BUDGETARY IMPLICATIONS OF A NATIONAL URBAN POLICY

HEARINGS

BEFORE THE

TASK FORCE ON STATE AND LOCAL GOVERNMENT

OF THE

COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

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*The task force appeared in a joint hearing on Wednesday, Feb. 15, 1978.

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BUDGETARY IMPLICATIONS OF A NATIONAL URBAN POLICY

FRIDAY, FEBRUARY 3, 1978

House of Representatives,
Task Force on State and Local Government,
Committee on the Budget,
Washington, D.C.

The task force met, pursuant to notice, at 9:30 a.m., in room 304, Cannon House Office Building, Hon. Elizabeth Holtzman, chairwoman of the task force, presiding.

Ms. Holtzman. Good morning. I would like to open these hearings on the budgetary implications of a national urban policy and of the implications in the President's budget for urban affairs.

The witnesses before us are distinguished and we will start with Dr. Rivlin, the Director of the Congressional Budget Office.

STATEMENT OF DR. ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE, ACCOMPANIED BY PEGGY CUCITI AND JAMES VERDIER

Dr. Rivlin. Thank you. I have with me Peggy Cuciti from our Human Resources Group and James Verdier from our Tax Analysis Group. The testimony is fairly long, but I have shortened it somewhat for reading purposes and will submit the rest of it for the record.

Ms. Holtzman. Without objection, your full statement will appear in the record.

Dr. Rivlin. Madam Chairwoman and members of the task force, this morning I have been asked to provide an overview of the President's 1979 budget as it relates to the needs of our Nation's cities. Such a review may seem premature inasmuch as the President has promised to submit to the Congress in early spring the administration's urban policy initiative, which could entail modifications to the 1979 budget. Despite this situation, however, the proposed budget is worth reviewing now, because the President has stated that, as submitted, this budget reflects the administration's efforts to meet urban needs. Another reason is that one cannot develop and evaluate proposals for change without a clear understanding of current policies.

The fiscal policy implied by the overall spending and revenue totals, the choice of particular fiscal instruments, and the priorities reflected in specific expenditure and tax proposals must all be considered to determine the likely impact of the budget on cities.

THE CITIES AND THE ECONOMY

While all Americans have a stake in an effective fiscal policy—one that will create jobs without generating inflationary pressures—the residents of our larger and older cities may be most concerned, since the hardships imposed by weak performance of the national economy are not distributed evenly throughout the country. Blacks and youths—the two segments of the population that were hit hardest by the recent recesssion—make up a large proportion of the total population of many central cities. In the third quarter of 1977, the unemployment rate in central cities was 8.6 percent, down from the 10-percent rate at the worst point in the recession but clearly still much too high.

Many urban businesses are hard hit as well. When there is a slackening in national demand, older and less efficient plants are usually the first to curtail operations. And as the economy recovers, these plants are often the last to resume production. Such plants are more often found in the older cities of the Northeast and Midwest.

Unemployment and inadequate demand for business output not only cause hardship for individuals but also create budgetary difficulties for State and local governments. As unemployment increases, the demand for services for the unemployed and the poor go up. At the same time, revenue collections are likely to go down reflecting reduced levels of economic activity. Faced with this situation and unable to sustain deficits, State and local governments are often forced to raise taxes or cut services. These actions make it more difficult for the Federal Government to achieve its goal of increasing the rate of economic growth.

Inflation too is a problem for State and local governments. As employees demand salary adjustments to keep pace with the cost of living, the cost of providing public services goes up. Also, like other consumers, governments face price increases for fuel and materials used in production of public services.

Local governments—cities, counties, and school districts—are most hurt by inflation for two reasons. First, they rely more heavily on property taxes, which, unlike the income and sales taxes that provide most of the revenue raised by State governments, tend to be relatively unresponsive—at least in the short run—to changes in income and prices. Second, because local governments actually provide most public goods and services, the impact of price changes on their budgets is both more immediate and more direct. Federal and State governments are shielded to some extent from inflationary pressures, inasmuch as grants constitute a portion of their budgets. They need not take the inflation immediately into account. When spending in grants programs fails to keep pace with inflation, it is largely local governments who must cut back services or raise taxes.

According to CBO's most recent economic forecast, if current policies are continued, a slowdown in economic growth is likely to appear toward the end of 1978 and in 1979. The two factors contributing to this slowdown are the fiscal drag implicit in a current policy budget that has receipts increasing at a faster rate than expenditures and an expected weakening in major components of non-Federal demand.

In response to similar forecasts, the administration has made tax cuts the centerpiece of economic policy in its 1979 budget proposals. To maintain real growth in GNP in the 4.5- to 5-percent range, and to reduce unemployment below 6 percent by the end of 1979, the President is proposing tax cuts of $25 billion and spending increases of $6 billion—1.0 percent more than currrent policy.

Concern for the condition of cities and their residents may lead the Congress to favor more rapid economic growth or the use of alternative measures to achieve the President's goals. If the congressional goal is a higher growth rate and a faster reduction in unemployment, then it should consider further increases in total spending, changes in spending patterns, or additional tax reductions.

Several employment-stimulating expenditure programs can have stronger effects on employment growth than do tax reductions, and these can be more easily targeted toward cities. These include support for public service employment, antirecession financial assistance, and local public works projects. In a study published last year, CBO concluded that dollar for dollar, these types of spending programs were more effective than a tax cut in creating jobs. CBO expressed reservations, however, about the administrative feasibility of increasing spending programs enough to accomplish the same total growth in employment that could be achieved by a tax cut.

The jobs impact of these employment-oriented grant programs are heavily dependent on whether State and local governments simply substitute Federal grant dollars for their own revenues. To the extent that they do, the net impact of these programs might be either similar to or smaller than a general tax cut of the same magnitude. If Federal grant dollars allows State and local governments to tax at rates lower than they would otherwise, then the impact of the program should be roughly equal to a Federal tax cut, albeit with some delays. If, however, grant funds are used to build surpluses or to reduce borrowing for major construction, then the net employment impact would be substantially less, or even negative.

How State and local governments respond to grant programs probably depends on their fiscal situations. During the recession, State and local governments as a group incurred operating account deficits of $2.9 billion in 1974 and $6.2 billion in 1975. Since most State and local governments are legally constrained from borrowing to cover the cost of current operations, many were forced to deplete reserves, cut expenditures, and raise taxes. The longer a recession lasts, the greater the number of governments that deplete their reserves and the greater the incidence and magnitude of restrictive actions. Under such circumstances as prevailed a couple of years ago, one can reasonably conclude that State and local governments would respond to Federal funds by mounting programs that could not otherwise have been supported and that additional Federal funds would have a substantial net impact on State and local spending and employment.

[The following information was submitted for the record:]

STATE AND LOCAL GOVERNMENT REVENUES AND EXPENDITURES, CALENDAR YEARS 1973-77

[Dollars in billions]

	1973	1974	1975	1976	[1] 1977
Total revenues	193.5	210.4	235.7	264.7	294.4
Total revenues in 1972 dollars	180.3	177.7	181.8	192.1	200.3
Own-source revenues	152.9	166.4	181.1	203.7	226.8
Own-source revenues in 1972 dollars	142.5	140.6	139.7	147.9	154.2
Expenditures	180.5	202.8	229.8	246.3	265.3
Expenditures in 1972 dollars	168.2	171.4	177.2	178.8	180.4
Surplus/deficit—all funds	13.0	7.6	5.9	18.4	29.1
Surplus/deficit—operating accounts only	4.1	−2.9	−6.2	3.9	13.6

[1] Data for 1977 are estimated using incomplete information for the fourth quarter.

Source: Bureau of Economic Analysis, National Income Accounts.

Dr. Rivlin. Since 1976, however, the financial status of the State and local sector has greatly improved. Surpluses, which have been recorded in operating accounts since the latter half of 1976, approached $13.6 billion in 1977. "Own-source" revenues have increased steadily between 1975 and 1977; growth in real terms was 5.9 percent in 1976 and is expected to be 4.3 percent in 1977. While expenditure growth has been restrained in both 1976 and 1977, most projections show substantial increases in 1978.

In these circumstances, a larger portion of Federal grant dollars is likely to substitute for spending that would take place anyway, and the net employment impact is likely to be relatively small. Many individual governments, however, are still experiencing fiscal difficulties, and they continue to be likely to use Federal dollars in ways that produce substantial effects on employment. Because of this unevenness in fiscal condition and its impact on effectiveness of countercyclical grants, both the level of funding and geographic targeting of these grants are important issues facing the Congress.

To determine the priority assigned to urban needs in the President's budget proposal, one should review the status of both direct expenditure programs and consider both ongoing programs and proposed legislative changes.

SPENDING FOR GRANTS TO STATE AND LOCAL GOVERNMENTS

In examining the direct expenditure budget, I will limit my comments to the programs that extend grants to State and local governments. Other programs affect cities and their residents, but their impacts are indirect and cannot easily be deduced by simple examination of budgetary totals and legislative proposals.

Some grant programs are more important to cities than others; yet it is impossible to isolate any one set and call it the "budget for cities." Almost every grant program provides support to some cities and almost no program provides support exclusively to cities.

The budget proposed by the President is essentially a current policy budget, and thus its impact on cities is likely to be little different from recent budgets. It includes few major initiatives and few increases in spending beyond those necesary to maintain current service levels in the face of inflation. The President's budget includes outlays of $85 billion in all grant programs in fiscal year 1979. This is a 5.9-percent increase over the President's estimate of $80.3 billion for 1978. If expected price changes are taken into account, grant outlays in 1979 are expected to decrease by 0.6 percent in real terms.

In assessing these outlay changes, it is important to remember that this proposal for a year of restrained growth follows a year in which there were large increases in grant outlays. Between 1977 and 1978, grant outlays are estimated by the President to increase by approximately 15 percent. Furthermore, the 1978 base includes a number of countercyclical programs in which one might have expected expenditure cutbacks in response to improved economic conditions. Instead, outlays for antirecession grant programs are projected by the budget to be 4.4 percent higher in 1979 than 1978. An increase of 8.1 percent is requested in grant programs that provide benefits to individuals such as AFDC and medicaid. Outlays for all other grant programs combined are projected to increase by 5.0 percent.

[The following information was submitted for the record:]

OUTLAYS FOR GRANT PROGRAMS BY MAJOR PURPOSE, VARIOUS YEARS

[Dollars in billions]

	Total	Grants for payments to individuals	Other	Programs enacted to stimulate the economy [1]
1970	24.0	8.9	15.2	
1971	28.1	10.8	17.3	
1972	34.4	13.4	20.4	0.6
1973	41.3	13.1	27.7	1.0
1974	43.3	14.0	28.7	.6
1975	49.7	16.1	33.2	.4
1976	59.0	19.5	37.4	2.2
Transition quarter	15.9	5.1	10.2	.6
1977	68.4	23.0	40.7	4.7
1978 [2]	80.3	25.1	46.5	8.6
1979 [2]	85.0	27.2	48.8	9.0

[1] Includes Emergency Employment Assistance, Job Opportunities Program, Temporary Employment Assistance, Antirecession Financial Assistance and Local Public Works.

[2] President's estimates.

Source: CBO calcuations based on table H-5, "Special Analyses Budget of the United States, Fiscal Year 1979."

Dr. RIVLIN. The following budgetary changes, in the table I have submitted for the record, are detailed in the longer statement, but let me summarize them very briefly.

[The following table was submitted for the record:]

GRANTS TO STATE AND LOCAL GOVERNMENTS BY FUNCTION AND FOR SELECTED PROGRAMS IMPORTANT TO CITIES

[Dollars in billions]

Function and Program	Outlays 1977	Outlays 1978	Outlays 1979	Budget authority 1977	Budget authority 1978	Budget authority 1979
270 Energy—all grants	0.07	0.27	0.64	0.07	0.37	0.59
300 Natural resources and environment—all grants	4.19	4.90	5.58	2.61	5.43	5.51
Abatement and control	.19	.24	.25	.15	.23	.24
Construction grants	3.53	4.14	4.66	1.98	4.50	4.50
400 Transportation—all grants	8.30	9.56	10.44	4.81	8.34	11.28
Urban highways	NA	NA	NA	.80	.80	.70
Urban mass transportation	1.62	1.91	2.16	.46	.48	2.78
450 Community and regional development—all grants	4.50	6.70	6.28	10.21	5.00	5.27
Community development grants	2.09	2.58	2.80	3.25	4.00	4.15
Economic development assistance	.17	.18	.15	.22	.21	.25
Local public works	.58	2.29	2.00	5.98	0	0

GRANTS TO STATE AND LOCAL GOVERNMENTS BY FUNCTION AND FOR SELECTED PROGRAMS IMPORTANT TO CITIES—Continued

[Dollars in billions]

Function and Program	Outlays 1977	Outlays 1978	Outlays 1979	Budget authority 1977	Budget authority 1978	Budget authority 1979
501 Elementary, secondary and vocational education—all grants	4.64	5.19	5.95	5.78	6.17	7.89
Elementary and secondary education	2.34	2.56	3.02	2.71	3.17	3.78
Child development	.47	.57	.65	.51	.66	.72
Education for the handicapped	.12	.24	.40	.32	.47	.80
Emergency school assistance	.24	.28	.30	.29	.31	.33
Impact aid	.72	.74	.71	.73	.76	1.46
504 Employment and training—all grants	6.33	9.98	11.09	12.70	3.89	10.91
Employment and training assistance	2.94	4.15	3.98	4.85	2.83	3.79
Temporary employment assistance	2.34	4.76	5.96	6.85	0	5.96
506 Social services—all grants	4.38	5.23	4.90	4.66	5.11	6.22
Grants to States for social services and child welfare	2.53	2.70	2.84	2.71	2.52	2.86
Human development services	1.35	1.40	1.53	1.35	1.48	2.85
550 Health—all grants	12.10	12.88	14.08	12.12	12.75	14.54
Medicaid	9.88	10.85	11.95	10.23	10.69	11.95
Heath Services Administration grants	.74	.81	.90	.81	.89	1.41
600 Income security—all grants	12.61	13.99	14.81	27.83	34.13	28.38
Child nutrition	2.62	2.64	2.61	2.81	2.50	6.85
Supplemental food (WIC)	.24	.36	.53	.25	.25	.56
AFDC	6.35	6.71	6.85	6.31	6.54	6.85
Subsidized housing	1.31	1.86	2.28	16.22	22.10	15.85
Public housing operating subsidies	.51	.61	.69	.60	.69	.73
750 Administration of justice—all grants	.71	.65	.57	.58	.51	.52
LEAA	.71	.63	.54	.57	.49	.49
800 General purpose fiscal assistance—all grants	9.44	9.74	9.46	9.21	9.60	16.45
General revenue sharing	6.76	6.83	6.85	6.66	6.86	6.86
Antirecession financial assistance	1.70	1.57	1.05	1.57	1.40	1.04
Taxable municipal bond option			.10			7.09
All other	1.06	1.20	1.22	1.15	1.20	1.30
Total—all functions	68.40	80.29	85.02	91.73	92 50	108.86

NA—not available.

Source: "Special Analysis Budget of the United States Government, Fiscal Year 1979."

Dr. RIVLIN. The effects of the budget submitted by President Carter on State and local governments result primarily from overall fiscal policy and secondarily from a number of specific expenditure and tax proposals. If enacted, these proposals would have both positive and negative effects on urban problems.

On the positive side, the President has proposed a significant increase in the funding of the title I education program—an increase of $644 million in budget authority. This expansion would allow continuation of the program at its real level of effort and the implementation of a new program that aids school districts with high concentrations of poor children.

The budget also requests funding to maintain federally supported public service employment through fiscal year 1979 at the 725,000 job level. This proposal would assist State and local governments that have become increasingly reliant on Federal funds to maintain services.

With respect to general fiscal assistance to State and local governments, the net result of the President's budget proposals are unclear. The President has requested more than $1 billion for antirecession financial assistance, although the current program expires at the end of fiscal year 1978. Since a significant portion of some city budgets are funded by this program, serious local budgetary difficulties may occur if the program is allowed to lapse. The President has indicated that he will propose legislation either extending the existing program or substituting a new program that would continue the flow of funds to hard-pressed cities, but the specifics of this legislation are not available.

Another program for which the President's proposals are unclear is the New York City seasonal financing loan program. Authority to make loans to the city ends on June 30, 1978. While no funds are included in the budget, the President has indicated that he would recommend additional funds if he were convinced this was the only way to insure continued fiscal solvency for New York City.

Fiscal assistance to State and local governments will also result if, as the President proposes, a new program of subsidies for taxable municipal bonds is enacted. This program would allow State and local governments to issue taxable securities and to receive a Federal subsidy equal to 35 to 40 percent of interest costs. These direct subsidies would be substituted for the indirect subsidy currently resulting from the tax-exempt status of municipal bonds. This proposal is important to cities because it could broaden the market for municipal securities and thereby lower the costs of borrowing.

In several other areas of the budget, the President's proposals may have some negative effects. Although the President has proposed full funding for the community development block grant program, total outlays for community and regional development grant programs are estimated to decline because of the phaseout of urban renewal and local public works spending. In the health area, the President has proposed several program initiatives that would extend services or eligibility for reimbursement to many needy children and expectant mothers, large numbers of whom live in urban areas. These extensions would probably increase the fiscal demands on State and local governments who share the cost of medicaid with the Federal Government.

Many of the President's proposed changes in tax policy would also affect urban areas and their problems. The President's tax reform proposals would end deductions for State and local sales and gasoline taxes—but not income and real property taxes. This proposal might increase voter resistance to tax increases; however, the effect could be small since most taxpayers receive little benefit from the deduction—77 percent now use the standard deduction.

The President has also proposed abolishing the tax-exempt status of most industrial development bonds except for private industrial plants costing less than $10 million and located in "economically distressed" areas. Finding an acceptable definition of distressed areas that is both defensible in principle and administrable in practice might be difficult; pressures to expand the definition of eligibility would be hard to resist, and the "target" eventually could become so broad as to be meaningless.

In reviewing the budget's impact on cities, it must be remembered that budgets are shaped over a period of years and that the priorities reflected in this budget are those of past administrations and Congresses as well as of this administration and ultimately this Congress. If it is determined that urban needs have received insufficient priority, budgetary changes can be made. But they will take time, for much of the budget is relatively uncontrollable in the short run. Only with advance planning and a multiyear commitment to reshape the budget can the budget be significantly altered to reflect changing priorities. Thank you.

[The prepared statement of Dr. Rivlin follows:]

PREPARED STATEMENT OF DR. ALICE M. RIVLIN

Madam Chairwoman and members of the task force. This morning I have been asked to provide an overview of the President's 1979 budget as it relates to the needs of our Nation's cities. Such a review may seem premature inasmuch as the President has promised to submit to the Congress in early spring the administration's urban policy initiative which could entail modifications to the 1979 budget. Despite this situation the proposed budget is worth reviewing because the President has stated that this budget as submitted reflects efforts by the administration to meet urban needs and because one cannot develop and evaluate proposals for change without a clear understanding of current policies.

The fiscal policy implied by the overall spending and revenue totals, the choice of particular fiscal instruments, the priorities reflected in specific expenditure and tax proposals all must be considered to determine the likely impact of the budget on cities.

THE CITIES AND THE ECONOMY

While all Americans have a stake in an effective fiscal policy—one that will create jobs without generating inflationary pressures—the residents of our larger and older cities may be more concerned than others since the hardships imposed by weak performance of the national economy are not distributed evenly throughout the country. Blacks and youths, the two segments of the population that were hit hardest by the recent recession, comprise a large proportion of the total population of many central cities. In the third quarter of 1977, the unemployment rate in central cities was 8.6 percent, down from the 10-percent rate at the worst point in the recession, but still clearly much too high. Many urban businesses are hard hit as well. When there is a slackening in national demand, older and less efficient plants are usually the first to curtail operations. As the economy recovers, these plants are often the last to resume production. Such plants are more often found in the older cities of the Northeast and Midwest.

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Local governments—cities, counties, and school districts—are most hurt by inflation for two reasons. They rely more heavily on property taxes which, unlike the income and sales taxes that provide most of the revenue raised by State governments, tend, at least in the short run, to be relatively unresponsive to changes in income and prices. Second, because local governments actually provide most public goods and services the impact of price changes on their budgets is both more immediate and more direct. Federal and State governments are shielded to some extent from inflationary pressures inasmuch as grants comprise a portion of their budgets. When spending in grants programs fails to keep pace with inflation, it is largely local governments who must cut back services or increase taxes.

According to CBO's most recent economic forecast, if current policies are continued there is likely to be a slowdown in economic growth toward the end of 1978 and in 1979. The two factors contributing to this slowdown are the fiscal drag implicit in a current policy budget that has receipts increasing at a faster rate than expenditures and an expected weakening in major components of non-Federal demand.

In response to similar forecasts, the administration has made tax cuts the centerpiece of economic policy in its 1979 budget proposals. To maintain real growth in GNP in the 4.5- to 5-percent range and to reduce unemployment below 6 percent by the end of 1979, the President is proposing tax cuts of $25 billion and spending increases of $6 billion—1.0 percent more than current policy.

Concern for the condition of cities and their residents may lead the Congress to favor more rapid economic growth or the use of alternative measures to achieve the President's goals. If the congressional goal is a higher rate of growth and a faster reduction in unemployment, then it should consider further increases in total spending, changes in spending patterns or additional tax reductions.

There are several employment-stimulating expenditure programs that can have stronger effects on employment growth than do tax reductions and can be more easily targeted toward cities. These include support for public service employment, antirecession financial assistance, and local public works projects. In a study published last year, CBO concluded that dollar for dollar, these types of spending programs were more effective in creating jobs than a tax cut. CBO expressed reservations, however, about the administrative feasibility of increasing spending programs enough to accomplish the same total growth in employment that could be achieved by a tax cut.

The jobs impact of these employment-oriented grant programs are highly dependent on whether State and local governments simply substitute Federal grant dollars for their own revenues. To the extent that they do, the net impact of these programs might be either similar to or smaller than a general tax cut of the same magnitude. If Federal grant dollars allow State and local governments to tax at rates lower than they would have otherwise, then the impact of the program should be roughly equal to a Federal tax cut albeit with some delays. If, however, grant funds are used to build surpluses or to reduce borrowing for major construction, then the net employment impact would be substantially less, or even negative.

How State and local governments respond to grant programs probably depends on their fiscal situations. State and local governments as a group incurred operating account deficits during the recession: $2.9 billion in 1974 and $6.2 billion in 1975. Since most State and local governments are legally constrained from borrowing to cover the cost of current operations, many were forced to deplete reserves, cut expenditures and raise taxes. The longer a recession lasts, the greater the number of governments that deplete their reserves and the greater the incidence and magnitude of restrictive actions. Under these circumstances, it is reasonable to conclude that State and local governments would respond to Federal funds by mounting programs that could not otherwise have been supported and that additional Federal funds would have a substantial net impact on State and local spending and employment.

Since 1976, however, the financial status of the State and local sector has greatly improved. Surpluses, which have been recorded in operating accounts since the latter half of 1976 approached $13.6 billion in 1977. Own-source revenues have increased steadily between 1975 and 1977; growth in real terms was 5.9 percent in 1976 and is expected to be 4.3 percent in 1977. While expenditure growth has been restrained in both 1976 and 1977, most projections show substantial increases in 1978.

In these circumstances a larger portion of Federal grant dollars are likely to substitute for spending that would take place anyway and the net employment impact is likely to be relatively small. Many individual governments however, are still experiencing fiscal difficulties and they continue to be likely to use Federal dollars in ways that produce substantial employment impacts. Because of this uneveness in fiscal condition and its impact on effectiveness of countercyclical grants, both the level of funding and geographic targeting of these grants are important issues facing the Congress.

PRIORITIES REFLECTED IN THE BUDGET

To determine the priority assigned to urban needs in the President's budget proposal, one should review the status of both direct expenditure and tax expenditure programs and consider both ongoing programs and proposed legislative changes.

SPENDING FOR GRANTS TO STATE AND LOCAL GOVERNMENTS

In examining the direct expenditure budget, I will limit my comments to the programs that provide grants to State and local governments. Other programs affect cities and their residents but their impacts are indirect and cannot easily be reduced by simple examination of budget totals and legislative proposals.

Some grant programs are more important to cities than others and yet it is impossible to isolate any one set and call it the "budget for cities." Almost every grant program provides support to some cities and almost no program provides support exclusively to cities.

The budget proposed by the President is essentially a current policy budget and thus its impact on cities is likely to be little different from recent budgets. It includes few major initiatives and few increases in spending beyond those necessary to maintain current service levels in the face of inflation. The President's budget includes outlays of $85 billion in all grant programs in fiscal year 1979. This is a 5.9-percent increase over the President's estimate of $80.3 billion for 1978. If expected price changes are taken into account, grant outlays in 1979 are expected to decrease by 0.6 percent in real terms.

In assessing these outlay changes it is important to remember that this proposal for a year of restrained growth follows a year in which large increases in grant outlays took place. Between 1977 and 1978 grant outlays are estimated by the President to increase by approximately 15 percent. Furthermore, the 1978 base includes a number of countercyclical programs, in which one might have expected expenditure cutbacks in response to improved economic conditions. Instead outlays for antirecession grant programs are projected by the budget to be 4.4 percent higher in 1979 than 1978. An increase of 8.1 percent is requested in the programs such as AFDC and medicaid that provide benefits to individuals. Outlays for all other grant programs combined are projected to increase by 5.0 percent.

The aggregate increases proposed by the President are not evenly distributed among all budget functions. Funding changes and program initiatives of particular importance to cities are proposed in several areas.

Education.—Outlays for elementary and secondary education grant programs are expected to increase by 14.6 percent in 1979 to $5.9 billion. The fiscal year 1979 request for budget authority is $7.9 billion. An increase of $644 million in budget authority is requested for title I grants—enough to offset price increases in the base program and to initiate a new program that provides funds to school districts with especially high concentrations of poverty children. A substantial increase is also requested for the education for the handicapped program.

Employment and Training.—The budget includes $11.1 billion in outlays and $10.9 billion in budget authority for employment and training grant programs in 1979. The most important aspect of the President's budget in this area is the decision to fund 725,000 public service employment jobs—the same number as will be supported at the end of fiscal year 1978. All jobs would be funded under title VI of the CETA program rather than through titles II and VI as in past years. This will result in some shifts in the allocation of job slots among geographic areas.

The President has requested budget authority for 1979 for youth training and employment programs which, when combined with previously available funds, will permit operation of these programs at the peak level achieved in 1978, but not allow expansion.

The budget also includes a request for $400 million, $250 million of which would be used in 1979, for new but unspecified, training programs designed and operated by private industry. While listed as a new initiative, this program appears similar to the current skill training improvement and help through industry retraining and employment programs. Both of these were funded in 1977 and 1978 but no new budget authority is requested to continue them in 1979.

Social Services.—The budget calls for $4.9 billion in outlays and $6.2 billion in budget authority for social service grant programs in 1979. The only major increase in this area is for child welfare services intended to improve foster care and adoption services. The budget also calls for continuation of the $200 million added to the title XX program in 1978 for child care services. However, no change is requested with respect to the $2.5 billion ceiling that was legislated in 1972. Thus, States that are utilizing their full title XX allotments can receive no funding increases. For some States, including several where large cities are located, this ceiling has meant reductions in real levels of Federal support for several years.

Community and Regional Development.—The President's budget includes $6.3 billion in outlays for grant programs in this area, a reduction of 6.7 percent from 1978 levels. The reduction in outlays is largely attributable to two programs. Spending in urban renewal will be lower than in 1978 as projects under the old program are closed out. Also, spending in the local public works program starts to phase down as no new budget authority is requested for this countercyclical program.

The President has requested $5.3 billion in new budget authority for community and regional development grant programs, an increase of 5.3 percent over 1978. This will fully fund the community development block grant program, and provide some increases for the economic development assistance grant programs. Increases requested in the budget for the regular EDA program are substantial. A supplemental appropriation of $117 million is asked for 1978, thereby increasing the program by one-third. A further increase of $128 million is requested in 1979. Most of the increment is scheduled to be used for business development grants and loans, and for economic and trade adjustment assistance. Cities are expected to benefit disproportionally (relative to past funding patterns) from these increases; their funding would double from $100.4 million under the current appropriation for 1978 to $205 million in 1979.

General Purpose Fiscal Assistance.—This function includes an estimated $9.5 billion in outlays and $16.5 billion of budget authority in 1979. In fiscal year 1978, outlays and budget authority are estimated in the budget to be $9.7 billion and $9.6 billion respectively. The fiscal year 1979 outlay figure is $280 million lower than 1978, largely because outlays in the antirecession financial assistance program are expected to decline with improvements in the national unemployment rate. Budget authority, on the other hand, shows a significant increase due to the proposal for subsidies for taxable municipal bonds.

The authorization for the antirecession financial assistance program expires at the end of fiscal year 1978. Since a significant portion of some city budgets are funded by this program, serious local budget difficulties may occur if it is allowed to lapse. The President has indicated that he will propose legislation either extending the existing program or substituting a new program which would continue the flow of funds to hard-pressed cities. The budget authority request of $1.04 billion for antirecession financial assistance, while below 1978 levels, is $310 million more than would be required for an extension of the existing program given the administration's unemployment projections.

Budget authority of $7.1 billion and outlays of $99 million are requested to finance a new program of subsidies for taxable municipal bonds. If the program is enacted, State and local governments could issue taxable securities and receive a Federal subsidy equal to 35 to 40 percent of interest costs. Thus a direct interest subsidy would be substituted for the indirect subsidy currently provided as a result of the tax exempt status of municipal bonds. This is important to cities because it may broaden the market for municipal securities and thereby lower the costs of borrowing.

Another program of importance to at least one city is the New York City seasonal financial loan program. Authority to make loans to the city ends on June 30, 1978. While no funds are included in the budget, the President has indicated that he would recommend additional funds if he was convinced it was the only way to insure continued fiscal solvency for New York City.

Health.—The 1979 budget includes $14.1 billion in outlays for health grant programs of which $12 billion is for medicaid; total outlays in 1978 are expected to be $12.9 billion.

The President has proposed several budget initiatives and program changes to improve child health and avoid unwanted pregnancies among teenagers.

Health assessment and screening services would be extended to an additional 1.7 million low-income children and teenagers not currently eligible for medicaid. Medicaid eligibility would also be extended to include all low-income expectant mothers. These increases in eligibility will probably increase the requirements for State and local medicaid funds. Funding increases are also proposed for community based health services programs.

Income Security.—Outlays for grant programs in the income security function are expected to be $14.8 billion in 1979, an increase of 5.9 percent over 1978 levels. The most important Presidential proposal in this area is welfare reform. It does not show up in 1979 budget totals but would have important impacts in later years. In addition to the aid which would be provided to some city residents by the new program, some fiscal relief would be provided to city governments—directly, if they currently contribute to the costs of categorical programs, or indirectly if State governments respond to their reduced welfare costs by increasing State aid to cities.

Most housing assistance programs appear in this budget function. Substantial increases in outlays are shown in 1979 as a number of new housing units built under the section 8 program move from the construction stage to occupancy and start receiving rent subsidies. New funding is requested in 1979 sufficient to make commitments to subsidize an additional 400,000 units for low-income families. This represents a small increase over the 380,240 new commitments expected in fiscal year 1978. Included in the budget is a proposal for a new section 8 moderate rehabilitation program and a significant expansion in the substantial rehabilitation program. This new emphasis on rehabilitation is also reflected in a proposed increase in the section 312 direct rehabilitation loan program found in the community and regional development budget function.

Transportation.—The administration's budget includes outlays of $104.4 billion in transportation grant programs. This represents an increase of 9.2 percent over 1978 levels. New budget authority requested for grants in this function equals $11.3 billion. The administration is proposing major legislation reauthorizing highway and public transportation programs through 1982. Included in the proposals are a number of changes, mostly administrative rather than budgetary in nature, that could be important to cities.

The proposed highway legislation includes a program of urban formula grants which would be distributed directly to local governments and would replace the existing urban system program. The new program would broaden eligibility to include any road or street not currently in the interstate or primary system, whereas previously, urban grants could only be used for roads designated as part of the Federal aid system. The proposed changes are important for cities because they reduce the role of State agencies and increase the discretion allowed to local officials. Little change in funding levels is involved in the proposal.

The proposed legislation also adopts uniform local matching requirements for highway and transit assistance. The local match in noninterstate highway programs would be decreased from 30 to 20 percent, the same as the matching rate currently in effect for transit programs. The legislation would also change matching requirements pertaining to interstate transfers: It would extend the lower match (10-percent local funds) required in the interstate program to any highway or transit project substituted for withdrawn interstate highway segments.

New budget authority of $2.8 billion is proposed for urban mass transportation grant programs. The budget authority request includes funds for discretionary capital grants, which in the past have been funded by multiyear contract authority provided in 1973 and 1974. In general, the budget allows no increase for capital purposes but it includes a small increase for operating subsidies as called for in section 5 of the current law.

Proposed reauthorizing legislation for the UMTA programs would increase the proportion of total funds that are to be distributed by formula rather than on a discretionary basis. The funds which are shifted into the formula grant program would still have to be used for capital purposes only.

Energy.—The President's budget includes outlays of $190 million in 1978 and $548 million in 1979 for energy conservation grants—a substantial increase over 1977, when only $6 million was devoted to this purpose. Cities would benefit from two of the energy conservation programs. The residential and commercial program would provide financial assistance to low-income families to insulate their homes. The State/local grants program would finance architectural and engineering studies of ways to reduce energy consumption in hospitals, schools, and local public buildings. No funds, however, may be used for the implementation of these energy savings plans.

Natural Resources and Environment.—In the natural resources and environment function, outlays are expected to equal $5.6 billion in 1979, an increase of almost 14 percent over fiscal year 1978. The request for budget authority equals $5.5 billion. Of particular importance to cities is the Environmental Protection Agency's construction grant program which provides funds for the construction of waste-water treatment facilities necessary to meet national water quality goals. Outlays in this program are expected to increase from $4.1 billion in 1978 to $4.7 billion in 1979. The President has requested an additional $4.5 billion in budget authority to fund new projects.

PROPOSED TAX LAW CHANGES THAT MIGHT AFFECT CITIES

Federal priorities are reflected in the tax expenditure as well as the direct expenditure budget. The President has proposed a number of changes in the tax code, several of which may have an impact on cities.

Certain tax expenditures have made it somewhat easier for State and local governments to levy taxes or borrow money. The deductibility of State and local taxes, for example, may reduce the resistance of local voters to tax increases, while the tax exemption for municipal bond interest permits States and localities to borrow at lower interest rates. The President's tax reform proposals would end deductions for State and local sales and gasoline taxes (but not income and real property taxes). This is not likely to have a significant effect on State and local financing decisions, however, since most taxpayers receive little benefit from these deductions (77 percent now use the standard deduction and the tax saving is very small for the remainder who itemize).

It has been argued that a number of tax provisions—especially accelerated depreciation and the investment tax credit—have the effect of favoring new construction over the repair, maintenance, and rehabilitation of existing property, and are thus biased against central city development. The President's tax proposals would eliminate accelerated depreciation for new commercial and industrial buildings, and reduce it for new residential buildings. However, he has also proposed to extend the investment tax credit—which now applies only to machinery and equipment—to new industrial and utility structures. This by itself could have a negative impact on cities, since new construction is more likely to take place outside city boundaries where land is cheaper and more easily assembled. In an attempt to alleviate this problem, the President proposed that the investment tax credit also be permitted for the costs of rehabilitating structures. Whether this would offset the potential antiurban bias from extending the investment tax credit to new structures is uncertain at this point.

The President has also proposed limiting the tax exempt status of industrial development bonds. Private industrial plant costs could be financed only if less than $10 million and are located in "economically distressed" areas. A problem with this and similar geographically targeted tax incentive proposals, however, is that it will be difficult to find an acceptable definition of distressed areas that is both defensible in principle and administrable in practice. Pressures to expand the definition of eligibility will become hard to resist, and the "target" eventually may become so broad as to be no longer meaningful.

CONCLUSION

The budget submitted by President Carter is largely a current policy budget. It does not call for many spending increases and it relies primarily on tax reductions to stimulate the economy.

In reviewing the budget's impact on cities it must be remembered that budgets are shaped over a period of years and that the priorities reflected in this budget are those of past administrations and Congresses as well as of this administration and ultimately this Congress. If it is determined that urban needs have not received sufficient priority, budget changes can be made. But they will take time, for much of the budget is relatively uncontrollable in the

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short run. Only with advance planning and a multiyear commitment to reshape the budget can the budget be significantly altered to reflect changing priorities.

Ms. HOLTZMAN. Thank you. The substance of your testimony is that this budget does not reflect any kind of drastic reshaping to address the problems of cities?

Dr. RIVLIN. Yes; I think that is right, although the President proposes an additional urban policy package to come within the next couple months.

Ms. HOLTZMAN. But this 1979 budget, as far as it has been presented to the Congress at least, does not reflect that reshaping.

Dr. RIVLIN. I think that is right.

Ms. HOLTZMAN. You mentioned in your statement that the President's proposal to extend the investment tax credit could have a negative impact on cities since new construction is more likely to take place outside city boundaries where land is cheaper and more easily assembled.

I have heard comments from at least one person familiar with urban matters to the effect that this proposal in and of itself could undermine any other proposal to enhance the problems cities are facing.

In your statement you note that the President has attempted to alleviate the problem of greater incentives to invest outside of city boundaries, but you cannot yet determine whether his attempt would offset the potential antiurban bias of the tax credit for new industrial structures. Would it be possible for you to complete that analysis so that we could know more clearly what the implications for cities are of the President's proposed changes in the investment tax credit?

Dr. RIVLIN. I think we could take a further look at it, Madam Chairman, but the question is inherently very difficult. The extension of the investment tax credit to structures would, of course, encourage new building. That is the point of it. Such an extension would allow a business that is trying to decide between building a new plant or not building a new plant, some advantage in building a new one.

Extending the investment tax credit to renovation of plants should help cities and mitigate the incentive for businesses to migrate to new places. But it is very difficult to tell how much effect this would have. Mr. Verdier might want to comment more.

Mr. VERDIER. Yes. I think, as Dr. Rivlin suggested, extending the investment tax credit to rehabilitation helps keep it neutral in the case of a plant that is really trying to decide whether to move out and build somewhere else or to renovate and stay where they are. The problem is that most plants really do not have that option. For a lot of reasons, it is often just not realistic for a lot of reasons to rehabilitate in the central city, so the choice really is to go out or to stay and not do too much more.

Another problem is that most—by far the great bulk—of the construction in the country is new buildings, not rehabilitation. So overall, there is going to be a lot more subsidy going to new structures than to rehabilitation of old ones.

Another problem is that, while the investment tax credit is extended to industrial and utility structures, it is not extended to commercial buildings—office buildings, shopping centers, and so forth—which are more likely to be constructed in the central city than are industrial plants. Extending the investment tax credit to commercial buildings would be very costly because there are probably twice as many of them built—in terms of value of construction—than industrial buildings.

An offsetting consideration is that construction costs are generally higher in cities. So if you give the same percentage incentive for cost of construction in the cities and in the suburbs, this might tend to offset a bit the disadvantage cities now have because of their high construction costs. Probably this is not a very large factor but it exists.

Two other minor features in the investment tax credit that are relevant are that right now, firms with either low tax liability or very high expenditures on new investment do not benefit as they might otherwise because you can only offset 50 percent of your tax liability with the credit. You can carry the remainder forward or backward to a time when you have greater tax liability. The President would extend that to allow you to offset 90 percent of your tax liability; so this would help new and growing firms in the suburbs with high investments and low tax liability, but it would also help low-profit declining firms, which tend to be in the inner cities.

The final, relatively minor, thing is that a full investment tax credit would now be provided for pollution control equipment that has to be added onto old buildings. Now they only get half plus some rapid writeoffs under the depreciation provisions. This is likely to be of some help to older plants in the central cities that, under the pollution control laws, must install new equipment. They get a little extra benefit under the President's proposal for that. So it is a complicated mix that has to be balanced. It is by no means clear where you come out at the end.

Ms. HOLTZMAN. Dr. Rivlin, your staff has done a very extensive analysis in preparation for these hearings. It is very helpful. It seems to me that if the country is to adopt a rational policy for the survival of cities, it would make more sense to encourage industrial plants to remain in cities rather than to move out.

Mr. Mineta, do you have any questions at this time?

Mr. MINETA. No; thank you.

Ms. HOLTZMAN. Dr. Rivlin, you suggested in your prepared statement that the distress of cities is not a uniform factor and while there have been surpluses generated at some State levels and while some areas of the country are in good shape, many are not. It that correct?

Dr. RIVLIN. That is correct. You happen to be very familiar with the circumstances of one that is not.

Ms. HOLTZMAN. Very. Would you agree that we should target our programs to the cities that are facing this kind of hardship, rather than providing assistance generally to all cities, regardless of their financial condition?

Dr. RIVLIN. That is clearly one approach. I think the answer is, yes, the current circumstances suggest that there is really great diversity in the fiscal condition of cities—tremendous distress in a few and a generally improving situation for most other State and local governments. To help the distressed few means finding a way of getting the money there without spreading it around more generally. Such targeting is hard to do.

Mr. MINETA. Would the Congresswoman yield?

Ms. HOLTZMAN. Yes.

Mr. MINETA. Is that really a problem of the substance of the program, or one of a political consideration within the House, or within the Congress, of trying to get such a program through?

Dr. RIVLIN. I think it is both. There are technical problems in how you define distress and how you construct a formula for targeting that will get the money into the places of greatest need. Once you do that, there is the political problem of whether you can get it passed.

Mr. MINETA. If we were to approach this from the viewpoint of establishing various national goals—for example in housing, unemployment rates, et cetera—which we would then present to the local community as a basis for negotiation between the Federal Government and the various local agencies, might we not be better able to mobilize all public revenues in a concerted plan?

Such a negotiated outcome should maximize its impact on private investment in local communities. Through that kind of negotiation technique we would be able to recognize that different urban areas will require different kinds of programs. For example, Newark, N.J., is vastly different from San Jose, Calif.

Dr. RIVLIN. That is certainly true, and I think, then, there are two approaches to it. One is to let the local government decide—to have a fiscal help program for cities that has some kind of formula that gets the money to, say, San Jose and Newark and that then lets the local governments decide what to do with it. You are suggesting something other than that; a partnership with the Federal Government in which somebody approves and reviews and works over the city plan. That sounds like model cities program, which goes back to the 1960's. This system has some advantages; it also some great disadvantages, especially: Who do we have in the Federal Government that the Congress and everybody else will trust to make the decisions in the best interests of individual cities. It becomes a very difficult administrative problem.

Mr. MINETA. We experienced this kind of negotiation with what was called annual arrangements. We had a number of cities chosen—I think back in 1972—in what was the predecessor to the block grant approach where we did it on a negotiated basis. From my own experience as a mayor of a city of 550,000, that was one of those cities involved in that annual arrangements process, it worked out relatively well and we were able to tailor our local needs to the resources that were available through the Federal Government.

Dr. RIVLIN. I think it has great advantages. The risks, however, are that a city with an astute mayor and some good project proposal drafters can fare better than a more distressed city that happens not to put its case terribly well. It leaves matters in the hands of grantsmen and can lead to possible inequities in the distribution of funds.

Mr. MINETA. Thank you.

Ms. HOLTZMAN. Dr. Rivlin, I notice on page 9 of your testimony that you said if you take inflation into account, grant outlays to

State and local governments in the President's budget for 1979 are expected to decrease by 0.6 percent in real terms. In other words, State and local governments are going to get a real cut in the grants that they receive from the Federal Government?

Dr. RIVLIN. That is right. Overall, the total grant figure does not increase in real terms.

Ms. HOLTZMAN. But there are portions of the Federal budget that do increase in real terms for 1979; is that not correct?

Dr. RIVLIN. That is right.

Ms. HOLTZMAN. Defense, for example, increases by 2.6 percent in real terms, roughly?

Dr. RIVLIN. Yes. That depends on what you think inflation is going to be in defense; but there is some real increase there.

Ms. HOLTZMAN. And real increase in the energy area?

Dr. RIVLIN. Yes; I believe so.

Ms. HOLTZMAN. In light of the fact that grants to State and local governments are going to decrease on a real basis for 1979 while there will be real increases in other sectors of the budget, would you say President Carter's 1979 budget is procity, neutral, or anticity?

Dr. RIVLIN. I think with respect to cities, the situation is as I said—approximately a current policy budget. It continues what has been going on. Now a bit depends on the base of your comparison. If you go back to, say, the budget proposed by President Ford for fiscal year 1978, this budget moves more toward city programs because last year the President and the Congress added a largely countercyclical program to benefit cities—public service employment, countercyclical revenue sharing, and a couple of other things. Those are continued in this budget at roughly current service levels, but they are indeed continued.

So it is not a budget that moves against cities in that sense, but it certainly cannot be characterized as a budget that moves procity, given where we are now.

Ms. HOLTZMAN. Mr. Mineta do you have any further questions?

Mr. MINETA. Thank you. Since there has been a great deal of discussion about whether or not Federal programs and policies impact negatively on local government; I wonder if what this budget is really trying to do, is to get to a neutral position, so we might be in a position then to start changing policies and programs so that they might all work together and avoid this situation where programs and policies are working at cross-purposes and are counterproductive.

It seems to me maybe we must make that kind of move. I am wondering whether or not this budget is that first step in moving to a neutral position. The second step would then be to start targeting resources so they will have a positive effect instead of a negative effect on local government.

Dr. RIVLIN. That might be a better question to address to the administration. But my own feeling is that you are probably right. I was not privy to the discussions that went into making up this budget, obviously, but it does appear to be a budget that reflects thinking along those lines in that it seems to say, "Let's hold everything until we make up our minds what an urban policy ought to be." And that really means, "Let's go on doing roughly what we have been doing, adding a few things here and there." There is a significant increase, as I noted, for example, in the education budget targeted toward disadvantaged children. That represents a distinct move.

But otherwise it is a budget that reflects a policy of: "Let's go on doing what we have been doing until we formulate an urban policy"—which is promised for later in the year.

Mr. MINETA. If our economic condition is improving, and the President says we have created 4 million new jobs with a net of 1.8 million off the unemployment rolls—why is there an increased amount available for countercyclical assistance?

Dr. RIVLIN. I think that might be taken to reflect the view that there are still substantial employment problems, that many of them are in cities, and that cutting back on countercyclical programs—as one might have expected at this stage of the business cycle—would be less than neutral policy. Cutting back on countercyclical programs would be harmful to those governments that have come to depend on it.

Mr. MINETA. I happen to support the countercyclical programs but I am just wondering why, given this improved economic condition, there would be an increased amount for those countercyclical programs.

Dr. RIVLIN. I think another argument one could make is that even with improving general economic conditions improving, which we do have, we still have substantial structural unemployment problems. Those programs do get at the structural employment problem, not as well as we would like to perhaps, but they are aimed at the long-term unemployed and that is a reason for keeping them.

It is in that sense a shift of the rationale underlying the programs themselves from countercyclical to structural as the economy improves.

Mr. MINETA. Coleman Young of Detroit speaks facetiously of moving from 23 percent unemployment down to 9.8 percent.

Dr. RIVLIN. Yes. Nonetheless——

Mr. MINETA. Dr. Rivlin, if the budget had included specific figures for home loan guarantees, off-budget agencies, and similar budgetary items, would your analysis have changed significantly?

Dr. RIVLIN. I do not know. Maybe Ms. Cuciti might want to answer that. I think we should answer it for the record.

Ms. CUCITI. I would prefer to answer with a full response for the record.

[The following information was submitted for the record:]

EFFECT OF FEDERALLY OWNED AND CONTROLLED AGENCIES GOING OFF BUDGET

Our conclusions regarding the impact on cities of this administration's budget are unlikely to differ if all federally owned and controlled agencies were included. In fiscal year 1979, the following entities will be off-budget: Federal Financing Bank, Rural Electrical and Telephone Revolving Fund, Rural Telephone Bank, Pension Benefit Guarantee Corporation, Exchange Stabilization Fund, Postal Service Fund, and U.S. Railway Association. None of these engage in activities that are important to cities.

Federal credit activities, only some of which are reflected in budgetary totals, are more likely to affect the course of urban development. Unfortunately, little is known about the distribution of benefits and costs from either Federal loan programs (direct and guaranteed) or the specialized credit activities of Government-sponsored but privately owned enterprises. While the administration's budgetary materials provide some financial information on these activities, they are not sufficient to judge whether policy changes are planned that might affect cities.

The largest of the credit activities of the Federal Government, and the ones most likely to have an impact on cities, are those that provide either insurance or secondary market support for residential mortgages. Federal Housing Administration programs are believed to have contributed to the dispersal of metropolitan populations in the past; whether current programs have the same effect is uncertain. Even less is known about the effects of actions taken by secondary market credit agencies, such as the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), but it is likely that their policies in part determine the availability of credit in inner-city neighborhoods. HUD's decision to use part of the tandem financing authority of the Government National Mortgage Association (GNMA) to purchase mortgages extended to middle-income families in selected city neighborhoods represents one attempt to use secondary mortgage market instruments to aid inner-city redevelopment.

Ms. Holtzman. Dr. Rivlin I would like to thank you very much for your excellent testimony. Our next witness will be Dr. Richard P. Nathan, Senior Fellow at the Brookings Institution.

STATEMENT OF DR. RICHARD P. NATHAN, SENIOR FELLOW, GOVERNMENTAL STUDIES PROGRAM, BROOKINGS INSTITUTION

Dr. Nathan. Thank you very much. I have a statement which I will provide for the record. It contains two tables that I think are useful. I will read most of it because it is short, but not all of it.

Ms. Holtzman. Without objection, your entire statement will be included in the record. You may proceed to read from it or summarize it, as you wish.

Dr. Nathan. The phrase "national urban policy," to many people, is synonymous with domestic policy, because so much of our population can be classified as urban and since often policymakers take rural problems and needs into account with considering urban policy.

One way of thinking about the current period is that the Carter administration is trying to decide what kind of a domestic policy it should adopt to succeed Nixon's "New Federalism," Johnson's "Great Society," and the Kennedy "New Frontier."

The reason this is taking so long to decide and that we are receiving so many conflicting signals about what will emerge is a simple one. There is no obvious underlying problem on which right now there is a broad consensus and which could be the centerpiece of a Presidential change in direction in domestic policy.

The domestic pot is not boiling the way it was because of social issues for the Great Society and because of redtape and fears of overcentralization in the days of the New Federalism. There is a kind of general equilibrium on the homefront. Maybe there should not be, but there is.

In my personal view, there is one problem on which national domestic policy should be focused, but our political system does not lend itself easily to doing so. The issue in short is the special needs of declining, poverty-impacted core cities, which often have a high proportion of minority citizens.

Though the United States does not have a national urban crisis, we face a situation in which some—but by no means all—big cities and a few older and large suburban cities are experiencing what can be called urban crisis conditions. "The" job crisis, "the" welfare crisis, "the" crisis in education, "the" drug crisis—all of these come together and are most serious in our old, declining, and isolated core cities and innerring suburbs. Localized though the infection may be, their conditions constitute the domestic problem in this country.

For cities that are relatively strong and healthy the question to ask is, Why should the Federal Government be involved in decisions about how those cities develop, what their goals are, what kinds of facilities and services are provided by local government? One of the great sources of strength of American democracy in our Federal system is we put a lot of emphasis on local decisionmaking. For healthy cities it seems to me the question is, Why should the Federal Government make decisions about their growth and development goals?

The problem is not regions, but cities—distressed cities in the South—New Orleans, which on everybody's indicator shows up as having very serious problems. I have visited New Orleans and this is borne out by observations—and in the West—Compton, Calif., which is a suburb of Los Angeles. There are distressed cities in the South and in the West as well as in the Northeast and Midwest where distressed cities predominate, although there are many cities in the Northeast that are in good condition, Kansas City, Columbus, Ohio, Minneapolis, for example.

It seems to me that a national policy of aiding all regions and focused on regions as such, particularly if it involves addition material expenditures, could just end up exacerbating the special and deep problems of the true hardship cases—Detroit, New York, New Orleans, Newark, St. Louis, Buffalo, East St. Louis, Yonkers, Camden, and Trenton, N.J., to name some obvious ones.

The United States, unlike most other industrialized democracies, has a reasonably good geographic balance of major population and growth centers. This is an asset which in my view obviates the need for massive and expensive new regional growth policy initiatives in the 1979 budget.

Two important facts about current national policies toward cities need to be stressed.

Fact No. 1. Even though Federal grants rise relatively modestly in the proposed 1979 budget by 6 percent, but decline, as you pointed out, in real terms, there has been a tremendous increase in recent years in the amount of Federal grants, especially those provided directly to local governments, namely cities. Traditional views of American federalism and of other federal nations hold that the federal relationship is between the national government and the States. But what has been happening to American federalism, actually since the Truman years, is that the Federal Government in more and more areas, and under more and more Federal programs and regulatory policies, is developing direct relationships with local governments.

One way of looking at Federal grants in this budget is to say if you put aside AFDC and medicaid—transfer-type grants—of the remaining grants to State and local governments, one-half goes to local governments. There is a figure in the budget which Dr. Rivlin did not discuss, that says that $16 billion of this amount goes to urban areas; perhaps we should look at that figure later on.

Ironically, this increase in direct Federal grants to local governments occurred very rapidly in a Republican period. It was greatly stimulated by President Carter's $13 billion economic stimulus package for 1977 and 1978—over $10 billion of this money goes to local governments. All of these issues, the whole stimulus package, are up again this year, as well as new legislation for mass transit, LEAA, and all of the CETA program, that is, title I, title IV.

Ms. Holtzman. If I may interrupt, you just mentioned LEAA is due for reauthorization again this year. The authorization, as I recall, was for a 3-year period of time.

Dr. Nathan. I may be mistaken about that. I will have to check. I appreciate your pointing that out to me.

Fact No. 2 of the two points I want to put on the record involves targeting. Federal grant formulas increasingly have been putting emphasis on older and declining cities—that is, poverty impacted, structurally isolated cities, particularly in the Northeast and Midwest, but also located in other regions. These hardship cities and suburbs have been receiving large amounts of Federal aid in recognition of their special and deeper needs as Federal aid to local governments increases. Recent data show a good fit between the "Urban Conditions Index" we use to measure hardship and Federal aid increases over the last 3 years. There is a table at the end of my testimony which develops some data to this effect.

In a nutshell, Federal money increasingly has been going where the problems are. This wasn't always deliberate, but it has happened. To the administration's credit, "targeting" has been discussed a number of times by the President at press conferences, and has been a conscious policy of his administration—particularly the Secretary of HUD, Mrs. Harris—one that already appears to be having substantial impact. But the shift is a very recent one.

Table 2 makes the longrun point. It shows eight cities in the Northeast quadrant (the Northeast and the Midwest), and nine cities in the Sun Belt, all big cities—St. Louis, Buffalo, Cleveland, Boston, Philadelphia, Detroit, Chicago, Baltimore, and Atlanta; Dallas, Houston, Phoenix, Birmingham, Louisville, Jacksonville, New Orleans and Oklahoma City.

From 1972 to 1978, the northern and midwestern cities had increases of Federal aid of 354 percent. These are hardship cities. For the same years, 1972 to 1978, the nine southern cities had an average increase of 584 percent. If you look just at the recent period—1975–78—there has been some shift, although not an overwhelming shift, toward the hardship cities. I don't think we have done enough targeting and, indeed, a quote on the bottom of page 5 of my statement is from a Presidential news conference where the President made a strong statement to this effect.

There is a shift, but over the long haul the most important fact about Federal grants is this: What has been happening to Federal grants is that federalism is changing; more and more Federal grants are provided directly to local governments, primarily to the cities and often targeted on hardship cities, but not to an overwhelming extent.

Although there has been this discernible new focus on urban hardship conditions, it is a modest targeting effect. I frankly don't think we have done enough. We are moving in the right direction in terms of recognizing the hardship conditions of the most distressed cities under Federal grants formulas. I will skip to page 6. There is an irony in all of this. At the very time that the Carter administration is working on its urban policy, the whole idea of targeting, as indicated earlier, is under attack. It is under attack both within and outside of the administration.

I had a line in my statement which has been deleted by the typist. It read: "While policymakers fiddle, the interests of the cities may get burned."

So now to pop the question. In light of these two developments, do we really want big new urban policies up front? Is it important that the Government devise a whole system of new departures for urban policy?

If, as I am suggesting, we have been making headway in terms of aiding cities—and more particularly aiding the cities that need help the most—it may well be that we should continue on this twin track.

We have an urban policy—an emerging, actually quite sensible, concern about the right problems in the urban sector. This has happened without trumpets and flourishes. Each time a bill comes up in the Congress, concern is expressed in the development of that legislation, as in the case for the community block grant program, for urban hardship conditions. What we need to be thinking about is not a big and expensive new urban package, as much as a number of nice but not ostentatious initiatives which build on what has gone before.

Above all—and I underlined this sentence in my testimony for the purpose of reading it—the name of the game is formulas. Increased attention has been paid to formula issues over the last few years. This should continue. As already indicated, the community development block grant program contains an important new dual formula concept which provides more resources to the most distressed central cities and innerring suburbs.

What are the missing pieces? I believe the main new item the Carter administration ought to have on its urban agenda in 1978 is a development bank—or "Urbank." I am not convinced from the things I have heard that is the kind of proposal most likely to emerge from the planning process. Block grants provide funds primarily for operating purposes and shorter-term capital needs. The missing piece from the urban puzzle is an instrument to meet the long-term economic development needs of hardship cities.

Another potentially important item for urban policy in 1978 is a special jobs fund for older, racially-impacted central cities where unemployment levels are disastrously high, despite the fact that the

6.3-percent unemployment rate for January which was just released an hour or so ago shows further improvement. Such a fund could be administered by a special committee of Cabinet officers to select urgent job projects in the most distressed cities.

These apparently are—or were—the main items under consideration for the administration's urban policy statement—first, targeting; second, Urbank; and third, some more money for the PSE jobs program.

But this is by no means a full urban agenda. Urban policy is not a one-time thing. Welfare reform—now floundering—tax policy—especially the treatment of new investment and other key tax items—and housing policy—about which little has been heard—are other vital ingredients. So are mass transit, water treatment, and sewage facilities, and social services. Those concerned about the problems of the older and declining cities cannot breathe a sigh of relief and go on to something else when the Carter administration's urban policy statement is issued. Constant attention and vigilance are required. Thank you, Madam Chairman.

[The prepared statement of Dr. Nathan follows:]

PREPARED STATEMENT OF DR. RICHARD P. NATHAN

The phrase, "national urban policy," to many people is synonymous with domestic policy, because so much of our population can be classified as urban and since often policymakers take rural problems and needs into account when considering "urban" policy.

One way of thinking about the current period is that the Carter administration is trying to decide what kind of a domestic policy it should adopt to succeed Nixon's "New Federalism", Johnson's "Great Society" and the Kennedy "New Frontier."

The reason this is taking so long to decide and that we are receiving so many conflicting signals about what will emerge is a simple one. There is *no* obvious underlying "*problem*" on which right now there is a broad consensus and which could be the centerpiece of a Presidential change in direction in domestic policy.

The domestic pot is not boiling the way it was because of social issues for the "Great Society" and because of redtape and fears of overcentralization in the days of the "New Federalism." There is a kind of general equilibrium on the homefront. Maybe there shouldn't be, but there is.

In my personal view, there is one problem on which national domestic policy should be focused, but our political system doesn't lend itself easily to doing so. The issue in short is the special needs of declining, poverty impacted core cities, which often have a high proportion of minority citizens.

Though the United States does not have a *national* urban crisis, we face a situation in which some—but by no means all—big cities and a few older and larger suburban cities are experiencing what can be called "urban crisis conditions." "The" job crisis, "the" welfare crisis, "the" crisis in education, "the" drug crisis—all of these come together and are most serious in our old, declining and isolated core cities and innerring suburbs. Localized though the infection may be, their conditions constitute *the* domestic problem in this country.

For cities that are relatively strong and healthy the question to ask is why should the Federal Government be involved in decisions about how those cities develop, what their goals are, what kinds of facilities and services are provided by local government. One of the great sources of strength of American democracy is *local decisionmaking.*

The "*problem*" *is not regions, but cities*—distressed cities in the South (New Orleans, for example) and in the West (Compton, Calif.), as well as in the Northeast and Midwest. Although, there are many cities in the Northeast and Midwest that are strong and healthy—for example, Minneapolis, Columbus, Kansas City.

A national policy of aiding *all* regions—and focused on regions as such—may just exacerbate the special and deep problems of the true hardship cases—Detroit, New York, New Orleans, Newark, St. Louis, Buffalo, East St. Louis, Yonkers, Camden and Trenton, N.J., to name some obvious ones.

The United States, unlike most other industrialized democracies has a reasonably good geographic balance of major population and growth centers. This is an asset which in my view obviates the need for massive and expensive new regional growth policy initiatives in the 1979 budget.

Two important facts about current national policies toward cities need to be stressed.

Fact No. 1. Even though Federal grants rise relatively modestly in the proposed 1979 budget, there has been a tremendous increase in recent years in the amount of Federal grants, especially those provided directly to local governments, namely cities. Traditional views of American federalism hold that the Federal relationship is between the national government and the States. But what has been happening to American federalism, actually since the Truman years, is that the Federal Government in more and more areas, and under more and more Federal programs and regulatory policies, is developing direct relationships with local governments.

Ironically, the increase in Federal grants-in-aid to local governments occurred at a rapid pace during the Nixon-Ford years. It was greatly accelerated by President Carter's $13 billion "Economic Stimulus Package" (ESP) for 1977 and 1978—over $10 billion of which goes to local units. All of these issues for the ESP are up again this year, as well as mass transit, LEAA, and the rest of CETA.

Looking at total Federal grants for 1979, about one-third of all Federal grants to States and cities now goes to local governments. If welfare and medicaid are put to one side for purposes of these calculations, as much as *one-half* of the rest of all Federal grants to States and localities in the Federal budget goes to local governments.

Fact No. 2. Not only is the amount of Federal aid to local governments increasing, but there has been an appreciable trend toward greater "*targeting*," the new code word for helping cities, but unfortunately a concept that is currently under attack.

Federal grant formulas have been putting emphasis on older and declining cities—that is, poverty impacted, structually isolated cities, particularly in the Northeast and Midwest, but also located in other regions. These hardship cities and suburbs have been receiving large amounts of Federal aid in recognition of their special and deeper needs as Federal aid to local governments increases. Recent data show a good fit between the "Urban Conditions Index" we use to measure hardship and Federal aid increases over the last 3 years. (See table 1.)

In a nutshell, Federal money increasingly has been going where the problems are. This wasn't always deliberate, but it has happened. To the administration's credit, "targeting" has been discussed a number of times by the President at press conferences, and has been a conscious policy of his administration, one that already appears to be having substantial impact. But the shift is a very recent one.

Table 2 makes the longrun point. It shows eight cities in the Northeast quadrant (the Northeast and the Midwest), and nine cities in the Sunbelt, all big cities—St. Louis, Buffalo, Cleveland, Boston, Philadelphia, Detroit, Chicago, Baltimore and Atlanta, Dallas, Houston, Phoenix, Birmingham, Louisville, Jacksonville, New Orleans and Oklahoma City.

From 1972 to 1978, the northern and midwestern cities had increases of Federal aid of *354 percent*. For the same years, 1972 to 1978, the nine southern cities had an average increase of *584 percent!* If you look just at the recent period (1975–78) there has been some shift, although not an overwhelming shift, toward the hardship cities.

There is a shift, but over the long haul the most important fact about Federal grants is this: What has been happening to Federal grants is that federalism is changing; more and more Federal grants are provided directly to *local* governments, primarily to the cities and often targeted on hardship cities, but not to an overwhelming extent.

Although there has been this discernible new focus on urban hardship conditions, it is a *modest* targeting effect. I frankly don't think we have done enough. We are moving in the right direction in terms of recognizing the hardship conditions of the most distressed cities under Federal grants formulas.

October 13 at a White House press conference, President Carter, speaking of the Community Development Block Grant bill, said, "I think that the bill that I signed this week, the Housing and Urban Development Act of 1977, will provide us with a base or framework on which we can make substantial improvements in the urban area. The formulas that are being put forward now, and the Congress is accepting them, will orient more and more of the rehabilitation money of all kinds to the more blighted urban areas of the country, both rural and urban." Targeting is beginning to make a difference. But it has not made a fundamental and far-reaching difference; we need, as the President said, to do more rather than less.

I would reiterate that this is not, at least to me, a regional question. It is a question of focusing on distress whether urban or rural, whether North or South, and recognizing that the deep infections of some of our older core cities are, in my opinion, *the* domestic problem of the Nation.

There is an irony in all of this. At the very time that the Carter administration is working on its urban policy, the whole idea of "targeting", as indicated earlier is under attack. It is under attack both within and outside of the administration.

So now to pop the question. In light of these two developments, do we really want big new urban policies up front? Is it important that the Government devise a whole system of new departures for urban policy?

If, as I am suggesting, we have been making headway in terms of aiding cities—and more particularly aiding the cities that need help the most—it may well be that we should continue on this twin track.

We have an urban policy emerging, actually quite sensible, concern about the right problems in the urban sector. This has happened without trumpets and flourishes. Each time a bill comes up in the Congress, concern is expressed in the development of that legislation for urban problems and particularly urban hardship conditions. What we need to be thinking about is not a big and expensive new urban package, as much as a number of nice but not ostentatious initiatives which build on what has gone before.

Above all, the name of the game is formulas. Increased attention has been paid to formula issues over the last few years. This should continue. As already indicated, the community development block grant program contains an important new "dual formula" concept which provides more resources to the most distressed central cities and innerring suburbs.

What are the missing pieces? I believe the main new item the Carter administration ought to have on its urban agenda in 1978 is a development bank—or "*Urbank*." Block grants provide funds primarily for *operating* purposes and shorter term capital needs. The missing piece from the urban puzzle is an instrument to meet the long-term economic development needs of hardship cities.

Another potentially important item for urban policy in 1978 is a special jobs fund for older, racially impacted central cities where unemployment levels are disastrously high. Such a fund could be administered by a special committee of Cabinet officers to select urgent job projects in the most distressed cities.

These apparently are—or were—the main items under consideration for the administration's urban policy statement—(1) targeting, (2) Urbank, and (3) an accelerated jobs program.

But this is by no means urban agenda. Urban policy is not a one-time thing. Welfare reform (now floundering), tax policy (especially the treatment of new investment and other key tax items) and housing policy (about which little has been heard) are other vital ingredients. So are mass transit, water treatment and sewage facilities, and social services. Those concerned about the problems of the older and declining cities cannot breathe a sigh of relief and go on to something else when the Carter administration's urban policy statement is issued. Constant attention and vigilance are required.

TABLE 1.—DIRECT FEDERAL AID AS A PERCENT OF OWN SOURCE GENERAL REVENUE, SELECTED CITIES AND FISCAL YEARS, 1957–78

City	Nathan's urban conditions index	Fiscal years 1957	1967	1976	1978 estmate	Exhibit: Per capita Federal aid [2] 1976	1978 estimate
St. Louis	351	0.6	1.0	23.6	54.7	$86	$223
Newark	321	.2	1.7	11.4	55.2	47	251
Buffalo	292	1.3	2.1	55.6	69.2	163	218
Cleveland	291	2.0	8.3	22.8	68.8	65	217
Boston	257	(3)	10.0	31.5	28.0	204	203
Unweighted averages	302	.8	4.6	29.0	55.2	113	222
Baltimore	226	1.7	3.8	38.9	53.3	167	258
Philadelphia	216	.4	8.8	37.7	51.8	129	196
Detroit	201	1.3	13.1	50.2	69.6	161	248
Chicago	201	1.4	10.9	[1] 19.2	38.7	47	107
Atlanta	118	4.3	2.0	15.1	36.0	52	150
Unweighted averages	192	1.8	7.7	32.2	49.9	111	192
Denver	106	.6	1.2	21.2	24.2	98	140
Los Angeles	74	.7	.7	19.3	35.7	54	120
Dallas	39	0	(3)	20.0	17.8	51	54
Houston	37	.2	3.1	19.4	22.7	44	68
Phoenix	20	1.1	10.6	35.0	58.3	57	116
Unweighted averages:							
—5 cities	55	.5	3.1	23.0	31.7	61	100
—15 cities	183	1.1	5.2	28.1	45.6	95	171

[1] Percentage based on Federal aid excluding general revenue sharing. Funds withheld pending judicial determination.
[2] Based on 1975 population.
[3] Less than 0.05 pct.

Source: ACIR staff computations based on U.S. Bureau of the Census, "City Government Finances in 1957, 1967, and 1976." Estimated city own source general revenue for 1978 based on annual average increase between 1971 and 1976. Direct Federal grants to each city for fiscal 1978 based on (a) ACIR staff estimates of the Federal stimulus programs for 1978 and (b) Richard Nathan's estimates for all other Federal aid in fiscal 1978 as set forth in his testimony before the Joint Economic Committee on July 28, 1977.

TABLE 2.—COMPARATIVE GROWTH IN TOTAL FEDERAL GRANTS, SELECTED NEQ AND SUN BELT CITIES 1971–72 THROUGH 1978

[Dollars in thousands]

City	Estimated grants fiscal year 1978	Total grants 1974–75	1971–72	Percent increase 1975–78	1972–78
St. Louis	109,500	31,483	14,145	248	674
Buffalo	80,947	31,844	15,345	154	427
Cleveland	110,381	47,733	16,782	131	558
Boston	120,885	66,782	61,249	81	97
Philadelphia	328,134	130,820	82,694	151	297
Detroit	311,142	166,183	132,071	87	136
Chicago	407,726	166,129	95,147	145	329
Baltimore	181,394	108,015	43,835	68	314
Mean, 8 NEQ cities				133	354
Atlanta	58,994	38,548	10,435	53	465
Dallas	64,147	42,165	4,807	74	777
Houston	86,395	45,869	12,507	88	591
Phoenix	70,911	36,556	8,990	94	689
Birmingham	31,643	14,458	3,240	119	877
Louisville	67,686	36,364	21,588	86	214
Jacksonville	40,886	30,619	6,247	34	554
New Orleans	86,895	45,670	14,770	90	488
Oklahoma City	38,748	18,691	5,540	107	599
Mean, 9 Sun Belt cities				83	584

Source: Computed by procedures described in Richard P. Nathan, Paul R. Dommel, and James W. Fossett, "Targeting Development Funds on Urban Hardship." Testimony before Joint Economic Committee, July 28, 1977.

Ms. HOLTZMAN. Thank you. Mr. Mineta.

Mr. MINETA. Thank you very, very much for your statement and for your critical analysis over a period of time.

Somewhere in all this we have left the States out. Cities are creations of the States; States really have much more control than the cities, constitutional control, yet there is a Federal-State relationship.

States have surpluses in their budgets. How can we get a leverage, so to speak, on the States to be more involved with local government?

Dr. NATHAN. Indeed. Your observation is important. The first thing I should say in responding is that the growth of these direct grants to cities has a counterpart in the terms you suggest; it produces a relative diminution in the importance of the States. Local governments are the creatures of the States. John Shannon of the Advisory Commission on Intergovernmental Relations is fond of pointing out that, although local governments are creatures of the States, they are increasingly becoming wards of the Federal Government. This is a very basic fact. When things happen to you over a period of years sometimes you don't recognize it. I think the important thing is that we take account of this change.

To answer the second part of your question as to what can be done to bring the States back into urban policy matters, one of the things which occurs to me is that in the design of the right kind of an Urbank there should be several windows. One window should be for big projects for distressed cities, St. Louis, New York, Detroit; and another window would be to provide assistance to State community development agencies. These agencies have been growing and doing new things. For smaller cities and projects in declining neighborhoods in less distressed cities, Federal policy should be to work through State development agencies and authorities and help build up their influence.

Mr. MINETA. You also seem to indicate that formulas really help in targeting, but it seems to me that formulas really are more of the cookie-cutter approach. So, regardless of how their need differs, communities get the same kind of help. We really don't do enough to target those formulas in terms of substandard housing conditions, in terms of low income and welfare recipients. I am wondering whether or not formulas as currently used don't really get away from targeting.

Dr. NATHAN. There is a tendency in the political process toward spreading. Every time a new program comes up, all different kinds of claimants come forward. Whether it is a project grant such as model cities or a block grant such as the community development block grant, there is the tendency toward spreading.

It is my view we have to do both things at once. There are some new ideas as to how we can shift formulas to have a bigger impact on the most needy cities. Take for example the new block grant formula which the administration fought very hard to have adopted. I think they deserve credit for this. Cleveland would have gotten $13 million under the old formula. Under the new formula, Cleveland's share—and it is one of the most distressed cities on all the various indexes—would go up to $36 million. So, there are powerful ways you can change formulas.

Someone at a recent Brookings meeting says Urbank is a slogan in search of a program. I think that's all right. This is the way we set up new institutions in the United States. Historically, people think banks have a special aura about them, so we may as well capitalize on that. Urbank should be a separate institution with project authority each year to provide a package of assistance for selected development purposes in the most hard-pressed cities.

In sum, I think targeting is not something we should think about just in relationship to formula grants. The distinctive problems of the declining cities is so much the role of the Federal Government in urban policy that this concern ought to be one we should take into account in both areas.

Mr. MINETA. In what way do you see targeting coming under attack?

Dr. NATHAN. I have done a fair amount of talking to various groups about the issues you asked me to discuss in this testimony. The best example I can give you is a specific one. I spoke in Oklahoma City before the Southern Growth Development Board. Governor Boren of Oklahoma spoke first. Governor Busby of Georgia finished me off. He said he was very concerned about, and opposed to the community development block grant dual-formula concept. It does not, in his view, take enough account of the needs of other kinds of communities. From what I read in the newspapers, there have been a lot of participants in the administration's urban planning process who have made exactly this point that you have to recognize the needs of other types of communities. My feeling is that Federal policy ought really to focus on the needy communities. As I indicated in my testimony, for healthy and strong communities we have a long tradition of revenue-sharing devices and local decisionmaking.

Mr. MINETA. Thank you.

Ms. HOLTZMAN. Dr. Nathan, what programs do you think need to be targeted?

Dr. NATHAN. I think the answer to that is that we should take into account hardship conditions across the board in domestic policy. The same kind of approach in defining the appropriate needs on which the Federal Government should focus attention ought to be applied in the jobs area, in the education area, in the community development area, mass transit area, water and sewer, all of which are functions for which the Federal Government now provides substantial amounts of grant funds which go to local governments. All these areas were discussed by Dr. Rivlin and are the major functional areas of the Federal budget for domestic programs.

Ms. HOLTZMAN. The thrust of what you are saying then is that we could solve all the problems of our fiscally distressed or hardship cities, as you call them, if we just targeted all our programs?

Dr. NATHAN. I wouldn't want to give the impression we could solve all the programs but it does help the cities to have this kind of focus on their needs. We have been doing research in about 50 or so cities around the country and they have been appreciably aided by these grants. Detroit, someone mentioned earlier, not only their economic but their fiscal situation is much better this year. Other cities have been helped in relieving their fiscal pressures and being able to make some program increases in areas where they want to have initiatives. Federal aid has been very important but it doesn't get at the fundamental economic forces that are at work. These problems, particularly in the cities most severely affected—New York is one—are not going to be solved by the kind of targeting implied in my comments and testimony.

Mr. MINETA. Isn't there a polarization between rural and urban areas in trying to develop that type of system? Even if you have a city of 17,000, if they have an unemployment problem of 15 percent, it seems to me for that community, it is just as serious a problem as it is for New York and Cleveland, again, where they have a lot of problems.

Is there a way of trying to come up with an investment strategy that would be applicable to that rural community with its serious infrastructure problems, high unemployment, declining population, so we can deal with that as well as the Clevelands, the New Yorks, and the Newarks as well?

Dr. NATHAN. I said in my statement that distress in both urban and rural areas should be focused on in national policy. That is the appropriate national role. We have been experimenting with different ways to measure hardship needs. It is difficult because of the different layering arrangements, as you know, of governments and finances.

I would like to submit for the record an appendix to a report that we have done for HUD on the community development block program. This supplement is for 615 cities; it shows how the hardship index we use would apply to these cities and the factors which go into this analysis. It seems to me we could make grant revisions that move in the direction of your suggestion and not only deal with the larger cities but deal with distress in smaller urban areas and also rural areas.

[Testimony resumes on p. 68.]

[The appendix referred to follows:]

URBAN CONDITIONS INDEX

Reprinted from

Decentralizing Community Development

a report to the
Department of Housing and Urban Development
on the Second Program Year of the
Community Development Block Grant

by
Paul R. Dommel
Richard P. Nathan
Sarah F. Liebschutz
Margaret T. Wrightson
and Associates

The Brookings Institution
Washington, D.C.

January 1978

APPENDIX II

PROJECTED CDBG ALLOCATIONS TO ENTITLEMENT JURISDICTIONS IN FISCAL 1980,

WITH URBAN CONDITIONS INDEX AND INDEX VARIABLES

The table that follows lists the 615 CDBG formula entitlement jurisdictions for the third program year and their projected block grants for fiscal year 1980. Columns 6 and 7 list projected grant amounts based on the original allocation formula and the new formula, respectively. If a jurisdiction's grant under the new formula is greater than that under the original formula, this means that the jurisdiction benefits from the dual formula approach. Actual grant amounts will change as later population figures are used to make the allocations.

The Brookings urban conditions index (column 1) provides a comparative measure of distress conditions found in each jurisdiction. The index is computed from the following formula:

$$\frac{\dfrac{\text{Percent poverty}}{\text{Mean percent poverty}} \times \dfrac{\text{Percent pre-1940 housing}}{\text{Mean percent pre-1940 housing}}}{\dfrac{100 + \text{rate of population change}}{100 + \text{median rate of population change}}}$$

Percentages of poverty and pre-1940 housing are based on the 1970 census. The index mean is standardized at 100; jurisdictions ranking above that level tend to have greater problems of urban distress than those lower on the scale.

For the urban counties listed, the projected 1980 allocations are based on data elements used by the Department of Housing and Urban Development to determine grant amounts for fiscal 1978. Not included are small hold-harmless communities and municipalities who chose not to participate in the program. The urban conditions index for these counties is based on balance-of-county data; that is, the population, poverty and housing data for the entire county minus the population, poverty and housing counts of the central city (or cities) and any suburban cities over 50,000 population.

Appendix II. Projected CDBG Allocations to Entitlement Jurisdictions in Fiscal 1980, with Urban Conditions Index and Index Variables

RECIPIENT	URBAN CONDITIONS INDEX (1)	1975 POPULATION (2)	PERCENT POPULATION CHANGE 1960-75 (3)	PERCENT POVERTY 1970 (4)	PERCENT PRE-1940 HOUSING 1970 (5)	GRANT UNDER ORIGINAL FORMULA ($ 000) (6)	GRANT UNDER NEW FORMULA ($ 000) (7)
ALABAMA							
ANNISTON SMSA							
ANNISTON CC	284	30,622	-9.0	27.8	39.7	1,016	1,134
BIRMINGHAM SMSA							
BIRMINGHAM CC	278	276,273	-19.0	22.5	42.7	8,286	12,440
JEFFERSON UC	61	332,372	25.3	13.3	24.2	6,278	6,278
FLORENCE SMSA							
FLORENCE CC	93	34,402	8.7	18.0	24.0	750	750
GADSEN SMSA							
GADSEN CC	191	50,357	-13.3	20.2	35.0	1,299	1,827
HUNTSVILLE SMSA							
HUNTSVILLE CC	15	136,419	88.5	10.5	10.8	2,132	2,132
MOBILE SMSA							
MOBILE CC	146	196,441	.8	23.1	27.2	5,405	5,405
MONTGOMERY SMSA							
MONTGOMERY CC	113	153,343	14.1	23.1	23.8	3,877	3,877
TUSCALOOSA SMSA							
TUSCALOOSA CC	102	69,425	9.6	21.6	22.0	1,722	1,722
ALASKA							
ANCHORAGE SMSA							
ANCHORAGE CC	2	161,018	264.0	6.5	3.7	2,050	2,050
ARIZONA							
PHOENIX SMSA							
PHOENIX CC	21	664,721	51.4	11.6	11.2	11,199	11,199
GLENDALE SC	8	65,671	313.2	14.0	9.9	921	921
MESA SC	7	99,043	193.3	9.3	9.1	1,340	1,340
SCOTTSDALE SC	1	77,529	673.3	5.1	1.1	772	772

RECIPIENT	URBAN CONDITIONS INDEX (1)	1975 POPULATION (2)	PERCENT POPULATION CHANGE 1960-75 (3)	PERCENT POVERTY 1970 (4)	PERCENT PRE-1940 HOUSING 1970 (5)	GRANT UNDER ORIGINAL FORMULA ($ 000) (6)	GRANT UNDER NEW FORMULA ($ 000) (7)
TEMPE SC	3	84,072	237.7	9.1	3.3	1,039	1,039
TUCSON SMSA							
TUCSON CC	30	296,457	39.3	13.6	13.1	5,664	5,664
ARKANSAS							
FAYETTEVILLE-SPRINGDALE SMSA							
FAYETTEVILLE CC	61	33,405	64.8	15.9	27.0	615	615
SPRINGDALE CC	24	20,499	103.4	11.9	16.9	320	320
FORT SMITH SMSA							
FORT SMITH CC	106	64,734	22.2	15.9	34.7	1,313	1,313
LITTLE ROCK-NORTH LITTLE ROCK SMSA							
LITTLE ROCK CC	101	141,143	30.9	17.1	32.8	2,911	2,911
NORTH LITTLE ROCK CC	86	61,768	6.4	18.3	21.4	1,397	1,397
PINE BLUFF SMSA							
PINE BLUFF CC	157	54,631	24.1	26.2	31.7	1,766	1,766
TEXARKANA SMSA							
TEXARKANA CC	160	21,249	7.4	21.4	34.3	582	582
CALIFORNIA							
ANAHEIM-SANTA ANA-GARDEN GROVE SMSA							
ANAHEIM CC	5	193,616	85.8	6.3	6.0	2,221	2,221
GARDEN GROVE CC	3	118,454	40.6	5.6	2.2	1,494	1,494
SANTA ANA CC	23	177,304	76.7	10.0	17.0	2,986	2,986
BUENA PARK SC	4	61,840	33.3	5.1	4.4	824	824
COSTA MESA SC	4	76,058	102.6	7.6	4.5	964	964
FULLERTON SC	8	93,692	66.8	5.9	9.2	1,061	1,061
HUNTINGTON BEACH SC	1	149,706	1202.7	5.1	3.7	1,414	1,414
NEWPORT BEACH SC	5	61,853	132.8	6.9	7.0	602	602
ORANGE SC	5	82,157	215.0	6.0	5.3	934	934
WESTMINSTER SC	2	66,758	159.3	6.3	2.9	830	830
ORANGE UC	3	544,536	210.7	5.7	10.3	5,332	5,332

RECIPIENT	URBAN CONDITIONS INDEX (1)	1975 POPULATION (2)	PERCENT POPULATION CHANGE 1960-75 (3)	PERCENT POVERTY 1970 (4)	PERCENT PRE-1940 HOUSING 1970 (5)	GRANT UNDER ORIGINAL FORMULA ($ 000) (6)	GRANT UNDER NEW FORMULA ($ 000) (7)
BAKERSFIELD SMSA							
BAKERSFIELD CC	61	77,264	35.9	15.0	23.3	1,442	1,442
KERN UC	65	272,610	15.9	15.9	20.1	6,173	6,173
FRESNO SMSA							
FRESNO CC	84	176,528	31.8	17.0	27.8	3,704	3,704
FRESNO UC	98	269,158	16.0	19.6	24.7	6,740	6,740
LOS ANGELES-LONG BEACH SMSA							
LONG BEACH CC	85	335,602	-2.5	11.2	31.6	5,790	8,187
LOS ANGELES CC	89	2,727,399	10.0	13.0	32.2	56,443	56,443
ALHAMBRA SC	65	60,715	10.8	7.9	38.4	814	998
BELLFLOWER SC	21	51,145	11.4	8.1	12.2	755	755
BURBANK SC	36	86,001	-4.6	6.5	22.5	1,115	1,720
CARSON SC	6*	78,671	...	6.9	3.5	1,329	1,329
COMPTON SC	55	75,143	4.6	18.8	13.0	2,353	2,353
DOWNEY SC	8	85,812	4.0	5.9	5.5	1,040	1,040
EL MONTE SC	11	67,698	414.3	13.3	16.7	1,547	1,547
GLENDALE SC	66	132,360	10.8	8.0	38.7	1,764	2,175
HAWTHORNE SC	8	53,953	63.3	5.7	9.3	724	724
INGLEWOOD SC	26	86,610	36.6	7.6	19.7	1,270	1,270
LAKEWOOD SC	2	81,802	21.9	4.8	1.7	939	939
NORWALK SC	8	86,826	-2.2	6.9	4.3	1,539	1,539
PASADENA SC	128	108,220	-7.0	11.4	44.4	1,876	3,386
PICO RIVERA SC	14	51,495	4.8	8.0	7.8	1,051	1,051
POMONA SC	43	82,275	22.5	12.3	18.1	1,650	1,650
REDONDO BEACH SC	22	62,400	32.8	7.6	16.1	907	907
SANTA MONICA SC	69	92,115	10.6	11.7	27.7	1,542	1,542
SOUTH GATE SC	58	56,560	5.1	9.2	28.0	911	943
TORRANCE SC	4	139,776	38.4	4.0	5.1	1,426	1,426
WEST COVINA SC	1	75,783	49.6	4.5	1.3	800	800
WHITTIER SC	12	72,059	114.1	6.1	17.4	835	835
LOS ANGELES UC	51	1,936,494	-4.1	9.7	21.4	34,314	34,314
MODESTO SMSA							
MODESTO CC	22	83,540	128.3	10.7	19.3	1,136	1,136
OXNARD-SIMI VALLEY-VENTURA SMSA							
OXNARD CC	10	86,596	115.1	12.7	6.6	1,475	1,475

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SIMI VALLEY CC	2*	70,086	...	4.5	1.4	685	685
VENTURA CC	15	63,441	117.9	7.7	17.7	775	775
VENTURA UC	21	437,853	67.8	9.0	16.1	3,953	3,953
RIVERSIDE-SAN BERNARDINO-ONTARIO SMSA							
ONTARIO CC	40	63,140	35.4	12.5	18.2	1,251	1,251
RIVERSIDE CC	26	150,612	78.6	10.4	18.7	2,308	2,308
SAN BERNARDINO CC	75	102,076	11.0	15.5	22.9	2,257	2,257
RIVERSIDE UC	25	288,095	70.6	15.1	11.8	6,065	6,065
SAN BERNARDINO UC	22	485,192	45.7	10.6	12.7	8,519	8,519
SACRAMENTO SMSA							
SACRAMENTO CC	67	260,822	36.1	14.0	27.7	5,050	5,050
SACRAMENTO UC	9	427,066	37.3	8.0	6.2	5,504	5,504
SALINAS-SEASIDE-MONTEREY SMSA							
MONTEREY CC	45	28,063	-5.3	7.6	24.0	347	549
SALINAS CC	22	70,438	143.3	10.9	20.5	1,159	1,159
SEASIDE CC	10	36,886	90.6	14.1	5.5	758	758
SAN DIEGO SMSA							
SAN DIEGO CC	42	773,996	35.0	11.0	21.7	12,053	12,053
CHULA VISTA SC	8	75,497	79.6	9.4	5.8	1,114	1,114
EL CAJON SC	7	60,404	60.6	9.2	4.5	840	840
OCEANSIDE SC	29	56,003	124.3	13.6	19.8	876	876
SAN DIEGO UC	15	552,947	62.8	8.5	11.7	7,184	7,184
SAN FRANCISCO-OAKLAND SMSA							
OAKLAND CC	225	330,651	-10.0	16.2	53.3	7,794	13,003
SAN FRANCISCO CC	237	664,520	-10.2	13.6	66.9	14,163	28,982
ALAMEDA SC	61	72,017	63.6	6.1	16.5	1,093	1,179
BERKELEY SC	244	110,465	-.7	18.1	57.1	2,498	3,764
CONCORD SC	2	95,114	164.2	4.6	3.3	949	949
DALY CITY SC	11	72,741	62.4	5.7	13.1	876	876
FREMONT SC	3	117,862	169.2	4.7	5.0	1,250	1,250
HAYWARD SC	13	92,802	27.7	8.0	8.4	1,399	1,399
REDWOOD CITY SC	19	54,160	17.0	5.9	15.5	673	673
RICHMOND SC	72	69,713	-3.0	12.9	23.0	1,529	1,548
SAN LEANDRO SC	25	66,953	1.5	5.9	18.2	785	914

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SAN MATEO SC	23	77,878	32.7	6.1	15.8	907	907
ALAMEDA UC	24	256,516	12.8	10.0	47.5	3,054	3,054
CONTRA COSTA UC	15	394,737	39.2	6.5	13.5	4,685	4,685
MARIN UC	22	217,731	50.1	6.4	21.7	2,389	2,389
SAN MATEO UC	17	314,843	11.5	6.1	17.9	3,646	3,646
SAN JOSE SMSA							
SAN JOSE CC	11	555,707	172.1	8.6	13.9	7,176	7,176
MOUNTAIN VIEW SC	6.	55,143	78.5	6.4	6.7	684	684
PALO ALTO SC	38	52,277	.0	6.6	24.1	649	925
SANTA CLARA SC	53	82,822	34.0	7.6	12.5	1,097	1,097
SUNNYVALE SC	21	102,462	93.7	4.6	36.8	1,066	1,066
SANTA CLARA UC	14	289,317	40.7	6.2	41.8	4,053	4,053
SANTA BARBARA-SANTA MARIA-LOMPOC SMSA							
LOMPOC CC	11	24,296	68.5	10.8	6.9	412	412
SANTA BARBARA CC	86	72,125	24.9	13.2	34.6	1,310	1,310
SANTA MARIA CC	27	33,595	67.7	11.3	17.1	612	612
SANTA CRUZ SMSA							
SANTA CRUZ CC	112	36,807	43.8	16.5	41.8	660	660
SANTA ROSA SMSA							
SANTA ROSA CC	28	65,087	109.8	11.1	22.6	820	820
STOCKTON SMSA							
STOCKTON CC	11	117,600	36.2	16.3	3.6	2,488	2,488
VALLEJO-FAIRFIELD-NAPA SMSA							
FAIRFIELD CC	3	50,264	235.8	9.8	3.0	748	748
NAPA CC	22	46,557	110.0	8.9	21.8	576	576
VALLEJO CC	57	70,681	16.1	10.0	28.2	1,135	1,135
COLORADO							
COLORADO SPRINGS SMSA							
COLORADO SPRINGS CC	29	179,584	155.8	11.1	27.8	2,382	2,382

RECIPIENT	URBAN CONDITIONS INDEX (1)	1975 POPULATION (2)	PERCENT POPULATION CHANGE 1960-75 (3)	PERCENT POVERTY 1970 (4)	PERCENT PRE-1940 HOUSING 1970 (5)	GRANT UNDER ORIGINAL FORMULA ($ 000) (6)	GRANT UNDER NEW FORMULA ($ 000) (7)
DENVER-BOULDER SMSA							
BOULDER CC	29	78,560	108.3	11.5	22.0	1,083	1,083
DENVER CC	131	484,531	-1.9	13.4	41.0	9,337	12,944
ARVADA SC	2	74,254	285.9	3.6	5.0	575	575
AURORA SC	3	118,060	143.2	5.4	3.9	1,025	1,025
LAKEWOOD SC	7*	120,350	...	4.6	6.2	1,034	1,034
FORT COLLINS SMSA							
FORT COLLINS CC	45	55,984	123.7	13.9	30.7	809	809
GREELEY SMSA							
GREELEY CC	73	47,362	80.0	16.0	34.7	815	815
PUEBLO SMSA							
PUEBLO CC	122	105,312	15.5	13.2	45.4	2,041	2,041
CONNECTICUT							
BRIDGEPORT SMSA							
BRIDGEPORT CC	178	142,960	-8.8	11.5	60.1	2,880	5,085
FAIRFIELD SC	24	58,084	25.8	4.1	30.8	537	537
MILFORD SC	34	49,704	19.3	4.9	34.5	581	581
BRISTOL SMSA							
BRISTOL CC	35	58,560	28.7	4.7	40.7	712	712
DANBURY SMSA							
DANBURY CC	32	54,512	137.8	7.0	45.8	709	716
HARTFORD SMSA							
HARTFORD CC	298	138,152	-14.8	16.2	67.0	3,639	6,518
EAST HARTFORD SC	20	54,132	22.1	4.3	24.1	614	614
WEST HARTFORD SC	29	66,605	6.8	3.5	37.3	535	911
MERIDEN SMSA							
MERIDEN CC	74	57,697	11.3	6.6	52.9	760	904
NEW BRITAIN SMSA							
NEW BRITAIN CC	113	78,556	-4.4	8.4	54.7	1,283	2,238

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NEW HAVEN SMSA							
NEW HAVEN CC	320	126,845	-16.6	16.5	69.2	2,960	5,991
WEST HAVEN CC	58	53,002	23.3	7.2	42.4	684	718
NEW LONDON-NORWICH SMSA							
NEW LONDON CC	203	30,456	-10.9	12.2	63.3	522	1,110
NORWICH CC	144	41,060	6.6	10.0	65.6	629	981
NORWALK SMSA							
NORWALK CC	58	76,688	13.2	6.6	42.3	1,059	1,059
STAMFORD SMSA							
STAMFORD CC	59	105,151	13.4	7.0	40.5	1,498	1,498
GREENWICH SC	41	59,566	10.7	3.9	49.3	542	846
WATERBURY SMSA							
WATERBURY CC	139	107,065	-.1	9.5	62.2	1,783	2,876
DELAWARE							
WILMINGTON SMSA							
WILMINGTON CC	444	76,152	-20.5	21.1	71.5	1,980	4,124
NEW CASTLE UC	14	321,122	52.7	5.3	16.1	3,342	3,342
DISTRICT OF COLUMBIA							
WASHINGTON SMSA							
WASHINGTON DC CC	193	711,518	-6.9	16.3	47.0	18,389	23,451
FLORIDA							
DAYTONA BEACH SMSA							
DAYTONA BEACH CC	143	48,037	28.5	23.1	33.8	1,232	1,232
FORT LAUDERDALE-HOLLYWOOD SMSA							
FORT LAUDERDALE CC	12	152,959	82.9	11.9	7.6	2,645	2,645
HOLLYWOOD CC	4	119,002	237.7	9.8	5.2	1,762	1,762
BROWARD UC	2	574,735	167.9	10.6	2.0	7,196	7,196

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FORT MYERS SMSA							
FORT MYERS CC	74	36,170	60.6	17.1	29.4	691	691
GAINESVILLE SMSA							
GAINESVILLE CC	27	72,236	143.2	19.7	14.2	1,532	1,532
JACKSONVILLE SMSA							
JACKSONVILLE CC	31	535,030	166.1	16.8	20.9	11,672	11,672
LAKELAND-WINTER HAVEN SMSA							
LAKELAND CC	120	49,705	20.2	18.6	33.1	964	964
WINTER HAVEN CC	131	18,618	14.4	20.8	30.6	415	415
MELBOURNE-TITUSVILLE-COCOA SMSA							
COCOA CC	46	15,544	26.4	17.2	14.2	365	365
MELBOURNE CC	7	39,821	232.3	11.8	7.5	699	699
TITUSVILLE CC	2	29,501	360.2	6.9	4.7	405	405
MIAMI SMSA							
MIAMI CC	114	365,082	25.2	20.3	29.9	11,388	11,388
HIALEAH SC	5	117,682	75.7	8.6	3.6	2,210	2,210
MIAMI BEACH SC	76	94,063	49.0	18.9	25.4	2,450	2,450
DADE UC	10	862,565	68.1	11.3	5.8	14,527	14,527
ORLANDO SMSA							
ORLANDO CC	74	113,179	28.4	19.1	21.0	2,428	2,428
ORANGE UC	8	273,832	237.8	11.9	9.1	4,134	4,134
PENSACOLA SMSA							
PENSACOLA CC	165	64,168	13.1	21.8	36.5	1,604	1,604
SARASOTA SMSA							
SARASOTA CC	42	47,089	38.2	17.4	14.2	904	904
TALLAHASSEE SMSA							
TALLAHASSEE CC	36	83,725	73.8	17.5	14.9	1,641	1,641
TAMPA-ST PETERSBURG SMSA							
ST PETERSBURG CC	64	234,389	29.3	15.7	22.4	4,391	4,391

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TAMPA CC	122	280,240	1.9	18.5	28.6	6,520	6,520
CLEARWATER SC	20	67,069	93.5	11.8	13.6	950	950
HILLSBOROUGH UC	12	297,157	142.0	12.0	10.2	4,268	4,268
PINELLAS UC	7	326,105	115.5	10.6	5.3	4,154	4,154
WEST PALM BEACH-BOCA RATON SMSA							
BOCA RATON CC	1	42,363	508.6	6.2	3.7	417	417
WEST PALM BEACH CC	124	61,471	9.4	16.5	35.0	1,329	1,329
PALM BEACH UC	15	313,795	104.5	12.9	9.8	5,330	5,330
GEORGIA							
ALBANY SMSA							
ALBANY CC	72	73,373	31.3	24.4	16.4	2,259	2,259
ATLANTA SMSA							
ATLANTA CC	157	436,057	-10.5	19.8	30.3	12,774	14,650
DE KALB UC	8	389,239	75.5	4.9	11.7	3,827	3,827
AUGUSTA SMSA							
AUGUSTA CC	481	54,019	-23.5	30.6	51.4	2,095	3,057
COLUMBUS SMSA							
COLUMBUS CC	77	159,352	36.5	20.2	22.0	4,105	4,105
MACON SMSA							
MACON CC	103	121,157	73.7	22.5	33.7	3,457	3,457
SAVANNAH SMSA							
SAVANNAH CC	326	110,348	-26.1	25.8	39.9	3,562	5,823
HAWAII							
HONOLULU SMSA							
HONOLULU CC	15	705,381	139.8	8.9	20.0	13,043	13,043

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IDAHO							
BOISE CITY SMSA							
BOISE CITY CC	26	99,771	189.4	10.0	31.8	1,296	1,296
ILLINOIS							
BLOOMINGTON SMSA							
BLOOMINGTON CC	131	41,509	14.4	10.0	63.9	623	856
NORMAL CC	21	33,336	149.6	8.3	26.3	365	365
CHAMPAIGN-URBANA-RANTOUL SMSA							
CHAMPAIGN CC	91	58,398	17.8	12.8	35.6	972	972
RANTOUL CC	25	21,533	-2.6	8.6	11.9	363	363
URBANA CC	96	31,448	26.1	12.3	41.7	551	551
CHICAGO SMSA							
CHICAGO CC	255	3,099,391	-12.7	14.3	66.5	71,122	130,754
ARLINGTON HEIGHTS SC	2	70,019	151.2	1.8	7.7	496	496
AURORA SC	66	76,955	20.8	6.0	56.0	1,016	1,189
BERWYN SC	88	49,618	-8.5	5.1	67.1	526	1,751
CICERO SC	112	63,444	-8.2	6.2	70.9	810	2,300
DES PLAINES SC	8	55,828	60.0	3.2	15.9	537	537
ELGIN SC	55	59,754	20.8	5.0	56.2	657	880
EVANSTON SC	95	76,665	-3.3	6.5	60.3	897	2,149
JOLIET SC	97	74,401	11.4	8.3	55.6	1,213	1,399
OAK LAWN SC	3	62,317	126.8	3.1	8.0	669	669
OAK PARK SC	96	59,773	-2.2	5.0	79.6	623	1,981
SKOKIE SC	5	67,674	14.0	2.6	7.8	508	508
WAUKEGAN SC	65	65,133	16.9	7.9	41.0	1,039	1,039
COOK UC	12	1,612,867	52.7	3.9	19.7	16,489	16,489
DUPAGE UC	8	458,978	76.6	3.0	19.3	4,091	4,091
LAKE UC	22	307,723	43.8	4.7	28.2	3,347	3,347
DAVENPORT-ROCK ISLAND-MOLINE SMSA							
MOLINE CC	96	44,568	4.4	7.8	54.8	619	1,019
ROCK ISLAND CC	147	49,031	-5.5	10.6	56.0	802	1,504
DECATUR SMSA							
DECATUR CC	105	89,604	14.9	10.3	50.1	1,470	1,601

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KANKAKEE SMSA							
KANKAKEE CC	136	27,961	1.1	10.2	58.7	513	791
PEORIA SMSA							
PEORIA CC	116	125,983	22.1	11.1	54.3	2,117	2,416
ROCKFORD SMSA							
ROCKFORD CC	84	145,459	14.8	9.3	44.3	2,227	2,284
ST LOUIS SMSA							
EAST ST LOUIS SC	609	57,929	-29.1	33.6	54.9	2,733	3,949
MADISON UC	74	249,685	11.1	8.7	40.3	4,179	4,179
ST CLAIR UC	59	223,017	23.1	9.4	32.5	3,793	3,793
SPRINGFIELD SMSA							
SPRINGFIELD CC	136	87,418	5.0	10.5	57.8	1,527	2,226
INDIANA							
ANDERSON SMSA							
ANDERSON CC	75	69,486	41.6	9.7	46.6	1,136	1,174
BLOOMINGTON SMSA							
BLOOMINGTON CC	54	48,955	56.1	10.0	35.6	883	883
EVANSVILLE SMSA							
EVANSVILLE CC	152	133,566	-5.6	11.9	51.3	2,553	4,034
FORT WAYNE SMSA							
FORT WAYNE CC	90	185,299	14.5	9.1	48.1	2,712	2,895
GARY-HAMMOND-EAST CHICAGO SMSA							
EAST CHICAGO CC	289	44,186	-23.4	13.4	70.7	1,074	2,259
GARY CC	162	168,546	-5.5	14.9	43.7	4,223	4,724
HAMMOND CC	77	104,892	-6.1	6.5	47.0	1,613	2,701
INDIANAPOLIS SMSA							
INDIANAPOLIS CC	59	714,878	50.1	9.5	39.7	12,033	12,033

RECIPIENT	URBAN CONDITIONS INDEX (1)	1975 POPULATION (2)	PERCENT POPULATION CHANGE 1960-75 (3)	PERCENT POVERTY 1970 (4)	PERCENT PRE-1940 HOUSING 1970 (5)	GRANT UNDER ORIGINAL FORMULA ($ 000) (6)	GRANT UNDER NEW FORMULA ($ 000) (7)
LAFAYETTE-WEST LAFAYETTE SMSA							
LAFAYETTE CC	80	48,894	15.5	7.6	51.4	637	755
WEST LAFAYETTE CC	66	20,297	60.1	13.0	34.6	304	304
MUNCIE SMSA							
MUNCIE CC	148	78,329	14.2	13.5	53.5	1,449	1,449
SOUTH BEND SMSA							
SOUTH BEND CC	131	117,478	-11.3	9.2	54.0	1,877	4,011
TERRE HAUTE SMSA							
TERRE HAUTE CC	248	63,998	-11.7	13.2	70.8	1,278	2,688
IOWA							
CEDAR RAPIDS SMSA							
CEDAR RAPIDS CC	70	108,998	18.4	7.6	46.2	1,505	1,664
DAVENPORT-ROCK ISLAND-MOLINE SMSA							
DAVENPORT CC	106	99,941	12.3	9.4	54.1	1,576	1,744
DES MOINES SMSA							
DES MOINES CC	137	194,168	-7.1	10.0	54.4	3,137	6,085
DUBUQUE SMSA							
DUBUQUE CC	114	61,754	9.1	8.6	61.8	1,006	1,162
OMAHA SMSA							
COUNCIL BLUFFS SC	137	58,660	5.4	11.3	54.3	1,117	1,312
SIOUX CITY SMSA							
SIOUX CITY CC	172	85,719	-3.9	10.5	67.0	1,405	2,649
WATERLOO-CEDAR FALLS SMSA							
CEDAR FALLS CC	46	33,184	56.6	8.4	36.2	446	446
WATERLOO CC	114	77,681	8.3	10.6	49.7	1,302	1,449

RECIPIENT	URBAN CONDITIONS INDEX (1)	1975 POPULATION (2)	PERCENT POPULATION CHANGE 1960-75 (3)	PERCENT POVERTY, 1970 (4)	PERCENT PRE-1940 HOUSING 1970 (5)	GRANT UNDER ORIGINAL FORMULA ($ 000) (6)	GRANT UNDER NEW FORMULA ($ 000) (7)
KANSAS							
KANSAS CITY SMSA							
KANSAS CITY SC	111	168,153	37.9	13.8	47.4	3,489	3,489
OVERLAND PARK SC	3*	81,013	...	2.4	4.5	598	598
TOPEKA SMSA							
TOPEKA CC	97	119,203	-.2	9.9	41.5	1,897	2,735
WICHITA SMSA							
WICHITA CC	73	264,901	4.0	11.1	29.0	4,590	4,731
KENTUCKY							
CLARKSVILLE-HOPKINSVILLE SMSA							
HOPKINSVILLE CC	163	26,288	35.1	24.1	38.9	678	678
HUNTINGTON-ASHLAND SMSA							
ASHLAND CC	209	27,456	-12.2	14.3	54.8	564	1,063
LEXINGTON-FAYETTE SMSA							
LEXINGTON CC	39	186,048	196.2	16.1	31.2	3,306	3,306
LOUISVILLE SMSA							
LOUISVILLE CC	246	335,954	-14.0	17.0	53.2	8,415	13,673
JEFFERSON UC	9	333,310	63.8	6.1	9.5	4,215	4,215
OWENSBORO SMSA							
OWENSBORO CC	93	50,788	19.6	13.7	34.6	1,014	1,014
LOUISIANA							
ALEXANDRIA SMSA							
ALEXANDRIA CC	180	49,481	22.8	29.7	32.0	1,697	1,697
BATON ROUGE SMSA							
BATON ROUGE CC	56	294,394	92.5	18.6	20.7	6,537	6,537
LAFAYETTE SMSA							
LAFAYETTE CC	54	75,430	86.7	22.1	19.4	1,983	1,983

RECIPIENT	URBAN CONDITIONS INDEX (1)	1975 POPULATION (2)	PERCENT POPULATION CHANGE 1960-75 (3)	PERCENT POVERTY 1970 (4)	PERCENT PRE-1940 HOUSING 1970 (5)	GRANT UNDER ORIGINAL FORMULA ($ 000) (6)	GRANT UNDER NEW FORMULA ($ 000) (7)
LAKE CHARLES SMSA							
LAKE CHARLES CC	89	76,087	20.0	21.7	21.0	2,090	2,090
MONROE SMSA							
MONROE CC	159	61,016	16.8	30.0	26.4	1,943	1,943
NEW ORLEANS SMSA							
NEW ORLEANS CC	340	559,770	-10.8	26.2	49.4	19,483	22,914
JEFFERSON PARISH UC	12	399,016	91.7	10.3	9.5	6,398	6,398
SHREVEPORT SMSA							
SHREVEPORT CC	139	185,711	13.0	21.9	30.6	4,939	4,939
MAINE							
LEWISTON-AUBURN SMSA							
AUBURN CC	199	23,304	-4.7	10.9	74.1	409	803
LEWISTON CC	195	41,045	.6	12.3	68.1	743	1,220
PORTLAND SMSA							
PORTLAND CC	317	59,857	-17.5	14.7	76.1	1,237	3,001
MARYLAND							
BALTIMORE SMSA							
BALTIMORE CC	279	851,698	-9.3	18.0	60.0	20,952	32,338
ANNE ARUNDEL UC	18	311,592	66.5	6.1	19.9	3,670	3,670
WASHINGTON SMSA							
MONTGOMERY UC	1	518,691	67.7	4.1	1.2	6,431	6,431
PRINCE GEORGES UC	7	551,232	89.7	5.7	8.7	6,740	6,740
MASSACHUSETTS							
BOSTON SMSA							
BOSTON CC	303	636,725	-8.7	15.3	77.2	13,369	25,831
ARLINGTON SC	29	49,815	-.3	5.4	22.5	568	1,258
BROOKLINE SC	130	52,590	-2.7	8.8	61.5	735	1,823
CAMBRIDGE SC	251	102,420	-4.9	12.8	79.7	1,814	3,820
FRAMINGHAM SC	12	65,540	47.2	5.0	14.5	673	673

RECIPIENT	URBAN CONDITIONS INDEX (1)	1975 POPULATION (2)	PERCENT POPULATION CHANGE 1960-75 (3)	PERCENT POVERTY 1970 (4)	PERCENT PRE-1940 HOUSING 1970 (5)	GRANT UNDER ORIGINAL FORMULA ($ 000) (6)	GRANT UNDER NEW FORMULA ($ 000) (7)
LYNN SC	238	79,327	-16.0	10.7	79.8	1,426	3,846
MALDEN SC	149	55,778	-3.3	8.0	76.6	765	1,739
MEDFORD SC	124	60,769	-6.5	6.1	80.9	726	2,035
NEWTON SC	78	88,559	-4.1	4.7	67.5	853	2,401
QUINCY SC	109	91,494	4.7	6.8	71.2	1,157	2,153
SOMERVILLE SC	235	80,798	-14.7	9.5	90.1	1,379	3,778
WALTHAM SC	85	56,251	1.5	6.6	55.6	775	1,278
WEYMOUTH SC	12	56,815	17.9	5.5	11.0	678	678
BROCKTON SMSA							
BROCKTON CC	69	95,878	31.7	8.5	45.4	1,360	1,635
FALL RIVER SMSA							
FALL RIVER CC	262	100,430	.5	13.5	83.4	1,887	3,345
FITCHBURG-LEOMINSTER SMSA							
FITCHBURG CC	188	38,976	-9.4	9.8	74.1	666	1,519
LEOMINSTER CC	79	35,493	27.1	7.1	59.9	479	558
LAWRENCE SMSA							
HAVERHILL CC	179	44,377	-4.2	9.1	80.4	676	1,567
LAWRENCE CC	225	67,390	-5.0	11.4	80.0	1,146	2,487
LOWELL SMSA							
LOWELL CC	196	91,493	-.7	11.2	74.2	1,605	2,860
NEW BEDFORD SMSA							
NEW BEDFORD CC	292	100,133	-2.3	15.1	80.8	1,995	3,699
PITTSFIELD SMSA							
PITTSFIELD CC	122	54,893	-5.1	7.4	66.7	723	1,676
SPRINGFIELD-CHICOPEE-HOLYOKE SMSA							
CHICOPEE CC	81	57,771	-6.1	6.9	46.8	917	1,547
HOLYOKE CC	283	46,435	-11.9	14.5	73.4	987	2,091
SPRINGFIELD CC	191	170,790	-2.1	12.4	64.4	2,924	4,992
WORCESTER SMSA							
WORCESTER CC	188	171,566	-8.1	9.9	74.4	2,678	6,117

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MICHIGAN							
ANN ARBOR SMSA							
ANN ARBOR CC	45	103,542	53.8	10.5	28.1	1,541	1,541
BATTLE CREEK SMSA							
BATTLE CREEK CC	258	43,338	-1.9	15.7	68.9	778	1,368
BAY CITY SMSA							
BAY CITY CC	203	47,215	-11.9	10.5	72.7	794	1,850
DETROIT SMSA							
DETROIT CC	266	1,335,085	-20.1	14.7	61.8	29,704	64,509
CLINTON TWP SC	2	60,697	136.3	10.2	1.9	632	632
DEARBORN SC	58	98,986	-11.6	5.5	39.5	1,181	2,792
DEARBORN HEIGHTS SC	6*	79,239	...	3.3	7.1	935	935
FARMINGTON HILLS SC	7	54,124	686.6	17.0	12.4	492	492
LINCOLN PARK SC	26	49,514	-8.2	5.3	19.0	705	979
LIVONIA SC	2	114,881	72.2	2.1	6.5	1,082	1,082
PONTIAC SC	153	76,027	-7.5	12.8	47.2	1,704	2,349
REDFORD TWP SC	6	67,298	-5.6	2.9	7.7	797	929
ROSEVILLE SC	12	58,141	15.8	4.9	11.7	861	861
ROYAL OAK SC	21	79,191	-1.8	3.8	22.9	864	1,259
SOUTHFIELD SC	2	75,978	141.2	3.2	5.6	606	606
ST CLAIR SHORES SC	7	85,934	12.1	3.2	9.7	1,048	1,048
STERLING HEIGHTS SC	3*	86,932	...	2.8	3.9	687	687
TAYLOR SC	11*	76,626	...	4.9	9.1	1,010	1,010
WARREN SC	4	172,755	93.6	3.2	8.9	2,023	2,023
WATERFORD TWP SC	17	59,888	27.1	4.7	19.1	720	720
WESTLAND SC	5*	92,689	...	3.6	5.3	1,119	1,119
OAKLAND UC	16	450,674	23.4	4.1	19.9	5,014	5,014
WAYNE UC	39	342,822	-12.8	4.4	32.8	4,936	4,936
FLINT SMSA							
FLINT CC	146	174,218	-11.5	12.1	45.6	3,546	5,870
GENESEE UC	19	252,637	56.3	5.1	23.8	3,024	3,024

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GRAND RAPIDS SMSA							
GRAND RAPIDS CC	166	187,946	6.0	12.1	62.0	3,220	4,805
WYOMING SC	30	57,918	26.4	5.9	26.7	760	760
JACKSON SMSA							
JACKSON CC	273	43,994	-13.3	12.5	80.8	787	1,918
KALAMAZOO-PORTAGE SMSA							
KALAMAZOO CC	180	79,542	-3.1	12.9	57.7	1,426	2,366
PORTAGE CC	10*	38,641	...	3.4	11.5	360	360
LANSING-EAST LANSING SMSA							
EAST LANSING CC	29	50,425	67.0	10.7	18.8	701	701
LANSING CC	92	126,805	17.6	9.9	46.5	2,055	2,127
MUSKEGON-NORTON SHORES-MUSKEGON HEIGHTS SMSA							
MUSKEGON CC	204	44,176	-5.0	12.3	67.2	809	1,484
MUSKEGON HEIGHTS CC	334	15,745	-19.5	19.2	59.8	441	745
NORTON SHORES CC	19*	21,294	...	5.0	15.4	276	276
SAGINAW SMSA							
SAGINAW CC	234	86,202	-12.3	13.7	64.1	1,802	3,334
MINNESOTA							
DULUTH-SUPERIOR SMSA							
DULUTH CC	221	93,971	-12.1	11.4	72.6	1,608	3,830
FARGO-MOORHEAD SMSA							
MOORHEAD CC	50	22,755	-.8	9.6	21.9	452	452
MINNEAPOLIS-ST PAUL SMSA							
MINNEAPOLIS CC	234	378,112	-21.7	11.5	68.1	6,849	19,859
ST PAUL CC	151	279,535	-10.8	9.2	62.4	4,567	10,290
BLOOMINGTON SC	2	79,210	56.9	2.7	3.8	814	814
HENNEPIN UC	7	363,053	48.1	3.4	12.6	3,554	3,554
ROCHESTER SMSA							
ROCHESTER CC	50	56,211	38.2	7.9	37.3	731	731

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ST CLOUD SMSA							
ST CLOUD CC	94	40,621	20.1	9.9	48.4	699	699
MISSISSIPPI							
BILOXI-GULFPORT SMSA							
BILOXI CC	91	46,407	5.3	15.7	26.0	1,022	1,022
GULFPORT CC	68	43,126	42.8	17.8	23.0	963	963
MOSS POINT CC	18	18,298	175.9	17.2	12.0	506	506
PASCAGOULA CC	27	30,403	77.2	12.9	15.3	557	557
JACKSON SMSA							
JACKSON CC	109	166,512	15.3	23.7	22.5	4,635	4,635
MISSOURI							
COLUMBIA SMSA							
COLUMBIA CC	44	63,227	72.5	12.6	25.2	1,015	1,015
KANSAS CITY SMSA							
KANSAS CITY CC	151	472,529	-.6	12.5	51.3	9,063	13,582
INDEPENDENCE SC	23	111,481	78.9	6.1	28.4	1,341	1,341
ST JOSEPH SMSA							
ST JOSEPH CC	235	77,679	-2.5	13.7	71.4	1,499	2,550
ST LOUIS SMSA							
ST LOUIS CC	487	524,964	30.0	19.7	73.9	16,761	36,380
FLORISSANT SC	1	70,465	84.6	3.0	2.2	780	780
ST LOUIS UC	17	766,147	33.8	4.4	22.0	9,100	9,100
SPRINGFIELD SMSA							
SPRINGFIELD CC	96	131,557	37.2	14.0	40.2	2,299	2,299
MONTANA							
BILLINGS SMSA							
BILLINGS CC	70	68,987	30.5	11.6	33.7	1,069	1,069

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GREAT FALLS SMSA							
GREAT FALLS CC	89	60,868	10.2	10.4	40.0	1,027	1,027
NEBRASKA							
LINCOLN SMSA							
LINCOLN CC	72	163,112	26.9	8.8	44.2	2,085	2,265
OMAHA SMSA							
OMAHA CC	91	371,455	23.2	10.4	46.1	5,914	5,914
NEVADA							
LAS VEGAS SMSA							
LAS VEGAS CC	4	146,030	126.7	9.3	3.8	2,154	2,154
RENO SMSA							
RENO CC	33	78,097	51.7	8.9	23.7	1,095	1,095
NEW HAMPSHIRE							
MANCHESTER-NASHUA SMSA							
MANCHESTER CC	169	83,417	-5.5	10.1	67.6	1,400	2,774
NASHUA CC	48	61,002	56.0	6.4	49.1	752	807
NEW JERSEY							
ATLANTIC CITY SMSA							
ATLANTIC CITY CC	460	43,969	-26.2	22.0	66.0	1,232	2,882
JERSEY CITY SMSA							
JERSEY CITY CC	282	243,756	-11.7	13.5	78.9	5,530	10,645
BAYONNE SC	155	73,574	-.9	9.0	73.0	1,131	2,196
UNION CITY SC	70	52,648	.9	3.7	81.3	1,254	1,929
HUDSON UC	117	156,779	-.3	6.6	75.5	2,439	4,325
LONG BRANCH-ASBURY PARK SMSA							
ASBURY PARK CC	407	13,841	-20.3	23.1	60.0	456	805
LONG BRANCH CC	131	31,007	18.0	13.1	50.3	610	617

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MIDDLETOWN TWP SC	33	58,535	47.5	4.3	47.5	579	598
MONMOUTH UC	31	364,552	54.8	7.0	29.1	4,330	4,330
NEW BRUNSWICK-PERTH AMBOY-SAYREVILLE SMSA							
NEW BRUNSWICK CC	150	47,420	18.1	12.4	61.1	812	823
PERTH AMBOY CC	203	35,963	-5.4	12.2	67.2	728	1,255
SAYREVILLE CC	9	33,329	47.8	2.6	19.9	311	311
EDISON TWP SC	6	66,274	47.9	2.7	12.1	603	603
ELIZABETH SC	179	104,405	-3.1	11.4	64.9	2,119	3,386
WOODBRIDGE TWP SC	14	95,798	21.5	3.2	21.5	922	922
MIDDLESEX UC	20	273,531	49.9	4.8	26.6	2,965	2,965
NEWARK SMSA							
NEWARK CC	422	339,568	-16.2	22.1	68.4	11,247	16,785
BLOOMFIELD SC	74	52,162	.6	5.0	63.3	547	1,292
EAST ORANGE SC	186	73,420	-5.0	11.1	67.8	1,250	2,583
IRVINGTON SC	138	58,196	-2.0	8.8	65.3	837	1,853
PARS-TH TWP SC**	5	50,104	96.0	2.6	13.0	422	422
UNION TWP SC	34	51,113	-7.9	4.3	40.9	466	906
ESSEX UC	151	174,942	8.9	12.9	54.4	1,808	2,763
MORRIS UC	21	312,744	45.5	3.6	34.9	2,838	2,838
UNION UC	133	294,430	-.7	12.8	33.4	2,863	4,314
PATERSON-CLIFTON-PASSAIC SMSA							
CLIFTON CC	45	79,467	-3.2	4.2	44.0	782	1,782
PASSAIC CC	284	49,900	-7.5	14.8	75.7	1,184	2,066
PATERSON CC	284	136,098	-5.3	16.3	70.5	3,423	5,049
BERGEN UC	4	797,063	12.8	3.7	4.0	7,723	12,854
PHILADELPHIA SMSA							
CAMDEN SC	447	89,214	-23.9	20.8	70.0	2,577	5,139
CHERRY HILL TWP SC	5	68,794	8.9	2.7	8.2	488	488
BURLINGTON UC	22	247,404	54.0	5.0	28.7	2,756	2,756
TRENTON SMSA							
TRENTON CC	348	101,365	-11.2	16.3	81.0	2,250	4,378
HAMILTON TWP SC	27	83,126	27.8	4.8	30.4	854	854

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VINELAND-MILVILLE-BRIDGETON SMSA							
BRIDGETON CC	226	20,545	-1.8	14.1	67.1	400	633
MILLVILLE CC	97	25,119	31.5	10.4	52.0	343	382
VINELAND CC	65	53,637	42.3	9.8	40.3	791	791
NEW MEXICO							
ALBUQUERQUE SMSA							
ALBUQUERQUE CC	30	279,401	38.9	13.9	12.6	4,978	4,978
NEW YORK							
ALBANY-SCHENECTADY-TROY SMSA							
ALBANY CC	272	110,311	-15.0	13.2	74.7	1,990	5,081
SCHENECTADY CC	207	74,995	-8.2	10.0	81.3	1,097	3,052
TROY CC	287	60,312	-10.6	13.5	81.0	1,107	2,538
BINGHAMTON SMSA							
BINGHAMTON CC	284	60,666	-20.1	11.9	81.3	1,023	3,138
BUFFALO SMSA							
BUFFALO CC	388	407,160	-23.6	14.8	85.7	8,432	24,293
NIAGARA FALLS SC	199	80,773	-21.1	10.9	61.5	1,406	3,657
WEST SENECA TOWN SC	13	54,154	61.0	3.7	24.5	547	547
ERIE UC	30	591,793	26.0	5.0	32.2	6,441	6,441
ELMIRA SMSA							
ELMIRA CC	399	37,320	-19.8	15.6	87.6	757	1,999
NASSAU-SUFFOLK SMSA							
NASSAU UC	23	114,021	7.9	3.8	27.0	1,566	2,161
SUFFOLK UC	14	931,535	88.0	6.0	18.7	9,878	9,878
NEW YORK CITY SMSA							
NEW YORK CITY CC	222	7,481,613	-3.9	14.7	62.1	174,170	255,919
MT VERNON SC	174	67,687	-10.9	9.3	71.1	1,233	2,630
NEW ROCHELLE SC	105	71,841	-6.5	7.5	56.0	1,045	2,086
YONKERS SC	86	192,509	1.0	7.2	51.4	2,816	4,524
ROCKLAND UC	16	193,734	83.6	4.4	27.8	1,997	1,997
WESTCHESTER UC	58	234,309	17.6	6.1	47.8	2,619	3,869

RECIPIENT	URBAN CONDITIONS INDEX (1)	1975 POPULATION (2)	PERCENT POPULATION CHANGE 1960-75 (3)	PERCENT POVERTY 1970 (4)	PERCENT PRE-1940 HOUSING 1970 (5)	GRANT UNDER ORIGINAL FORMULA ($ 000) (6)	GRANT UNDER NEW FORMULA ($ 000) (7)
POUGHKEEPSIE SMSA							
POUGHKEEPSIE CC	287	31,608	-17.5	12.8	79.0	558	1,531
ROCHESTER SMSA							
ROCHESTER CC	266	267,173	-16.1	12.0	79.5	4,935	12,843
GREECE TOWN SC	8	76,401	57.0	2.8	19.0	629	629
IRONDEQUOIT TOWN SC	20	60,164	8.7	2.7	32.9	487	667
MONROE UC	23	271,674	86.2	6.9	25.5	2,282	2,282
SYRACUSE SMSA							
SYRACUSE CC	265	182,543	-15.5	13.5	70.8	3,414	8,314
ONONDAGA UC	27	289,380	40.2	5.2	30.2	3,126	3,126
UTICA-ROME SMSA							
ROME CC	110	49,014	-5.1	8.2	54.3	701	1,272
UTICA CC	297	82,443	-17.9	13.2	79.0	1,547	4,148
NORTH CAROLINA							
ASHEVILLE SMSA							
ASHEVILLE CC	177	59,591	-1.0	18.0	51.0	1,339	1,743
BURLINGTON SMSA							
BURLINGTON CC	60	37,586	13.2	9.6	30.1	616	616
CHARLOTTE-GASTONIA SMSA							
CHARLOTTE CC	48	281,417	39.6	14.8	19.3	5,235	5,235
GASTONIA CC	79	49,343	32.4	13.6	32.5	997	997
FAYETTEVILLE SMSA							
FAYETTEVILLE CC	118	65,915	39.9	19.4	18.9	1,613	1,613
GREENSBORO-WINSTON SALEM-HIGH POINT SMSA							
GREENSBORO CC	75	155,848	30.3	23.6	20.7	2,551	2,551
HIGH POINT CC	44	61,330	-1.2	11.7	33.1	1,288	1,364
WINSTON-SALEM CC	107	141,018	26.9	13.6	28.5	3,029	3,029

RECIPIENT	URBAN CONDITIONS INDEX (1)	1975 POPULATION (2)	PERCENT POPULATION CHANGE 1960-75 (3)	PERCENT POVERTY 1970 (4)	PERCENT PRE-1940 HOUSING 1970 (5)	GRANT UNDER ORIGINAL FORMULA ($ 000) (6)	GRANT UNDER NEW FORMULA ($ 000) (7)
RALEIGH-DURHAM SMSA							
DURHAM CC	91	101,224	29.3	17.3	33.6	2,356	2,356
RALEIGH CC	52	134,231	42.9	12.8	24.8	2,251	2,251
WILMINGTON SMSA							
WILMINGTON CC	191	53,818	22.3	25.2	39.5	1,360	1,360
NORTH DAKOTA							
FARGO-MOORHEAD SMSA							
FARGO CC	81	56,058	20.1	8.6	48.2	790	826
OHIO							
AKRON SMSA							
AKRON CC	179	251,747	-13.3	11.6	57.0	4,453	9,646
SUMMIT UC	27	214,969	26.9	5.2	27.4	2,749	4,058
CANTON SMSA							
CANTON CC	211	101,852	-10.4	12.2	66.2	1,873	3,953
STARK UC	34	219,009	20.9	4.6	37.6	2,558	2,558
CINCINNATI SMSA							
CINCINNATI CC	289	412,564	-17.9	17.1	59.3	10,536	19,577
HAMILTON UC	22	418,196	34.9	4.5	28.2	4,860	4,860
CLEVELAND SMSA							
CLEVELAND CC	400	638,793	-27.1	17.0	73.3	16,020	39,490
CLEVELAND HEIGHTS SC	113	51,141	-17.3	5.5	72.7	533	2,273
EUCLID SC	17	63,307	.5	4.1	17.3	685	879
LAKEWOOD SC	82	65,395	-1.1	5.4	64.1	701	2,132
PARMA SC	10	98,883	19.4	3.6	13.2	968	968
CUYAHOGA UC	14	412,199	35.6	3.6	21.6	3,847	3,847
COLUMBUS SMSA							
COLUMBUS CC	106	535,610	13.6	13.2	39.0	9,834	9,834
FRANKLIN UC	15	321,797	52.4	5.0	18.8	3,239	3,239
DAYTON SMSA							
DAYTON CC	213	205,986	-21.5	13.7	52.1	4,595	9,784

RECIPIENT	URBAN CONDITIONS INDEX (1)	1975 POPULATION (2)	PERCENT POPULATION CHANGE 1960-75 (3)	PERCENT POVERTY 1970 (4)	PERCENT PRE-1940 HOUSING 1970 (5)	GRANT UNDER ORIGINAL FORMULA ($ 000) (6)	GRANT UNDER NEW FORMULA ($ 000) (7)
KETTERING SC	5	69,949	28.4	3.1	7.1	611	611
MONTGOMERY UC	14	310,179	48.2	4.4	19.0	3,218	3,218
HAMILTON-MIDDLETOWN SMSA							
HAMILTON CC	154	66,469	-8.1	11.1	54.2	1,222	2,085
MIDDLETOWN CC	100	48,004	14.0	10.8	44.9	825	825
LIMA SMSA							
LIMA CC	205	51,372	.7	12.0	73.4	964	1,493
LORAIN-ELYRIA SMSA							
ELYRIA CC	58	52,474	19.9	7.1	41.2	734	734
LORAIN CC	81	84,907	23.2	10.0	42.3	1,376	1,376
MANSFIELD SMSA							
MANSFIELD CC	117	56,916	20.3	11.4	52.8	949	1,040
PARKERSBURG-MARIETTA SMSA							
MARIETTA CC	254	16,174	-4.0	14.2	73.3	296	576
SPRINGFIELD SMSA							
SPRINGFIELD CC	196	77,317	-6.5	12.5	62.6	1,443	2,628
STEUBENVILLE-WEIRTON SMSA							
STEUBENVILLE CC	246	28,280	-13.0	14.8	61.8	579	1,164
TOLEDO SMSA							
TOLEDO CC	123	367,650	15.6	10.7	56.8	6,028	7,280
YOUNGSTOWN-WARREN SMSA							
WARREN CC	105	60,486	1.4	9.6	47.1	974	1,363
YOUNGSTOWN CC	275	132,203	-20.7	13.8	67.4	2,612	6,284
OKLAHOMA							
LAWTON SMSA							
LAWTON CC	51	76,421	23.9	17.4	15.4	1,679	1,679

RECIPIENT	URBAN CONDITIONS INDEX (1)	1975 POPULATION (2)	PERCENT POPULATION CHANGE 1960-75 (3)	PERCENT POVERTY 1970 (4)	PERCENT PRE-1940 HOUSING 1970 (5)	GRANT UNDER ORIGINAL FORMULA ($ 000) (6)	GRANT UNDER NEW FORMULA ($ 000) (7)
OKLAHOMA CITY SMSA							
OKLAHOMA CITY CC	84	365,916	12.8	13.9	29.1	7,110	7,110
MIDWEST CITY SC	6	50,105	39.0	9.2	3.7	779	779
NORMAN SC	37	59,948	79.4	13.1	21.3	909	909
TULSA SMSA							
TULSA CC	57	331,726	26.8	11.9	25.9	5,545	5,545
OREGON							
EUGENE-SPRINGFIELD SMSA							
EUGENE CC	36	92,451	81.4	12.4	22.3	1,343	1,343
SPRINGFIELD CC	19	33,432	70.4	9.8	13.5	465	465
PORTLAND SMSA							
PORTLAND CC	176	356,732	-4.3	12.6	57.2	6,173	12,016
SALEM SMSA							
SALEM CC	54	78,168	59.1	10.6	34.5	1,063	1,063
PENNSYLVANIA							
ALLENTOWN-BETHLEHEM-EASTON SMSA							
ALLENTOWN CC	146	106,624	-1.6	9.2	66.5	1,469	3,214
BETHLEHEM CC	114	73,827	-2.1	8.6	55.5	967	1,877
EASTON CC	329	29,263	-8.4	15.3	84.2	560	1,234
ALTOONA SMSA							
ALTOONA CC	211	59,692	-14.0	9.2	84.0	1,088	2,765
ERIE SMSA							
ERIE CC	186	127,895	-7.6	11.0	66.8	2,082	4,284
HARRISBURG SMSA							
HARRISBURG CC	478	58,274	-26.9	20.3	73.6	1,500	3,900
JOHNSTOWN SMSA							
JOHNSTOWN CC	398	40,044	-25.8	14.9	84.7	829	2,404

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LANCASTER SMSA							
LANCASTER CC	295	56,669	-7.2	14.8	79.1	1,059	2,254
LANCASTER UC	66	286,128	31.7	7.6	48.8	3,421	3,756
NORTHEAST (SCRANTON) SMSA							
HAZLETON CC	213	29,610	-7.6	10.2	82.2	443	1,152
SCRANTON CC	269	95,884	-14.0	11.4	86.6	1,617	4,473
WILKES-BARRE CC	308	57,040	-10.2	13.1	90.0	1,010	2,519
LUZERNE UC	194	214,003	3.0	11.1	76.9	3;270	5,114
PHILADELPHIA SMSA							
PHILADELPHIA CC	271	1,815,808	-9.3	15.1	69.5	37,987	72,020
ABINGTON TWP SC	32	60,032	7.5	4.6	31.3	601	709
BRISTOL TWP SC	2	66,184	435.3	4.8	9.4	902	902
CHESTER SC	407	48,529	39.0	19.8	41.3	1,344	2,725
HAVERFORD TWP SC	31	55,385	2.5	3.0	43.9	451	880
LOWER MERION TWP SC	62	60,099	1.1	5.6	47.5	583	1,254
UPPER DARBY TWP SC	52	91,521	-1.8	4.3	50.3	928	2,097
BUCKS UC	21	354,288	49.4	5.2	24.9	3,729	3,729
CHESTER UC	49	278,649	-23.8	7.0	66.9	3,300	3,300
DELAWARE UC	48	382,827	-19.1	4.6	35.7	4,013	4,013
MONTGOMERY UC	33	389,173	-.5	3.7	37.1	3,637	3,637
PITTSBURGH SMSA							
PITTSBURGH CC	344	458,651	-24.1	15.0	74.4	10,117	26,282
PENN HILLS TWP SC	18	62,605	21.5	4.6	20.1	651	651
ALLEGHENY UC	121	897,303	2.5	6.2	85.0	10,629	13,280
BEAVER UC	84	180,240	1.4	7.4	49.2	2,626	3,010
WASHINGTON UC	157	179,359	-1.2	10.7	61.8	2,966	4,125
WESTMORELAND UC	83	333,827	7.8	7.4	51.6	4,563	4,687
READING SMSA							
READING CC	304	81,592	-16.9	12.4	86.9	1,374	4,255
BERKS UC	74	220,357	-7.6	5.6	51.6	2,343	2,984
WILLIAMSPORT SMSA							
WILLIAMSPORT CC	360	35,915	-14.4	14.9	88.4	705	1,737
YORK SMSA							
YORK CC	309	48,587	-10.9	14.5	81.2	919	2,176
YORK UC	118	224,826	29.0	14.5	44.7	2,579	2,893

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RHODE ISLAND							
PROVIDENCE-WARWICK-PAWTUCKET SMSA							
PAWTUCKET CC	209	72,024	-11.1	11.5	68.9	1,284	2,871
PROVIDENCE CC	416	167,724	-19.2	17.8	80.7	3,826	9,160
WARWICK CC	36	85,875	26.2	5.6	34.2	1,015	1,015
CRANSTON CITY SC	56	74,381	11.4	5.5	48.4	817	1,017
SOUTH CAROLINA							
CHARLESTON-NORTH CHARLESTON SMSA							
CHARLESTON CC	314	57,470	-12.8	26.3	44.4	2,028	2,512
NORTH CHARLESTON SC	188*	59,544	...	14.3	54.3	1,091	1,091
COLUMBIA SMSA							
COLUMBIA CC	111	111,616	14.6	17.8	30.3	2,485	2,485
GREENVILLE-SPARTANBURG SMSA							
GREENVILLE CC	188	58,518	-11.6	19.9	35.6	1,532	2,013
SPARTANBURG CC	187	46,929	5.8	21.6	39.1	1,200	1,200
SOUTH DAKOTA							
SIOUX FALLS SMSA							
SIOUX FALLS CC	86	73,925	12.9	9.3	44.3	1,105	1,105
TENNESSEE							
CHATTANOOGA SMSA							
CHATTANOOGA CC	162	161,978	24.6	24.5	48.3	4,013	4,013
CLARKSVILLE-HOPKINSVILLE SMSA							
CLARKSVILLE CC	43	51,910	135.7	21.9	19.5	987	987
JOHNSON CITY-KINGSPORT-BRISTOL SMSA							
BRISTOL CC	113	27,016	53.7	15.9	46.7	501	501
JOHNSON CITY CC	154	39,325	26.1	19.3	43.0	935	935

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KINGSPORT CC	91	33,024	25.5	15.3	31.6	622	622
KNOXVILLE SMSA							
KNOXVILLE CC	96	183,383	64.0	18.2	37.0	3,965	3,965
MEMPHIS SMSA							
MEMPHIS CC	86	661,319	32.9	20.4	23.0	17,335	17,335
NASHVILLE SMSA							
NASHVILLE CC	31	423,426	147.8	13.1	24.8	8,294	8,294
TEXAS							
ABILENE SMSA							
ABILENE CC	67	96,459	6.7	13.9	21.9	1,783	1,783
AMARILLO SMSA							
AMARILLO CC	53	138,743	.6	11.8	19.3	2,309	2,309
AUSTIN SMSA							
AUSTIN CC	40	301,147	61.4	15.9	17.0	5,666	5,666
BEAUMONT-PORT ARTHUR-ORANGE SMSA							
BEAUMONT CC	133	113,696	-4.6	17.3	31.2	2,678	2,999
ORANGE CC	97	25,782	.7	17.1	24.4	635	635
PORT ARTHUR CC	219	53,557	-19.7	19.2	39.2	1,457	2,290
BROWNSVILLE-HARLINGEN-SAN BENITO SMSA							
BROWNSVILLE CC	145	72,157	50.2	45.4	20.5	3,009	3,009
HARLINGEN CC	126	40,423	-1.9	40.2	13.1	1,584	1,584
SAN BENITO CC	418	17,436	6.2	52.1	36.4	886	886
BRYAN-COLLEGE STATION SMSA							
BRYAN CC	71	37,160	34.9	20.9	19.4	904	904
COLLEGE STATION CC	16	26,577	133.2	13.4	11.9	339	339
CORPUS CHRISTI SMSA							
CORPUS CHRISTI CC	41	214,838	28.1	19.0	11.7	5,517	5,517

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DALLAS SMSA							
DALLAS CC	48	812,797	19.6	13.3	18.1	16,821	16,821
FORT WORTH CC	83	358,364	.6	13.3	26.7	7,821	7,821
ARLINGTON SC	2	110,543	146.9	5.3	3.6	1,105	1,105
GARLAND SC	1	111,322	189.1	4.0	2.9	1,056	1,056
GRAND PRAIRIE SC	6	56,842	87.1	7.8	5.4	857	857
IRVING SC	2	103,703	125.5	5.4	3.4	1,254	1,254
MESQUITE SC	2	61,933	125.0	4.5	2.6	705	705
RICHARDSON SC	2	59,190	252.1	18.3	1.3	403	403
TARRANT UC	11	245,253	89.2	5.9	14.9	2,946	2,946
EL PASO SMSA							
EL PASO CC	78	385,691	39.4	20.4	22.7	9,703	9,703
GALVESTON-TEXAS CITY SMSA							
GALVESTON CC	251	60,125	-10.5	20.5	46.8	1,630	2,239
TEXAS CITY CC	24	40,939	27.7	10.9	11.8	714	714
HOUSTON SMSA							
HOUSTON CC	40	1,326,809	41.4	13.9	17.3	26,282	26,282
PASADENA SC	4	94,670	61.2	6.0	4.4	1,225	1,225
HARRIS UC	10	437,142	112.4	9.2	9.7	5,983	5,983
KILLEEN-TEMPLE SMSA							
KILLEEN CC	10	49,307	110.9	16.8	4.9	887	887
TEMPLE CC	92	39,518	29.9	17.1	29.9	788	788
LAREDO SMSA							
LAREDO CC	270	76,998	26.9	44.6	32.8	3,693	3,693
LONGVIEW SMSA							
LONGVIEW CC	50	52,034	29.9	13.6	20.2	946	946
LUBBOCK SMSA							
LUBBOCK CC	116	163,525	27.1	40.1	11.3	3,453	3,453
MCALLEN-PHARR-EDINBURG SMSA							
EDINBURG CC	34	20,514	9.7	16.2	13.5	858	858
MCALLEN CC	147	48,563	48.4	40.2	23.2	1,788	1,788

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PHARR CC	142	19,589	38.9	51.9	16.2	958	958
MIDLAND SMSA							
MIDLAND CC	17	62,950	.5	12.4	5.8	1,113	1,113
ODESSA SMSA							
ODESSA CC	12	84,476	5.2	12.6	4.0	1,613	1,613
SAN ANGELO SMSA							
SAN ANGELO CC	107	66,099	12.4	18.6	27.6	1,558	1,558
SAN ANTONIO SMSA							
SAN ANTONIO CC	99	773,248	31.6	21.5	25.8	20,622	20,622
SHERMAN-DENISON SMSA							
DENISON CC	156	22,413	-1.5	14.9	43.9	513	646
SHERMAN CC	84	26,049	4.2	10.1	36.9	443	535
TEXARKANA SMSA							
TEXARKANA CC	145	33,813	11.9	19.1	36.1	769	769
TYLER SMSA							
TYLER CC	70	61,434	19.9	13.1	27.3	1,150	1,150
WACO SMSA							
WACO CC	146	97,607	-.2	20.7	30.0	2,357	2,357
WICHITA FALLS SMSA							
WICHITA FALLS CC	99	95,008	-6.6	13.2	29.7	1,769	2,392
UTAH							
PROVO-OREM SMSA							
OREM CC	13	35,584	93.5	11.4	9.2	524	524
PROVO CC	85	55,593	54.2	18.3	30.3	1,245	1,245
SALT LAKE CITY-OGDEN SMSA							
OGDEN CC	133	68,978	-1.7	12.3	45.3	1,319	1,734
SALT LAKE CITY CC	188	169,917	-10.3	13.8	52.1	3,352	6,036

RECIPIENT	URBAN CONDITIONS INDEX (1)	1975 POPULATION (2)	PERCENT POPULATION CHANGE 1960-75 (3)	PERCENT POVERTY 1970 (4)	PERCENT PRE-1940 HOUSING 1970 (5)	GRANT UNDER ORIGINAL FORMULA ($ 000) (6)	GRANT UNDER NEW FORMULA ($ 000) (7)
SALT LAKE UC	15	342,213	76.8	7.5	14.8	4,665	4,665
VIRGINIA							
LYNCHBURG SMSA							
LYNCHBURG CC	160	63,066	15.1	14.2	55.4	1,157	1,157
NEWPORT NEWS-HAMPTON SMSA							
HAMPTON CC	33	125,013	40.1	10.6	18.1	1,974	1,974
NEWPORT NEWS CC	51	138,760	22.1	13.8	19.2	2,623	2,623
NORFOLK-VIRGINIA BEACH-PORTSMOUTH SMSA							
NORFOLK CC	132	286,694	-6.0	17.3	30.5	6,678	7,651
PORTSMOUTH CC	133	108,674	-5.3	18.6	28.8	2,655	2,868
VIRGINIA BEACH CC	1	213,954	2544.3	9.6	6.9	2,664	2,664
CHESAPEAKE SC	57*	104,459	...	13.6	17.1	1,816	1,816
PETERSBURG-COLONIAL HEIGHTS-HOPEWELL SMSA							
COLONIAL HEIGHTS CC	16	17,472	82.2	5.5	21.3	171	171
HOPEWELL CC	63	23,580	31.8	10.6	33.4	388	388
PETERSBURG CC	241	45,245	19.9	22.6	54.6	1,151	1,151
RICHMOND SMSA							
RICHMOND CC	173	232,652	5.8	17.4	44.8	5,535	5,668
ROANOKE SMSA							
ROANOKE CC	159	100,585	3.6	14.6	50.2	1,899	2,378
WASHINGTON SMSA							
ALEXANDRIA SC	31	105,220	15.6	8.3	18.3	1,555	1,555
FAIRFAX UC	3	493,206	86.5	4.1	4.8	4,333	4,333
WASHINGTON							
RICHLAND-KENNEWICK SMSA							
KENNEWICK CC	18	19,015	33.5	9.3	10.7	260	260
RICHLAND CC	1	29,543	25.5	5.8	.8	309	309

RECIPIENT	URBAN CONDITIONS INDEX (1)	1975 POPULATION (2)	PERCENT POPULATION CHANGE 1960-75 (3)	PERCENT POVERTY 1970 (4)	PERCENT PRE-1940 HOUSING 1970 (5)	GRANT UNDER ORIGINAL FORMULA ($ 000) (6)	GRANT UNDER NEW FORMULA ($ 000) (7)
SEATTLE-EVERETT SMSA							
EVERETT CC	96	48,371	20.0	11.1	44.3	839	933
SEATTLE CC	128	487,091	-12.6	10.0	47.6	7,533	17,949
BELLEVUE SC	1	65,365	410.3	3.2	3.4	502	502
KING UC	11	590,082	61.6	5.3	14.2	6,400	6,400
SNOHOMISH UC	18	204,169	63.6	6.6	18.4	2,563	2,563
SPOKANE SMSA							
SPOKANE CC	177	173,698	-4.4	13.5	53.6	3,013	5,284
TACOMA SMSA							
TACOMA CC	138	151,267	2.2	12.4	48.5	2,600	3,792
PIERCE UC	24	263,738	52.3	7.4	20.6	3,402	3,402
YAKIMA SMSA							
YAKIMA CC	172	49,264	13.8	16.9	49.3	968	995
WEST VIRGINIA							
CHARLESTON SMSA							
CHARLESTON CC	299	67,348	-21.5	17.2	58.3	1,492	3,359
HUNTINGTON-ASHLAND SMSA							
HUNTINGTON CC	354	68,811	-17.7	18.5	67.2	1,597	3,411
PARKERSBURG-MARIETTA SMSA							
PARKERSBURG CC	206	38,882	-13.2	13.1	58.3	780	1,600
STEUBENVILLE-WEIRTON SMSA							
WEIRTON CC	141	25,935	-8.0	7.2	76.6	361	638
WHEELING SMSA							
WHEELING CC	154	44,369	-16.9	15.3	35.6	933	2,215
WISCONSIN							
APPLETON-OSHKOSH SMSA							
APPLETON CC	53	59,182	22.2	5.9	46.5	728	736
OSHKOSH CC	130	50,107	11.1	9.3	66.0	735	1,048

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DULUTH-SUPERIOR SMSA							
SUPERIOR CC	266	30,038	-10.5	13.2	77.1	548	1,242
EAU CLAIRE SMSA							
EAU CLAIRE CC	34	47,852	26.0	9.9	18.3	689	797
GREEN BAY SMSA							
GREEN BAY CC	56	91,189	45.0	7.6	44.9	1,340	1,340
KENOSHA SMSA							
KENOSHA CC	84	80,727	18.9	7.8	54.7	1,212	1,272
LA CROSSE SMSA							
LA CROSSE CC	176	49,082	3.2	12.0	64.7	840	1,318
MADISON SMSA							
MADISON CC	67	168,196	32.7	11.0	34.4	2,827	2,827
MILWAUKEE SMSA							
MILWAUKEE CC	161	665,796	-10.2	11.2	55.0	12,241	22,969
WAUWATOSA SC	41	56,514	-.7	4.1	42.1	525	1,092
WEST ALLIS SC	45	69,084	1.4	4.3	44.5	785	1,339
RACINE SMSA							
RACINE CC	110	94,744	6.3	8.9	55.9	1,470	1,949

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PUERTO RICO							
CAGUAS SMSA							
CAGUAS CC	216	107,268	64.8	84.7	17.9	5,802	5,802
MAYAGUEZ SMSA							
MAYAGUEZ CC	500	99,616	18.8	76.7	33.1	5,437	5,437
PONCE SMSA							
PONCE CC	366	188,167	29.2	77.7	26.0	10,480	10,480
SAN JUAN SMSA							
SAN JUAN CC	179	517,747	14.6	48.3	18.1	23,309	23,309
BAYAMON SC	21	205,380	184.4	46.1	5.3	7,688	7,688
CAROLINA SC	13	162,444	297.0	44.3	4.8	4,943	4,943
GUAYNABO SC	85	77,012	93.9	53.5	13.1	3,310	3,310

*FOR CERTAIN RECENTLY INCORPORATED JURISDICTIONS, 1960 POPULATION FIGURES WERE NOT AVAILABLE. HENCE POPULATION CHANGE FROM 1960 TO 1975 COULD NOT BE COMPUTED, AND THE CONDITIONS INDEX NUMBERS FOR THESE CITIES WERE COMPUTED ON THE BASIS OF POVERTY AND PRE-1940 HOUSING LEVELS ONLY. IF 1960 POPULATION FIGURES WERE AVAILABLE, INDEX NUMBERS FOR MOST OF THESE CITIES WOULD BE LOWER.

**PARSIPPANY-TROY HILLS TOWNSHIP

Ms. HOLTZMAN. Thank you very much. I have no further questions. We want to thank you for your very helpful testimony.

The next witness is Dr. George Peterson, Director of Public Finance, Urban Institute. He will talk about Federal tax policy and its impact on cities.

STATEMENT OF DR. GEORGE PETERSON, DIRECTOR, PUBLIC FINANCE, THE URBAN INSTITUTE

Dr. PETERSON. Thank you, Madam Chairman, for the opportunity to testify on the urban impacts of the Federal budget. At the request of your staff, I will focus my remarks on the effects of Federal tax expenditures and Federal tax policy. I am happy to see these given explicit recognition by your task force as influences upon urban development.

Let me begin by placing tax provisions in perspective. Some $120 billion in so-called tax expenditures are identified in the budget for the fiscal year 1978, or perhaps $90 billion after all the overlapping provisions are taken into account. That is the value assigned to the various special provisions which deviate from a uniform and normal definition of Federal tax liability. This figure is somewhat arbitrary, as the standard for normal tax treatment in the Internal Revenue Code is an elusive one. However, the rough figure of $90 billion may be compared with some $80 billion in Federal grants in aid for the same year. Thus, we are speaking of an important element in the Federal budget.

In their effect upon the immediate fiscal condition of State and local governments, the tax laws are of distinctly secondary importance compared to direct Federal spending and aid payments. However, in their impact upon urban development the tax laws, I believe, are fully as important as direct Federal outlays or grants in aid, and considerably more significant than any of the specific urban development strategies that have been debated as part of the administration's urban policy.

I would like to call your attention to three aspects of the Federal tax structure that create problems for the cities. First, are the tax incentives designed to accelerate private-sector investment?

Second, is the more favorable tax treatment often given to new construction as compared to the maintenance and upgrading of existing structures? And third, is the tax assistance given to the housing sector—especially the tax bias in favor of homeownership and single-family detached housing?

The desire to accelerate private investment provides the rationale for many of the budget's most important tax expenditures. The various accelerated depreciation allowances fall in this category, as does the investment tax credit, and many of the laws granting favorable tax treatment to the housing sector.

The dilemma these laws create for the cities, especially the Nation's old cities, is that by and large the cities are seats of aging capital stock. The history of urban development over the last quarter century has been the history of replacement of this older capital—but usually at new locations. Older central city housing has been scrapped in favor of new housing in the suburbs. Older industrial plants have been replaced by new facilities built in older parts of the State or other regions of the country. From the point of view of the cities, this spatial relocation of facilities is already occurring too fast to be easily controlled and is responsible for much of the job loss and tax-base decline that they have suffered.

Tax laws have contributed very substantially to this accelerated scrapping of old capital. The 200-percent accelerated depreciation of new rental apartments has been a stimulus. The 200-percent declining depreciation for commercial-industrial centers which was in effect during much of the 1950's and 1960's was a great stimulus to the construction of suburban shopping centers and industrial parks during this era.

There are numerous similar incentives to housing investment. The most easily identified is the capital gain exemption for housing sales when a person buys a house of equal or greater value. This provision was explicitly a favor to the construction industry, in order to generate economic growth in housing construction.

The current issue that is of most pressing urgency is the accelerating of private sector investment through extension of the investment tax credit to industrial and utility structures.

As currently drafted, this proposal would not affect the ultimate locational choice of industrial development, but it would compress, speed up the replacement process. To suddenly reduce the cost of industrial structures by 10 percent has the effect of hastening replacement decisions, and when replacement decisions are made today they almost always are accompanied by an outflow of capital from the older city and a relocation of those facilities in other parts of the country. So it is a timing problem. In my judgment, this aspect of the President's tax proposals would make relocation proceed too fast.

The incentive magnitudes we are speaking of are quite large. Approximately $1 billion would be spent in fiscal year 1979 as direct subsidies to investments in new industrial structures alone.

I would like to call your attention to the fact there is a genuinely difficult policy choice here. There is a macroeconomic problem from which the country is suffering: Investment has been lagging during the recovery period and investment in industrial sectors has been particularly laggard.

The dilemma which Congress faces is how to stimulate economic recovery without exacerbating the long-term structural imbalances of the economy. I would certainly ask the Congress to consider that problem when it reviews the budget.

The second issue, in addition to the accelerated investment incentive, is that tax incentives often are granted to new investment as an alternative to upgrading and rehabilitating of older structures.

A study we completed last year compared two rental apartment buildings, one a new construction, the other a rehabilitation. They were equal in their rate of return before tax provisions. Then we examined them with the tax laws that were in effect in mid-1976. For persons in upper income brackets, 50 to 60 percent, the tax laws actually increased the rate of return to investment in new multifamily dwellings. That is to say, the rate of return was greater after the tax liability. The same tax laws substantially decreased the rate of return to rehabilitation investment.

So, starting with equal profitability before the tax laws, there was opened up a gap of almost one-third in profitability once the tax structure was taken into account. This bias extends beyond the tax laws. Historically, Federal highway funds could not be used for repairs, only for new construction. Even this year when the administration submitted amendments to the Water Pollution Control Act, it was recommended that repair or replacement of old urban sewer systems be eliminated as authorized spending purposes. At that time we were talking about a projection of $30 billion of needs for replacement of old sewers.

I would say, however, that on balance we are moving in the right direction. The tax changes over the last few years have cut back on the accelerated depreciation allowances for new construction. The proposed investment tax credit I was discussing originally was drafted to apply solely to new construction but it now would be applicable to repair and upgrading of industrial structures as well.

So progress is being made. There is a long way to go, however, both in the tax law and in the structure of grant-in-aid formulas.

The third area I want to stress is the tax attitude toward the housing sector which is the largest source of subsidy, about $11.5 billion as the Federal Government identifies tax expenditures; more than $25 billion if you take a strict economic approach to the calculation. Most of these benefits are for homeownership. Historically, homeownership has been linked to single-family housing construction. The tax law played a large part in the surge of single family construction right after World War II in the suburban areas. I testified last year at considerable length before the House Banking Committee with respect to that issue and I won't repeat that testimony here.

The problem with the cities is that they are equipped with a kind of housing stock least suited to take advantage of the tax law. They have multifamily construction which, at least in practice, is less well-suited for homeownership. Much of that housing stock is of poor quality, and thus not occupied by those who claim itemized deductions. There is an irony in the fact that the tax benefits for homeownership are justified in terms of broadening the homeownership base in the country. But with the tax revisions that have occurred, fewer than 25 percent of all taxpayers will be itemizing deductions. Therefore, a smaller share of homeowners are in a position to benefit from the deductions of mortgage interest payments and property tax payments. The principal effect of these laws at present is to subsidize more expensive home purchases by the well to do, not to make homeownership more common in lower middle income families.

There is a fourth area I want to very briefly bring to your attention which has to do with the cumulative effect of our tax policy in shifting the relative costs of employing labor versus using capital.

If you compare the changes in the social security tax, if you add to that the need for most urbanized States to raise payroll taxes to replenish their unemployment insurance pools, et cetera, tax policy recently has substantially raised the cost of hiring workers. At the same time there have been sizable tax subsidies for capital investment. All the plans for helping cities take the form of subsidizing capital. I would ask you to bear in mind, and at least to investigate, the consequences for a national employment policy of continually raising the costs of labor to the employer and of subsidizing the cost of capital. Is this actually the most efficient means of lowering the unemployment rate?

In conclusion, let me say that I am very happy that perhaps for the first time, tax law changes are being taken into account in evaluating the impact of the administration's budgeting proposals in urban areas.

Ms. HOLTZMAN. Thank you very much. Mr. Mineta.

Mr. MINETA. That is a great overview of the situation and I would imagine with the addition of highway programs and other programs, the sum total has been an exodus from central cities into suburbia.

Dr. PETERSON. Absolutely.

Mr. MINETA. Your analysis was so clear, and so much in line with my own thinking, that I really don't have any more questions.

If a city has a brick-lined sewer and that thing is starting to crumble, you mean to say they can't use EPA moneys for replacing or rehabilitating those sewer lines?

Dr. PETERSON. That was the recommendation of the administration. I believe the prohibition was dropped in the final version of the bill.

Mr. MINETA. The impact of tax policy on local government is important. I remember I did a sort of back-of-the-envelope kind of computation when I was mayor which showed that the preferential tax treatment for residential homeowners in deducting interest and tax payments from income tax, had more of an impact than the direct housing programs we were getting in the city. So your point about tax policy as it relates to urban investment programs or investment policy really is very, very good. Thank you very much, Dr. Peterson.

Dr. PETERSON. May I make a response to a question posed to Dr. Nathan? You asked how the States could become involved.

There is a movement at several State levels to develop integrated State capital investment plans. There is in Massachusetts, your own State of California——

Mr. MINETA. Those cities which have undertaken these programs are having to share that improved tax base with other communities. Is that fair?

Dr. PETERSON. You are referring to tax base sharing plans.

Mr. MINETA. That's right.

Dr. PETERSON. I think the usual procedure only applies to the growth of the tax base in the future. The arrangements can always be phased in with enough years' lag so they are not penalizing people for their past activities, but only reallocating future tax-base resources. But I was referring not so much to tax-base sharing as to overall State development plans, as to whether or not to use State funds to subsidize particular types of investment. There is now recognition of the competition between new investment and new development, on the one hand, and the preservation and rehabilitation of older capital stock, on the other. The Federal Government might require State development plans to take this into account. Not that the Federal Government would instruct the States on what to do, but to require some evidence of State coordination of their development objectives.

Mr. MINETA. Thank you.

Ms. HOLTZMAN. Thank you. I want to compliment you on the thoughtfulness of your statement and I think Mr. Mineta put his finger on it: The tax code represents an inadvertent policy which has an extraordinarily profound effect on our cities and employment and the like.

I would like to focus for a moment on the President's proposals in his 1979 budget submission with regard to the so-called investment tax credit for new structures and the presumed offset for renovating existing structures in the cities. The CBO witnesses earlier this morning testified that they didn't think the renovation offset was a realistic proposal. Would you agree it is realistic for an industrial plant in an urban community to renovate itself?

Dr. PETERSON. Well, I think it is better to have that provision in there than not to have it, if you have such a law at all. The share of rehabilitation in total industrial structure investment is so small that simply treating it equally with new construction is not an effective offset.

Ms. HOLTZMAN. What would you do? What other measures would you suggest we take to prevent the President's suggestion of economic growth from having this adverse effect on cities?

Dr. PETERSON. I think there are two questions. It was not clear to me from the President's economic message what the specific purpose of the extension was. There are two alternatives. If the purpose is to provide a general overall stimulus to the economy, to have more capital investment and therefore to revive aggregate demand and stimulate the economy, there are numerous other stimulative measures besides extension of the investment tax credit.

If that is the purpose, I would recommend withdrawing the proposal altogether and using the $2 billion of additional stimulus in some other program which would have the same macro effect without creating the same geographical problems.

The second possibility is that the administration believes a shortage of industrial structures is going to be an important constraint upon production capacity in the future. There are some implications of that in the President's economic message, but I would be interested to see if that is in fact their analysis.

My own interpretation would be that the age, condition, and amount of industrial machinery are the potential bottlenecks, and the nature of the structures has very little to do with future production capacity.

Ms. HOLTZMAN. But left as it is now, what would you anticipate that the effect of the President's proposal to extend the investment tax credit to industrial structures would be?

Dr. PETERSON. I think it would do the following: If you look down the road and think of the next 10 years, despite some signs of optimism all the aggregate figures show that industry is continuing to move out of cities. What this proposal will do is effectively concentrate into 3 or 4 years the movement that would normally have taken place over the next 10 years. I think this is exactly the wrong time to do that, to deliberately accelerate the adjustment process. In my judgment, it is poor policy unless there are no other alternatives for stimulating the economy.

Ms. HOLTZMAN. Those are very disturbing thoughts to leave us with. I think that leaves us with a great deal of work to do. I greatly appreciate your testimony.

Mr. MINETA. I have no other questions.

Ms. HOLTZMAN. The hearing will be adjourned.

[Whereupon, at 11:20 a.m., the task force adjourned until Wednesday, February 15, 1978, at 10 a.m.]

BUDGETARY IMPLICATIONS OF A NATIONAL URBAN POLICY

WEDNESDAY, FEBRUARY 15, 1978

HOUSE OF REPRESENTATIVES,
TASK FORCE ON STATE AND LOCAL GOVERNMENT, AND
TASK FORCE ON TAX EXPENDITURES, GOVERNMENT
ORGANIZATION, AND REGULATION,
Washington, D.C.

The task forces met, pursuant to notice, in room 210, Cannon House Office Building, Hon. Elizabeth Holtzman, cochairperson, presiding.

Ms. HOLTZMAN. The task forces will please come to order.

Today the Task Force on State and Local Government, and the Task Force on Tax Expenditures, Government Organization, and Regulation of the Committee on the Budget, will begin a joint hearing on the effects of President Carter's proposed changes in the investment tax credit on cities.

At a hearing on February 3, 1978, held by the Task Force on State and Local Government, testimony was received from Dr. Alice Rivlin, Director of the Congressional Budget Office, and Dr. George Peterson, Director of Public Finance, the Urban Institute, regarding the potentially harmful effect on cities of these proposed changes.

The purpose of the joint hearing is to receive further testimony on the subject on whether the investment tax credit changes will accelerate the exodus of jobs and businesses from cities and, therefore, pose a substantial threat to the economic well-being of our cities.

Congressman Mineta has indicated that, due to previous commitments, he will not be able to join us today. He has sent a letter to me on the subject of today's hearing, which he has asked be included in the record. Without objection, it is so ordered.

[The letter referred to above follows:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., February 15, 1978.

Hon. ELIZABETH HOLTZMAN,
Chairperson, Task Force on State and Local Government, Committee on the Budget.

DEAR MS. HOLTZMAN: I deeply regret that my schedule prevents me from participating in today's hearing. However, I would like to state my position on the Administration's Investment Tax Credit Proposal for the record.

As currently put forth in the Carter Administration's tax proposals accompanying the fiscal 1979 budget request, the suggestion to extend the investment credit to industrial buildings would have an adverse impact on central cities.

The findings of the Congressional Budget Office in this regard are profoundly disturbing and suggest that we in Congress must consider changes in the Administration plan—either through a rate differential for inner city investment or some other way—to remove any antiurban bias that would encourage further job flight from the cities.

Historically, the Federal Government has implemented programs and policies (each for seemingly valid reasons) that have in total created an inadvertent national growth policy that contributes to rapid decay of inner city areas. Moreover, the existence of this inadvertent growth policy prevents many of our Federal social programs from accomplishing their goals. The Administration's tax proposals would continue this sad state of affairs.

Thus, in light of the fact that our country is now in the process of formulating an urban policy, it is essential to recognize the antiurban bias of the Administration's current proposal with regard to the investment tax credit. It is, in fact, a classic example of "inadvertent" growth policies: while pursuing the laudable goal of stimulating business fixed investment it does so at the expense of economic vitality in the cities.

Congratulations on your fine work. I am sorry that my schedule prevented me from participating in today's hearings.

Sincerely yours,

NORMAN Y. MINETA,
Member of Congress.

Ms. HOLTZMAN. The first witness today is James Verdier, Deputy Assistant Director for Tax Analysis of the Tax Analysis Division of the Congressional Budget Office.

You may proceed, Mr. Verdier.

STATEMENT OF JAMES VERDIER, DEPUTY ASSISTANT DIRECTOR FOR TAX ANALYSIS, TAX ANALYSIS DIVISION, ACCOMPANIED BY DR. FRANK RUSSEK, TAX ANALYSIS DIVISION, CONGRESSIONAL BUDGET OFFICE

Mr. VERDIER. Thank you, Madam Chairwoman. With me is Dr. Frank Russek of the Tax Analysis Division of the Congressional Budget Office, who helped write the much longer statement, which I believe you have copies of.

I am not going to read that. It has a short summary at the beginning. What I intend to do is summarize the summary. So, if the longer statement could be entered in the record, I will just speak for perhaps 10 minutes, summarizing basically our conclusions and the possible alternatives to the President's proposal. I will then answer any questions that you might have.

Ms. HOLTZMAN. Without objection, your testimony will be made a part of the record, and you may proceed to read or summarize, as you wish.

Mr. VERDIER. Perhaps a good way of following what I am going to say would be to simply look at the summary.

We have tried to isolate the kind of firms the President's proposal to extend the tax credit structures might have an impact on, the kinds of firms that might be influenced in such a way that there would be an adverse impact on the cities.

For most industrial firms, the tax credit for both new construction and rehabilitation of industrial structures would have basically a neutral impact, as the Treasury suggests in their statement.

There is one category of firms though where that probably would not be the case. Those are older industrial firms that are pretty much in a position in which they have decided that they are going to have to move to the suburbs, or outside the city in any event. They need more land, they need room for more modern single-story plants, they need access to highway transportation and truck transportation, their markets may have moved, their labor force may have shifted. For any number of reasons, it is becoming less and less economical for them to operate in the cities, and it is really the timing of their move that is uncertain. An incentive for new construction of a building in the suburbs is liable to speed up or accelerate that move. It will provide them with the extra cash flow that they need, perhaps, to make that move.

The alternative or the option of a tax credit for rehabilitation really does not help such firms, because rehabilitation is not a real option for them. They do not want to put any more money into their older plant. The problem is we do not know how many firms like that there are. There is some evidence that most of the job loss in central cities has not been caused by firms moving out. It has been caused by the death, or closing, or contraction of firms that are already there. We may not be speaking about a large number of firms, but for those firms that do fall in that category, they are likely to move out faster than they would otherwise have moved out, and this could have an adverse impact on older central cities. The cities have got their buildings, their streets, their sewer systems, their parks, and other capital infrastructure built on the basis of a certain level of population and economic activity and tax base, and it is very hard to cut back in the short term. They have bonds that they have to pay off, and they have buildings that they have to maintain.

Similarly, it is hard for the cities to cut back on their public services—police, firefighters, schoolteachers, and people who provide public services—in the short term. There are labor contracts, and they do not want to lay people off right away.

Cutting back quickly is very hard to do. So, if you are contracting, or if you face the prospect of having to contract your level of services and your expenses in the city, it is easier to do that over a somewhat longer period of time than over a short period of time. To the extent that this investment tax credit proposal speeded up the departure of some of these older central city firms, thereby causing a decline in the tax base and an increase in local unemployment, it would cause a problem. It is the sort of thing that, if you can, you would like to avoid.

The difficulty, or the dilemma really, faced by the Treasury, the President, and the Congress is that they have certain goals which they are trying to achieve with this economic stimulus package, and especially with the part devoted to stimulus of business investment, which they feel can best be achieved by stimulating new business capital investment. Whenever you do that, you stimulate the kind of investment that tends to take place in growing areas, which tend not to be central cities, so you are confronted with a dilemma. We have suggested a number of possible alternatives that would do a little bit of both kinds of things—that is, provide both general economic and more particularly business investment stimulus—but at the same time, have less of a potential to speed up the departure of some industrial firms from central cities. Let me quickly run through some of those.

Maybe a good way of following that part would be to look at the table that appears at the end of the summary.

Ms. HOLTZMAN. I would like to interrupt you, if I might. I am not sure I understood the importance of the statement you made earlier. You seem to imply that any kind of tax credit that increases economic activity would adversely affect cities. Are you making such a statement this morning?

Mr. VERDIER. If I did, I did not mean to.

Ms. HOLTZMAN. There are ways, however, of stimulating economic activity that would not necessarily have an adverse impact on cities; isn't that correct?

Mr. VERDIER. Clearly, and we will suggest some of those.

Ms. HOLTZMAN. All right.

Mr. VERDIER. What I meant to suggest is that anything that stimulates new business capital investment is likely to have an adverse impact on cities.

Ms. HOLTZMAN. Is that true in respect to investment in equipment and machines?

Mr. VERDIER. It is probably true, but less true than would be the case for investment in structures. I will try to touch on some of the ways in which that is so as I go through this.

The options that we have set out would be, first—and this does get to the point you just raised—instead of extending the investment tax credit on structures, simply increase the existing 10 percent investment tax credit for machinery and equipment to 11 percent.

That would result in about the same revenue loss, and thus would have the same overall economic stimulus. It would also result in about the same stimulus for new business capital investment. However, a lot of the stimulus under this option would go to firms that put new equipment in their existing plants. It would not all be concentrated on firms that can only get the stimulus if they build a new plant somewhere else. Thus, the impact on cities would be somewhat less because the credit itself would be diffused over a wider category of firms and not limited to those firms that only get it if they build a new plant.

Another option would be to reduce the corporate surtax rate by 1 percentage point. That would also result in about the same overall revenue loss, and would have about the same overall economic stimulus impact. It would have a bit less impact on business capital investment, because it would all go to incorporated firms, whether they invested in new equipment or not.

It would not go to unincorporated firms, which make up about 85 percent of the firms in the country, although they account for only about 15 percent of the labor force and 15 percent of business receipts. They are mostly smaller firms. Again, it would have less of an impact on central cities, because the entire revenue loss would not be concentrated just on firms that would get it only if they made investments in new plants.

Another option would be to extend the investment tax credit, not just to industrial and utility structures as the administration proposes, but to all commercial structures. The reason for suggesting that is that most of the kind of new construction and rehabilitation activity which is likely to take place in older central cities is commercial structures: Office buildings, shops, shopping malls, banks, things of that sort. They would not be covered by the administration's proposal.

Now, it is true a lot of these commercial facilities are built outside of central cities in the suburbs, but if you are going to have an investment tax credit for structures, it seems to me that if you are concerned about the cities, you would want to make commercial structures—which are more likely to be built in cities than are industrial structures—eligible for that credit.

The problem with that is that it about doubles the revenue loss. You can see the numbers on that line in the table. Whenever you lose more revenue on something, it restricts your opportunities to provide tax relief somewhere else, or additional spending somewhere else, so that is a concern with that option.

Another option would be to extend the 10 percent investment tax credit only for rehabilitation of structures, not for new construction. Now, that would have a bias, or a tilt if you will, in favor of older central cities, because that is where you are more likely to find older buildings which are appropriate for rehabilitation.

You might find an old industrial plant which you could convert into shops, for example, so there would really be a sort of bias in favor of central cities. The revenue loss would be lower, so that there would be less overall economic stimulus provided.

There are also likely to be economic and tax policy arguments raised against this option, because it really does provide what you might call a nonneutral treatment for two kinds of investment, rehabilitation versus new construction. People might be induced to make some investments in rehabilitation, which in the long run would not be as productive—they would not produce as many jobs and as much economic growth—as investments instead in new construction. It is hard to measure how big an effect that is, but there would be some inefficiency and waste of that sort.

The next to last option we set out, would be to allow all employers a refundable income tax credit equal to 4 percent of the social security taxes they pay. The refundable feature would assure that even businesses which did not have any tax liability would still benefit from this credit. That too would have about the same overall revenue loss as the other options, so the economic stimulus effect would be about the same.

It would not provide much stimulus at all for business capital investment. It would be almost the reverse. It would go primarily to labor intensive firms or businesses: Shops, office buildings, retail stores, and things of that sort. But those are especially the kinds of businesses that tend to be concentrated in central city areas. They are labor intensive—neighborhood grocery stores and things of that sort—and this option would concentrate most of the tax relief on those kinds of firms.

It would also reduce some of the additional burden which these firms now face in the form of payroll taxes as a result of the social security legislation passed last year, and it could have a beneficial impact—somewhat slight—on the inflation rate.

The administration in fact did propose something similar to this a year ago. They would have given firms the option between this kind of a credit and a higher investment tax credit. The Congress ultimately decided against that. The Congress left the investment tax credit at 10 percent where it is now, and instead enacted the new jobs tax credit which is scheduled to expire at the end of this year, and which the administration has recommended not be extended.

The new jobs tax credit is probably not an attractive option if you are worried about older central cities, because it is structured in such a way that most of the benefits go to small businesses that hire additional workers over and above the number of workers they had in the preceding year. That means that most of the benefits go to firms in areas where the economy is growing, where more workers are being hired, and where business is expanding. Older central cities tend not to be in that category.

These cities are losing population and losing business, so a central city firm—even if it is maintaining stable employment while everybody else is laying off workers—does not get any benefit from this new jobs tax credit. In contrast, a firm in a sunbelt, or a growing area, which does not do very much, and just sort of goes along with the flow of the economy and hires some additional workers, gets in effect a windfall benefit. So, if you are concerned about central cities, this is probably not an attractive alternative to the administration's package.

That is a summary of what we have to say. People clearly have conflicting goals—to stimulate the economy overall, to stimulate business investment, to make sure central cities are not hurt—and what the administration tried to do, and what Congress probably wants to do, is to balance those goals as best they can. What we have tried to do is set out as best we could the consequences of those different options.

[Testimony resumes on p. 104.]

[The summary and analysis referred to by Mr. Verdier follows:]

CONGRESSIONAL BUDGET OFFICE,
February 15, 1978.

PREFACE

This analysis of the impact on cities of the President's investment tax credit proposals and some possible alternatives was prepared in response to a February 7, 1978 request from Representative Elizabeth Holtzman, Chair of the Task Force on State and Local Government of the House Committee on the Budget.

It was prepared by James M. Verdier and Frank S. Russek, Jr. of the CBO's Tax Analysis Division, with help from a number of others in CBO. In accordance with the Congressional Budget Office's mandate to provide nonpartisan analysis of issues before the Congress, the study contains no recommendations.

The analysis was edited by Robert Faherty and typed by Linda Brockman, Shirley Hornbuckle, and Alda Seubert.

ALICE M. RIVLIN, *Director.*

Attachment.

SUMMARY

THE PRESIDENT'S INVESTMENT TAX CREDIT PROPOSALS

President Carter has proposed that the existing 10 percent investment tax credit for machinery and equipment be extended to cover new construction and rehabilitation of industrial and utility structures. Commercial structures, such as office buildings, stores, and shopping centers, would not be covered.

The President has also proposed to increase the percentage of a firm's tax liability that can be offset by investment tax credits in any one year from 50 percent to 90 percent. He would also allow a full 10 percent investment tax credit for pollution control equipment installed in already-existing plants, in addition to the current five-year write-off for such equipment. Currently, only a 5 percent investment tax credit may be taken if the five-year write-off is used.

IMPACT ON CITIES

Concern has been expressed that the proposal to extend the investment tax credit to industrial structures could have an adverse impact on central cities by giving older industrial firms contemplating a move out of the city an additional incentive to do so. The Administration has argued, however, that allowing the credit for rehabilitation of existing industrial structures, as its proposal would do, largely neutralizes this potential adverse impact on the cities.

This paper analyzes the impact on cities of the President's investment tax credit proposals and some possible alternatives. It was prepared in response to a request from Representative Elizabeth Holtzman, Chairwoman of the Task Force on State and Local Government of the House Committee on the Budget.

CONCLUSIONS

The analysis of the President's proposals suggests a number of conclusions:

- The President's investment tax credit proposals may accelerate the departure of some industrial firms from central cities.

- Allowing the investment tax credit for rehabilitation of existing industrial structures will alleviate somewhat the possible adverse impact on central cities.

- Allowing an investment tax credit for industrial, but not commercial, structures could have an adverse impact on cities.

- Increasing the investment tax credit from 50 percent to 90 percent would have a mixed impact on central cities.

- Allowing a full investment tax credit for pollution control equipment installed in existing plants may help many older central city firms.

- If the principal reason for extending the investment tax credit to structures is to stimulate business investment and economic growth, alternative measures would have approximately the same economic impact.

- There are good tax policy reasons for extending the investment tax credit to structures, but few reasons (other than the revenue loss) for excluding commercial structures.

POSSIBLE ALTERNATIVES

If avoiding the possible adverse impact on cities of the President's proposal to extend the investment tax credit to structures is a major concern, a number of alternatives could be considered. They are set out in the following table, along with the revenue loss that would result in fiscal years 1979 through 1983.

- o <u>Increase the present 10 percent investment credit for machinery and equipment to 11 percent, with no credit for structures</u>. This would provide approximately the same level of stimulus for business capital investment, but would have less potential for an adverse impact on cities. Much of the additional stimulus would go to firms installing new equipment in existing facilities, rather than being concentrated primarily on firms constructing new buildings.

- o <u>Reduce the top corporate tax rate by one percentage point</u>. This would provide the same level of general fiscal stimulus, but less of it would be concentrated on new capital investment. Incorporated firms would benefit whether or not they made new investments. For that reason, the potential adverse impact on central cities would also be less since it would not provide an incentive for industrial firms to move out to new facilities sooner than they otherwise might have.

- o <u>Extend the 10 percent investment tax credit to all structures, including commercial structures (both rehabilitation and new construction)</u>. This would provide more overall fiscal stimulus since the revenue loss would be twice as large. However, it would provide a subsidy for a type of construction--office buildings, retail stores, banks, department stores, etc.--that is more likely to take place in central cities than is industrial construction. Even though much commercial construction takes place outside of cities, if it is decided to extend the investment tax credit to structures, cities would probably be better off with a credit that covered commercial as well as industrial buildings.

- o <u>Extend the 10 percent investment tax credit only to rehabilitation of existing industrial, utility, and commercial structures</u>. This would have less overall stimulus effect since the revenue loss would be lower than the other options. It would introduce a bias in favor of rehabilitation that would tend to favor older central cities, where there is likely to be a greater concentration of older buildings suitable for rehabilitation. From an economic and tax policy point of view, however, it could be argued that this "nonneutral" preference for rehabilitation might result in some inefficient and wasteful investments.

- Allow all employers a refundable income tax credit equal to 4 percent of employer-paid social security taxes. This would provide approximately the same level of overall fiscal stimulus as the President's proposal, but little of it would be focused on new capital investment. The tax savings would be concentrated heavily on labor-intensive businesses such as offices, retail stores, and service establishments, which are more likely to be found in central cities than are the capital-intensive manufacturing firms that would be helped by the Administration's proposal.

- Extend the expiring new jobs tax credit. This would also provide about the same level of overall fiscal stimulus as the President's proposal, but little of it would be concentrated on new capital investment. Since eligibility for the credit is limited primarily to smaller businesses that hire additional workers over and above their workforce in the previous year, the tax savings are concentrated on businesses in areas with growing economies. It would thus provide little help to older central cities where population and business activity have been declining.

SUMMARY TABLE. REVENUE LOSS a/ FROM ADMINISTRATION PROPOSAL TO EXTEND INVESTMENT TAX CREDIT TO INDUSTRIAL STRUCTURES AND SOME POSSIBLE ALTERNATIVES, FISCAL YEARS 1979-1983 (IN BILLIONS OF DOLLARS)

	Revenue Loss a/				
Possible Alternatives	1979	1980	1981	1982	1983
Extend 10% investment tax credit (ITC) to industrial and utility structures (Administration proposal) b/	1.8	1.6	1.8	2.0	2.2
Increase 10% ITC for machinery and equipment to 11%, with no credit for structures b/	1.5	1.7	1.8	1.8	1.9
Reduce corporate surtax rate by one percentage point	1.7	1.9	2.1	2.3	2.6
Extend 10% ITC to all industrial, utility, and commercial structures, including both rehabilitation and new construction b/	3.6	3.2	3.7	4.2	4.6
Extend 10% ITC only to rehabilitation of industrial, utility, and commercial structures b/	0.4	0.3	0.4	0.4	0.5
Allow all employers a refundable income tax credit equal to 4% of employer-paid social security taxes c/	1.5	1.7	2.0	2.3	2.6
Extend expiring new jobs tax credit	0.6 d/	2.6	2.6	2.6	2.7

a/ Revenue loss compared to current law.

b/ Does not include revenue impact of increasing the 50 percent ITC limit to 90 percent.

c/ Revenue estimate assumes amount of credit will not be deductible from taxable income. Also includes self-employment taxes.

d/ Does not include $1.9 billion revenue loss resulting from the new jobs credit under current law.

THE IMPACT ON CITIES OF PROPOSED CHANGES IN THE INVESTMENT TAX CREDIT

THE PRESIDENT'S INVESTMENT TAX CREDIT PROPOSALS

President Carter has proposed that the existing 10 percent investment tax credit for machinery and equipment be extended to cover new construction and rehabilitation of industrial and utility structures. Commercial structures, such as office buildings, stores, and shopping centers, would not be covered. The President's proposal would also permit firms to offset up to 90 percent of each year's tax liability with the credit. Under present law, 100 percent of the first $25,000 of tax liability may be offset by the credit, but only 50 percent of tax liability in excess of $25,000. Unused tax credits may be carried back three years and forward seven years to offset tax liability in those years. Special provisions, scheduled to be phased out over time, permit public utilities, airlines, and railroads to offset more than 50 percent of their tax liability in excess of $25,000 with investment tax credits.

The President has also proposed that a full 10 percent investment tax credit be allowed for pollution control equipment installed in already-existing plants (in use before January 1, 1976), in addition to the existing rapid five-year write-off of the total costs of this equipment. Under current law, firms using the five-year write-off are allowed only a five percent investment tax credit.

The estimated revenue losses from the President's proposals are shown in Table 1.

IMPACT ON CITIES

Concern has been expressed that these proposed changes in the investment tax credit--especially the proposal to extend it to investment in industrial structures--could have an adverse impact on central cities. Older industrial firms contemplating a move out of the central city, it is argued, would be given an additional incentive to move by the proposed 10 percent credit for new industrial buildings. The Administration has argued, however, that

TABLE 1. REVENUE LOSSES FROM PROPOSED CHANGES IN THE INVESTMENT TAX CREDIT, FISCAL YEARS 1979 TO 1983 (IN MILLIONS OF DOLLARS)

President's Proposals	1979	1980	1981	1982	1983
Extension of 10% investment tax credit to structures	-1780	-1567	-1820	-2042	-2243
Increase in investment tax credit limit to 90%	- 390	- 686	- 304	- 79	- 125
Full investment tax credit for pollution control equipment	- 184	- 99	- 116	- 122	- 128
TOTAL	-2354	-2352	-2240	-2243	-2496

Source: U.S. Treasury Department

allowing the credit for rehabilitation of existing industrial structures as well as for construction of new ones, as its proposal would do, largely neutralizes this potential adverse impact on the cities.

This paper analyzes the President's investment tax credit proposal and some possible alternatives, with special emphasis on their potential impact on cities. A number of conclusions with respect to the President's proposals are set out first, along with the analysis supporting them. A number of possible alternatives to the President's proposals are then described and analyzed.

CONCLUSIONS

The President's Investment Tax Credit Proposals May Accelerate the Departure of Some Industrial Firms From Central Cities

Extending the investment tax credit to new industrial structures may speed the departure from central cities of firms that are already inclined to leave. Industrial firms have been leaving central cities for a number of years, and they are likely to continue to do so in the future. This is especially true for older cities in the Northeast and Midwest. 1/

Several factors have combined to make manufacturing and industrial production more efficient and less expensive in suburban and other nonmetropolitan areas. 2/ Land is less costly outside of central cities, construction costs are lower, and there is more room for expansion and for modern, single-story plants. Access to trucking and interstate highways is usually much better outside of central cities. Population, markets, and much of the labor force may have shifted to the suburbs. Plant managers and workers may prefer the amenities and life style of the suburbs.

Even though this movement of industry out of central cities is likely to continue whether or not there are changes in the investment tax credit, providing a 10 percent credit for new industrial structures may cause some firms to leave sooner than they otherwise might have. If operating in the central city is becoming less and less profitable for a firm and it is planning to move when

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1/ See, for example, Academy for Contemporary Problems, Revitalizing the Northeastern Economy (Columbus, Ohio, 1977), pp. 39-49, 117-26; George Sternlieb and James Hughes, "New Regional and Metropolitan Realities of America," in Subcommittee on the City of the House Committee on Banking, Finance and Urban Affairs, How Cities Can Grow Old Gracefully, 95th Cong., 1 Sess. (December 1977), pp. 3-30; and Roger J. Vaughan, The Urban Impacts of Federal Policies: Vol. 2, Economic Development (Santa Monica, Calif.: Rand, June 1977), pp. 15-20.

2/ Vaughan, The Urban Impacts of Federal Policies, pp. 47-83. See also, Congressional Budget Office, Barriers to Urban Economic Development, prepared for the Task Force on Urban Investment of the Housing and Community Development Subcommittee of the House Banking, Finance and Urban Affairs Committee (forthcoming).

the costs of staying begin to exceed the costs of moving, a tax subsidy that reduced the cost of moving to a new location would speed that move.

On the other hand, a firm that is planning to build a new plant and is undecided whether to build in the city or in the suburbs might find its decision tilted toward the city by a 10 percent investment tax credit for structures. Construction costs tend to be higher in central cities. 3/ A 10 percent credit could reduce the cost difference between central cities and suburbs and offset somewhat the disadvantage central cities now have.

It is difficult to determine how many firms are likely to be in these different positions. There is evidence that most job losses in central cities and older industrial areas are due to the closing or contraction of existing firms, with only a very small percentage attributable to the out-migration of firms. By the same token, most job growth comes from the birth of new firms or the expansion of existing ones rather than from in-migration of outside firms. 4/ Given the long-term trend of industry out of central cities, it is likely that the great majority of industrial firms whose locational decisions would be affected by the investment tax credit are firms that are thinking of moving out of the central cities rather than those that are thinking about building a new plant in the city. If so, extending the investment tax credit to industrial structures might accelerate the trend of industry out of older central cities. A process that may have taken several years may instead be compressed into a shorter time.

This acceleration of the underlying trend may cause significant financial problems for many central cities,

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3/ Thomas Muller, "Service Costs in the Declining City," in Subcommittee on the City, How Cities Can Grow Old Gracefully, pp. 121, 125.

4/ See, for example, studies cited in Vaughan, The Urban Impacts of Federal Policies, p. 20; and Academy for Contemporary Problems, Revitalizing the Northeastern Economy, pp. 105-7.

requiring higher taxes or more borrowing. The costs of providing public services--police, fire, health, parks, sanitation, and the like--cannot be sharply reduced in the short term. 5/ Union contracts and other considerations are likely to require a more gradual adjustment. The costs of maintaining the city's "infrastructure"--public buildings, streets, parks, water and sewer systems, and so on--and paying the debt service on municipal bonds are also hard to reduce within a short period. Even if it were possible to cut back public service costs at the same rate as the decline in population and industry, doing so might accelerate the decline even further if more people and businesses decided to leave in response to the drop in services.

The departure of industry from central cities may erode the central city tax base and increase central city unemployment. This in turn is likely to increase the demand on federal and state goverments for additional revenue sharing, public service jobs, public works, and other employment and fiscal assistance programs. If the departure of industry is accelerated, the need of central cities for this kind of outside assistance is likely to be greater than if the process of adjustment were more gradual.

Allowing the Investment Tax Credit for Rehabilitation of Existing Industrial Structures Will Alleviate Somewhat the Possible Adverse Impact on Central Cities

Allowing an investment tax credit for rehabilitation of existing industrial structures, as well as for construction of new ones, will reduce or eliminate the tax incentive to move out of the city for some firms. But for firms that have already decided to leave, with only the timing still up in the air, a credit for rehabilitation would not offset the acceleration of their decision that is likely to result from the credit for new construction.

For central city firms that are truly indifferent or undecided between rehabilitating their existing plant and building a new plant outside the city, allowing the credit for both rehabilitation and new construction will have a neutral impact. It would not affect their decision one way or the other.

5/ Muller, "Service Costs in the Declining City," pp. 119-31.

For those firms that would prefer to stay and rehabilitate, but which find the offer of a 10 percent invest ment tax credit on a new building in the suburbs hard to refuse, a credit for rehabilitation expenses might make it feasible for them to remain.

For firms which have already decided to leave the city at some point, the credit for rehabilitation is not likely to change their decision. If basic underlying factors--cost and availability of land, changes in technology and transportation, shifts in population, market, and labor force, etc.--have made continued operation in the central city uneconomical, the option to stay and rehabilitate is probably not a real one. A tax credit for rehabilitation may well influence firms which have a long-term commitment to the central city, but not those that have decided to leave anyway. A firm that has decided to leave is not likely to want to sink any more money into its existing central city plant.

It is difficult to estimate how many firms are likely to fall into each category. It is not known how much rehabilitation of existing industrial plants is now going on, or where it is taking place. If the amount spent on rehabilitation of residential structures is any guide, perhaps 10 percent of all industrial construction is accounted for by rehabilitation of existing plants. This suggests that rehabilitation is not an option that has been chosen by large numbers of existing firms.

It is also worth noting that most studies suggest that decisions by firms about where to locate are not significantly affected by tax considerations. State and local tax incentives for business, as well as tax-exempt industrial development bonds, usually rank far down the list when businessmen are asked which factors are important to them in making decisions to relocate. 6/ If that is the case, most central city firms are likely to be in situations in which an investment tax credit for either reha-

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6/ See, for example, Vaughn, The Urban Impacts of Federal Policies, pp. 72-3; and Academy for Contemporary Problems, Revitalizing the Northeastern Economy, pp. 105-7.

bilitation or new construction will not change their basic locational decisions one way or the other, although it may well affect the timing of those decisions.

Allowing An Investment Tax Credit for Industrial, But Not Commercial, Structures Could Have An Adverse Impact on Cities

The President's proposal would extend the investment tax credit to new and rehabilitated industrial structures (including utilities), but not to commercial structures. His proposal therefore excludes the kinds of structures that are most likely to be found in central cities: office buildings, department stores, banks and financial institutions, retail shops, drug stores, parking garages, warehouses, and the like. As will be discussed below, the economic and tax policy reasons for excluding commercial buildings are not extremely compelling. The revenue loss from extending the 10 percent investment tax credit to commercial structures would be substantial, however, approximately doubling the loss that results from extending the credit to industrial and utility structures.

Since the long-term trend of industry is away from the older central cities, many have urged that cities shift their focus more toward providing financial, retail, commercial, and other services. This has already happened in many older cities anyway, and it may be a much more viable strategy for the preservation of these cities. 7/ The President's investment tax credit proposal would not help this trend toward a service economy in central cities since it would deny the credit for the kinds of structures that are most consistent with that trend. It is true, of course, that much new construction of office buildings, shopping centers, and other commercial buldings takes place in suburban areas, and that this construction would also be assisted if the investment tax credit were extended to commercial structures. If it is decided that the investment tax credit should be extended to structures, however, cities would probably be better off with a credit that covered commercial as well as industrial buildings since any new construction that does take place in central cities is more likely to be commercial than industrial.

7/ Academy for Contemporary Problems, Revitalizing the Northeastern Economy, pp. 117-27, 134-6.

Increasing the Investment Tax Credit Ceiling From 50 Percent to 90 Percent Would Have a Mixed Impact on Central Cities

The increase in the percentage of each year's tax liability in excess of $25,000 that can be offset by the investment tax credit from 50 percent to 90 percent is likely to have a mixed impact on central cities. The firms most likely to be helped by this change are (1) new and rapidly growing firms with heavy investments relative to their tax liability and (2) low-profit declining firms with low tax liability. The former kinds of firms are more likely to be found in the suburbs, while the latter are more likely to be found in central cities.

Since present law permits 100 percent of the first $25,000 of tax liability to be offset with investment tax credits, while the President's proposal would allow only 90 percent, many firms with tax liability below $25,000 would be slightly hurt by the proposal. Again, however, this is not likely to have any particular pro- or anti-city bias.

Allowing a Full Investment Tax Credit for Pollution Control Equipment Installed in Existing Plants May Help Many Older Central City Firms

The President's proposal to allow a full 10 percent investment tax credit for pollution control equipment installed in plants in use before January 1, 1976, in addition to the existing five-year write-off for the cost of this equipment, may help many older central city firms. The cost of meeting pollution control standards may be quite high for many of these older firms, and the extra tax subsidy for installing pollution control equipment may in some instances make the difference between having to close the plant and continuing to operate.

This incentive for pollution control equipment is viewed in part by the Administration as a substitute for financing pollution control equipment with industrial development bonds, which it has proposed to terminate. Since industrial development bonds for pollution control have been used more frequently in rural and suburban areas than in central cities, the substitution of the investment tax credit incentive for pollution control is likely to work to the advantage of central cities.

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<u>If the Principal Reason for Extending the Investment Tax Credit to Structures is to Stimulate Business Investment and Economic Growth, Alternative Measures Would Have Approximately the Same Economic Impact</u>

Two reasons given by the Administration for its proposed extension of the 10 percent investment credit to industrial and public utility structures are: (1) the expanded coverage of the credit would remove the tax bias against investment in structures that has resulted from restricting the credit to machinery and equipment and (2) the resulting stimulus to invest in structures would help to sustain the current economic recovery, increase productivity, and avoid capacity shortages that could abort future economic growth.

While the investment tax credit for machinery and equipment has imposed a bias against investment in structures, it is not clear how much the resulting tax bias has retarded investment in structures. Investment in industrial structures has exhibited a slower growth than investment in equipment between 1961 and 1977. While some of this difference in growth rates is probably attributable to the favorable tax treatment of equipment investment, other factors may also have contributed. Structures have a longer useful life than most types of equipment and do not have to be replaced as frequently. Also, at least up to some point, businesses may be able to realize greater technological advances by upgrading their stock of producers' durable equipment than by building new plants or renovating old ones.

When one focuses on the goals of providing additional fiscal stimulus, improving productivity, and preventing capacity shortages, it is clear that alternative tax provisions would also address these problems. Specifically, stimulus to both short- and long-term investment would be provided at approximately the same revenue cost either by raising the current 10 percent tax credit to 11 percent or by reducing the corporate tax rate by one percentage point below the level proposed by the Administration.

An increase in the investment tax credit would be a more effective fiscal stimulus than an equal amount spent on extending the tax credit to industrial structures. Economic theory and model simulations suggest that the size of the response to tax credits is somewhat greater for equipment than for structures and that the time lag between stimulus and peak response is about half as long for equipment as it is for structures.

There is no evidence that fewer bottlenecks and capacity shortages would result from stimulating investment in structures relative to equipment purchases. Other considerations may weigh against increasing this credit for equipment, however, even though the increase offers the greater "bang for the buck." Increasing the credit would increase the existing bias against investment in structures (the quantitative effect of which is not known with confidence). Further, extending the tax credit to structures might improve the unemployment situation in the construction industry, where the unemployment rate remains above its 1965-1974 average although it has dropped substantially from its 1975 peak.

Additional fiscal stimulus could also be provided through a reduction in the corporate tax rate below the level proposed by the Administration. The advantage of this approach as compared with a larger tax credit for equipment is that a lower corporate tax rate would be a more neutral incentive as between investment in plant and investment in equipment. A disadvantage is that, because of its relatively indirect impact on investment decisions, a corporate rate cut produces a smaller investment response than does an investment tax credit costing the same amount overall.

There Are Good Tax Policy Reasons for Extending the Investment Tax Credit to Structures, But Few Reasons (Other Than the Revenue Loss) for Excluding Commercial Structures

The tax policy goals of neutrality, simplicity, and ease of administration would generally be served by extending the 10 percent investment tax credit to all structures, including commercial structures.

The present investment tax credit sets up a bias in favor of investment in new equipment and machinery at the expense of other kinds of capital investment, such as investment in structures. This "nonneutral" tax treatment of investment may result in some inefficiency and waste.

In addition, it is frequently very difficult administratively to distinguish between equipment, which is eligible for the credit, and the building housing it, which is not. Taxpayers push to have as much of each new plant classified as equipment as possible, while the Internal Revenue Service pushes in the other direction. This can result in considerable controversy and delay.

When the investment tax credit was first proposed in 1961, it would have applied to structures as well as to machinery and equipment. The Congress finally decided in 1962 not to include structures, in large measure because investment in structures was already receiving large tax subsidies in the form of accelerated depreciation, artificially short useful lives, and expensing of construction period interest and taxes. These tax subsidies for structures have been substantially reduced since then. Provisions to "recapture" part of the tax saving from accelerated depreciation were instituted in 1964 and tightened in 1969 and 1976. Accelerated depreciation was reduced directly in 1969. A rule requiring partial capitalization of construction period interest and taxes was instituted in 1976. And the President's current tax proposals would eliminate accelerated depreciation entirely for commercial and industrial buildings.

Some of the rationale for denying the investment tax credit to structures has thus been eroded. The investment tax credit is also generally thought to be a more efficient, visible, and straightforward subsidy than those provided for buildings in the past through accelerated depreciation, artifically short useful lives, and the expensing of construction period interest and taxes. Substituting the investment tax credit for these other subsidies could therefore be viewed as an improvement in terms of efficiency and visibility.

However, there are no especially strong tax policy reasons for extending the credit to industrial and utility structures and not to commercial structures, other than the additional revenue loss that would result. Commercial and industrial structures receive approximately equivalent tax treatment under current law, so considerations of tax neutrality would suggest that they also be treated equally with respect to the investment tax credit. 8/ While the administrative problems in distinguishing between industrial and commercial buildings are not likely to be as great as those involved in distinguishing between industrial buildings and equipment, disputes between taxpayers and the IRS can still be expected to arise.

The extra revenue loss from extending the credit to commercial buildings would be significant, however, amounting to $1.8 billion in fiscal year 1979 and $2.4 billion in 1983. This loss could perhaps be offset by reducing or eliminating some of the remaining tax incentives still provided for investment in structures, such as the use of unrealistically short lives and the option to write off construction period interest and taxes over only ten years instead of over the building's full useful life.

POSSIBLE ALTERNATIVES

If avoiding the possible adverse impact on cities of the President's proposal to extend the investment tax credit to structures is a major concern, a number of alternatives could be considered. They are set out in Table 2, along with the revenue loss that would result in fiscal years 1979 through 1983.

Increase the Present 10 Percent Investment Tax Credit for Machinery and Equipment to 11 Percent, with No Credit for Structures

This option would result in approximately the same level of overall economic stimulus for capital investment, but less of the stimulus would be concentrated on firms building new plants. A large share of the additional tax saving would go instead to firms installing new equipment in existing plants. It would therefore have less of an

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8/ The useful lives permitted for industrial buildings may be somewhat closer to their real economic lives than those permitted for commercial buildings, which tend to be shorter than the real lives, but there is little conclusive evidence on this point.

TABLE 2. REVENUE LOSS a/ FROM ADMINISTRATION PROPOSAL TO EXTEND INVESTMENT TAX CREDIT TO INDUSTRIAL STRUCTURES AND SOME POSSIBLE ALTERNATIVES, FISCAL YEARS 1979-1983 (IN BILLIONS OF DOLLARS)

	Revenue Loss a/				
Possible Alternatives	1979	1980	1981	1982	1983
Extend 10% investment tax credit (ITC) to industrial and utility structures (Administration proposal) b/	1.8	1.6	1.8	2.0	2.2
Increase 10% ITC for machinery and equipment to 11%, with no credit for structures b/	1.5	1.7	1.8	1.8	1.9
Reduce corporate surtax rate by one percentage point	1.7	1.9	2.1	2.3	2.6
Extend 10% ITC to all industrial, utility, and commercial structures, including both rehabilitation and new construction b/	3.6	3.2	3.7	4.2	4.6
Extend 10% ITC only to rehabilitation of industrial, utility, and commercial structures b/	0.4	0.3	0.4	0.4	0.5
Allow all employers a refundable income tax credit equal to 4% of employer-paid social security taxes c/	1.5	1.7	2.0	2.3	2.6
Extend expiring new jobs tax credit	0.6 d/	2.6	2.6	2.6	2.7

a/ Revenue loss compared to current law.

b/ Does not include revenue impact of increasing the 50 percent ITC limit to 90 percent.

c/ Revenue estimate assumes amount of credit will not be deductible from taxable income. Also includes self-employment taxes.

d/ Does not include $1.9 billion revenue loss resulting from the new jobs credit under current law.

adverse impact on central cities overall than would the President's proposal.

It would, however, increase the present tax bias in favor of machinery and equipment at the expense of other forms of business capital investment. In addition, with the investment tax credit set this high for machinery and equipment, more firms would push up against even a 90 percent of tax liability ceiling, requiring additional complicated tax carrybacks and carryforwards. With a 10 percent credit, approximately 30 percent of all credits would have to be carried back or forward to other years, while with an 11 percent credit about 35 percent of credits would have to be used in other years.

Reduce the Top Corporate Rate by One Percentage Point

The Administration has already proposed reducing the top corporate tax rate from 48 percent to 45 percent on October 1, 1978, with a further reduction to 44 percent on January 1, 1980. Reducing the top corporate rate by an additional percentage point would result in approximately the same overall tax cut for business as would the President's proposal to extend the investment tax credit to structures. Again, however, the possible adverse impact of a corporate rate cut on the cities would be less than that of the investment tax credit for structures since much less of the overall tax reduction would be concentrated on firms making new investments. The tax savings from a cut in the top corporate rate cut would go equally to all incorporated business with taxable incomes in excess of $50,000, 9/ whether or not they made any new investments.

Unincorporated businesses would not benefit from a corporate tax rate cut, however. About 85 percent of all firms are unincorporated although they account for only about 15 percent of all business receipts and 20 percent of all jobs. A corporate rate cut would also not provide

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9/ Corporations with taxable incomes of $50,000 or less are not subject to the top corporate rate. The President's proposal would reduce the rate on the first $50,000 of taxable income by two percentage points.

as much stimulus to business investment in the short term as would an investment tax credit increase with the same overall revenue loss.

In a recent survey of chief executive officers of over 400 major companies by the Conference Board, 50 percent of the executives preferred a corporate rate cut to an increase in the investment tax credit or a reduction in the double taxation of dividends, and 76 percent ranked a corporate rate cut first or second.

Extend the 10 Percent Investment Tax Credit to all Structures, Including Commercial Structures (Both Rehabilitation and New Construction)

As discussed earlier, with the trend of industry out of central cities, most of the new construction and rehabilitation likely to take place in older central cities in the future will be construction of office buildings, shopping malls, banks, retail stores, and other commercial buildings. The Administration's proposal would not allow an investment tax credit for this kind of investment. As noted earlier, there are few strong economic or tax policy reasons for excluding commercial structures, other than the revenue loss that would result.

If, therefore, it is decided to extend the investment tax credit to structures, including commercial structures could be of some benefit to the cities. Even though much commercial construction takes place outside of cities, any new construction and rehabilitation that does take place in central cities is more likely to be commercial than industrial.

Extend the 10 Percent Investment Tax Credit Only to Rehabilitation of Existing Industrial, Utility, and Commercial Structures

This option would introduce a bias in favor of rehabilitation that would tend to favor older central cities, where there is likely to be a greater concentration of older buildings suitable for rehabilitation. From an economic and tax policy point of view, however, this "nonneutral" preference for rehabilitation at the expense of new construction would probably result in some inefficiency and waste. Some investments in new construction that would ultimately result in greater productivity and economic growth would not be undertaken, while some relatively unproductive investments in rehabilitation would occur.

It might be argued that this tax bias in favor of rehabilitation can be justified as an offset to the bias in favor of new construction of buildings that has existed in the past in the form of accelerated depreciation and expensing of construction period interest and taxes. As indicated earlier, however, these tax subsidies for new building construction have been phased down in recent years. If some additional stimulus for rehabilitation as opposed to new construction is thought desirable, it may be preferable to eliminate entirely the remaining tax subsidies for new construction, rather than attempting to offset them with a new subsidy for rehabilitation.

Allow All Employers a Refundable Income Tax Credit Equal to 4 Percent of Employer-Paid Social Security Taxes

This option would provide about the same overall level of business tax relief as the President's proposal to extend the investment tax credit to structures, but the relief would be concentrated heavily on labor-intensive business such as offices, retail stores, and service establishments. These kinds of firms are much more likely to be found in central cities than are the capital-intensive manufacturing firms that would be helped by the Administration's investment tax credit proposal.

If this 4 percent credit against social security payroll taxes were made refundable (that is, payable whether or not the firm has income tax liability as large as the credit), it could provide some benefit to low-profit firms with little or no tax liability, many of which may be located in central cities.

It would also provide some relief from the substantial additional social security payroll taxes employers will be required to pay over the coming years as a result of the social security legislation enacted last year. CBO estimates that these additional taxes will amount to $1.8 billion in fiscal year 1979, $4.4 billion in fiscal year 1980, $8.7 billion in fiscal year 1981, $12.2 billion in fiscal year 1982, and $13.8 billion in fiscal year 1983. These additional taxes will result in some increase in inflation and some reduction in employment over that period. These effects could be reduced somewhat by allowing employers a credit against a portion of their payroll taxes.

The Carter Administration made a very similar proposal last year as part of its first economic stimulus package. The main difference is that the Carter proposal would have given firms the option of taking either the 4 percent credit against social security taxes or an extra two percentage points on the investment tax credit (thereby raising the credit to 12 percent). The Congress instead enacted the new jobs tax credit described below and left the investment tax credit at 10 percent.

Even though a 4 percent credit against employer-paid social security payroll taxes would result in approximately the same overall amount of tax relief for business as the President's proposal to extend the investment tax credit to structures, it would provide substantially less stimulus for business investment. The 4 percent social security credit would go to all employers, whether or not they undertook any new investment. The tax savings from this option would be more widely dispersed than those from any of the other options since all businesses would be included--incorporated and unincorporated, labor-intensive and capital-intensive, small and large.

Extend the Expiring New Jobs Tax Credit

The Tax Reduction and Simplification Act of 1977 included a "new jobs tax credit" aimed at encouraging small businesses to hire additional workers. It is scheduled to expire at the end of this year, and the Administration has recommended that it not be extended.

The new jobs tax credit is designed to encourage additional hiring over and above that which took place in the preceeding year. A complicated formula seeks to assure that the credit is limited mainly to firms that are increasing their employment each year. This kind of "incremental" employment tax credit heavily favors growing firms and is thus not likely to be of much help in older central cities where population and economic activity are declining. The new jobs tax credit favors growing firms whether the growth is due to the firm's own efforts or to the growth of the economy in the area. By the same token, it provides no benefits to firms in declining areas that manage to maintain their level of employment even though other firms are laying off workers. It thus provides windfall benefits to firms in growing areas outside the central cities and few if any benefits to firms in older declining cities. It is thus probably not a promising alternative to the Administration's investment tax credit proposal if an important goal is to help older cities.

Ms. HOLTZMAN. Thank you very much for your testimony. Let me ask you some questions about some portions of it. I take it you have no questions in your mind that the investment tax credit proposal for new structures will accelerate the departure of industrial firms from cities?

Mr. VERDIER. Some industrial firms in the category I described, and we do not know how big that category is, but with that caveat, the answer is; yes.

Ms. HOLTZMAN. And you also described the economic difficulties that would result from such an exodus; is that correct?

Mr. VERDIER. Yes.

Ms. HOLTZMAN. From a loss of jobs?

Mr. VERDIER. Yes.

Ms. HOLTZMAN. The loss of industries and jobs could have such a negative effect on the cities economy, could even be that we would have to cut back their spending and possibly even raise taxes to cover expenses; is that correct?

Mr. VERDIER. That is correct.

Ms. HOLTZMAN. And speculating of course on the size of this exodus, it could well be, could it not, that the so-called economic stimulus from this investment tax credit would be offset by the actions on parts of cities, either to raise taxes, or to cut back on purchases, and the like?

Mr. VERDIER. The overall stimulus to the entire economy throughout the country would not be offset.

Ms. HOLTZMAN. Yes, but the purchases of the cities, and the taxing efforts on parts of cities has an effect on the overall economy of this country; is that correct?

Mr. VERDIER. Right. I think cities themselves, individual cities, might end up worse off.

Ms. HOLTZMAN. And if a number of cities were worse off, and reduced purchases, or raised taxes, would not that have an adverse effect on the overall economy of this country?

Mr. VERDIER. Yes. Again, we do not know how big.

Ms. HOLTZMAN. So you would have to agree that whatever beneficial effects there might be to the general economy of this overall tax credit they could be offset by negative effects caused by regressive actions on the part of cities to accommodate for the loss of jobs to industry?

Mr. VERDIER. Offset to some extent. To what extent we do not know.

Ms. HOLTZMAN. That is right. On February 3, Dr. George Peterson testified that in his judgment as a result of the President's proposal, the same number of businesses and jobs would leave cities in the next 3 or 4 years as would otherwise leave in 10 years.

In other words, the President's proposal would accelerate the process, so that if a firm had originally decided to leave in 10 years, it would now do so in 3 or 4 years. The proposal would triple the rate of exodus. Do you agree with that estimate?

Mr. VERDIER. It sounds intuitively right for that category of firms that would be leaving anyway, yes.

Ms. HOLTZMAN. Is it also your judgment that this investment tax credit would have no effect on firms that had not already made the decision to leave the cities?

Mr. VERDIER. For firms that generally have the option of staying in the city and rehabilitating, the administration's proposal would have a neutral effect; yes.

Ms. HOLTZMAN. Realistically, how many firms have an option of rehabilitating their structures?

Mr. VERDIER. It is very hard to tell. We came across two fragments of evidence. One, the studies that show that most of the job loss in cities is not due to firms that pack up and leave.

Ms. HOLTZMAN. That was not my question. My question was, how much of an option is rehabilitation for firms?

Mr. VERDIER. My second point might be more directed toward your question. As far as we can tell, only about 20 percent of all of the construction activity in the country is for rehabilitation, which would suggest that that is an option which is not being used currently by lots of firms.

We do not know whether that differs in central cities from what it is outside of central cities, but it is a small share of current construction activity. A very small share is rehabilitation.

Ms. HOLTZMAN. What percentage of that rehabilitation activity has to do with industrial structures?

Mr. VERDIER. We were not able to distinguish between industrial and commercial structures in that respect.

Dr. Russek just reminds me that I misspoke. It is not 20 percent for rehabilitation. It is 10 percent.

Ms. HOLTZMAN. Ten percent?

Mr. VERDIER. Yes.

Ms. HOLTZMAN. And industrial structures?

Mr. VERDIER. We cannot tell whether that differs for industrial buildings versus commercial buildings.

Ms. HOLTZMAN. You would assume that industrial structures would not take up that entire 10 percent, so we are talking about somewhat less than 10 percent.

Mr. VERDIER. It could be 10 percent of all construction. It could be 10 percent for both commercial and industrial.

Ms. HOLTZMAN. Would CBO be in a position to do an estimate of the impact of a threefold acceleration of departure of firms on city budgets?

Mr. VERDIER. We might be. I would have to talk with our people in the Human Resources and Community Development Division, and we will see if we can do that.

Ms. HOLTZMAN. That would be useful.

If this investment tax credit for structures were to remain in the budget, what could be done to help cities, or would there be virtually nothing that could be done to alleviate this accelerated exodus of jobs and businesses?

Mr. VERDIER. What you would probably want to do is to focus on the adverse effects that might result from this tax credit for industrial structures. Those are likely to be, as we suggested, a more rapid erosion of the local tax base. That would be the principal adverse effect. You would then want to consider the kinds of things which help with that problem, which would be something like countercyclical revenue sharing, which tends to concentrate money on those kinds of governments in declining cities. It was not intended that way, but that is the way it has turned out.

That would be one option. To deal directly with the unemployment problem in the central cities, you might want to consider expansion of our existing public service jobs program.

The difficulty of this is that there is a lot of what economists call substitution in that program. Local governments are hiring people under that program that they just would have hired anyway. If indeed that is the situation, and if you want to start on a transition toward a smaller level of public service employment in those cities, expanding public service jobs would take you in the opposite direction.

Ms. HOLTZMAN. Could you make a guess as to how much this investment tax credit could cost the Federal Government through increased public service jobs or through countercyclical programs, if we wanted to alleviate the resulting tax erosion it would cause in cities?

Mr. VERDIER. In other words, try to estimate how much damage to cities there would be, and how much extra it would cost to offset that damage through direct programs?

Ms. HOLTZMAN. Yes, and, of course, you have an additional indirect cost through various social service programs, since you would have to pay for those who become unemployed.

Mr. VERDIER. We can guess.

Ms. HOLTZMAN. What is this investment tax credit going to cost us, not only in terms of short-term loss of revenue, but in terms of additional costs to the budget?

Mr. VERDIER. It is very hard to tell because, as I suggested at the outset, it is very hard to tell how many firms are going to be in position where they would be induced to leave faster as a result of the credit, and unless you know that first point, it is very hard to proceed to estimates of the remainder of the things you request.

Ms. HOLTZMAN. To the extent that an accelerated exodus of businesses and jobs takes place, there will be an increased Federal burden because of social costs such as welfare and medicaid for those workers who will have lost their jobs. In addition, to the extent that the Federal Government wants to help the cities whose economic condition is aggravated by the tax credit, we may have to pay additional amounts for countercyclical programs, public service jobs, or other forms of aid; is that correct?

Mr. VERDIER. That is correct.

Ms. HOLTZMAN. So that this tax credit could be costly to the Federal budget on the expenditure side?

Mr. VERDIER. It could.

Ms. HOLTZMAN. Could you do a series of options to give us some idea of what figures we are talking about, whether we are talking about hundreds of millions of dollars a year, or billions of dollars?

Mr. VERDIER. We can do something along the lines of what you first suggested, which was to say, if a certain percentage of firms leave central cities 3 or 4 years faster than they might have otherwise, what extra cost would that impose on cities.

Ms. HOLTZMAN. I did not say 3 or 4 years. I said 7 or 6 years, a threefold acceleration.

Mr. VERDIER. If that result took place, we could try to estimate what the cost would be of compensatory Federal programs—which passes the question of how big those costs are that result from the investment tax credit—but if we assume what the costs might be, then I think we can perhaps do the calculation.

Ms. HOLTZMAN. I think that would be very helpful.

[The information referred to follows:]

ESTIMATED COST OF COMPENSATORY FEDERAL PROGRAMS

As noted at the hearing, CBO is not able to estimate the extent to which an extension of the investment tax credit to structures would accelerate the departure of industrial firms from cities. Our estimates of the impact of this proposal on city tax bases and on compensatory Federal spending must therefore be based on alternative hypothetical assumptions.

To make these estimates, we looked at data on industrial jobs for the 46 largest U.S. cities—those with populations of 300,000 or more. Between 1963 and 1972—the latest year for which data are available—one-half of those cities showed a decline in industrial employment. Only those cities showing a decline were used in the calculation. This exaggerates somewhat the potential adverse effects indicated below since some of the growing cities that are excluded might be expected to benefit from the relocation of industrial firms.

As one hypothetical alternative, we assumed that the industrial job loss that would occur in these 23 declining cities over the next 10 years if past trends were to continue would instead occur over 6 or 7 years. Under this assumption, city tax revenues from industry could be reduced by as much as $30 million a year by 1983, and as many as 20,000 industrial jobs might be lost.

Alternatively, we assumed that the industrial job loss in these cities that would occur in 10 years if past trends continue occurred instead over 3 to 4 years. With this assumed threefold increase in industrial job losses, city tax revenues from industry might drop by as much as $110 million a year by 1983, and as many as 90,000 industrial jobs might be lost.

The costs of income transfer programs such as unemployment insurance, welfare, medicaid, and food stamps are likely to increase in areas where the investment tax credit contributes to employment losses. Public service employment and manpower training programs might also be increased. These costs are borne primarily by the Federal and State governments, although in some States, local governments bear part of the burden.

At the Federal level, the increased transfer payment and employment program costs resulting from job losses in one area are likely to be offset by reduced costs in other areas where the expanded investment tax credit leads to employment increases. The cost offset may not be complete, however, if the areas that gain jobs as a result of the increased credit have lower unemployment rates and less economic hardship than the areas that lose jobs. The number of people taken off the unemployment and welfare rolls in the area where the new plant is built might then be less than the number added to the rolls in the area where the old plant is closed down. The geographical pattern of potential job losses and gains is much too uncertain and complicated to make any reliable estimates of this, however. The most that can be said is that any additional Federal transfer payment and employment program costs resulting from the proposed extension of the investment tax credit to structures are not likely to be substantial.

At the State level, however, it is less likely that transfer payment gains and losses will be offsetting. Clearly, some of the jobs lost in cities will be gained by suburbs within the same State, but in other instances the shift might be to another State or region. Some States might therefore face a net increase in transfer payment costs as a result of the expanded investment tax credit. Again, however, the uncertainties inherent in predicting the geographic pattern of net job losses and gains make estimates of this kind extremely difficult to do with any confidence.

Ms. HOLTZMAN. You described several options for replacing the tax credit and I take from what you said initially, it certainly is possible to develop methods of stimulating the economy without destroying the economic base of cities.

Have you considered the possibility of limiting the investment tax credit for structures, for example to cities, or areas of large unemployment?

Mr. VERDIER. We have thought about that, and a lot of people have suggested it. It does have a couple of problems. First of all, it is difficult to decide which geographic areas should get the credit, and which should not. Local unemployment data are not very good, and once you draw some sort of line initially, there is a lot of pressure for people on the wrong side of the line to change the formula so they get on the right side of the line. So you end up with something not very targeted at all.

But beyond that, you have to ask the question of what it is you are trying to do with a geographically targeted investment tax credit.

If you are trying to increase the local tax base, it makes a little bit of sense, but it probably makes more sense to do that directly in the form of countercyclical revenue sharing or something like that, which gets directly at the problem you are trying to deal with.

If your concern is about central city unemployment, geographically targeted investment tax credits do not seem to get at the problem very well, because you could get the credit for a central city plant which employs few people in a huge computer facility—people with Ph. D.'s, making $40,000 a year—and that would not do any good.

On the other hand, you would not get it for a factory you built out in the suburbs, outside of the geographically targeted area, that employed entirely low-skilled blue-collar people from the inner city. So it is just not very good at creating jobs for central city people.

Ms. HOLTZMAN. Let me go back to an earlier point you raised. I take it that the thrust of your testimony would be that the tax credit for rehabilitation of older buildings will not significantly offset the harmful impact on cities of the investment tax credit for structures.

Mr. VERDIER. It will for most firms. It will not for that category of firms that do not really have the option of staying and rehabilitating.

Ms. HOLTZMAN. And we have already discussed that the amount of rehabilitation is miniscule.

Mr. VERDIER. Yes.

Ms. HOLTZMAN. So the category of firms assisted by this rehabilitation credit would not be substantial.

Mr. VERDIER. Right.

Ms. HOLTZMAN. I take it that even extending the rehabilitation tax credit to commercial structures would still not affect that category of businesses that are thinking of leaving the cities and this accelerated flight.

Mr. VERDIER. No.

Ms. HOLTZMAN. How much stimulus do you really think we would be foregoing by dropping the investment tax credit for structures entirely? How many jobs are going to be created by that tax credit that would be lost if it does not become law?

Mr. VERDIER. We do not have that estimate with us. It can be easily done by our Fiscal Analysis Division. There is a rule of thumb—if I were an economist I could tell you—which shows what happens when you take away $1.8 billion of investment tax credit, and we can supply that for the record.

Ms. HOLTZMAN. I think that would be helpful. I have never heard of any estimates for any investment tax credit in terms of the jobs it would create so I think this would be good to have.

[The information referred to follows:]

APPLYING INVESTMENT TAX CREDITS

Since the investment tax credit has never been applied to structures, there are no empirical studies of the macroeconomic effects of such a credit. Many analysts believe that the existing investment tax credit for machinery and equipment has had significant effects. It is not certain, however, that the effect of applying the credit to structures would be as large. It is likely that it would take longer for the full effects of an investment tax credit for structures to be realized, given the length of time needed to plan and complete structures. Based on CBO analyses of other corporate taxes, a reasonable guess might be that a credit applicable to structures, implemented on October 1, 1978 (but retroactive to January 1), and costing $1.8 billion in fiscal year 1979, would generate between 20,000 and 60,000 jobs by the end of calendar year 1979. The full impact might occur a year or two later, but it is extremely difficult to estimate with any confidence how large that impact might be.

Ms. HOLTZMAN. Mr. Simon?

Mr. SIMON. My apologies for not being here for your statement. Did you by any chance see the article in the morning's Washington Post, which I would like to enter in the record at this point, quoting Vernon Jordan on the impact? I am curious about your reaction on that.

[The article referred to follows:]

[From the Washington Post, Wednesday, Feb. 15, 1978]

TAX CUT PLAN SEEN COSTING BLACKS JOBS

(By Austin Scott)

The National Urban League opposes President Carter's $25 billion tax cut proposal in part because it would pay industries to cut their black employment, league President Vernon Jordan said yesterday.

Carter's plan for an expanded investment tax credit is the villain, Jordan told a National Press Club luncheon.

Carter's proposals call for extending the present 10 percent tax credit on money spent for equipment to cover construction costs as well. He has also proposed letting companies use the credit to offset 90 percent of their taxes in a given year. The current limit is 50 percent.

"What that means," Jordan said, "is that the government, through the tax laws, would offer incentives to industries to accelerate their abandonment of older cities," in that it would pay part of a company's cost to move from an old central-city site to the suburbs. "In effect, it is a subsidy to increase black unemployment," he said.

High black unemployment, which averaged 12.5 percent overall and was 41.1 percent for black teen-agers during January, has been a major source of the dissatisfaction that many black leaders, including Jordan, have expressed over Carter's economic policies. White unemployment for January was 6.4 percent.

The Urban League announced its basic opposition to the tax cut plan in mid-January, saying then that too little of the benefits would go to blacks and U.S. cities.

"It is ironic that this proposal comes at a time when the administration is about to announce its national urban policy," Jordan said yesterday.

"Whatever positive measures that policy will include are likely to be offset by tax policies that drain more jobs from the cities. Here is another instance where the right hand giveth and the left hand taketh away."

"In the light of this," he said, "how can anyone claim that civil rights leaders ought to be tending to the business of fighting for abstract civil rights when our constituents face economic policies that leave them destitute, without jobs, without the human dignity we preach to other nations?"

Jordan told his audience, "There are those who believe, in John F. Kennedy's phrase, that a rising tide lifts all boats. But we must remind them that a rising tide only lifts those boats in the water, and black people are in the drydock of this economy."

Mr. SIMON. This article goes into some detail, that in effect it is a subsidy to increase black unemployment, is the fundamental thrust of what he has to say.

Mr. VERDIER. I think what he meant was the kind of issue that we have been discussing, which is that there is a category of firms that is going to be induced to leave the central cities faster than they otherwise might have because of the administration's proposal. To the extent that the labor force in the area they go to has fewer low-income people and fewer minority people in it, there will be, because of that, a reduction in black and minority employment resulting just from that event. Whether it is offset by events in other places in the economy, it is hard to tell.

Mr. SIMON. You have a series of alternatives, I see. I have not had a chance to examine them in detail. If you were trying to both stimulate the economy, and at the same time help areas of the greatest need, are there any of these alternatives that you would give priority to?

Mr. VERDIER. The difficulty is that you really have to tradeoff three different goals, or somewhat different goals. One is to provide general overall economic stimulus, and you can provide an equivalent amount of that by practically any way you hand out $1.8 billion. If you are worried about business capital investment, then investment tax credits give you a little bit more bang for the buck than corporate rate cuts. Both of them give you more bang for the buck than for tax credits to employers for their social security taxes.

If you are looking for something that helps central cities, or helps the kinds of businesses that are more likely to be in central cities, then probably the refundable income tax credit of 4 percent against social security taxes does that better than any of the others there, because it goes mostly to the kinds of businesses that are in central cities. But it has obviously less impact on business capital investment than the other options, so you have to decide what is most important to you.

Mr. SIMON. Thank you.

Ms. HOLTZMAN. Don't you think that there is something irrational about a proposal that, on the one hand, is going to result in a loss of jobs and businesses to cities through an investment tax credit of the kind the President proposed and on the other hand, talking as this administration does about the need to create jobs for minorities, the need to preserve cities, and, indeed, the need for economic development in cities? Isn't there substantial new money in this budget for economic development to bring jobs and industries into cities? Does it really make sense at the same time to give an incentive to businesses to move out of cities?

Is not there something fundamentally contradictory about the approach taken in this budget with respect to the economic development of cities?

Mr. VERDIER. I think what it reflects is that there just are difficult tradeoffs. If you want to provide a stimulus for business capital investment, as they do, the investment tax credit is probably a pretty good way of doing that.

It has adverse side effects on central cities, and you may decide that either the side effect is so serious you should not try to pursue your first goal in that way, or second, you might say we will live with that on the tax side, and try to compensate it on the direct side. Then you have the question of how effective and how costly is your compensation going to be on the direct side. If it turns out to be more costly in a sense than the benefits for business investment from the higher investment tax credit, then you have to say, yes, it probably does not make sense.

Ms. HOLTZMAN. Well, are you aware of any effective means that has yet been developed to rebuild our cities?

Mr. VERDIER. Effective, no.

Ms. HOLTZMAN. Well, then that answers the question you pose, does it not, in terms of tradeoffs. If there is no known effective method to restore our cities, then what possible justification can there be for eroding the economic base?

Mr. VERDIER. The administration may decide the erosion of the economic base resulting from the tax credit would not be so serious that they could not compensate it on the direct side at a reasonable cost.

Ms. HOLTZMAN. There is no reasonable cost if it cannot be done at all.

How effective has anybody been in attracting business to central cities from the suburbs? Are you aware of any circumstances in which this has taken place on a large scale?

Mr. VERDIER. Not offhand, but I think your question assumes that the investment tax credit proposal is going to have a very, very serious adverse impact on central cities, and we are just not sure we know that.

Ms. HOLTZMAN. I am sorry. I did not hear that.

Mr. VERDIER. I think the underlying premise of your question is that the administration's investment tax credit proposal is going to have a very, very serious adverse impact on central cities, and I am just not sure we know that is true.

Ms. HOLTZMAN. Well, we do not know how many adjectives go before the word serious, I would agree with you on that score.

Mr. SIMON. If my colleague will yield, would you say it is a moderately—if you could use the term moderate, with an adverse impact—but is there a moderately adverse impact as a result of all this on the central cities?

Mr. VERDIER. Probably.

Mr. SIMON. Probably?

Mr. VERDIER. Yes.

Ms. HOLTZMAN. It seems to me, you are having some difficulty addressing the policy issue. I do not see any real tradeoff here. I think that there will be an adverse effect on the economies of cities. That is something that ought to be avoided, if there is some other way of achieving that stimulus objective of increased investment.

Thank you very much for your testimony. We would very much appreciate any quantification of the possible impact on cities of the President's proposal, as we discussed it this morning.

Mr. VERDIER. Thank you.

Ms. HOLTZMAN. Our next witness is Dr. Emil Sunley, Deputy Assistant Secretary for Tax Policy, U.S. Department of the Treasury.

Dr. Sunley, we welcome you to our hearings. You may proceed as you wish.

STATEMENT OF DR. EMIL SUNLEY, DEPUTY ASSISTANT SECRETARY FOR TAX POLICY, U.S. DEPARTMENT OF THE TREASURY

Dr. SUNLEY. Thank you, Madam Chairwoman.

I am pleased to appear here today to discuss with you the impact of the President's tax program on cities.

The tax program will sustain the overall economic recovery and this is of the highest importance for cities. History shows that when unemployment declines nationally, unemployment among teenagers and minorities, a major concern of urban policy, declines more rapidly.

Over the past 20 years, when overall unemployment has changed, up or down, by 1 percentage point, unemployment among blacks has changed by about 1.6 percentage points, unemployment among teenagers has changed by 1.4 percentage points and unemployment among black teenagers has changed by 1.9 percentage points.

A similar story is told by observing historical changes in employment. When GNP has increased, nearly 20 percent of the resulting increase in employment has gone to blacks, who now have about 11 percent of employment. Similarly, teenagers, who comprise 8.5 percent of present employment, have accounted for 30 percent of the employment increase. Finally, black teenagers, who comprise less than 1 percent of total employment, have obtained about 4 percent of the new jobs. Continued economic expansion is the most important program for employment of these groups whose rates of urban unemployment have been especially high.

The program is also directed to low-income taxpayers, many of whom live in cities, proposed by the President. Of the $16.8 billion of tax reductions for individuals, about 19 percent will go to those taxpayers who earn less than $10,000 per year and who now pay about 6 percent of income taxes. This relatively larger tax reduction for lower income taxpayers will also provide the indirect benefits of increased consumer spending where these taxpayers live.

There are several specific proposals in the President's tax program that may have special implications for urban areas. However, I would urge that no one part of the program be singled out for criticism without weighing the effects of the program as a whole.

The administration has proposed to extend the 10 percent investment tax credit to expenditures for the construction or rehabilitation of industrial structures.

As first proposed by the Treasury in 1961, the investment credit would have been available for investments in industrial buildings. However, while the Congress was examining the Treasury's 1961 proposal, it became apparent that investment in equipment, by historical standards, was lagging behind investment in nonresidential structures. For this reason, the Committee on Ways and Means concluded that buildings and their structural components should not be eligible for the credit.

The decision in 1961, while appropriate at that time, has had a distorting effect on the composition of business fixed investment in the United States. While annual expenditures—in current dollars—for total fixed investment have increased by some 295 percent since 1961, expenditures for industrial structures have increased by only 145 percent.

The decision in 1961 to deny the investment credit to buildings was also based, in part, on the favorable depreciation for Federal income tax purposes afforded buildings at that time. In contrast with the situation in 1961, there has been a substantial tightening in the tax treatment of depreciation of structures and further tightening is proposed in the President's tax program. Depreciation recapture rules have also been extended to real property. Thus, industrial buildings will no longer enjoy the exceedingly favorable depreciation treatment available in 1961.

Accordingly, it is now appropriate to extend the stimulus provided by the investment credit to investments in industrial structures. This change will eliminate the bias of current tax law against balanced programs of industrial expansion, and will promote increased investment in long-lived productive facilities. Expansion of private investment in manufacturing facilities is essential to avoiding capacity shortages, with resulting inflationary pressures, as the economy continues to move ahead. Modernization of the stock of productive capital is likewise essential to further gains in labor productivity.

The proposal to extend the investment tax credit to expenditures for industrial structures is the one element of the tax program that will be most carefully scrutinized for its effect on cities.

It is true that most new factory construction will occur outside of central cities and in regions of more rapid economic growth. However, the tax program also makes the credit available equally to renovation of existing structures. There is no bias introduced in favor of expenditures for new buildings as compared to expenditures for the improvement of old structures.

To put it simply, this proposal is no more antiurban than any general investment stimulus program. The tax program would encourage more spending for both new industrial structures and the rehabilitation of old ones. Any company that is now inclined to spend a certain proportion of its construction budget for renovation as compared to new construction would have no reason to change this allocation.

The President's depreciation proposal would, in fact, remove an existing tax bias in favor of new over used buildings. Under present law, accelerated depreciation is allowed only for new buildings, not for used ones. The depreciation method for most structures, other than subsidized housing, will be restricted to the straight line method.

The size of projects that may be financed with tax-exempt "small issues" of industrial development bonds will be increased from $5 million to $10 million, but the tax exemption for "small issues" will be allowed only for construction of facilities in economically distressed areas. Ten years ago Congress placed the first limits on tax exemption of industrial development bonds, which were then being used to attract businesses to the rapid growth regions of the country. Our proposal places further limits on the uses of the industrial development bonds and targets the small issues exception to economically distressed areas.

Under the President's proposal, businesses will be able to claim the 10-percent investment tax credit with respect to pollution control equipment installed in pre-1976 plants. Currently only 5-percent credit may be claimed on such equipment if the special provision for 5-year amortization is elected. The more liberal investment tax credit will benefit older plants faced with major expenditures required to meet mandated environmental standards. These plants are often in the older central cities.

In conclusion, there is a difficult policy choice that must be faced in connection with an investment stimulus program. A major long-term benefit of such a program is the modernization of production, which raises living standards, improves the U.S. position in world markets, and provides improved job opportunities. In the long run, a favorable tax policy for investment in modernization is essential for sustained economic progress.

The administration has proposed a tax program that will sustain the recovery, that will stimulate investment, and will move toward neutrality in the tax treatment of machinery and structures. These changes are not biased against cities. Thank you.

[The prepared statement of Dr. Sunley follows:]

PREPARED STATEMENT OF DR. EMIL M. SUNLEY

Mr. Chairman, Madam Chairwoman and members of the task force, I am pleased to appear here today to discuss with you the impact of the President's tax program on cities. The tax program will sustain the overall economic recovery and this is of the highest importance for cities. History shows that when unemployment declines nationally, unemployment among teenagers and minorities, a major concern of urban policy, declines more rapidly. Over the past 20 years, when overall unemployment has changed, up or down, by 1 percentage point, unemployment among blacks has changed by about 1.6 percentage points, unemployment among teenagers has changed by 1.4 percentage points and unemployment among black teenagers has changed by 1.9 percentage points.

A similar story is told by observing historical changes in employment. When GNP has increased, nearly 20 percent of the resulting increase in employment has gone to blacks, who now have about 11 percent of employment. Similarly, teenagers, who comprise 8.5 percent of present employment, have accounted for 30 percent of the employment increase. Finally, black teenagers, who comprise less than 1 percent of total employment, have obtained about 4 percent of the new jobs. Continued economic expansion is the most important program for employment of these groups whose rates of urban unemployment have been especially high.

The program is also directed to low-income taxpayers, many of whom live in cities. Of the $16.8 billion of tax reductions for individuals, about 19 percent will go to those taxpayers who earn less than $10,000 per year and who now pay about 6 percent of income taxes. This relatively larger tax reduction for lower income taxpayers will also provide the indirect benefits of increased consumer spending where these taxpayers live.

There are several specific proposals in the President's tax program that may have special implications for urban areas. However, I would urge that no one part of the program be singled out for criticism without weighing the effects of the program as a whole.

EXTENSION OF INVESTMENT TAX CREDIT TO STRUCTURES

The administration has proposed to extend the 10 percent investment tax credit to expenditures for the construction or rehabilitation of industrial structures.

As first proposed by the Treasury in 1961, the investment credit would have been available for investments in industrial buildings. However, while the Congress was examining the Treasury's 1961 proposal, it became apparent that investment in equipment, by historical standards, was lagging behind investment in nonresidential structures. For this reason, the Committee on Ways and Means concluded that buildings and their structural components should not be eligible for the credit.

The decision in 1961, while appropriate at that time, has had a distorting effect on the composition of business fixed investment in the United States. While annual expenditures (in current dollars) for total fixed investment have increased by some 295 percent since 1961, expenditures for industrial structures have increased by only 145 percent.

The decision in 1961 to deny the investment credit to buildings was also based, in part, on the favorable depreciation for Federal income tax purposes afforded buildings at that time. In contrast with the situation in 1962, there has been a substantial tightening in the tax treatment of depreciation of structures and further tightening is proposed in the President's tax program. Depreciation recapture rules have also been extended to real property. Thus, industrial buildings will no longer enjoy the exceedingly favorable depreciation treatment available in 1962.

Accordingly, it is now appropriate to extend the stimulus provided by the investment credit to investments in industrial structures. This change will eliminate the bias of current tax law against balanced programs of industrial expansion, and will promote increased investment in long-lived productive facilities. Expansion of private investment in manufacturing facilities is essential to avoiding capacity shortages, with resulting inflationary pressures, as the economy continues to move ahead. Modernization of the stock of productive capital is likewise essential to further gains in labor productivity.

The proposal to extend the investment tax credit to expenditures for industrial structures is the one element of the tax program that will be most carefully scrutinized for its effect on cities. It is true that most new factory construction will occur outside of central cities and in regions of more rapid economic growth. However, the tax program also makes the credit available equally to renovation of existing structures. There is no bias introduced in favor of expenditures for new buildings as compared to expenditures for the improvement of old structures.

To put it simply, this proposal is no more antiurban than any general investment stimulus program. The tax program would encourage more spending for both new industrial structures and the rehabilitation of old ones. Any company that is now inclined to spend a certain proportion of its construction budget for renovation as compared to new construction would have no reason to change this allocation.

OTHER ADMINISTRATION PROPOSALS

The President's depreciation proposal would, in fact, remove an existing tax bias in favor of new over used buildings. Under present law, accelerated depreciation is allowed only for new buildings, not for used ones. The depreciation method for most structures, other than subsidized housing, will be restricted to the straight line method. This will provide an inducement for investment in low-income housing, much of which is located in urban areas and will encourage continued use of existing buildings.

The administration proposes a taxable bond option which will provide a permanent subsidy of 40 percent of the interest cost to State and local governments that choose to issue taxable bonds. The choice between conventional tax exempts and subsidized taxable bonds will be entirely a matter for the State or local government to decide. This proposal is neither pro-city nor anti-city since it will reduce the borrowing costs of all State and local governments. It should, however, be most welcome to those urban governments in financial distress.

The administration also proposes to restrict the eligibility to issue tax-exempt industrial development bonds. Bonds issued by State and local governments for pollution control and industrial parks will no longer be tax exempt. Bonds issued to finance hospital construction for private nonprofit institutions will no longer be tax exempt unless the State certifies that a new hospital is needed. The size of projects that may be financed with tax-exempt "small issues" of industrial development bonds will be increased from $5 million to $10 million, but the tax exemption for small issues will be allowed only for construction of facilities in economically distressed areas. Ten years ago Congress placed the first limits on tax exemption of industrial development bonds, which were then being used to attract businesses to the rapid growth regions of the country. Our proposal places further limits on the uses of industrial development bonds and targets the small issue exception to economically distressed areas.

Under the President's proposal, businesses will be able to claim the 10 percent investment tax credit with respect to pollution control equipment installed in pre-1976 plants. Currently only a 5 percent credit may be claimed on such equipment if the special provision for 5-year amortization is elected. The more liberal investment tax credit will benefit older plants faced with major expenditures required to meet mandated environmental standards. These plants are often in the older central cities.

CONCLUSION

There is a difficult policy choice that must be faced in connection with an investment stimulus program. A major long-term benefit of such a program is the modernization of production, which raises living standards, improves the U.S. position in world markets, and provides improved job opportunities. In the long run, a favorable tax policy for investment in modernization is essential for sustained economic progress.

The administration has proposed a tax program that will sustain the recovery, will stimulate investment, and also will move toward neutrality in the tax treatment of machinery and structures. These changes are not biased against cities.

Ms. HOLTZMAN. Thank you, Dr. Sunley.

Do you agree with the statement that Charles Schultze, Chairman of the Council of Economic Advisers, made on February 9, 1978, before the House Budget Committee, in responding to questions about the impact of the investment tax credit? He said: "Now, it may very well be in some cases there will be plants being put in outside of urban areas to replace some inside."

Dr. SUNLEY. I believe the credit that we are proposing will apply, not only to new structures, but also to rehabilitation of existing structures. I do not see why it should bias the choice of where investment is going to take place.

Ms. HOLTZMAN. Dr. Sunley, do you agree, or do you disagree with the statement made by Charles Schultze, referring to the President's proposed extension of the investment tax credit, that plants may be put in outside of urban areas to replace some inside?

Dr. SUNLEY. In some cases that is a possibility. When you provide an investment stimulus such as an investment credit, you increase the desired level of the capital stock that businesses want to hold, and that means that there will be more investment.

That is the purpose of the investment credit. It is quite possible that in some cases, this will speed up investment outside of the cities which eventually would have taken place anyway.

But, because there will also be more capital in use altogether, a firm may invest in a plant outside the central city and also retain its existing plant. In the absence of the investment credit, where you would want to have a smaller capital stock, the existing plant might have been closed down.

On balance, it does not seem to me that we have a clear case that the program here for providing an investment credit for any investment in industrial structures, whether it be new industrial structures, or rehabilitation, is going to lead to a decline in the cities.

Ms. HOLTZMAN. Well, you may state your conclusions, but I would like to get at the facts and that is why I had originally asked you, if you agreed that, in some cases, this investment tax credit would lead to industries leaving the city.

Dr. SUNLEY. Yes, and in some cases, it will help them to stay.

Ms. HOLTZMAN. OK. Have you done any analysis of this?

Dr. SUNLEY. Yes, Madam Chairwoman. When we were putting the program together, we talked very carefully with the Department of Housing and Urban Development, to see if they had any objections to providing this investment credit, and when we assured them that it would apply also to rehabilitation, renovation of existing plants, they concluded that on balance that this would not be anti-urban.

Ms. HOLTZMAN. Well, as I said to you, the conclusions are really something that we can draw as well as anybody else when we get the facts correct to begin with. Has the Department of the Treasury done any quantitative analysis of the impact this tax credit would have on cities, and on the exodus of firms from the cities?

Dr. SUNLEY. I believe this is one of those cases where you are pretty much required to work from a general model of how an economy works. There is no hard data that you can use to derive a quantitative answer.

Ms. HOLTZMAN. So this pretty much a gut kind of determination?

Dr. SUNLEY. That is correct.

Ms. HOLTZMAN. Do you disagree with the estimate provided by the Congressional Budget Office that for firms thinking of leaving the city, the investment tax credit for structures would accelerate that decision, roughly threefold?

Dr. SUNLEY. I have no basis for choosing a rate of acceleration, and they have no basis for choosing. I believe, Madam Chairwoman, they are just accepting a number suggested for illustrative purposes by previous witnesses before the House Budget Committee.

Ms. HOLTZMAN. So you have no way of saying whether it is a threefold acceleration, a tenfold acceleration, a hundredfold acceleration, or even less?

Dr. SUNLEY. There is no reason to expect those astronomical numbers you suggest.

Ms. HOLTZMAN. There is no reason to assume a threefold acceleration in the exodus of firms from cities?

Dr. SUNLEY. I think the important point here is what we are talking about is a speeding up of something that is going to happen anyway. No one has been suggesting that this proposal means that in the long run we are going to have less investment in the cities.

At most, they are talking about a speeding up, and one thing that economists know very little about is the speed of a transition from one desired state to another; but there is no evidence to suggest anything as large as a threefold speeding up of the departure of plants from the cities, as was suggested by an earlier witness before your committee.

Ms. HOLTZMAN. But, on the other hand, there is nothing not to suggest that; is that correct?

Dr. SUNLEY. There is no hard quantitative evidence on which to base an estimate.

Ms. HOLTZMAN. So we are operating on a gut basis here in terms of the future of our cities; is not that true?

Dr. SUNLEY. I do not believe it is. I think when we look at the tax program as a whole, that it has a very important role to play in sustaining this recovery. Last year the level of unemployment declined from over 7 percent at the beginning of the year to 6.4 percent at the end of the year.

The number of people employed in the economy increased by 4.2 million. The number of people unemployed declined by 1.2 million, and this followed a year, 1976, in which there was almost no change in the level of unemployment. It hovered around 7.8 percent throughout the whole year.

I think that by sustaining the recovery this program is going to provide a significant improvement for employment opportunities in cities, and that is of greatest importance to the cities. I am sure that this increase in employment opportunities far outweighs any possible negative effect that may come from extending the investment credit to industrial structures. I would agree with your previous witness, who said that this problem that you are talking about, relating to industrial structures, applies to any tax reduction for the income from capital, whether it be a cut in the corporate tax rate or an increase in the investment credit for machinery and equipment. Anything that encourages additional investment in machinery and equipment, or in industrial plants, will have this kind of effect that you talk about. The only issue on the table, therefore, is how quantitatively significant that effect is.

Ms. HOLTZMAN. But you have no answer to that?

Dr. SUNLEY. With the background of the investment credit that was enacted in 1962, no one has demonstrated that this investment stimulus accelerated the decline of the cities.

Ms. HOLTZMAN. But certainly we have seen our cities decline. If what you are saying is so, perhaps we have to reexamine our entire tax structure in terms of how it affects cities, instead of operating on a gut basis on such important decisions. I find it to be absolutely astounding that this is not now the case.

You say we have had tax credits since 1962, and therefore, that they are beneficial. If you look at what has happened to many of our cities since 1962, maybe, in fact, there is a direct relationship. You say at the beginning of your testimony that blacks and minorities benefit from improvement in the gross national product. But you also said that most of the factories will be created outside of cities. How many blacks and minorities live outside of cities?

Dr. SUNLEY. I have not said most of the plants will be created outside of the cities.

Ms. HOLTZMAN. On page 2 you say: "Most of the new factory construction will occur outside of central cities, and regions of more rapid economic growth."

How will blacks and minorities benefit from this increase in jobs? Will you please tell me how they will benefit if they do not live near these factories?

I am pleased to learn about the history, but I do not believe it bears any relationship to the future you describe here.

Dr. SUNLEY. If you study this past recession, you will see that the ratio of employment to population among black teenagers declined considerably. But also that the fall in this ratio between 1975 and 1977 was larger in the nonmetropolitan areas than in the central cities. That is, the greatest declines in the black teenage unemployment was not in the central cities. The most serious decline occurred in the nonmetropolitan areas. There are in fact blacks who live outside the core central cities.

Ms. HOLTZMAN. But the numbers are exceedingly small. The direct logical consequences of your testimony—that most new factory construction will occur outside of the central cities—is that most of the jobs will be created outside of the central cities, and that this will leave the serious problem of ghetto unemployment largely unaffected.

Dr. SUNLEY. Madam Chairwoman, may I offer one comment on that. I believe I misspoke earlier. It seems to me that you have been saying that most of the additional investment induced by the investment credit will cause an exodus from the cities, that it will be antiurban.

I do not believe that the additional investment induced by the investment credit will have a pattern any different from the investment in industrial structures which is going to occur anyway. In this sense, I do not think that the investment credit for industrial structures will have an important antiurban bias.

Ms. HOLTZMAN. What do you mean it does not have an important antiurban bias? You mean it is not doing anything radically different from what you are already doing to the cities?

Dr. SUNLEY. There are historical trends of investment movement from declining areas toward expanding areas, which is going to occur whether there is an investment credit or not.

Ms. HOLTZMAN. Right, and we recognize that. But the point of these hearings is to determine the extent to which this tax credit is going to accelerate that movement, and increase the erosion of the tax base and the loss of jobs in the cities, and increase the Federal budgetary expenditures for relief of the cities. Those are the things that we are trying to determine, and what I find to be very troublesome is a budget that on the one hand is going to accelerate the movement out of the cities of jobs and businesses away from those who are most affected by unemployment, and at the same time, pay lip service to the notion of an urban policy. I think these are inconsistent goals, and I think it is a regrettable approach.

I would also like to ask you whether you did any analysis of the added energy costs of creating jobs in areas where mass transit is least available and where people have to use an automobile to get to work? Would it not be better creating jobs in areas which have mass transit, which are more efficient from an energy point of view to get to?

Dr. SUNLEY. I do not have any studies on precisely that, but I would suggest that one of the factors leading to the trend away from the central cities is the movement away from inefficient energy plants to more efficient energy plants. The great increase in energy costs that began in 1974 affects the kind of plant you want to build, and that makes certain older plants obsolete. With lower energy prices, these may not have been obsolete; so, in effect the energy situation has indeed had an impact on investment. But again, I think it should be recognized that you are talking of industrial structures, about $1 billion of the total tax cut, in a program which involves $25 billion of tax cuts, and those other $24 billion of tax cuts will have a significant positive effect on the economy. One of the things we know is that when an economy goes into a recession, older inefficient plants close down. Some may never open up again and in this way a recession has a major impact on the older central cities. If the administration and the Congress could enact a program that could sustain this economic recovery, that in itself will have a major impact of strengthening our central cities. This recovery will surely offset any impact of $1 billion reduction of taxes associated with the income from investment in industrial structures.

Ms. HOLTZMAN. How do you know it will "surely" offset the impact?

Dr. SUNLEY. That is largely a judgment. The magnitudes involved are 25 to 1, and only a small part of the $1 billion piece may adversely affect cities by speeding up location decisions.

The proposed investment credit stimulates all investment in the industrial structures. We are talking about what might be a small bias toward investment outside the central cities, one which no one has been able to quantify. We discussed this issue with people within Government and outside of Government, including your witnesses before this panel today.

Ms. HOLTZMAN. The witnesses before the panel today, however, were quite clear in their statements that the investment tax credit would accelerate the exodus of businesses from cities. The problem was being able to estimate the size of that group of businesses.

Dr. SUNLEY. Mr. Verdier said he had no idea what the size of that group was, whether it was significant or insignificant. His argument was essentially that it is hard to quantify.

Mr. HOLTZMAN. Well, you are the people coming up with the tax proposal. I cannot understand your logic on this matter. You say the cities of this country and the people living in them are suffering an enormous hardship. You then draft a proposal based on some kind of gut reaction, and tell me that we should be content because the Department of Housing and Urban Development agrees with your decision.

The Department of Housing and Urban Development is a part of this administration, and maybe they agree with the Treasury Department for their own reasons. I will not try to read their minds, but it makes no sense to me to take away on the one hand from the economic base of the cities and then, on the other hand to talk about creating an urban policy to build up that base.

I think there are other ways of stimulating the economy without hurting the cities. The Congressional Budget Office cited some of these alternatives in their report.

Dr. SUNLEY. The Congressional Budget Office also indicated that any stimulus aimed at encouraging additional investment has the same potential problem that you are talking about. If part of your goal for the long run is to increase the capital stock in this country so that you can improve productivity per worker and raise real wages, which are a major benefit to workers, then you have to think about subsidies that will lead to an increased investment.

Ms. HOLTZMAN. I do not think that is a correct summary of what the Congressional Budget Office said. Their report said that there are ways of stimulating the economy which would not necessarily adversely affect cities. It seems to me that it is certainly not beyond the ingenuity of this administration to figure out ways of stimulating the economy which will not destroy our cities in the process.

I do not know how you can argue in favor of something that will have an adverse effect on cities. The administration tries in this budget to spend Federal dollars on programs for economic programs for cities.

Dr. SUNLEY. If I may quote from page 9 of the statement submitted by Mr. Verdier, if the principal reason for extending the investment tax credit to structures is to stimulate business investment and economic growth, alternative measures would have approximately the same economic impact, so any measure aimed at stimulating investment will have approximately the same economic impact which the Congressional Budget Office indicates may have some impact on some firms which may be thinking of leaving the city, and they do not know how many that group is.

Ms. HOLTZMAN. They are talking about the overall economic impact of stimulating the economy, so I think you are misreading the statement. I think they do say that there are alternative ways of stimulating the economy, without adversely affecting cities, and I would appreciate your submitting for the record any comments you may have on the alternative proposals they have made, in terms of stimulating the economy.

Dr. SUNLEY. I would be most pleased to submit those to you.

[The information referred to follows:]

ECONOMIC IMPACT OF STIMULATING THE ECONOMY

The alternatives to the administration proposals that were suggested in the testimony of Messrs. Verdier and Russek of the Congressional Budget Office include four investment stimulus proposals and two proposals that would lower the cost of labor. Three of the investment stimulus proposals—increasing the rate of the present investment credit, extension of the investment credit to commercial as well as industrial structures, and reduction in the corporate rate—would all have about the same qualitative effect upon cities as the administration proposal. These alternatives vary in size of revenue loss and, possibly, in the amount of shortrun stimulus per dollar of revenue cost. However, each proposal would be expected to increase investment in general and to hasten, to an unknown extent, the modernization of production facilities, including the relocation or renovation of these facilities. The extent to which the relocation of employment opportunities is dependent upon expenditures for structures, as compared with other capital expenditures, is also unknown. Unless it is demonstrated that there is a significantly larger locational effect from expenditures for structures, there is little to choose among these proposals from the point of view of conserving cities, except for the overall size of their impact on investment.

A fourth CBO alternative would extend the investment credit only to rehabilitation of structures. This proposal would undoubtedly provide a differential incentive to make investments in the present locations, although not necessarily in areas of economic distress. However, it also would have only a small percentage of the overall investment stimulus that would be provided by the administration proposal. The administration program favors a larger and more balanced industrial expansion.

The two remaining alternatives suggested in the CBO testimony would provide tax credits for payroll costs, instead of investment incentives. As Mr. Verdier pointed out in his testimony, the administration proposed last year that taxpayers be allowed the option of a credit against social security taxes instead of an investment credit increase. Congress rejected this proposal in favor of the new jobs tax credit.

Extension of the Jobs Credit, the last alternative suggested by the CBO, promises little benefit at all for older cities. Eligibility for the Jobs Credit requires that an employer have an increase in the wage base for unemployment insurance taxes above a threshold level. Local companies in areas with little growth in demand are unlikely to meet this requirement. On the other hand, large national companies that may have sufficient growth from other regions to qualify for the growth threshold are effectively denied any additional employment stimulus by a limit of $100,000 per taxpayer.

Ms. HOLTZMAN. Thank you very much.

Dr. SUNLEY. Thank you.

Ms. HOLTZMAN. Our next witness is Dr. Roger Vaughan of the Rand Corp.

Dr. Vaughan, I see you have a prepared statement. You may proceed in any manner you wish.

STATEMENT OF DR. ROGER VAUGHAN, THE RAND CORP.

Dr. VAUGHAN. Thank you, Madam Chairwoman.

Since we are discussing job-creating policies, I would argue the kinds of tax proposals we rely upon are singularly appropriate for this. Some of the arguments have already been made, and I would like to stand in agreement with Mr. Verdier and Dr. Peterson, but would like to make one or two additional points.

First, at least 50 percent of all firms in this country earn no taxable income, and, therefore, tax incentive is likely to have very little impact; it will not encourage them to create jobs. One suspects that many of these firms are located in central cities.

Basically, with any kind of investment tax incentive, you are operating on the wrong factor of production. We have unemployed labor, and yet we are trying to subsidize capital accumulation. I do not believe that the kind of people who are unemployed are the people who will benefit from the investment tax incentives.

The second approach we have relied upon to create jobs for the urban unemployed are public sector jobs funded through CETA titles II and VI. There are I think severe problems with this type of program as a way of solving the problems of the city.

First, people hired under the CETA program tend not to be the hardcore unemployed. Second, there is a problem of substitution of Federal expenditures for State and local expenditures, so that in effect, we do not create that much additional employment in the public sector.

I do feel we have an alternative though, an alternative which we have not used in the past. Some of the issues are outlined in my prepared statement, and I would like to summarize them at this point.

This alternative is to subsidize wages, and does, I think, address some of the basic problems we have with urban unemployment. By subsidizing wages, we are reducing the cost of labor to firms, and encouraging them to hire more people. We have, through payroll taxes, social security taxes, unemployment insurance payments, through transfer payments to individual workers, and through minimum wage regulations, greatly raised the cost of hiring unskilled and low-skilled workers, to firms. A wage subsidy would overcome that.

One possible form this wage subsidy could take would be through a vouchering scheme, in which the amount of subsidy an employer would be eligible to receive on hiring an unemployed worker would be related to the duration of unemployment. It is my feeling that this would provide a much greater opportunity to address the basic problem of urban unemployment than either the investment tax credit or the public sector employment, and at greatly reduced costs.

I think there are some problems with a wage subsidy program. It may encourage employers to fire unsubsidized workers and replace them with subsidized workers. I think there are legal ways around this. A wage subsidy program would, or could, be used to enhance labor market mobility.

We must face the rather unpleasant truth that saving cities is going to involve continued loss of population and jobs from those cities. We must try to encourage those who are currently suffering unemployment to seek employment opportunities elsewhere.

I do not believe it would lead to a massive exodus. In fact, it may arrest the decline of employment in cities and may encourage suburban firms to employ central city workers.

The form of the wage subsidy could either be a direct cash payment each week to an employer, which should decline over time, but slowly, or it could take the form of reduced tax payments, unemployment insurance payments, or social security payments, payments made by firms on a regular basis, rather than profits taxes. Therefore, this subsidy would make an immediate impact on the firm.

I think the rest of the issues I have covered are in the prepared statement, and I will address any questions you have on this.

[The prepared statement of Dr. Vaughan follows:]

PREPARED STATEMENT OF DR. ROGER J. VAUGHAN *

Traditional policies for creating jobs for the urban unemployed have not succeeded. Many Americans—particularly the young and minorities—suffer intolerably high unemployment rates. Wage subsidies offer many potential advantages over alternatives but are not without significant problems.

TRADITIONAL POLICIES

Employment stimulation has typically been attempted through either direct job creation (CETA titles II and VI and public works construction grants) or through tax breaks designed to stimulate investment. Overall, neither approach has been successful in increasing employment in general or at reducing urban unemployment in particular.

Although they may provide much needed fiscal relief for local governments, CETA II and VI and LPWS grants lead to little job creation because local governments reduce their own expenditures when Federal money becomes available. Few of the jobs that are created are for the chronically unemployed. Transition from public to private sector employment by CETA participants has not been encouraging.

Investment tax credits tend to channel funds toward growth areas away from distressed areas, and most of the tax expenditures subsidize firms for actions that would have been undertaken even in the absence of the tax break. By subsidizing capital, firms are even encouraged to substitute capital for labor.

Neither approach addresses the root cause of unemployment among low-skilled workers: they have been increasingly priced out of the labor market by a combination of rising payroll taxes—social security and unemployment insurance; for example—minimum wage laws, and higher transfer payments that raise the reservation wage at which a worker will accept employment.

The number of jobs can only be increased by either increasing the *demand* for labor—a result of economic recovery and specific Government jobs programs—or by reducing the cost to employers of hiring the unemployed. The major burden of reducing unemployment must be borne by increases in demand. However, even during times of relative prosperity, a significant portion of the labor force is unable to secure employment. It is for these people that a wage subsidy program could provide assistance.

WAGE SUBSIDIES

We know relatively little about the efficacy or the problems of a wage subsidy program. I would like to discuss some of the broad issues involved in such a program, and express the hope that, as the policy is debated, further light will be shed on many of the important questions. I must stress, at the outset, that it cannot be regarded as a panacea for all that ails our urban labor markets. Rather, we should regard wage subsidies as an addition to our inventory of policies designed to assist the economically disadvantaged.

The argument for a wage subsidy is well summarized in an Urban Institute theoretical study completed in 1971:

Capital subsidies are not the answer to the problem of unemployment and subemployment in the ghetto. Rather, labor subsidies would do much more to solve the problem. Subsidizing labor would take the form of offering rebates on wages paid and, therefore, lowering the wage rate to the employer for each worker employed without reducing workers' paychecks. The effect of lowering labor prices to employers by means of subsidies would lead to substitution in favor of labor not against it, as is the case of capital subsidies. Subsidizing labor would also lower the cost of production and, therefore, serve to stimulate expansion of economic activity in the impacted areas.[1]

Wage subsidies could take several forms. Firms could be granted a tax credit for each additional worker hired (a marginal employment tax credit), or subsidies could be tied to individual workers. The second scheme is, in my opinion, superior to the first, and is therefore described in more detail.

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* The views and conclusions expressed are those of the author and should not be interpreted as reflecting those of the Rand Corporation or its sponsors.

[1] Robert W. Crandall and C. Duncan MacKrae, *Economic Subsidies and the Ghetto*, The Urban Institute, Report No. 350–6, June 1971.

The marginal employment tax credit has a number of disadvantages. It may (a) induce the substitution of part-time for full-time workers; (b) induce excessive cyclical layoffs by firms anxious to enjoy credits during the ensuing upswing; (c) channel Federal funds toward areas where employment is growing; (d) tax incentives ignore the fact that at least 50 percent of all firms earn no tax liability and over 90 percent have tax liabilities below $25,000.

An alternative would be to subsidize someone with a background of unemployment to work in a private or public sector job, a subsidy that could (a) be proportionate to the percent of time the worker has been unemployed during his/her preceding several months in the labor market and perhaps, also be related to income, and (b) decline as the subsidized worker gained work experience. The unemployed would, in effect, be given *employment vouchers* which the employer could cash in each week during which the vouchered worker was employed.

Consider a simple numerical example. Someone who has worked less than 10 weeks in the preceding 12 months in the labor force would be able to present to his employer vouchers for, say, $75 for the first week of employment, $74.25 for the next week during the ensuing 4 weeks, and so on until the subsidy disappeared after 24 months.[2] The subsidized worker would compete—presumably for unskilled jobs—in the labor market and may secure a job paying close to the minimum wage—$106 for a 40-hour week. Each week the employer would be reimbursed by the Federal Government by submitting the employee's voucher. If the worker were employed for a full year, the employer would pay a wage of $5,512, and receive subsidy payments of $2,808, or more than 50 percent; during the second year, the employer would receive a subsidy of $1,078, and nothing thereafter. The subsidy is independent of wage paid. The monthly subsidy for the 2-year period is shown in table 1.

TABLE 1.—EMPLOYER'S MONTHLY SUBSIDY FOR MAXIMUM VOUCHER WORKER OVER 2 YEARS

Month	1	2	3	4	5	6	7	8	9	10	11	12	Annual total
1st year	300	288	276	264	252	240	228	216	204	192	180	168	2,808
2d year	156	144	132	120	108	96	84	72	60	48	36	24	1,078

The value of the subsidy could depend upon duration of unemployment. For example, there would be no voucher for someone unemployed for 5 weeks or less during the preceding 12 months *in the labor force* or on welfare. Thereafter, initial subsidy would increase for each week unemployed up to a maximum of 45 weeks when the maximum initial voucher value of $75 would be reached.

Wage subsidies have several advantages: (1) the program automatically subsidizes the problem workers who have difficulty securing employment. It avoids some of the targeting problems of CETA. (2) The program is automatically countercyclical since duration of unemployment increases sharply during cyclical downturns. About half of the increase in the unemployment rate during a recession is attributable to increased duration of unemployment among the chronically unemployed. The other half comes from the increase in the number of workers who experience unemployment. (3) The program automatically targets on distressed areas by reducing the cost of labor more in those areas where unemployment is highest.

However, there are also a number of important questions, to which we have few answers.

1. How many jobs would be created?

We really do not know. It would depend upon the level of the subsidy and the terms under which it is available. From empirical research on the impact of minimum wage legislation we do know that an increase in the cost of unskilled labor leads to a reduction in employment opportunities. The wage subsidy would have the reverse impact, although we do not know how many jobs would be generated. The experience with WIN and JOBS, both relatively small programs, cannot serve as a guide because the redtape that surrounded subsidy

[2] The $75 voucher would only be honored if the worker worked a 40-hour week, and would be provided for shorter work weeks.

applications, and the small value of the subsidies, has limited their job creating potential.

However, I believe that a wage subsidy program could create a greater increase in employment and at a much smaller cost per job than either public service employment or public works, and would be much more effectively targeted toward areas of concentrated unemployment.

2. Who should be eligible?

To ensure equity, as many of the unemployed should be eligible as possible. This reduces the probability that some workers will find themselves unable to offer employers vouchers, while another group, with similar unemployment experience and in similar economic hardship is eligible.

However, defining eligibility is difficult. At any one time, only about half of the unemployed are covered by unemployment insurance, supplementary benefits, or AFDC-UF. For others, including new entrants and reentrants to the labor market, there are no readily available data from which their employment experience could be compiled. It would obviously be inequitable to allow new entrants, straight from high school, college, or childbearing, to enjoy the same subsidy level as those who have been unemployed for many months. At the same time, it is new entrants that experience the highest unemployment rates. There is no simple answer to this problem.

The program should certainly encourage the unemployed to register with the authority to establish eligibility as soon as they wish to seek work. This may enhance the effectiveness of the U.S. Employment Service and local Department of Employment Security.

3. Would the program place those now working at a disadvantage?

The most important problem with designing a wage subsidy program is that it may encourage employers to fire their existing unsubsidized employees and replace them with subsidized workers. I have no readymade solution to this but I feel that ways can be found to make this option as difficult as possible. We must also recognize that for all our programs that assist a particularly needy group, someone must pay. We do not choose policies because they harm no one, but because we judge that the benefits outweight the costs.

4. What type of jobs would be provided?

Again, we do not know. However, I feel that restricting the program to certain jobs in certain sectors, or insisting that participants receive training would seriously impair the program effectiveness. We must remember that any job would improve the economic position of many of the urban unemployed, and that even the most menial task would represent an important first step into the labor market and provide rudimentary but invaluable experience.

It is worth considering providing additional subsidies for training, but this should not be regarded as the primary goal of the program. The basic focus is jobs.

5. Would participants be trapped in a revolving door labor market?

There will be some tendency for employers to replace workers as their subsidy expires with more heavily subsidized workers. However, the subsidy declines slowly—there is no sudden "notch," and firing and rehiring is not costless to employers. The decline in subsidy would be compensated, in whole or in part, by the increasing productivity of the worker.[3]

Some thought could be given to providing a lump sum payment to both employer and employee some months after the expiration of the subsidy if the worker has remained employed to encourage continued employment.

6. Should subsidies be geographically transferable?

I feel that it is important that "vouchered" workers be free to take their subsidies wherever they are able to secure jobs. It may be desirable to provide some type of job search and relocation subsidies.[4] This would improve labor market mobility. I do not believe that geographically transferable wage subsidies would lead to a wave of migration from the Northeast to the Sunbelt,

[3] How many workers, initially hired at the minimum wage remain at that level for more than 12 or 18 months? I have not been able, in the time available, to find the answer to that question, but feel it could be answered with readily available data.

[4] The experience which the Department of Labor is gaining from the administration of subsidies of this form in the Southeast region would be useful in this regard.

but they may encourage suburban firms to actively recruit labor in distressed central cities.

7. How should a wage subsidy program be administered?

The program could be administered either through a new authority or through existing bodies, such as local Departments of Employment Security. I believe the second option is more attractive. The DES would provide an unemployed worker with a card indicating the level of subsidy. An employer, on hiring the worker, would then submit evidence that the worker is on the payroll, allowing the DES to terminate unemployment insurance payments (and AFDC-UF payments through cooperation with local welfare offices), and send the employer the appropriate subsidy.[5] This system would reduce the incidence of errors in the unemployment insurance and welfare programs.

8. How should the program be implemented?

The first stage in implementing a wage subsidy program is to bring together information and informed people to answer some of the questions raised here. The second stage would be to implement a large scale demonstration program, similar in approach to the youth employment program currently underway. Different program designs could be undertaken in different areas with a view to assessing the effectiveness in creating jobs, the appropriate eligibility criteria, size of subsidy, rate of decline over time, and usefulness of relocation grants, and lump sum grants to successful participants. The evaluation of the results would help shape the design of the final program.

In summary, wage subsidies offer one way to improve the employment prospects of the unemployed. The cost of hiring labor to employers is reduced which will lead to new jobs. There are several potential problems, however, and efforts should be made to resolve or to minimize these difficulties.

Ms. HOLTZMAN. Mr. Vaughan, your testimony this afternoon seems to agree with the CBO report that the investment tax credit proposal for new structures could be harmful to the cities. Could you elaborate on that, please?

Dr. VAUGHAN. The firms which would basically benefit from the tax advantage are not the ones located in central cities. They tend to be the ones located in suburban areas. The basic industrial structure of the country—the geographic distribution of firms—is one reason why the tax credit harms central cities.

Ms. HOLTZMAN. Do you agree that this tax credit proposal could accelerate the flight of industries from cities?

Dr. VAUGHAN. Yes. Even if you do create investment in central cities by subsidizing capital, you are encouraging capital intensive investment, and I think you could have exactly the kind of picture painted earlier. Even those capital intensive firms which were located in designated distressed areas and which might benefit from a more generous tax credit would do very little to provide employment to people living in those distressed areas.

We are all familiar with examples of large office buildings in distressed areas that provide very few jobs to the people living nearby. Even if you could encourage that kind of investment you are not addressing the basic problem of unemployment in the cities.

Ms. HOLTZMAN. You are proposing an alternative way of wage subsidies. Could this be accomplished through the tax system?

Dr. VAUGHAN. Yes, but I do not think through the corporate income tax. There are many firms that do not earn taxable income, but it could be done through the other taxes.

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[5] Unemployed new entrants could establish eligibility through regularly registering at the local Employment Service Office.

Ms. HOLTZMAN. Could such a program increase investment to the same extent as the President's program?

Dr. VAUGHAN. We do not know. It will certainly encourage investment, if you reduced the cost of labor, you are going to encourage firms to invest, but if the basic goal is jobs, I think we should measure these alternatives of a wage subsidy and an investment tax credit, by how much employment they generate, and I think a wage subsidy is infinitely superior to a tax cut.

Ms. HOLTZMAN. Do you have an estimate of how many jobs $1 billion of investment tax credit creates?

Dr. VAUGHAN. I do not know.

Ms. HOLTZMAN. Does anybody know?

Dr. VAUGHAN. There are some econometric models that might give you those.

Ms. HOLTZMAN. Would not that depend also on the kind of equipment that was being purchased?

Dr. VAUGHAN. Yes.

Ms. HOLTZMAN. So you could, in fact, have differing figures depending on the kinds of machinery and equipment purchased?

Dr. VAUGHAN. Yes.

Ms. HOLTZMAN. So the model could not be exact. You could have a case in which millions were spent for new machinery and only a few jobs were created?

Dr. VAUGHAN. Yes, and the problem is that we have priced unskilled labor out of the labor market, and by further subsidizing capital, you are placing unskilled labor at a further disadvantage and placing skilled labor at an advantage.

Ms. HOLTZMAN. Could you be more specific on the wage subsidies program and how it could benefit the cities?

Dr. VAUGHAN. By tying the wage subsidy to an individual worker, who would qualify to offer an employer a wage subsidy by the duration of his or her unemployment experience, or dependence on local social services, you automatically are offering firms located in areas of high unemployment, and with high concentrations of the chronically unemployed, a much greater incentive than firms elsewhere. We know central cities in the last decade at least have experienced significant higher unemployment rates than other areas—particularly cities in the Northeast— so the program automatically targets in those areas.

There is a second argument. Firms located in central cities are labor intensive, and, therefore by subsidizing labor, you may be neutralizing some of the rather large incentive we have for capital, and, therefore, you are redressing some of that imbalance in the present tax structure.

Ms. HOLTZMAN. Do you think the President's tax credit proposal will be successful in generating jobs?

Dr. VAUGHAN. I do not believe the investment tax credit is a very powerful instrument to generate jobs.

It may be of some assistance, but I do not think it is very much.

Ms. HOLTZMAN. Mr. Simon.

Mr. SIMON. Thank you. My apologies for not being here for your presentation. What you have to say makes sense, frankly. I have not had a chance to take a look at the details. How would you structure such wage subsidies, what would the possibilities be?

Dr. VAUGHAN. I think I outlined in very rough form on page 3 of the prepared testimony some ideas of how the system might work.

Mr. SIMON. But I just glanced at this, this would be for all employees?

Dr. VAUGHAN. No. This is only for the unemployed who would be subsidized through reductions in the social security payments. Trying to reduce unemployment through subsidizing the whole labor force is a very, very expensive way of creating a small change.

My proposal is that a worker employed for 5 weeks or less, would not be eligible for a subsidy, but for someone unemployed for a longer period, the subsidy would grow up to, say, $75 a week initially, and that the subsidy should decline over time, as the person is employed. So that someone who is unemployed for perhaps 40 weeks would be able to offer an employer a $75 a week subsidy initially, which would decline over a 2-year period.

The numbers are shown in table 1 of what that would mean to an employer. The total subsidy for 1 year is $2,808. This is considerably less than the individual would be getting from the unemployment insurance, and considerably less than from welfare.

Mr. SIMON. Do you have any projections what the national cost of that might be?

Dr. VAUGHAN. It is very difficult to tell, because you need to know how many jobs would be created. If there were 2 million jobs created, and if the worker that had the job——

Mr. SIMON. It would be that many, if I may interrupt, well, most of the unemployment is of a shorter period.

Dr. VAUGHAN. Even some of those workers would be subsidized, so it is not inconceivable that 2 million jobs could be created, the savings would be great, and the costs would be relatively small for a program that could have a significant impact.

Mr. SIMON. So you are talking about $2 billion roughly?

Dr. VAUGHAN. Yes.

Mr. SIMON. And what you have just outlined does not touch on, or does not appear to touch on one of the very fundamental areas, and that is unemployment among youth.

I noticed the President's economic report said the passage of the minimum wage bill is going to increase unemployment among black teenagers particularly. Is there some way we can use this system that would apply to those under the age of 19?

Dr. VAUGHAN. There may be, but we do have a problem. By tying the size of the subsidy to the duration of the unemployment, we are not subsidizing new entrants into the labor market. If we fully subsidized new entrants, a worker who has been in the labor market and unemployed for 8 months, might resent the fact he would not carry the same subsidy as the new entrant.

This is one of the issues I have raised in the prepared statement. It is basically an equity issue of how we are going to treat the problem. Are we prepared to single out minority teenagers with a special eligibility?

Ms. HOLTZMAN. But to the extent that your proposal would basically be targeted to cities, where most of the minority teenagers live, and since many would be looking for jobs over a period of time, your proposal to a large extent would target itself to that.

Dr. VAUGHAN. I believe so. It is a problem of how to establish initial eligibility to the program. Once they have built up the eligibility to the subsidy, the problem is solved. We are talking about a program that creates a substantial number of jobs, without wiping out the minimum wage legislation. These jobs would allow the recipients to earn a minimum wage or above, and it would cost less to the employers.

Mr. SIMON. To understand your statement, when you say this is primarily geared to cities, as I sense it, I come from a rural area of high unemployment, your system would be of great help to our area as well.

Ms. HOLTZMAN. Most unemployment is in the cities. Certainly a large percentage of the structural and long-term unemployment is in cities and, to the extent that is the case, a large number of minority teenagers would be affected by Dr. Vaughan's program.

Mr. SIMON. What if you had a different system of subsidy, of a smaller subsidy, much more limited subsidy, of say 4 months duration, 6 months duration, for the teenager, something along that line, it seems to me that while I like this idea, that there has to be more vigorous assault on the teenage unemployment problem. There has to be some kind of modification worked out.

Dr. VAUGHAN. I agree. I think there are many opportunities for adjusting the basic structure, and several I suggest in my paper. The subsidy could be coupled with relocation grants for people who were able to secure employment elsewhere, but who could not afford the move.

The unemployed are no longer as mobile as they were 10 years ago. They are tied to the cities, and they are unable to afford to move. They cannot leave the social services, which are nontransferable in many cases, they may have public housing, which makes any kind of move a risk, they may be waiting for public sector employment which also makes a move to any other area a risk. We have immobilized the chronically unemployed. A wage subsidy which would increase the number of jobs coupled with special provisions for teenagers, which would enhance the program.

Mr. SIMON. Thank you.

Ms. HOLTZMAN. I have no further questions. I want to thank you for your very interesting proposal.

Dr. VAUGHAN. Thank you.

Ms. HOLTZMAN. Our final witness today is Dr. George Peterson, Director of Public Finance, The Urban Institute.

You may proceed, Dr. Peterson.

STATEMENT OF DR. GEORGE PETERSON, DIRECTOR, PUBLIC FINANCE, THE URBAN INSTITUTE

Dr. PETERSON. Thank you, Madam Chairwoman. Because I testified before your task force on February 3, and because I agree with many of the comments of the previous witnesses, I will keep my remarks brief. I would hope that we can agree on three propositions.

First, it is very likely that if we are to sustain growth in the economy, further stimulus will be required near the end of 1978 and through 1979. The President's tax program is intended to provide that stimulus, and expansion of the investment tax credit undoubtedly is an effective tool for generating aggregate demand.

The cities, of course, have a special stake in seeing the economy move toward fuller employment. Much of the urban problem is simply unemployment of people and plant; both resources are likely to be drawn back into the productive process if economic growth can be sustained.

Second, should the economy continue to gain strength over the next 2 years, selected constraints on productive capacity are likely to be evident by 1980. These bottlenecks in production would add to inflationary pressure. Expansion of the investment tax credit, by inducing more capital formation in the interim, would help relieve these bottlenecks, and thus is an important part of longer term economic management.

Third, extension of the investment tax credit to industrial structures will damage the relative competitive position of the cities.

Rather than elaborate on this assertion, since I went into it at some length in my previous testimony, I will mention two or three areas where I disagree with some of the comments of the earlier witnesses. Perhaps that will help sharpen the focus.

I believe it is misleading when estimating the investment response to the tax credit to concentrate on individual firms, which are deciding to move or not—to personalize the impact in terms of firms weighing that decision.

What we are really speaking of is a tipping of the scales of competition between new capital construction and the operation of existing capital. New capital investment—whether in new plants or in alteration of old ones—is being subsidized. This both adds to the stock of capital and accelerates replacement decisions. It is really irrelevant whether particular firms intend to move out of the city, whether or not most job losses in cities result from business failure rather than business moves.

I believe it is misleading and underestimates the likely magnitude of the impact to focus on those firms in which we can identify individuals who are considering a move out of the city. There is an impersonal market process in which new capital built at one site replaces old capital located at another.

Second, in terms of the rehabilitation offset, there was some uncertainty as to the figures. In the aggregate, additions and alterations have averaged about 15 percent of total investment in nonresidential structures in recent years.

This figure has grown quite rapidly in the last few years, as the economics have changed and it has become profitable to maintain and repair some of the existing structures, rather than build new ones.

Somewhat less than half of that total is rehabilitation, alterations that would not qualify for credit if the investment tax credit were restricted to new structures.

I would estimate, then, that somewhere in the neighborhood of 6 to 7 percent of industrial investment benefits from extension of the investment tax credit to rehabilitation.

Third, since my comments came up in some of the previous questioning, I would like to make clear that the point I was trying to make in my previous testimony was that the impact of the investment tax credit is to accelerate, to compress the adjustment period that cities face in wrestling with the problems created by the outflow of capital. That the particular period I cited of 3 to 4 years, was meant to indicate that the general industrial relocation that would normally occur over a decade, with the passage of these measures, would tend to be compressed into the first 3 or 4 years of that decade, when the investment incentives exert their immediate effect. I want to make clear that no quantitative analysis of my own underlies that estimate. It is not the result of an econometric study, or put forward in that context.

The fourth point that was somewhat confused, in some of the discussion earlier this afternoon, is whether all assistance to capital investment has an equal effect upon the competitive position of the cities.

I agree with a previous witness who noted that all subsidies to capital tend in some degree to accelerate replacement investment, and, therefore, work to the disadvantage of older urban areas, at least in speeding up capital relocation.

However, the distinction between capital assistance to machinery and equipment, on the one hand, and structural investment on the other, I think is a very large distinction, and one that has to be kept in the forefront in estimating the importance of these impacts.

Most machinery and equipment is relatively shortlived and can be placed in old plants. Locational decisions are made largely when structures are built or moved. Although there may be some complementarity between new equipment and new plants, it is the systematic subsidization of new structures, whether in the industrial or commercial structure, that in my opinion has the most direct geographical implications. We are properly concerned about the extension of the investment tax credit from its traditional applications to machinery and equipment to structures.

In sum, I think the dilemma Congress and the administration face is how to stimulate national economic activity, without at the same time creating greater long-term structural or geographic imbalances, or to put it more bluntly, how we can reconcile fiscal policy with urban policy.

I would like to mention two possible alternatives, as stimulative options that this committee might want to consider.

The first is the possibility of producing a variable investment tax credit which singled out distressed economic areas for larger subsidies. As you are certainly aware, many such proposals are now being discussed in Congress, and in my opinion, these proposals seem consistent both with fiscal and urban objectives. They would stimulate the national economy, and could be made applicable to structures as well as to machinery and equipment, if that were thought to be a potential future bottleneck.

They would recognize the fact that current uniform investment subsidies speed up the relocation process, and bring with them national costs that have to be alleviated through compensatory programs, so that unequal tax treatment for future capital formation may have a more equal economic impact than the continued application of uniform subsidies.

It is true that a differential investment tax credit like any other proposal has certain difficulties associated with it, but I think these can be overcome without excessive difficulty.

A point was made of the difficulty of constructing a distress index to target this program. But in constructing such an index we can draw upon the multiple activity going on in the Federal agencies, since comparable indices have to be made for many different grants—for urban development action grants, for the extension of anti-recession fiscal assistance grants administered through the Treasury, and even in the application of the higher ceiling on industrial development bonds, which will be a feature of the tax code, and which the Treasury has supported as part of the President's tax proposals.

The basic fact which Mr. Vaughan emphasized remains namely that if the social intent is to increase employment, or to reduce unemployment, it is always more efficient to subsidize labor costs than to subsidize capital and achieve employment gains indirectly by subsidizing that associated factor, namely capital.

The country presently suffers from a large pool of unemployed labor, much of it concentrated in geographically distressed areas, and also has a reserve of underutilized capital, mostly located in older cities.

That seems to be a combination of factors that justifies subsidizing labor rather than putting in place more capital. To target labor subsidies would encourage utilization of capital in those areas where labor costs would be subsidized, and in the aggregate, one effective means of easing production bottlenecks in the future is to bring into operation as large a share of the labor force as possible by matching it with existing capital resources.

In conclusion, I might refer to one point raised in a previous question. The two alternative proposals I have considered—the differential investment tax credit on the one hand, and the wage subsidy program on the other—have admittedly different objectives. The differential investment tax credit has the purpose of stimulating capital investment, especially in urban areas. Wage subsidies have the purpose of increasing labor employment rates. If as part of an urban policy, certainly a comprehensive urban policy, the intention is to do both, we should try to fashion that match of the subsidized workers with the subsidized investment, so that the product is not only a greater number of employed workers, in certain demographic groups, the but also an influence on where those people work, and where the economic and tax base growth may be. In this way we could insure that the cities benefit from both the jobs and the capital investment. Thank you.

[The prepared statement of Dr. Peterson follows:]

PREPARED STATEMENT OF DR. GEORGE E. PETERSON

I appreciate the opportunity to express my views on the urban impact of the extension of the investment tax credit to industrial and utility structures. This has been a subject of concern to me for many months, since it was first proposed as part of the President's tax package.

Because I testified before your task force on February 3, I will make my remarks brief.

I would hope that there is agreement on three propositions.

First, it is very likely that to sustain its growth the economy will require further stimulus near the end of 1978 and through 1979. The President's tax program is intended to provide that stimulus, and expansion of the investment tax credit undoubtedly is an effective tool for generating aggregate demand.

The cities, of course, have a special stake in seeing the economy move toward fuller employment. Much of the urban problem is simply unemployment of people and plant; both resources are likely to be drawn back in the productive process if economic growth can be sustained.

Second, should the economy continue to gain strength over the next 2 years, selected constraints on productive capacity are likely to be evident by 1980. These bottlenecks in production would add to inflationary pressure. Expansion of the investment tax credit, by inducing more capital formation in the interim, would help relieve these bottlenecks, and thus is an important part of longer term economic management.

Third, extension of the investment tax credit to industrial structures will damage the relative competitive position of the cities.

The investment tax credit subsidizes the cost of capital. Subsidizing the cost of constructing industrial plant artificially shortens the useful life of existing facilities. It speeds up the replacement process, by rendering uneconomic some of the older capital at the margin of today's capacity. This older industrial capital, of course, is to be found in disproportionate shares in central cities and in the older regions of the country. Unfortunately for the cities, under today's market conditions, when new facilities are built to replace older ones, they generally are not constructed on the same site, and frequently are not built in the same jurisdiction or in the same region of the country. The process of replacing capital becomes the process of relocating it.

The geographical imbalance between the location of new capital investment and the location of existing capital plant lies at the heart of the cities' adjustment problems. When capital moves, jobs move; and when jobs move, people must either follow or face tightened job opportunities where they live. A few specific comparisons may illustrate the imbalance between new private capital investment and the location of older capital. New York State now has a pace of nonresidential capital investment scarcely one-third of the investment rate in Texas; a traditional industrial State like Massachusetts lags behind Georgia in current investment. The differences for industrial structural investment are still larger.

Federal tax policy is not responsible for most of this movement, and it would be foolhardy in the extreme to ask the Federal Government to try to stem the relocation of capital. However, Federal incentives to speed up the capital replacement cycle are bound to exacerbate the development problems that cities now face.

I should note that the recommendation to make the investment tax credit applicable to rehabilitation provides only the mildest of offsets. Additions and alterations average about 15 percent of total nonresidential building investment—though growing at a rapid rate—and less than half of this amount is rehabilitation of the type that would not otherwise qualify for the investment tax credit.

The dilemma confronting Congress and the administration is how to stimulate national economic activity without at the same time exacerbating structural and geographical imbalances. Or to put it more bluntly, how to reconcile fiscal policy with urban policy.

This issue extends beyond consideration of the current budget. We have drifted, partially unawares, into a habit of managing the national economy through two different sets of tools. For the private economy, we subsidize investment, in the process speeding up the replacement cycle and compounding the development problems of older parts of the country. For the cities, we offer public sector employment and budgetary assistance to alleviate, as far as possible, the consequences of uneven growth.

What are the alternatives? Three come to mind.

(1) We could use other methods to stimulate investment—for example, an increase in the investment tax credit for machinery and equipment.

The traditional investment tax credit, limited to machinery and equipment is so much larger than investment in industrial structures, as increase in the standard investment tax credit from 10 percent to 11 percent would, on a recurring basis, generate as much investment stimulus as the President's proposal—though the timing would be somewhat different.

The geographical implications of the traditional investment tax credit are less drastic, however. It is easier to place new machinery within old structures than to build new structures on the same sites as the old.

There is no evidence that I know of that limitations on the structural capacity of industry pose a particular bottleneck for future production, or that subsidizing industrial structures will do more to combat inflationary pressures than subsidizing machinery and equipment.

(2) We could introduce a variable investment tax credit, which singles out distressed economic areas for larger subsidies. Many such proposals are now being discussed in Congress. These proposals seem consistent both with fiscal and urban objectives. They would stimulate the national economy and could be made applicable to structures as well as to machinery and equipment. They would recognize that the current uniform investment subsidies speed up the relocation process and bring with them national costs that have to be alleviated through compensatory urban programs, so that unequal tax treatment for future capital formation may be appropriate.

It is true that a differential investment tax credit would complicate the tax system somewhat and work against the objective of tax simplicity. However, it is ironic that this argument should be brought forward at this time. The administration's tax proposals contemplate just such an inequality with respect to tax exempt industrial revenue bonds, where the ceiling for tax exempt issues would be raised for certain economically laggard areas—the definitions of which have yet to be worked out. The principle of using tax incentives to channel capital investment is well entrenched in the tax code, and freshly embraced in the President's proposals. Unfortunately, the singling out of distressed areas for favorable tax treatment has been limited to an almost inconsequential area—the industrial development bond ceiling. I do not know what estimates the administration has made of the likely net investment response to this change, but I am certain it is very small.

Perhaps it is time to adopt a revised version of the simplicity criterion: Namely, that the tax code should be complicated only when important investment flows are at stake, and that we should refrain from cluttering up the tax laws for unimportant capital investment objectives.

(3) We might rely less heavily on the subsidization of capital investment as the means of stimulating private sector activity.

The country presently suffers from a large pool of unemployed labor, much of it concentrated in geographically distressed areas. It has a substantial reserve of underutilized capital facilities—most of them old and located in cities. And it has a fear that a few years down the road there may emerge important national production bottlenecks that will add to inflationary pressure.

In principle, this seems a combination of factors that would justify subsidizing private industry to use *labor* rather than subsidizing it to put in place more capital. Subsidies to labor, especially if targeted to big unemployment areas, surely are more effective at putting people to work than subsidies to capital. Targeted labor subsidies also would encourage the preservation and utilization of capital in those areas where labor costs will be subsidized. And in the aggregate, one effective means of easing production bottlenecks is to bring as large a share as possible of the labor force into useful production, by matching it with existing capital facilities.

There are several options for subsidizing labor, some of which are discussed in the Congressional Budget Office paper and others of which have been discussed by Roger Vaughan. I would only note that the predominant movement in recent years has been in the other direction—to raise labor costs through much higher social security taxes, state payroll taxes to replenish depleted unemployment insurance pools, etc., while at the same time stimulating the national economy and building private sector urban policy on the foundation of *capital* subsidies, whether delivered through investment tax credits, reductions in the corporate tax rate, Urbank, Urban Action Development Grants, Industrial Development Bonds, EDA grants, or other mechanisms.

Ms. HOLTZMAN. Mr. Simon.

Mr. SIMON. Dr. Peterson, I gather you are sympathetic to the comments of Dr. Vaughan.

I am curious as to your reaction to the specific proposal here.

Dr. PETERSON. Well, I certainly am sympathetic with the objective of wage subsidies, and I believe the particular proposal he has advanced, the voucher system, makes most intelligent use of the market as a way of putting into effect wage subsidies.

There are other objectives to an urban policy, in my opinion, and indeed to a fiscal stimulus policy, besides lowering the unemployment rate.

Unemployment may be the overriding concern we have at present, but some of the previous suggestions suggested that perhaps alternate stimulus programs should be judged solely by the standards of what they do for unemployment. The Nation as a whole has to be concerned with future production bottlenecks and with our export capacity. Therefore, it has capital investment objectives beyond stimulating employment.

Mr. SIMON. You made the point that Federal tax policies are not responsible for most of this movement, and it would be foolhardy to ask the Federal Government to try to stem the relocation of capital. Unquestionably, the tax system is a marginal thing in this area. Do you have any ideas—is there any way of quantifying what kind of impact that might have?

Mr. PETERSON. There is no estimate to date that has successfully isolated the effect of tax incentives, certainly on the location of nonresidential capital, or the extent or speed of job movement.

We have done a considerable amount of work on the impact of the tax code on the location of residential investment, which tends to reinforce the same regional movement. I think we are on somewhat firmer ground in understanding the residential sector, than we are the nonresidential sector.

Mr. SIMON. Thank you. Since this is the last witness, my last question, I want to commend our chairwoman for showing the initiative in bringing this hearing about. I appreciate it very much.

Ms. HOLTZMAN. Thank you very much for that statement. I want to thank you and your task force for joining in conducting these hearings.

Dr. Peterson, I guess what you are saying is that we do not have to pursue a fiscal or a tax policy on the one hand, and on the other hand have to worry about cleaning up the mistakes of that policy. There is no reason for us, as I take it, to have to stimulate the economy by eroding the tax base of cities.

Those things are not necessarily linked together; is that correct?

Dr. PETERSON. That is correct.

Ms. HOLTZMAN. And I take it also that you would differ with the testimony of the other witnesses who would suggest that any kind of business investment would have the same impact on cities?

Aren't you saying that some kinds of incentives for businesses will hurt some cities more than others?

Dr. PETERSON. That is correct. I think that all incentives, all capital subsidies, work in the same direction—namely, to speed up the replacement process—and carry with them some accelerated geographical shifts.

I do think, however, that direct subsidies to investment in structures are more powerful in their geographical impacts than are subsidies to other forms of capital, primarily investment in machines and equipment.

Ms. HOLTZMAN. Is it true that the additional tax credit limited to machinery and equipment could be expanded without getting the same geographical side effects?

Dr. PETERSON. That is true. The only reason I omitted that was that my analysis basically agrees with that of the Congressional Budget Office, and I think they have pretty well laid out the options in that respect.

Ms. HOLTZMAN. Suppose we did not have this proposed investment tax credit for new structures at all. Suppose it were just abandoned, what adverse impact would that have on our economic recovery if we did not replace it with anything?

Dr. PETERSON. Well, I think it is a marginal portion of the entire stimulus package, although it may be important in terms of capital investment. It would be unfortunate in my mind, however, if having generated this discussion about the connection between fiscal policy and urban policy, we did not pursue it to a more complete conclusion than simply scrapping one offending tax proposal. I was hoping we could seize upon the discussion to build a more constructive alternative. But if you ask me, what would be the impact of dropping this proposal from the President's package, I would say it would be small.

Ms. HOLTZMAN. Dr. Vaughan, would you agree with that statement?

Dr. VAUGHAN. Yes.

Ms. HOLTZMAN. Nobody would miss it, is that what you are saying?

Dr. PETERSON. Yes; although I think there is one distinction, which we perhaps have lost sight of. In terms of a microjustification of the investment tax credit for structures, I think what I just said is fully true of industrial structures. I myself have greater concern about potential capital bottlenecks in utility plant capacity. With the much longer leadtime necessary to construct powerplants, we would want to examine carefully the prospects for the next 5, 6, 7 years in terms of utility plant capacity before dropping the application of the investment tax credit to utility structures. This provision has almost no urban impact one way or another.

Ms. HOLTZMAN. Do you agree with the proposition that this acceleration of the flight of businesses from cities will cause economic harm to the cities, and that the cities will have to respond either by raising taxes, or by reducing their expenditures? And isn't it also true that either of these actions will have an adverse effect on the economy as a whole? In other words, would you agree that the investment tax credit, while stimulating on the one hand, may on the other hand also create an opposite effect?

Dr. PETERSON. I agree with that assessment in a qualitative sense. It would, in my opinion, be very unlikely that in the aggregate, those deflationary impacts would outweigh the stimulative incentives created by the investment tax credit, but I certainly recognize the direction of effect you are identifying. We have no good way of estimating the quantitative effects at this time.

Ms. HOLTZMAN. But we do know that to the extent the President's proposal will cause an acceleration of the flight of businesses, there will be an adverse impact on cities in terms of the expenditures and, therefore, on the entire economy. We may also need additional Federal budgetary expenditures to deal with the loss of jobs caused by the investment tax credit. In other words, we may see increased welfare costs, increased food costs, and the like. Do you agree?

Dr. PETERSON. Yes; but it is a rule of thumb that industrial structures are usually 15 to 20 percent of a city's tax base, though of course there are exceptions. If you affected as much as 5 percent of that capital, it would be an extraordinarily large change to expect from an investment tax credit. At the very upper extreme, then, you are talking about much less than a 1-percent reduction in a city's tax case. So from the tax side, it is hard to imagine an offsetting deflationary budget response.

Ms. HOLTZMAN. If jobs are lost, and if businesses have moved out more rapidly, then one cost of that unemployment would have to be borne by the Federal Government as well as by the States.

Dr. PETERSON. That is true.

Ms. HOLTZMAN. And we are well aware of these costs: Medicaid, food stamps, and welfare payments and the like?

Dr. PETERSON. Yes.

Ms. HOLTZMAN. Of course, I agree with you that we do not know the size of these expenditures, but certainly we cannot ignore that they would be incurred.

I have no further questions to ask of the witness. I want to thank you very much for your testimony this morning.

Dr. PETERSON. Thank you.

Ms. HOLTZMAN. The task forces will stand adjourned.

[Whereupon, the task forces adjourned at 2:30 p.m., until Thursday, February 16, 1978, at 9:30 a.m.]

BUDGETARY IMPLICATIONS OF A NATIONAL URBAN POLICY

THURSDAY, FEBRUARY 16, 1978

House of Representatives,
Task Force on State and Local Government,
Committee on the Budget,
Washington, D.C.

The task force met at 9:40 a.m., pursuant to notice, in room 2247, Rayburn House Office Building, Hon. Elizabeth Holtzman, chairwoman of the task force, presiding.

Ms. Holtzman. We are very honored to have with us today the mayors of two cities. We will begin with Mayor Margaret Hance of Phoenix, Ariz. We are especially proud to start with a mayor who is a woman.

The Task Force on State and Local Government today continues its hearings on the budgetary implications of a national urban policy. We are trying to probe the extent to which the President's budget adequately deals with the issues confronting our cities and what needs to be done to help make the budget more responsive to those concerns. I am very honored and pleased, Mayor Hance, that you are with us today. Would you proceed.

STATEMENT OF HON. MARGARET T. HANCE, MAYOR, PHOENIX, ARIZ.

Ms. Hance. Thank you very much, Madam Chairman. I am very pleased to be here today to present some ideas from a large Western city. I thank you very much for allowing us our input into this budgetary process.

I think one of the first items that we mention is inflation. No one needs a course in economics to assess the tremendous impact of inflation upon our cities.

The relationship of locally generated tax revenues to inflation is not necessarily a direct one. Many local government revenues in fact were and are adversely affected by runaway inflation, which inevitably leads to recessionary periods.

During the period 1973–76, city of Phoenix cost increases to maintain services at stable levels were rising approximately 10 percent per year. At the same time, sales tax revenues, property tax revenues, and State-shared sales taxes were rising approximately 4 percent to 5 percent per year. It does not take a mathematician to recognize the expenditure/revenue gap which develops.

The fundamental point I offer for your consideration is the significantly negative impact that staflation has on the cities' abilities to finance their own programs. Your conscious effort to control high interest rates and inflationary periods would be tremendously beneficial to the cities' attempts to insure financial stability. In my judgment, such stability would permit the cities to finance larger portions of their own programs, with reduced assistance from the Federal Government, and at a minimum provide more services with fewer allocations of Federal dollars.

FEDERAL-STATE-LOCAL STRUCTURAL RELATIONSHIPS

We have experienced during the past decade a tremendous increase in the Federal ascendancy upon local governments. By executive, legislative, and judicial action, and through the provision of funding, the Federal Government has established a number of requirements that have had a negative impact upon local budgets and the ability for local officials to manage their own affairs. Consequently, local elected officials have become severely restricted in developing program levels for their community.

I would like to cite three examples in which Federal administrative guidelines have negatively impacted upon the city of Phoenix—believe me, I could give you a dozen examples. I would like to tell you about our $360,000 woman. About a year ago the city council and I were discussing the possibility of eliminating the uncontained trash collection service or charging for it. This very expensive employee was brought to our attention. She was a sanitation truckdriver, formerly a secretary. She was entitled by seniority and our civil service rights to be bumped back into the steno pool, which would have eliminated one of our PSE secretaries.

Because of Federal regulations on PSE employees, the layoff of one secretary would have necessitated the elimination of 56 other PSE positions. The city would have lost $360,000 in Federal funds if we had decided to reduce our uncontained trash collection service.

The Department of Housing and Urban Development mandates that the city use funds to build parks in the older areas of Phoenix. Long before central-city targeting was popular, Phoenix was using open-space money, Bureau of Outdoor Recreation money, and local bond issues to build new and refurbish old parks in what used to be called the CEP target area. As a result, many of our inner-city parks far exceed the standard facilities in newer sections of Phoenix. Furthermore, in many areas of Phoenix we have no parks because Federal funds are not available for use in those areas. In one area of Phoenix which encompasses approximately 40 square miles and 75,000 people, a town in itself, the city of Phoenix has one park of 37.5 acres.

Our city council cannot expand or improve the wastewater plant without submission of a plan to the Environmental Protection Agency—perhaps taking 2 years to do and after a crisis occurs.

I do not want to give you the impression that I oppose Federal support for local programs. I recognize the practical necessity to accept Federal funds, and welcome them, for clearly there are many activities in Phoenix that would never have existed otherwise, such as public transit, social programs, and housing projects.

The second major area of structural decisionmaking which Congress must recognize is the need to delineate the proper roles of States and cities in dealing with urban ills. I submit that the city of Phoenix cannot be and legally is not the responsible jurisdiction for many programs such as health, education, welfare services, and air quality control.

Yet, given this policy and legal framework, the Federal Government makes funds available to attack each of these programs to State, county, and local governments in Arizona. The result is duplicity of service and cost and an inefficient attack on the problem. In Phoenix I have campaigned on the issue that there are limits to the cities' roles. Cities cannot be all things to all people with the limited revenue base available to them. I hope Congress will keep the structural identities of local governments in mind when considering funding legislation.

When Congress or the administration mandates programs to the cities without providing funds to finance them, we suffer tremendously. A couple of examples—our social security contributions have increased from $1.5 million or $361 per employee in 1972 to $4.8 million or $823 per employee today.

The costs associated with compliance with some Federal program requirements are also severely affecting the local fiscal situation. The mandated costs of the Environmental Protection Agency's requirements have been $3.5 million for our water and sewers systems. An aditional $3 million has been expended to date for compliance with OSHA requirements, and this is expected to increase to $7 million by 1981. Our desire is for the Federal Government to provide commensurate revenues to assist in assuming these additional responsibilities.

FINANCING MAJOR URBAN PROBLEMS—BLOCK GRANTS VERSUS CATEGORICAL GRANTS

In the late 1960's a flood of categorical grants became available for municipal use throughout the country. The city of Phoenix, having the hard cash local match readily available from successful bond elections, competed quite well in securing this support for new activities.

Although these programs were most helpful, I am sure you can understand the real decisions on funding local projects were being made at the Federal level and not by the local officials. Planning was fragmented, and local governments had no assurances of continued funding levels, which meant there was no basis upon which to reasonably forecast revenues and expenditures. Indiscriminate applications for categorical grants created further budget obligations for some cities, which contributed to financial problems today. The proliferation of limited-use, special grant programs created a nonsystem which has become inefficient and confusing to all parties.

It was for that reason the city of Phoenix and many other cities worked hard to encourage Congress to emphasize block grant programs rather than specific-purpose or one-time programs.

In focusing on the needs, I strongly recommend the continuation and expansion of the block grant approach. Programs such as general revenue sharing, for which funds are allocated on a multiyear basis and with minimum guidelines, are far superior to the categorical approach, which limits use without regard to local need.

The proliferation of limited-use, special grant programs creates a nonsystem which is inefficient and confusing. The 75–25 percent formula is extremely unwise in a city like Phoenix.

For example, since we are using figures based on the 1970 census, those are the census tracts that are used to provide the basis for the low and moderate income where we may spend the 75 percent. Because it was used on the census of 1970, one of the richest areas of Phoenix qualifies for 75 percent funding. It is the area of Biltmore, which was not built up until 1970. It qualifies as a low- to moderate-income census tract. We could spend all of our 75-percent money there. Obviously, we would not. In supporting the revenue sharing program, I direct your attention to the problem of inflation. The fixed appropriation of $6.8 billion does not address the impact.

Since 1972 the inflation rate has increased 48 percent while the Federal revenue sharing appropriation increased only 27 percent. Costs of doing business have outpaced the funds provided.

It is my recommendation that the general revenue sharing program be continued and strengthened to compensate for the inflation that has occurred. Congress must look toward increasing appropriations by $500 million annually.

Antirecession programs have a place at the proper time. There are several concerns and schools of thought over such programs in Phoenix. I would like to briefly mention them.

First, we believe antirecession funding should be provided to finance programs such as the Economic Development Administration's local public works program. Such programs provide funding to cities for use in building worthwhile community projects of a lasting nature. More importantly, they put the money in the hands of the private sector to hire unemployed people and truly attack structural unemployment. These programs are far preferable in my judgment to the manpower programs which put employees on government payrolls and fail to meet structural unemployment goals.

I must compliment Congress and the administration for changing CETA title VI requirements to permit only "one-time project" as eligible activities under CETA. Early title II programs were a disaster in the city of Phoenix. Local political pressures necessitated the use of manpower funds to finance full-time, ongoing city operations. Guidelines covering the program reduced our abilities to manage our cities as I mentioned with the illustration of the $360,000 woman, and created a terrible financial position for the city of Phoenix.

As a result of title II, the city of Phoenix currently has 800 full-time city positions financed with CETA funds. Of these, approximately 300 are in the public safety functions. If Congress or the administration should end the make-work program, Phoenix will have to replace $7.5 million in salaries with local revenues. The bill as it reads now, I understand, in Congress, would give us a 1-year extension.

I would plead that any termination of CETA title II and VI programs be done in a staged process over a more extended period of time to permit the cities to transition essential positions into local revenue support.

UNMET CITY NEEDS

The city of Phoenix' capital improvement program is very critical in terms of our reliance upon anticipated Federal support. Our recently released 5-year program identified $672.5 million worth of capital improvements projects that must be completed in order to provide the essential facilities for our increasing and changing population. The current optimistic estimates of resource availability to finance this plan, however, indicate a shortfall of at least $323.6 million.

It is important for this committee to understand that the city of Phoenix does not proceed with the CIP program with reliance upon Federal funding as a major ingredient. Of the needs for which funds appear to be available, over $190 million is expected to come from voter authorized bonds and operating revenues. An additional $28.4 million is anticipated from other local sources.

The plan does include the expectation of $130 million in Federal funds for such essential programs as airport development, public housing for low-income and elderly residents, sewage collection and treatment, street construction, public transit, and parks development. In order to meet all the needs identified in this program, though, an additional $161 million will be required.

In addition to these capital needs, major areas of mass transportation, community and economic development including central city redevelopment and neighborhood preservation, regional water and sewer facilities, freeway development, and housing must be addressed. Local government such as Phoenix simply cannot finance programs such as these which are extremely large expenditure situations and which tend to be regional problems. These are the areas which Congress must address as priorities to the cities.

Of all our concerns about a growing and changing community, it is our feeling that the transportation issue is the most critical problem facing the city of Phoenix today. We are confronted with transportation conditions which, if not improved, will seriously affect our ability to respond to the other community needs such as housing, growth management, and economic development. As in the past, we are turning to the Federal Government to solicit support for our transportation funds.

I would recommend strongly that we retain a separate highway trust fund. It has proved its worth over the years. But if adding transit to the existing funding level of streets and highways will leave two programs competing for funds that are often inadequate for one, we would find it difficult to proceed if there existed the degree of uncertainty each year as to the extent of the system that could be improved.

My written testimony deals with items which are important to the cities regarding our ability to be fiscally responsible. They include the recognition of the slow reimbursement of funds due from Federal agencies.

In effect, you owe us currently $18.6 million, 42 percent has been due more than 90 days, 21 percent of it has been outstanding for over a year. I might say that my staff had a Freudian slip when referring to my written testimony. They put it down as testimon[e]y and we like it very much.

In closing, I want to stress the following points. Congress must recognize the differences among regions of the country and cities of the country regarding need. Our people are different. Our needs are different.

In adopting legislation and funding levels, Congress must recognize that Phoenix has unique problems which are just as detrimental to its lifestyle and living conditions as the lifestyle and living conditions in Detroit, New York, and Baltimore.

Eastern cities have older houses, but they are structurally sound. Western cities have newer houses which were built out of cardboard before housing codes were adopted. Legislation which adopts criterion such as age of housing stock are simply unrealistic in meeting regional differences. Each is unsuitable for habitation.

In the new guidelines, for instance when they referred to those cities with housing older than 1939, obviously we don't have a lot of that because we are a new city. But they nowhere refer to the quality of the housing stock; only the age. When I have to tell an elderly person living in a 1944 shack that we can't provide her housing funds because we are not a distressed city, that particular citizen is distressed.

Phoenix, with 38 percent of the entire State of Arizona's unemployed, got zero dollars, while cities of lesser unemployed got millions. Ours are just as unemployed.

It is time, in my opinion, to stop polarizing our regions and cities. It is time to stop allocating funds at the expense of another. It is time to talk about distressed people wherever they are, not distressed cities.

Older eastern cities need funds to replace decay. Newer western cities need funds to prevent decay. A high administration official is once quoted as saying if you have a man with a heart attack and a man with a broken ankle, you treat the heart attack victim first. I think this is a little insensitive. I think Congress must realize the patient who is prone to coronary artery disease.

I submit that programs which prevent decay in newer cities are as important as the revival of cities in older areas. I was pleased to read that Secretary Harris mentions that we have cities in all sections of the country which show signs of distress. Included among the cities identified as facing the possibility of deterioration are cities all in the Sun Belt. Phoenix was not included in the list. And our problems are not irremediable but I think they should be attacked now before they become irremediable.

The new western cities are growing at a very rapid pace and growth is expensive. We will never be able to keep pace without our fair share of Federal funds being reallocated back to us for discretionary use. I am not requesting an unfair share of Federal dollars. But I am asking for the recognition of these viewpoints when you consider Federal regulation and program funding.

I am also asking for recognition of local elected officials responsibility to provide different services and programs from that which other cities might want or need.

Thank you very much for this opportunity to share my views with you.

Ms. HOLTZMAN. Thank you very much.

Without objection, your entire written statement will be included in the record.

[Testimony resumes on p. 152.]

[The prepared statement of Ms. Hance follows:]

PREPARED STATEMENT OF HON. MARGARET T. HANCE

Madam Chairman, committee members, and interested participants, I am very pleased to present the views of the city of Phoenix, Ariz., regarding the relationship that exists between the Federal Government and municipalities in terms of fiscal policies, programs, and practices. We have some very serious concerns about the manner in which Federal support is provided to cities, and I appreciate the opportunity to identify for this committee the effect some Federal policies have had on Phoenix' ability to appropriately use Federal funding and take advantage of federally sponsored programs.

NEED TO CONTROL INFLATION

I do not need to provide an economics course regarding the tremendous effects of inflation upon the cities. The relationship of locally generated tax revenues to inflation is not proportional. Many local government revenues in fact are adversely affected by runaway inflation, which inevitably leads to recessionary periods.

During the period 1973–76, city of Phoenix cost increases to maintain services at stable levels were rising approximately 10 percent to 11 percent per year. At the same time sales tax revenues, property tax revenues, and State-shared sales taxes were rising approximately 4 percent to 5 percent per year. It does not take mathematician to recognize the expenditure/revenues gap which develops.

The fundamental point I offer for your consideration is the significantly negative impact that stag inflation has on the cities' abilities to finance their own programs. Your conscious effort to control high interest rates and inflationary periods would be tremendously beneficial to the cities' attempts to ensure financial stability. In my judgment, such stability would permit the cities to finance larger portion of their own programs, with reduced assistance from the Federal Government, and at a minimum provide more with fewer allocations of Federal dollars.

FEDERAL-STATE-LOCAL STRUCTURAL RELATIONSHIPS

We have experienced during the past decade a tremendous increase in the Federal ascendancy upon local governments. By executive, legislative, and judicial action, and through the provision of funding, the Federal Government has established a number of requirements that have had a negative impact upon local budgets and the ability for local officials to manage their own affairs. Consequently, local elected officials have become severely restricted in developing program levels for their community.

I would like to cite three examples in which Federal administrative guidelines have negatively impacted upon the city of Phoenix:

One year ago, the city council and I were surprised to learn that we had a $360,000 woman employed by the city. This very expensive employee was brought to our attention when we discussed plans to reduce the uncontained trash collection service. This woman, a sanitation truckdriver and formerly a secretary, would have been entitled by seniority to bump back to the steno pool, which would have eliminated one of the PSE secretaries. Because of Federal regulations on PSE employees, the layoff of one secretary would have necessitated the elimination of 56 other PSE positions. The city would have lost $360,000 in Federal funds if we had decided to reduce the service.

The Department of Housing and Urban Development mandates that the city use funds to build parks in the older areas of Phoenix. Long before central city targeting was popular, Phoenix was using open space money, Bureau of Outdoor Recreation money, and local bond issues to build new and refurbish old parks in what used to be called the CEP target area. As a result, many of our inner-city parks far exceeded the standard facilities in newer sections of Phoenix. Furthermore, in many areas of Phoenix we have no parks because Federal funds are not available for use in those areas. In one area of Phoenix which encompasses approximately 40 square miles and 75,000 people, the city of Phoenix has one park of 37.5 acres.

Our city council cannot expand or improve the wastewater plant without submission of a plan to the Environmental Protection Agency—perhaps taking 2 years to do and after a crisis occurs.

I do not want to give you the impression that I oppose Federal support for local programs. I recognize the practical necessity to accept Federal funds, and welcome them, for clearly there are many activities in Phoenix that would never have existed otherwise, such as public transit, social programs, and housing projects.

The second major area of structural decisionmaking which Congress must recognize is the need to delineate the proper roles of States and cities in dealing with urban ills. I submit that the city of Phoenix cannot and legally is not the responsible jurisdiction for many programs such as health, education, welfare services, and air quality control. Yet, given this policy and legal framework, the Federal Government makes funds available to attack each of these programs to State, county, and local governments in Arizona. The result is duplicity of service and costs and an inefficient attack on the problem. In Phoenix, I have campaigned on the issue that there are limits to the cities' role. Cities cannot be all things to all people with the limited revenue base available to them. I hope Congress will keep the structural identities of local governments in mind when considering funding legislation.

MANDATED PROGRAMS

My concern is that the impact of federally mandated costs and requirements must be considered by Congress. To give you an idea as to the extent of this impact on our local budget, please note that Phoenix's social security contributions have increased from $1.5 million, or $361 per employee, in 1972, to $4.8 million, or $823 per employee today. The costs associated with compliance with some Federal program requirements are also severely affecting the local fiscal situation. The mandated costs of the Environmental Protection Agency's requirements have been $3.5 million for our water and sewers systems. An additional $4 million has been expended to date for compliance with OSHA requirements, and this is expected to increase to $7 million by 1981. Our desire is for the Federal Government to provide commensurate revenues to assist in assuming these additional responsibilities.

FINANCING MAJOR URBAN PROBLEMS

Block Grants Versus Categorical Grants

In the late 1960's, a flood of categorical grants became available for municipal use throughout the country. The city of Phoenix, having the hard cash local match readily available from successful bond elections, competed quite well in securing this support for new activities.

Although these programs were most helpful, I am sure you can understand the real decisions on funding local projects were being made at the Federal level and not by the local officials. Planning was fragmented, and local governments had no assurances of continued funding levels, which meant there was no basis upon which to reasonably forecast revenues and expenditures. Indiscriminate applications for categorical grants created further budget obligations for some cities, which contributed to financial problems today. The proliferation of limited use, special grant programs created a nonsystem which has become inefficient and confusing to all parties.

It was for that reason the city of Phoenix and many other cities worked hard to encourage Congress to emphasize block grant programs rather than specific-purpose or one-time programs. I strongly recommend the continuation and expansion of the block grant program. Programs such as general revenue sharing for which funds are allocated on a multiyear basis and with minimum guidelines are far superior to the categorical approach which limits use without regard to local need.

Using block grant funds, the authority to determine how funds will be expended rests primarily with the local officials. The funding has been provided on a formal basis in a somewhat predictable manner, and this has aided us in developing multiyear financial plans for Phoenix. We also view the block grant funding as providing greater flexibility in responding to the priority within our community. As we all recognize, the needs within each community and among the different geographical sections of the country differ. By receiving block grants, we are fully capable of responding to the changing needs of our particular growth pattern in terms of what our citizens need, and not what the citizens of New York or Los Angeles need.

Federal Revenue Sharing

This is the sixth year the city of Phoenix has received Federal revenue sharing funds, and it has been the most successful block grant program authorized by Congress. We are using this support primarily in the areas of police and fire protection, street lighting, traffic engineering, library services, and recreation programs.

When the program first began in 1972, however, Phoenix allocated 85 percent of the funds to one-time capital projects, such as street improvements, mountain open space acquisition, and land acquisition for our governmental mall expansion plan, and the remainder used for a variety of routine operating expenses. Because of the city's need to maintain service levels during the mid-1970's recessionary period, 100 percent of Phoenix' Federal revenue sharing funds have been used for operating expenses. The city of Phoenix was forced into this financial predicament because of the stag inflation that occurred during the period—inflation and costs of operation increasing beyond the revenue received.

The problem that Phoenix and I am sure other cities have experienced is that the continuation of this program as the current fixed national level of $6.8 billion annually does not address the serious problem of inflation. Revenue sharing funds are subject to the same inflationary erosion that has occurred throughout the local sector. The $9.3 million in Federal revenue sharing funds received by the city of Phoenix during this fiscal year provides not only less in actual dollars than the $9.7 million received 6 years ago when the program commenced, but considerably less in terms of real dollars because of the inflation factor. Since 1972, the Consumer Price Index has increased over 48 percent, but general revenue sharing has increased only 27 percent, leaving an obligation void that the local government has either neglected or assumed.

It is our recommendation that the general revenue sharing program be strengthened to compensate for the inflationary erosion that has been occurring. To achieve this objective, it will be necessary for Congress to increase the trust fund by a minimum of $500 million annually. If the program is to continue to be beneficial to our urban centers, it must not be weakened annually by the loss of buying power.

Antirecession Programs

Antirecession programs have a place at the proper time. There are, however, several concerns and schools of thought over such programs in Phoenix. Briefly, let me address those.

First, we believe anti-recession funding should be provided to finance programs such as the Economic Development Administration's local public works program. Such programs provide funding to cities for use in building worthwhile community projects of a lasting nature. More importantly, they put the money in the hands of the private sector to hire unemployed people and truly attack structural unemployment. These programs are far preferable in my judgment to the manpower programs which put employees on government payrolls and fail to meet structural unemployment goals.

I must compliment Congress and the administration for changing CETA title VI requirements to permit only "one-time project" as eligible activities under CETA. Early title II programs were a disaster in the city of Phoenix. Local political pressures necessitated the use of manpower funds to finance full-time, on-going city operations. Guidelines covering the program reduced our abilities to manage our cities as I mentioned with the illustration of the $360,000 woman, and created a terrible financial position for the city of Phoenix.

As a result of title II, the city of Phoenix currently has 800 full-time regular city positions financed with CETA funds. Of these approximately 300 are in the public safety functions. If Congress or the administration should end the make-work program, Phoenix will have to replace $7.5 million in salaries with local revenues. Consequently, I strongly recommend that any termination of CETA title II and VI programs be done in a staged program over an extended period of time to permit cities to transition essential position onto local revenue support.

Finally, the manpower programs most necessary for cities are title I funds. I strongly support the continuation of training funds which assist communities to provide necessary skills to the unemployed and underemployed which will permit their ultimate employment in the private sector. These programs attack true structural unemployment and should be expanded.

UNMET CITY NEEDS

The city of Phoenix' capital improvement program is very critical in terms of our reliance upon anticipated Federal support. Our recently released 5-year program identified $672.5 million worth of capital improvements projects that must be completed in order to provide the essential facilities for our increasing and changing population. The current optimistic estimates of resource availability to finance this plan, however, indicate a shortfall of at least $323.6 million.

It is important for this committee to understand that the city of Phoenix does not proceed with the CIP program with reliance upon Federal funding as a major ingredient. Of the needs for which funds appear to be available, over $290 million is expected to come from voter authorized bonds and operating revenues. An additional $28.4 million is anticipated from other local sources.

The plan does include the expectation of $130 million in Federal funds for such essential programs as airport development, public housing for low-income and elderly residents, sewage collection and treatment, street construction, public transit, and parks development. In order to meet all the needs identified in this program, though, an additional $181 million will be required.

In addition to these capital needs, major areas of mass transportation, community and economic development including central city redevelopment and neighborhood preservation, regional water and sewer facilities, freeway development, and housing must be addressed. Local government such as Phoenix simply cannot finance programs such as these which are extremely large expenditure situations and which tend to be regional problems. These are the areas which Congress must address as priorities to the cities.

I would like to further identify some of Phoenix' unmet major capital improvement needs so you may realize the full impact of our growth as compared to changing population patterns in other regions of the country.

$14 million in funds will not be available for the continued acquisition of land for the expansion of Sky Harbor International Airport, one of the busiest aviation centers in the United States.

The construction of 500 additional elderly housing units and the modernization of our existing dwelling units cannot be done because $37.4 million will not be available for the needs of our growing senior citizen population.

The construction of 16 miles of additional major truck and collector sanitary sewer lines and plans for the expansion of a proposed 30-million gallon per day addition to our multicity sewage treatment plant must be postponed because $46 million will not be available for our use.

Construction of 105 miles of additional major truck storm sewers, drainage channel improvements, and many collector and lateral storm sewer lines cannot be done due to the lack of $77.0 million in funding.

$50 million will not be available to construct urgently needed major collector and local streets or to upgrade and modernize the existing street system to accommodate our increasing traffic volume.

Our public transit system, which is a vital component of our balanced transportation plan, will lack the acquisition of 85 new buses and related equipment. This will certainly impact on our ability to expand the system to achieve the alternative transportation objective we have established for our community.

I am mentioning these unfinanced capital needs to the committee not to solicit your sympathy, but to encourage your understanding of the types of needs for communities like the city of Phoenix. Please consider our priorities when developing funding packages for distribution to the variety of urban centers throughout the community.

TRANSPORTATION

Of all our concerns about a growing and changing community, it is our feeling that the transportation issue is the most critical problem facing the city of Phoenix today. We are confronted with transportation condition which, if not improved, will seriously affect our ability to respond to the other community needs, such as housing, growth management, and economic development. As in the past, we are turning to the Federal Government to solicit support for our transportation plans.

It is imperative for us to develop a balanced transportation plan today in order for the effect of that plan to be felt by our citizens 10 years from now. Our regional population forecast for 1985 is 1.75 million people. That's an increase of nearly 35 percent over today's population. There are over one-half million jobs anticipated for our 1985 population and the direction of new growth in employment will most certainly follow the transportation corridors. Travel demand in our community will naturally continue at a rate proportional to the population growth. These are reasons why the transportation issue is so critical to local officials in Phoenix, Ariz.

It is our desire to work with the administration to develop national transportation policies that take into consideration the needs of specific communities. There are several key issues which I would like to bring to the committee's attention:

Retain a separate highway trust fund.—We should not fall into the trap of merging highway and transit funds. The Highway Trust Fund has proved its worth over the years, but adding transit to the existing funding level of streets and highways will leave two programs completely for funds that are often inadequate for one. We would find it difficult to proceed with our long-range plans for transit improvement if there existed a degree of uncertainty each year as to the extent of the system that could be improved.

Create a separate transit trust fund.—There is need to establish a continuing transit trust fund. Energy taxation under discussion may be considered as a source of funds for this needed trust fund. This fund is desperately needed to increase multiyear program funding capability.

Vigorously oppose any change in the transit distribution formula.—Large eastern cities and the American Public Transit Association are working for changes in the formulation that are not in the best interest of the city of Phoenix and similar cities. We need proportionately more funds to stimulate transit ridership, and thus present ridership should not be the key determinate in the amount of Federal funds we receive.

Additional funds for the urban systems.—There is a need for about $1.0 billion a year increase in the Urban System funds for essential construction and reconstruction projects. To efficiently and effectively distribute these moneys, cities over 20,000 should receive a direct distribution without having to proportionately share with much smaller adjacent towns.

REGIONAL AUTONOMY

There have been any number of articles and studies done during the recent growth in the Sun Belt region of the Nation—the Southern and Southwestern States. The migration from the Northeast is most certainly toward the Sun Belt areas. This includes people and businesses. The latest census figures showed that the shift of the U.S. population to the South and the West has for the first time in the history of our Nation put these areas ahead of the North and East.

As elected officials, we must consider the consequences of this rapid growth and what effect it will have on the programs and services provided by our State and local governments. Just as the loss of population in the East is causing financial problems, the sudden increase in population in Phoenix is creating serious new financial concerns.

The city of Phoenix, Ariz. is a rapidly growing major metropolitan area in the Southwest region of the United States. The characteristics of rapid growth and geographic location differentiate Phoenix from the native cities of the East and Midwest. Unlike eastern and midwestern cities that are concentrating on reducing out migration and attracting residents back to the central city, Phoenix is endeavoring to absorb a large influx of new residents into the urban system. Factors of rapid population growth and rising aspirations of residents for urban services have strained local resources.

The ability of the city of Phoenix to respond to the escalating demands for higher quality urban services provided to more residents over a larger land area is constrained by the availability of local financial resources. Unlike many other cities, Phoenix has not endeavored to expand locally derived operating revenues simply by increasing the property tax rate. This local revenue source has been consciously minimized to provide a revenue source for the schools, which are not part of the municipal government structures. Additionally, the local community leadership does not wish to create an undue tax hardship for property owners in a city where ownership of detached single family dwellings is the predominate housing mode.

State-shared revenues, another important source of local financing, are not as significant in Arizona as other States. Arizona has only two large municipalities and the rural dominated State legislature has not been very interested in redistributing tax revenues generated from a statewide base to the cities.

One of the major local revenue sources in Phoenix is the city sales tax. However, the yield from this source was very adversely affected by the revenues in the early and mid-1970's because of the local economic structure. The economy in Phoenix is based largely on service and retail type industries and lacks the diversification found in other cities. Because of the nature of the local economic base, Phoenix felt the effects of the recession more deeply and is experiencing a slower recovery in terms of growth in sales tax revenue.

Because Phoenix is young in terms of its development as an urban area, the type and level of urban services provided to residents is not firmly established. Massive immigration from all areas of the county to Phoenix has created a population with a widely diverse set of expectations regarding urban services. In order to meet the needs for urban services, the nature and method of financing of these services is in an evolutionary phase shaped by the demands of growth and competition for revenue sources.

With relatively younger cities and proportionately smaller populations than many of the older, eastern cities, we have not needed to provide facilities and services such as roads, sanitation, and public safety, to the same degree as the eastern communities. The dramatic population acceleration is now creating new demands and burdens for which we must prepare.

Our social service pressures will continue to grow. Demographers are predicting that the State's percentage of retired people will continue to increase significantly. We will need to develop programs that meet their social service needs, such as transportation, housing, and health care. Naturally, the heavier tax loads will be placed on the "producing" members of our population.

The list of our future obligations will continue to grow. The challenges we will face are formidable ones, but they are not insuperable. When Federal policies are being developed, we want to be sure that our local economic success will not camouflage the resulting burdens that are being made upon our taxpayers and our local governments.

Congress must recognize the differences among regions of the country and cities of the country regarding need. In adopting legislation and funding levels, Congress must recognize that Phoenix has unique problems which are just as detrimental to its lifestyle and living conditions as the lifestyle and living conditions in Detroit, New York, and Baltimore. Eastern cities have older houses, but they are structurally sound. Western cities have newer houses which were built out of cardboard before housing codes were adopted. Legislation which adopts criteria such as age of housing stock are simply unrealistic in meeting regional differences.

Older eastern cities need funds to replace decay. Newer western cities need funds to prevent decay. A high administration official is once quoted as saying if you have a man with a heart attack and a man with a broken ankle, you treat the heart attack victim first. This is an erroneous illustration. What Congress should consider is the necessity to treat hardening of the arteries to avoid having a heart attack victim. In police work and fire safety, prevention programs are superior to treatment programs. I submit that prevention programs for the western cities are equally as important as the remedy progams in the older areas.

Congress must recognize that newer western cities are growing at a rapid pace. Growth is expensive. Growing cities like Phoenix have never and will never be able to keep pace with growth without its fair share of Federal funds reallocated back for discretionary use.

I want to stress my concern for equitable treatment of Phoenix's citizens and their needs. I am not requesting more Federal dollars. I am not requesting an unfair share of Federal dollars, but I am pleading for the recognition that these city viewpoints must be considered in Federal legislation. I am also pleading for a recognition of local elected officials responsibility to provide different services and programs from that which other cities might need or want. And, finally, I am pleading for the recognition that the problems of Phoenicians are just as real to them as the problems of Philadelphians are to them. Those needing housing in Phoenix need it just as badly as those needing housing in Cleveland, and the chance to prevent an unhealthy environment should be as important as the chance to heal a victim.

LONG-RANGE PLANNING

Another area of Federal fiscal management that affects the local government involves the appropriation schedule established by Congress. There are some programs, such as general revenue sharing and community development, for which funds are allocated on a multiyear basis. Other programs, such as CETA, are appropriated annually, and I do not believe that is the most effective or efficient way in which to distribute Federal dollars.

In my annual budget messages to the citizens of Phoenix, I have always emphasized the need for multiyear decisionmaking. In considering each year's budget alternatives, I feel it is important to assess expenditures and revenues in terms of their impact not just on that particular year's operations and services, but on programs that continue in subsequent fiscal periods. The use of Federal dollars as part of our city budget must be consistent with our local multiyear budget planning process.

In fiscal year 1967, Federal funds for the city of Phoenix totaled $6.1 million, or 8 percent of our total expenditure level. Ten years later in 1977, Federal dollars in Phoenix totaled $46 million or 16 percent of our expenditure level. We are using this support for a variety of activities, such as the operation of our public transit system and providing public housing for our elderly and low-income residents. Our 1977–78 operating budget totaled $258 million.

As Federal dollars have become a greater proportion of Phoenix' budget, responsible financial management requires a long-range commitment of support. We cannot solicit, accept, and implement extensive federally supported programs with the fear that the funds will be reduced after a brief period of activity. The burden then falls upon the local government to either assume the costs, which in all probability would result in an increase in the local tax rate, or eliminate the program, which would result in an increased unemployment rate. It is strongly recommended, therefore, that Congress extend the general revenue sharing multiyear funding concept to other Federal programs that impact local economies.

ADMINISTRATION

There are a variety of procedures and regulations associated with Federal grant administration that have resulted in creating inefficient and ineffective programs, and I would like to bring these to the committee's attention. You are all familiar with the charges of redtape, inflexibility, and poor coordination, and my mentioning them to you is not news. But when these procedures significantly impact a program's objective, impair a city's ability to effectively use the support, or result in the nonattainment of collective goals, I feel Congress should take a closer look at the problem.

The way in which some aspects of the administration's economic stimulus programs are being interpreted and implemented is an example of this. The city of Phoenix' budget for 1978–79 includes $1.8 million in title II and VI funds with support funding for construction material to be used for the job stimulus program's approved projects. This program has enabled the city of Phoenix to provide job opportunities and training experience for many unemployed residents. Some projects on which they have been working include restoring old buildings in parks and building handicapped ramps on our street corners.

On November 11, however, a new regulation became effective that prohibits the use of any CETA administration and support funds for materials that become part of the construction. This will have a negative impact on the city of Phoenix' ability to provide necessary maintenance and repair for facilities within our community. The following will occur: The city will not be able to compensate for the $870,000 needed to purchase the materials for the projects scheduled for this fiscal year; the crews will be transferred from productive projects to "make-work" assignments, such as cutting weeds; the older sections of the city, which have been receiving the significant share of these improvement projects, will be neglected and further area deterioration will occur; the workers will not receive on-the-job training experience to adequately prepare them for better jobs within the city government or in private industry; the general maintenance projects will not have the long-term benefit to the total community as had been planned.

Modifying the JSP projects to reflect the exclusion of construction materials will affect the nature of the entire program. It is our opinion that the regulation promulgated by the Department of Labor was done hastily without due consideration to the consequences. We urge you to reconsider this aspect of the CETA program.

The fragmentation of some services also contribute to ineffectiveness of delivery. Programs that benefit elderly citizens, for example, are administered by several executive departments and independent agencies, including HEW, HUD, DOL, ACTION, and others. The regulations and procedures differ by agency. These various funding source requirements create difficulties for local administrators and confusion for participants.

SLOW REIMBURSEMENT OF FEDERAL FUNDING

The delay in receipt of committed and earned Federal funds has created a significant problem for the city of Phoenix. As we entered this fiscal year, for example, the Federal uncollected amounts totaled $18.6 million, 42 percent of which were over 90 days past due and 21 percent outstanding for over 1 year. There are some federally financed facilities in our community, such as storm drains and sanitary sewers, that have been completed for over 2 years, but reimbursement for the costs are still outstanding.

The problems created by this slow reimbursement in Federal funds should be obvious to you. When the committed funds are not available for our use when scheduled, the responsibility to assume the payment obligation immediately falls upon the city to pay out of its own pocket. Our application for UMTA funding, for example, took 1 year for approval, and the city had to finance the operating costs during this period.

We have been told that the delays are a result of the lack of funding to keep audits current. It is our feeling that the entire financing process must be kept current if the support is to provide any benefit to the municipality. Otherwise, local funds identified for a particular purpose may need to be redirected to "carry" the Federal Government's obligation. Naturally, the slow reimbursement impacts our planning process and our ability to use our own local revenues to the extent that is necessary.

Ms. HOLTZMAN. Mayor Kucinich is here. I would like to ask him to come up and testify at this time. We will then place questions to you both at the same time.

STATEMENT OF HON. DENNIS J. KUCINICH, MAYOR, CLEVELAND, OHIO

Mr. KUCINICH. Good morning.

Ms. HOLTZMAN. It is a great pleasure to welcome you to the task force. I would like to state on behalf of Congressman Stokes that he would very much liked to have been here. Unfortunately, a death in the family prevented him from welcoming you this morning. He was very interested in your coming here and your testimony.

You may proceed.

Mr. KUCINICH. Thank you, Madam Chairman. I was with Congressman Stokes yesterday and I am aware of that.

I would like to, before I begin my testimony, introduce some people who came with me. First of all, my wife, Sandy, is accompanying me today. Directly behind me is the assistant director of community development for the city of Cleveland, Elizabeth Gardina, who is one of the youngest assistant directors in that capacity since history. To her right is Andy Juniewicz, who is a member of my executive staff who functions in the role of a press secretary, among other things.

I have submitted written testimony which is somewhat revised. I thought I would indicate to you that fact as I begin, and I will probably revise it as I go along.

First of all, Madam Chairman and members of the task force, honorable members of the House Budget Committee: I am honored to be here today to share with you my recommendations for a fresh approach to urban policy on the Federal level.

During the past 10 years I have served the city of Cleveland as a councilman, as the clerk of courts, and now as mayor. My experience has taught me that well-intentioned Federal programs have done very little to solve our cities' problems. In fact, today I will set forth the premise that many urban problems are compounded by Federal attempts to help the cities.

The Federal Government is being bombarded by requests from all governmental entities for more funding, for more grant programs, for answers to the urban crisis. The Federal Government has responded by allocating more and more money to the cities, in the hope that money alone will fill the vacuum created by our stale attempts to solve urban problems.

I reject the premise that more Federal dollars are the panacea for the cities. I am the mayor who turned back $41 million to the Department of Transportation because I didn't believe that the Urban Mass Transit Authority's people-mover would solve any of Cleveland's transit problems.

I believe in a commonsense, practical approach to governing our cities. More than money, local governments need examples of effective government in action. None of the "experts" in this country have demonstrated what will solve our unemployment and economic development problems.

The Federal Government must realize that it cannot dictate to American cities how we are to govern ourselves, that programs are not necessarily good because they emanate from the Washington bureaucracy, because that bureaucracy is detached from the rest of the Nation, and often from reality. Witness the people-mover—Washington's response to our request for mass transit aid.

I propose that the Federal Government reshape its urban policy along the simple lines which I will be suggesting. I will illustrate my suggestions with examples of the Federal failures in my own city.

Cleveland is a typical northeastern urban center, with the typical problems. You have heard this litany before: Declining population—we have lost hundreds of thousands of residents in the past decades—declining tax base, inflation affecting the cost of city services, eroding industrial base, loss of jobs to the suburbs and to the Sun Belt, shrinking and deteriorating housing stock, inadequate and unsafe mass transit, a population of the poor and unemployed trapped in the central city, a welfare system that can't begin to meet the needs of the population, a school system fighting to keep from going bankrupt.

Add to these large socioeconomic problems, the problems of mismanagement, corruption, and the giveaway of city resources to pow-

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erful business and development interests. These problems are ironically compounded by Federal attempts to help cities deal with their problems.

The CETA program is a multibillion dollar fraud. In Cleveland, $67 million has been allocated for job programs. But this program is causing no significant decrease in unemployment. Cleveland's CETA job placement rates for training programs vary from 5 percent to 25 percent.

CETA is based on two false premises: (1) That unemployment is caused by persons needing job training and job skills. The truth is that there are not enough jobs available, even for people with the necessary skills. CETA programs train people for jobs which don't exist. If the need existed for full-time workers, CETA subsidies would not be needed. You could say that the best training for a job is to have a real job.

This is the second premise that has to be challenged. The public sector can afford to absorb the CETA-subsidized jobs. The truth is that if the public sector needed additional workers, and could afford to hire them, the jobs would already have existed. CETA public service jobs dangerously contribute to the financial insolvency of cities for several reasons: CETA workers are given the false expectation that their short-time jobs will lead to long-term jobs when local government cannot fulfill their expectation; and government's constituents are led to expect a higher level of public services than can realistically be afforded, or maintained.

The premises of CETA are wrong on the abstract level. I wish to further illustrate that the CETA programs are failures in the specific sense. High administrative costs are destroying the record of CETA-subsidized community-based organization.

In Cleveland, I know of a director of a private nonprofit corporation who is paid more than $50,000 per year. How many more directors are there, across the country, being paid such extravagant salaries? There is a new class of quasi-public servants who have risen to feed off the bounty of manpower programs.

Here is another example illustrating that job subsidies are eaten by program costs: $½ million was given to a "clerical academy" for welfare mothers. Only 20 percent of the women involved in the "academy" found jobs, but the program's administrative costs reach 55 percent. So the help in that case would be achieved not by the welfare mothers but by the people who are doing the bureaucratic work for the welfare mothers.

In Cleveland, CETA supported some projects which sound almost too ridiculous to mention here. To provide job training $200,000 was given for parents who abused their children, in the hope that being skilled for employment would help these parents solve their psychological problems.

Another program provided on-the-job training for fast-food chain employees. Since when does it take training to fry hamburgers? In effect, on-the-job training programs subsidize businesses which ought to be providing these entry-level jobs anyway, if the need legitimately exists.

My staff has been wading through hundreds of different proposals for CETA funding—each one providing interesting reading because of the innovativeness of each approach. Each plan has some new method to sort out the unemployed into new categories for new types of training, and each plan is doomed to failure because the premises are all wrong. Job training and temporary placement will never create long-term jobs for the unemployed.

In our economy, structural unemployment can never be alleviated by the short-term economic stimulus which CETA provides. The assumption that short-term public subsidies will lead to permanent full-time private sector jobs has not proven true. The answer, rather, is to accept that a certain amount of unemployment is here to stay, and Government should act accordingly.

My proposal is to divert CETA funding into long-range massive public works projects which could employ all our unemployed population, on a continuous basis. As public works projects come to completion, others should be developed. Government should assume a permanent responsibility to end unemployment.

The public works projects have another advantage, in that they would be meeting the unlimited, capital improvement needs of the cities. There is a real need for capital improvement projects: In the last 15 years capital investment in public works facilities has dropped 50 percent according to the U.S. Department of Commerce. Let me illustrate with an example from Cleveland.

Cleveland has certain basic service needs which can't be met by our current city budget, given its basic limitations. The most pressing need today in Cleveland is a new sewer system. Flooded basements, caused by inadequate sanitary and storm sewage lines, are the worst threats to Cleveland's viable neighborhoods.

Cleveland has a neighborhood in the northeastern section of the city called Collinwood. The residents of Collinwood have been asking the city for the past 13 years for a new relief interceptor sewer to ease their basement flooding problems. Every time it rains, each basement in Collinwood is filled with raw sewage and storm drainage. The Federal community development block grant program is targeted toward stabilizing and revitalizing neighborhoods. But if the Government cannot provide a sound infrastructure, in Collinwood's case, a working sewer system, the loveliest renovated homes in the most revitalized neighborhoods will be uninhabitable, in current Federal programs dealing with EPA over money for water pollution abatement but not for new sewers.

Frankly, people in Cleveland don't care if the water in their basement is clean or dirty. With one public works project, Madam Chairman, Cleveland could solve its unemployment problems and the problems of antiquated sewer lines. Last month, I personally presented this proposal to President Carter. With $1.5 billion, Cleveland could separate 1,600 miles of combined sanitary and storm sewers into separate lines, employing all the unemployed persons in the city for 16 months. Of the project's total costs of $1.5 billion, approximately $150 million would pay for salaries of unskilled laborers, and $250 million would pay for salaries of skilled laborers.

This type of plan has many advantages: (1) ending unemployment; (2) ending flooding permanently; (3) improving water quality through separating the sewer lines, and easing the burden on existing water treatment plants; and (4) boosting the economy of the city.

Some examples of labor-intensive capital improvement projects, besides separating sewer lines, are: Construction of public buildings, road repairs, road rebuilding, construction of public parks, bridge building and rebuilding, home improvement projects, maintenance and construction of public utilities, such as water and electric facilities, sidewalk and curb repairs, and so on. The list is endless. This is under public works funding, increasing minority participation in the construction trades.

This kind of program has national potential for ending unemployment. Each city in the country has special capital improvement needs which it cannot afford to meet without innovative application of Federal resources. Each city in the country has an unemployment problem which would be alleviated by these public works projects.

In Cleveland, I plan to implement a small public works project by leveraging CETA employment funds with community development block grant funds, to build a new relief-interceptor sewer. My program could be a model for other cities in that I will demonstrate what can be done innovatively with existing sources of grant funds.

Instead of trying to cure unemployment with unworkable, unwieldy, and sometimes ridiculous job training programs, government would be providing jobs, and accomplishing real work, under a proposal for public works projects which is similar to the one I have outlined.

However, even with massive public sector employment, there will always be the need for privately sponsored development, to maintain the diversity vital to our city's economic health. What we need is well-thought-out Federal assistance to provide financial incentives for new private development in the cities because cities—and I am talking about especially cities here, and States—cannot afford to provide these incentives from their limited revenues.

The current UDAG—urban development action grant—programs offered by HUD appears to be a step in the right direction. In this program, HUD offers Federal aid to private development, if the private sector can demonstrate substantial leveraging of the Federal dollars.

But UDAG does not go far enough. There are not enough dollars allocated to the program, and UDAG will not eliminate the need perceived by cities and States to offer their own tax incentives to businesses. Because sound economic development strategies must be devised in order to assist cities to sustain themselves, I would like to comment on the tax incentive programs currently in vogue.

Most State and local governments follow the conventional wisdom that businesses need tax incentives to lure them to locate in particular areas. This prevailing theory is ultimately divisive and counterproductive.

City competes against city, and State competes against State, each trying to undercut the other in the race for new business development; the bonuses offered are in the form of tax incentives, tax abatements, and tax write-downs. As a result, States and municipalities are handing away their resources in the form of future revenues, in the false pursuit of job development, and thereby limiting their ability to provide service to the people of their community. The types of taxes subject to State and local jurisdictions form about 2 to 3 percent of a corporation's budget. A subsidy as marginal as 2 percent to 3 percent does not significantly influence a corporate decision to relocate in a particular region or city. Corporate decisions are influenced by the amenities a city can provide, the natural resources of a region, climate, and labor conditions, and not necessarily by the limited tax subsidies which State and local governments can provide.

Unless I have the revenue available to make Cleveland a clean and safe city, we are not going to have development, we aren't going to have any economic climate which would be conducive to investment.

The overwhelming weight of scholarly literature on the subject makes clear that: (1) There is little or no evidence that tax abatement makes much difference to business actions; (2) corporate decisions include attention to the entire cost of doing business—the demand side as well as the supply side. The simplistic notion that if we cut taxes we will get business to create new jobs introduces the assumption that changes in relative costs with no changes in potential sales are sufficient to induce changes in production and employment. This is simply not so.

Ironically, if urban amenities are important to businesses, tax giveaways deplete a city's future resources, and cut the level of services which a city will be able to provide in the future, and do not significantly induce economic development.

Let me illustrate the disastrous long-term effects of tax abatements with a specific crisis being faced in Cleveland. Cleveland's school system, a separate governmental entity, which is restricted by State law to support by local property tax revenues, is on the verge of bankruptcy. Each day is a struggle to meet the payroll and keep the school doors open. Compounding this problem, the schools are currently under desegregation order, which if implemented will require bringing about a second bankruptcy.

Yet, prior to my administration, the city of Cleveland granted three property tax abatements last year to corporate giants which would have rebuilt and expanded their existing Cleveland plants—without the abatements. The city outright handed away a major portion of property tax revenues for the next 20 years. We even had one development apply for a tax abatement on Cleveland's lakefront, on vacant land, prime area in the city of Cleveland referred to as a slum in order to qualify for assistance from a local government that can barely afford to support itself.

Corporate tincupping is hurting the cities. It is not only threatening our financial stability, but it is also threatening any possibility for us to be able to keep pace with increasing demands the public has for service, which is really the reason why you have a government at all. The State of Ohio isn't able, as I pointed out, and because of that cities and States are at the mercy of big business. The promise of corporate relocation is so powerful that local governments are the victims of America's newest shakedown.

In Cleveland, the game works like this: If you are a business already located in the city, having no real intention to move into the higher priced suburbs, but wishing to make windfall profits at the expense of Cleveland's taxpayers, you threaten the city that you will pull your plant out unless you get a tax abatement. Local governments seldom have the courage to stand up to these corporate bullies because jobs are allegedly at stake.

Here is a case in point, illustrating that local governments can successfully stand up to business threats. In Cleveland, a local bakery threatened to leave its city location unless it was granted a tax abatement for the expansion of its plant. I refused to grant the abatement, on the theory that if expansion were feasible for the company, it would occur—regardless of the tax breaks involved. Instead, I offered the company planning and technical assistance in obtaining land parcels which would have remained undeveloped by the city, without the bakery's expansion. The bakery is now staying in Cleveland.

It is apparent that the wholesale giveaway of local revenues must be stopped, or States and cities will need to be bailed out by the Federal Government, time and again, requiring massive amounts of Federal aid to make up for lost taxes. Rivalry between cities and States is to intense that Federal action is needed to stop the cutthroat competition.

I propose that Congress enact legislation which would make it as difficult as possible for States to grant tax bonuses to corporations as incentives for relocation. We are aware that the Federal Government and Congress have limited authority under the Constitution to specifically redirect the tax policies of the States. But there has been no exploration of ways that the Federal Government could encourage States not to continue the destructive rating of industry or destructive tax incentive policies.

It would not be the prerogative of Congress to legislate specific changes in local tax policies, but if Federal funds were made contingent upon certain changes in local tax structures as well as made contingent on strong minority participation, the local and State governments would obviously have to reconsider the benefits of tax incentives and tax abatements.

Congress should simultaneously increase the funding for innovative programs like UDAG. This action, coupled with the massive public works projects I proposed earlier, would end internal competition over economic development, alleviate the unemployment crunch, and break the corporate stranglehold over local tax revenues.

I believe that this drastic action is necessary to prevent a shocking urban crisis a few years in the future, when local governments suddenly find that they have run out of money because they gave it all away today.

This Nation's cities are not in a position to give away their precious resources; nor are they in a position to solve by themselves the problems of unemployment, of economic decline, of inflation, or physical deterioration. Cities have been victimized by Federal policies that have, to a large extent, created their problems.

Policies in the area of urban renewal, the Department of Transportation, CETA, to name a few, all have attempted to implement yesterday's answers which are now unworkable. The Federal Government, through a rational and responsive national urban policy, can help solve the problems. Cleveland will cooperate in every way possible, by proposing workable programs and providing effective management.

We are in this together, and the only way we can resolve it is together. Thank you.

Ms. HOLTZMAN. Thank you very much.

Interestingly, both of you come from different regions of the country and represent different kinds of cities. Both of you are very much in favor of federally financed public works projects as ways of assisting the cities to survive and to provide the quality of life that is necessary for their residents.

What is your reaction to the fact that there is no new public works money in the 1979 Federal budget, and that the President has decided to phase out, by 1981, the local public works program, which is a countercyclical public works program? Mayor Hance.

Ms. HANCE. I personally think it would be disastrous. It is the one program that funnels money to the private sector. It doesn't put more employees on our payroll that we really couldn't sustain for very long, nor would we necessarily use them unless the Federal money were given to us.

I think that it is probably the best program that the Federal Government has ever done because it not only provides work but it is meaningful work and it meets some of the capital improvement needs.

Ms. HOLTZMAN. So you would be very much in favor of increasing the public works financing that Phoenix gets?

Ms. HANCE. That is right.

Ms. HOLTZMAN. Not decreasing it.

Ms. HANCE. Right.

Ms. HOLTZMAN. Mayor Kucinich, how do you feel about the President's decision?

Mr. KUCINICH. Madam Chairman, over the past decades cities have neglected their capital needs. As labor costs continue to increase, a greater proportion of our revenues go to meeting payrolls.

Right now in Cleveland, and I am sure in other American cities, there is an incredible need for capital investment in public works projects. But cities are finding it very difficult, if not impossible, to generate enough local revenue to pay for such projects even through borrowing. And since there is not enough Federal aid available for these projects, the work goes undone and the facilities eventually deteriorate.

In 1977, applications to the Economic Development Administration for the area of public works were for $23 billion, the applications from the cities and States. But only $2 billion was available. So we are aware of the demand.

I am aware that right now the administration is proposing to extend the investment tax credit to include not only machinery and equipment but also the construction of new plants and buildings. If this happens, this kind of a change in the tax laws would make it attractive for industry to leave urban areas and construct new facilities where other incentives already exist, such as lower labor and energy costs and cheaper energy. Then we would have an accelerated exodus of jobs and business.

I think that right now it is essential for the Congress to do everything it can to focus its interest on the area of public works, both because of the fact that it improves the so-called infrastructure of a city, thereby improving the quality of life, and also gives people an opportunity for employment who otherwise would not have those opportunities because they are unskilled.

There are not that many problems for people who have skills to find a job. But what we are concerned about in Cleveland is people who are unskilled. It is in the area of public works where their abilities, where their resources can be channeled.

Ms. HOLTZMAN. I can testify on personal experience in New York about what happens when you neglect the city's capital system. We had a very fine highway that went along the west side of New York. It was not maintained for years and years and years and then just collapsed.

As a consequence of the failure on an ongoing basis to maintain that highway, we are going to have to spend billions to reconstruct an alternative. Of course, we are having a big fight as to what that alternative is. That is I guess also part of the fun of neglecting your facilities. But the costs in the long run are much greater if you neglect the capital stock of a city at the present time.

Let me just ask you what the unemployment rate is in your cities respectively. What is the unemployment rate in Phoenix?

Ms. HANCE. Ours currently is about 6 percent.

Ms. HOLTZMAN. What is the unemployment rate in Cleveland?

Mr. KUCINICH. Unemployment in Cleveland, the official statistics for December of 1977, 5.7 percent for Cuyahoga County and 7.6 percent for Cleveland.

But a recent city survey we conducted just last year states that there was a rate of 14.6 percent in July of 1977, and the 3-month average of May, June, and July was 16.2 percent.

Translated, that means that there is about 21,515 unemployed people in the city and 42,887 persons in the county. But I think that those are very conservative statistics.

One of the problems in assessing unemployment is that in areas where the people are more socially disorganized it is just more difficult to be able to get in and make an accurate count. So I would say that probably the unemployment in the city of Cleveland is much higher than 16.2 percent.

I would like to point out in particular, Madam Chairman, that among young blacks in the inner city we have an urgent crisis with respect to unemployment. The rate is estimated sometimes as high as 40 percent. So, here again public works programs would be of great benefit to the community and would provide jobs specifically for those people who need them.

One other point I would like to make is on the area of inducing economic incentive. They will always come to the people in the city and say, in order to get political support, "We will provide jobs if you give us a tax abatement." But the big corporations who are providing the jobs don't have jobs for unskilled people. Their jobs are of a technical base, for skilled white-collar workers. So the people in the city are ultimately shortchanged while they are paying the bill for the tax incentive, which is really a corrupt use of local resources. It is just not fair to the people in the city.

We are being victimized by big business on one hand, and we are being hurt by a Federal system which is not working.

If I could comment further, Madam Chairman. As a member of the city council, I chaired a committee which is similar to the one you are chairing on a local level, and I found out that not only the programs that I cited here but the whole grants program is nuts. It is just not working.

Cities are applying for grants they don't need so they will have money. They have to offer matching funds in some instances in order to get programs they don't need. They neglect their real needs in pursuit of the elusive Federal buck. It is a very grim charade that has been played out over the last decade in the area of Federal grants.

As an alternative, I would recommend just scrapping the whole grants program and going to greater discretionary block grant funding under revenue sharing.

Ms. HANCE. I would like to also state that our unemployment among minorities, especially the young blacks and even Mexican Americans, is indeed around 40 percent, too, at this time.

I have to disagree with my fellow mayor just a little bit about scrapping all the grants programs. I think some of them are very good and we made good use of them. At one time the job programs were being used very wisely in my opinion in the city of Phoenix to rebuild old park buildings and to construct ramps for the handicapped over the curbs in various parts of the city. They are making permanent improvements.

However, I think it was last November a new regulation was added, and I know you hear from us all the time about how these regulations, we conclude, are not congressional intent. But there was a new regulation promulgated that we cannot use any of the money for supplies and materials. That will mean a loss of approximately $870,000 to Phoenix that we need to purchase materials for the projects that are scheduled for this current fiscal year.

I think it is a very bad regulation. It will set us back to the point where they will be out cutting weeds instead of building buildings, renewing parks, because we don't have sufficient money for the materials these people could use. I think it is very wrong.

Ms. HOLTZMAN. I take it from the testimony that you both favor the more discretionary type of Federal programs such as revenue sharing and countercyclical revenue sharing?

Ms. HANCE. Yes.

Mr. KUCINICH. Yes.

Ms. HOLTZMAN. What is your reaction to the fact that the President has not yet made a commitment to extend the countercyclical revenue sharing program? Would you advocate its continuance? Would you advocate its continuance on the basis, for example, that, even if the national unemployment rate declines, those cities that still are suffering high unemployment rates would be able to get countercyclical revenue sharing? Do you think that kind of program ought to be continued or phased out? What is your reaction?

Ms. HANCE. I personally don't see how we are going to survive without the continuation of Federal revenue sharing. It is just that, revenue sharing. It is our money. It doesn't belong to Washington.

It is the best program we have had because it is unrestricted. But we have become dependent on it; let's face it. And I feel we are going to continue to need it to escape other severe setbacks. I will certainly work as hard as I can to continue that.

Mr. KUCINICH. Madam Chairman, I am afraid I don't understand. The status of the program is what now?

Ms. HOLTZMAN. The countercyclical revenue sharing program which is aimed at areas that are especially hard hit by unemployment needs to be reauthorized this year. Further, even if it is reauthorized there is some question as to whether it will be available if the Nation's unemployment rate continues to decline. The way the program works now is that, if the national unemployment rate is over 6 percent, then cities and areas with high unemployment become eligible. But if there is no high nationwide unemployment rate, then none of the moneys would be available.

I would assume that Cleveland is a city that would continue to experience high unemployment.

Mr. KUCINICH. We have to address our resources to where they are most needed. Cleveland is a city where the needs are great. But there are other cities similar to Cleveland, particularly in the northern industrial areas of our country, which have needs that are crying out for Federal assistance.

Now, it would be absolutely fallacious for a program federally to be phased out because the national average is dropping; because when we are talking about the problems in Cleveland, the problem is still there. It is a real problem. Maybe they don't have it in other sections of the country, but Cleveland and other cities like Cleveland should be considered.

So I think that it would be wrong to deny cities where the needs happen to be great because the national average is dropping. It is what may be in paraphrasing a biblical passage, it is whatever you do for the least of your brethren that counts in Federal programs. And Cleveland is one of the more disadvantaged cities right now where the help is needed. So the programs must continue.

Ms. HOLTZMAN. I think, by the way, the points that have been made by Mayor Hance with regard to long-range planning are very important. I have supported a bill that would allow cities and other recipients of Federal funds to plan for their use over more than a 1-year period of time. I agree that that would be helpful.

I want to ask you to expand on the point you raised about social security, specifically that the city's increased costs for social security have had a negative impact on its fiscal position. I would like to get a sense of how serious that impact has been. As a result of the increasing social security payments, has Phoenix restricted its hiring or fired anybody? What has been the consequence of that increase in the social security tax?

Ms. HANCE. We have a policy, Madam Chairman, of resisting to the last the layoff of any individual. We have been able over the years, and we are now coming out of our recession that we had in 1973–74, to transition people in various departments and have not had a layoff policy.

We have had a policy instead of hiring freezes in vacant positions. Our biggest problem and our biggest error as far as positions go has been our use of CETA funds in the wrong way. We have too many of them in ongoing operating positions. Of course, all of this happened before I was mayor, you understand.

But when you have about $7.5 million of your payroll dependent upon Federal funds, it is a big mistake. I finally have the city council in a position now where we are budgeting at least $0.5 million a year to transition these into the place where they belong. Because if you should suddenly yank CETA away from us, we would really be in a soup.

So we are beginning to shape up our program. But that has had a great many ill effects. We don't lay people off, and we just cut the budget more and try to do the best we can.

Ms. HOLTZMAN. Mayor Kucinich, has the increase in the cost of social security for the city of Cleveland had an adverse effect on hiring or caused a cutback on city purchases?

Mr. KUCINICH. It hasn't had an effect. We haven't really studied it. I am not aware that it has any effect.

Ms. HOLTZMAN. Mayor Kucinich raised a very important point about the impact of the President's proposed investment tax credits for businesses that build new structures. There has been a substantial amount of testimony in earlier hearings that the credit would cause businesses to leave cities. Of course, it could cause them in some cases to leave the Northeast if they were thinking about it and move to the Sun Belt. But I was wondering whether Phoenix would be affected adversely by an investment tax credit that encouraged businesses to build new buildings. Would they decide to move out of the city?

Ms. HANCE. It could be. We really haven't studied the impact of that. It obviously could be.

I must say that we are fairly fortunate in relocating businesses to our area. I was a little bit surprised to hear a mayor say that the Federal Government should make it impossible for the States and localities to provide tax incentives; because on the other hand, we all cry for local autonomy all the time.

I would be in opposition for the Federal Government to withhold funds to cities or States who wish to provide incentives for new industry and/or residential development. So in that area I disagree with the mayor.

Mr. KUCINICH. Madam Chairman, I would respectfully submit to my colleague from Phoenix that I too believe the local government should be free and autonomous. But I don't believe they should be free to ripoff their own constituents.

I think as an alternative to the investment tax credit what we really need is an investment tax credit on rehabilitation or expansion of plants that choose to remain in areas of high unemployment where jobs can be created for people who really need them.

Another possibility in terms of encouraging private investment would be to encourage savings and loans to invest in urban housing projects. Cleveland is exploring that right now. I think that a fellow by the name of Robert McKinney who is the Chairman of the Federal Home Loan Bank Board has discussed this recently. So it is another possibility.

There are alternatives. I won't presume Cleveland has the same kinds of problems in this regard as other areas of the country.

Ms. HOLTZMAN. I just want to compliment you on raising the problems you mentioned with the CETA program. In my own experience with CETA in New York City, I have uncovered major fraud in the operation of the summer youth program, and year-round employment training programs. Unfortunately, I think that this is an area in which the Department of Labor seems to be taking very little corrective action.

It is unfortunate because we are talking about the waste of tax dollars, and the waste of so many human beings. Many people rely on these programs to provide them with the skills and the training to get them a job. Yet, when they finish these operations, they are just as untrained and unemployed as they were beforehand. So I hope that your voices will be heard. I am glad that you are speaking out about this program. I just don't think that because something is labeled as having "good intentions" we can't hold it to keeping its promise, and precluding the fraud and abuse.

Mr. KUCINICH. Madam Chairman, if I may respond. The Labor Department officials I have come into contact with seem to want to make the program work. I believe that many of them are sincere in their attempts to try to make the program work.

However, let's say that this program had some inherent defects from the moment it was designed and that is why it won't work.

Ms. HOLTZMAN. Mayor Hance, do you have any comments on that?

Ms. HANCE. I think, again back to guidelines, we are in trouble currently because we aren't able to spend fast enough. But when you have so many guidelines as to who can be employed, how many weeks they have to be unemployed, and the veteran's preference, it is very, very difficult with so many restrictions to hire people fast enough.

I think it is an absolute crime, for instance, if you took a part-time job to support your family over Christmas, that you have to go back and wait until you are 15 weeks unemployed again. You are penalized for trying to do a little something for your family. I think it is a terrible, terrible set of regulations.

Ms. HOLTZMAN. Aside from increased assistance for public works and continuation of revenue sharing, what other Federal programs have been of greatest assistance to your cities, if any?

Ms. HANCE. I would say UMTA, mass transit, has been very important for Phoenix. We are 270 square miles. We are very, very spread out, and transportation is very difficult to provide.

We have had a bus system only since 1971. We are in great need of expansion on that. We have many, many miles of unpaved or poorly paved streets. We have a dust problem. I would say that that is one of the most important programs we have. I would again urge that the transit and highway user trust fund not be merged, that they be kept separate, because needs are great throughout the country.

Mr. KUCINICH. Madam Chairman, I think we have had some assistance. The most recent assistance that comes to mind is toward rebuilding our airport, improving it, which is a capital investment, and public works.

Wherever money could go into public works, generally you are going to have some tangible benefit. But other than that, and other than what you mentioned, I can't think of any area.

I have gone over these grants, read them, tried to see how they are applied. They are just some of the whackiest uses of Federal money I can think of that occurs. LEAA, I have a whole catalog of programs that have just been an incredible waste of taxpayers' money. If we are looking at one program here, CETA for example, we can look at them all and look at the whole system itself and find out if it is working. I think you will find out it isn't.

Then Congress can probably be most helpful in bringing about the reforms.

I might add that this hearing, I am certain, will be helpful in taking a step in the right direction, because before you can solve the problem, you have to recognize the problem exists. Just throwing dollars at the cities won't solve the problems.

In Cleveland, Ohio, 3 years ago we had an urban renewal program that all but wrecked the city. It was well intentioned but a disaster. The model cities program, the most altruistic people promoted it, but some of the worst types of people got into the administration of it.

Ms. HOLTZMAN. Thank you for the sobering thoughts. I think they will be very helpful both to this task force and to the House Budget Committee in its review of the budget.

I want to thank you both for your testimony and coming here today and sharing your thoughts with us.

Ms. HANCE. Thank you.

Mr. KUCINICH. Thank you, Madam Chairman. I would like to invite you to Cleveland any time you get a chance and I will show you these things in their natural setting.

Ms. HOLTZMAN. I am sure if you came to New York City you would feel right at home.

Ms. HANCE. Phoenix in February is very nice.

Ms. HOLTZMAN. That is an offer worth taking up. The hearing will stand in recess until 1 p.m.

AFTERNOON SESSION

Ms. HOLTZMAN. The Task Force on State and Local Government will come to order. We are very honored to have with us this afternoon Robert Wagner, Jr., who is the chairman of the New York City Planning Commission, and is representing the mayor of New York. Welcome to the task force. We would appreciate it if you would summarize your testimony and then respond to questions.

STATEMENT OF ROBERT F. WAGNER, JR., CHAIRMAN, NEW YORK CITY PLANNING COMMISSION, APPEARING ON BEHALF OF MAYOR KOCH OF NEW YORK

Mr. WAGNER. Thank you very much. I am very pleased to be here. Unfortunately, Mayor Koch, who was invited, couldn't come, and he asked me to come and represent him.

There is a fairly lengthy piece of testimony that we are submitting. What I will try to do is briefly summarize the major points in it.

Obviously, this testimony is from the perspective of the city of New York. But I think many of the points I will make relate to the needs of other urban areas.

In our view, national urban policy should be a comprehensive one and one that really meets the full extent of the country's needs. It must be aimed at three major objectives: (1) restoring cities, particularly older cities, to fiscal solvency; (2) it must be aimed at rebuilding the crumbling infrastructure and economies of older cities; and (3) it must be concerned with neighborhood revitalization and stabilization.

I think there has always been a very powerful argument for the existence of cities. They have been centers for attracting immigrants and providing labor and cultural development, and have shaped the Nation. But I think their role today is even more important given the era of scarcity which this country is entering.

Congressman Reuss put it very well when he said that in a time of scarcity the city has a new and vital function as the great conservator of land, energy, and resources. Any doubts as to whether the city is worth saving should be resolved by this new role.

Those of us in New York City agree with that. It is of significance for all of the cities in the country.

Rather than summarize the problems that New York City has had, and they have been severe problems in terms of its economy and the loss of some 650,000 jobs, the loss over the last 7 years of 500,000 middle-income residents, the fact that those middle-income residents have been replaced by poor people who require some $4.1 billion a year in social services—what I will do instead is focus on the changes that we think are needed.

I am not going to go into our complaints. I think there have been many speeches by New Yorkers on the Federal inequities toward cities in general, and in our view, New York City and State in particular.

What I want to do is focus on the three themes that I mentioned at the outset—the need (1) to restore the cities fiscal stability; (2) the importance of stimulating urban economic development and job creation; and (3) the need for revitalizing deteriorating neighborhoods.

First, the issue of fiscal stability is of very special importance to the city of New York. We have been involved for the last several years in a profound fiscal crisis. We have seen 61,000 employees leave the city's payroll since 1975. We have seen a continued pattern of austerity, and it is a pattern that the new administration, the Koch administration, is going to have to continue and approach in an even more intelligent and tough-minded way than it has been approached in the past.

But no matter what efforts the city makes in terms of cutting back on its budget, it is still going to need fiscal assistance in a number of ways from the Federal Government—and in two ways that are at this point special to New York City, but, I believe, have relevance to other cities as well.

The first issue, which is one before the Congress right now, is that of the continuation of the Seasonal Financing Act of 1975, to provide New York City with the ability to borrow on a short-term basis. We envision a substantial cutback of the amount of money that is going to be needed—$1.2 billion in seasonal borrowing in 1979 falling to $400 million in seasonal borrowing in 1981.

I think an important part of this program is that it is a program that costs the Federal Government nothing. In fact, the Federal Government benefits from the interest payments made by the city of New York, and so far we have not missed a single payment and in many instances payment has been ahead of schedule.

The second issue is long-term financing. This is the direction in which the Federal Government is going to have to move not just for New York City but for other older cities as well; to provide some form of loan guarantees for State and municipal bonds so that cities can be in a position to rebuild their capital infrastructures.

This is a very real problem right now in the city of New York. At present funding levels, for example, it would take 180 years to replace the city's streets, 200 years to replace the water mains, and 300 years to replace sewers.

Again, this is not a program that would cost the Federal Government money. It would provide a backup, a needed backup, to allow New York City—and this is also true of other cities—to once again enter the capital market to the extent necessary to rebuild crumbling infrastructures.

The other matters that I would like to address in terms of fiscal stability really do not just apply to New York City but have clear relevance to other cities throughout the country, especially older cities throughout the country. They would include: (1) continuing countercyclical revenue sharing; (2) welfare reform, which is an issue that has received a great deal of attention and should be acted upon; (3) medicaid reform, which is an issue which you have addressed and is one of real importance. I think these, taken together, provide a package of programs that would deal with the need for fiscal stability in New York City and in other cities, as well.

The second main goal is that of stimulating local economic development and creating ample jobs for the unemployed. Here we would support a number of different programs, first the Urban Development Bank in some form. We have problems with some of the proposals made but in some form the bank would be a useful device to provide capital for businesses located in urban areas.

Two, would be small business loans; three, public works, a continuation of the public works program. We should move the public works program into the rehabilitation of existing facilities.

Four, changes in Federal procurement policies, targeting money to areas of high unemployment, would also be of substantial help; location of Federal facilities in older urban areas also should be a priority.

Five, I think one of the things that is a problem for New York and other cities is that so much of the assistance we get, in dollar terms, is in the area of welfare, in the area of medicaid payments, and not in the area of basic investments by the Federal Government either directly in terms of Federal facilities, or indirectly in terms of loan policies of one kind or another to improve the economic viability of cities.

Six, changing the urban mass transportation formula: Right now it is not based on ridership. It is absolutely essential for the city of New York to have it based on ridership. Changing the formula in that manner would have a significant impact on the amount of money coming into the city of New York.

Seven, there should be changes in the Federal tax policy. The accelerated depreciation and the investment tax credit generally tend to work against the city's economic interest.

The proposals the Carter administration has made are in the right direction. We would like to see even more drastic revisions.

In terms of employment, the present CETA program, in our view, doesn't go far enough, though it has made a substantial contribution in that it provides 28,000 jobs in New York City. We would like to see reenactment and an expansion of the CETA program for a 5-year period beginning October 1978.

In terms of youth employment, here obviously the city of New York has an obligation to do better than it has in the past. But the basic need for youth employment is very real. New York has become in many ways the youth unemployment capital of America. The situation in the city's ghetto areas is devastating. We would like to see the Youth Employment and Demonstration Projects Act of 1977 increased to $1.5 billion.

The third general area is that of neighborhood revitalization. The major ingredients we see in this would be, a workable low interest loan program for the refinancing and moderate rehabilitation of existing housing; a workable coinsurance program for refinancing and rehabilitating existing housing; and a workable section 8 moderate rehabilitation program.

In terms of the numbers that are proposed in, for example, the new section 312 program and the section 8 moderate rehabilitation program, they aren't nearly large enough. We would urge that the numbers be greatly increased.

Our problems in housing are really of three different kinds; the first has to do with areas like South Bronx, Harlem, Bushwick, and Brownsville, areas of very severe devastation; second, areas where moderate rehabilitation and some minimal investment could have a very significant impact; and then areas where there are opportunities for the creation of, for example, new towns in town, like Roosevelt Island.

I have touched on a whole number of issues which the city of New York believes to be of highest priority. Obviously, the immediate issues are the seasonal loan and loan guarantees which will enable us to enter the capital borrowing market again.

But beyond that, there have to be strategies which focus on the economic revitalization of older cities and their neighborhoods, and we have to develop strategies that can in fact lead to revitalization and stabilization of neighborhoods.

Ms. HOLTZMAN. I want to thank you very much for very stimulating testimony.

Without objection, your entire written statement will be included in the record.

[Testimony resumes on p. 174.]

[The prepared statement of Mr. Wagner follows:]

PREPARED STATEMENT OF ROBERT F. WAGNER, JR.

Thank you for inviting Mayor Koch to testify before you today on the budget implications of a national urban policy. Unfortunately, the mayor is unable to attend. I, however, as chairman of the New York City Planning Commission, will attempt to inform you of the key issues that must be addressed in the formulation of a policy which meets the pressing urban needs of our time.

Before doing so, however, I applaud the President for placing a high priority on uplifting the faltering position of older urban areas. The Cabinet level Urban and Regional Policy Group he established is a welcomed step. And although the Group's final report has not yet been published, its draft report clearly recognizes the distress of cities, even if it falls short of addressing the magnitude of their problems.

NATIONAL URBAN POLICY

As you know, the problems of cities are considerable. They span the wide spectrum of urban life. A national urban policy, therefore, would be a dashed hope if it falls short of healing each and every wound that afflicts cities.

The program eventually developed must be comprehensive. The funds that fuel it must be commensurate with the need. And the imagination and energy with which it is implemented must be of the highest order.

A national urban policy, to be truly *that*, must restore cities to fiscal solvency. It must rebuild the crumbling infrastructure that supports streets and housing. It must rekindle economic development, business and commerce. It must revitalize neighborhoods * * * It would be an ill-begotten measure should it fall anywhere short of these goals.

There is good reason for undertaking an effort of this order. Congressman Reuss provided it in testimony before the Subcommittee on the City. The city has a new role to play in national life, a role beyond its historical tradition of attracting immigrants and providing the labor and culture that shaped the nation. Today, is a time of scarcity. And, Congressman Reuss pointed out that, "In time of scarcity, the city has a new and vital function as the Great Conservator of land, energy and resources. Any doubts as to whether the city is worth saving should be resolved by this new role." I agree with the Congressman and share his vision of the city.

New York City particularly, has significant strengths worth preserving. It has the most comprehensive transportation system in the nation. It holds the nation's center for communications, for legal and financial services, for publishing and advertising. The city harbors the most diverse cultural, educational, medical and scientific complexes. And its consumer market is unparalleled in the world, with buying power of $42 billion annually. In short, there is nothing like it. Its decline would be a national loss, and a national shame.

Yet New York City is passing through a critical stage. And, the decisions made in Washington this year on an urban policy will dictate whether the city survives and flourishes or whether it wanes and declines.

NEW YORK CITY'S PROBLEMS

Clearly, New York City is in trouble. Between 1969 and today, it has lost more than 650,000 jobs—about 17 percent of its jobs. A third of the city's jobs in the manufacturing industries were lost. Even today, although the national unemployment rate is 6.4 percent, the unemployment rate for New York City is 10.4 percent.

Other indicators of the ills which wrack New York City are not unwanting, unfortunately. Between 1970 and today, New York City has lost more than half a million people; the people who left were mostly of the middle-class; taxpayers, who supported a vast and generous array of municipal services, even though they relied upon them least. So today, the city is left with an unduly large proportion of poor persons, the persons who need services most. The result is a welfare population in the city totaling fully 934,000 persons, more than 12 percent of its total population. The city's budget for social services, including welfare, and the costs of administering these programs, is $4.1 billion.

There are other measures, too, which reflect the plight of the city. It is estimated that each year, 50,000 units or more are abandoned by their owners in New York.

NEGLECTFUL FEDERAL POLICIES

Much of this bleak sketch I have drawn is the direct result of Federal policies which in the past neglected urban areas, and sapped them of their bustling vitality. While a moratorium was placed by the Nixon administration on building housing in the city, funds from the Highway Trust flowed into the massive program of highway construction. Thus, the lure of middle-class taxpayers to the suburbs was continued, leaving in its wake a trail of unconscionable urban sprawl.

FEDERAL INEQUITIES

Other inequitable policies were wrought in this capital, and even today they have not been undone. New York City was to pay a substantial portion of the nation's welfare toll. Had Washington developed an equitable system of welfare payments, as this administration is attempting to do, the tide of poor persons migrating to major cities would have been curbed.

New York City was also burdened with funding formulas which proportioned Federal moneys without regard to need or to population or even to the contribution an area makes to the Federal till.

As Senator Patrick Moynihan has pointed out, New York—in singular contrast to the pattern elsewhere—pays out to the nation far more than it receives. Federal outlays of only $26.3 billion were made in New York last year, even though the Federal Government's net tax collection was $33.7 billion. We suffered a loss of $7.4 billion.

There are other inequities. For example, the current formula for allocating mass transit operating assistance punishes New York. Although the city has more than a third of the nation's mass transit ridership, it receives only 10 percent of the total operating assistance formula grants of the nation. The region receives only 15 percent of the national funding in this regard. Obviously, to be fair, the formula must be overhauled to reflect ridership as well as transit vehicle miles.

Most members of this committee are fully aware of the difficulties perpetrated on the city. And many have taken the lead toward reform. An urban policy must address and remedy the wrongs under which New York City has labored. To achieve this aim will require speedy measures, and it will require long-term ministrations, with a generous Federal hand.

Three areas of action are required as the foundation for a national urban policy. They are key to the city's survival. I will list them for you now, and then explore them in depth.

An urban policy must: Restore the city's fiscal stability; it must stimulate urban economic development, and create jobs for the unemployed; and, it must revitalize deteriorating neighborhoods.

Let us now turn to the most immediate action necessary, restoring New York City to fiscal stability. I know that Mayor Koch has most eloquently made the case for Federal financing and guarantees before many Members of Congress, but I feel compelled to once more review for you our need for seasonal financing and long-term financing.

New York City has made great strides toward promoting its own financial health, a goal to which Mayor Koch's administration is committed. It has reduced its payroll by 61,000 employees since 1975, and it will reduce it further. It has launched a new financial management and control system. And, in concert with Governor Carey, it has reached an agreement calling for the State to provide the city with $200 million in budgetary relief.

SEASONAL FINANCING

Despite concerted New York City and State efforts, New York City has not met its financing needs through the private market. For the city to meet its obligations, the Seasonal Financing Act of 1975, which terminates in June, must be extended. Our 4-year financial plan requires the Federal Government to provide seasonal borrowing authority on a declining basis: $1.2 billion in 1979, $800 million in 1980, and $400 million in 1981. By 1982, the city should be back on its feet and meet its seasonal financing requirements *without* Federal assistance.

LONG-TERM FINANCING

Approximately $5 billion in long-term financing is also required. The money will finance capital construction, it will help us remove expense budget items from the capital budget and it will be used to restructure our outstanding debt.[1] To help regain entrance to the public credit market, our plan calls for city and State pension funds to purchase approximately $2.25 billion in long-term bonds. The money will be used for capital improvement programs.

We request that the Federal Government guarantee 90 percent of the principal of these bonds. The remaining 10 percent would be backed by the State. The funds are desperately needed to preserve our infrastructure and prevent further decay. In a study on construction needs for the Twentieth Century Fund, David Grossman has warned, "Unless significant additional amounts of State and Federal financial aid can be obtained for capital construction, the city faces a decade of serious deterioration in its vital physical support systems." At present funding levels it would take 180 years to replace streets, 200 years to replace water mains, and 300 years to replace sewers.

COUNTERCYCLICAL REVENUE SHARING

In addition to full funding of the 1979 authorization of $6.85 billion for the general revenue sharing program, Congress must extend the countercyclical revenue sharing program. The program expires in September with the last payment scheduled for July. Based on current economic conditions, it is estimated that the city would receive approximately $84 million in anti-recessionary fiscal assistance for the next fiscal year.

WELFARE REFORM

As I have already mentioned, the welfare program needs far-reaching reform. We support the Carter administration's welfare reform proposal, as amended, but with certain modifications. The proposals would save the city between $100 million and $184 million, annually, according to estimates. But the savings would not start until fiscal year 1981. Therefore, as an intermediate relief measure, the city supports the continuation of Senator Moynihan's legislation. If continued, the measure would provide a limited $28 million to New York City in fiscal year 1979. More importantly, it mandates that the State pass through these new funds to county and municipal governments, assuring that funds get to the city treasury, which is presently not assured in the administration's proposal.

MEDICAID REFORM

As with welfare, New York City shoulders an unusually great medicaid burden, approximately $520 million a year. As your distinguished colleague Elizabeth Holtzman has made clear, the city is penalized by an outdated Federal formula which does not account for its high living costs. The Federal share for the State—through which medicaid funds are channeled—is the bare minimum permitted, only 50 percent of the cost. Other States receive in excess of 80 percent. As an interim measure, before national health insurance is enacted, the formula must be revised to boost the Federal share to at least 75 percent.

TO STIMULATE LOCAL ECONOMIC DEVELOPMENT AND TO CREATE AMPLE JOBS FOR THE UNEMPLOYED

No urban policy will be successful unless its stimulates local economic development and creates jobs. That is the second major goal which needs to be achieved. The cities have lost jobs, as I have already mentioned. To reverse this trend will require: "Short- and long-term credit for private business; continued, but expanded, public works spending; targeting Federal grants and contracts to cities; changes in Federal tax policy; and, special employment programs. Each of these items merits some further comment on my part.

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[1] City and State Pension Funds: $2.25 billion, N.Y. Financial Institutions: $1 billion Public Offerings: $1.85 billion.

URBAN DEVELOPMENT BANK

First, in many older cities there is a critical shortage of credit for operations, for rehabilitation, and for the replacement and expansion of plants and equipment. Consequently, firms flee the city. The result is greater unemployment and less utilization of the city's industrial capacity. A partial remedy for this is the creation of an Urban Development Bank. The Bank, if developed properly, could encourage private sector investment in older urban areas in a variety of ways. It could provide direct loans to finance capital costs. It could provide working capital. And, it could provide loan guarantees to help private investors obtain capital and to lower the cost of capital.

SMALL BUSINESS LOANS

While the Urban Bank is an innovative approach to bringing private sector investment back to the cities, the Small Business Administration loan programs should also be expanded for this purpose.

Approximately 98 percent of the private companies in New York City employ fewer than 100 persons. The natural locational advantages that New York City offers are offset if the local financial community is unwilling, or unable, to supply startup capital to new firms.

The Small Business Act should therefore be amended, and funds appropriated to permit the SBA to make low-interest, startup loans to eligible companies. Small, direct, startup loans can both increase employment and stimulate growth industries, while limiting the liability of the Federal Government.

PUBLIC WORKS

The continuation of the public works program at the present level of $4 billion is vital to large urban areas for needed capital improvements. It has been estimated that approximately 25,000 jobs will be generated during the construction phase of the city projects. However, equally important is the creation of a "soft" public works program. It would target money exclusively for rehabilitation of existing facilities. The program is necessary to maintain and upgrade the existing infrastructure of older urban cities.

We, at the New York City Planning Commission, are presently undertaking a broad review of the city's capital needs, with emphasis on rehabilitating our infrastructure, before proceeding with new capital investment. We do this recognizing that the infrastructure of our city is precious. If the neglect continues no urban policy will be successful.

FEDERAL PROCUREMENT POLICIES

During the current fiscal year, it is estimated that the Federal Government will spend more than $60 billion procuring goods and services by contract. The money should be targeted to areas of high unemployment. Each Federal agency should be required to direct at least 10 percent of its procurement contracts to firms in these areas. And, in bidding for the contracts, firms in labor surplus areas should be given a fixed advantage over firms in other areas.

LOCATION OF FEDERAL FACILITIES

As a major employer, locational decisions of the Federal Government have enormous impact on the long-term economic health of cities. Although a 1970 Executive order set forth priorities for site selection that favored innercity locations, these guidelines have not been closely followed. Federal facilities closed or reduced in New York City include the Postal Concentration Center in Queens, the Brooklyn Army Terminal, and the St. Alban's Naval Hospital in Jamaica.

URBAN MASS TRANSPORTATION

New York City's transit operating loss estimates are approximately $50 million in 1978. They are estimated to mount to $380 million in 1982. Nevertheless, the administration's new legislative proposal does not adequately deal with local operating deficit needs. In fact, it provides less than the old program. An additional $1 billion should be added to the proposed budget levels for operating assistance, new rapid transit systems and the modernization and extension of our systems.

FEDERAL TAX POLICY

With regard to Federal tax policy, accelerated depreciation and the investment tax credit generally work against city economic interests. President Carter's proposals to limit the use of accelerated depreciation is therefore welcome. However, his extension of the investment tax credit to new construction will encourage the continued flow of commercial and industrial facilities out of the city. This is so despite the provision that the credit can also be applied to the major renovation of existing facilities. The investment tax credit should include a differential which provides substantial benefits to those firms which choose to build or renovate their facilities in distressed urban areas.

EMPLOYMENT

The present CETA program does not go far enough even though it provides 28,000 jobs in New York City. I urge Congress to reenact an expanded CETA program for a 5-year period beginning October 1978, and to raise the allocations of titles II and VI by $4 billion dollars.

YOUTH EMPLOYMENT

The provision of jobs for youths aged 16–21 years is of particular importance to the cities. Statistics concerning national youth unemployment rates reflect an astounding problem. The U.S. Bureau of Labor Statistics, reports that 15.6 percent of youths 16–19 years of age are unemployed: 38 percent of minority youths in this age category are unemployed. To help combat this problem, funds for the Youth Employment and Demonstration Projects Act of 1977 should be increased by $1.5 billion, 50 percent more than what has been already recommended. In addition, the Youth Incentive Entitlement Project, a component of the act, which tests whether jobs can be feasibly guaranteed for 16–19-year-old disadvantaged youths, should be redesigned so that the money goes to cities with greatest need.

NEIGHBORHOOD REVITALIZATION

Neighborhood revitalization is the third and final critical goal that I will address. Neighborhoods are where government ultimately works or does not work. They are where the people are, and where new policies and programs will rejuvenate urban life or permit it to sink and fall. The anchor of neighborhoods is housing. Unfortunately, New York City has major housing problems. The South Bronx, Harlem, Bushwick, and Brownsville have already become symbols of urban decay. Special allocations of section 8 funds are needed in these areas so as not to completely drain the city's ability to respond to the needs of areas less decayed. Less known are many other communities whose housing stock is basically sound, but are beginning to experience problems of disinvestment and aging.

The ingredients for stemming housing deterioration before it becomes too extensive include: A workable low-interest loan program for the refinancing and moderate rehabilitation of existing housing; a workable coinsurance program for refinancing and rehabilitating existing housing; and, a workable section 8 moderate rehabilitation program. In addition, housing construction in New York City is now either for the poor or the affluent. To keep existing residents and attract new middle-class residents, we need a new housing program to encourage housing construction and rehabilitation for moderate to middle-income families.

SECTION 312 PROGRAM

Although the section 312 program can be used for the extensive or moderate rehabilitation of larger buildings, New York City has emphasized rehabilitating vacant, one-to-four family structures in designated areas. But the law does not permit refinancing buildings with four or more dwelling units. Its usefulness is thus limited. The section 312 program should be altered accordingly. Moreover, the administration's proposed budget of $125 million for this program will only generate 15,000 units, nationwide. Clearly this is wholly inadequate.

COINSURANCE PROGRAM

The participation of the private sector in the rehabilitation and refinancing process is an essential ingredient in the preservation of neighborhoods. To stimulate private sector investment, a viable coinsurance program is critical where conventional mortgage money is not available. The current risk-sharing formula in the 244 coinsurance program should be changed. It now provides 80 percent FHA and 20 percent State housing agency financing. The formula should be 90 percent FHA, 10 percent State housing agency participation. This will make the program more attractive to investors.

SECTION 8: MODERATE REHABILITATION PROGRAM

The Carter administration's newly proposed section 8 moderate rehabilitation program is a step in the right direction because it allows subsidies to be targeted to buildings, enabling us to rationally plan for neighborhoods. However, to increase its effectiveness, the $5,000 capital improvement limit should be raised to approximately $10,000. On the basis of the 39,000 units to be funded nationwide, we have estimated that New York City will receive funds for only 1,400 units. This is inadequate for New York City where over 60 percent of our 2 million rental housing units were constructed prior to 1929.

SECTION 248 PROGRAM

HUD has recently proposed a new, below market interest rate, mortgage program, the section 248 program. It would be coupled with flexible rent subsidies. While few details on the proposed program have surfaced, it appears to have merit. Its main virtues are that it would both stimulate middle-income housing construction and promote economically integrated projects.

Obviously, housing programs alone cannot solve the entire range of neighborhood problems. Proposals have been mentioned throughout which will assist in neighborhood revitalization. Further Federal initiatives are also needed which will do the following: Remedy redlining by paralleling the thrust of the Community Reinvestment Act of 1977; provide greater access to insurance policies and limit FAIR plan insurance rates; integrate neighborhood commercial development with overall neighborhood improvement; coordinate Federal programs at the neighborhood level; and provide technical and counseling assistance to neighborhood organizations and demonstration funding for them to test new revitalization initiatives.

CONCLUSION

I have attempted to outline some of the overall recommendations which the city of New York believes are essential for regaining economic health, for reversing its physical deterioration and for providing the quality of life which our citizens deserve and need. I have done so in the belief that these recommendations are essential for other distressed cities of our Nation, as well as New York. I have also done so in the belief that no national urban policy can achieve its aims without addressing the problems I have mentioned and without providing adequate funding.

Your task is certainly not an easy one. I trust that Congress is now willing—and ready—to seriously tackle the problems of our nation's cities. How well the Congress succeeds will not only affect the future of our cities but of the nation as a whole. Thank you.

Ms. HOLTZMAN. I take it that this agenda for relief implies that there is much more that the Federal Government can and ought to do, and that the present budget doesn't adequately or sufficiently move in the direction that you pointed to.

Let me be more specific. You mentioned mass transit here. Are you satisfied that cities such as New York are going to get additional funding from the budget for mass transit? What is your sense of the mass transit component of the President's budget?

Mr. WAGNER. I think there are some hopeful signs in terms of a greater emphasis on mass transit than before. The change in the trade-in formula would be very helpful for New York City and for other cities as well.

The indication is that there would be some moderate increase in capital funds available for mass transit. What is not really addressed is the full extent of operating problems that New York City has and the kind of deficit that it has. Nor is the full importance of mass transit for a city like New York recognized, especially given the need to conserve energy.

Our mass transit deficits are enormous, as are our capital needs for the mass transit system, which was built in 1904. The operating losses for this year will be approximately $50 million. By 1982, it will go up to $380 million, according to estimates by the City Planning Commission. There is very little in the President's budget that offers hope of real assistance in the area of operating deficits.

Beyond that, we have estimated the need for capital investments at some $10 billion for the existing system, plus $2.4 billion for the new subway routes over the next 10 years. We are getting only about $200 million a year, though it was thought a few years ago we would get $300 million through UMTA grants.

Under the present proposal, it is not likely to get up to more than $250 million a year, which is hardly enough to meet the needs of rebuilding the existing system and build new lines.

Ms. HOLTZMAN. Let me ask you about the countercyclical revenue sharing which is slated, as you pointed out, to expire in September. If the program were reauthorized on the same basis as it currently exists, it is not at all clear that New York City or other cities with higher than average unemployment would receive anything because the triggering mechanism would be based on a national unemployment rate and would not go into effect. Thus, no countercyclical funds would be available.

Do you have any thoughts about the revisions of such legislation and the need for maintaining a countercyclical revenue-sharing program?

Mr. WAGNER. I think there is obviously a great need to maintain countercyclical revenue sharing. New York City has an unemployment rate of 10.4 percent, which is substantially above the national average. It is clearly a necessary program. The mechanism that triggers the program should be changed to account for the fact that even though the country's economy may be doing better, there are still regions of the country and cities within those regions which are suffering profound economic difficulties.

That not only applies to New York City, it also applies to almost all the older northeastern cities and midwestern cities.

Ms. HOLTZMAN. Getting to the Urban Development Bank, you say there is a critical shortage of credit for operations, rehabilitation, and the replacement and expansion of plants and equipment. In fact, there is credit available. It is just a question of where it is going.

If you took the available loan capacity of the banks, insurance companies, and other lending institutions located in the city of New York, they could finance the reconstruction of the entire city. Don't you think there is some room for State action in this respect to ensure that some of the assets that are obtained from the people of the city of New York remain in the city?

Mr. WAGNER. I think clearly there is room for State initiative. There have been some changes, though probably not as substantial as they should be in the area of regulation of the savings banks.

One of the problems in the city of New York is that two of our largest banks are in fact federally chartered banks, not State-chartered banks. The fear is that as greater State controls are instituted many of the present State-chartered banks would become federally chartered banks.

I think there is a role for the State government in this area, one that it hasn't fulfilled completely in the past, even though it merits attention. I think there is also an opportunity for Federal initiative based on some of the models. The Reconstruction Finance Corporation of the 1930's would be one that I think could be useful in terms of looking at what an urban development bank should be today.

I don't see this as the total answer. But I see it as an immediate way of dealing with the problem. And the hope for reform of banking practices, both on a State level and Federal level, is more distant than the possibility of creating such a bank.

Ms. HOLTZMAN. Let me turn to the public works section of your testimony. I think you make an important point about the need for funds for rehabilitation of existing facilities. What is your reaction, however, to the proposal to phase out the local public works program, which is really a public works program targeted at areas of high unemployment? Do you think that should be phased out and what would the impact be if it were on New York City?

Mr. WAGNER. I think the impact would be a very substantial one. I would not be for phasing out that program. It is both useful in dealing with high-level unemployment and with the needs of cities like New York in terms of the decline of the capital plant and the need for new investment.

I think clearly, it should be continued. For example, the present public works program is providing approximately 25,000 jobs in New York City. If phased out, it would have a severe impact on the city's economy.

It is also the only way that New York City can perform any kind of significant capital construction right now. I think it would be a great mistake from New York's perspective to phase out their program. I am sure New York's experience with the program is shared by other cities.

Ms. HOLTZMAN. I am glad that you mentioned the President's proposals with regard to tax policy. I take it you are concerned that the investment tax credit for new construction of industrial buildings will encourage the exodus of industrial firms and jobs from the city of New York. Is that correct?

Mr. WAGNER. Yes.

Ms. HOLTZMAN. I think you will be interested to know that the Deputy Assistant Secretary of Treasury, who was responsible in part for developing this tax proposal, said yesterday that the Treasury based this proposal on a gut reaction and didn't base its decision on any factual data.

I have to agree with you and other persons having testified in support of this position, including the Congressional Budget Office and the Urban Institute, that this tax credit could be extremely harmful to the cities.

I think it is ironic that at a time when the cities still require substantial additional assistance from the Federal Government, that the Federal Government should propose a policy that is going to undermine the economic base of cities. I find that incomprehensible and unjustifiable. I hope that enough attention is drawn to this proposal so that it can be eliminated. Have you reviewed other tax proposals to determine the extent to which they have had a harmful impact on cities?

Mr. WAGNER. We are in the process of doing that.

Ms. HOLTZMAN. I think that is important.

Mr. WAGNER. I agree.

Ms HOLTZMAN. The Budget Committee has recognized the increasing importance of what we call tax expenditures and the inadvertent impact of various kinds of tax incentives beyond their intended effect. I think this is an area to which we have to pay a good deal of attention, especially with respect to cities.

It is incredible to think that the Federal Government is going to help the cities with one hand and then take it away with the other. Certainly that is something we don't want to see happen.

Mr. WAGNER. In fact, there are precedents for that. At the very time that the first major housing legislation, urban renewal legislation, was being developed, the FHA policies were encouraging suburban expansion. It would be well worth looking at to see whether the same contradictory action is being applied today.

Ms. HOLTZMAN. I think that would be useful. You asked for an increase to $1.5 billion for the youth employment and demonstration project of 1977. How specifically will these funds be used to generate employment?

Mr. WAGNER. That is a very good point. I think the city's record on youth employment in the past has been an encouraging one. At the same time youth employment is one of the major problems in the city of New York and other older cities.

While the U.S. Bureau of Labor Statistics reported that 15.6 percent of youths 16 to 19 years of age are unemployed and 38 percent of minority youths in this age category are unemployed, a recent study indicated that in New York City, 76 percent of black and hispanic teenagers were unemployed. When we had summer jobs to offer, as bad as those jobs have been, thousands of youngsters have lined up in front of schools looking for those jobs.

I think one of the real opportunities before the city of New York, if more money were provided, would be to provide jobs that were career related, and provide training as well as useful services for the city. There is no shortage of opportunities to develop such jobs.

The city has in the past chosen to run the program incorrectly. It has tended to make it a political program. It has chosen not to evaluate the program as critically as it should have. I think that will change with this new administration which has appointed a very good new head of the Department of Employment.

Ms. HOLTZMAN. I take it also you would like to see an expansion of the section 312 program beyond its present appropriation?

Mr. WAGNER. I think it is a good program. One of the problems with it is that it doesn't provide money for the administrative costs involved.

The more basic problem is that it doesn't permit refinancing buildings with four or more dwelling units which in a city such as New York very much limits the program's applicability. We think it should be altered in the two ways I mentioned. And that the amount of money allocated to it should be increased. The present allocation of $125 million would only cover 15,000 units nationally.

Ms. HOLTZMAN. A drop in the bucket.

Mr. WAGNER. Right.

Ms. HOLTZMAN. Similarly, I think you have a problem with the amount of money appropriated for section 8 housing. You said that 39,000 units will be funded nationwide. Of that amount, New York City will receive funds for only 1,400 units; is that correct?

Mr. WAGNER. Yes. The Carter administration's proposal is a very good one, to have a section 8 moderate rehabilitation program. We believe that for it to be effective, the $5,000 capital improvement limit should be raised to $10,000, based on the experience the city of New York has had with moderate rehabilitation.

But the real problem is it is such a small program, 39,000 units nationally, and only 1,400 units for the city of New York. New York is a city where over 60 percent of the 2 million people living in rental housing units reside in buildings that were constructed before 1929, buildings which need moderate rehabilitation.

Ms. HOLTZMAN. So the two programs you pointed to, section 312 and section 8, both of which you say are laudable, well thought through, and well intentioned, provide very little relief to New York City in actual dollars and cents and in the actual number of housing units affected?

Mr. WAGNER. That is right.

Ms. HOLTZMAN. In other words, the thrust of your testimony is that there are very important provisions for cities, including New York City, in the present budget, but they certainly don't go far enough, and in some respects take only a small step in the right direction.

That is not too different from what the Director of the Congressional Budget Office testified, namely, that this was not necessarily a procity budget that, in fact, in real dollars, the amount of money for grants to State and local governments would decline after taking inflation into account. I think that these are important things to understand.

You mentioned both welfare reform and medicaid reform. To what extent would New York City's position be improved by revisions of the medicaid formula and a Federal takeover of both welfare and medicaid costs? What kind of an impact would that have on the city's fiscal health?

Mr. WAGNER. On the welfare issue, there have been a whole set of studies and proposals. The Carter proposal on welfare reform would save the city between $100 and $184 million, but the impact wouldn't come until 1981, which is not nearly soon enough.

On the issue of medicaid reform, here again, if there were changes in the amount of money paid by the Federal Government or by the

State or if the city was better compensated, there would clearly be a dramatic impact on the city's budget.

When you add medicaid and welfare to the cost of the programs, the bill is $4.1 billion. The city pays approximately one-third of the total amount of that money, out of city tax levy money with the rest coming from the Federal and State shares. The city's share is not an insubstantial amount of money.

Ms. HOLTZMAN. Indeed, Dr. Rivlin pointed out that State and local payments for medicaid are going to have to increase under the President's budget because of some programs, very worthwhile programs, I might add, designed to expand eligibility of low-income children and teenagers.

Your testimony raises many more questions, but in view of the fact that there are other witnesses waiting and the time is short, I will stop at this point. I just want to thank you again, for a very stimulating and fine testimony. The task force appreciates it. It will be extremely helpful to us in attempting to reformulate the President's budget so that it will more clearly address the needs of the cities.

Mr. WAGNER. Thank you very much for having me.

Ms. HOLTZMAN. The next witnesses are Mayor Frank Logue of New Haven; County Councilman Francis Francois of Prince Georges County, representing the National Association of Counties; and Stephen Farber, director of the National Governors Association.

I understand that Mayor Logue has a plane to catch. So if the other witnesses don't mind, I will recognize him first.

STATEMENT OF HON. FRANK LOGUE, MAYOR OF NEW HAVEN, CONN.

Mr. LOGUE. Thank you, Madam Chairperson. First, I want to say that at the beginning of the first blizzard of this winter I was in Gracie Mansion with your mayor. I support the testimony submitted on Mayor Koch's behalf. I am a mayor who is 80 miles up the road in New Haven. The survival and the health of New York City is very important to the whole country, and it is very important to us. I support every item in the testimony that was presented by Mr. Wagner.

I want to make a couple of comments about the budget and about what people are thinking about; the rumors we get about what might be coming down the line. We all look forward to what the President may be saying in March about a national urban policy. I note in passing the other day, Secretary Califano said that we should aid distressed people rather than distressed places, an alarming remark in my judgment.

I wrote a letter to Mr. Califano. I would like to leave a copy of that with you, along with another statement about Federal urban policy.

Ms. HOLTZMAN. Without objection, that will be included in the record, along with the full text of your written testimony.

Mr. LOGUE. Thank you. I think that would tend to really pit poor people against themselves. We need to have income policies which deal with the needs of poor people. We very much need to make sure that the places where they live are places where there are jobs and places where there is a healthy urban effort. That is a choice that we should not have to make.

I also noted in last Sunday's New York Times the suggestion that maybe the administration's policy, to benefit urban areas was going to have as its keystone an incentive program for States. I have had some experience in attempting to influence the actions of State government. I don't know any mayor who looks forward to a day when his aid from the Federal Government is conditioned upon whether the Federal Government has succeeded in providing incentives to States. There are representatives of States here. I know that they are concerned to help cities. But I think the case of suburban zoning is the best indication that urban people are outmanned in State legislatures around the country, and there is no way in the world that our experience indicates that the way to help cities is for the Federal Government to say to the States, "We are going to have a contest, and whichever one of you is the best in helping cities is the way we are going to help cities."

That is not our view of how it ought to be done. We want to see a comprehensive national urban policy. We look at the Federal budget. It is $500 billion. We recently heard that while we didn't see any initiatives in the Federal budget that were significant, that there is going to be about $3 billion in there for new initiatives. In a budget that has $500 billion of specifics to deal with a great variety of problems, I can't muster enthusiasm for the notion that there is going to be $3 billion for some unspecified initiatives which are going to benefit cities.

There has been circulated by the Urban Research Policy Group, a paper on Federal urban policy. We looked that over in the city of New Haven, and we discussed it. One of our problems with it is it deals only with what you might call the pathology of cities, and the problems of cities and says let's increase programs that deal with the pathology of cities.

Also, in and around the country there are examples of cities succeeding in revitalization efforts. Any Federal program should take a hard look at what those successes have been and build on them. They exist all over the country.

I might say also that I share the view that the section 3 program is an excellent one. We made very good use of it in the city of New Haven.

Our urban renewal agency has administered it. Our only problem with 312 is we have never had enough of it. We have a long line of applications waiting for it. It should be expanded to provide occupancy units of 6, 8, 10, 12, and more. That is not so much of a problem for us as it is for New York City. I also support the view that countercyclical money is absolutely essential to us.

Let me make this very broad point about what Federal urban policy should be based on in the way of assumptions. One assumption that I think is absolute is that the demand for services from local government is going to increase. It increases year by year. The demands for all of the various services that we provide is growing. Even when the population, the gross population is less, the net demand is more. A very important companion fact to that is that in most cities the taxable grant list is either stable or decreasing. What does that mean?

That means that the ability of cities to utilize their own revenue at their current tax rate to meet the demands that local citizens place on them for services simply isn't there. What it means is things like countercyclical assistance and revenue sharing are now built into our budgets and need to be expanded.

The local public works program which you mentioned is also absolutely of critical importance. We have a park system in the city of New Haven. We used $1.7 million of public works money to rehabilitate parks throughout the city of New Haven. With another Federal program, the Comprehensive Employment and Training Act, we added 40 CETA employees to maintain those improved facilities. That is a level of service that we are providing, it is a level of service that is demanded from me as mayor of the city.

There is absolutely no way that that demand for service is going to decrease. It is going to increase. Of course, the people who provide those services are organizing the municipal unions. I think we all know that their expectations as to the future can be summarized with the word "more." That needs to be considered in any approach to a Federal urban policy.

I want to make some brief comments. I won't read my statement. But I want to get specific about what I think the main things the Federal Government can do for cities are. That is, the stability of cities depends on being able to provide sustained employment for people who live there. We have concerns about health, education, crime, and many, many other things.

Our cities aren't going to be viable in the future and our neighborhoods aren't going to be viable in the future if we can't provide jobs. At the moment, jobs are leaving the central cities. They are leaving central cities for a variety of reasons including the tax policy which says go build something new and you will get much more credit on your tax return than you do if you fix up something old.

It is my very strong belief that the tax laws of the United States should provide a great variety of incentives to people making investment decisions so as to encourage them to invest in our distressed areas. In Europe they go all the way and they just say if you are considering a private investment decision, let's look at your books and then they make an offer that you can't refuse as to where you are going to put your business. They just give you the necessary benefits to make very, very sure that you locate where it will do the most social good.

We have had over a great number of years policies which encourage those who make business and investment decisions to make them in a way that is damaging to cities. It has been said that cities are coming into their own, that we are more energy efficient. This is the time for cities. We are more environmentally efficient. That is great, and I believe that with all my heart.

But if it is more profitable for somebody to locate outside my city than inside, he is not going to locate within the city of New Haven.

Let me list a group of incentives that I think the Federal Government should provide: One is we should provide incentives for local financial institutions to cooperate with and invest in urban areas. Many of these have a lot of old low-interest mortgages. Maybe the Federal Government should help the banks by saying we will buy back your low-interest mortgages on the condition that you invest those newly liberated funds in urban areas.

We have to have broader guarantees against mortgage default in urban areas, provide incentives for averaging private loans with local public funds, and create incentives to include credit unions in urban investment.

Another area where Federal and State government could be very helpful to cities has to do with nonprofit institutions. More than one-third of all the property in the city of New Haven is tax-exempt property. Some of it is schools, hospitals, symphony halls, and the like. We like to have the nonprofit institutions located in our city. They enrich our lives. They provide job opportunities and they make us a city. But when they want to expand right now, our attitude is one of hostility. These institutions all serve a much broader area than the host city, but we bear the brunt of all the nonprofit institutions in our city.

The State mandates a tax exemption for these institutions. The entire region benefits from these tax-exempt institutions. The tax exemption affects only the host city where they are located. We want to encourage these institutions and see them grow, and a Federal incentive program to encourage nonprofit institutions to locate in cities by payment in lieu of taxes would be extremely helpful.

The National Endowment for the Arts has some urban arts initiatives which should also be helpful.

We would like to see the development of land banking and facility replacement capabilities in urban, commercial, and industrial areas by providing Federal aid for land acquisition, assembly and so on, and for facility replacement. We also have in New Haven, as you have in the South Bronx and most of the major cities in the country, deteriorated and abandoned core sections of the city for which there is now no Federal urban program. Those areas are going to remain as they now are until there is a new Federal program not presently in sight.

A typical problem which we have in New Haven and other cities is you have a plant that has been there for 50, 60, 70, or 100 years and they say we are thinking about moving. Then they get out the balance sheets and they show you what the energy costs are and the labor costs are someplace in the Sun Belt and say, what are you going to do to keep 1,500 jobs in your city?

We need a Federal program that is directly addressed to that question. It is going to help us to buy up their old facilities. It is going to help us get loans for them to borrow money at a reasonable rate; and in every other respect, encourage them to stay. When they do not stay, the Federal Government and the State government and the local governments have to bear the costs which the resulting unemployment creates.

We also need Federal incentives which help cities to upgrade urban housing in areas which have potential for redevelopment but which need infusions of public investment and leadership for revitalization to be realized.

We are also working at the State level where we would use Federal assistance to encourage elimination of mortgage and insurance red-lining policies by private institutions.

We also think the Federal procurement policy is absolutely of critical importance and there ought to be set-asides to encourage Federal contractors to buy and locate in urban areas.

On the issue of urban infrastructure, I think Mayor Koch's testimony takes care of that. We would like to reduce the borrowing costs for capital needs of major employers who remain or expand or locate in urban communities.

I will skip the others and just get to some tax changes which would encourage investment in distressed urban areas. One is equalizing the depreciation treatment of improvements to old property and new construction. I mentioned earlier there is a lot of incentive to go build something new. There is not much incentive to fix up something old.

Another proposal is to convert what is now a tax deduction for property taxes paid by commercial taxpayers in distressed areas into a tax credit; third, eliminating the recapture provisions on accelerated depreciation concerning real property in distressed areas; fourth, providing a tax credit for differential labor costs in distressed areas; fifth, providing a tax credit for differential energy costs in distressed areas.

It is my judgment, and that of the National League of Cities, that there needs to be a comprehensive and coordinated national urban policy and that when the President addresses the country in March, he needs to be specific about what the Federal Government is going to do to encourage businesses, industries, and individuals to remain in central cities.

In our economy and in our society, we have one great incentive system; that is our Federal law, the Federal budget and the Federal tax policy. We would like to see the Federal budget and Federal tax policy so designed as to encourage people to locate in central cities, those who are there to stay there, and others to come there so they can be viable places for poor people and other people to live. Thank you.

[Testimony resumes on p. 203.]

[The prepared statement and the additional material referred to by Mayor Logue follow:]

PREPARED STATEMENT OF MAYOR FRANK LOGUE

Thank you for enabling me to contribute today to your discussion of a national urban policy. My comments highlight the key components which I believe must be included in a Federal urban strategy. I will also briefly discuss the specific urban-related investment credits and tax reforms recommended by the President in his recent budget proposal.

The development of a coherent and comprehensive Federal urban policy is the single most pressing need our Nation must address through the fiscal year 1974 budget. Only a broad and well-defined Federal urban policy and its constituent programs can enable cities such as New Haven to succeed in achieving fiscal stability defining new roles for the city, and revitalizing urban neighborhoods.

It is disappointing to me and to other mayors that a clear and comprehensive Federal urban policy is absent from the President's proposed budget. The administration's spokesmen maintain that a large portion of the $3 billion in discretionary funds proposed in the budget will be used to implement such a policy. But we cannot muster enthusiasm for a budget with $½ trillion allocated for specific programs in other areas and $3 billion for unspecified urban initiatives.

I would note in passing that Secretary Califano's call for emphasizing aid to "people in distress rather than places in distress" pits city residents against themselves. I have attached my response to Secretary Califano, noting that our cities are merely dense concentrations of people, many of them poor. Only if we revitalize cities can we create and sustain the jobs and services needed to upgrade the quality of life of poor people.

It is also disappointing to me that a report last weekend indicates that the administration is considering a national urban policy which rests heavily upon inducing new behavior on the part of State governments. A national policy to help our cities by supplying incentives to States ignores the political reality that city representatives are greatly outnumbered in nearly all State governments. Like most mayors, I work actively to secure State government support for the programs which the State requires local governments to carry out. By my experience and that of other mayors makes is abundantly clear that a program which relies upon inducing State cooperation should not be central to a national policy for the cities.

Not only are urban representatives presently outnumbered in State legislatures, but the situation will worsen after redistricting plans based on the 1980 census are adopted. Many suburban representatives realize the interdependence of urban centers and their surrounding communities and some of them have become leaders in developing State programs which benefit the cities.

However the determination and success of suburban representatives and governments in resisting legal, regulatory and other limitations on exclusionary zoning practices over the past several decades demonstrates the difficulty of persuading them to develop statewide solutions to urban problems.

Because of these zoning restrictions, most people with a reasonable ability to pay for government services and limited needs for those services live in suburbs—while most people with very limited ability to pay for and great need to utilize government services live in cities. The demand for services provided by local government continues to increase and the tax base of most central cities is stable or decreasing. These two facts are absolutely critical to the formulation of a national urban policy. What is it that cities are looking for in a Federal urban policy?

First, we are looking for a policy which builds upon the examples of successful redefinition and innovation in our cities. The documents produced by the President's Urban and Regional Policy Group (URPG) focus almost exclusively on the pathology of cities and restrict the discussion of Federal policies and options too narrowly to those alternatives which flow from the despair and distress of cities and their residents. We in the cities are looking for a Federal urban policy which instead, helps us to build upon the examples of successful adaptation to change.

We in the cities are looking for a deliberate Federal policy for urban areas. Merely increasing a wide array of departmentally confined Federal programs will not enable us to redefine and revitalize our communities in creative ways. Similarly, enacting a Federal policy which seeks to meet the needs of cities along with those of regions, poor people, nonurban distressed areas, the environment, and public education will fail us all, as Federal programs unsuccessfully attempt to straddle these massive and diverse needs.

We are looking for a Federal policy which is clearly targeted toward those urban areas which need help most and those cities which could most benefit from Federal assistance. The URPG documents conspicuously avoid addressing the issue of which cities or problems should receive priority Federal attention. The President's recommendations concerning industrial revenue bonds and his newly reported plan to involve State governments similarly leave undefined which are our "distressed and declining communities."

One of several existing measures, such as the Brookings Institute index of urban distress or the two-tiered employment measure proposed by the Treasury Department need to be adopted to ensure that the new Federal urban aid flows to the appropriate communities.

As George Sternlieb recently reemphasized to the House Subcommittee on the City, it is the existence or lack of existence of sustained jobs which ultimately determines the health of an urban area. Social, aesthetic, educational, human services and other factors will always enter into the consideration of both local and national policymakers. However, by focusing on securing sustained work opportunities in cities, the limited Federal resources committed to an urban policy will have the most impact in helping us to revitalize our cities and to upgrade the quality of life for poor and near-poor Americans.

Cities are looking to the national Government for new Federal initiatives which can help us to maintain and expand jobs and economic vitality in our urban areas. These Federal initiatives include programs which appear directly linked to job development and others which will help us to firmly establish new roles, and ultimately new jobs, in our communities.

Thirteen specific Federal initiatives appear to me to hold the greatest promise of assisting our cities to maintain and expand economic vitality:

- Providing Federal incentives for local financial institutions to cooperate with and invest in urban areas. Such incentives would include a Federal buy-back of low interest mortgages on urban property, broader guarantees against mortgage default in urban areas, incentives on leveraging private loans with local public funds, and incentives to include credit unions in urban investment.
- Reducing the cost of expanding local nonprofit institutions through Federal assistance to local governments, and encouring the expansion of cultural and other nonprofit centers. Specific incentives would include Federal reimbursement for local property taxes foregone on expansion of nonprofit entities, inclusion of a measure of nonprofit property in the revenue sharing formula, and adoption of NEA's proposal for urban arts initiatives.
- Developing land-banking and facility-replacement capabilities in urban, commercial and industrial areas by providing Federal aid for land acquisition, assembly and preparation, for acquisition of antiquated facilities and for their replacement.
- Providing assistance to urban areas for clearing the deteriorated and abandoned core sections of urban residential neighborhoods which are unlikely to be upgraded or revitalized in the near future.
- Providing Federal incentives which help cities to upgrade urban housing in those areas which have the potential for redevelopment but which need infusions of public investment and leadership for revitalization to be realized.
- Encouraging the elimination of mortgage and insurance redlining policies by private institutions.
- Establishing specific set-asides for Federal procurement in urban areas and assuring that these set-asides are implemented in Federal contracting.
- Encouraging the rehabilitation and upgrading of existing urban infrastructure, through special Federal financial assistance for outmoded, existing infrastructure and public facilities.
- Reducing borrowing costs for capital needs of major employers who remain, expand or locate in urban communities through Federal grants and subsidized loans.
- Expanding financial and technical assistance to small businesses in cities.
- Strengthening the fiscal health and borrowing capabilities of urban governments and securing the ability of governments in "distressed" communities to continue to provide a high level of municipal services.
- Securing a sustained ability of urban governments to provide employment of last resort to residents of "distressed" areas.
- Providing Federal tax incentives for urban residents and businesses to remain or locate in cities.

I would like to discuss the last of these initiatives in greater detail, since the President has recently proposed specific new Federal tax incentives which will affect urban areas.

The President's tax proposal includes a taxable bond option for bonds issued by State and local governments. This option will benefit cities such as New Haven. Unfortunately, the President's proposal does not go far enough. Additional provisions, such as the creation of a Federal market of last resort, need to be made to ensure that cities can continue to borrow. The recent crisis in the municipal bond market demonstrates that adding a taxable bond option to the present tax-exempt option will be of limited help to cities if we continue to experience periods of little or no demand for municipal bonds.

The President's tax proposal also recommends raising the "small issue" exemption for industrial development bonds to $10 million and retaining it only for economically distressed areas. I would urge that the ceiling be raised to

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$20 million. In addition, the provision which restricts total capital investment in the years preceding and following the issuance of an industrial development bond should be eliminated. I would also urge that the Federal Government clearly define the term "economically distressed" and that special care be taken in developing this definition to prevent suburban areas from "piggybacking" upon a measure of economic distress in the central city.

The President's recommendations do not include an increased investment tax credit (ITC) for those enterprises which invest in distressed cities. Various analyses suggest that the overall impact of expanding a nontargeted ITC will be to encourage businesses to leave older cities for new locations.

Five additional tax changes which would encourage investment in distressed urban areas should also be considered:

- Equalizing the depreciation treatment of improvements to old property and new construction;
- Converting the tax deduction for property taxes paid by commercial taxpayers in "distressed" areas to a tax credit;
- Eliminating recapture provisions on accelerated depreciation concerning real property in "distressed" areas;
- Providing a tax credit for differential energy costs in "distressed" areas.

The President's Urban and Regional Policy Group (URPG) also recommended a variety of tax reform to encourage residents to move to or remain in urban areas. Unfortunately, none of the URPG recommendations were included in the President's tax proposal. I would urge that the Federal Government carefully review these URPG proposals and include them in its recommendations for tax reform.

Thank you for allowing me to share my thoughts with you today. I look forward to the results of your committee's deliberations and to the timely implementation of a Federal policy for the cities.

Enclosures.

OFFICE OF THE MAYOR,
New Haven, Conn., February 15, 1978.

JOSEPH A. CALIFANO, Jr.,
Secretary, Department of Health, Education, and Welfare,
Washington, D.C.

DEAR SECRETARY CALIFANO: I am writing to express my strong concern over the comments you made recently concerning the proposed 1979 Federal budget and how it should respond to the Government's priorities. I am particularly concerned about your comment that the Federal Government should place "primary emphasis on people in distress rather than places in distress."

Your comments establish a clear distinction between the two priorities of aiding poor people and providing assistance to poor communities. That distinction is an appropriate one, particularly during this planning stage. Indeed, the distinction must be maintained if we are to implement well-targeted and effective programs to upgrade the quality of life in our Nation.

However, maintaining a clear distinction for planning purposes between programs which meet the specific needs of distressed cities and those which address the particular needs of distressed people, should in no way suggest that we concentrate Federal efforts exclusively upon one policy or the other. Forcing a choice between those programs which can transfer aid to poor individuals and other programs which can upgrade the communities in which many of these individuals live pits the cities against themselves.

There is a great need for Federal programs to address the problems of unemployed and working poor Americans. Many of these people live in cities such as New Haven. I and other mayors have experienced their struggles to meet fuel bills, live in decent homes, feed their families, and ensure a better and more hopeful future for their children. Helping these people is one of the two greatest challenges now facing our country.

Revitalizing our cities is an equally great and pressing priority which confronts our Nation. Our cities are merely dense concentrations of people, many of them poor. Only through the revitalization of our cities can we ultimately create and sustain the jobs and services needed to upgrade the quality of life for these people.

The concentration of poor and near-poor Americans in the cities is certain to continue throughout this century. If we are forced, as your comments suggest, to choose only a policy which assists poor people, low-income individuals will remain dependent upon uncertain and high levels of welfare aid as they continue to live in increasingly segregated and deteriorating communities. If we are forced to choose only assistance for cities, many low-income people will remain poor, certainly in the short run, despite increased economic, social and cultural vitality in their communities. Only through a Federal initiative which addresses these two great national priorities—assisting poor people and poor cities—can we make significant inroads and substantially upgrade the quality of life in America.

If, as you recommend, the Federal Government focuses its efforts upon people in distress and not places in distress, the level of human services provided by cities and the financial health of these communities will deteriorate steadily. Cities must continue to provide the majority of services they presently deliver to low-income individuals, most notably public education, even as the incomes of these individuals increase. Indeed, several studies suggest that, at the lower portion of the income scale, many local human services are income elastic. Consequently, as the incomes of poor people move from the poverty level to levels slightly above the poverty line, demands for municipal human services are likely to increase.

Several years ago, Edward Banfield remarked at a gathering of the National League of Cities that the future was likely to see the Federal Government playing the role of garbage truck. He depicted the Government hauling in a truckload of funds, dumping them with the poor in the cities, and then driving the Federal truck away. While the image suggested by Mr. Banfield's remarks may appear unduly cynical and harsh, it is not unlike one conjured up by your suggestion that the Government focus exclusively upon helping poor people, not poor places.

There are many less important and less urgent Federal priorities than the two great and pressing needs of helping poor people and aiding poor cities. Many of these lesser priorities are presently being pursued with substantial Federal resources. I suggest that the Federal Government reassess these secondary priorities. To ensure that sufficient resources are available for meeting our two greatest and most urgent needs, we may need to temporarily suspend Federal support for some of our secondary priorities and reschedule existing timetables and deadlines.

As a Mayor engaged in revitalizing an American city, I look forward to the timely implementation of clear Federal policies and programs which help poor people and poor cities to upgrade themselves and improve their quality of life.

Cordially,

FRANK LOGUE, *Mayor.*

Attachment.

NEW HAVEN'S PRELIMINARY RESPONSE TO CITIES AND PEOPLE IN DISTRESS: THE NATIONAL URBAN POLICY DISCUSSION PAPER, DRAFT OF NOVEMBER 1977

> "Such assistance, I am convinced, must not be on a piecemeal basis as various crises develop. Any assistance that this Government may tender in the future should provide a cure rather than a mere palliative."
>
> GEORGE MARSHALL,
> *Secretary of State,*
> *June 1947.*

I. INTRODUCTION

New Haven is the Nation's seventh oldest city. The Treasury Department's index of "distress" indicates that ours is one of the 15 most "distressed" cities in the Nation. Yet, we have a strong sense that our city can recapture and indeed is recapturing a high level of social and economic vitality. We feel strongly that the support of the Federal urban strategy outlined below will enable us and the other "distressed" communities to successfully define new roles for ourselves and restore vibrance and viability for our neighborhoods and residents.

In 1961, President Kennedy ended his Housing Message to the Nation on a note of great hope and commitment. The President concluded that "our communities are what we make them."

Fifteen years later, this same commitment and challenge confronts us, as we embark upon new Federal initiatives for America's "distressed" urban areas.

II. VITALITY AS WELL AS DISTRESS

The President's Urban and Regional Policy Group (URPG) has made a major contribution by underscoring the problems which confront urban areas such as New Haven and by suggesting an array of Federal programs to meet these areas' needs. However the picture conveyed by URPG is unjustifiably bleak; it focuses nearly exclusively on the pathology of cities, ignoring the remarkably healthy characteristics of many urban communities. By doing so, URPG has restricted the discussion of policies and options too narrowly to only those alternatives which flow from the despair and distress of cities and their residents.

What is more significant about cities such as New Haven is not that they are declining, as the first half of the national urban policy discussion draft so vividly portrays. Nor is it that urban communities are somehow "holding on," continuing to survive at some level despite the urban crisis. What is most significant is that as New Haven and other urban communities are changing, they are beginning to successfully redefine new roles which these old cities can play.

Unquestionably, our cities are changing: They no longer play the same role in the national economy; they do not house the same types of people; no longer can they draw upon the same resources; they are not experiencing rapid development, expansion and construction; and, they no longer possess the same comparative advantages which drew residents and industry to these communities.

However, cities can adapt to these changes. Cities can build upon new strengths and redefine viable roles for urban areas. The "back-to-the-city" movement in Washington, D.C., Fanuiel Hall in Boston, the tremendous increase in tourism in New York City and the rapid growth of quality restaurants in New Haven are not isolated, misleading or evanescent. These developments and similar activities in other urban areas signal the type of resurgence which can restore the social, economic and cultural vitality of our cities. It is the redefinition of the cities' roles and this resurgence which need to be supported and encouraged through the new Federal urban policy and programs.

An exclusive focus upon the distress and decline of urban areas is likely to make Federal and local officials, large industries, small businesses, and residents of urban areas increasingly gloomy about the likelihood of improving urban life. As Senator Moynihan keenly observed during the riots of the last decade, social problems which are discussed at length appear wholly intractable when they are never balanced by the identification and analysis of social successes.

We strongly recommend that before the Federal Government develop firm commitments to a specific urban policy and programmatic recommendations, URPG complement its assessment of the pathology of our cities with an intensive review and analysis of the healthy characteristics being displayed by many urban areas. This analysis should be coupled with URPG's existing profile of distress in cities to provide a balanced basis for the President's message to Congress in March 1978 and for the Federal urban programs of fiscal year 1979.

III. A CLEAR POLICY FOR CITIES

The Rand Institute's recent analysis of the impact of Federal programs upon cities reemphasizes the importance of establishing a major Federal policy commitment to and perspective on urban areas. As the Rand analysts emphasize, it is only the accumulated impact of many Federal programs through a central policy which is likely to support major, positive change in cities. In addition, only a central commitment by the Federal Government can infuse the residents, businesses and political leaders of cities with the hope and confidence they need to substantially change the face of urban communities.

The United States has made major Federal policy commitments to other groups in the past. Examples include: Housing policy for returning GI's and new families during the late 1940's and early 1950's; major rebuilding of European cities after World War II; and, the national commitment which gave rise to the Rural Electrification Administration, the Resettlement Administration, the TVA and the many other deliberate efforts of the 1930's which assisted the American countryside in substantially reshaping itself.

During the last year, various comments made by President Carter have reflected the administration's strong commitment to establishing this type of deliberate policy for urban areas. Yet, an overriding, and clear central policy for cities is absent from URPG's discussion paper. Part II of the URPG report appears to concentrate instead upon presenting a wide array of departmentally confined Federal programs which URPG recommends to initiate or increase. To the extent that URPG does provide policy direction, it is not for a coherent urban policy but rather for one which is muddled and ambiguous. URPG's policy recommendations attempt to capture through one Federal initiative solutions for cities, regions, poor people, and environmental problems. The specific programs recommended by URPG are destined to fail as they attempt to straddle the massive needs of distressed people, distressed cities and others.

There is a great need for Federal assistance to urban areas such as New Haven in redefining a city's roles and in recapturing economic, social and cultural vitality. However, this need cannot be met through an all-encompassing policy which attempts to address a panoply of needs in addition to those of urban areas. In particular, a distinction must be drawn between a Federal policy which addresses the specific needs of distressed *cities* and one which meets the particular needs of distressed *people*, be they city dwellers or others. URPG should concentrate upon shaping the comprehensive Federal policy and programmatic tools for distressed *cities*.

Our recommendation that URPG concentrate its focus upon the policy and programs which will respond to the needs of cities is not intended to suggest that the problems of distressed people are of lesser priority than those of distressed cities. Cities are merely dense concentrations of people, many of them unemployed or working poor. Indeed, the presence in cities of disproportionately many poor people dominates all other considerations, and city governments have often felt themselves to represent the only lobby which the poor have. Because of the great overlap between distressed people and distressed cities, the Federal urban policy we are recommending will not succeed over time unless the needs of the poor are also addressed through such Federal efforts as welfare reform.

However, the problems of poverty in this country, among both city dwellers and residents of nonmetropolitan areas, are so pervasive and intractable that they must be dealt with separately and not as elements of an urban policy. The problems of unemployed and working poor Americans are simply too important, too massive and too complex to comingle them with a Federal agenda for the cities.

Similarly, the problems of public education cannot be overlooked if an urban policy is to succeed over time. However, these problems are certainly too large and complex for them to be aggregated into this first stage of a Federal urban policy. We suggest that DHEW seriously consider such alternatives as the Moynihan tax rebate plan, a Federal education equalization program and a Federal program which provides a match for State efforts in the area of property tax relief. These seem to us to hold greater promise than increases in compensatory or other categorical aid for upgrading the caliber of urban education.

In addition, we recognize that the problem of crime in distressed urban areas cannot be overlooked by Federal or local policy makers if an urban policy is to succeed over time. However this problem is too complex and intractable for it to be dealt with as an element of a "distressed" cities policy. The problem of crime in urban areas, the specific ways in which Federal policy can assist local governments, businesses and residents in alleviating it, what specific redirection LEAA programs should take to meet this policy objective, and other crime-related issues are too massive and complex to be relegated to secondary status as a small component of an urban policy.

The new Federal urban policy should also avoid concentrating too heavily on the reconstruction of the most severely devastated areas within cities. We do not suggest writing off such neighborhoods permanently. Indeed, we are cognizant that those who remain in the most distressed areas of our cities are the poorest, and most ill-housed and that, in the absence of comprehensive Federal housing and incomes policies these individuals will remain dependent upon the support of local and State governments. However, we do believe that it would be far more effective to devote the bulk of new Federal initiatives to stabilizing those transitional neighborhoods which, but for a creative infusion of capital and concern, are likely to fall prey to disinvestment and devastation in the near future. Numerous cities around the country are succeeding in restoring such areas. A carefully targeted Federal development policy and program will help cities to fortify their fundamentally sound areas and thus proceed from strength as they begin the subsequent reconstruction of more distressed neighborhoods.

In addition, we recommend that the new Federal policy not rely heavily upon a substantial return of industry to the cities. Were the specific Federal programs outlined below implemented at the highest level, it is still unlikely that we would see spectacular growth of industry in urban areas. The Federal programs suggested below can, of course, support local efforts to retain and even expand local industries and attract new ones. However, the most promising opportunities for Federal initiative will be to strengthen the involvement of financial institutions in urban areas, to encourage the expansion of nonprofit institutions in urban communities, to strengthen the development of cities as centers for professional and other services, to help cities to build upon their comparative advantage in providing cultural and artistic institutions, and to encourage the renewal and upgrading of residential neighborhoods in urban communities. If the new Federal urban policy assumes that there will be large scale new industrial developments in cities, the prospects for this policy are very dim.

Indeed, it might be appropriate for both Federal and local policymakers to fashion an urban policy which encourages American cities to take on the type of roles traditionally played by their European counterparts. In America, the role of our cities has conventionally been viewed as that of the center for major industry. Suburban rings have been seen as the centers for housing, particularly for middle and upper class families. In contrast, it has been assumed by many Europeans that their cities, with cultural facilities, aesthetic housing and other resources, should play a strong role in providing residential neighborhoods while the suburbs, devoid of cultural and other strengths, should become the centers of major industry.

Whichever roles the new Federal policy encourages the central cities and suburban communities of "distressed" urban areas to play, Federal policymakers need to recognize that the challenge confronting areas such as ours is to revitalize the "distressed" urban area—the core city and many of its suburbs. The successful development of new and viable roles for a core community such as New Haven can only occur within the context of strong regional development, and a good mix of sustained employment opportunities in the surrounding urban area, particularly the slow or no growth suburbs. To complement the new Federal initiative, we at the State and local levels must in turn seriously consider implementing tax equalization programs, land use commitments and other policies which encourage all of the jurisdictions in an urban area to plan rationally for the development of the entire community.

This response was formulated on the basis of the detailed discussion draft circulated by URPG in November 1977. The URPG draft has been replaced by a much shorter memorandum suggesting only the "broad strokes" of an urban policy and making few specific recommendations for Federal strategies or programs. We strongly disagree with the direction which the Federal urban policy development has taken. The "broad strokes" of a policy initiative are important and unquestionably must be articulated and agreed upon before specific strategies can be fashioned. However, a statement of only the broadest underlying principles of a Federal initiative for cities is likely to do little to provide the specific structure or inspiring the level of confidence needed for "distressed" communities to successfully reshape themselves.

IV. WHO IS DISTRESSED?

URPG's report accurately suggests that the "urban problem" is a multitude of problems, confronting a wide range of communities, not honoring geographic boundaries, extending across categories of size and age, and varying in intensity at different times in different cities. The URPG report never directly addresses the questions of which of these cities or problems should receive priority Federal attention. Indeed, the report strongly intimates that it might neither be feasible nor desirable to develop an index of urban distress to prioritize the new Federal urban policy and programs. We disagree. Such a measure is both feasible and necessary to ensure that the new policy and the scarce resources of its programs are targeted toward the communities for which they are intended.

We suggest that an index of urban needs should not restrict new Federal initiatives by city size, e.g., to communities over 200,000, as URPG recommends for several Federal programs. For example, URPG suggests such a restriction on new "mismatch revenue sharing." It is clear that many smaller cities such as New Haven suffer as much as the Nation's largest urban areas from the 145 percent ceiling on per capita revenue sharing allotments.

Similar size restrictions are imposed upon many existing Federal programs and are recommended in pending legislation. For example, H.R. 7328 which would strengthen urban-based universities proposes to restrict assistance to urban communities over 500,000. This restriction would exclude New Haven and other smaller communities which house prominent private universities from participating in a program to strengthen major employers and users of facilities in these communities.

In addition, new Federal programs should not be initiated or terminated on the basis of signs of overall national recovery. As URPG's report documents, many cities continue to face deepening problems despite the country's recoveries from recent recessions. These cities unquestionably continue to need Federal support despite the upturn in national conditions. They may continue to need such existing Federal tools as countercyclical aid to cushion the persistent local recession, CETA assistance to provide jobs for the high number of unemployed, economic development support to spur still-sluggish private investment, and Federal subsidy to guarantee local investment in infrastructure. Without this support, sluggish urban areas are not likely to "make it," despite a steady upward trend in national conditions.

The index to be used by the Federal Government should measure "distress" in urban areas, not just the central city. Many cities outside New England annex their suburbs and this often disguises the economic stagnation of the core city. In addition, by basing the Federal strategy on a "distress" index which measures conditions in an urban area, the Federal Government could maximize incentives in nonannexation areas such as our own for joint efforts by the central city and its surrounding communities.

We recommend close examination of the Brookings Institute's three-pronged measure of urban distress as a possible index of urban problems to guide the new Federal policy for cities. We also suggest that an index of the local levels of unemployment and employment be considered by the administration as a possible measure to prioritize Federal assistance.

Employment statistics have certain clear drawbacks. Most notably, they may hide a low-income problem, they give no indication of fiscal crisis, and they give only hints about residential outmigration trends. However, these statistics are readily available and accepted. More importantly, they directly reflect the fundamental health of an urban area—its ability to provide substained work opportunities for its residents.

A reliance upon unemployment statistics alone further weakens an employment-based index. For example, the newly broadened Federal regulation defining "labor surplus areas" relies solely upon unemployment rates, and does not take into account any measure of the growth of jobs in an area against the national rate of job growth. This sole reliance upon unemployment rates does not provide a good measure of the ongoing economic viability of urban areas. Boston, for example, has seen its unemployment rate drop from nearly 9½ percent to just over 6 percent in the last year. During this same time, only 6,000 jobs were added to the estimated 1,240,000 jobs in Boston's labor market area. Approximately 42,000 people dropped out of the labor force or moved away. The Federal employment measure which directs Federal procurement on the sole basis of unemployment statistics does not include Boston as a needy city.

The type of two-tiered employment measure lagged over time proposed by Treasury in its September 1977 memorandum to URPG may overcome several of the drawbacks traditionally associated with the use of employment statistics as indicators. Most importantly, this two-tiered measure includes a measure of the relative growth of jobs in an urban area.

Clearly, the new Federal urban initiative should not be delayed until the best index of local distress is developed. We recommend that URPG advise the President that one or several existing indicators such as the two discussed above be adopted to guide the new urban policy initiative.

V. JOBS, VIA ECONOMIC VITALITY IS THE PRIORITY CONCERN

The health of an urban area such as New Haven depends on a variety of social, esthetic, economic, and other factors. However, the most prominent factor is an economic one. It is the ability of the urban community to provide sustained work opportunities for its residents.

The Rand Institute's recent analysis of the Federal impact upon urban areas suggests that initially it may not be people who follow jobs to America's communities, as we have conventionally assumed but rather, jobs which follow people. While this Rand finding has important implications for new directions in specific Federal programs, the study reaffirms that over time, only the provision of sustained work opportunities, via economic growth and other undertakings, will sustain the vitality of urban areas.

We suggest that the URPG report and the Federal Government's ongoing research and assistance concerning cities focus upon strategies for maintaining and increasing the ability of urban communities to provide ongoing work opportunities for area residents. It is likely that social, aesthetic, educational, human services, and other factors will enter into the consideration of both local and national policymakers. However, by focusing on the economic concern, the limited Federal resources committed to urban policy will have the most impact in assisting cities to redefine and revitalize themselves.

We recommend that Federal assistance also be premised on the expansion of private investment, so that urban areas can remain vital when the level of Federal involvement subsidies. Federal urban aid should be employed as a catalyst. However compelling the short-term need, it would be folly to condition the long-term viability of cities such as New Haven on an uncertain, high level of Federal commitment.

We also recommend that the new Federal policy concentrate not only upon initiating new incentives for economic development in "distressed" urban areas, but upon eliminating existing disincentives to urban investment. The Federal strategy should also include specific new disincentives to discourage financial institutions and others from countering the effect of Federal initiatives in urban policy. The ground rules established by the Federal flood insurance program provide an excellent precedent for the provision of such disincentives as a component of Federal policy.

VI. SPECIFIC FEDERAL INITIATIVES

To meet the policy objective of assisting cities to provide sustained work opportunities for urban residents, we recommend directing 12 specific Federal programmatic initiatives toward urban areas.

A. Twelve Recommended Programs

- Providing Federal incentives for local financial institutions to cooperate with and invest in urban areas;
- Reducing the cost of expanding local nonprofit institutions through Federal assistance to local governments, and encouraging the expansion of cultural and other centers;
- Developing land-banking and plant-replacement capabilities in urban areas by providing Federal aid for land acquisition, assembly and preparation; for acquisition of antiquated plants and for the replacement of outmoded industrial plants;
- Providing Federal tax incentives to urban residents and businesses to remain or locate in cities;
- Establishing specific set-asides for Federal procurement in urban areas;
- Encouraging the rehabilitation and upgrading of existing urban infrastructure, through Federal financial assistance;
- Reducing borrowing costs for capital and cyclical needs of major employers who remain, expand or locate in urban communities through Federal grants;
- Expanding financial and technical assistance to small businesses in cities;
- Encouraging the upgrading of urban housing, particularly existing housing stock;
- Encouraging the elimination of mortgage and insurance redlining policies by private institutions;
- Strengthening the fiscal health and borrowing capabilities of urban governments and securing the ability of governments in "distressed" communities to continue to provide a high level of municipal services;

- Securing a sustained ability of urban governments to provide employment of last resort to residents of "distressed" areas.

Certain of these programs have been touched upon by URPG and other policy analysts. However, the first four of the initiatives enumerated above have received scant attention in the URPG discussion paper or in other prominent analyses of Federal urban policy. Because these four programmatic strategies appear to us to hold great promise for assisting cities to redefine and revitalize themselves, they are discussed in detail below.

B. Providing Federal Incentives for Local Financial Institutions to Cooperate with and Invest in Urban Areas

Financial institutions have historically settled in our cities. These institutions have remained in cities regardless of the rise in urban problems, at least in part because they cannot easily relocate. Financial institutions based in urban areas are eager to protect their own investments in the cities and to strengthen their surroundings in the central business districts and the neighborhoods of urban areas. By providing specific incentives which encourage local financial institutions to cooperate with urban governments and to expand their investments in urban areas, and by eliminating certain existing disincentives to urban investment, a Federal strategy for the cities can draw great strength for the self-interest of the urban-based financial community.

1. Buy-Back of Low-Interest Mortgages

Many of the financial institutions located in urban areas, most notably the savings and loan associations and the savings banks, hold significant portions of their portfolios in conventional residential mortgages on urban property. Substantial shares of these mortgages are fixed at interest rates significantly below the present market rate. These older mortgages lock a large portion of bank assets into less profitable investments. A large portfolio of these older mortgages is likely to add to the reluctance of financial institutions to make new mortgages in the city.

We urge that a secondary market for low-interest mortgages in urban properties be established by the Federal Government. Through this secondary market, the Federal Government should be empowered to purchase a specific portion of the older mortgage portfolio of urban financial institutions. Regulations which restrict the purchase to a specified dollar amount or to a percentage of the bank's total portfolio, whichever is higher, and which restrict the total dollar volume of Government purchases in a specific city, would minimize risk in the new secondary market.

A bank which exercises the buy-back option should, in turn, be required to reinvest the proceeds of its sale to the Government in new residential mortgages in the city. A portion of these mortgages could be made at market rates, but at least some share would be reserved for lower rate mortgages, at a rate somewhere between the current market rate and the average charged on the older mortgages sold to the Federal Government. Perhaps a share could also be earmarked for Community Development-designated neighborhoods where Government-sponsored neighborhood preservation programs are underway.

This buy-back option should be targeted to the specific cities which appear "distressed," based on a Federal index of need. The buy-back option could be operated through the existing Ginnie Mae market or could be assigned to a new quasi-governmental institution, such as the Urbank proposed by URPG.

2. Guarantees Against Mortgage Default

FHA Government mortgage guarantees have historically been concentrated in suburban communities. Even as the criteria for FHA loans have been broadened to include city neighborhoods, little FHA financing has been undertaken in cities. New Haven, for example, is unable to participate in the national homesteading program, largely because FHA activity has been so minimal in our city that less than 20 FHA-foreclosed properties exist in our community.

Many of New Haven's banks and those in other urban areas simply refuse to process FHA mortgages. Federal redtape, extensive delays in Government processing, and mortgage ceilings which restrict FHA guarantees to homes of comparatively low value, particularly multifamily dwellings, both embarrass banks with customers and make it unprofitable for them to pursue the FHA option for residential mortgages. The city of New Haven's recent endeavors to assist a developer in securing FHA guarantee for a major downtown rehabilitation endeavor suggest that the problems of securing FHA guarantees persist even when a local government pledges strong support to a development project.

We recommend that the Federal Government provide a new, streamlined guarantee against mortgage default in "distressed" cities. This mortgage guarantee should be available for owner-occupied residential property, large residential developments and small commercial enterprises, particularly in areas conventionally "red-lined" by financial and insurance institutions.

The URPG report does recommend a new guarantee program for small business ventures. URPG suggests incorporating this program within HUD-FHA. We disagree. The new Federal mortgage guarantees for residential and commercial investment in "distressed" cities should not be operated through the existing agencies of FHA or SBA. Both of these bureaucracies have "turned off" too many of the financial institutions in our cities which will need to be partners in any successful revitalizations efforts. A new, clearly urban-oriented agency, such as the Urbank proposed by URPG, should operate the new Federal guarantee program for properties in "distressed" communities.

3. Insured Investment of a Portion of Banks' Reserves

A Federal program which permits urban banks to invest a small portion of their mandated reserves in urban development programs and which insures the invested, portion of reserve funds would encourage urban banks to increase investments in the cities.

Carefully drafted Federal regulations, such as those imposed on industrial revenue bonds would significantly reduce the danger of urban banks stacking the federally guaranteed, invested reserves with a portfolio of their least desirable and most risky investments. By insuring a variety of investments made by a wide range of financial institutions in different cities, the Federal Government would also substantially spread the risk and reduce the size of the risk-pool needed to insure the banks' investments.

An alternative to directly releasing a portion of the reserves held by urban banks for investment in cities would be the allowance of "credits" to these banks for each investment made in the urban community. These "credits" would permit the bank to lower its reserve holdings by a specific amount. This type of alternative was advocated during the late sixties by G. William Miller, the newly appointed Chairman of the Federal Reserve Board.

4. Incentives for Leveraging Private Loans

Many urban communities throughout the country have utilized Community Development funds to leverage residential loans from financial institutions. A Federal program which matched each dollar of Community Development or other local resources used in this manner with an additional small amount of Federal resources (a 20 or 30 cents match on each dollar might be sufficient), is likely to significantly increase the incentive for urban financial institutions and local governments to work together in revitalizing urban communities.

Use of the Federal incentive aid could be restricted to additional local residential loans. This would broaden the pool of loan funds available for urban residential mortgages.

5. Reducing Existing Disincentives

Recent Federal legislation has enabled banks to make up to 25 percent of their investment outside of the State in which they are located. Analysts have documented how this legislation has siphoned significant investment funds from the Northeast and Midwest, most importantly from the more "distressed" communities in these regions. A restructuring of this and other disincentives could buttress the policy of encouraging financial institutions to make significant investment in urban areas.

6. Including Credit Unions In Urban Investment

One of the greatest potential sources of financial resources for urban revitalization is the large pool of funds controlled by the credit unions located in cities. Regulations which govern the largest of these associations have been broadened recently to permit new types of deposits. We recommend that the Federal regulations concerning both the large and smaller credit unions be reviewed carefully and that restrictions on types of magnitude of investment be restructured to encourage the involvement of credit unions in urban investment.

C. Reducing the Opportunity Cost to Cities of Expanding Local Nonprofit Institutions

One of the most prominent features of America's cities is the high concentration of nonprofit institutions. Such institutions span a wide range including cultural facilities, hospitals, major State and private universities, health maintenance organizations and clinics, churches and synagogues, foundation headquarters, grammar schools, medical and social research institutes. The high density of urban areas, the convergence of suburban transportation systems on the cities, the historic location of not-for-profit institutions and other factors sustain a clear comparative advantage for the cities in housing our county's regional and national nonprofit services.

A major element in redefining new roles for many of our cities is the strengthening and expansion of not-for-profit services. However, the excessive dependence on local property taxes to finance urban services militates against the growth of local not-for-profit institutions. Clearly, the solution, over time, rests with a restructuring of the State-local revenue base by the State governments. However, a Federal program can be developed now to encourage the strengthening and expansion of regional and national not-for-profit services in the Nation's "distressed" areas.

We recommend that the Federal Government develop a new program to provide local governments in "distressed" urban areas a portion of the revenue foregone when they permit new expansion of not-for-profit services. To minimize the potential Federal cost, and to encourage participation by other levels of government, Federal assistance could be restricted to services which are clearly national or regional in scope. In addition, the level of reimbursement for foregone taxes should be set at only 50 percent of the estimated revenue which cities would have accrued from similar expansions by profitmaking institutions, provided that State governments provide the other 50 percent. Restricting the Federal program to new expansion will reduce the total program cost by not obligating the Federal and State governments to subsidize the large and unestimated property tax bill for all existing not-for-profit property in "distressed" communities.

We also recommend that the Federal revenue sharing formula be revised to include a measure of all existing not-for-profit property in cities.

Federal policy should also encourage developments which house both for profit and not-for-profit activities, such as the Mellon Art Gallery in New Haven. We also urge that the Federal Government reassess its exemption policy and tighten such "loopholes" as those which allow not-for-profit institutions to lease tax-free space in the buildings they own to profitmaking enterprises.

Perhaps one of the greatest potentials for a Federal urban policy is suggested by the fact that many of our "distressed" urban communities continue to serve as focal points for a region's cultural life. Not only do the arts in these communities make a contribution to the ambiance of the central, urban area. In many instances, the arts provide an important, potential catalyst for the revitalization and development of the core city and the entire urban area. A look a the spillover effects in areas surrounding such cultural institutions as Washington's Kennedy Center, the Lincoln Center of New York and the smaller but equally impressive Audubon-Orange area in New Haven, suggests the important value of cultural activities as elements of an urban revitalization strategy.

We agree with URPG's recommendation for careful consideration of the National Endowment for the Art's proposal for urban art initiatives. We agree with the recommendation that Urban Development Action Grants be broadened to include cultural facilities. We also agree with URPG's suggestion to expand the eligibility for activities funded through the Community Development block grants to include art-related activities but caution that merely an expansion of eligibility, and not funds, is unlikely to encourage cultural activities in urban areas. "Distressed" communities must stretch their Community Development dollars to cover neighborhood preservation needs, central business district revitalization, priority social services and other necessities. In many of these communities, such as New Haven, CD dollars begin to decline precipitously this July. Cultural activities are not likely to be funded when they are thrust in this arena of priority concerns and declining CD funds.

We recommend that the Federal Government encourage the development of local departments of cultural affairs by providing a percentage match for local funds spent on such departments. We also recommend that all applications from the public and private sectors of "distressed" communities to NEA and NEH be given a specific added consideration in these agencies' funding determinations. In addition, we suggest that the "challenge" program be broadened to encourage the revitalization of downtown playhouses, theatres, and other cultural institutions.

D. Developing Land Banking and Plant-Replacement Capabilities in Urban Areas

Three of the most serious problems in "distressed" urban areas are the unavailability of prepared land sites which can be used to allow existing industry to relocate, modernize or expand, the unavailability of financing to buy back outmoded plants from these industries, and unavailability of financial assistance for major plant renovation or replacement.

While certain Federal programs are available to assist in preparing sites, these programs are inadequate: Most have low ceilings on total cost, involve extensive redtape and force urban communities to draw funds away from other revitalization activities. (CD dollars, for example, may be used for site preparation in place of neighborhood preservation.) Furthermore, existing programs cannot provide the types of "write-down" incentives which were made available through the urban renewal program of the last decade, making it impossible for cities or local development corporations to pay for existing structures on the land. In addition, existing programs are restricted to the preparation of sites where nearly the entire parcel is already spoken for by an industrial tenant.

Perhaps most importantly, Federal programs do not provide significant aid for rebuilding and replacing outmoded industrial plants in "distressed" areas. The low ceiling on IRB's restricts the use of even this partly subsidized instrument to replace industrial plants of significant size.

The development of land-banking and plant-replacement capabilities in urban areas would make a major contribution towards assisting these communities to retain existing industrial employers. We recommend that the Federal Government encourage this development by implementing new Federal land-banking and plant-replacement assistance limited to the urban areas which appear "distressed" on the basis of the Federal index. This assistance should not be restricted to land assembly and site preparation, as the URPG report suggests, but should also be available for land-building acquisition and for the renovation or replacement of outmoded plants. More importantly, assistance should not be limited to projects in which all or most of the site is already earmarked for known industries, as URPG recommends. While we agree that some threshold level of committed tenants is needed to discourage speculative activities, a level of 40 percent or 50 percent is both sufficiently high to minimize speculative ventures and sufficiently low to permit urban governments and local development corporations to plan and undertake the types of site assembly, preparation and preliminary building development which are most likely to encourage the revitalization of urban communities.

The new Federal initiatives in the area of land-banking can draw upon the wealth of urban renewal experiences during the 1950's and 1960's in communities such as New Haven, and upon the more recent land-banking models provided by St. Louis, Cleveland, and the other cities which have recently designed local land-banking capabilities to handle tax delinquent properties. The facet of the program which provides assistance in renovating or replacing outmoded facilities can similarly draw upon numerous experiences in urban communities since the 1950's.

Because the problem of plant replacement appears to such a serious and costly deterrent in cities like New Haven, we strongly recommend that the Federal Governmnt make a commitment to underwrite up to 80 percent or $15 million of the cost of replacing a major plant in a "distressed" area, whichever is greater. To reduce its exposure, the Government should require at least 10 percent local government and 10 percent private investment in the plant replacement and should set a ceiling on the total amount of Federal aid which can be made in a single "distressed" urban area. The Government could further restrict its exposure by limiting the new plant replacement aid to industrial plant renovation only. Financing could be restricted to plants for employers of only a certain threshold size and perhaps for only products involved in interstate commerce.