisions to pursue those activities that were ''consistent with comprehensive local and areawide development planning.''[52] Indeed, the Advisory Commission on Intergovernmental Relations has concluded that most communities have concentrated their CDBG funds on activities that were found to be beneficial to their economies.[53] Virtually all of these social regulations were either eliminated or substantially relaxed during the Reagan Administration.[54]

Vocational Education

Vocational education is another prominent developmental program and is primarily designed to improve the quality of local productive force through federal subsidy. Evolving from previous programs on skill training, the Vocational Education Act of 1963 was not designed to address the problems of any narrowly-defined disadvantaged groups.[55] Indeed, it provided training opportunities to anyone seeking a vocational education. The 1963 legislation stated that "persons of all ages in all communities" are eligible to participate in vocational programs; they "will have access to vocational training or retraining which is of high quality, which is realistic in light of actual or anticipated opportunities for gainful employment, and which is suited to their needs, interests, and ability to benefit from such training."[56] This general policy statement was expanded in the 1968 amendment, which explicitly recognized the necessity of blending basic academic curriculum with career training. Persistently strong bipartisan support for additional appropriations was closely related to the developmental character of vocational education: occupational training would enhance the skills of the workforce, leading to the high levels of productivity so essential to economic growth.[57] Because the program was designed to strengthen economies, states and localities were more willing to participate in this program even though they had to match the federal allocation with an equal amount of their own resources.

Like other developmental programs, the federal presence in vocational education has been limited. Traditionally, local agencies were given extensive discretion in implementing their vocational programs. Despite amendments of the Act in 1968 and in 1976, federal guidelines on how federal money was to be channeled remained loosely structured. Though federal allocations tended to favor those states with more population and lower per capita income than the national average, the 1963 Act assured all states a minimum allotment base. States were given authority in distributing their shares to localities, where persons between the ages of fifteen and nineteen had received major attention.[58]

Without modifying the developmental character of the federal policy, legislative amendments in the 1970s generally showed an increasing concern for persons who needed additional attention. Several "set-aside categories" were first introduced in the 1968 legislation, in the aftermath of widespread urban unrest, through which youths from low-income families and the handicapped were given "due consideration" in fund allotment.[59] Communities with severe fiscal difficulties were also allowed to waive the requirement on the matching of funds.[60] Deep economic recession during the mid-1970s further prompted legislative changes to meet new challenges of a changing economy. The 1976 amendments required states to cover half the costs of programs that were designed for the economically disadvantaged, the handicapped, and students from "families in which English is not the dominant language."[61] Vocational training services provided to "economically depressed areas and areas with high rates of unemployment" were also urged.[62] Concomitant with these emphases, the 1976 legislation also responded to new market demands, with the high-tech sector gradually gaining importance over heavy industries. Consequently, a major portion of the federal fund was directed to programs "which are new to the area to be served and which are designed to meet new and emerging manpower needs and job opportunities in the area."[63]

These concerns for economically depressed areas and the disadvantaged notwithstanding, the program continued to allow districts the discretion to spend most of their federal funds on vocational areas they deemed appropriate. Moreover, these legislative changes have not weakened the developmental character of the program. Instead, the two major amendments constituted a viable long-term economic strategy to underwrite the nation's economic growth, through an expansion and improvement of manpower training services without the exclusion of any group because of cultural, racial, and sex differences. Over the years, vocational education remained popular at both the federal and local levels. As table 4 shows, federal appropriations continued to increase in current dollar terms although they peaked in constant dollars in the early seventies.

Consistent with other developmental policy, federal vocational education policy was generally marked by the absence of a tight administrative framework in monitoring program implementation at the district level. Because of the shared program objectives, states and localities have enjoyed extensive latitude in program planning, implementation, and evaluation. There was no auditing provision, nor federal guidelines enforcing the use of funds. As a major program review pointed out, "although the amount of supplanting which takes place is of critical importance in deciding the ultimate effect of federal involvement, in the case of vocational education it is virtually impossible to monitor."[64] Federal requirements on a five-year state plan and the setting up of state advisory councils were so loosely defined as to accommodate the specific concerns of individual states.[65] More complex evaluations and planning procedures, as applied to both the states and the local districts, were attempted in the 1976 amendments. Districts were required to set up advisory councils that were designed to encourage private-sector involvement in the formal planning process.[66] Since 1976, districts also have had to submit annual program review and accountability reports, including the progress made in achieving equal access to training and job opportunities among female and male students.[67] Localities were also encouraged to provide bilingual vocational training on an experimental basis.[68] Nonetheless, in the absence of rigid monitoring guidelines, most studies have concluded that the federal vocational program remained essentially a general aid program in character.[69]

TWO REDISTRIBUTIVE PROGRAMS

Rent subsidy and compensatory education, unlike their developmental counterparts, explicitly channelled federal housing and school aid to low-income residents. Local employment of federal resources in ways that tended to benefit non-eligibles were readily ruled as noncompliance with the legislative intent. More vigorous federal monitoring activities were enacted to encourage a greater degree of local accountability. Indeed, these two redistributive programs are pronounced examples of strong federal interference, through complex sets of administrative arrangements, in local practices.

Rent Subsidy

Rent subsidy is a typical redistributive policy in that the national antipoverty objectives are implemented through extensive program requirements. Passed as part of Title II of the Housing and Community Development Act of 1974, the "Lower Income Housing Assistance Program for Existing Housing," more commonly known as the Section 8 Existing Housing program, authorized rent subsidies to low-income families. Federal funds were allocated on the basis of local housing needs, as measured by population, poverty, housing overcrowding, housing vacancies, and size of substandard housing.[70] Like other public housing assistance programs, the Section 8 legislation restricted eligibility to those whose earnings fell below 80% of the area's median income. At least 30% of the federal aid was reserved to "very-low-income families," whose incomes did not exceed 50% of the median income for the area.[71] Federal supplements amounted to the difference between rent payable to the owner by the tenant family and the approved contracted rent for the unit. Tenants' contributions to rental and utility costs varied from 15% to 25% of their gross income, depending on their needs and earning capability.[72]

At the time the program was enacted, rent subsidy was seen as a major Republican innovation to the conventional approaches to housing assistance. In the view of the Ford Administration, this program was "an efficient and equitable means of getting housing assistance quickly into the hands of those who need it and enabling them to find adequate housing in the shortest possible time."[73] Under this program, low-income tenants were allowed to seek their own housing units from the existing stock "anywhere within the jurisdiction" of the local housing administration.[74] Local housing agencies were to be notified only after the landlords and tenants had entered into preliminary agreement. Eligible tenants were also allowed to remain in their current units, the so-called "in- place" contracts. The selection of tenants thus became the owners' decision and not the local officials'. Under this arrangement, housing agencies were expected to play a limited administrative role.

The Republican design to reduce the administrative role notwithstanding, redistributive objectives necessitated a complex set of program requirements. The Section 8 program has increasingly been interpreted by the federal government as a major means to achieve better housing opportunities for minority and low-income families. The legislation has captured the "free choice" intent through its emphasis on dispersal of low-income families. The federal government would discourage Section 8 families from occupying more than 20% of the units in large rental buildings.[75] Program objectives also included the promotion of "economically mixed housing," which was further reinforced by a series of federal regulations, giving preferences in funding to localities that have provided families with the broadest geographical choice of units.[76] Local administrations were encouraged to promote mobility of low income residents by:

1. Seeking participation of owners in any area in which the PHA [Public Housing Authority] has determined that it is not legally barred from entering into contracts;
2. Advising families of their opportunity to lease housing in all such areas;
3. Cooperation with other PHAs by issuing certificates to families already receiving the benefit of Section 8 housing assistance payments who wish to move from the operating area of one PHA to another; and
4. Developing administrative arrangements with other PHAs in order to permit certificate holders to seek housing in the broadest possible area.[77]

Other federal guidelines also advised local agencies to subcontract with fair housing organizations to carry out activities related to promoting greater housing opportunities for participants outside areas of low-income and minority concentration.[78]

To bring about program development, the federal government delineated three distinct phases of operation.[79] During the ''start-up phase,'' local officials were required to formulate their Section 8 policy, developing administrative mechanisms and procedures necessary to carry out the program objectives. In the ''rent-up phase,'' local management of program applications and landlord participation were generally guided by federal requirements on ''outreach'' (attracting landlords and tenants from a wider geographic location), ''certification'' (formally approving eligibles to seek their units), the Housing Quality Standard (HQS), the Fair Market Rent (FMR) level, and ''leasing'' (i.e. mediating rent negotiation).[80] Finally, the ''general program operation phase'' required periodic program reviews, housing inspection, weekly program status reports, and other recordkeeping tasks on a daily basis. Each of these implementation stages has involved an enormous amount of paperwork and was closely monitored by frequent federal on-site visits and audits.

To make sure that tenants were given decent housing services, participating Section 8 units were required to meet certain standards of safety and sanitation. These requirements were set forth in the 110-item Housing Quality Standard (HQS), which determined the physical qualities in thirteen areas of a unit, including heating, security, and sanitary conditions.[81] Units were inspected at the time assistance payments began and local staff were required to conduct follow-up inspections at least once a year. The federal government could terminate the subsidies if (a) an inspection determined that the owner had failed to maintain the unit in a decent, safe, and sanitary condition, and (b) the owner failed to correct defects within a given period.[82]

Moreover, protecting tenants and the federal government from paying rents at an unreasonable level, the law required that contracted rents must fall within the range of "Fair Market Rent" (FMR). Taking into consideration comparable market prices, the FMR was determined by the federal government on an annual basis by unit size and structural type for each Standard Metropolitan Statistical Area (SMSA) and non-metropolitan county group, and was published annually in the *Federal Register*.[83] Contracted rents higher than those allowed for in the FMR required federal approval.[84] An annual adjustment was permitted, but additional adjustments due to unanticipated rising operating costs required documentation to demonstrate such needs.[85] Landlords of vacant units, whose tenants had left before the lease was expired, would not be reimbursed beyond a sixty-day period.[86] Consequently, federal requirements seemed more favorable toward the tenants than to the participating owners.

Federal spending for rent subsidy has clearly slowed since 1980, as shown in table 4. The number of new units allocated to localities also declined from 128,000 in 1976 to 54,000 in 1984. Consequently, the cumulative number of tenant-occupied units jumped sharply during the Carter Administration, but has since increased at a much slower pace.[87]

Compensatory Education

In education, the best example of federal redistributive policy is compensatory education. The largest federal education program, Title I (now Chapter I) of the Elementary and Secondary Education Act (ESEA) was originally passed in 1965 at the height of the Civil Rights movement and of social reforms.[88] Despite several revisions and extensions, ESEA Title I continued to adhere to its original redistributive goal of federal assistance to learning-deficient children from low-income families. As declared in the 1965 Act, ESEA Title I was designed "to provide financial assistance to local educational agencies serving areas with concentrations of children from low-income families to expand and improve their educational programs . . . which contribute particularly to meeting the special educational needs of educationally deprived children."[89] Aid to compensatory instruction was distributed according to the number of school-age children from low-income families within each school district. Since 1970 special grants were provided for "urban and rural schools serving areas with the highest concentrations of children from low-income families."[90] Indeed, Title I was generally considered as "markedly more redistributive than other state and federal aid programs."[91]

Over time, federal regulations specified ever more clearly that monies were to be used strictly for educational services to disadvantaged children living in low-income neighborhoods. An absence of accountability mechanisms was evident in the 1965 Act, which merely called for "such fiscal control and fund accounting procedures . . . as may be necessary to assure proper disbursement of, and accounting for, federal funds paid."[92] But this loosely structured