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Recommended Citation

Bahl, Roy. "The Urban Impacts of Federal Grants." *Built Environment* 6, no. 2 (1980): 99–104.
<http://www.jstor.org/stable/23284666>.

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ALEXANDRINE PRESS

The Urban Impacts of Federal Grants

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Source: *Built Environment (1978-)*, Vol. 6, No. 2, Urban Impact Analysis (1980), pp. 99-104

Published by: Alexandrine Press

Stable URL: <https://www.jstor.org/stable/23284666>

Accessed: 26-10-2022 18:25 UTC

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The Urban Impacts of Federal Grants

ROY BAHL

Urban impact analysis has an important role in considering the often neglected spatial implications of federal programmes, but work is required to develop a common analytic framework and methodology of impact analysis.

Analysts have long been concerned with the urban impacts of federal grants to state and local governments and with the serious methodological problems associated with estimating these impacts. The need for such analysis is clear. Many older cities are losing jobs and people, their physical infrastructure is deteriorating and public services are poorly provided or not provided at all. The poor, with their attendant social and economic problems, continue to concentrate in central cities. All of this has led many city governments to the verge of bankruptcy and promises a similar fate to many others.

While this process of decline and fiscal problems in the older cities has been going on, the federal government has thrown an enormous amount of grant money at state and local governments and particularly at large urban governments. The fruits of this assistance are not clear yet, and some would argue that an overall favourable impact on urban areas is not consistent with the design of the federal grant system. With the new mood of tax cutting and expenditure limitations in the United States, there is growing pressure to consider more carefully the match between programme design and intended impacts.

Urban impact analysis might be a way to eliminate or redesign some wasted programmes or to flag unintended (or heretofore ignored) urban impacts of other federal

programmes. While the state of the art of estimating the urban impact of federal grants is not well developed, the issue is much too important to be begged and some notable strides have been made. The specific subject of this paper – federal grant impacts – is an area where important strides have been made but where there are still far more methodological questions than answers. This note is meant to give a rough idea of the state of the practice in this one area.

Major Unresolved Issues

Urban impact analysis is fraught with analytic problems. With respect to federal grants, four stand out as particularly bothersome. The first is whether one should be concerned with the impact of a grant programme on all urban areas or only on a certain subset of cities, i.e., should one be equally concerned about impacts in Philadelphia and in Dallas? Moreover, how are these effects to be aggregated to make a general statement about urban impact? For example, it seems clear that public employment subsidies to cities (CETA grants) support essential services in some of the older, financially pressed cities while they add 'frills' in some of the newer, growing cities. Does one evaluate the impact of expanding or contracting the CETA programme by averaging these effects, or are

only the unfavourable impacts to be counted? Indeed, the impact of federal grants varies across urban areas hence it is very difficult if even possible to generalize about *the* urban impact.

As might be expected, this problem has generated no small amount of controversy. The current resolution would seem to be a concentration or at least an emphasis on the impacts on 'distressed' cities. The extent to which the large urban grant programmes are 'targeted' on such cities has become central to the evaluation of these programmes. If federal programmes are to be designed to impact favourably the distressed cities, the problem arises as to what we mean by distress and what cut-offs will we use to identify distressed cities. A number of research studies, all somewhat subjective, have identified a more or less common list of cities in trouble which have come to be thought of as the distressed cities. Though roundly criticized as a methodology, the analysis of urban impacts of federal grants generally refers to the impact on these cities. With the increasing political representation, and urban problems, of the growing states, this narrow definition will certainly change in the next few years.

A second unresolved issue is the differentiation of short-run vs. long-run impacts. With respect to analysis of federal grant programmes, the concern has been almost exclusively with very short-run impacts. A good example of the problems which can arise from such shortsightedness relates to the fiscal relief grant programme provided to cities since 1975. The immediate effect was an influx of needed revenues to shore up deteriorating fiscal conditions. Yet the result of this increased assistance was to increase dramatically dependence on federal aid – in many cities the federal aid percentage of locally raised revenues rose from around ten to fifty in less than a decade. Such dependence is not easily backed away from. The long-run effects may well be to subsidize the maintenance of a larger and more expensive public sector

than many cities can afford. In another context, public assistance programmes may provide immediate relief to the poor, but in discouraging work effort they may slow the dispersal of the poor, from central cities and exacerbate the urban problem in the longer run. What then is the urban impact of public assistance programmes?

The preoccupation with the short run in analysing federal grant impacts is under question. Some analysts have begun asking the heretical question about whether some cities ought to be allowed to shrink, whether their public sectors are over-developed by comparison to their *relative* wealth within the nation, and whether the national interest might be best served by not discouraging the movement of jobs and people to the growing regions. Recognizing the need to study the longer run, however, will be considerably easier than developing a method for making long-run urban impact estimates.

The third problem is that urban impact analysis tends to be piecemeal, i.e., to concentrate on one programme at a time. But the U.S. federal grant system has more than 400 components, designed and administered by many different agencies. If the urban impact of these programmes, or changes in these programmes, is reinforcing rather than offsetting, it is more likely due to accident than to intent. While it seems clear that the *joint* impact of federal grant (and subsidy) programmes should be considered, analysis has concentrated on individual programmes. A more comprehensive form of urban impact analysis is constrained because the workload implied would be substantial and because the methodologies used by individual analysts are not uniform enough to permit comparison.

A fourth problem is that it is not always clear whether urban impacts are being evaluated in the absolute or relative to some counter-factual. For example, a particular grant programme may allocate funds to urban areas but not relative to the amount

allocated to other areas or not relative to how another allocation formula would treat urban areas. The practice of urban impact analysis seems to be mixed on this point: some analysts deal with absolute impacts while others work with relative differential impacts against various counter-factuals.

Criteria for Grant Impact Analysis

The first step in urban impact analysis is to deal with the question 'impact on what?'. Even with respect to this fundamental point, the methodology is wanting. The practice, as it stands in 1981, would seem to be asking about the impact on everything. Unfortunately, everyone's list of important considerations is not the same and there seems no satisfactory way to combine these factors to a single measure of favourable or unfavourable impact.

With respect to grants, five factors would seem to dominate the concern: job creation and population growth, personal income growth, improvements in the distribution of income, fiscal relief, and the improvement of neighbourhoods and physical structures. That these are not separate and different considerations is readily apparent.

An important criterion these days is whether grants increase jobs in the city area and jobs of city residents. Because so many of the distressed cities are ringed by suburbs, these may be quite different objectives. In any case the analysis of job creation may not go very far because available data do not allow one to differentiate between *net* and *gross* job creation. For example, if a federal grant permits a hotel construction which creates 1000 new jobs but 800 jobs are lost because two old hotels are driven out of business, the net job impact is only 200. In the very short run only the gross figures are usually available and these are the ones most commonly counted in impact analysis. A general objective of grant policy may also be to reduce the out-migration from big cities. Evidence here can be no more than

impressionistic. In short, the job and population criteria for analysing urban impacts are not operational, or are applied incorrectly.

Perhaps one area where the job creation effects can be monitored is in respect of public service employment grants. Still, while the number of jobs directly financed from these programmes in urban areas is easily counted, the evidence suggests that the number of jobs created is far less. For example, some city governments simply substituted the grants for their own funds in maintaining their employment rolls. The use of evidence of this type in urban impact analysis requires a reliance on nationwide statistical studies. Again the problem is one of inferring to individual urban areas.

Can federal grants increase per capita personal income levels in urban areas? The answer is yes, but the measurement of such an effect is all but impossible for some types of grants. Health and education grants surely increase labour productivity but the effects are longer run and out-migration may produce leakages of some of the ultimate benefits. Public assistance grants do increase the income flow in an area and these are counted as urban impacts (though reduced income and work effort consequences of such programmes are not so easily measured and not usually counted).

Impacts on the distribution of income may mean any one of three things. The first is city resident income relative to suburban resident income. The analysis of such effects is usually done on an impressionistic rather than a systematic basis and hard estimates are not usually made. The second is interpersonal equity, for example, will the expenditure programme or tax relief being financed be of relatively more or less benefit to upper vs. lower income groups. On the expenditure side, such analysis is more likely to be judgmental than empirical because so little is known about expenditure incidence analysis. On the tax relief side, empirical estimates of the changing

pattern of urban area tax burden are feasible and likely to be found in urban impact analyses. The third distributional concern is with particular effects on some subgroup of the poor, for example, the unemployed, the unskilled, Black teenagers. Here one is more likely to find estimates of programme effects on income and employment, but not on relative income and employment.

Fiscal relief has come to mean a variety of things, but it is perhaps the most crucial (certainly the most studied) facet of the analysis of the urban impact of federal grants. At a first level of analysis, the question seems to be whether or not the grant goes to the most needy urban areas. Once this is determined, the issue arises as to whether the grant is stimulative or substitutive, i.e., was it used to expand services beyond what otherwise would have been offered or was part of the grant taken in the form of tax relief? Federal grants in the U.S. system are designed to provide both forms of fiscal relief. The categorical matching grants are meant to stimulate the provision of certain services whereas general purpose grants are simply to augment local resources. Urban impact analysis makes use of available data on the amount of grants distributed to each government, but must rely on broader based studies to separate this amount into that used for tax relief vs. service expansion.

Some grants are apparently intended to improve physical structures – either neighbourhoods, housing, or public infrastructure. In some cases these criteria are easily evaluated, for example, the improvement of urban water mains, the reduction in urban mass transit grants. In others – for example, urban industrial developments – the physical rehabilitation may involve substantial population displacement and even job losses as marginal, neighbourhood businesses are cleared away. Urban impact analysis is more likely to capture the physical rehabilitation or new construction than the displacement effects. Here again the issue may be distinguishing between the

net and gross effects on the stock of buildings in the city.

In sum, while the criteria one would want to call up in measuring the urban impact of federal grants are fairly clear, the measure of these impacts is most difficult. The data shortcomings are severe and the methodology is not far advanced. As a result, more of the analysis of these factors is impressionistic than is empirical and the methods used vary from analyst to analyst.

Grant Impacts: Specific Instances

The rather primitive state of impact analysis might be illustrated by considering the analysis of two specific grant programmes. For each of these programmes, we might consider analysis of urban impact in terms of (apparent) primary intent and then in terms of some of the other criteria mentioned above. The important message here is that urban impact analysis relies first on general studies of federal grant impact and then deduces the urban impact. Moreover, one must generally infer the impact on all urban areas or on classes of urban areas from these analyses. For most of the criteria, there is little room to study how the impact might vary from city to city.

General Revenue Sharing

A programme of general grants to state and local governments – general revenue sharing – was enacted in 1972. Judging from the allocation formulae, the purposes of general revenue sharing must be multiple (though there are no explicit statements of purpose in the law). Still, one must argue that the primary purpose is fiscal relief. The first step toward an urban impact assessment is to know how well the money is targeted on the neediest or most ‘distressed’ cities. Revenue sharing is distributed first among the fifty states by formula, and then among local governments within each state by formula. Analysis of the per capita distributions show

that revenue sharing tended to favour lower income, rural states more than does the rest of the federal grant system. In this sense it would seem to be less targeted on distressed urban areas, which tend to be located in the higher income and more urbanized states. On the other hand, the distribution among local governments tends to target more of each state's share on distressed local governments. Some studies have shown that, nationwide, the more distressed areas have received a greater per capita allocation than have other cities. In terms of fiscal relief, and using the distressed city criteria, general revenue sharing would appear to exert a favourable urban impact.

A second impact question is the extent to which the funds are used to improve urban services or provide tax relief. For all local governments, it is estimated that less than 30 per cent of revenue sharing was used for tax relief. If this figure is taken as reasonable for urban areas, one *might* argue that urban property taxes (the main source of local tax revenues) are lower than they otherwise would have been. This would improve city/suburb disparities in tax effort and increase the relative competitiveness of cities. Whether the benefits of this tax relief accrue primarily to low-income groups depends on what one believes about who bears the burden of the property tax. Again, the deduced urban impact will vary among analysts.

If something like the estimated 70 per cent of revenue sharing goes into increased spending, the programme has a significant *potential* urban impact. Whether this potential is realized depends on how the money is spent. If the findings for all U.S. local governments may be used to infer the behaviour of urban governments, about half of the increase was for increased compensation of public employees. In general, the funds seem to have been spent for ongoing programmes with relatively less spent for new activities.

What then might one say about the urban

impact of general revenue sharing? Relative to other federal grant programmes it is not so well targeted on distressed cities, though financially troubled cities tend to receive a greater per capita allocation than do other cities. It does provide funds for tax relief and expenditure increase in urban areas and probably slows the growth in unfavourable urban suburban fiscal disparities. Low-income families probably benefit from this fiscal relief through better city services than otherwise would have been the case and possibly through property tax relief. These generalities might be the best one can do in evaluating a total programme, but a much more specific impact analysis may result if one is analysing specific facets of the programme.

One might be able to do a much better job of urban impact analysis with, say, a proposal to drop the provision in the general revenue sharing law that no local government receive more than 145 per cent of the state per capita average. It would be a simple matter to identify the gaining and losing jurisdictions from such a change, and to estimate the amount of fiscal transfers involved. Estimates of the tax and expenditure responses to this redistribution would still have to be deduced from evidence such as that suggested above.

Local Public Works

A second programme which was meant to have a significant urban impact was local public works grants. The grants were initiated in 1976 as part of an economic stimulus package to alleviate fiscal problems of the recession, but were to be used for capital construction projects. By anyone of several measures of distress, the grants were reasonably well targeted on needy cities, hence they provided a favourable distribution of fiscal relief by this criterion.

On the other hand, these grants probably did not stimulate new capital construction activity – empirical studies have suggested

that the funds were used primarily for tax relief. In terms of urban impact, the programme did not add to the physical rehabilitation of cities and did not create new construction jobs in the city, but it may have resulted in lower urban area tax burdens and service levels than might otherwise have been the case. If there had been a required urban impact analysis in 1976, it could have foreseen these results only on a basis of *a priori* reasoning, i.e., only by deducing that a grant of this type will tend to be substitutive of locally raised resources rather than stimulative of local expenditures.

Conclusions

It is too early to write conclusions about the value of urban impact analysis. It was never meant to be a substitute for comprehensive programme analyses, hence the methodol-

ogical problems outlined above may not be so severe as they seem. The void to be filled by urban impact analysis is to consider the often neglected spatial implications of federal programmes. Since most federal grants are made to state and local governments, urban impacts are less likely to be neglected than in the case of some other policy areas, for example, federal income tax reform.

The key question is how far must urban impact analysis go to be useful? Surely it isn't feasible to expect a scholarly study on every issue, yet rough judgements, as suggested above, can very easily be misleading. One answer is that there is need to do more work on developing a common analytic framework to improve urban impact analysis, and that in the meantime, even rough judgements are better than completely ignoring the spatial impacts of federal actions.