

Who Benefits from Intergovernmental Transfers? *

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THE STATUS OF INTERGOVERNMENTAL FISCAL STUDIES

In a recent review of intergovernmental finance, George Break states, "if fiscal research is stimulated by rapid growth in the programs to be studied, intergovernmental grants should soon be basking in the warm glow of expert attention."¹ With the burgeoning debate on the spatial distribution of these grants, we might add that such research will undoubtedly address these spatial patterns. In order to speculate on the direction and value of future fiscal research, in this section we investigate existing approaches. These can be divided into descriptive, causal, and prescriptive studies.

Descriptive Studies

A number of studies and ongoing research efforts attempt to identify the "beneficiaries" of intergovernmental transfers by examining current patterns of distribution of government spending. They seek to describe what is being distributed to whom. Ideally, such descriptive work should examine the distribution in three dimensions. It should show how transfers are distributed spatially, how this distribution has changed over time, and how to weight the relative importance of different categories and types of expenditures. This combination of spatial, temporal and func-

* We are grateful to the Center for Urban Policy Research at Rutgers University, the Office of Policy Development and Research of the U.S. Department of Housing and Urban Development, and the Institute of Urban and Regional Development at the University of California, Berkeley, for material support for this research. We are particularly grateful to David Wilmoth, Dan Feshbach, Michael Luger, Michael Teitz, Roger Montgomery, John Mollenkopf, Dennis Keating and the National Urban Policy Collective for critical comments. An extended version of this article is published in Robert Burchell and David Listokin, eds., *Cities Under Stress: The Fiscal Crises of Urban America* (New Brunswick, N.J.: Center for Urban Policy Research, Rutgers University Press, 1980).

¹ George Break, "Intergovernmental Finance," in John Peterson, Catharine Spain, and Martharose Laffey, *State and Local Government Finance and Financial Management: A Compendium of Current Research* (Washington, D.C.: Government Finance Center, 1978).

tional evidence could provide a clear overview of what is being distributed to whom, how this distribution is changing, and which components are the most significant in explaining the distribution.

Descriptive studies work with two different definitions of government spending: grants-in-aid and total outlays. The federal government spent \$60 billion in grants-in-aid to state and local governments during 1976. However, during the same year, total federal outlays exceeded \$358 billion. This included all government expenditures, of which the direct aid to states and localities comprised only 17 percent. Purchases of goods and services (defense and non-defense), payments to individuals, and interest payments on debt accounted for the remaining \$298 billion. Expenditures of such magnitude have substantial distributional effects, and in fact provide a very different picture of the overall "impact" of federal spending on regions and on states. It is important, therefore, to distinguish between studies that use grants-in-aid and those that use total outlays.²

In specifying to whom these expenditures are distributed, descriptive studies are confined by existing data. Conceptually, many recipient units and categories can be identified, ranging from individuals to classes to regions of varying definition. However, available data has been collected on spatial units and has been aggregated according to political boundaries. Therefore, while other distributional foci could be very enlightening, necessity limits consideration to politically defined spatial units such as regions, states, cities, and counties.

The descriptive studies that exist do not provide us with a comprehensive picture of spatial, temporal and functional distribution. Instead, they can be pieced together in patchwork fashion to provide a partial view. Federal grants-in-aid to regions and states have been studied in detail by Vehorn and GAO.³ Federal outlays to regions and states have been studied by Havemann and Stanfield and Anton.⁴ Descriptions of federal

² Currently there are three principal sources of data from which to examine these elements of governmental spending. The Department of Commerce's *Census of Governments and Government Finances* itemize federal, state, and local intergovernmental transfers of aid by function (e.g., education, highways, public welfare). The Treasury Department's *Federal Aid to States* provides a detailed listing of federal grants paid directly to state and local governments by agency and by specific type of allocation. Both of these sources deal only with aid—grants which pass directly from one local government to another. Finally, the Community Services Administration's *Federal Outlays* provides a listing of all federal expenditures, both direct and indirect. This source lists dollar outlays according to federal agency, and itemizes them by specific program and function. Thus, *Federal Outlays* provides a comprehensive description of the overall pattern of government spending. Unfortunately, severe accounting problems render it currently only about 75 percent accurate so that it must be used with caution. Thomas Anton, "Outlays Data and the Analysis of Federal Policy Impact," in Norman Glickman, ed., *The Urban Impacts of Federal Policies* (Baltimore: Johns Hopkins University Press, 1979).

³ Charles L. Vehorn, *The Regional Distribution of Federal Grants-in-Aid*, Urban and Regional Development Series no. 3 (Columbus, OH: Academy for Contemporary Problems, 1977); and General Accounting Office, *Antirecession Assistance—An Evaluation* (Washington, D.C.: Government Printing Office, 1977).

⁴ Joel Havemann and Rochelle L. Stanfield, "A Year Later, the Frostbelt Strikes Back," *National Journal* 9, no. 27 (July 1977); and Anton, "Outlays Data."

aid to cities by city size and by suburban/central city/nonmetropolitan designations can be constructed from Census data and have been studied by Vehorn.⁵ No comparable local level data on federal outlays is available.

Spatial patterns of state aid to local governments are even harder to document. Hovey cites a couple of anecdotal studies and relates the Carter administration's trials in trying to ascertain if state governments discriminate against central cities.⁶ Interpreting state aid flows is particularly tricky because a large part of state-to-local distribution consists of pass-throughs from the federal government.⁷ A GAO study of New York shows the complexities of computing the state-to-local aid flows. The ACIR has compiled data on receipt of state aid over time by type of jurisdiction (county, township, municipality, school district).⁸

Numerous data problems confront the descriptive approach. But even if these were to be resolved, severe problems of interpretation would persist. For instance, can we generalize across regions and states when variations within these geographic units often exceed variations among them? Or, must straightforward comparisons of dollar amounts be qualified by a consideration of differences in economic conditions and cost-of-living across geographical units?

Only very tentative conclusions can be drawn from the existing literature. Regionally, the Northeast and the West receive the largest per capita Federal aid allocations, which are accounted for in large part by public welfare grants in excess of other regions: these disparities in aid among regions appear to be diminishing over time, however. Federal outlays favor the West, with the Midwest receiving the least per capita; defense spending accounts for more than half the disparity. When disaggregated to the state level, generalizations about sunbelt/frostbelt disparities become more difficult to make, although tentative evidence suggests that both federal aid and outlays vary positively with state per capita income. The smallest cities receive the smallest per capita federal aid, but the largest cities do not receive the greatest. Since no functional breakdowns nor federal outlays data are available, we can only tentatively conclude that federal aid tends to favor larger cities, but disparities across city size seem to be diminishing over time. Central cities appear to be favored in aid formulas, except that in the Western region suburbs and rural areas receive more than central cities. State aid favors larger cities, but statehouses seem to have been increasingly more generous to

⁵ Vehorn, *Regional Distribution*.

⁶ Harold Hovey, "State-Local Intergovernmental Finance," in Peterson et al., *State and Local Government Finance*, pp. 107-8.

⁷ Advisory Commission on Intergovernmental Relations, *The States and Intergovernmental Aids* (Washington, D.C.: Government Printing Office, 1977), p. 14.

⁸ General Accounting Office, *The Interaction of Federal and State Aid: A Case Study of New York State*, forthcoming; Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism, 1976-77, Volume 3, Expenditures* (Washington, D.C.: Government Printing Office, 1977).

intermediate-sized cities than to those considered most in need of aid infusions in the urban-conscious seventies.⁹

Perhaps the greatest weakness of descriptive studies is their failure to place the distributional exercise in its normative framework. This point has been explored by one of the authors at greater length elsewhere.¹⁰ To summarize, it is impossible to discover any general consensus about what the aggregate expenditure distribution *should* be: should big cities receive more than their suburbs, should frostbelt states receive more than their southern neighbors? The level of aggregation, both spatially and functionally, lumps qualitatively different recipients and programs together.

In probing for normative criteria, one inevitably concludes that a process of disaggregation must be undertaken. Ultimately, we think of justice as a matter of human, not spatial, consequences. The substitution of spatial units for individual recipients, the logical outcome of the fact that political units (state and local governments) are the major actors in the intergovernmental battle, obscures the patterns of real change in the human condition for various socio-economic groups and individuals. Individuals are the only ones for whom we have had a societal consensus on the appropriate indicator: the distribution of income. A single criterion emerges for judging the success or failure of various programs in improving the distribution: changes over time in per capita income of individuals in the various income intervals. No spatial characteristics equivalent to income in the individual case has ever been proposed, much less agreed upon. Thus, in the descriptions above, we noted when the distribution, over various sets of spatial groupings, appears to be less skewed or to register greater dispersion over time on either a per capita or an income per capita basis. But we really cannot say whether these outcomes are good or bad.

Unless we could generate one agreed upon index of spatial worthiness (e.g., current efforts to rank cities as more or less "distressed"), our only option is to try to map the incidence of many deserving individuals onto spatial units, a presumption which lurks behind many of the arguments in formula construction for intergovernmental transfers. To champion a particular spatial distribution is to assume this correspondence.¹¹

⁹ Ann Markusen, Annalee Saxenian, and Marc Weiss, "Who Benefits from Intergovernmental Transfers?" in Robert Burchell and David Listokin, eds., *Cities Under Stress: The Fiscal Crises of Urban America* (New Brunswick, NJ: Center for Urban Policy Research, Rutgers University Press, 1980).

¹⁰ Ann Markusen and Jerry Fastrup, "The Regional War for Federal Aid," *The Public Interest* 53 (Fall 1978): 87-99.

¹¹ The debate about people prosperity v. place prosperity is not new. Louis Winnick, "Place Prosperity vs. People Prosperity: Welfare Considerations in the Geographic Distribution of Economic Activity," in Real Estate Research, *Essays in Urban Land Economics* (Los Angeles: University of California at Los Angeles Press, 1966); and William Alonso, "Equity and Its Relation to Efficiency in Urbanization," in John Kahn and John Meyer, *Essays in Regional Economics* (Cambridge: Harvard University Press, 1971). In the 1960s it was employed as a right-wing critique of many Kennedy/Johnson programs. Recently it has been rearticulated cogently on the left by Matt Edel as a criticism of the current drift of national urban policy. Matthew Edel, "People vs. Places in Urban Impact Analysis," in Glickman, ed., *The Urban Impact of Federal Policies*.

Yet we know that spatial units do *not* correspond to needy populations well. Central cities have widely disparate income distributions and many inner ring suburbs have large numbers of poor, unemployed residents. Thus it is impossible to argue single-mindedly that central cities *should* receive greater intergovernmental transfers or that states with high unemployment rates should receive more. We could only reasonably argue for such aggregate distributions if we knew that the unemployed and poorer groups within each jurisdiction really received the flows. In order to know the latter, we would need studies of economic and service flows that are simply not now available. First, we would have to know how each state and local government spends its receipts, and how each locally based recipient of federal outlays (including private corporations) spends their dollars. Then we would have to be able to document the multiplier effects, to show us for instance whether public employee salaries remain in the neighborhood or city and generate jobs for other residents. With present techniques, the demonstration that intergovernmental transfers by place do reach worthy people is impossible to make. Many of the technical difficulties encumbering even the documentation of flows by place (e.g., which regions do federal military dollars ultimately reach) are addressed in the various papers assembled in Glickman's book.¹²

A final caveat for interpreting spatial disparities in expenditure as evidence of favoritism is that intergovernmental relations are not reducible to intergovernmental transfers. Tax flows are also important, as well as the distribution of tax breaks. The ultimate origin of taxes is quite difficult to trace.¹³ Nonbudgetary policies such as regulation, licensing, trade, and foreign policies also may have severe distributional consequences, but are not visible in a spatial accounting of intergovernmental transfers. A great deal of additional work would have to be done before we could say with much certainty that we knew what the distributional consequences of such policies might be. In part, this arises from the fact that such policies frequently affect the supply side of regional growth rather than the demand side. Supply-induced growth is particularly difficult to model and measure quantitatively.¹⁴

In addition to the receipt by places and people of expenditures, an entirely different and fascinating question is posed by the political consequences of changes in the pattern of intergovernmental transfers. Research on the effects that changes in levels and requirements of particular transfers have had on political power relationships at the state and local level is almost nonexistent. One notable exception is Yin, who tries to show how local political bureaucracies restructure themselves in response to changes in particular grant programs.¹⁵ Since gains in political power in

¹² Glickman, *Urban Impact*.

¹³ Markusen and Fastrup, "Regional War," p. 89.

¹⁴ Benjamin Chinitz, "Contrasts in Agglomeration: New York and Pittsburgh" (American Economic Association, Papers and Proceedings, May 1961), pp. 279-89.

¹⁵ Robert K. Yin, "Creeping Federalism: The Federal Impact on the Structures and Functions of Local Government," in Glickman, ed., *The Urban Impact of Federal Policies*.

the long run may be as significant as economic gains, the documentation of such political consequences should be included in the accounting of "Who benefits from intergovernmental transfers?"

Causal Studies

Causal research efforts use empirical testing to substantiate hypotheses about "explanations" for the variation in fiscal variables (expenditures, tax rates, tax base) cross-sectionally or over time. There are two types of such studies: those which avoid behavioral postulates, focusing on characteristics of jurisdictions as determinants of tax or spending patterns, and those which employ explicit theories of government behavior. The first type of study generally consists of multiple regression techniques where a dependent variable such as expenditure is regressed on several explanatory variables, such as local per capita tax base, percent of tax base that is commercial and industrial, and intergovernmental transfers. While the exogenous variables in reduced form equations may be considered proxies for fiscal capacity (ability to pay) and tax price of public services, they imperfectly represent decision variables in public choice models. Elliott Morss definitively criticized both the empirical and theoretical weaknesses of expenditure determination studies years ago.¹⁶

While such studies have become less fashionable of late, the new interest in spatial distribution of expenditure may revive them. An example is the effort to gauge the state and local fiscal response to demographic changes across a sample of fifty states by Weinstein and Firestone, in which they use 57 different demographic indicators in turn to try to explain the variation in expenditure patterns over time.¹⁷ Undoubtedly, efforts will soon be made to explain the variation in federal and state-to-local expenditures to areas by determination studies, in which the exogenous variables will be characteristics of areas (per capita income, local tax effort, percent poverty population) and functional components of expenditure (defense, health, and education). What such studies will tell us is uncertain: the characteristics of places which may be correlated with expenditure levels may not reveal anything about the complex public sector behavior that ultimately determines such distributions, especially in ways that would enable forecasting. And the regression of aggregate levels of expenditure on components of that expenditure (categories such as education, health, etc.) has been shown by Morss to be incorrect use of econometric techniques, which are supposed to be employed on stochastic processes, not on a relationship which by definition is determinate. Similarly, a regression which "explains" expenditure levels by several

¹⁶ Elliot Morss, "Some Thoughts on the Determinants of State and Local Expenditures," *National Tax Journal* 19 (1966): 95-103.

¹⁷ Bernard L. Weinstein and Robert E. Firestone, *Regional Growth and Decline in the United States* (New York: Praeger Publishers, 1978).

indicators will not be analyzing a stochastic process if those very indicators are used in the allocation formulas.

The second type of causal study which has gained popularity in recent years tries more explicitly to describe the behavior of the public sector with methods that have emerged from rational behavior models in micro-economics. The new field of public choice theory focuses directly on such behavior. Unfortunately, to date, public choice studies rely almost totally on individual utility maximization models in which the median voter is assumed to be the active agent in deciding public sector tax and expenditure levels, by pursuing utility maximization.¹⁸ The empirical work testing voter choice models similarly employs regression techniques that attempt to explain expenditure outcomes on the basis of the public sector price and income equivalents of consumer choice in the private sector.

The trouble with both these variants of expenditure determination studies is that their modeling of the public sector institutions and behavior requires rather restrictive simplifying assumptions. This is particularly true if we anticipate their application to the determination of inter-governmental transfers. Even the second type of study limits its scrutiny of the relevant actors to voter/consumers, which assumes that the political process is demand-dominated and that government legislative bodies, bureaus and elected officials automatically respond to the median voter's wishes. But in fact, the array of petitioners and decision makers includes many whose powers and interest are quite different from the median voters. We map out an alternative approach below.

Prescriptive Studies

Intergovernmental prescriptive studies include the original Heller/Pechman work on revenue sharing, which argued that replacing categorical by revenue sharing from the federal to state and local levels would solve the fiscal imbalance problem, increase flexibility in decision making and improve efficiency in the public sector by permitting the use of revenue sharing funds to be more responsive to constituents' needs. Since then, Richard Nathan at Brookings and other social scientists have designed specific criteria on which to base revenue sharing, at both the federal and state levels, as well as certain categorical programs such as CDBG. (One of the authors, Markusen, recently designed an indicator for the anti-recessionary program based on changes in employment as a proxy for long run economic health.)¹⁹

In general, such studies identify problems with current formulas (anomalous distributions, for instance) and suggest new indicators for formula construction. The new indicators are generally proxies for "needs" of geographical places and are thus clearly prescriptive and ad-

¹⁸ Break, "Intergovernmental Finance."

¹⁹ General Accounting Office, "Antirecession Assistance," pp. 103-123.

vocatory. This commitment on the part of social scientists and policy analysts to produce prescriptive recommendations is laudable. However, the exercise itself frequently results in scientific claims for the appropriateness of a particular indicator, claims which may originate in the political rather than research sphere, but nevertheless accompany the public debate. Whether a particular formula inventor is aware of it or not, any individual indicator will favor certain jurisdictions over others and will embody a normative decision about need. When such formulas are debated, they are frequently shorn of their normative logic and simply championed as better criteria of "need." An example is the age of the housing stock variable in recent federal formulas. And, of course, the particular formulas have frequently been chosen because their indicators correlate with certain impressions of deservedness of their populations, without any guarantee that the expenditures will reach those people within the jurisdiction who are, in fact, worthy.

On the basis of the above reflections, we might offer a structural critique of the role of fiscal experts in the formula creation process. With the advent of general revenue sharing in 1972, prescriptive work on formulas reached a new stage of development. No longer merely accounting for expenditure and revenue patterns of state and local government post facto, fiscal specialists now played a central role in creating the formulas that allocated revenue to state and local governments. The formulas for general and special revenue sharing were to be based, as President Nixon put it, "on objective criteria."²⁰ Fiscal experts came to be relied upon to develop these criteria, a job which has expanded to encompass revisions of the original formulas and the creation of new federal grant programs based on formula distributions.

Social science construction of allocation criteria did not begin with revenue sharing. Economists, sociologists, political scientists, psychologists, and other professionals devised the criteria for the New Frontier and Great Society categorical project grant programs in the 1960s. Here too "objective criteria" were necessary. Piven and Cloward argue that the criteria functioned to obscure the political purpose of the programs.

There were other reasons why the political interests at stake were not widely recognized, at least in the beginning. One was the large role played by various professionals, especially social workers and social scientists, who provided the rationales for the Great Society. Each measure was presented at the outset as a politically neutral "scientific cure" for a disturbing social malady. Each concrete program that evolved was couched in the murky, esoteric terminology customarily used by professionals, a terminology that obscured the class and racial interests at stake, so that few groups

²⁰ Dan Feshbach, "History of Revenue Sharing." (Manuscript, Department of City and Regional Planning, University of California, Berkeley, 1975), p. 15.

could be certain who would gain from the new programs or who would lose, or what they would gain or lose.²¹

In other words, the apparent scientific character of indicators proposed by public finance experts may have served certain powerful state and local groups who wished to smokescreen their attempts to garner a larger share of federal budget.

THE POLITICAL DETERMINATION OF INTERGOVERNMENTAL TRANSFERS

Above we have suggested that fiscal analysts have unduly ignored the political and social conflict which ultimately shapes fiscal federalism. In place of an "expenditure determinants" approach to the study of the spatial distribution of transfers, we propose a political study. In what follows, we lay out the elements of such a study, documented by an historical interpretation of the last two decades of federal aid allocations. We do not claim to pose a satisfactory theory of political resources and political power that would explain all of the interrelationships determining the distribution of transfers. This task we commend to fiscal researchers in the future.

Our basic contention is that the spatial distribution of intergovernmental transfers can most easily be explained by studying the politics of the process under which they are produced. To borrow from economics, we can think of the process as having demand and supply sides. Constituents, particularly state and local governments and special interest groups, form the demand for intergovernmental transfers on the federal plane. On the private sector side, certain interest groups are better organized and more "well-heeled," and therefore much stronger and persuasive than the median voter. The pattern of federal outlays and grants may be an amalgam of many special interest-oriented porkbarrel programs, whose shape can only properly be modelled by explicit inclusion of those groups in the model. For instance, state shares of federal farm price support payments could be hypothesized to be related to the absolute and relative size of the farm constituency, the seniority of their representatives in Congress, the profitability of their farms, the level of organization among farmers, and the campaign contribution "price" they are willing to pay for political power. Similarly, organizations of state and local public officials and employees, who form the major lobby groups for federal aid, will win larger allocations if their lobbying effort is well-articulated and well-financed. Several interesting hypotheses could be posed regarding the strength of such efforts and the expenditure outcomes.

Demanders may be as interested in the functional form in which the money is distributed as in the actual level of expenditures. The relative

²¹ Frances Fox Piven and Richard Cloward, *Regulating the Poor* (New York: Pantheon Books, 1971), p. 277.

power between levels of government and among agencies is strongly affected by the form of transfers chosen. For instance, the switch from categorical grants to block grants tends to diminish the power of agencies receiving categoricals and to strengthen the power of general local government. The constituency groups with power within certain local agencies also stand to gain or lose from changes in the grant structure.²²

On the supply side are the federal Congress and state legislatures who actually appropriate the funds, and the bureaucracies who propose programs and administer them. Certain congressional committees at the federal level, and their bureaucratic counterparts, may have long histories of relationships with certain constituencies.²³ Such links may provide a tremendous momentum to the distributional pattern. But bureaus may also have significant power to shape programs in their own interests. Work on the supply behavior in the public sector is relatively nonexistent in public finance.²⁴ Adequate models would have to take into account the complexity and diversity of behavior in the public sector itself.

The political interactions among the forces battling over the distribution of federal expenditures are suggested by federal outlays data on an agency by agency basis (rather than by function, as is normally done). In Table 1 we have aggregated the total per capita outlays of selected federal agencies by subregions. Certain agencies seem to have spatial affinities, as evidenced by the uneven distribution of their expenditures across the country. We can hypothesize that these distributions are the outcomes of the interactions among agencies, the interests of their constituents, and the congressional committees concerned. For example, the seeds of an explanation of the regional unevenness of spending by the Department of the Interior are found in a history of the mountain west.

²² Roger Friedland, Frances Fox Piven and Robert Alford, "Political Conflict, Urban Structure and the Fiscal Crisis," in Douglas Ashford, ed., *Comparing Public Policy: New Approaches and Methods* (Beverly Hills: Sage Publications, 1977).

²³ Grant McConnell, *Private Power and American Democracy* (New York: Alfred Knopf, 1966); and Aaron Wildavsky, *The Politics of the Budget Process*, 2nd ed. (Boston: Little, Brown, 1974).

²⁴ Some threads are discernible. O'Connor shows how government output supports private sector activity. James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973). In sociology and political science, power structure research attempts to show the links between certain public sector suppliers and private sector powers. G. William Domhoff, *Who Really Rules?* (New Brunswick: Transaction Books, 1978); idem, *The Powers That Be*; and Judith Carnoy and Marc Weiss, *A House Divided* (Boston: Little, Brown, and Co., 1973). In public choice theory, work on supply behavior within bureaucracies is only just beginning. William A. Niskanen, *Bureaucracy and Representative Government* (New York: Aldine-Atherton, 1971); Gary Wamsley and Mayer Zald, *The Political Economy of Public Organizations: A Critique and Approach to the Study of Public Administration* (Lexington, Mass.: Lexington Books, 1973). A recent paper by Markusen speculates on the supply behavior of the Carter administration in producing the urban impact analysis. Ann Markusen, "The Urban Impact Analysis: A Critical Forecast," in Glickman, *Urban Impact*. An outline of endogenous and exogenous supply behavior is presented in Capitol Kapitalistate, "The Study of Studies: A Marxist View of Research Conducted by the State," *Kapitalistate* 6 (1977): 163-190.

TABLE I
Per Capita Federal Outlays to Regions, by Agency, 1976

Region	Agency									
	Agriculture	Defense	HEW	HUD	Interior	Transportation	ERDA	EPA	Commerce	Labor
Northeast										
New England	41.5	476.7	635.5	15.7	4.7	53.5	3.5	17.4	5.4	48.4
Mid-Atlantic	51.7	239.2	647.3	9.7	3.5	44.2	13.8	3.8	2.8	46.0
Midwest										
Great Lakes	42.6	162.8	544.6	8.1	2.4	30.8	13.2	19.7	2.4	36.1
Great Plains	82.7	437.6	557.5	11.5	16.1	41.7	8.1	22.2	4.5	33.9
South										
South Atlantic	75.9	462.1	564.6	9.1	8.0	40.4	12.6	24.6	16.5	30.5
E. S. Central	102.8	339.0	552.2	10.1	5.1	36.6	69.3	13.5	4.9	37.8
W. S. Central	86.8	400.8	499.2	10.5	6.7	43.8	2.2	14.6	6.9	34.5
West										
Mountain	87.4	448.8	469.2	10.2	118.1	63.1	87.8	15.0	11.9	44.7
Pacific	62.6	656.2	567.0	10.4	33.9	39.5	30.7	43.8	8.3	50.6

Source: Community Services Administration, *Federal Outlays in Summary, Fiscal Year 1976* (Washington, D.C.: U.S. Government Printing Office, 1976).

Note: District of Columbia has not been included.

¹ Includes both direct grants and all other indirect outlays.

Without the federal factor, the mountain states' economy might not be viable at all . . . The decision to promote the growth of the West, even at the cost of the taxpayers of the other regions, may well have been a wise one in the interests of long term development of the U.S.A. But the decision was not primarily economic, but rather political—the result of adroit maneuvering by Western Senators and Representatives on Capitol Hill.

The House Interior Committee, for instance, is headed by Wayne Aspinall of Colorado's Western Slope. Aspinall has obtained authorization for so many federal dam and reservoir projects in Colorado that even his home-state boosters admit some of them are uneconomic and should never be built. Yet it is interesting to note that no federal water projects deliver subsidized water to cities east of the Mississippi . . . Interior, of course, is the great patron department of the West.²⁵

This type of historical and political analysis tells much about the distribution of certain federal expenditures that we could never learn from econometric expenditure determination studies or microeconomic behavior models.

We suggest that further examination of such factors in the supply behavior of the public sector would help explain distributional patterns of outlays. Likewise, demand side forces such as the relative levels of organization and influence of the constituency of an agency may be instrumental in the spatial distribution of federal spending. For instance, we might hypothesize that the bias of the Agriculture Department in favor of the West is in part a reflection of the influence of large scale, organized agribusiness.

Demand and supply side actors meet before the legislative bodies at the state and federal levels. Here, the details of outlays and transfers are sketched out, followed, in some cases, by discretionary regulations and implementation at the bureaucratic or state and local levels, also affected by political power and conflict. In what follows, we document how important political coalitions and conflicts are in the determination of certain federal intergovernmental flows.

CASE STUDIES OF POLITICAL DETERMINATION

The Politics of Two Decades: The Seesaw Battle Over Federal Grants

In the previous section we have posited the theory that broad social, economic, and political conflict between groups, classes, and individuals organized on spatial, functional and ideological lines, accounts for the distribution of federal expenditures. The politics of distribution involve two elements: who the money goes to, and who controls the allocation process at each level through which the funds flow. These two elements are highly interrelated. For example, the recent debate over whether

²⁵ Neal Pierce, *The Mountain States of America* (New York: Norton and Co., 1972), p. 26.

HUD, EDA, the Department of Treasury, or some newly-created agency should control a National Development Bank largely revolved around perceptions by various potential recipients about which agency and distribution structure would most favor their interests. Similarly, the decision between establishing the Bank at one central location or a series of regional offices would influence who ultimately gets what, and who would decide who gets what. Even if a grant program employs an automatic formula, the formula itself has distributive consequences. In addition, the recipient state and/or local governments will also shape the distribution, depending on which level of government and which agency within that level controls the program. Political battles also occur over the administrative regulations imposed by both Congress and the federal agencies responsible for grant oversight, and the extent to which these regulations are actually enforced.²⁶

While many interests are brought to bear on the allocation process, including executive and judicial agencies, decisions on the appropriation of funds available for expenditure are worked out in the legislative arena. In this section we take a closer look at the legislative and executive branch politics of one small part of the total federal budget, federal grants to cities. We describe the political conflict that has been responsible both for the changes in the dollar amounts going to different types of cities in different parts of the country, and for changes in the structure of the grant programs themselves. In this case a key impetus for change has been the relationship of the Democratic and Republican parties to various ethnic, economic, and political constituency groups, including state and local government officials.

We have found three distinctive swings in the distribution of federal grants to cities in the 1960s and 1970s that correlate highly with Democratic and Republican electoral strategy. As Table 2 demonstrates, federal grants to cities grew by a tremendous amount during this total period, with the northeastern and midwestern cities benefitting most from 1965-72, the southern and western cities benefitting most from 1972-75, and a slight swing back in favor of the first group from 1975-78. The first swing in a function of the large Democratic majorities in Congress in the 1960s, coupled with eight years of a Democratic presidency. Particularly during the key Great Society years (1965-66), many grant programs were initiated or expanded that were aimed at the traditional New Deal constituency of big city ethnic machines and organized labor in the industrial belt, as well as at the recently expanded and explosive population of minorities in the large northern cities.

However, the focus by the Great Society on blacks and Hispanics in large cities produced a political backlash in the once solidly Democratic

²⁶ Daniel J. Elazar, "Restructuring Federal Housing Programs—Who Stands to Gain?" *Publius* 6, no. 2 (Spring 1976).

TABLE 2
Comparative Growth in Total Federal Grants, Selected Northeastern and Midwestern
and Sunbelt Cities, 1965-78 (in Thousands of Dollars)

Eight Northeastern and Midwestern Cities	Total Grants	Total Grants	Total Grants	Est. Grants	% Inc.	% Inc.	% Inc.	
	1965-66	1971-72	1974-75	FY 1978	66-72	72-75	75-78	
St. Louis	380	14,145	31,483	109,806	3622	123	248	
Buffalo	2,589	15,345	31,844	80,947	393	108	154	
Cleveland	6,468	16,782	47,733	110,381	159	184	131	
Boston	32,842	61,249	66,782	120,885	10	9	81	
Philadelphia	15,836	82,694	130,820	328,134	422	58	151	
Detroit	20,770	132,071	166,183	311,142	536	26	87	
Chicago	29,804	95,147	166,129	407,726	219	75	145	
Baltimore	5,308	43,835	108,015	181,394	726	146	68	
Mean value for the eight Northeastern and Midwestern cities:					795	91	133	
Nine Sunbelt Cities								
Atlanta	2,341	10,345	38,458	58,994	336	269	53	
Dallas	---	4,807	42,165	64,147	---	777	74	
Houston	5,496	12,507	45,869	86,395	128	267	88	
Phoenix	3,067	8,990	36,556	70,911	193	307	94	
Birmingham	1,357	3,240	14,458	31,643	139	346	119	
Louisville	8,220	21,588	36,364	67,686	163	68	86	
Jacksonville	---	6,247	30,619	40,886	---	390	34	
New Orleans	398	14,770	45,670	86,895	3611	203	90	
Oklahoma City	4,168	5,540	18,691	38,748	33	237	107	
Mean value for the nine Sunbelt Cities:					659	318	83	

Source: U. S. Bureau of the Census, *City Government Finances* (Nathan, 1978, p. 81).

south and also among blue-collar white ethnics who were abandoning the central cities for suburbia. Richard Nixon based his "silent majority" election campaign of 1968 on an appeal to these disaffected Democrats, and once in office, embarked on what was to be an eight year strategy of restructuring the post-New Deal two-party alignment and traditional national voting patterns. This strategy, outlined by Kevin Phillips in *The Emerging Republican Majority*, tried to merge the 1968 Nixon and Wallace votes by building a coalition that combined voters from the old Republican suburbia and midwest farm belt with voters in the rapidly growing southern and western regions and the new suburbia of the Democratic ethnics.²⁷ The redistribution effects of the formulas for President Nixon's general revenue sharing and grant consolidation proposals were a deliberate part of this Republican strategy. The adoption by Congress in modified form of some elements of Nixon's "New Federalism" accounts for the second swing.

The third swing grew out of the Watergate scandal and recession in the mid-1970s. Together they led to a defeat of the Nixon strategy, strong Democratic congressional gains in all regions and metropolitan areas, as well as the election of a southern Democratic president. Congressional Democrats were able to effect mild redistribution toward areas of their greatest voting strength, while not rescinding the increased funding levels that had been awarded to the Sunbelt, small cities, and suburbia during the heyday of the New Federalism.

Federal grants directly to city government agencies began in the New Deal period. President Roosevelt, through relief and public works programs, wanted to get large amounts of money into the hands of millions of unemployed workers, among other things because they were a major force in his electoral coalition. Republican-dominated state governments had proven to be unsympathetic to massive relief and public works efforts. In addition, he channeled the money through city government agencies because big-city Democratic machines were a crucial part of his electoral base, and the various New Deal programs gave Democratic mayors a huge source of money to dispense and thus garner continued voter support (not to mention campaign contributions and outright graft, in some cases).²⁸

Republicans during the 1930s and 1940s often denounced what they saw as the New Deal's intrusion on state sovereignty. Their preferred method was to funnel grants-in-aid to state governments. Conflict over this issue came to a head in the Federal Airport Act of 1946, when, despite GOP insistence that all aid go to the states, the Democrats included a provision

²⁷ Kevin Phillips, *The Emerging Republican Majority* (Garden City, NY: Anchor Books, 1970).

²⁸ Arthur M. Schlesinger, Jr., *The Coming of the New Deal* (Boston: Houghton Mifflin Co., 1958); idem, *The Politics of Upheaval* (Boston: Houghton Mifflin Co., 1960); and Piven and Cloward, *Regulating the Poor*.

that allowed federal grants to go directly to certain types of cities. In the 1950s the pattern was somewhat reversed, with Republican President Eisenhower's Interstate Highway Act putting billions of dollars nationwide into the hands of state government officials, many (though by no means all) of whom were Republicans, with which they could dispense jobs, contracts, and other business to preferred constituents in exchange for political support.²⁹

With the Democrats back in power under Kennedy and Johnson, grants to cities proliferated. Demetrios Caraley, in an analysis of key votes in the House and Senate between 1945 and 1975, argues that party affiliation is the crucial variable in explaining congressional votes on urban aid. Grant programs to cities were most likely to be passed or appropriations expanded when there was a preponderance of northern Democrats in Congress, and when a Democrat was president. Southern Democrats were more likely to oppose urban aid programs than their northern counterparts, but even so Caraley points out that their voting record in general was more pro-urban than congressional Republicans. Thus, the Johnson years in particular were ideally suited to a major expansion of urban programs.³⁰

Piven and Cloward point out that during the 1960s the Democratic practice of targeting grants-in-aid to city rather than state governments was supplemented by a new strategy of targeting aid to particular ethnic and neighborhood groups. Because black and Hispanic people were generally excluded from urban services by local Democratic machines, the Kennedy and Johnson administrations created programs which bypassed local government and put money directly into the hands of minority-controlled community agencies.³¹

The increasing use of categorical grants led to the emergence of interest group coalitions that cut across intergovernmental and geographic lines. The more powerful of these, such as the highway and education lobbies, transcended party affiliation as well. But some were more vulnerable to the vagaries of political partisanship. As Nixon ascended to the presidency in 1968, he prepared to do battle with the Great Society's legacy. The result was a curious admixture known as the New Federalism, which rather than launching a frontal attack on grant programs for out-of-favor constituencies, chose instead a flanking movement by reorganizing the grant system itself.³²

One element of the Nixon strategy was to create a broad grant program that would give aid to all state governments and nearly all general purpose

²⁹ Paul Dommel, *The Politics of Revenue Sharing* (Bloomington: Indiana University Press, 1974).

³⁰ Demetrios Caraley, "Congressional Politics and Urban Aid," *Political Science Quarterly* 91, no. 1 (1976).

³¹ Piven and Cloward, *Regulating the Poor*.

³² Richard Nathan, *The Plot That Failed: Nixon and the Administrative Presidency* (New York: John Wiley and Sons, 1975).

local governments, including very small ones. The money, within certain vague guidelines, could be spent in whatever fashion the recipient desired. Republican sentiment was that certain bureaucratic and constituency groups were better organized at the congressional committee and federal agency level than at state or local levels, and that placing more decision-making power over federal grants at the state and local level would result in a diminution of influence by Democratic party-favored groups and bureaus.³³

In order to drum up support in Congress for General Revenue Sharing (GRS), President Nixon and the Treasury Department mobilized state and local government executive and legislative officials to lobby for the measure. They did this by promising a large number of these governmental units that they would receive more money under this new program than they were getting under the previous categorical grant programs. The outcome—more for everybody—has been dubbed “spreading” by Richard Nathan. Under the first formula for the GRS program, which began operating in December, 1972, \$5.3 billion in aid was divided up between 50 states and nearly 38,000 counties, townships, and municipalities.³⁴

The political payoff for the Republican party was that suburbs and small cities and towns, plus the western and southern regions in general, were the biggest gainers under the formula for the new programs.³⁵ Still, since the Nixon administration promised that GRS would be an “add-on” to all existing grants, mayors in hard-pressed northern central cities were supportive. Two key legislators originally opposing the program, Democrats Muskie of Maine and Mills of Arkansas, were both running for the Democratic presidential nomination in 1971-72 and the mayors in particular prevailed upon them to acquiesce to a modified version of the Nixon proposal.³⁶ This support turned out to be crucial in breaking the congressional logjam.

The State and Local Fiscal Assistance Act finally passed in October, 1972, and one month later President Nixon was overwhelmingly reelected. He then began a renewed push for the second element of his “New Federalism” strategy: the elimination of many Great Society categorical grant programs and their replacement by broadly defined block grants with power of administration more firmly vested in state and local general government bodies.³⁷ His first step was to announce drastic

³³ Feshbach, “History of Revenue Sharing”: Samuel Beer, “The Adoption of General Revenue Sharing: A Case Study in Public Sector Politics,” *Public Policy* 24, no. 2 (1976).

³⁴ Richard Nathan, Allen Manuel, Susannah Calkins and Associates, *Monitoring Revenue Sharing* (Washington, D.C.: The Brookings Institution, 1975).

³⁵ Nathan, et al., *Monitoring Revenue Sharing*; Richard Nathan, Charles Adams and Associates, *Revenue Sharing: The Second Round* (Washington, D.C.: The Brookings Institution, 1977).

³⁶ Dommel, *The Politics of Revenue Sharing*.

³⁷ Edward Banfield, “Revenue Sharing in Theory and Practice,” *The Public Interest* 23 (1971).

cutbacks in many grant programs, including "impoundment" of funds already appropriated by Congress, claiming that General Revenue Sharing could be used by cities to make up for the lost grant revenues. Thus, despite repeated promise of "add-on" by the Nixon administration over the previous four years, this, as Paul Dommel puts it, "was clearly the language of a policy of substitution." Big-city mayors who had previously supported GRS now turned around and denounced it as a "cruel hoax" and a "gigantic double-cross."³⁸

The battle over block grants (also called "special revenue sharing") got bogged down by the Watergate scandal, giving the constituency groups and politicians who opposed the grant reorganization added leverage. In the end only two modified versions of Nixon's original special revenue sharing proposals passed Congress, the Comprehensive Employment and Training Act (CETA) in 1973 and the Community Development Block Grant (CDBG) program in 1974. The latter, as we argue below, involved substantial redistribution of money and power benefitting constituencies to which Republicans at all levels of government pitch their electoral appeals. A smaller grant consolidation, Title XX grants to state governments for social services, also passed Congress in late 1974.

Since the early 1970s, the politics of federal grants have increasingly involved bargaining and conflict between governmental units rather than among private constituencies. In addition, the debates have focused more on regional or other spatial disparities rather than on functional categories of assistance.³⁹ An indication of the first trend is the growth since the late 1960s of the power and organization of the "intergovernmental lobby" represented by groups like the National Governors' Association.⁴⁰ The latter trend is characterized by the recent appearance of *regional* lobbies, such as the Coalition of Northeastern Governors (CONEG).⁴¹

The formula era brought on by the Nixon administration, despite some serious setbacks, achieved its desired result. The net effect on cities, as noted by one of the architects of General Revenue Sharing, Richard Nathan, was "increased support for smaller city governments in general and also for larger cities in the South and West that were not active participants in the older categorical programs."⁴² Table 3 shows this clearly for city size categories. But it took only a couple of years for the

³⁸ Dommel, *The Politics of Revenue Sharing*, pp. 173-74.

³⁹ David Wilmoth, *Regionalism and the Carter Administration* (Berkeley: University of California, Department of City and Regional Planning, 1978).

⁴⁰ The seven main organizations of the "intergovernmental lobby" are the Council of State Governments, the National Governors' Association, the National Legislative Conference, the National Association of Counties, the National League of Cities, the United States Conference of Mayors, and the International City Management Association.

⁴¹ Neal Pierce, "Northeast Governors Map Battle Plan for Fight Over Federal Funds Flow," *National Journal*, 27 November 1976.

⁴² Richard Nathan, "The Outlook for Federal Grants to Cities," in Roy Bahl, ed., *The Fiscal Outlook for Cities* (Syracuse: Syracuse University Press, 1978), p. 80.

TABLE 3
Per Capita Amounts of Intergovernmental Aid Received by Cities
by Population Size Group (in dollars)

	Average	1,000,000 +	500,000 to 999,999	300,000 to 499,999	200,000 to 299,999	100,000 to 199,999	50,000 to 99,999	less than 50,000
1968-69	49.56 9.76	174.27 16.82	53.83 31.18	38.12 10.60	26.47 11.79	33.17 9.24	31.44 7.27	18.59 3.14
1971-72	63.46 18.96	222.51 31.06	71.31 61.76	56.07 28.96	56.96 32.78	48.71 19.73	35.14 11.96	23.49 4.75
1972-73	79.99 33.11	254.66 56.30	82.91 82.79	68.72 42.13	61.62 48.61	56.07 33.72	38.45 23.58	43.01 14.55
1975-76	100.76 54.45	364.65 99.08	119.31 137.72	88.99 80.78	94.02 70.90	83.09 56.53	58.79 36.91	40.43 25.80
	15.99	23.18	21.34	20.52	20.22	17.80	14.07	12.18

NS: the general revenue sharing component of total federal aid.

Source: U.S. Bureau of the Census, *City Government Finance*, Selected Years.

Democratic Congress to adapt the Nixon-initiated formulas to better advantage. In July of 1976, with the national elections less than four months away, the Democratic Congress overrode President Ford's veto and passed the Public Works Employment Act of 1976. Title I of this Act, the Local Public Works Program, and Title II, the Anti-Recession Fiscal Assistance Program, combined with Titles II and IV of CETA to form the "countercyclical package." These programs also used formulas, but with very different distributional results.

Since the strategy of the Democratic Party in the coming elections was to blame the Republicans for the unhealthy state of the economy and particularly for the high unemployment rate, the counter-cyclical package, with its economic stimulus and job-creation focus, demonstrated the Democratic commitment to a political alternative.⁴³ And since the programs were all targeted to areas of high unemployment, central cities, particularly in the northeast and north central regions, benefitted substantially.⁴⁴ President Carter, upon taking office, expanded the budget for these programs, and further expansions were made with the passage of the Intergovernmental Anti-Recession Act in May of 1977. Also in 1977 Congress passed the new "dual" formula for Community Development Block Grants, which was highly beneficial to the older central cities of the Northeast and Midwest. The net effect of these and other programs was a swing-back of federal dollars to the traditional Democratic constituencies, after the Nixon redistribution of the early 1970s.

Table 2, taken from a recent paper by Richard Nathan and extended by us back to 1965-66, illustrates clearly the three cyclical swings of the politics of federal grants to local government. The northeastern and mid-western cities did well in the 1960s, were eclipsed by the sunbelt cities' gains under the New Federalism, but enjoyed a significant comeback in the Democratic surge of 1975-78.

One element of this comeback is the resurrection of a discretionary project grant program by HUD to take the place (on a much more modest scale) of urban renewal, which was one of the seven programs "folded-into" CDBG. Table 4 shows the distribution of Urban Development Action Grants in 1978.

Printout Politics

The use of automatic formulas for the distribution of grants-in-aid to state and local governments seems to be a steadily rising trend. Even cost-of-living increases in social security benefits, a transfer program to

⁴³ James Singer, "Employment Report: Congress Confronts Ford Over Bills to Create More Jobs," *National Journal*, 11 October 1975.

⁴⁴ General Accounting Office, *Antirecession Assistance: U.S. Department of the Treasury, Office of State and Local Finance. Report on the Fiscal Impact of the Economic Stimulus Package on 48 Large Urban Governments*, 23 January 1978; and Advisory Commission on Intergovernmental Relations, *Federal Stabilization Policy: The Role of State and Local Government* (Washington, D.C.: U.S. Government Printing Office, 1978).

TABLE 4
UDAGs by Cities, and Dollars According to Region

	# of Cities	# of Dollars (Millions)
Northeast	45	137
North Central	27	116
South	17	53
West	2	60

Source: Katherine Lyall, "Targeting: Progress on the National Urban Policy," *Commentary* 68 (1979).

individuals, were tied to an automatic formula during the Republican highpoint in 1972.⁴⁵ The concern with creation of automatic distribution formulas has generated a whole new industry for fiscal analysts, one that we might call "needs measurement." In the last few years a bevy of studies have appeared, each trying to develop statistical indices measuring "need" according to various criteria which would, in turn, be inserted into formulas to target the distribution of federal grants.⁴⁶ Who should receive the money, by what criteria, through what medium, for what purpose, and at what level of spatial or demographic aggregation, are all questions that are hotly debated.

How can "distress" or "need" be defined? The Congressional Budget Office conducted a study in 1977 of the possibilities of targeting federal spending to relieve "troubled local economies," but ran up against several definitional problems. If one is concerned with the problem of low growth, then the New England, Middle Atlantic, and Great Lakes states need the most help. On the other hand, if low income is the primary issue, then the South and Southwest, "despite relatively high growth rates of past years," deserve the most urgent attention.⁴⁷

⁴⁵ Martha Derthick, "How Easy Votes on Social Security Came to an End," *The Public Interest* 54 (1979).

⁴⁶ Richard Nathan and Charles Adams, "Understanding Central City Hardship," *Political Science Quarterly* 91, no. 1 (1976); Nathan and Paul Dommel, "The Cities," in Joseph Pechman, ed., *Setting National Priorities: The 1978 Budget* (Washington, D.C.: The Brookings Institution, 1977); Nathan, Dommel and James Fossett, "Statement and Testimony," Joint Economic Committees of Congress, *Financing Municipal Needs* (Washington, D.C.: Government Printing Office, July 28, 1977); David Stanley, *Cities in Trouble* (Columbus, OH: Academy for Contemporary Problems, 1976); U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *An Evaluation of the Community Block Grant Formula* (Washington, D.C.: Government Printing Office, 1976); U.S. Department of the Treasury, *Report on Fiscal Impact: John Kordalewski, Ways of Identifying Cities in Distress* (Washington, D.C.: The Urban Institute, 1978); Stephen Barro, *The Urban Impact of Federal Policies: Volume 3, Fiscal Conditions* (Santa Monica: The Rand Corporation, 1978); and U.S. Congress, House Committee on Banking, Finance, and Urban Affairs, Subcommittee on the City, *City Need and the Responsiveness of Federal Grant Programs* (Washington, D.C.: Government Printing Office, 1978).

⁴⁷ Congressional Budget Office, *Troubled Local Economies and the Distribution of Federal Dollars* (Washington, D.C.: Government Printing Office, 1977).

A recent report by the House Committee on Banking, Finance, and Urban Affairs lists three different ways of discerning need: (1) social needs, such as poverty, crime, or poor health; (2) economic decline, including relative or absolute loss in population, income, manufacturing activity, or retail sales volume; and (3) fiscal problems, ranging from low tax bases and high tax rates, to short-term cash flow problems, severe budget deficits, and near bankruptcy.⁴⁸

What size and type of spatial unit should be chosen for distribution? Katharine Lyall, in a forthcoming article on targeting aid to "cities and people in distress," lists four different recipient units for targeting strategies: by city, by people, by neighborhood, and by region.⁴⁹ Each one of the measurements of need used in the House Banking Study targets aid on different sets and types of cities in different parts of the United States. As we noted above, individual need may not correlate well with spatial characteristics.

The House Banking Committee Report and the GAO Report both advocate better understanding of urban economic evolution as a basis for fashioning formulas. The former concludes:

Better knowledge of urban dynamics—of cause-effect relationships within cities—would facilitate the development of consensus on those aspects of urban need that should be considered.⁵⁰

We question this optimism. When federal budgetary resources are rapidly expanding, congressional leaders could strike a series of compromises on dual or multiple formulas whereby each unit of government chooses the automatic formula most favorable for its purposes. Such an approach would be the ultimate in "spreading," with the entire range of regional and intra-metropolitan interests in the intergovernmental aid lobby satisfactorily subsidized. But in this age of fiscal restraint, where "targeting" is the watchword, continued bitter controversy is more likely. Groups such as the Northeast-Midwest Congressional Coalition and Southern Growth Policies Board are both launching extensive formula research projects and writing critical reports on "bias" in federal programs.

Some have bemoaned this domination of formula grant construction by "printout politics," but regardless of sophisticated social science input, politics has been and will continue to be the determining factor in the grant process.⁵¹ In this sense, there is no such thing as a truly non-

⁴⁸ House Committee on Banking, Finance, and Urban Affairs, *City Need*.

⁴⁹ Katharine Lyall, "Targeting: Progress on the National Urban Policy," *Commentary* (forthcoming).

⁵⁰ House Committee on Banking, Finance, and Urban Affairs, *City Need*, p. 77. See also General Accounting Office, *Antirecession Assistance*.

⁵¹ Rochelle Stanfield, "Playing Computer Politics With Local Aid Formulas," *National Journal*, 9 December 1978.

discretionary grant program: it's just that some programs have more predictable payout schedules than others.

Brookings Monitoring Study, in its summary of the history of revenue sharing, points out that printout politics was an integral part of the process from the beginning. In July of 1970, for example, Assistant Secretary of the Treasury Weidenbaum held a press conference releasing a "comprehensive statistical report on how much each individual recipient jurisdiction might expect to receive under the administration's revenue-sharing plan."³² This direct appeal to state and local pocketbooks received more extensive media coverage than previous announcements about the philosophy of the New Federalism. Similarly, when the bill was in the House Ways and Means Committee, Deputy Treasury Secretary Charles Walker made available a technical staff and computer facilities so that each new modification of the formula could be immediately tested for its political consequences.³³

One of the authors of this paper had her own experience with the politics of formula grant writing. In 1971, the city of Detroit faced impending fiscal crisis. The mayor appealed to the state legislature to find a means of channeling more state revenue to the city. The unearmarked portion of existing state shared revenues was allocated on the basis of population. Markusen, then Staff Economist for the Speaker of the House, wrote a new formula incorporating indicators of per capita tax base and tax effort. The formula would have allocated significantly more to Detroit, the city with the highest local tax rates. Suburban jurisdictions and some rural areas would have lost in comparison since no additional revenues were proposed. The Michigan Municipal League, representing the entire array of city governments, countered by proposing that \$50 million more be added to the fund, not to advance Detroit's interests but to ensure that no city government would lose. As the battle shaped up, the staff was required to produce city-by-city tallies, for all 110 legislative districts, for a myriad of variations on the formula. Ultimately, through a process of bargaining and incremental fund increases, the Speaker's righthand man produced a set of acceptable dollar amounts by city and district which would win the necessary 57 votes in the House. The staff was handed this final tally sheet and asked to produce a new formula which would result in these allocations. This proved literally impossible, unless each district were to be represented by a dummy variable in the formula. The bill which finally passed contained a tax effort formula with a series of ingeniously constructed grandfathering provisions, and an extra \$23 million.

The political fight over the determination of the various formulas has

³² Nathan et al., *Monitoring Revenue Sharing*, p. 357; and Saul Friedman, "Cities Would Get Least Under Nixon Plan," *Detroit Free Press*, 2 March 1971.

³³ Nathan et al., *Monitoring Revenue Sharing*, p. 364.

now begun to spill over into considerable controversy over the gathering and interpretation of the data on which the formulas are based. Whereas, in 1970, \$16 billion in federal aid to state and local governments was based on U.S. Census Bureau data, in 1980 roughly \$50 billion is at stake. Similarly, the amount of federal aid dependent on unemployment statistics has risen from about \$700 million a year in the early 1970s to \$17 billion in 1977. A recent change by the Bureau of Labor Statistics in the way it calculates local unemployment rates resulted in the loss of millions of dollars in federal anti-recessionary assistance by 10 large cities last year.⁵⁴ The specter of large gains and losses by state and local governments has hung heavily over the work of the National Commission on Employment and Unemployment Statistics. Precisely because the stakes are so high, the commission has thus far been very cautious about proposing any major reforms.⁵⁵

Similarly, the Census Bureau has been surrounded by controversy of late, including the resignation of its director and the retirement or resignation of other key officials.⁵⁶ One example of the bureau's political problems concerns the case of Paterson, New Jersey. The city of Paterson recently pioneered a new technique of conducting its own head count. Its census resulted in substantially greater population figures than the Census Bureau's because it included illegal aliens and people living in illegally converted dwellings and because it canvassed minority neighborhoods quite carefully. The city then convinced the bureau to accept its methods, resulting in a 13 percent increase in population count for Paterson and an extra \$1.2 million in federal grants. This approach appeals to both sunbelt and frostbelt cities: New York, Dallas, Newark, and Denver have all requested copies of Paterson's survey techniques. The Census Bureau has tried to adjust to the political heat by announcing that its 400 district offices will have staff authorized to consider instant appeals from local public officials should they be unduly displeased with their 1980 census count.⁵⁷

Given that so many federal grant programs now depend on census population data, with a modest flight of fantasy we can well imagine the president and OMB one day deciding how much aid each state and local government should receive and then directing the Census Bureau to adjust the population figures to produce the correct amount of aid under the

⁵⁴ Rochelle Stanfield, "Federal Aid for Cities—Is It a Mixed Blessing?" *National Journal*, 3 June 1978.

⁵⁵ James Singer, "Big Money at Stake in Refining Unemployment," *National Journal*, 6 January 1979; and Urban Lehner, "Method of Computing Jobless Rate Faces Relatively Few Shifts After 2-Year Study," *Wall Street Journal*, 5 February 1979.

⁵⁶ "Troubles Multiply for the 1980 Census," *Business Week*, 26 February 1979; and "Counting the House," *Wall Street Journal*, 9 February 1979.

⁵⁷ Byron Klapper, "Finding the Bodies: Cities Challenge Population Count," *Wall Street Journal*, 27 December 1978, p. 10.

various congressional formulas. Geographically-based congressional coalitions might then counterattack by passing laws mandating new survey techniques. Social scientists, of course, will throw up their hands in despair and long for the days of the categorical grant programs.

Community Development Block Grants

The Housing and Community Development Act of 1974 grew out of President Nixon's "New Federalism" political strategy. The president's primary goal was to wrest control of several categorical programs from the HUD bureaucracy in order to spread the funds to a much larger group of local government recipients. He proposed combining seven categorical programs into one single block grant to be distributed to eligible local government jurisdictions by an automatic formula. Urban counties were included in the program due to the increasing power of the suburban lobby.⁵⁸ The formula redistributed community development funds away from the New England and Middle Atlantic states and toward the southern and western regions (see Table 5). In addition, many more local jurisdictions (4,800) were included in the formula than had previously benefited from the seven categorical programs. Smaller jurisdictions gained at the expense of central cities under the Nixon formula.

The "New Federalism" also made a direct appeal to big-city Democratic mayors. The Nixon administration promised to reverse the growth of federal legal requirements and administrative oversight procedures in the urban renewal and Model Cities programs that had been mandated by Congress and HUD in direct response to the black ghetto riots of 1964-68. President Johnson and the Democratic majority in Congress had moved to correct past abuses in urban renewal programs by requiring project area committees and adequate housing and small business relocation assistance. Model Cities went even further by requiring the local agency to use the federal money to directly benefit residents of low and moderate income neighborhoods.⁵⁹ Such restrictions were unpopular with the mayors and city managers. Nixon's proposal to distribute federal block grants by automatic formula that could be spent by local governments in a relatively unrestricted fashion, with no requirements for local matching funds, and virtually no federal oversight, greatly appealed to groups like the National League of Cities and U.S. Conference of Mayors. The CDBG program redistributed power from the local redevelopment and Model Cities agen-

⁵⁸ Richard Nathan et al., *Block Grants for Community Development* (Washington, D.C.: U.S. Department of Housing and Urban Development, 1977) pp. 46-49.

⁵⁹ National Commission on Urban Problems, *Building the American City* (Washington, D.C.: Government Printing Office, 1969) pp. 152-198; Chester Hartman, *Yerba Buena* (San Francisco: New Glide Publications, 1973); and Bernard Frieden and Marshall Kaplan, *The Politics of Neglect* (Cambridge: M.I.T. Press, 1975).

TABLE 5
Total CDBG Funds, 1975 and 1980

Under the 1974 Formula			
Region	Entitlement CDBG 1975 (\$000s)	Entitlement CDBG 1980 (\$000s)	Percent Change 1975-1980
Northeastern	\$712,626	\$622,935	-13%
North Central	\$572,067	\$675,909	+18%
South	\$725,165	\$1,029,594	+42%
West	\$353,578	\$486,619	+38%

Source: Richard DeLeon and Richard LeGates, "Community Development Block Grants: Redistribution Effects and Equity Issues," *Urban Lawyer* 9, no. 2 (1977):392.

cies to the local chief executives. As a result, the funds tended to be spread around to a greater number of neighborhoods within each city.⁶⁰

Despite the sweetener of grant reorganization, the Democratic Congress resisted President Nixon's proposal when first introduced in 1971 due to the redistributive consequences of the formula. Senate Democrats from states with large black populations were also concerned about the lack of administrative oversight and about the adverse distribution of benefits within each community, but House Democrats in general were more willing to follow the lead of local executives in pursuing maximum flexibility.

After his landslide reelection in 1972, President Nixon took a hard line with Congress in fighting for the Community Development formula, by imposing a draconian cutback and impoundment of funds for major housing subsidy programs and for the categorical grant programs that were to be "folded-into" CDBG. This forced the Democrats to compromise, since their constituents were most affected by the impoundment of funds. In early 1974, a deal was struck in the House which provided for a modest amount of HUD oversight of CDGB and Republican support for new housing subsidy programs.⁶¹

Another element of the compromise was that northern urban Democrats insisted on a "hold-harmless" provision in the distribution of formula, ensuring that no jurisdiction would receive less than it was getting under the previous categoricals. By 1974, President Nixon's power base was rapidly eroding due to the Watergate scandal, and he was in no position to oppose this provision. "Hold-harmless" was to be gradually phased out over a six-year period, but big-city and northeastern Democrats hoped

⁶⁰ Nathan et al., *Block Grants for Community Development*; and Dennis Keating and Richard LeGates, "Who Should Benefit from the Community Development Block Grant Program?" *The Urban Lawyer* 10, no. 4 (1978).

⁶¹ Nathan et al., *Block Grants for Community Development*, pp. 43-46.

that the 1974 and 1976 elections would revive their political fortunes so that they could change the formula.

Ironically, by the time CDBG actually passed Congress in August of 1974, President Nixon had already resigned under threat of impeachment. But by then all the deals and commitments had already been made. The pressures from the various lobbying groups of local government officials to start the money flowing were too great for any major last-minute changes to be considered. As a result, all eyes turned to the anticipated battle over congressional renewal of CDBG in 1977.

The redistributive effects of the CDBG formula are well documented in the Brookings Study.⁶² DeLeon and LeGates, in a study of California cities, discovered an interesting political pattern that accompanied the geographical shift. Not only did the CDBG redistribute funds toward economically better-off communities, but those communities who had the greatest net relative gains from the new program also tended to have the most politically conservative electorates and the least favorable attitudes towards construction of low income housing or racial integration of housing. In the politics of automatic formula-writing, conservatives definitely won the first round.⁶³

DeLeon and LeGates also noted shifts in the area of decision making "dramatically away from the federal-local government-sublocal government authority-neighborhood organization model" to local chief executives and general government bodies.⁶⁴ In other words, both community groups and local bureaucrats in some categorical agencies lost part of their power base in the changeover from a federal to a local allocation process. It has taken several years for these groups to recover their strength after the initial setback.

While the full implications of the changes brought about by the CDBG formula were softened by "hold-harmless," social scientists responsive to the concerns of the losers immediately set about developing normative criteria and statistical measurements of "need" so that arguments could be made for a reallocation of funds. Again, both the Brookings Study and the DeLeon and LeGates Report are examples of these efforts, as was work that was conducted in HUD's Office of Policy Development and Research.⁶⁵ The old formula, based on equal weights for population and overcrowded housing and a double weight for poverty, was seen to be deficient because it rewarded growing rather than declining areas, and because the overcrowded housing and poverty criteria primarily benefited the South. Since many people in policy and research positions felt

⁶² Ibid.

⁶³ Richard DeLeon and Richard LeGates, *Redistribution Effects of Special Revenue Sharing for Community Development* (Berkeley: University of California, Institute of Governmental Studies, 1976).

⁶⁴ Ibid., p. 31.

⁶⁵ U.S. Department of Housing and Urban Development, *Evaluation of Community*.

TABLE 6
Aggregate Percentage and Per Capita Changes in 1980 Funding
in the Shift from the Original to the Dual Formula Compared with
Funding Changes from the Original Formula to Formula B Alone

Region	1 % aggregate increase in entitlements from old formula to dual formula	2 per capita aggregate increase old to dual formula	3 % aggregate increase in entitlements from old formula to Formula B alone	4 per capita aggregated increase from old formula to Formula B alone
New England	+86%	-\$15	+86%	+\$15
Mid Atlantic	+71%	-\$16	+71%	+\$16
East North Central	+68%	-\$14	+64%	+\$13
West North Central	+65%	-\$12	+61%	+\$11
South Atlantic	+16%	+\$3	-5%	-\$2
East South Central	-14%	+\$4	13%	-\$3
West South Central	+3%	0	-33%	-\$8
Mountain	-9%	+\$2	-28%	-\$4
Pacific	+20%	-\$3	-7%	-\$2

Sources: Richard DeLeon and Richard LeGates, "Beyond Cybernetic Federalism in Community Development," *Urban Law Annual* 15 (1978): 31.

that the greatest areas of need were precisely those central cities, particularly in the Northeast, that had been receiving the most under the categorical programs, it was necessary to construct a new formula that would redirect the funds their way.⁶⁶

Once this normative decision was made, all that remained was to find a variable or set of variables that correlated most highly with the localities most in "need." The new formula finally arrived at by Congress, based on the Brookings and HUD models, is weighted 20 percent population growth lag, 30 percent poverty and 50 percent age of housing (defined as the number of housing units built before 1939). The results appear in Table 6. As Katharine Lyall recently stated, "Age of housing was chosen as a proxy for older infrastructure and because we knew exactly where the old housing was, not because it related to health problems, crime problems, poverty, or other social measures of distress. It's a very pragmatic formula."⁶⁷ In fact, age of housing does correlate highly with various measures of fiscal distress and physical decay, which are most prevalent in the northeastern cities. This, of course, is precisely why it was chosen over hundreds of other computer-tested variables. The formula, as always, is fitted to the desired results. What's sauce for the goose is sauce for the gander.

⁶⁶ Rochelle Stanfield, "Government Seeks the Right Formula for Community Development Funds," *National Journal*, 12 February 1977.

⁶⁷ Lyall, "Targeting."

The new CDBG allocation formula was passed as a "dual" formula, meaning that communities could choose whichever of the two gave them more money. Of course, should the overall level of funding be reduced, such political compromises eventually mean less for everyone, so that the beneficiaries of the old formula can still be relatively worse off as a result of the "add-on."

Political coalitions organized on explicit regional lines have emerged as another significant feature of this particular formula fight.⁶⁸ While federal programs have always had skewed spatial distributions, the political constituencies advocating or opposing them have more often tended to be organized around functional or programmatic issues. The CDBG fight cut across many traditional levels of interest group identity. The battle was billed primarily as "frostbelt" v. "sunbelt." The Northeast-Midwest Congressional Coalition in the House acted as the mobilizer of forces defending the new formula against an amendment to retain the existing formula. The two California Democratic congressmen who introduced the amendment both represented districts which were net gainers under the 1974 formula.⁶⁹ Northeast-Midwest solidarity plus a fair amount of legislative horse-trading carried the day, and the "dual" formula passed. However, the price of this victory has been a virtual declaration of war by the Southern Growth Policies Board on any future formula debates.⁷⁰ In particular, they are attacking the age-of-housing indicator and the push for incorporation of regional cost of living differentials.

The effects of the formula change are substantial for particular cities. St. Louis, for example, would have received \$17.1 million in FY 1980 under the old formula. Under the new CDBG formula, it will receive \$36.8 million. But the real question is not how much money any particular jurisdiction is receiving, but how that money is being spent. Here the record is mixed. Among the most publicized abuses have been Community Development funds used to build swimming pools, golf courses, and tennis courts. More importantly, municipalities and urban counties have, in many cases, instituted their own local versions of "spreading," whereby the funds are redistributed to more favored and powerful constituencies than the poor.⁷¹

⁶⁸ Markusen, "Urban Impact Analysis."

⁶⁹ Havemann and Stanfield, "A Year Later," p. 1031; DeLeon and LeGates, *Redistribution Effects*.

⁷⁰ An example of the ferocity of the regional formula fights is the speech given by Governor George Busbee of Georgia to the White House Conference on Balanced National Growth and Economic Development (January 31, 1978). Referring to the 1977 "dual" formula for CDBG, Governor Busbee stated "When this formula was passed into law, the South had no coalition to counter the efforts of the six active coalitions of the North. A Washington newspaper rubbed salt into the wound by telling us what we belatedly discovered—that the South had been caught with its eyes closed and its britches down." Wilmoth, *Regionalism*, p. 18.

⁷¹ Keating and LeGates, "Who Should Benefit."

Such a pattern has led HUD to impose new regulations beginning in May 1978 which require CDBG recipients to spend 75 percent of their Community Development funds for the benefit of low and moderate income people. How "benefit" is precisely measured is a difficult question. Thus far, HUD's solution is to focus on the income level of the residents of the census tract in which the money is spent. This criterion still does not adequately identify the income level of the ultimate beneficiaries.⁷² But it is a step in the right direction, for at least it is a recognition of the real problems. Just because New Orleans has a large number of poor people does not mean that those people benefit from the formula which sends federal funds to their city, any more than the fact that Philadelphia has a lot of old housing means that the housing stock will improve as a result of block grant allocations or that people currently living in bad housing will benefit. Local governments are becoming so dependent on federal funds that efforts to obtain a larger share have overshadowed concern for the purposes for which the funds should be utilized. More social science research and political activity should be directly addressed to this aspect of fiscal behavior.

THE FUTURE OF INTERGOVERNMENTAL POLITICS AND RESEARCH

Continuing intrametropolitan and interregional demographic changes have combined with the new anti-inflationary mood of public fiscal austerity to produce a situation in which the Democratic upswing of the countercyclical era has now come to a close. The CDBG formula fight may have been a last hurrah for the central cities of the Northeast. Last year in Congress attempts to renew the countercyclical programs were defeated, partly due to opposition from southern congressmen who felt that the emphasis on the rate of unemployment in the distribution formulas discriminated against their region. And despite his announcement last year of a "national urban policy," President Carter's proposed budget for 1980 indicates a major shift from previous priorities of urban aid. It would appear that we are now on the crest of a fourth upswing, a frostbelt/sunbelt free-for-all the outcome of which is hard to predict. Caraley has pointed out the extent to which increasing suburbanization of the population weakens the commitment of Democratic congressmen, senators, and presidents to aiding central cities, "hardship indexes" notwithstanding.⁷³ One of the issues in the controversy over the 1980 Census is the fact that reapportionment in the early 1980s will bring political changes that could cost state and local governments millions of dollars, depending on the formulas.

"Targeting" transfers to spatial units, regardless of how much the data improve (and nearly all researchers agree there are massive data prob-

⁷² Ibid.

⁷³ Caraley, "Congressional Politics."

lems) or the formulas are refined, is not necessarily any better than "spreading" in addressing needs of people rather than places. Determining which jurisdiction or place receives the money does not really address the question of *who* benefits from intergovernmental transfers. To answer this question we need to know much more about how the money is actually spent, the direct and indirect impacts of the expenditures, interaction with other tax, spending and regulatory efforts and with private sector decisions; and physical, demographic, and income effects. One planner recently stated that "redevelopment, after all, was often targeted at poor people, like a gun pointed at their head."⁷⁴ Knowing which region, SMSA, city, town, or even neighborhood the funds flow to does not tell which people gain from the use of that money, which people lose, and how.

The current chairman of the Council of Economic Advisers, Charles Schultze, wrote several years ago that federal grant programs would be "significantly improved" if "federal control over *who* got the benefits were maintained or even intensified in selected cases."⁷⁵ Schultze adds that an important reason for pursuing this course of action is to assist local public interest groups in their battle for more equitable distribution of expenditures. Whether the efforts are federal or locally-based, the politics of federal grant formula redistribution must be supplanted by the politics of genuine economic redistribution. Putting their "needs measurement" skills to use in assisting this latter task is something that fiscal experts have not done often enough.

⁷⁴ Roger Montgomery. Personal Communication with the Authors, Department of City and Regional Planning, University of California, Berkeley, 26 February 1979.

⁷⁵ Charles Schultze, "Federal Spending: Past, Present, and Future," in Henry Owen and Charles Schultze, eds., *Setting National Priorities: The Next Ten Years* (Washington, D.C.: The Brookings Institution, 1976) p. 369.