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WHO BENEFITS FROM INTERGOVERNMENTAL TRANSFERS?

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I. INTRODUCTION

In this paper, we address the conceptual and empirical issues underlying the debate on the spatial distribution of intergovernmental transfers. The debate has been embodied in the ongoing and vigorous political battles over formula construction at the federal level and the accompanying rhetoric indicting federal "favoritism" toward certain regions and places. Such political ferment begs a careful accounting of what the distribution currently looks like, to the extent that empirical data exist to reveal it.

Therefore, in Section II, we attempt to answer the question "What is being distributed to whom?" We begin by laying out three dimensions from which to describe the distribution: spatial, functional, and temporal. We discuss briefly the spatial units that seem to be of interest (regions, states, cities by city size, and central city vs. suburbs vs. rural counties). We talk about two different approaches to the tabulation of intergovernmental transfers: narrowly, by grant data, and broadly, by outlay data. And within these two definitions, we consider various functional categories such as welfare, highways, and education, which indicate the most significant factors in accounting for spatial differences. Finally, we focus on changes in distribution over a period of time, roughly the last ten years (1967-78). Drawing on work by various authors and directly interpreting some elements from Census and Outlays sources,

we construct brief tallies of the evidence on spatial distributions of expenditure from federal and state levels, for both the most recent year available and over the past decade. Where possible, we address distribution by function. The evidence suggests that intergovernmental transfers, while demonstrating wide variation across spatial units, generally do "favor" the Northeastern region, large cities, and central cities. However, the dispersion within most of these distributions has diminished over the last decade, despite the fact that this period has witnessed great concern over urban fiscal crisis and economic decline in the Northeast.

In interpreting the data, we raise a number of questions about its adequacy. But even more importantly, we caution against the subtle normative connotations which generally accompany discussions of such distributions. We note that, unlike the distribution of income to individuals, which constitutes a clear unidimensional criterion for debating the success of welfare programs, no societally agreed upon criterion exists for prescribing what the distribution of governmental transfers to areal units ought to be. Furthermore, the popular claims of "unfairness" suggest some correlation between needy people and particular places. But, in fact, no simple geographical correspondence exists. And even if it did, there is no guarantee that expenditures in particular places will result in concomitant income gains for needy groups, due to the discretionary behavior of local governments and the complexity of the multiplier

process by which the various types of transfers filter through a local economy. Finally, it bears reminding that intergovernmental relations are not reducible to intergovernmental transfers: many nonbudgetary policies affect spatial units differentially, and the incidence of the tax burden may also vary spatially.

In Section III, we go on to discuss some more fundamental methodological problems with public finance approaches to the question of intergovernmental transfers. We reflect on the state of positive theories of public finance and on the empirical evidence for them. We caution against the proliferation of expenditure determination studies to explain spatial distributions, by demonstrating that such distributions are not stochastic processes and by suggesting that most such studies will end up merely reducing aggregates to components--a task inappropriate for econometric analysis. Secondly, we note that public finance has increasingly ventured into behavioral theories of expenditure determination, but has oddly restricted its realm of study to the behavior of voters and taxpayers, and to the response of state and local governments on receipt of transfers. No behavioral work that we know of fully addresses the complex behavior of federal and state governments (Congress, legislatures, executives, agencies and their constituents) in determining the supply of intergovernmental transfers. Surely this is a ripe research frontier, one we try to probe in our final section.

In Section III we also reflect on the normative exercises in public finance which attempt to convert formula construction and the

determination of appropriate intergovernmental responsibilities into scientific exercises. We suggest that there has been a tendency for such efforts to obscure their normative content and underlying assumptions, with the result that debates over distributions have masqueraded as matters of a technical nature, when in essence they are political and involve conflictual visions. In reality, whether the authors are aware of it or not, different formula prescriptions serve the interests of various parties to the conflict. In our view, this era of scientific pretension to technical answers appears to be coming to an end, as formula construction becomes increasingly politicized. Without advocating any normative criterion for spatial distribution we suggest that public finance needs a good dose of political theory--especially a behavioral theory of the use of political power and resources, and a richer specification of the actors in the intergovernmental process, both those within the public sector and their constituents without.

In Section IV, we offer a political interpretation of intergovernmental transfers and their spatial distribution. We contend that the distributions over time have been determined by the outcome of particular political coalitions and forces, which can be much more richly described by political analyses. Furthermore, we suggest that the distributional battles have determined not only expenditure receipts but have also reshaped political power among various jurisdictions and actors.

In a brief exercise, with quite imperfect federal outlay data, we suggest that Congressional committees and agencies within the federal government have spatial affinities and ties to constituents which shape the distribution of their expenditures. In a further exercise, we look at three waves of federal grants-in-aid from the mid-1960's on: the New Frontier/Great Society, the New Federalism, and the era of Countercyclical Assistance and "targeting." The battles over distribution have increasingly induced the growth of regional lobbies and research efforts. This conflict over formula construction is spilling over into regional debates about the reliability of the data on which formulas are based.

We argue that economists concerned with the distribution of public expenditures must incorporate in their research studies the power relationships within government agencies, between levels of government and between government and the private sector. Further, we also point out that a real understanding of distributional questions requires micro-level documentation of actual receipt of benefits by individuals, groups, and classes.

II. THE EMPIRICAL EVIDENCE

A comprehensive attempt to identify the "beneficiaries" of intergovernmental transfers should examine the distribution of government spending in three dimensions. It should show how transfers are distributed spatially, it should examine how this distribution has changed over time, and it should weigh the relative importance of

different categories and types of expenditure. This combination of spatial, temporal, and functional evidence should 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.

Particular care must be taken when examining the distribution of federal expenditures to regions or states to first identify exactly what is being distributed. 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 latter includes all federal government expenditures, of which the direct aid to states and localities comprised only 17%. Purchase of goods and services--defense and non-defense--payments to individuals, and interest payments on debt accounted for the remaining $298 billion. Expenditures of this magnitude have substantial distributional effects. In fact, they provide a very different picture of the overall "impact" of federal spending on regions and on states from grant data. It is important, therefore, to examine the distribution not only of federal aid but also of total federal outlays. (This distinction in terminology between the more narrow category, "aid" and the all-inclusive "outlays," will be maintained throughout.)

In specifying to whom these expenditures are distributed, certain arbitrary choices must be made. Conceptually, many recipient units and categories can be identified, ranging from individuals to classes to regions of varying definition. However, the only

available data has been collected on spatial units and has been aggregated according to political boundaries. Therefore, while other distributional foci could prove enlightening, necessity limits consideration to politically defined spatial units such as regions, states, cities, and counties.

Currently, there are three principal sources of data from which to examine these elements of governmental spending. The Department of Commerce 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 report of "Federal Outlays" provides a listing of federal outlays--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 federal government spending. It is a rich and extensive body of data which has yet barely been tapped. Unfortunately, severe accounting problems render it currently only about 75% accurate (Anton, 1979) so that it must be used with caution.

Due to the timing of this conference, it has been impossible to compile and analyze the most up-to-date data (1977 Census data are not yet fully accessible). Therefore, we shall rely on synthesizing and summarizing the current literature for empirical evidence of the recent trends in government expenditures. We look forward to sharing the results of future research on the newest census data along with more extensive examination of the CSA outlays figures for a more detailed and current assessment of the situation.

In what follows, we integrate the existing evidence to provide an overview of the spatial, temporal, and functional distribution of government transfers. We have chosen to focus on those distributions which have been most hotly debated of late. In particular, we will examine the distribution of federal expenditures (both aid and outlays) to regions and to states, and the distribution of federal and state aid to cities (according to size) and within SMSA's (contrasting central cities with suburbs and non-metropolitan counties). As much as data allows, we will focus on the 1967-1977

time period. Our regional definitions will follows those of the U.S. Census.* It is important to remember that variations in spending within regions and within states often exceed the variations reported between them (Vehorn, 1977). Finally, while we will be quoting dollar figures for expenditures, straight comparison of these figures can be misleading due to considerable differences in economic conditions and cost of living across the United States. Unfortunately, we do not have adequate indexes with which to make these adjustments, nor is there a consensus as to how such regional differences ought to temper evaluation of the data.

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* The U.S. Census divides the country into four regions and nine sub-regions as follows:

1. Northeast
   - A. New England: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut
   - B. Mid Atlantic: New York, New Jersey, Pennsylvania

2. Midwest
   - A. Great Lakes: Ohio, Indiana, Illinois, Michigan, Wisconsin
   - B. Great Plains: Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas

3. South
   - A. South Atlantic: Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, District of Columbia
   - B. East South Central: Kentucky, Tennessee, Alabama, Mississippi
   - C. West South Central: Oklahoma, Texas, Arkansas, Louisiana

4. West
   - A. Mountain: Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada
   - B. Pacific: Washington, Oregon, California, Alaska, Hawaii

A. Federal Transfers to Regions

The Northeast currently receives the greatest amount of federal aid per capita, followed closely by the West, while the Midwest lags decidedly behind the rest of the country. In 1975, the Northeastern region received $260 per capita in federal grants, while the Midwestern states received only $198. The West and South received $246 and $220 respectively in per capita aid (Vehorn, 1977).

Public welfare grants account for the most significant proportion of this regional variation, with the Northeast receiving 35% more than the South in per capita aid ($116 per capita goes to the Northeast for public welfare, $75 to the South). The Northeast also receives the highest per capita grants for health and hospitals, regional development, and general revenue sharing, while the West leads in the receipt of aid for manpower and employment security, highways and transportation, and natural resources. The Midwest remains at the bottom of the distribution in per capita grants for education, highways and transportation, general revenue sharing, manpower and employment security, and health and hospitals (Vehorn, 1977).

Despite these disparities, federal aid is now distributed more evenly across regions than it was ten years ago. The relative differences in per capita aid have decreased, suggesting movement towards parity in the regional distribution of federal aid. Per capita grants to the Northeast increased significantly more rapidly than to other regions over the period, thus moving it ahead of the

West and the South which it had previously followed. The West experienced the greatest decline in federal aid relative to the national average, the relative position of the South also declined somewhat, and the Midwest remained in its former position below the national average (GAO, 1977).

Turning to the more comprehensive category of federal outlays, the West is clearly ahead of the rest of the nation, and the Midwest again remains at the bottom of the distribution. Total federal expenditure in the West during 1976 was $1,852 per capita, while it was only $1,228 in the Midwest. Federal spending in the South and Northeast were fairly close to each other, but well behind the West, with per capita outlays of $1,511 and $1,453 respectively (Havemann and Stanfield, 1977). To underscore the variation between regions, Anton (1979), using slightly different regional aggregations, notes a gap of more than $1,000 per capita between the lowest and highest region in 1977.

Enormous regional variations in defense expenditures account for more than half of these inequalities in federal outlays. Total spending in the West during 1976 exceeded that in the Midwest by $624 per capita, of which 58% ($359) was due to defense spending. Disparities in outlays for welfare programs account for most of the remaining regional variations (as noted in the discussion of federal aid) with the Northeast receiving the most and the Midwest the least. And according to the National Journal (1977) compilations, total spending on highways and sewers and on retirement programs is

relatively evenly distributed across regions (Havemann and Stanfield, 1977).

The trend in per capita federal outlays over the past decade does not support the current image of continuing "bias" in federal spending in favor of the "sunbelt" and at the expense of the"frostbelt." While federal outlays have more than doubled since 1970, and the rank order of the regions has remained much the same, disbursements to the South and West have actually fallen behind those to the Northeast in their rate of increase. If judged by the rate of increase in spending, a slight bias towards the Northeast can be detected, indicating that the higher per capita amounts now going to the West and South are reflection of a past bias, rather than current trends (Anton, 1979).

However, we suggest much caution in viewing distributional outcomes on such an aggregate level. Anton clearly demonstrates that the "sunbelt-frostbelt" imagery is too simple in its depiction of regional differences, since part of the sunbelt and part of the frostbelt are in very similar relative positions. He calculates per capita outlays and rank orders for all nine subregions and observes the following trends in the 1970's: low disbursements to the North and Northeast getting higher, high disbursements to the South Atlantic, Mountain and Western regions getting higher, and low disbursements to the South and Central regions, increasing less rapidly than other regions (See Table 1). He calculates regional differences from the national mean in 1971 and 1977 and notes that

Table 1:

SUB-REGIONAL PER CAPITA FEDERAL OUTLAYS:

1971 and 1977

Rank 1971	Rank 1977	1971-1977 Percent Change
1. Mountain	Mountain	95
2. Pacific	Pacific	89
3. South Atlantic	South Atlantic	86
4. Mid Atlantic	Mid Atlantic	108
5. West South Central	Great Plains	97
6. Great Plains	New England	111
7. East South Central	East South Central	101
8. New England	West South Central	66
9. Great Lakes	Great Lakes	107

Source: Anton, 1979

the Midwest and the South Central regions are the only ones which were not only below the national mean in both years, but moving further from it. He thus suggests that we might refer to a bias in favor of a "ski and sunbelt" and against the "middlebelt" (Anton, 1979).

B. Federal Transfers to States

The disparities in per capita federal aid to states are substantially greater than the variation among regions. While in 1975 the Northeast received 31% more in per capita grants than the Midwest, Wyoming received a full 133% more than Indiana. Clearly, the regional debate should be approached with skepticism. In 1975, per capita federal aid to states ranged from $152 (Indiana) to $354 (Wyoming), with $233 for the nation as a whole.

While comparisons of distribution to regions is a relatively simple (though potentially misleading) task, it is much more difficult to generalize about patterns of distribution across 50 states. We have no criteria for judging how much aid different states should receive, and it is clear that the amount of aid is not directly related to population. Since per capita income is a logical indicator of relative need, we have chosen to use it as a yardstick with which to measure the distribution of aid. It has been noted by some that high-income states frequently receive more aid than low-income states. According to a GAO study (1977), of the five states that received the most per capita aid in 1975, three had above average income levels; while all of the five states receiving the least per

capita aid were below average in income. Though these observations are accurate, enough exceptions exist (low-income states among the top aid recipients and vice versa) that evidence does not support consistent, across the board correlations between a state's per capita income levels and the federal aid it receives (see Vehorn 1977 data).

While the sources of variation in the flow of federal aid to states are complex, public welfare, highways and transportation, and education grants account for about half of the total aid allocated and also for much of the variation between states.* General revenue sharing and health and hospital grants are fairly evenly distributed, and while development grants, manpower and employment security, and natural resources grants show greater unevenness in distribution, their absolute amounts are not enough to make very much of a difference (GAO, 1977).

During the past decade, there has been a marked trend towards convergence in per capita distribution of federal aid across states. This trend, however, has merely begun to mitigate even greater previous disparities among the states. For example, Maryland, the state which showed the smallest percentage change in

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* (ff) This evidence suggests caution in interpreting functional causality. Above, we noted that federal outlays on highways and sewers were evenly distributed across regions; here, aid distributions show disparities among states. These differences may result from the different procedures for aggregating across functional categories and/or regions.

per capita aid from 1970-1975 (33.9%) still receives more aid than Michigan, which gained the most during the period (166.5%) (Vehorn, 1977).

Turning to the distribution of federal outlays, still greater interstate disparities exist. In 1976, Alaska received 247% more in per capita federal disbursements than Wisconsin. Again, these differences are largely due to differences in defense expenditures. While Alaska received $3,620 per capita in federal outlays, Wisconsin received only $1,044; and over 50% of this gap is accounted for by defense contracts and salaries (Havemann and Stanfield, 1977).

Perhaps most strikingly, the distribution of per capita outlays varies somewhat consistently with per capita state incomes. The highest income states clearly receive among the highest per capita outlays--eight of the richest ten states (ranked by per capita income) are within the top 22% of the distribution of per capita outlays; likewise, while the correlation is not as great, the poorest states seem to receive lower per capita federal outlays (see Table 2).

Due to the inconsistencies in the CSA federal outlays data over time, it is difficult to trace whether convergence in the distribution of federal outlays has been occurring in the way that we noted with federal aid. We look forward to the data-cleaning efforts suggested by Anton (1979) for further enlightenment on this issue , as well as further exploration of distributional patterns of federal expenditures.

Table 2

FEDERAL OUTLAYS TO SELECTED STATES,
BY INCOME RANKINGS, 1976.

State	Per capita income, 1975 rank	Per capita outlays		Total outlays		Outlays as % of total federal outlays
		Rank	$	Rank	Millions of $	
Alaska	1	1	3,887	41	1,368	.4
Connecticut	2	10	1,874	19	5,801	1.6
Delaware	3	45	1,247	49	722	.2
Illinois	4	39	1,372	5	15,290	4.3
New Jersey	5	11	1,815	6	13,281	3.7
New York	6	3	2,243	2	40,641	11.3
Maryland	7	7	2,067	13	8,471	2.4
California	8	8	1,951	1	41,330	11.5
Missouri	9	9	1,902	12	9,058	2.5
Hawaii	10	2	2,500	36	2,162	.6
North Carolina	41	43	1,288	16	7,019	2.0
Maine	42	20	1,641	39	1,738	.5
Tennessee	43	23	1,591	17	6,662	1.9
Louisiana	44	42	1,301	24	4,932	1.4
Kentucky	45	27	1,537	22	5,220	1.5
Alabama	46	30	1,525	20	5,511	1.5
South Carolina	47	29	1,437	28	4,048	1.1
New Mexico	48	4	2,165	34	2,483	.7
Arkansas	49	37	1,382	33	2,925	.8
Mississippi	50	10	1,730	27	4,059	1.1

Source: CSA, Federal Outlays in Summary, Fiscal Year, 1976.

Notes: The District of Columbia has been excluded here as it is clearly an exceptional case.
Figures include Indirect Federal Support--interest payments on the national debt and outlays for use in other countries--which tend to greatly inflate the amounts received by New York and New Jersey in particular (See Anton, 1979).

C. Federal Aid to Cities by City Size

The smallest cities receive the smallest per capita federal aid, but the largest cities do not receive the greatest. Census data tabulated in Table 3 show that for 1975-76, the six cities with population over 1 million received more than a third smaller per capita allocations than did the eighteen cities whose sizes fall between 500,000 and a million. Nevertheless, the distribution generally favors larger cities, with the smallest cities receiving $25.80 per capita, or less than one-half of the national per capita average of $54.45, and the eighteen in the second largest size group receiving $137.72, two and a half times the average.

Over the period from 1968 to 1976, the federal government has increased its aid expenditures to local governments dramatically. However, the relative positions of different sized city groups have not changed in a systematic way. The second largest group, still the biggest recipients of federal aid, gained the least proportionately, suggesting that federal actions are tempering the disparities in the aid distribution. This group, however, includes some of the worst-off cities in the country. On the other hand, the six largest cities (which include Los Angeles and Houston) received the largest per capita increase over the period. The two other size categories which received larger than average increases were the 300,000 to 499,000 group and the less than 50,000 group. The largest and smallest cities gained most. No functional breakdown is currently available to document which types of aid are responsible for these trends.

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
'68-69	State	49.56	174.27	53.83	38.12	26.47	33.17	31.44	18.59
	Federal	9.76	16.82	31.18	10.60	11.79	9.24	7.27	3.14
'71-72	State	63.46	222.51	71.31	56.07	56.96	48.71	35.14	23.49
	Federal	18.96	31.06	61.76	28.96	32.78	19.73	11.96	4.75
'72-73	State	79.99	254.66	82.91	68.72	61.62	56.07	38.45	43.01
	Federal	33.11	56.30	82.79	42.13	48.61	33.72	23.58	14.55
	Federal_{rs}	12.17	23.39	15.96	12.18	11.34	12.25	9.30	8.55
'75-76	State	100.76	364.65	119.31	88.99	94.02	83.09	58.79	40.43
	Federal	54.45	99.08	137.72	80.78	70.90	56.53	36.91	25.80
	Federal_{rs}	15.99	23.18	21.34	20.52	20.22	17.80	14.07	12.18

rs: the general revenue sharing component of total federal aid

Source: Census, City Government Finance, Selected Years

The role of general revenue sharing (GRS), while less than one-third of total federal aid, is striking. In 1972, the first year of general revenue sharing, the largest per capita shares went to the biggest sized cities. But from the beginning the program was less generous to larger cities proportionately than all other forms of federal aid combined. Furthermore, over the period from its adoption through 1976, formula changes favored intermediate sized cities even more, so that disparities in the allocations of GRS by city size were substantially diminished. GRS has clearly been a "spreader" program.

No functional distributions are currently available by city size, nor are the federal outlay data compiled by city size. Thus, a conclusion that federal aid favors big cities can only be tentatively drawn on the basis of narrowly defined federal aid allocations.* And, the evidence suggests that the disparities within the distribution have diminished, rather than increased, over the decade of urban fiscal crisis.

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* These, moreover, do not include federal transfers to states that are passed through to cities; the Census tabulates this in the state-to-local figures, discussed in the next section. An attempt to compute these pass-throughs and adjust the data for them is contained in Vehorn (1977); since his data suggest that the federal government has increasingly favored central cities, the pass-through amounts may be significantly different in their distribution. However, an alternative interpretation might be that Vehorn's conclusion that central cities are favored may result from his aggregation over various sized cities, in which the largest central cities are not the most favored recipients. A full discussion and alternative treatment of the pass-through problem is contained in ACIR, 1977 B .

D. Federal Aid to Central Cities, Suburbs, and Nonmetropolitan Centers

Central cities receive higher per capita allocations of federal aid than either their suburbs or nonmetropolitan counties in the same state with the remarkable exception of the Western region (Vehorn, 1977). Using computations from the 1970 and 1975 Census sample, Vehorn suggests that Northeastern central cities receive the greatest per capita aid and Midwest central cities the least, though variations within regions are great. Oddly, the Vehorn study shows (without hypothesizing why) that suburban receipts in the Western region exceeded not only those of their own central cities, but of central cities in the South and Midwest as well. *

Over the time period from 1970 to 1975, central cities' receipts grew faster than the other two types of jurisdictions. At the same time, nonmetropolitan counties' receipts grew faster than suburban receipts, so that by 1975, these counties' per capita allocations exceeded suburban allocations in all regions but the West.

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* In order of their 1975 per capita allocations, the aggregates for selected jurisdictions are ranked as follows (Vehorn, 1977, p. 13):

Northeast Central Cities	$ 243.76
Western Suburbs	136.29
Southern Central Cities	103.54
Western Counties	103.06
Western Central Cities	100.12
Midwestern Central Cities	97.30
Northeastern Counties	95.05
Northeastern Suburbs	91.33
Southern Counties	84.16
Midwestern Counties	75.34
Midwestern Suburbs	72.95
Southern Suburbs	66.04

While cautioning that inter-group variation exists, Vehorn concludes that "the federal government has attempted to channel more local aid to central cities than to suburbs" over the period.

No central city/suburban comparisons of federal outlay data have been compiled, and it would be unreasonable to attempt it before the Anton (1979) data-cleaning effort has been completed. The inability to compare federal outlays with the narrower federal aid allocations prevents us from concluding that federal expenditures have been clearly redistributed toward greater shares for central cities in the recent period. However, the conclusion can tentatively be drawn that central cities have generally been favored in grants distribution except that a Western regional bias, favoring suburbs and rural areas, dating from an earlier period, still exists.

E. State Aid to Cities by Size

The record on state aid to cities by size is fairly straightforward: the bigger the city, the larger the per capita allocation. The distribution, from Census sample data, is tabulated for selected years in Table 3.* In the most recent period, state allocations (which include federal aid that is passed on through state governments) were almost twice as large as direct federal to local allocations and generally favor larger sized cities. The six cities in

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* The interpretation of these figures as definitive of state to local relations must be cautioned by underscoring the narrowness of the categories. See ACIR, 1977 B, pp. 1-2, for a discussion of the various substitutes for aid (state assumption of responsibility and state authorization of revenue-raising powers).

the biggest size category receive almost three times as much as the next set of cities, and more than nine times as much as the smallest sized cities.

The historical record for state aid distribution by city size from 1967 to the present is quite revealing. States increased their transfers during this era only a bit more than 100%, compared to a federal increase of more than 500%, though state allocations still remain larger. Intermediate sized cities (from 100,000 to 500,000) gained the most percentage-wise, just the opposite of changes in federal aid distributions. Thus it can be tentatively concluded that statehouses, and federal programs run through the states, have been increasingly more generous to intermediate sized cities than to those considered most in need of aid infusions in the urban-conscious seventies.

The combined changes in state and federal aid by city size suggest that the cities of over 1 million receive the greatest per capita amounts of intergovernmental transfers, whereas in 1962, the 500,000 to 1 million group did. The percent of aid relative to own source revenue, calculated by the ACIR (1977 A,p. 49) for 1962-75, shows that cities of all sizes increased their dependency dramatically, but cities in the largest, smallest, and 200,000 to 500,000 groups increased their dependency most.

F. State Aid to Central Cities, Suburbs, and Nonmetropolitan Counties

No multi-state studies of the central/suburban/rural distribution of state aid have been undertaken. Harold Hovey (1978,p. 107) cites

two studies which are anecdotal rather than quantitative. He notes that while many states have one or more geographical units which claim that their state government discriminates against them in expenditure patterns, state level studies have been confined to noting facility locations and financial flows. The Carter administration, in formulating its urban policy, tried to determine whether states discriminated against their central cities, but multi-state data were not available to illuminate policy formulation (Hovey, 1978, p. 108).

Interpreting state aid flows is particularly tricky because a large part of the state-to-local distribution consists of pass-throughs from the federal government (ACIR, 1977B, p. 14). A forthcoming GAO study attempts to separate the federal component from the state-originating component, tracing the allocation of each to county jurisdictions for the state of New York. Using three types of counties (nonmetropolitan, metropolitan without a central city and metropolitan including a central city--roughly rural, suburban, and central city), they are concluding that per capita state aid favors rural counties most, non-central city metropolitan counties next and central city SMSA counties least; furthermore, this pattern has not changed over the period from 1969 to 1975. Federal aid per capita pass-throughs in 1969 in New York favored rural counties, central city SMSA counties second and suburban metropolitan counties least; by 1975, changes in federal formulas and programs resulted in higher per capita distributions to central city counties than to rural counties. Thus, to the extent that central city counties are faring better currently from state aid flows, such improvement is

due to the federal pass-through component. The state-originated flows, even in a state like New York with a strong urban lobby, favor non-central city counties. A second interesting finding in the GAO study is that state aid favors counties with low fiscal capacity (GAO, 1979).

The ACIR (1977A) has compiled census data on receipt of state aid over time by type of jurisdiction (county, township, municipalities, school districts) over the period from 1952 to 1974. We could assume that townships represent rural jurisdictions and municipalities urban ones. We can conclude that municipalities have traditionally been more dependent on state aid than townships, and furthermore, that such dependency has increased more rapidly for municipalities (ACIR, 1977 , Table 8, p. 13). However, counties are even more dependent on state aid, although their dependency has remained the same over the period. Since many rural residents rely more heavily on the county for public services, it is not easy to conclude from this data that the state necessarily favors urban areas. The data, of course, provide no insight into central city vs. suburban jurisdictions.

In general, we might expect wide variation in state treatment of local areas. Most states share revenues with local governments, but some rely primarily on source-of-revenue or per capita criteria for sharing, while others, like Michigan and New York, have criteria that attempt to build in need indicators such as per capita local property values or tax effort. Furthermore, outlays by the state to local areas might be much different in distribution than aid, depending on diverse factors

such as the scale of some services which require central city locations (e.g., much special education and some public health) as well as the political clout of various areas. Much interesting work remains to be done on documentation and interpretation of state to local expenditures.

G. Interpretations of the Distributional Data

In the above sections, we have tried to present the basic cross-sectional and longitudinal evidence on spatial patterns of intergovernmental transfers. We have registered a number of complaints about the data, both in the form it is currently collected and compiled and in its adequacy. We have drawn some tentative conclusions about areal gainers and losers, and changes in the distributions across time. From here, we could go on to construct elaborate variants on Gini coefficients that might show in even greater detail how the distributions have changed. However, we have succumbed to the delight of making sense out of numbers without explicitly placing the exercise in its normative framework. There are several points which must be addressed before we can interpret the significance of the trends we have displayed.

First of all, aside from our introductory comments, we have not justified why the distributions, and changes over time, might be cause for alarm or elation. We have posed no criterion to measure the distributions against, so that we could evaluate the appropriateness of certain outcomes. This point has been explored

by one of the authors at greater length elsewhere (Markusen and Fastrup, 1978). 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 characteristic 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. Yet there are many difficulties in doing so. The debate about people prosperity vs. place prosperity is not new (Winnick, 1966; Alonso, 1971); in the 1960s it was employed as a critique of many Kennedy/Johnson programs. Recently it has been rearticulated cogently on the left by Matt Edel (1979) as a criticism of the current drift of national urban policy.

In fact, 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 have to have 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, ed. (1979).

A final caveat for interpreting spatial disparities in expenditure is that intergovernmental relations are not equivalent 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 (Markusen and Fastrup, 1978, p. 89). 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 (Chinitz, 1961).

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 (1979), who tries to show how local political bureaucracies restructure themselves in response to changes in particular grant programs. Since gains in political power in the long run may be as significant as economic gains, the documentation of such political consequences should be pursued under the question "Who benefits from intergovernmental transfers?"

III. THE INADEQUACY OF CURRENT 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" (Break, 1978). 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 public finance research, in this section we reflect on methodology. Fiscal research can be divided into descriptive and prescriptive studies.

Descriptive 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 (Morss, 1966).

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 Firestine (1978), in which they use 57 different demographic indicators in turn to try to explain the variation in expenditure patterns over time. 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 indicators will not be analyzing a stochatic process if those very indicators are used in the allocation formulas.

The second type of empirical 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 microeconomics. 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 (Break, 1978). 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 intergovernmental 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 interests are quite different from the median voters. We map out an alternative approach below.

Intergovernmental prescriptive studies include the original Heller/Pechman work on revenue sharing, which argued that replacing categoricals 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 (GAO, 1977, pp. 103-123).)

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 advocatory. 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" (Feshbach, 1975, p. 15). 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 could be certain who would gain from the new programs or who would lose, or what they would gain or lose. (Piven and Cloward, 1971, p. 277.)

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 the federal budget.

IV. 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.

A. Elements of a Political Theory

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 at the federal level. 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 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 (Friedland, Piven and Alford, 1977).

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 (McConnell, 1966; Wildavsky, 1974). 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.* 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 4, 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:

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* Some threads are discernible. In sociology and political science, power structure research attempts to show the links between certain public sector suppliers and private sector powers (Domhoff, 1978, 1979; Carnoy and Weiss, 1973). In public choice theory, work on supply behavior within bureaucracies is only just beginning (Niskanen, 1971; Wamsley and Zald, 1973). A recent paper by Markusen (1979) speculates on the supply behavior of the Carter administration in producing the urban impact analysis. An outline of endogenous and exogenous supply behavior is presented in Capitol Kapitalistate (1977).

Table 4

Per Capita Federal Outlays to Regions, by Agency, 1976

AGENCY / REGION	Per Capita Outlays[1] (in thousands of dollars)									
	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. (Pierce, 1972; p. 26).

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.

B. 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. This is true for all federal government activity including tax and regulatory policies, but we have chosen to focus exclusively on spending patterns.

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 1960's and 70's that correlate highly with Democratic and Republican electoral strategy. As Table 5 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 is a function of the large Democratic majorities in Congress in the 1960's, 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 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 (1970), 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. 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-1970's. 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.

1. The Politics of Distribution

The politics of distribution involves 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 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

Table 5.

Comparative Growth in Total Federal Grants, Selected Northeastern and Midwestern and Sunbelt Cities, 1965-78.

(thousands of dollars)

Eight Northeastern and Midwestern Cities	Total Grants 1965-66	Total Grants 1971-72	Total Grants 1974-75	Est. Grants FY 1978	% Inc. 66-72	% Inc. 72-75	% Inc. 75-78
St. Louis	380	14,145	31,483	109,500	3622	123	248
Buffalo	2,589	15,345	31,844	80,947	493	108	154
Cleveland	6,468	16,782	47,733	110,381	159	184	131
Boston	32,842	61,249	66,782	120,885	179	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	346	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	209	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).

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 (Elazar, 1976).

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 (Schlesinger, 1958, 1960; Piven, 1971).

Republicans during the 1930s and 40s 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 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 (Dommel, 1974).

2. The Three Swings

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, (Caraley, 1976).

Piven and Cloward point out that during the 1960s the Democratic practice of targeting grants-in-aid to city rather than state goverments 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 (Piven, 1971).

The increasing use of categorical grants led to the emergence of interest group coalitions that cut across intergovermental 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 (Nathan, 1975 A).

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 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 (Feshbach, 1975; Beer, 1976).

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 (Nathan, 1975 B).

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 program (Nathan, 1975 B; 1977). 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 (Dommel, 1974). 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 (Banfield, 1971). His first step was to announce drastic 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" (Dommel, 1974, pp. 173-4).

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 (Wilmoth, 1978). 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. The latter trend is characterized by the recent appearance of regional lobbies, such as the Coalition of Northeastern

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*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.

Governors (CONEG), (Pierce, 1976).

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" (Nathan, 1978, p. 80). Our Table 3 above (p. 19) shows this clearly for city size categories. But it only took a couple of years for the 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 countercyclical package, with its economic stimulus and job-creation focus, demonstrated the Democratic commitment to a political alternative (Singer, 1975). And since the programs were all targeted to areas of high unemployment, central cities, particularly in the northeast and north central regions, benefitted substantially (GAO, 1977; Treasury, 1978; ACIR, 1978a). 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 70s.

Table 5, 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 midwestern 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 6 shows the distribution of Urban Development Action Grants in 1978:

Table 6

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:(Lyall, 1979).

3. 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 individuals, was tied to an automatic formula during the Republican highpoint in 1972 (Derthick, 1979). 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 (Nathan, 1976, 1977c, 1977d; Stanley, 1976; HUD, 1976; Treasury Department, 1978; Kordalewski, 1978; Barro, 1978; House Banking Committee, 1978). 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 (CBO, 1977).

A recent report by the House Committee on Banking, Finance, and Urban Affairs (1978) 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.

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 (Lyall, 1979). 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 (1977) both advocate better understanding of urban economic evolution as a basis for fashioning formulas. The former concludes that:

> 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.
>
> (House Banking Committee, 1978, p. 77)

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 (Stanfield, 1978b). In this sense, there is no such thing as a truly non-discretionary grant program; it's just that some programs have more predictable payout schedules than others.

The Brooking 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" (Nathan, 1975, p. 357; Friedman, 1971). 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 Charls 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 (Nathan, 1975, p. 364).

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.

4. Data Disputes

The political fight over the determination of the various formulas has 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 (Stanfield, 1978a). 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 (Singer, 1979; Lehner, 1979).

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 (Business Week, 2/26/79; Wall Street Journal, 2/8/79). 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% 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 (Klapper, 1978).

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 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.

C. Community Development Block Grants: An Example of Political Determination

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 (Nathan, 1977b, pp. 46-49). The formula redistributed community development funds away from the New England and Middle Atlantic states and toward the southern and western regions (see Table 7). In addition, many more local jurisdictions (48,000) were included in the formula than had previously benefitted 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

Table 7

Total CDBG Funds, 1975 and 1980

Under the 1974 Formula

Region	Entitlement CDBG 1975 ($000s)	Entitlement CDBG 1980 ($000s)	Per cent 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: DeLeon and LeGates, 1977, p. 392.

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 (National Commission, 1969, pp. 152-198; Hartman, 1974; Frieden, 1975). 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 agencies to the local chief executives. As a result, the funds tended to be spread around to a greater number of neighborhoods within each city (Nathan, 1977b; Keating, 1978).

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 CDBG and Republican support for new housing subsidy programs (Nathan, 1977b, pp. 43-46).

Another element of the compromise was that northern urban Democrats insisted on a "hold-harmless" provision in the distribution 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 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 (Nathan, 1977B). DeLeon and LeGates, in a study of California cities, discovered an interesting political pattern that accompanied the geographic 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 (DeLeon, 1976).

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 (DeLeon, 1976, p. 31). 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 (HUD, 1976). 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 benefitted the South. Since many people in policy and research positions felt 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 (Stanfield, 1977).

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% population growth lag, 30% poverty and 50% age of housing (defined as the number of housing units built before 1939). The results appear in Table 8. 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" (Lyall, 1979). 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.

TABLE 8

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

Source: DeLeon and LeGates, 1978, p.31.

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.

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 (Markusen, 1979) have emerged as another significant feature of this particular formula fight. 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 (Havemann, 1977, p. 1031; DeLeon, 1976). 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.* 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 (Keating, 1978).

Such a pattern has led HUD to impose new regulations beginning last May which require CDBG recipients to spend 75% 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,(Keating,1978).

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*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, 1978, p. 18)

But it is a step in the right direction, for at least it is a recognition of the real problems. Just because New Orleans, Louisiana 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, Pennsylvania 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.

D. 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 (Caraley, 1976). 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 problems) 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" (Montgomery, 1979). 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" (Schultze, 1976, p. 369). 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.

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