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Closing the Growth and Equity Policy Divide: Rethinking the Role of the Federal Government When Promoting Economic Development in Distressed Urban Communities

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I. Introduction

Programs to alleviate poverty in economically distressed urban areas have been historically divorced from economic growth policies. Poverty alleviation programs are perceived as programs that provide equal opportunity and may not necessarily advance economic development objectives. Economic growth policies are typically associated with business and industry assistance directed at enhancing productivity and competitiveness or providing the financial subsidies that would facilitate private sector investment. In the case of backward regions, economic development policies have often focused on building the necessary infrastructure which is a precondition for industrialization and prosperous commerce. Far from having a neutral impact on poverty, this federal policy divide has exacerbated poverty and nurtured the continuation of the problem. The current new wave of federalism provides an opportunity to rethink the role of the federal government when promoting economic development in distressed urban communities.

Given the historical pattern of categorical program consolidation at the federal level and the transferring of authority to state and local jurisdictions, the policy debate is no longer whether there will be a consolidation of economic development programs, but what are the best alternative approaches to consolidation and how to monitor and manage the consolidated programs. The consolidation of economic development programs targeting distressed urban communities is a desirable objective in principle. Nevertheless, as the Community Development Block Grant (CDBG) experience illustrates, the concomitant reduction in funding, the influence of local political interests, and other factors may prevent the adoption of block grants from providing the desired flexibility at the local level and dampen the overall impact of local initiatives. The Empowerment Zones (EZ), Enterprise Communities, initiative of the United States Department of Housing and Urban Development (HUD), awarded to selected economically distressed urban areas, represents a new generation of block grants in which business and industry-oriented strategies are combined with the targeting of poverty-stricken communities and people. This new approach offers the conceptual foundations for a much broader convergence of growth and equity-concerned policies.

The objectives of this policy briefing memorandum are two-fold: first, to review the historical record concerning economic growth policies, particularly those overseen by the Economic Development Administration (EDA), and the experience with block grants for urban economic development; and, second, to discuss new roles the federal government might play in promoting the convergence of these two broad policy areas.

All in all, the consolidation of urban economic programs into a block grant could be a positive step towards the alleviation of concentrated poverty. But the impact of such an initiative largely depends on avoiding the pitfalls that have rendered CDBG ineffective in the past. In part, the effectiveness of consolidated funding will depend on the role that a central authority plays in monitoring, evaluating, and assisting local governments. Understanding that mission may help EDA to gain a leadership role in the redefinition of intra-government relations as they relate to distressed urban economies.

The next section of this work examines EDA's experience in promoting economic development, with a particular focus on its assistance to urban communities. The discussion is based on the record of recent congressional hearings reexamining EDA's mission. In those hearings, there was a strong consensus about the adoption of economic development strategies assisting intermediary organizations that strengthen industry clusters or sectoral networks. Direct business assistance to enhance overall competitiveness in a global economy seems to be more effective when provided through a dedicated and focused set of institutions. However, expert witnesses were critical of the role that EDA has played in the past in assisting distressed urban communities. The major concerns regard the recognition of the distinct problems that affect urban centers, the recognition that there is a vast network of institutions that provide key links to poor communities and their residents, and the acknowledgement of an historical bias against providing economic assistance to urban centers at all.

The successful integration of general economic development programs and those more specifically targeting distressed urban areas--let alone particular Latino, Black, Asian-American and other such communities--requires an understanding of the problems associated with funding consolidation for urban development. The second section of this work examines the experience of CDBG since the 1974 consolidation of categorical programs for urban development. In many ways, like the EDA's experience, urban development strategies evolved from an approach that focused initially on "bricks and mortar" into one emphasizing people-based strategies. But as the most recent formulation of a people-based or institutional building strategy (as embodied in the EZ and other recent initiatives) shows, effective intervention should be focused on both people <u>and</u> place, economic institutions <u>and</u> distressed communities. This new generation of block grants allows for a more comprehensive view of economic and area development.

The central policy recommendation of this work is that the consolidation of economic and urban development programs is a landable objective. Such consolidation may allow for greater participation and program flexibility. However, ignoring the pitfalls of the CBDG experience with respect to the necessity of community participation could negate the potential beneficial impact of such consolidation. Will the resulting guidelines and philosophies reflect more of the existing and problematic CDBG-related practices, or of the new emerging visions in economic and urban development? The final section of the paper examines the factors that may induce one approach to prevail over the other, and the central authority role needed for overseeing the successful implementation of consolidated funding.

II. Renewing Growth Policies: Assessing the Role of EDA

Shortly after President Clinton's administration was installed in office, in March 1994 the Subcommittee on Economic Growth and Credit Formation of the Committee on Banking, Finance, and Urban Affairs of the U.S. House of Representatives conducted public hearings to examine the role of the Economic Development Administration in promoting economic development. During three days of depositions, renowned expert witnesses testified about new approaches to economic development, the role that state and local governments and nonprofit and community-based organizations have played in developing best practice, and about the implication of these trends for reexamining the mission of EDA. The following summer, the House Subcommittee on Economic Development and the Committee on Public Works and Transportation conducted similar hearings in which ranking government officials had the opportunity to react to and comment upon the many ideas presented earlier. The hearings appropriately expanded well beyond the role of the agency and included a broad range of topics related to economic development and public policy. These hearings provide a unique starting point for examining how the new policy environment may affect the role of the federal government in promoting economic development.

A close examination of the proceedings of the congressional hearings reveals a consensus in that the focus on regional clusters of firms, the more specialized industry strategies, and the creation of public-private partnerships are promising new directions in economic development policy (Atkinson, 1994; Dabson, 1994; Oden, 1994; Open, 1994; Plosila, 1994; Roberts, 1994). Almost all testimonies, including those of representatives from a broad range of economic institutions, endorsed a redefined Mission for the EDA that includes:

- increased coordination, if not consolidation, of federal programs promoting economic development;
- a more selective investment in infrastructure which complements broader local development partnerships and programs, maximizes the use of existing facilities, and induces the consolidation of business services and centers;
- a shift from categorical funding to consolidated funding in order to offer localities greater flexibility and to allow the provision of loan guarantees to recapitalize Revolving Loan Funds (RLF's); and,
- the use of federal subsidies to leverage private sector investments, to promote local collaborations, to support the formation of industry intermediaries, and to reward and encourage the adoption and dissemination of best practice.

A shift in development strategy toward promoting industry clusters and sectoral networking is clearly the preferred new direction of the present leadership. In their testimonies, both Secretary of Commerce Ronald Brown (1994) and former Assistant Secretary, now Chief of Staff William Gingsberg (1994), endorsed the proposed new policy directions. Current Acting Director of EDA, Philip Singerman, has long been associated with one of the most well-known of the state-level "third wave" networks: Pennsylvania's Ben Franklin Partnership.

Despite the emerging consensus regarding EDA's and other agencies, roles in promoting economic development, there are potential linkages between economic and area development policies and other kinds of programs that have received less congressional attention and deserve further discussion. Indeed, an economic growth policy need not be divorced from targeting distressed communities in large urban centers and economically disadvantaged populations (Montgomery, 1994, Roberts, 1994). Commerce's Gingsberg (1994) suggests that HUD's Empowerment Zone and Enterprise Communities Program offers an opportunity for such bridge-building. In particular, the core urban policy of President Clinton's administration encourages the development of local strategies to promote the creation of an intermediary base of city-sponsored public-private business assistance entities, specifically to include the participation of the existing network of community development corporations (CDCs) and other community-based organizations (CBOs) (U.S. Department of Housing and Urban Development, 1995).

The congressional hearings revealed general key issues regarding the historical economic and area development divide. First, there is the need to acknowledge that there is still no explicit recognition by EDA of the distinct problems of the very largest urban centers, nor any definition of specific growth strategies that correspond to the unique problems and the different conditions of these areas, as compared to smaller urban centers, rural areas, and distressed regions affected by natural disasters or in need of diversifying away from a military-dependent economy. Mature, large urban centers which have suffered deindustrilize require an emphasis on the modernization of existing manufacturing operations and the corresponding upgrading of the skills of existing workers. For big cities, policies aimed at attracting new industries are less relevant, there being little open space on which to build brand new facilities. Most urban land requires expensive land preparation and clean-up of environmental contamination, or the costly rehabilitation of antiquated and inadequate space. Thus, mature and large urban centers require an emphasis on industrial retention strategies and effective Worker Adjustment and Retraining Notification (WARN) systems (Leroy, 1994; Croft, 1994).

Moreover, EDA and other agencies committed to development need to recognize that large urban centers already have a vast network of labor and community organizations which constitute an active and experienced set of economic actors who provide a link between private sector and government agents and low-income, economically-disadvantaged populations. The development of grass root organizations is, in part, a response to the concentration of blue collar manufacturing jobs and unions in these areas, and to the institutionalization of anti-poverty programs and service assistance to the poor through community-based organizations. Best practice cases of how these labor and community organizations strengthen economic growth policies, specifically by linking regional-industry job strategies to disadvantaged populations in high poverty neighborhoods, abound (Croft, 1994; Fina, 1994; Phillips, 1994). What these cases show in common is the explicit connection between economic development and the targeting of specific neighborhoods and economically disadvantaged populations, and how such connection is facilitated by the existing network of community-based organizations.

Since its creation in 1965, EDA has been accused of displaying a bias against funding of projects in large urban areas, and against supporting networks of CDCs and other CBOs (Montgomery, 1994). In part, this bias results from the EDA's emphasis on financing public works in lagging (primarily rural) areas, whereas the economic development problems of minority communities have been more associated with equity and distributional issues. Federal business and industry assistance for large urban centers has been channeled mainly through HUD's CDBG and housing appropriations rather than through EDA or the Small Business Administration. As suggested above, the EZ program offers a unique opportunity to remedy such bias. As part of the EZ application process, many communities prepared strategic plans resembling the guidelines specified by EDA's Overall Economic Development Program (OEDP) (Thomas, 1994). In particular, many large urban centers begun a process of developing sectoral strategies resembling very closely those supported by EDA in recent years.

A restructuring of EDA's funding categories and the authorization of loan guarantees by Congress may allow the agency to provide financial assistance to those meritorious and innovative economic development projects that were not funded by the EZ initiative due to lack of resources in HUD. The consolidation of CDBG and EDA's funding into one block grant could, if handled properly, further accelerate the adoption of strategic plans and sectoral strategies in large urban centers. This will, however, be difficult to implement. As will be discussed below, many aspects of the existing block grant system are problematic and have been particularly harmful to low income individuals and communities.

In summary, new directions for economic development policies are promising, but there is still a need to recognize the unique concerns of large urban centers. The main topics of concern are the conceptualization of economic development problems for urban areas, the way in which key urban economic actors participate in the economic development process, and the funding mechanisms to promote economic growth. The next section examines the economic development experience of urban centers and outlines some of the most important lessons of federal urban policies. Particular attention is given to the key topics of concern and to the lessons which may assist in the design of an effective economic development strategy for urban centers.

III. The Urban Policy Experience, with an Emphasis on HUD

It is evident from the previous discussion that economic growth policies during the last two decades have emphasized rural and small city regional development, particularly in regard to public works, physical infrastructure, and disaster relief. For all the evolution in thinking about the advantages of promoting the agglomeration of interrelated firms in particular areas, the interdependence of labor and other resources, and the importance of the provision of business services, the development policies of EDA and other agencies have never given adequate weight to the capabilities of local community-based organizations as full partners in designing and implementing programs.

Large urban centers have a unique set of problems and resources that must be considered when formulating economic development strategies. Foremost among these characteristics is the spatial dimension of industrial restructuring during the 1970s and 1980s. Manufacturing firms that provided blue collar jobs to residents moved out of the inner city, inducing a high level of structural unemployment. The expanding downtown business service industries created a more specialized type of job requiring higher educational preparation. Given the suburbanization patterns of earlier decades, neighborhoods with a large proportion of racial and ethnic minorities--including those that have been the destinations of new immigrants from Central and South America and from Asia--were the most affected by industrial decline. Inner city neighborhoods experienced an extreme concentration of the poor and severe area decay (Wilson, 1987). In most large urban centers, downtown commercial development never reached more than a small number of neighborhood residents. And given historic patterns of residential segregation, inner city residents were cut off from access to the emerging suburban areas experiencing the greatest job creation (Massey and Denton, 1993).

As regards federal responses to the complexity of economic problems affecting large urban areas, a significant portion of federal funding for big cities was consolidated, in 1974, into the CDBG, managed by the Department of Housing and Urban Development. The evolution (urban renewal, Model Cities, housing loans, and other federal categorical grants) of federal urban economic development policy, and the transition from categorical funding to block grants, offer a unique set of lessons for the present reconsideration of the proper role of government generally. The enactment of the CDBG and the redefinition of federal and state responsibilities during the Nixon and Ford administrations marked a rupture with the Great Society programs of the previous Kennedy-Johnson era. The consolidation of programs addressed the tension between services and community institution building on the one side, and "bricks and mortar" activities emphasized by urban renewal programs on the other (Farmharn, 198 1; Bach, 1977).

The first wave of the "New Federalism" also changed the concept of what constitutes the institutional base of communities to promote economic development. To begin with, funding for social services through community-based organization, and the significant assistance to those CBOs for housing and real estate projects, created a vast institutional base for economic development at the community level. These CBOs played a critical role in the implementation of anti-poverty strategies, even as welfare "reform" and small business development favored providing cash allowances directly to individuals and guaranteed loans or outright grants to minority small businesses (Heilbrun- 198 1). Nixon's "Black Capitalism" promoted economic development by supporting entrepreneurship in impoverished neighborhoods (Harrison, 1974). The advent of CDBG (accompanied by the greatly decentralized approach to job training embodied in CETA) followed naturally on these approaches.

The early years of the Reagan administration witnessed yet another wave of "New Federalism." This time, however, proactive local government and CBOs were no longer the principal agents of the federal policy makers. Rather, President Reagan shifted resources away from social and human services and promoted market-oriented economic policies. Beginning with the 1981 budget, the administration in Washington extended block grants to become the policy tool of choice to implement a new set of relationships between the federal and state governments. More than thirty programs providing health and mental health, alcohol, drug abuse, community, and social services were consolidated into seven block grants (Weyer, 1985). Although states were given more discretion on allocations, the federal government retained its authority to define the purpose and mission of the grants and to monitor the use of the funds. However, overall funding was reduced by 20-25 percent below pre-Reagan levels. As a case in point, between 1980 and 1986, real federal expenditures for area and regional development declined by 53 percent (Fainstein and Fainstein, 1989). The governance of job training was turned over to local Private Industry Councils under JTPA; in most cases these councils were oblivious to (if not actively antagonistic towards) CBOs.

The clear pattern of shifting responsibility for policy and program design to the state and local levels, and the significant budget cuts when compared to the Great Society years, forced local authorities to become more pro-active in economic development activities (Osborne, 1987). At the same time, the revenue base of cities and states was eroded by economic decline and the cost of tax incentives and infrastructure subsidies offered to attract businesses to the area (Fosler, 1988). The aforementioned factors raise some serious concerns regarding the implementation of block grants. Many localities continued to fund programs without seeking functional integration, instead replicating previous funding categories. To add to that, there was no assurance that the programs were adequately serving the disadvantaged population which (some of them) were intended to serve (Farham, 1981; Weyer, 1985).

The main problems associated with the implementation of block grants, particularly manifested during the early years of the CDBG, were the increasing dispersion of efforts and the dilution of funding (Bach, 1977). In part, these problems resulted from the allocation formulae and eligibility criteria established by HUD, and in part to the politicizing of funding allocation resulting from shifting the grants from community organizations to local authorities (Kettl, 1979). Another important factor was that Congress, facing increasingly tight budgets, distributed program benefits broadly among districts in order to form winning legislative coalitions (Wrighston and Conlan, 1988). The end result of block grants at the local level was to shift resources from hard-core poverty areas to marginally deteriorated areas, and from support for community-based organizations to assistance to mostly mainstream business. By way of illustration, a recent General Accounting Office (1994) report estimates that 45 to 60 percent of CDBG funds focus on financial assistance to business. At the state government level, the "anti-urban" bias of block grants was also manifested by the shifting of funding from the inner-city to the suburbs. Equally important was the shift of federal resources away from the more urbanized areas of the northeast to benefit the sunbelt and western regions (Vaughan, Pascal, and Variana, 1980).

An examination of the urban agenda proposed by the Clinton administration suggests that area-specific policies are coming once again to the forefront of anti-poverty strategies. This in no small measure is a response to the social unrest experienced in large urban centers in recent years, notably the civil disturbance in Los Angeles (Johnson and Farrell, 1993). The new administration wanted to become a more active participant in promoting urban community economic development by increasing funding, by promoting new programs, and by encouraging a more deliberate articulation of community-based and economic development programs (Clinton and Gore, 1992). The EZ initiative was to be the major manifestation of this priority.

Thus, in 1994 HUD designated eight Empowerment Zones and sixty-five Enterprise Communities. These programs encourage the development of public-private partnerships in small business development, community planning, and social development. A key challenge to the HUD and local planners was to build into this explicitly urban development program elements of best-practice third wave thinking that had previously ignored the special problems of big city communities of color. As we saw above, over the last two decades states have moved from supporting traditional blue-collar, labor-intensive manufacturing industrial parks to targeting bio-tech and microelectronic firms (Ross and Friedman, 1991; Blakely and Nishikawa, 1991; Fosler, 1988; Chimura, 1987). And, at the federal level, an enterprise zone program, following the traditional industrial park model based on limited tax incentives, was first discussed during President Reagan's administration and later supported by President Bush's administration (Kaplan, 1995). There is a realization, however, that industrial parks and state-sponsored enterprise zones have a limited impact on distressed communities. Most of the industrial parks are located far from the inner-city and public transportation, and are rarely connected to employment and training or to minority-owned small business promotion. Very rarely do states require affirmative efforts to train the disadvantage in exchange for tax abatements and other subsidies. In any case, tax incentives are less effective in job creation than programs that provide direct assistance to business in recruiting and training workers, or that match firms to suppliers or distributors.

HUD Secretary Henry Cisneros (1987), however, regards the connection or links between people and places to be not only desirable but possible. Branch plant operations that have implemented training programs in collaboration with community-based organizations have tended to be more successful in recruiting the unemployed and unskilled workers from surrounding communities. Similarly, branch plants that subcontracted small businesses from the surrounding areas have had a greater impact on local economies. In this view the dichotomies of place and people, or business service oriented and human service oriented strategies, are overcome. The new approach to urban development emphasizes that successful economic development should be oriented to focus on growth industries, promote the integration of business support and human service development, and should target economically distressed communities. The advantage of funding EZ's through blocks grants in the future is that it promotes a comprehensive view of economic and area development. But the challenge remains to create the links of the EZ's to community-based organizations, which in many instances mediate relations with local residents and small businesses.

There is an emerging consensus among urban economic development professionals of the benefits of combining strategies, since no one area-specific policy has enough impact on the local community to reduce poverty or improve the economy of distressed communities in a significant way. Most studies assessing the employment or income multiplier effects of small businesses, branch plants, and other initiatives indicate that their impacts are relatively small (Selvarajah, 1991; EDIC, 1991; Bates, 1989, Heilburn, 1981). These findings point to the need for combining strategies at the community level. One such critical linkage is that between EZs and community development corporations. On the one hand, EZs emphasize traditional business strategies while CDC's are organizations with a focus on the economic development of a specific area. As Gittel and Wilder (1995) have stated, "The activities of CDCs and [Enterprise Zones] each have value in their own right. However, there is growing recognition of the potential benefits from linking economic and community development efforts, particularly in areas with concentrated poverty that lack the resources to effectively engage in or attract traditional forms of private development." (pp. 1-2) The combination of policies at the community level is more likely to have a synergistic effect on poverty alleviation than the implementation of programs that have little connection between them.

An important way in which EZs may enhance the effectiveness of urban economic programs is by attracting private sector investments by leveraging federal funding and coordinating business services. The combined impact of reductions in federal support for urban programs and the decline in the revenue base of states and cities has greatly reduced funds for community economic development. EZs are intended by design to promote private sector participation through loan guarantees, tax abatements, and other policy tools. In particular, EZs initiatives seek to coordinate business services within a location and to combine these services with recruitment, employment readiness, training, counseling and other complementary human resources services. The concentration of programs in facilities situated near the targeted communities will be particularly beneficial to minority and women owned businesses. The decline in the share of loan guarantees for black-owned businesses, for instance, responds to both the policy changes in SBA and the lack of a support system for technical assistance and financing provided at the local level.

Block grants appeal to fiscally conservative policy makers because they reduce the role of the federal government in specific policy areas and transfer responsibilities to state and local officials. However, since the introduction of block grants has always resulted in overall funding reductions, in the short-run the states and municipalities have to cope with the impact of such decline in program capacity and can not reap the benefits of greater flexibility to respond to local needs and to integrate programs to increase effectiveness. Block grants for urban development have also disrupted community participation in program implementation and adversely affected access to resources for low income communities. Thus, the contradictory effects of block grants many times negate the intended policy goal for which they were enacted by Congress. However, the experience of the last two decades indicates that block grants have increased their reach to more policy areas, and are likely to be extended to economic development and other related federal programs in the near future.

Yet an examination of the EZ initiative points to the potential benefits of block grants and, through this avenue, to a redefined role for the federal government in promoting the dual objectives of economic growth and a fair distribution of its benefits. The EZ strategy incorporates the traditional objectives of economic development policies by focusing on business services and industries. But the EZ strategy also recognizes that the focus of economic development should be to exploit existing economies of agglomeration and to provide the opportunities for the increased corporate and business relations of clusters or networks of firms. Moreover, EZs add a focus on economically distressed urban communities and recognize the mutual additional benefits of connecting inner-city residents to expanding business and employment opportunities. A second generation of blocks grants, by leveraging private sector investments and promoting community participation, may actually provide, as Bach (1977) proposes, the basis for "a more balanced federalism."

IV. Towards the Integration of Economic Development and Urban Federal Programs

The previous historical assessment of federal policy indicates that there is a long term trend towards the consolidation of functions into more flexible block grants and the reduction of categorical funding to state and local governments. The continuous consolidation of previously disparate programs seems to be not only likely but also desirable in certain contexts. The experience with federal urban intervention, however, highlights the pitfalls of block grants. Particularly in the early years, there were serious distributional issues, and today, the promised flexibility may not be accomplished in the face of substantial budget reductions. Given this context, it is likely that Congress will pursue a redefinition of the mission and scope of existing programs and of the administrative entities that oversee economic development policies. Obviously, regarding urban centers, there is an overlapping of functions between the EDA programs, Community Development Banks, Small Business Administration programs, CDBG, and the EZs initiatives, among others. The new Congress is moving boldly to consolidate funding for the Job Training Partnership Act (JTPA) and the Perkins Act into one training and vocational skills block grant. As of late-August of 1995, the House version of the legislation "would connect more than 100 programs into four block grants" while the Senate proposal would combine all programs into a single block grant (School Board News, 1995:7). The consolidation of economic development grants is likely to follow in similar fashion. The central questions are whether urban economic development programs should be consolidated and, if so, can the consolidated block grant avoid the pitfalls of previous experiences in serving distressed urban communities?

As regards consolidation and devolution (shifting greater program authority away from Washington), there is a range of options open to policy makers. Conceivably, the consolidation of programs into one or several block a-rants could be preceded by a joint call for proposals from states and city governments for a portion of the EDA's funding dedicated to urban centers and, for instance, for the reappropriation of HUD's funding for the EZ program. In this scenario, EDA would jointly define the context and priorities of urban economic development and monitor the programmatic intervention at the local level. In particular, EDA would focus on monitoring the integration of economic development and urban policies, on how economic development initiatives targeting distressed urban communities are connected to regional clusters of growing businesses and industries. Thus, even when we answer in the affirmative the question of whether urban economic development programs should be better coordinated or even consolidated, the question of how to avoid some of the problematic aspects of blocks grants for urban economic development needs still to be addressed.

Unquestionably the most important concern regarding the implementation of block grants has to do with their redistributive impact. As argued above, the transferring of authority to localities politicized the allocation process and resulted in the dispersion of efforts, the dilution of funding, and the shifting of resources among large urban centers and away from northern cities. In the last few years, however, Congress and the different administrations have moved towards targeting federal funding to the most in need and hardest to serve populations. Consider as an illustration the recent revamping of employment and training and educational programs. The JTPA guidelines were revised to focus services on AFDC recipients. The policy intent was to concentrate efforts on an especially hard to serve population. Similarly, recent changes in the allocation formula of Title I funding for public schools mandate stricter poverty criteria. The intention of these changes in regulations is to concentrate resources in fewer schools with the children in greatest need of supplementary educational programs. The new guidelines equally emphasize more flexibility for funding allocations, and lift restrictions for the population that could be served within qualifying schools. Obviously, policy makers are aware of the impact that funding cuts are having on targeted populations and are making sure that programs are more focused and serve the more disadvantaged populations.

The concerns for equity and the redistributive impact of federal policy need to be understood in a broader context of the redefinition of the role of the federal government, its relationship to state and local governments, and the implications of changing responsibilities at the different governmental levels. Richard Nathan (1975), who was President's Nixon's advisor on intergovernmental relations, provided a conceptual framework for the first "New Federalism". According to Nathan, the guiding principles of providing government assistance to the poor would be to provide transfer payments to individuals and to shift human and community service delivery programs to state and local governments. The decentralization of services to the poor from the federal government should be provided on a broad basis to the states. Nathan's arguments continue to offer the rationale for a more expansive use of vouchers for the poor and for block grants for the states. However, how these principles could be extended to the economic and urban development context requires a more detailed assessment.

Foremost among the functions of a central government is the establishment of a line of authority or the appropriate uniform boundaries for policy implementation. For Nathan, federal intervention is appropriate where there are clear spillover effects from one region to another, as in the case of environmental pollution. On this account, economic development issues are largely concerned with regions, and policy interventions inside clearly defined political demarcations have less clear justification. Businesses enter relations with suppliers, distributors, and customers which are often spread throughout and across broad geographical areas. In like manner, the objective of EZs is precisely to link economically distressed communities to growing opportunities in the wider region. Direct. subsidies to business, such as tax abatements, do not work well in encouraging job creation, particularly when targeting disadvantage populations, or when directing investments to particular distressed areas (Krumbolz, 1991). In sharp contrast to other policy areas where there are well established markets (e.g. housing, food distribution), targeted job creation and distressed urban area development require the provision of direct services on a regional basis.

For discussion purposes, Nathan's principles for the restructuring of government functions can be grouped into four broad areas of program implementation or programmatic intervention by all government levels: planning, development, monitoring, and diffusion. The planning stage of the intervention cycle involves the understanding and definition of the problem and the needs assessment of the targeted population. In this initial phase of program development, policy makers establish the geographical and population targets, define the missions and goals of the programs, and create a governance structure which may include the participation of the representatives of the community or group served. The division of government functions is evolving towards greater responsibilities for the states regarding the definition of regions and the establishment of administrative structures, while local governments are better at enticing the participation of a broad range of actors and interests in the process. Bolton (1993) suggests that the key role for the federal government is to establish the ranking of community needs and establish priorities criteria. Establishing the ranking of needs for distressed areas is a straight forward process for which there are well developed methodologies (Dommel and Rich 1987). Based upon these guidelines, the central authority allocates funding and monitors states' compliance with legislative intent.

The federal government plays a fundamental role in setting the context in which community-based economic development takes place (Bolton, 1993; Duncan, 1986). A redefinition of the scope of federal responsibilities regarding economic development must begin by recognizing the adverse impact of economic changes on urban economies and the implications of those changes for "poor and minority people, laid-off industrial workers, small farmers, and other conflict in the historic transition we are witnessing" (Duncan, 1986:24). Central authority is needed not only to direct resources to distressed areas but also to prevent wealthier communities from discriminating against the poor through zoning and other restrictions that contribute to the agglomeration and isolation of the poor (Bolton, 1993).

Development is the second phase of the intervention cycle. Once economic needs are established and program objectives are clear, state and local governments design and implement programs that respond to those conditions. Federal funding allows the establishment of demonstration programs, particularly when helping disadvantaged populations (Yin, 1980). For Nathan, new areas of intervention are about the few justifications for the continuation of categorical and more targeted grants. To the extent that pronounced regional infrastructural inequities are no longer of primary concern and EDA adopts a new economic development focus, to that extent there is a growing rationale for transferring business promotion authority (attraction, retention, incubation) and public facilities development to state and local governments. In this context, a consolidated block grant for urban economic development that facilitates the integration of business promotion and place-specific strategies is desirable.

However, federal funding is critical for defining a local policy agenda (Weyer, 1985). Even when the definition of needs and local priorities is left to local governments, central authority guidelines establishing key principles guiding economic development strategies are necessary. These principles should broadly reflect the consensus that, rather than helping individual businesses per se, programs should strengthen industry-based intermediaries that promote collaborations and the development of more integrated networks of interrelated and interdependent firms. These programs should have specific links to small businesses and workers in distressed communities. To achieve these central objectives, local governments should promote private sector and community participation in the governance structure of the programs. Expenditures on public facilities, and capacity budding for intermediary organizations, must be required to have a broad range of funding leveraging and investment commitments from the private sector (Bartik, 1993).

Planning and development functions are at the core of "New Federalism" initiatives and have framed most of the congressional debates in past decades. There is little contention about the federal role in monitoring programs and the diffusion of effective intervention practices, although the current resistance of governors and mayors to "unfunded mandates" from the federal government certainly challenge the legitimacy of the promulgation of national standards and guidelines. The Nixon-appointed task force on intergovernmental relations, which marked a turning point for federal decentralization, regarded accountability, research, and the dissemination of research findings as key legitimate functions of a central government. The CDBG experience illustrates some of the most problematic aspects of the decentralization of planning and development functions to local governments without having a strong monitoring system in place. In the first instance, CDBG has produced a "disjointed scattering of projects" around urban centers, rather than an integrated planning process necessary for the success of urban revitalization (Kleinberg, 1995). The lack of concentrated impacts results in part because of the short horizon of local officials and the political pressures on federal and local governments for a widespread distribution of funding (Kettl, 1979; Wrightson and Conlan, 1988).

Furthermore, once programs are funded they tend to become institutionalized. The longer the initiatives are funded, the less likely they are to be unfunded. The issue is not the recognition of the need for long-term support for certain initiatives in order to have an impact, but rather the inability to adapt programs to new circumstances or to reallocate resources to programs of greater priority. With block grant funding, reductions are likely to occur across the board without clearly targeting and eliminating ineffective programs. Evidently, central authority is needed to establish criteria for evaluation of program impacts and performance standards to which all jurisdictions are accountable.

A recent General Accounting Office (1994) report outlines some of the job quality and economic development performance measurements that could serve as the basis for uniform standards in a consolidated urban economic development grant. The report suggest that job quality is indicated by the level of pay and fringe benefits, and by the potential for skill development, pay increases, and promotion opportunities. Although the determination of these criteria will vary with economic conditions in different areas (e.g., a "low wage" job in N.Y.C. might be considered quite desirable in San Antonio), local governments must develop mechanisms to assess program impact on participants. The relevant question, and a hard one to measure, is what would have occurred in the absence of the program. In addition to job creation and quality, other indicators of economic performance for an area could include the impact of the program in enhancing the community's tax base, the amount of public and private funding leveraged by the program, and the extent to which essential services and facilities are created. In the case of business-oriented assistance programs, it is also important to take into account the type and size of business assisted and the level of loan defaults by grantees. The GAO report found a possible misuse of CDBG funds as signalled by high default rates among for-profit businesses. All in all, the report endorses the flexibility provided by block grants to adapt economic development strategies to local needs but strongly recommends the adoption of guidelines to assist communities to develop their own objectives and performance measures and to measure success against their own objectives.

The role of central authority when assessing jurisdiction's compliance with performance standards needs to go beyond efficiency considerations (is this program providing the greatest impact at a given cost?) to effectiveness consideration (are the programmatic responses to local needs appropriate to achieve national objectives?). Nathan's principles of "New Federalism" contemplated that research and dissemination, and by implication data collection, are appropriate responsibilities for the federal government in a decentralized system of human and community services. In this context, best practice research goes beyond program evaluation parameters to assess whether policy makers' intent, regarding programmatic mission and objectives, has been achieved. In this capacity, the federal government assumes the primary responsibility for the replication and diffusion of effective responses to an identified need. Ultimately, research offers the foundation for establishing policy frameworks, i.e. the assessment of responses to social problems and the establishment of criteria for changing or proposing new legislation.

Even with the establishment of a consolidated urban economic development block grant the federal government would need a specialized office to coordinate and promote research and dissemination focused on the stated objectives. Since much research is contracted to universities and local agencies, the central authority must develop a cadre of skilled program officers to monitor data collection and analysis.

V. Policy Recommendations

To recapitulate, the consolidation or coordination of funding to assist distressed urban communities is a laudable objective. It can potentially allow greater ownership of the economic development problem at the local level and provide more flexibility for program design and implementation. However, the CDBG experience suggests that, if not closely monitored, the short-term redistributive impact of such consolidation could negate legislative intent. Recent experiences with the decentralization of federal programs indicate that Congress has responded to equity concerns by mandating stricter eligibility criteria to achieve a more targeted impact on disadvantaged populations. Enforcing this principle of social justice should be a *sine qua non* for the next wave of "New Federalism."

Certainly the EZs initiative makes targeting long-term poverty areas central to programmatic objectives, and it does so considering the importance of linkages to growing business and industries. A revamping of CDBG along similar lines is both desirable and necessary. EDA and SBA programs should be similarly re-focused. Whether the EZ experiment will work or not largely depends on establishing the linkages between growing industries and distressed urban communities. Those linkages strongly depend on the sense of ownership and participation that engages industry, local government, and community leaders.

At a minimum, greater inter-agency coordination and collaboration to foster, enforce, and evaluate the success of these emergent partnerships is desirable. Ideally, however, federal policy will move aggressively to provide the context for greater community participation and a more explicit fink between poverty areas and their residents and expanding industries and businesses. In this regard, racial and ethnic identity and solidarity play a crucial role in fostering the economic development of the inner city (Swamstrom, 1993.)

More broadly, the discussion about possible consolidation of funding for distressed urban communities is a step in the right direction. In monitoring the consolidation of current categorical programs into a block grant the federal government should designate one agency to oversee the four key areas of programmatic intervention as they affect urban centers. As long as the economic development of distressed urban areas is concerned with the connections of those places to business and industry in the wider regional economy, to that extent there is a justification for a central authority that facilitates planning, assists with development, establishes performance standards, evaluates impacts, and coordinates data collection and research.

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