TARGETED FISCAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON REVENUE SHARING, INTERGOVERNMENTAL REVENUE IMPACT, AND ECONOMIC PROBLEMS

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 200

A BILL TO AMEND TITLE II OF THE PUBLIC WORKS EMPLOYMENT ACT OF 1976 TO EXTEND THE ANTIRECESSION PROVISIONS OF THAT ACT, AND TO ESTABLISH A SUPPLEMENTARY ANTIRECESSION FISCAL ASSISTANCE PROGRAM FOR LOCAL GOVERNMENTS SUFFERING SEVERE UNEMPLOYMENT

S. 566

A BILL TO AUTHORIZE A TARGETED FISCAL ASSISTANCE PROGRAM FOR PAYMENTS TO LOCAL GOVERNMENTS REQUIRING FISCAL RELIEF, AN ANTIRECESSION FISCAL ASSISTANCE PROGRAM, AND FOR OTHER PURPOSES

MARCH 12, 13, AND 26, 1979

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TARGETED FISCAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS

MONDAY, MARCH 12, 1979

U.S. SENATE,
SUBCOMMITTEE ON REVENUE SHARING,
INTERNATIONAL REVENUE IMPACT, AND ECONOMIC PROBLEMS,
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to notice, in room 1224, Dirksen Senate Office Building, Hon. Bill Bradley (chairman of the subcommittee) presiding.

Present: Senators Bradley, Moynihan, Durenburger, Danforth, and Chafee.

[The press release announcing these hearings, and the bills S. 200 and S. 566, follow:]

[Press Release from the Committee on Finance, Mar. 2, 1979]

SUBCOMMITTEE ON REVENUE SHARING, INTERGOVERNMENTAL REVENUE IMPACT, AND ECONOMIC PROBLEMS ANNOUNCES HEARINGS ON TARGETED FISCAL ASSISTANCE TO LOCAL GOVERNMENTS

Subcommittee Chairman Bill Bradley (D-N.J.) today announced that hearings will be held on March 9 and 12, 1979, on S. 200, a bill to establish a supplementary antirecession fiscal assistance program for local governments suffering severe unemployment and an Administration proposal to provide targeted fiscal assistance to local governments requiring fiscal relief. These proposals would replace the Antirecession Fiscal Assistance Act which expired on September 30, 1978.

The hearing on Friday, March 9, will be held in Room 2221, Dirksen Senate Office Building and will begin at 10:00 A.M.

The hearing on Monday, March 12, will be held in Room 1224, Dirksen Senate Office Building, and will begin at 10:00 A.M.

Senator Bradley noted that, "The Countercyclical Assistance Program which expired last year provided critical assitance to State and local governments which had been suffering from high unemployment and inadequate revenues." He added that, "Termination of this program has proven disastrous for many local governments which continue to suffer from high unemployment and fiscal distress. The President's proposal for targeted emergency aid to those communities and a standby countercyclical assistance program is an important step in the right direction. The purpose of these hearings is to consider this and other proposals and fashion legislation which I hope the Congress can approve at the earliest possible date."

Requests to testify.—Persons who desire to testify at the hearing should submit a written request to Michaël Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510 by no later than close of business on Wednesday, March 7, 1979.

Legislative Reorganization Act.—Senator Bradley stated that the Legislative Reorganization Act of 1946, as amended, requires that all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Witnesses scheduled to testify must comply with the following rules:

(1) Due to the large number of witnesses who will be testifying and the limited time available, all witnesses are urged to confine their oral presentation to not more than ten minutes.

(2) All witnesses must include with their written statement a summary of the principal points included in the statement.

(3) The written statements must be typed on letter-size paper (not legal size) and at least 100 copies must be submitted by the close of business the day before the witness is scheduled to testify.

(4) Witnesses are not to read their written statements to the Subcommittee, but are to confine their ten-minute oral presentations to a summary of the points included in the statement.

(5) A copy of the statement must be filed by noon the day before the day the witness is scheduled to testify.

Written testimony.—Senator Bradley stated that the Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length, and mailed with five (5) copies by March 30, 1979, to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510.

96TH CONGRESS
1ST SESSION

S. 200

To amend title II of the Public Works Employment Act of 1976 to extend the antirecession provisions of that Act, and to establish a supplementary antirecession fiscal assistance program for local governments suffering severe unemployment.

IN THE SENATE OF THE UNITED STATES

JANUARY 23 (legislative day, JANUARY 15), 1979

Mr. DANFORTH (for himself, Mr. WILLIAMS, Mr. MOYNIHAN, and Mr. JAVITS) introduced the following bill; which was read twice and referred to the Committee on Environment and Public Works

---

A BILL

To amend title II of the Public Works Employment Act of 1976 to extend the antirecession provisions of that Act, and to establish a supplementary antirecession fiscal assistance program for local governments suffering severe unemployment.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. This Act may be cited as the "Intergovernmental Antirecession and Supplementary Fiscal Assistance Amendments of 1979".

II—E

SEC. 2. Section 201 of the Public Works Employment Act of 1976 (42 U.S.C. 6721) is amended by striking out "and" at the end of paragraph (6), by striking out the period at the end of paragraph (7) and inserting in lieu thereof "; and", and by adding at the end thereof the following new paragraph:

"(8) that both an antirecession fiscal assistance program and a supplementary antirecession fiscal assistance program which aid governments requiring fiscal relief constitute essential elements of a sound Federal fiscal policy.".

SEC. 3. The Public Works Employment Act of 1976 (42 U.S.C. 6721 et seq.) is amended by inserting after section 201 the following:

"Subtitle A—Antirecession Fiscal Assistance".

SEC. 4. (a) Section 202(b) of the Public Works Employment Act of 1976 (42 U.S.C. 6722(b)) is amended—

(1) by striking out "subsections (c) and (d)" and inserting in lieu thereof "subsection (c)";

(2) by striking out "five" and inserting in lieu thereof "thirteen";

(3) by inserting "the sum of" after "under this title";

(4) by striking out "plus" at the end of paragraph (1), and by striking out the period at the end of para-

graph (2) and inserting in lieu thereof a comma and the word "and"; and

(5) by adding at the end thereof the following new paragraph:

"(3) such sums as may be necessary to carry out the provisions of section 206.".

(b) Section 202(c) of such Act (42 U.S.C. 6722 (c)) is amended—

(1) by striking out "five" and inserting in lieu thereof "eight"; and

(2) by striking out "July 1, 1977" and inserting in lieu thereof "October 1, 1978".

(c) Section 202(d) of such Act (42 U.S.C. 6722(d)) is amended to read as follows:

"(d) SUSPENSION OF ASSISTANCE.—

"(1) SUSPENSION.—If the average rate of unemployment for the United States is less than 6 percent for each of two consecutive quarters, no amount may be paid under this subtitle for the fourth calendar quarter of the four calendar-quarter period which began with the first of such two calendar quarters, or for any subsequent calendar quarter.

"(2) TERMINATION OF SUSPENSION.—Notwithstanding paragraph (1) of this subsection, amounts may be paid under this subtitle for calendar quarters beginning after any calendar quarter for which the average rate of unemployment for the United States equals or exceeds 6 percent until such time as paragraph (1) may require another suspension of payments.".

SEC. 5. (a) Section 203(c) of the Public Works Employment Act of 1976 (42 U.S.C. 6723(c)(1)) is amended—

(1) by striking out "The Secretary" in paragraph (1) and inserting in lieu thereof the following: "Except as provided in section 206(b), the Secretary", and

(2) by redesignating paragraph (4) as (5) and inserting after paragraph (3) the following new paragraph:

"(4) STATISTICAL METHODOLOGY FOR UNEMPLOYMENT RATES.—Notwithstanding any provision of paragraph (3) to the contrary, in the case of a unit of local government which encompasses, or is within, a standard metropolitan statistical area or central city for which current population surveys were used to determine annual unemployment rates before January 1, 1978, the Secretary of Labor shall determine or assign the unemployment rates for such government calculated by the current population survey methodology used prior to January 1, 1978, if such rates are higher than rates determined or assigned by the Secretary of Labor for that government without applying the current population survey methodology.".

(b) Section 203 of such Act (42 U.S.C. 6723) is amended by adding at the end thereof the following new subsection:

"(d) REALLOCATION OF UNDISTRIBUTED RESERVED AMOUNTS.—If, for any calendar quarter, the amount reserved under subsection (a)(1) for payments to State governments or under subsection (a)(2) for payments to local governments exceeds the sum of the amounts payable to State or local governments because of the limitation contained in subsection (c)(5) or because of the suspension-of-payments requirement contained in section 210(b), then the Secretary shall reallocate the excess among State governments or local governments, as the case may be, receiving payments for the calendar quarter and pay to each such State or local government an amount which bears the same ratio to the amount of the excess as the amount of the payment made to such government for the calendar quarter without regard to this subsection bears to the sum of the payments made to all State or all local governments, as the case may be, for the calendar quarter without regard to this subsection.".

SEC. 6. Section 205 of the Public Works Employment Act of 1976 (42 U.S.C. 6725) is amended by striking out paragraph (6) and by redesignating paragraphs (7) and (8) as

(6) and (7). Title II of such Act is amended by striking out section 209 (42 U.S.C. 6729).

SEC. 7. Title II of the Public Works Employment Act of 1976 is amended by inserting after section 205 the following new section:

"ADJUSTMENTS FOR PAYMENTS

"SEC. 206. (a) IN GENERAL.—Payments under this subtitle and subtitle B may be made with necessary adjustments on account of overpayments or underpayments.

"(b) CHANGES IN METHODOLOGY.—

"(1) SUPPLEMENTAL ALLOCATIONS FOR REDUCTIONS ATTRIBUTABLE TO CHANGE IN METHODOLOGY.—For any quarterly payment allocated pursuant to section 202, 203, 231, or 232 in which a local government's allocation would be reduced as a result of the termination of the use of current population survey data on an annual average basis to calculate the local unemployment rate as determined or assigned by the Secretary of Labor, the Secretary shall adjust the allocation made pursuant to this subtitle and subtitle B sufficiently to assure that such allocations are not less than the amount that otherwise would have been allocated to such local government under the unemployment rates calculated by the current population survey methodology used before January 1, 1978.

"(2) LUMP SUM SUPPLEMENTAL PAYMENTS FOR PREVIOUS UNDERPAYMENT.—For any previous quarterly payment allocated pursuant to sections 202 and 203 in which a local government's allocation has been reduced as a result of the termination of the use of current population survey data on an annual average basis to calculate the local unemployment rate as determined or assigned by the Secretary of Labor, the Secretary shall make a lump sum supplemental payment such that the total prior allocations made pursuant to this subtitle are not less than the amount that otherwise could have been allocated to such local government under the unemployment rates calculated by the current population survey methodology used before January 1, 1978.

"(3) SUPPLEMENTAL PAYMENTS LIMITED TO UNITS OF GOVERNMENT WITHIN STANDARD METROPOLITAN STATISTICAL AREAS AND CENTRAL CITIES.—No funds shall be made available under paragraph (1) or (2) to any unit of government which does not encompass, or is not within, a standard metropolitan statistical area or central city for which current population survey methodology was used to determine annual unemployment rates before January 1, 1978.".

SEC. 8. (a) Section 210 of the Public Works Employment Act of 1976 (42 U.S.C. 6730) is amended by striking out subsections (b) and (c), and by inserting in lieu thereof the following:

"(b) SUSPENSION OF PAYMENTS FOR LOW UNEMPLOYMENT.—

"(1) SUSPENSION.—No amount shall be paid to any State or local government under the provisions of this section for any calendar quarter if the average rate of unemployment within the jurisdiction of such State or local government during the second most recent calendar quarter which ended before the beginning of such calendar quarter did not exceed 6 percent.

"(2) TERMINATION OF SUSPENSION.—Amounts may be paid under this subtitle to any State or local government for which payments were suspended under paragraph (1) beginning with any calendar quarter following such suspension which follows a calendar quarter for which the average rate of unemployment within the jurisdiction of the State or local government exceeds 6 percent, until such time as paragraph (1) may require another suspension of payments.".

(b) Payments made under title II of the Public Works Employment Act of 1976 for the calendar quarter beginning

October 1, 1978, shall be made as soon as possible after January 1, 1979, but in no event later than March 31, 1979.

SEC. 9. Section 215 of the Public Works Employment Act of 1976 (42 U.S.C. 6735) is amended to read as follows:

"DATA PROVISION RESPONSIBILITIES

"SEC. 215. The Secretary of Labor shall provide information and other necessary data and shall determine and assign unemployment rates necessary for the administration of this title. Such information, data, and rates shall be provided for each State and local government, and shall be made available to the Secretary to assist him in carrying out the provisions of this title. The Secretary of Labor shall also advise the Secretary as to the availability and reliability of relevant information and data.".

SEC. 10. Section 216 of the Public Works Employment Act of 1976 (42 U.S.C. 6736) is amended—

(1) by striking out "five" in subsection (a) and inserting in lieu thereof "thirteen",

(2) by striking out "amount" in subsection (a) and inserting in lieu thereof "amounts",

(3) by striking out "section 202(b)" in subsection (a) and inserting in lieu thereof "sections 202(b) and 231(c)", and

(4) by striking out "209," in subsection (b)(3)(c).

SEC. 11. Title II of the Public Works Employment Act of 1976 is amended by inserting after section 216 the following:

"Subtitle B—Supplementary Fiscal Assistance

"FINANCIAL ASSISTANCE AUTHORIZED

"SEC. 231. (a) IN GENERAL.—Whenever the average rate of unemployment for the United States equals or exceeds 5 percent and payments under subtitle A of this title are suspended under section 202(d), the Secretary shall, in accordance with the provisions of this subtitle, make payments to local governments with unemployment rates above 6 percent.

"(b) PAYMENTS TO RECIPIENT GOVERNMENTS.—The Secretary shall pay, not later than five days after the beginning of each calendar quarter for which payments are authorized under subsection (a), to each local government which has filed a statement of assurances under section 205, an amount equal to the amount allocated to such government under section 232.

"(c) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated for each of the first eight calendar quarters beginning after September 30, 1978, $85,000,000, plus such additional amounts as may be necessary to carry out the provisions of section 206(b)(1), for the purpose of making payments to local governments under this subtitle.

"(d) SUSPENSION OF ASSISTANCE.—

"(1) SUSPENSION.—If payments are being made under subtitle A or the average rate of unemployment for the United States is below 5 percent during a calendar quarter, no amount may be paid under this subtitle for the third calendar quarter of the three calendar-quarter period which begins with such calendar quarter, or for any subsequent calendar quarter.

"(2) TERMINATION OF SUSPENSION.—Amounts may be paid under this subtitle for any calendar quarter beginning after a calendar quarter for which payments are suspended under paragraph (1) and for which the average rate of unemployment for the United States equals or exceeds 5 percent but is less than 6 percent.

"ALLOCATION OF SUPPLEMENTARY AMOUNTS

"SEC. 232. (a) ALLOCATIONS TO LOCAL GOVERNMENTS.—

"(1) IN GENERAL.—The Secretary shall allocate amounts appropriated under the authorization contained in section 231(c), an amount for the purpose of making a payment to each local government, equal to the sum of—

"(A) the total amount appropriated for the calendar quarter multiplied by the applicable local government percentage, and

"(B) any supplemental allocation under section 206.

"(2) APPLICABLE LOCAL GOVERNMENT PERCENTAGE.—For purposes of this subsection, the local government percentage is equal to the percentage resulting from the division of the product of—

"(A) the local excess unemployment percentage, multiplied by

"(B) the local revenue sharing amount,

by the sum of such products for all local governments.

"(3) SPECIAL LIMITATION.—If the amount which would be allocated for a calendar quarter to any unit of local government under this subsection is less than $100, then no amount shall be allocated for such unit of local government under this subsection for such quarter.

"(4) SUPPLEMENTARY ANTIRECESSION FISCAL ASSISTANCE PAYMENT NOT IN EXCESS OF $10,000 TO BE COMBINED WITH GENERAL REVENUE SHARING PAYMENT.—If the amount of any payment to be made under this subtitle to a unit of local government is not more than $10,000 for a calendar quarter, the Secretary shall combine the amount of such payment with the amount of any payment to be made to such unit under the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. 1221 et seq.), and shall make a single payment to such unit at the time payments are made under that Act. Whenever the Secretary makes a single, combined payment to a unit of local government under this paragraph, he shall notify the unit as to which portion of the payment is allocable to amounts payable under this subtitle and which portion is allocable to amounts payable under that Act.

"(b) REALLOCATION OF UNDISTRIBUTED AMOUNTS.—If, for any calendar quarter, the amount appropriated under section 231(c) for payments to local governments exceeds the sum of the amounts payable to local governments because of the limitation contained in subsection (c)(3) or because of the suspension-of-payments requirements contained in subsection (c), then the Secretary shall reallocate the excess among local governments receiving payments for the calendar quarter and pay to each such local government an amount which bears the same ratio to the amount of the excess as the amount of the payment made to such government for the calendar quarter without regard to this subsection bears to the sum of the payments made to all local governments for the calendar quarter without regard to this subsection.

"(c) SUSPENSION OF PAYMENTS FOR LOW UNEMPLOYMENT.—

"(1) SUSPENSION.—No amount shall be paid to any unit of local government under the provisions of this section for any calendar quarter if the average rate of unemployment within the jurisdiction of such local government during the second most recent calendar quarter which ended before the beginning of such calendar quarter was equal to or less than 6 percent.

"(2) TERMINATION OF SUSPENSION.—Notwithstanding paragraph (1), amounts may be paid under this subtitle to any local government for which payments were suspended under paragraph (1) beginning with any calendar quarter following such suspension which follows a calendar quarter for which the average rate of unemployment within the jurisdiction of the local government exceeds 6 percent.

"(d) For purposes of this subtitle, each term used in this section which is defined or described in paragraph (3) of section 203(c) shall have the meaning given to it in that paragraph.

"APPLICATION OF CERTAIN SUBTITLE A PROVISIONS TO THIS SUBTITLE

"SEC. 233. The provisions of sections 204, 205, 206, 207, 208, 211, 212, 213, 214, 215, and 216 shall apply to funds authorized under this subtitle.".

96TH CONGRESS
1ST SESSION

S. 566

To authorize a targeted fiscal assistance program for payments to local governments requiring fiscal relief, an antirecession fiscal assistance program, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 7 (legislative day, FEBRUARY 22), 1979

Mr. MOYNIHAN introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To authorize a targeted fiscal assistance program for payments to local governments requiring fiscal relief, an antirecession fiscal assistance program, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. This Act may be cited as the "Intergovernmental Fiscal Assistance Amendments of 1979".

SEC. 2. Section 201 of the Public Works Employment Act of 1976 (42 U.S.C. 6721) is amended by striking out paragraphs (3), (5), and (6), by redesignating paragraphs (4) and (7) as (3) and (4), respectively, by striking out the period at the end of new paragraph (4) and inserting a semicolon in lieu thereof, and by adding the following new paragraphs:

"(5) that both a highly targeted, transitional fiscal assistance program which aids governments requiring fiscal relief, and a program of fiscal assistance to provide insurance against a future recession, constitute essential elements of a sound Federal fiscal policy;

"(6) that many local governments continue to experience high unemployment and fiscal strain, and have been adversely affected by the loss of antirecession fiscal assistance which has resulted in service cutbacks, increased taxes, municipal layoffs or sale of municipal assets; and

"(7) that highly targeted fiscal assistance which aids those jurisdictions requiring transitional fiscal relief and provides necessary time to take steps toward the fiscal stabilization of these governments would be least disruptive of employment or service levels.".

SEC. 3. The Public Works Employment Act of 1976 (42 U.S.C. 6721 et seq.) is amended by inserting after section 201 the following:

"Subtitle A—Targeted Fiscal Assistance".

SEC. 4. Section 202 of the Public Works Employment Act of 1976 (42 U.S.C. 6722) is amended to read as follows:

"FISCAL ASSISTANCE AUTHORIZED

"SEC. 202. (a) PAYMENTS TO LOCAL GOVERNMENTS.—The Secretary of the Treasury (hereafter in this title referred to as the 'Secretary') shall, in accordance with the provisions of this subtitle, make annual payments for the fiscal years beginning October 1, 1978, and October 1, 1979, to local governments with local unemployment rates equal to or in excess of 6.5 per centum.

"(b) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated for the purpose of making payments under this subtitle, the sum of $250,000,000 for the fiscal year beginning October 1, 1978, and the sum of $150,000,000 for the fiscal year beginning October 1, 1979.".

SEC. 5. Section 203 of the Public Works Employment Act of 1976 (42 U.S.C. 6723) is amended to read as follows:

"ALLOCATION

"SEC. 203. (a) IN GENERAL.—The Secretary shall allocate from amounts authorized to be appropriated under section 202 for each appropriate fiscal year an amount to each local government with a local unemployment rate equal to or in excess of 6.5 per centum, subject to the provisions of subsections (d) and (e), equal to the amount authorized for such year, less the amount allocable under section 216(b)(1)(A), multiplied by the applicable local government percentage.

"(b) APPLICABLE LOCAL GOVERNMENT PERCENTAGE.—For purposes of this section, the applicable local government percentage is equal to the quotient resulting from the division of the product of—

"(1) the local excess unemployment percentage, multiplied by

"(2) the local revenue sharing amount,

by the sum of such products for all local governments.

"(c) DEFINITIONS.—For purposes of this subtitle—

"(1) the local excess unemployment percentage is equal to the difference resulting from the subtraction of 4.5 per centum from the local unemployment rate, but shall not be less than zero;

"(2) the local unemployment rate—

"(A) for the fiscal year beginning October 1, 1978, is equal to the rate of unemployment in the jurisdiction of the local government for the six-month period which includes the two consecutive calendar quarters ending September 30, 1978, as determined or assigned by the Secretary of Labor and reported to the Secretary;

"(B) for the fiscal year beginning October 1, 1979, is equal to the rate of unemployment in the jurisdiction of the local government for the six-month period which includes the two consecutive calendar quarters ending June 30, 1979, as determined or assigned by the Secretary of Labor and reported to the Secretary;

"(C) notwithstanding any provision of paragraphs (A) and (B) to the contrary, in the case of a local government which encompasses, or is within, a standard metropolitan statistical area or central city for which current population surveys were used to determine annual unemployment rates before January 1, 1978, the Secretary of Labor, for the purposes of this subtitle, shall determine or assign the unemployment rates for such government calculated by the current population survey methodology used prior to January 1, 1978, if such rates are higher than rates determined or assigned by the Secretary of Labor for that government for the appropriate six-month periods without applying the current population survey methodology.

"(3) the local revenue sharing amount is the amount determined under section 108 of the State and Local Fiscal Assistance Act of 1972, as amended, for the most recently completed entitlement period, as defined under section 141(b) of such Act; and

"(4) the term 'local government' means the government of a county, municipality, township, or other unit of government below the State which—

"(A) is a unit of general government (determined on the basis of the same principles as are used by the Bureau of the Census for general statistical purposes), and

"(B) performs substantial governmental functions. Such term includes the District of Columbia and also includes the recognized governing body of an Indian tribe or Alaskan Native Village which performs substantial governmental functions. Such term does not include the government of a township area unless such government performs substantial governmental functions.

"(d) MINIMUM ALLOCATION.—If the amount which would be allocated to any local government under this subtitle is less than $20,000, no amount shall be allocated for such government under this subtitle.

"(e) PER CAPITA INCOME LIMITATION.—

"(1) IN GENERAL.—Except as provided in paragraph (2), no amount shall be allocated under this title to any local government which had within its jurisdiction a per capita income equal to or in excess of 150 per centum of the national per capita income for the most recently completed calendar year for which data are available, as determined by the Bureau of the Census for general statistical purposes and reported to the Secretary.

"(2) NONCONTIGUOUS STATE ADJUSTMENT.—The percentage of the national per capita income used to limit allocations in paragraph (1) shall, for local governments in the States of Alaska and Hawaii, be increased by the average State percentage of basic pay which civilian employees of the United States Government receive as an allowance under section 5941 of title 5, United States Code. Such average State percentage shall be determined for the most recently completed calendar year for which data are available based on data provided by the Office of Personnel Management and reported to the Secretary.

"(f) REALLOCATION OF UNDISTRIBUTED AMOUNTS.—If the amount authorized to be appropriated for any fiscal year under this subtitle exceeds the sum of the amounts payable to local and territorial governments because of the provisions of subsections (d) and (e), the Secretary shall reallocate the excess among local governments receiving payments for the appropriate fiscal year, and pay to each such local government an amount which bears the same ratio to the amount of the excess as the amount of the payment made to such government for the fiscal year without regard to this subsection bears to the sum of the payments made to all local governments for the fiscal year without regard to this subsection.".

SEC. 6. Section 205 of the Public Works Employment Act of 1976 (42 U.S.C. 6725) is amended by striking out paragraph (6) and by redesignating paragraphs (7) and (8) as (6) and (7), respectively. Title II of such Act is amended by striking out section 209 (42 U.S.C. 6729).

SEC. 7. Title II of the Public Works Employment Act of 1976 is amended by inserting after section 205 the following new section:

"ADJUSTMENTS FOR PAYMENTS

"SEC. 206. Payments under this subtitle may be made with necessary adjustments on account of overpayments or underpayments.".

SEC. 8. Section 210 of the Public Works Employment Act of 1976 (42 U.S.C. 6730) is amended to read as follows:

"PAYMENTS

"SEC. 210. From the amounts allocated for local and territorial governments under sections 203 and 216, the Secretary shall pay to each such government that has filed a statement of assurances pursuant to section 205, an amount equal to the amount allocated to such government under section 203 or 216. Payments under this subtitle for the fiscal year beginning October 1, 1978, shall be made as soon as practical, but not later than sixty days after the effective date of this Act, and payments under this subtitle for the fiscal year beginning October 1, 1979, shall be made within the first five days of such fiscal year.".

SEC. 9. Section 215 of the Public Works Employment Act of 1976 (42 U.S.C. 6735) is amended to read as follows:

"DATA PROVISION RESPONSIBILITIES

"SEC. 215. The Secretary of Labor shall provide information and other necessary data and shall determine or assign unemployment rates necessary for the administration of this title. Such information, data, and rates shall be provided for each State and local government, and shall be made available to the Secretary to assist him in carrying out the provisions of this title. The Secretary of Labor shall also advise the Secretary as to the availability and reliability of relevant information and data. The Director of the Bureau of the Census and the Director of the Office of Personnel Management shall provide such information and other data as necessary for the administration of this title, and shall advise the Secretary as to the availability and reliability of relevant information and data.".

SEC. 10. Section 216 of the Public Works Employment Act of 1976 (42 U.S.C. 6736) is amended as follows:

(a) The title of the section is amended to read:

"ALLOCATIONS TO PUERTO RICO, GUAM, AMERICAN SAMOA, AND THE VIRGIN ISLANDS".

(b) Subsection (a) is amended to read as follows:

"(a) IN GENERAL.—The Secretary shall make payments under this title to the governments of the Commonwealth of Puerto Rico, Guam, American Samoa, and the Virgin Islands.".

(c) Paragraph (1) of subsection (b) is amended to read as follows:

"(1)(A) The Secretary shall allocate from the amounts authorized under section 202 an amount under this subtitle to such governments equal to one-half of 1 per centum of such amounts for the appropriate fiscal year, as determined by the Secretary, multiplied by the applicable territorial percentage.

"(B) The Secretary shall allocate from the amounts authorized under section 231 an amount under subtitle B, subject to section 232(c)(1)(B), to such governments equal to 1 per centum of such amounts for the appropriate calendar quarter, as determined by the Secretary, multiplied by the applicable territorial percentage.".

(d) Section 216(b)(3)(C) is amended by striking out "203(c)(4)," "209," and "and" and by inserting ", 231(b), and 232(c)(1)(B)" after "213".

SEC. 11. Title II of the Public Works Employment Act of 1976 is amended by inserting after section 216 the following:

"Subtitle B—Antirecession Fiscal Assistance

"FINANCIAL ASSISTANCE AUTHORIZED

"SEC. 231. (a) IN GENERAL.—When the seasonally adjusted national rate of unemployment for the United States equals or exceeds 6.5 per centum for a calendar quarter, the Secretary shall, in accordance with the provisions of this subtitle, make payments to State, territorial, and local governments eligible under this subtitle. Such payments shall begin with the calendar quarter that is the third in a three-calendar-quarter period commencing with such calendar quarter during which unemployment equalled or exceeded 6.5 per centum. Such payments shall continue until suspended pursuant to subsection (e).

"(b) PAYMENTS TO RECIPIENT GOVERNMENTS.—The Secretary shall pay, not later than five days after the beginning of each calendar quarter for which payments are authorized under subsection (a), to each eligible State, territorial, and local government that filed a statement of assurances pursuant to section 205, an amount equal to the amount allocated to such government under section 232 or 216.

"(c) AUTHORIZATION OF APPROPRIATIONS.—Subject to the provisions of subsections (d) and (e), there are authorized to be appropriated for the purpose of making payments under this subtitle during each of the seven succeeding calendar quarters beginning after December 31, 1978, the sum of $125,000,000, plus $25,000,000 multiplied by the number of whole one-tenth percentage points by which the seasonally adjusted rate of national unemployment for the calendar quarter which ended three months before the beginning of such quarter exceeded 6.5 per centum.

"(d) LIMITATION ON AUTHORIZATION.—In no case shall the aggregate amount authorized to be appropriated for payments under this subtitle for any fiscal year exceed $1,000,000,000.

"(e) SUSPENSION OF ASSISTANCE.—When the seasonally adjusted rate of national unemployment is below 6.5 per centum for a calendar quarter, no amounts shall be paid under this subtitle to any State, local, or territorial government for the third calendar quarter of the three-calendar-quarter period which began with such calendar quarter in which the rate of national unemployment was below 6.5 per centum.

"ALLOCATION OF ANTIRECESSION FISCAL ASSISTANCE

"SEC. 232. (a) RESERVATIONS.—The Secretary shall reserve 1 per centum of the amounts appropriated under section 231 for purposes of making payments pursuant to section 216. From the amount remaining after such reservation, the Secretary shall reserve one-third for the purpose of making payments to eligible State governments under subsection (b), and two-thirds for the purpose of making payments to eligible local governments under subsection (c).

"(b) STATE ALLOCATION.—

"(1) IN GENERAL.—For calendar quarters in which payments are authorized under section 231, the Secretary shall allocate from amounts reserved under subsection (a), for the purpose of making payments to each State with an unemployment rate equal to or in excess of 5 per centum, an amount equal to the total amount reserved for State governments for the calendar quarter, multiplied by the applicable State percentage.

"(2) APPLICABLE STATE PERCENTAGE.—For purposes of this subsection, the applicable State percentage is equal to the quotient resulting from the division of the product of—

"(A) the State excess unemployment percentage, multiplied by

"(B) the State revenue sharing amount,

by the sum of such products for all the States.

"(3) DEFINITIONS.—For purposes of this subtitle—

"(A) the term 'State' means each State of the United States;

"(B) the State excess unemployment percentage is equal to the difference resulting from the subtraction of 4.5 percentage points from the State unemployment rate for that State, but shall not be less than zero;

"(C) the State unemployment rate is equal to the rate of unemployment in the State during the appropriate calendar quarter, as determined by the Secretary of Labor and reported to the Secretary; and

"(D) the State revenue sharing amount is the amount determined under section 107 of the State and Local Fiscal Assistance Act of 1972, as amended, for the most recently completed entitlement period, as defined under section 141(b) of such Act.

"(c) LOCAL GOVERNMENT ALLOCATION.—

"(1) IN GENERAL.—(A) For calendar quarters in which payments are authorized under section 231, the Secretary shall allocate from amounts reserved under subsection (a), to each local government with a local unemployment rate equal to or in excess of 5 per centum, an amount, subject to paragraph (B), equal to the sum of the total amount reserved for local governments for the calendar quarter, multiplied by the applicable local government percentage.

"(B) The amount allocated to a local or territorial government under this subtitle for any calendar quarter shall be limited to the amount by which the sum of the allocations to such government under this subtitle for the fiscal year in which such quarter occurs exceeds the amount allocated to such government under subtitle A for such fiscal year.

"(2) APPLICABLE LOCAL GOVERNMENT PERCENTAGE.—For purposes of this subsection, the applicable local government percentage is equal to the percentage resulting from the division of the product of—

"(A) the local excess unemployment percentage, multiplied by

"(B) the local revenue sharing amount,

by the sum of such products for all local governments.

"(3) DEFINITIONS.—For purposes of this subtitle, each term used in this section which is defined or described in section 203(c) shall have the meaning given to it in that section, except that section 203(c)(2) shall not apply, and the term 'local unemployment rate' means the rate of unemployment in the jurisdiction of the local government during the appropriate calendar quarter, as determined or assigned by the Secretary of Labor and reported to the Secretary: *Provided, however*, That in the case of a local government which encompasses, or is within, a standard metropolitan statistical area or central city for which current population surveys were used to determine annual unemployment rates before January 1, 1978, the Secretary of Labor, for the purposes of this subtitle, shall determine or assign the unemployment rates for such government calculated by the current population survey methodology used prior to January 1, 1978, if such rates are higher than rates determined or assigned by the Secretary of Labor for that government for the appropriate calendar quarter without applying the current population survey methodology.

"(4) MINIMUM ALLOCATION.—If the amount which would be allocated for a calendar quarter to a local government under this section is less than $5,000, no amount shall be allocated to such government for such quarter.

"(d) REALLOCATION OF UNDISTRIBUTED AMOUNTS.—If, for any calendar quarter, the amount appropriated under section 231 for payments to State, local, or territorial governments exceeds the sum of the amount payable to such governments because of the provisions of subsection (c)(4) or section 203(e), the Secretary shall reallocate the excess among such State and local governments receiving payments for the calendar quarter, and pay to each such government an amount which bears the same ratio to the amount of the excess as the amount of the payment made to such government for the calendar quarter without regard to this subsection bears to the sum of the payments made to all such governments for the calendar quarter without regard to this subsection.

"APPLICATION OF CERTAIN SUBTITLE A PROVISIONS TO THIS SUBTITLE

"SEC. 233. The provisions of sections 203(e), 204, 205, 206, 207, 208, 211, 212, 213, 214, and 215 shall apply to funds authorized under this subtitle.".

Senator BRADLEY. The subcommittee will come to order.

Today the Senate Finance Subcommittee on Revenue Sharing, Intergovernmental Impact, and Economic Problems starts a series of hearings on proposals on targeted fiscal assistance. At hearings later this year, we will begin our review of general revenue sharing, looking to its possible renewal and to changes which may be appropriate.

Today we have two bills before us, the administration's bill, S. 566, introduced Wednesday by Senator Moynihan; and S. 200, introduced in January by Senators Moynihan, Williams, and Javits, with Senator Danforth as primary sponsor.

Both bills provide targeted fiscal assistance as well as a standby countercyclical program which would be triggered if economic conditions worsen.

Working with these two proposals and with the suggestions from other members of the subcommittee and witnesses who will be testifying, I hope the Finance Committee can fashion legislation which will be acceptable to the communities in need as well as to the Congress.

Today we are fortunate to have as our leadoff witness, the Secretary of the Treasury, Michael Blumenthal. I understand the Secretary's schedule is hectic, particularly since he has recently returned from China, and that he will be available to us only for a short period this morning.

I also understand Deputy Secretary Carswell will remain after the Secretary's departure to answer any questions which may arise.

I appreciate the Secretary has altered his schedule in order to be here with us today. I feel that is evidence of the administration's commitment to this program and to the recognition of the importance of the administration's role in the enactment of this piece of legislation.

In the interest of saving time, I will submit the remainder of my opening statement for the record.

[The opening statements of Senator Bradley and Senator Dole follow:]

OPENING STATEMENT OF SENATOR BILL BRADLEY

INTRODUCTION

The Subcommittee on Revenue Sharing, Intergovernmental Revenue Impact and Economic Problems has responsibility for both general and special revenue sharing. These programs have been sending federal general purpose aid to state and local governments since 1972. At hearings later this year, we will begin our mandated review of General Revenue Sharing, looking to its possible renewal and to changes which may be appropriate.

These hearings beginning today have been called to consider specific emergency legislation to assist distressed communities and to create a standby countercyclical program. We have two bills before us: the Administration's bill, S. 566, introduced Wednesday by Senator Moynihan, and S. 200, introduced in January by Senator Danforth and cosponsored by Senators Williams, Moynihan and Javits. Both bills provide for targeted assistance for distressed communities and for a standby countercyclical program for state and local government which would trigger if economic conditions worsen significantly. Working with these two proposals and with the suggestions of other members of the Subcommittee and witnesses who will be testifying, I believe the Finance Committee can fashion legislation which will be acceptable to communities in need and to the Congress.

The emergency aid legislation we are considering in these hearings has its historical roots in the Antirecession Fiscal Assistance legislation passed by Congress in 1976. The rationale behind emergency aid to state and local governments was to concentrate federal stimulus aid designed to combat the 1974–75 recession on the public sector, in the form of emergency financial assistance to governments.

The prime moved behind this idea in the Congress was Senator Muskie. The 1976 legislation authorized the distribution of Federal monies to state and local governments with an unemployment rate exceeding 4.5 percent. Funds have been used for a wide range of basic governmental services. Between its enactment in 1976 and its expiration last fall, the Antirecession Fiscal Assitance Program distributed approximately $3 billion dollars to state and local governments.

Last year the Administration proposed changes in the countercyclical program to target monies on the nation's most distressed communities. Although legislation was passed by the Senate, it was not acted on by the House before the end of the session. As a consequence, this aid to state and local governments ceased on Setpember 30, 1978.

The abrupt termination of this program coming in the middle of the budget cycle has brought additional hardships to many local communities which have not shared in the nation's general recovery from the recession of 1974–75. Many of these communities have become dependent on federal aid to fund basic city services. Over recent decades they have experienced major changes in population and economic base which have resulted in the erosion of their tax base. They also face increased demands for services associated with their growing dependent populations—the very old, the very young, the medically indigent and those on welfare. With predictions of an economic downturn later this year or early next year, with the impending reduction in funding for CETA public service jobs and the elimination of local public works programs, and with the prospect of a tightening municipal bond market this summer, the plight of these communities and their needs for emergency aid are compelling.

TARGETING AND DISTRESSED CITIES

The distribution of federal grants to state and local governments in the last decade has had two thrusts:

"Spreading" federal funds broadly instead of narrowly was a particular feature of the "new federalism" of previous Administrations. General Revenue Sharing was the flagship, with almost 39,000 state and local governments receiving funds. This spreading has tended to benefit counties, suburban governments and small cities that had not benefitted significantly from earlier federal aid programs. The net effect of such broad purpose programs has been to increase the fraction of federal funds going to smaller governments.

In 1968 62.8 percent of all federal grants for cities went to cities of over 500,000 population; in 1977, it was 34.6 percent.

Cities of 100,000–499,000 population received 17.5 percent of all federal grants to cities in 1968; 20.1 percent in 1977.

Cities under 100,000 rose from 20.3 percent in 1968 to 45.3 percent in 1977.

The inclusion of smaller cities and suburban governments has been an important means of aiding poor smaller communities. Although the absolute dollar amounts of aid going to the larger cities has indeed grown during this period of extraordinary federal aid expansion, the failure of these cities to maintain their share of this aid, and their increasing economic difficulties have created additional hardships for the more distressed among them (see Table 1).

TABLE 1.—FEDERAL AID TO CITY GOVERNMENTS—BY POPULATION, 1968 AND 1977

[In millions of dollars]

	1968	1977
Cities with over 500,000 population	$585	$3,083
Cities with 100,000 to 499,000 population	165	1,794
Cities with under 100,000 population	191	4,040
Total	941	8,917

Source: U.S. Bureau of Census.

TABLE 2.—FEDERAL AID AS A PERCENTAGE OF OWN-SOURCE GENERAL REVENUE FOR COMPOSITE ECONOMIC INDICATOR QUINTILES

Quintile	Federal aid as a percentage of own-source general revenue 1976	1978	Difference
I. Newark, Pittsburgh, St. Louis, Cleveland, Philadelphia, Minneapolis, Oakland, Buffalo, Detroit, Cincinnati	32.27	63.34	+31.07
II. Milwaukee, Chicago, Seattle, Boston, Baltimore, San Francisco, Akron, Louisville, Los Angeles, Rochester	28.95	48.61	+19.66
III. New Orleans, St. Paul, Toledo, Columbus, Norfolk, Birmingham, Atlanta, Sacramento, San Diego, Denver	28.03	48.86	+20.83
IV. Dallas, San Jose, Miami, El Paso, Omaha, Wichita, San Antonio, Charlotte, Memphis, Tulsa	27.80	51.86	+24.06
V. Honolulu, Albuquerque, Indianapolis, Nashville, Tucson, Long Beach, Phoenix, Austin, Baton Rouge	30.13	44.97	+14.84

Source: Calculated from Advisory Commission on Intergovernmental Relations, "Federal Stabilization Policy: The Role of State and local Government," (July 1978), table VIII.

"Targeting" federal funds involves the adoption of programs and allocation formulas designed to increase the share of federal funds going to communities with particularly serious social, economic and fiscal needs. The economic stimulus programs of 1977 which increased CETA public service jobs, local public works and countercyclical revenue sharing aid to state and local governments are notable targeting programs. According to the Advisory Commission on Intergovernmental Relations, estimates of federal grants to localities for the 1976–78 period reflect increased targeting to relatively more distressed communities. Federal aid during these years became a much larger part of municipal expenditures in all recipient communities, but the increase in federal aid through these targeted programs, relative to local revenues is more than twice as great for the most distressed cities than for the most prosperous group (as seen in Table 2).

However, the picture for 1979 presents a shift in this pattern, with a decline both in the amount of funding provided and in the extent to which funding is focused on the most distressed communities. OMB estimates that federal aid to state and local governments during 1979 will total 81.5 billion, an increase of 4.4% from 1978. This rate of increase compares with Administration projections of a 6.2% increase in inflation over calendar year 1979 and an increase of 9.7% in inflation for state and local government service expenditures between spring 1977 and spring 1978. In short, according to the Administration's estimates, direct federal aid to states and localities will decline from 1978 amounts in real terms both this year and next.

The largest reductions will come in the programs expanded in 1977 under the rubric of the "economic stimulus program"—CETA public service jobs and local public works—programs designed in conjunction with countercyclical revenue sharing, to hasten the recovery from the 1974–75 recession for those governments still experiencing serious fiscal distress.

We are also now looking at an economy which shows significant signs of downturn. The effect of the FY 79 and projected FY 80 reductions in economic stimulus programs is going to hit very hard later this year if the 1980 budget is enacted as proposed. In the event of an economic downturn, these reductions in federal assistance will cause severe problems for the nation's most distressed communities, precisely because the projected cutbacks are heaviest in the programs most targeted on distressed communities.

FEDERAL AID TO STATE AND LOCAL GOVERNMENTS: THE LARGER CONTEXT

There is a natural tendency to view individual federal aid programs in isolation and to identify them with special interests and specific regions of the country. Forgotten in this narrow reading of federal program purposes and benefits is the fact that billions of dollars flowing from the federal coffers fund state and local government services and capital projects in a vast number of American communities.

Federal aid to state and local governments has grown dramatically over the last decade, tripling between 1970 and 1978, from $24 billion to over $80 billion. Grants to city governments have exceeded this rate of increase at an even greater rate, increasing by over 400% for the same period.

It is important to note that federal aid is widely distributed to communities throughout the country—not just to the nation's most distressed cities. Whatever the outcome of FY 80 budget deliberations in Congress, the fact is that federal aid will continue to be important budget items for all U.S. cities, as federal aid figures for Tulsa and Houston reveal.

In 1978 Tulsa received $48 million in federal grants; these funds accounted for 27% of the city's spending for traditional city services. This was a five-fold increase over 1972.

Houston received $210 million in federal aid in 1978, of which $140 million was for capital purposes and $70 million for operating purposes. Total available federal aid in 1978, including funds in the pipeline, were over $450 million. These figures include large grants for mass transit and wastewater treatment projects. From 1973 to 1978 federal aid to Houston increased by more than seven-fold.

The conclusion to be drawn here is that while targeting in some newer federal aid programs has provided disproportionately greater benefits to distressed communities, targeting by no means dominates the federal aid scene.

THE ALLOCATION FORMULA AND FISCAL DISTRESS

The bills before this subcommittee both use national and local unemployment statistics as the basis for eligibility for targeted aid and for the allocation formula. It has been suggested by various expert groups, including the National Commission on Employment and Unemployment Statistics, chaired by Professor Sar Levitan of Georgetown University, and by local officials that unemployment data are not the most accurate measure of economic distress. Their accuracy for communities of less than 40,000 population or for cities whose higher unemployment rates are diluted in larger SMSA counties is uncertain.

In recognition of these problems, the Administration last year proposed a variety of factors which in combination were thought to be a better measure of economic distress. These included population change, per capita income change and changes in employment levels, as well as unemployment rates. Other thoughtful individuals and groups have suggested that tax effort, age of housing stock, age of industrial plant, rate of income growth, number of AFDC recipients, among other measures, should also be factored in. The complexity of the formula to be constructed of these different measures and the absence of agreement on the importance of each combined to create confusion and misunderstanding in last year's considerations, resulting in unnecessary delay.

The matter of the formula for eligibility and distribution of federal aid is a fundamental one. Establishing an agreed measure of economic distress will be a major agenda item for this subcommittee in our review of General Revenue Sharing later this year. As for the present legislation, however, I do not believe we can afford the time necessary for an exhaustive study of this issue. We are in an emergency situation for many of the projected recipients of this targeted aid. Unemployment data are good indicators of distress for communities, many of which have double-digit unemployment. Therefore, I favor going ahead with an admittedly imperfect formula in the interest of timeliness, and postponing to our more extensive consideration of General Revenue Sharing the issue of formulas to measure economic distress.

CONCLUSION

There are two bills before us. They share a common recognition of the problems facing those of our communities still suffering from severe economic distress and a common approach to getting federal aid to these communities. They also share a common recognition of the need for a standby program to provide countercyclical aid to state and local governments in the event of a major downturn in the U.S. economy. My own preferences are for a highly targeted bill which would distribute the monies involved to those most in need. I also favor higher rather than lower levels of funding. The effort to fashion a bill and then to pass it in the Senate and in the House will be difficult. Compromise will be necessary, but by working together, we can enact legislation this year in support of economically distressed communities across the land.

I think it is important to note that we raise 80 million tax dollars to support our municipal school and county services. The cost of public safety in Jersey City cost 34 million dollars. Actually, the cost for public safety in cities like Jersey City and Newark exceed the total budget allocations of 90–95% those

567 communities! The Deals and Allemuchys of New Jersey and this country, where the millionaires and well-to-do live, do not need to raise monies to protect their families against street crime and the other crimes that plague the cities of our nation. Does it make sense that those who can't afford the cost of public safety are required to come up with "blood" money that they do not have while the rich and well-off do not have to pay for the same rights which our Constitution guarantees?

Jersey City pays 5 million dollars for welfare costs. We again see the same inequitable scenario regarding welfare. How much do you think the Deals, Allemuchys, Hyannis Ports, Grosse Pointes, Beverly Hills, Key Biscaynes, Scarsdales, pay for welfare? Do you think the huddled masses yearning to be free and economically depressed go to those glorious and beautiful enclaves or do they stream into the Jersey Citys and Newarks? Do you think only the hard working people who "per accidens" live in the Jersey Citys or Newarks and do the work of God in being "their brother's keepers" should support all the woes of this nation? Or should not those who are most endowed share in this responsibility? This same illogical scheme of the working poor paying for the poor permeates both our state structure of government and our federal structure. Countercycle aid is just a modicum of effort to equalize the over burden facing the cities of our nation and even this is in jeopardy of passing!

Opening Statement of Senator Dole

Mr. Chairman the hearings before the Subcommittee on Revenue Sharing, Intergovernmental Revenue Impact and Economic Problems that begin today are among the most important hearings that any finance subcommittees will hold this year. The high unemployment in many of the older cities in this country, combined with the crippling effects of runaway inflation have created a real need for some kind of targeted fiscal assistance for our cities and counties.

The antirecession fiscal assistance program for State and local governments was first adopted in the Public Works Unemployment Act of 1976. Through this program $1.25 billion was distributed to distressed cities and States between July 2, 1976, and September 30, 1977. The program was extended through September 30, 1978, byt the Intergovernmental Antirecession Assistance Act of 1977.

State and local governments must use the antirecession payments to maintain basic services and levels of employment which have been provided during its current or previous fiscal year. The funds cannot be used to initiate new basic services or for new construction or capital improvements.

Two attempts to revive the Antirecession Fiscal Assistance program have been made in the Senate this year. They are both before the Finance Committee. S. 200 was introduced by Senators Danforth and Moynihan. S. 566, the administration's bill, was also sponsored by Senator Moynihan. The two approaches, while attempting to solve the same problem, differ in several respects. The level of funding for recipient governments is much lower in the President's approach. The level of unemployment that "triggers in" the program is higher in the administration's bill.

There also are some differences in the allocation of funds under the two proposals. Notably, S. 566 contains a $20,000 minimum payment test for eligibility. Any government that would be entitled to less than that amount in a year would receive nothing. The money otherwise going to such a government would be redistributed to the governments above the cut-off level. This "de minimis" rule has the effect of severely limiting the number of government units that will receive any aid. About 1,200 units of government would be assisted by the administration bill. By contrast, approximately 9,500 units would be helped by Senator Danforth's bill.

There is no question about the need for fiscal relief for local governments that are afflicted with high unemployment. It also is clear that some form of targeted revenue-sharing is an effective way to meet this need. Many important questions remain, however. The optimum level of funding during these times of Federal budget deficits must be determined. The trigger mechanism and the formula for allocating the funds must also be agreed to. Finally, we must decide whether long-range review of targeted revenue sharing should be coordinated with the review of General Revenue Sharing later this year.

Mr. Chairman, I hope these hearings will shed light on these questions.

Senator Bradley. I know there are other Senators who will be here who are interested.

In the interest of moving the hearing along, I will ask the Secretary to begin with his testimony. I welcome you here today. We appreciate your presence here this morning.

STATEMENT OF HON. W. MICHAEL BLUMENTHAL, SECRETARY OF THE TREASURY

Secretary BLUMENTHAL. Thank you very much, Mr. Chairman. I appreciate the opportunity to appear before your committee in order to testify on what the administration considers to be an important piece of legislation which we strongly urge the Congress to pass this year.

I am referring to the Intergovernmental Fiscal Assistance Amendments of 1979 which we consider to be not only important in terms of assisting a relatively small number of fiscally distressed areas, even in this period, when the level of national unemployment is low, but in addition to that, provide for some standby fiscal assistance for State and local governments in the event, which we do not presently contemplate, the national level of unemployment should again rise to a higher level.

We regret that analogous legislation did not pass the Congress at the end of last year and we strongly urge that serious consideration for speedy action be given this year.

I have a statement which I have submitted to you, Mr. Chairman. I will not read it in the interest of time. I would like to comment on it, with your permission, and make some general points which I think are significant and worthy of your consideration.

Senator BRADLEY. Your statement will be put into the record.

Secretary BLUMENTHAL. It needs to be stressed that the amounts involved that we are asking for, $400 million, $250 million for 1979 and $150 million for 1980, are modest, modest in comparison to the amounts previously expended under similar legislation. I am referring to the fact that in the transition quarter of 1976 and one quarter alone, we spent $300 million. We spent $1.4 billion approximately in fiscal 1977. We spent $1.3 billion in fiscal 1978.

What we are suggesting here is rather than an abrupt termination of this program that there be a phase down, but a very severe phase down from the $1.3 billion, to $250 million and $150 million respectively for this and the next fiscal year.

It is true that the economy is doing well but it is equally true that there are some places that still are very much in need of this period or adjustment, that still suffer from distress, very high levels of unemployment and who do not have the tax base and the flexibility in their revenue base in order to raise that quickly the amounts needed to fill the gap that is being created by the absence and the abrupt termination of this program.

As to the second part, that is the standby part, if it is one thing that we have learned and one thing any economic manager knows is that it is good to be prepared.

We have not eliminated the business cycle in the United States. We never will. There will be periods unfortunately when the level of unemployment will be higher. We do not presently foresee that for 1979 and 1980 but at the same time, what we have learned, Mr. Chairman, is that given the processes through which we have to move in presenting evidence to the Congress and having the Congress consider this evidence and make its determination and pass legislation, inevitably in the past, we have been too late.

For that reason, the kind of standby authority that we are asking for, for which we have not budgeted any funds for fiscal 1980 as we proposed them to the Congress, is important because it would trigger if the national rate of unemployment should exceed 6.5 percent. As you know, the most recent figures indicate we are presently still trending down to 5.7 percent.

It is for this reason that we have not budgeted any amounts since we do not expect in our projections to go above 6.5 percent nationally through fiscal 1980.

Briefly, after the experience of the past, the program clearly was not a perfect program. One could criticize it from a number of viewpoints. One could criticize some of the formulas that we used. One could criticize the disbursement procedures. There are all kinds of things that were not perfect with it but on balance, we believe it was a good and necessary program.

The $3 billion that were expended under this program did help in many parts of the country to prevent layoffs, to cushion the distress as a result of low economic activities, to do so at a time when the tax raising possibilities of many Government units throughout the country were extremely limited and in fact, nonexistent, and therefore we think with the benefit of hindsight, in spite of some of the weaknesses, it was a good program.

We were lucky to have it. There were some particular problems with it. I would think 18,000 different separate governmental units receiving amounts is probably too many. That is a large administrative burden.

I would also say a minimum amount of $100 is clearly ridiculous. The cost of processing a check for $101 exceeds the $101 by some fair margin. There are a number of other elements of this kind.

Basically, it was a good program.

In my testimony, Mr. Chairman, I have given a few examples of particular areas in the country that still today clearly show a need for some additional funds being provided for them by the Federal Government, even at this time when the national level of unemployment has dropped to 5.7 percent.

How would this program work? The targeted fiscal assistance program, in the first part, as I have said, the amounts we are proposing are quite modest, $250 million and $150 million, respectively. It is highly targeted in order to eliminate the weakness which I referred to earlier of money being disbursed to a great many units. Instead of the 18,000 units under the old program, this particular program would in fact be concentrating on 1,231 governmental units throughout the country in which the rate of unemployment is still above 6.5 percent or was still above 6.5 percent in the April to September 1978 period which is the last available period, 6-month period, for which we have reliable data.

It would be a slightly smaller number of units than the 1,231 for 1980, based on the unemployment statistics for the first part of 1979.

It will be much more heavily targeted. We would again calculate the formula on the basis of taking the amount of unemployment above

4.5 percent and then applying the general revenue-sharing allocation to that.

The distributional criteria are much better. The system is much better. The number of units is much smaller. The percent of the money that is going to the really high unemployment areas is much higher. We estimate 70 percent of the amounts that we are asking would go to areas that still today have levels of unemployment above 8 percent.

The small communities would get a fair share. This is not just a big city program. It is well distributed between large and small population areas. Approximately 45 percent of the eligible areas in fact have populations of less than 25,000 people.

State governments are not eligible. That is a difference from the previous formula. They are not eligible because by and large, States are doing well at the present time, given the good level of economic activity generally and given the fact that the State treasuries are much more sensitive to the upside of the business cycle given their sources of revenue which in turn are much more sensitive to the level of economic activity.

A good many States have actually put through tax reductions and it is clear that at the present time States are not in need of those funds.

A couple of other features that are important, we have put in a 150 percent per capita income limitation. That is a limitation as regard to eligibility, x'ing out those governmental units in which the per capita income is greater than 150 percent of the national average. The reason for that is obvious. The reason is that we feel in that area, the relatively wealthy area, the resources and the taxing capacity is there. Those areas can look after themselves. We want to take that limited amount of money and concentrate it in those areas in which there is not the kind of wealth that could be marshaled locally in order to take care of particular situations of distress.

We have put in a $20,000 minimum figure to get away from the $100 figure. If you ask the question, as you or one of the other distinguished members of this subcommittee may, why $20,000? That is an arbitrary figure. It is an arbitrary figure simply to cut down on the amount of paperwork to do the concentration. You can go to $15,000 or you can go to $10,000. It is simply how you want to cut it. It is simply how many units you want to include, how far you want to go down.

I would strongly urge you not to go down to $100 or $1,000 because it just results in a kind of sprinkling effect throughout the economy where it is very difficult to show any real impact of this kind of program.

As to the second part, Mr. Chairman, that would work roughly the way the ARFA program worked in the period 1976 to 1978. We have made some changes. We have raised the triggering from 6 percent to 6.5 percent of unemployment nationally. We have raised eligibility for particular units from 4.5 percent to 5 percent, in order to put as much emphasis on local governments helping themselves and in line with the notion that we want to reduce the involvement of the Federal Government where we can and we want to act fiscally responsibly where we can but at the same time, we want to be ready to help when there is a need to help.

We hope we will not have to use this at all. As I have indicated, our projections, some of the prophets of doom and gloom to the contrary notwithstanding do not anticipate a national unemployment rate above 6.5 percent. Nevertheless, it is useful to be ready.

We are using a simplier approach based on excess unemployment and general revenue-sharing allocations. Again, we are using that approach because it is one that is well understood. It is one that has been developed over a period of time. I know even with that formula, there are a number of questions that can be raised but we feel in the interest of rapid action by the Congress to have that program in place, we are best served if we retain that particular excess unemployment formula.

The particular provisions involved that if the rate of national unemployment is 6.5 percent or greater, then $125 million per quarter would be made available plus $25 million per quarter for each one-tenth of a percent above the 6.5 percent of national unemployment.

As I have indicated, it would go to communities whose level of unemployment is 5 percent or greater.

In that particular instance, we have still cut in the States for one-third of the total. One-third would go to the States and two-thirds would go to local governments.

We have limited the maximum for 1 year to $1 billion which is less than in the previous 2 years when we expended $1.4 billion and $1.3 billion respectively. We have made provisions to insure that there are no windfalls. In other words, if it should trigger in, if the second part should trigger in, particular areas can benefit from both the first and the second part. We would deduct one from the other.

In conclusion, Mr. Chairman, let me end in this way. The problem of the economy is one of inflation. It is by far our most serious problem. It is by far the problem that hurts poor people just as well as the middle class. It hurts people who do not work just as much as those who have a job.

The President's budget is fiscally responsible. It is indeed tight and austere. He will continue to follow such policies, monetary policy as tight, in order to deal with the problem of inflation. We have not yet succeeded. We are going to have to stay the course.

That should not be a reason for turning down this program. We still suffer in this country for we still have not licked the problem of how to eliminate particular pockets of distress, particular areas of high unemployment, even in the midst of a national economy that has continued to reduce its overall level of unemployment and that is indeed characterized by high rates of inflation and high levels of economic activity.

We must not forget about such areas.

This program is modest in size. It is highly targeted to deal just with such areas. It uses the experience of the past as best we can in constructing these formulas and there are a number of places throughout the country, large and small, who are heavily dependent on these limited resources in helping them make the necessary adjustment to be able to manage on their own.

It is for this reason we consider it important in the context of a tight fiscal program for the Congress to accede to the President's recommendations and to approve this program.

I would be happy to answer whatever questions you or your colleagues may have, Mr. Chairman. Thank you.

Senator BRADLEY. Thank you very much, Mr. Secretary, again for your presence and support of this concept.

In your testimony, you speak of phasing out countercyclical assistance rather than terminating it as being consistent with fiscal recovery in these areas. Yet, when you consider we have reduced CETA jobs, we have eliminated local public works, we are heading into an economic downturn, and the municipal bond market is tightening, I wonder if there is not some reason to believe that the need for this continuing fiscal assistance will grow and should not the level of funding be greater than as anticipated in the administration's program?

Secretary BLUMENTHAL. Mr. Chairman, I think my opening comments give you a clue as to how I would answer that question.

If we were not heavily limited by the problems of inflation, by trying to get the budget deficit down, then I would say we might err a bit on the side of liberalism in this regard.

We are heavily pressed. We do want to get that deficit down. We must get it down. The President has had to make many agonizing decisions in presenting this budget. As you know, he has been criticized for having been too tight.

I think because it is so heavily targeted, because we have eliminated the sprinkling effect, the amounts that we have here are probably enough; maybe just barely enough, but they are enough.

If we had more money, we would spend it. We would probably do some good. We do not have more money. I think this is enough for the heavy targeting to put it where it is most needed.

Senator BRADLEY. How essential do you believe this targeted portion of the program is to the communities involved? Without it, what would be the effect and how does that fit into the overall economic picture nationally?

Secretary BLUMENTHAL. I think there are clear indications that in the areas where it is most needed, where the distress is the greatest, there is a very great need for this kind of thing. There are a number of places throughout the country where I can give you the information that we have calculated as to what the amount is that would be available and what would happen if we did not make available this kind of money.

We really think it is quite important. Let me give you a few examples. May I at random pick New Jersey?

Senator BRADLEY. Or New York, Minnesota, Missouri.

Secretary BLUMENTHAL. In Newark, 450 employees have been laid off, half of them were police officers, as a result of the loss of the ARFA program.

In East Orange, N.J., a large number of vacant positions have not been filled and are in urgent need of being so filled.

In Hudson County, N.J., there is a $4.4 million budget gap which results in many essential positions being unfilled.

In New York City, there is a very important need. We all know the difficulties that exist in the city of New York.

In St. Louis, there were $6.5 million of ARFA funds budgeted in the 1979 budget and due to that loss the city is now faced with the difficult task of closing a $6.1 million budget gap.

In Syracuse, N.Y., and across-the-board hiring freeze has had to be instituted and reductions of 3 and 6 percent in departmental expenses in addition to everything else have had to be put into effect.

In Providence, R.I., a citywide hiring freeze is in effect.

We can go to other areas. I mention the State of Michigan. St. Claire County, Mich. projects a 1980 budget gap equal to 10 percent of its budget. Clearly, the amount of money that would be coming in from this program would ease the pain of that.

Wherever we go in the country, there are particular pockets, such as those I have mentioned, in which this program would be very beneficial.

Senator BRADLEY. Thank you very much, Mr. Secretary.

Senator Moynihan?

Senator MOYNIHAN. Mr. Chairman, thank you.

I would like to welcome the Secretary and say I have had the honor of introducing this legislation for the administration. I was also its sponsor last year when we passed it in the Senate in a version Senator Danforth had much to do with.

I hope we are going to do that this time.

There is the fact, and I think the Secretary is aware of this, that one of the areas that the administration has not had the success it had hoped for, is in urban policy. It took a long time to formulate it, and then we ran into the real budget type problems you discussed.

If you were to ask "What is the centerpiece of the administration's urban policy at this moment," this is it. I think we have to get it for you. I think it should be done.

I would like to make a rhetorical point if I can and then ask you a question. One of the problems the Federal Government has not really dealt with, but I think within the next generation is going to deal with, is to get some idea of what the impact of its own policies are on regions of the country and on subsets within regions like cities or suburbs.

We have long had an awareness that there were programs where the Federal Government had specifically tried to help a region. The Tennessee Valley Authority is an example. We have little knowledge in the area of where the unintended consequences of one policy have harmful effects in another area. This weekend's press was filled with statements on this matter. I see Mr. Secretary nodding in the background. He has read them, too.

Yesterday, the Congressional Budget Office issued a report which the Times describes as authoritative, which pleased them. "An authoritative research arm of Congress has concluded that a liberalized world trade agreement being negotiated in Geneva would bring significant rewards to the United States but would result in lost jobs in the urban manufacturing areas of the Northeast."

As you know, this committee has been in executive session for a week with Ambassador Strauss. I will not speak for the other members but certainly I think the MTN, the Tokyo round agreement which follows the Kennedy round agreement which you negotiated, Mr. Secretary, is an important piece of legislation. It is an achievement. It will help the United States but it is going to hurt the Northeast and urban areas.

One thing is in fact connected with another.

The other point I would make in this morning's press an Associated Press story reports the research of two Professors Anderson, a husband-and-wife team at the Michigan State University.

It says, "An analysis of military spending and taxpayments in the Nation's 40 largest urban areas indicates that dozens of urban communities underwrite a flood of Pentagon money headed for Western cities."

Again, it is one unintended effect of a policy, to diminish resources in the Northeast, in the Middle West, and in cities like New Orleans and St. Louis.

I made that point and if you would like to comment, I would appreciate it. I also want to ask you one question.

Again over the weekend, an article by Lester Thoreau made the point more precisely than I have seen it made before—that if you check actual public sectors' spending at this point, it is not in deficit. It is in surplus because the Federal Government may have a deficit, but State governments have sufficient surplus such as that they balance out. If you are looking for the source of inflation, it is not the Federal budget at this moment.

The idea of cutting out something like revenue sharing going to distressed cities as an anti-inflationary measure makes little sense at all. The case is not there, at least in my view.

I wanted to ask if you would comment on that. That is what we hear in the Senate—if we have to cut something, let's cut the programs that help cities with high unemployment.

Secretary BLUMENTHAL. Senator, first of all, I fully agree with you that particular programs which are good for the Nation may not be good for a particular locality or a particular State or region of the country, and therefore we need to be more sophisticated in understanding those impacts and dealing with them hopefully in a positive way of helping adjustment rather than in retarding progress which benefits the country as a whole.

As to the particular point you make of deficits in the Federal budget and surpluses in State and local budgets, I make one general point that at this particular stage of the business cycle, the economic cycle, looking at the national economy as a whole, we should not be in deficit because we are clearly utilizing our resources fully.

Second, as I understand the numbers and I looked at that very quickly, I believe whereas in 1977, we had a rather large surplus of something like $11 billion or $12 billion in State and local government operating accounts. That was reduced in 1978 to about $6.5 billion. Actually, in 1979, as a result of tax reductions in some areas, possibly proposition 13 in California certainly, they are actually projecting a deficit.

That happy period when we had surpluses at the State and local level may be over. It is heavily concentrated in just a very few States. I believe it is California, Texas, maybe Alaska. There are three or four States that account for a large portion of that surplus. Then there is one other statistical quirk worth bearing in mind, Senator, and that is some States and localities are constitutionally prohibited from forecasting deficits. Even though they may be in the hole, it may not appear in the statistics, at least prospectively.

One has to be somewhat careful.

Senator MOYNIHAN. Thank you.

Senator BRADLEY. Senator Durenberger?

Senator DURENBERGER. Thank you.

Mr. Secretary, let me just share a couple of impressions I have and then ask you a question or two.

My impressions are what we are considering here is sort of a gradual phaseout or phase into general revenue sharing of a program that started a couple of years ago and basically it is tied to the original concepts but there is less money in it but higher unemployment figures.

Also, an impression I have gotten and maybe erroneously from Senator Moynihan that this is about all that is left of the Carter urban policy, so the program ought to be targeted to a few higher cities, and of course the higher unemployment cities, which of course may explain why you have trouble finding Minnesota in some of your figures.

I guess I am curious to know the degree to which this program either is or in your opinion should be targeted at either structural as opposed to cyclical unemployment.

I am trying to put it in a perspective of this program versus CETA or the relationship between the two of them. To me, looking at it in terms of structural in those communities that have structural unemployment problems versus cyclical unemployment problems, becomes somewhat important.

The most important thing is the degree to which you personally see some value in this kind of revenue sharing program being aimed at unemployment as the trigger for revenue sharing.

Secretary BLUMENTHAL. One quick point on Senator Moynihan's reference to this proposal as all that is left of the urban program. I consider that to be under the category of a rhetorical comment.

I think there is a lot more to the administration's urban program. Certainly our proposal is at this point an important piece of it. That is why we strongly recommend it be passed.

I think part B, which is the cyclical question, probably is the more important one in the longer run, in the sense that we really have to have some things ready and on the books, in the event that the national economy starts going so soft, which we do not anticipate, but it could, that the level of unemployment rises above 6.5 percent for a period of time.

I consider the first part of the program to be just a prudent way of not abruptly terminating something under which we have expended as much as $1.3 billion and $1.4 billion. It is just bad government, it seems to me, to say to a lot of communities, you will have the money, then from one day to the next you say, sorry, you do not have it any more. What we propose is a very severe tailing off, highly concentrating the amount on 1,231 units. It provides some transitional money.

Is that transitional money to be conceived as being paid for structural or cyclical unemployment? It is probably going to areas where we have high structural unemployment heavily, but these areas also tend to be affected by cyclical conditions and they are the last ones to get out of their problem. They never fully get out because there is the structural factor.

They are the last ones to get better and the first ones to get worse most of the time.

Whereas, I can make that distinction for the transitional part of the program, the standby part I would probably say it is a bit of both. There are the areas of high structural unemployment in which the cyclical impact is worse than anywhere else. I am thinking about places like my home State, the city of Detroit. There is a structural unemployment problem there.

We say in our State when the national economy catches a cold, we have pneumonia because the cyclical impact is so much worse in our State. There are other States like that.

In the second part, it is a bit of both cyclical and structural assistance.

Senator DURENBERGER. I guess my concern is how in effect I sell my vote on this, and I do not mean to whom I sell it but I mean how I sell it to people in a State that have very low unemployment because there has been an awful lot of local effort and local tax efforts, a lot of private/public cooperation in employment efforts. If in fact I am selling basically a safeguard against the impact of the economy on structural unemployment in some other communities around the country, that is the kind of argument I need out of this and that is the message I need to take back.

Otherwise, as somebody who has championed revenue sharing as a concept ever since it started, I guess I need a different message to take to a State that expects to get some piece of revenue sharing, even though its unemployment rate, for the reasons I have just outlined, is substantially below the national average.

Secretary BLUMENTHAL. I suppose one thing, as I look at the numbers here under the 1978 ARFA program, is that local governments in Minnesota did receive $5.2 million, and that under the 1978 program in the major cities in Minnesota, Minneapolis received about $500,000 St. Paul received $300,000, and Duluth, close to $200,000.

Under this new bill, the total amount that would go to all of Minnesota is $62,000. It would go to very few counties that still qualify.

I suppose the way one would explain it would be to say when the general economic situation in the country was such that even Minneapolis and other areas in Minnesota were suffering, that money was available. Fortunately, Minnesota is in good shape and those cities are in good shape now, but there are still some people coming out of it and it is only fair and decent to say that even though we do not qualify any more, a very small program for those areas makes sense.

Senator DURENBERGER. Was the figure $62,000?

Secretary BLUMENTHAL. Yes; $62,000. You are in a very fortunate position.

Aitkin County and Clearwater County are the only two counties I see who would be eligible under part A at the present time.

Senator DURENBERGER. Thank you.

Senator BRADLEY. Senator Danforth?

Senator DANFORTH. Mr. Secretary, let me put this matter into some historical perspective. As you know, this bill has a history. Last year, the position of the administration was that the local unemployment trigger for assistance should be 4.5 percent. The amount of money in the administration's program was somewhat over $600 million, as I recall.

At that time I took the position that that was not a very well thought out program, and that we could save the taxpayers some money. In fact, I figured we could save them over $300 million.

I pushed for an amendment in the Finance Committee to raise the local trigger to 6 percent and to reduce the amount of money.

We fought that in the Finance Committee and lost in the Finance Committee. We fought it on the floor and won it on the floor and, of course, eventually the whole thing got washed out.

It is interesting. The administration at that time took the position that 4.5 percent should be the local trigger. I took the position that 6 percent should be. The administration was opposed to my position.

You have kind of been on both sides of the issue, which is something we politicians like to do. It is a little bit difficult for me to know what battle to fight. What I did this year, as you know, was to introduce the bill we finally got through the Senate last year. I introduced it with a series of cosponsors, including Senator Moynihan, who was for a time my adversary last year on this question.

We now have somewhat different points of view again although your point of view has hurdled mine. You have a proposal that is even tighter than what I was proposing.

I would like to ask you a few questions about the difference between your approach and my approach and get your comments.

You have a $20,000 de minimis rule now. You indicated in your testimony that was an arbitrary figure, that you were not absolutely locked into that figure and you would hope the de minimis level would not be too low. In my bill, it is $100 a quarter, $400.

I wonder if we could not work out some sort of compromise between $400, which I would concede as too low, and $20,000 which really has a harmful effect on smaller communities. They can have very serious financial problems although they are smaller in scope than some of the large cities.

Secretary BLUMENTHAL. Senator, may I say first as I compare the legislation we are recommending with the Danforth bill, the differences are not very great. To some extent, we may have profited from the experience of your efforts and listening to you. There is hope.

Senator DANFORTH. I am glad to be helpful.

Secretary BLUMENTHAL. As I look at your approach, we are fairly similar to what you suggested.

You may have a better feel for de minimus levels than I do. I would think even a couple of thousand dollars is such a minor amount for most governmental units and I cannot imagine a check from Uncle Sam for that amount, $500 a quarter or whatever it is, really is going to make the difference between fiscal distress and the lack of it. There may be such instances but they must be few.

On the other hand, the amount of paperwork, the sprinkling effect of this, the amount of governmental units who get the check and say, this is a gift from heaven but we could have done without it, probably far exceeds the number of units that really need that extra couple of thousand bucks.

When I say obviously the $20,000 is arbitrary, I had in mind, for example, if you reduced that to $10,000, if I remember the numbers correctly, you would add some 600 additional units. You would go from 1,231 to something a little less than 2,000. That is still pretty good.

I do not have with me all the various permutations that you can work out if you go to $5,000, or vary eligibility at 6.5 percent and at 6 percent, and make various combinations.

I would think what I would recommend to you is that if you could fix the total amount and not go above the absolute amounts that we have in there, because this is what concerns me, the budget impact, and then just have us work with you and give you a grid on which you could see what the impact of various minimum amounts and various trigger points is, and then pick the one that suits you best. As long as the total that you are going to spend does not exceed what we are recommending, and as long as it remains targeted to the areas that really need it.

Senator DANFORTH. I was going to ask you about the $20,000 diminimous and the difference between 6 percent and 6.5 percent.

It is your view and my view that this is the sort of thing that can be worked out on the basis of examining the print-outs and we are both flexible in working something out in that connection.

Another question has to do with annual versus quarterly payments. Under your proposal, as I understand it, it would be a single annual payment and under mine, it would be quarterly.

Secretary BLUMENTHAL. Yes.

Senator DANFORTH. I wonder if there is not a problem in using an annual payment in that it can be somewhat inflexible. That is, you could determine eligibility for a community at a time when unemployment is over whatever the trigger is going to be—but the time chosen might be an aberrational point in time.

Do you follow me?

Secretary BLUMENTHAL. Yes.

Senator DANFORTH. I wonder if it would not be more flexible and also more timely if instead of an annual payment we had quarterly payments.

Secretary BLUMENTHAL. As I understand it, the standby portion of our proposal is based on quarterly payments. The targeted is annual. The reason again being it is a rather limited program for a limited period of time. We have only whatever it is, six quarters left.

We just wanted to keep it very simple. The standby which would trigger above 6.5 percent is quarterly.

Senator DANFORTH. The standby being the countercyclical?

Secretary BLUMENTHAL. Yes.

Senator DANFORTH. How about the targeted portion?

Secretary BLUMENTHAL. That is annual. That is because it is a rather limited program for a rather limited period of time and we felt it would be easier to handle and faster to administer for the recipient units as well. That is why we picked it.

I do not really think that would be a real fighting point.

Senator DANFORTH. No; I just wanted to figure out the degree of flexibility. It is not a sticking point with me either but it just happened to be one of the differences in the administration's bill and my bill.

Let's get to the money because I think that is obviously the major problem.

One question would be the phase down, $250 million in 1979 and $150 million in 1980. Are you confident that local governments are going to be that much better off in 1980 than they are in 1979?

Secretary BLUMENTHAL. Our projections, economic projections, indicate that we will have a slow down in the course of 1979 and then an improvement in 1980.

Point No. 2, unless you posit that there will be a substantial slow down in 1980 and the rate of unemployment nationally, and therefore in some of these local areas, will rise rather substantially, then I think you can make a good argument that what was a countercyclical program, really should come to an end and these local units should have had enough time to know it was a temporary program, to plan for it. The general revenue sharing program is still there, and that is obviously one of the questions we are going to have to address ourselves to in studying what changes to propose there.

We are trying to deal with the effects of what was a temporary program, and one of the problems we always face as you well know is that temporary programs tend to become permanent. State and local governments were told it was a temporary program, and as conditions improved, it would be phased out. We have phased it out.

I think in most instances they will be able to handle it. There will still be some distressed areas but other programs are available in the Federal Government in order to help for chronic distress. This program is not intended to deal with chronic distress.

I would say whatever impact of the cycle was felt in these areas, should be eliminated by 1980 under our projections.

Senator DANFORTH. Let's assume a community with 7 percent unemployment in 1979 and in 1980; it would seem to me that that community would be in worse shape in 1980 than in 1979 for the reason that its costs would be going up. At the time it is in worse shape, being hit particularly by inflation, we would be phasing down a program designed to help that community.

Secretary BLUMENTHAL. The program, as I understand it, was designed to counteract the impact of the cyclical downturn. The cyclical downturn has been eliminated. We are far on the up side.

There are communities which have more than 7 percent unemployment and may have that still in 1980. Those communities will have to look to other sources, it seems to me, for help to aid them in overcoming their distress, but not this program.

Senator DANFORTH. There are two aspects of this program. There is the countercyclical aspect which is designed just to get money out into the economy. That is countercyclical, when unemployment nationally goes up.

I am talking about the more targeted problem where you have distressed areas, where you have particular communities which have chronic unemployment that are going to be there in 1979, 1980, 1981, 1982, and so on.

It seems to me that for those communities as times are getting worse for them, we are cutting back on a program that is designed to help them.

Secretary BLUMENTHAL. I would say for those communities you look to CETA programs, to public service employment, to general revenue sharing, or whatever other Federal programs are available to aid them.

You no longer rely on this program which is intended to deal with a national cyclical problem, and within that targeted on the areas worse off.

Senator DANFORTH. Thank you.

Senator BRADLEY. Senator Chafee?

Senator CHAFEE. Mr. Secretary, I have a little trouble following the consistency of the Federal Government's programs in connection with distressed areas.

For example, last year, as you recall, the administration came forward with a labor intensive public works program which was $1 billion a year for 3 years. This was a great necessity. It came with considerable fanfare. The Congress did not accept that approach. As you remember, there was a wrestling match between the House and the Senate to some degree on what is labor intensive and in any event, the whole thing went down.

Hot on the heels of that, the administration comes in this year and cuts back on a program very severely. You are going from $1.3 billion last year to $250 million this year and $150 million next year. You cut back on programs that essentially go to the poorer cities of the Nation. They are not all in the Northeast but many of them are. I suspect some of them are in the Sunbelt. They are in the areas of the country which are older than the national average and have lots of problems, some of which Senator Moynihan spoke about today.

I have a problem following the consistency of the administration's policy. I do not know what you are going to do next. Could you help me out?

Secretary BLUMENTHAL. Senator, I do not know if I can help you out fully, but let me try. The distribution of that limited amount of money that we are asking for is fairly widespread, and a significant portion goes to the West, not just the Northeast. California gets quite a bit. It is in the South, the Midwest, and really everywhere. It is well distributed. Not all is in cities.

As I said, over 40 percent of the total governmental units which qualify are places with populations less than 25,000. I think in that regard it has been targeted well.

Senator CHAFEE. I differ with whether you targeted it well. Did I hear Minneapolis gets some?

Secretary BLUMENTHAL. No.

Senator CHAFEE. They do not need it.

Secretary BLUMENTHAL. They are not getting it.

Senator CHAFEE. It just seems to me that the problems of the country are in the cities and are all over the country, but primarily there is a lot of difference between Newark and Wichita in prosperity and in hope for the future.

I assume Newark does get a good bit more than Wichita.

Secretary BLUMENTHAL. Wichita gets nothing.

Senator CHAFEE. Wichita does not need anything.

My point is, when you take a program from $1.3 billion to $250 million, that is a whale of a drop, particularly when last year, not but 7 months ago, you were saying these same cities desperately needed a labor-intensive public works program.

I just cannot follow the administration. I am not holding you responsible for the entire administration, but you are the only one we have here.

Secretary BLUMENTHAL. My shoulders are broad, Senator.

By targeting it so heavily, the examples you picked, if you will pardon me for saying so, prove the point I am about to make or at least substantiate the point.

Neither Minneapolis nor Wichita get a penny under this program, but they did get something under the previous program. Places like Newark do. As a consequence of targeting it so heavily, these hard-pressed cities get more than they otherwise would. The same thing is true for Rhode Island. Rhode Island gets $\$1/2$ million under this program, although these other places do not.

The money is pretty well distributed and concentrated on the pockets of high unemployment.

The question you asked me is, why this big dropoff; why do you go down from $1.3 billion to $250 million? One reason is we have cut out a lot of areas that do not need it many more, and that means we really do not need much money as long as we can target it. The second reason is we do not have the money in the budget. It is quite frankly an effort to get us to a balancing of the budget. I have been urging just as hard as I can within the administration that we need to do that.

The third thing is, I believe—and the Secretary of Labor can speak to that with a lot more authority than I—that we have maintained CETA and public service jobs at fairly high levels. We have cut those back, too, but have maintained them at as high a level as we possibly can and also concentrated on areas where unemployment is high.

If you are saying why not $1 billion, $\$1/2$ billion, there is only one answer. It is quite consistent with the economic policies of the administration. We want to balance the budget.

Senator CHAFEE. Consistent with the policies this year, but last year you came in with that labor-intensive public works than even Congress in an election year rejected.

I was opposed to it. I could not see what the thinking was. To come in with a program like that, and then this year you come in and cut this program which I think is a good one, and I agree with you, we are all trying to reach a balanced budget, but you cut the program so dramatically.

The instances you have given are good ones of what you are doing in various cities. I just know the Rhode Island figures. They have a very substantial reduction.

Secretary BLUMENTHAL. You would be getting $779,000 in fiscal 1979. That is pretty good. That is probably a higher percentage than what you got in 1977 and 1978. It is because we have cut out the Wichita's and the Minneapolis' so we can give it to the Rhode Island's.

Senator CHAFEE. We end up getting one-third of what we got last year.

Let me get your comments on Mr. Nathan's proposal. He is testifying after you. He first concludes that this is a good program.

On page 13, he states at the top that he believes in the targeting idea as the major theme of domestic policy, and he proceeds to apply the targeting to the general revenue sharing.

There are all sorts of political pitfalls in that thesis but he says there are two reasons that lead him to that conclusion, that urban needs in the Nation are concentrated in older declining localities with high proportions of disadvantaged persons and that the dominant trend of

Federal grants over the last 15 years has been to spread urban aid rather than concentrating it.

I believe in the concentrating, yet under the general revenue sharing, Wichita or Minneapolis, which are very prosperous cities, get a lot.

What do you think about the targeting of general revenue sharing outside of the political problems?

Secretary BLUMENTHAL. Maybe we should go to the courtyard.

We are presently engaged in an intensive review of general revenue sharing because we will have to come up here in the not-too-distant future and propose what we think the future of that program ought to be. We are looking at the question of economic impact, fiscal impact and targeting, different and better kind of targeting. We are looking at the question of the distribution between States and other governmental units; should the States continue to receive support.

I have been impressed by the fact that so many States feel the Federal Government ought to balance its budget quickly, and it has occurred to me as well to others that one way the States could help is to forgo the amount of general revenue sharing that we are turning over to them. That would help us get the Federal budget into balance.

I think better targeting to the areas that really need it is clearly one of the things we are going to have to come up with some conclusions on. My bias would be in the direction of having it more heavily targeted.

Senator CHAFEE. I want to urge you to give that some further thought. I think we do have a problem here where we do have all the cities that are undergoing tremendous problems, as Mr. Nathan says, with high proportions of disadvantages. There is a lot of difference between Lowell, Mass., and McLean, Va. For them to receive the equal amounts of the general revenue sharing, that does not seem to make a great deal of sense, if we are going to tackle this national problem.

Thank you. Thank you, Mr. Chairman.

Senator BRADLEY. Thank you very much, Mr. Secretary, for your testimony.

Senator DANFORTH. Mr. Chairman, may I add one point?

Mr. Secretary, you know we get into sort of a political mess when we start talking about Providence, R.I., versus Wichita, Kans. My own view is we have to be rational about how we spend Federal money, not just spray it out over the countryside.

I do think there is an impression that some of us have, maybe Senator Durenberger and I, that Senator Bradley, Senator Moynihan, and Senator Chafee may not have, and that it is that there is a kind of sense of regionalism that comes up in this sort of discussion.

We have so many opportunities in the Congress to heap our benevolence on New York, for example, or New Jersey or Rhode Isand. Sometimes it seems as though the major question is, how can we give the people of Minnesota and the people of Missouri more opportunities to reach in their pockets and turn money over to the people of New York, New Jersey, and Rhode Island?

If a community is well off—and there are communities that are well off—then if it needs any assistance, it obviously does not need as much Federal assistance as those communities that not well off.

I do think it creates some problems for all of us when we get into this question. It comes up every time there is a vote on the Senate floor in such matters. People who do not know very much about the issue rush onto the floor. Somebody has a chart of what is in a bill for what community or what State. A Senator looks at the chart and his vote is won by that kind of a consideration.

It seems to me that kind of regionalism really is not advancing any cause.

Secretary BLUMENTHAL. I think you are absolutely right. If you look at the distribution of this money as it would occur, I would have to say we have tried very hard to be fair and not to construct a program that is a New York City relief program. The State of Illinois, the State of Michigan, the State of Mississippi—the States of California, Pennsylvania, Texas, Florida, Georgia—who get relatively large amounts in the millions out of this, and that is not simply because they are large States, but also they have a high percentage of concentrated unemployment.

It is pretty well spread across. It is true there are some States that get nothing, and those tend to be the States in which there is fortunately little fiscal distress.

You always have this political problem of deciding whether you are not going to sprinkle it but give whatever money out where it is needed, or whether you come to the conclusion that it is politically so difficult that in order to give it to the ones who need it, you are going to have to give it to a lot of people that do not.

We have tried to be rational about it. I think the distribution, as you will study it, is basically pretty good. It does not go to one region. This is not a Northeastern program. It is really a national program.

Senator BRADLEY. Thank you very much, Mr. Secretary.

Secretary BLUMENTHAL. Thank you.

[The prepared statement of Secretary Blumenthal follows:]

STATEMENT OF HON. W. MICHAEL BLUMENTHAL, SECRETARY OF THE TREASURY

Mr. Chairman and Members of this distinguished Subcommittee:

I appear before you today to discuss the Intergovernmental Fiscal Assistance Amendments of 1979, which the President submitted to Congress last week. Through 1980, this two-tiered legislation would provide targeted fiscal assistance to fiscally distressed local governments and a stand-by fiscal assistance program for State and local governments.

Concerning the first tier, we recommend targeted fiscal assistance expenditures of $250 million in 1979 and $150 million in 1980. This compares to $1.3 billion spent last year under a similar, predecessor program. We do not project any outlays under the program's stand-by tier. It would only operate if national quarterly unemployment reached 6.5 percent in 1979 or 1980, and the Administration forecasts a maximum rate of 6.2 percent over that period.

My testimony will cover three major areas:

(a) A brief review of the history of this legislation.

(b) Targeted fiscal assistance—why a need exists for further assistance on a limited basis, and how we propose to provide it.

(c) Stand-by Fiscal Assistance—the importance of having such a program in place and the details of our proposal.

A BRIEF HISTORY

Three years ago, during the deepest U.S. recession since the 1930's, many urban and rural communities were experiencing severe fiscal distress. The recession had weakened their revenue bases at the same time that their unemployment and service costs rose sharply. Many localities began to experience widening budget deficits and some were threatened with insolvency.

In 1976, Congress enacted the Antirecession Fiscal Assistance (ARFA) program—frequently called countercyclical revenue sharing—to provide emergency fiscal assistance to these distressed States and local governments. President Carter then proposed in 1977 that this program be extended, and Congress agreed.

Over a nine-quarter period, therefore, approximately $3 billion of such antirecession funds was distributed to an average of approximatelp 18,000 recipient governments. We think these expenditures were effective in avoiding excessive layoffs of essential workers, reductions in vital services and counterproductive tax increases.

Essentially, the ARFA program distributed $125 million per quarter when the national unemployment rate (seasonally adjusted) reached 6 percent for a calendar quarter. It also allocated an additional $30 million for each one-tenth of one percent in excess of this 6 percent level. Eligible States received one-third of total disbursements and eligible local governments received two-thirds. A government became eligible if its own unemployment rate was 4.5 percent or more, and the individual allocations basically were determined by the excess of a recipient's unemployment over this 4.5 percent base level.

The ARFA program targeted its funds effectively to those State and local governments which needed them most. In 1978, two-thirds of the total disbursements were distributed to recipients whose unemployment rates were 8 percent or more.

The ARFA program was reauthorized only through 1978 and, in May of last year, the Administration proposed a similar, successor program to operate through 1980. After careful study, we had determined that a series of local governments continued to experience severe fiscal distress. Indeed, we provided a formal study to Congress on this subject.

Last Fall, the Senate Finance Committee reported out a bill, which we supported and the full Senate passed, which would have continued Federal fiscal assistance to these governments. Unfortunately, this legislation failed in the House on the final day of the 95th Congress. ARFA funds were thus cut off to all recipients on September 30 of last year.

NEED FOR TARGETED FISCAL ASSISTANCE PROGRAM

The Administration's judgment is that these funds—$1.3 billion last year—should have been phased out gradually, not terminated in one step. Accordingly, we have proposed the much reduced outlay levels of $250 million in 1979 and $150 million in 1980. This phase-down would be consistent with the fiscal recovery of many localities and the related pattern of annual reductions in ARFA funding since the 1976 peak of the State and local fiscal crisis

There is a need for continuation of fiscal assistance, however, because certain urban and rural localities around the country remain fiscally strained and need more time to recover. They cannot eliminate their dependence on antirecession funds without experiencing severe budget dislocations and related layoffs, service cutbacks and tax increases.

Let me illustrate the importance of the previous ARFA program to certain particularly strained areas. In 1978, Treasury published a Report on the Fiscal Impact of the (Carter) Economic Stimulus Package on 48 Large Urban Governments. It concluded that a number of these governments were in a serious state of fiscal distress. Our latest statistics indicate some improvement but the underlying problem continues in certain areas.

Their local tax rates are at legal or economic limits, and tax revenues thus cannot be increased meaningfully in the immediate future. Despite efforts to cut their budgets, these governments are experiencing inflationary pressures which are driving local expenditures higher. Additional research has demonstrated that this same combination of stagnant revenues and inflation-driven expenditures is also afflicting many rural governments.

Treasury's study also showed that the more seriously strained local governments received a proportionately greater share of ARFA payments and that such governments could not easily offset the loss of such payments. For example, last year, the ten most severely strained of our largest municipalities were receiving ARFA funds representing between approximately 2 percent and 7.5 percent of their so-called "own-source" revenues. Theoretically, these governments could raise taxes or cut expenses to replace them. Unfortunately, neither of these alternatives is readily available to distressed local governments. This is why the Administration is recommending a phasedown of fiscal assistance over the next two years.

A second basic illustration of the need for targeted fiscal assistance involves the combined effects of underlying fiscal distress plus last year's funding cut-off on a series of particularly hard-hit areas. Examples include the following:

(*a*) Detroit budgeted $19 million of anticipated 1979 ARFA receipts and then was forced to lay off 350 employees when the program was terminated.

(*b*) St. Louis anticipated $6.5 million in 1979 ARFA funds and now must close a budget deficit of approximately that amount.

(*c*) New Orleans had to enact three new revenue measures which equalled approximately 15 percent of its 1979 budget.

(*d*) After having already reduced its work force by 1,300 employees, primarily through lay-offs, Philadelphia had to cut another $14 million from its 1979 budget due to that amount of shortfall in anticipated 1979 ARFA receipts.

(*e*) Newark laid off 450 employees in the immediate wake of the program's termination, including 200 police officers.

(*f*) El Paso reduced its workforce by five percent.

(*g*) Pittsburgh was forced to increase both its city income tax and its property tax.

(*h*) Hidalgo County, Texas had to reduce its already small workforce by layoffs and attrition.

HOW THE TARGETED FISCAL ASSISTANCE PROGRAM WOULD WORK

Let me turn now to a brief discussion of the program's major features.

This program would authorize the expenditure of $400 million as follows:

(*a*) $250 million in FY 1979 for approximately 1231 local governments with unemployment rates of 6.5 percent or more for the six-month period of April through September, 1978.

(*b*) $150 million in FY 1980 for somewhat fewer governments based on the unemployment rates for the first 6 months of 1979.

The share of each local government would be determined by its excess unemployment above 4.5 percent multiplied by its general revenue sharing allocation—this is the previous (ARFA) approach. Payments would be made annually, and as soon as possible in the case of the 1979 allocations. One-half of one percent of the total funds requested would be distributed on a population basis to the Commonwealth of Puerto Rico, Guam, American Samoa, and the Virgin Islands.

DISTRIBUTIONAL EFFECTS

By any reasonable measure, the program's funds will be highly targeted according to need. Only 1,231 local governments would receive funds in 1979, based on the most recent unemployment data. This compares to the 39,000 recipients of General Revenue Sharing funds and the 17,000 average recipients of 1978 ARFA funds.

In addition, 70 percent of 1979 funds will be distributed to localities currently experiencing unemployment rates of 8 percent or more. The 10 "highest strain" cities would receive 34 percent of the total 1979 funds.

Small communities also get a fair share of program funds. Approximately 45 percent of the eligible areas have populations below 25,000 people. In addition, half of the eligibles are counties, not cities.

ROLE OF THE STATES

State governments are not eligible for targeted fiscal assistance, although they would fully participate in the standby fiscal assistance program. Studies indicate that, as a group, State governments are not fiscally strained today. Indeed, fifteen States provided for personal income tax relief in 1978, through either reduced rates or exemptions, credits, or deductions. Major State revenue sources—sales and income taxes—have been more responsive to improvements in the national economy than the principal local revenue source—property taxes. Accordingly, ash the economy has improved over the past 50 months, State revenues have increased at a faster rate than local revenues.

USE OF UNEMPLOYMENT RATES

Concerning eligibility, we have selected local unemployment rates as the proxy for fiscal distress. We have found the unemployment-based antirecession formula to be effective in targeting funds to places with serious economic and fiscal problems. For example, the ten "highest fiscal strain" cities receive substantially higher per capita allocations than less strained cities.

We selected average unemployment rates of 6.5 percent or more for determination of local eligibility. Unemployment over the past year has hovered around 6 percent and a rate of one-half percent above this level produces considerable targeting.

ADMINISTRATIVE ISSUES

Our legislation includes two important provisions relating to administration of the Targeted Fiscal Assistance program. The first involves a per capita income limitation such that eligible recipients must have per capita incomes of less than 150 percent of the national average. This requirement avoids rewarding particular places where, despite high unemployment, considerable taxable wealth may be found.

Second, we have included a $20,000 minimum annual payment test for eligibility. This "de minimis" test means that when a recipient's potential allocation falls below that amount, either in FY 1979 or in FY 1980, that locality is not eligible and the funds are redistributed among those whose allocation is above $20,000.

The expired ARFA program provided that a government could receive as little as $100 per quarter. We find that minimum payment simply too low. The minimum should be large enough to sustain one or perhaps two jobs.

STAND-BY FISCAL ASSISTANCE PROGRAM

Let me turn to the second-tier of this legislation—the stand-by fiscal assistance program for State and local governments. This program is similar to the 1976–1978 ARFA program except that it would only operate when the national quarterly unemployment rate reaches 6.5 percent or more, instead of 6 percent, and the eligibility requirement for recipients would be raised from 4.5 percent unemployment to 5 percent.

The current Administration economic forecast does not anticipate that national unemployment rates will reach 6.5 percent or more through 1980. Thus, we do not project any budgetary outlays under this stand-by portion of the program.

Should an economic downturn occur in 1980, however, we want State and local governments to have the assurance of Federal assistance to help them avoid precipitous layoffs, service curtailment, sudden reductions in procurement and capital outlays, or tax increases. We also think it important to avoid past mistakes of having a countercyclical program that triggered on too late in the recession and triggered off too late into the recovery.

HOW THE STAND-BY PROGRAM WOULD WORK

Our proposal builds on what we have used in the past. It is intended to be relatively simple and easily understood. For example, the allocation approach of unemployment data combined with the general revenue sharing formula is widely understood. This approach—using unemployment, tax effort, population, and income data—reflects a legislative consensus on fairness. In addition, this approach has broad support because it is simple and inexpensive from an administrative viewpoint.

The program would operate only if quarterly national unemployment rises to 6.5 percent or higher in 1979 or 1980. At that point, it would distribute $125 million per quarter plus an additional $25 million for each one-tenth of one percent by which national unemployment exceeds 6.5 percent. Individual State and local governments with quarterly unemployment rates of 5 percent or more would be eligible. Approximately one-third of the funds would be distributed to State governments and two-thirds to local governments.

The maximum amount of funds to be distributed under this stand-by program, should it operate, would not exceed an annual allocation of $1 billion and no funds are to be paid after September 30, 1980. This means that the last calendar quarter for which national unemployment data will affect payments would be the quarter ending March 31, 1980.

We have included a payment adjustment provision linking the first tier of the bill to this stand-by tier. To avoid windfall funding, if the stand-by tier is triggered, allocations to local governments in any fiscal year under this second tier would be reduced by the amount of payments they would receive under the first tier in that year.

The stand-by program includes the same per capita income test and equivalent minimum quarterly payment tests, as in the Targeted Fiscal Assistance tier.

CONCLUSION

The Intergovernmental Fiscal Assistance Amendments of 1979 constitute an important aspect of the President's domestic program. It is a balanced two-tiered program that addresses the immediate needs of a limited number of fiscally strained local communities as well as the prospective needs of State and local governments as they face economic uncertainty. A minimum amount of expenditure can have considerable impact without jeopardizing the budgetary and fiscal goals of this Administration. A stand-by program offers the prospect of providing a sensible fiscal insurance program for State and local governments in the event of future excessive unemployment.

We have purposely designed this program to bridge the time remaining until the expiration of General Revenue Sharing in 1980. The expenditure of $400 million in fiscal year 1979 and 1980 phases down the amount of funds received by the most fiscally distressed communities while stand-by fiscal assistance assures a timely response to economic downturn. The proposed legislation will expire on September 30, 1980, together with GRS. This will facilitate a 1980 Executive Branch and Congressional review of the entire issue of Federal fiscal assistance to State and local governments.

I appreciate the opportunity to present the Administration's program for fiscal assistance. I look forward to working with you and other members of Congress toward implementing the program.

Senator BRADLEY. Our next witness will be Richard Nathan, senior fellow at Brookings Institution, a scholar on the subject of intergovernmental transfers.

STATEMENT OF RICHARD P. NATHAN, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. NATHAN. I am accompanied today by James W. Fossett who has helped me write this testimony and also by Claire Osborne, a research assistance who worked with us on the testimony.

I am just going to read some points and I would ask the whole testimony with the tables be inserted in the record.

Senator BRADLEY. Your full statement will be inserted into the record.

Mr. NATHAN. In our view, the legislation before the subcommittee today, together with the extension of general revenue sharing, is likely to be the most important domestic policy issue addressed by the 96th Congress. While it represents at best a short term solution for chronic policy problems, it is essential to preserve at least some impetus for urban policy in 1979.

Our testimony today focuses on subtitle A, the targeted fiscal assistance title of the legislation before your subcommittee.

Taken together, the budget as enacted for 1979 and the administration's proposed budget for 1980, represent what in our opinion is a watershed for Federal grants and aid. These two budgets represent both a reduction in the level of support for State and local activities and in the extent to which this funding is targeted on distressed communities.

If one looks at nonwelfare grants, that is, subtracting out AFDC, medicaid and some section 8 housing grants, nonwelfare grants to State and local jurisdictions are projected to decline in real terms by 3.3 percent in 1979 and by 6.8 percent in the 1980 budget.

If one studies the history of Federal grants, and I have been working in this field for a long time, this is a dramatic change.

The administration has chosen not to introduce and in some cases to fund at reduced levels the programs contained in its urban policy. Calculations by the Congressional Budget Office indicate, that 1979 and 1980 budget authority requested for programs initially contained in the urban policy amount to just over $4.9 billion in the 1980 budget as submitted.

This is compared to the initial request of the administration for budget authority for these 2 years totaling $13.5 billion. It is almost a third of what was in the original urban policy proposals.

The biggest urban aid reductions in actual expenditures from 1978 to 1980 come in the programs contained in the administration's three part "Economic Stimulus Package" of 1977 which consisted of extra funds for ARFA, public service employment, and local public works.

As a result of congressional action last year and presidential proposals for next year, and we have underlined this sentence in our testimony, outlays under these three stimulus programs are projected to decline from $9.2 billion in 1978 to $2.9 billion in 1980, a reduction of better than two-thirds in 2 years.

The impact of these reductions will be most severely felt by the Nation's distressed cities.

Estimating who will lose exactly how much is difficult but we have been able to construct estimates for the committee today which I am going to present next.

Table 1 in our testimony, which has the world's longest tabular footnote, shows estimates for the losses resulting from reductions in ARFA and PSE to 10 selective cities. All of these are hardship cities using our "urban conditions index." We are studying the PSE programs in all of these cities except one.

To continue the services financed by these two programs, this set of cities would have to raise taxes, that is to continue what they had before, by an average of 8.4 percent. Furthermore, in order to continue capital spending because this estimate leaves out LPW, at the level provided by the LPW program, these cities would have to raise taxes by another percentage point on average to cover annual debt services assuming financing with 20 year general obligation bonds.

Skipping through out testimony, a statement on page 6 that I would call your attention to says if the forecasts of recession later this year or next year are borne out, the most distressed cities will be faced simultaneously with a major loss of Federal revenue and a slowdown in their economies. The consequences of this double whammy, which is Mr. Fossett's phrase and I like it, are potentially grave.

As pointed out by other witnesses, the first signs of this dilemma have already begun to appear; Newark, Detroit, Philadelphia, and other cities have been laying off employees whose salaries were paid ARFA funs. Ironically, the effects of the cuts in the stimulus programs designed to help us get out of the last recession now appear likely to occur as the next recession pokes its head up on the economic horizon. It is an "on-again-off-again" urban policy that is really going to come to roost in the most troubled cities.

The next section of our testimony shows that the trend in Federal grants of the last 15 years has been to spread money, rather than to target money in distressed places. Targeting is a new and very modest development which is now going the other way in the 1980 budget.

There was targeting in 1977 and 1978 under the new CD formula and under the stimulus program; in the new budget we are moving back toward the spreading pattern which has dominated Federal aid policy over the last 15 years.

The important concept, and it has been mentioned earlier today, is the idea of targeting aid. As we stress in our testimony, this is certainly not a radical idea, when one looks at the history of Federal grants and the pattern of the last 15 years. A phrase we like is that tightening in the budget and targeting go together. In the current budget period, if we are going to have initiatives, they are going to have to be targeted initiatives.

I would like to turn now to the rest of the tables which are new tables we developed for the committee which show the effects of various levels of emergency fiscal assistance on the 10 cities that are included in table 1.

As a first point, let me recall that the SUFA program, supplementary fiscal assistance, was originally proposed to be budgeted in the urban policy, that is in the last iteration of it which I brought with me, at $1 billion for 1979 and 1980. The bill before your committee is one-sixth of that amount for 1980, reflecting the scaling down of urban policy initiatives.

We have used four alternative funding levels in preparing data for this testimony to show the effects of different policy options on our 10 selected cities. First, we used what TFA, the administration's position of $150,000 in 1980. Second we used the committee's position which was in the budget resolution letter, as I understand it, from the committee, of $350 million. We also have what we call an intermediate level of $500 million and then, as a fourth level, we go back to the Carter administration's urban policy, $1 billion.

We have distributed the amounts involved under these four assumptions on the basis of the formula contained in the administration's new proposal for targeted fiscal assistance.

We present these data in a new way, in the form of what we call replacement ratios. That is the percentage of losses of 1978 ARFA and PSE funding that would be restored with each of the four alternative assumptions.

Table 2 shows the percentage of ARFA funds only that would be restored under each of the four assumptions. It shows that only the urban policy level would restore what went before. It would take us back to 1978, and if you adjust for inflation and you look at ARFA only, there would be what we characterize as a "modest" 19 percent increase in real terms, just replacing ARFA. In other words, with any of the other three alternative assumptions, there is less targeting for these cities in 1980 than there was in 1978.

As the next step, in Table 3, we have also taken into account the PSE losses. Table 3 shows the results of this analysis with the same four alternative budget assumptions. None of the four alternative levels on this basis restores the combined losses from the 1978 levels of ARFA and PSE either in real terms or adjusted for inflation.

This does not include the fact that LPW and the LIPW program are no longer before the Congress. They were funded in 1978.

We have also developed replacement ratios for the 10 cities in table 4 of our testimony. This is again just for ARFA. We only use the two assumptions, the TFA assumption and what we call "the urban policy assumption" of $1 billion which was the administration's position last year.

These replacement ratios would be lower if we also took into account the losses of PSE and local public works funding. The figures are adjusted for inflation in this table.

For Newark, for example, the targeted fiscal assistance level, the administration's position, would restore 14 percent of ARFA losses alone in real terms. The $1 billion level would come close to restoring all of the ARFA losses but of course that does not take into account the losses from PSE or LIPW or LPW however you want to characterize it.

In St. Louis, which is also in this table, the administration's TFA position would restore 12 percent of ARFA adjusted for inflation and the old urban policy level would restore 79 percent.

We would offer several points by way of conclusion. The most important conclusion at least to us, of this testimony is the appropriateness in 1979 of the targeting idea as a major theme of domestic policy. Two reasons lead us to this conclusion; one, that urban needs in the Nation are concentrated in older declining localities with high proportions of disadvantaged persons, big and small, Sunbelt and Frostbelt. This is not a regional issue New Orleans is one of our 10 selected cities.

A second point which needs to be highlighted whenever one talks about Federal grants involves the historical perspective, namely the point that the dominant trend of Federal grant policy over the last 15 years has been to spread urban aid such that a shift at the margin now to a more targeted approach is by no means a radical proposal.

The rest of our testimony discusses some ideas which relate to general revenue sharing and the possibility of combining with general revenue sharing some of the ideas that ought to be looked at on a more permanent basis in relation to the bill which is before your committee today. I will not read that portion of the testimony.

Senator BRADLEY. Thank you, Mr. Nathan.

I want to compliment you on your outstanding work here that puts before the committee and the public in a very vivid fashion the degree to which moneys aimed at severely depressed cities have not returned; even under the administration's proposal or the committee's proposal, I think the replacement ratios that you have provided us will be the subject of an important piece of ammunition in the debate of the next several months.

I thank you very much for that.

I would like to have you comment briefly about those people who would say it would be up to the local government to replace the loss in Federal funds by resorting to increased local taxes.

What would that do, in your judgment as an urbanist to the economic and social fabric of those severely distressed areas?

Mr. NATHAN. Senator, as you imply in your question and as we state in our testimony, north and south, large and small, the cities which have been losing people and losing jobs tend already to have on average twice as high levels of local raised revenue in terms of the effort they devote in raising taxes from their own tax base.

If they are forced into a position where essential services funded under ARFA have to be maintained by raising taxes, property taxes predominently and in some cases possibly sales taxes and various different fees that are used, that is going to further undermine their competitive position. It is going to make it harder for things like a National Development bank, which hopefully we will be talking before the year and the Congress are out, to put these older declining cities with high proportions of disadvantaged people and often high proportions of minority citizens in a position where they can capitalize on some trends that are pro-city and where they can compete to improve their own conditions.

If we force them back on their own by withdrawing this aid it is going to make it harder for them to develop their economy and maintain their service standards.

Senator BRADLEY. Will you comment briefly on the incremental increase that targeted fiscal assistance would mean for urban areas within the context of the larger Federal grant picture?

Mr. NATHAN. It may be heresy to say it in the current budget climate. But when you talk about figures like $150 million, as Kermit Gordon used to say, who was the President of Brookings Institution, that is "point one-five." We are talking about infusions of additional funds which if properly targeted can make a lot of difference for the cities that have the most critical problems. We have summarized our ideas on urban policy with the phrase, "The United States does not have a national urban crisis but some older declining cities, north and south, big and small, have urban problem conditions." The infusion in a Federal grant system, however you count it, of $50 billion or to some people, $80 billion, of a billion dollars of targeted assistance, if the targeting is done on a strong and efficient basis, can make a lot of difference as those replacement ratios show. A billion dollars would make a difference and go a long way toward restoring the funds that were helping these cities immensely in 1978.

I would say the Treasury position in terms of the formula ideas they have brought before the committee, picking up on what went on in the last Congress, that the new plan does involve targeting in a way that recognizes the kind of conditions we are talking about.

They have moved in the right direction on targeting, but when you look at the amounts involved, the replacement ratios tell us a lot about what is going to be happening at the level of funding that has been proposed.

Senator BRADLEY. Senator Durenberger?

Senator DURENBERGER. Thank you. I, too, appreciate the approach you have taken here because it is terribly illustrative.

I guess my first question would be the degree to which you believe unemployment is an important criteria to take into consideration in determining whether it is basically a revenue sharing program.

Mr. NATHAN. That is a very good and important question. If there was more time and I had my druthers, I would want to look for a better indicator, such as the kind of indicators we have used in our analytical work as to what are the distressed cities.

The recent work of the Commission on Employment and Unemployment Statistics suggests that there are problems, not so much with the big cities in our testimony, btu with many smaller cities in the way unemployment statistics are developed and in the way they are presented for use in these kinds of distribution systems.

Again, if there was more time, I would urge that an approach be developed that did not rely as heavily, at least for entrance into the system, on unemployment data.

If you are looking at a program such as the Treasury has proposed, it would start paying money out as of the final quarter of calendar 1978, there probably is not time, at least for this year, to test formula alternatives that use different statistical indicators.

I would say for the short term, despite the problems—and there are problems with every set of statistics that you could use for this purpose—it would make sense to pretty much stick to what the Treasury proposes and then to look down the read at what you may want to do in continuing this program beyond 1980 or perhaps even for 1980. For 1979, it seems to me that the costs of revisions outweigh the benefits of looking for a better entrance test or a formula which relies less on unemployment statistics.

Senator DURENBERGER. That almost puts a stop to my questions. The other thing I like about your statement, the two things that have been particularly helpful to us and particularly in the Twin Cities, I suppose it has been the fact that the States are looking at local efforts, if you look at the cities as a creature of the State and look at their local effort as being determined by what the State permits them to raise either from the property tax or piggyback and we do not have much of that in other taxes, the return of State revenues to local governments becomes very important in this whole equation of who is a healthy city and who is not a healthy city.

It may not be appropriate to get into that one in depth except if we are going to make comparisons between cities, it is important to me.

The second is programs like UDAG. In our community, maybe it is just people with a lot of imagination who are creating jobs by putting private investment together with relatively small amounts of public investment, look at the President's proposal in much the same way you have and say you know what is going to happen in an effort to save Newark and some of these other major cities, we are going to lose some of the more innovative things that have come out in the last couple of years in this whole urban policy approach, such as giving us incentives to get private investment together with public investment.

Having said those two things, I would be curious as to your attitude of what is going to happen.

Mr. NATHAN. It is important and difficult to do, to try to look at the whole canvas. Every time you have one piece of Federal aid business before you, you tend to focus on that and it is complicated enough. Yet, what is needed is to think about historical trends and how programs interact.

The steps that have been most significant, in my opinion, in terms of moving at least modestly towards more targeting of aid, have been two things. One, the change in the community development block grant formula in 1977, which we had something to do with because we were working in that area as well, and the other is the Carter administration's "Economic Stimulus Package" which was going to be converted into urban policy initiatives and is now caught in the throes of Proposition 13 fever and is being largely withdrawn.

I would like to point out that if one looks at Minneapolis for example and the urban conditions index, Minneapolis is an older city that has been losing population. It cost 21.7 percent of its population between 1960 and 1975.

Under the dual formula which was adopted to revise the community development block grant program in 1977, its allocation went up from $6.8 million to almost $20 million.

It does seem to me that each time you take one of these questions you have to put it in historical perspective. CDBG is a $3.5 billion program and what we are talking about today in relative terms is a small program. But in terms of urban policy and what we analyze to be urban needs in the country it is a very important issue, which if we would adopt enough of a targeting focus, could make a difference.

I think of it as kind of a Proposition 13 question. In these times when there is so much concern, and justifiably so, with budget levels and the need for budget cuts, targeting is an efficiency solution. It says what we can do is cut some programs or at least spend less in some areas, but we can focus those funds on communities which have the particular kinds of needs that we are most concerned about.

I like to think of the community development block grant and the targeted financial assistance program in the sense as liberal in that it is focused on need and conservative in that if we do more targeting, that would use Federal urban funds more efficiently and at the same time reduce spending levels by focusing on where the problems are.

We think the targeting idea needs to be discussed, particularly the kinds of data that are in the Chairman's statement and in the statements that have been made by other Senators, such as Senator Danforth, who worked on this legislation last year. Then maybe people will begin to understand this issue and be able to look across Federal grants and try to make decisions that will be more refined in terms of where the deepest problems are and understanding the nature of those problems.

Senator BRADLEY. Senator Danforth?

Senator DANFORTH. One of the arguments that is made against the whole concept of revenue sharing is that while there is and has been for some years a very large deficit in the Federal budget, there have been surpluses in State budgets and local budgets.

How reliable do you think those arguments are?

Mr. NATHAN. There are a lot of problems with that argument. It looks nice on the surface. In 1977, on a national income and products account basis, we had a surplus in the State and local accounts of $29.6 billion. At the same time, the President was talking about a deficit in the Federal budget of $30 billion.

People who like arithematic see that those two numbers are pretty close to each other and say, "We can cut out of the State and local sector and balance the Federal sector".

But that is very elusive. It is the wrong way to look at those figures. As we pointed out in a paper that we presented last week, there are a couple of things to be said about that surplus.

One is it is going down. The surplus now is not $29 billion but is close to $23 billion. Even more important than that, $21.6 billion of the current $23 billion surplus is in social insurance or retirement accounts.

For decades now, public finance experts have been pushing on State and local governments to get their retirement systems on an actuarily sound basis so that the reserve represents a fair portion of what is going to be drawn on of those reserves as people retire in future years.

That surplus, $21 billion in the last quarter for which we have data, out of $23 billion, is all in retirement systems. That represents sound financing. Those are not funds which can be cut without undermind-ing the integrity of the retirement systems.

Two further points. The Congressional Budget Office now projects that in 1979 and 1980, the "other," that is, the nonsocial insurance accounts, will be in deficit. You may ask how can that be since local governments cannot run a deficit. It represents a drawdown of balances primarily.

There is not a surplus any more, at least not except for the retirement accounts. I would also point out that where there are governments in better positions on retirement funding and where there may be some States or cities that have fund balances that are reasonably healthy, one has to look at all cities. The distressed places we are concerned about today do not have, or are drawing down on their balances, and have nothing approaching a surplus.

Senator DANFORTH. What is your opinion of the $20,000 de minimus figure in the administration's proposal?

Mr. NATHAN. I heard your exchange with the Secretary on that. It sounded to me like his response to you was that the answer may lie somewhere in the middle between $400 and $20,000. To be very safe and conservative, I will say I agree with that.

I think $20.000 is high but the idea of a de minimus is a good one and if it could be cut in half at $10,000, that to me would be a better position. One has to look at the printouts, as you were saying, and what will happen when you do that but it does seem when you are talking about checks for $1,000 or even several thousand dollars in this day and age, the expenses of running a program that would distribute that amount of money, we ought to have some second thoughts about that.

A de minimus helps in targeting, helps in terms of efficiency. I guess if I was really pushed on that issue, I would say that maybe $1,000 a quarter. That is the administration position on title II of this bill or is it $5.000 overall?

I would say $1,000 a quarter might be a good position.

Senator DANFORTH. The administration's bill phases down from $250 million to $150 million between 1979 and 1980. Do you think the concept of phasing down in that way is a sound one?

Mr. NATHAN. I do not. The forecast is that next year is going to be a more difficult year for the economy than this year. Phasing down is going in the wrong direction.

Senator DANFORTH. Finally, you and I had a discussion not too long ago in which we were trying to balance the concepts of revenue sharing, and targeting against the budgetary concerns which Secretary Blumenthal expressed so eloquently.

As we were talking, without any particular conclusion, we talked about the possibility of a scheme for accomplishing this. As a matter of fact, the next day when I went to the Finance Committee and we discussed our letter to the Budget Committee, I was about to trot out my scheme but the matter was handled in another way and I did not have to do it and did not do it.

I would like to put it to you in the following way; suppose we maintained the notion of targeted revenue sharing for local governments in the way that we do it in the bill I have introduced, $340 million a year. Suppose we finance that by a 20-percent reduction in the State's share of general revenue sharing.

That would be $456 million so it would be a total savings for the Treasury over the administration's proposal.

Suppose further that the reduction in the State's share were not accomplished by an across-the-board cut equally applicable to all States but that the State's revenue-sharing reduction would be in itself targeted so that those States which were relatively well off financially would lose more than those States which were not so well off, sort of the mirror image of targeting.

The final piece of it would be to adopt a proposal which has been advanced by the Advisory Commission on Intergovernmental Relations, which would allow State and local governments the option of transforming up to 10 percent from a categorical grant program to any other purpose they wanted to, including revenue sharing.

The effect of this kind of package would be as follow, to increase the targeted amount of money available to local governments; to introduce a targeting factor with respect to the State's share of revenue sharing; to save a little money in the budget over what the administration would save and to provide more freedom for State and local governments to spend Federal grant money as they please by giving them this 10 percent leeway with respect to what is now categorical grant money.

What is your view on that?

Mr. NATHAN. Fortunately, I have been prepared for that. First, to say the obvious, the Senator has been deeply into this. You are certainly knowledgeable about these program elements; you worked on them last year in a creative way.

The first comment I would make is that one has to sort out what you want to do this year and what you want to do next year. Next year, general revenue sharing is up and there is a question, to me a tactical question, which is not my particular terrain, but I will venture forth anyway, as to whether you want to open up revenue sharing this year.

I would say first there is a question as to whether this kind of an omnibus approach to revenue sharing should be considered this year or next year.

This year, with the TFA bill that is retroactive for almost 5 months, one could say there is not time to open up revenue sharing and the politics of revenue sharing, which all of us know from reading the history of it, are quite complex when one looks at the position and interests of the States and local governments. There is a song from the musical "Oklahoma" by Rogers and Hammerstein, "When the Farmers and the Ranchers Will Be Friends." I think that applies to the Governors and local officials for revenue sharing. They had to be friends in putting together the agreement that became the Revenue Sharing Act in 1972. The politics of revenue sharing are very complicated in terms of balancing out how you keep these various groups in the picture.

I think there is a reason for raising a question of whether opening up the issue this way this year would enable progress to be made on the legislation before this committee, which I have already said I think is really important legislation.

Second, next year and this is the part of the testimony I did not read because I did not want to use too much time in the oral presentation, next year it seems to me that it would be very useful to think about the kind of approaches that you are working on, to think in terms of what we have been calling an omnibus revenue-sharing bill. One part might be targeted assistance fixed up to deal with Senator Durenberger's question about the overreliance on unemployment data for the formula for the permanent or structural component. It seems to me it would be difficult to do all the technical work quickly in this first year of the 96th Congress.

The second piece of an omnibus bill could be the countercyclical program so that we do not have, as our testimony points out, an 18-month lag as we did from the last recession until ARFA payments began.

I have always thought they should have named that program the budgetary antirecession and fiscal assistance act. The acronym would be even more memorable.

Be that as it may, it seems to me the targeted piece and the ARFA piece and the general revenue-sharing piece are going to be coming together in a logical way if one reads the history of grants' policy, all coming together before this committee, not only this year, but very importantly next year. That is where the big urban policy and domestic policy decisions in the current budget climate are likely to be made, particularly in light of the fact that most of my economist friends now predict a recession next year and the mood is likely to be different then.

When one gets to next year and when you are talking about how you combine the pieces, I have sort of mixed feelings about whether you should cut the State's share, to be very honest. The reason I have mixed feelings about that is because what we have been doing is increasingly giving grants to local governments, bypassing the States and weakening the States in our federalism.

This is not an unimportant issue. Certainly when you talk about a 20-percent reduction, and when you talk about allocating it to where you do a sort of reversed targeting approach for the reductions which you have invented, these are some very interesting ideas which ought to be explored out and staffed out, and that takes a lot of time. I thought your approach had a number of good features to if you are going to cut the State's share at all.

I guess I would say I think the most important piece is the targeted piece in light of what we know about urban conditions and the history of Federal grants' policy. That very tricky question of whether you are going to reduce the State's share is a question you have to think of both in terms of whether we should do it this year, and this is a tactical issue as much as a substantive issue and maybe more, or whether we should do it next year.

If it is going to be reduced, I think your approach as a way of doing it is a good one.

Senator BRADLEY. Thank you very much, Mr. Nathan.

[The prepared statement of Mr. Nathan follows:]

STATEMENT OF RICHARD P. NATHAN AND JAMES W. FOSSETT[1]

TARGETED FISCAL ASSISTANCE

In our view the legislation before the Subcommittee today, together with the extension of general revenue sharing, is likely to be the most important domestic policy issue addressed by the 96th Congress. While this legislation authorizing emergency fiscal assistance to distressed localities and standby authority for countercyclical revenue sharing represents at best a short-term solution for chronic policy problems, it is essential to preserve at least some impetus for urban policy in 1979. Our testimony focuses on Title I of the legislation before the Subcommittee authorizing targeted fiscal assistance to distressed local governments facing structural, as opposed to cyclical, economic and social problems.

Taken together, the budget as enacted for 1979 and the Carter Administration's proposed budget for 1980 represent a watershed for federal grants in aid. These two budgets represent both a reduction in the level of support for state and local activities and in the extent to which this funding is targeted on distressed communities.

For distressed cities, the new Carter budget is best characterized by what is missing. Total grants to state and local governments are projected to decline from 26.7 percent of total state-local expenditures in 1978 to 23.6 percent in 1980. Non-welfare grants are projected to decline in real terms by 3.3 percent in 1979 and 6.8 percent in 1980.

While the Administration has chosen, and wisely so, to abandon its plans for comprehensive welfare reform in favor of a more incremental approach, no funds are contained in the 1980 budget for this purpose. The Administration's proposal for national health insurance also have been postponed. Program levels for housing assistance and rehabilitation have been reduced below 1979 levels. The proposed budgets for mass transit construction and operating grants are below authorized levels, and funds for law enforcement assistance have been cut substantially. Funds for several economic development programs have been reduced in anticipation of the reintroduction of the Administration's National Development Bank, but, as of this time the organizational form and programmatic structure of this institution are uncertain.

The Administration has also chosen not to reintroduce, and in some cases to fund at reduced levels, the programs contained in its urban policy submitted to Congress last year. Calculations by the Congressional Budget Office indicate that 1979 and 1980 budget authority requested for programs initially contained in the urban policy amount to just over $4.9 billion; as compared to initial requests for authority totalling over $13.5 billion over the same two year period.

The biggest urban aid reductions in actual expenditures from 1978 to fiscal year 1980 come in the programs contained in the Administration's three-part "Economic Stimulus Package" of 1977, which consistent of extra funds for the anti-recession fiscal assistance program (ARFA), public service employment (PSE), and local public works (LPW). As a result of Congressional action last year and Presidential proposals for next year, outlays under these three stimulus programs are projected to decline from $9.2 billion in 1978 to $2.9 billion in 1980—a reduction of better than two-thirds in two years.

The impact of the reductions will be most severely felt by the nation's distressed cities.

Estimating who will lose exactly how much is difficult, but we have been able to construct estimates for several cities whose PSE programs we have been studying in some detail. Table 1 shows estimates of the losses to ten selected cities all of which have urban hardship conditions, resulting from the reductions in ARFA and PSE programs between 1978 and 1980. To continue the services financed by these two programs, this set of cities would have to raise their taxes (which are already twice as high as those charged by other large cities) by an average of 8.4 percent. Furthermore, in order to continue capital spending LPW at the level provided by the local public works program, the third part of the 1977 stimulus package, these cities would have to raise taxes by an average of another percentage point to cover annual debt service payments, assuming financing with 20-year general obligation bonds.

[1] Senior fellow and research assistant, respectively, at the Brookings Institution. The views and interpretations in this testimony are those of the authors and not those of the officers, trustees, or other staff members of the Brookings Institution.

TABLE 1.—ESTIMATED LOSSES AND TAX EFFORT EQUIVALENTS FROM REDUCTIONS IN PUBLIC SERVICE EMPLOYMENT AND ANTIRECESSION FISCAL ASSISTANCE FOR 10 SELECTED CITIES, 1978–80, RANKED BY TAX EFFECT

City	Urban conditions index [1]	Estimated loss of retained PSE and ARFA funds, 1978–80 [2] (thousands)	Loss as percent of 1977 taxes
Newark	422	$15,737	14.8
Detroit	266	37,553	11.5
Cleveland	400	10,069	10.5
New Orleans	340	9,360	9.8
St. Louis	487	15,109	9.3
Chicago	255	47,223	7.6
Philadelphia	271	44,498	6.5
Baltimore	279	10,927	5.5
Boston	303	13,280	4.4
Rochester	266	2,713	4.1

[1] The urban conditions index is a 3-factor index based on 1960-75 population change, poverty in 1970, and the percentage of housing in 1970 built prior to 1940. The index is stanardized at 100. Cities above 250, as in the case of the ten selected cities for this testimony, can be said to face serious urban problem conditions.

[2] Losses from 1978 to 1980 from the reductions in the stimulus programs were calculated in the following fashion. Losses from the reduction in ARFA funds were defined relative to payments received during the 4th through the 7th payment periods (Apr. 1, 1977-Apr. 1, 1978), which were the 4th largest payments. For all cities except Newark, 1978 PSE receipts were calculated from Brookings field research reports by annualizing expenditures based on the number of PSE slots on city government payrolls in December, 1977. A similar procedure was followed for Newark based on quarterly progress reports filed with the Department of Labor.

The figures for PSE receipts in 1980 were constructed on the assumption that each city would receive the same share of the fiscal 1980 allocation as of the 1979 allocation for each of the 2 new PSE titles. Statutorily mandated training expenditures were subtracted from the resulting allocations. It was then assumed that each city would retain on its own payroll the same fraction of II–D and VI special projects funds under the new law as it did under title VI for project slots under the PSE stimulus program and the same fraction of title VI funds under the new act as it did of slots allocated under the titles II and VI sustainment portions of the 1977 act. The net effect of these calculations is probably to overstate the losses accruing to these cities, since we are unable to take into account shifts in the various factors used to calculate their formula allocations between 1979 and 1980, and there are new factors which could cause even higher losses for the 10 selected cities. We wish to acknowledge research assistance from Claire C. Osborn in assembling these figures and much useful advice from Jill Ehrenreich and Janet Galchick of the staff of the Brookings PSE project in developing the data.

Source: Brookings field research reports on the public service employment program, quarterly progress reports, and Office of Revenue Sharing "Antirecession Fiscal Assistance to State and Local Governments, Quarters 4–6" and "Antirecession Payment Summary, Quarter 7."

The impact of these reductions will be further intensified if current forecasts of a recession in lat 1979 or early 1980 are correct. As the last recession demonstrated, the economies of older cities are particularly sensitive to economic downturns. Things get worse faster and better slower than elsewhere, since the manufacturing stock in older cities is taken out of production first in a recession and brought back up last when conditions improve. If the forecasts of a recession later this year or next are borne out, the most distressed cities will be faced simultaneously with a major loss of federal revenue and a slowdown in their local economies. The consequences of this double whammy are potentially grave. The harder pressed cities have heavily concentrated PSE and ARFA funds in basic services such as police and fire protection, parks and sanitation. If both recession and reduction materialize, they would either have to absorb cuts in these services of fairly substantial proportions or increase taxes, by as much as 14 percent in the case of Newark, to continue activities currently supported by federal funds.

The first signs of this dilemma have already begun to appear—Newark, Detroit, and Philadelphia, among others, have been compelled to lay off employees whose salaries were paid with ARFA funds. While the impact may be less severe and come later in other hard pressed cities, it will be sizable nonetheless. Ironically, the effects of the cuts in the stimulus programs designed to help us get out of the last recession now appear likely to occur just as the next recession pokes its head up on the economic horizon.

What should be done? The answer to this question requires that one look at the history of federal grants-in-aid. The major trend in the distribution of federal grants over the past decade has been the spreading of grants to large numbers of smaller and economically healthy communities. Among big cities, the most sizable gainers in the increased federal largesse of the last decade have not been the older, declining cities of the Northeast, but rather the newer spread cities of the Sunbelt. Federal grants to cities, once limited to small amounts in a small number of cities, are now big ticket items in the budgets of all cities. Preliminary figures from case studies we are conducting in several large cities indicate that federal payments to the city of Tulsa, for example, increased from $8 million in 1972 to $37 million in 1978—an increase of over 300 percent. The comparable increase for Houston was even more dramatic—from $28.8 million in 1973 to $210 million in 1978.[2]

In view of this history and the economic exigencies of 1979, we can no longer afford to treat federal grants like the tides and raise all the ships each time a new program is enacted. Given the limited resources available, we need to concentrate for the moment on the leaky vessels—cities which are losing population and jobs, have large concentrations of the poor and disadvantaged and seriously limited local resources. The important concept for urban aid in this period ought to be targeting—that is, focusing federal assistance on the most distressed communities. In short, budget tightening and grant targeting go together.

Bringing this idea of targeting to the fore in public debate will not be an easy political task. But unless there is a fair amount of public education as to where we are in our federalism and our federal grants policy, then the pattern of the future is likely to be like the pattern of the past. If there is agreement that we cannot afford new and expensive programs in 1979 and 1980, then a failure to agree on the need for targeting of at least a few modest initiatives could mean no initiatives at all on the domestic scene.

In this context, the bill before your Subcommittee for Targeted Fiscal Assistance is of great importance. We have developed new data for the Subcommittee which shows the effects of various levels of emergency fiscal assistance on the ten cities discussed earlier and included in table 1.

As a first point, it needs to be recalled that the Administration's original urban policy statement sent to the Congress March 27, 1978 proposed a permanent assistance program for structurally distressed localities (called the Supplementary Fiscal Assistance program, SUFA) starting out at a level of $1 billion for both 1979 and 1980. This is four times the amount now proposed for Title I of the bill before your Subcommittee for 1979 and over six times the amount proposed for 1980, again reflecting the significant scaling down of the Administration's commitment to urban needs in the 1980 budget.

We have used four alternative funding levels in preparing data for this testimony to show the effect of different policy options on our ten selected cities. The four alternative levels of emergency fiscal assistance used here are:

1. *TFA*.—The Administration's 1980 budget proposal of $150 million. ($250 million is proposed for 1979).
2. *Committee*.—This alternate level is $340 million as considered by the Committee for budgetary actions related to this legislation.
3. *Intermediate*.—The intermediate level of funding used is $500 million per year.
4. *Urban policy*.—The fourth assumption, following the Adminitration's 1978 SUFA proposal, is $1 billion as discussed above.

In each case we have distributed the amounts involved on the basis of the formula system contained in the Administration's new proposal for Targeted Fiscal Assistance for 1979 and 1980. We present the data in the form of replacement ratios for the ten selected cities—that is, the percentage of losses of 1978 ARFA and PSE funding levels that would be restored with each of the four alternate funding assumptions.

Table 2 shows the percentage of ARFA funds only that would be restored under each of the four funding assumptions. (The base for this analysis is ARFA payments to the ten selected cities from April 1977 to April 1978.) The figures are shown both in 1980 dollars and adjusted for inflation, that is, taking into account price level changes from 1978 to 1980.

According to this analysis, only the "Urban Policy" level restores what went before. It results in a modest increase of 19 percent in real terms of targeted assistance to replace the peak level of ARFA for the ten selected cities.

In other words, with any of the other three alternative assumptions, there is less targeting for these cities in 1980 than there was in 1978.

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[2] Twelve case studies, using a uniform analytical format, are presently in process on the cumulative and overall effect of federal grants-in-aid in 1978. The cities being studied are: Boston, Chicago, Cleveland, Houston, Los Angeles, New Orleans, New York, Phoenix, Rochester, St. Louis, San Francisco, and Tulsa. See Case Studies of the Impact of Federal Grants in Large Cities in 1978, transcript of working conference proceedings prepared for Office of Program Evaluation, Employment and Training Administration, U.S. Department of Labor, The Brookings Institution, Washington, D.C., Feb. 2, 1978. A summary of the findings of the Tulsa case study is now available.

TABLE 2.—REPLACEMENT RATIOS FOR ALTERNATE LEVELS OF EMERGENCY FISCAL ASSISTANCE, 10 SELECTED CITIES IN 1980

	Alternative funding levels			
	TFA	Committee	Intermediate	Urban policy
Projected receipts under different assumptions, 1980 (thousands)	$26,830	$59,789	$87,935	$175,868
Replacement percentage ratios (ARFA losses only):				
1980 dollars	22	49	74	145
Adjusted for inflation[1]	18	40	59	116

[1] Adjustment based on administrative estimates of GNP deflator for 4th quarter of 1980 relative to 4th quarter of 1977

Source: Calculations from table 1 and allocation of 1980 funding levels based on 1979 shares of targeted fiscal assistance using U.S. Treasury Department figures.

As a next step, we have also taken into account estimated PSE losses for the ten selected cities—losses which flow from the reduction in funding for this program. Table 3 shows the results of this analysis with the same four alternative funding levels for emergency fiscal assistance. None of the four alternative levels restores the combined losses from the 1978 levels of ARFA and PSE. Remember, this does not include any public works losses. [The Administration's urban program contained $1 billion for each of three years for what the Administration called "Labor-Intensive Public Works (LIPW)" of short-term projects concentrated in distressed communities. Legislation to implement this proposal was transmitted to the Congress May 25, 1978.]

TABLE 3.—REPLACEMENT RATIOS FOR ARFA AND PSE LOSSES FOR ALTERNATE LEVELS OF EMERGENCY FISCAL ASSISTANCE, 10 SELECTED CITIES IN 1980

	Alternative funding levels			
	TFA	Committee	Intermediate	Urban policy
Replacement percentage ratios (ARFA and PSE losses):				
1980 dollars	13	29	42	85
Adjusted for inflation	11	24	25	69

Source: Calculations from table 1 and allocation of 1980 funding levels based on 1979 shares of targeted fiscal assistance using U.S. Treasury Department figures.

We have also developed data which show the replacement ratios for individual cities. Table 4 shows the percentage of ARFA losses only that would be restored under the two polar alternative funding levels—TFA at $150 million and the "Urban Policy" level of $1 billion. These replacement ratios, it must be remembered, would be lower if we also took into account the losses of PSE and local public works funding. The figures in table 4 are in real terms—that is, adjusted for inflation. For Newark, for example, the TFA level would restore 14 percent of ARFA losses in real terms; the $1 billion level would come close to restoring all of the ARFA losses, again remembering that PSE and LPW losses are not included in these calculations.

TABLE 4.—REPLACEMENT RATIOS FOR ARFA LOSSES FOR ALTERNATE LEVELS OF 1980 EMERGENCY FISCAL ASSISTANCE FOR 10 SELECTED CITIES, RATIOS ADJUSTED FOR INFLATION

City	Alternative funding levels	
	TFA	Urban policy
Baltimore	16	104
Boston	21	140
Chicago	33	—
Cleveland	12	82
Detroit	17	112
Newark	14	96
New Orleans	12	82
Philadelphia	15	101
Rochester	11	76
St. Louis	12	79

Source: Calculations from table 1 and allocation of 1980 funding levels based on 1979 shares of targeted fiscal assistance using U.S. Treasury Department figures.

We would offer several points by way of conclusion. The most important conclusion, at least to us, of this testimony is the appropriateness in 1979 of the targeting idea as a major theme of domestic policy. Two reasons lead us to this conclusion: (1) that urban needs in the nation are concentrated in older, declining localities with high proportions of disadvantaged persons both in the Frostbelt and the Sunbelt); and (2) that the dominant trend of federal grants policy over the last 15 years has been to *spread* urban aid, such that a shift at the margin now to a more targeted approach is again by no means a radical proposal.

The legislation before your Subcommittee, to reiterate, deals with both cyclical and structural conditions. When the economy is in a serious decline, aid would be provided under Title II to many communities affected by such a downturn. This "safety net" approach for all localities, combined with emergency aid for structurally distressed communities, at least in our view, reflects a correct interpretation of present conditions.

But there will be more to this story. The General Revenue Sharing program must also be seen as part of this picture. When it expires next year, it would be appropriate to consider permanent (as opposed to temporary) programs for structural and countercyclical urban policy purposes as part of an omnibus revenue sharing act. The general revenue sharing program now distributes approximately $7 billion per year to nearly 38,000 units of state and local government. An omnibus fiscal assistance approach could include three titles. One might be the extension of the basic program. A second could be a targeted "add-on" to revenue sharing along the lines of TFA, but with formula revisions to compensate for the heavy reliance on unemployment data in the emergency TFA legislation proposed for this year. A third part of such an omnibus bill could be the emergency or countercyclical revenue sharing title that would come into play automatically in a recession, hence avoiding the 18-month delay that occurred in providing such aid in the last recession.

Senator BRADLEY. The next witness is Hon. James Conway, the mayor of St. Louis who is the chairman of the committee on finance, administration and intergovernmental relations, National League of Cities.

In order to hear all the testimony, we are going to have to limit questioning of witnesses. I would hope the witnesses would be willing to submit any answers to questions in writing in the interest of time.

STATEMENT OF HON. JAMES CONWAY, MAYOR OF ST. LOUIS, MO., CHAIRMAN, COMMITTEE ON FINANCE, ADMINISTRATION AND INTERGOVERNMENTAL RELATIONS, NATIONAL LEAGUE OF CITIES

Mayor CONWAY. Mr. Chairman and members of the committee, my name is Jim Conway and I am the mayor of the city of St. Louis. I am here before you today representing the National League of Cities and its 15,000 direct and indirect member cities. As the chairman mentioned, I am also the chairman of the National League of Cities Finance, Administration and Intergovernmental Relations Policy Committee.

We certainly appreciate this opportunity to testify on Senate bill S. 200, the Intergovernmental Antirecession and Supplementary Fiscal Assistance Amendments of 1979 and also on S. 566.

We thank you, Mr. Chairman, for moving very quickly to hold these hearings within days after receiving the administration's proposal.

Let me say at the outset that it is not my intention nor that of the National League of Cities to state that we support one bill over the other. Both bills would meet the needs of many cities.

Instead, we think it would be more constructive to highlight important features of both bills and indicate where we think reasonable compromises can be made. Let me say also that it is important that the administration and five members of the Senate have proposed legislation providing special fiscal assistance to local governments recognizing the need for continuation of this important program.

When the antirecession fiscal assistance program ended abruptly last September 30, it caught many local governments totally unprepared. As you know, few local governments have converted to the Federal fiscal year; most still operate on the traditional July–June fiscal year basis. That meant that budgets for the current fiscal year had long been finalized when anti-recession assistance was precipitously terminated.

Consequently, many budgets contained funds for activities that could not be carried on.

The loss of these funds has caused substantial hardship to many cities. In my own city of St. Louis, we experienced about a $3.5 million shortfall. Fortunately for us, we had budgeted at the beginning of our fiscal year, $2.4 million of moneys for emergency contingencies and when we got the news, we immediately made that money available to make up the shortfall. We also instituted a hiring freeze earlier this year and have made no supplementary appropriations in the entire fiscal year in the city of St. Louis to compensate for the loss of these funds.

In our city and all cities in the State of Missouri, it is illegal to budget with a deficit. Yet, we may still, before our fiscal year is over, have to make some additional cuts in services.

In Philadelphia, they have had to lay off over 1,200 people. The loss of $8 million from this program and other financial troubles have caused the city of New Orleans to adopt several new service charge taxes.

I am told by the mayor of Oakland, Calif. that his city is projecting a $7 to $10 million deficit for 1980, partially due to the loss of anti-recession funds.

The city has no choice but to reduce services in the areas of police and fire protection, among many other services.

Such problems are not limited to the large cities of the Nation, either. Pontiac, Mich., for example, with a population of over 80,000, has laid off 13 police officers, failed to replace retiring fire fighters, closed a fire station and laid off employees to compensate for a loss of $1.8 million in assistance.

The budget for York, Pa., a community of approximately 48,000, has had to be reduced to a level below that for fiscal year 1978 necessitating a significant cut back in personnel including police officers and fire fighters.

Let me turn to several specific provisions of the two bills. In this respect, it is easier to look at the bills in two parts.

One part of either bill would provide immediate assistance to local governments. When national unemployment is at least 5 percent but below 6 percent, such as at present, S. 200 would provide aid to local governments with unemployment rates of at least 6 percent. About 10,000 communities would receive aid but only if the formula provides at least $400 annually.

The administration bill would provide aid to communities with at least 6.5 percent unemployment regardless of the national unemployment rate. About 1,200 communities would benefit but only if the formula provides at least $20,000 annually.

In addition, both bills contain provisions that would institute a program of standby assistance in the event the economy takes a turn for the worse.

When unemployment is 6 percent or more for two consecutive quarters, S. 200 would again provide aid to cities with 6 percent or greater unemployment.

The administration bill would provide aid only if national unemployment reached 6.5 percent in a particular quarter; in this standby program, the eligibility trigger for States and local communities would be 5 percent. Again, there would be a $5,000 minimum quarterly payment.

With respect to the provisions that provide immediate aid in these bills, both would provide aid that is needed and both would go into effect immediately. The real issue is one of the availibility of budget resources and how widely those resources should be disbursed.

S. 200 would provide for spending of $340 million in fiscal 1979 and the administration bill would provide spending of $250 million.

Whatever funding level is agreed to by the committee and, hopefully, the Congress, will in large part dictate decisions on the appropriate unemployment rate trigger and minimum payment provisions. Whatever the committee's decision, we recommend that amount be authorized for both fiscal 1979 and 1980.

With respect to the standby program provisions we believe that in these times of budget restraint a national unemployment rate trigger of 6.5 percent would be more appropriate.

Such a rate would most likely gain a substantially greater degree of agreement among those parties involved in the legislative process as to the need for the assistance to be provided.

The major difference between the two bills on the standby program involves the local unemployment trigger. S. 200 provides for a 6 percent local trigger: the administration bill for a 5 percent trigger with a $5,000 minimum quarterly payment.

Again, the decision rests on such matters as the likely severity and extent of the economic downturn that cities may experience later this year or next and the budget resources that will be available.

Both bills would help thousands of cities, although S. 200 would provide more funds for cities with higher unemployment rates. While the administration bill has a lower local trigger, its minimum payment provision of $5,000 would screen out many communities and provide a more meaningful level of assistance.

In general, we believe that the 5 percent local trigger in the administration bill as opposed to the 6 percent in S. 200, may be too low and may require revision, perhaps to 5.5 or 6 percent.

One final provision deserves comment. The administration bill provides that no jurisdiction may receive funds if it has a per capita median income in excess of 150 percent of the national average. This provision serves to screen out many wealthy communities. It should be retained in order to maintain the integrity and credibility of the program.

In closing, I would like to reiterate the need for early action on this program so that cities can make use of the funds in what remains of their fiscal years and so that they can avert any further financial hardships.

In addition, we think it important and wise for the Federal Government to have in place a program of standby fiscal assistance that will be triggered automatically should unemployment grow higher rather than being caught with no program in a time of need.

Mr. Chairman, I would like to relate to you some experience with local public works in our own community both from a standpoint of round 1 and round 2.

I might first add the Department of Commerce, I think, did an absolutely excellent job in moving the funds to the local communities as quickly as they possibly could.

By the time we go through all the engineering and so forth and getting the money ready to place it into the marketplace, often times we are already at the tail end of the recession. We have a tendency to exacerbate the problem.

What I am suggesting is that we ought to have some sort of vehicle so that we could walk over to the wall and press the button whenever we are coming into a recession or in the case of local public works, we can tell the cities or other political subdivisions to pull those plans that are already developed off the shelf, dust them off and get rolling with them.

Mr. Chairman, that concludes my testimony. I would be happy to respond to any or all questions that were directed to the prior witnesses.

Senator BRADLEY. Thank you very much, Mayor Conway, for your testimony.

Senator Durenberger?

Senator DURENBERGER. I have no questions.

Senator BRADLEY. Senator Danforth?

Senator DANFORTH. What is the present unemployment rate in the city of St. Louis?

Mayor CONWAY. Senator, presently it is just over 9 percent.

Senator DANFORTH. What has happened to the population of the city of St. Louis over the last couple of decades?

Mayor CONWAY. Since 1950, which was the highest population count for the city of St. Louis at 875,000, we have continued to decrease to a point where we are right at 500,000.

Senator DANFORTH. The theory of targeted revenue sharing, revenue sharing targeted to areas of high unemployment is this: when the unemployment rate increases in a community, when it exceeds whatever the trigger is, 6 or 6.5 percent, the tax base of that community becomes eroded and when the tax base is eroded it is more difficult for the community affected to raise the funds necessary to keep its operations going internally and therefore it needs help from outside.

Do you think that is a good theory?

Mayor CONWAY. Absolutely, Senator. Two of our major sources of income in the city of St. Louis are sales taxes and a gross earnings tax. There is a very direct relationship to the incidence of people who are employed. I can tell you that I hope next year I do not have to draw a nickel of intergovernmental fiscal assistance. I much prefer that than to be a beneficiary.

Senator DANFORTH. The city of St. Louis is not now on easy street, right?

Mayor CONWAY. We make the most distressed list every time one is put out.

Senator DANFORTH. I think I heard what you said about the amount that you would be receiving in 1979 and 1980 but I am not sure I caught what you said. Under the administration's bill, the amount available in 1979 would be $250 million and in 1980, it would be $150 million.

Mayor CONWAY. That is correct.

Senator DANFORTH. Do you think that sort of phasing out of the amount available is sensible?

Mayor CONWAY. Senator, I do not. I do not agree with the administration's posture on that. I believe this is a program that is directed at a special kind of need, and I think it ought to be fine tuned as we have more and more experience with it, but it should be a permanent vehicle.

Senator DANFORTH. There is no doubt in your mind that the need that you feel for these funds will not disappear over the next year?

Mayor CONWAY. Not over the next year, Senator. I do see a lot of excitement in the Nation's older cities presently, but it is going to take a decade before they finally turn things around.

Senator DANFORTH. I think that is a very good statement. St. Louis, as a matter of fact, is exciting. St. Louis has a lot going for it, under your leadership and the leadership of those who preceded you and under what has to be called excellent community leadership in general. If you just drive through St. Louis and look at the city, the changes that have occurred over the last decade are really remarkable.

The fact of the matter is you still have a 9 percent unemployment rate. You still have, as I understand it, a very difficult time raising enough money out of your local tax base to take care of basic community services. That is the reason you feel this program is worthwhile, as I understand it.

Mayor CONWAY. Senator, not only for that basis for the city of St. Louis, but for the Nation's cities, too.

Senator DANFORTH. What about Crystal City?

Mayor CONWAY. I might add, Senator, I met with the mayor of Crystal City Wednesday. What is probably not known to you, he apparently was the chairman's little league baseball coach some years ago.

Senator DANFORTH. His team abandoned him somewhere.

Mayor CONWAY. You can take someone out of Missouri but you do not take the Missouri out of the man.

Senator BRADLEY. I think someone beat you to that slogan with another noun. Thank you very much, Mayor Conway.

The next witness is James Howell, senior vice president of the First National Bank of Boston. He is accompanied by Prof. George Brown of the Boston College Law School.

STATEMENT OF JAMES HOWELL, SENIOR VICE PRESIDENT, THE FIRST NATIONAL BANK OF BOSTON, ACCOMPANIED BY PROF. GEORGE D. BROWN, BOSTON COLLEGE LAW SCHOOL

Mr. HOWELL. Mr. Chairman and members of the subcommittee, I am mindful of the time and I will be brief. I would like to request that my complete statement be inserted into the record, and I can summarize it briefly for the committee.

Senator BRADLEY. Your statement will be inserted into the record.

Mr. HOWELL. I am James M. Howell, senior vice president and chief economist of the First National Bank of Boston, and my colleague is Prof. George Brown from Boston College Law School, who is a consultant to the bank on intergovernmental relations.

I am pleased to participate in these hearings on S. 200, the administration proposal and the general concept of Federal assistance to distressed urban areas.

My participation reflects the fact that the First National Bank of Boston has a strong interest in the fiscal and economic health of cities. Indeed, our bank is actively involved in the Nation's tax-exempt securities market.

At this writing, our holdings of tax-exempt bonds amount to approximately $250 million and are expected to increase to $750 million in the next several years.

We have, admittedly, a particular interest in older areas in the Northeast. However, I will emphasize in my testimony today that the problem addressed by S. 200 is a national problem, not simply a regional one.

These hearings are particularly timely because the Federal grant-in-aid system has come under increasing scrutiny and because national policymakers are attempting to determine the proper role of grants in what might be termed an "affordable urban policy."

For many years, the steady growth in Federal assistance to State and local governments was taken for granted. That is not true today; matters have indeed changed. First, as you are well aware, in September 1978, we actually saw the expiration of a major grant program. I refer specifically to antirecession fiscal assistance (ARFA). The fact that a $1 billion program died without being continued in an altered form or combined with other programs was contrary to past experience and is a dramatic refutation of one of the principal tenets of academic literature and, I might add, political life, that grant programs once enacted, never die, because they build an ongoing constituency with a vested interest in their survival.

The second significant event was the submission of the President's budget, which contained virtual level funding to localities.

Given this radical shift in intergovernmental fiscal relations, it seems likely that any grant program will have to sustain a substantial burden of justification before it is enacted or renewed. I do believe that the legislation before you today meets that burden.

The National Government has a clear stake in the fiscal well-being of cities. Cities perform an important social and economic function. When Congress acts to improve the fiscal conditions of cities, it is not simply dealing with an abstraction, for example, governments of a number of cities, but with people that live in them.

Obviously, cities differ in many ways. For the purposes of these hearings, I would like to discuss the differences in fiscal conditions which American cities exhibit and how these relate to the legislation before this committee.

The First National Bank of Boston in partnership with the accounting firm of Touche Ross & Co., recently completed an indepth analysis of fiscal stress across 66 cities. Our methodology emphasized the use of fiscal indicators to measure municipal fiscal performance.

I would like to also point out that our research went well beyond the standard method of using only the readily available socioeconomic indicators.

The 66 cities study clearly shows that older industrially aged cities are most likely to be stressed. The industrial dynamics of the aging process follow a generally consistent pattern. The fall off of private investment that characterizes the process of industrial aging will in time lead to a decline in the revenue base and subsequently induce severe pressure on the city's revenue raising capability.

A new definition of "fiscal stress" emerged from this study. A city can be considered fiscally stressed if its tax, debt, and expense rates are significantly above those of cities with similar economic capacity.

Some details of our analysis will be helpful at this point. Analyzing the changes in population and manufacturing employment, we identified 9 of the 66 cities in our study as "old industrialized" and 13 as "industrially maturing." The remaining were classified as "young industrial growth."

Although the economic phenomenon of municipal industrial aging is well established, the specific impacts of city aging on financial performance are not.

When we compared the key fiscal indicators for cities in the three different growth stages, our results indicated that cities go through a distinct financial process accompanying industrial aging: taxes rise; current operating expenses rise; and the municipal workforce increases rapidly.

We also saw that intergovernmental transfer revenue from State and Federal sources tends to stabilize as cities age. This alone is a most disquieting finding and I urge this committee to give just weight to it as you deliberate on the legislation before you.

What is so important to us today is that the 22 cities in the first two categories—the maturing and old industrial cities—are shown as most likely to be fiscally stressed. The root cause appears to be stagnation in the local economy. The 22 cities are scattered throughout the United States. Eleven are in the Northeastern States; four are in the Midwestern States; four are in the South and three are in the West.

Let me elaborate briefly on another data point that substantiates the line of reasoning that municipal financial problems are national in their scope; namely, municipal bond displacement.

In terms of municipal bond sales during periods of a cyclical downturn, it is informative to look backward to the experience during the 1974–75 recession.

During a relatively short period between April 1, 1975, and October 14, 1975, there were 106 State and municipal new issues—totaling $1.2 billion—that were displaced from the market for reasons other than impending litigation. This deterioration in municipal credit quality is of great concern to us in the banking community.

I do, however, have another reason for discussing the issue of market displacements; namely, that contrary to popular belief they are not spatially concentrated in the Northern States. The regional distribution of the 106 displacements is as follows:

The Northeast had 27 displacements; the South 26; the Midwest 24; the Southwest, 12; the West, 10 and the High Plains, 7.

These figures are highly significant, Mr. Chairman, because they indicate strongly that the potential for urban fiscal stress is a problem nationwide in scope and not a unique feature of one particular region.

Returning to the focal point of this morning's discussion, we must ask: is a general purpose fiscal assistance program an appropriate means for helping stressed cities?

Apart from such a program's justification on social equity grounds, it must be recognized that severe financial problems in only a few cities could have severe repercussions on the entire municipal bond market, an economic result which is undesirable from both a private and a public sector viewpoint. The bills before this committee today can help head off this result.

The principal problem lies in identifying those cities which are, in fact, experiencing fiscal stress. This is but one example of the frequently discussed problem of "targeting" grant funds to those jurisdictions with the greatest degree of the need which Congress wished to meet in enacting a particular grant program. Targeting may be an overused word, but it is an essential component of any grant statute.

The Congressional Budget Office has recommended classifying needs as social, economic, or fiscal. It would seem obvious that a fiscal assistance program would use fiscal variables as the basis for distributing funds. However, few such variables are available on an accurate, disaggregated basis for large numbers of communities.

Many analysts and policymakers have used socioeconomic variables as proxy variables for fiscal variables, but this approach is not without problems.

I believe that research such as that embodied in our 66 cities study can lead in time to the development of an appropriate set of financial variables for use in the distribution formulas.

Therefore those who support the concept of targeted fiscal assistance and who believe that such a program must be enacted quickly have to work with the currently available formula variables. This is true because of the time lag involved in developing the appropriate financial variables.

Both bills before you use, essentially, the distribution mechanism of the previous ARFA program; an unemployment variable multipled by general revenue sharing (GRS) entitlement. The use of general revenue sharing does introduce one financial variables, tax effort. The use of the unemployment rate poses problems; in the long run, we can develop better measures of fiscal need.

For the moment, however, I believe that some version of the proposed formula is acceptable as a second best alternative to helping stressed cities.

The proposals before you are relatively modest—$250 million and $490 million are the first year figures for the two bills. Obviously, strict eligibility requirements will be necessary if the funds are to be of meaningful size to the recipients.

The administration bill, for example, uses several limitation devices. Local governments must have unemployment rates over 6.5 percent, must have an entitlement of at least $20,000 and cannot have per capita income in excess of 150 percent of the national average.

Without necessarily endorsing them, I note that these limitations seem effective in channeling a relatively small amount of funds to needy large governments. To illustrate this point, consider the fact that a $250 million program is less than 4 percent of the size of General Revenue Sharing, which is $6.85 billion. According to administration estimates, payments under its bill would equal 12.5 percent of General Revenue Sharing payments to Boston, 14.5 percent of General Revenue Sharing payments to Baltimore, and 28 percent of the General Revenue Sharing payments to Newark.

On the other hand, Hartford and Worcester apparently receive nothing at all under the administration's program. This result is particularly disturbing because our 66 cities study indicates that both of these communities appear to be experiencing fiscal stress. I note that both Hartford and Worcester do receive funds under the Danforth formula.

The point to keep in mind is that any formula using the unemployment variable requires particularly careful design in order to make the distribution pattern as rational as possible.

Obviously the formula decisions are difficult. Rather than search for the perfect formula at this time, it may well be important to reach agreement on an adequate formula for quick enactment of this program. After all, it is widely believed that a 1979-80 national recession is imminent. Under both bills, the program is limited to 2 years. The renewal of General Revenue Sharing will give this committee—and the Congress as a whole—ample opportunity to consider formula issues in general.

I believe the research and conclusions in our 66 cities study can help in this effort and I look forward to working with you on those issues.

I might conclude my testimony at this point in deference to the time, Mr. Chairman.

Senator BRADLEY. Thank you very much, Mr. Howell.

Senator Durenberger?

Senator DURENBERGER. Thank you. I want to compliment the witness and I look forward to getting a copy of the 66 cities study.

The two points I think are worth considering even though everybody is pointing out that we do not have much time to pass it and we should pass it the way it is, one is the fact that looking at entitlements or eligibility requirements, it might be appropriate to consider a top as a percentage relating to general revenue sharing.

The other is injecting into our thinking in addition to what Senator Danforth suggested in his comments to the mayor of St. Louis, this whole issue of municipal financial matters.

I think any time we start restricting the amount of money, targeting it at the biggest and the oldest cities, it is very appropriate to address the issue of municipal financial management. We probably cannot do it with this but we should be doing it with other related programs and particularly with regard to providing some kind of an incentive to those of those big older cities who are struck with high pension costs, with older public employee unions dominated payrolls and things like that.

Those that are willing to bite the bullet and I do not know if New Orleans is an appropriate example or not but it is a current example, those who are willing to bite some of the bullet on financial management ought to find some way to be rewarded.

I thank the witness for the presentation.

Mr. HOWELL. Yes, sir. In the conclusion of my testimony I describe a workable program for detecting and alleviating fiscal stress. I call your attention to that discussion in the context of municipal financial management. Our 66 cities study report does show that municipal management can make the difference at the local level. That is true in an older city just as in a younger city and the two best examples I can think of are Trenton and Pittsburgh, where management certainly has had positive results.

Senator BRADLEY. Senator Danforth?

Senator DANFORTH. No questions.

Senator BRADLEY. Thank you very much. Mr. Howell.

Mr. HOWELL. Professor Brown would like to make one brief comment if he may, please.

Mr. BROWN. You discussed with Secretary Blumenthal the size of the pot under S. 200 and where additional funds—beyond the $250 million authorized in the legislation—could be found. If it is true that the National Development Bank is no longer a viable alternative, at least for the current year, I think in over $500 million in grants to State and local governments which appear in the Presidents fiscal 1980 budget as part of the National Development Bank would be available. You might be able to draw on that amount to increase the S. 200 pot at levels which this committee considers to be prudent and desirable.

Senator BRADLEY. Thank you very much. You have been brief and have made a very significant contribution.

[The prepared statement of Dr. Howell follows:]

STATEMENT OF DR. JAMES M. HOWELL, SENIOR VICE PRESIDENT AND CHIEF ECONOMIST, THE FIRST NATIONAL BANK OF BOSTON, AND PROF. GEORGE D. BROWN, BOSTON COLLEGE LAW SCHOOL

Mr. Chairman, members of the subcommittee, I am Dr. James M. Howell, senior vice president and chief economist of the Frst National Bank of Boston. With me is Prof. George D. Brown of Boston College Law School, a consultant to the bank on intergovernmental relations. I am pleased to participate in these hearings on S. 200, the administration proposal, and the general concept of Federal assistance to distressed urban areas. My participation reflects the fact that the First National Bank of Boston has a strong interest in the fiscal year economic health of cities. Indeed, our bank is actively involved in the Nation's tax exempt securities market. At this writing, our holdings of tax-exempt bonds amount to $250 million and are expected to increase to $750 million in the next several years. We have, admittedly, a particular interest in the older urban areas of the Northeast. However, as I shall emphasize later in my testimony, the problem which is addressed in the legislation before you is a national problem, not simply a regional one.

These hearings are particularly timely because of the fact that the Federal grant-in-aid system has come under increasing scrutiny, and because national policymakers are attempting to determine the proper role of grants in what might be termed an "Affordable Urban Policy." For many years the steady growth in Federal assistance to State and local governments was taken as a given by all concerned. Grant programs experienced an average annual dollar increase of 16 percent between 1965 and 1978. The number of programs rose dramatically as well. According to the Advisory Committee on Intergovernmental Relations there were 492 categorical grant programs in existence on January 1, 1978. This astonishing number represented an increase of 50 grant programs over the number found in 1975!

Things have changed, however. For State and local grantees the halcyon days of the 1960's and 1970's are over, probably forever. Two recent events illustrate this phenomenon. In September of 1978 we actually saw the expiration of a major grant program. I refer of course to Anti-Recessionary Fiscal Assistance (ARFA). The fact that a billion dollar program died without being continued in altered form or combined with other programs was contrary to past experience and a dramatic refutation of one of the principal tenets of academic literature and—I might add—political life: that grant programs once enacted never die because they build an ongoing constituency with a vested interest in their survival.

The second significant event was the submission of the President's Budget, which contained virtual "level funding" for assistance to states and localities. According to OMB, grant outlays are estimated at $82.9 billion in 1980, only a slight increase over the 1979 estimate of $82.1 billion. If General Revenue Sharing is not renewed we will almost certainly see in 1981 a drop in the current dollar level of Federal grants—a startling reversal of the trends of the last 20 years.

Given this radical shift in intergovernmental fiscal relations, it seems likely that any grant program will have to sustain a substantial burden of justification before it is enacted or renewed. I do believe, however, that the legislation before you today meets this burden.

The national government has a clear stake in the fiscal well being of cities. Cities perform vital economic and social functions. When Congress acts to improve the fiscal conditions of cities it is not simply dealing with an abstraction—the governments of X number of cities—but with the people who live in them.

Obviously, cities differ in may ways. For the purposes of these hearings, I would like to discuss the differences in fiscal conditions which American cities exhibit and how these relate to the legislation before this Committee. The First National Bank of Boston and the accounting firm of Touche Ross and Company recently completed an in-dept comparative fiscal analysis of 66 U.S. cities.[1] Our methodology emphasized the use of financial indicators to measure municipal fiscal condition.

I would like to point out that our research went well beyond the standard method of using only readily available data, typically Census Bureau information, so that we could gain an accurate picture of municipal finances. Once the data base was created—and the information was made consistent from one city to another—key financial variables were selected statistically. These variables were used to measure fiscal differences among cities with varying economic, social and structural characteristics.

The 66 Cities Study clearly shows that older industrially aged cities are the ones most likely to be fiscally stressed. The industrial dynamics of this aging process follow a generally consistent pattern. The fall-off of private investment that characterizes the process of industrial aging will, in time, lead to a decline in the revenue base and subsequently induce severe pressures on the city's revenue raising capability. A new definition of fiscal stress emerged from this study: a city can be considered fiscally stressed if its tax, debt, and expense rates are significantly above those of cities with similar economic capacity.

Some details of our analysis will be helpful at this point. Analyzing the changes in population and manufacturing employment, we identified 9 of the 66 cities in our study as "old industrialized," and 13 as "industrially maturing." The remaining cities were classified as "young industrial growth."

Although the economic phenomenon of municipal industrial aging is well established, the specific impacts of city aging on financial performance are not. So, we compared the key fiscal indicators for cities in the three different growth stages. Our results indicate that as cities age industrially: Taxes rise per capita: current operating expenses per capita rise; the municipal work force increases rapidly.

Specifically, there were sharp increases in tax effort, taxes per capita and current operating expenses from young-to-old industrialized cities. Also, we saw

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[1] James M. Howell and Charles Stamm, "Urban Fiscal Stress: A Comparative Analysis of Sixty-Six U.S. Cities," Touche Ross & Co., March 1979, New York.

that transfer revenue from state and Federal sources tends to stabilize as cities age. Finally, in the case of the old industrialized cities the municipal work force is more than twice as high as in the young cities.

The 22 cities in the first two categories—the older groupings—are thus more likely to encounter fiscal stress. The root cause appears to be stagnation in the local economy. Of the 22 cities, 11 are in the Northeast, 4 are in the Midwest, 4 are in the South, and 3 are in the West.

The following table shows their breakdown by region:

OLD INDUSTRIALIZED CITIES AND INDUSTRIALLY MATURING CITIES BY REGION

Northeast: Boston, Bridgeport, Buffalo, Cambridge, Hartford, New Haven, Pittsburgh, Springfield, Mass., Syracuse, Trenton, and Worcester.
Midwest: Dayton, Duluth, Milwaukee, and Minneapolis.
South: Baltimore, Louisville, Mobile, and New Orleans.
West: Pasadena, Seattle, and Spokane.

Now let me elaborate briefly on another data point that substantiates the line of reasoning that municipal financial problems are national in their scope; namely, municipal bond displacement.

In terms of municipal bond sales during periods of a cyclical downturn, it is informative to look backward to the experience during the 1974–75 recession. During that period 106 state and municipal new issues—totalling $1.2 billion—were withdrawn from the market in the short period between April 1, 1975 and October 14, 1975 for reasons other than impending litigation.[3] This deterioration in municipal credit quality is of great concern to us in the banking community. I do, however, have another reason for discussing the issue of market displacements; namely that contrary to popular belief they are not spatially concentrated in the Northern states. The regional distribution of the 106 displacements is as follows:

Region:	*Number of displacements*
Northeast	27
South	26
Midwest	24
Southwest	12
West	10
High Plains	7
Total	106

These figures are highly significant, Mr. Chairman, because they indicate strongly that the potential for urban fiscal stress is a problem nationwide in scope, not a unique feature of one particular region.

Returning to the focal point of this morning's discussion, is a general purpose fiscal assistance program an appropriate means for helping stressed cities?

Apart from such a program's justification on social equity grounds, it must be recognized that severe financial problems in only a few cities could have severe repercussions on the entire municipal bond market, an economic result which is undesirable from both a private and a public sector viewpoint. The bills before this Committee today can help head off this result.

The principal problem lies in identifying those cities which are, in fact, experiencing fiscal stress. This is but one example of the frequently discussed problems of "targeting" grant funds to those jurisdictions with the greatest degree of the need which Congress wished to meet in enacting a particular grant program. Targeting may be an overused word, but it is an essential component of any grant statute.

The Congressional Budget Office has recommended classifying needs as social, economic or fiscal. It would seem obvious that a fiscal assistance program would use fiscal variables as the basis for distribution of funds. However, few such variables are available on an accurate, disaggregated basis for large numbers of communities. Many analysts and policymakers have used socio-economic variables as proxy variables for fiscal variables. I believe that research such as that embodied in the 66 Cities Study can lead to the development of valid fiscal

[3] See Ronald W. Forbes and John E. Peterson, "Costs of Credit Erosion in the Municipal Bond Market," Hearings Before the Joint Economic Committee, November 10, 1975.

variables for use in the distribution formulas of programs such as that before you. However, the state of the art has not reached that point.

Therefore, those who support the concept of targeted fiscal assistance and who believe that such a program must be enacted quickly have to work with the currently available formula variables. Both bills before you use, essentially, the distribution mechanism of the previous ARFA program: an unemployment variable multiplied by General Revenue Sharing entitlement. The use of General Revenue Sharing does introduce one financial variable: tax effort. The use of unemployment rates poses problems; in the long run, unquestionably, we can develop better measures of fiscal need. For the moment, however, I believe that some version of the proposed formula is acceptable as a "second best alternative" approach. It is significant that several studies have concluded that the ARFA distribution pattern was highly responsive to different measures of need. (As my previous remarks suggest, however, the methodologies used to measure fiscal need can be refined considerably.)

An additional method of targeting is to limit eligibility, for example, by population size or by entitlement amount. Frequently, such limitations have to be rather extreme before they have any impact at all. To give a dramatic illustration, the Treasury Department has calculated that eliminating all governments under 1,000 population from participation in General Revenue Sharing would cut over 19,000 communities but would only reduce funding by one percent.

The proposals before you are small in dollar amount—$250 million and $490 million are the first year figures for the two bills. (The Congressional Budget Office defines as "large" only those grant programs with outlays of more than $500 million.) Obviously, strict eligibility requirements will be necessary if the funds are to be of meaningful size to the recepients. The Administration bill, for example, uses several limitation devices. Local governments must have unemployment over 6.5 percent, must have an entitlement of at least $20,000, and cannot have per capita income in excess of 150 percent.

Without necessarily endorsing them, I note that these limitations seem effective in channelling a relatively small amount of funds to needy large governments. To illustrate this point, consider the fact that a $250 million program is less than 4 percent of the size of General Revenue Sharing ($6.85 billion). According to Administration estimates, however, payments under its bill would equal 12.5 percent of GRS payments to Boston, 14.5 percent of GRS payments to Baltimore, and 28 percent of GRS payments to Newark.

On the other hand, Hartford and Worcester apparently receive nothing at all. This result is particularly disturbing, because the 66 Cities Study indicates that both of these communities appear to be experiencing fiscal stress. I note that both Hartford and Worcester do receive funds under the Danforth formula. The point to keep in mind is that any formula using the unemployment variable requires particularly careful design in order to make the distribution pattern as rational as possible.

Obviously, the formula decisions are difficult. Rather than search for the perfect formula it may well be important to reach agreement on an adequate formula for quick enactment of this program. After all, it is widely believed that a 1979–80 national recession is imminent. Under both bills, the program is limited to two years. The renewal of General Revenue Sharing will give this Committee—and the Congress as a whole—ample opportunity to consider formula issues in general. I believe that the research and conclusions of the 66 Cities Study can help in this effort, and I look forward to working with you on these issues.

Since we have been discussing the problem of municipal fiscal stress. I would like to conclude with some observations about municipal financial management. The findings of the 66 Cities Study suggest strongly that sound management at the local level can have a significant impact on a municipality's fiscal condition. Clearly, the Federal government should encourage sound management, and should not reward, or appear to reward, municipal inefficiency. How might this goal be accomplished?

At this stage in our research we can offer two observations. First, Congress would do well to encourage additional investigation into whether or not municipal fiscal stress is cyclical or structural in nature. Our best judgement is that municipal fiscal stress is a long-run structural phenomenon.

Second, Congress would also do well to focus on mandating improvements in municipal management and control as the quid pro quo for receiving general purpose fiscal assistance.

Without this control, the Congress may, however inadvertently, reward municipal inefficiency.

As a first step, Congress might consider requiring recipients to develop a "Workable Program" for detecting and alleviating fiscal stress. Thus, recipients would have to submit detailed plans including commitments to do the following:

Develop a five-year program to bring expense rates back into fundamental equilibrium with economic base resources through financial planning and cash management programming.

Implement a program that would improve tax collections.

Conduct annual audits including the collection of a set of financial indicators on a statistically uniform basis for statistical monitoring of cities as well as the future fiscal formula design.

These are obviously issues for future consideration; and it is in this spirit that I raise them. This Subcommittee, through its consideration of General Revenue Sharing, will undoubtedly be in the forefront of the re-examination of the entire Federal grant-in-aid system. Needless to say, I look forward to working with you in this significant endeavor.

Senator BRADLEY. Our next witness is Thomas Smith, mayor of Jersey City, N.J.

STATEMENT OF THOMAS SMITH, MAYOR, JERSEY CITY, N.J.

Mayor SMITH. Thank you very much, Mr. Chairman.

Senator BRADLEY. Mayor Smith, I would like to welcome you. I am anxious to hear what you have to say and would dispute Senator Danforth about the revival potential of one city versus another city. As we have spoken on many occasions, Jersey City is on the brink of a major revival.

Mayor SMITH. Thank you.

My testimony is somewhat of a departure from the excellent statistical representations and the fine recommendations of the previous speakers.

It is simply one that expresses the frustrations of being an urban mayor and the concerns that I have for cities in this country and where we are going as a nation.

I would like to thank each member of this distinguished committee and especially Senator Bill Bradley from my own State. At this point, in addition to being residents of the State, I would like to point out we had one point of commonality, you being a great New York Knickerbocker and I being one of the worse.

In any event, I would like to thank each and every one of you for the opportunity to express my views on a subject which is of critical concern to the struggling people of the urban centers of this great Nation.

It would be redundant and probably counterproductive to say that the fiscal year 1980 budget is based on economic and social principles which are a great disappointment to the cities.

It is evident to everyone by now that the fiscal 1980 budget, which the President characterized as "lean and austere," places the burden of the fight against inflation on the cities, the elderly, the poor, the youth and the unemployed of this Nation.

All of the preceding are common factors of cities like mine and other cities throughout America. It is a paradox of our times that the need for a "lean and austere" budget should be imposed on communities that suffer from severe malnutrition of vital public services, high unemployment, costly welfare and all the other problems generally associated with urban living in America.

The failure of Congress to adopt an anti-recession aid program left many cities including Jersey City scrambling to balance budgets for the current fiscal year with huge spending cuts, layoffs or higher taxes which in many cases approach confiscatory levels.

This failure of Congress at a time when cities are gaining a beachhead in this country and are beginning to turn around, leaves millions of Americans with a feeling that there really is not a national policy or national conscience concerned with a good quality of life for all Americans.

There are those within this Congress who say it would be inflationary to give more aid to our financially stricken cities. I say this is an absurdity bordering on grand deception to make this kind of statement. If it is inflationary to help our own American cities with dollars they desperately need, why then is it not inflationary to ship $900 million more abroad to nations that would destroy us tomorrow if they could?

I would suggest to Secretary Blumenthal and to others that are seeking to find out where the size of the pot is that perhaps they could look a little more carefully at that particular allocation.

It is a hoax on the American people to lead them to believe that it is not inflationary to spend billions overseas while American cities are falling apart. I respectfully submit that to continue such a fallacious argument will lead to a shattering of the confidence of millions of urban Americans in their Government.

As you know, countercyclical aid is so named because it is designed to counter a rising cycle of unemployment caused by deteriorating economic conditions. How the money is used is left up to local officials.

Can any Member of Congress honestly say that unemployment has been abated in many cities of this Nation?

Can any Member of Congress honestly say that vast amounts of decay and deterioration do not exist in many of the cities of our country?

At the Democratic Midterm Conference in Memphis last December, I implored the Democratic Party leadership to mount a fight for the restoration of the countercyclical aid program because most cities in this Nation are racked with rampant unemployment and depressing economic prospects.

Figuratively almost literally, according to the press, I was on my knees in Memphis begging. I was begging not only for Jersey City, but all the cities of this Nation. I appeal to you, gentlemen, for the long line reaching back through the ages and forward to the years to come, the long line of despoiled and downtrodden people of our beloved country.

I appeal to you for those men and women who rise in the morning and work in the factories and offices of our cities, and who go home at night when the light is faded from the sky, and give their life, their strength, their toil to our Nation and dream of a community as safe as others in this Nation. People dream of schools as good as others in this Nation. People dream that someday they will see their city, the city they love, as bright and as beautiful as other cities in this Nation.

I am begging for cities that are operating with sewer lines that were laid down when President Johnson was in the White House, President Andrew Johnson.

We have had sewers going back 100 to 110 years in the city of Jersey City that cry out for restoration.

I am begging for cities that will not make it into the 1990's without more Federal help now.

We who live in and love Jersey City are faced with many of the problems which face most of the cities of this Nation. It is tragic that the city which lays claim to the two great symbols of hope in the world, the Statue of Liberty and Ellis Island, a city whose waterfront has received great acclaim and has been singled out for its great potential, a city which truly has the greatest opportunity to be the first urban community to truly turn around in this Nation, finds this enormous potential impeded for a lack of proper Federal concern.

Jersey City is the center of the most densely populated area in America. Hudson County has 12,000 people per square mile. Consider, if you will, that the second most populated, New York City, has 7,000 people per square mile. Consider further that the third most densely populated area in this county has 3,000 people per square mile. Compare this to Reno, Nev., that has 26 people per square mile and one can easily recognize why special aid to our community is vitally necessary.

Jersey City with all its great potential and when the distinguished Senator Bradley was running, he had pointed this out so many times and so significantly, nevertheless, it desperately needs the kind of aid that restoration of the countercyclical moneys could provide.

We have one of the highest rates of unemployment in the Nation, 9.3 to 10 percent. Other recent surveys show us with high percentages in air pollution and cancer mortality. We have been referred to unkindly as cancer alley.

We have schoolbuildings that will soon be celebrating their centennial. The average age of our 33 elementary and 5 high schools is 60 years. They are all overcrowded and there are many portable classrooms on double session.

Eighty percent of all housing units in Jersey City were constructed prior to 1939; 16 percent of the city's 90.937 housing units are considered to be substandard; 42 percent of the city's households require some form of assistance; 28 percent of the households requiring assistance are elderly and Jersey City is the second city in the Nation in terms of percentage of elderly residing therein.

The Jersey City public school system consists of 31 elementary schools, 2 special education schools, and 5 high schools with 10 portable classrooms to alleviate double classes. Just a week ago, three of the schools had to be closed because of antiquated boiler breakdowns.

The Jersey City school system has an enrollment of 35,005 students. There are presently 17,800 students enrolled in private and parochial schools. If they were transferred to the public school system, it would be physically impossible for the city, both in terms of physical facilities and fiscal ability, to accept these additional students.

No one could adequately measure how many billions and trillions of dollars these great parochial and private schools have saved not only our city but the State and Federal Governments. I wounder how many other communities can lay claim to institutions like these saving billions and trillions of tax dollars for our Nation?

The capital improvement program to bring the public school up to date would require a capital investment of $125 million. The total cost of urgent repairs reaches in excess of $24 million.

The items included are only those necessary to correct conditions of deterioration and/or obsolescence. In fact, the emergency repairs were so critical that I designated that 20 percent of the public works money under round II of the Public Works Act would be allocated for such elementary repairs such as rooves, new windows, and physical repair of existing schools built in the late 1800's.

Of the 81,993 civilian males, 18 years and older in the city, almost half are veterans. A word about major occupations, more residents of Jersey City were employed as clerical and blue-collar workers than in any other occupational category.

The second and third largest occupational fields were operatives, including transport and service workers, except private households respectively, people who work each and every day to make the system function make up the vast majority of the residents of Jersey City.

I pointed to the fact that we have so many private and parochial schools as a tribute and indication of what our people have done and are doing to lessen the burden of government, local, State, and Federal cost.

There are places in this country where not 1 cent is provided for education over and beyond that which is paid by government dollars.

Let me tell you about a hospital that our people built with their blood and sweat, their tax dollars and rent dollars. I am so proud of that hospital because it is so unique in New Jersey. It is the only public general hospital of its kind in New Jersey. Newark, which has been mentioned frequently today, has one but it is financed and managed by the State of New Jersey.

Bergen County has one but it is supported by one of the most affluent communities in this land.

Only Jersey City has a hospital that is paid for by tax dollars and rent dollars of hard working struggling people, a hospital that provides 60,000 emergency services, 30,000 clinical services and 166,000 patient-hours which include, my friends, a critical baby unit which takes babies from all over New Jersey, babies that others have given up on, and all this by people who are willing to do for themselves, for their neighbors and for their country.

We have a geriatrics hospital where the elderly and infirmed can go when people cannot afford private services. We have a mental hospital which services the needs of our struggling people when that dreaded disease strikes.

Gentlemen, Jersey City has not asked "what can my country do for us," but Jersey City has truly said, "what can we do for our country." Time and age, like Kipling's "Victory and Defeat" are not impostors. Time and age like time and age in everything have exacted their cruel tribute. Our schools are old and our buildings show the emptiness of ages, our streets are laboring under the burden of time and the burden that saw the goods of the world travel her roads.

Our sewers, like old soldiers, daily fade away and jobs, the life blood of any community, have flown with the 500,000 jobs that have moved to the resource young sunbelt.

Gentlemen, we have nurtured the Nation in its youth, fought and died nobly when she was threatened, labored in her factories and mills, now time and age has taken its toll.

I call upon your leaders of this great compassionate Nation recognizing what we have meant and what we mean to this country, to do all in your power to bring the justice for all that this nation stands for, to the people who fiercely love America.

Jersey City is among the cities that gave record numbers of sons and daughters in the building of America from Revolutionary days to the present in fighting the wars of this Nation.

We have given our share of muscle and energy, of money and great sacrifice of life, and yet there seems to be a pathetic disconcern for our city, and all the others like ours, while we cater to and spend astronomical millions to foreign nations that would destroy us tomorrow if they could.

Jersey City is the home of the Statue of Liberty and Ellis Island, the two great symbols of hope and freedom in the world.

While I stand in our Liberty State Park with the vast panorama of three islands and the New York skyline for a backdrop, I sometimes think about everything that made all this possible, especially the courageous men and women who came before us, and I wonder where the cities of these people who gave our Nation its greatness are headed now.

Here we are sending millions to nations where people are shouting, "Yankee, go home" and at home our national leaders will not give us the help we need.

I think that it is important to keep in mind that much of the taxing resources of our communities are preempted by the Federal Government. New Jersey is returned nowhere near the dollars sent to Washington in terms of income takes and other forms of taxation.

In essence, we are really not begging, simply asking for equity and justice.

I think it is important to note in terms of local effort that we raised $80 million tax dollars to support our municipal school and county services.

The cost of public safety in Jersey City cost $34 million. The cost for public safety in cities like Jersey City and Newark exceed the total budget allocations of 90 to 95 percent of the other 567 communities in the State of New Jersey.

The Deals and Allemuchys of New Jersey and this country where the millionaires and the well to do live, do not need to raise moneys to protect their families against street crime and the other crimes that plague the cities of our Nation.

Does it make sense that those who cannot afford the cost of public safety are required to come up with blood money that they do not have while the rich and well off do not have to pay for the same rights which our Constitution guarantees?

Jersey City pays $5 million for welfare costs. We again see the same inequitable scenario regarding welfare.

How much do you think the Deals, Allemuchys, Hyannis Ports, Gross Points, Beverly Hills, Key Biscaynes, Scarsdales, pay for welfare?

Do you think the huddled masses yearning to be free and economically depressed go to those glorious and beautiful enclaves or do they stream into the Jersey Cities and Newarks?

Do you think only the hard working people who per accidents live in the Jersey Cities or Newarks and do the work of God in being their brother's keeper, should support all of the woes of this Nation or should not those who are most endowed share in the responsibility?

This same illogical scheme of the working poor paying for the poor permeates both our State structure of government and our Federal structure. Countercycle aid is just a modicum of effort to equalize the overburden facing the cities of our Nation and even this is in jeopardy of passing.

In closing, I want to say I have spoken as an urban mayor, as one who loves our country deeply and I have spoken the best I could. I have spoken from the depths of my heart.

I realize that there will be those who will be disturbed by this appeal. Men like Congressman Brooks, I am sure, will vehemently disagree. There is not a thought of bitterness in my heart for Jack Brooks. I wish he were different. I wish he could feel the sufferings of many people I know in urban areas. I wish that Jack Brooks might feel what it is to want to work and not be able to find a job to support his family.

I wish Jack Brooks felt the concern for safety that other fathers feel for their families in urban communities.

Not, gentlemen, that I want him to do it, or I do not; but I wish that in some way his heart might be touched, that he might feel the kinship which he bears to all the people of this great country.

I am sure you have other stories that would probably match this particular one. When I was a boy growing up in a teeming tenement house section of Jersey City, I had an idol by the name of Al Blozis. Al was a big blond good looking Joe Palooka-type boy from a cold water flat a short distance from where I lived.

The son of immigrant Slovonic people, Al showed early promise of athletic greatness. Indeed, he became a great high school football player from one of our public high schools and a track and field star, too.

Al's greatness soon attracted the attention of colleges throughout our Nation. It seems so appropriate for my talk today that he would choose Georgetown here in Washington. Why, this poor kid never heard the name Georgetown.

How could a poor urban kid in 1939 be expected to know that Georgetown was one of the finest educational centers in the world?

Al's dream came true when he became an all-Americn tackle for a great Georgetown team. He set national records in throwing the shot put that would last for decades. The hearts of Jersey City people swelled with pride. This pride reached ectatic heights when Al was chosen by the New York Giants to the NFL.

Al Blozis never let that pride subside because he soon became the player of the year. What a thrill for the struggling people of our town. How proud we were that the big blond Slovonic kid from the cold water flats of Jersey City was the best football player in the world.

The war broke out. Al did not have to go because he was one of those 6 foot 6 inch giants. He could have avoided combat like so many other professional athletes but Al knew that this country meant a lot to him, his family and his Jersey City neighbors. On a cold wind swept mountain in France that dream he dreamt, the dream his family dreamt and the dream of all Jersey City was shattered as Al Blozis, all-American, gave his life for America.

You know, gentlemen, if I had to describe my city and the people who live there and have lived there, I would simply say, Al Blozis, all-American.

Gentlemen, men and women of the 96th Congrss, if you should reject our pleas, there will be people to applaud the act. If in your judgment and your wisdom and your humanity, you see fit to provide the legislation we desperately need, I know that from millions of the weak, the poor, the helpless and the hard working people throughout our cities, you will have earned the respect and appreciation of the people who like Al Blozis, have given so much to the greatest Nation that God ever created.

Sentor BRADLEY. Thank you very much, Mayor Smith. I think that was an eloquent statement, detailing the real needs and potential of one of America's outstanding cities, Jersey City. I appreciate the time you took to be here to share it with us.

Senator Durenberger?

Senator DURENBERGER. I would just like to say there is only one thing wrong with your new Senator, that is he should have put you on ahead of Secretary Blumenthal. I think it would have added a great deal to the presentation.

I have not been here long enough to be cynical about emotions. I appreciate your time and comments and I would like to have a copy of those comments for the record.

Mayor SMITH. Thank you. I will submit my statement for the record.

Senator BRADLEY. It will be placed in the record at this point.

[The prepared statement of Mayor Smith follows:]

STATEMENT OF THOMAS F. X. SMITH, MAYOR, JERSEY CITY, N.J.

I would like to thank each member of this distinguished committee, and especially Senator Bill Bradley, for the opportunity to express my views on a subject which is of critical concern to the struggling people of the urban centers of this great Nation.

It would be redundant and probably counter-productive to say that the fiscal year 1980 budget is based on economic and social principles which are a great disappointment to the cities. It is evident to everyone by now that the fiscal year 1980 budget, which the President characterized as "lean and austere," places the burden of the fight against inflation on the cities, the elderly, the poor, the youth and the unemployed in this Nation.

All of the preceding are common factors of cities like mine and other cities throughout America. It is paradox of our times that the need for a "lean and austere" budget should be imposed on communities that suffer from severe "malnutrition" of vital public services, high unemployment, costly welfare and all the other problems generally associated with urban living in America.

The failure of Congress to adopt an anti-recession aid program left many cities, including Jersey, scrambling to balance budgets for the current fiscal year with huge spending cuts, layoffs or higher taxes, which in many cases approach confiscatory levels.

This failure of Congress, at a time when cities are gaining a beachhead in this country and are beginning to turn around, leaves millions of Americans with a feeling that there really isn't a national policy or national conscience concerned with a good quality of life for all Americans.

There are those within this Congress who say it would be inflationary to give more aid to our financially stricken cities. And I say that is an absurdity bordering on grand deception! If it's inflationary to help our own Aremican cities with dollars they desperately need, why then is it not inflationary to ship $900 million more dollars abroad to nations that would destroy us tomorrow if they could.

It is a hoax on the American people to lead them to believe that it is not inflationary to spend billions overseas while American cities are falling apart. And I respectfully submit that to continue such a fallacious argument will lead to a shattering of the confidence of millions of urban Americans in their government.

As you know, countercyclical aid is so named because it is designed to counter a rising cycle of unemployment caused by deteriorating economic conditions. How the money is used is left up to local officials.

Can any member of Congress honestly say that unemployment has been abated in many cities of this Nation?

Can any member of Congress honestly say that vast amounts of decay and deterioration do not exist in many of the cities of our country?

At the Democratic Midterm Conference in Memphis last December, I implored the Democratic Party leadership to mount a fight for the restoration of the countercyclical aid program because most cities in this nation are racked with rampant unemployment and depressing economic prospects.

Figuratively—almost literally, according to the press—I was on my knees in Memphis, begging. I was begging not only for Jersey City, but all the cities of this Nation. I appeal to you, gentlemen, for the long line—the long, long line reaching back through the ages, and forward to the years to come—the long line of despoiled and downtrodden people of our beloved country.

I appeal to you for those men and women who rise in the morning and work in the factories and offices of our cities, and who go home at night when the light has faded from the sky and give their life, their strength, their toil to our Nation and dream of a community as safe as others in this Nation. People who dream of schools as good as others in this Nation. People who dream that someday they will see their city, the city they love, as bright and as beautiful as other cities in this Nation.

I'm begging for cities that are operating with sewer lines that were laid when President Johnson was in the White House—President Andrew Johnson.

I'm begging for cities that won't make it into the 1990's without more Federal help now.

We who live in and love Jersey City are faced with many of the problems which face most of the cities of this Nation. And it is tragic that the city which lays claim to the two great symbols of hope in the world—The Statute of Liberty and Ellis Island—a city whose waterfront has received great acclaim and has been singled out for its great potential, a city which truly has the greatest opportunity to be the first urban community to truly turn around in this Nation, finds this enormous potential impeded for a lack of proper federal concern.

Jersey City, with all its great potential, nevertheless desparately needs the kind of aid that restoration of the countercyclical monies could provide.

Jersey City is the center of the most densely populated area in America! Hudson County has 12,000 people per square mile! Consider, if you will, that the second most populated, New York City, has 7,000 people per square mile! Consider further that the third most densely populated area in this country has 3,000 people per square mile. Compare this to Reno, Nevada, that has 26 people per square mile and one can easily recognize why special aid to our community is vitally necessary.

We have one of the highest rates of unemployment in the Nation, and other recent surveys show us with high percentages in air-pollution and cancer mortality.

We have school buildings that will soon be celebrating their Centennial. The average age of our 33 elementary and 5 high schools is 60 years. They are all overcrowded and there are many portable classrooms on double session; 80 percent of all housing units in Jersey City were constructed prior to 1939; 16 percent of the city's 90,937 housing units are considered to be substandard; 42 percent of the city's households require some form of assistance; 28 percent of the households requiring assistance are elderly, and Jersey City is the second city in the Nation in terms of percentage of elderly residing therein.

The Jersey City public school system, consists of 31 elementary schools, 2 special education schools, and 5 high schools, with 10 portable classrooms to alleviate double classes. Just a week ago three of the schools had to be closed because of antiquated boiler breakdowns. The Jersey City school system has an enrollment of 35,005 students. There are presently 17,800 students enrolled in private and parochial schools. If they were transferred to the public school system, it would be physically impossible for the city, both in terms of physical facilities and fiscal ability, to accept these additional students.

No one could ever adequately measure how many billions and trillions of dollars these great parochial and private schools have saved not only our city but the State and Federal Government. I wonder how many other communities can lay claim to institutions like these, saving billions and trillions of tax dollars for our Nation?

The Capital Improvement Program to bring the public school system up to date would require a capital investment of $125 million. The total cost of urgent—I repeat—urgent repairs reaches in excess of $24 million. The items included are only those necessary to correct conditions of deterioration and/or obsolescence. In fact, the emergency repairs were so critical that I designated that 20 percent of the Public Works money under Round II of the Public Works Act would be allocated for such elementary repairs such as roofs, new windows, and physical repair of existing schools built in the late 1880's.

Of the 81,993 civilian males, 18 years and older in the city, almost half are veterans! A word about major occupations—more residents of Jersey City were employed as clerical and blue collar workers than in any other occupational category. The second and third largest occupational fields were operatives, including transport and service workers, except private households respectively. people who work each and every day to make the system function, make up the vast majority of the residents of Jersey City.

Jersey City is among the cities that gave record numbers of sons and daughters in the building of America from Revolutionary days to the present. We have given our share of muscle and energy, of money and great sacrifice of life, and yet there seems to be a pathetic disconcern for our city, and all the others like ours, while we cater to and spend astronomical millions to foreign nations that would destroy us tomorrow if they could.

Jersey City is the home of the Statue of Liberty and Ellis Island, our Nation's two great symbols of freedom and hope.

While I stand in our Liberty State Park with the vast panorama of these islands and the New York skyline for a backdrop, I sometimes think about everything that made all this possible—especially the courageous men and women who came before us—and I wonder where the cities of these people who gave our nation its greatness are headed now.

Here we are sending millions to nations where people are shouting "Yankee, go home!" and at home our national leaders will not give us the help we need.

I think that it is important to keep in mind that much of the taxing resources of our communities are preempted by the Federal Government. New Jersey is returned nowhere near the dollars sent to Washington in terms of income taxes and other forms of taxation. So, in essence, we really are not begging, simply asking for equity and justice.

In closing, I want to say that I have spoken as an urban mayor, as one who loves our country, deeply, and I have spoken the best I could. I have spoken from the depths of my heart.

I realize that there will be those who will be disturbed by this appeal. Men like Congressman Brooks, I am sure, will vehemently disagree. But there is not a thought of bitterness in my heart for Jack Brooks. I wish he was different. I wish he could feel the sufferings of many people I know in urban areas. I wish that Jack Brooks might feel what it is to want to work and not be able to find a job to support his family. I wish Jack Brooks felt the concern for safety that other fathers feel for their families in urban communities. Not, gentlemen, that I want him to do it, for I do not; but I wish that in some way his heart might be touched, that he might feel the kinship which he bears to all the people of this great country.

Finally, gentlemen, permit me another minute to let you know something of the great heritage of our Jersey City people and to relate a story which personifies Jersey City. When I was a boy growing up in a teeming tenement house section of Jersey City, I had an idol by the name of Al Blozis. Al was a big blond good-looking Joe Palooka-type boy from a cold water flat a short distance from where I lived. The son of immigrant Slovonic people, Al showed early promise of athletic greatness. And indeed he became a great high school football player from one of our public high schools, and a track and field star, too. Al's greatness soon attracted the attention of colleges throughout our Nation. It seems so appropriate for my talk today that he would choose Georgetown here in Washington. Why, this poor kid never heard the name Georgetown.

How could a poor urban kid in 1939 be expected to know that Georgetown was one of the finest educational centers in the world? Al's dream came true when he became an all-American tackle for a great Georgetown team. He set national records in throwing the shot put that would last for decades. And the hearts of Jersey City people swelled with pride. And this pride reached ecstatic heights when Al was chosen by the New York Giants of the NFL.

Al Blozis never let that pride subside because he soon became the player of the year. What a thrill for the struggling people of our town. How proud we were that the big, blond, Slovonic kid from the cold water flats in Jersey City was the best football player in the world!

Then the war broke out. He didn't have to go because Al was a 6'6" giant. He could have avoided combat like so many other professional athletes but Al knew what this country meant to him, his family and his Jersey City neighbors. And on a cold, wind-swept mountain in France that dream he dreamt, the dream his family dreamt and the dream of all Jersey City was shattered as Al Blozis, All-American, gave his life for America.

You know, gentlemen, if I had to describe my city and the people who live there and have lived there, I would simply say "Al Blozis—All-American."

Gentlemen, and men and women of the 96th Congress, if you should reject our pleas, there will be people to applaud the act. But if in your judgment, and your wisdom, and your humanity, you see fit to provide the legislation we desperately need, I know that from millions of the weak, and the poor, and the helpless, and the hard working people throughout our cities, you will have earned the respect and appreciation of the people who, like Al Blozis, have given so much to the greatest nation that God ever created.

Senator BRADLEY. Our next witnesses are Representative Patrick Sweeney, of Ohio, Speaker John Bagnariol, of the Washington House of Representatives, and George Cushingberry of Michigan.

Gentlemen, I want to thank you for being patient and waiting through the morning's testimony. I assure you your place on the program in no way indicates your importance to the whole endeavor. We look forward to your comments.

STATEMENT OF REPRESENTATIVE PATRICK SWEENEY, OF OHIO, SPEAKER JOHN BAGNARIOL, OF THE WASHINGTON HOUSE OF REPRESENTATIVES, AND REPRESENTATIVE GEORGE CUSHINGBERRY, JR., OF MICHIGAN, ON BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES

Representative BAGNARIOL. Thank you very much, Mr. Chairman. My name is John Bagnariol from the State of Washington.

We have submitted a written statement for the benefit of the committee. We will try to keep our remarks very brief.

Senator BRADLEY. Your written statement will be placed in the record.

Representative BAGNARIOL. On my left is Representative Patrick Sweeney from Ohio and on my right is Representative George Cushingberry, Jr. from Michigan.

Before we begin, perhaps a note of interest to the committee is the State of Ohio, the State of Michigan and the State of Washington have resisted very strong efforts to pass a resolution calling for a constitutional convention to require a balanced budget. We will continue to resist those efforts in our states.

The National Conference of State Legislatures, who we are here to represent, has not taken the position and support of the constitutional convention mandating a balanced budget.

We do applaud the Congress and the administration's efforts to reach a balanced budget by 1981.

I think Representative Cushingberry would like to make a few remarks and then Representative Sweeney.

Representative CUSHINGBERRY. Thank you, Mr. Speaker.

Mr. Chairman, I would like to keep my remarks brief. I would like to bring to you some of the uncommon information as it might relate to the city of Detroit which I represent in the Michigan Legislature, as it relates to the need for this type of a fiscal assistance program.

The mayor has projected $100 million deficit for the city of Detroit going into the next year's fiscal year budget, based upon some things that he has tried very hard to fight against. One of those things obviously was an arbitration award by a panel of arbitrators for police and firemen in Detroit which is going to cost us over the next couple of years over $40 million.

Second, he had also budgeted part of these funds for countercyclical funding in his budget which was soft money which was desperately needed in the city of Detroit, at a time when we are really trying to turn the corner. We have more construction in downtown Detroit now than since 1932.

We think our city is becoming a showpiece for the N tion as it relates to getting a handle on the very crucial urban problems.

There is a direct need for this type of a program. We find in the State of Michigan, the legislature has gone out of its way to increase funding for the city of Detroit. Last year there was $28 million that we put into equity payments for regional services. This year we tried to sweeten that by about $15 million.

We have also played with the revenue sharing formula at the State level which takes into account a municipal overburden formula for the cities who have historically been overburdened with extra taxes, et cetera.

The Economic Growth Corporation, which was started by the mayor a few years ago, which is consistent with all the business interests within the city and a lot of the people in the commercial and industrial development areas, have a study recently that said part of our problem in Detroit for retaining businesses and for retaining individual homeowners was the fact that we were so overburdened with local taxes.

We do not find additional revenue from the Federal level as it relates particularly to the countercyclical program and we think it is a good one. The mayor would like to see it some more but as a starting point we think this is a good place and it is a good idea to try to target fiscal assistance on a Federal level, and it is extremely necessary for you to adopt this legislation.

The program would provide over $8 million in the Detroit area, particularly for the city itself. The problem also relates to Wayne

County which is the county seat for the city of Detroit, which is the third largest county in this country which is also facing severe difficulties of which the State is having to grapple with.

I think we have strapped the local units of government at this point as far as we can with increased taxation. I think the mayor has made every effort that is humanly possible to provide sound fiscal management.

We are at the point where at this period of history we are trying to make that turn to revitalize our great city and it is extremely necessary for us to have the cushion there as it relates to the anti-recession fiscal assistance program.

I think that will conclude my comments as it relates to what our concerns are and to bring you some of that information from Detroit.

Representative BAGNARIOL. Representative Sweeney.

Representative SWEENEY. Mr. Chairman, the antirecession program and the countercyclical aspects of it impacts on States and local governments and has been started by the Congress in its reaction to anti-inflation fighting in the past.

When the Congress put reduced taxes in, we were faced at the local level and the State level to raise taxes and cut services. It seemed to the Congress at that time to be prudent to have a standby program to move in directions where these things could not be and would not be counterproductive to the national economic efforts to control recession.

I feel, unlike Secretary Blumenthal and others on your committee, Senator Bradley, that the States play an important role in the Federal program and in fighting inflation and fighting unemployment and in balancing off the kinds of economic conditions that exist.

We are not a closed economy in any State in this country, as is the United States in itself but we do have a strong role to play.

When the National Conference of State Legislatures testified before this committee in the past, we did not anticipate a downturn in the economy. Economists all across this country and here in words today from this committee indicate a recession of some nature is inevitable and the only question remains is how long it will last and how deep it will run.

I feel with those kind of facts in mind that we ought to be aware of the counterproductive activities in the absence of a countercyclical factor in any recession effort.

We in Ohio are one of those States that appear to have the kind of surpluses which were spoken to. As Mr. Nathan indicated, the $29 billion surplus, is in fact, a fraudulent measurement because of the factors by which it is based upon.

Most of the money has come out of pension systems that are enhanced recently by some direct appropriations and forced to be actuarily sound.

The Joint Economic Committee of the Congress of the United States, in a publication of January 12, 1979, reported the review of State and local budget surpluses. I think if you go through it, you will see the indication that those surpluses are not, in fact, demonstrations of great health and great wealth as Secretary Blumenthal indicated this morning.

We in Ohio as 26 other States do, budget on a 2 year basis, a biannual budget. It is very difficult in our forecasting mechanism to tell what the sales tax income in the State of Ohio will be in April of 1981. We do that ~~and we must~~ in fact live by the constitutional mandates of balanced budgets and an employ of their time in revenue estimating a prudent man rule that will give us a cushion. Our cushion economist tell us it should be 6 percent, political realities probably prevent that and we are down around 3½ percent of our income. It is held in reserve through several models by which we do that.

At the same time we have established an ongoing revenue sharing program with local government and the school districts to account for municipal overburdens, to account for high unemployment, to account for distressed cities.

We created a depressed cities fund with our countercyclical money. We have gone into a tax incentive program that cuts local property taxes and balances off through our home State exemption and direct cuts across the board.

We have appropriated $10 million to the industrial development fund that kind of answers the situation we have across the country, where we have the small war between the States going on for maintaining and gaining new kinds of manufacturing jobs across this country.

I know many of you are aware of the fight that went on between Pennsylvania and Ohio to get the Volkswagen plant and it was who could spend the fastest dollars. Pennsylvania did and in retrospect, we are glad they spent all that money. I do not think we could have afforded the gifts that went out.

This kind of competition is intended rather clearly to maintain stability in the economy, to maintain jobs in our cities and our rural areas. We have in Ohio counties that have 24 percent unemployment at the times of peaks of recession. Those are rural counties that we are trying to direct services for and trying to maintain the economic base.

I feel States are a genuine partnership in the fight for control of inflation and fight at recession. I feel genuinely strong that this Congress should keep in mind that issue at hand and give to the States an opportunity to play that role that is constitutionally dictated to them.

As the Speaker indicated, Ohio and Washington and Michigan are not one of those States that have enjoyed the overreaction to the Proposition 13 element. In defense of that attitude, let me suggest that the State of Ohio has reached in 1971 and again in 1975, by statute, the achievements that Proposition 13 attempted to achieve by ballot referendum.

The ground swelled. It happened in California. It was almost humorous and it was matched rather strongly by the overreaction and political paranoia that encompassed every State and local government in trying to do a modest reserve of spending and taxation.

I think the efforts on a constitutional amendment, our overreactions to referendums that are occurring with respect to States, I do not feel the Congress should overreact to those 28 States and maybe more that might indicate a desire to answer or demand on the street.

Myself and others within the National Conference of State Legislatures are beginning to make an effort to start something and maybe too late, to start a program involving some States to begin a fight against the constitutional amendment to bring that issue to a head. I feel that some States that have already enacted those kind of measurements are probably having severe and second thoughts about it.

I would hope we would be successful.

Mr. Chairman and others, the Speaker will conclude our remarks. In closing, I just want to clearly indicate that there are many States out there that do in fact play a role, a substantial kind of role of direction and assistance fiscally and we feel we belong in and should be part of any antirecession program that this Congress enacts.

Speaker BAGNARIOL. Mr. Chairman, perhaps just a little bit about the States' role in the standby program, we feel very strongly that we need to be involved in the standby program.

About 35 percent of local revenues nationwide come from State grant need programs to their units of local government and that varies from State to State.

I think New York State, for example, over one-half of their general budget goes to the aid of their local communities.

We feel it is very vital. States' economies do fluctuate. I come from a very small State, the State of Washington. We have a fluctuating economy. Right now we are doing very well. Our aircraft industry is booming but we rely very heavily on timber and fishing and those are seasonal type industries.

Our average unemployment rate over the last 6 or 7 years, back to about 1973, has been about 7 percent. When we went through the serious recession of 1968 and 1969, when the aircraft industry was just a total disaster, unemployment rate rose to 18 percent almost overnight, when Boeing Airplane Co. had their severe cutbacks.

We need to be in a position to respond to those kind of things and of course we need your help in responding to those things.

Our good Senator Magnuson, through him we received a lot of help back in those days.

We urge you as a committee to act favorably on the concepts and NCSL has not taken a firm position on either bill. We assume some compromise will be struck between the two bills and we are glad you have begun these hearings so early and have given us the consideration of meeting with you today.

If you have questions, we will be happy to answer them.

Senator BRADLEY. I would like to thank you, gentlemen, for your appearance here today.

I would like to ask Mr. Sweeney a question. In Ohio, you mentioned you have a depressed city fund. What is the formula?

Representative SWEENEY. It is a direct grant application. We set aside $3 million in the last budget period and we will set aside additional money. We use the Department of Economic and Community Development who takes grants or applications and reviews them. We use employment factors, jobs loss, decline of population and flight of industrial base. We use those as factors by which we distribute funds on a grant mechanism.

We most likely will develop that into an ongoing supplement to our revenue sharing program as it stands currently.

Senator BRADLEY. What is the consensus of the group about unemployment as the triggering mechanism for countercyclical or more generally, for general revenue sharing?

Representative SWEENEY. I think the countercyclical has to be triggered and whether it is used at 6 percent or 6.5 percent, whatever the trigger mechanism is, I feel it is essential and that it ought to be.

In general revenue sharing, I am a strong opponent to changing the distribution or any triggering mechanism. I think revenue sharing is revenue sharing.

We received in 1973 our first revenue-sharing dollars from the Federal Government, having been fought in this Congress from the days of Thomas Jefferson on down.

When the revenue-sharing money came in, along with it came the burdens to supplement the Federal money that went into libraries and the neighborhood youth corps programs. This year we understand capitation grants of medical schools are going to be cut.

We have, in our judgment, a shift of dollars from categorical money into general revenue money to accommodate that need, to give the distribution responsibility at the State level and that is how we incorporated our funds.

Speaker BAGNARIOL. I would agree with the statements of Representative Sweeney that in the countercyclical area, unemployment perhaps is a good measure of one that kicks in. We do not have a firm position on what the percentage would be.

NCSL has been meeting with Mr. McIntyre and others at the Federal level. We are trying to encourage as you go through your budget process, that consolidation of grants perhaps may happen this year. We recognize State and local governments are going to receive less money as you move toward a balance budget and we would like to receive that money in a manner that gives us a little more flexibility in the area of medicaid and some of those kind of things where we could perhaps maximize the use of Federal dollars that we cannot in some cases where we have to operate under strict regulations.

Representative CUSHINGBERRY. What we have done with the Federal revenue-sharing money has to do with creating a formula that is based upon the local units' base tax burden itself, how much money they are putting forth as well as what types of distress it might face vis-a-vis the loss of population, et cetera, and redistributing revenue sharing money that comes into the State of Michigan.

In our urban grants program, in a situation where we deal with paying equity payments to units of government, particularly in Detroit, we take those services that are regional in nature that handle more than just the scope of the residents of the city, vis-a-vis the art institute, the various museums and those kind of things that quite frankly are utilized by people who do not live within the city of Detroit yet have been paid for and built historically by those same residents.

Obviously I have a slightly different opinion as it relates to general revenue sharing but it would depend upon what kind of dollars we were talking about in the total pot.

I think that would be the most consistent argument and the one that would be important to us as it relates to sending back money to the local units of government.

Senator BRADLEY. Thank you very much.

Senator Durenberger?

Senator DURENBERGER. I guess there is one thing I would like to do and that is encourage each of you and the organization you represent to speak, if you feel, more strongly to the State's role in this and other programs.

My sense as I look at the proposal that is before us now is the States are being cut out along with cutting down the dollars and the States are being cut out other than the standby program.

I look at the CETA program and some other things that are employment related and I really do not see much of a role for State governments. All of the money is being aimed at targeted municipalities or aimed primarily at local governments. Without making a long speech about my feelings on the subject, it seems to me it is encumbent upon each of you to make the case if there is one to be made for more bang for the buck, if you will, in State approaches to resolving some of these problems.

I feel strongly about eliminating categorical grants and moving toward bloc grants. It seems to me that to the extent we do that, we have to find a greater role for the State governments in solving some of these problems.

Maybe you are satisfied that with all of these assistance programs going to the cities outside of any kind of a coorlinated State plan. I would like to hear your views.

Representative SWEENEY. Senator, I am from Cleveland right now. Going through all kinds of political gymnastics and fiscal juggling there; much of it has come right out of this attitude in Washington that has prevailed for a great number of years, that there are no responsibilities at the State capitol level, that we are going to establish corridors of communications and fiscal responsibility from mayors' officers to the White House and back, ignoring the kinds of roles States may choose to play or have played.

If you look at the city of Cleveland, we have been destroyed by the benevolent highway program brought in by the Federal Government. Urban renewal has shifted liquor permits from one neighborhood over to a new vibrant economic nice neighborhood and tore that one apart. You come in with a program of model cities and wars on poverty that have killed my city. You have absolutely destroyed our potential to grow. You have absolutely destroyed any hope or any line authority for States to play a role.

If you look at downtown Cleveland and look at downtown anywhere of cities across this country, you will find State involvement. You will find that we in the State of Ohio took a dismantled neighborhood that was very similar to Berlin after the bombing and that was a result of your great urban renewal program, and we built 2 major universities, housing some 40,000 students in downtown Cleveland.

That has been the economic catalyst for renaissance in our community. It has not happened from any Federal program. We have purchased antiquated city parks that run around our lake front. This puts us in a Catch-22 situation that has disturbed me personally because it was my Senator responsible for the bill, who sponsored it for the Department of Interior.

Cleveland had four lake front parks that were designated. They could not keep them up and they could not afford to operate them. The

State of Ohio came in at the urging of the legislature, the Department did not want to get into any kind of urban park kind of program because they essentially said they did not know anything about it, we in the legislature forced assumption by purchase and lease agreement of those four State parks.

You came in with an urban park program here, urban restoration of parks, that say cities and counties and park districts can participate in but States cannot. It is absolutely ridiculous.

I went over to the Department of Interior and they told us we should sell the parks back to the city in order to qualify.

If it is that kind of attitude that is today prevailing and has prevailed for so many years, that States are just the bad guys, we have 8,000 legislatures out there, all of which want to sit in the U.S. Congress in the House and Senate. Many of the Members in the House and Senate have come out of legislatures and I do not know what happens on that train from the home town in Iowa until you get here on the Hill.

You should understand that there are bridges across the Potomac. I can give you a litany of the kind of things about how you impact, going to special education, we can go into an attitude on establishments apart from education.

There is a bill coming through this Senate that has 70 solid votes for it. When you talk about States' role, suddenly everyone says, what do you want to do, interfere with a noble element.

You pay 8 percent of the education freight and you want to give 99 percent of the regulations in directions.

I want to tell you, gentlemen, those are the kinds of reasons States are passing constitutional convention issues. There has to be a role for us to play. There has to be an atmosphere, an attempt on this Hill that we do in fact have a responsibility, have a role and have done some good things.

Of all the programs you have sent to my city, you can take them all back, take the money back and give us an opportunity to build parks, universities, and housing, et cetera in our cities and we will do a lot better than we will waiting for the Congress to straighten out its pipeline and all its regulations.

You have made my city CETA junkies. You have done all kind of wonderful things for me and now you want to side step our stage and that makes me angry.

Senator DURENBERGER. I was not here when all those good things were done. I was running for Governor.

Speaker BAGNARIOL. Local governments are created by the States and the States are responsible for local governments. We have a responsibility and we feel we need to be active participants in helping to solve local governments' financial problems.

We are doing some things in our State like giving a little more home rule to States and trying to free up their hands a little as we have asked the Congress to free up our hands.

I think in this program we would like to be involved and we would like to be involved in both of these programs. We also recognize local governments need the assistance immediately.

From a State's standpoint, the standby program could in the next year or two be very vital to that. At this particular point and in my

State, for example, assuming the legislation were to pass, I believe it impacts our State and the various communities throughout the State by about $2.5 million.

Two years ago or prior to the countercyclical program, I believe local government in our State received about $20 million. Two million is a relatively small piece of that back. I think at the State level we had about $12 million during the last planning.

Representative CUSHINGBERRY. Mr. Chairman, if I may, one of the things that would be good if you are going to look at this whole question of State role and how it interfaces with city role, is to provide incentives for the States to do the right things by the local units of government.

In Michigan some time ago, we used to have a hard time getting legislation through with anything with Detroit on it. Subsequent to that time, we have had a lot more understanding develop with the Governor, the mayor, and the legislators themselves getting out from various parts of the State to see really what is happening.

The suggestion here is as you propose solutions to the very crucial problems, if you really want to involve the States, it is always good to have some type of an incentive that would want to make the State to do the correct thing. You will find those States would participate better with you as you make these fundamental decisions.

I am not one who will argue particularly on the benefit of this program that we should not see this go directly to cities because I know what kind of shape most of the urban area cities are in and the fact that the money is just so necessary if we are really going to turn that corner and see a renaissance in our cities throughout this country.

We cannot do without it, we cannot take the time to debate the subject in its full length until we hit that corner and start to do things correctly as it relates to the local units of government.

Senator BRADLEY. Thank you very much. I apologize for delaying you as long as we did.

[The prepared statement of the preceding panel follows:]

STATEMENT OF SPEAKER JOHN BAGNARIOL, WASHINGTON, REPRESENTATIVE GEORGE CUSHINGBERRY, JR., MICHIGAN, REPRESENTATIVE PATRICK SWEENEY, OHIO, ON BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES

Mr. Chairman and distinguished members of the subcommittee: My name is John Bagnariol and I am Democratic Speaker of the Washington State Assembly. I will be representing the National Conference of State Legislatures[1] with my colleagues Ohio Representative Patrick Sweeney of Cleveland, Ohio and Michigan Representative George Cushingberry of Detroit, Michigan.

On behalf of NCSL we are pleased to have the opportunity to appear before you as you consider legislation which would provide targeted fiscal assistance and stand-by countercyclical assistance.

THE NEED FOR A FISCAL ASSISTANCE PROGRAM

The legislative proposals before your Committee recognize the financial distress faced by a few key cities today, as well as the high unemployment and inadequate

[1] The National Conference of State Legislatures, the official representative of the country's 7,500 State legislators and their staffs, work to help lawmakers meet the challenges of the complex Federal system. Headquartered in Denver, Colo., with an Office of State-Federal Relations in Washington, D.C., the NCSL is a non-partisan organization funded by the States and governed by a 43-member executive committee.

The NCSL has three basic objectives: To improve the quality and effectiveness of State legislatures: to assure States a strong, cohesive voice in the Federal decision-making process; to foster interstate communication and cooperation.

revenues which will plague states and localities across this country if we should enter another recessionary period. We have all learned a lesson from the recession in 1974–1975, that the impact of a recession is immediate and severe for distressed state and local governments.

As state legislators we learned a long time ago that government programs, federal, state or local infrequently go out of business or cease distributing funds. The countercyclical revenue sharing program and the bills before you are unique in that regard. We feel that the program in its present form distributes funds to those most in need and only when they require assistance. We feel the targeting of funds to those jurisdictions with continued high unemployment is appropriate and necessary. The disbursal of funds to a limited number of governments makes the intention of this legislation abundantly clear.

Many sources dealing with the fiscal condition of cities have cited that larger cities suffer worse from downturns in the economy and recover more slowly. A recent study published by the Rand Corporation states this plainly "Employment has grown more slowly in central areas than in suburbs or nonmetropolitan areas * * * Central city growth rates are more similar to those of their suburban areas during recessions than during periods of rapid growth." The study also cites the impacts of inflation which fall disproportionately on these same areas and the burdens added to their list of fiscal problems by increased welfare and related payments during such downturns.

The bills before your Committee correctly propose permanent standby fiscal assistance. If we should enter a recessionary period we need a permanent program which will automatically "turn-on" at the appropriate time. The economy, states, and localities cannot wait eighteen months for financial assistance while the recession worsens. We need a permanent standby program that will turn on when the national unemployment rate reaches a certain level for the distribution of funds to states and localities in need. The beauty of this arrangement is that the program is always ready to activate when economic conditions warrant but that it will not Distribute scarce federal resources when they are not needed.

While there is debate about the precisé level of unemployment that should be used to trigger the national program, we feel that when there is a need for this program, it should be ready to assist states and localities which are suffering economic decline. If this program would have been implemented prior to the recent recession, many states and local governments could have stabilized their fiscal policies before they experienced severe revenue shortfalls. My point, Mr. Chairman, is that before we enter another recession we should examine recent history. This program should be in operation before the fact rather than after a fiscal crisis has peaked so that we may be able to ward off severe fiscal crises for our state and local governments.

THE ANTI-RECESSION FISCAL ASSISTANCE PROGRAM

We are all aware of the expiration of the countercyclical revenue sharing program on September 30, 1978. Significant features of the pending legislative drafts are based on this former program.

The record has indicated that countercyclical funds reached those areas which need the assistance. The bulk of the funds reached those areas with the highest unemployment rates. According to a recent Senate Report[2] 75 percent of all local government allocations for a selected period went to jurisdictions with unemployment in excess of 8 percent. Governments with unemployment of 5.5 percent or less, received only 1 percent of the funds. Similarly, 62 percent of the allocations made to state governments for the same period went to states with unemployment in excess of 8 percent, with only 1.4 percent of the funds going to state governments with an unemployment rate of 5.5 percent or less.

A U.S. Government Accounting Office study "Impact of Antirecession on 15 State Governments" indicates that some of the states used countercyclical funds to fill gaps between actual revenue collections and budgeted revenue projections. Half of those states surveyed either used the funds to decrease revenue demands or to finance additional activities such as the creation of various types of public service jobs. Eleven of the 15 states used anti-recession assistance funds to support personnel costs, such as preventing layoffs, funding new positions or rehiring previously laid off employees. The same survey of 15 states indicates that states

[2] "The Countercyclical Assistance Program," Subcommittee on Intergovernmental Relations, Committee on Government Affairs, U.S. Senate, February 28, 1977.

are using the funds to meet budgetary needs in education, public welfare, health, criminal justice and natural resources.

In time of severe unemployment cities look to the states for assistance in bearing the additional burdens of municipal expenditures such as welfare costs that are associated with increases in the rate of unemployment. Localities have become increasingly dependent on grant aid from state governments, according to a January 12, 1979 report of Congresses Joint Economic Committee[3] which indicates that states provide on the average 35 percent of local revenue.

Local communities which might suffer in an economic downturn, but because of minimum payments levels proposed in the legislation may be ineligible for federal assistance. States are in the best position to recognize unmet local needs and provide the necessary local assistance from their share of the counter-cyclical funds.

Last year Ohio created a *Depressed Cities Fund* which provides $2.5 million for local units of government. Local governments which are suffering from declining tax bases and high unemployment can apply to this fund for additional state assistance. The State has already provided one million dollars to help these local governments provide police, fire and health services.

The General Assembly of Ohio also appropriated $10,000,000 to the Industrial Development Fund. The purpose of this fund is to "create or preserve jobs and employment opportunities and to improve the economic welfare of the people of the state".

ECONOMIC FORECASTS

Mr. Chairman, we have already attested to the need for a standby counter-cyclical fiscal assistance program if in the future our economy should enter a recession. Although a recession did not seem likely one year ago when we testified before the Senate Finance Committee we nevertheless indicated that our major thrust was toward the establishment of a permanent standby program. We have indeed been very fortunate that since the Antirecession Fiscal Assistance program expired our national economy has not entered a significant downturn. We hope the economic projections made by the President for a small amount of real growth during 1979 are correct. As members of the legislative branch we have all learned to recognize optimistic executive branch proposals which rest on thin ice.

Recently, the general concensus amongst prominent economists, such as Alan Greenspan, Walter Heller and Otto Eckstein, has changed so they now predict that we will have a recession sometime during 1979. Economist Milton Friedman, of the University of Chicago said that a recession is "inevitable," and the only question is how severe it will be and whether it will lead the government to do things that will increase inflation.

The question no longer seems to be whether or not there will be a recession but when and how dramatic a downturn it will be. J. A. Livingston, the economic columnist surveyed a group of economists, three-quarters of which predicted a recession occurring sometime later this year, and all but a few expect the downturn to be shallow and short lived.

The severity of the recession is still a question of the future, however, there are signals that the economy may take a steeper downturn than originally forecast.

If our unemployment increases from the 1978 average of 6.0 percent to a 1979 level of 7 percent one million additional individuals will be without jobs.

Within the past few weeks many prominent economists have made their recessionary predictions before Congress. We are not testifying today as economists, but rather as observers of the economic experts and as decision-makers at the state level of government. We can assure you that in our state legislatures where we are adopting our next budgets, these economic predictions are being closely followed.

We hope that predictions for a recession are incorrect, but if they are not we urge Congress to act expeditiously on this legislation.

FISCAL CONDITION OF STATES

Recent Congressional debate on revenue sharing and grant-in-aid assistance has focused on a purported $29 billion aggregate surplus of states and localities

[3] "State and Local Budget Surpluses and the Effect of Federal Macroeconomic Policies." Subcommittee on Fiscal and Intergovernmental Policy, Joint Economic Committee, Jan. 12, 1979.

at the end of 1976. The January 12, 1979 report of the Joint Economic Committee of Congress[4] states "Of course, here, as elsewhere, things may not always be what they seem . . . the aggregate surplus is a combination of both state and local retirement pension funds and operating funds. The Joint Economic Committee further states "It (aggregate surplus) does not measure the status of the more relevant operating budgets of states and localities." These 1977 figures are now out-of-date but of this so-called $29 billion aggregate surplus only $13.7 billion was held by in operating funds by states and localities. The *Economic Report of the President*[5] transmitted to the Congress on January 25, 1979 states:

"As a result of the increased growth in purchases and the pressures for tax reduction, the aggregate budget surplus in the State and local sector declined sharply in 1978. The surplus on current and capital accounts (but excluding social insurance trust accounts) fell from a peak of $12.8 billion (annual rate) in the third quarter of 1977 to $1.8 billion a year later."

The most up-to-date information on this subject has been collected by the National Governors' Association and the National Association of State Budget Officers.[6] This recent survey indicates that states are projecting a balance of $4.3 billion at the end of fiscal year 1979 a figure which represents only 3.6 percent of the general fund expenditures. As a percentage of general fund expenditures state balances are expected to decline from 8.6 percent in fiscal 1978 to 3.6 percent in fiscal year 1979. Previous fiscal surveys suggest that state governments attempt to maintain unobligated balances at about 5 to 7 percent, a target that many bond raters regard as reasonable and prudent. If 1979 projections of 3.6 percent materialize, state balances will be at their lowest level in recent years. The major points with regard to state fiscal condition are:

State and local governments do not hold a $29 billion reserve, but less than half that amount.

The bulk of the so-called surplus is held in pension accounts. In fact, those who have looked at public pension funds say they should be larger.

The actual aggregate state government operating surplus is around $4.3 billion, and represents sound budgeting practices.

The bulk of the projected operating surpluses are found in just a few states therefore tending to mask the individual fiscal position of many units of government.

State revenues are subject to severe recessionary fluctuations because of their income and sales tax base, and as you know, they cannot deficit finance.

In conclusion, it should be apparent that there are only marginal state operating surpluses in the country therefore most states do not have ready reserves to assist local governments in the event of a recession.

THE STATE ROLE IN THE STANDBY PROGRAM

Unemployment and fiscal strain are problems in both states and localities. Fortunately, the fiscal condition in most states have improved. Yet, there are still some states which are suffering economic decline. There is in our opinion a clear and demonstrated need for countercyclical assistance to be available to both *state* and local governments which are substantially affected by economic downturns.

Many state recipients have used the countercyclical funds to assist localities within their jurisdictions. Over one-half of the New York State operating budget is distributed as local assistance. Countercyclical funds are a part of this program as well as a part of the New York State aid to New York City. Some states pass all of their countercyclical aid through to local governments. We must realize that state governments have created and are responsible for local governments. States need to be active participants in solving the fiscal strains faced by their localities. We should design this federal program to include state governments so that the economic problems of localities can be adequately addressed.

CONCLUSION

Mr. Chairman and members of the Committee, we appreciate the many difficult decisions that you are wrestling with in this fiscal assistance legislation.

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[4] Ibid., p. 1.
[5] "Economic Report of the President" Transmitted to the Congress January 1979.
[6] "Fiscal Survey of the States 1978–1979", National Governors' Association Center for Policy Research, National Association of State Budget Officers, January 1979.

We, too, urge you to analyze and implement this fiscal assistance program in a manner that will sustain the economic recovery and guard against future fiscal crisis in state and local governments. To develop such a policy, we would conclude by offering the following recommendations:

(1) We recommend prompt legislative enactment of this fiscal assistance legislation. Although we feel that some States should be included in both parts of the legislative proposals it is important to recognize that local governments need this assistance immediately, or they will have to cut back services, lay-off employees or raise taxes.

(2) The risk of recession looks greater than it did a short while ago and if it occurs it will cause severe problems for our most distressed cities and states.

Mr. Chairman, we realize the reauthorization decision on this program must be made quickly. NCSL stands ready to assist this Committee in fashioning the type of assistance program that will fairly and effectively retain the best features of the various proposals.

Thank you for this opportunity to speak to you, and we will be happy to answer any questions you might have.

ATTACHMENT I.—IMPACTS OF FISCAL ASSISTANCE ALLOCATIONS ON SELECTED LARGE CITIES

	Targeted fiscal assistance, fiscal year 1979 (TFA)	TFA as percent of general revenues from own sources [1]	TFA as property tax equivalent (cents per thousand) [2]	Number of full-time employees that can be sustained with TFA funds [3]
High strain cities:				
Boston	$2,953,239	0.6	0.16	183
Buffalo	1,472,691	1.1	1.23	111
Chicago	12,151,224	1.5	.35	880
Cleveland	1,349,142	.8	.12	95
Detroit	7,767,033	1.7	1.54	438
New Orleans	2,015,646	1.3	1.38	248
New York	42,811,131	.5	.81	2,646
Newark	2,702,498	1.8	.12	241
Philadelphia	8,729,364	1.0	.92	617
St. Louis	2,095,088	1.0	.36	188
Middle strain cities:				
Atlanta	695,641	.4	.06	66
Baltimore	3,960,127	1.0	1.12	331
Cincinnati	1,148,847	.4	.19	86
El Paso	1,125,263	1.9	1.36	110
Honolulu	1,315,883	.7	.15	99
Los Angeles	5,972,648	.7	.53	336
Miami	1,038,722	1.4	.05	68
Milwaukee	1,018,003	.8	.20	68
Oakland	1,044,448	.9	.77	58
Pittsburgh	1,064,306	1.2	.18	99
San Antonio	750,535	.7	.46	60
San Francisco	2,651,147	.5	.79	174
Washington, D.C	3,976,635	.4	.46	243

[1] Fiscal year 1979 TFA allocations as percent of 1976 general revenues from own sources figures.
[2] Property tax based on total 1976 gross assessed value.
[3] Full-time employees based on fiscal year 1977 data.

Senator BRADLEY. The subcommittee will stand in recess until 2 p.m. tomorrow. We will resume in room 2221.

[Whereupon, at 1:22 p.m. the subcommittee recessed to reconvene the following day, Tuesday, March 13, 1979, at 2 p.m.]

TARGETED FISCAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS

TUESDAY, MARCH 13, 1979

U.S. SENATE,
COMMITTEE ON FINANCE,
SUBCOMMITTEE ON REVENUE SHARING,
INTERGOVERNMENTAL REVENUE IMPACT,
AND ECONOMIC PROBLEMS,
Washington, D.C.

The subcommittee met at 2 p.m., pursuant to recess, in room 2221, Dirksen Senate Office Building, Senator Bill Bradley (chairman of the subcommittee) presiding.

Present: Senators Long, Moynihan, Bradley, and Durenberger.

Senator BRADLEY. The subcommittee will come to order. This is the second day of hearings of the Subcommittee of the Senate Finance Committee on Revenue Sharing, Intergovernmental Impact, and Economic Problems. Yesterday we began our hearings and today we are fortunate to have an outstanding list of witnesses that will add to our perspectives on State and local fiscal needs.

Before we begin, I would like to ask the chairman of the Finance Committee who I am very pleased has joined us today if he would like to say anything.

Chairman LONG. Let me just say that I am very happy to see that you have such outstanding witnesses here. You start out with two Kenneths, Mayor Kenneth Gibson of Newark and Mayor Kenneth Bowen of Lafayette, La., and you also have Dianne Feinstein, mayor of San Francisco. I am very proud that Louisiana is on that combine. Mayor Kenneth Bowen has been a very outstanding and progressive mayor of one of our large cities, Mr. Chairman, and we are extremely proud to have him as part of this delegation that you will be hearing as part of the first panel.

I am also happy to welcome your associate, Mayor Kenneth Gibson, back once again. He is no stranger to us and we are very proud to have both of them as well as the Honorable Dianne Feinstein, and we hope that she will be here before the hearing is over.

I am pleased to see this New Jersey/Louisiana combine working, Mr. Chairman. I think it might be a forerunner of things to come. If we can work it out so both of those States benefit, I think we ought to be able to put together a good bill.

Senator BRADLEY. Mr. Chairman, I know if we have anything to do with it, both of those States will benefit.

All right. Let's have Mayor Gibson. Why don't we do this as a panel. Mayor Bowen. And then when Mayor Feinstein comes she can join the panel.

STATEMENT OF HON. KENNETH A. GIBSON, MAYOR, NEWARK, N.J.

Mr. GIBSON. Thank you very much, Mr. Chairman. I want to express my personal appreciation for being invited to join with you and to express some views. We, of course, at the local level have been affected in an adverse manner by the end of the anti-recession bill and appropriations.

We really appreciate the opportunity to express some concerns and give you a report on what that has meant in our city. The anti-recession program which died in Congress this past fall had a devastating effect on Newark. We had been receiving almost $11 million each year under the program.

We used that money for the provision of basic city services. When the program was not renewed, we in Newark were forced to lay off 441 city employees, 200 of those 441 were police officers, regular police officers. In addition, we eliminated certain other basic services, such as recreation programs, drug treatment programs, manual street sweeping programs and we had to revise our police response system so that we no longer responded to what we considered nonemergency, nonessential, police calls—not calls that should not be answered, I might add—but calls that are not of the essential or emergency nature.

We believe with this kind of devastating effect that we have had a major loss. The $11 million represented about ten percent of Newark's operating budget. In addition to laying off the 441 city employees, we could not fill because of this loss an additional 120 vacancies which should have been filled frankly, but vacancies which accrued because people retired or left the municipal service during the year. We laid off 441 people and did not fill an additional 120 positions, so our net loss in numbers of city employees was 561. That a significant loss in a city like Newark.

As you all know, the program was designed to combat the effects of recession, particularly the high unemployment rates which were associated with that recession. Now even though we have had some improvements in certain areas of the country in this so-called, "recession," the recession is not over in Newark, and it certainly is not over in New Jersey.

The unemployment rates remain high throughout all of New Jersey, and in Newark, the unemployment rate is 14 percent.

Therefore, we cannot assume that there has been any improvement in the unemployment picture or the recession that is in our city.

Now as mayor, I have had a very difficult time explaining to people in our city why the loss in funds, but more importantly, why the lay off of city employees. That is a very difficult thing to do in a city that has very serious problems. To lay off 441 people, 200 policemen, in a city like Newark is a very difficult thing to do. But if you don't have the money, you can't pay them.

These are very serious problems when we talk about the provision of basic services. We have not eliminated police services, but we have reduced the number of people who respond to calls and reduced the number of people who provide that basic service. We have had an adverse reaction from the people who do business in the city of Newark, who fear because the number of uniform patrolmen is not the same, that the crime rate will accelerate. That is not necessarily true, of course, but the mere loss of the uniform patrolmen, the absence of that person, who gives a great deal of stability just by his presence, is a very serious problem in our city, not only in downtown Newark, but all over the city.

The loss of antirecession aid, we feel, threatens to undermine years of progress that we have made in redeveloping the city of Newark. We have been able to stimulate the response of the private sector, the people who finance redevelopment in our city, just by virtue of the fact that we have made significant improvements, the crime rate being reduced in 2 or 3 successive years. We have been able to improve the basic delivery of services in the cleanup of the city. We have been able to stimulate rehabilitation using Federal dollars in other areas, Department of Housing and Urban Development moneys.

Therefore, we had a kind of general rebirth beginning in the city of Newark. However, the loss of critically needed city employees is beginning to reverse that trend and that has a serious potential for long term adversity in a city like Newark.

We believe that the need factor should be seriously considered in all of the discussions relative to the reinstitution of the anti-recession bill. We recognize that there are cities and maybe certain regions that may not need these funds, but Newark is not one of those and in my opinion those cities are not in New Jersey.

We believe in accountability. The mayors that I have talked to and the mayors that have always been a part of the U.S. Conference of Mayors and the National League of Cities have never argued against accountability for these funds. I think the record would show that anti-recession dollars have been properly accounted for and, I think, have been used well.

Sixty percent of Newark's land area and our city, of course, is only 24 square miles, but 60 percent of Newark, N.J., land area is tax-exempt and our basic source of revenue outside of the Federal grants—aid and State assistance is the property tax.

We are a 60-percent tax-exempt city primarily because we are a regional service center. Every Federal office building of any consequence locates in Newark, and should locate in Newark because that is where people can come for the Federal service—Federal office buildings, Veterans' Administration buildings, post office facilities—all of these facilities are in Newark. They don't pay property taxes. And we don't think that they should be any place else but in Newark because that is where the people are and that is where the services should be provided.

We have all of the State office buildings, all of the county office buildings, all of the educational institutions located in the city of Newark. All of the cultural activities, all of the libraries, museums, the symphony orchestra, and all of those things that people really should be enjoying are in Newark. They are tax-exempt facilities.

So when we talk about a city that has to provide basic services, we are not just talking about providing basic services to those people who sleep in the city of Newark at night, who own the property in the city of Newark, but we are also talking about providing basic services to the entire region.

The loss of the anti-recession moneys has seriously affected our ability to provide the basic services to those people who live in Newark and to those people who visit and those people who do business in the city of Newark and to these people that travel because of our lessened ability to help the import/export facilities, and Newark Airport and Port Newark, all of which are within the city boundaries.

So we are talking about not a question of give us something we don't need. It is a question of providing to a city like Newark and other cities in this country the ability to provide basic services to all of the people who use that particular geographic area.

I don't think it is important for me to read all of this statement, Mr. Chairman. I would appreciate it if you would accept it for the record in its totality, and if there are any questions later, we would be glad to respond to them, and I would like to end my statement at this point by saying again that we appreciate the opportunity to be here.

We in New Jersey are very proud of you, Mr. Chairman. It is very good to come to Washington to see you here. To see you in New Jersey is great, but to see you here representing the State of New Jersey is much greater. Thank you very much.

Senator BRADLEY. Thank you very much for your statement. I can personally attest to what you have said because of my time in the city of Newark and familiarity with the area. Without objection, your full statement will be inserted in the record.

We will hold our questions until all the members of the panel have finished their opening statements, but I would personally like to thank you for taking the time to be here.

Mayor Bowen?

STATEMENT OF HON. KENNETH BOWEN, MAYOR OF LAFAYETTE, LA.

Mr. BOWEN. Mr. Chairman, Senator Bradley, and our own Senator from Louisiana, the senior Senator, Senator Russell Long of whom we have many reasons to be proud and thankful in this country for the service he has rendered over the years, not only to Louisiana but to our country.

I come to you today as the mayor from the city of Lafayette, La., and I am testifying on behalf of the U.S. Conference of Mayors. Thank you for this opportunity to participate in these hearings on targeted and anti-recession fiscal assistance programs.

For the past 4 years now, one of the highest priorities of the Conference of Mayors has been the enactment of a program of countercyclical fiscal assistance to make payments to local governments that suffer serious unemployment and fiscal strain.

Fortunately for the Nation's cities, the anti-recession fiscal assistance program was enacted into law in 1976 and expanded and reenacted again in 1977. However, at the end of fiscal year 1978, the program abruptly expired in the final days of the session.

This was due to the failure of the House to adopt the bill. The discontinuation of the program has had a serious impact on many cities in this country, resulting in local budget cutbacks, employee layoffs, and tax increases which could otherwise have been avoided.

For example, the Conference of Mayors found that many large cities in this country sometime in the fiscal year will have to cut jobs including the police and fire personnel which you have just heard and witnesses personal testimony. Chicago and New York are now faced with the prospect of having to sell city owned properties. There are many other cities across this country that are finding themselves in the position of having to raise taxes. Other cities are involved in the prospect and the reality of closing and reducing hospital care, school facilities and the cut back of many other city services that are presently a part of our city responsibilities.

The loss of countercyclical funds especially for some high unemployment cities has been simply staggering in its impact. Moreover, in many cases the loss of funds was unexpected. Because of conflicting advice from Federal officials many local governments had included unfortunately countercyclical funds in their fiscal 1979 budgets in the expectation that the program would be extended. Then we received in December the word, and as a result, there were many forced cutbacks.

The Treasury Department also documented the impact of the loss of countercyclical funds, concluding that if the 48 largest cities of America were to replace their countercyclical funds with property tax revenues, they would be forced to raise these taxes substantially.

Philadelphia, for example, would have to increase its tax rate by 67 cents per $100 of fair market value to compensate for what it would have received in countercyclical aid in the current fiscal year. Similarly. Buffalo would have to raise its tax rate by 50 cents per hundred of fair market value. St. Louis by 46 cents, Baltimore by 58 cents, and Pittsburgh by 66 cents.

Of course, a discussion of raising property taxes now is mostly academic since cities are well into their fiscal 1979 year, and their tax rates for this year have long since been fixed and established on the local level.

Thus, the loss of countercyclical funds translates into budget adjustments on the expenditure side—painful and costly reductions in employment and city services.

I repeat, in the balancing of the budget, it is the balance sheet that read reduction in employment and city services.

Our city of Lafayette received under the program not a great amount by the way, $94,000 in these countercyclical funds under the program. While this loss is small in comparison to the dollars lost by my fellow mayors in fellow cities across this country, it nevertheless represents a significant proportion of the city's budget.

I think it is important to realize that it is not only cities in the Frostbelt which are experiencing fiscal and social difficulties, including high unemployment, inflationary pressures, and mounting budget demands, Southern and Western cities are confronted with many of the same problems.

It is interesting to note that the administration's targeted fiscal assistance bill would allocate a significant proportion of program funds to high unemployment governments in the South.

On top of the loss of their own funds, many local governments were also hurt by the loss of State funds which was a feature in the previous program. This is because some States passed on a share of their countercyclical aid to local governments. They didn't get it, local governments didn't get it.

A program of fiscal assistance to local governments is urgently needed. While the national unemployment rate continues to decline, unemployment rates in many cities are still at recession levels. My own city of Lafayette had a local unemployment rate of purported to be 6.5 percent last year. Many other cities, including Newark, Detroit, St. Louis, Buffalo, and Baltimore, suffer unemployment rates twice the national average.

In view of the need for some kind of fiscal assistance, the Conference of Mayors is pleased that the President has sent to the Congress legislation which would provide targeted fiscal assistance to hard-pressed local governments, as well as a standby fiscal assistance program in case of an economic downturn.

The mayors also commend this committee and the U.S. Senate for the constructive action taken last year to shape and adopt a two-tier program of fiscal assistance.

The bill which was adopted last year by the Senate has been reintroduced this year by Senators Danforth, Moynihan, Williams, Javits, and Muskie, as well as by Congressman Rodino and 100 cosponsors in the House of Representatives. While there are some significant differences between this Senate-passed measure and that proposed by the administration, we of the conference are hopeful that these differences can be resolved in a cooperative fashion.

For example, there is a difference in the funding levels of the two bills, with the Senate bill proposing a somewhat higher overall level of assistance, $340 million compared to the administration's $250 million and in the fiscal year 1980, $150 million for targeted fiscal aid.

In part, this reflects a difference in philosophy, since the administration views its targeted fiscal assistance program bill as a phasedown of the countercyclical program. The Conference of Mayors believes that there is a need for the higher level of assistance and we are hopeful that a sound compromise on funding levels can be achieved.

The other major difference in the bill has to do with the degree of targeting a fiscal assistance program. Because of the higher unemployment rate, 6.5 percent, required for eligibility under the administration bill, along with the $20,000 minimum allocation, the administration bill would limit assistance to a much smaller group of local governments than would Senator Danforth's measure.

However, we believe the question of targeting can be resolved in an efficient and amicable way especially since the two bills are closer on this targeting feature than either is to previous proposals.

The other positive and we feel necessary feature of the administration proposal and the Danforth bill is their provision for a standby program of countercyclical or anti-recession assistance.

Under the administration bill, assistance to State and local governments would trigger into effect whenever the national unemployment rate is 6.5 percent or higher. Assistance under Senator Danforth's bill would be tied to a somewhat lower 6 percent national unemployment rate.

We feel there are three major reasons for enacting a fiscal insurance program of this type.

First: It has come to be increasingly recognized that the State-local sector has a significant impact on the national economy. In a time of recession, State and local governments are forced to make budget adjustments, forced to make expenditure cutbacks and forced to find programs of tax increases. This worsens and heightens the recession. It does not affect a cure or remove the problem.

Thus, it would appear it would make sense for the Federal Government in its role of economic stabilizer to provide assistance to State and local governments so as to prevent these procyclical fiscal actions.

Second: We believe it is important to have a standby program in place ready to go, so as to provide for a timely and automatic response to an economic downturn. Part of the problem with Federal stimulus efforts in the past has been the lag time between the onset of a recession and the time it takes to enact the program.

Finally: Various studies of the countercyclical program indicates that it has been an effective and efficient vehicle for stimulating the economy, stabilizing local budgets and targeting assistance to where it is needed. Studies done by the Urban Institute, Peat, Marwick, & Mitchell, and the Office of Revenue Sharing, among others, serves to corroborate this view.

In summary gentlemen of the Senate, the U.S. Conference of Mayors strongly supports a program of targeted fiscal assistance and a program of standby anti-recession fiscal assistance.

We thank you for this opportunity you have given us to present our views and we look forward to working with you and the Congress in adopting a fiscal assistance measure.

Thank you, gentlemen.

Senator BRADLEY. Thank you very much, Mayor Bowen. Because Mayor Feinstein has not arrived yet, the panel will be joined by Mayor James Griffin of Buffalo. Mayor Griffin?

STATEMENT OF HON. JAMES GRIFFIN, MAYOR OF BUFFALO, N.Y.

Mr. GRIFFIN. My name is James D. Griffin and I am mayor of the city of Buffalo and I will make it as brief as possible, Senator.

I would like to thank Senator Bradley, Senator Moynihan, and members of the honorable subcommittee for the opportunity to emphasize the importance and impact of anti-recession fiscal assistance on the city of Buffalo.

The impact of the loss of anti-recession fiscal assistance has and continues to be a great hardship for the city of Buffalo. In preparing our 1978–79 budget, which covers the period of July 1, 1978, to June 30, 1979, the city's budget department was advised to include some $3.5 million in anti-recession or countercyclical funds as revenue because the program was to be continued.

I still don't know who the culprit was who told us that. Nobody is owning up to it so far down here in Washington and sometime we are going to find out who told us.

As we all know the $3.5 million was not forthcoming, nor was a scaled down version which would have provided approximately $1.5

million to Buffalo. The city lost approximately $3 million in budgeted aid.

As the city's fiscal year draws to a close, every effort is being made to recover this amount through not filling vacant positions and other economies. For the purpose of illustration, the city's budget division estimates that if the $3 million loss would have been immediately translated into layoffs, the city would have lost 193 full-time employees in most likely the following proportions: 76 teachers, 29 police officers, 26 firefighters, 39 sanitation workers and tradesmen and 23 managerial and clerical help.

The city is striving to minimize the impact of layoffs through attrition and other economies.

It should be noted that the city's work force has undergone a reduction of more than 28 percent since 1970. We lost 400 police employees including 320 police officers since 1975. We lost approximately 300 firemen. From the street's department we went from over 1,100 to under 600 here in 1979, and we lost 58 percent of our building employees since 1970.

A further reduction because of the loss of countercyclical funds would sooner or later hamper the ability of the city to provide its residents with the basic services that it now supports. It should also be noted that a recent Brookings study found Buffalo to be No. 1 in distressed cities based upon 1975 conditions.

I would point out in addition that the city of Buffalo has been severely affected by what we call the Hurd decision legislation in the State of New York. It was an unconditional bill that they had us go beyond our limits as far as our taxing powers were concerned. With that, we had to have an $11.5 million loan from the State legislature in order to carry on our work for this year.

The loss of antirecession financial assistance has also caused a problem for Buffalo in gaining access to the credit market. As I am sure you know, municipal creditors have become very sensitive in the past few years to unbalanced budgets.

When the antirecession financial assistance was not extended by the 95th Congress, Buffalo's budget became unbalanced. The misgivings of potential investors translate very concretely into a lack of funds for capital improvements to the city. The recent scarcity of such funds has been a great strain on the city's capital improvement program.

The list of schools that require renovation, the streets that require resurfacing, and the street lights and water and sewer mains that should be replaced keep growing. In fact, Governor Carey was here asking for aid for our waterlines in Buffalo. We have waterlines that are over 80 years of age and they will cost $450 million to be replaced.

The extension of antirecession fiscal assistance will add a sense of stability to Buffalo's budget that will improve the city's access to the credit market and thus allow the city to provide needed capital improvements.

I cannot overemphasize the fact that Buffalo has made substantial efforts to reduce the costs of local expenditures in 1978–79. Expenditures for all purposes except education has increased only 1 percent. Further, approximately 205 filled positions have been eliminated which is 5 percent of our work force.

In addition we have signed contracts with all the unions in Buffalo for 4 percent over a 2-year period. Also we have initiated a number of activities to expand our tax base and provide additional local revenues. Further, the private sector, including the businessmen and banks, have been working very closely with the city to revitalize Buffalo.

The banks were instrumental in our new 500-room waterfront hotel. Our businesses, large and small, are believing in Buffalo and boosting Buffalo and working to create jobs for our citizens.

Our area is also strongly in the running for the new Rolls Royce plant to be located in the United States. Thus, these are just a few examples of what we are doing in Buffalo, but we cannot do it alone.

However, the local property tax base continues to decline—42 percent of our property is tax exempt and we have lost 200,000 residents since the 1950's. Ninety percent of our homes in Buffalo were built before 1939 and most of them are wood. So you can see that we really do need help.

The extension of this program will also allow Buffalo to provide a reasonable level of basic services while the tax base is being redeveloped. It is vital that the $1.5 million authorized by either the proposal of Senator Bradley or the administration be enacted if we are to completely revitalize Buffalo financially and economically.

For these reasons, I urge the Senate, the House, and the President to provide antirecession aid for Buffalo and cities like Buffalo.

Thank you very much.

Senator BRADLEY. Thank you very much, Mayor Griffin. Mr. Chairman, do you have any questions?

Senator LONG. I would just like to ask this question of Mayor Bowen. Between making funds available to you through a countercyclical revenue-sharing bill or making it available to you through CETA funds, which helps to serve your purpose better?

Mr. BOWEN. For the purpose of public works, I would say the countercyclical is preferable in its application. But really, Senator Long, I am here almost as a paradox in some measure because I do not have the same problems as my fellow mayors do from Newark and from Buffalo, as you know. I am the mayor of the oil capital of this country, in our opinion, and we don't have some of the impact that has happened to cities across the Nation.

I emphasize countercyclical because I believe this is a tremendous program of need to be filled in this country to impacted areas such as Buffalo and Newark, and that is why I support personally the word targeted in the proposed legislation, because I think that is the key. We have areas in this country that need assistance. Now to answer your question, of the two, it would be difficult for me because we have maintained for the last 10 years a relatively stable unemployment rate in the city of Lafayette, in the area of Arcadia, as you happen to know it, in our State.

We have been fortunate in our Sun Belt in that they can attract people to come. We have had growth. We have had a greater problem in some areas than our fellow mayors have had. But the impact has been on the other side of the coin. Because we have had growth, because it has been a growth picture where we have been unable to keep up with the growth and the impact for countercyclical needs and employment needs to serve the growth areas is just as strong whether it is on the declining side of the ledger or the need for more money to meet the growth needs.

Of the two, Senator, I would think for public work features such as the mayor of Buffalo outlined for $450 million of need, countercyclical would fit his bill of goods or so it appears from his testimony.

I think both of these programs meet important needs in this country. CETA is another tool created with a good legislative mind to help people who have needs. Now for some strange reason, we have people who think it is not a good program or rather, that it is an abused program. I don't agree with those people. We contend where there might have been abuses, attack the abusers, don't attack the program. The program is good in the need that it sets out to serve.

So in a city like Newark, it might be CETA. In San Francisco with the mayor coming in, it could be countercyclical. I am not equipped to tell you a direct, specific answer. But those are my feelings.

Senator BRADLEY. Thank you. One of the most interesting presentations that we had yesterday was from Richard Nathan of the Brookings Institute. He revealed that if the administration's proposal were adopted, in 1979 dollars that amount of funds would replace only 14 percent of what Newark received in 1977 from countercyclical and for public service jobs.

The point is that we are not talking about as significant an amount of money compared to what was flowing to cities during the last 2 years. Now one of the suggestions that we often hear is that the local municipalities should make up for the loss of these funds from the property tax. One of the things that you gentlemen have talked about is the difficulty of that because of the tax-exempt status of large sections of your communities.

Could you be more specific as to what that would do to your tax rate and speculate as to what that might do to your ability to attract jobs to replace those public service jobs?

Mr. GIBSON. Senator, I would like to respond to that tax problem because it is important to put as much of these tax questions in perspective as we possibly can. True we don't have the same tax problems around the country. But in Newark besides the fact that there is 60 percent of the city that is tax-exempt which I referred to, and that is a critical problem. You talk about 40 percent of that land area now being hit with an increase in taxes which in my opinion, and we can show what has happened over the years when you increase that property tax beyond certain reasonable levels. People stop paying the taxes. Our percentage of collection declines.

We estimate say a collection rate of 90 percent for the year. As you increase the property tax, that collection rate drops almost in direct relationship to the increase in tax rate. That is No. 1.

After it drops to a certain point then people stop paying altogether. The city then becomes the owner of all of these properties where the taxes are no longer paid. We become, in effect, slum lords because as you know those which we inherit, if you want to use that word, are the worst properties in the city.

We then have to now provide heat and hot water to those people who live in our buildings with money that we can't afford to pay. Then we now tax the other people more in order to support these run down properties.

Beyond that we have the private sector which is a strong base of our community who now continue to get hit with these property tax increases and when they sit in their board rooms, they start to raise very serious economic questions. At what point do they decide to leave the city. We continue to increase the property tax rate. We inherit slum properties and we force business to take another look economically whether or not it is in their best interest to stay in the community. That is a no win situation.

Senator BRADLEY. Mayor Griffin.

Mr. GRIFFIN. Because of the decision I just mentioned, the HURD decision, in the State of New York, we can't raise our property taxes any higher than they are at the present time. There might be some leeway in the equalization rate and we might be able to raise it just slightly, but right now in the city of Buffalo, we are paying $76 a thousand in city property taxes.

We are paying approximately $35 a thousand in county taxes. We are paying a 7-percent sales tax. We are paying State income taxes. And right now, we are probably the highest taxed State in the country.

If you think business is coming into any location where people are raising taxes, then it won't be New York State. What we have here is a bright future in Buffalo. The bankers in Buffalo have just committed themselves to over $10 million for a waterfront hotel. We were one of the cities to receive a UDAG grant the first time around.

We hope to have another hotel in the very near future. Our theatre district is booming. Our neighborhoods are going strong. People are coming back into the city of Buffalo. But if anybody abandons the city now, if the Federal Government does, that is going to hurt us.

Right now you have decreased CETA funds in the city of Buffalo $6 to $8 million. There is talk about having a change in the revenue sharing which is going to hurt the city of Buffalo. There is talk of decreasing the small business loans, the 502 loans, which are very supportive of the city of Buffalo. There is talk of a 30-percent cut in 312 rehabilitation loans which are loans that a person can receive over 20 years for 3-percent interest. There is talk of a lack of public works funds. There is talk of mandates as far as air pollution is concerned, and the Federal court judges are coming out with orders to put more teachers on a payroll in the city of Buffalo.

All these things are hurting cities like Buffalo at a time when we need help. What I am saying today is take a look at the cities that really need the help. In 3 or 4 years we won't be down here asking for help. But right now, now is the time that we are pulling ourselves up from our bootstraps and everyone is working together, and that is why we are here today. That is why I am here to day asking for anti-recession funds.

Senator BRADLEY. Thank you. I would like to welcome Mayor Dianne Feinstein from San Francisco. We are pleased to have you here on the panel today and look forward to your participation.

STATEMENT OF HON. DIANNE FEINSTEIN, MAYOR OF SAN FRANCISCO

Ms. FEINSTEIN. Thank you very much, Mr. Chairman and Senators. I would like to apologize for my tardiness. There was no disrespect meant to the committee. From a small city of 7 square miles, the logistics of Washington is sometimes very complicated.

Senator BRADLEY. We are not responsible for that.

Ms. FEINSTEIN. I have been asked to make a statement on behalf of the U.S. Conference of Mayors and on behalf of the gentlemen that sit on the right and left of me.

That statement is in writing, Mr. Chairman, and I would like to submit it for the record.

Senator BRADLEY. The statement will be inserted in the record.

Ms. FEINSTEIN. Perhaps I can just talk to you very briefly from the heart as someone who is a new mayor, 3 months in the job, first trip to Washington, of what I see and how I have seen it for the past decade.

In the mid 1960's, I think most of our cities were plagued by something that none of us ever expected on the American scene and that was a series of riots. In California there was Watts, there was Oakland, there was San Francisco and Hunters Point.

From those riots an urban partnership was forged between the cities and the Federal and State Governments. Suddenly we began to look at each other and we said how can this cancer of unemployment which runs as high as 40 or 50 percent among our minority young people in all our cities—my city is 50 percent nonwhite—how can we look at the American dream and say that it is, in fact, the American dream while houses and businesses are being burned by people who feel that they have no place in this dream.

You have a budget, a budget which in essence makes up a substantial portion of the deficit from programs that are related to jobs, to welfare and social programs which benefit our city.

What I say to you is that you are, in effect, truncating the partnership which was broached between the Federal Government and those of us on the local scene if you do not add to that budget. I believe that you have a mandate from the people to do so because the fact of the matter is that the heartland of this great country is no longer the Agrarian belt, it is the urban cities because that is where the problems are, that is where the dispossessed are, that is where the jobless are.

We who run those cities are prepared to carry our share of the burden, and, in fact, we do, because we get the flack. We don't have 3,000 miles to separate us or 90 miles to our State capital. We are right there on the line every day.

In California the situation is particularly exacerbating because the electorate did, in fact, accept proposition 13 which was a mandate to retailor and restructure government into a smaller package.

San Francisco did not vote for proposition 13. We rejected it, and the people of San Francisco expect full services, but we have 157 million less property tax dollars to provide those services despite the fact that we receive on a temporary basis State bail out moneys, we cannot raise new taxes. We cannot enact new taxes because any new tax must go before the electorate and be voted positively thereon by two-thirds of the electorate. It is difficult to do if you have a 60-percent turnout.

This presents us with very real problems. Our capital improvements which in California are funded on the basis of bonds, we don't fund the way New York City does, all capital improvements are general obligation bonds where the full faith and credit of the city is pledged and the debt is amortized over a period of years.

We can no longer float these bonds for capital improvements. So that is where countercyclical moneys become very effective enabling our Government to continue to maintain governmental plants and hopefully the maintenance thereof that are important and critical.

Many of us have used CETA. My own city experiences a 56-percent cutback in the CETA program. We will have 2,500 summer jobs cut off. We have, for example, 300 units of housing out at Hunter's Point that we were hoping to finish. The foundations are there, the roads are there, the sewers are in, and HUD is telling us and I am pleased that there is a distinguished assistant secretary from HUD sitting behind me, but HUD is telling them go build them in nonimpacted areas and renege on your commitment to this community.

We are not going to do this. If you expand the Section 235 with the limits from $44,000 to $55,000 we can bring those units in for home ownership. They have been redesigned twice with the average cost of a single-family house in San Francisco being $72,000, the highest cost of living city in the State. We cannot do it without State help.

In essence what we are saying is that this partnership which was forged a decade ago must be maintained by the Federal Government. We on the local level, and my budget is about a $1.5 billion, $552 million of which are Federal moneys. Those Federal moneys are critical in maintaining a full-service government.

I would point out to you that San Francisco has the largest concentration per capita of senior citizens of any city in the State of California. One of the problems that takes place when you lose your middle class is that your minority, your elderly, your dispossessed grow in number.

So the city must have your help in reversing these trends. We must have a CETA program which has the wage supplement in it for us or else we are wiped out of CETA. We now have 1,100 civil service classifications from which we can fill CETA positions. If the wage supplement is not added, we will have but one and that is junior clerk which means that we will not be able to use the CETA program.

We have had a very high ratio of success, 90 percent of CETA applicants are disadvantaged by Federal standards. We want to continue this partnership with the Federal Government.

As Mayor Gibson said, 60 percent of his city is not on the tax rate; 50 percent of the land area of San Francisco is not on the tax rate. It is either streets or parks or Federal institutions or whatever, but it is not on the property tax rate. So the ability of you gentlemen to remember that it is human, not inhuman, to return our fair share of the tax dollars to us is a very, very important concept.

In essence, what I am doing on behalf of the Conference of Mayors, more precisely in writing than in rhetoric, is asking you for your continued cooperation. We need those countercyclical moneys, we need the employment programs. Most of us are going to have unemployed rates well over 6 percent this next year.

Senator BRADLEY. Thank you very much, Mayor Feinstein. Senator Moynihan?

Senator MOYNIHAN. I would like to welcome all the distinguished panel, and of course, especially our own Mayor Griffin from Buffalo, and to say that you witnesses are being heard. But, as you know, there is a discord in what we hear from the country about these matters. And it is making for a certain amount of confusion here in the Congress, if not on this committee. I think we are all in favor of these things. I have introduced the President's countercyclical revenue-sharing bill and have introduced a bill to continue the existing revenue-sharing program itself.

But we keep hearing from the rest of the country that we must have a constitutional amendment, requiring the most rigid restraints on what it is we do—a constitutional amendment which few can define. It basically involves writing algebra into the Constitution. I would have more faith in the proponents who proposed the measure if I thought they knew algebra. But in any event, they know the public mood when they hear it.

I wonder if Mayor Feinstein could tell us. We hear from California that there is great support for the idea of a constitutional amendment. As a matter of fact, we hear little else. How localized is that? What do you think about it? What do any of you honorable gentlemen think about it?

Ms. FEINSTEIN. Senator Moynihan, obviously the governor of the State of California believes very strongly in a constitutional convention and a mandated balanced budget is in the best interest of the country. I do not share that concern. I think a constitutional convention would be fiscally irresponsible, very difficult, would subject this country to protracted chaos and could spend 3 years debating the right to bear arms plus any number of other subjects.

The basics I believe is that most of us have a poor and a dispossessed constituency and we are in Government because we want to help people. One of the great prides of being American is that we have a responsive Congress and the Congress responds to the sounds that they hear.

Senator MOYNIHAN. If I might say, that is your problem. You have a responsive Congress. And it is scared to death of what it is hearing out there.

Ms. FEINSTEIN. So we are asking for your help. If your question was, do I support the constitutional convention concept, the answer is no. Is it desirable to achieve a balanced budget, the answer is yes, but again at what risk, and how do you build in provisions for recession, depression, and helping the poor.

Senator MOYNIHAN. This is our point—that the answer is sometimes yes and sometimes no.

Ms. FEINSTEIN. That is correct. I would agree with that.

Senator MOYNIHAN. There is a great mystery that maybe you could try to explain to some people in Sacramento—that the unit of time of an industry economy is not between April when you plant the corn and October when you harvest it. That agricultural cycle of 1 year is not the way an industrial economy works. It works on about a 3, 4 or 5 year cycle and we have learned something about expanding the Federal sector when the private sector is contracting and vice versa.

We haven't been very good at vice versa because we have only had eight surpluses in 45 years. But still, we understand the principle, and to abandon the principle because we can't put it into practice is a pretty primitive response, I think. I don't know why I am lecturing you—you agree with me.

We are very glad you are here. We are going to have to fight hard for this. I am making a speech, Mr. Chairman and I will stop, but I just think that an awful lot of the States that have passed this legislation or called for this amendment are States that do very well out of the Federal budget. I would hope that they would understand that there are States like New Jersey and New York for whom the Federal budget is no bargain.

If you want to reduce the Federal expenditures to those required to maintain the U.S. Navy and to pay the interest on the public debt, New York would be considerably better off. We have spent two generations supporting public policies which improve the lives of the people who live elsewhere, because we have been under the impression that they were also Americans, and were Americans before we were New Yorkers. If in the end it turns out at this point that we were just fools, I think the people might be surprised at our capacity for such irresponsible behavior, too. To this point, you can depend on us to say, "No, we will not wreck the Constitution; no, we will not let people go hungry; no, we will not let the cities go broke."

But that is putting a heavy strain on the rationality of a few remaining States. If it weren't for people like Mayor Gibson and Mayor Griffin, the entire pack would be howling to undo the social progress of the last half century, and it doesn't say much for us at this point. But thank goodness you are there.

Thank you, Mr. Chairman.

Ms. FEINSTEIN. Mr. Chairman, I just want to clarify something for Senator Moynihan. California did not pass the resolution calling for the constitutional convention.

Senator MOYNIHAN. Not because there weren't those who tried. I might just say that California has been able to have a lot of fun with this because. for example, in the last fiscal year, although New York and California are about the same size, we in New York State received $13 billion less in Federal outlays than California did. California received $47 billion and New York got $34 billion, a difference of $13 billion. So don't be surprised that you sat on a surplus of $6 million in Sacramento. About half of that was ours.

You should know that in our part of the world that seems to us to be behavior that is eccentric and a little self-indulgent.

Ms. FEINSTEIN. I am not running for President, Senator. I am just trying to be a——

Senator MOYNIHAN. Why aren't you running for President? [Laughter.]

Thank you, Mr. Chairman.

Mr. BRADLEY. Mr. Bowen.

Mr. BOWEN. It is interesting, Senator, you speak of the agricultural cycle and maybe in partial answer to what you are suggesting is that we are reaping what we have sown in public opinion.

I will make an effort to attempt to answer what you have posed as a question, what is out there? I am out there and I live in what was at one time an agrarian state dependent totally upon the output of labor in the endeavor of agriculture, that is hopefully going to become to some extent more industrialized with the yield of an industrial economy.

It is providing the energy source for this country and not being properly compensated for doing so, but I think that the point I want to make to you, Senator, is that the countercyclical program on whose behalf we appear here today is really going to become a ping pong ball in this philosophic war, as you put it, on top of the table for us. What is out there is not philosophy, but people who don't understand, as you obviously understand, your job and your role as a Senator and understand the mechanics of a free society and Government as it is practiced each and every day across the 50 States. They don't understand this.

I would suggest to you that if you watch the networks and see what is fed our people in this country in terms of the problem as you outlined it so eloquently and accurately, I don't know what other response we are going to get other than they would think, if you understand the Cagen mentality, that they are getting back less than they are giving, no matter what amount of what quantity they give.

They would like to get more of it back. I would suggest Senator Long is probably one of the most capable men of understanding that mentality from our State where we are just for the first time in the State of Louisiana going to receive our tax bills, we received them in January, because we have been the beneficiaries of an oil economy, of a natural resource in our State.

I don't plead ignorance but I plead an unawareness, if you would, at this time. We were not even aware of some of the problems that my good friend, the Mayor of San Francisco has experienced in her young 3-month lifetime as a mayor because of the same reasons.

But we are one country, Senator Moynihan. I would suggest that maybe we are going to weld once again a one country unified mentality because of adversity. In this case, it is an economic condition that we find ourselves confronted with at this time and in this country. We are going to relearn that there are 50 States in America, not just one piece of real estate called New York, and give me what is mine, and to hell with you.

That has been an attitude that has developed in this country. It erupted in some matters of which the mayor pointed out in good pieces of real estate like California. Other places didn't have that so can't understand the problems of California. I am not trying to suggest that there is an easy solution. I would like to reinforce that in the areas of this country where there are people problems that exist right now while we are talking together, that that problem exists and will not go away without the assistance that has been stated here. A forged partnership is absolutely necessary and imperitive to continued improvement in the quality of life of Americans who have individual and unique problems inside of cities.

I would just ask that you again help us and understand, as we know that you do in this body here, that the problems that face this country are real. They affect real people. They are now. They are not going to go away unless somebody digs in and helps. And most of those problems today have relocated themselves as has been said here in Newark, Buffalo, and San Francisco. They even have some of those problems, Senator, in Breaux Bridge, La., and I would suggest to you that we will only solve them by working together to help one another.

Senator LONG. I thought all the problems in Breaux Bridge went away when the crawfish came in.

Mr. BOWEN. They are in season right now, Senator, and they have never been better.

Senator BRADLEY. Senator Durenberger?

Senator DURENBERGER. Thank you. I really appreciate Mayor Bowen's picture of where we are all sitting because if you have a frustration as a mayor of a city, I hate to compare it with the frustration of people like Bill and I have in the first couple of months being here in the U.S. Senate, being pulled as many directions as we have.

One of my handicaps is trying to deal with little pieces of a big problem and I appreciate the fact that it is difficult for each of you to come in here and do the same thing.

I think now I have listened to seven mayors in the last 2 days and the message is basically the same and it comes from the heart as well as the head. It says we need financial resources. We are a tool or an instrumentality of State government. We have limited access to funds. Most of it is the property tax. Once in a while they will let us piggyback or they will give us the grant paid program or a property tax relief program out of a State income tax or something like that.

But this year I am sitting here coming from a State that is going to cut out of this program and I want to go to bat for general revenue sharing next year. I want to go to bat for CETA. I want to go to bat for 312 housing rehab programs. I want to go to bat for all kinds of things.

But before I go to bat for this program, I really need to know how and why a revenue-sharing program which is tied solely to unemployment is one of the best ways to meet the needs of the cities. I can understand that unemployment hits hardest at the oldest, at least generally, and so forth, but I guess I would appreciate just a little more enlightenment about this and I have looked at a little bit of the rationale and pardon me for saying it, but it is not convincing.

I would really like to see why it is important for us to vote x million of dollars for a program that is solely triggered to unemployment when I would rather put it into manpower programs, employment programs and things like that particularly now that I have to go back to Minnesota and say you are only getting $62,000 instead of $6 million, I gave $340 or $250 million to 41 cities other than those in Minnesota and that is part of my frustration.

Mr. BOWEN. Let me make an observation. In our own personal case sometime in the last 2 months, we were sent from some region into our city and this is the CETA program which I support in philosophy because I think it is a good, well motivated program, we were sent $800,000, Senator. I did not request it, didn't ask for it, didn't want, couldn't spend it, didn't need it and was not eligible.

Senator DURENBERGER. Did you take it?

Mr. BOWEN. No, sir, I sent it back. Let me say this to you. I strongly believe that in many cases the questions you are asking right now could be removed if we removed some of the red tape and bureaucracy attached to the well designed, well planned, well motivated programs that the Congress does put together sincerely.

I am not too sure if they found out what to do with the money I sent them back that I didn't want and that I wasn't legally eligible to receive. But they sent it to me. And then when I report it, the bottom drops out. The key word in my opinion and the reason I would like to have you understand that I am here personally and governmentally is that there is an honest need in targeted areas in this country and that this program will help because it is targeted.

Don't send money to me if I don't need it. Don't let some bureaucracy just pick out and wet their finger and turn a page theoretically and say, today we will send some to them because they might like us tomorrow. I don't need it. It runs up a bill. For every dollar they sent me, I would advise the bureaucrats, it costs some taxpayers $8 to find one and you would take 40 years hopefully to pay it back in the Federal debt. Give it to somebody in Detroit, in New York, or Los Angeles, or San Francisco, where that money is needed and will help.

I have needs, and we can spend some of this money. But again I think that we have a time in our country when we need to sit back and look at our resources, economic as well as physical, and natural resources. There are needs in the country that are real, Senator.

I hope that you can find a way to get the answer to that.

Senator BRADLEY. Mayor Griffin?

Mr. GRIFFIN. Senator Durenberger and the mayor, I think you have both hit the nail on the head. You mentioned pieces of the whole, and that, I think, is what we are trying to bring out, and the mayor mentioned, don't send the money that he can't use, and mayor, I will take that $800,000.

You get back to the CETA program. We lost $6 to $8 million and I could probably live with that loss because we developed a program that the Chamber of Commerce has taken over—part of our CETA program. They have put in private employment one and a half persons a day since the first of January of this year into private employment.

I think when CETA started out, it was doomed to failure. It said that the mayors are the prime sponsors and we have responsibility for running the CETA program and yet, the Congress will not let us run the CETA program. I think we could do a pretty good job.

It is the pieces as a whole, Senator. The mayor from San Francisco mentioned HUD housing. It is my understanding that there is just so much money. If I wanted to have some housing in Buffalo, I will get the same amount of money as say building a home in Florida. The climatic conditions are different in Buffalo than, let's say, in Clearwater, Fla.

Mr. BOWEN. Or Louisiana.

Mr. GRIFFIN. The housing costs are higher. Labor costs are higher. So don't give me $20,000 in Buffalo and say that you have to build the same home with that $20,000 as the home in Clearwater, Fla., because it can't be done.

The result is that people get poor housing. I have seen it. You can go up to Buffalo and see the same housing and I have argued that point all the way down the line. If people in the Federal Government would ask mayors what they need, not what they want, I think we could have a good close relationship.

We had our own proposition 13 in the city of Buffalo in that so-called HURD decision. We lost $11.5 million in taxing power and we can make that up in time but you have to give us time.

You can't say, here is a loss of $3 million as what happened in the anti-recession funds, and say, you have to make it up. If they had said, all right, you are going to have a loss of $500,000 this year, and $500,000 next year and $500,000 the year after that, we could get along through attrition of employees and savings that we can do right in our cities.

Again, I am here today just to say, look at the areas, not only look at unemployment, but look at the loss of say the residents to an area, look at the old homes that some cities have more than others. There is a criterion that we could all come up with that would be fair for everybody. Then give us the money with strings attached. We are responsible. But I think we know what to do with the money more than someone who is far away from our localities.

Senator DURENBERGER. Is the value of this program that unemployment is only a trigger in effect, but when the money gets to you, it is your judgment as to how best to spend it to meet the impact of recession or inflation or whatever on your community. Is that the basic value of your supporting the countercyclical revenue-sharing program?

Mr. GRIFFIN. Yes, it is a general revenue for us.

Senator DURENBERGER. Then why aren't all the mayors in here asking for the billion dollars that was there the last 2 years rather than settling for $250 or $340 million?

Mr. GIBSON. Senator, don't get the impression that we have come to settle for any figure. I think the important thing here is that the last time that we met with the executive branch of Government, the word was no support of the anti-recession measures. We have come a long way from that point to now. We are here talking about principle and concept not dollar ceilings hopefully.

I think Senator Bradley and I don't know how many of you joined in that statement yesterday when Senator Bradley talked about dollar figures and appropriations. We think that flexibility in this program is very, very important for us without all of the guidelines that say this pot of money is only for helicopters or this pot of money is only for sidewalks, but this is a general fund which can be used based on the needs of that particular locality.

I don't think anyone here has said that we think that the administration's bill is enough frankly. It is a long way as Senator Bradley pointed out, a long way from what we received in the old bill. But it is better than where we were back in December.

Senator MOYNIHAN. Would the Senator yield on that point?

Senator DURENBERGER. Certainly.

Senator MOYNIHAN. It seems to me that it might be useful to state what you might call the general theory of revenue sharing as it began when it was first talked about under President Johnson's administration.

It was Mr. Peckman of the Brookings Institution who was the theorist if you will, and President Nixon proposed it and it was adopted under President Nixon. But the idea of revenue sharing starts out specifically with the effect of the Federal income tax on the distribution of public resources. That is, for every dollar that the gross national product increases, the revenues of the Federal Government increase by about $1.40 or for every 1-percent increase in GNP, you have about a 1.4-percent increase in the resources of the Federal Government. It is because of the graduated tax.

However, this produces less than a 1-percent increase in the revenues of Buffalo, Newark, and San Francisco, and I suspect it's probably true for your city, Mayor Bowen. Your property taxes are or tend to be sluggish—they don't change that much. They increase by less than 1 percent. But a 1-percent increase in GNP usually generates a 1-percent increase in demand for Government itself as well as for everything else—so the Federal Government is constantly sucking up more money and leaving the local governments with relatively less, and this was beginning to distort federalism more and more.

You used to not see mayors at a hearing in the Senate Finance Committee. This is a new thing. You used to not hear Governors. I was secretary to the Governor of New York in the 1950's and I can tell you the number of times the Governor of New York went to Washington. We worried about extra underwear, did he have traveler's checks and was the water all right. It was a big event because this particular distortion had not commenced. Pretty soon you had the Federal Government involved in the details of sidewalks, helicopters and things like that. That just didn't happen. There never would have been a hearing like this 20 years ago.

It was meant to have it automatically flow, automatically return some of that extra money of the Federal Government so you didn't distort the Federal system. Otherwise, you would end up with everyone sitting in Washington.

Then there is the countercyclical bill, the kind we are talking about in Senator Bradley's committee today. This has a second theory which is a different one. It is that there are some parts of this country that are not doing well when other parts of the country are doing very well. This is not something that anybody can argue with at the level of very exact proof, but it gets to be more and more clear. One of the reasons they are not doing very well is the Federal Government is taking out much more money in taxes from those jurisdictions than it is returning.

It is just not in the nature of the expenditure of the Federal Government to be evenly balanced and you can tell when it is not evenly balanced because when it is not there, you have a dead city. And when it is there, you have a boom town unless you have oil. That is the only alternative. And the unemployment rates show it.

This is an effort to compensate those cities and regions which basically are being drained of Federal resources for what otherwise are legitimate national purposes. If you decide that you are going to spend defense moneys on a per capita basis, you are going to waste defense money. You spend it where you think you will get the most efficient return but that means you leave a place like Buffalo in bad shape.

As you know this Committee on Finance is basically a seminar in political economics.

Senator DURENBERGER. That just reminds me and it is presumptuous to remind the Senator from New York that I was once too a secretary to a Governor in the late 1960's and I think the first time I met you, Senator, you were in a Republican administration as I recall.

Senator MOYNIHAN. Right, proposing revenue sharing.

Senator DURENBERGER. And we somehow, because Walter Heller was from Minnessota, discovered all of the values of revenue sharing.

Senator MOYNIHAN. If he didn't, he would be sure that you did.

Senator DURENBERGER. Right. Thank you.

Ms. FEINSTEIN. If I may, Mr. Chairman, to Senator Durenberger's question, with respect to what the trigger device should be, I was very struck by the Brookings study that came up with certain criteria for so-called distressed cities because many of us have never looked at it from that particular view, and I think that with respect to need the Congress does need to decide what need means and attach some criteria and unemployment should not be the only one, physical structures, the age, the kinds of sewer systems, what kinds of job programs, commuter versus noncommuter, suburban versus urban, whatever the criteria are, they need to be set.

Then I think the Congress does a great service by allowing local decisionmakers to make the decisions to how best use the money. Because one thing we found is a program that will work in one city won't necessarily work in another city. We have to have that flexibility. In that way you are going to save money. We are going to have to be on our mettle because we are not going to want to make bad decisions with this money, and I think overall, it will mean a better use of money for the taxpayer.

Senator BRADLEY. I think you make a very good point. While unemployment might not be the finest tuned instrument for cities with 14 percent unemployment, it certainly is a good distress signal.

I would like to thank all of the mayors very much for their participation today I think you have added a great deal to this debate. Thank you.

[The prepared statements of the preceding panel follow:]

STATEMENT OF MAYOR KENNETH A. GIBSON OF NEWARK

Good afternoon. I am here to testify today about the importance of a specific type of revenue sharing, that is, the anti-recession fiscal assistance program.

The anti-recession program which died in Congress this past fall had a devastating effect on Newark. We had been receiving almost $11 million a year under the program and used that money for basic city services. When the program was not renewed, we in Newark were forced to lay-off 441 municipal employees, 200 of those 441 were police officers, regular police officers and some basic services were eliminated altogether, such as recreation programs, drug treatment, manual street sweeping and police responses to non-essential calls.

The $11 million represented about 10 percent of the city's operating budget. In addition to laying off 441 city employees, we could not fill 120 vacancies. Thus, Newark was left 561 employees short because of the loss in anti-recession money.

As you all know the program was designed to combat the effects of the recession, particularly the high unemployment rates associated with that recession. The recession is not over in Newark or in New Jersey or in many parts of the country. Unemployment rates remain high throughout New Jersey and in Newark. We have a 14 percent unemployment rate. One cannot assume that an upturn in the national economy accurately reflect the local economy. In fact, it does not.

As a Mayor, I found it very difficult to explain to Newarkers why Congress failed to re-enact the anti-recession legislation when Newark was still in the midst or a recession. To make matters worse. the city was forced to increase its property tax rate from $8.99 per $100. Assessed valuation to $9.59. This was a substantial increase for Newark property owners.

The pressures of inflation drive costs up the city, like any other consumer, must pay these increased costs. Many are beyond our control, such as fuel, pensions, and insurance. Once these costs are met, there is not much money left in the budget. Sadly, the city was left with no option but to cut services, layoff employees and raise taxes.

I do not have to tell you what this means when compounded by cuts in other Federal programs. In the last few years, we have been meeting with some success in turning Newark around, stabilizing the city, encouraging residents and businesses to stay in Newark, and even attracting some new ones. We are in the midst of a major redevelopment program which faces imminent failure if we have to make the tax rate confiscatory and cut basic services. In other words, the loss of anti-recession aid threatens to undermine years of progress in redeveloping Newark.

Furthermore, the loss has a spiraling effect, a dominoe effect. The loss of aid leads to higher taxes for fewer services. More people become unemployed because of layoffs. The city becomes less and less attractive for residents and businesses. When they leave Newark, they take jobs and purchasing power away. This in turn leads to more unemployment and less economic stability. The tax base shrinks so the few property owners who are left end up paying more in taxes. Then they are discouraged from staying. The point is that withdrawal of this vital Federal aid can cause a downward spiral which intensifies and feeds on itself, thus plunging Newark into a worse recession. The withdrawal of this aid has a highly recessionary impact. On its face, the anti-recession aid is vital, but in its effects, it is absolutely critical.

Currently, 60 percent of Newark's land is tax-exempt because it is occupied by government, religious and educational facilities. With only 40 percent of the land taxable, the tax burden is already unfairly distributed. This should not be compounded by higher taxes and fewer services due to the loss of anti-recession aid.

Currently, the unemployment rate is 14 percent. This should not be compounded by lay-offs and job losses associated with the lack of anti-recession aid.

I am confident that restoration of this aid would avert a potential urban crisis. It is clear that with this aid, we were progressing exceptionally well. In fact, the anti-recession fiscal assistance program should be thoroughly evaluated by the Federal Government because it may prove to be one of the most successful programs ever funded. The aid was used judiciously and helped Newark redevelop itself. Many positive effects resulted while we received the aid. We were able to stabilize taxes, deliver quality services, fill most of the vital positions in city government, engender the confidence of the business community, reverse the residential exodus, and revitalize entire neighborhoods. All this achievement is liable to go down the drain with the anti-recession aid. These were long-term achievements based on long-term efforts. The efforts were based on the belief that we would have the tools to combat the recession. The fiscal aid was a major tool. Now, we are left to face the recession without the tools. The inevitable result will be a deeper recession for Newark. Ironically, the continuation of anti-recession aid will actually enable Newark to bring about an end to recession by spurring the type of lon-term solid development that ends recessions.

It is very unfair to suddenly yank this money away when the recession has not ended and unemployment is still very high. The aid program was intended to last as long as the recession and unemployment problem lasted. The problem is still with us but the ability to fight it has been taken away. We, in Newark, counted on this aid and did a lot of long-range planning based on the belief that it would continue through the recessionary period. Then, suddenly, without due notice, it was terminated.

I guess the real question boils down to the commitment that Congress and and the Senate have to depressed urban areas? Do they want them revitalized or not? Do they want urban economies back on their feet or not? Do they want to provide the tools with which urban areas can terminate their local recessions or not?

Re-enactment of anti-recession legislation would indicate a favorable answer. Thank you for the opportunity to testify here today.

STATEMENT OF MAYOR KENNETH BOWEN, MAYOR OF LAFAYETTE, LA. ON BEHALF OF THE UNITED STATES CONFERENCE OF MAYORS

Mr. Chairman and members of the Committee, I am Kenneth Bowen, Mayor of Lafayette, Louisiana, testifying today on behalf of the U.S. Conference of Mayors. Thank you for this opportunity to participate in these hearings on targeted and anti-recession fiscal assistance.

For the past four years, one of the highest priorities of the Conference of Mayors has been the enactment of a program of countercyclical fiscal assistance to make payments to local governments suffering serious unemployment and fiscal strain.

Fortunately for the nation's cities, the Antirecession Fiscal Assistance Program was enacted into law in 1976 and expanded and reenacted in 1977. However, at the end of FY 1978, the program abruptly expired in the final days of the session—due to the failure of the House to adopt the bill. The discontinuation of the program has had a serious impact on many cities, resulting in local budget cutbacks, employee layoffs, and tax increases which could otherwise have been avoided. For example, the Conference of Mayors found that many large cities sometime in this fiscal year will have to cut jobs—including police and fire personnel—sell city property, raise taxes, close hospital beds, school facilities and cut back other city services.

The loss of countercyclical funds especially for some high unemployment cities has been simply staggering in its impact. Moreover, in many cases the loss of funds was unexpected. Because of conflicting advice from federal officials, many local governments had included countercyclical funds in their fiscal 1979 budgets, in the expectation that the program would be extended. Then, in December, they were forced to make cutbacks.

The Treasury Department also documented the impact of the loss of countercyclical funds, concluding that if the 48 largest cities were to replace their countercyclical funds with property tax revenues, they would be forced to raise these taxes substantially. Philadelphia, for example, would have to increase its tax rate by 67 cents per $100 of fair market value to compensate for what it would have received in countercyclical aid in the current fiscal year. Similarly, Buffalo would have to raise its tax rate by 50 cents, St. Louis by 46 cents, Baltimore by 58 cents, and Pittsburgh by 66 cents.

Of course, a discussion of raising property taxes now is mostly academic, since cities are well into their 1979 fiscal years and their tax rates for the year have long since been fixed. Thus, the loss of countercyclical funds translates into budget adjustments on the expenditure side—painful and costly reductions in employment and city services.

My own city, Lafayette, received $94,000 in countercyclical funds under the countercyclical program. While this loss seems small in comparison to the dollar lost by other governments, it nevertheless represented a significant proportion of our city budget.

I think it is important to realize that it is not only cities in the Frostbelt which are experiencing fiscal and social difficulties—including high unemployment, inflationary pressures and mounting budget demands—Southern and Western cities are confronted with many of the same problems. It is interesting to note that the Administration's targeted fiscal assistance bill would allocate a significant proportion of program funds to high unemployment governments in the South.

On top of the loss of their own funds, many local governments were also hurt by the loss of state funds. This is because some states passed on a share of their countercyclical aid to local governments.

A program of fiscal assistance to local governments is urgently needed. While the national unemployment rate continues to decline, unemployment rates in many cities are still at recession levels. My own city of Lafayette had a local unemployment rate of 6.5 percent last year. Many other cities—including Newark, Detroit, St. Louis, Buffalo, and Baltimore—suffer unemployment rates twice the national average.

In view of the need for some kind of fiscal assistance, the Conference of Mayors is pleased that the President has sent to the Congress legislation which would provide targeted fiscal assistance to hard-pressed local governments, as well as a standby fiscal assistance program in case of an economic downturn. The Mayors also commend this Committee and the U.S. Senate for the constructive action taken last year to shape and adopt a two-tier program of fiscal assistance.

The bill which was adopted last year by the Senate has been reintroduced this year by Senators Danforth, Moynihan, Williams, Javits and Muskie, as well as by Congressman Rodino and 100 cosponsors in the House of Representatives. While there are some significant differences between this Senate-passed measure and that proposed by the Administration, we are hopeful that these differences can be resolved in a cooperative fashion.

For example, there is a difference in the funding levels of the two bill, with the Senate bill proposing a somewhat higher overall level of assistance—$340 million compared to the Administration's $250 million (and in FY 80 $150 million) for targeted fiscal aid. In part, this reflects a difference in philosophy, since the Administration views its targeted fiscal assistance bill as a phasedown of the countercyclical program. The Conference of Mayors believes that there is a need for the higher level of assistance and we are hopeful that a sound compromise on funding levels can be achieved.

The other major difference in the bill has to do with the degree of targeting of fiscal assistance. Because of the higher unemployment rate (6.5 percent) required for eligibility under the Administration bill, along with the $20,000 minimum allocation, the Administration bill would limit assistance to a much smaller group of local governments than would Senator Danforth's measure. However, we beleve the question of targeting can be resolved in an efficient and amicable way especially since the two bills are closer on this targeting feature than either is to previous proposals.

ANTIRECESSION ASSISTANCE

The other positive and necessary feature of the Administration proposal and the Danforth bill is their provision for a standby program of countercyclical or anti-recession assistance. Under the Administration bill, assistance to state and local governments would trigger into effect whenever the national unemployment rate is 6.5 percent or higher. Assistance under Senator Danforth's bill would be tied to a somewhat lower 6.0 percent national unemployment rate.

There are three major reasons for enacting a fiscal insurance program of this type:

First, it has come to be increasingly recognized that the state-local sector has a significant impact on the national economy. In a time of recession, state and local governments are forced to make budget adjustments—expenditure cutbacks and tax increases—which exacerbate the recession. Thus, it makes sense for the federal government, in its role of economic stabilizer, to provide assistance to state and local governments so as to prevent these procyclical fiscal actions.

Second, it is important to have a standby program in place, so as to provide for a timely and automatic response to an economic downturn. Part of the problem with federal stimulus efforts in the past has been the lag time between the onset of a recession and the time a program is enacted.

Finally, various studies of the countercyclical program indicate that it has been an effective and efficient vehicle for stimulating the economy, stabilizing local budgets and targeting assistance to where it is needed. Studies done by the Urban Institute, Peat, Marwick and Mitchell, and the Office of Revenue Sharing, among others, serve to corroborate this view.

In summary, the U.S. Conference of Mayors strongly supports a program of targeted fiscal assistance and a program of standby anti-recession fiscal assistance. We thank you for this opportunity to present our views and we look forward to working with you and the Congress in adopting a fiscal assistance measure.

STATEMENT OF JAMES D. GRIFFIN, MAYOR OF THE CITY OF BUFFALO

My name is James D. Griffin, and I am the Mayor of the City of Buffalo, New York. I would like to thank Senator Moynihan and the members of your honorable committee for the opportunity to emphasize the importance and the impact of Antirecession Fiscal Assistance on the City of Buffalo.

The impact of the loss of Antirecession Fiscal Assistance has, and continues to be, a great hardship for the City of Buffalo. In preparing our 1978–79 budget, which covers the period of July 1, 1978 to June 30, 1979, the City's budget department was advised to include some $3.5 million dollars in Antirecession funds as revenues because the program was to be continued. As we all know, the $3.5 million was not forthcoming, nor was a scaled down version which would have provided approximately $1.5 million to Buffalo. Given the fact that the total Buffalo budget for the 1978–79 city budget year is approximately $272.9 million of which some $70 million is required for fixed costs such as pension costs, capital costs and capital debt service, the impact is a severe one.

The City lost approximately three million dollars in budgeted aid. As the City's fiscal year draws to a close, every effort is being made to recover this amount through not filling vacant positions and other economies. Since ARFA is not budgeted to support specific positions, it is somewhat difficult to demonstrate the severe impact the three million dollar loss will have on Buffalo. For the purpose of illustration, however, the City's Budget Division estimates that if the three million dollar loss would have been immediately translated into layoffs, the City would have lost 193 full time employees in most likely the following proportions:

Teachers	76
Police officers	29
Firefighters	26
Sanitarian workers and tradesmen	39
Managerial/clerical	23
Total	193

The City is striving to minimize the impact of layoffs through attrition and other economies. The Board of Education, however, has already been forced to make substantial layoffs in this fiscal year.

It should be noted that the City's workforce has undergone a reduction of more than twenty percent since 1970. A further reduction, because of the loss of ARFA, would sooner or later hamper the ability of the City to provide its residents with the basic services that ARFA supports. It should also be noted that a recent Brookings Study found Buffalo to be the number 1 distressed city based upon 1975 conditions.

I would point out in addition that the City of Buffalo has been severely affected by the Hurd decision which reduced the taxing power of the City of Buffalo in 1978–79 by some $23 per thousand, or $23 million. Because the State Legislature enacted special equalization ratios for Buffalo and other large cities, the net decrease in taxing authority was approximately $11 per thousand or $11.5 million dollars. While the state provided a loan to make up the difference, no such aid is expected to be forthcoming this year.

The loss of Anti Recession Assistance has also caused a problem for Buffalo in gaining access to the credit market. As I am sure you know, municipal creditors have become very sensitive in the past few years to unbalanced budgets. When the Anti Recession Financial Assistance was not extended by the Ninety-fifth Congress, Buffalo's budget became unbalanced. Even though there was never any doubt that the City would honor its debts, many investors took the three million dollar deficiency to be indicative of unsound financial practices on the part of the City. The misgivings of potential investors translated very concretely into a lack of funds for capital improvements to the City. The recent scarcity of such funds has been a great strain on the City's Capital Improvement Program. The list of schools that require renovation, the streets that require resurfacing, and the street lights and water and sewer mains that should be replaced keep growing larger. The extension of Anti Recession Fiscal Assistance will add a sense of stability to Buffalo's budget that will improve the City's access to the credit market and thus allow the City to provide needed capital improvements.

I cannot over-emphasize the fact that Buffalo has made substantial efforts to reduce the costs of local expenditures in 1978–79. Expenditures for all purposes except education has increased only 1 percent. Further, approximately 205 filled positions have been eliminated which is roughly 5 percent of the total workforce. In addition we have initiated a number of activities designed to expand our tax base and provide additional local tax revenues. Further, the private sector, including the businessmen and banks have been working closely with the City to revitalize Buffalo.

The banks were instrumental in our new 500 Room Waterfront Hotel. Our businesses, large and small, are believing in Buffalo and boosting Buffalo and working to create jobs for our citizens. Our area is also strongly in the running for the New Rolls Royce Plant to be located in the United States. These are just a few examples of what we are doing in Buffalo. But we cannot go it alone.

As the local property tax base declines, federal financial assistance for basic services becomes increasingly important. Anti Recession Fiscal Assistance has helped Buffalo provide a level of basic service which would not have otherwise been possible. The extension of this program will allow Buffalo to provide a reasonable level of basic services while the tax base is being redeveloped. It is vital that the $1.5 million authorized by the Administration proposal or the $1.8 million authorized by the proposal of Senator Moynihan be enacted if we are to completely revitalize Buffalo financially and economically.

For these reasons, I urge the Senate. the House and the President to provide anti recession aid for Buffalo and cities like Buffalo.

Thank you.

STATEMENT OF THE HONORABLE DIANNE FEINSTEIN, MAYOR OF SAN FRANCISCO, ON BEHALF OF THE U.S. CONFERENCE OF MAYORS

Mr. Chairman and members of the Committee. Thank you for this opportunity to participate in these hearings on targeted fiscal assistance and standby countercyclical aid.

For four years, the U.S. Conference of Mayors has had as one of its major priorities the enactment of a program of Federal assistance to fiscally distressed local governments, as well as a permanent countercyclical fiscal assistance program to make payments to local governments during a national recession.

The termination of countercyclical program at the end of the last fiscal year has had a devastating and continuing impact on many of the Nation's cities—all the more critical because of the suddenness of the program's termination. Many Mayors had expected renewal of the program and consequently had already included anticipated funds in their budgets. Then, when it become clear in November that the money would not be forthcoming, they were forced to make drastic and painful cutbacks in local services, and to lay off employees.

The City of San Francisco was particularly hurt by the discontinuation of the countercyclical program, especially since we are still reeling from the effects of Proposition 13. As a result of the loss of countercyclical funds at the end of FY 78, we were forced to lay off employees and cancel many important projects designed to maintain the physical plant of the city—including maintenance of the transportation system, city streets and parks and playgrounds.

Other cities across the country are in similar straits. As the result of the loss of anti-recession fiscal assistance funds, Chicago was forced to freeze 400 jobs, sell 315 acres of city property and eight city parking lots. Pittsburgh was forced to raise the city wage tax. Cleveland was forced to lay off 400 police and fire employees. St. Louis cut expenditures across the board—on top of a 3.5 percent across-the-board reduction the previous year. The actions which local governments were forced to take in the wake of the discontinuation of countercyclical will only further erode the cities' tax bases and dilute the Administration's efforts to revitalize and enhance urban areas.

The case for fiscal assistance is buttressed by continuing high unemployment rates in many cities. For many local governments, the lingering effects of the last recession have combined with long-term deteriorating factors to produce severe fiscal strain on local budgets. For example, in 32 of the largest 48 cities, local unemployment rates are well above the national average. The persistence of pockets of high structural unemployment in the Nation's cities is especially disturbing at a time when the national unemployment picture is improving.

The need for a program of targeted fiscal assistance is all the more urgent in view of cutbacks in other programs which have helped high unemployment areas—proposed cutbacks in CETA public service jobs, summer youth jobs, the abandonment of the labor-intensive public works program, and other proposed cutbacks.

The targeted assistance program of the Administration bill and Senator Danforth's bill would focus assistance to those cities hurt by these cutbacks in employment programs. I think it is worth nothing that targeted fiscal assistance goes only a small way in compensating for these other losses. Moreover, because it is only a small part of local budgets, it does not guarantee fiscal health—but it does represent a helpful and in some cases a critical addition to local budgets.

As you know, the Administration's proposed fiscal assistance bill is similar in many respects to the legislation adopted by the Senate last year, as amended by Senator Danforth. This Senate-passed bill has been introduced in the current session of Congress by Senators Danforth and Moynihan and other Senators and by over 100 Congressmen in the House. The similarities of the two bills are greater than the differences. Both measures would establish a targeted assistance program to aid fiscally-distressed cities and would provide for a standby program of anti-recession assistance.

The Conference of Mayors strongly believes that assistance should be targeted to where the need is the greatest. We realize, however, that no single allocation formula has been developed that satisfies the needs and desires of everyone. Formulas used in the community development block grant program, the local public works program, the CETA program and general revenue sharing have all been questioned.

Although there are some differences in the trigger and de minimus provisions of the Administration and the Danforth-Rodino bills and in the funding levels of the two bills, we are confident that these differences can be resolved. In this regard, let me say that I believe that somewhat higher funding level of the Danforth bill is preferable to that of the Administration bill. The Administration bill is predicated on the assumption that fiscally-distressed local governments will be better off in FY 1980 than they are in FY 1979. However, it seems more likely that problems will persist, especially given most economists' projections of an economic slowdown at the end of 1979 and in 1980 and given continuing high inflation rates, which put additional pressure on local budgets.

The U.S. Conference of Mayors believes that the targeted program should be viewed not as a phasedown of the previous countercyclical program but as part of the Administration's urban policy, designed to address the continuing problems of many urban areas. Moreover, the $340 million program of the Danforth bill is already a substantial reduction from the earlier program.

The Conference of Mayors is also strongly supportive of a standby anti-recession program, proposed as part of both the Administration and Danforth bills.

When the national economy experiences a recession the cities suffer an even steeper decline and proportionately greater unemployment. Thus, there is a strong need for the immediate enactment of a permanent standby program of anti-recession fiscal assistance to trigger into effect whenever a recession hits. High unemployment has a devastating impact on local budgets, resulting in lower tax receipts and higher expenditures. Cities need some kind of standby economic insurance if they are not to be forced to lay off workers and cut expenditures—actions which exacerbate and intensify the severity and duration of the recession. Moreover, a standby program facilitates quick action, which is extremely important in moderating a recession. Past delays in enacting federal stimulus programs have sometimes resulted in aid being given after a crisis.

Consequently, it is the strong belief of the Mayors that countercyclical assistance should be as much a part of our automatic fiscal structure as unemployment compensation; that is, whenever unemployment rises above a base level, funds should automatically be made available to local governments.

Mr. Chairman, this nation has always attempted to direct federal dollars to where the needs are the greatest. While there are many claims on constrained federal dollars, it seems to me that the claim of the cities is one of the strongest. The needs of local governments suffering from high and persistent unemployment and other pressing social problems are urgent ones and demand prompt and effective solutions.

In conclusion, Mr. Chairman, on behalf of the nation's Mayors, I strongly urge you and your Committee members to move quickly and positively to report out the necessary legislation to ensure assistance to those cities suffering fiscal distress. The Conference of Mayors is prepared to work with this Committee, and the Congress to accomplish this goal. We are committed to the continuation of this critical urban program.

Thank you.

Senator BRADLEY. Our next witness will be Congressman Bob Edgar of Pennsylvania who is the chairman of the Northeast-Midwest Coalition. Welcome to this side of the Capitol.

STATEMENT OF HON. ROBERT W. EDGAR, U.S. REPRESENTATIVE FROM THE SEVENTH CONGRESSIONAL DISTRICT

Mr. EDGAR. It is nice to be over here. I would like to begin by thanking you for allowing me the opportunity to testify not only on behalf of my own congressional district but also as the new Chairman of the Northeast-Midwest Congressional Coalition.

Just a word of explanation as to what that particular group is. Back in 1976 we put together a coalition of 213 House Members who represent 18 States in the New England, Mid-Atlantic and Midwestern region to look and to try to discover what was happening to our region. Our thought was not to set up an organization that would compete with the South and West, but rather to set up an organization that would help understand some of the problems that we face as a community. We recognized very quickly that our problems involved urban policy and they involved structural unemployment in some of our distressed cities, many of the issues which you as a finance committee are going to have to deal with.

I would like to share just a few words of testimony and then answer any questions that you might have. I am not here to testify on specifics of the various countercyclical proposals before the subcommittee, but to convey the urgency and the severity of need for financial relief on the part of State and local governments. For many parts of this country, the recession is not over, and predictions are that it is going to get worse before it gets better. This thesis goes against conventional wisdom.

Last year, we in Congress heard many arguments to the effect that the Nation's economic woes were over and indeed, the fiscal condition of State and local governments has improved markedly from the time of the 1974–75 recession and the national unemployment rate was the lowest it had been in some time.

As a result opponents of the labor intensive public works bill and the countercyclical revenue sharing bill were successful in arguing that there was no longer any justification for continuing these programs, and, consequently, these programs went down to defeat in the closing days of the 95th Congress. Some went so far as to herald 1978 as the year marking the end of the urban crisis.

But the truth is that the urban crisis is not over in many of our cities. It continues and is likely to intensify if the gloomy predictions about the economic downturn in the latter part of the year are born out.

The recession has not ended in many of our older industrial urban areas and the more isolated counties of this country. It certainly is not over in my city of Chester which has a population of about 50,000 in a corner of Pennsylvania which still has an unemployment rate which moves toward and probably well beyond 13.3 percent. Nor, Mr. Chairman, is it over in our cities of Newark or Camden which continue to have unemployment rates of 13 percent and 12.1 percent, respectively. Areas such as Buffalo, St. Louis, and Chicago also continue to have unemployment rates in excess of 9 percent. Nor is it over in the 14 States which had jobless rates greater than 6 percent during the last two quarters of 1978. Over half of these States are in the Northeast-Midwest region of our country.

The data also shows that almost 5,000 units of local governments had unemployment rates in excess of 8 precent. Again the overwhelming majority of these communities are in the Northeast-Midwest region.

Nor is the jolt of the 1975 recession over for those States and local governments which continue to experience slow employment growth. Sixty-five percent of all new jobs between 1975 and 1977 were outside the Northeast-Midwest region of our country.

Finally, the recession is not over in those State and local governments which continue to face the difficult task of meeting high demands for services from a diminished tax base of a stagnant or declining economy.

While the economic recovery relieved much of the fiscal strain on the State and local governments, it was not evenly distributed. While States with high per capital income growth have tended to benefit from our mild national recovery, States with slow income growth have faltered.

Again we see a regional difference. Eighty-four percent of the State surplus occurred in the South and West, most concentrated in the three States of Alaska, California, and Texas. Only 15 percent occurred in the Northeast-Midwest region of our country.

The fiscal problems of local governments often result more from longrun changes in economic activity and population movement than from cyclical shifts in the economy. Indeed the problems of local governments may be more related to high levels of sustained unemployment than changes in the jobless rate. On the revenue side, these local governments suffer from declines in their tax bases as industry and people leave.

On the expenditure side, the pressure for spending does not necessarily decline with shifts in population and employment. The cost of maintaining existing physical capital does not decline proportionately with population. Often more must be spent on bridges and streets, police, and fire protection. In short, the remaining population often needs more public services per capita than those who left.

One measure that distinguishes levels of financial difficulty among local governments is the existence of cumulative budget deficits. In a study commissioned by the First Boston Corp., Philip Dearborn examined the 1976 and 1977 financial records of 28 cities. Ten cities were found to have run deficits during this period. Most of these cities, not surprisingly, were in the Northeast-Midwest region. Conversely, municipal surpluses were found to be increasing faster in the South and West than in the Northeast and Midwest.

Another way of looking at local economic performance is to examine the overall cash position of local governments. Local governments, like businesses, experience financial emergencies when they run out of cash. Here again, the cash position of local governments in the South and West also grew faster than those in either the Northeast or Midwest.

Not surprisingly, cities in the Northeast which had the most deficit spending and were in the worst cash position, also had the highest tax rates.

A recent Treasury Department study which analyzed the fiscal effects of withdrawing antirecession fiscal assistance from fiscally distressed urban communities focused on the 48 largest cities and classified them according to high, moderate, and low fiscal strain.

High fiscal strain was related to large declines in population, relative per capita income, property values and increases in per capita own source revenue and long-term debt. Of the 16 cities in the Northeast-Midwest region included in the study, eight registered as high strain, seven as moderate strain, and one as low strain.

It was against this backdrop of differential economic activity and growth that President Carter last week added the enactment of countercyclical legislation to his 1979 domestic agenda. In his message to Congress, the President stated:

> Fortunately, nearly 4 years of national economic recovery have produced great progress in restoring the fiscal health of most of these communities. However, a number of communities still are experiencing severe fiscal problems and need more time to recover.

In fact, this new fiscal assistance legislation should prove more beneficial to our region of the country than the program which expired last October. That program would have triggered-off when the national unemployment rate went below 6 percent either for one-quarter or for the last month of a quarter.

On the other hand, the new version will continue to provide aid to jurisdictions with high individual rates of unemployment regardless of the national unemployment rates. Removing the national 6-percent cutoff and retaining a base appropriation will insure that those places which have not fully recovered from the recession still would receive aid.

However, I do have some problems with the administration's proposal. The legal minimum trigger is too high. Too few governments are eligible to receive assistance, and the total allocation for fiscal year 1980 is only equal to what New York City would have received under the administration's previous supplementary fiscal assistance proposal.

But I am not here to nitpick about the particular provisions. Rather, I am here to talk about what would happen to fiscally distressed units of State and local government if this program is not enacted. First, local taxes will have to be raised in the communities which can least afford the increase, Second, and most importantly, the hardest pressed communities will have no defense against an almost certain economic downturn.

While the administration forecasts that we will see only a gentle turndown in the economy by the fall, the Congressional Budget Office has issued a much gloomier forecast.

Several other major economic forecasters also predict a recession. Chase Econometric's expects a real negative growth rate to begin in the second quarter of this year and continue through the third and fourth quarters. Chase also predicts the unemployment rate to average 6.6 percent in 1979 and reach 7.4 percent by the end of the year.

Data Resources, Inc., DRI, predicts a negative growth rate for the third and fourth quarters and an average 1979 unemployment rate of 6.5 percent. DRI anticipates that rate to rise to 7.1 percent by the end of the year.

If these predictions are realized and there is a recession, a reduction in funding of the antirecession programs would more severely affect the older, more industrial sections of the country.

Reporting on the continuous waves of recession experienced in the early to mid-1970's the Advisory Commission on Intergovernmental Relations stated that "the recessions of the 1970's were largely confined to New England, Mideast, and Great Lakes States."

More recently, ACIR predicted that:

> If another slowdown were to occur for any extended period, the fears about the possible decline of older industrial regions might well be realized.

I would like to close my remarks by urging this subcommittee to act promptly to report out a fiscal relief measure. Without such action on the part of the Senate Finance Committee, the Speaker has warned us that we will see a rerun of last session's 11th-hour attempt to move the legislation to the House floor.

Senator BRADLEY. Thank you very much, Congressman Edgar, for your testimony. I think it helps shed a very important regional light, a positive regional light, on this issue and we will do our best over here to get this piece of legislation through. All you have to do is convince Jack Brooks that this is the bill that he ought to support this year.

Mr. EDGAR. I was pleased to see that Jack Brooks started this morning at least in the press accounts to start getting a little religion, and perhaps with a little effort from those of us who come out of New Jersey seminaries, such as Drew Theological School in Madison, N.J., where I graduated, we can corner him sometime and help him to see that there are other places besides Texas.

It is important for him to realize how important this targeted program will be to some of our distressed cities and it is going to be difficult with him being the chairman of the Government Operations Committee. I have talked with the Speaker of the House and with other leaders in the House and if you can act courageously over here, I think we can put the bill through the House, either through his committee, around his committee or over his committee.

Senator BRADLEY. Senator Moynihan?

Senator MOYNIHAN. I want to thank the Congressman and tell him how much we have admired his work and how much we are all in debt to him for it. I don't want to sound too combative, but I tend to be a little on this. There is, in fact, a true imbalance in the way Federal funds flow and it is not the only thing that accounts for the differences in rates of growth. Many things do. The presence of natural resources obviously has a great deal to do with it. But there is nonetheless a real difference.

If the persons for whom that flow is a net positive advantage of true dimension, and not just a marginal one, and so in consequence those persons are benefactors of the prodigality of the modern state—if they are suddenly going to become fundamentalists when it comes to coughing up a little bit back to the people left behind, then there can be, if I can recall the phrase, an agonizing reappraisal of this whole business.

New York State built its interstate highways and still collects tolls to pay for the thing. On the other hand, we still pay taxes to pave half of west Texas. As a matter of fact, we not only built the first interstate highway, but a very great engineer under Governor Dewey who designed it—came down here and designed the rest of the system. There is a certain amount of carelessness in our letting things like that happen. But although we haven't complained about them yet, we can commence to.

New Jersey and Pennsylvania built its portions of the interstate system and you pay tolls for them.

Mr. EDGAR. Senator, I might also point out that it was a former Governor of the State of New York who happened to become president of the United States who helped to build the Tennessee Valley Authority and helped initiate an infrastructure in the south which I happen to support.

Senator MOYNIHAN. Which we all support.

Mr. EDGAR. I think the interstate highway system and the Tennessee Valley Authority and other events——

Senator MOYNIHAN. And the Tom Bigby Canal.

Mr. EDGAR. I wasn't going to mention that one.

Senator MOYNIHAN. I am. The poor, old dinky Panama Canal—to think we spent half of last Congress talking about that, when 10 Panama Canals end on end wouldn't equal the Tom Bigby, the principal sponsors of which are also the principal sponsors of a rigid balanced Federal budget.

Mr. EDGAR. I think that is the point we are making and as I mentioned this in my opening remarks, the Northeast-Midwest Coalition is not looking to take away anything from the South or West. It is simply trying to figure out what is happening to us and one of the things that is happening to us in a very severe way is a destruction, a deterioration, of our older distressed cities. We think that if we can help downtown Mobile, Ala., or a Texas city that has distress, then we are doing our job by focusing and trying to make urban policy work.

We recognize the fact that there are going to be fewer dollars and we recognize the fact that any kind of countercyclical aid will have fewer dollars and must be better targeted.

It like many other programs has to leverage the Federal dollar for economic investment in communities. We have some terrible problems, in New York, Boston, Philadelphia, and Chicago and some of the other large cities, and if we are going to address those problems, we are going to need a great deal of help.

This countercyclical program won't begin to meet that need. So I think as one of the previous speakers, one of the mayors, mentioned, it is difficult when you end a program like countercyclical aid automatically and quickly on October 15 and not wean some of the cities off. Those that are financially stable are able to adjust and find other sources of dollars.

I can tell you that in the city of Chester which was abruptly eliminated from any kind of countercyclical aid, they went out and borrowed $800,000 just to make ends meet for this year.

There is a new mayor coming in that city and there has been a lot of corruption in the city itself. The mayor was indicted and convicted and will not be around very long. What I think will happen is that the next mayor to take over that city will be given probably over $1 million of debt and a taxing structure that is deteriorating. I think we have to figure out some ways to help these cities wean themselves off of Federal programs if in fact we are going to terminate those programs. Then we are going to have to figure out how to target specific help to communities.

I appreciated the dialog between the Senator and the mayor about what communities have need. On the Public Works and Transportation Committee on which I serve, I am frustrated by the many times we debate formulas to try to include everybody. We had a pot hole bill last year, fortunately it did not go anywhere, but we had one where we were trying to justify pot hole money for Puerto Rico, Hawaii, and Alaska, and some of the communities who didn't really need it in order to respond to a specific need of hard winters in Buffalo, N.Y.

I think we have to try to figure out what our national response is and figure out how to target that aid where we can. You and I fought a fight last year and fortunately were successful. Senator Moynihan, in trying to get the formula for the local public works adjusted. It happened to be the disadvantage of Pennsylvania by about $12 million, but it was to the advantage of the Nation and the region to focus those local public works dollars to a broader based constituency. I think sometimes we have to bite that tough bullet.

Senator MOYNIHAN. Sir, I would like simply to restate that we are very much in your debt for doing our homework for us for some years now and if there is any fault to be found in your performance, it is simply that you have not discovered enough problems in Minnesota. If you could do just a little more on that, we would be a lot better off. Thank you very much.

Mr. EDGAR. I might point out that Jim Oberstar from Minnesota is one of the members of the executive committee of the Northeast-Mideast Coalition.

Senator BRADLEY. Senator Durenberger?

Senator DURENBERGER. I would just like to express my appreciation to Bob for being here and I look forward to being an active member of the coalition because I appreciate what you are doing and especially the fact that you have taken the time to put it all together like you did today.

Mr. EDGAR. Thank you.

[The prepared statement of Mr. Edgar follows:]

STATEMENT OF HON. ROBERT W. EDGAR, CHAIRMAN, NORTHEAST-MIDWEST CONGRESSIONAL COALITION

Mr. Chairman, Members of the Subcommittee, I am pleased to have the opportunity to appear before you today. I am not here to testify on the specifics of the various countercyclical proposals before the Subcommittee, but to convey the urgency and the severity of need for financial relief on the part of state and local governments. For many parts of this country, the recession is not over. And predictions are that it is going to get worse.

This thesis goes against conventional wisdom. Last year, we in Congress heard many arguments to the effect that the nation's economic woes were over and indeed, the fiscal condition of state and local government had improved markedly from the time of the 1974–75 recession and the national unemployment rate was the lowest it had been in some time.

As a result, opponents of the labor intensive public works bill and the countercyclical revenue sharing bill were successful in arguing that there was no longer any justification for continuing these programs, and, consequently, these programs went down to defeat in the closing days of the 95th Congress. Some went so far as to herald 1978 as the year marking the end of the urban crisis.

But the truth is that the urban crisis in *not* over in many of our cities—it continues and is likely to intensify if the gloomy predictions about the economic downturn in the latter part of the year are borne out.

The recession has not ended in many of the older industrial urban areas and the more isolated counties of this country. It certainly is not over in my city of Chester, Pennsylvania which still has an unemployment rate of 13.3 percent. Nor, Mr. Chairman, is it over in our cities of Newark or Camden which continue to have unemployment rates of 13.0 and 12.1 percent, respectively. Areas such as Buffalo, St. Louis, and Chicago also continue to have unemployment rates in excess of 9.0 percent. Nor is it over in the 13 states which had jobless rates greater than 6 percent during the last 2 quarters of 1978. Over half of these states are in the Northeast-Midwest region.

The data also shows that almost 5,000 local governments had unemployment rates in excess of 8 percent. Again, the overwhelming majority of these communities in the northeast-midwest region.

Nor is the jolt of the 1975 recession over for those state and local governments which continue to experience slow employment growth. Sixty-five percent of all new jobs between 1975 and 1977 were outside the Northeast-Midwest region.

Finally, the recession is not over in those state and local governments which continue to face the difficult task of meeting high demands for services from the diminished tax base of a stagnant or declining economy. While the economic recovery relieved much of the fiscal strain on the state and local governments, it was not evenly distributed. While states with high per capita income growth have tended to benefit from our mild national recovery, states with slow income growth have faltered. Again, we see a regional difference. 84 percent of the state surplus occurred in the South and West with most concentrated in the three states of Alaska, California, and Texas. Only 15 percent occurred in the Northeast-Midwest region.

The fiscal problems of local governments often result more from longrun changes in economic activity and population movement than from cyclical shifts in the economy. Indeed, the problems of local governments may be more related to high levels of sustained unemployment than changes in the jobless rate. On the revenue side, these local governments suffer from declines in their tax bases as industry and people leave. On the expenditure side, the pressure for spending does not necessarily decline with shifts in population and employment. The cost of maintaining existing physical capital does not decline proportionately with population; often more must be spent on bridges and streets, police and fire protection. In short, the remaining population often needs more public services per capita than those who left.

One measure that distinguishes levels of financial difficulty among local governments is the existence of cumulative budget deficits. In a study commissioned by the First Boston Corporation, Philip Dearborn examined the 1976 and 1977 financial records of 28 cities. Ten cities were found to have run deficits during this period. Most of these cities, not surprisingly, were in the Northeast-Midwest region. Conversely, municipal surpluses were found to be increasing faster in the South and West than in the Northeast or Midwest.

Another way of looking at local economic performance is to examine the overall cash position of local governments. Local governments, like businesses, experience financial emergencies when they run out of cash. Here again, the cash position of local governments in the South and West also grew faster than those in either the Northeast or Midwest.

Not surprisingly, cities in the Northeast which had the most deficit spending and were in the worst cash position, also had the highest tax rates.

A recent Treasury Department study which analyzed the fiscal effects of withdrawing antirecession fiscally assistance from fiscally distressed urban communities focused on the 48 largest cities and classified them according to high, moderate and low fiscal strain. High fiscal strain was related to large declines in population, relative per capita income, property values and increases in per capita own source revenue and long-term debt. Of the 16 cities in the Northeast-Midwest region included in the study, 8 registered as high strain; 7 as moderate strain; and 1 as low strain.

It was against this background of differential economic activity and growth that President Carter, last week, added that enactment of counter-cyclical legislation to his 1979 domestic agenda. In his message to Congress, the President stated:

> Fortunately, nearly four years of national economic recovery have produced great progress in restoring the fiscal health of most of these communi-

ties. However, a number of communities still are experiencing severe fiscal problems and need more time to recover.

In fact, this new fiscal assistance legislation should prove more beneficial to the Northeast-Midwest than the program which expired last October. That program would have "triggered-off" when the national unemployment rate went below 6 percent either for one quarter or for the last month of a quarter. On the other hand, the new version will continue to provide aid to jurisdictions with high individual rates of unemployment regardless of the national unemployment rate. Removing the national 6 percent cut-off and retaining a base appropriation will insure that those places which have not fully recovered from the recession still would receive aid.

However, I do have some problems with the Administration's proposal—the legal minimum trigger is too high, too few governments are eligible to receive assistance, and the total allocation for fiscal year 1980 is only equal to what New York City would have received under the Administration's previous Supplementary Fiscal Assistance proposal. But I am not here to nitpick about these provisions. Rather, I am here to talk about what would happen to fiscally distressed units of state and local government if this program is not enacted. First local taxes will have to be raised in the communities which can less afford increase. Second, and most importantly, the hardest pressed communities will have no defense against an almost certain economic downturn.

While the Administration forecasts that we will see only a gentle turndown in the economy by the fall the Congressional Budget Office has issued a much gloomier forecast.

Several other major economic forecasters also predict a recession. Chase Econometric's expects a real negative growth rate to begin in the second quarter of this year and continue through the third and fourth quarters. Chase also predicts the unemployment rate to average 6.6 percent in 1979 and reach 7.4 percent by the end of the year.

Data Resources, Inc. (DRI) predicts a negative growth rate for the third and fourth quarters and an average 1979 unemployment rate of 6.5 percent. DRI anticipates that rate to rise to 7.1 percent by the end of the year.

If these predictions are realized and there is a recession, a reduction in funding of the antirecession programs would more severely affect the older, more industrial sections of the country.

Reporting on the continuous waves of recession experienced in the early to mid-1970's the Advisory Commission on Intergovernmental Relations stated that "the recessions of the 1970's were largely confined to New England, Mideast and Great Lakes states." More recently, ACIR predicted that "If (another) slowdown were to occur for any extended period, the fears about the possible decline of older industrial regions might well be realized."

I would like to close my remarks by urging this Subcommittee to act promptly to report out a fiscal relief measure. Without such action on the part of the Senate Finance Committee, the Speaker has warned us that we will see a return of last session's 11th hour attempt to move the legislation to the House floor.

Thank you.

Senator BRADLEY. Thank you very much, Congressman. Our next witness is Donna Shalala, Assistant Secretary for Policy Development and Research, Department of Housing and Urban Development.

STATEMENT OF DONNA SHALALA, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. SHALALA. Thank you, Senator.

I am pleased to be here today to discuss with you the fragile fiscal health of our Nation's urban areas. Perhaps the most important point that I could make this afternoon is to try to impress upon you that the urban fiscal crisis is not over, the future of our cities, of our counties, and of our townships, still demand the priority attention of government at all levels.

The circumstances which have generated the long-term decline, the loss of jobs, people and economic base, have not been significantly altered. Throughout the country, general purpose local governments with older physical plants, higher proportions of the poor and elderly and higher crime rates, are still experiencing economic declines.

The loss of population and jobs is not random. The poor and low skilled remain in the urban core while the richer, upwardly mobile part of the population continues to move to the suburbs.

Attempts by local government to cut services or raise taxes in a fiscal crisis has lead to further deterioration of the business climate and an increased impetus for the mobile part of the population to move out. It also places an increasing burden on low income households who cannot afford to move and who are most likely to be dependent on public services.

Thus, as conditions continue to deteriorate, many local governments are increasingly vulnerable to future economic downturns.

While the long run trends still point toward a continued deterioration of the fiscal health of our urban areas, short run cyclical improvements in the national economy have relieved some of the fiscal pressure.

While the fiscal situation of some urban governments has improved in the last 2 years as the result of local belt tightening and rapid national recovery from the 1973 to 1975 recession, this general improvement may be very short lived if the economy slows down significantly.

Thus, it is essential to distinguish between the long-term trends in urban economic activity and short-term cyclical fluctuations if we are to understand the current fiscal crisis and respond with sensible Federal policies.

When the trend and the cycle move in the same direction as they did during the 1973 to 1975 recession, the picture is quite clear. Local governments entered that recession in a relatively strong financial position because of the recently enactment of general revenue sharing.

Before the recession was over, both the economic base and the financial situation of many general purpose local governments deteriorated and they required a massive increase in Federal aid.

At the other end of the cycle, economic expansion and recovery improves the financial position of many local governments, but does not substantially alter the long-term trends. Thus, a number of local governments remain economically depressed.

Basing Federal policy on short-term cyclical fluctuations rather than on long-term trends has led to mismatched timing between Federal aid and urban need in the past. In some cases, countercyclical programs have not been passed until after the recession was over.

As a result, many local governments simply added the additional funds to their cash balances. This situation thwarts both the Federal purpose in providing the funds and sound financial planning at the local level.

As the national economy improves, rapid withdrawal of Federal aid may again lead to fiscal stress. In many cases, the financial recovery of the local government does not keep pace with the withdrawal of the Federal funds, leading to financial disruption of local budgets.

Sound Federal policy must recognize both the long-term economic trends and the short-term cyclical aspects of the current fiscal situation of local governments. The bill which you have before you today does exactly that.

Title I of the Intergovernmental Fiscal Assistance Amendments of 1979, provides targeted fiscal relief to those places suffering most severely from long-term decline. This title recognizes the special vulnerability of those places still recovering from the 1973 to 1975 economic recession.

Title II, on the other hand, provides for standby authority to offset potential future short run cyclical downturns.

By guaranteeing future fiscal relief during periods of recession, it stabilizes the future financial situation of local governments and assures them that future recession will not increase their already fragile fiscal health.

Providing standby authority for the program now insures the successful timing of the distribution of countercyclical funds. The money will be available when fiscal needs are the greatest.

Senator, I have a long paper which carefully explains what I have just summarized and that is that explains that one must sort out the short-term cyclical fluctuations from the long-term economic trends and how the new administration program fits that.

Let me simply make one additional point and allow you to go to questions because I know it has been a long afternoon.

I am particularly concerned in making sure the administration has clarified the surplus issue and that is there is a lot of discussion over the fact on the short term, it looks like a number of local governments in this country have a surplus.

We have disaggregated as well as we could and as you know, the data problems are overwhelming in this area but we want to make sure that we say that surplus is accounted for in large part by pensions that are not discretionary moneys, that cannot be tapped.

As Senator Moynihan knows, in New York State, pension money is not available to pay for a set of general government services and once pensions are given, they cannot be taken away under the State constitution.

The cash flow problems, the late reimbursements which are accounted for by both Federal aid and State aid, also provide some explanation for the surplus money.

In some cases, because of the fiscal crisis in New York, an increasing scrutiny by bond rating firms, local governments in this country are beginning to underbudget.

All of these factors are ones in which we have been able to do some disaggregation but they certainly account for much of the surplus that people are lauding as something that would not provide any defense of either short- or long-term efforts.

We have in this paper carefully documented some of the long-term trends. I apologize for only one thing and that is the data is so difficult to obtain that our generalizations seem on the surface to be more for larger governments than for smaller governments.

That does not mean that either the Department or the administration believes that there are not small governments in this country that do not have problems.

In a new report that we sent to Congress this month on the development needs of small cities, we begin to document some of those problems.

We simply do not have the same kinds of data to document the long-term fiscal decline of small cities the way we can for larger cities. It is in part a data problem and not our lack of either inclination or interest in the smaller areas of this country.

Thank you.

I have with me, by the way, David Puryear who directs the Department's new unit on economic development and public finance. I would like to ask him to join me at the table. He is on leave from the Maxwell School at Syracuse where he is a professor of economics.

Senator BRADLEY. Thank you very much. Before we begin our questions, I want to note that your full statement will be placed in the record.

Do you see any way that the fiscal position of these distressed communities will improve at all in the near term?

Ms. SHALALA. No. The long-term decline, in our judgment, will continue. The situation will be even more serious if the national economy slows down. We may again see some short-term numbers changing but the long-term economic decline of certain areas in this country which has to do with the economic decentralization of the country, we see no indication in the short run that will be turned around.

Senator BRADLEY. Why then do you think this program is designed to phase down over 2 years from $250 million to $150 million?

Ms. SHALALA. I think that the best answer that I could give and I am sure Secretary Blumenthal spoke to this issue, is most of the analysts in this business think the appropriate way to consider the question of fiscal assistance to local governments is in the context of next year's debate on general revenue sharing, which is up for renewal in 1980.

The way the program is now designed would give you the opportunity to talk about the general fiscal problems of American cities during the 1980 debate. While this seems short term, it speaks to the long-term economic decline and there would be an opportunity for review when the general revenue sharing program is up for debate.

Senator BRADLEY. This was the cornerstone of the President's urban program, far from being a cornerstone, it now seems like a pebble out there on the street.

Why the decline, do you think, in dollar amount?

Ms. SHALALA. I am not sure the administration has characterized it as the cornerstone. It certainly is a significant piece.

I know Secretary Blumenthal has pointed out both the budgetary and inflationary constraints which have led the administration to ask for a smaller amount of fiscal assistance this year.

The health of the national economy is probably the key component of any national urban policy and none of us in this business are pretending these individual programs would be a more powerful assistance than what the President is trying to do in terms of the national economy.

Those of us at HUD feel that the increase in the urban development action grant program, the $275 million increase in that program, is also terribly significant and would speak directly to the issue of helping to expand the economic basis of many of these areas which are in trouble.

As you know, that program is also targeted to distressed areas and we believe it would be very helpful.

Senator BRADLEY. Do you make any distinction between bloc grant and categorical grants in getting at the problems of distressed communities? Which, in your opinion is better?

Ms. SHALALA. Only conceptually, I would argue that all of them are useful because they speak to different kinds of problems.

Categorical programs properly targeted could be helpful on one, side, but in some cases where particular services have not been seen as in need of national programs, general revenue sharing is very helpful.

The national Government has categorical programs in the welfare and education area, for example, where fiscal assistance is more likely to be used for the kind of bread and butter issues of local government, police, fire and sanitation. All of them need help when you have a declining economic base.

Senator BRADLEY. Thank you.

Senator Moynihan?

Senator MOYNIHAN. Thank you, Mr. Chairman.

I think your program this year equals in amount what the program last year provided to New York City. This is in no way a criticism of Dr. Shalala, but let us be clear.

The administration has abandoned urban policy. It is one of those curious things that you can spend as much time talking about $150 million as you can talking about $1.5 billion.

Let's not forget what we are talking about. We are talking about insignificant sums and important principles. Principles are worth keeping and the day might come when the administration will do this.

Welfare, for example, it is rather important. For some years now, the American Presidency has been committed to the idea of guaranteed income. This administration has dropped the idea. I would not mind them dropping the idea at all, but they deny they were ever for it and also that they dropped it.

The Urban Development Bank—by the skin of its teeth, we saved it yesterday in the Public Works Committee. There was nobody around from the administration to explain what it was for people who wanted to know.

We have been forgotten and you know it. The principle here is a good one and we thank you for your testimony. We look forward to more nice correlations and tables from the Maxwell School Center.

Senator BRADLEY. Senator Durenberger?

Senator DURENBERGER. I cannot top that. Thank you.

Senator BRADLEY. Thank you very much.

[The prepared statement of Ms. Shalala follows. Oral testimony continues on p. 157.]

STATEMENT OF DONNA E. SHALALA, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

I am pleased to be here today to discuss with you the fragile fiscal health of our Nation's urban areas. Perhaps the most important point that I would like to impress upon you is that the urban fiscal crisis is not over—the future of our cities, counties and townships still demands the priority attention of government at all levels. The circumstances which have generated long-term urban decline—loss of jobs, people, and economic base—have not been significantly altered. Throughout the country, general purpose local governments with older physical plants, higher proportions of the poor and elderly, and higher crime rates are still experiencing economic decline. The loss of population and jobs is not random. The poor and the low-skilled remain in the urban core, while the richer, upwardly-mobile part of the population continues to move to the suburbs. Attempts by local government to cut services or raise taxes in a fiscal crisis lead to further deterioration of the business climate and an increased impetus for the mobile part of the population to move out. It also places an increasing burden on low-income households who cannot afford to move and who are most likely to be dependent on public services. Thus, as conditions continue to deteriorate, many local governments are increasingly vulnerable to future economic downturns.

While the long-run trends still point toward a continued deterioration of the fiscal health of our urban areas, short-run cyclical improvements in the national economy have relieved some of the fiscal pressure. While the fiscal situation of some urban governments has improved in the last two years as the result of both local belt-tightening and rapid national recovery from the 1973–75 recession, this general improvement may be very short-lived if the economy slows significantly.

Thus, it is essential to distinguish between long-term trends in urban economic activity and short-term cyclical fluctuations if we are to understand the current fiscal crisis and respond with sensible Federal policies. When the trend and the cycle move in the same direction as they did during the 1973–75 recession, the picture is quite clear. Local governments entered that recession in a relatively strong financial position because of the then recent enactment of General Revenue Sharing. Before the recession was over, however, both the economic base and the financial situation of many general purpose local governments deteriorated and they required a massive increase in Federal aid. At the other end of the cycle, economic expansion and recovery improves the financial position of many local governments but does not substantially alter the long-term trends. Thus, a number of local governments remain economically depressed.

Basing Federal policy on short-term, cyclical fluctuations rather than on long-term trends has led to mismatched timing between Federal aid and urban need in the past. In some cases, countercyclical programs have not even been passed until after the recession was over. As a result many local governments simply added the additional funds to their cash balances. This situation thwarts both the Federal purpose in providing the funds and sound financial planning at the local level. As the national economy improves, rapid withdrawal of Federal aid may again lead to fiscal stress. In many cases, the financial recovery of the local government does not keep pace with the withdrawal of the Federal funds, leading to financial disruption of local budgets.

Sound Federal policy must recognize both the long-term economic trends and the short-term cyclical aspects of the current fiscal situation of local governments. The Bill which you have before you today does exactly that. Title I of the Intergovernmental Fiscal Assistance Amendments of 1979 provides targeted fiscal relief to those places suffering most severely from long-term decline. This Title recognizes the special vulnerability of those places still recovering from the 1973–75 economic recession. Title II on the other hand provides for standby authority to offset potential future short-run cyclical downturns. By guaranteeing future fiscal relief during periods of recession, it stabilizes the future financial situation of local governments and assures them that future recession will not increase their already fragile fiscal health. Providing standby authority for the program *now* ensures the successful timing of the distribution of countercyclical funds. The money will be available when fiscal needs are the greatest.

Let me now turn to some of the more specific evidence on these short- and long-term aspects of the current fiscal situation. Fragile fiscal health is not a condition confined to any one type or size of local government. It is an equally serious concern for central cities, for older suburbs, for counties, for townships, and for jurisdictions of all sizes, large and small. My detailed evidence is primarily for larger cities because of data availability, but smaller places also face severe fiscal problems as is well documented in HUD's recent report to the Congress, *Development Needs of Small Cities.*

CYCLICAL FLUCTUATIONS

Despite the improved financial position of many local governments in the last two years, their fiscal *stability* has deteriorated significantly in recent years. Not only have they become increasingly dependent on outside aid for balancing their budgets, but they are vulnerable to cyclical swings of the national economy. When the national economy slows or enters a recession, local governments lose tax revenues—nearly $5 billion as a result of recession in 1975, according to the Advisory Commission on Intergovernmental Relations. The volatility of local revenues dependent on Federal aid and national growth represents a potentially serious problem for Federal policy toward local governments.

Recession and recovery in the seventies

The economic recovery since 1975 has marginally helped the financial position of some local governments in the U.S. *This improvement, however, has not altered the long-term economic decline in many of these places.* Because the overall economic improvement is relatively recent and because improvements in the national economy are reflected in local budgets only after a lag, evidence on the improved health of local government finances is still incomplete. Some of the indications of improvement are as follows:

The national economic trends in GNP and employment from 1970 to 1977 show a clear relatioinship to local government fiscal health. (Figure 1) The slowest growth in GNP occurred in 1974 and 1975, the worst years for the budgets of large cities. National employment also had its slowest growth in those two years. This point is well illustrated in Figure 1 which shows the trends in these national economic indicators along with the city budget data from Tables 1 and 2. The four trends show the same pattern with only slight deviations in timing. This pattern lends substantial support to the case for standby fiscal relief in the event of another recession.

For the fiscal year ending in 1977 twenty-nine of the nation's largest cities ended the year with a budget surplus. (Table 1) The surplus amounted to over $212 million or 3.2 percent of total expenditures for those cities. In both 1975 and 1976, those cities had deficits of $28.4 million and $154.1 million, respectively, Fiscal year 1977 was the first year that these cities had shown surplus since fiscal year 1974, the first year of the recession. Indeed, the relationship between city budget surpluses and the national economic recovery is quite striking. It is important to note that these budget surpluses are small relative to the level of Federal aid received by these twenty-nine cities. For example, they received more than $1,825 million of Federal aid under the Economic Stimulus Program (Local Public Works, Antirecession Fiscal Assistance, and Comprehensive Employment and Training Act). Equally important, the surpluses do not reflect the hardship generated in a number of distressed cities by the service cuts needed to realize them.

While these surpluses are one indicator of better financial health, they tell only a very small part of the fiscal story of local governments. Levels of local public services, levels of tax effort, the condition of public sector infrastructure, and the extent of local government service responsibility are all at least as important in determining local fiscal health as the current budget surplus or deficit. The case of Newark, New Jersey, is illustrative. A state spending lid has left that city with a current budget surplus although it is consistently identified by experts as one of the most distressed cities in the nation. Most state and local governments are legally prohibited from deficit spending and therefore tend to underbudget so as to err on the surplus side. This tendency has been encouraged by the problems of New York City and their impacts on local government bond markets across the nation. Finally, although the surplus is often properly reported net of Federal social insurance funds, it still includes state and local pension fund balances which are not available for discretionary expenditures. After two decades of rapid expansion in state and local public employment, these pension fund surpluses are essential to the future solvency of the state and local sector and are in no sense a sign of fiscal affluence.

Along with the improvement in the overall economic situation, real (after inflation) city general revenues from own sources have begun to increase. (Table 2) During fiscal years 1974 and 1975, the period of recession, real own source general revenues for cities first fell by $679 million and then during fiscal year 1975 increased only slightly—by $33 million. Fiscal years 1976 and 1977 have shown improvements in the real revenue collection of cities.

Since the rate of real growth in GNP is expected to slow significantly in 1979 and the possibility of a recession cannot be ignored, these surpluses may be short-lived. If the slowdown in the national economy is more severe than expected, local governments will be vulnerable once again to the kind of fiscal stress they experienced in 1974 and 1975. A crucial factor in their ability to withstand a recession without substantial layoffs and service reductions is Federal aid.

The role of Federal aid

Unfortunately, much of the increase in Federal aid to local governments since 1976 has been based on needs generated by the short-term cyclical changes in the economy rather than long-term trends. Such a policy has made local governments to some extent dependent for aid upon unstable swings in the business cycle rather than upon a more stable Federal effort to ameliorate the long-term decline.

In some local jurisdictions, the underlying economy is strong enough to withstand a combination of cyclical downturn and withdrawal of Federal aid, but many local areas have extremely weak economies and could face severe fiscal crises if this occurs.

The following section documents the long-term decline of a number of urban areas and demonstrates their vulnerability to fiscal pressure.

LONG-TERM ECONOMIC TRENDS

Although the data presented here are primarily for large central cities, the trends they document are equally applicable to many smaller cities and counties, including some suburban areas. The basic long-term trend documented here is urban decline. A number of different measures have been used to assess the health and longer-term prospects of urban areas. These measures, less responsive to cyclical changes in ecenomic activity, are thus very important in guaging long-term trends. Their actual relationship to fiscal condition varies, but it is clear that downturns in these indicators generally signal increased financial pressure and distress. Trends in population, income and employment are all contributing to these declines.

Population

This is a familiar and often-used measure of community condition. Population loss places a special burden on urban governments, magnifying budgetary strain, because while it rapidly depletes taxable resources, essential public expenditures do not drop proportionally. Furthermore, it is the better-educated, higher-income households who are leaving the urban core so the impact on their economies is even greater.

Population change affects almost all revenue sources, but property tax revenues (a major source for many local governments) are most sensitive. Even local sales and income taxes, which are partially borne by commuters and shoppers living outside the central jurisdictions, respond to population loss.

The following population trends illustrate the situation quite clearly:

The population of central cities as a group decilned by 4.6 percent from 1970 to 1977, while the suburban population increased by 12 percent. (Table 3) Large central cities experienced even greater losses during this period, declining by 7.1 percent as a group.

A number of large central cities which grew between 1960 and 1970 have lost population since 1970. (Table 4) This group includes Dallas, Denver, and Los Angeles, cities in the Southern and Western regions of the country, indicating that central city decline is a national phenomenon with implications for more than a few crisis areas. Among large cities which have declined steadily since 1960, the most rapidly declining cities are Cleveland, Minneapolis, and St. Louis, with Buffalo, Detroit, and Pittsburgh close behind. New Orleans and San Francisco are also in the category of cities which have steadily lost population since 1960.

The loss of central city population between 1970 and 1977 is symptomatic of the long-run trend in the loss of central city dominance over SMSA's which extends as far back as 1900 in a number of urban areas. (Table 5) Washington, D.C., for example, accounted for more than two-thirds of the population in its metropolitan area in 1900, but less than one-fourth of it by 1975. Most other major cities experienced similar declines in relative importance. This is an indication of the extent to which the central city is able to capture the tax base of newer and generally wealthier outlying parts of its metropolitan area. Annexation has enabled a number of central cities to capture portions of their suburban tax base and is reflected in the extent of their dominance of their SMSA. Annexation, however, has been confined almost exclusively to the Southern and Western regions of the nation in recent years; a few Midwest cities have annexed, but no annexation at all has occurred in the Northeast.

Within the same SMSA, from March 1975 to March 1978, more than twice as many people moved from the central city to the suburbs as from the suburbs to the central city. (Table 6) The back to the city movement is clearly overwhelmed by the continuing exodus from central cities.

Income

The income level of cities is another useful indicator of fiscal condition. It is related to a variety of revenue sources, including local income, sales, and property taxes. Trends in central city income are indicated by the following:

From 1969 to 1976 the real dollar median income of families living in central cities fell by $614 while the income of their suburban counterparts fell by only $59. (Table 7) In 1969, the median suburban family earned $2,594 more than the city dweller. By 1976, the Suburban family earned $3,149 more than the city family. Not only did city dwellers lose income, but they also lost relative to families living in the suburbs.

Between 1960 and 1975, the ratio of central city to suburban income per capita declined in 73 of the nation's largest 82 metropolitan areas. (Table 8) This trend was clear in all four regions of the nation with more than 83 percent of these large cities in the East, 86 percent of those in the Midwest, 88 percent of those in the South, and 100 percent of those in the West exhibiting declines in this ratio.

In addition to median levels, another important dimension of incomes in central cities is the fraction of the population with very low incomes. Two measures of this illustrate the extra burden on central cities: percent of the population below the poverty level, and transfer payments as a share of local income.

A larger fraction of the poverty population of the U.S. lived in central cities in 1977 than in 1970. (Table 9) During this period, both suburban and nonmetropolitan areas experienced reductions in the percent of their population below the poverty level while this percent rose in central cities.

Transfer payments constituted a larger share of local income in declining counties than in growing counties in 1975. (Table 10) This share also grew faster between 1970 and 1975 in these declining areas. Several growing areas have relatively high percentages (Phoenix, San Antonio and San Diego), but this is generally attributed to retired people (civilian and military) who represent a lesser drain on public resources. The high percentages in Boston (31.7 percent), Philadelphia (27.0 percent), St. Louis (28.0 percent) and New York (25.0 percent) highlight an increasing reliance on Government programs to sustain the local economy.

Employment

A final indicator of long-term decline and fiscal pressure is city employment. Employment affects virtually all potential tax bases in one way or another. Just how much a particular city will be affected by job loss depends on its tax structure and on the mix of jobs in its economy. One ironic problem facing many older cities is that service sector and public sector jobs replacing manufacturing job losses do not generally produce equivalent tax yields. Roy Bahl, Alan K. Campbell and David Greytak have estimated that New York City requires 1.11 service jobs or 1.61 Government jobs to replace a manufacturing job in terms of tax revenues. The trend in central city employment are indicated by the following:

Employment of central city residents declined by 1.4 percent between 1970 and 1977 while employment of suburban and nonmetropolitan residents increased by 25.7 percent. (Table 11) The employment of central city females actually increased during this period, but it was more than offset by the decline in male employment.

Unemployment was higher among central city residents in 1970 and rose by a larger amount between 1970 and 1976 than unemployment in suburban or nonmetropolitan areas.

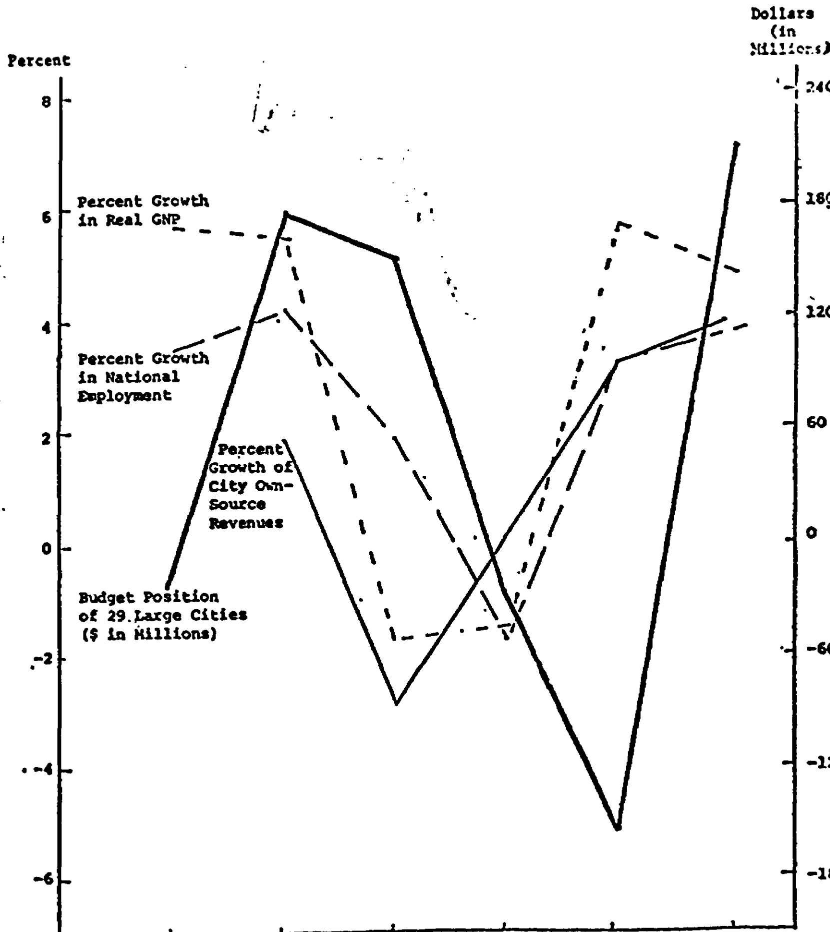
POLICY IMPLICATIONS

The facts presented here have clearly demonstrated the fragile nature of the current budget surpluses of local governments and their vulnerability to an economic slowdown. This vulnerability exists because many urban areas are experiencing long-term economic decline, including losses of people, jobs, and tax base. These long-term trends are currently offset in many places by the impact of rapid national economic growth, but once that growth rate slows they face a far bleaker future than their current budget positions suggest.

This dichotomy between the long-term decline and the short-term cyclical swings affecting local government budgets suggests a two-pronged Federal approach to urban fiscal problems such as that embodied in the Intergovernmental Fiscal Assistance Amendments of 1979. The targeted fiscal assistance provides financial support to those urban places suffering the most severe effects of long-term decline. The antirecession provisions promise the stability needed to withstand future recessions. If authority for this program is granted now, the program will be in place to provide financial relief when it is needed most. This policy would provide a much-needed fiscal "emergency net" and would significantly relieve some of the burdens a recession would otherwise impose on those people most heavily dependent on local public services.

FIGURE 1

NATIONAL ECONOMIC TRENDS
AND CITY FISCAL HEALTH



Sources: Budget Position from Table 1; Own-Source Revenue Growth from Table 2; GNP from Survey of Current Business, July, 1978; Employment from Employment and Earnings, November, 1978.

TABLE 1.—TOTAL REVENUES VERSUS TOTAL EXPENDITURES[1] OF 29 LARGE CITIES

[Dollar amounts in millions]

	Revenue excess (deficit)	As a percentage of total expenditures
1971	($57.4)	(1.2)
1972	16.1	.3
1973	175.1	3.5
1974	156.1	2.9
1975	(28.4)	(.4)
1976	(154.1)	(2.2)
1977	212.8	3.2

[1] New York is excluded from all years, statistics for Chicago and Cleveland are not available for 1977.

Source: Philip M. Dearborn, "The Financial Health of Major U.S. Cities in Fiscal 1977," The First Boston Corp.

TABLE 2.—GENERAL REVENUES FROM OWN SOURCES FOR CITIES

[Real dollars in millions]

	City general revenue from own sources	Percent change
Fiscal year:		
1972	$23,502	
1973	23,934	1.8
1974	23,255	−2.8
1975	23,288	.1
1976	24,043	3.2
1977	24,980	3.9

Source: U.S. Bureau of the Census, "City Government Finances in 1976–77."

TABLE 3.—CENTRAL CITY, SUBURBAN, AND NONMETROPOLITAN POPULATION: 1979 AND 1977

[Numbers in thousands, 1970 metropolitan area definition]

Type of residence	1970	1977	Percent change, 1970 to 1977
United States	199,819	212,566	6.4
Metropolitan areas	137,058	143,107	4.4
Central cities	62,876	59,993	−4.6
Suburban areas	74,182	83,114	12.0
Metropolitan areas of 1,000,000 or more	79,489	82,367	3.6
Central cities	34,322	31,898	−7.1
Suburban areas	45,166	50,469	11.7

Source: U.S. Bureau of the Census, "Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Population: 1977 and 1970," current population reports, p-23, No. 75, November 1978.

TABLE 4.—POPULATION GROWTH IN SELECTED CITIES

City	Population (thousands)				
	1960	1970	Percent	1975	Percent
Growing:					
Houston	938	1,233	31	1,327	8
Jacksonville	201	529	163	535	1
Memphis	497	624	26	661	6
Phoenix	439	582	33	665	14
San Antonio	588	654	11	773	18
San Diego	574	697	22	774	11

TABLE 4.—POPULATION GROWTH IN SELECTED CITIES—Continued

City	Population (thousands)				
	1960	1970	Percent	1975	Percent
Formerly growing, now declining:					
Columbus	471	540	15	536	−1
Dallas	680	844	24	813	−4
Denver	494	515	4	485	−6
Indianapolis	476	745	57	715	−4
Kansas City	476	507	7	473	−7
Los Angeles	2,479	2,816	14	2,727	−3
Declining:					
Baltimore	939	906	−4	852	−6
Boston	697	641	−8	637	−1
Buffalo	533	465	−13	407	−12
Chicago	3,550	3,367	−5	3,099	−8
Cincinnati	503	453	−10	413	−9
Cleveland	876	751	−14	639	−15
Detroit	1,670	1,511	−10	1,335	−12
Milwaukee	741	717	−3	666	−7
New Orleans	628	593	−6	560	−6
Philadelphia	2,003	1,949	−3	1,816	−7
Pittsburgh	604	520	−14	459	−12
St. Louis	750	622	−17	525	−16
San Francisco	740	716	−3	665	−7
Minneapolis	483	434	−10	378	−13
New York	7,782	7,895	1	7,842	−5

Source: George Peterson, et al., "Urban Fiscal Monitoring," forthcoming.

TABLE 5.—CENTRAL CITY AREA POPULATION AS A PROPORTION OF TOTAL SMSA POPULATION

[1.00 equals total SMSA population]

Region and SMSA	1900	1930	1960	1970	1975
East:					
Bridgeport	0.80	0.69	0.46	0.40	0.36
Hartford	.52	.52	.29	.23	.21
Washington, D.C.	.67	.68	.36	.26	.24
Baltimore	.70	.75	.52	.43	.40
Boston	.42	.36	.26	.23	.23
Springfield [1]	.62	.66	.58	.52	.51
Worcester	.65	.71	.56	.51	.50
Jersey City	.53	.45	.45	.42	.41
Newark	.47	.35	.23	.20	.19
Paterson [1]	.59	.37	.23	.20	.20
Albany [1]	.47	.56	.42	.35	.33
Buffalo	.69	.62	.40	.34	.31
New York	.90	.86	.72	.68	.66
Rochester	.48	.60	.43	.33	.30
Syracuse	.38	.52	.38	.30	.28
Philadelphia	.68	.62	.46	.40	.38
Pittsburgh	.41	.33	.25	.21	.20
Providence [1]	.57	.48	.43	.37	.36
Midwest:					
Chicago	.81	.75	.57	.50	.44
Fort Wayne	.58	.78	.69	.63	.64
Gary [1]	.38	.77	.60	.52	.49
Indianapolis	.47	.63	.51	.67	.63
Des Moines	.75	.82	.78	.70	.65
Wichita	.37	.64	.66	.71	.69
Detroit	.66	.72	.44	.35	.32
Flint	.18	.65	.47	.38	.36
Grand Rapids	.51	.57	.38	.36	.33
Minneapolis [1]	.79	.83	.53	.41	.36
Kansas City	.47	.57	.43	.50	.37
St. Louis	.67	.57	.35	.26	.23
Omaha	.50	.68	.65	.64	.65
Akron	.43	.65	.47	.40	.38
Cincinnati	.52	.53	.39	.32	.30
Cleveland	.76	.69	.45	.36	.32
Columbus	.57	.70	.62	.58	.57
Dayton	.37	.52	.36	.28	.25
Toledo	.55	.64	.50	.55	.52
Youngstown [1]	.45	.58	.44	.37	.35
Madison	.27	.51	.57	.59	.56
Milwaukee	.70	.70	.57	.51	.47

See footnote at end of table.

TABLE 5.—CENTRAL CITY AREA POPULATION AS A PROPORTION OF TOTAL SMSA POPULATION—Continued

[1.00 equals total SMSA population]

Region and SMSA	1900	1930	1960	1970	1975
South:					
Birmingham	.21	.50	.47	.40	.36
Mobile	.50	.46	.53	.50	.47
Jacksonville	.71	.83	.44	1.00	1.00
Miami	.80	.77	.31	.26	.25
Tampa [1]	.33	.65	.59	.48	.42
Atlanta	.45	.58	.47	.35	.29
Columbus	.28	.45	.53	.64	.72
Louisville	.69	.73	.53	.43	.40
Baton Rouge	.35	.45	.66	.58	.95
New Orleans	.89	.87	.69	.56	.51
Shreveport	.23	.50	.58	.61	.60
Jackson	.10	.45	.65	.59	.58
Charlotte	.32	.64	.63	.58	.66
Oklahoma City	.17	.67	.63	.57	.54
Tulsa		.47	.62	.69	.67
Knoxville	.29	.50	.30	.43	.43
Memphis	.60	.74	.73	.80	.84
Nashville	.65	.69	.36	.82	.75
Austin	.46	.67	.88	.85	.83
Corpus Christi	.38	.36	.63	.71	.72
Dallas	.16	.51	.60	.54	.48
El Paso [1]	.64	.77	.88	.89	.92
Fort Worth	.31	.70	.62	.51	.46
Houston	.37	.63	.66	.62	.58
San Antonio	.58	.72	.82	.75	.81
Norfolk [1]	.50	.76	.72	.61	.55
Richmond	.55	.71	.50	.48	.42
West:					
Phoenix	.28	.31	.66	.60	.54
Tucson	.88	.58	.80	.74	.67
Anaheim [1]	.30	.34	.40	.31	.28
Fresno	.32	.36	.36	.40	.40
Los Angeles [1]	.61	.62	.46	.45	.44
Sacramento	.38	.49	.30	.31	.30
San Diego	.51	.70	.55	.51	.49
San Francisco [1]	.78	.70	.41	.34	.32
San Jose	.36	.40	.31	.41	.45
Denver	.72	.74	.53	.41	.35
Honolulu	.67	.67	.58	.51	.46
Albuquerque	.21	.58	.76	.77	.77
Portland	.60	.66	.45	.37	.33
Salt Lake City	.62	.67	.42	.31	.27
Seattle [1]	.60	.67	.50	.41	.38
Spokane	.63	.76	.65	.59	.57
Tacoma	.67	.65	.45	.37	.36

[1] Contains multiple central cities.

Sources: ACIR, "Trends in Metropolitan America;" 1975 data from U.S. Bureau of the Census, "Current Population Reports."

TABLE 6.—MIGRATION BETWEEN CENTRAL CITY AND SUBURBS WITHIN SMSA'S, 1975–78

	All races			Black			Spanish origin		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Central city to balance of SMSA	4,640	2,296	2,344	546	250	296	406	191	215
Balance of SMSA to central city	2,231	1,108	1,124	261	129	132	154	70	84
Net migration ratio	2.08	2.07	2.09	2.09	1.9	2.24	2.64	2.73	2.56

Source: U.S. Bureau of the Census, "Current Population Reports: Geographic Mobility, March 1975 to March 1978."

TABLE 7.—CENTRAL CITY AND SUBURBAN MEDIAN FAMILY INCOMES, 1969 AND 1976

[In 1976 dollars, 1970 metropolitan area definition]

Sex and race of family head	Median income in 1969			Median income in 1976		
	Central cities	Suburban areas	Nonmetropolitan areas	Central cities	Suburban areas	Nonmetropolitan areas
All families:						
Total	$13,952	$17,101	$12,831	$14,566	$17,160	$11,931
White	15,069	17,371	13,318	15,601	17,413	12,406
Black	9,361	12,037	7,435	10,188	10,745	6,155
Families with female head:						
Total	6,658	8,539	6,542	7,586	9,351	6,082
White	7,914	8,985	7,411	9,014	9,842	6,815
Black	5,125	5,789	4,569	5,494	5,425	3,843

Source: U.S. Bureau of the Census, "Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Population: 1977 and 1970," Current Population Reports, p. 23, No. 75, November 1978.

TABLE 8.—PER CAPITA INCOME CENTRAL CITY AND OUTSIDE CENTRAL CITY AREAS, 1960 AND 1975

Region and SMSA	1960			1975		
	Central city	Outside central city	Ratio of central city to outside central city	Central city	Outside central city	Ratio of central city to outside central city
East:						
Bridgeport	$1,967	$2,613	0.75	$4,424	$5,717	0.77
Hartford	2,104	2,521	.83	3,997	5,828	.69
Washington, D.C.	2,406	2,432	.98	5,659	6,712	.84
Baltimore	1,866	2,063	.90	4,330	5,442	.80
Boston	1,919	2,363	.81	4,157	5,257	.79
Springfield [1]	1,888	2,078	.90	4,159	4,765	.87
Worcester	1,935	1,901	1.01	4,435	4,645	.95
Jersey City	1,963	2,107	.93	4,298	4,672	.92
Newark	1,792	2,747	.65	4,420	6,285	.55
Paterson [1]	2,053	2,646	.77	4,420	6,285	.70
Albany [1]	1,985	1,989	.99	4,412	4,842	.91
Buffalo	1,913	2,113	.90	3,928	4,712	.83
New York	2,306	2,734	.84	4,339	5,867	.84
Rochester	2,072	2,259	.91	4,335	5,423	.80
Syracuse	2,152	1,922	1.11	4,123	4,551	.91
Philadelphia	1,875	2,272	.82	4,350	5,211	.83
Pittsburgh	1,943	1,945	.99	4,426	4,739	.93
Providence [1]	1,843	1,823	1.01	4,508	4,564	.99
Mean	1,999	2,251	.90	4,346	5,298	.82
Midwest:						
Chicago	2,293	2,662	.86	4,689	5,977	.78
Fort Wayne	2,105	1,957	1.07	4,661	5,192	.90
Gary [1]	1,936	2,022	.95	4,340	5,180	.84
Indianapolis	2,031	2,179	.93	4,843	5,223	.91
Des Moines	2,201	2,035	1.08	4,975	5,434	.91
Wichita	2,082	1,896	1.09	4,951	4,454	1.11
Detroit	2,005	2,261	.88	4,462	5,715	.78
Flint	2,045	1,721	1.18	4,449	4,525	.98
Grand Rapids	1,937	1,943	.99	4,463	4,589	.97
Minneapolis	2,218	2,178	1.01	5,063	5,400	.94
Kansas City	2,176	2,105	1.03	4,736	5,261	.90
St. Louis	1,801	2,192	.82	4,006	5,245	.76
Omaha	2,139	1,846	1.15	4,877	4,432	1.10
Akron	2,124	2,012	1.05	4,614	4,923	.94
Cincinnati	2,043	2,031	1.00	4,571	4,674	.96
Cleveland	1,856	2,693	.68	3,925	5,722	.69
Columbus	1,685	2,310	.81	4,333	5,169	.84
Dayton	1,973	2,127	.92	4,091	5,015	.82
Toledo	2,012	2,009	1.00	4,571	5,076	.90
Youngstown [1]	1,876	1,936	.96	4,336	4,772	.91
Madison	2,214	1,873	1.18	4,885	5,005	.98
Milwaukee	2,105	2,305	.91	4,680	5,628	.83
Mean	2,049	2,104	.98	4,562	5,123	.90

See footnote at end of table.

TABLE 8.—PER CAPITA INCOME CENTRAL CITY AND OUTSIDE CENTRAL CITY AREAS, 1960 AND 1975—Continued

Region and SMSA	1960 Central city	1960 Outside central city	1960 Ratio of central city to outside central city	1975 Central city	1975 Outside central city	1975 Ratio of central city to outside central city
South:						
Birmingham	1,570	1,347	1.16	4,023	4,650	.87
Mobile	1,747	1,101	1.58	3,814	3,720	1.02
Jacksonville	1,611	1,814	.88	4,615	(2)	(2)
Miami	1,838	2,101	.87	4,416	5,750	.77
Tampa[1]	1,798	1,724	1.04	4,625	5,017	.92
Atlanta	1,934	1,918	1.00	4,527	5,664	.80
Columbus	1,534	1,287	1.19	4,215	3,241	1.30
Louisville	1,764	1,946	.90	4,302	4,926	.87
Baton Rouge	1,855	1,493	1.24	4,187	(2)	(2)
New Orleans	1,740	1,673	1.03	4,029	4,361	.92
Shreveport	1,859	1,307	1.42	4,086	3,365	1.21
Jackson	1,756	921	1.90	4,514	3,335	1.35
Charlotte	1,975	1,443	1.36	5,007	3,804	1.32
Oklahoma City	1,981	1,850	1.07	4,731	4,503	1.05
Tulsa	2,298	1,560	1.47	5,173	4,007	1.29
Knoxville	1,486	1,570	.94	4,044	4,393	.92
Memphis	1,651	1,220	1.35	4,383	4,033	1.09
Nashville	1,288	1,934	.66	4,606	4,727	.97
Austin	1,688	1,520	1.11	4,379	4,658	.94
Corpus Christi	1,616	1,226	1.44	3,941	3,051	1.29
Dallas	2,219	1,906	1.16	5,285	4,932	1.07
El Paso[1]	1,579	1,405	1.12	3,479	2,854	1.22
Fort Worth	1,946	1,782	1.09	4,527	4,742	.95
Huston	2,062	1,735	1.18	5,110	5,079	1.01
San Antonio	1,427	1,937	.73	3,601	4,971	.72
Norfolk[1]	1,658	1,613	1.02	4,252	4,509	.94
Richmond	1,940	2,055	.94	4,952	5,397	.92
Mean	1,771	1,603	1.14	4,411	4,354	1.04
West:						
Phoenix	2,013	1,741	1.15	4,942	4,933	1.00
Tuscon	1,886	1,942	.97	4,385	5,159	.85
Anaheim[1]	2,138	2,361	.90	4,706	5,842	.81
Fresno	1,984	1,702	1.16	4,243	4,147	1.02
Los Angeles[1]	2,603	2,453	1.06	5,318	5,252	1.01
Sacramento	2,476	2,069	1.19	4,765	4,850	.98
San Bernardino[1]	2,103	1,812	1.16	4,386	4,403	1.00
San Diego	2,301	2,054	1.12	5,016	4,663	1.08
San Francisco[1]	2,596	2,516	1.03	5,672	6,066	.93
San Jose	2,205	2,390	.92	4,970	6,120	.81
Denver	2,275	2,050	1.10	5,585	5,370	1.04
Honolulu	2,176	1,689	1.28	(2)	(2)	(2)
Albuquerque	2,109	1,393	1.51	4,544	3,288	1.38
Portland	2,284	2,026	1.12	5,192	5,126	1.01
Salt Lake City	2,105	1,693	1.24	4,933	4,161	1.19
Seattle[1]	2,664	1,989	1.33	5,711	5,235	1.09
Spokane	2,077	1,770	1.17	4,499	4,233	1.06
Tacoma	1,986	1,815	1.09	4,607	4,640	.99
Mean	2,221	1,970	1.14	4,910	4,910	1.01

[1] Multiple cities.
[2] City and county consolidated and therefore relationships are not applicable.

Source: 1960 data from ACIR, "Trends in Metropolitan America;" 1975 data from Bureau of the Census, "General Revenue Sharing Data Book," 1977.

TABLE 9.—DISTRIBUTION OF THE POVERTY POPULATION AND PERCENT BELOW THE POVERTY LEVEL, CENTRAL CITY AND SUBURBAN, 1969 AND 1976

[1970 metropolitan area definition]

Type of residence	1970	1977
Percent distribution by residence:		
United States (thousands)	27,204	24,975
Percent	100.0	100.0
Metropolitan areas, total	56.0	61.0
Central cities	34.0	38.0
Suburban areas	22.0	23.0
Nonmetropolitan areas	44.0	39.0
Percent below the poverty level:		
United States	13.8	11.8
Metropolitan areas, total	11.2	10.7
Central cities	14.9	15.8
Suburban	8.1	6.9
Nonmetropolitan areas	19.3	14.0

Source: U.S. Bureau of the Census, "Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Population: 1977 and 1970," Current and Population Reports, p. 23, No. 75, November 1978.

TABLE 10.—TRANSFER PAYMENTS AS A PERCENTAGE OF TOTAL RESIDENT LABOR AND PROPRIETOR INCOME—URBAN COUNTIES[1]

	Percent of income, 1975	Percent change, 1970-75
Growing:		
Houston (Harris)	8.1	17.3
Jacksonville (Duval)	15.3	54.0
Memphis (Shelby)	15.6	43.9
Phoneix (Maricopa)	18.7	66.9
San Antonio (Bexor)	21.2	53.4
San Diego	24.5	47.5
Average	17.2	47.2
Formerly growing, now declining:		
Columbus (Franklin)	15.3	57.9
Dallas	10.6	50.0
Denver	17.4	35.7
Indianapolis (Marion)	13.9	50.0
Kansas City (Jackson)	17.4	60.7
Los Angeles	18.1	40.8
Average	15.4	49.2
Declining:		
Baltimore	25.0	73.6
Boston (Suffolk)	31.7	59.3
Buffalo (Erie)	20.4	52.5
Chicago (Cook)	15.4	57.0
Cincinnati (Hamilton)	16.0	51.2
Cleveland (Cuyahoga)	16.0	42.3
Detroit (Wayne)	19.6	77.2
Milwaukee	16.3	48.2
New Orleans (Orleans)	21.2	40.7
Philadelphia	27.0	62.7
Pittsburgh (Allegheny)	18.6	43.8
St. Louis (Jackson)	28.0	66.6
San Francisco	22.6	37.2
New York (New York, Bronx, Kings, Queens, Richmond)	25.0	59.1
Average	21.6	55.1

[1] Adjusted for residents working in county but living outside of county. The names of the counties are in parentheses. If not given, the name of the county and the central city in the county are the same or the city is a city-county.

Source: George Peterson, et al., "Urban Fiscal Monitoring," forthcoming.

TABLE 11.—EMPLOYMENT AND UNEMPLOYMENT IN CENTRAL CITY, SUBURBAN, AND NONMETROPOLITAN AREAS, 1970 AND 1977

	March 1977			April 1970		
	Central cities	Suburban areas	Nonmetropolitan areas	Central cities	Suburban areas	Nonmetropolitan areas
Total:						
Number employed	24,594	36,088	27,539	24,943	28,701	22,316
Percent change, 1970-77	−1.4	25.7	23.4			
Unemployment rate	9.1	7.3	7.6	4.8	3.9	4.6
Males:						
Number employed	13,967	21,648	16,572	14,702	18,269	14,168
Percent change, 1970-77	−5.0	18.5	17.0			
Unemployment rate	9.1	6.6	7.1	4.5	3.4	4.0
Females:						
Number employed	10,627	14,440	10,967	10,241	10,432	8,148
Percent change, 1970-77	3.8	38.4	34.6			
Unemployment rate	9.1	8.2	8.3	5.1	4.7	5.7

Source: U.S. Bureau of the Census, "Social and Economic Characteristics of Metropolitan and Nonmetropolitan Population: 1977 and 1970," current population reports, p. 23, No. 75, November 1978.

Senator BRADLEY. Our next witnesses will be a panel consisting of Lois Parke, county councilwoman, Newcastle County, Del.; Charles Worthington, county executive, Atlantic County, N.J., and Emil Stanislawski, supervisor, Milwaukee County, Wis. All three are appearing on behalf of the National Association of Counties.

I would like to extend my personal welcome to you and I appreciate your willingness to wait through the afternoon's testimony and your willingness to come here before us today and give us the benefit of your thoughts concerning the countercyclical program.

I am pleased to be able to extend a special welcome to the county executive of America's newest county of hope and as some would say, folly, Atlantic County. Chuck, I am glad you are here.

STATEMENT OF LOIS PARKE, COUNTY COUNCILWOMAN, NEWCASTLE COUNTY, DEL., ACCOMPANIED BY CHARLES WORTHINGTON, COUNTY EXECUTIVE, ATLANTIC COUNTY, N.J., AND EMIL STANISLAWSKI, SUPERVISOR, MILWAUKEE COUNTY, WIS., ON BEHALF OF NATIONAL ASSOCIATION OF COUNTIES

Ms. PARKE. Mr. Chairman, we thank you very much for inviting us here today. We, too, recognize you have been here a long time today and have heard a great deal of testimony.

It occurred to us that perhaps it would be your preference for us to give you our prepared statement and I understand you do have a copy of it, which would allow the possibility of perhaps highlighting it and then being open to your questions.

Senator BRADLEY. I think that would be a good suggestion. We will insert your full statement into the record.

Ms. PARKE. I will proceed with the highlights.

No. 1, a lot of what has been said here this afternoon that we have had an opportunity to hear brings up a point, as you know, NACO, the National Association of Counties, is meeting currently for its legislative conference.

The No. 1 priority for NACO is revenue sharing and the renewal of revenue sharing. There is a great deal of concern that some of the debate that is taking place on countercyclical is going to spill over and perhaps spoil our opportunities for revenue sharing continuity.

Although this program does not in any way, shape or form approach even the size or the importance to county governments as general revenue sharing, we do submit to you that it is important. It is an unique tool that prior to the now defunct countercyclical program, it was never available in this country to react to a cyclical recession.

Unfortunately, when we did have the recent recession, it took 18 months to get the program through Congress. I think primarily what the counties are looking for and that is both the counties who recognize they would now be eligible under the proposed legislation and those who recognize full well that they would not be eligible and let us say they are the more fortunate economically, feel that this insurance is worthwhile, that without a tool that can go into effect almost immediately, we will be no better off through the experience that we had several years ago.

It is a highly targeted program and that is beneficial. I have mentioned it is an insurance. It is a quick trigger. It is efficient and it is flexible and there are not too many Federal programs that we could apply those terms to.

The funds are restricted to combat unemployment.

These are really the highlights to my testimony. I would like to allow both of my friends and fellow county officials to say a few words, sir.

Mr. Chuck Worthington from Atlantic County.

Mr. WORTHINGTON. Senator Bradley, let me tell you how extremely happy I am to see you sitting where you are sitting.

I would like to do a couple of things. I would like to try to respond to some of the questions that I heard the committee ask some of the prior witnesses and I would also like to give you an overview of county governmental responsibilities.

I think if you take a look at counties and if you take a look at the relationship between county governments and the Federal Government, we are probably the largest providers of direct services to taxpayers that are initiated by Federal programs.

If you take a look at who runs the welfare programs, the county governments do; who pays a good portion—county governments. In that particular instance, in terms of welfare, I think we pay a disproportionate share because of the burden falling the greatest on those counties that can least afford.

Who runs your manpower programs and makes sure the programs that the Congress of this country initiates are put into operation? We counties run the programs for Regional Office on Aging. We run the nutrition sites. We provide health benefits.

We are involved in all kinds of planning activities and getting further involved on a regional basis. County governments generally are running the regional sewage authorities, running the 208 planning programs for clean water, a responsibility for transportation planning, responsibility for clean air planning and the implementation that these planning activities are going to require further down the line are going to fall on county governments.

Here we are, a middle level of governmental agency, that frequently does not have the wherewithall to tax directly.

Senator Bradley, you know, in the State of New Jersey, we are trying to do a yomen job in holding down governmental spending so we have caps and limits on what the State government can spend, limits on what the county government and the school boards can spend; limits on what the municipalities can spend.

We in New Jersey do not have a large surplus. In fact, if the truth be known, it is probably just the opposite. We are probably erring on the side of fiscal irresponsibility in terms of the lack of surplus or a cushion that we carry.

We have this kind of a problem.

Senator, you asked specially, why tie countercyclical or some kind of revenue sharing aid program into an unemployment rate concept?

I think you have to go back and you have to take a look at how revenues are arrived and how tax moneys are spent and who is involved in local governments.

County government in New Jersey does not have a direct taxing power but we levy an assessment. We determine how much money we need in our budget and then we levy an assessment upon all of the municipalities within our jurisdiction. There is a complex formula in terms of equalized valuation and a rate is struck.

We are then assured of the money that we get.

The local municipal government has the taxing power but they only have the power to tax property, the ad volorum tax. Any amount of money that the county government needs plus any amount of money that the local municipality needs in order to provide the services to their people, is levied directly against property.

What happens when you have a rise in the level of unemployment? People stop paying their taxes. They stop paying their taxes and now the tax collection rate of the municipality, instead of being at 95 or 98 percent now drops to 85 or 87 or 84 percent.

In order to raise the requisite amount of money, you then have to go into another recasting of that program to lay an added burden on those people who are already paying a share for their goods and services. You lay upon them a disproportionate share. I think that is how the whole thing is tied in and keyed into the unemployment rate.

Senator Moynihan was quite eloquent in terms of talking about the very efficient system of the Federal Government in terms of collecting the taxes. The other side of that coin is the distribution of the taxes that are collected.

I think he said it better than I. We do not have an equitable system of distribution.

We sometimes get to be opponents conceptually in terms of Federal money is our money to spend and local money is your money to spend when what we are talking about is providing services to the people who elect all of us. I think the best way to do it is in a cooperative atmosphere, one which returns, because you have collected much more efficiently and much more broadly based than the municipality or county who is limited in terms of levying the tax on only property.

Let me just tell you the effect of the succession of countercyclical moneys. In 1977, Atlantic County received $743,000 in antirecessionary moneys. That money went in because it was labor intensive and went into the salary and wage account. The next year it was $706,000. This year, it is zero.

That means we have to go out, and there is also the problem of the budget lag between our calendar year budget, which starts in January to December and your fiscal year budget so there is the problem of responsible assessment of revenues when we make up a budget. If we do not know in advance of we are going to get or we are not, that is problem. You go in on a wing and a prayer and it is a very tenuous and not a very responsible way to manage a fiscal program for the people who elect us.

We need assurance. First of all, we need the money. Second, we need the assurance that the money is going to be there in terms of some kind of stable revenue program that makes sense to us.

You say, what is the effect in Atlantic County? The effect is we did not lay anyone off. We did not fire anyone. We did not feel we put anybody on to do any extra work. We only employ in Atlantic County the people that we think are absolutely essential to provide the kinds of services we feel need to be provided.

What we had to do was then go to the taxpayer again, that property taxpayer, and do them a tremendous injustice because the property tax rates, especially in New Jersey, although they are a little better now that we have a statewide income tax, but they are still almost confiscatory.

I would like to take an opportunity to let Emil have a few words. I could go on and you have heard it all before, I am sure.

Ms. PARKE. Thank you, Chuck.

I would like to introduce to the committee. Mr. Emil Stanislawski. He is a supervisor from Milwaukee County, Wis.

Mr. STANISLAWSKI. Mr. Chairman, I am here in somewhat of an unique position in that I represent a county which in the past has received almost $3 million in countercyclical assistance.

Under both versions of the legislation before, you, Milwaukee County would not receive a single dime. I am not here to complain and request the appropriation be increased.

I am here to indicate that as chairman of the finance committee in Milwaukee County, I certainly can appreciate the pressures of putting together a budget that you as finance committee members have here at the Federal level.

We are very supportive of the legislation, either piece of legislation which is pending before you, primarily because of the provision of the standby mechanism of the bill which would trigger assistance to our community, if the unemployment rate would exceed either the 6- or 6.5-percent figure.

Currently our unemployment is at 4.3 percent in Milwaukee County. We have exceeded the 6- or 6.5-percent figure in 1975 and 1976. We were up over 8 percent for unemployment in those years.

What happens to us when unemployment goes to that figure, we find our general assistance welfare rolls go up and our hospital costs, our county hospital costs, start accelerating because people who are laid off from their private employment no longer have health insurance and they come to the county hospital for health care.

We provide in our county hospital care for anyone who cannot afford to pay for it.

We are caught in a situation where we will have rising welfare rolls and rising hospital costs but our budget will not be geared to deal with those increased or accelerated costs and we would like to have this legislation enacted so there is a provision that would allow for Federal assistance to kick in when we hit that unemployment level which would provide us with assistance to compensate for these pressures on our local budget.

I think the people that I have talked to at our NACO Conference in the last few days also share the concern that you gentlemen face in dealing with the pressures of the Federal budget but they feel very strongly about this particular provision in the legislation, which would provide a safeguard mechanism, an insurance policy effect for communities that may at some point in the near future exceed the unemployment rates that are indicated in the legislations.

Ms. PARKE. Senator, I would also like to introduce our legislative representative from NACO who has accompanied us, Mr. Elliott Alman.

If I may, I would like to respond to a question which came up earlier in testimony prior to ours and indicate to you that we in the National Association of Counties and as individual county officials, recognize full well the directions that you Senators are being torn in.

This afternoon as we are sitting here, the NACO Board is meeting. We have for the past 2 days had our steering committees together acting on a resolution which was passed last summer, or have asked all of our steering committees to prioritize those Federal programs upon which we generally seek assistance in the Congress.

This afternoon, our board of directors is taking this maze out, for instance, of the 442 categorical grant programs which were referred to earlier, trying to put them down into a reasonable portion so that perhaps we can be of some assistance in helping to make some sense out of the maze.

As you have pointed out, you are asked to cut and yet whenever there is a bill before you, you have people here primarily lobbying for that bill. which is only one part of the total picture.

We recognize that and we are taking steps to straighten out our priorities and hopefully to convey to you how we arrived at those decisions. We hope that will be of some assistance.

Senator BRADLEY. Thank you very much.

Do all of the counties that you are aware of have a similar tax base to Atlantic County, dependent primarily on the property tax?

Ms. PARKE. Yes; as a general rule. I think across the country you have some variations, for instance, whether the county government has home rule or the county government has to get their budget approved by the State legislature.

Primarily the major funding source is the property tax, also significantly, that can only be set once a year.

The other sources of funds, aside from Federal support or State pass-through grants, are user fees. I think you will find more and more across the country, any service that can be identifiable to a user is being more and more shifted to that user in a separate fee, even to such things as solid waste disposal where we have land fills. You will find rather than that totally absorbed as part of the tax rate on the property tax, you will see shifts so that part of it is raised on the property tax of it per truckload arriving at the landfill or whatever.

There is a shift but there is a limit to what you can place on user fees. So many of the services that we provide, for instance, police or ambulance service, you would be trying to user fee tax the wrong people. Certainly you cannot use the user fee for high crime areas, for instance.

Senator BRADLEY. Public sales tax.

Is your general impression that the more targeted a program, the better?

Ms. PARKE. The targeting of the program, I think, is very advantageous. When you get into the fine points of how targeted is better, it is questionable. How large is the pie?

We are not here to testify today on whether we are in support of the $250 million mark or whatever. I think we feel very strongly that it is the concept that is important with the hope that if the concept becomes part of our national policy, where we have major upsets economically, that the appropriations could follow, depending on the size of the need.

Senator BRADLEY. There are really two concepts here. One is the countercyclical concept and the other is the targeted fiscal assistance. Both of those are things you would like to see in the long run extended, is that correct?

Ms. PARKE. Yes.

Mr. WORTHINGTON. Mr. Chairman, last night we had a meeting also of the Urbans Affairs Committee of the NACO organization and a joint meeting with the elected county officials, which is an affiliate of the NACO group.

I think the bill or any combination or combinations of bills depends upon the political reality of getting the bill passed.

We are certainly all in favor of the concept. Can we get a billion dollar bill passed this year? We would certainly lend our support to it.

Are the political realities such that we can only get a modified much more highly targeted bill passed?

You cannot fight the battle that you cannot win. If you have an opportunity to get a bill that provides needed, desperately needed fiscal assistance, financial assistance, to counties and municipalities, we are in favor of it.

I think the committee and the Congress is going to have to make those determinations as to how broad, how narrow, how much money.

The need out there is desperate and we are here to testify to that need and to give you active support in whatever way we can to get the best kind of bill, whether it is one of the bills that is already in the hopper, or maybe some bill that is compromised or a combination of the proposals that are already in the hopper.

Senator BRADLEY. What have you specifically stopped in Atlantic County because you did not have the money this year?

Mr. WORTHINGTON. We did not stop anything; what we had to do was to go and dig and pick up the $760,000 or $706,000 and make that up out of property tax revenues in order to continue the kinds of minimum programs that we think we are providing now.

We think we have a long way to go in providing services to our people. There are a lot of programs that we would like to initiate.

There are a lot of areas that we do not even touch because we cannot afford it.

I guess really needs are always unlimited. The dollars are always extremely limited.

Ms. PARKE. Senator, in Newcastle County, I think we have an advantage because of my work on the Taxation and Finance Committee of NACO. I was down here testifying for countercylical and I will not say I crystal balled it but being the finance chairman also back home, my advice when we were budgeting in May was do not budget the countercylical next year because I do not think it is coming. We got one check.

What had happened was the one budget year prior to last year, we had a cutback of 10 percent on our existing employment. That did not include the vacancies that had not been filled. We have had a higher increase for 2 years. We have obviously not been able to expand anything. We have dug in.

One of the areas that is well-known in county circles and probably less attention paid to it by Senators, unless they have a personal problem, is we are responsible for the sewer systems. One of the services that we cut out was a $700,000 sewer lateral cleanout program.

One of my concerns is I do not know what the long-range result of that is going to be. You can postpone maintenance programs for just so long.

We had two things; we had a tax increase the budget year before last and we had a 10-percent cutback and we had still not been able to open up our hiring again.

We have played it very close, very conservatively. I think our situation has been duplicated around the country. It is not that we would like to go out and spend a lot of money and we certainly will not, but we have gotten to the point where this budget year we are faced with major cutbacks.

Senator BRADLEY. How can Milwaukee accept this program when they do not get any of the money?

Mr. STANISLAWSKI. Mr. Chairman, Milwaukee County recognizes there are communities in this country that are in greater need. We also recognize that the city of Milwaukee receives money under this program. The city of Milwaukee is two-thirds of the population of Milwaukee County.

The city has been having great difficulty. It had a tough time in their last budget and reduced positions on the police force and across the board.

They will be receiving funding. I believe my district, which is 90 percent of the city of Milwaukee, is where the money should be targeted. Milwaukee County will have to make some adjustments.

We were not required to lay off any positions. We made some midyear adjustments of the effect of which, because of the way the State law handles our budget process, will be a property tax increase in 1980.

We feel we can adjust. We much prefer to have the revenue but we realize there are areas where there is a greater need and the city of Milwaukee is one of them.

Mr. WORTHINGTON. Mr. Chairman, may I just put on other concept on the record?

I think there is a mistaken concept that because counties or municipalities were given x number of dollars in fiscal relief moneys, that they went out and just spent that money in addition to the money they already had to spend. That is not true.

The converse is not true either, that because the money was cut out, now you just have to go out and cut some programs.

One of the benefits of getting additional Federal dollars is that you can return some of those Federal dollars in a reduction of the tax rate and through that enlightened kind of distribution formula which Senator Moynihan was talking about, there is a need to redistribute revenues.

Part of the assumption is also the factor that if you get additional moneys from the Federal Government, you have a responsibility not just to go out and initiate a whole series of programs and spend all that money but you have a responsibility to your own taxpayers to try to return some of that money in decreased property taxes.

That is what it is for; that is what I envision this to be for and I think that is what revenue sharing is for; it is not that now you have an extra pot of money that you can run out and spend but you have a stabilized revenue source that you can now plan on and you can utilize it in your budget the way you think is the proper utilization and to give some of that back to that taxpayer on that local level where the relief is most necessary.

Senator BRADLEY. Thank you. Senator Durenberger?

Senator DURENBERGER. At this point, I am in the political science stage in part due to the explanation given by Senator Moynihan. I do not mind keeping it on that level. I have to go from here and talk to 60 to 80 county commissioners from Minnesota.

I will say that only two of those counties are going to get anything out of this bill.

I want to make a couple of observations and none of which are critical to anything you have said.

No. 1, on the issue of the property tax; going on my own experience, in 1975, Hennepin County, which is Minneapolis, normally they collect about 98 percent of their real estate taxes and it went down to about 97.5 in the middle of the recession. The basic reason that happened and that it did not happen in previous years is we took the penalty and the interest up. I do not remember what the penalty was but the interest went up from 6 percent to 10 percent by State law. People wanted to hang onto their property so they paid it.

I guess if you were more dependent on the income tax or piggyback or something else, I could more easily buy the argument that in a recession, you have a problem with property tax and it needs to be relieved.

The other argument relative to property tax relief, I think it would probably be better stated that what you are trying to do is hold down the increase. You are not going to use this directly for property tax relief but you are trying to control the rapid increase in the property tax that comes in those periods of economic downturn when your cost of services is going up and your revenue is more steady.

Let me get to my main point. Because of a perception I know that every one of you have, NACO has it, the cities had it, and everybody had it, that all of us are sitting here with the problem of the balanced budget. I am not.

I got elected by the third highest vote ever given anybody in the State of Minnesota and I did not get it to come down here and balance the budget. I got it to come down here and spend money more wisely. That is how simple it was.

We are all getting carried away with this bologna about balancing the budget and a lot of us Republicans are guilty of selling that as an inflationary measure.

The important thing is the wise expenditure of money.

What I have been trying to point out in my questions particularly of local government people is, are you sure you are smart endorsing targeting?

I fought for revenue sharing way back starting in 1969 from the State level. I was around in 1972 when we got general revenue sharing through and the first thing Nixon did was cancel out a whole bunch of HUD grants. He said, now you have your revenue sharing. The theory was, now we are going to take your categorical grants away from you.

You have seen what has happened to general revenue sharing. It started to be more and more targeted. They hang more and more things on it. It is not the original concept of creaming something off the top and giving it back to local governments to promote the economy.

I see the same thing happening with this program. You got suckered in with $1 billion. Fantastic! You can spend it anyway you want and now they are telling you that there is only $250 million to spend so you had better go for targeting, you had better narrow that down from 41 big cities to a few little cities.

I have a real concern that I am all for doing what Chairman Long suggested to us a couple of weeks ago, he said, we ought to take all this categorical grant money and shove it into just one check and we ought to reduce the amount of the check by 40 percent and if we gave it to the cities and the counties, they would be happier and they could make better use of that money than if we gave it to them in all these categorical grants.

Mr. Worthington, you said you run all these programs. You do not really run them. All you are doing is administering programs that wise guys like us or our predecessors told you to run and then we told you how to run them.

I firmly believe you can do a better job of running these programs. You can make me look good 4 years from now when I have to run again, if I can get more unfettered money into your hands to spend.

I am sure I am going to support this because I see the arguments. It is just by way of advice to anybody at the local government level, do not be too quick when the money starts getting reduced and say, we are all for the program, we will take it under any circumstances, whether we agree with this kind of targeting or whatever. Please keep in mind that this outfit up here, those of us who are here, just because we are spending Federal money, assume we know how to spend it better than you do because we do not.

It is up to you to come here and repeatedly tell us that and encourage us. That is my political science lecture and it is obviously what

I am going to share with these people from Minnesota because they are not getting anything out of this program.

I think it is an important thing to keep in mind, just follow what these people up here that think they know more than you do, what the record has been for the last 7 years of revenue sharing. They are going to do it to you again if you are not careful.

Mr. WORTHINGTON. Senator, I have never been to Minnesota, but I would love to help get you elected.

I think there are other kinds of programs that we would like to see, perhaps much more than countercyclical. If we had a decent fiscally responsible welfare reform program, but we are not going to get it.

We are here trying to support something that we think we have an opportunity to get, and that is the political reality. I happen to share your feelings about the categorical grants. I am much more attuned to your way of thinking and I hope you get reelected.

Senator DURENBERGER. When you get over to the House, if you have not been there yet, incorporate a couple of those paragraphs in there, one of those "yes, but," we would really like this, but. There are some who do not come from the kind of involvement that I have had with local governments.

Mr. WORTHINGTON. We spent 2 hours at the House just before I came here.

Senator DURENBERGER. Too late. Thank you.

Senator BRADLEY. Thank you, Senator Durenberger.

I thank the panel for spending part of their afternoon here. I think you have contributed a great deal to the debate.

Ms. PARKE. Thank you, Senator.

[The prepared statement of the preceding panel follows. Oral testimony continues on p. 178.]

STATEMENT OF LOIS M. PARKE, COUNCILMAN, NEW CASTLE COUNTY, DEL., CHARLES WORTHINGTON, COUNTY EXECUTIVE ATLANTIC COUNTY, N.J., AND EMIL M. STANISLAWSKI, SUPERVISOR, MILWAUKEE COUNTY WIS., ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES

Mr. Chairman, and distinguished members of the Senate Finance Subcommittee on Unemployment Compensation, Revenue Sharing and Economic Problems. I am most pleased to testify before you today on legislation to authorize the countercyclical antirecession assistance program. We are testifying on behalf of the National Association of Counties (NACo).[1]

I am Lois Parke, councilman, New Castle County, Delaware. I am chairman of the NACo taxation and finance steering committee, that is responsible for establishing policy on antirecession fiscal assistance programs. Testifying with me is Mr. Charles Worthington, the county executive from Atlantic County, New Jersey, and Mr. Emil M. Stanislawski, supervisor from Milwaukee County, Wisconsin. Accompanying us is Elliott Alman, legislative representative for NACo.

Let me first take this opportunity to extend our warm and personal congratulations to Senator Bill Bradley of New Jersey and Senator David Durenberger of Minnesota for your election to the United States Senate. I wish you both long and distinguished careers in this House of Congress.

I want to thank this subcommittee for taking the initiative and scheduling hearings on legislation to authorize this very important fiscal program for

[1] The National Association of Counties is the only national organization representing county government in the United States. Through its membership, urban, suburban and rural counties join together to build effective, responsive county government.

The goals of the organization are to:

Improve county government;
Serve as the national spokesman for county government;
Act as a liaison between the Nation's counties and other levels of government;
Achieve public understanding of the role of counties in the federal system.

county governments. We are honored to be able to appear before you today and present the views of our organization.

Mr. Chairman, we are testifying before your subcommittee today to urge prompt action on the authorization of countercyclical antirecession fiscal assistance. As you know county governments endorse a variety of Federal programs, including the revenue sharing program which will also be considered by this subcommittee. Although this program does not approach the magnitude and importance to county governments of general revenue sharing, we submit to you that countercyclical aid is a unique and necessary tool in the Nation's ability to react to, and minimize, the effects of an economic recession. We believe that both of the bills before your committee, S. 566, the administration proposal, and S. 200 sponsored by Senators John Danforth, Daniel Moynihan, and Jacob Javits would meet this need.

Counties support countercyclical assistance for the following reasons:

1. This is a highly targeted program that is designed to aid only the most distressed communities.

2. This program, through its standby mechanism, serves as an insurance to local and State governments.

3. Through the use of a trigger, aid can immediately be provided when the economy requires it.

4. The program is efficient and flexible; no money is spent when unemployment falls below a prescribed trigger.

5. The funds are restricted to combating unemployment.

Mr. Chairman, we recognize the political and economic realities that Congress and the administration must face over the next several years. I might inject, that local officials, too, operate under similar constraints to accomplish the near impossible task of increasing services and reducing expenditures.

We firmly believe that the two pieces of legislation before this committee are rational approaches to these pressures. Both bills provide a scaled down version of the prior countercyclical program, with expenditures estimated at 50 percent of prior proposals. They are highly targeted, guaranteeing that the aid will go only to those communities most in need.

President Carter is to be commended for his renewed commitment to this program, as evidenced in S. 566 proposed by the administration. Senators John Danforth, Daniel Patrick Moynihan, and Jacob Javits are to be congratulated for their continued efforts to seek enactment of this assistance, and their sponsorship of S. 200.

Before I present our views on the substantive portions of this legislation, I would like to provide an overview of the county perspective.

Mr. Chairman, county officials are extremely concerned about unemployment and the Nation's economic condition. An increasing number of economists are forecasting an imminent increase in the numbers of Americans who will be out of work. The President's chief inflation advisor, Alfred Kahn, has publicly stated on a number of occasions, that this Nation may be faced with a "deep recession."

As the members of this subcommittee are well aware, a number of key Federal programs aiding local governments have recently been reduced or terminated. The local public works program was not reauthorized. CETA was cut. Welfare reform has yet to become a reality. At the same time, inflation continues to take its toll on the financial condition of counties.

In order to keep pace with this situation, counties have been forced to raise taxes and borrow increased amounts of money. The Commerce Department's Bureau of Economic Analysis has projected that the deficit for all local governments will exceed $6 billion by 1980. This debt is increasing, and, I might add, it is frightening.

This serves to emphasize the important need to enact countercyclical legislation early in this session of Congress. We all share the hope that this country does not plunge into a full scale recession. The Carter administration has achieved substantial reductions in nationwide unemployment during its term in office, and we hope this trend will continue. Yet, if it does not, there is a crucial need for a countercyclical mechanism to enable us to promptly act to combat unemployment.

The urban and rural counties in this Nation bear the primary responsibility of providing health and welfare services to our citizens. We operate courthouses, law enforcement agencies, and many other human resource services and programs.

It is precisely these types of services that experience the greatest impact from adverse economic conditions. The demand for these services is directly related to unemployment and inflation. Yet, when local governments are impacted by inflation, declining tax bases, and unemployment, as we presently are, these services are often the most difficult to expand. Mr. Chairman, the reality is that they are often the services which local governments are most pressured to reduce.

When the countercyclical concept was originally introduced in Congress, it took one and a half years before the program was enacted. Precious time was lost while our Nation was in the midst of a severe depression and large numbers of Americans were unemployed. I do not believe we can afford to wait for another recession before standby countercyclical legislation is passed.

We need this legislation enacted into law so that it may serve as an insurance policy against future increases in unemployment. When unemployment is low, the program will assume a standby basis. This "insurance concept" will not just aid hard pressed county, city, and State governments, but it will aid in stabilizing the national economy by minimizing unemployment at the moment it tends to rise. Mr. Chairman, I believe this countercyclical concept is a critical one. Counties strongly endorse a program that is highly targeted and triggered to operate only and immediately, when the need exists.

From 1976 through 1979 this mechanism provided almost $3 billion of assistance to local and State governments. Let us remember, this was a period of high unemployment. The countercyclical antirecession assistance enabled counties to maintain basic levels of services to our citizens. This assistance helped us to avoid layoffs of public employees.

In my home of New Castle County, Delaware, unemployment averaged 8.7 percent in 1977. During this time, the county received countercyclical funds. Without this aid, unemployment would have unquestionably been increased in the county, thereby fueling the recession. I might add that neighboring Kent County, Delaware, had a higher unemployment rate of 9.7 percent in 1977. Our current rate is 7.9; and Kent's is 8.8.

Mr. Chairman, I appeared before this committee last May endorsing countercyclical legislation. The National Association of Counties spent almost a year working for its reauthorization. Despite the prompt and innovative action of the Senate Finance Committee and its chairman, Senator Russell Long, the program was terminated.

The immediate cut off of benefits imposed a severe hardship on many governments. Though national unemployment had declined, many localities still experienced, and continue to experience, unacceptably high unemployment levels.

Largely through the efforts of our national organization, counties were warned of the uncertainty of assistance and were urged not to anticipate continued receipt of the funds. As a result of conscious decisions made in county budget offices last summer and fall, many counties did not include these funds in their budgets for fiscal year 1979. What might have become a severe fiscal crisis was thereby averted.

However, as a result of the conscious decisions not to budget these funds, counties were often forced to make drastic decisions resulting in the postponement or cancellation of much needed county services in order to avert layoffs of employees.

If countercyclical aid is not forthcoming to these areas in the near future, additional and more severe actions will have to be taken. Title I of S. 566 and Title II of S. 200 provide for this.

In Kenosha County, Wisconsin, for example, winter road maintenance was virtually terminated. St. Lawrence County, New York, Hidalgo County, Texas, Delaware County, Pennsylvania, and Brevard County, Florida, have indefinitely postponed contributions to capital improvements projects in order to avert layoffs.

These actions taken by counties are temporary, stop gap measures. These vital programs cannot be indefinitely delayed without greatly increasing future costs to counties.

Mr. Chairman, I would now like to address myself to the proposed legislation. Attached to this statement is a chart prepared by our staff which compares the former countercyclical program to S. 200 and the Administration bill,

S. 566. At this point I wish to strongly commend officials of the Treasury Department for making available detailed information on their proposal.

S. 566 THE INTERGOVERNMENTAL FISCAL ASSISTANCE AMENDMENTS OF 1979

This two title legislation would provide significant aid to local and State governments. The administration has designed a highly targeted program by employing an increased diminimus in both titles, increases in the national trigger in the second title, and higher local triggers in both titles. Linking eligibility to per capita income further guides funds to the most distressed communities.

Counties strongly endorse this approach as consistent with our broad policy in this area. Title II constitutes the security mechanism we have long sought as insurance from the effects of future rises in unemployment. Title I of the legislation would provide a source of immediate economic relief for 1,230 governments, including 548 counties hurt by the abrupt termination of the past program.

The taxation and finance steering committee of our association will be meeting this week to carefully analyze key elements of this bill. The Treasury Department has provided us with a great deal of data that will be extremely useful in this regard. We plan to provide the subcommittee with our decisions on this proposal including the level of appropriate unemployment triggers, the setting of diminimus grants, and the two title approach.

S. 200 THE INTERGOVERNMENTAL ANTIRECESSION AND SUPPLEMENTARY FISCAL ASSISTANCE AMENDMENTS OF 1979

Our organization strongly endorsed an identical version of this bill that was passed by the Senate last year. This two title approach differs from the administration proposal. To facilitate an adequate comparison of the bills, we would urge the Treasury Department to prepare a printout on this measure.

Both titles of S. 200 become operative when nationwide unemployment reaches a prescribed level. Title I of this bill encompasses the insurance concept to protect local and State governments against high unemployment, triggering aid to local governments with unemployment over 6 percent when the national rate exceeds 6 percent.

Title II would operate when national unemployment ranged between 5–6 percent. The local trigger under this title would remain at 6 percent. This title recognizes that although national unemployment may decrease, there are still many communities who individually experience high unemployment and therefore require aid. It ensures the targeting of funds to only the most distressed communuities while phasing out assistance to the others.

This bill is more highly targeted than the past program by virtue of the higher local unemployment rates for eligibility.

Once again, S. 200 fulfills the long held policy position of county government in favor of a countercyclical program. Our sterring committee will also be considering this bill and we will inform you of any specific policy statements.

In conclusion, both bills represent smaller, more highly targeted countercyclical proposals than the former program. Both retain the all important standby, or insurance concept. I might note that the bills have more similarities than differences, with Title I of the administration bill closely resembling the second title of S. 200. Both would provide immediate economic aid to local governments.

Title II of the administration bill and Title I of S. 200 constitute the standby mechanisms, though employing different triggers.

With your permission, I would like to insert for the record a list of 548 urban and rural counties whose unemployment levels exceeded 6.5 percent.

Mr. Chairman, I believe I have outlined a need of county governments for countercyclical or supplementary fiscal assistance. We urge the Senate Finance Committee to promptly act on these measures. The similarities of the provisions are such that we believe the committee may combine the best elements from each in producing a highly targeted countercyclical assistance program.

County officials support the countercyclical approach as an effective and proven means of targeting funds to needy communities. Thank you, and I would now like to turn to Mr. Charles Worthington, County Executive from Atlantic County, New Jersey.

COMPARISON OF COUNTERCYCLICAL (ANTIRECESSION) PROGRAMS

	Expired program, Public Law 94-369	House bill H.R. 1246; Senate bill, S. 200		Administration bill	
		Title 1	Title 2	Title 1	Title 2
Authorized funding	$2.5 billion	$2 billion (titles 1 and 2)		$2,000,000,000 (titles 1 and 2, maximum).	
Time span	1¼ yr (5 quarters)	2 yr (8 quarters), titles 1 and 2.		2 yr	2 yr.
National trigger	6 percent unemployment most recent calendar quarter.	6 percent unemployment rate over most recent 2 calendar quarters.	5 to 6 percent national unemployment rate over most recent 2 calendar quarters.	No trigger	6.5 percent for 1 calendar quarter.
Local minimum unemployment rate	4.5 percent	6 percent	6 percent	6.5 percent	5 percent.
Other criteria for determining eligibility	None	None	None	Local governments with per capita incomes 150 percent (Alaska, 175 percent. Hawaii, 165 percent) above average are ineligible.	Same as title 1.
Computation of allocations	Quarterly	Computed quarterly: $125,000,000 at 6 percent unemployment an additional $30,000,000 for every 1/10 of 1 percent over 6 percent.	Computed quarterly: $85,000,000 when unemployment is between 5 and 6 percent.	$250,000,000 to be distributed within 60 days of the enactment in fiscal 1979; $150,000,000 to be distributed within 1st 5 days of October 1979.	Computed quarterly: $125,000,000 at 6.5 percent national unemployment, plus $25,000,000 for every 1/10 of of 1 percent over 6 percent.
Distribution	do	Quarterly	Quarterly	Annually	Quarterly.
Uses and restrictions	Funds are to maintain basic services and levels of employment, not including initiation of basic service or capital improvement or new construction. Funds must be spent, obligated, or appropriated within 6 mo.	Same as past program	Same as past program	Same as past program	Same as past program.
Formula for distribution	Local revenue sharing amount; multiplied by excess unemployment rate (over 4.5 percent); divided by sum of such products for all eligible local governments.	do	do	do	Do
Number of potential eligible local governments.	17,000	NA	NA	1,231	Not available.
State governments	Eligible, receive ⅓ of the funds.	Eligible for ⅓ of funds	Not eligible	Not eligible	Eligible for ⅓ of funds.
Minimum yearly allocation	$400	$400	$400	$20,000	$5,000 (quarterly).

ESTIMATED FISCAL YEAR 1979 PAYMENTS TO COUNTY GOVERNMENTS AND RATES OF UNEMPLOYMENT BY COUNTY UNDER S. 566, A BILL TO PROVIDE TARGETED FISCAL ASSISTANCE TO LOCAL GOVERNMENTS REQUIRING FISCAL RELIEF

State and county	Unemployment rate	A/R allocation
Alabama:		
Dallas	7.9	59,177
Greene	9.8	37,510
Hale	11.4	50,152
Marshall	6.7	31,050
Mobile	6.6	183,330
Perry	10.4	33,898
Pickens	8.5	28,227
Randolph	10.7	29,006
Talladega	8.1	56,132
Walker	6.8	32,556
Washington	10.2	33,477
Wilcox	7.3	33,232
Alaska:		
Ketchikan-Gateway	10.9	33,025
Sitka city/borough	9.8	30,428
Kenai Peninsula	16.3	154,834
Matanuska-Susitna	20.1	221,411
North Slope	9.0	27,315
Arizona:		
Cochise	9.0	138,097
Gila	9.1	96,029
Graham	7.6	32,052
Navajo	8.7	70,941
Pinal	9.5	228,763
Santa Cruz	13.8	112,148
Yuma	9.0	108,816
Arkansas:		
Clark	7.5	23,768
Crittenden	7.8	50,672
Franklin	8.5	24,322
Fulton	9.3	33,312
Jackson	7.4	25,009
Jefferson	6.8	82,813
Johnson	7.9	24,825
Lee	7.1	24,178
Mississippi	7.3	47,671
Ouachita	6.5	25,061
Poinsett	7.4	27,480
Polk	8.9	31,626
Pope	7.3	64,889
Randolph	8.4	29,185
St. Francis	8.2	49,621
Searcy	9.8	25,389
Van Buren	8.6	23,046
White	7.6	64,163
California:		
Alameda	8.4	1,538,165
Amador	9.3	52,041
Butte	10.8	385,990
Calaveras	9.1	62,571
Contra Costa	7.1	589,669
Del Norte	11.1	100,817
El Corado	9.3	207,180
Fresno	8.2	1,045,643
Glenn	9.0	53,713
Humboldt	11.9	430,796
Imperial	26.0	1,256,342
Kern	8.3	1,191,206
Kings	10.8	352,493
Lake	8.3	91,699
Lassen	7.5	29,688
Los Angeles	7.4	10,203,082
Madera	9.5	158,230
Mariposa	8.6	33,623
Mendocino	8.2	165,773
Merced	10.9	532,362
Monterey	7.3	338,400
Nevada	10.9	172,095
Placer	9.1	239,987
Plumas	10.4	60,508
Riverside	7.2	710,356
Sacramento	7.5	991,729
San Benito	11.5	61,017
San Bernardino	7.7	1,311,980
San Diego	7.0	1,394,911
San Joaquin	10.6	1,062,637
Santa Barbara	6.9	333,721

ESTIMATED FISCAL YEAR 1979 PAYMENTS TO COUNTY GOVERNMENTS AND RATES OF UNEMPLOYMENT BY COUNTY UNDER S. 566, A BILL TO PROVIDE TARGETED FISCAL ASSISTANCE TO LOCAL GOVERNMENTS REQUIRING FISCAL RELIEF—Continued

State and county	Unemployment rate	A/R allocation
California—Continued		
Santa Cruz	8.4	304,124
Shasta	10.9	301,771
Siskiyou	9.9	116,718
Solano	7.4	208,227
Sonoma	7.5	454,746
Stanislaus	12.0	799,900
Sutter	11.8	182,388
Tehama	9.8	129,258
Trinity	11.5	66,241
Tulare	8.0	514,481
Tuolumne	10.4	132,120
Ventura	8.4	910,504
Yolo	7.4	166,092
Yuba	13.9	278,220
Colorado:		
Archuleta	21.1	31,662
Conejos	13.3	52,110
Delta	8.1	22,928
Lake	8.8	23,196
Las Animas	7.4	24,658
Otero	7.1	23,034
Pitkin	10.5	23,320
Pueblo	7.8	136,539
Connecticut: None.		
Delaware:		
Kent	8.8	122,757
New Castle	7.9	761,034
District of Columbia: None.		
Florida:		
Bay	8.1	108,454
Brevard	8.2	269,633
Broward	6.9	282,285
Collier	6.9	41,684
Dade	7.2	1,486,816
De Soto	7.0	22,775
Franklin	14.3	44,905
Hardee	7.0	24,007
Hernando	9.5	78,496
Highlands	8.1	57,978
Indian River	9.5	86,163
Jackson	6.5	23,363
Lake	8.9	83,253
Marion	6.8	68,907
Monroe	7.4	55,004
Okaloosa	7.6	38,081
Palm Beach	7.4	290,788
Pasco	7.8	157,259
Polk	10.2	543,128
Putnam	6.9	50,285
St. John	7.3	52,966
St. Lucie	9.9	184,933
Georgia:		
Bibb	7.0	117,314
Burke	10.8	67,102
Cherokee	7.8	25,435
Coweta	7.0	38,428
Dougherty	7.1	73,353
Floyd	6.5	52,064
Fulton	6.5	602,787
Gordon	6.9	27,223
McDuffie	9.5	26,091
Periwether	7.1	24,885
Hawaii:		
Hawaii	9.6	479,873
Kauai	6.5	73,884
Idaho:		
Bonner	9.2	44,571
Clearwater	11.9	30,639
Kootenai	6.5	25,074
Illinois:		
Adams	6.5	22,485
Alexander	14.3	36,641
Cook	6.6	1,475,170
Franklin	9.6	27,865
Fulton	8.1	28,665
Jackson	8.0	37,592
Jefferson	9.8	30,009

ESTIMATED FISCAL YEAR 1979 PAYMENTS TO COUNTY GOVERNMENTS AND RATES OF UNEMPLOYMENT BY COUNTY UNDER S. 566, A BILL TO PROVIDE TARGETED FISCAL ASSISTANCE TO LOCAL GOVERNMENTS REQUIRING FISCAL RELIEF—Continued

State and county	Unemployment rate	A/R allocation
Illinois—Continued		
Kankakee	7.6	45,010
La Salle	6.7	35,834
Macon	7.6	36,056
Madison	6.8	78,035
Messac	10.2	23,982
Pulaski	13.1	30,816
Saline	9.0	22,957
Vermilion	7.5	48,676
Williamson	10.7	89,310
Indiana:		
Dearborn	7.4	22,993
Delaware	7.4	64,768
Fayette	9.5	43,622
Grant	7.4	53,804
Greene	9.0	37,843
Henry	7.2	26,152
Jefferson	7.4	36,736
Monroe	6.7	49,620
Rush	8.1	27,702
Shelby	7.5	29,268
Vermilion	7.9	22,263
Wayne	6.6	72,442
Iowa: None.		
Kansas: None.		
Kentucky:		
Clay	8.0	26,857
Jackson	9.2	24,126
Lawrence	7.5	24,506
Leslie	7.5	33,956
Letcher	7.5	22,892
Lincoln	8.0	30,314
Martin	9.6	38,764
Pike	7.3	36,378
Whitley	6.8	39,776
Louisiana:		
Allen	13.0	82,470
Ascension	8.2	92,224
Assumption	6.5	25,909
Avoyelles	10.1	53,933
Bienville	6.7	33,291
Caddo	6.5	70,394
Calcasieu	8.9	241,866
Caldwell	7.6	25,690
Cameron	7.3	30,604
Catahoula	9.0	28,187
Concordia	8.5	28,082
East Carroll	10.5	52,186
Evangeline	8.1	54,991
Franklin	9.1	73,392
Grant	8.8	25,104
Iberville	8.1	87,885
Jefferson	6.7	492,554
Jefferson Davis	7.1	23,480
Livingston	8.8	31,676
Madison	9.4	52,888
Morehouse	10.0	78,188
Natchitoches	7.7	62,060
Ouachita	7.5	60,238
Pointe Coupee	7.2	41,131
Rapides	8.5	149,873
Richland	11.9	106,890
Sabine	7.4	33,007
St. Bernard	8.4	121,841
St. Charles	7.6	62,118
St. Helena	8.1	38,457
St. James	8.6	50,380
St. John the Baptist	7.8	31,682
St. Landry	9.3	100,662
St. Martin	6.6	43,203
St. Tammany	7.1	33,620
Tangipahoa	8.7	117,474
Union	7.5	24,534
Vernon	11.3	39,635
Washington	10.1	66,918
Webster	8.7	35,823
West Carroll	17.6	101,640
West Feliciana	9.7	44,568
Maine: Aroostook	9.6	42,365

ESTIMATED FISCAL YEAR 1979 PAYMENTS TO COUNTY GOVERNMENTS AND RATES OF UNEMPLOYMENT BY COUNTY UNDER S. 566, A BILL TO PROVIDE TARGETED FISCAL ASSISTANCE TO LOCAL GOVERNMENTS REQUIRING FISCAL RELIEF—Continued

State and county	Unemployment rate	A/R allocation
Maryland:		
Allegany	8.8	247,374
Calvert	7.0	67,847
Caroline	7.4	33,403
Dorchester	10.0	89,645
Garrett	8.4	89,889
Queen Annes	6.9	38,134
St. Marys	6.5	76,327
Somerset	13.2	147,984
Wicomico	7.2	77,476
Massachusetts:		
Barnstable	7.3	42,322
Bristol	6.6	53,536
Essex	6.6	55,262
Plymouth	7.0	55,162
Michigan:		
Alcona	13.7	53,740
Alger	13.2	26,160
Alpena	11.9	69,712
Antrim	8.8	39,443
Arenac	9.7	23,335
Berrien	8.2	140,320
Calhoun	6.6	48,214
Charlevoix	9.0	36,934
Cheboygan	15.7	110,602
Chippewa	17.0	112,793
Clare	9.9	62,267
Crawford	10.1	25,200
Delta	9.7	46,987
Dickinson	7.8	28,381
Emmet	7.5	25,731
Genesee	7.9	327,393
Gladwin	11.7	70,558
Gogebic	10.8	50,040
Gratiot	11.5	70,628
Houghton	11.6	84,669
Huron	10.9	72,919
Ingham	7.2	145,452
Ionia	9.2	39,710
Iosco	9.1	40,116
Iron	8.3	23,966
Kalkaska	13.5	55,624
Luce	20.1	43,223
Manistee	10.6	44,754
Marquette	7.5	52,769
Mason	7.2	33,498
Menominee	7.7	23,785
Midland	7.2	42,981
Missaukee	10.7	27,128
Montcalm	15.3	101,024
Muskegon	8.0	130,078
Newaygo	10.7	61,602
Oceana	9.7	29,731
Ogemaw	11.5	57,197
Ontonagon	17.3	98,442
Osceola	10.2	36,195
Oscoda	14.3	42,965
Presque Isle	9.1	30,368
Roscommon	9.9	42,761
St. Clair	8.5	168,770
St. Joseph	6.7	27,079
Sanilac	7.2	33,901
Shiawassee	8.7	65,603
Tuscola	8.4	35,412
Van Buren	6.7	32,995
Wayne	7.4	1,303,437
Wexford	8.4	32,789
Minnesota:		
Aitkin	8.0	36,620
Clearwater	7.9	24,967

ESTIMATED FISCAL YEAR 1979 PAYMENTS TO COUNTY GOVERNMENTS AND RATES OF UNEMPLOYMENT BY COUNTY UNDER S. 566, A BILL TO PROVIDE TARGETED FISCAL ASSISTANCE TO LOCAL GOVERNMENTS REQUIRING FISCAL RELIEF—Continued

State and county	Unemployment rate	A/R allocation
Mississippi:		
Adams	9.0	115,449
Alcorn	7.7	40,309
Amite	7.4	45,596
Attala	15.4	217,103
Bolivan	11.6	310,378
Chickasaw	7.4	27,658
Clarke	7.4	27,024
Clay	8.5	36,029
Coahoma	9.9	161,664
Copiah	8.3	57,992
George	9.9	44,075
Greene	8.6	38,804
Grenada	9.3	53,295
Hancock	7.1	45,601
Harrison	7.2	280,317
Holmes	11.1	137,538
Humphreys	9.6	76,902
Jackson	7.7	228,845
Jasper	8.6	58,506
Jefferson	11.6	73,874
Jefferson Davis	9.0	60,078
Kemper	9.7	65,681
Lauderdale	7.6	81,824
Lawrence	10.6	45,017
Leflore	8.4	92,170
Lowndes	6.5	47,438
Madison	12.2	181,137
Marion	8.1	45,818
Marshall	8.4	75,187
Monroe	7.3	51,359
Montgomery	11.8	65,206
Noxubee	11.5	77,267
Panola	7.9	102,802
Pearl River	9.3	65,295
Pike	8.0	70,087
Quitman	9.2	73,350
Sharkey	11.4	50,466
Stone	8.0	26,338
Sunflower	9.7	158,552
Tallahatchie	9.0	70,487
Tate	10.3	94,552
Tippah	7.1	32,847
Tunica	9.5	67,512
Walthall	9.8	59,149
Warren	8.5	74,516
Washington	10.5	277,409
Wayne	9.1	65,909
Wilkinson	10.9	77,185
Winston	9.0	52,158
Yazoo	9.7	125,099
Missouri:		
Crawford	14.0	50,933
Dunklin	7.7	23,656
Franklin	7.2	28,758
Pemiscot	7.2	33,806
Pettis	8.0	23,238
Washington	13.4	76,660
Montana:		
Cascade	6.6	52,095
Flathead	7.9	65,962
Glacier	9.8	25,072
Lincoln	12.7	41,297
Ravalli	8.2	42,518
Nebraska: None.		
Nevada:		
Lyon	9.1	25,378
White Pine	12.4	23,264
New Hampshire: None.		
New Jersey:		
Atlantic	8.9	204,626
Burlington	7.8	205,514
Camden	8.0	528,828
Cape May	9.6	91,537
Cumberland	9.6	246,506
Essex	9.0	1,260,797
Gloucester	8.0	136,578
Hudson	11.3	1,046,013
Middlesex	6.9	299,437
Monmouth	7.2	263,680
Ocean	7.2	208,031
Passaic	8.6	425,904
Sussex	7.3	87,850
Warren	7.1	55,922

ESTIMATED FISCAL YEAR 1979 PAYMENTS TO COUNTY GOVERNMENTS AND RATES OF UNEMPLOYMENT BY COUNTY UNDER S. 566, A BILL TO PROVIDE TARGETED FISCAL ASSISTANCE TO LOCAL GOVERNMENTS REQUIRING FISCAL RELIEF—Continued

State and county	Unemployment rate	A/R allocation
New Mexico:		
Mora	14.2	29,339
Rio Arriba	11.8	150,680
San Miguel	7.4	29,526
Taos	10.6	93,381
New York:		
Allegany	8.4	64,148
Cattaraugus	6.9	78,110
Cayuga	8.8	130,703
Chemung	7.3	101,664
Chenango	6.7	37,058
Clinton	9.3	146,238
Columbia	7.0	45,880
Cortland	7.8	68,163
Erie	8.4	1,211,577
Essex	9.3	85,539
Franklin	9.9	107,068
Fulton	8.4	77,966
Genesee	8.2	66,173
Greene	8.2	74,924
Herkimer	6.9	37,102
Jefferson	8.6	152,067
Lewis	9.2	56,619
Montgomery	10.1	109,792
Nassau	7.0	1,365,025
Niagara	7.9	224,821
Oneida	6.7	129,360
Orange	7.9	256,382
Orleans	7.4	23,905
Oswego	9.1	233,750
Putnam	8.1	56,271
Rensselaer	6.7	73,658
Rockland	7.2	158,013
St. Lawrence	9.6	247,265
Schoharie	8.6	48,769
Suffolk	6.7	1,205,572
Sullivan	7.0	97,115
Ulster	7.6	125,578
Warren	8.9	95,623
Wasington	7.6	60,703
Wayne	8.7	91,957
Westchester	7.4	457,218
Wyoming	7.5	33,846
North Carolina:		
Bertie	6.7	25,074
Brunswick	6.7	48,116
Halifax	6.6	62,407
Harnett	9.2	128,002
Hoke	10.0	66,305
Robeson	7.2	178,803
Warren	9.1	47,082
Wilson	6.8	58,335
North Dakota: None.		
Ohio:		
Adams	7.9	43,474
Allen	6.7	44,906
Clermont	6.5	32,154
Guernsey	6.6	24,827
Mahoning	8.0	160,571
Ottawa	7.4	27,065
Richland	6.9	29,197
Scioto	8.3	45,693
Seneca	7.0	26,395
Trumbull	6.5	57,810
Warren	6.5	27,302
Oklahoma:		
Latimer	12.4	41,723
Pittsburg	10.1	39,345
Oregon:		
Douglas	6.6	38,594
Hood River	11.0	26,425
Pennsylvania:		
Adams	6.5	24,488
Armstrong	7.6	44,565
Bedford	9.9	40,615
Blair	7.2	66,862
Bucks	6.6	160,247
Cambria	9.8	248,596
Clearfield	7.1	36,307
Clinton	8.4	42,376
Columbia	7.2	31,774

ESTIMATED FISCAL YEAR 1979 PAYMENTS TO COUNTY GOVERNMENTS AND RATES OF UNEMPLOYMENT BY COUNTY UNDER S. 566. A BILL TO PROVIDE TARGETED FISCAL ASSISTANCE TO LOCAL GOVERNMENTS REQUIRING FISCAL RELIEF—Continued

State and county	Unemployment rate	A/R allocation
Pennsylvania—Continued		
Crawford	7.0	42,132
Delaware	7.4	416,331
Elk	8.4	39,424
Erie	6.7	131,240
Fayette	7.7	92,819
Greene	7.9	51,539
Huntingdon	8.5	50,449
Lackawanna	7.9	191,630
Lawrence	6.6	41,006
Luzerne	8.4	243,141
Lycoming	7.2	78,434
McKean	7.3	39,365
Mifflin	7.7	36,515
Monroe	8.0	49,928
Montgomery	6.5	163,279
Northumberland	8.8	115,944
Schuylkill	7.4	140,384
Somerset	7.6	50,367
Susquehanna	7.0	23,499
Tioga	7.0	23,763
Venango	6.5	29,250
Wayne	6.9	35,774
Westmoreland	7.0	159,762
Wyoming	9.1	23,768
Rhode Island: None.		
South Carolina:		
Beaufort	6.9	52,123
Berkeley	6.5	60,237
Charleston	6.8	333,312
Chester	7.0	39,340
Colleton	7.3	56,147
Darlington	6.7	26,325
Dillon	7.0	25,043
Florence	7.6	118,161
Georgetown	7.5	56,179
Jasper	6.9	24,871
Marion	7.0	23,055
Marlboro	8.5	31,871
Orangeburg	7.6	66,369
Sumter	8.0	77,698
Union	8.3	53,318
York	6.6	72,131
South Dakota: None.		
Tennessee:		
Campbell	13.0	125,121
Cocke	9.7	66,366
Cumberland	7.2	24,046
Fayette	8.6	65,166
Fentress	9.2	50,231
Gibson	7.2	32,749
Greene	8.2	47,132
Hancock	12.4	26,816
Hardin	8.0	26,901
Haywood	7.1	26,399
Jefferson	7.8	23,954
Lawrence	8.7	25,015
McMinn	7.7	65,012
Monroe	9.3	33,506
Roane	10.4	68,319
Sevier	7.4	30,244
Stewart	16.0	30,101
Wayne	8.2	31,845
Texas:		
Bowie	8.1	30,108
Calhoun	7.9	26,721
Cameron	9.2	196,463
Dimmitt	8.8	29,078
El Paso	9.1	342,984
Henderson	6.5	23,765
Hidalgo	11.4	505,806
Jefferson	6.8	67,722
Maverick	16.6	98,611
Orange	7.5	47,762
Starr	19.6	260,799
Val Verde	9.9	48,859
Waller	7.2	26,113
Webb	11.5	152,650
Willacy	9.9	42,193
Zavala	12.3	42,229

ESTIMATED FISCAL YEAR 1979 PAYMENTS TO COUNTY GOVERNMENTS AND RATES OF UNEMPLOYMENT BY COUNTY UNDER S. 566. A BILL TO PROVIDE TARGETED FISCAL ASSISTANCE TO LOCAL GOVERNMENTS REQUIRING FISCAL RELIEF—Continued

State and county	Unemployment rate	A/R allocation
Utah: None.		
Vermont: None.		
Virginia:		
Accomack	6.5	35,439
Brunswick	8.9	34,636
Buchanan	15.2	123,097
Caroline	7.5	27,620
Dickenson	10.7	49,254
Dinwiddie	7.6	44,461
Lancaster	16.0	30,815
Lee	7.0	28,355
Russell	12.6	72,647
Spotsylvania	8.5	58,484
Tazewell	8.6	74,719
Westmoreland	11.5	56,158
Wise	7.6	34,836
Washington:		
Chelan	10.3	76,556
Clallam	8.2	49,446
Cowitz	6.8	72,984
Grant	8.8	66,733
Grays Harbor	6.8	55,589
Island	7.2	30,646
Kittitas	7.9	34,764
Klickitat	9.3	38,900
Lewis	7.2	79,028
Okanogan	11.6	68,955
Pacific	7.6	26,628
Pierce	7.1	259,418
Skagit	9.0	91,366
Stevens	7.4	23,724
Whatcom	7.3	99,275
Yakima	8.5	197,330
West Virginia:		
Braxton	12.0	44,861
Fayette	6.6	39,891
Lincoln	13.5	63,260
Logan	6.7	27,031
McDowell	15.8	178,363
Mercer	7.0	47,356
Mingo	11.5	84,615
Preston	6.9	32,244
Raleigh	7.4	60,629
Wyoming	12.8	134,411
Wisconsin:		
Douglas	6.6	35,448
Forest	12.9	53,265
Iron	10.3	24,745
Kenosha	7.4	70,110
Menominee	41.4	107,067
Sawyer	10.3	28,142
Wyoming: None.		
American Samoa: None.		
Guam: None.		
Puerto Rico: None.		
Virgin Islands: None.		

Senator BRADLEY. Our last witness for today is Steven Pruitt, assistant director of legislation, American Federation of State, County and Municipal Employees, who certainly on this day, deserves the award for patience.

Thank you for waiting. Let me assure you your place on the program does not indicate any lack of importance on AFSCME's part in the enactment of this legislation.

STATEMENT OF STEVEN PRUITT, ASSISTANT DIRECTOR OF LEGISLATION, AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES, AFL-CIO

Mr. PRUITT. Thank you, Mr. Chairman.

As you know, I am Steve Pruitt, assistant director of legislation for the American Federation of State, County and Municipal Employees.

AFSCME is the largest affiliate union in the AFL–CIO, representing over 1 million public employees.

I am here today, Mr. Chairman, representing our international president, Mr. Jerry Wurf, our membership across the country and to emphasize AFSCME's long standing commitment to countercyclical fiscal assistance and the targeting aspects that will aid America's hard pressed cities and States.

In the interest of time, your endurance and my endurance, it might suffice to say we have presented written comments which we would like to have in the record.

Senator BRADLEY. We will insert your full statement into the record.

Mr. PRUITT. I would like to point out just a few things which I think are important, not only to AFSCME but are important in terms of their need for consideration on this legislation.

There is off quoted adage that I believe says a great deal about why we are here today. It goes something like, a recession is when my neighbor loses his job. A depression is when I lose mine.

This little quip expresses an important truth about our modern economy. In the United States today, the quip you hang on national economic trends, words like "recession" or "recovery," and they frequently do not tell us much about the every day economic reality faced by people in different parts of the country.

When we talk about the legislation currently before this committee, I think it is important to note, as many of the other speakers have discussed, that the issue of surpluses on State and local levels are somewhat of a misnomer in that you are really talking about a figure that is the majority of calculated pension funds which none of those levels can utilize.

The second point which is important to note is using unemployment as a target or triggering various aspects of this program, two other things need to be kept in mind.

One, we at AFSCME feel that the level as proposed in the existing legislation is far too high. We recommend a 6-percent level as the trigger. We think the difference between 6 percent and 6.5 percent represents 500,000 unemployed Americans in this country. Quite frankly, we are extremely concerned about those people because a good number of them represent our members.

We also are cognizant of the fact that when those people are unemployed, they are not paying income tax, they are not able to pay property taxes, as has been pointed out by many of the other speakers here today.

We think these are important factors which need to be placed in consideration of this legislation.

Another issue which we feel is important to make light of in consideration of this program is the dollar amounts which the administration has proposed.

We at AFSCME feel these amounts are far too small. We do not feel they will adequately address the problem. We think the concept of the administration is a good one and certainly deserves congressional support.

A final aspect which I would like to bring to your attention is the issue of the involvement of the States. The initial portion of this legislation does not involve the States in terms of its implementation.

We feel that States like cities all operate under different circumstances.

As is reflected in our written testimony, we point out the unemployment figures in a number of States far exceed the levels that are projected in the legislation the administration is forwarding.

We would strongly recommend in the final drafting of any bill, that the States be given consideration for inclusion.

Having made those statements, Mr. Chairman, I would certainly be willing to answer any questions.

Senator BRADLEY. Mr. Pruitt, at this time of the day, I would just like to thank you for your statement and your patience. If you could just answer one question we hear quite often. How would you identify the services you see going first if this aid is not restored?

Mr. PRUITT. I think as has been graphically stated by some of the other speakers today, we are talking about, in our case at AFSCME, maintenance programs in cities, counties and State governments. Many of those programs are delivered by our members. We feel whenever you have to talk about cutting back on services, on budgetary requirements, our members are gone and those services are gone.

Maintenance is a big portion. You are talking about other delivery of services, planning services, in terms of actually administering the programs that the Federal Government dictates to those local levels, many of those mid-level managers are gone also.

We feel those areas certainly are reflective of the need that this legislation attempts to address.

Senator BRADLEY. Thank you very much, Mr. Pruitt.

[The prepared statement of Mr. Pruitt follows:]

STATEMENT OF STEVEN PRUITT, ASSISTANT DIRECTOR OF LEGISLATION, AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES, AFL–CIO

Mr. Chairman and members of the Subcommittee: My name is Steven Pruitt and I serve as Assistant Director of Legislation for the American Federation of State, County and Municipal Employees. AFSCME is the largest affiliate union in the AFL–CIO, representing over one million public employees. I am here today representing our International President Jerry Wurf, and our membership across the U.S.

Mr. Chairman, I am here to testify in support of a targeted fiscal assistance program for state and local governments.

In response to the economic recession of 1975–76, the concept of targeting aid to fiscally distressed jurisdictions gained wide support. As a result, the Congress passed Title II of the Public Works Employment Act of 1976. This "counter cyclical" aid program provided federal assistance to state and local governments with relatively high unemployment rates. In 1977, the Congress extended the program, with some minor modifications, through September 30, 1978.

Studies of the counter-cyclical aid program—including those of the Department of the Treasury and the Advisory Commission on Intergovernmental Relations (ACIR)—have shown that this program not only benefited communities in need of temporary, short-term aid, but also assisted communities in long-term structural decline. For example, in its study of the 48 major cities, the Department of the Treasury concluded that the counter-cyclical aid program was more effectively targeted to high-strain cities than either the Comprehensive Employment and Training Act (CETA) or Local Public Works. In the two years of its existence, this program served our cities and states in two different ways: (1) it cushioned the impact of the previous recession on state and local governments, and (2) it effectively *targeted* aid to those areas most in need.

There are two major reasons why re-enactment of targeted fiscal assistance is essential. First, a close look at current economic conditions in some of our major cities illustrates tremendous *need* for this program. Many areas, still grappling with declining tax bases, deteriorating infrastructures and inadequate services, require continued aid. In addition, expectations about the performance of the national economy over the next year are pessimistic—the economic recession expected by the end of the year will necessitate a "countercyclical" federal program.

The degree of "distress" now experienced at the state and local level has been debated in recent months. Some have argued that the existence of state and local "surpluses" eliminates the need for continued federal aid. Although this sentiment has gained rather wide acceptance, it is based on a serious misinterpretation of the surplus statistics provided by the Bureau of Economic Analysis, Department of Commerce.

It is true that in 1978, preliminary reports show an aggregate state and local surplus of $26 billion. However, $20 billion of this total consists of the surplus in "social insurance" funds—primarily contributions for retirement plans. This surplus is really owned by the participants in, for example, public pensions plans. Such funds cannot and should not be used to forestall service cutbacks or prevent lay-offs of employees in times of economic hardship.

The "other accounts" surplus remaining—the $6 billion—is a more appropriate figure to use in assessing the fiscal condition of the state and local sector. According to the latest estimates, not only has the other accounts surplus been declining throughout 1978, but this category is expected to remain in deficit throughout 1979.

In addilon to the fact that this surplus is disappearing, other considerations limit the usefulness of this measure to gauge fiscal distress. In the first place, most state and local jurisdictions are forced by law to balance at least their operating budgets. The existence of an aggregate surplus does not reflect the means by which budgets are balanced—e.g., layoffs, service cuts, and increased debt have all been used in the past few years to balance state and local budgets.

The second major point to note is that the BEA number is an aggregate number—it includes the surpluses of all 50 states and over 5,000 local jurisdictions. In the derivation of the total, large balances in a few areas can account for the majority of the reported surplus. For example, rapid increases in revenue in a high growth state like California (the State reported an end-of-fiscal year balance of $5.5 billion last June) can swamp the problems of a state like Pennsylvania—where the budget was barely balanced last year with the help of an income tax increase. An aggregate number masks the fiscal problems of individual jurisdictions.

It is clear that state and local governments are not entering FY 1980 with huge surpluses. Instead, it would be far more accurate to say that the need for federal assistance is as critical today as ever. A brief fiscal survey of major American cities documents this point.

Atlanta.—Highly dependent on federal aid. In FY 1978, received 40 cents from the federal government for every $1 raised locally. CETA has funded over a quarter of the city's jobs. In anticipation of cutbacks, anticipates doubling city service fees.

Baltimore.—Received 46 federal cents for every local dollar in 1978. Reductions in federal public works aid hurt city, and additional federal aid cutbacks are prompting service and staff retrenchment..

Boston.—Local tax rate—$252.90 per $1,000 assessed—one of nation's highest. If state aid slackens, severe cutbacks expected. Plans already in works to lay off 1,500 city CETA workers by the end of the current fiscal year.

Buffalo.—Received 76 federal cents for each locally raised dollar in FY 1978. CETA has employed up to one-third of city's workforce. Last city budget balanced by $11.5 million state loan. City as already slashed its capital budget over 30 percent from 1976 levels and will be hard-pressed to repay loan.

Cleveland.—Extremely dependent on federal aid, which now amounts to over 60 percent of the city's own source revenue. Besides its recent default on $14.5 million owed to major banks, city also defaulted on $4.8 million pension fund payment.

Detroit.—Federal funds make up 77 cents of every local revenue dollar. Two months after federal countercyclical aid program expired, city announced layoff of 350 regular employees.

New Orleans.—City gets 58 federal cents for every local dollar. Transit system's deficit up to $14 million. Lost $9 million in countercyclical aid. New taxes, fee hikes planned. Four public schools closed.

New York City.—City's ability to balance future budgets hinges on continued federal aid. City already suffered massive layoffs and service cutbacks after 1975 fiscal crisis. Further cutbacks—including the dismantling of the municipal hospital system—feared if federal help falters.

Newark.—Expiration of countercyclical aid coupled with municipal spending caps led to lay-off of over 400 municipal employees, including 200 police. Unemployment rates here have been more than twice the national average. Federal aid has stabilized the economy in the past.

Philadelphia.—Federal aid has increased 60 percent since 1976 and now constitutes a third of revenue total. Local taxes have skyrocketed since 1975, with the property tax rate alone up 66 percent. Over 1,000 CETA employees and 100 regular employees will be jobless by end of the year.

St. Louis.—Received 56 federal cents for every local dollar in 1978. Federal aid funded 43 percent of the city's capital budget. End of Local Public Works program will short-circuit city's construction and revitalization.

This sample of jurisdictions highlights the problems in many of our older central cities.

In addition to the current fiscal problems existing in these areas, the economic outlook for the next year supports the need for a program that will respond automatically to downturns in the national economy. Most private forecasters are projecting a recession (i.e., two quarters of negative real growth) by the end of 1979. Although this recession is not expected to be as prolonged as the previous one, the impact in some areas could be severe—especially slow-growth, high unemployment areas. (National statistics reflect average performance, but the distribution of the "burden" of a recession is not equal across the country.)

The following table compares the forecasts of Chase Econometrics and Data Resources, Inc. for fiscal year 1980. Both are projecting significant increases in unemployment rates and slower growth for the year.

[Dollar amounts in billions]

	Chase Econometrics	Data Resources, Inc.
Deficit (unified basis)	−$59.4	−$42.8
Real GNP (percent change, year over year)	2.0	2.6
Unemployment rate (annual average)	7.4	6.9

[1] Reflects $10,000,000,000 in tax cuts.

Note: January 1979 forecasts.

The expectation of a recession at the end of the year requires that an assistance program be *in place*, ready to respond to changing economic conditions. Unless this program can be triggered quickly, unnecessary hardship will be created for state and local governments by lengthy legislative and/or funding delays.

We advocate the continuation of a "two title" program—i.e., one that addresses itself to structural as well as cyclical problems. Two major concerns in the establishment of such an assistance program are that (1) it be well-targeted, and (2) it be adequately funded.

The program proposed by the Administration is a step in the right direction. Conceptually, we support this renewed effort. Subtitle A of the program (targeted assistance) provides aid to local jurisdictions with unemployment rates above 6.5 percent, *without regard to the national unemployment rate.* Subtitle B (the counter-cyclical part) provides additional aid to state and local governments when the unemployment rate nationally reaches 6.5 percent.

The funding level of Subtitle A is inadequate. The Administration's bill provides for $250 million in FY 1979 and only $150 million in FY 1980. Even the Administration's relatively optimistic forecasts project *slower* growth in FY 1980—yet the bill provides for *less* aid targeted to needy local governments. It would seem that more, not less, will be required next year as economic conditions worsen and more and more localities become eligible for assistance. Increased funding in FY 1980 will be essential.

A second point concerns the exclusion of state governments from the targeted assistance portion of the program. Until the national unemployment rate reaches

6.5 percent—and Subtitle B is triggered—states are not eligible for aid. This is totally arbitrary and inequitable. States should be allowed to participate in this program based on fiscal strain. For example, in 1978 when the U.S. rate reached 6.0 percent, the following unemployment rates were estimated for these states:

	Percent
New Jersey	7.1
New York	7.8
Pennsylvania	6.9

A federal program should be responsive at all levels.

Subtitle B of the Administration's bill contains the counter-cyclical aid proposal. Additional federal assistance would be triggered when the national unemployment rate reached 6.5 percent (under the previous program, federal funds were available as long as the unemployment rate remained above 6.0 percent.) We believe the trigger should be set again at 6.0 percent. Over the next year, as the national unemployment rate rises from 6.0 percent to 6.5 percent, 500,000 additional working Americans will join the ranks of the unemployed. Enormous pressure in the form of higher welfare and other public aid expenditures, as well as the loss of tax revenue will create increasing fiscal strain. In order to be effective, this program must trigger in at the first sign of an economic downturn. If aid flows quickly and efficiently, hardship can be minimized.

The Administration's proposals generally address our major concerns. We agree that general fiscal assistance be carefully targeted to insure efficient use of federal dollars. We support the need for counter-cyclical assistance which is more critical than ever given the economic outlook.

In summary, Mr. Chairman, AFSCME believes the extension of this program will accomplish two important goals. First and foremost, vital assistance will be continued to those units of government most in need. Secondly, the concept of a countercyclical aid program, which, although critical for state and local governments, has been difficult to attain and sustain will be preserved. By accepting the "two title" approach to this fiscal assistance program, the Congress can maintain a program which aids governments in need and, while doing so, continue to aid state and local governments most severely affected by national economic downturns.

Thank you, Mr. Chairman.

Senator BRADLEY. These hearings will stand in recess until March 26, when we plan to reconvene in Newark, N.J.

[Whereupon, the subcommittee was recessed at 4:45 p.m., to reconvene at the call of the chairman.]

TARGETED FISCAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS

MONDAY, MARCH 26, 1979

U.S. SENATE,
SUBCOMMITTEE ON REVENUE SHARING,
INTERGOVERNMENTAL REVENUE IMPACT AND ECONOMIC
PROBLEMS, COMMITTEE ON FINANCE,
Newark, N.J.

The subcommittee met at 9:10 a.m. in room 730, Rodino Federal Office Building, Court and Broad Streets, Hon. Bill Bradley (chairman of the subcommittee) presiding.

Present: Senators Bradley and Durenberger.

[The press release announcing this hearing follows:]

PRESS RELEASE

For immediate release March 19, 1979.

COMMITTEE ON FINANCE, U.S. SENATE, SUBCOMMITTEE ON REVENUE SHARING, INTERGOVERNMENTAL REVENUE IMPACT, AND ECONOMIC PROBLEMS

SUBCOMMITTEE ON REVENUE SHARING, INTERGOVERNMENTAL REVENUE IMPACT, AND ECONOMIC PROBLEMS ANNOUNCES HEARING ON TARGETED FISCAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS

Subcommittee Chairman Bill Bradley (D-N.J.) today announced that a hearing will be held on March 26, 1970, on S. 200 and S. 566, bills to provide targeted fiscal assistance to State and local governments with high unemployment and in need of fiscal relief. These proposals would replace the Antirecession Fiscal Assistance Act which expired on September 30, 1978.

The hearing will be held on Monday, March 26, 1979, in Room 730, Rodino Federal Office Building, Court and Broad Streets, Newark, New Jersey, and will begin at 9:30 A.M.

Senator Bradley noted that, "The Countercyclical Assistance Program which expired last year provided critical assistance to State and local governments which had been suffering from high unemployment and inadequate revenues." He added that, "Termination of this program has proven disastrous for many local governments which continue to suffer from high unemployment and fiscal distress. The President's proposal for targeted emergency aid to those communities and a standby countercyclical assistance program is an important step in the right direction. The purpose of this hearing is to consider this and other proposals and fashion legislation which I hope the Congress can approve at the earliest possible date."

The following witnesses have been scheduled to testify at this hearing:

The Honorable Brendan Byrne, Governor, State of New Jersey.

The Honorable Edward M. Koch, Mayor, New York City.

Mr. Edward A. Jesser, Jr., Chairman of the Board, United Jersey Bank.

Mr. Ralph A. Corbin, President and Chief Executive Officer, New Jersey Bank.

Mr. Robert Van Fossan, Chief Executive Officer and Chairman, Mutual Benefit Life Insurance Company; Chairman, Executive Committee, Coalition of Northeastern Governors.

These witnesses will be followed by a panel of mayors on behalf of the U.S. Conference of Mayors, a panel of county officials, a panel of State legislators, and additional witnesses on behalf of various community and civic groups.

Senator Bradley noted, "This hearing has been scheduled so that a number of additional witnesses can present their views on aid to State and local governments provided through the countercyclical assistance program."

He added: "The importance of targeted emergency relief to communities with high unemployment and fiscal distress has been underscored at previous Subcommittee hearings held on March 12 and 13 by a number of prominent public officials. Legislation to restore this aid should be approved by the Congress as soon as possible."

Legislative Reorganization Act.—Senator Bradley stated that the Legislative Reorganization Act of 1946, as amended, requires that all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Witnesses scheduled to testify must comply with the following rules:

(1) Due to the large number of witnesses who will be testifying and the limited time available, all witnesses are urged to confine their oral presentation to not more than ten minutes.

(2) All witnesses must include with their written statement a summary of the principal points included in the statement.

(3) The written statements must be typed on letter-size paper (not legal size) and at least 100 copies must be submitted by the close of business the day before the witness is scheduled to testify.

(4) Witnesses are not to read their written statements to the Subcommittee, but are to confine their ten-minute oral presentations to a summary of the points included in the statement.

(5) A copy of the statement must be filed by noon the day before the day the witness is scheduled to testify.

Written Testimony.—Senator Bradley stated that the Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length, and mailed with five (5) copies by April 13, 1979, to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510.

Senator BRADLEY. The Subcommittee on Revenue Sharing, Intergovernmental Impact and Economic Problems will come to order.

Today, we are pleased to have an outstanding list of people to testify before our subcommittee. Due to some time constraints, we are going to have to limit people's testimony so that we can get them all in. Senator Durenberger and Chairman Rodino and I have to be back in Washington early this afternoon for the signing of the peace treaty, and I know many of the mayors and the Governor are also interested in being there.

This morning's consideration is on bills S. 566, the administration's bill, and S. 200 which was introduced in the House by Chairman Rodino and in the Senate by Senators Danforth, Moynihan, and Williams.

Senator Williams, who will not be here this morning due to an unforeseen event, has asked to submit his testimony for the record. Without objection, his testimony will be submitted for the record.

[The statement of Senator Williams follows:]

STATEMENT OF SENATOR HARRISON A. WILLIAMS, JR.

Mr. Chairman, and distinguished members of the Subcommittee, I greatly appreciate this opportunity to testify in support of one of the most important and urgent matters on our legislative agenda—the extension of antirecession fiscal assistance to States and communities with substantial unemployment and budgetary problems.

As you know, in the 95th Congress the Senate passed legislation to extend this program, while sharpening its focus on localities with the most serious financial difficulties. Unfortunately, that bill died in the closing hours of the last Congress when the House failed to act on this issue. As a result of that inaction, those communities throughout the Nation with the gravest problems have now been plunged into an ever-worsening crisis. Municipal leaders engaged in a daily struggle to fend off fiscal disaster while rebuilding foundations for long-term self-sufficiency now confront immediate public services chaos, and diminished opportunities for continued progress, due to this abrupt and unexpected termination of Federal assistance.

In order to redress this serious situation, on January 23rd of this year I joined with my colleagues Senators Danforth, Moynihan, and Javits, in introducing S. 200—"The Intergovernmental Antirecession and Supplementary Fiscal Assistance Amendments of 1979." This bill is identical to the antirecession assistance program approved by the Senate last October.

Earlier this month, the Administration presented its own plan for continuing Federal help to economically distressed communities, embodied in S. 566. While I have serious concerns about the overall level of funding proposed in that program, and question whether its distribution formula may not be too narrowly targeted, I nonetheless applaud the commitment to responsible action demonstrated by this bill.

In the course of full Senate deliberations, I am sure that we can reach acceptable decisions on both total funding levels and the distribution formula. What is crucial is that we take expeditious action to alleviate the devastating impact of this sudden cut-off of assistance.

Mr. Chairman, while it is true that the Nation as a whole has recovered from the recession of 1975 which prompted the just-expired assistance program, there continue to be numerous communities, of all sizes and located in both urban and rural locales, for which the recession has never ended. These communities have not received the full benefit of the Nation's renewed economic vitality due to serious structural difficulties which can only be dealt with over an extended period. In the interim, sufficient Federal assistance must be provided for the continuation of essential public services.

Many of these communities have unemployment rates which persist above the six percent level. Our major cities bear a disproportionate share of this continuing unemployment burden. A recent Treasury Department survey of the Nation's 48 largest cities found that 32, a full two-thirds, had jobless rates which exceeded the national average. In some instances the unemployment rates were significantly higher—Newark's unemployment rate was more than double the national average, Chicago's was two-thirds higher, and New York City's was fifty-six percent above. High joblessness persists in these areas, independently of national economic conditions, due to the accumulated effects of years of population outmigrations and business closings or relocations. The resulting structural economic difficulties translate into local tax bases which are unable to generate sufficient revenues for even basic community needs.

Some critics of the extension of this program maintain that localities are being encouraged to become "addicted" to Federal aid, while failing to undertake the fiscal discipline and self-help efforts required for revitalization. While I cannot testify in regard to the strategies and conditions of every locality which has been a recipient of countercyclical assistance, I can state emphatically that in the case of New Jersey's largest metropolitan area, Newark, quite the opposite is true:

Newark's residents already make high contributions to city revenues. The owner of a $10,000 home in that city now pays nearly $2,000 annually in property taxes. Raising these rates still higher to make up the loss of Federal aid would be a counterproductive strategy that would discourage reinvestment in the central city while increasing the incentive for landlords to abandon rental properties.

Newark has not used the influx of Federal monies as an excuse for maintaining wasteful municipal expenditures. In fact, under the administration of Mayor Gibson, per capita city government costs have declined from $300 in 1970 to $280 in 1979, and that reduction would be more remarkable if adjusted for inflation. As a result of these economies, the city's bond raging has improved significantly.

Newark's problems, while still extremely serious, are not irreversible. Its crime rate has declined from among the highest in the Nation to twenty-eighth, public health initiatives have drastically slashed infant mortality and venereal disease rates, and its neighborhoods are stabilizing and improving as working-class residents invest their savings and their hopes in a better tomorrow.

Unfortunately, the sudden and unjustified cutoff of all countercyclical assistance to Newark may wreak irrevocable harm, and reverse this progressive trend, unless remedial action is swiftly taken. Mayor Gibson has been forced to order layoffs for 450 city employees, almost ten percent of the municipal workforce, and this forced reduction includes 200 policemen.

Newark is not alone in these circumstances. Pontiac, Michigan, with an unemployment rate that has ranged as high as seventeen percent during 1978, has been forced to impose a hiring freeze on its already understaffed police and fire departments as a result of the Federal cutoff. Philadelphia, Buffalo, and St. Louis would have to raise their respective property tax rates by 67, 50, and 46 cents per $100 of assessed value to fill the fiscal gap left by the loss of countercyclical aid.

In sum, the negative effects of the Congressional failure to extend countercyclical assistance in a manner which addresses deep-rooted structural problems are two-fold. First, localities are confronted with an immediate fiscal emergency which requires cuts in already wanting municipal services, increases in property taxes and other sources of local revenues, or some combination of the two. Second, as a result of these steps, the reluctance of business and industry to invest in these troubled communities will be reinforced at the very moment when the cumulative effects of Federal aid, combined with the renewed interest in America's urban centers, finally begin to offer hope of the economic upturn which is the only real solution to reducing the need of such municipalities for Federal assistance. It is indeed ironic that the failure to continue a reduced and better-targetted program of countercyclical aid now could prolong the very conditions which may confront us with an agonizing choice between massive Federal infusions or municipal emergencies in the future.

The current crisis which troubled cities face, as well as the requisite Federal response, were ably outlined in a November 1978 analysis prepared by the Congressional Budget Office. That study—"Phasing Down Antirecession Programs: Fiscal Year 1979 Budget Issues"—warned that:

"Although the economic recovery is three years old * * * structural problems will persist in some areas. Phasing down antirecession programs risks worsening these structural problems."

As an alternative to such a counterproductive strategy, CBO prescribed a reworked assistance program better focused on persisting economic difficulties:

"A fiscal adjustment assistance program that is more targeted on areas with high unemployment rates and chronic structural difficulties would lessen these problems more effectively."

It is my belief that S. 200 incorporates this CBO advice in a responsible manner. It balances the need for fiscal prudence in the Federal budget with the requirement of our cities and towns for relief from the crisis which the abrupt termination of aid has engendered. The daily struggle of municipal leaders to stave off fiscal disaster while building a sound local economy demands that we do not negate their drive toward self-sufficiency with a premature denial of further help.

Mr. Chairman, I appreciate this opportunity to present my views on this matter to the Subcommittee, and want to express my willingness to lend whatever support is required for a revived fiscal assistance program which addresses structural economic problems. While there may be further debate on the final size and focus of such a program, I believe there can be no disagreement that continued failure to act would constitute unwarranted irresponsibility on the part of the Congress.

Senator BRADLEY. Now, if other members of the panel would like to make an opening statement, they are free to do so.

Senator Durenberger?

Senator DURENBERGER. Just quickly, just to compliment Bill, as chairman of the subcommittee, on the nature of the hearings that he has held so far. He has piqued my curiosity enough about this part of the country that I decided that it would be most appropriate to come up here and probably in an environment that is somewhat different from the marble and the granite halls down there, get a better feel for this particular program.

I related to some of the witnesses, particularly those from the cities and counties, my feelings that they need to be more specific in their support of this kind of a program. I have been a long-time supporter of revenue sharing. I worked for the Governor who originally proposed it to the Governor's Association back in 1967, 1968, and then lobbied the Nixon administration to get it passed, so I believe in it.

But I need to hear more specifically why this sort of targeted program is important to the cities. I can learn that, I think, Bill, a lot better being right here in this area hearing from people in New York and New Jersey than I can down in Washington, or even in Minnesota.

Senator BRADLEY. We are pleased that you are here, Senator Durenberger, and we appreciate your comments.

Chairman Rodino?

STATEMENT OF HON. PETER W. RODINO, JR.

Representative RODINO. Mr. Chairman, first of all, let me thank you for inviting me here this morning and then to welcome both you and Senator Durenberger and to commend you on your initiative in holding these comprehensive hearings.

As one who has lived through those cycles when we have seen the necessity for the Federal Government's providing assistance to the various States and local governments, I have seen the abrupt breakoff of that assistance and the terrible consequences that have occurred—and particularly those consequences which are so visible when one realizes that here in the city of Newark, we have been hit by high unemployment, higher than it has ever been. There has been a loss of potential services, such as police services, educational services, services of firemen and others, and this is the story across the country. I think the stories that you will hear this morning are not only dramatic from the point of view of how they affect people, but are frank descriptions from people who deal directly.

I want to commend you again in the interests of moving along. I would ask for unanimous consent to file my statement along with the others in the record.

Senator BRADLEY. It shall be done, Mr. Chairman.

[The prepared statement of Peter W. Rodino Jr. follows:]

STATEMENT OF HONORABLE PETER W. RODINO, JR.

Mr. Chairman, I want to commend you for the swift and deliberate action you have taken on a matter which affects thousands of communities across this nation. Your initiative in holding comprehensive hearings on the countercyclical assistance program shows your concern not only for our home state of New Jersey but for all communities across the country which have suffered the effects of national recession and high unemployment.

Those of us who represent urban areas know well the devastating impact that the cancellation of countercyclical assistance has had on our communities. Many state and municipal governments have not yet recovered from the effects of our national recession and their problems are compounded by high unemployment. Because the house failed to consider extending the countercyclical aid program last October, thousands of communities were forced into one of two unwelcome positions: Either eliminate local government jobs and reduce essential services, or raise property taxes in order to meet the costs of these services. Neither of these two choices is a constructive solution to the problems confronting local communities.

Your subcommittee already has heard from the mayors of Newark, San Francisco and Lafayette, Louisiana. They have told you of the large numbers of people now out of work and the plans to raise local property taxes. But let me say that the same is true of cities, both large and small, from all over the country.

Mr. Chairman, the newly unemployed police officers, firefighters, ambulance workers, and neighborhood health personnel--and perhaps most importantly, the millions of Americans they are meant to serve—are asking desperately that these funds be restored.

When the 96th Congress began, it was very apparent that countercyclical aid was an issue simply too important to wait. I introduced a bill in the House in January—and Sen. John Danforth introduced it in the Senate—which would restore the program and reach over 10,000 communities across America this year. Currently 94 Members of the House—Members from both parties and from various regions of the country—have asked to cosponsor the bill. It is very encouraging that President Carter also is strongly committed to the restoration of countercyclical aid. His bill has recently been introduced by Rep. William Moorhead and Sen. Daniel P. Moynihan. And other Members have introduced similar bills of their own. Clearly, there is broad support to continue the program.

Mr. Chairman, I believe you have responded to this call, and I also believe that your efforts will make a profound difference in the ultimate conclusion reached by the Congress. Through these hearings, you are seeking to find the best possible solutions to the problems which I have just outlined. This subcommittee is here today to ask the questions: What precisely are the needs of local governments? What kinds of insurance do local governments need in case of a possible economic downturn? What type of legislation will be most humane, most effective, and most fiscally responsible?

Mr. Chairman, I believe these hearings today will be informative and helpful to our legislative deliberations--both to our efforts in the House and Senate. I want to thank you for so graciously inviting me to be with you and your distinguished colleagues on the Revenue Sharing Subcommittee.

Senator BRADLEY. It is with a great deal of pleasure that I call our first witnesss, the Governor of the State of New Jersey, Brendan Byrne, who finds himself today testifying in the Rodino Federal Building. So we have before us a New Jersey Governor who is concerned about this program and a building named for another New Jerseyite who is also concerned about this program.

STATEMENT OF HON. BRENDAN BYRNE, GOVERNOR, STATE OF NEW JERSEY

Governor BYRNE. Thank you, Mr. Chairman

In the interest of saving time, I would ask that my testimony be marked.

Thank you for the invitation and the opportunity to appear before this distinguished committee and to welcome the Senator from Minnesota, Senator Durenberger.

I think it is also significant that the building in which this hearing is being held is named the Peter W. Rodino, Jr. Building, because of Congressman Rodino's commitment to these cities and to his city.

I do not think that he would want a testimonial or could envision a testimonial anywhere in the United States which he would treasure more than one here in the city of Newark.

I was reflecting as I came up here that I have been in public life in one form or another since 1955, and I have testified before numerous congressional committees. But this is the first time that I have ever testified in the city of Newark, and I want to congratulate Senator Bradley for taking these hearings to the people who are affected by them and holding this hearing here in this city in the Peter W. Rodino, Jr. Building.

In my testimony, I have tried to point out the needs of the cities and focus naturally on our cities in New Jersey. I have pointed out the unemployment rates that befall our cities. I have stressed the limited tax base that these cities have—it is basically the property tax base. In the city of Newark, a homeowner pays for his or her own home every 10 years through an annual 10 percent property tax in the city and that 10 percent tax is in danger of going up.

The alternative taxing mechanism for this city is a payroll tax, which the New Jersey Legislature has reluctantly authorized for another city much like Newark. In my opinion, a payroll tax it a self-defeating type in Newark and none in the suburbs with all other things being equal is going to go into the suburbs.

The need is documented in my testimony, by the testimony of the mayors who will be here, and by facts which are not readily disputed.

The next thing I tried to point out in my testimony is what New Jersey has done in response to these problems, and I documented at some length in my testimony the various programs which are working. These are long-range programs such as EDA targeting for the cities, housing programs, and the orientation of State priorities, so that they benefit the cities wherever possible. Undertakings and projects like the medical school here in Newark serve to dramatize our commitment to the cities.

I would like to point out the things that the cities have done for themselves. Also, there is a certain vogue which says that the cities are deteriorating and we are running against the tide by trying to stop that deterioration. There have even been inferences that perhaps the cities are not being run effectively with any real determination to respond to the problems that face them.

The mayors who are here will testify as to some of the things that are being done.

If I may refer, for example, to yesterday's New York Times Business and Finance, section 3, an article on factory towns which appeared since my testimony was printed—that article documents the fact that, Camden officials are starting to turn around what has been commonly brewed as one of the most deteriorating of cities. I think our cities are responding with imaginative programs by very determined mayors, like Ed Koch of New York City, who I understand will be here. May I say that I am also delighted to welcome him to New Jersey.

I want to express my appreciation to Congressman Rodino who has a bill on countercyclical aid pending in the Congress. This is the same Congressman Rodino who got out of bed, I understand, at 2 o'clock in the morning to try to save the bill last year.

Funding levels, targeting and triggering are all questions which I know this committee and Congress have to pull and tug at. You know what my position would be on the funding level: The higher the funding level, the better.

You know what my position would be on targeting: That New Jersey cities are going to be in any target no matter how narrow or how wide because we have the largest problems. Our unemployment rate, unfortunately, would trigger at any level unless it were tied to a national unemployment rate, which would be irrelevant in New Jersey.

Another problem I would like to address for 1 minute is what we call "problem shifting," or problem transference. By this I mean that you would stop funding at the Federal level and let the cities take care of themselves, or perhaps even let the State take care of the cities.

I believe that the fairest methods of taxation are at the Federal level and I believe that as you shift your problems from the Federal level down to that local property tax I talked about in Newark, or to a payroll tax in Newark, you are simply compounding and aggravating the problem.

The other fiction I would like to address is the notion that States have huge surpluses.

That may be true for States who enjoy the benefits of the severence tax, but New Jersey does not have the advantage of the severence tax. I do not think Minnesota drills much for oil, either. Texas may be in great shape. Louisiana may be in great shape, but nationally the problems are inner-cities—cities in States like New Jersey.

I submitted a budget with a $12 million surplus. In the meantime, Joe Califano has asked me for $40 million in social security taxes for next year which I cannot find, so that I would like to dispell in my testimony any thought that all the States are enjoying huge surpluses, because we are not.

With that and with my sincere appreciation for the opportunity to express one State's views on what is generally a national problem, I want to thank this committee and Congressman Rodino for your patience in listening to me.

Senator BRADLEY. Governor Byrne, thank you for your testimony and for your brevity. I have just one question.

Under both the Rodino-Williams bill and the administration bill, the State is included in the countercyclical portion but excluded from the targeted fiscal assistance portion. What is your view of that?

Governor BYRNE. Well, Senator, I guess I have been one of the rare Governors who have been willing to defer to the cities in the area of countercyclical aid. And, as a matter of fact, on principle, even on revenue sharing.

I must admit that on revenue sharing my principles become modified by the fact that I could not makeup the $76 million that we get in revenue sharing without taking it from State aid.

Incidentally, approximately $0.52 of every $1 we collect in State revenues goes back to localities by way of State aid. So, that my answer to you is in countercyclical, we would certainly defer to the cities, assuming economic conditions do not get any worse, period.

Senator BRADLEY. Senator Durenberger.

Senator DURENBERGER. I have two questions, one of which is related. I guess you have answered the first. I am curious to know why you feel the States should not play a role either in a formula pass-through of these kinds of funds. Is it the dominance of several large cities?

Governor BYRNE. No; I feel that if you have a fair formula at the Federal level, letting the States pass it through is only adding another level of bureaucracy. If you do not have a fair funding level, maybe the States could adjust the funding level. But frankly, after you have finished with congressional pulling and tugging, you get the State pulling and tugging; and I think the urban areas give up even more by the double weighing by the Congress and the State legislatures.

Almost every State legislature has a tendency not to be oriented where the need is an urban need.

Senator DURENBERGER. I see somewhere in your statement that 100 percent of the New Jersey income tax, State income tax, is going back to local governments.

Governor BYRNE. We do not keep any of it for State purposes. It all goes back to local governments or the local taxpayers.

Senator DURENBERGER. Of the two block grant programs, whatever it is that are referred to in here as urban aid and the others, safe and clean streets?

Governor BYRNE. You are referring to our program?

Senator DURENBERGER. Right. Those are "no strings" attached programs.

Governor BYRNE. We audit the urban aid and safe and clean streets programs. We make sure that safe and clean streets basically applies to hiring police officers and we want to see that the police officers are on the streets that have been identified as unsafe streets.

Senator DURENBERGER. Thank you.

Senator BRADLEY. Chairman Rodino?

Representative RODINO. Thank you.

First of all, Governor, let me commend you and state here and now that while I am the principal author of a bill which provides more funding than the administration bill, nonetheless, I am a realist and I recognize the need to be able to compromise. But I do believe, nonetheless, I am confident that there is an urgent need for greater funding than even is provided in my bill.

I would like to ask you as the Governor, as an active member of the Governor's Conference, a question that is rather practical for us to know the answer to.

What priority do the Governors and the Governor's Conference place on countercyclical assistance?

Governor BYRNE. I think that the Governor's Conference places a very high priority both on countercyclical and revenue sharing.

It is hard to remember a Governor's Conference in my years as Governor where that was not an agenda item for the conference and a subject of meetings with White House staff and congressional delegations.

Representative RODINO. Thank you very much.

Senator BRADLEY. Thank you very much, Governor.

[The prepared statement of Governor Byrne follows:]

PREPARED STATEMENT OF BRENDAN BYRNE, GOVERNOR OF NEW JERSEY

As the Governor of the County's most densely populated State, I appreciate the opportunity to appear before you to stress the importance of the enactment of the Anti-Recession Fiscal Assistance Program. I must immediately commend all of those individuals who have worked so diligently to bring forth this legislation, but in particular, the efforts of Congressman Rodino, and other members of the New Jersey delegation who put forth such a strong effort to retain countercyclical aid in the closing hours of the 95th Congress. Now we in New Jersey are also fortunate to have Bill Bradley taking a leading role in this fight. We all have reason to be proud of our New Jersey delegation in pursuing this aid for our cities.

We in New Jersey know how vitally this program has assisted our neediest cities. In fact, I have prepared a summary of how 32 of our most needy cities have used ARFA funds in 1978. In short it indicates that the State's most needy municipalities—our 32 urban aid cities—have used 90% of the ARFA funds for police and fire services—services which cannot be curtailed. This document shows the intensity, concern, and dependence of our urban centers on the use of ARFA fund. Basic services were funded with counter-cyclical aid; that was the intent of the original law. The need was to maintain "essential" services during the worst of a national recession. Its premature demise has resulted in fiscal chaos, especially in our most hard-pressed cities. Economic revitalization of New Jersey is my main concern and I strongly urge that a new allegiance between Federal and State governments can best set about the restoration of our urban centers.

I believe I stand on firm ground in requesting that the Federal government provide this extra revenue source as some measure of fiscal relief for our Urban Cities. I can make this request because New Jersey as a State government has been a pioneer in providing fiscal relief for our cities. We have not only pioneered many programs but we continue to build upon our efforts and add new dimensions to our endeavors—but we can't do it alone—we need the assistance of the Federal government.

We have an operational urban policy in New Jersey. Our Housing Finance Agency is the leading producer of subsidized housing in the country. Our Mortgage Finance Agency has successfully raised over $100 Million for inner city mortgages and improvement loans. We have overcome the school financial problems that other States still confront. The State has urban aid programs and a progressive school aid formula based on property wealth—with extra aid for compensatory and bi-lingual education. The State government bears ¾ of the non Federal Welfare burden and all of the local costs of Medicaid. Newark, for example, must still levy almost $10 million in property taxes to pay for welfare—some municipalities in this nation don't even have a budget of $10 million.

With these aid programs, and recent additions such as payments in lieu of taxes, aid to public hospitals, revenue sharing. State assumption of senior citizen property tax relief and the New Local Government Assistance Aid, New Jersey supports almost 60% of urban schools costs and more than one third of all public spending in our major cities. In Newark, for example, the State pays 76% of the schools budget—and in Camden it is 79%. Overall the State government pays over 55% of all of its resources to local governments, including 100% of all revenue from the income tax.

The urban focus which others, including the federal government, are now trying to achieve, has been a feature of state planning in New Jersey. State offices are built and leased in the cities. Major state complexes, such as the medical school and colleges have given new life to central city areas. Planned new enterprises, such as casinos, a food distribution center, and industrial parks have been oriented to urban sites as a matter of state policy.

These and other government initiatives have yielded encouraging results, but our efforts at urban restoration have also hardened us in some difficult lessons. First, and foremost, is the recognition that the ability of the State to alleviate the physical decay, poverty and financial distress of its cities is limited. Many of the forces which have altered the economic and social prospects of the older cities lie beyond the capability of any level of government working alone. State and federal government housing, tax, highway and sewer policies have sometimes encouraged the spread of urban development away from the older cities. The responsibilities for alleviating some of the burden caused by these policies must be shared.

The cities of our state need help beyond the resources available to the state government. We need continued federal commitment—at the very least, we need the reinstitution of the Fiscal Assistance Program, albeit at a level below past commitment.

I commend the Administration for agreeing to provide this particular federal program directly to the cities just as I supported major elements of the President's urban programs submitted almost one year ago today. Even under the old Anti-Recession Program, New Jersey State government allocated almost 70% of its $58 million to the urban population in the state with $17 million being provided for direct local services such as police protection and health care. We can accept, albeit with much disappointment, the decision of the administration and the congress to put off for another year the question of welfare reform, but we must have this interim relief if we are to provide any measure of fiscal relief for 1979 to our major urban areas. The federal government cannot in all conscience hold back this small token of interim fiscal relief.

The loss of ARFA funds in 1978 has triggered an untimely and unfortunate problem for our local governments. The problems of Newark, Jersey City, Camden, Paterson, Trenton and other cities cannot be swept under a rug and hidden. All of us, in public office have an obligation to assist those in need. No one can escape the fact that we must provide job opportunities in our urban areas. The cities need your help.

As I indicated earlier, we have done much in our state to provide aid to our urban areas. In addition to our social service, welfare, health and school aid programs, we have several programs of a block grant nature which benefit in particular our most severely distressed cities. If you will—our own targeted Fiscal Assistance Program. Two of these have been in effect for almost ten years, although in recent years their size has been increased and its targeting sharpened. Our urban aid program and our safe and clean program target almost $52 million a year to 32 of our most distressed cities based upon a need-oriented formula, a formula which considers deteriorating housing stock, AFDC data, tax rates and property valuation.

Just last month in an effort to expand this concept of targeted aid, and as the result of some recommendations contained in an urban report I received from my cabinet task force, I supported a new $23 million urban aid program. This $23 million is in addition to the previously mentioned $52 million and targets money primarily to those municipalities which have tax rates higher than the State average and property valuations less than the State average. Moneys to support this program have come from accelerated payments of public utility taxes. Such payments then being returned to distressed local governments.

This is only the beginning of a larger scale effort on my part to review all revenue sources and state-aid payments within the State and local governmental systems in New Jersey to see if additional targeting of the State's resources is possible. To help me in this endeavor, I have appointed a committee of mayors from various municipalities in the State to review and analyze these revenue sources and programs to see if any further improvements can be made.

As you can see, we in New Jersey have a viable, ongoing and dynamic program of aid to urban areas. Many of our programs are targeted to the most distressed areas in the State—as I believe they should be. Despite all these attempts, our cities continue to bear the burden of our social ills. The loss of Federal aid leads to higher taxes for fewer services for the people who need it the most. The loss of aid leads to more lay-offs, and makes our cities less attractive for residents and business because the property tax—the tax of last resort, the tax with the least degree of equity has to be called upon to bear the burden.

The original ARFA program was a saviour to our municipal governments in New Jersey. It not only provided needed fiscal relief; it allowed our local units to meet the very basic needs of the public we all serve. The cities need this program being considered here today. It is less than they received last year but vitally necessary if we are to attempt to stem the tide of urban decay.

We urge that this program be adopted as soon as possible. We endorse the concept of "targeting" funds based upon a criteria of need—and we accept unemployment rates as a good proxy for measuring need, even if it does not meet all the tests of a "perfect" formula. Given our limited resources and the attempts of the Federal Government to reduce the deficit, we need to target and concentrate available revenue to our most needy governments—that is the cities which are losing population and jobs.

Especially when the resources of government are so limited, it is essential that we target those resources to places with the greatest need. In this regard, the Rodino-Danforth Bill is a more efficiently targeted bill than we have had before and the administration's proposal refines this targeting even more. Congress, and this committee, should make the final judgments on specific formulas. I simply wanted to reiterate my support as Congressman Rodino, Senators Bradley, Moynihan and Danforth have also done, for the principle of targeting. I support the funding levels included in the Rodino-Danforth Bill adopted since it provides a higher level of funding—levels which I believe to be the minimum in view of the great problems facing our cities.

New Jersey has 567 municipalities, a total population of 7.3 million yet 28% of our population live in our 32 urban aid cities. Our unemployment problem is located in these centers. Federal targeted aid can assist us in meeting the goal of better employment opportunities. At the State level we are doing all we can to assist but now we have an opportunity for the Federal and State governments to develop an economic revival coalition that offers, not words, but dollars to respond to a national problem.

Thank you, Mr. Chairman.

ANTIRECESSION FISCAL ASSISTANCE, URBAN AID MUNICIPAL EXPENDITURES (CALENDAR YEAR 1978)

Municipality	Police		Fire (salaries and wages)	Public works		Recreation-library		Administration		Road repair and maintenance		Public assistance (salaries and wages)	Total
	Salaries and wages	Other expenditures		Salaries and wages	Other expenditures	Salaries and wages	Other expenditures	Salaries and wages	Other expenditures	Salaries and wages	Other expenditures		
Atlantic City	$1,063,594.45			$403,895.00				$29,394.00		$42,500.00		$8,100	$1,547,483.45
Bayonne	115,000.00		$130,000.00	155,000.00						150,000.00			550,000.00
Bloomfield	147,397.00							16,663.00					164,060.00
Bridgeton	221,324.00												221,324.00
Camden			1,735,168.00										1,735,168.00
East Orange	208,923.00		208,923.00										417,846.00
Elizabeth	145,467.91		748,000.00										893,467.91
Hoboken	410,000.00		997,379.00	170,000.00									1,577,379.00
Irvington				306,810.00									306,810.00
Jersey City			4,596,552.00										4,596,552.00
Keansburg	83,370.00	$13,326											96,696.00
Long Branch	265,172.00												265,172.00
Millville	245,493.07												245,493.07
Montclair			78,948.00										78,948.00
Neptune Township				164,952.00						110,000.00			274,952.00
New Brunswick	402,361.00												402,361.00
Newark	6,367,761.89		4,297,763.48					170,966.00					10,836,491.37
North Bergen			675,182.00										675,182.00
Orange	404,675.46												404,675.46
Passaic			943,276.00										943,276.00
Paterson						$500,000.00	$100,000.00						600,000.00
Perth Amboy	327,000.00												327,000.00
Phillipsburg	60,000.00			105,520.00									165,520.00
Plainfield	71,469.00	557		9,674.00	$182,433.36	85,322.00		28,649.00	$5 500.00				383,604.36
Rahway			55,465.00	57,385.14									112,850.14
Trenton			678,369.47										678,369.47
Union City	515,084.00		465,222.00	50,690.00						25,000.00			1,055,996.00
Vineland	255,000.00		75,000.00	65,000.00						135,579.24			530,579.24
West New York	61,641.00		356,939.33			54,598.81	9,753.57	27,519.46	4,276.92	177,366.45	$116,276.46		808,372.00
West Orange	20,000.00		20,000.00	16,469.00									56,469.00
Asbury Park			152,276.00										152,276.00
Lakewood	200,000.00												200,000.00
Total	11,590,733.78	13,883	16,214,463.28	1,505,395.14	182,433.36	639,920.81	109,753.57	273,191.46	9,776.92	640,445.69	116,276.46	8,100	[1]31,304,373.47

[1] Out of $53,000,000 to municipalities.

Senator BRADLEY. Our next witness will be a panel of mayors of the U.S. Conference of Mayors. I would like to call upon the mayor of the city in which we are, Mayor Kenneth Gibson, to introduce the panel, and I welcome them on behalf of the subcommittee.

Mayor Gibson, welcome, and if you would provide the introduction, please.

STATEMENT OF HON. KENNETH GIBSON, MAYOR, CITY OF NEWARK

Mayor GIBSON. Thank you, Mr. Chairman.

I want to join with Chairman Rodino in welcoming you. I really do not have to welcome you to Newark, but welcome the committee to Newark. We were in your hearing room not long ago, Senator Durenberger and yourself and Senator Long. We always appreciate coming before the committee to testify.

I know that you have time restraints and there is a long witness list, so I again welcome you to Newark and these hearings on this vital subject to the cities.

I will introduce to you now, Mayor Arthur Clark, Waltham, Mass.

STATEMENT OF HON. ARTHUR CLARK, MAYOR, WALTHAM, MASS.

Mayor CLARK. Mr. Chairman and members of the committee. I am Arthur Clark, mayor of Waltham, Mass., testifying today on behalf of the U.S. Conference of Mayors. Thank you for this opportunity to participate in these hearings on targeted and antirecession fiscal assistance.

The discontinuation of the antirecession fiscal assistance program at the end of fiscal 1979 has had a serious impact on cities across the country. Many cities have already had to cut services, lay off essential employees—including police and fire personnel—raise taxes, close local facilities, and sell city property, all as a direct result of the loss of countercyclical funds.

Moreover, many cities are still suffering from continuing high unemployment. For example, in 32 of the largest 48 cities, local unemployment rates are well above the national average; and in many cities, including Newark, Detroit, St. Louis, Buffalo, and Baltimore, local unemployment rates are twice the national average.

What is worse, this translates into catastrophic unemployment rates among black youth of 25 to 50 percent in some communities. Thus, there is an urgent need for a program of targeted fiscal assistance to those local governments suffering from high unemployment and fiscal distress.

A program of targeted fiscal assistance is all the more urgent in view of proposed cutbacks in other Federal programs which have helped high unemployment areas—proposed cutbacks in CETA public service jobs, summer youth jobs, and so on. The targeted assistance program of the administration bill and Senator Danforth's bill would focus assistance to those cities hurt by these cutbacks in employment programs.

The legislation proposed by the administration and that introduced by Senator Danforth and others would establish two programs—a targeted fiscal assistance program, and a standby program of countercyclical assistance, which would trigger into effect if the national unemployment rates rises. The Conference of Mayors strongly supports the enactment of both of these programs.

With respect to the differences between the two bills, let me say that we believe the somewhat higher funding level of the Danforth bill is preferable to that of the administration bill. The administration bill is based on the assumption that fiscally distressed local governments will be better off in fiscal year 1980 than they are in fiscal year 1979.

However, it seems more likely that problems will persist, especially given projections of an economic slowdown at the end of 1979 and in 1980, and in light of continuing high inflation rates, which put additional pressures on local budgets. Moreover, the $340 million program of the Danforth bill is already a substantial reduction from the earlier countercyclical program.

With me this morning to tell this story of the cities, first of all, is Mayor Koch of New York City; and with your permission, Mr. Chairman, I would like to ask Mayor Koch to respond.

STATEMENT OF HON. EDWARD KOCH, MAYOR, NEW YORK CITY

Mayor Koch. Thank you very much. It is a special pleasure to be here, Mr. Chairman, for several reasons, one of which is to appear before my old friend and colleague, Peter Rodino, with whom I served for 9 years and who has left and is leaving a mark on the Congress that is unexcelled as long as he stays there.

There will be no one who will surpass his record.

The second reason I am appreciative to be here is that I lived in Newark for 10 years.

Senator Bradley. Welcome home.

Mayor Koch. I consider it my home, and I consider Mayor Gibson to be my mayor in the sense that if you lived in Newark, you never forget it, in the best sense of the word, and I am glad to be back here; and as I was coming over the skyway, I took note of the fact when I would be living in Newark and going to New York, there was this terrible sulfur stench, if you recall. At least it was not there today; I do not think it has been there for a long time. I know that you did that.

So it is a special pleasure to be here and to meet Senator Durenberger and to see you as chairman of this committee.

I would like, with your permission, to file my formal statement and simply to touch upon some of the matters that I think I ought to emphasize, because I know of the time constraints.

There are two bills before you—S. 566, the administration's proposal; and S. 200, the bill passed by the Senate last year—which are designed to assist those communities whose economic recovery continues to lag. Both bills address criticisms of expired programs, and both bills represent well-balanced efforts to provide the basic fiscal assistance to localities, which is critical to their continuing efforts to maintain and rebuild after the last recession. Furthermore, both bills provide for standby fiscal assistance which will be vital in the event that the much-talked-about recession of 1979–80 occurs.

The countercyclical program is critical for New York, Newark, Detroit, Philadelphia, and New Orleans, and many other communities large and small that anticipated this money in their current budgets. We do look upon such aid as a means to avoid our responsibilities. Rather, it will provide us with the flexibility to phase in reductions in services and personnel, thus avoiding sudden disruptive terminations.

Of the two proposals for extending the countercyclical program, the city prefers S. 200 which would distribute more money to distressed cities, but we of course also support the administration's bill or any compromise measure which will address the problems which the cities face.

We would be happy with any version that comes out, considering that we got nothing on the last occasion.

Under S. 200, New York City would receive as much as $42 million in each of Federal fiscal years 1979 and 1980. We understand that the city would receive approximately $42 million in fiscal year 1979 and $26 million in fiscal year 1980 under the administration's proposal which provides for more precise targeting of available funds.

I would like to, before closing, comment on two other items. One is a concern which has been raised with respect to both bills.

First, some people object to the reliance of both bills on unemployment rates as a measure of fiscal distress. I do not know a better indice.

For those who would object to that, the bill is supposed to object to the fact that there is unemployment. If you do not use that, it makes no sense in my judgment. I would dismiss that objection. It may very well be that you may want to take into consideration the smaller States that have raised that in some additional formula. To not rely heavily on unemployment, it seems to me, would remove the need for the bill. The bill addresses unemployment.

The second thing. People will say what has happened when you did not get the money, you did not get the money, somehow or another, you lived. It is true. You were never going to die.

The fact is that when we did not get that money, we had to take very important measures which reduced services, and every city—and Newark and New York City are really tied together. We read about one another's plight daily in the newspapers, and we have had to take very emphatic measures that deal with the shortfall and the moneys that we hope to have in our budget.

For example, in fiscal 1979, we had to employ a hiring freeze. In September of last year, we had cutbacks in virtually every area: education, police, sanitation. We had an additional 2,000 positions removed from the payroll over and above that which we had planned in 1979.

Were we not to receive any countercyclical in 1980, we would be reducing more than 8,000 positions which we would not want to do. It has an impact.

Anybody who thinks that you could continue to reduce essential services and reach a point that you certainly cannot, through productivity and stretching and moving and pushing as hard as you know how in getting management improvements and techniques imposed and not have a reduction in services when you have to go to these lengths of cutting, they simply have never managed.

There are limits to management techniques that cannot compensate for reductions in personnel. We would, in fiscal 1980, if we were not to get the assistance that we hoped we would be getting, we would be having 1,000 fewer police officers on our police force. We would have 400 fewer sanitation personnel. We would have 2,000 fewer teachers. We would be eliminating part of our neighborhood employment program.

What I am simply saying, in conclusion, is that this is a very important budgetary measure for New York City, and we recognize all of the problems that Congress has, retrenchment and so forth, but, however, when it comes to dealing with an unemployment situation, and here are figures which I know you are aware of, but let me cite a few of them. They are so dramatic, it requires a dramatic response.

In 1977, the national unemployment rate averaged 7 percent and New York City was 10 percent. We have been always higher in unemployment for a whole host of reasons since 1950. Prior to that, the picture was different. Now we are always 3 to 4 points higher in unemployment than the national average.

A year later when the natonal average had dropped to 6 percent, the unemployment rate in New York City remained almost 3 percent above that average. Unemployment rates for 1978 in other distressed areas were similar: 8.6 percent in Philadelphia, 12.2 percent in Newark, 10.5 percent in Buffalo, 9.3 percent in Jersey City, and 10.6 percent in Wilmington.

Finally, the unemployment rate for minority youths, particularly blacks, and that was mentioned earlier by Governor Byrne, is staggering.

In 1973, 20 percent of the black youths were unemployed as against 10 percent of the white youth: 2 to 1. A horrific statistic, a terrible statistic.

By 1977, the rate for black-youth unemployment rose to nearly 30 percent, while the rate for white youths was at 12 percent. That is extraordinary. What that does to people is what you would think. It removes hope; it removes confidence. It removes the desire to move yourself out of poverty if the jobs are not there, if the discrimination instead of getting removed, lessened, reduced, eliminated, is becoming worse. It destroys your soul.

So I am stating to you, this is not an ordinary bill; this is an essential bill. Thank you.

Senator BRADLEY. Thank you very much, Mayor Koch. I would just like to ask one question before we move on.

I saw a report in the New York Times about the number of illegal aliens that are in New York City at the moment and the cost to the city. This seems to be a Federal cost, yet the city is bearing it at present. Could you give us some estimate as to the number, the cost to the city, and the impact on the economy of these illegal aliens?

Mayor KOCH. The first thing is, it is always easy in New York City to give a number, because we have a million of everything and our position is that there must be at least a million illegal aliens.

The estimate ranges, in fact, from 750,000 to more than a million. It is an enormous burden on us for several reasons. We have to provide medical care for the medically indigent and illegal aliens are now covered by that. Our estimated figure with respect to illegal aliens' medical care, you cannot let people die whether they are illegal or legal, you cannot let them die. Is that not so?

We have to provide the medical care, whether it is a baby or a woman or an adult male, they are entitled to essential medical services, if they cannot afford them. That cost us, the estimate is over $50 million a year.

We are not compensated at all. We get no coverage. There is no medicaid coverage. There are medically indigent who are not on medicaid, and that is an enormous burden for us.

We have asked for and submitted legislation, or supporting legislation, and Congressman Waxman, chairman of a major committee on that matter, I believe, has introduced a section that would deal with that problem. I hope it is passed.

Representative RODINO. Would you yield on that point?

Senator BRADLEY. Certainly.

Representative RODINO. Mayor, is it not a fact that immigration is a Federal responsibility and, as a result of the failure to either enact proper immigration policy or to properly regularize our immigation in the country and having all of these so-called undocumented workers, as I prefer to call them, unfortunates, you have to assume the cost.

Mayor KOCH. Your point is so well-taken.

There are two things that the Federal Government should be dealing with that we cannot deal with because it is a Federal responsibility. One is illegal aliens if they are coming into the country illegally, because the Federal Government has not taken measures to stop it. In the same way that when drugs come into the country illegally, it is the Federal Government that has to stop it. We cannot do it.

The city of New York is not able to prevent illegal immigration into the country. The city of New York is not able to prevent the introduction of illegal drugs into the country. We suffer the consequences of the Federal failure.

Senator BRADLEY. Thank you.

Mayor CLARK. May I introduce Mayor Elizabeth Marshall from York, Pa?

STATEMENT OF ELIZABETH MARSHALL, MAYOR, CITY OF YORK, PA.

Mayor MARSHALL. Thank you.

I appreciate the opportunity to come here today. I might mention that over the weekend our little York High School won the State championship for basketball, both our boys' and girls' teams, and we are having a celebration today which I am missing, but I feel that this is so important that there was no hesitancy on my part to come.

Senator BRADLEY. Targeted fiscal assistance is always more important than basketball.

Mayor MARSHALL. I will begin by giving you a picture of York which will hopefully put my comments in context.

York, Pa., is small both in terms of population and area. In 1970, the U.S. Census reported that we had more than 50,000 residents, but we are certain that in 1979, this figure is too high. Over the years, local private dollars in the form of industrial, retail, and commercial enterprises and middle- and upper-income residents have continued their steady movement out of the city to places where taxes are minimal, schools are predominantly white and problems are perceived to be nonexistent.

And our area is only 5.3 square miles. Since the drive-time which exists in larger cities is minimal and the incentive to move financially beneficial, one can have all the privileges and conveniences of the city but without the responsibilities. With over 30 percent of our tax base exempt from taxes, the incentives to profit by evading these responsibilities have proven to be irresistible.

You have heard the reasons for this exodus discussed many times so I will not belabor the point. What I want to emphasize, though, is that in Pennsylvania, cities are limited in what they can do to overcome the impacts of this drain on our tax base because of the restrictive State laws which make annexation impossible. Consequently, we are unable to share in the benefits of suburban affluence and the economic growth of the post-World War II period.

The individuals and businesses that have chosen to remain in the city, along with concerned citizens, are currently involved in a valiant struggle for the city's very survival, and the city government is doing all it can to revitalize York while trying to hold down taxes. For we cannot afford to raise taxes which already are much higher than the surrounding area.

It is most important that the Federal Government not abandon us and that it sustains our efforts to save our city. Not only because we need a healthy environment but as an important segment of the roots of democracy in our country.

For a 9-month period in 1777–78, the city of York was home for the Continental Congress. During that time, the Articles of Confederation were adopted, the first Thanksgiving proclaimed and our new Nation entered into its first international treaty with the French Alliance. So it was in the city of York that the term "The United States of America" was first used. On the basis of these crucial historical facts, York boldly lays claim to the title of "First Capital of the United States," and because of this heritage we are struggling to preserve our history by rejuvenating both our physical health and our cultural value.

To illustrate our predicament, one suburban township has grown to 20,000 population with a tax base now higher than the city's with land for more development. Their municipal taxes are about 5 percent of ours. Even with including school taxes, they pay only about one-half of 1 percent of market value; over 42 percent of their budget needs are provided from the wage tax alone.

Yet they receive revenue sharing and are even considering applying for an urban development action grant.

Without the availability of Federal fiscal assistance money in 1977 and 1978, for example, the city of York would have been hard pressed to cope with our shrinking tax base. In 1977, our general fund operating budget totaled $7.5 million, and almost 7 percent of this money came from Federal fiscal assistance. Then, because of the substantial tax increase necessary to offset this support, the city chose to reduce our 1979 budget by $100,000 below the 1978 level, cutting back personnel even in the two critical areas of police and fire.

I should mention that, although FBI statistics show that in larger cities crime is under control and even perhaps decreasing in certain categories, this is not true of medium-sized cities like ours.

Cutbacks in the CETA program are also having a negative impact on the city. Of the 588 employees hired by York County, the local prime sponsor, approximately 210 or 38 percent are city residents. Our unemployment figures will invariably rise once the cutbacks take hold. Our unemployment rate during 1978 was a full 7.7. percent for the year as compared to the national average of 6.025 percent, and went as high as 9.4 percent during the first quarter.

I might mention in the surrounding county, their rate for the year was less than 5 percent; that includes the city statistics.

Senator BRADLEY. Mayor Marshall, thank you very much. In the interests of time, I wonder if you would consider submitting the remainder of your testimony for the record. I would also ask the remaining members of the panel to submit their testimony for the record.

If that is agreeable to the panel, I would like to turn to questions that the subcommittee might have of the panel.

Mayor KOCH. Mr. Chairman, with your permission, I would like to be excused, because I have to get to City Hall and make arrangements to get down to Washington, if you would permit me to.

Senator BRADLEY. Certainly. Thank you.

Mayor KOCH. Thank you very much.

Mayor CLARK. Thank you very much, Mayor Marshall.

I would like, Mr. Chairman, now to call Mayor Douglas Degood of Toledo, Ohio.

Senator BRADLEY. If possible, we would like to submit the testimony for the record, unless you wish to summarize it in 2 minutes.

Mayor DEGOOD. I will yield my 2 minutes.

Senator BRADLEY. Fine.

Senator Durenberger?

Senator DURENBERGER. I guess I have had the opportunity to meet with several of you and share my concerns. I am all for the program; I am all for the cities. I understand the problem. I want to know how best to solve those problems and maybe some of you have reacted to this. It just bothers me that you do not come in here—for example, if the mayor of New York is right and the real problem is unemployment and all of that sort of thing, that he does not come in here and say we do not need the money in this program, take it and put it in CETA, take it and put it into one of these other programs.

Instead, we say, we will go from $1 billion to $250 million; we will take what we can get. That is the message I am hearing from an awful lot of people. The message I am trying to get to the mayors of the cities of this country is, people like Bradley and I, even to a degree the Congressman, who is more expert than we are, are really looking to you people as to where best to spend the money that someone pointed out here that the Federal Government collects more cheaply and probably better than other units of government.

If the money is better put into direct programs that relate directly to unemployment or something else—when I read of what New Jersey has apparently done, according to the governor of New Jersey, 90 percent of the money in 1978, in the 32 urban aid cities of New Jersey, 90 percent went into police and fire services.

What does that have to do with curing the problem of unemployment? It is important, and in a recession when you cannot get money from some other sources, the program is important to cover that.

Do not make it look like an unemployment program; it is not. It is one that fills the hole, and when you get a variety of 50,000 cities and multimillion cities, it is important to me to hear your perspective of where best we should dedicate Federal funds.

Mayor CLARK. Thank you.

We will try to summarize now.

STATEMENT OF DOUGLAS DEGOOD, MAYOR OF THE CITY OF TOLEDO, OHIO

Mayor DEGOOD. As you suggested, it was my personal reaction when Governor Byrne made the point so well earlier that the progressive nature of the Federal tax system certainly distinguishes itself from taxing systems at the local level. I am not sure that I would subscribe to that same philosophy in terms of the ability to move to efficiently expend those funds.

My own preference would be for the Federal Government to continue to emphasize programs, general revenue sharing, countercyclical assistance, targeted assistance which gives society the benefit of the progressive taxing system and I think additionally the benefit of local government which has, in all instances, I believe, a smaller bureaucracy and which, I think, can more efficiently expend those funds and probably be somewhat more attuned to the finite nuances of local needs.

Mayor CLARK. Fine.

Ken Bowen of Lafayette, La., I think can speak for the standpoint that it does not need it as desperately as others.

Senator DURENBERGER. They already gave back $800,000.

Mayor BOWEN. I predict a great future for you, Senator.

STATEMENT OF KENNETH BOWEN, MAYOR, CITY OF LAFAYETTE, LA.

Mayor BOWEN. It is refreshing to have two young Senators, reflecting good judgment on the local level and wisdom with the delicate problem of the values of basketball and education, Senator. There is no measure between the two. I appreciate that. I really do.

In an effort to answer your question, Senator, I find we are placed in the position that we pass the ball and say do not shoot. We just keep passing it around the court until the clock runs down and there is a foul committed somewhere, if I can get into basketball text here, because where is the commitment other than to the emotion that is thrown out there saying, hey, someone has to be responsible for these jobs, this antirecession, these other things along the way?

I, too, feel that if there was a commitment made to solve the local problem which was of national significance, you put it all together. That is where the problem appears, to me.

To a fellow who lives with the problem, I look to the word "commitment," not confusion. Each year, the annual pilgrimage which takes place before the Congress, individually, committeewise, et cetera, to go back for something and we talk about a new program, we get a new amount of dollars stated, and we get all of the usual routine.

Last week when I was with you, that afternoon we were called and invited to a conference at the White House for the first briefing on how to save $18 billion. I asked Mr. Califano, can I now return the commitment to you that you asked? I will help you theoretically fight for the administration to say what was a new, additional $4.5 billion required for the health bill, hospitalization costs last year, for the same number to do the same thing as we did theoretically last year. If the administration's program was passed, it would save $18 billion.

Mr. Califano, I can commit to that principle of saving for good administration, for good care for our people in this country who have a need for it. Now, will you, in turn, commit to me that that $18 billion savings will come out of the Federal budget?

And, you see, we are talking about $350 million today, the countercyclical program, theoretically, yet we are talking about saving $18 billion on the other hand.

It is not that the left hand does not know what the right hand is doing; the little finger on the same hand does not know what the right hand is doing.

I did not come here with this attitude today, but I appreciate the candor with which we are facing the problem. We create crises governmentally. That is an opinion.

I did not come to ask for money. I can spend our share of the money; let me assure you of that, because I have people who feel it comes out of their pocket anyway, and they will get whatever they can get back in the kind of game we play.

In truth, and in fact, our community does not need the countercyclical. I personally think that we have a problem across this country. We are in the city, where they are honest and open.

We agree that there is a need to solve the problem, though. It does not need rhetoric on the floor of the House or the Senate; it needs action and it needs commitment and continuity and not continued crisis, if I can give you some alliteration.

That is how I feel. I think we need to take and do something to bring about the principles of total commitment to the reality of the problem. It is the problem of the people, whereby 60 percent of the total population of this country lives and are governed in this America, in the city and urban America, to honestly commit to the solutions that are there and names of the honest problems that exist, not the semantics that we play governmentally.

At one point the partnership that we have, every time we talk, the cliche is that we have a partnership, another partnership. I do not know about those partnerships, I really do not. Dignity demands in government that we are truthful with one another and are honest and we tell it just like it is and we go about the tests.

I made a comment last night to a young man from New York City that the American public has been so confused and so led down the path of erroneous or omitted information that when the Senate and the Congress and their good will helped the city of New York in their great crisis 2 years ago; the public does not know that the Federal Government made money on that loan.

They really feel it was a total give-away, a hand-out. That is not true, and it is not fair, and it is not a good relationship based on an honest need that was brought about at that time.

I could go on, Senator, but I am finished with that. Thank you.

Mayor CLARK. Thank you very much, Mayor.

Mayor Tom Dunn of Elizabeth, N.J.

STATEMENT OF THOMAS DUNN, MAYOR OF THE CITY OF ELIZABETH, N.J.

Mayor DUNN. Senator Bradley, Senator Durenberger and Representative Rodino, I am very privileged to be sitting alongside this distinguished committee of mayors from so many sections of the country.

Because I know you are anxious to catch your plane for Washington, I have abbreviated my statement many times. Rather than even read it to you, because much of it would be repetitious of what has already been said by the Governor, these mayors and Mayor Koch, I would just like to tell you that all, every penny, of the Federal countercyclical money coming into our city has been used for the purpose of paying salary betterments won by policemen and firemen in collective bargaining and if we did not have that money we would certainly be in trouble and would have to foist this added cost onto the local tax rate.

One important thing to remember in the State of New Jersey, at least, is that we have a cap law. Our antirecession money is used to subsidize salaries of firemen and policemen, and this amount is "exempted" from the total budget amount allowed under the "cap." But now we must absorb the total anticipated amount in our local budget, thus exceeding the "cap."

To make up this substantial amount, other vital things must be sacrificed, other services being curtailed and lay offs. We have not hired a new employee in the city of Elizabeth in 5 years, outside of CETA workers. Through attrition, by not filling jobs as people retired, et cetera, we have been trying desperately to make up. There has been a breach of faith, if you will allow me to say that, by Congress in not taking any action after promising that we were going to get the money and then reneging on the promise.

The mayors of our country have been let down terribly but we are counting on you and members of your committee to "bail us out." We would not be here if the situation was not serious. It is a traumatic situation facing all cities, all urban cities, big and small.

Thank you.

Mayor CLARK. Thank you very much, Mr. Mayor.

Mayor Tom Cooke, East Orange.

STATEMENT OF TOM COOKE, MAYOR OF EAST ORANGE, N.J.

Mayor COOKE. Thank you, Mr. Mayor.

Senator Durenberg, Senator Bradley, and Congressman Rodino, as mayor of East Orange I find the city's fiscal situation precarious because of the absurdities surrounding Federal actions and promises. Federal aid to local government is our major factor in maintaining a relative growth.

Since Federal aid has increased faster than our own sources of local revenue, this has increased vulnerability in the local public sectors for the changes. East Orange is contiguous with Newark and many of our problems come from the spillover, yet we do not qualify for the kind of massive Federal aid that Newark has received, nor New York, nor Boston, Chicago, or any of the large cities. We are one of those in-between cities, neither large nor small enough to be in either category.

The inevitable result of runaway inflation is in recession and high unemployment, particularly among the minorities and disadvantaged people. All 13 public schools in our city are eligible for title I elementary and secondary education funds.

The termination of the antirecession program was unexpected. Combined with the New Jersey State limitation on spending of municipalities and school districts, the Federal cutoff has had a serious, unfavorable impact. Our disappointment is deep in light of the hopes raised by the urban policy announcements of last year..

We need the revenue sharing. We need public school assistance. We need to be able to rely on what we were promised.

Perhaps the prediction that the obligations and needs of local government will decrease in the long term as the school-aged population declines and the Federal role increases with the projected rise in the elderly population, but what we need now is help now.

We need more present and less future in the understanding of the situation in the cities. After all, presume the population of the elderly imposes burdens on the city governments of 70 percent of the elderly live in urban areas. Also, we are the ones accepting the institutionalized people who are not returning to us, but who are arriving daily because they have no other place to go.

The assumption of improved management is only an assumed solution. The point is that there has to be something to manage and the loss of Federal assistance is too precipitous. The cuts in public service jobs, the summer youth employment program, the mass transportation, the section A funds, HUD funds and the lean funding announced for the private sector, initiative of a program with nothing for the labor-intensive public works program make a dismal picture.

The fiscal and economic conditions of local governments are very strained. Comparisons between the Rodino and Danforth bill and the President's have been outlined. I have been encouraged by Senator Bradley's preference for a highly targeted bill with higher levels of funding.

East Orange needs the dollars, and we look to your committee for the help that we must have.

Senators and Congressman, needless to say we are always in a position where we talk about the national average of unemployment. What people normally do not talk about, in an area such as Essex County, we have a much higher unemployment rate, akin to what Mayor Koch addressed himself to.

However, I would like to say that in Essex County I would venture to say that the unemployment rate, when we look at black youth and other minority youth, it is a 35 percent, almost three to one as opposed to white and other youth. That is because the people who make up that greater difference are never counted in statistics because they get damned tired of looking for jobs only to be told we do not have any place for you, so they just give up and end up eventually on welfare, if possible, or contributing to the other problem that Senator Durenberger sort of addressed himself to when he was saying, why do we need the money?

We need the money to provide job opportunities for people who are currently part of the problem in terms of crime statistics. You cannot expect a person to be a so-called good citizen if he wakes up every day knowing that he does not have a job to go to, so he does the next best thing, whether we like it or whether we do not like it—that is, if he sees the opportunity to go out and mug somebody because someone has been flashing some money, that is going to happen. When we talk about whether or not we ought to be putting financial assistance from the Federal Government into public safety efforts, those moneys are being placed in public safety efforts simply because our people are yelling and screaming about increased police protection because the unemployment problem complicates and further creates additional problems when it funds to funding job opportunities, and what is more, the people who are out mugging and raping because of a need for drugs, or whatever, is the reason why we have this problem.

Senator BRADLEY. Thank you very much.

Congressman Rodino?

Representative RODINO. Thank you Chairman Bradley.

I would merely like to put this in focus. I think the problem is one that all of us understand needs to be dealt with. It is a problem of national concern.

I applaud Mayor Bowen for the way he has put his finger on it. We need a national commitment.

Here is a mayor from a municipality who really does not have need, as he says; in this particular instance, one recognizes the national need, the national concern.

I do not see how we in America can say that this is a healthy community, a healthy society, when the various parts of it are sick, and the various parts of it are sick because the cities are really desperately in need. I think that we need the infusion of Federal assistance because this is a matter of national concern.

I would urge you as mayors to support this assistance—I tell you this as one who, over the years has seen the need to do the proselytizing, the lobbying. Unless you are able to convince your colleagues to do the same kind of lobbying effort that they have done in the past, we are going to have a tough time with this, because there are many who say, our city does not need it, our district does not need it, and there you are.

Mayor CLARK. Thank you, Mr. Chairman.

We are going to wrap up, if it is all right, with just a few words from Mayor Gibson.

Mayor GIBSON. We want to say again that we appreciate your coming. We have the problem. I think we have demonstrated that problem. We do not want to spend any more time on that. We will be in Washington, Mr. Chairman, and our good chairman will be the quarterback of our team.

Mayor CLARK. Thank you very much, Mr. Chairman.

Senator BRADLEY. I thank the distinguished panel for their contribution, testimony, and information. I thank you very much.

[The prepared statements of the preceding panel follows. Oral testimony continues on p. 218.]

STATEMENT OF HON. ARTHUR CLARK, MAYOR OF WALTHAM, MASS., ON BEHALF OF THE UNITED STATES CONFERENCE OF MAYORS

Mr. Chairman and members of the committee. I am Arthur Clark, Mayor of Waltham, Massachusetts, testifying today on behalf of the U.S. Conference of Mayors. Thank you for this opportunity to participate in these hearings on targeted and antirecession fiscal assistance.

The discontinuation of the Antirecession Fiscal Assistance Program at the end of fiscal 1979 has had a serious impact on cities across the country. Many cities have already had to cut services, lay off essential employees—including police and fire personnel—raise taxes, close local facilities and sell city property, all as a direct result of the loss of countercyclical funds.

Moreover, many cities are still suffering from continuing high unemployment. For example, in 32 of the largest 48 cities, local unemployment rates are well above the national average—and in many cities, including Newark, Detroit, St. Louis, Buffalo, and Baltimore, local unemployment rates are twice the national average. What's worse, this translates into catastrophic unemployment rates among black youth of 25 to 50 percent in some communities. Thus, there is an urgent need for a program of targeted fiscal assistance to those local governments suffering from high unemployment and fiscal distress.

A program of targeted fiscal assistance is all the more urgent in view of proposed cutbacks in other Federal programs which have helped high unemployment areas—proposed cutbacks in CETA public service jobs, summer youth jobs, and so on. The targeted assistance program of the Administration bill and Senator Danforth's bill would focus assistance to those cities hurt by these cutbacks in employment programs.

The legislation proposed by the Administration and that introduced by Senator Danforth and others would establish two programs—a targeted fiscal assistance program, and a standby program of countercyclical assistance, which would trigger into effect if the national unemployment rates rises. The Conference of Mayors strongly supports the enactment of both of these programs.

With respect to the differences between the two bills, let me say that we believe the somewhat higher funding level of the Danforth bill is preferable to that of the Administration bill. The Administration bill is based on the assumption that fiscally-distressed local governments will be better off in FY 1980 than they are in FY 1979. However, it seems more likely that problems will persist, especially given projections of an economic slowdown at the end of 1979 and in 1980 and in light of continuing high inflation rates, which put additional pressures on local budgets. Moreover, the $340 million program of the Danforth bill is already a substantial reduction from the earlier countercyclical program.

The Conference of Mayors is also in favor of a permanent standby antirecession program. When the national economy experiences a recession, the cities suffer proportionately greater unemployment, which has a devastating impact on local tax receipts and expenditures. Cities need some kind of standby economic assistance if they are not to be forced to lay off workers and cut expenditures—actions which intensify the severity and duration of the recession. Moreover, a standby program facilitates quick Federal action, which is important in moderating a recession.

In conclusion, Mr. Chairman, on behalf of the U.S. Conference of Mayors, I urge the Committee to move quickly to enact a program of targeted fiscal assistance and a program of standby anti-recession fiscal assistance. The Conference of Mayors is prepared to work with this Committee and with the Congress to secure enactment of this important legislation.

Thank you for this opportunity to present our views.

TESTIMONY OF MAYOR EDWARD I. KOCH

Chairman Bradley, members of this distinguished subcommittee, I am Edward I. Koch, Mayor of the City of New York. I am grateful for this opportunity to testify before you on the need for a federal countercyclical aid program.

To combat the effects of the recession which gripped the nation in the mid-seventies, Congress enacted the countercylical fiscal assistance program to provide emergency relief to economically distressed States and local governments.

While the situation today is improved, many localities, particularly in the older industrial states, but also in the South and the West, continue to need supplemental fiscal assistance in order to avoid layoffs, cuts in services, or tax increases. This is particularly important because of the proposed cutbacks in the CETA program and the demise of the local public works initiative.

There are two bills before you—S. 566, the Administration's proposal, and S. 200, the bill passed by the Senate last year—which are designed to assist those communities whose economic recovery continues to lag. Both bills address criticisms of the expired program. Both bills represent well balanced efforts to provide the basic fiscal assistance to localities which is critical to their continuing efforts to maintain and rebuild after the last recession. Furthermore, both bills provide for standby fiscal assistance which will be vital in the event that the much talked about recession of 1979–80 occurs.

The countercyclical program is critical for New York, Newark, Detroit, Philadelphia, and New Orleans and many other communities large and small that anticipated this money in their current budgets. We do not look upon such aid as a means to avoid our responsibilities. Rather, it will provide us with the flexibility to phase in reductions in services and personnel thus avoiding sudden disruptive terminations.

Of the two proposals for extending the countercyclical program, the City prefers S. 200 which would distribute more money to distressed cities, but we of course also support the Administration's bill or any compromise measure which will address the problems which the cities face. Under S. 200 New York City would receive as much as $42 million in each of federal fiscal years 1979 and 1980. We understand that the City could receive approximately $42 million in fiscal year 1979 and $26 million in fiscal year 1980 under the Administration's proposal which provides for more precise targeting of the available funds.

In discussing the continued need for a countercyclical program, let's begin by dispelling an emerging myth. Although, the improving national economy has brought a modest measure of relief to several areas of the country, including some central cities, by most measures—including relative growth in property values, family incomes, nonresidential construction, and population—our country's older urban areas continue to experience pervasive and persistent economic, social, and fiscal distress. Fiscal strain restricts the ability of many cities to provide even conventional services and to maintain their urban infrastructure. The highly acclaimed revitalization activities of the middle class actually are modest, confined to small areas, and generally stem from the effort of residents. Disinvestment still surpasses investment and continues to lead to abandoned housing, blighted neighborhoods and deteriorating commercial facilities. Discrimination and poverty persist in gnawing at the basic fabric of urban life. HUD Secretary Harris summed up the situation in her recent remarks before the House Budget Committee:

On balance, while American cities have proven resilient in the face of adversity, and while many happily illustrate new vigor the basic problems and issues which generated the President's urban policy still exist.

You may know that I frequently refer to the "renaissance" which we are experiencing in New York City. There is indeed a feeling among New Yorkers, and visitors to the City as well, that things are on the upswing. There is a boom in office construction in Manhattan, hotels are full, city-assisted housing starts are at the highest level since 1973, and city-aided rehabilitation projects reached the highest number ever recorded. But this renaissance does not—I am sorry to say—affect the entire City. Many of the basic social and economic problems—which were supposed to be addressed in the Great Society programs of the 1960's—are still with us, and these problems are national problems.

Using unemployment as a measure of distress, the picture becomes painfully clear. In 1977, the national unemployment rate averaged 7%; in New York City, 10%. One year later, when the national average had dropped to 6%, the unemployment rate in New York City remained almost 3 percent above that average. Unemployment rates for 1978 in other distressed areas were similar: 8.6% in Philadelphia, 12.2% in Newark, 10.5% in Buffalo, 9.3% in Jersey City, and 10.6% in Wilmington. Finally, the unemployment rate for minority youths, particularly blacks, is staggering. In 1973, 20% of the black youths were unemployed, as against 10% of the white youths. By 1977, the rate for black youths rose to nearly 30%, while the rate for white youths was only 12%.

Faced with these deeply troubling developments, the nation's urban areas have not sat back idly and awaited federal help. Most have undertaken major budgetary and fiscal retrenchment even at the risk of further exacerbating their long-term difficulties. Indeed, following a survey of 67 of the nation's 75 largest cities, the Joint Economic Committee concluded that most distressed cities—those with both high unemployment and a declining population—typically have responded to the recession by postponing and/or reducing needed capital expenditures and cutting services.

While New York City presents something of a special case in that our current budgetary problems reflect, in part, events which pre-date the recent recession, the actions we have undertaken fairly represent the type of cutbacks other cities are making or planning:

1. For 1980 our budget incorporates a continuation of the reduction in the City financed work force; since 1975 the City has reduced the workforce by over 60,000 positions, or 21%, and we now anticipate a further reduction of over 6,000 employees, or 3.6%.
2. Our reported deficit has been reduced by approximately $1 billion. Under our Four-Year Financial Plan we will eliminate this deficit by 1982.
3. Our welfare assistance caseload has been decreased by 11% since 1975 to its lowest level in years, and over 10,000 welfare clients have been assigned work in various municipal and non-profit agencies.

But the cuts which New York City has made, and will continue to make, in its expenditures cannot be accomplished without a serious reduction in existing services and consequent degradation of the quality of life in the City.

In preparing our FY 1979 financial plan we assumed that existing federal aid would be maintained at current levels and that additional aid of $83 million would be forthcoming. Treasury Secretary Blumenthal concurred in this projection. As he stated in his testimony last year before the House Subcommittee on Economic Stabilization:

The Federal Government reviewed its program and indicated that we would, under existing programs through countercyclical revenue sharing, through community development reallocation, and through the Carter welfare reform that is coming along, be able to provide additional resources to the City.

Yet, not only do we now project that the City will receive only $17 million of the projected $83 million in City FY 1979, but existing aid programs have been cut. These reductions, and the shortfall in federal aid, are forcing the City to provide another $145 million from its own limited resources, in addition to the $175 million in City actions set forth in the financial plan, to meet the mandate of State and Federal law that the City balance its budget.

The picture which the City faces in its 1980 fiscal year is equally bleak. To close a $431 million budget gap projected for next year, the City is counting upon $100 million in additional assistance from the federal government. The President and the Treasury Secretary have again acknowledged that this is a reasonable goal. But, it will be difficult to meet our projections without a countercyclical program.

Before closing, I wish to comment on concerns which may have been raised about specific features of the two bills. First, some people object to the reliance of both bills on unemployment rates as a measure of fiscal distress. This concern seems misplaced. The expired countercyclical program depended exclusively upon unemployment rates for its distribution formula. Experience shows that that program provided funds to cities facing the most extreme financial distress. Moreover, unemployment figures are readily available and are familiar tools to Members of Congress. Finally, the argument that unemployment rates are less reliable for smaller localities is less important as the program becomes more precisely targeted since the principal beneficiaries of the program are likely to be the larger cities for which the unemployment figures are quite accurate.

A second concern raised by some is that the bills would concentrate the distribution of available funds in certain areas of the country. This, however, reflects the fact that the recent economic recovery has left certain regions with a disproportionate number of the unemployed. Altering the distribution formula by imposing a cap on the amounts which any one city, state, or region could receive would be the crudest and least equitable way of addressing this concern. It would arbitrarily limit the funds received by some areas while other areas with equal indices of distress would receive a full share. This concern, if valid, might better be met by reducing the minimum amount receivable by any local government, by lowering the unemployment rate at which a jurisdiction becomes eligible to participate in the program, or by changing the basis on which a locality's average unemployment rate is determined. If any of these changes were adopted, however, I believe it would also be fair to increase the appropriation for this program so that no single area receives less money than it would have received under S. 566, the Administration's proposal. If the program is to work, it must be adequately funded.

With the demise of the local public works initiative and the proposed reductions in the CETA program, countercyclical fiscal assistance remains the last strong weapon in the federal arsenal against local fiscal distress. Although the bills before you would distribute far less money than the programs they would replace or the Administration's original proposal, they offer a vital opportunity to preserve the fragile health of our nation's older urban centers. On behalf of the unemployed, the poor, the senior citizens and the members of minority groups who depend disproportionately on the fiscal well-being of these areas, I urge your prompt and favorable action on a countercyclical aid program.

Statement of Mayor Elizabeth N. Marshall

I am Elizabeth N. Marshall, Mayor of the City of York, Pa., and my purpose here today is to inform you of the importance of Anti-Recession and Targeted Fiscal Assistance to the City of York.

I will begin by giving you a picture of York which will hopefully put my comments in an appropriate context.

York, Pa., is small both in terms of population and area. In 1970, the U.S. Census reported that we had more than 50,000 residents, but we are certain that in 1979 this figure is too high. Over the years local private dollars in the form of industrial, retail and commercial enterprises and middle- and upper-income residents have continued their steady movement out of the City to places were taxes are minimal, schools are predominantly white and problems are perceived to be non-existent. And our area is only 5.3 sq. miles. Since the drive-time which exists in larger cities is minimal and the incentive to move financially beneficial, one can have all the privileges and conveniences of the city but without the responsibilities. With over 30% of our tax base exempt from taxes, the incentives to profit by evading these responsibilities have proven to be irresistible. You have heard the reasons for this exodus discussed many times so I won't belabor the point. What I want to emphasize, though, is that in Pennsylvania, cities are limited in what they can do to overcome the impacts of this drain on our tax base because of the restrictive state laws which make annexation impossible. Consequently, we are unable to share in the benefits of suburban affluence and the economic growth of the post World War II period.

The individuals and businesses that have chosen to remain in the city, along with concerned citizens, are currently involved in a valiant struggle for the city's very survival, and the City government is doing all it can to revitalize York while trying to hold down taxes. For we cannot afford to raise taxes which already are much higher than the surrounding area. It is most important that the Federal Government not abandon us and that it sustains our efforts to save our City. Not only because we need a healthy environment but as an important segment of the roots of democracy in our country. For a 9-month period in 1777–1778, the City of York was home for the Continental Congress. During that time the Articles of Confederation were adopted, the first Thanksgiving proclaimed and our new nation entered into its first international treaty through the French Alliance. So it was in the City of York that the term "The United States of America" was first used. On the basis of these crucial historical facts, York boldly lays claim to the title of "First Capital of the United States" and because of this heritage we are struggling to preserve our history by rejuvenating both our physical health and our cultural value.

To illustrate our predicament, one suburban township has grown to 20,000 population with a tax base now higher than the city's with land for more development. Their municipal taxes are about 5 percent of ours. Even with including school taxes they pay only about one-half of 1 percent of market value; over 42 percent of their budget needs are provided from the wage tax alone. Yet they receive Revenue Sharing and are even considering applying for an Urban Development Action Grant. Without the availability of Federal Fiscal Assistance money in 1977 and 1978, for example, the City of York would have been hard pressed to cope with our shrinking tax base. In 1977 our general fund operating budget totaled $7.5 million, and almost 7 percent of this money came from Federal Fiscal Assistance. Then, because of the substantial tax increase necessary to offset this support, the City chose to reduce our 1979 budget by $100,000 below the 1978 level, cutting back personnel even in the two critical areas of Police and Fire. Cutbacks in the CETA program are also having a negative impact on the City. Of the 588 employees hired by York County, the local prime sponsor, approximately 210 or 38 percent are City residents. Our unemployment figures will invariably rise once the cutbacks take hold. Our unemployment rate during 1978 was a full 7.7 percent for the year as compared to the national average of 6.025 percent, and went as high as 9.4 percent during the first quarter. One tangible result of such a high level of unemployment has been the loss of a substantial portion of our 1-percent wage tax.

The City of York, like many other medium-size cities, is caught in a terrible dilemma. The City's service needs are considerably greater than any surrounding borough or township, yet our ability to generate local revenue is severely limited not only by the factors I mentioned earlier, but by others as well. For one thing, our per capital earned income is 15 percent lower than the surrounding county. One school district, in fact, reports a per capital earned income figure 92 percent higher than the City's. Secondly, unlike the County, we are burdened with aged housing stock, extremely dense development, antiquated infrastructure system and a high percentage of tax-exempt properties. As a consequence, we need highly skilled police and fire departments to deal with our public safety problems. And finally, the City of York exclusively accommodates all local public housing and is the major support for the local urban transit system. The City also supports local social service agencies, the library system and all local recreation facilities. When we consider the City's mandatory pension system, recently-awarded binding arbitration decisions and union demands in conjunction with all the above-mentioned factors, it is quite evident that our residents are forced to bear an already large tax burden.

Despite problems such as these, the federal government has thus far turned away from maintaining the support it previously provided by trimming the financial assistance it makes available to the cities. The Anti-Recession legislation now before you, however, would help ameliorate our fiscal dilemma to a degree by offering some relief to York during a period when York's citizens are experiencing severe problems of their own.

Consequently, on behalf of the City of York and many other municipalities which face the same problems, I am asking that you take early action on Anti-Recession Fiscal Assistance legislation. The previous countercyclical program proved itself as an effective method for assistance to distressed urban areas where the shortage of local resources places a severe fiscal burden on the municipality's ability to raise revenues, and I feel certain that the new legislation can do the same, especially since it is closely coordinated with swings in the national economy.

We find it very difficult to increase our taxes but we already see it as inevitable in 1980, due to labor union and binding arbitration decisions, bond issue payments, inflation, and loss of a source of local revenue. Not only will this be counter-productive to our revitalization efforts and further erode the building of our tax base, but it will be a hardship on the high percentage of elderly, minority, low-income and unemployed citizens of our city.

It would be fine to be economically independent and I would much prefer it to be. However, so long as cities bear the unequal burdens they do, most of which stem from decisions of others than themselves, they must have the support of the Federal Government. We Mayors, representing our city citizens, declare that our cities must not be allowed to die for we are all citizens of the same country. To allow this to happen will erode the fabric of our form of government and ultimately lead to its failure as the greatest hope of humankind.

Thank you for the opportunity to speak to you today.

STATEMENT OF MAYOR DOUG DEGOOD, CITY OF TOLEDO, OHIO

Mr. Chairman and members of the subcommittee, I am Doug Degood, mayor of the city of Toledo, Ohio. It is indeed a pleasure to be in Newark today in order to testify on legislation which is of utmost importance to my city and to the Nation as a whole.

The city of Toledo is currently undergoing a period of change. In the next few years we are anticipating close to $200 million in private investment for our downtown area. We are encouraged by the potential of this expansion. We see the city turning around and not getting caught in the same bind as so many of our neighbors. We are working cooperatively with business and industry and have taken hold of our situation.

Yet, at the same time, until the fruits of development are fully felt at the local level, my city will benefit from this Federal program. Recently, the city of Cleveland received great national publicity when its voters raised their municipal income tax to 1½ percent. I should like to point out that the city of Toledo already has a 1½-percent municipal income tax, one of the highest in the State of Ohio. In addition, we operate our services through a property assessment process. Sources of revenue received through this mechanism are not able to produce rapid increases for our general fund. Antirecession funds can't enable us to respond to all of our community's needs, however, new money would certainly be a boost to our general fund.

Over the last few years, the antirecession program has served its purpose well by providing fiscal relief to areas which are working to deal with the extreme pressures caused by unemployment and fiscal strain. Funds from this program totaled $726,511 for Toledo in 1978. The effects of the expiration of the program were quite clear as we began our new fiscal year.

Toledo began 1979 with roughly an 8-percent reduction in our municipal work force by layoffs, attrition and unfilled vacancies. The workforce reductions were spread city-wide including cuts in several departments such as our solid waste division, the streets, bridges and harbor division, and the health department. In no way can the work performed in these divisions be called frivolous. The positions cut were necessary jobs and provided essential services in our community. Although we are dealing with the cutbacks effectively, this loss of service has been a difficult strain for our city. In addition to the reduction which we have already experienced, we are anticipating further cuts in our public service employment due to the changes in the CETA program. We are faced with a "Catch 22" problem. While we will have positions open later this year, we won't be able to fill them due to the CETA salary limitations.

Last fall, when it became apparent that the antirecession program was about to expire, our city was prepared for the cutoff. As in every government, we revise our budget estimations constantly as new information becomes available. This in no way should indicate that the loss was inconsequential. Had the antirecession bill been reenacted last fall, it could have provided funding to 20 to 25 of the jobs that have been eliminated.

You might now be wondering why, 6 months later, that I am here asking for reenactment for this program. The reason is simple. The city of Toledo, as well as all other cities represented in this room, recognizes that the tight budget situation we are experiencing this year, will in all probability, be difficult again next year. But, at the same time, we need to continue to meet community needs while our revenues are not keeping up with the rate of inflation. Our city's budget has been put together as tightly as possible. The infusion of targeted fiscal assistance funds would provide us with a much needed boost.

We might, with our allocation, bring most of our departments partially back to prior levels. We might be able to restore some basic services.

It is my understanding that the legislation under consideration is targeted to economically distressed areas. I must support that concept. If we are going to deal responsively with our economic situation, we have to practice fiscal restraint without abandoning people in cities where inflation is not the only economic handicap. The bills under consideration have taken a more legitimate approach to the economic conditions of our cities. The two tier system recognizes how difficult it is for communities to cope with a national economic condition. The triggering in of the program in the second tier demonstrates the need for a program of this type when we are experiencing a time of high economic stress, not 6 months later. Utilizing local rates in order to direct the program to areas of greatest need is the only direction to take.

I recognize that you are faced with many tough questions at this point in your budget cycle. I feel that this program does have great merit and should be favorably considered by your committee as soon as possible.

Once again, I appreciate your providing me with this forum to express my views and to inform you of Toledo's needs.

STATEMENT OF MAYOR THOMAS G. DUNN, ELIZABETH, N.J.

Chairman Bradley, thank you for the opportunity of appearing before this Committee today. My statement will be abbreviated so as not to indulge too much on your valuable time.

The financial condition of the City of Elizabeth is of paramount importance to the over 112,000 people who reside in New Jersey's fourth largest city and the State's first capital.

The "cut off" of Federal countercyclical funds, termed "'anti-recession", can be properly labeled a major tragedy to New Jersey and to my city. In Elizabeth, we had anticipated $893,467.91 in our 1978 budget from this Federal source, earmarked by us, exclusively for payment of salary betterments for police and firemen, won through collective bargaining. Unexpectedly, we were "shortchanged" by $188,000 by the Federal government. This "short fall" had to be charged against our 1979 surplus!

Our anti-recession monies, used to subsidize security forces' salaries, were exempted from the New Jersey State "cap" law, but now we must absorb the total anticipated amount in our local budget, not just the $188,000 "short fall", and with no exemption for the "cap" being allowed! To make up this substantial amount, other vital things must be sacrificed, unless Congress comes to our aid, forthwith!

Instead of allowing the countercyclical aid to terminate on September 30, 1978, the Congress should have scrutinized the whole program and pinpointed particular cities and other areas of our country where aid was justified, and where it was *not* needed as much, and not just computed on the rate of unemployment. We, in Elizabeth, need this aid not for "frills" or for "political plums"! We need this money to fill fiscal voids that exist in our 1979 budget! We need the funds to pay policemen and firefighters!

The Local Government Emergency Act of 1979, enacted by the State Legislature and signed into law by the Governor, was helpful, yet it fell far short of the amount needed to avert layoffs in our city, as well as program curtailments. It is important to note that this State emergency aid is a "one shot deal"!

In fiscal year 1979, we have been informed that we will probably receive $168,899 in anti-recession aid under a new proposed federal formula and, in fiscal year 1980, the sum would be reduced to $106,023. This is a far cry from the $900,000 we originally received. Either sum is totally inadequate to meet our needs.

May I close my remarks with a hope that you will seriously consider a return to *FULL* funding of anti-recession aid for the City of Elizabeth. If the Congress and President fail us, our city and other urban cities across this State and this nation will face situations so traumatic as to cause fiscal insolvency.

Respectfully submitted.

THOMAS G. DUNN,
Mayor of Elizabeth.

STATEMENT OF THOMAS H. COOKE, JR.

Gentlemen, I am glad to have this opportunity to express some of my views.

As mayor of the city of East Orange, New Jersey, I find the city's fiscal situation precarious because of the uncertainties surrounding Federal actions and Federal promises. Federal aid to State and local government is now a major factor in maintaining the relative growth since Federal aid has increased faster than our own source of local revenue. This has produced increased vulnerability in the local public sector to changes in Federal aid policy.

East Orange is contiguous with Newark and many of our problems come from Newark's spillover. Yet, we do not qualify for the kind of massive Federal aid Newark has received. We are one of those in-between cities . . . neither large nor small enough to fit in either category of help. The inevitable result of runaway inflation is recession and high unemployment particularly among minorities and the disadvantaged. All 13 public schools in our city are eligible for title I elementary and secondary education funds.

The termination of the anti-recession program was unexpected—combined with the New Jersey State limitations on spending of municipalities and school districts. The Federal cut-off has had a serious unfavorable impact. Our disappointment is deepened in light of the hopes raised by the urban policy announcements of last year.

We need the revenue sharing.

We need countercyclical assistance.

We need to be able to rely on what we were promised.

Perhaps the predictions that the obligations and needs of local governments will decrease in the long term as the school-age population declines and the Federal role increases with the projected rise in the elderly population is true, but what we need now is help *now*.

We need more present and less future in the understanding of the situation in the cities. After all, growth in the population of the elderly imposes burdens on the city governments since 75% of the nation's elderly live in urban areas. Also, we are the ones accepting those "de-institutionalized" people who are not returning to us but who are arriving daily because they have no other place to go.

The assumption of improved management is only an assumed solution. The point is that there has to be something to manage and the loss of Federal assistance is too precipitous. The cuts in public service employment jobs, the summer youth employment program, the mass transportation, the section 8 HUD funds, and the lean funding announced for the private sector initiative program, with nothing for the labor intensive public works program, make a dismal picture. The fiscal and economic situations of local governments are severely strained.

Comparisons between the Rodino-Danforth bill and the President's bill have been outlined. I have been encouraged by Senator Bradley's preference for a highly targeted bill with higher levels of funding.

East Orange needs the dollars and we look to your committee for the help we must have.

Thank you.

Comparison of Proposed Carter Bill and the Rodino-Danforth Bill on Countercyclical Aid

1. COST

The Rodino bill costs an estimated $490 million in FY 1979 and $379 million in FY 1980. The President's bill provides an authorization of $250 million for FY 1979 and $150 million for FY 1980.

2. SCOPE

The Rodino bill offers assistance to about 15,000 communities, while the President's bill covers about 1,200 local governments. The Rodino bill includes funds to State governments while the President's bill does not. The Rodino bill allows local governments to receive grants as low as $100, while the President's bill puts an absolute minimum of $20,000 on a single grant.

3. DETERMINATION OF AID

The first phase of the Rodino bill provides funds to State and local governments with unemployment rates of 6 percent or more when the National Unemployment rate is 6 percent or more. The second phase only provides aid to local communities with unemployment rates of 6 percent or more When the National Unemployment Rates is Between 5 percent and 6 percent. This program is terminated if the national unemployment rate drops below 5 percent.

The President's bill provides funds to local governments with unemployment rates of 6.5 percent or more, regardless of the national unemployment figures. However, it also contains a "standby program" which provides aid to local governments with 5 percent or more unemployment when the national unemployment rate is 6.5 percent or more. If the economy worsens, thousands of local governments would be eligible for aid under the standby program.

4. DISTRIBUTION OF FUNDS

The first phase of the Rodino bill authorizes $125 million quarterly to State and local governments and an additional $30 million quarterly for each one-tenth of one percent by which national unemployment exceeds 6 percent. The second phase distributes $85 million quarterly to local governments.

The President's bill distributes the $250 authorization all at one time, based on unemployment data over the past six months. The estimated cost of the standby program is $1 billion (but the Carter Administration does not expect to need it since economic indicators tell them that national unemployment will not exceed 6.5 percent in the next two years). The absolute minimum a community could receive in its quarterly payment under the standby program is $5,000.

5. FUNDS FOR THE 10TH DISTRICT OF NEW JERSEY

The Rodino bill would provide the following amounts of aid in FY 1979: Essex County, $506,745; Newark, $2,146,637; East Orange, $98,648; Harrison, $63,792; Hudson County, $18,190; Glen Ridge, $0.

The President's bill would provide the following amounts of aid in FY 1979: Essex County, $1,260,000; Newark, $2,702,000; East Orange, $129,000; Harrison. $83,000; Glen Ridge, $0; Hudson County, $1,046,000.

6. FUNDS FOR THE STATE OF NEW JERSEY

The Rodino bill would provide $15.5 million to about 500 local governments and $10 million to the State government in FY 1979. The President's bill would spend $14.3 million on 68 local governments in the State in FY 1979.

Senator BRADLEY. The next witnesses are a panel of business leaders: Edward A. Jesser, Jr., Ralph A. Corbin, Robert Van Fossan, Donald E. Moore, and W. Thatcher Longstreth.

In the interests of time, I wonder if one of you could summarize the general thrust of the collective remarks and we could proceed to questions?

STATEMENT OF ROBERT V. VAN FOSSAN, CHAIRMAN OF THE BOARD, MUTUAL BENEFIT LIFE INSURANCE CO. OF NEWARK, N.J.

Mr. VAN FOSSAN. Thank you very much, Senator. I will attempt to do that in my own comments.

I am Robert Van Fossan, chief executive of Mutual Benefit Life. My own comments are involved with that sector. Let me see if I can briefly cite from the private sector what appears to us to be the key issue.

I think that it can be best summed up. I spoke to a group of businessmen in Morristown, a suburban area of our community, about 8 months ago and made the point with them, the issue of providing help for the cities cannot be ignored.

Contrary to what oftentimes emerges, the tendency is to keep the problems in the city. We cannot keep the problems in the city any more than we can stop a plague at the State line or a drought at the county line. The problems simply must be attacked.

Obviously, the private sector has strong involvement, and a great commitment in it. We are active. We do not seek the help of the Federal Government as a standard rule; you know that.

We feel, and I feel personally, that the issue of countercyclical aid for the cities of this country is an absolute must.

I would just like to summarize with the three statements that I gave in my formal statement. One is we need the cities; they must survive. They are the centers of banking and commerce, the hubs of transportation and the major sources of employment and they provide a major portion of housing for the middle and low income of America.

Two, the cities can recover. We see evidence of renewal in Philadelphia, in Boston, in Washington, D.C., and Newark, to name a few. The cities, while in bad shape, are, in fact, making a comeback, but the cities that are recovering cannot do it alone. They need more time.

This is what we ask you to support, give these cities more time by restoring the countercyclical aid recently withdrawn.

I might add in closing, in my opinion you go a long way toward helping stop the exodus of major businesses, which are major providers of jobs from this area. I heard again this morning of a firm who has been considering leaving the city to go elsewhere and I assure you when I leave here I am going to make a house call on that firm to see if we can stop it.

The issue in the city is that we must stop the attrition of businesses who are leaving us to go either to the suburbs or to the South, or where they are going. Jobs are an absolute must.

Senator BRADLEY. Thank you.

STATEMENT OF EDWARD A. JESSER, JR., CHAIRMAN OF THE BOARD, UNITED JERSEY BANK

Mr. JESSER. I would like to add something to that. I feel that in order to rebuild the city, it is going to be some time in our history when we have to throw everything we have to keep the cities from going under. I feel if the cities of this country go under, eventually this country will go under.

It seems to me in the 1940's if we could have a Manhattan project; in the 1950's a Marshall plan; the 1960's a man on the Moon, that some time between now and the end of this century we are going to have to plan a tremendous expenditure in this area of urban rebuilding.

If we just trickle the money in, an awful lot of it is going down the drain.

The point I want to make is that there is something on the horizon here that, in my opinion, is very dangerous and that is the balanced budget amendment to the Constitution. The Gallup poll, if you believe it, said that five out of six people in this country today agree with this amendment, and there are an awful lot of fallacies here.

One of them I hear is that the family does not do deficit financing; that is not true. When they mortgage their home, they certainly do tremendous deficit financing in relationship to current income. Also, the Federal Government never gets out of debt where other people do get out of debt. If you look at the figures—and I looked them up—since 1950 and 1978, consumer installment credit, mortgage loans, corporate debt, and State and local governments have increased their debt in that period of 18 years anywhere from 12 times to 16 times, where the Federal debt has only gone up 2.8 in relationship to a growth of 7.4 in the GNP.

We all know the only way you get out of a real recession is deficit financing. When revenues go up, that is not the time that you increase taxes. That is the time that you put more money into the local economy to increase purchasing power.

In the history of this country, we have had panics in the 1920's, in 1873, 1893, and 1907 and, of course, in 1933 where we had unemployment for 15 to 25 percent.

In the last 40 years, the highest unemployment we have had in this country has been 10 percent without any financial panics.

That is one point that I want to make, that we have to do everything we can to really fight this whole philosophy of Proposition 13 that is sweeping the country, if we are ever going to have the money to do the big jobs here.

The second point—and I know Mr. Van Fossan agrees with me on this—we have got to do something of an imaginative motivating force to induce business to make profits by doing business in our old urban centers, and there are things that we can do.

We can have a State investment tax credit. We can mark down the price of land and tax improvements, more likely tax abatement. We already have that.

We have a shrinking tax base; you have to broaden that to a region, as they have in the Twin Cities. It was in the paper just the other day, they are doing that in Portland. They have already done it in Jacksonville and Nashville.

There is nowhere that you are going to keep an old city viable unless you broaden the tax base to include the people who have moved out to the suburbs that are using the services and facilities of the city but are not supporting it. And, Mr. Chairman, there are a number of other points, but I am going to give you a transcript of this in some detail.

Senator BRADLEY. Thank you very much.

Mr. VAN FOSSAN. Mr. Chairman, if you would, I would like to have a few comments from Thatcher Longstreth, president of the Greater Philadelphia Chamber of Commerce.

STATEMENT OF W. THATCHER LONGSTRETH, PRESIDENT, GREATER PHILADELPHIA CHAMBER OF COMMERCE, AND PRESIDENT OF PENJERDEL CORP.

Mr. LONGSTRETH. Senator, I have a slight advantage, I guess, on my other business associates. Although I have never been in there, I have had a couple of tries at it. When you run for mayor of a major American city, you have a year of your life invested in finding out about the city.

I can truthfully tell you, a city like Philadelphia, from which I come, and the Penjerdel Corp., the regional chamber of commerce that tries to represent the social interest of southeast Pennsylvania and southern New Jersey and northern Delaware, looks at it as a region and not as a city surrounded by affluent suburbs.

As a matter of fact, our problem, the problem of Philadelphia, is accentuated by the problem of Trenton, Camden, Wilmington and Chester, and Norristown which really ring us, and as microcosms of Philadelphia's problems, present a kind of a mixed bag of suburban affluence and urban poverty.

I think, in a way, that the Federal Government really has been responsible for a long period of time for legislation which has permitted the cities to become the repositories, if you will, of people who are poor and really require a great deal of help, and are therefore really not able to carry their own share.

If we are going to have so large of a percentage of people concentrated in one area, you have to do something to help the cities meet with this problem which has been assimilated through no fault of their own.

If you examine Federal legislation since World War II, you will find that much of this problem, the creation of a metropolitan doughnut with a hole in the center, in the middle, and the suburbs, it is something that was thrust upon us. We did not ask for it. We did not look for it.

Eventually, we are going to work our way out of it.

I was very pleased to hear the chairman mention Philadelphia is on its way back. We are. We have a lot of people moving back to the city; particularly the recognition that a city is a more efficient entity at a time of crisis is going to work through to many people's point of view, both in relocating themselves personally and in relocating their business establishments.

As the energy crisis becomes more and more a problem in this country and the world, I think cities are going to benefit from that. We see it happening in Philadelphia now. We see a gradual moveback of people and even some of the service industries. They are not so automobile acclimated. They are going to be able to relate to what is happening in the next 20 years.

Honestly, we feel that this whole concept of allowing Federal funds, which were really originally designated for cities in trouble, to be spread around on a much broader base to meet the overall necessities of urban areas, is a mistake. I do not think you can look at Philadelphia and Houston, for example, in terms of the numbers of people who live there and not realize that the greater problems are a part of the old Northeastern cities, the older establishments, and the prosperity and greater opportunities lay in the South.

One last point. I think we also have to recognize today that if money is not carefully categorized, it will wind up as increases for municipal employees. They have a lot of leverage today and they can afford increases significantly above those that we can maintain for our employees in the private sector. Unless the Federal Government specifically disallows the utilization of some of these funds simply to raise the salaries of people who are putting the pressure on their mayors and local councils, et cetera, I am afraid the more money we put into our problem areas, the more it is simply going to be passed along to our municipal employees, policemen, firemen. This can create a real problem for us.

Mr. VAN FOSSAN. Next, Mr. Chairman, I would like to call on Ralph Corbin, president, New Jersey Bank.

STATEMENT OF RALPH CORBIN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NEW JERSEY BANK

Mr. CORBIN. Thank you, Mr. Chairman. I have submitted a statement; I would just like to touch on one element of that because it ties in with what Senator Durenberger asked of the mayors as to solutions.

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Our bank serves a number of the smaller, troubled cities in northern New Jersey—Paterson, Passaic, Jersey City, and some others. One of the elements we see leading to a solution are projects that are designed by and implemented by responsible businessmen working in concert with the local public officials, programs which, however, would not have gotten underway without some sort of Federal assistance.

Having been involved in a number of these programs, particularly in the city of Paterson, we can cite examples where they are working, where Government money is being utilized to make loans, in some cases make grants, to elements of the economy that have fallen behind or have not qualified for what is called normal bank credit. Over a period of time, they will not only establish themselves as being elements of the normal economy as we look at it, but also at that time they will no longer be requiring Federal funds to maintain themselves and concurrently will be paying taxes, and making contributions through employment and other ways, to the public sector.

We think this technique is workable. It is working in some of our localities, and we encourage your consideration of the technique as you consider this problem.

Thank you.

Mr. JESSER. Thank you, Ralph.

Last, Senator, if you would, Donald Moore, president of the New York Chamber of Commerce and Industry.

STATEMENT OF DONALD E. MOORE, PRESIDENT, NEW YORK CHAMBER OF COMMERCE AND INDUSTRY

Mr. MOORE. Our mayor was here earlier and I am sure he made all the points I would. I have a statement which will be submitted for the record.

Basically, the business community of New York City, like that of Philadelphia, feels that our city is on its way back. The city, with cooperation and help from the business community has done a great deal to reduce costs of government and terminate services.

Without antirecession or some countercyclical aid, at least for a short time, we feel we run a grave risk of reducing services to the point where we will start driving out businesses and jobs, just as we have previously from high tax levels..

Thank you.

Senator BRADLEY. I thank the panel very much. I have just one question that relates to the problem of phasing down the targeted assistance which is envisioned in the administration bill.

Does any member of the panel feel that the program should be phased down, or do you feel that there should be consideration given to a longer term targeted fiscal assistance program? Do you think the economy is going to revive in our urban areas to the degree that we will not need any targeted fiscal assistance 2 years from now?

Mr. MOORE. We have optimism that New York City's economy will arrive at the point in a few years where targeted assistance of this sort will not be needed, but we also believe that there should be a continuing program, or certainly a standby program, to provide assistance to cities, any city, any densely populated area, where unemployment rates get out of line with national unemployment rates.

Mr. LONGSTRETH. To carry that forward——

Mr. MOORE. We believe in targeting a great deal more than phasing down.

Mr. LONGSTRETH. One of the mayors earlier related to a shifting of options and employment as a basing of the problem. Most of our base State rates were very encouraged about the concept of a private industry council and utilization of industry to find job opportunities in partnership with the government, in a system that will run itself.

There are a tremendous number of jobs in the private sector that can be developed in areas such as those represented today.

We have set up a council in Philadelphia which is a combination of some of the most important businessmen in the community and some of the most important labor leaders. Once the funding is made available to us and has been approved by the Congress, we think we are going to be able to put a substantial number of people to work. As soon as you do that, of course, the impact that this has on improving the lot of the cities is very substantial.

I would think if you are talking about phasing down, the concept of targeting, not just geographically, but in terms of the kinds of programs that you develop, particularly the way you work it in with the private sector, could find a whole new way of improving the situation.

Mr. JESSER. I only have one other comment. It seems to me the phasedown has two questions to it; one, the level of the dropdown; second is the timeliness of it.

Certainly, the great disservice that was done to the cities when the 95th Congress failed to pass that bill was the abruptness. They phased it down; they phased it from where it was to zero.

It is the inability of the cities to respond to that that was a gross disservice to the people of this country. The only question I have, when you look at any economic indicators to anybody who thinks we are not headed for a slowdown in business the end of this year or early next year simply is not listening, and to put a phasedown of the level that they are proposing in a 1-year period to me seems to be far more abrupt than is really called for today.

In the long range, the only way you could phase down is to have the private sector pick up the shortfalls and under our private sector, the bottom line is the motivation. You have to do something to make that businessman, with his authority in the urban cities, and not on the green country stand with a lot of industry and plenty of parking.

The skills are better. You have to get the factory jobs in the old cities. Most people cannot work in the service or administrative headquarters, scientific companies. Therefore, you have to get factory jobs back to the cities. If you believe in the free enterprise system, you have to look through Federal law and State law to get sense on the standpoint of the bottom line.

I think that you know that the Port Authority, and with the assistance from EDA, has three major industrial parks underway.

Senator BRADLEY. The Port Authority of New York and New Jersey?

Mr. JESSER. Yes.

This whole thing is about $1 billion. The only way you are going to get the free enterprise to go in there is through a factory building which the EDA is starting to do, Economic Development Authority.

But all kinds of measures and inducements are made to private enterprise to do that.

Senator BRADLEY. Thank you.

Senator?

Senator DURENBERGER. Senator, I have not had an opportunity to read all of the statements, but I hope you understand my perspective and inclination. In knowing I come from the Twin Cities, I think you will understand my feelings about the business community's involvement in solving urban problems.

My instructions coming down here, anything you have to give up, do not give up urban development action grants programs, the ones that require a private match to get the public money. Do not give up CETA, particularly title VI and the title VI program, the kinds of things that your statement refers to that brings the private employer together with public assistance.

I do not want to ask the question; I want to challenge all of you before I read your papers to do something about the question that Mr. Corbin has on page 2 of his statement. Is the intent of these two bills, meaning Danforth and the administration bill, to bail out all ailing governmental bodies or to provide ultimate economic stability for the great mass of individuals?

I am very anxious to hear what the business community in New York City or Philadelphia, of major metropolitan areas, believe the priorities are in expending public funds and not just that they think, yes, it is a good idea, we should not lose $250 million like we lost $750 milion already.

I heard the program. I am using this hearing, I suppose, as an excuse to lay the groundwork for general revenue sharing which comes up next year, to lay the groundwork as we will in the other committees for other kinds of urban programs and to challenge all of you, who I know are committed to the cities, I know you mean what you are saying, to answer the question: How are you going to provide ultimate financial stability for the great masses of individuals, through what kinds of programs?

Thank you, Mr. Chairman.

Mr. LONGSTRETH. If we were to have the same information for Philadelphia as you do for St. Paul and Minneapolis where the taxes relate to the regions around the city proper, where you have, in effect, a fair sharing, I think, we would be much better able to take care of our own circumstances than we do presently where we are really denied the revenues of the suburban community.

Senator BRADLEY. Chairman Rodino?

Representative RODINO. I really want to thank the panel for being here. I would merely like to comment on the very significant statement made by Mr. Corbin, the fact that it points up the concern about the possibility of a constitutional amendment for a balanced budget.

I want you to know tomorrow morning I begin hearings in my Committee on the Judiciary on this issue which is of such magnitude.

There are some 135 sponsors to resolutions for a constitutional amendment and to balance the budget. Because they are all talking about a simplistic solution to this problem, I think it is tremendously important that we hear from you. We are going to invite you to submit your statements.

When you talk about facilities having a need for deficit spending, I do not know that we are all aware of that. It is important that we do know all of the economic consequences of a required balanced budget each year. When suddenly there is a constitutional amendment mandating, with an inflexible rule, that there be a balanced budget, this may hurt our Government's ability to meet the fiscal needs, depression, recession, or unemployment.

Senator BRADLEY. I would like to thank the panel for their contribution today. I think that in times of fiscal stress, in times of emotional debate at the national level on the balanced budget, it is essential that we have the full committee's participation in this debate.

I feel that your contribution today has been significant. I urge you to continue to voice it in the coming months of this national debate.

Thank you very much.

[The prepared statements of the preceding panel follow:]

STATEMENT OF ROBERT V. VAN FOSSAN, CHAIRMAN OF THE BOARD, THE MUTUAL BENEFIT LIFE INSURANCE CO. OF NEWARK, N. J.

Mr. Chairman and members of this distinguished Subcommittee, I appreciate your invitation to present my views on the restoration of Countercyclical Aid to the cities.

I would like to speak to you today from three vantage points:

1. As Chief Executive Officer of a large insurance company employing 2,000 people in downtown Newark;
2. My role as Chairman of the Executive Committee of CONEG, the Coalition of Northeastern Governors; and
3. My personal views as a private citizen.

Before getting into my remarks, I would like to compliment Congressman Peter Rodino for his continuing commitment to the cities of this country. His sponsorship of emergency assistance legislation is extremely important at this time and I applaud his leadership.

It strikes me, also, as very significant that Senator Bill Bradley is Chairman of this subcommittee. Coming from the populous state of New Jersey, Senator Bradley knows the conditions and problems of the cities and the urgent need for renewed anti-recession funding. I commend the Senator for his efforts.

As a large employer, Mutual Benefit Life frequently has faced the question of whether to stay in Newark or join the flight to the suburbs. Twenty-two years ago, the Company made a major decision to stay in the city where we began our life in 1845. That decision has been reviewed many times, and since I came to Mutual Benefit in 1972, on many occasions I have renewed our commitment to stay.

Our Company's position, of course, is predicated on the continuing upgrading of the city and its services which I have been privileged to witness since Mayor Gibson came to office. This city has substantially reduced crime and virtually eliminated venereal disease—areas where a few years ago we were embarrassed to be the nation's leader. We have improved the life of our senior citizens through a massive building program and have completed a medical and dental college second to none. Our colleges educate over 25,000 students. Neighborhood development and restoration programs, long in the planning stage, are no longer a thing of the future but a thing of the present.

Newark is on the mend after years of abject misery. The problems are not all gone—far from it.

We will continue our rebuilding if—and only if—we have the kind of federal assistance that has been a part of our resources in recent years.

Withdrawal of countercyclical funds because enabling legislation did not pass before the adjournment of the 95th Congress has already damaged Newark's chances for recovery. The reduction in the police force because of income shortage has already translated into increased crime. A school strike is threatened because of layoffs imposed by a reduction in our share of emergency aid.

A failure to restore revenue assistance at this crucial time not only stops our forward progress, it may well return us to where we were—and our citizens do not deserve that.

Our Company has been in the forefront of Newark's revival. In this city, we do not lean on federal government to lead us out of the woods. Mutual Benefit and other major companies have extended themselves for the benefit of the community and its citizens.

Just to be sure you understand we mean what we say, I cite just a few areas where we are making an economic and social impact on our city through the volunteered and loaned services of our executives and employees. We have provided:

(a) A two-term Chairman of the Greater Newark Chamber of Commerce.

(b) A finance Chairman of I.C.B.O.

(c) Metropolitan Chairman of the National Alliance of Business.

(d) Chairman of the Private Industry Council, the operating body of President Carter's Private Sector Initiative Program.

(e) Leadership in rehabilitation and restoration of neighborhoods.

(f) Assistance to alternative schools to give kids a shot at better education.

(g) Rehabilitation for drug abusers.

(h) Job assistance to ex-offenders.

Other companies, not just ours, are working in our city in the same way to upgrade and restore it.

We can't do it alone. Our tax rate already is disproportionately high and we cannot squeeze our people or our corporations further.

At another level, I appeal to you on behalf of the Coalition of Northeast Governors (CONEG). At Governor Byrne's request, I am Chairman of the CONEG Executive Committee. I came aboard in December 1978 and this has been an eye-opening experience. My horizons have been lifted beyond the boundaries of Newark to a larger sphere—the againg Northeast. Here the problems of Newark are multiplied—massive regional unemployment, region-wide school systems that don't teach, transportation systems that don't work, housing that is falling down faster than it can be rebuilt, energy costs that create competitive imbalance. It is clear that the region represented by CONEG has not just some of the national ills but all of them and needs the continuing support that countercyclical programs are designed to provide.

We in the Northeast are fighting a battle of survival and we cannot be cut off from even the reduced funding that bills S.200 and S.566 are designed to produce. Notwithstanding my appeal to you today, the strategy of CONEG is self-help and not a continuing dependence on federal assistance for ever more. But the timing is wrong. It is estimated that the bills under consideration will bring specifically targeted assistance amounting to an estimated $95,000,000 to $135,000,000 to the CONEG area. I suggest to the subcommittee that this can be the difference between moving ahead and falling backward. The cities of the Northeast have the potential to again become the vital force in the economy, but this will not, in my opinion, be possible without the assistance of this legislation.

As an individual I might at one time have been reluctant to speak before this forum about federal financial assistance to help preserve our cities. As a free enterprise businessman I am rather steeped in the tradition of self-help and pay-as-you-go. But my experiences in recent years and the opportunities I have had to travel to almost all major metropolitan areas lead me to these conclusions:

(*a*) We need the cities. They must survive. They are the centers of banking and commerce, the hubs of transportation, the major sources of employment and they still provide a major supply of housing.

(*b*) The cities can recover. We see the evidence of renewal in Philadelphia, Boston, Washington and Newark to name a few. The cities, while in bad shape, are making a comeback.

(*c*) But the cities that are recovering cannot do it along. They need more time and this is what I ask you to support—give these cities more time by restoring the countercyclical aid recently withdrawn.

As a businessman and as a concerned citizen, I favor this federal assistance. I feel strongly that the aid should be targeted so funds will flow directly to the cities where the problems are greatest and in amounts that will be meaningful.

In summary, I would make these points:

(*a*) Our Company is committed to making Newark survive. Such commitment is manifested by our people who work on every task force, every community based organization, every service organization. Where there is work to be done, we as a company are helping do it. We give money, people, time and energy. So do the other companies of this city. Speaking as one private sector representative, I view the restoration of the aid being discussed here today as an essential and legitimate federal role during this critical time and a necessary supplement to what the private sector is doing.

(*b*) The Coalition of Northeast Governors (CONEG) which I also represent today, fully recognizes that regional federal aid may not go on forever. CONEG seeks ways for the region to be more self-sufficient. This is a part of our basic strategy. But the CONEG states are not ready to go it alone. The Governors, the Mayors, the citizenry need continuing assistance in the form of countercyclical aid.

I truly appreciate this opportunity to appear before you and represent the views of the private sector locally as well as the broader region of the Northeast.

STATEMENT OF RALPH A. CORBIN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NEW JERSEY BANK

Mr. Chairman, members of the subcommittee: I am Ralph Corbin, President and Chief Executive Officer of New Jersey Bank. It is indeed a pleasure to appear before you in your hearings on legislation to assist distressed communities. Our bank is very much involved in a wide range of community action programs and the vitality of the cities and municipalities we serve concerns us deeply.

Let me say, initially, that I do not disagree with the general philosophy (expressed so well by Mr. Jesser) in the context that massive doses of Federal aid to bolster up ailing local governments can be counterproductive. However, I do believe that the problem of urban distress, nationwide, has reached such proportions that it can not be ignored. It occurs to me that our discussion here today should concern not whether there should or should not be Federal assistance, but rather, what form that Federal assistance should take. So, I would like your indulgence for a few moments to consider an alternative approach which we at New Jersey Bank feel has great potential as a long term solution rather than a short term, stop gap measure.

To begin with there is a basic question that must be resolved: Is it the intent of these two bills under consideration to, in essence, bail out ailing governmental bodies which, for whatever reason, have found themselves in difficult financial condition? Or is it to provide ultimate economic stability for the great mass of individuals who make up our country who find themselves unable to obtain employment, or whose income is insufficient to maintain a decent standard of living? In short, are we concerned with perpetuating governing institutions, or with people?

It is my contention that our responsibility as businessmen and as lawmakers lies with a concern for people, that governmental institutions are but adjuncts of a responsible citizenry, and that if we address ourselves properly to that concern, we will make significant progress in our search for solutions to the problem of distressed governments.

Starting from this premise, then, let us consider what course of action would best achieve these goals. I will not address myself to the question of how to determine a definition of "economic distress" which, as Senator Bradley has commented, is an exceedingly complex issue for which this Subcommittee does not have time for exhaustive study at this point in time.

The approach that I feel has the greatest potential for the greatest good is based on the premise that the primary strength of our nation's economy lies not in the financial strength of our communities, although I readily agree that this can not be divorced from consideration, but in the economic viability of our private sector. For, if the industrial and business community is strong and economically sound, it will be able to provide more jobs for the unemployed; it will provide a broader tax base and more tax revenue for our communities; it will provide more disposable income for individuals and families which, in turn, will increase the financial stability of both the private and the public sectors.

The problem, of course, is how to achieve this without involving the Federal Government in management of seemingly obstreperous economic forces, or in outright control over the business sector which would deny many Americans of their basic freedoms. In our unique position as a bank closely associated with industry and business, and with strong ties to the communities we serve, we have been intimately involved in various projects which, in our thinking, point the way to a large scale, long term solution.

I refer here to projects which are designed by, and implemented by responsible businessmen, working in concert with local public officials—programs which would not have gotten underway without some form of governmental assistance. We have been involved in several such programs, financially and administratively, and so have had the opportunity to analyze their potential and to determine how well they live up to their promise. They do work; it has been reported that the Commerce Department's Economic Development Authority has been responsible for the creation of more that 11,000 new jobs in New Jersey last year. That is, 11,000 wage earners who are contributing not only to the economy, but to the financial resources of the communities in which they live and work.

Let me give you a few specific examples:

In Paterson there is a program underway to attract new businesses to, and strengthen existing businesses in an area that has fallen into neglect and economic decline. It is sparked by a coalition of public officials and private businessmen working as a non-profit organization for the restoration and economic revitalization of the city. This program will provide increased employment opportunities and increase the tax revenue base for the city of Paterson from land and buildings which have either been dormant or not as productive as they potentially could be. However, without Economic Development Authority Title IX funds and an Urban Development Action grant, this program would probably not have gotten off the ground.

Another ongoing program in Paterson that bears the highly descriptive title "Paterson Pride" has effectively rekindled neighborhood self-respect. This is a grass roots program sponsored by the New Jersey State Mortgage Finance Agency to help residents of Paterson improve their neighborhoods by making available low cost loans for repairs, restoration and rebuilding. These loans are funneled into the business community by individuals when they purchase the necessary supplies and materials, thus expanding the market for manufacturers and retailers which, in turn, provides the business community still another opportunity to provide more jobs.

Still another example is the direct assistance to industry by providing working capital for a company to expand its operations and increase employment. In one specific instance that involved New Jersey Bank, the company's expansion provided for a 50–60% increase in employment. This was achieved with the help of a loan granted under the Department of Commerce Economic Development Authority.

I need not go on; the pattern is clear. I am sure that members of this Subcommitee are aware of many more successful projects like these throughout the country. But, there is a vital point that I would like to emphasize here. All of these projects involved governmental funds to some extent. More importantly, they all involved an existing system of control and oversight—a bank whose very existence is dependent on its ability to analyze the economic feasibility and promise of a specific individual, or company, toachieve the objectives for which he or it is applying for a loan. This is a key factor. No proposal I have seen incorporates an adequate methodology for assuring that funds granted for relief of fiscal distress are efficiently, properly and responsibly applied toward the accomplishment of the end objective. Within the banking industry in this nation, there does exist such an administrative system which is all the more effective because of its intimate knowledge of the economic potential of both its geographic area as well as its business, community and public sector.

I propose, then, that this Subcommittee give serious consideration to the manner in which whatever funds are voted are distributed—and to whom, not only by locality but by specific recipient in any area. Direct grants to governmental authorities will, in theory, provide economic assistance to a specific community if they are responsibly administered and do not perpetuate the very problems that caused the financial distress in the first place. But, they also build bureaucratic empires which have no real foundation in economic viability. They are stopgap measures which, if rescinded or withheld, only multiply the problems which they were intended to correct, as was vividly demonstrated in Newark this year when the city had to lay off employees whose salaries were paid with ARFA funds. They must, by their very nature, be self-perpetuating. I do not think, from what Senator Bradley has said, that this is what this Subcommittee wants to create.

On the other hand, to make greater resources available for business, industrial and commercial growth would provide a means for achieving greater employment, greater economic stability, and more viable fiscal conditions for communities throughout the nation. Further, it has the distinct advantage of ultimate self-limitation in that as the financial strength of the business sector grows, so too, would the fiscal integrity of the community toward that point when, ideally, financial assistance could be provided only as a temporary measure.

We at New Jersey Bank are deeply and increasingly involved iwth our communities. We help out financially whereever we can both in support of public projects as well as individual ones. We would like to be able to do more. I feel that the approach I have outlined here would avoid the caveat sounded by Dr. James Howell of the First National Bank of Boston that "the Federal Government * * * should not reward, or appear to reward, municipal inefficiency."

In closing I would again like to express by appreciation for being given this opportunity to present our considered opinion on how we as a country can overcome the problems of financial distress that have arisen around us. And let me assure you, Mr. Chairman and members of the Subcommittee, that I, and my organization, look forward to working with you further on the development of a long term solution.

Statement of Donald E. Moore, President, New York Chamber of Commerce and Industry

The Chamber will be submitting a more extensive statement to the Committee, so I will summarize briefly why a renewed anti-recession aid program is important to the business communities of New York City and other economically troubled localities.

For business—as for the Congress—any additional federal spending must be weighed carefully against our concerns over inflation and the growth of government. I believe that this aid concept—in the reduced form now under discussion—passes this test for the following reasons:

First. the spending levels now under discussion are more modest, slowing the billion-dollar-a-year pace of anti-recession aid distributed in the past few years and scaling the program downwards towards elimination, except as a standby measure.

Second. there can be little argument that the more targeted approaches before you meet real needs in the localities that would receive the funds. Along with many other cities, New York faces a dilemma: to restore its economic health, it must find a way to cut its budget sharply while preserving basic services and meeting state and federal program mandates. It must accomplish this without increasing taxes, which already are at unmatched and counterproductive levels.

Third. The standby feature of the program can provide a quick counterthrust to the local impact of a recessionary trend—an impact already proven to be especially severe in New York and other older cities. Thus, "countercyclical" aid can be a useful tool in speeding the nation's recovery from future recessions.

As Congress grapples with federal spending and national economic problems, it should recognize that local governments in New York City and elsewhere already have shifted into reverse gear. In my city, the municipal payroll has been slashed; spiralling tax rates checked; many services eliminated or transferred to the state. A four-year blueprint for further economies has been set forth.

The business community is fully engaged in that effort. Numerous corporate managers have been loaned to City Hall. Public and private sector partnerships have been forged to generate new job-creating investment. Our Chamber is leading in local efforts to use the new private sector CETA job training program.

Through sacrifice and partnership, business and government in New York have made modest but real progress in restoring the strength of the local economy. We all agree that this is the key to making our city ultimately less dependent on federal assistance. The challenge is to strike a balance between the pace at which we shrink local government services and the progress we make in retaining and renewing the private investments which generate tax revenues and employment.

A limited anti-recessionary assistance program can help strike that balance—not to defer needed economies, but to permit the time needed to make those economies as part of a structured program that will preserve New York City's strengths as a place to live, to work, and to invest for the future.

Senator BRADLEY. Our next witness is Tom Molyneaux, county executive of Middlesex County.

As usual, my good friend, Director Tom Molyneaux of Middlesex County is here and ready to contribute to this debate. We appreciate your presence here.

STATEMENT OF TOM MOLYNEAUX, MIDDLESEX COUNTY

Mr. MOLYNEAUX. We are pleased to be here, Senator, to give the input from the counties. So often the counties are overlooked in Federal money and Federal grants and so on. I will be very, very brief here. I just want to talk about the impact on Middlesex County.

Middlesex County has a population of approximately 600,000 people. We are a suburban county with approximately two, or no more than three, urban cities within our county. We range from a high population of one of our municipalities of 100,000 down to a low of 2,500.

The impact in Middlesex County in 1978, we expected to receive $1.7 million in antirecession funds. We received $1.4 million, which was good. We had a shortfall of $300,000. If you take that with nothing in 1979, a shortfall of $2 million. Now, $2 million may not seem to be an awful lot of money but it amounts to approximately 3 percent of the money that we have to raise by taxation to operate the government in the county of Middlesex.

The loss in 1979 did not hurt us so very much because we did have an expected income in 1978 windfalls, as I may put it; return on investments was $1 million higher than we expected. We had some retroactive payments on our county hospital which amounted to approximately $1.5 million and other unexpected income.

But in 1980, we will have the impact of a loss of these funds in 1980 unless a return to the county of Middlesex.

I predict a very bleak picture for the county of Middlesex, a dark picture for the county of Middlesex. I predict layoffs and curtailment of a lot of important programs.

What is more important than that, cutting back of programs, we have many programs in the county of Middlesex that benefit the towns. If they cannot receive from the county these programs, they are going to have to pick up the cost if they want to continue on the road.

The antirecession funds, these countercyclical funds are very important to county government, just as they are important to municipalities throughout the State of New Jersey. I think that they should be returned.

We face—we are in an inflationary period. We may be facing a recession before the end of the year, surely in 1980. I think it is important that they be returned to the counties and municipalities. I will leave my testimony here.

Senator BRADLEY. Thank you. Next, a representative of Passaic County. What is your name?

Mr. SCHULTZ. I am George Schultz, representing freeholder-director James W. Roe of Passaic County.

STATEMENT OF GEORGE SCHULTZ

Mr. SCHULTZ. I am aware that this has to be short, because you have to return to Washington to sign the treaty.

Now, with peace at hand in the Middle East, we wish to impress on you the necessity of turning your big guns on the war on recession in this country.

Senator BRADLEY. You may submit the rest of your testimony for the record.

I would like to ask Tom Molyneaux a question. What would have happened to Middlesex County in the last recession had there not been countercyclical aid?

Mr. MOLYNEAUX. Countercyclical aid and antirecession funds to fund existing jobs, as I understand it, not for any new positions. We utilized a great deal of that money in our prosecutor's department and in our county hospital. I would say 90 percent of that.

If we did not get any aid, we would have definitely had to cut out programs as early as 1977 and cutting out programs meant a cutback in personnel. It came to our rescue in 1977 and to a larger extent in 1978.

With the sudden loss of them for 1980—and I hope we do not lose it; I hope it is back in the budget for 1980—and I have said it in the paper, it is going to be bad for the county of Middlesex in 1980. You hate to lose the experienced people and we are going to. We are going to, and you know, many times here it was said, we do have this cap law mandated to keep us within 5 percent.

I think it was Mayor Bowen who mentioned partnerships and I would like to look upon this as a marriage, a marriage with the Federal Government, and then the baby is born and the baby is good and healthy and then the Federal Government serves the county with divorce papers and no alimony.

Senator BRADLEY. How much could the property tax be increased in Middlesex County before there would be an adverse economic effect?

Mr. MOLYNEAUX. I think the taxpayers of Middlesex County have had it for the last 10 years or so. I say, how much more can a taxpayer pay? We get our money to run county government directly from the taxpayer. We have, in 1979 a gross budget of $150 million and a net budget to be raised by taxation of $70 million.

To give you a typical example, I do get around the county. We have some marvelous innovative programs in the county. It was only a couple of short weeks ago that we were told—I was talking to people at a very large meeting about what we offered to them in Middlesex County, and after the meeting, this elderly couple came over to me and they said, do not do so much for us; we cannot afford it.

Senator BRADLEY. Can you tell me how much of your budget increase is due to inflation?

Mr. MOLYNEAUX. A very, very large part. More than 50 percent of our budget goes to salary and wages and we have to negotiate these salary and wages and we have a responsibility to the employees of Middlesex County so basically the amount of increases that we negotiate for, we have to keep the cost of living into consideration when we give those.

What is even higher than that, we get in county government the same bills as the average household gets. We get fuel bills, we get gas bills, we get laundry bills, we get linen bills on a much, much larger scale.

We are being hurt this year with the cost of fuel oil. I recollect back in 1972 the cost of fuel oil to heat our county hospital was $60,000. In 1979, it was a half a million dollars.

We got an unexpected, this year an unexpected increase in our phone bills, our utility bills. We get mandated programs from the State of New Jersey and certain programs which have increased 24 percent. We are hurt by this inflation.

Senator BRADLEY. Thank you very much. I think you make a very important point. Inflation pushes the budget up but it does not help the local tax base and you get caught in a squeeze. Then at the Federal level there are cuts which tighten the noose.

Senator Durenberger?

Senator DURENBERGER. Let me ask about the New Jersey cap law and what you got in return for it, in return for per capita grants or block grants of some kind. Obviously it was installed as a levy limit at the time.

Mr. MOLYNEAUX. First of all, let me say that the county of Middlesex is one of the few counties in the State of New Jersey since the enactment of the cap law, we have been definitely in favor of the cap law and other counties have asked us to go to court with them to upset it and we said no. We are happy with it. We say there should be restraint in government, on the Federal Government, on the State level, on the county level and on a municipal level.

What did we get in return for the cap law? The municipalities benefit—I saw no benefit at all, other than keeping the taxes within reason. I firmly believe in this.

As far as money from the State, none.

Senator DURENBERGER. Did the cities get some kind of block grant program?

Mr. MOLYNEAUX. Increased education, not a lot, Senator. Very, very little. Very little.

Senator DURENBERGER. Is it New Jersey policy, then, that we limit the property tax, we cut the counties out to a degree of new State funding so we should go to the Federal Government?

Mr. MOLYNEAUX. More or less. Three years ago, putting in the State income tax, that did benefit mostly education, and those funds.

Some municipalities with the rebate tax, talking about income tax now, the rebate tax and the further aid to education. Education costs a lot in the municipal budget. Some taxpayers receive $800 or $900.

Senator DURENBERGER. Thank you.

Senator BRADLEY. Chairman Rodino?

Representative RODINO. No questions.

Senator BRADLEY. I would like to thank the panel for your contribution.

Mr. MOLYNEAUX. Thank you very much. Thank you for helping us.

[The prepared statement of the preceding panel follow:]

STATEMENT OF THOMAS MOLYNEAUX, FREEHOLDER-DIRECTOR, MIDDLESEX COUNTY, N.J.

It is a real pleasure to have this opportunity to present testimony on the impact of the loss of anti-recession funds for the County of Middlesex.

Our County Comptroller has provided a report for me which shows that we received a total of $925,000 of these funds during 1977 and $1,388,602 in 1978. They were utilized as required by Federal Mandate to maintain salaries of existing personnel and we utilized these funds to a great extent in our Prosecutor's Office, our County hospital, and in our Parks Department. We have constructed our 1978 budget by the receipt of $1.7 million of anti-recession funds so we began our 1979 budget review with a deficit of over $300,000 in lost 1978 funds and the inability to include any anti-recession funds at all in our 1979 budget for a combined total loss of $2.0 million. This may seem insignificant, but it amounts to 3 percent of the total amount of money to be raised by taxation for the operation of County Government activities for the year 1979.

For the year 1979, the governing body of the County of Middlesex had to apply a manpower freeze on all departments making exceptions in only eight selected instances where the performance of CETA PSE applicants had demonstrated the need for that program and the ability to perform in an effective and efficient manner. Fortunately, the Board has now been able to adopt a 1979 budget that is within the New Jersey Statutory "cap" limit. This was possible in large measure due to the manpower freeze noted above and to the availability of sufficient funds due mainly to the receipt of an additional $1 million in investment income in 1978 and $1 million received for retroactive payment at our County hospital, Roosevelt Hospital. This was accomplished despite offering our County employees a wage settlement in accordance with the President's anti-inflation guidelines. On the other hand, our mandated costs, such as the cost for utilities, telephone, and the cost of Middlesex County patients in State institutions, far exceeded the guidelines recommended by the President. For instance, the cost of maintaining our patients in State institutions has risen in excess of 10 percent.

In order to insure that Middlesex County may live within its 1979 budget, particularly in the face of potentially accelerating costs for gasoline, oil related products, utilities, etc., I have directed all department heads to carefully weigh the filling of positions which become vacant during the course of the year even though presently provided for in our 1979 budget. I have done this because of the following factors:

1. Our financial commitment to our Middlesex County College which will require an additional million dollars in our 1980 budget.

2. The County Treasurer has davised me that our department service requirements in 1980 will increase by approximately $1 million. While hte County has been most prudent in its capital construction program, there are County facilities that require upgrading to meet the depressed needs of the residents of our County.

3. As you are aware, there has been and will evidently continue to be a reduciton in the manpower training programs including the Public Service Employment Program. We believe that program has been most beneficial to both the residents and government units of our County. We have accepted our moral responsibility to accept into County government as large a number of PSE applicants as the needs of the County for services require and the finances of the County would permit. Substantial reduction in the number of PSE applicants would make it most difficult, if not impossible, to maintain positive terminations from PSE into County funded positions. As we have noted above, the County has made a limited number of such transfers and they will become more limited in my judgement in the future.

As of now, I predict many problems in putting together our budget for 1980. I predict cutbacks of many programs. I predict termination of other programs. I predict the termination of many employees.

I say this because we will not receive the windfalls that we received in 1978.

May I conclude by saying this—the Federal Government predicts a high rate of inflation for the next year or two and it is very unfortunate that these anti-recession funds were cut at a time when there is the greatest need for them in governmental operations.

I appreciate the opportunity of presenting our views as they pertain to the great County of Middlesex in New Jersey.

Remarks of Freeholder-Director James W. Roe of Passaic County

Senator Bradley and Gentlemen: I am aware that this panel hearing has to be shortened to permit your return to Washington for the signing of the Middle East Peace Treaty, and thus we shall file our remarks for the Panel's review later.

Now that Peace is at hand in the Middle East, we wish to impress upon you the necessity of turning your Big Guns onto the War Against the Recession in this country.

All phases of New Jersey State, County and Local Government need the anti-Recession, counter cyclical funding restored if we are to prevent further deterioration of public services, increased unemployment, prevent further lay-offs and help stem the upward spiral of inflation.

Have you ever had to hand out "pink slips" dismissing dozens of employees because the money well went dry?

Have you ever experienced the anguish to an employee, his wife and children when they get the "pink slip?"

Most of the employees were put into public service because of the huge unemployment which struck North Jersey, and in particular Passaic County in the past few years.

The reasons for the decline in employment in our area factories and businesses are many and varied. Our County has had more than its share of unemployed, 12.4 at one point in 1976. It is still at 8.5 compared with the national average of 5.8 and 7.5 in New Jersey. Passaic County is one of the most economically distressed counties in the United States, due in part to the demise of many industries.

Aside from the unemployment factor, state, county and local governments need to provide more and more services for which Federal reimbursement is not available, or has been diminished by the expiration of the Anti-Recession Revenue Sharing act.

Roadways, for instance, have deteriorated from extreme winter weather conditions in decent years far more rapidly than the taxpayers' ability to cope. Reconstruction of highways, even with a planned program, cannot be termed adequate without massive Federal assistance financially. Bridges are rotting, dams are woefully inadequate for the 60-year flooding cycles.

Welfare and social services, including care for the aged and infirmed have been severely cut back. A planned 52-bed shelter care project in our county hospital's refurbished wing is scheduled to open in June and may have to be shelved because we don't have the funding now that Federal cutbacks have been ordered.

Aside from the plight of those 65 employees already dismissed this month from the payrolls, it is sickening to think of the effects that restrictions will have to be imposed on accepting any more hospital patients.

It certainly costs less to have a productive employee paid by Anti-Recession funds, doing a serviceable job for some county agency, rather than sit home collecting unemployment checks. There's little difference in the over-all cost of an unemployment check (including administrative costs above the $117 weekly stipend) than a living wage for the same employee doing a constructive job in public service.

Either way the Federal Government pays and it seems to me far more prudent to provide Anti-Recession Revenue Sharing Funds than unemployment or welfare checks. For one thing, salaries are taxable and the other categories are not.

Budget time in New Jersey is rapidly coming to a close this next week for Counties and Municipalities. Already we have lost 65 Anti-Recession personnel, and another 85 job losses are in prospect with the cut-off and reduction of Federal funding of one sort or another.

Please give us hope that your Panel will successfully revive the Anti-Recession funding so that America—at all levels of government—may move forward in providing the essential services the public requires, and desires, and is paying for in its various forms of taxation.

TESTIMONY OFFERED BY PETER I. SHAPIRO, ESSEX COUNTY EXECUTIVE

Mr. Chairman, members of the Senate subcommittee, Congressman Rodino—good morning. It is indeed an honor for me to appear before you today in the company of my colleagues from Bergen and Middlesex County to discuss an issue which is of grave concern to those of us at the local level of government.

Last November, Essex County installed a new form of county government and I took office as the first elected Essex County executive. The change in our governmental structure was, I believe, a clear expression of optimism on the part of the citizens of Essex County that their government—the largest local government in New Jersey—could be a national leader in developing both innovative and effective ways to meet the traditional problems confronting urban America today. This progressive spirit of hope and confidence stood in startling contrast to the widespread trend toward Government retrenchment.

Five months later, we in Essex County still maintain the same high goals for our young government, however, in its short lifetime the Essex County government has been battered by the withdrawal of needed Federal fiscal assistance. Our opportunity to make significant progress from the outset was missed because the county of Essex sustained a loss of $6.3 million it had previously received in Federal countercyclical assistance. In addition to these lost revenues, we were also confronted with the similar reduction in state funds received by the county. All tolled, the county suffered the severe pain of losing almost $12 million or better than 5 percent of our total county appropriation.

What has been the impact of this lost revenue? Instead of moving swiftly into the areas of vital interest to Essex County's future and of urgent national priority as set forth by Congress—areas like urban revitalization, economic development, crime prevention, seniors programs, health care and more efficient general services—our governing body, consisting of myself as county executive and our nine-member legislature, the Board of Freeholders, had to wrestle with the problems of a budget imposing extremely harsh stringencies on every level and every office of our county government.

Foremost among these measures was the termination of more than 80 county employees from a variety of departments. While this number is not as large as the layoffs which took place in the City of Newark—the largest of the 22 municipalities in the county—it is important to note that the total reduction in the work force is projected to be in the area of 600 by years end. These additional reductions will be taken through attrition.

This slow, but similarly painful, process amounts to near total attrition. As vacancies in our government open, they are being left open. Even in important service areas where replacements and promotions—almost all of them well deserved and long overdue—are needed for better operations. The net result will be an approximate 10 percent reduction in our county employee ranks and curtailed operations.

Recently, the State of New Jersey adopted a $22 million one-shot aid package for municipalities to make up for lost Federal antirecession revenues. Municipalities that sustained virtually no impairment of their fiscal position from the termination of the Federal program were nevertheless awarded state aid. However counties were excluded from the legislation, so Essex County, the government that was hit by the lost Federal aid harder than any other—with the exception of our county seat, the City of Newark—received nothing at all.

Urban counties represent an important unit of regional government and as such, we are the primary providers of many essential services to our citizens. For instance, in Essex County, the county government is the primary provider of such services as criminal justice, welfare and services to the elderly, vocational and community college education, hospital and geriatric care, and road maintenance to name a few.

There is currently pending before the Congress numerous bills pertaining to the renewal of countercyclical assistance. While my personal preference is in favor of the administration's proposal—primarily because Essex County would receive a larger portion of the available funding—approximately $1.2 million—I would like to commend Congressman Rodino for taking the initiative in the effort to restore this vitally needed revenue.

The administration bill will provide the greatest dollar value because the aid is more precisely targeted to the jurisdictions of greatest need. Under title I of this legislation, hardpressed units of local government will receive immediate emergency relief within 60 days after its enactment. In addition, under title II of this legislation, there is a standby provision that will release emergency assistance to everyone if the national unemployment rate reaches 6.5 percent.

These two provisions makes the administration proposal an attractive one and, under this legislation, Essex County has hope that the fiscal vise that has squeezed us since the inception of our new government will be loosened somewhat—perhaps in time to aid in implementing our reorganization.

Congress has an excellent opportunity to assist hard-pressed local governments like Essex County in helping a new government serve its people more effectively.

Mr. Chairman, again, I appreciate having this opportunity to speak before your subcommittee and join with my colleagues in an effort to answer any specific questions you or your committee members might have.

TESTIMONY BY FREEHOLDER-DIRECTOR JEREMIAH F. O'CONNOR

Senator Bradley, Members of the Committee: Recently, State Senator Joseph Timilty of Massachusetts made public the report of the National Commission on Neighborhoods, a twenty-member panel appointed by President Carter to examine the causes of neighborhood decline and make recommendations to reverse the trend.

Senator Timilty and his colleagues discovered something that we have been aware of for a long time—that urban deterioration does not stop at the city boundary line. The suburbs that ring the cities are rapidly aging. Holding back the line on further deterioration becomes increasingly difficult. The further extension of suburbia adds to the decline of our inner suburbs.

As Freeholder-director of Bergen County, New Jersey, I present to the members of the Senate Finance Subcommittee on Revenue Sharing a problem different from that of many cities and metropolitan areas.

When one speaks of Bergen County, the usual picture is of quiet suburban streets and picturesque landscapes. That is half true. The other half of the story is of a densely populated, highly industrialized urban county, with automobile-saturated highways, dangerous pollutants in the air and water, deteriorating housing, and overburdened taxpayers. Unemployment is high in the southern part of our county, and given the methodology practiced by the Bureau of Labor Statistics, I would suspect it is even higher than we know.

We in Bergen County are at a disadvantage when it comes to federal and state revenue sharing funds. We do not have any large cities where attention can be focused for maximum effect. We are 70 separate communities, often competing with each other for the fiscal crumbs that remain.

Indeed. there are communities that can do very well without an infusion of federal funds—and we would do well to eliminate the costly tokenism that appears in HR 1246 and S 200 in the form of minimum allocations. But there are areas of Bergen County that need additional federal help. They have absorbed the loss of 1978–79 anti-recession funds by over-drawing on surplus, by cutting services, eliminating purchases and laying off employees. Many towns will be unable to absorb their CETA employees into systems, thereby defeating the purpose of the Public Service Employee program, and returning these people to the unemployed ranks.

Bergen County's struggle to hold back the creeping insidiousness of urban blight cannot be accomplished alone. Unless that fact is understood and acted upon, this beautiful county will fall victim to the problems that are eating away at the nation's cities.

Senator BRADLEY. I would like to call next Sharpe James, councilman, city of Newark.

I would like to welcome you to the subcommittee's hearings and look forward to your testimony. I know through my work with you over the years that you are a concerned and effective advocate for the people you represent, and for our urban crisis.

Welcome.

STATEMENT OF SHARPE JAMES, COUNCILMAN, CITY OF NEWARK

Mr. JAMES. Thank you, Mr. Chairman, Senator Durenberger, Congressman Rodino. In order to save time—much has been said already—I simply want to speak for the cities and our largest urban center in the State of New Jersey on the loss of the recession fund and what it has meant and to lobby for some kind of significant aid.

As others have stated, in the city of Newark, some 200 police officers were laid off, mostly the young, eager and enthusiastic, those who perhaps did the best job for the city of Newark. We talked about the layoff of essential court personnel. I might add that they were presently trying to bring in some $15 million from uncollected parking tickets.

Newark has such a court program that we are the only city, perhaps, that had court throughout the weekends, weeknights and throughout, trying to catch up and, of course, that personnel has been cut in half.

We could talk about the close of vitally needed recreational facility. I would agree with Mayor Cook of East Orange; if we talk about closing these facilities and no use of leisure time. We can talk about drug abuse, muggers, and purse snatchers in Newark. Already the Chamber of Commerce has talked about the cutback in CETA, the cutback in the summer youth program. They too are asking for aid. What are we going to do with so many youth who frequent the streets of Newark?

We can talk about the whole loss of some 45 health inspectors who have curtailed meaningful code enforcement in the city of Newark. You can ride throughout the city and see many abandoned and dilapidated buildings whereby the city of Newark is unable even to go out and bring out inspections, bring in the slum laws which you have been reading about lately.

Mayor Dunn touched on one of the most important things that I want to make mention of and that is the status outside the cap law. Newark is in a unique position. In 1978, 1979, we had a $25 million surplus. A sudden absence of antirecession aid meant that we had to lay off personnel and could not bring back police, could not bring back health inspectors, could not bring back recreation personnel because we would have exceeded the 5 percent cap law.

When you look at the rise of fixed costs in that budget, insurance, utility and labor settlement, it becomes almost impossible for the municipality to keep within the 5-percent cap law if it has to bring back personnel due to the loss of Federal aid and moneys.

I could also, gentlemen, say—we could go on and on about the problems that I have just talked about. I would just like to simply bring it down to what the fellow in the streets is saying today, and the people who are affected and certainly after our distinguished panel have left today, the people who are really affected are the ones who are left in the room and the ones we are talking about, coming here this morning.

We have had meetings with several people. They are saying, of course, we will welcome a peace treaty among Egypt and Israel. Most important, they are talking about a treaty of nations, not change in our national priorities for the city of Newark, a change that we can provide jobs for those unemployed and who are willing to work. We are talking about a treaty or change in a national priority to combat the quality of life in the urban cities where most people choose to live in.

We have come to know in Newark and the black communities specifically, when white America has a cold, black America has pneumonia. We have come to learn when there is a high rate of unemployment among white Americans, black America suffers a depression.

We are talking about our young 18 to 25, 50 to 60 percent being unemployed and being on the streets, feeling hopelessness. We are talking about if this aid money which is lost to the city of Newark, Newark, more than any other city in America, will suffer the most. It will suffer most, as people will leave our city, have an abandonment, excellent. It will suffer, because people will feel despair, helplessness.

Why? Nothing to do. No opportunities. We will suffer an increased poverty.

If we do not receive aid, we will pay for it in welfare. We will pay for it in crime.

I would like to say that we believe in the Newark Municipal Council, a majority opinion, that perhaps we are wrong in using the money. Senator Durenberger, we used the money to keep essential personnel. Those moneys were withdrawn from the city; now we cannot bring them back and now we have lost essential personnel, police and others and health inspectors.

There is no opportunity to bring them back and we have said in the future if moneys are going to come to the cities which are not earmarked, which the council and administration have a right to decide on their utilization in that municipal budget, perhaps we should be about increased employment opportunities as opposed to maintaining existing personnel.

We feel that any moneys that come to the city should not be used to bail out a municipality. If you are going to send Federal dollars to a city and say use it to keep existing personnel to bail out, we feel it will reduce accountability and can bring about and actual award incompetent administrators.

We believe the people who are walking the streets 18 to 25 who are able to work, willing to work, they should receive an opportunity.

We believe the whole question about national priorities should be changed. How can we continue, as one distinguished gentleman said, to go to the moon for rocks, worry about the rest of the world, about Europe, worry about everybody and we forget that, as James Bond would say, the next time is here, right in the city of Newark.

I know you have to get back to the city of Washington. I simply want to say we are suffering, we are suffering from a lack of aid and we are also suffering because I will be a part of, from perhaps the wrong utilization of those aid moneys, and I think it is important not only to give moneys to a municipality but also the big question comes, how best should those moneys be spent to improve the quality of life and to assure that accountability and expenditure of those funds.

All too often, people say, Newark has received $600 million in aid. Where has it gone? As a member of the legislative body, I am willing to accept that responsibility. That is not enough to ask for money. It is more important to say, what are we going to do with those moneys?

Thank you very much, gentlemen.

Senator BRADLEY. Councilman, I would like to ask you about the illegal aliens in Newark. Do you have an idea of the cost to this city, or an idea of the number of illegal aliens in this city, or an idea of how much a drain on the city's budget results from their presence?

Mr. JAMES. Senator, you should never have asked that question because arriving this morning, I was in the left lane, trying to make a right turn, and I yelled over to the fellow next door, could I go in front of him? He did not speak any English, and I said, you probably do not belong here.

We felt that all too often, as we have looked at various places of employment, we have seen individuals who are not citizens. They are illegal aliens.

By the way, I would say although Newark is a place where we welcome everybody, we are just happy to have people in Newark. We do not get mad at them; we do not chase them out. All we can say is they are taking jobs away from those who live here, who struggle, who want to be in our city and who simply cannot find work.

There are many of the cities in New Jersey, in various shops. They, too, must represent migratory workers. They represent the minority person all too often being exploited. They represent a work force that can be cheap and actually can make no complaints, so they are hurting the city of Newark.

We would welcome any type of assistance in order to assure that job opportunities should come to those citizens who are paying taxes, who are American citizens, and who live here. All these other problems can be properly addressed, too.

Senator BRADLEY. Do you see any relationship between the loss of Federal countercyclical aid, public service jobs, public works employment, and Newark's ability to market its bonds in the financial markets?

One of the more striking points in the testimony we have heard so far is that offered by Richard Nathan of the Brookings Institution. His studies reveal that if we took the amount of dollars presently in the administration's countercyclical targeted assistance plan and compared it to the amount of dollars that flowed into Newark in 1978 simply from countercyclical, these dollars would only replace 14 percent of the 1978 dollars. When you add in the loss of public service jobs and the loss of public works jobs, you are under 10 percent replacement. We are not talking about significant replacement here. We are talking about bare minimum funds to keep a city and its employment force at a level that can protect its people and provide basic services.

My question to you is, do you see any relationship between this loss of funds and the potential danger on the horizon to the Newark bond market?

Mr. JAMES. I would say in a nonfiscal manner, Senator, I have actually heard rumors and statements that if Newark's environment, if people are working together, if there are no demonstrations, no riots, if there is tranquality in our neighborhoods, this, too, affects our bonding capacity which we have recently been proud to say, has gone up.

What I am simply saying, if we do not have aid moneys and we lay off people, right now we have the police officers—I see you have Possumato scheduled to testify—running a fear campaign in the city of Newark at Broad and Market. They are telling people, do not shop at Newark. It is a fierce city; do not come into Newark.

I am saying that when people do not have a job, they become desperate. When the rank and file do not have jobs, they rob. They utilize crime, so the whole environment tears down.

I am saying when we float bonds under those conditions, whether it is a minority, the number of people who are affected are a great number, and they tend to, shall we say, give a poor image of Newark—tend to make Newark an unattractive place—and people just simply do not want to become involved with anything attached to Newark.

It is not strange that Newark International Airport wanted to change their name. It is not strange that Newark College became King College, and we have requests everyday where people suddenly want to remove the name "Newark."

I am saying to you, if aid money comes in, we use it wisely. We keep people employed. We improve our environment, our image.

Senator BRADLEY. Thank you, Councilman.

Senator Durenberger?

Senator DURENBERGER. I have been very impressed with your statement.

I run a risk of asking a very specific question. Assuming a recession of national proportion and assuming it has the same impact on this city, only probably more severe, as it may have on others, what is the No. 1 problem that is created by recession that you feel needs Federal funding assistance?

Mr. JAMES. Again, it goes back to the thing I think everybody has been saying, that is, a job for every American, and I believe in our cities the persons who come to City Hall, they say, "I voted for you and I want a job." That person, they say to you, the first pressure that Mayor Gibson comes under, the person who has come to City Hall, "Because you are black, I want a job." Everybody is saying I have a job. The black Americans are the last hired, first fired. If we cannot keep them working, then our whole city becomes a tinderbox. It is a most critical thing. They have to have a job to pay rent; they have to have a job to want to purchase the essentials in life.

I think all the moneys coming into our cities somehow ought to have attached to it where we are talking about reducing unemployment because the unemployed is the element that is driving the employed, blue-collar workers out of Newark. Prudential closes 1 hour earlier so that people can leave Newark. They simply do not want to be here at 5 o'clock.

It is not strange that a million people swelter to New York between the hours of 8 a.m. to 4 p.m. We changed our streets to one way to get them out. They block down Raymond Boulevard.

I am saying that we still have to worry about that person walking the streets. All we have to do is come into Newark during the day and go into all the stores and see all the doors are locked and chained, see all the merchandise has chains on it.

We simply have to provide employment for America. We are not going to condone violence. I am happy to see that in Baltimore they are talking about, just because you are unemployed, you do not have the right to steal, do not have the right to mug, but at least we ought to give you that opportunity for employment.

Senator DURENBERGER. Given the fact that you have got a levy limitation law that you operate under in the State of New Jersey, you cannot raise it more than 5 percent, whatever, given the fact that according to what I see from the Governor's statement, the bulk of State aid to local government is going either into tax relief, into welfare, into urban schools, housing, a couple of other categories.

Would you see it to be the most appropriate role for the major Federal assistance program to be in the area or manpower employment, vocational education, all of these kinds of related activities as the best way, not only to offset the impact of recession, but generally probably the best way for the Federal Government to participate in a major partnership or whatever it is with the major cities of the country?

Mr. JAMES. I think that is very true, Senator. As you go from the local municipality to the State, even the Governor has pressures to recognize various areas.

You talk about property tax, you are dealing with the total environment. The Federal Government has a role in the quality of life for people, whether our cities are going to be managed up and down the coast. Are cities going to be a managed place, or are we all going to get on the highway and live outside the cities?

Maybe we ought to eliminate it in the center cities in America, is concerned, as to Short Hills, Melbourne, and Newark.

The Federal Government should be looking at the quality of life for people in America. I think people tend to target you more than Government, because they say, you are sending billions outside; you are worried about this country, you are worried about that country, you are worried about South Africa. What about Newark? I am an American citizen.

I think that they are just becoming somewhat disilusioned about the constant TV coverage of what we are doing for other people, the Federal Government, and they are saying, "What about here?"

I would agree with you. Perhaps the State concern is a balanced approach. I think the Federal Government should say, we are worried about the quality of life for individual citizens and to make that city viable; at the same time, demand and extract from us certainly as political individuals that were accountable in our action.

All too often, the Federal Government says, "Here is an apple pie; do what you want with it." We do not care; we gave you the money.

Those days are over. In giving the money, you also have the right to say, how is this spent and is it best being spent? If we give it to you, the quality of life in that city should improve.

All too often you have been happy to get a press release, come into town, give a press release and say, "We gave half a million dollars; we gave $5 million" and take a plane back to Washington. You have not changed the quality of life in that city.

Senator DURENBERGER. Thank you.

Senator BRADLEY. Congressman Rodino.

Representative RODINO. I am especially delighted to see Councilman Sharpe James, who so ably represents the district I represent, and I want to commend you, Sharpe, on a very eloquent presentation. I think you have always been sensitive to the needs of your constituents.

I would like to comment on what you are saying about the south ward. The same problems are occurring in other cities of America.

Countercyclical aid is so named because it is intended to counter the kind of cycle that depresses the business life of our country, and especially in cities like Newark, and especially the south ward where you have minorities who are the first to feel it, who are the ones that are bearing this terrible burden.

There is nothing more that I can add except to say that there is a tremendous urgency about the Federal Government recognizing the commitment that it must make.

Just as you say, if our policies are going to cut off essential services, crime rates increase, drug abuse starts to grow. When we cut off health services, we are affecting the community itself. When we cut fire services, the arsonists plague our cities.

I do not think there is anything more, really, that I can say, Mr. Chairman, except to commend him and to take note of the kind of presentation he has made.

Senator BRADLEY. Thank you very much, Chairman Rodino. I would like to express my pride as subcommittee chairman in having your testimony, Councilman, as a part of this record. I feel that it is an important piece of testimony that should be read by every member of the Finance Committee and as many Members of the Senate as can obtain it. I will see that they obtain it.

I think that you have put this problem in a human perspective that affects all of us, and I thank you very much.

Mr. JAMES. Thank you, Senator.

Senator BRADLEY. Our next witness is Jack Volosin, New Jersey Council of Senior Citizens.

STATEMENT OF JACK VOLOSIN, NEW JERSEY COUNCIL OF SENIOR CITIZENS

Mr. VOLOSIN. Senators, Congressmen. I realize the importance of time. I am going to just read a few statements from the statement which I submitted.

Although the elderly are not treated equitably under general revenue sharing, targeted fiscal assistance offers hope for improvement.

Since the majority of the elderly live in the most densely populated areas of the country, our major cities and metropolitan areas, assistance to cities, experiencing long-term structural decline and cyclical distress undoubtedly is of extreme importance to the disadvantaged elderly.

Cities such as Newark or New York, Detroit or St. Louis, that are on continued fiscal restraint cannot provide adequate services to the dependent elderly, or the poor of any age. The concept in the administration bill moves in the right direction, but the funding does not.

To phase out funding assumes that the structural problems addressed will gradually disappear over 2 short years.

This is not only naive but also dangerous to the stability of the areas receiving assistance.

Senator BRADLEY. Your testimony will be submitted for the record and I appreciate your willingness to come today, because I think that it is too often forgotten that senior citizens reside in many of our urban areas that are hard hit, areas that this aid is directed toward.

Senator Durenberger?

Senator DURENBERGER. I just wanted to thank Mr. Volosin for making the statement. I come from a State that has the oldest population in the country as percentage of total population, so I am very sympathetic to what you are saying.

Mr. VOLOSIN. I want to make one comment which is not contained in my testimony. That is, we hear the common expression of people "living on fixed income." The citizens are not living on fixed income;

they are living on dwindling income as a result of the spiralling inflation that somebody has to do something about.

Senator BRADLEY. Thank you.

Chairman Rodino?

Representative RODINO. I would merely like to thank him for coming here. He has always ably represented senior citizens. Thank you very much.

[The prepared statement of Mr. Volosin follows:]

STATEMENT OF JACK VOLOSIN, EXECUTIVE SECRETARY, NEW JERSEY COUNCIL OF SENIOR CITIZENS AND MEMBER, EXECUTIVE BOARD, NATIONAL COUNCIL OF SENIOR CITIZENS

Mr. Chairman, Members of the Subcommittee, I am Jack Volosin, Executive Secretary of the New Jersey Council of Senior Citizens and Member of the Executive Board of the National Council of Senior Citizens, with which the New Jersey Council is affiliated.

The National Council is a nonprofit, nonpartisan organization of over 3,800 older people's clubs in all states. Those clubs have as their primary goal a better life for all Americans. We emphasize at all times that our goal is not to serve as a special, vested interest group, but rather to seek a better life for the elderly in harmony with the national interest.

With this viewpoint in mind, we have tried to evaluate the merits of the targeted fiscal assistance program, and I am here today to present the results of our evaluation to this Subcommittee.

General Revenue Sharing and Categorical Programs

Since the 1930's, there has been public debate on the relative merits of a non-categorical vs. a categorical approach in public programs to meet the special needs of identifiable groups of people. Strong arguments on both sides have been advanced. Although it moved slowly during the administrations of Presidents Roosevelt, Truman and Eisenhower, the categorical approach took a quantum jump in the Kennedy and Johnson years.

Howover, the Nixon Administration's promulgation of "New Federalism" and President Nixon's charge that categorical programs had proliferated to the point that they were no longer efficient, resulted in a deliberate attempt to turn this philosophy around. Instead of emphasizing the categorical approach, the old concept of "Revenue Sharing" was revived by the Nixon Administration as a natural corollary to the political emphasis on "States Rights."

While most lawmakers who voted for revenue sharing believed that it would supplement categorical programs, the fact is that under successive administrations so far, it has tended to supplant categorical programs—many of which had operated to benefit the poor and the elderly.

It is the view of the National Council of Senior Citizens that the issue is not one of either revenue sharing or categorical programs for the elderly; it is revenue sharing and categorical programs. In the absence of categorical programs or earmarked funds for programs for the elderly, for example, what chance will a senior citizens' center in a small town have to promote a program for the elderly to be financed out of local revenue-sharing funds against the demands for financing a ball park?

This opinion was supported by a study undertaken some years ago by the office of the Comptroller General of the United States at the request of Congressman Claude Pepper of Dade County, Florida. The study was to determine the extent to which general revenue-sharing funds were being allocated to programs.

While the elderly over 65 represented over ten percent of the population and 28 percent of the poor shortly after revenue sharing was initiated, expenditures in their behalf in the governmental units studied amounted to only about two-tenths of one percent of the total funds available. Unfortunately, under general revenue sharing, an inequitable sharing of funds has persisted over the years.

Targeted Fiscal Assistance

Although the elderly were not and are not treated equitably under general revenue sharing, targeted fiscal assistance offers some hope for improvement. Since the majority of the elderly live in the most densely populated areas of the country—our major cities and metropolitan areas, assistance to cities experiencing long-term structural decline or cyclical distress undoubtedly is of extreme importance to the disadvantaged elderly. Cities such as Newark or New York, Detroit or St. Louis, that are under continuous fiscal strain cannot provide adequate services to dependent elderly—or the poor of any age. Ironically, the very areas that have disproportionate numbers of poor people are the same areas that have the least potential to raise revenues locally to help those in need. Without Federal funds, people will suffer because of the accident of the geographic location they live in! This is pure discrimination on a massive scale.

We are therefore fully in support of the concept in the Administration's bill to offer federal assistance to both local governments which have long-term problems as measured by their rates of unemployment and to local governments which may experience a cyclical downturn. Only by providing such assistance can needed services to the elderly be brought up to levels adequate to meet their needs and to sustain service levels when unemployment rises, and as a consequence, tax revenues fall.

As we all know, even most categorical programs at the federal level require local matching funds. When local funds are in short supply, whether for structural or cyclical reasons, federal dollars for categorical purposes are lost. Thus, we have witnessed cutbacks in Medicaid, cutbacks in community health centers, cutbacks in nutrition programs or home health services and inadequate personnel or services in public hospitals—among a host of deficiencies in services in state and local governments that are financially strained. Why should some localities have to choose between minimally adequate police protection or health services to the poor while other localities prosper? It is the duty of the federal government to see that all its citizens are treated equitably, regardless of where they live in the United States. It is an obligation of the federal government to help distressed areas. This is one way in which the federal government meets its obligations to distressed citizens.

The concept in the Administration bill moves in the right direction, but the funding does not. We see no reason to authorize $250 million in fiscal year 1979, but only $150 million in fiscal year 1980. To phase out funding assumes that the structural problems addressed will also gradually disappear over two short years. This is not only naive, but also dangerous to the stability of the areas receiving assistance.

The countercyclical assistance in the bill, which we understand amounts to $500 million at a national unemployment rate of 6.5 percent, is capped at $1 billion no matter how high unemployment rises. As inadequate as these sums seem to us, there is no authorization for any amount included in the bill. Does this mean we are guaranteed that the national unemployment rate will not exceed 6.5 percent? If we have no such guarantee—and we don't—then an authorization must be included. As anyone who lived through the Great Depression can tell you, wishing isn't enough. Ony action counts.

We urge you to act. We urge you to consider the needs of older people, and of all poor people. We urge you to help their communities to help them.

Senator Bradley. Our next witness is Thomas Possumato of the Fraternal Order of Police, Lodge 12, Newark, N.J.

STATEMENT OF THOMAS POSSUMATO, FRATERNAL ORDER OF POLICE, LODGE 12, NEWARK, N.J.

Mr. Possumato. Senators, Congressmen, first of all, I want to thank you for this opportunity to appear here to testify this morning. Listening to Councilman Sharpe James, I get the impression that some people out there feel that they would be safer and better off if policemen would be laid off and not anybody else, so that way when they were laid off, they would not have to worry about being mugged or robbed.

Newark has been receiving assistance from both the State of New Jersey and the U.S. Government for many years now. Since 1970 when this present city administration took office, our State and Federai revenues and the city tax revenues were placed in the city essential services budget, such as police and fire, knowing very well that they would come when these same assistance programs sponsored by both the State and local government would expire.

Yes, gentlemen, Newark is in need of this revenue, but what Newark also is in need of is the proper distribution of these assistance funds so that they do, in fact, find their way into the essential service budgets and not into fabricated budgets where the funds are then used to hire nonessential personnel for the sole purpose of maintaining political patronage.

In the years from 1975 to 1976, and again in 1978, the city of Newark has seen fit to lay off 200 of our youngest policemen after investing approximately $20,000 to train each of the policemen.

Thus far, the city of Newark has already squandered over $2 million in attempting to save $3.5 million through the loss of antirecession funds. This all comes about at a time when crime in the city of Newark is increasing at an alarming rate, and the residents as well as the business community are banning our city of Newark.

Our mayor, Kenneth Gibson, after already receiving approximately $4.5 million in assistance from the State of New Jersey, still has not committed himself or any of these funds to the rehiring of the 200 laid-off Newark policemen.

Now our city administration is again using the Newark laid-off policemen to once again appeal to the U.S. Government for additional Federal assistance. What steps will the city administration take if, in fact, Newark receives approval for these funds?

Will the city administration then first consider the safety and security of the Newark residents and business community by rehiring the policemen, or will the city administration again ignore the cries for help from these same people?

Yes, gentlemen, the city of Newark is in need of these added revenues, but it is also in need of assistance in the form of leadership at the State or Federal levels to oversee the city of Newark's administration so that these same revenues will be utilized in the best interests of all the citizens of Newark by seeing to it that these assistance funds are, in fact, placed into essential services such as police, fire, sanitation, and education.

Gentlemen, no city, no matter how large or small, can exist without, or short of, these services.

Thank you.

Senator BRADLEY. Thank you very much, Mr. Possumato.

Senator Durenberger?

Senator DURENBERGER. What is your opinion of this kind of legislation? I guess it is your feeling that it ought to be spent on continuing existing services: and secondly, on dealing with the direct problems of recession, like unemployment. Is that what I hear you saying?

Mr. POSSUMATO. Senator, I think what we have here, we have people who are employed. We are now laying them off and making them unemployed, to rehire all the people. I think that this is a circle that has to stop somewhere along the line.

You have people who have been employed for a number of years. They have families, they have commitments. Then you turn around the next day and tell them, you are now unemployed. You get in line, and we are going to use this Federal money to rehire somebody else.

Senator DURENBERGER. Thank you.

Senator BRADLEY. Chairman Rodino?

Representative RODINO. Mr. Possumato, are you saying, however, that at the present time the city of Newark—and this is typical of many cities that have had to lay off their personnel and cut various essential services such as police, fire, and education—there is a need for this kind of legislation to enable the city to reemploy these people, and then to be able to provide for the health, safety, and other concerns of the city?

Mr. POSSUMATO. There definitely is.

Representative RODINO. You support this kind of legislation?

Mr. POSSUMATO. Yes, sir, I do, providing that this type of situation does not occur year after year. If the funds are going to be 1980, then the situation is going to be created again in 1981.

The money has to be earmarked or designated for police, and it has to have no time limit involved in the funds.

Representative RODINO. Thank you.

Senator BRADLEY. Thank you very much.

I would like to thank Senator Durenberger for journeying to Newark today to assist in the conduct of these hearings; and, in particular, I would like to thank Chairman Peter Rodino for joining the panel as a part of my first chairmanship of subcommittee hearings.

It is always reassuring and an honor to have somebody who has distinguished himself so greatly as a chairman of one of our great committees in the U.S. Congress in a time of great crisis. I would like to thank you very much, Chairman Rodino.

Representative RODINO. Thank you, Senator.

Again, I want to commend you for your initiative and thank Senator Durenberger. I think that these onsite types of hearings bring you to the real crunch.

Senator BRADLEY. Thank you. These hearings will stand in recess, subject to the call of the Chair.

[Whereupon, at 11:20 a.m., the subcommittee recessed, to reconvene at the call of the Chair.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT OF GOV. WILLIAM G. MILLIKEN

COUNTERCYCLICAL REVENUE-SHARING PROGRAM

The State of Michigan strongly supports reenactment of the countercyclical revenue-sharing program which would provide assistance to cities in this state to maintain essential services during periods of high unemployment.

Though smaller than its predecessor, the proposed legislation clearly is designed to target cities and states most in need and to do so with a maximum of flexibility.

State and local governments cannot maintain their public safety, health, and welfare programs if growing inflation couples with economic downturn or recession. The mix erodes employment and thus severely limits revenues available to be spent for the protection of the public.

The most recent past national recession had substantial negative impacts on Michigan. The recession was beyond the power of cities and states to alter and beyond the power of cities and states to address its impact alone. Countercyclical revenue sharing, at that time, responsibly aided localities in meeting the needs of their residents. This proposed legislation which is scaled down and targeted to those cities and states most in need and serving the largest numbers of people is a responsible reaction to the problem.

I have said before on many occasions that cities are vital to us all—the millions of people who benefit directly and indirectly, the private sector and all levels of government. They continue to be the hub of economic and social activity. They remain the centers for the exchange of ideas and the testing ground of social change. We cannot ignore them because our survival is directly related to their health.

States do attempt to meet the needs of their residents, but growing fiscal limitations and constitutional mandates for balanced budgets limit effective response in the face of negative international and national economic conditions. These are conditions which exist beyond a state's ability to alter them directly.

I recall, and ask you to remember, that cities in the '60's underwent painful changes. The states and the federal government responded to their unrest. Absent your continued and responsible assistance, through this program, cities may again face painful convulsions caused by special problems occurring under the competing influences of inflation and recession. States alone, cities alone, or both together under certain circumstances cannot respond effectively without federal assistance.

In the State of Michigan, Detroit would be the primary beneficiary of tier 1 of the countercyclical revenue-sharing assistance. In 1978, Detroit suffered an average of 8.3 percent unemployment, and we project that with an economic downturn unemployment may rise to 9.7 percent to 10.3 percent. This situation goes beyond the city's capability to handle alone. Since the impacts arise from national and international economic events, it is for government to protect the special needs of its citizens under these trying circumstances. Your responsible assistance will help.

The State of Michigan in 1978 averaged 6.9 percent unemployment, and it is projected that 1979 will average about 7.4 percent unemployment. The state cannot alone effectively provide needed assistance to the state as a whole, or to cities such as Detroit, without federal assistance.

In conclusion, your sensitivity and concern for cities and states with cyclical economies can be reflected by passage of countercyclical revenue-sharing. Scaled down, it is still a responsible reaction to a very serious, potentially disastrous situation. For these reasons, your assistance will be greatly appreciated.

Statement of the Public Employee Department, AFL–CIO

Mr. Chairman and members of the subcommittee, the Public Employee Department and its 31 affiliated unions represent some two million public employees in the Postal Service, federal agencies and state and local governments. We are vitally interested in the financial progress of the nation's cities and counties for several reasons: their ability to contribute positively to the general economy; sustaining the services they are able to supply to their residents; and continued useful employment of persons who dispense the essential services supplied by these jurisdictions.

THE PROBLEM

In the past 20 years, local governments have been beset by a series of problems which have tested their capacity to survive. During the 1960's many older cities erupted in social upheavals. The following decade has witnessed major financial dilemmas leading to losses in critical public services and an erosion of the meager poverty-level existence of many of the poor who live in them.

The preceding 12-month period has produced another kind of upheaval in state and local governments. We refer to the political phenomenon of "Proposition 13"-type dissatisfaction by voters, and the current campaign to convene a national Constitutional Convention aimed at placing federal budget expenditures in an inflexible straitjacket.

Many of the fiscal ills confronting local governments have as their basis the nation's principal domestic issue—persistent, accelerated inflation.

The economic instability of the 1970's, combining serious inflation with rising unemployment, has resulted in extremely stressful times in the public sector. This is manifest in the increased demands for services and declining revenues coupled with the regressive impact of taxes due to declining real earnings of workers. It is clear now, as it has been for some years, that a realignment of the state and local tax burdens based on ability to pay is a necessity. Extreme deficits found in some major cities, in contrast to state surpluses, require adjustment of the fiscal relationship between state and local governments.

Yet, local governments can survive crises. A few short years ago, New York City was tottering on the brink of economic disaster. Assistance by the federal government and stringent measures by elected officials, unions and citizens generally to improve financial management indicate that the municipality will not only survive, but will prosper once again.

Public service generally has a substantial effect on the national economy. Almost 15% of the gross national product is generated by state and local governments. More than 15 million persons are employed by those jurisdictions. From these facts alone it is clear that the vitality of local governments is essential to a healthy national economy.

Conversely, high inner city and county unemployment, particularly among minorities and youth, means that the level of economic activity of and revenues to the local governments are seriously impaired.

An array of tools must be available to solve these problems at the various levels of government—tax reform, welfare reform, aid to education, a realistic CETA program, public works and a federal urban development bank, among others.

ANTIRECESSION ASSISTANCE

The Department applauds the basic approaches in the pending bill. A commendation is due the Administration for initiating the revival of countercyclical aid. The proposal entails immediate financial aid to cities and counties geared to an unemployment rate of 6.5% or more in the period April–September, 1978 and standby fiscal assistance for use, if the quarterly national unemployment rate reaches 6.5%.

Expiration of the program on September 30, 1980, enabling Congress and the Executive Branch to review the intergovernmental assistance and general revenue sharing programs, is desirable in this case.

On the logical assumption that the 95th Congress would extend the availability of antirecession aid, many communities included these anticipated funds in their budgets. The sudden halt in this source of revenue has caused many of them to curtail needed government services and the people required to supply them. It has forced some to resort to considering an increase in their tax base, which is anathema to large numbers of citizens in these times.

The problem this Department finds with the Administration plan is the pitifully small amount of funds it makes available to bridge the gap between antirecession fiscal assistance and installation of the Intergovernmental Fiscal Assistance Amendments of 1979. In fiscal 1978, the federal government distributed $1.3 billion to local governments under the earlier program. The total amount to be disbursed under S. 566 in fiscal 1979 and 1980 would be $400 million. On the questionable premise that the economy will be stabilized in calendar 1979 and 1980, the Administration believes that the federal budget can afford no more than $400 million. We offer another fundamental question. Can the nation not afford to spend more than that amount to ensure the continued progress of many suffering local communities? The original purpose of the ARFA plan was to help cities which were experiencing significant losses of population and jobs and which contain large numbers of poor and disadvantaged residents. That need must continue to be addressed at a much larger level than $400 million. Otherwise the improvements achieved under the ARFA program will begin to decline again.

CONCLUSION

In short, the Public Employee Department supports the revival of antirecession financial aid to local communities with high unemployment. Simultaneously, we recommend that the total funding level in S. 566 be increased to $800 million.

STATEMENT OF THE INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS, AFL-CIO-CLC

Mr. Chairman, Members of the Subcommittee, the International Association of Fire Fighters is grateful for this opportunity to go on record in support of Targeted Fiscal Assistance.

The IAFF represents over 175,000 members. Fire Fighters in every community across this land perform vital public safety services to the best of their ability and by using whatever resources their communities can provide. When a community is fiscally distressed its fire department suffers also. When lives and property are lost needlessly because of cuts in fire service manpower and material the community suffers.

The IAFF supports the efforts of members of this Subcommittee and others to aid our distressed communities by providing sorely needed federal grants. Extending the Antirecession Fiscal Assistance Program is the proper and equitable first step toward helping distressed local governments return to a healthy fiscal condition. Proposals for Standby Fiscal Assistance, which offer immediate support measures in the event of economic downturns, are prudent also given the economic pressures of inflation, unemployment and energy.

The suspension of ARFA has already given us a preview of what we can expect in distressed localities if forecasts of a recession later this year or next are borne out. The cities of Detroit, Newark and Philadelphia, as well as other communities, have been forced to lay off employees whose salaries were paid with ARFA funds. It is a fact that fire protection is one basic service in which the harder pressed cities have concentrated much of their ARFA funds. In general, public employees are hardest hit when layoffs occur in distressed communities.

We are pleased that the Congress is working toward a legislative remedy of a tragic situation. We also note that part of the problem could have been avoided with the passage of H.R. 2852 in the 95th Congress. The present proposals contain the concept of Targeted Fiscal Assistance. The IAFF supports a targeting concept that will serve to aid local governments deemed eligible by fair and practical methods. Indeed, debate does not center on the idea of targeting; what remains to be determined is the amount of funds to be allocated for the program over the next two years. Another factor to be determined is whether few or many local governments will receive aid. Treasury Secretary Blumenthal has stated that the Administration would like to provide more money in its proposal but that fiscal constraints require diminished funding. ARFA spending for FY78 was estimated to be $1.3 billion. The Administration proposes $400 million for fiscal years 1979 and 1980. This is not diminished funding within a well-conceived alternative plan—this is an arbitrary action based on questionable economic assumptions. In view of the serious present economic strains we wonder what happened to the President's Economic Stimulus Program; we wonder what happened to the President's Urban Program in which $1 billion was proposed for a Supplementary Fiscal Assistance program in both FY79 and FY80. It is apparent that economic recovery has not occurred since SUFA was proposed. Furthermore, if a major drawback to SUFA was its lack of targeting, certainly the newly proposed Targeted Fiscal Assistance represents an improvement worthy of an increase in funding levels. The IAFF supports targeting as a sound means for aiding distressed local governments.

The serious problems faced by local governments will not go away. The suspension of ARFA last year has aggravated the fragile fiscal condition of many areas. Even a sufficiently targeted program cannot meet the challenge posed by these "emergency" situations without proper funding levels. This Congress is now considering legislation that better addresses ways to establish a sound ongoing policy. As this Subcommittee considers the various proposals, we would ask that you remember the negative impact that is left from economic slowdowns in distressed local areas. It should be noted also that in our harder pressed cities there are etsimates of average tax increases of 8.4 percent that would be undertaken just to continue existing services in cities without Targeted Fiscal Assistance.

The IAFF vigorously supported ARFA extension in the last Congress. It is our view that the projected fund allocations of the kind found in the Administration's "Two-tiered" program are not adequate for the job that must be done. A targeted fiscal assistance program with funding levels approaching the FY78 expenditure is not fiscally irresponsible if aid under the program is directed where it is needed the most.

We offer this statement of our concern for the record. We stand willing to work with the Subcommittee and other Members in order that this severe problem can be corrected. On behalf of this organization and its members we thank you for your consideration of these remarks.

STATE OF CONNECTICUT,
EXECUTIVE CHAMBERS,
Hartford, Conn., April 11, 1979.

Hon. WILLIAM BRADLEY,
Chairman, Subcommittee on Revenue Sharing, Intergovernmental Revenue Impact and Economic Problems, Dirksen Senate Office Building, Washington, D.C.

DEAR BILL: By this letter, I am submitting comments on S. 566, the Administration's Proposed Targeted Fiscal Assistance Program.

I enthusiastically support the concept of targeted fiscal assistance and the enactment of stand-by authority for anti-recessionary fiscal assistance. The best thing the federal government can do for the states and local governments is to keep the economy healthy and unemployment low. However, we know from past experience that this is not always possible. We as a nation go through cycles of economic downturns. There are also areas of this country that are economically distressed even when the national economy is healthy.

The Administration's bill recognizes this. It provides for standby authority for anti-recessionary payments to state and local governments when national unemployment exceeds 6.5 percent, and more directly targeted fiscal assistance to areas of distress when national unemployment is between 5 percent and 6.5 percent.

The targeted fiscal assistance will give some immediate relief to our country's most severely distressed cities. However, I have some concerns with the way the bill is drafted which I would like to bring to the attention of the Subcommittee.

1. The de minimis grant of $20,000 (annualized) will adversely effect our small towns. Connecticut has a number of small towns under 10,000 with severe unemployment. Because population is a factor in the proposed formula these severely impacted towns would get no aid.

2. The payments for FY 1979 will be based on the unemployment existing in April through September 1978. Payments cannot be made until after the legislation passes, which will probably be, at least into the fall of 1979. This would mean that some local governments which have had increasing unemployment would be excluded, while cities with improving economic conditions would be overpaid.

3. Under the previously authorized anti-recessionary grant program, states like Connecticut with many small local government units and no county governments, were permitted to supply unemployment figures rather than relying on national labor market figures, which by their nature are not as sensitive to these small units of governments. This is not the case in the currently proposed legislation.

In January 1979, nine towns in Connecticut, with populations ranging from 5,700 to 31,600 had unemployment over 10 percent. None of them would receive aid under the proposed formula. Another seventeen towns had 8.5 percent to 10 percent unemployment—and only two of them are eligible for funding.

The sensitivity of the trigger mechanisms is even more important for the anti-recessionary portion of this bill. Local governments must be able to provide services to people during their times of personal economic distress. However, as unemployment and demand for services increases, and as the economy slows, state and local revenues decline. The anti-recessionary programs helps alleviate this problem.

For this program to work effectively, the triggering mechanism must be sensitive to local conditions, and payments made in a timely manner. Different parts of the country are effected by economic conditions at different times. Connecticut for example, because of its strong manufacturing base, traditionally lags behind national economic cycles by about six months. A recession would hurt our state at least as badly as any other, but at a different time.

If past trends continue Connecticut's unemployment rate will go considerably above the national average (see attached chart). Any anti-recessionary program must be designed so it is sensitive to regional economic situations as well as to national economic conditions.

The most important point, however, is that we need this bill. Although the President is not expecting a recession in his current economic forecast, the consensus of most forecasts is that there will be a recession. With inflation, high interest rates, rising energy costs, over extended consumer borrowing, upcoming major labor negotiations, balance of trade deficits, and the Fed's monetary policies all pressuring the economy, we may indeed be heading for a recession next year. I hope the consensus forecast is wrong and the President is right, but in the event there is a recession we need this standby legislation.

Having a well planned anti-recessionary plan on the books will keep us from having to enact emergency legislation when the economy demands it. Thank you for giving me this opportunity to submit comments on this important piece of proposed legislation.

With best wishes,

Cordially,

ELLA GRASSO,
Governor.

APPENDIX

Summary of Legislation To Provide Targeted Fiscal Assistance to State and Local Governments Suffering From High Unemployment

(Prepared by the Staff of the Committee on Finance)

The Antirecession Fiscal Assistance program for State and local governments was first adopted as Title II of the Public Works Unemployment Act of 1976. The program provided for the distribution of $1.25 billion from July 1, 1976 through September 30, 1977. The program was extended by the Intergovernmental Antirecession Assistance Act of 1977 through September 30, 1978. Antirecession fiscal assistance has been provided to more than 25,000 State and local governments since the program's inception. Individual recipient governments change each quarter as unemployment rates change.

The distribution formula of antirecession fiscal assistance funds is based on a jurisdiction's excess unemployment rate (unemployment over 4.5 percent) and its general revenue sharing allocation for the most recently completed entitlement period. The formula is as follows: GRS amount times excess unemployment divided by the sum of the above amounts for all similar governments times total funds for all similar governments equals allocation.

Units of government with unemployment below 4.5 percent or entitlements of less than $100 per quarter receive no distribution of funds. Units of government which receive funds must spend or appropriate such funds within six months to maintain basic services and levels of employment. These funds may be used to defray ordinary and necessary operating and maintenance expenses in a broad range of governmental expenditure categories.

Two bills have been introduced to continue targeted fiscal assistance to governments suffering from high unemployment.

S. 200—INTERGOVERNMENTAL ANTIRECESSION AND SUPPLEMENTARY FISCAL ASSISTANCE AMENDMENTS OF 1979

This bill provides for a two part program of fiscal assistance.

Assistance trigger.—When national unemployment is above 5 percent, but not in excess of 6 percent, $85 million per quarter would be distributed to local governments with unemployment of 6 percent or more.

Under a separate subtitle, when national unemployment exceeds 6 percent, funds would be distributed to State and local governments with unemployment of over 4.5 percent.

Funding.—When the average rate of national unemployment exceeds 6 percent, $125 million plus an additional $30 million for each one-tenth of one percent by which that rate of unemployment exceeds 6 percent, would be distributed quarterly. Funds would be provided for both fiscal years 1979 and 1980 under this bill.

Allocation of funds.—Under both subtitles recipient governments would receive funds based on the degree to which their unemployment rates exceed 4.5 percent. When national unemployment exceeds 6 percent, State governments would receive one-third of the total funds allocated for the applicable quarter. When the national rate of unemployment is less than 6 percent for two consecutive calendar quarters, but exceeds 5 percent, only local governments with unemployment in excess of 6 percent would receive funds based on their unemployment in excess of 4.5 percent. (In the case of certain local governments located in standard metropolitan statistical areas with higher rates of unemployment when determined on the basis of current population survey methodology used before

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January 1, 1978, such governments would be assigned the higher rate in determining their allocation.)

Consolidated payments.—In the case of those recipient governments entitled to receive less than $10,000 per quarter, a single payment would be made to that government including both its revenue sharing entitlement and its supplementary fiscal assistance entitlement.

Estimated number of recipient governments and estimated entitlements.—Under the bill approximately $375 million would be distributed to local governments for fiscal year 1979. (It is assumed for this purpose that national unemployment would not exceed 6 percent for any quarter affecting fiscal year 1979 distributions.) Approximately 9,500 units of government would receive assistance under this bill. This includes all units of government which are entitled to more than $100 per quarter. This contrasts with S. 566, the Administration proposal, which make funds available to about 1,200 units of government, with entitlements of more than $20,000 per quarter.

S. 566—INTERGOVERNMENTAL FISCAL ASSISTANCE AMENDMENTS OF 1979

This measure, introduced on behalf of the Administration, provides for a two-tier program which would distribute approximately $62.5 million per quarter in fiscal year 1979 to approximately 1,200 local governments with unemployment rates of 6.5 percent or more. Approximately $37.5 million per quarter would be distributed in fiscal year 1980 to local governments.

Assistance trigger.—The bill provides for the distribution of funds to local governments with unemployment rates of 6.5 percent or more under the targeted fiscal assistance tier. For fiscal year 1979 distributions will be based on the average unemployment rate of local governments for the six-month period, April–September, 1978. For fiscal year 1980 such distributions will be based on average unemployment rates for January–June 1979.

Under the second tier a standby fiscal assistance program would be put in place to distribute funds to State and local governments when the national rate of unemployment exceeds 6.5 percent for one calendar quarter.

Funding.—Under the first tier of the program $250 million would be distributed for fiscal year 1979 to local governments. For fiscal year 1980, $150 million would be distributed. Under the second tier of the program, should the national rate of unemployment increase to 6.5 percent, $125 million per quarter plus an additional $25 million for each one-tenth of one percent by which national unemployment exceeds 6.5 percent, would be distributed quarterly to State and local governments with quarterly unemployment rates of 5 percent or more.

Allocation of funds.—Under the first tier of this program recipient governments would receive funds based on the degree to which their unemployment rate exceeds 6.5 percent. Under the second tier, when national unemployment exceeds 6.5 percent, for one calendar quarter, funds would be distributed to State and local governments with a quarterly unemployment rate of 5 percent or more.

Minimum allocation and per capita income limitation.—Amounts would only be allocated to local governments entitled to at least $20,000 per quarter. In addition, no amount will be allocated to any local government whose per capita income level is 150 percent of the national per capita income for the most recent calendar year.

Estimated number of recipient governments.—Approximately 1,200 units of government would receive funds under the first tier of this bill. By expanding eligibility for assistance to local governments entitled to $10,000 or more per quarter, approximately 1,900 governments would be made eligible recipients.

[From the Congressional Record, Tuesday, Jan. 23, 1979]

SENATE

By Mr. DANFORTH (for himself, Mr. Williams, Mr. Moynihan, and Mr. Javits):

S. 200 A bill to amend title II of the Public Works Employment Act of 1976 to extend the antirecession provisions of that act, and to establish a supplementary antirecession fiscal assistance program for local governments suffering severe unemployment; to the Committee on Environment and Public Works.

INTERGOVERNMENTAL ANTIRECESSION AND SUPPLEMENTARY FISCAL ASSISTANCE AMENDMENTS OF 1979

Mr. DANFORTH. Mr. President, on September 23 of last year, the Senate reauthorized the countercyclical revenue sharing program after passing a series of amendments which sharply curtailed the breadth of the program but continued assistance to local governments with genuine need. In particular, the bill established standby authority for assistance to State and local governments with unemployment in excess of 6 percent whenever national unemployment exceeded 6 percent. When national unemployment dropped below 6 percent—but still was in excess of 5 percent (the situation which currently prevails—aid would have been distributed to local governments—and local governments only—with unemployment of 6 percent or higher. For each of 2 years, as much as $340 million was authorized for the program, with standby authority of $500 million, (or more, depending on the national rate of unemployment). This represented a savings of $310 million over the administration's proposal, which had sought to spread assistance among as many as 18,000 State and local governments—any and all that met the questionable criterion of distress: 4.5 percent unemployment. Sadly, the Senate's bill was never considered by the House, and the program died.

Today, together—with Senators Moynihan, Williams, and Javits I am reintroducing the Senate-passed bill, for what I hope will be early consideration and quick passage.

Let me explain why I am taking this action.

First. This bill is needed. Notwithstanding the current recovery which the Nation is enjoying as a whole, it is painfully evident that there remain cities and counties in this country in dire economic distress. These communities have seen their tax base eroded by downturns in their economies that have seriously hampered their ability to provide even basic services. We cannot ignore the needs of these communities. Failure to provide the assistance necessary for these governments to maintain a minimum level of services can only exacerbate their problems, as people who can afford to leave, leave in search of better schools and safer streets. There is no question in my mind that this bill is needed—and important.

Second. Countercyclical revenue sharing is a proven, effective method of providing assistance to distressed communities. A recent study by the Advisory Commission on Intergovernmental Relations concluded that "antirecession fiscal assistance distributes aid to State and local governments more rapidly than (CETA or local public works) and has the potential for closest coordination with swings in the national economy."

Third. Many cities with genuine need included countercyclical revenue sharing funds in their budget planning process. They had every reason to do so. The administration was supporting it; a coalition of interest groups and elected officials had worked out a compromise bill; and there was fairly broad support in the Congress for some kind of countercyclical program.

Local governments, like the Federal Government, must plan their budgets in advance. They must estimate their revenues as well as their expenses—and most of them must balance their budget. If Federal dollars are to be of any real benefit to local governments, amounts must be known far enough in advance to be incorporated into the local budget planning process.

This is not to say that Washington must spend money just because some people expect it to. But we recognize our responsibility to balance many conflicting interests in ways which create the least possible disruptions.

Fourth. The Senate should consider alternatives to the proposals reputedly being considered by the White House—proposals which are expected to recommend that assistance only go to communities with at least 7 percent unemployment. In my opinion, speaking as one who once considered similar ideas, such a dramatic change in the law would be a mistake.

First, the proposal fails to take into account the dislocation caused to communities which drop out of the program. It is one thing to exclude communities where unemployment is less than 6 percent. These communities, by and large, can take care of themselves. It is quite another to exclude communities with unemployment between 6 and 7 percent. These communities need help, and for the last 2 years they have been getting it from the Federal Government. Almost by definition, they are communities with a shortage of resources, and their ability to adjust to any loss of funds is questionable.

Second, by limiting assistance to communities with at least 7 percent unemployment, we deny assistance to those communities where Federal aid dollars may do the most good. Communities with 6 to 7 percent rates of unemployment—with modest help from the Federal Government—will probably be able to restore financial stability. The marginal benefit of the Federal aid dollar is not as high in a community with high unemployment because, plainly and simply stated, that community has farther to go. That is not to say that aid should not go to these governments. Their need is clear. But I believe we rob Peter to pay Paul when we assist only these governments at the expense of other governments in need. If we intend to arrest recessionary spirals, then we should intervene as soon as the need for assistance is clear. Recent studies indicate that a shortcoming of past antirecession efforts has been their failure to provide assistance when it could do the most good, before the country slipped into recession. By providing assistance to communities when unemployment reaches 6 percent, I believe we successfully identify a time when aid can be of most value. I do not think it is wise to require—as do proposals to limit assistance to communities with 7 percent unemployment—that conditions go from bad to worse before the Federal Government will provide help.

I look forward to early consideration of this measure.

Mr. President, I ask unanimous consent that the bill be printed in the Record.

There being no objection, the bill was ordered to be printed in the Record, as follows:

S. 200

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SEC. 1. This Act may be cited as the "Intergovernmental Antirecession and Supplementary Fiscal Assistance Amendments of 1979.".

SEC. 2. Section 201 of the Public Works Employment Act of 1976 (42 U.S.C. 6721) is amended by striking out "and" at the end of paragraph (6), by striking out the period at the end of paragraph (7) and inserting in lieu thereof "; and", and by adding at the end thereof the following new paragraph:

"(8) that both an antirecession fiscal assistance program and a supplementary antirecession fiscal assistance program which aid governments requiring fiscal relief constitute essential elements of a sound Federal fiscal policy.".

SEC. 3. The Public Works Employment Act of 1976 (42 U.S.C. 672 et seq.) is amended by inserting after section 201 the following:

"Subtitle A—Antirecession Fiscal Assistance".

SEC. 4. (a) Section 202(b) of the Public Works Employment Act of 1976 (42 U.S.C. 6722(b)) is amended—

(1) by striking out "subsections (c) and (d)" and inserting in lieu thereof "subsection (c)";

(2) by striking out "five" and inserting in lieu thereof "13";

(3) by inserting "the sum of" after "under this title";

(4) by striking out "plus" at the end of paragraph (1), and by striking out the period at the end of paragraph (2) and inserting in lieu thereof a comma and the word "and"; and

(5) by adding at the end thereof the following new paragraph:

"(3) such sums as may be necessary to carry out the provisions of section 206.".

(b) Section 202(c) of such Act (42 U.S.C. 6722(c)) is amended—

(1) by striking out "five" and inserting in lieu thereof "8"; and

(2) by striikng out "July 1, 1977" and inserting in lieu thereof "October 1, 1978".

(c) Section 202(d) of such Act (42 U.S.C. 6722(d)) is amended to read as follows:

"(d) SUSPENSION OF ASSISTANCE.—

"(1) SUSPENSION.—If the average rate of unemployment for the United States is less than 6 percent for each of 2 consecutive quarters, no amount may be paid under this subtitle for the fourth calendar quarter of the 4 calendar-quarter period which began with the first of such 2 calendar quarters, or for any subsequent calendar quarter.

"(2) TERMINATION OF SUSPENSION.—Notwithstanding paragraph (1) of this subsection, amounts may be paid under this subtitle for calendar quarters beginning after any calendar quarter for which the average rate of unemployment for the United States equals or exceeds 6 percent until such time as paragraph (1) may require another suspension of payments.".

SEC. 5. (a) Section 203(c) of the Public Works Employment Act of 1976 (42 U.S.C. 6723(e)(1)) is amended—

(1) by striking out "The Secretary" in paragraph (1) and inserting in lieu thereof the following: "Except as provided in section 206(b), the Secretary", and

(2) by redesignating paragraph (4) as (5) and inserting after paragraph (3) the following new paragraph:

"(4) STATISTICAL METHODOLOGY FOR UNEMPLOYMENT RATES.—Nothwithstanding any provision of paragraph (3) to the contrary, in the case of a unit of local government which encompasses, or is within, a standard metropolitan statistical area or central city for which current population surveys were used to determine annual unemployment rates before January 1, 1978, the Secretary of Labor shall determine or assign the unemployment rates for such government calculated by the current population survey methodology used prior to January 1, 1978. if such rates are higher than rates determined or assigned by the Secretary of Labor for that government without applying the current population survey methodology.".

(b) Section 203 of such Act (42 U.S.C. 6723) is amended by adding at the end thereof the following new subsection:

"(d) REALLOCATION OF UNDISTRIBUTED RESERVED AMOUNTS.—If, for any calendar quarter, the amount reserved under subsection (a)(1) for payments to State governments or under subsection (a)(2) for payments to local government exceeds the sum of the amounts payable to State or local governments because of the limitation contained in subsection (c)(5) or because of the suspension-of-payments requirement contained in section 210(b), then the Secretary shall reallocate the excess among State governments or local governments, as the case may be, receiving payments for the calendar quarter and pay to each such State or local government an amount which bears the same ratio to the amount of the excess as the amount of the payment made to such government for the calendar quarter without regard to this subsection bears to the sum of the payments made to all State or all local governments, as the case may be, for the calendar quarter without regard to this subsection."

SEC. 6. Section 205 of the Public Works Employment Act of 1976 (42 U.S.C. 6725) is amended by striking out paragraph (6) and by redesignating paragraphs (7) and (8) as (6) and (7). Title II of such Act is amended by striking out section 209 (42 U.S.C. 6729).

SEC. 7. Title II of the Public Works Employment Act of 1976 is amended by inserting after section 205 the following new section:

"ADJUSTMENTS FOR PAYMENTS

"SEC. 206. (a) IN GENERAL.—Payments under this subtitle and subtitle B may be made with necessary adjustments on account of overpayments or underpayments.

"(b) Changes in Methodology.—

"(1) Supplemental allocations for reductions attributable to change in methodology.—For any quarterly payment allocated pursuant to section 202, 203, 231, or 232 in which a local government's allocation would be reduced as a result of the termination of the use of current population survey data on an annual average basis to calculate the local unemployment rate as determined or assigned by the Secretary of Labor, the Secretary shall adjust the allocation made pursuant to this subtitle and subtitle B sufficiently to assure that such allocations are not less than the amount that otherwise would have been allocated to such local government under the unemployment rates calculated by the current population survey methodology used before January 1, 1978.

"(2) Lump sum supplemental payments for previous underpayment.—For any previous quarterly payment allocated pursuant to sections 202 and 203 in which a local government's allocation has been reduced as a resut of the termination of the use of current population survey data on an annual average basis to calculate the local unemployment rate as determined or assigned by the Secretary of Labor, the Secretary shall make a lump sum supplemental payment such that the total prior allocations made pursuant to this subtitle are not less than the amount that otherwise could have been allocated to such local government under the unemployment rates calculated by the current population survey methodology used before January 1, 1978.

"(3) Supplemental payments limited to units of government within standard metropolitan statistical areas and central cities.—No funds shall be made available under paragraph (1) or (2) to any unit of government which does not encompass, or is not within, a standard metropolitan statistical area or central city for which current population survey methodology was used to determine annual unemployment rates before January 1, 1978.".

SEC. 8. (a) Section 210 of the Public Works Employment Act of 1976 (42 U.S.C. 6730) is amended by striking out subsections (b) and (c), and by inserting in lieu thereof the following:

"(b) Suspension of Payments for Low Unemployment.—

"(1) Suspension.—No amount shall be paid to any State or local government under the provisions of this section for any calendar quarter if the average rate of unemployment within the jurisdiction of such State or local government during the second most recent calendar quarter which ended before the beginning of such calendar quarter did not exceed 6 percent.

"(2) TERMINATION OF SUSPENSION.—Amounts may be paid under this subtitle to any State or local government for which payments were suspended under paragraph (1) beginning with any calendar quarter following such suspension which follows a calendar quarter for which the average rate of unemployment within the jurisdiction of the State or local government exceeds 6 percent, until such time as paragraph (1) may require another suspension of payments.".

(b) Payments made under this title II of the Public Works Employment Act of 1976 for the calendar quarter beginning October 1, 1978, shall be made as soon as possible after January 1, 1979, but in no event later than March 31, 1979.

SEC. 9. Section 215 of the Public Works Employment Act of 1976 (42 U.S.C. 6735) is amended to read as follows:

"DATA PROVISION RESPONSIBILITIES

"SEC. 215. The Secretary of Labor shall provide information and other necessary data an dshall determine and assign unemployment rates necessary for the administration of this title. Such information, data, and rates shall be provided for each State and local government, and shall be made available to the Secretary to assist him in carrying out the provisions of this title. The Secretary of Labor shall also advise the Secretary as to the availability and reliability of relevant information and data.".

SEC. 10. Section 216 of the Public Works Employment Act of 1976 (42 U.S.C. 6736) is amended—

(1) by striking out "five" in subsection (a) and inserting in lieu thereof "13",

(2) by striking out "amount" in subsection (a) and inserting in lieu thereof "amounts",

(3) by striking out "section 202(b)" in subsection (a) and inserting in lieu thereof "sections 202(b) and 231(c)", and

(4) by striking out "209," in subsection (b)(3)(c).

SEC. 11. Title II of the Public Works Employment Act of 1976 is amended by inserting after section 216 the following:

"Subtitle B—Supplementary Fiscal Assistance

"FINANCIAL ASSISTANCE AUTHORIZED

"SEC. 231. (a) IN GENERAL.—Whenever the average rate of unemployment for the United States equals or exceeds 5 percent and payments under subtitle A of this title are suspended under section 202(d), the Secretary shall, in accordance with the provisions of this subtitle, make payments to local governments with unemployment rates above 6 percent.

"(b) PAYMENTS TO RECIPIENT GOVERNMENTS.—The Secretary shall pay, not later than 5 days after the beginning of each calendar quarter for which payments are authorized under subsection (a), to each local government which has filed a statement of assurances under section 205, an amount equal to the amount allocated to such government under section 232.

"(c) Authorization of Appropriations.—There are authorized to be appropriated for each of the first 8 calendar quarters beginning after September 30, 1978, $85,000,000, plus such additional amounts as may be necessary to carry out the provisions of section 206(b)(1), for the purpose of making payments to local governments under this subtitle.

"(d) Suspension of Assistance.—

"(1) Suspension.—If payments are being made under subtitle A or the average rate of unemployment for the United States is below 5 percent during a calendar quarter, no amount may be paid under this subtitle for the third calendar quarter of the 3 calendar-quarter period which begins with such calendar quarter, or for any subsequent calendar quarter.

"(2) Termination of suspension.—Amounts may be paid under this subtitle for any calendar quarter beginning after a calendar quarter for which payments are suspended under paragraph (1) and for which the average rate of unemployment for the United States equals or exceeds 5 percent but is less than 6 percent.

"ALLOCATION OF SUPPLEMENTARY AMOUNTS

"Sec. 232. (a) Allocations to Local Governments.—

"(1) In general.—The Secretary shall allocate amounts appropriated under the authorization contained in section 231(c), an amount for the purpose of making a payment to each local government, equal to the sum of—

"(A) the total amount appropriated for the calendar quarter multiplied by the applicable local government percentage, and

"(B) any supplemental allocation under section 206.

"(2) Applicable local government percentage.—For purposes of this subsection, the local government percentage is equal to the percentage resulting from the division of the product of—

"(A) the local excess unemployment percentage, multiplied by

"(B) the local revenue sharing amount, by the sum of such products for all local governments.

"(3) Special limitation.—If the amount which would be allocated for a calendar quarter to any unit of local government under this subsection is less than $100, then no amount shall be allocated for such unit of local government under this subsection for such quarter.

"(4) Supplementary antirecession fiscal assistance payment not in excess of $10,000 to be combined with general revenue sharing payment.—If the amount of any payment to be made under this subtitle to a unit of local government is not more than $10,000 for a calendar quarter, the Secretary shall combine the amount of such payment with the amount of any payment to be made to such unit under the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. 1221 et seq.), and shall make a single payment to such unit at the time payments are made under that Act. Whenver the Secretary makes a single, combined payment to a unit of local government under this paragraph, he shall notify the unit as to which portion of the payment is allocable to amounts payable under this subtitle and which portion is allocable to amounts payable under that Act.

"(b) Reallocation of Undistributed Amounts.—If, for any calendar quarter, the amount appropriated under section 231(c) for payments to local governments exceeds the sum of the amounts payable to local governments because of the limitation contained in subsection (c)(3) or because of the suspension-of-payments requirements contained in subsection (c), then the Secretary shall reallocate the excess among local governments receiving payments for the calendar quarter and pay to each such local government an amount which bears the same ratio to the amount of the excess as the amount of payment made to such government for the calendar quarter without regard to this subsection bears to the sum of the payments made to all local governments for the calendar quarter without regard to this subsection.

"(c) Suspension of payments for Low Unemployment.—

"(1) Suspension.—No amount shall be paid to any unit of local government under the provisions of this section for any calendar quarter if the average rate of unemployment within the jurisdiltion of such local government during the second most recent calendar quarter which ended before the beginning of such calendar quarter was equal to or less than 6 percent.

"(2) Termination of suspension.—Notwithstanding paragraph (1), amounts may be paid under this subtitle to any local government for which payments were suspended under paragraph (1) beginning with any calendar quarter following such suspension which follows a calendar quarter for which the average rate of unemployment within the jurisdiction of the local government exceeds 6 percent.

"(d) For purposes of this subtitle, each term used in this section which is defined or described in paragraph (3) of section 203(c) shall have the meaning given to it in that paragraph.

"APPLICATION OF CERTAIN SUBTITLE A PROVISIONS TO THIS SUBTITLE

"SEC. 233. The provisions of sections 204, 205, 206, 207, 208, 211, 212 213, 214, 215, and 216 shall apply to funds authorized under this subtitle.".

Mr. WILLIAMS. Mr. President, one of the most important items on the agenda of the 95th Congress just past was the extension of the antirecession aid program, which has enabled States and communities with substantial unemployment and budgetary problems to maintain vital public services. The authority for this program expired on September 30, 1978. Although the Senate passed legislation to extend the program, and to target its assistance on communities in the most serious financial trouble, the legislation died in the final moments of the last Congress when the House failed to endorse the Senate's action. Suddenly, all across the Nation, communities already suffering economic hardship were plunged into a fiscal crisis that is growing steadily worse. In order to focus attention on the plight of these communities and to hasten the Federal Government's response to this plight, I am pleased to join with my distinguished colleague from Missouri (Mr. DANFORTH) in sponsoring an extension of the antirecession aid program identical to that which the Senate adopted last October. The distinguished Senator deserves to be commended for his outstanding work to develop and advance this legislation. Let me also mention that my esteemed New Jersey colleague, Congressman PETER RODINO, introduced this measure on the HOUSE side yesterday with substantial bipartisan support from every area of the country.

Mr. President, the fact is that despite the Nation's overall recovery from the 1975 recession, there are numerous communities, both large and small, rural and urban, for which the recession never ended. These cities and towns have unemployment rates that still hover above 6 percent, and often range up to double that rate or more. Large cities bear a particular unemployment burden. In a recent survey of the 48-largest American cities, the U.S. Treasury Department found that at the beginning of fiscal year 1979, 32 had unemployment rates that were higher than the national average, significantly so in some instances. Newark's unemployment rate was over twice the national average. Chicago's rate was 66 percent higher, and New York's rate was 56 percent higher. Typically, years of population out-migration, along with business or industrial closings and relocations have left the economies of many localities in a crumbling condition, unable to generate the revenues necessary to meet even basic community needs.

It is true that many cities are beginning to show promising signs of economic revival. Some are experiencing a discernible influx of upper- and middle-income people, even if only a trickle at present. In some places, exciting new business and commercial development is beginning to take place, such as Detroit's "Renaissance Center," Baltimore's "Old Town Mall," or Jersey City's "Gateway" project. Flashes of sunlight are indeed appearing on the horizon, but a new day for our distressed cities is still a long time away. To believe that these localities can pull themselves overnight from the economic morass that took years to develop is pure delusion. Municipal leaders struggle on a daily basis to fend off fiscal crisis with one hand, while with the other hand they labor to build, brick by brick, the kind of foundation that will mean long-term economic stability and self-sufficiency for their communities. Theirs is a balancing act that can often succeed only if outside assistance is not prematurely terminated. With the loss of of anti-recession funds, the crisis that city officials have managed to hold at bay over the last several years is suddenly upon them, creating public service chaos in the short run and threatening the progress of economic revitalization in the months ahead.

The city of Newark, for example, which has a double digit unemployment rate, has ordered layoffs for 450 of its employees, including 200 policemen. This means that 9 percent of the city government's work force will stand in unemployment lines as a result. In Pontiac, Mich., where unemployment has ranged as high as 17 percent in the last year, fire and police departments that are already under strength face an absolute hiring freeze, as do other city departments. In addition, two of the city's five fire stations may have to close, because of the termination of antirecession aid.

According to a recent article in the National Journal, it is reported that sizeable local property tax increases would be necessary to make up for lost anitrecession assistance, assuming, of course, that such an option were available in light of the political climate and local budget cycles. Philadelphia, for example, would have to increase its tax rate by 67 cents per $100 of assessed value, while tax rates in Buffalo and St. Louis would have to increase by 50 cents, and 46 cents, respectively.

Beyond the immediate emergencies resulting from termination of the program, there are also serious implications for economic development efforts in distressed areas. The prospect of reduced public services, or higher local taxes in localities already suffering the consequences of high tax burdens, can only reinforce the reluctance of business and industry to invest in those communities.

The legislation introduced today is, I believe, a prudent and responsible means of extending the antirecession assistance program. It recognizes that some communities will continue to experience severe budgetary problems, even in time of general economic health, and it promotes the most effective allocation of scarce Federal resources by assuring assistance to the most seriously troubled communities. Equally important, it improves upon the original program's ability to expand or contract in tune with changes in the economy on the local as well as the national levels.

The administration has indicated interest in offering its own proposal to extend the antirecession aid program. I welcome the President's renewed support for the program, and look forward to working with the administration in restoring badly needed funds to high-unemployment areas.

Mr. President, it makes little sense to permit additional hardship for communities already in distress from a variety of economic ills. Extension of antirecession assistance must be a high priority for this Congress, and I am hopeful that it will receive the speedy consideration it deserves.

Mr. MOYNIHAN. Mr. President, I am pleased to join Senator Danforth in reintroducing the countercyclical revenue-sharing bill. This is the identical measure that passed the Senate last year and was described as the centerpiece of the President's urban program. But it did not reach the House floor and in the interim it has developed that the administration's commitment to aiding troubled cities is taking a back seat to its ardor for fiscal restraint. The 1980 budget just submitted would actually cut back a number of existing programs. The funds transferred to State and local governments may drop as much as $10 billion, of which cities could lose $4 to $5 billion. Indeed, as Richard P. Nathan of the Brookings Institution noted:

The heyday of the urban policy may turn out to have been the period just before the announcement of the Carter urban program.

There can be no doubt about the need for the extension of some form of countercyclical aid. We are in the 16th quarter of economic recovery from the 1974–75 recession and the national unemployment rate is under 6 percent. Yet many of our cities still show recession level unemployment rates. A few striking but not atypical examples: Atlanta 7.6 percent; Buffalo 10.1 percent; Chicago 6.8 percent; Detroit 6.7 percent; El Paso 8.1 percent; Newark 10.4 percent; Norfolk 6.6 percent; Philadelphia 9.4 percent; Wilmington 9.1 percent.

Further, despite the general economic recovery, our cities—both the older cities of the Northeast and those in the Sunbelt—have shown increasing dependence on Federal programs. A recent study published in the New York Times showed that in 1978, over 50 percent of many cities' budgets came from Federal sources. Just 2 years earlier, 30 percent was a more typical figure.

The 20 most distressed urban areas contain 10 percent of our Nation's population. Our failure to enact this program or one like it could doom these vital centers to further deterioration and decay.

The bill we are introducing today is but the first of these proposals. The administration has promised to come forward with another. Doubtless other versions will also be submitted. I intend to support all such efforts to restore and maintain programs that are so badly needed and so important to the vitality of a modern, urban society.

Mr. JAVITS. Mr. President, I am pleased to join my colleagues in support of the Intergovernmental Antirecession and Supplementary Fiscal Assistance Amendments of 1979.

This bill, which passed the Senate in the closing days of the 95th Congress, is designed to renew the countercyclical revenue sharing program that has been in operation for the last several years. The intent of the countercyclical program has been to provide financial assistance directly to State and local governments that are faced with eroding tax bases due to economic recession. With the aid they receive under the program, these governmental units are able to maintain necessary services, such as education, which they otherwise would have to curtail.

The bill introduced today provides that Federal assistance to State and local governments becomes available when the national unemployment rate rises above 6 percent. Additionally, the bill establishes a new supplemental fiscal assistance program. Geared to chronically distressed areas, it operates when national unemployment is between 5 to 6 percent by providing aid directly to communities where local unemployment is above 6 percent.

Mr. President, I believe it would be a serious mistake to permit the countercylical program to expire, which will happen unless we act favorably on this bill in the near future. Extension of countercyclical, it seems to me, is of critical importance for a number of reasons.

First, I believe countercyclical assistance is a valuable concept, and that it is important to keep it on the books, even during times of low national unemployment rates. The program permits an immediate Federal response to State and local needs when there is an economic downturn. Conversely, as the economy improves, countercyclical funds automatically wind down.

Second, countercyclical assistance has proven successful in meeting its goal of targeting funds where they are needed most, thus enabling State and local governments to avoid tax increases and job layoffs—two actions which serve to aggravate the economic situation in distressed areas.

The bill being introduced today also includes a new title not currently in the law. This title recognizes that linking assistance to the national unemployment rates may not be enough—that even in times of national prosperity, some localities will continue to suffer from high unemployment. This bill assures continued assistance to these economically distressed areas.

Finally, it is clear, however unfortunate, that the current state of the economy dictates a real need for continued Federal assistance ot State and local governments.

It is for all of these reasons that I believe the countercyclical assistance program is necessary, and I hope that committee action will be forthcoming so that we may enact a timely bill.

[From the Congressional Record, Wednesday, March 7, 1979]

SENATE

By Mr. MOYNIHAN:

S. 566. A bill to authorize a targeted fiscal assistance program for payments to local governments requiring fiscal relief, an antirecession fiscal assistance program, and for other purposes; to the Committee on Finance.

INTERGOVERNMENTAL FISCAL ASSISTANCE AMENDMENTS OF 1979

Mr. MOYNIHAN. Mr. President, I am today introducing, on behalf of the administration, the Intergovernmental Fiscal Assistance Amendments of 1979. This bill would renew the program popularly known as countercyclical revenue sharing for 2 years—fiscal 1979 and fiscal 1980. But it is important that we be clear about how this drastically revised program would work, for it is revenue sharing only insofar as it transfers certain moneys from Washington to local governments. The underlying principle is substantially different from that embodied in prior antirecessionary fiscal assistance programs. It is that the Federal Government has an ongoing responsibility to provide temporary fiscal assistance to localities plagued by high unemployment and other problems associated with economic distress so that they can maintain essential services for their residents.

This program is highly targetted on the Nation's most distressed localities as signified by local unemployment rates. It would provide them with $250 million in fiscal 1979 and $150 million in fiscal 1980. Should the national economy fall into a recession during this period, there is a second title in the bill to provide additional antirecessionary funds.

This is not the only formula that could be devised. I have already joined with Senators Danforth and Williams in introducing S. 200, which embodies the formula agreed to by the Senate last autumn. In the administration's judgment, however, this new bill provides a well targeted and reasonable level of funding for localities most in need. Almost 40 percent of the assistance would go to the 10 cities with highest strain as measured by Richard Nathan and associates at the Brookings Institution.

There will be ample opportunity to consider alternative distribution formulas and overall funding levels. But there is surely no doubt that some form of direct intergovernmental aid is needed, and I intend to fight vigorously for its enactment.

I ask unanimous consent that the text of the bill be printed in the Record.

There being no objection, the bill was ordered to be printed in the Record, as follows:

S. 566

Be it enacted by the Senate and House of Representatives of the United States of America in Congress Assembled,

SECTION 1. This Act may be cited as the "Intergovernmental Fiscal Assistance Amendments of 1979".

SEC. 2. Section 201 of the Public Works Employment Act of 1976 (42 U.S.C. 6721) is amended by striking out paragraphs (3), (5) and (6), by redesignating paragraphs (4) and (7) as (3) and (4), respectively, by striking out the period at the end of new paragraph (4) and inserting a semi-colon in lieu thereof, and by adding the following new paragraphs:

"(5) that both a highly targeted, transitional fiscal assistance program which aids governments requiring fiscal relief, and a program of fiscal assistance to provide insurance against a future recession, constitute essential elements of a sound Federal fiscal policy;

"(6) that many local governments continue to experience high unemployment and fiscal strain, and have been adversely affected by the loss of antirecession fiscal assistance which has resulted in service cutbacks, increased taxes, municipal layoffs or sale of municipal assets; and

"(7) that highly targeted fiscal assistance which aids those jurisdictions requiring transitional fiscal relief and provides necessary time to take steps toward the fiscal stabilization of these governments would be least disruptive of employment or service levels."

SEC. 3. The Public Works Employment Act of 1976 (42 U.S.C. 6721 et seq.) is amended by inserting after section 201 the following:

"Subtitle A—Targeted Fiscal Assistance"

SEC. 4. Section 202 of the Public Works Employment Act of 1976 (42 U.S.C. 6722) is amended to read as follows:

"FISCAL ASSISTANCE AUTHORIZED

"SEC. 202. (a) PAYMENTS TO LOCAL GOVERNMENTS.—The Secretary of the Treasury (hereafter in this title referred to as the 'Secretary') shall, in accordance with the provisions of this subtitle, make annual payments for the fiscal years beginning October 1, 1978 and October 1, 1979 to local governments with local unemployment rates equal to or in excess of 6.5 percent.

"(b) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated for the purpose of making payments under this subtitle, the sum of $250,000,000 for the fiscal year beginning October 1, 1978, and the sum of $150,000,000 for the fiscal year beginning October 1, 1979."

SEC. 5. Section 203 of the Public Works Employment Act of 1976 (42 U.S.C. 6723) is amended to read as follows:

"ALLOCATION

"SEC. 203. (a) IN GENERAL.—The Secretary shall allocate from amounts authorized to be appropriated under section 202 for each appropriate fiscal year an amount to each local government with a local unemployment rate equal to or in excess of 6.5 percent, subject to the provisions of subsections (d) and (e), equal to the amount authorized for such year, less the amount allocable under section 216(b)(1)(A), multiplied by the applicable local government percentage.

"(b) APPLICABLE LOCAL GOVERNMENT PERCENTAGE.—For purposes of this section, the applicable local government percentage is equal to the quotient resulting from the division of the product of—

(1) the local excess unemployment percentage, multiplied by

(2) the local revenue sharing amount, by the sum of such products for all local governments.

"(c) DEFINITIONS.—For purposes of this subtitle—

"(1) the local excess unemployment percentage is equal to the difference resulting from the subtraction of 4.5 percent from the local unemployment rate, but shall not be less than zero;

"(2) the local unemployment rate—

"(A) for the fiscal year beginning October 1, 1978, is equal to the rate of unemployment in the jurisdiction of the local government for the six-month period which includes the two consecutive calendar quarters ending September 30, 1978, as determined or assigned by the Secretary of Labor and reported to the Secretary;

"(B) for the fiscal year beginning October 1, 1979, is equal to the rate of unemployment in the jurisdiction of the local government for the six-month period which includes the two consecutive calendar quarters ending June 30, 1979, as determined or assigned by the Secretary of Labor and reported to the Secretary;

"(C) Notwithstanding any provision of paragraphs (A) and (B) to the contrary, in the case of a local government which encompasses, or is within, a standard metropolitan statistical area or central city for which current population surveys were used to determine annual unemployment rates before January 1, 1978, the Secretary of Labor, for the purposes of this subtitle, shall determine or assign the unemployment rates for such government calculated by the current population survey methodology used prior to January 1, 1978, if such rates are higher than rates determined or assigned by the Secretary of Labor for that government for the appropriate six-month periods without applying the current population survey methodology.

"(3) the local revenue sharing amount is the amount determined under section 108 of the State and Local Fiscal Assistance Act of 1972, as amended, for the most recently completed entitlement period, as defined under section 141(b) of such Act; and

"(4) the term 'local government' means the government of a county, municipality, township, or other unit of government below the State which—

"(i) is a unit of general government (determined on the basis of the same principles as are used by the Bureau of the Census for general statistical purposes), and

"(ii) performs substantial governmental functions. Such term includes the District of Columbia and also includes the recognized governing body of an Indian tribe or Alaskan Native Village which performs substantial governmental functions. Such term does not include the government of a township area unless such government performs substantial governmental functions.

"(d) MINIMUM ALLOCATION.—If the amount which would be allocated to any local government under this subtitle is less than $20,000, no amount shall be allocated for such government under this subtitle.

"(e) PER CAPITA INCOME LIMITATION.—

"(1) IN GENERAL.—Except as provided in paragraph (2), no amount shall be allocated under this title to any local government which had within its jurisdiction a per capital income equal to or in excess of 150 percent of the national per capita income for the most recently completed calendar year for which data are available, as determined by the Bureau of the Census for general statistical purposes and reported to the Secretary.

"(2) NONCONTIGUOUS STATE ADJUSTMENT.—The percentage of the national per capita income used to limit allocations in paragraph (1) shall, for local governments in the States of Alaska and Hawaii, be increased by the average State percentage of basic pay which civilian employees of the United States Government receive as an allowance under section 5941 of title 5, United States Code. Such average State percentage shall be determined for the most recently completed calendar year for which data are available based on data provided by the Office of Personnel Management and reported to the Secretary.

"(f) REALLOCATION OF UNDISTRIBUTED AMOUNTS.—If the amount authorized to be appropriated for any fiscal year under this subtitle exceeds the sum of the amounts payable to local and territorial governments because of the provisions of subsection (d) and (e), the Secretary shall reallocate the excess among local governments receiving payments for the appropriate fiscal year, and pay to each such local government an amount which bears the same ratio to the amount of the excesss as the amount of the payment made to such government for the fiscal year without regard to this subsection bears to the sum of the payments made to all local governments for the fiscal year without regard to this subsection."

SEC. 6. Section 205 of the Public Works Employment Act of 1976 (42 U.S.C. 6725) is amended by striking out paragraph (6) and by redesignating paragraphs (7) and (8) as (6) and (7)), respectively. Title II of such Act is amended by striking out section 209 (42 U.S.C. 6729).

SEC. 7. Title II of the Public Works Employment Act of 1976 is amended by inserting after section 205 the following new section:

"ADJUSTMENTS FOR PAYMENTS"

"SEC. 206. Payments under this subtitle may be made with necessary adjustments on account of overpayments or underpayments."

SEC. 8. Section 210 of the Public Works Employment Act of 1976 (42 U.S.C. 6730) is amended to read as follows:

"PAYMENTS

"SEC. 210. From the amounts allocated for local and territorial governments under sections 203 and 216, the Secretary shall pay to each such government that has filed a statement of assurances pursuant to section 205, an amount equal to the amount allocated to such government under section 203 or 216. Payments under this subtitle for the fiscal year beginning October 1, 1978 shall be made as soon as practical, but not later than 60 days after the effective date of this Act, and payments under this subtitle for the fiscal year beginning Ocober 1, 1979 shall be made within the first 5 days of such fiscal year."

SEC. 9. Section 215 of the Public Works Employment Act of 1976 (42 U.S.C. 6735) is amended to read as follows:

"DATA PROVISION RESPONSIBILITIES

"SEC. 215. The Secretary of Labor shall provide information and other necessary data and shall determine or assign unemployment rates necessary for the administration of this title. Such information, data, and rates shall be provided for each State and local government, and shall be made available to the Secretary to assist him in carrying out the provisions of this title. The Secretary of Labor shall also advise the Secretary as to the availability and reliability of relevant information and data. The Director of the Bureau of the Census and the Director of the Office of Personnel Management shall provide such information and other data as necessary for the administration of this title, and shall advise the Secretary as to the availability and reliability of relevant information and data."

SEC. 10. Section 216 of the Public Works Employment Act of 1976 (42 U.S.C. 6736) is amended as follows:

(a) The title of the section is amended to read:

"ALLOCATIONS TO PUERTO RICO, GUAM, AMERICAN SAMOA, AND THE VIRGIN ISLANDS."

(b) Subsection (a) is amended to read as follows:

"(a) IN GENERAL.—The Secretary shall make payments under this title to the governments of the Commonwealth of Puerto Rico, Guam, American Samoa and the Virgin Islands."

(c) Paragraph (1) of subsection (b) is amended to read as follows:

"(1)(A) The Secretary shall allocate from the amounts authorized under section 202 an amount under this subtitle to such governments equal to one-half of one percent of such amounts for the appropriate fiscal year, as determined by the Secretary, multiplied by the applicable territorial percentage.

"(B) The Secretary shall allocate from the amounts authorized under section 231 an amount under subtitle B, subject to section 232(c)(1)(B), to such governments equal to one percent of such amounts for the appropriate calendar quarter, as determined by the Secretary, multiplied by the applicable territorial percentage."

(d) Section 216(b)(3)(C) is amended by striking out "203(c)(4)," "209," and "and" and by inserting ", 231(b), and 232(c)(1)(B)" after "213".

SEC. 11. Title II of the Public Works Employment Act of 1976 is amended by inserting after section 216 the following:

"Subtitle B—Antirecession Fiscal Assistance

"FINANCIAL ASSISTANCE AUTHORIZED

"SEC. 231. (a) IN GENERAL.—When the seasonally adjusted national rate of unemployment for the United States equal or exceeds 6.5 percent for a calendar quarter, the Secretary shall, in accordance with the provisions of this subtitle, make payments to State, territorial and local governments to State, territorial and local governments eligible under this subtitle. Such payments shall begin with the calendar quarter that is the third in a 3-calendar quarter period commencing with such calendar quarter during which unemployment equalled or exceeded 6.5 percent. Such payments shall continue until suspended pursuant to subsection (e).

"(b) PAYMENTS TO RECIPIENT GOVERNMENTS.—The Secretary shall pay, not later than 5 days after the beginning of each calendar quarter for which payments are authorized under subsection (a), to each eligible State, territorial and local government that filed a statement of assurances pursuant to section 205, an amount equal to the amount allocated to such government under section 232 or 216.

"(c) AUTHORIZATION OF APPROPRIATIONS.—Subject to the provisions of subsections (d) and (e), there are authorized to be appropriated for the purpose of making payments under this subtitle during each of the seven succeeding calendar quarters beginning after December 31, 1978, the sum of $125,000,000, plus $25,000,000 multiplied by the number of whole one-tenth percentage points by which the seasonally adjusted rate of national unemployment for the calendar quarter which ended three months before the beginning of such quarter exceeded 6.5 percent.

"(d) LIMITATION ON AUTHORIZATION.—In no case shall the aggregate amount authorized to be appropriated for payments under this subtitle for any fiscal year exceed $1,000,000,000.

"(e) SUSPENSION OF ASSISTANCE.—When the seasonally adjusted rate of national unemployment is below 6.5 percent for a calendar quarter, no amounts shall be paid under this subtitle to any State, local or territorial government for the third calendar quarter of the 3 calendar-quarter period which began with such calendar quarter in which the rate of national unemployment was below 6.5 percent.

"ALLOCATION OF ANTIRECESSION FISCAL ASSISTANCE

"SEC. 232. (a) RESERVATIONS.—The Secretary shall reserve one percent of the amounts appropriated under section 231 for purposes of making payments pursuant to section 216. From the amount remaining after such reservation, the Secretary shall reserve one-third for the purpose of making payments to eligible State governments under subsection (b), and two-thirds for the purpose of making payments to eligible local governments under subsection (c).

"(b) STATE ALLOCATION.—

"(1) IN GENERAL.—For calendar quarters in which payments are authorized under section 231, the Secretary shall allocate from amounts reserved under subsection (a), for the purpose of making payments to each State with an unemployment rate equal to or in excess of 5 percent, an amount equal to the total amount reserved for State governments for the calendar quarter, multiplied by the applicable State percentage.

"(2) APPLICABLE STATE PERCENTAGE.—For purposes of this subsection, the applicable State percentage is equal to the quotient resulting from the division of the product of—

"(A) the State excess unemployment percentage, multiplied by

"(B) the State revenue sharing amount, by the sum of such products for all the States.

"(3) DEFINITIONS.—For purposes of this subtitle—

"(A) the term 'State' means each State of the United States;

"(B) the State excess unemployment percentage is equal to the difference resulting from the subtraction of 4.5 percentage points from the State unemployment rate for that State, but shall not be less than zero;

"(C) the State unemployment rate is equal to the rate of unemployment in the State during the appropriate calendar quarter, as determined by the Secretary of Labor and reported to the Secretary; and

"(D) the State revenue sharing amount is the amount determined under section 107 of the State and Local Fiscal Assistance Act of 1972, as amended, for the most recently completed entitlement period, as defined under section 141(b) of such Act.

"(c) LOCAL GOVERNMENT ALLOCATION.—

"(1) IN GENERAL.—(A) For calendar quarters in which payments are authorized under section 231, the Secretary shall allocate from amounts reserved under subsection (a), to each local government with a local unemployment rate equal to or in excess of 5 percent, an amount, subject to paragraph (B), equal to the sum of the total amount reserved for local governments for the calendar quarter, multiplied by the applicable local government percentage.

"(B) The amount allocated to a local or territorial government under this subtitle for any calendar quarter shall be limited to the amount by which the sum of the allocations to such government under this subtitle for the fiscal year in which such quarter occurs exceeds the amount allocated to such government under subtitle A for such fiscal year.

"(2) APPLICABLE LOCAL GOVERNMENT PERCENTAGE.—For purposes of this subsection, the applicable local government percentage is equal to the percentage resulting from the division of the product of—

"(A) the local excess unemployment percentage, multiplied by

"(B) the local revenue sharing amount, by the sum of such products for all local governments.

"(3) DEFINITIONS.—For purposes of this subtitle, each term used in this section which is defined or described in section 203(c) shall have the meaning given to it in that section, except that section 203(c)(2) shall not apply, and the term 'local unemployment rate' means the rate of unemployment in the jurisdiction of the local government during the appropriate calendar quarter, as determined or assigned by the Secretary of Labor and reported to the Secretary, *Provided however*, That in the case of a local government which encompasses, or is within, a standard metropolitan statistical area or cenrtal city for which current population surveys were used to determine annual unemployment rates before January 1, 1978, the Secretary of Labor, for the purposes of this subtitle, shall determine or assign the unemployment rates for such government calculated by the current population survey methodology used prior to January 1, 1978, if such rates are higher than rates determined or assigned by the Secretary of Labor for that government for the appropriate calendar quarter without applying the current population survey methodology.

"(4) MINIMUM ALLOCATION.—If the amount which would be allocated for a calendar quarter to a local government under this section is less than $5,000, no amount shall be allocated to such government for such quarter.

"(d) REALLOCATION OF UNDISTRIBUTED AMOUNTS.—If for any calendar quarter, the amount appropriated under section 231 for payments to State, local or territorial governments exceeds the sum of the amount payable to such governments because of the provisions of subsection (c)(4) or section 203(e), the Secretary shall reallocate the excess among such State and local governments receiving payments for the calendar quarter, and pay to each such government an amount which bears the same ratio to the amount of the excess as the amount of the payment made to such government for the calendar quarter without regard to this subsection bears to the sum of the payments made to all such governments for the calendar quarter without regard to this subsection.

"APPLICATION OF CERTAIN SUBTITLE A PROVISIONS TO THIS SUBTITLE

"SEC. 233. The provisions of section 203(e), 204, 205, 206, 207, 208, 211, 212, 213, 214, and 215 shall apply to funds authorized under this subtitle."