



carolina forum

Shifting Urban Policy Targets: Impacts on North Carolina and the South

According to the press, the states of the Snowbelt are involved in a "new civil war" with the states of the Sunbelt.¹ Governors have become generals, defending their regions. Skirmishes are fought in the North and South; while the major battle goes on in Washington, D.C. Battalions of regional interest groups are marshalled, each firing broadsides of research and policy analysis.² Computers are the primary engines of war, supplying ammunition for policy thrusts and counterthrusts. To the victors go the spoils in the form of new federal funding formulas.

Is this simply another media event, trying to capture public attention by overplaying political rhetoric? Maybe so, but beneath the rhetoric a significant shift in federal policy is being engineered which will have lasting consequences for the citizens and public officials of North Carolina and other developing southern states. Under the guise of "targeting" federal funds on urban problem areas, the present administration is systematically changing the rules for allocation of grants so as to favor older, declining cities, mostly in the Northeast and Midwest, while neglecting newer, growing southern and western areas.

While the funding targets are being changed, the funding procedure is not. The block grant approach which replaced categorical aid programs remains in place. What this means is that money is being "thrown at" problem areas, without a corresponding effort to identify root causes and to remedy the dangerous possibility that these old declining cities will become wards of the federal government, dependent on funds from Washington to carry out even their normal daily operations. Richard Nathan, of the Brookings Institution, recently testified that Cleveland's federal aid of \$110 million amounts to 90 percent of its \$122 million general fund expenditures.³ The *New York Times* reported that in Detroit a fifth of the police

officers, almost half of the garbage collectors, and over ten percent of the firefighters were being paid with federal money intended to stimulate the economy; they concluded, "what was intended as short-term, emergency relief seems destined to become a permanent part of the national economy" (Rosenbaum 1977, pp. 1, 66).

This new welfare policy for declining cities maintains rather than solves problems. It substantially and permanently reduces assistance needed in other areas. While it is not yet possible to document the lack of effectiveness of

the new policy in problem solving, we can show what is likely to happen in allocation of funds through the example of the recently amended Community Development Block Grant (CDBG) program.

Community Development Block Grant Formula Changes

The primary goal of the Housing and Community Development Act is:

... the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic activities, principally for persons of low and moderate income (Advisory Commission on Intergovernmental Relations 1977, p. 49).

The act consolidated most of the U.S. Department of Housing and Urban Development (HUD) categorical programs into a single block grant. These included: grants for urban renewal, neighborhood development, Model Cities, water and sewer facilities, neighborhood facilities, public facilities, open space—urban beautification—historic preservation, and rehabilitation loans.

The original CDBG distribution allocated 80 percent of the funds to Standard Metropolitan Statistical Areas

Figure 1

Community Development Block Grant Program
1976 and 1978 Entitlements by Census Regions
(1000's of dollars)

Area	1976	1978	Percent Change	Benefit From Dual Formula?
United States Total	\$2,699,000	\$3,405,500	+26.2	
Northeast:	762,169	959,018	+25.8	Yes
New England	217,657	212,285	-2.5	Yes***
Middle Atlantic	544,512	746,733	+37.1	Yes
North Central:	622,062	871,047	+40.0	Yes
East North Central	419,347	629,521	+50.1	Yes
West North Central	202,715	244,526	+20.6	Yes
South*:	849,023	971,243	+14.4	No
South Atlantic	413,672	446,672	+8.0	No
East South Central	178,448	206,552	+15.7	No
West South Central	256,903	318,019	+23.8	No
West:	412,907	514,035	+24.5	No
Mountain	100,422	110,747	+10.3	No
Pacific**	312,485	403,288	+29.1	No****
U.S. Territories	52,838	90,196	+70.7	No****

NOTE: Detail may not sum to total due to rounding. U.S. total does not include Secretary's discretionary fund, whose allocation is not formula-based.

*The SGPB South is the Census South region less Delaware and the District of Columbia.

**Including Alaska and Hawaii.

***Would have lost more under the old formula.

****Increase would have been less under the new formula.

Source: U.S. Department of Housing and Urban Development (1976) and U.S. Department of Housing and Urban Development (1977).

(SMSAs) and 20 percent to non-SMSAs. Within the SMSA category funding was based on a formula with three weighted factors: 25% population, 25% housing overcrowding, and 50% poverty. In addition, these areas were protected from decreases in their previous levels of funding under categorical programs by a "hold harmless" provision determined by the average funds received during the preceeding five years.

Hold harmless provisions were temporary. Most of these provisions were intended to begin phasing out in fiscal year 1978, with complete phaseout over a three year period. However, as it was realized that the phaseout of hold harmless would result in major funding cuts for older, declining cities under the original formula, pressures were mounted to ensure that the hold harmless funding cuts did not occur.

A coordinated effort by HUD, the Brookings Institution and the Northeast-Midwest Coalition resulted in congressional approval of a new metropolitan area funding formula designed to favor the declining cities. (Nathan *et al.* 1977). The new formula's weighted factors are 20% growth lag (behind the national growth rate for metropolitan cities since 1960), 30% poverty, and 50% age of housing (only housing built prior to 1939 is counted). Under a dual formula approach, the recipient government may choose either the original or the new formula, whichever is most favorable.

The new formula represents a victory for those critics of the 1974 Act who felt that old central cities were shortchanged initially. It represents a defeat for those who felt that small cities and developing counties also were shortchanged. In its evaluation of CDBG, the Advisory Commission on Intergovernmental Relations noted:

By any construction of the legislation's objectives and by even a cursory reading of the implementation record to date, the larger, older central cities, and the small cities and counties of metropolitan areas have or will have a legitimate basis for claiming unfair treatment (Advisory Commission on Intergovernmental Relations 1977, p. 87).

The Commission recommended a revised funding allocation to treat both older deteriorating cities and small communities in metropolitan areas more equitably. Only half of this recommendation was adopted, as supporters of declining cities promulgated an image of "suburban tilt" in the original legislation and successfully lobbied to change the major factor in the new formula from poverty to age of housing.

Figure 2
Community Development Block Grant Program
1976 and 1978 Entitlements for Fifteen Southern States
(1000's of dollars)

State	1976	1978	Percent Change	Benefit From Dual Formula?*
Alabama	49,059	60,341	+23.0	No
Arkansas	31,842	30,442	-4.4	No
Florida	80,792	109,024	+34.9	No
Georgia	64,091	65,635	+2.4	No
Kentucky	38,418	47,443	+23.5	No
Louisiana	42,281	62,576	+48.0	No
Maryland	50,999	53,085	+4.1	Yes
Mississippi	32,915	36,745	+11.6	No
North Carolina	65,850	64,182	-2.5	No
Oklahoma	39,972	36,636	-8.4	No
South Carolina	26,542	30,477	+14.8	No
Tennessee	58,056	62,023	+6.8	No
Texas	142,808	188,365	+31.9	No
Virginia	61,406	60,759	-1.1	No
West Virginia	15,039	23,004	+53.0	Yes
South Total	800,070	930,737	+16.3	
U.S. Total	2,699,000	3,405,500	+26.2	

NOTE: Detail may not sum to total due to rounding, U.S. total does not include Secretary's discretionary fund.

*Increases in allocations in states that do not benefit from the dual formula result from rapid population growth (as in Florida and Texas) and/or from the spread effect of block grants as opposed to categorical grants.

Source: U.S. Department of Housing and Urban Development (1976) and U.S. Department of Housing and Urban Development (1977).

Noting that the program is at a crossroads, the Commission asked: "should the focus of the CDBG program shift from the renewal and development of large urban areas to the renewal and development of all the nation's cities" (Advisory Commission on Intergovernmental Relations 1977, p. 90). They took the position that Congress should give special attention to the needs of the small cities. This did not happen. Note that the new formula completely drops the overcrowded housing factor, a feature of much sub-standard housing in the South, but not in the abandoned housing areas of northern central cities; that it downgrades the weight of the poverty factor, which reduces the influence of the much lower per capita income of the South; that it gives maximum weight to the age of housing factor, which does not correlate with accepted indicators of urban stress such as lack of plumbing or non-white occupancy; and that it introduces a new growth lag factor, which is tailored to fit the cities of the Northeast which have been losing population since the 1960's.

The disproportionate impacts of the formula changes can be seen in Figure 1, which shows the funding changes for various regions. Some increases occur in nearly all regions due to the allocation of an additional \$600 million for 1978, but the lion's share of the increase is estimated to go to Middle Atlantic states

of the Northeast Region and to the East North Central states of the North Central Region. Increases in the Middle Atlantic and East North Central areas alone account for \$412 million, or over two-thirds of the additional 1978 allocation. Furthermore, only two Census regions, the Northeast and the North Central, benefit as a whole from application of the new formula. The South and the West do not.

An unanticipated consequence of the new formula is that it provides a windfall in federal funds to a number of cities which do not fit the objectives of the Act to benefit persons of low and moderate income. For example, Oak Park, Illinois, the middle class suburb of Chicago known for its concentration of Frank Lloyd Wright houses, gains a very large windfall. Despite the fact that only 3 percent of its families have incomes below the federal poverty level, Oak Park's entitlement goes up over 400 percent from \$347,000 in 1976 to \$1.75 million in 1978. Under the old formula, it would have been entitled to only \$565,000 in 1978 (U.S. Department of Housing and Urban Development 1976; U.S. Department of Housing and Urban Development 1977).

North Carolina, on the other hand, does not benefit from the dual formula in 1978. North Carolina cities receive higher allotments under the original formula, which shows the geographic bias of the new formula. Furthermore, in

1978, North Carolina cities as a group will receive only 97.5 percent of their 1976 funding, while the nationwide funding level will be up to 126.2 percent of the 1976 level (See Figure 2).

North Carolina is one of four southern states whose allocations decrease between 1976 and 1978. Only two southern states benefit from the new formula and the South as a whole benefits from an increased appropriation far less than the rest of the U.S. The South's allocation increases about 16 percent while the overall U.S. increase is about 26 percent. For most of the South, the choice implied in the dual formula is no choice at all, due to the new formula's heavy reliance on age of housing and growth lag factors.

Future Impacts

Similar changes will be proposed for other federal funding programs in the coming months. Among the programs likely to be affected are the Elementary and Secondary Education Act, the Comprehensive Employment and Training Program, Housing Assistance, Aid to Families with Dependent Children, Medicaid, General Revenue Sharing, Local Public Works, National School Lunch Program, and Vocational Rehabilitation. Each of these programs could be targeted toward "distressed cities" if the President's urban policy group's recommendation is accepted. This draft report calls for a sharp change in federal policy, deliberately steering federal funds toward economically distressed areas and away from other parts of the country (*Wall Street Journal* November 8, 1977). This new policy could be reflected in creation of an Urban Bank to aid cities with high unemployment rates, provisions for tax exempt industrial revenue bonds limited to areas of high unemployment, tax reforms aimed at encouraging central city revitalization, an energy development bank for the Northeast, and an energy

plan that boosts costs in the energy-producing Sunbelt. When the growth-restricting provisions of the federal air and water quality standards are added in, the array of federal policies unfavorable to the developing parts of the country is large.

It is not as though no federal aid were being rendered to the Northeast. Extreme statements by some commentators about the "hemorrhage" of tax dollars from the Snowbelt to the Sunbelt notwithstanding, a recent study by the Library of Congress showed that between 1950 and 1975 the northeastern states went from last to first place in per capita federal aid (Library of Congress 1977). The U.S. average in 1975 was \$229 per capita, the Northeast received \$260, the West \$241, the South \$218, and the North Central \$197.

Impacts of the proposed policy shifts could change the population projections now envisioned for North Carolina and the South. With the slowing of growth in the West, over half of the nation's growth is now expected to take place in the fifteen southern states between 1980 and 2000. North Carolina's population is projected to increase to almost 7.5 million in the year 2000, a 25 percent increase over its 1980 population (Godschalk 1977). However, efforts at the redirection of funding now under way in Washington might mean a moratorium on southern growth, at least until these policies are changed.

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Ed. Note: The Southern Growth Policies Board is an interstate organization serving 15 southern states from Maryland to Texas.

Planning for Natural Diversity: The N.C. Natural Heritage Program

For conservationists in North Carolina, it is an exciting time. In recent months, a four million dollar purchase of Currituck Banks sanctuaries has been made possible by the largest conservation gift in the history of American foundations. The preservation of the Green Swamp national natural landmark has been achieved through one of the largest land donations by an American corporation. Fund raising and negotiations are in progress to acquire more of North Carolina's finest natural areas. A

strong conservation spirit is gaining force. Conservation in North Carolina is scoring victories through an unusual alliance of environmentalists, business, universities, foundations, and government. Many of the current achievements are spawned by the creation of two young and parallel efforts: the North Carolina Nature Conservancy and the North Carolina Natural Heritage Program.

North Carolina is blessed by a magnificent natural diversity. But it is

Notes

1. For a sample of the Sunbelt/Snowbelt coverage, see: Gurney Breckenfeld, "Business Loves the Sunbelt (and Vice Versa)," *Fortune*, June 1977; "The Second War Between the States," *Business Week*, May 17, 1976; and "Federal Spending: The North's Loss and the Sunbelt's Gain," *National Journal*, June 26, 1976.
2. Northeastern and midwestern interest groups include: Council of Northeast Governors (CONEG), CONEG Policy Research Center, Council for Northeast Economic Action, Northeast-Midwest Economic Advancement Coalition (over 200 members of the U.S. House of Representatives), New England Congressional Caucus, New England Economic Research Office, and Great Lakes Economic Action Council. Southern and western groups are: Southern Growth Policies Board and Western Governors Policy Office.
3. Quoted in *Practicing Planner*, September 1977, p. 11.

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threatened. Habitats of rare and endangered plants or animals, undisturbed ecosystems, and other areas of special ecological interest are of great concern. These resources are important for their scientific, educational, recreational, ecological, economic, cultural, and inspirational values.

Natural diversity is commonly the loser in our society's quest for prosperity and urbanization of the land. North Carolina's natural heritage, while still rich, is a pale remnant of the past. Each year a bit more of the natural landscape disappears to development. Our wildlife, particularly the native non-game species, is pushed back into ever more isolated enclaves. State scientists and

resource managers list several hundred native plant and animal species whose survival is endangered or threatened. Prime instances of forest and other ecological associations are reduced to the point of being artifacts of the original landscape.

Few public decision-makers, including planners, understand the importance of conserving natural diversity. Fewer still recognize that existing parks, refuges, and publicly-owned natural areas preserve no more than a fragment of our natural heritage. Local land use plans, likely as not, propose future development of the critical natural areas that remain in private ownership. Management plans for lands in public ownership too frequently are destructive of vulnerable ecological resources.

The North Carolina Natural Heritage Program is designed to inventory the state's critical elements of natural diversity and to identify those natural areas most deserving protection. Established in late 1976 with assistance of the Nature Conservancy and private foundation grants, the Natural Heritage Program is a unit of the Division of Parks and Recreation within the State's Department of Natural Resources and Community Development. Its inventory involves collection of data on the occurrences, location, rarity, ownership, protection and management status, and site qualities for the State's most critical elements of natural diversity—habitats of endangered and rare species, mature and high-quality examples of plant communities, unique geologic features, and important wildlife habitats.

Our approach recognizes that a rational decision process must determine which parts of the natural landscape most merit preservation and which sites most warrant investment of limited financial resources. The inventory produces an index of relative rarity showing which natural elements have fewest occurrences and which are least protected. Direct comparisons of quality, viability, and defensibility can be made on the basis of real data, as opposed to the subjective judgments that too often prevailed in the past. Analysis of the data and follow-up field surveys permit us to determine the sites that most merit preservation. After identifying the best prospects, we can make a detailed investigation and develop a preserve proposal, protection strategies, and management plans.

Natural heritage programs have been established at the request of ten state governments by the Nature Conservancy, a national citizen-based conservation organization. The Nature Conservancy has developed a system for

these states to conduct the ecological inventory, to manage and analyze assembled data, and to implement protection strategies. As the programs are incorporated within state agencies, the system continues to accumulate inventory information, to refine protection priorities, to promote public concern for conservation, and to preserve ecologically significant areas.

The Nature Conservancy has helped preserve over a million acres of natural lands in the United States, including over 85,000 acres acquired in North Carolina. The Nature Conservancy in North Carolina has acquired land for the protection of such varied areas as Great Dismal Swamp, Jockey's Ridge, Roan Mountain, Chowan Swamp, Eno River, Stone Mountain, Green Swamp, Bird Shoal Islands, and Currituck Banks. The North Carolina Nature Conservancy, a branch of the national Nature Conservancy, is directed by trustees and advisors composed of leading businessmen, conservationists, financiers, lawyers, scientists, and politicians. Its preservation projects, many of which are in progress, are based upon priorities set by the Natural Heritage Program. Its purchases are sometimes in cooperation with public agencies and sometimes private actions. Working with public agencies, universities, and other conservation groups, the Conservancy offers North Carolinians the opportunity to contribute to the protection of the state's natural diversity.

The value of the Conservancy's assistance in establishing natural heritage programs within state governments, rather than within the private or academic sectors, is that states can potentially bring tremendous protection capabilities to bear. Also, as units of government, the programs provide for effective interaction and cooperation among public agencies, and permit the long-term maintenance of an ecological information system that public agencies can best afford. In a state where land conservation traditionally has been promoted by private citizens, a cooperative effort between government and the private sector offers the greatest possibility of success.

The Natural Heritage Program has developed a sophisticated yet economical data management system that provides an information and planning tool for use in decision-making. Information on all occurrences of critical natural features are recorded in USGS topographical maps, computer storage and retrieval bank, and cross-referenced manual files.

The endangerment of our natural heritage is largely unnecessary since

there are nearly always alternatives to destruction, but only if decision-makers are well-informed. In the past, there has been a lack of (1) sufficiently detailed environmental information focused on natural elements, (2) adequate methods for evaluating this information and setting sound protection priorities, and (3) a balanced and practical system for efficiently and effectively protecting the recognized critical areas. There has been a lack of organized, coordinated, and accessible information on the existence, location, condition, and protection status of elements of natural diversity. The Natural Heritage Program meets these needs.

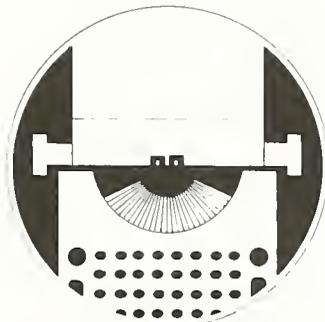
The Natural Heritage Program can help assure effective allocation of resources, while avoiding development conflicts. Our information is made available freely for the use of other public agencies, public works planners, local governments, scientific research, educational, and conservation programs. We believe that by providing natural diversity data to others, we contribute to improved management of natural areas in public ownership, environmental impact assessment, and development planning. The timely input of ecological information in decision processes will serve to avoid unnecessary natural resource conflicts or destruction of significant natural elements.

Public conservation agencies use our data for their resource inventories and planning. The U.S. Forest Service uses our data for its North Carolina forest inventories and unit planning. The Fish and Wildlife Service uses our information for establishing priorities for protection and acquisition of wildlife habitats in North Carolina. We have provided natural diversity information to the National Park Service for developing management plans over the Great Smoky Mountains and Cape Hatteras national parks and for assessing potential national natural landmarks. Our program provides data management for the NC Wildlife Resource Commission's endangered species protection program. We contribute to the Coastal Resources Commission's determination of coastal areas of environmental concern, in which development is regulated. We aid the Division of Environmental Management in identifying natural areas in its water basin development plans. We contribute to the information services of the Land Policy Council. The Division of Parks and Recreation incorporates natural diversity data in its park master plans, environmental assessments, and state outdoor recreation plan.

Heritage information is also used by local governments for resource inven-

ories and land planning. The Piedmont Triad Council of Governments wrote that:

The PTCOG views the N.C. Natural Heritage Program as an irreplaceable organization in compiling and distributing this information from one central location. Most councils of governments and local governments have neither the money nor the expertise to perform this work. Without the Heritage Program, we fear development will unknowingly deface or destroy some of the natural beauty and uniqueness of North Carolina.



North Carolina Development Policy

The article by Mark Horowitz and Thomas Rogers in the fall 1977 issue of *carolina planning* is one of the best quantitative analyses of economic development factors in North Carolina I have seen.

The article proposes to break down the determinants of wages into two components—an economic growth component and an economic development component. In light of the current North Carolina policy which concentrates solely on economic growth factors, this disaggregation is useful in that it highlights the need to consider economic development variables. Although the consideration of economic development factors is a step in the right direction, the author's model still treats economic growth factors as independent forces which influence the level of wages. The authors reject the neoclassical explanation that "economic growth is the necessary and sufficient condition for development" but do not take the final step—that economic growth has no independent effect on wages and only provides a potential for increases in wages—a potential which is activated by the development factors.

In terms of their model, after developing composite variables related to economic growth and economic development, the multiple regression model tests the relative importance of economic development and economic

The Natural Heritage Program participates in environmental impact assessment reviews of proposed development projects and also provides natural diversity data to development agencies for project planning. This service adds a new dimension to the State's review capabilities and is appreciated by the development agencies.

We have a better prospect for protecting our rich habitats of native species and remnants of the original natural landscape as a result of the inventory and protection planning program. The Natural Heritage Program has demonstrated its effectiveness for con-

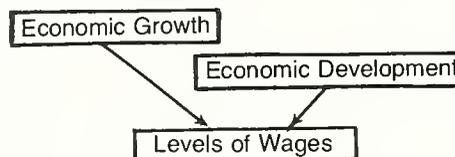
tributing ecological data to a range of decisions and for identifying the State's most significant natural areas. The Nature Conservancy has focused public efforts to protect those areas. Our natural heritage can now potentially be protected through cooperation of government, private organizations, and concerned citizens.

Charles E. Roe
Coordinator

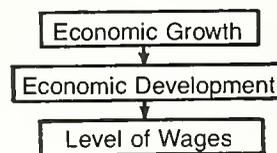
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Letters

growth as two separate factors. Schematically:



I would contend that the literature by Seers and Emmanuel which the authors cite instead supports an alternative formulation:



whereby economic growth has no independent effect but rather exists as a potential which acts through the economic development factors. Increased production—either through the installation of new plants or through increased productivity—provides more surplus to be divided between capital and labor. However, the "bigger pie" thus produced is controlled by the capital owners who then divide it between capital and labor. The division of this product is influenced by the economic factors—level of unionization, income inequality, and urbanization.

This model could be tested by stratifying the observations by level of economic growth and running the regression. The influence of economic development variables (as measured by the beta coefficients) should be higher in the group with a high economic growth level and lower in the low economic group, indicating that the level of economic development activates the potential for higher wages generated by economic growth.

The conclusions reached by the authors are certainly justified—that the state of North Carolina must shift its emphasis to people-oriented development policies and should remove institutional barriers to worker organization that presently exist—but I would contend that their case is stronger than is presented. Not only do economic development factors influence the level of wages, but they are of primary importance. In terms of raising the level of wages, the economic growth experience in North Carolina has been wasted to the extent that economic development factors have been too low to activate the potential for higher wages created by economic growth.

I should also note that the article "Institutional Determinants of State Wages Differentials," which the authors attribute to me, was in fact written by Robert Crow.

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