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# A SHIFT IN MILITARY SPENDING

## TO AMERICA'S CITIES

What It Means to Four Cities  
and the Nation

A Report for  
The United States Conference of Mayors  
Prepared By  
Employment Research Associates  
1988

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Employment Research Associates is an independent, non-profit economic consulting firm which specializes in analyzing the impact of government policies on the U.S. economy. Over 600,000 copies of its publications have been sold since its founding in 1978.





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October 6, 1988

At the 55th Annual Conference of Mayors, held June 13-17, 1987 in Nashville, mayoral delegates resolved to examine what could happen to the economy of the nation, and the economies of individual cities, if federal spending were to change and a share of current military funding were to shift to urban programs.

In the language of the resolution adopted in the Nashville meeting:

"The U. S. Conference of Mayors pledges its own examination of the economic and employment impacts including the impact on individual cities, if national priorities are realigned to increase spending on urban programs and decrease spending for military purposes."

In the same resolution, the mayors formally called upon the Congress and the Administration "to redress the imbalance between military spending and important domestic spending, consistent with national security," and "to ensure that reduced military spending is accompanied by special assistance to those communities with militarily dependent economies."

This report is the product of that resolution; it contains the results of a careful analysis of the impacts of such spending shifts on the nation as a whole and on four diverse cities: Austin, Chicago, Irvine and Trenton.

The months ahead are of critical importance for our nation. New national leadership will be charting a new national course. We commend this study to the next President of the United States. We ask that those who will lead the next Administration, together with the Congress, give serious consideration to what this study has shown.

*Arthur J. Holland*





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## EXECUTIVE SUMMARY

Between 1981 and 1988, critical urban grant-in-aid programs suffered cumulative spending cuts totalling almost \$60 billion.\* By contrast, during these years, the annual increases in military spending reached a cumulative total of \$328 billion.\*\*

As federal spending for grants-in-aid for education, public health, housing and other critical programs were cut, America's cities experienced mounting social problems. Recognizing this, The U.S. Conference of Mayors resolved to study how a realignment of federal budget priorities could provide the resources required to meet cities' urgent needs.

At its annual meeting in June 1987, The U.S. Conference of Mayors unanimously passed a resolution to study both the economic impact of transferring money back from the military budget to urban programs, and the benefits which urban grants-in-aid provide to our citizens and cities. The mayors wanted to examine the effects on the U.S. as a whole and on four diverse cities.

The resolution stated: "The U.S. Conference of Mayors pledges its own examination of the economic and employment impacts, including the impact on individual cities if national priorities are realigned to increase spending on urban programs and decrease spending for military purposes," (see Appendix A). The Conference then contracted with Employment Research Associates, an independent economic consulting firm based in Lansing, Michigan, to do the study.

This report analyzes the economic impact of transferring \$30 billion of outlays per year over the 1986-1990 period from the Department of Defense budget to key urban programs. The grant-in-aid programs selected for this study were in the areas of education, public health, social services, employment and training, mass transit, and housing and community development.

The \$30 billion shifted out of Department of Defense spending constitutes 11.6% of the

\* See page 5 for the list of urban grant-in-aid programs in this study.

\*\* These figures are measured in 1982, inflation adjusted dollars.

\$283 billion military budget (in current dollars) over the 1986-1990 period. Even with this cut, the annual military budget would average \$41 billion higher in real terms than it was in 1981.

Two high officials of the Reagan Administration have commented on the extent of the waste in the Department of Defense budget. In 1981, David Stockman, former Director of the Office of Management and Budget, stated "There's a kind of swamp of \$10 to \$20 to \$30 billion worth of waste that can be ferreted out." In a 1988 review of the procurement process, Robert Costello, Director of Procurement for the Pentagon, noted that 30% of the Pentagon's \$150 billion procurement budget is squandered on misguided quality control and make-work exercises.

The study found that nationally, a five-year shift of \$150 billion from the military budget to urban programs yields a positive net economic effect. The Gross National Product rises by an annual average of \$3.5 billion. Personal disposable income increases \$2.2 billion annually. Fixed private investment in residential and non-residential construction and plant and equipment goes up \$550 million on average each year. In addition, as a result of the rise in personal income, federal, state and local tax revenues increase by \$500 million annually (in 1982 dollars).

Job creation is higher under this alternative budget. An annual average of 197,500 more jobs are generated with this spending on urban programs rather than military programs. This is partly because most urban spending is domestic, whereas some of the military spending inevitably goes abroad to pay and supply troops stationed overseas. Also, an increasing amount of foreign high-tech components are being imported by American military contractors. By contrast, when a city hires a teacher or employs construction workers to build public housing, those jobs remain in the city.

There is a net gain of 6,600 jobs, on average, for every \$1 billion shifted from military spending to these urban programs.

Virtually every major category of employment, with the exception of the durable goods industries, shows a net gain in jobs: non-durable goods; construction; transportation; pub-

lic utilities; finance, insurance and real estate; wholesale and retail trade and services.

In concrete terms, the public expenditures for public goods and services can mean a substantial improvement in the basic services and public infrastructure needed by the 75% of our population who live in urban areas. For this mix of urban grant-in-aid programs, the increase of \$30 billion per year could mean approximately:

- 195,000 more teachers hired;
- \$606,000,000 worth of school books, computers and equipment purchased annually;
- 490,000 additional children in Head Start;
- 900,000 public housing units brought up to federal standards;
- \$2,200,000,000 for new buses, rail cars, and mass transit facilities;
- 6,500,000 additional people cared for at community and migrant health clinics;
- Increased AIDS treatment and education;
- Full immunization against childhood diseases made available for all children;
- 1,300,000 more people enrolled in adult and youth job training programs annually;
- 2,300,000 more senior citizens served meals at home each year; and
- 3,000,000 more visits to the elderly by volunteers.

## The Impact on The Four Cities

Four cities were selected for case studies of the local impacts of this change in federal priorities: Chicago, Illinois; Trenton, New Jersey; Austin, Texas; and Irvine, California.

These cities were selected because they are geographically representative, and because they reflect the needs of cities of different sizes with diverse industrial and economic bases. Trenton represents the nation's older established Northeastern cities, Chicago represents the Midwestern industrial heartland, Austin reflects an economically diverse Southwestern city, and Irvine represents the newer Western high-tech oriented cities. These cities also represent a balance of two militarily dependent cities, Irvine and Austin, and two cities with little military contracting and pay, Chicago and Trenton.

The \$30 billion annual change in federal budget priorities has a diverse impact on the four cities studied, reflecting their varying degrees of dependence on military contracting and pay, and the extent to which each city participates in these federal urban programs. The economic impact on each city also depends on its size, the composition of its industrial base, its local government policies, and its public service infrastructure.

Of the four cities analyzed, Chicago shows a substantial gain in its Gross Regional Product and a net gain of 20,020 jobs. Austin has a modest increase in its Gross Regional Product and a net gain of 380 jobs. Trenton has an

**Impact of \$30 Billion Shift From Military Spending to Urban Grant-In-Aid Spending**  
1986-1990 Annual Average  
(All dollar amounts are in 1982 dollars)

	Net Impact On Gross Regional Product	Net Impact On Personal Income	Net Impact On Private Fixed Investment
Chicago	+ \$585,700,000	+ \$423,900,000	+ \$55,200,000
Austin	+ \$ 5,100,000	+ \$ 6,000,000	- \$ 2,100,000
Trenton	+ \$ 2,400,000	+ \$ 1,300,000	+ \$ 112,000
Irvine	- \$ 6,300,000	- \$ 2,100,000	- \$ 1,900,000

increase in its Gross Regional Product and a net gain of 95 jobs. Irvine, which is located in Orange County, a very militarily dependent region, has a loss in economic activity, and a net loss of 72 jobs.

When these results are analyzed within the broader context of the county in which the individual city is located, the results show that Chicago has a clear net gain, Austin and Trenton are basically break-even, and Irvine has a net loss in economic activity.

The table on page 2 summarizes the impact of the \$30 billion annual budget shift from 1986-1990 upon these four cities.

**All of the cities studied gain in their capacity to provide critical goods and services for their citizens. These services range from education to public health, from care for young children to services for the elderly, from building low cost housing to improving mass transit facilities.**

### **Impact on Public Goods and Services**

Low-income housing is one of the most serious needs of cities. Nationally, almost \$3 billion annually would go for construction and rehabilitation. To use two examples from the study's findings, Trenton would be able to rehabilitate 1,200 housing units and Chicago could rehabilitate 17,000 units, thus allowing 63,000 more people to have homes in public housing.

Nationally, over \$11.8 billion extra would be spent on primary and secondary education to keep our country from being "a nation at risk" as the Department of Education's 1983 study warned. In Austin alone, a city of about 551,000 people, this increased funding would mean over 500 new teachers, teacher's aides, and other personnel for their school systems. In Chicago, 2,270 new teachers could be hired and \$31,000,000 a year spent for new school books, computers, equipment and furniture.

The AIDS epidemic and drug abuse have brought the problems of public health to the attention of most Americans. An extra \$2 billion annually would be available nationally for public health care grants. The University of California at Irvine could receive almost \$2.5 million to research preventive health care for AIDS, as well as alcohol and drug abuse. Trenton, a city

of 92,000, would get an additional \$391,000 for health services every year, and in Chicago, 40,000 more children could be vaccinated against childhood diseases every month.

Increasing traffic congestion and air pollution have made apparent the need for more urban mass transit funding and planning. Under this alternative budget, \$3.1 billion per year would be made available for mass transit grants nationally. This would enable Irvine to expand its innovative Multi-Modal Transportation Center, which provides a terminal for bus, car pool and rail transit. Chicago would be able to purchase 500 new buses and 190 rail cars to bring its transit system closer to the service levels which the city wants to be able to provide for its citizens.

More employment and training is critical for Americans who have lost jobs due to factory closings or who need specialized instruction to help them find and keep jobs in today's complex labor market. In Trenton alone, almost 700 more adults could be enrolled in the Job Training and Partnership Act program. Austin would be able to add 2,600 additional people to its highly successful Job Training Program.

Social services would receive about \$5 billion annually for the nation. In Chicago, the study found, for instance, that 112,500 more people could be served with a wide variety of programs for youth and family counseling, the prevention of child abuse and family violence. Austin would be able to provide its elderly with 20,000 more hours of house cleaning and homemaking services.

**The central finding of this study is that transferring \$30 billion per year from the military budget into urban programs can make a sustained contribution to a higher quality of life in American cities. It can mean that the nation's children are better educated, the public health system is improved, the elderly are given better care, more housing is provided for the poor, and city life is made less stressful and less polluted.**

**A welcome collateral benefit of these new budget priorities would be more jobs, more investment, more tax revenues, and a higher GNP for the nation.**

## INTRODUCTION

Employment Research Associates had to determine the economic impact on the nation and the four cities of increasing urban grant-in-aid programs by \$30 billion annually from 1986-1990. Then the economic impacts on the nation and the four cities of reducing military spending by \$30 billion annually were determined.

The next task was to assess how much new funding would go to each of these key urban programs for the U.S. and for the four cities studied, and how this new spending would increase critical public goods and services.

The urban grant programs modeled in this study were selected by The U.S. Conference of Mayors because they meet critical needs. For each year, the \$30 billion is distributed among federal grants-in-aid to state and local programs for: primary and secondary education, urban mass transit, housing and community development, employment and training, and social and public health services. The new funds are distributed to each grant program based on their current funding as a percentage of the total urban grants included in this study (see Appendix B).

The funding for each detailed program area was analyzed to determine how much would be available nationwide, and how much would go to Trenton, Chicago, Austin and Irvine with this transfer of \$30 billion per year.

After the amount of new money going to each program area was estimated, the mayor of each city was given a questionnaire. The staff and department heads specified how they wanted the new funds to be spent: how much would go for plant and equipment, construction, pay raises, and hiring new personnel. The responses to these questionnaires allowed Employment Research Associates to determine which industries would be affected by the increases in demand.

In order to analyze the economic impacts of the military budget cuts, all programs were reduced by the appropriate percentage each year, which averaged 11.6%. All DOD purchases were decreased by 11.6%. Military personnel,

both uniformed and non-uniformed, were decreased 11.6%. A detailed analysis was done of military contracts and payroll in the U.S. and the four cities studied in order that the appropriate changes in military expenditures could be made for the U.S. and for each city.

After the changes in demand had been developed, Employment Research Associates estimated the economic impacts by using a highly regarded model of the economy developed by Regional Economic Models, Inc. (REMI) of Amherst, Massachusetts.

A primary purpose of this kind of model is to show as accurately and clearly as possible what the impact is on the U.S. and individual cities and counties when an economic policy change takes place. This model shows a wide ranging set of economic impacts including the "direct", indirect and induced employment changes by industry, income changes, changes in wage rates, changes in investment and in the GNP (and the Gross Regional Product) when demand is increased or decreased.

The economic effects of this \$30 billion annual shift in federal budget priorities are based on two computer simulations used to compare the national impacts of reducing the military budget with the impacts of increased spending on selected urban programs.

The first simulation estimated the national effects of reducing annual military expenditures by \$30 billion from 1986-1990. The second simulation estimated the national impacts of increasing specific categories of federal grants-in-aid to state and local governments by \$30 billion per year from 1986-1990. The net impacts compare the losses in economic activity estimated by the simulated reductions in military contracts and payrolls with the gains in economic activity estimated by the simulation of

\* The "direct" effects show, for example, how many construction workers and other people would be hired if more money were spent on public housing. The "indirect" effect measures the changes in other industries when, for example, the construction contractor buys machinery and other goods. The "induced" effect shows what happens when all the newly hired people spend their additional income on more goods and services.

increased spending on urban programs.

The same basic procedure was followed to estimate the impact on the cities (see Methodology in Appendix C for details). Using this model we were able to show, for instance, how much a \$10 million increase in housing construction in Chicago, would affect employment, income and investment in the city. The model also shows the employment effects in the industries that supply the construction industry and the additional jobs created when the workers go out and spend their wages.

The net economic impact of cutting the military budget by \$30 billion per year, and raising urban programs \$30 billion annually was thus calculated for the United States and for Chicago, Trenton, Austin, and Irvine.

**The social benefits from the increased funding of urban grants-in-aid were determined through a detailed questionnaire and follow-up survey to translate the new funds into concrete public services.**

The mayors of each city and their depart-

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## Programs Included In This Study Which Receive New Funds

### **Housing and Community Development Grants: \$5 Billion per Year**

- Community Development Block Grants
- Rental Housing Development
- Rental Housing Rehabilitation Grants
- Urban Development Action Grants
- Economic Development Assistance Grants

### **Urban Mass Transit Grants: \$3.1 Billion per Year**

- Mass Transportation Capital Improvement Grants
- Operating Assistance Grants
- Managerial and Training Grants
- Technical Assistance Grants

### **Primary and Secondary Education Grants: \$11.8 Billion per Year**

- Handicapped, Rehabilitation and Special Education Programs
- Vocational and Adult Education
- Compensatory Education Programs and Block Grants
- Impact Aid
- Magnet Schools
- Title IV Civil Rights Grants
- Title 2 Math, Science, Foreign Languages and Computer Learning Grants
- Bilingual Education
- Immigrant Refugee Education Grants and Emergency Aid

### **Employment and Training: \$3.1 Billion per Year**

- Job Training Partnership Act
- Aid for Dislocated Workers
- Senior Community Service Employment Migrant Workers Grants
- Employment and Training R&D and Demonstration Grants
- Work Incentive Programs

### **Social and Community Service Grants: \$4.9 Billion per Year**

- Social Service Block Grants
- Community Service Block Grants
- Title III Special Programs for the Aging
- Head Start

### **Public Health Grants: \$2 Billion per Year**

- Community Health Centers
- Alcohol and Drug Abuse and Mental Health Block Grants
- Area Alcohol Rehabilitation Grants
- Preventive Health Care Block Grants
- Mental Health Clinical Grants
- Family Planning Grants
- Tuberculosis Control Project Grants
- AIDS Program Grants
- Maternal and Child Health Care Block Grants.

ment heads and staffs provided detailed answers to questionnaires on how the new funding for each program would be spent (see Appendix C). Expenditures varied from city to city depending on the public priorities of each city.

The programs listed on the previous page are those which would receive the new funding under this \$30 billion transfer from the military. The three broad groupings of grants-in-aid include urban infrastructural investments, human resource development, and social and public health block grants.

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## PART I. THE NEED FOR A RENEWED FEDERAL COMMITMENT TO U.S. CITIES

Federal budget priorities have changed substantially between 1981 and 1988. During this period, the federal urban grant-in-aid programs examined in this report have suffered severe cuts, cumulatively amounting to \$59.3 billion in 1982 dollars. Meanwhile, Department of Defense outlays have risen above 1981 levels by a cumulative amount of \$328.4 billion in 1982 dollars.\*

As a result of these changes in budget priorities, federal grants-in-aid to state and local

government as a percent of total federal spending have fallen from 14% in 1981 to 11% in 1988.<sup>1</sup> Between 1981 and 1988, these cuts for all types of grants-in-aid to state and local governments amounted to a cumulative reduction of \$62.9 billion, after adjusting for inflation. While grant payments to individuals, such as Medicaid and family support payments, have increased cumulatively in real terms by \$29.2 billion between 1981 and 1988, all other grants-in-aid have decreased cumulatively by \$92.1 billion over the same period. Reductions in the grant programs examined in this study have cumulatively amounted to \$59.3 billion during this period.<sup>2</sup>

The magnitude of these cuts placed an enormous financial strain on the individual state governments as they sought to compensate for the loss of these funds. In 1983, the first fiscal year in which the states had to cope with the full impact of federal cuts, 38 states raised their taxes through a mixture of measures that increased taxes on sales, personal income, and corporate profits, as well as through higher user charges. These additional revenues helped state governments to increase their own grants-in-aid to local governments in order to

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\* Throughout this section all figures are reported in 1982 dollars.

**Table 1**  
**Cumulative Cuts in Federal Urban Grants-In-Aid**  
**1981-1988**  
(Measured in 1982 Constant Dollars)

Primary and Secondary Education	-\$ 7.7 Billion
Employment and Training	-\$ 26.8 Billion
Housing and Community Development	-\$ 9.2 Billion
Urban Mass Transit	-\$ 8.4 Billion
Public Health	-\$ 4.5 Billion
Social and Community Service Block Grants	-\$ 2.7 Billion
<b>TOTAL</b>	<b>-\$ 59.3 Billion</b>



partly offset the federal cutbacks. By 1986, however, total federal and state grants-in-aid to local governments were still below 1980 levels, with the cumulative declines in total grants-in-aid amounting to \$43 billion between 1980 and 1986.<sup>3</sup>

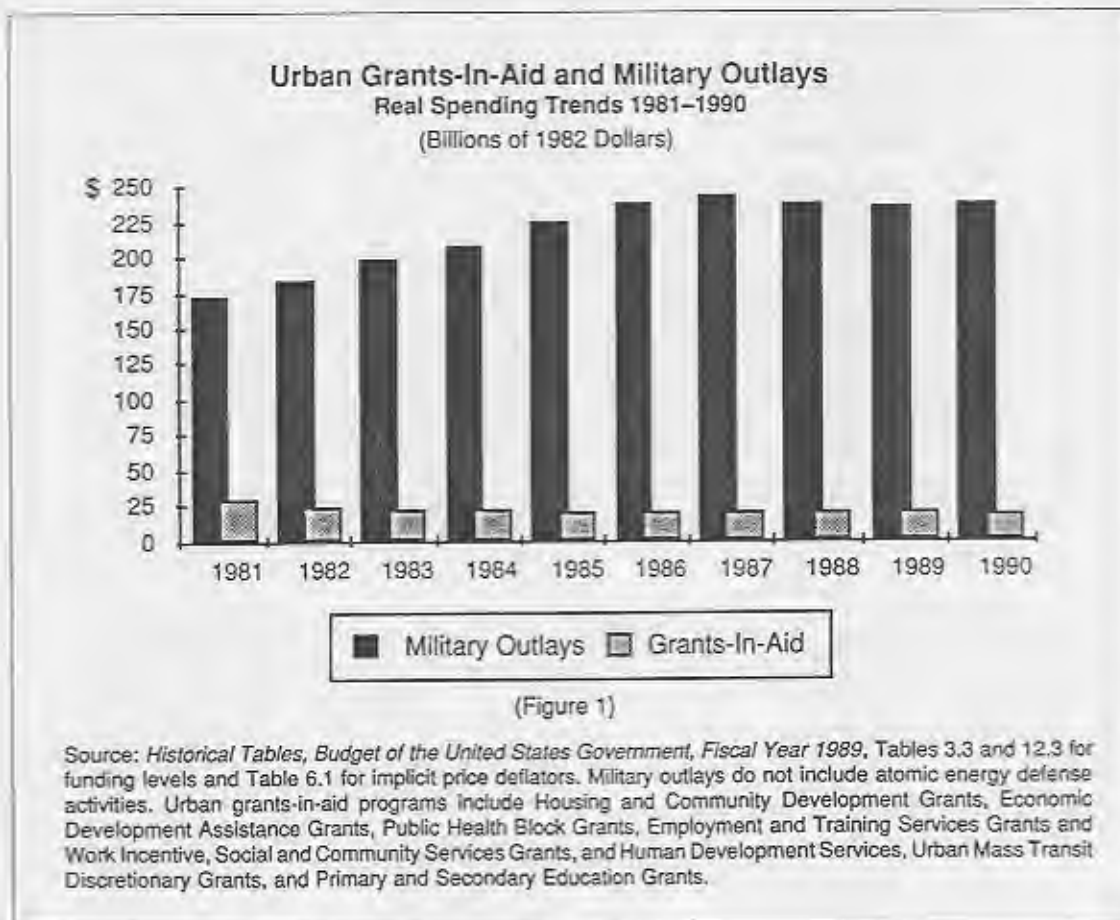
As Figure 1 shows, Department of Defense outlays grew consistently from 1981 to 1987, peaking in 1987 at \$245 billion, which was \$72 billion above real 1981 levels. Actual and projected military outlays from 1988 to 1990 stand at a high plateau, which averages about \$65 billion over 1981 levels. By comparison, funding levels for these selected urban grants-in-aid are overshadowed by the military budget, making it difficult to see that federal funding for urban grants-in-aid fell from nearly \$31 billion in 1981 to \$20.5 billion in 1987, a real drop of over 33%. Recent cuts mean that funding levels for urban grants-in-aid are projected by the federal government to be \$19.6 billion by 1990.

**As a result of this shift in federal budget priorities, the nation's cities have had to cope**

**with expanding social problems, while possessing fewer fiscal resources. Growing homelessness, drug abuse, problems in our educational system, and the burgeoning public health care crisis, all point to the need for national policy initiatives to target federal assistance to cities.**

The purpose of this study is to examine the economic and social impacts of a realignment of national priorities through reduced military spending and increased federal urban grants-in-aid. Funding urban grant programs by shifting funds from the military budget will help, as the U.S. Conference of Mayors resolution states, "to redress the imbalance between military spending and important domestic spending" which has occurred over the last eight years.<sup>4</sup>

The U.S. Conference of Mayors selected particular federal grant-in-aid programs that promote social and economic development, enhance the social well being and productivity of our citizens, and generate sustainable growth in our cities. Greater federal initiative on urban



needs is warranted because many of the social issues facing the nation's cities are truly national in scope, and require the resources of the federal government to supplement those of state and local governments. Federal investment in the cities yields benefits for the nation as a whole because cities are the locus of much of the nation's economic vitality, and about 74% of the nation's people reside in urban areas.

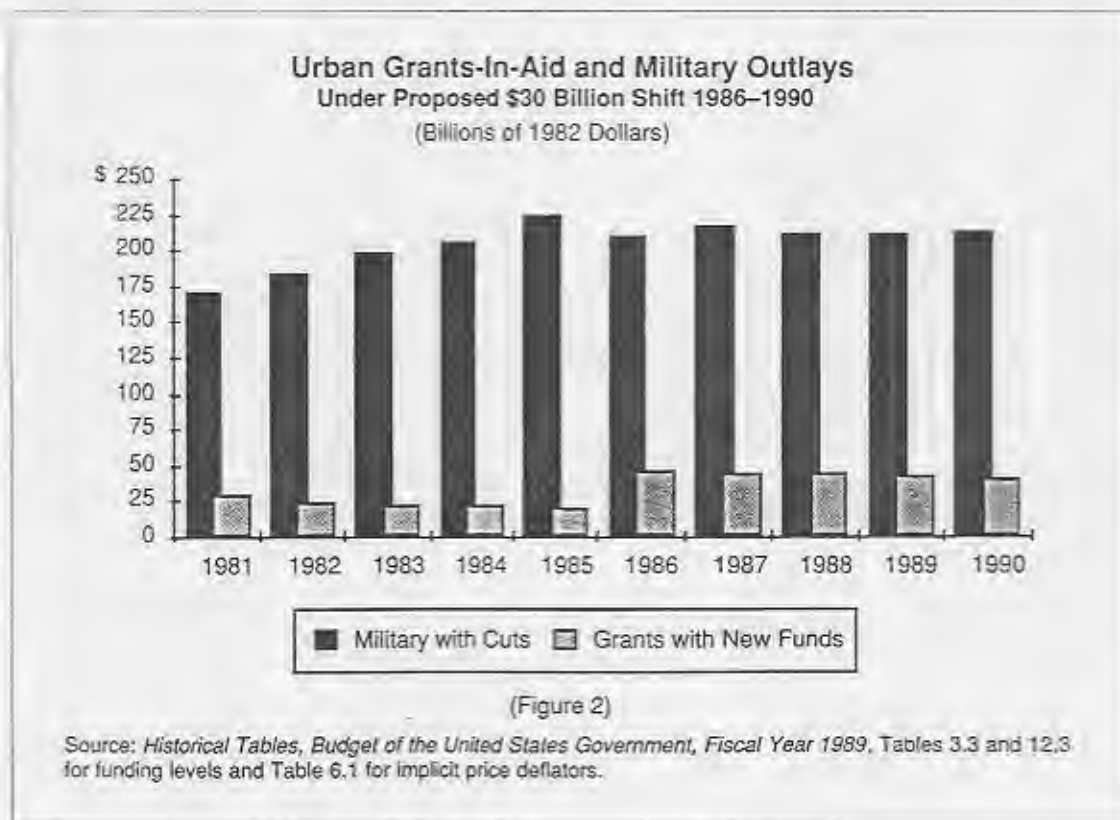
Expanded federal investment in the physical infrastructure is justified because the needs and services for urban mass transit, low-income housing and economic development are often not limited to an individual city's boundaries, and therefore require federal investment to plan, finance and develop. Furthermore, these public infrastructural investments provide essential goods and services which the private sector does not supply, but which it needs to have a better and more productive social and physical environment.

A renewal of federal financial assistance for human resource development is beneficial because these investments in education, public health, employment and training and social services enhance the skills, health and produc-

tivity of our citizens, while reducing the social costs associated with preventable diseases, drug abuse, and other social problems.

Leading authorities from within the Reagan Administration admit that there is \$30 to \$45 billion per year of waste which could be eliminated from the military budget. As former Budget Director, David Stockman has commented about the military budget, "There's a kind of swamp of \$10 to \$20 to \$30 billion worth of waste that can be ferreted out if you really push hard."<sup>5</sup> More recently, Robert Costello, the Pentagon's Director of Procurement, has commented that 30% of the Pentagon's \$150 billion procurement budget is squandered on misguided quality control and make-work exercises that don't yield better arms.<sup>6</sup> Finally, as the recent procurement scandals have shown, there is evidence of a great deal of waste, corruption and inefficiency within the current military contracting system.

A realignment of national priorities could provide the financial resources necessary for a renewed federal commitment to America's cities. The effects of the proposed \$30 billion annual



shift in federal budget priorities are illustrated in Figure 2, which shows how real spending levels would be affected by a cut in military outlays and an increase for selected urban grants-in-aid from 1986 to 1990. As a result of this shift, annual federal spending on urban grants-in-aid would average \$13.9 billion above 1981 levels.

Annual military spending would still average over \$41 billion above the 1981 inflation adjusted level. Federal funding for urban programs would average 45% higher than 1981 spending, while military spending would remain nearly 24% above the 1981 inflation adjusted level.

Public opinion polls indicate that a majority of the public favors cutting the military budget, while on the other hand, a clear majority of citizens (four out of every five) favors increasing federal spending on education and investments which promote economic growth.<sup>7</sup> Clearly, new budget priorities are backed by the public.

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## **PART II. A NEW URBAN AGENDA: THE NATIONAL BENEFITS AND ECONOMIC IMPACT**

The impact of this \$30 billion shift in federal budget priorities can be shown in two ways. The first is by delineating the direct tangible gains in additional public goods and services. The second is by showing the net economic effects of additional output, income, investment, and jobs.

Table 2 shows the average annual funding increases and the five year totals of new funding going to six categories of urban grant-in-aid programs as a result of the \$30 billion annual shift in federal spending. Throughout this report all program funding will be reported as annual average increases in current dollars\*, unless otherwise noted.

In the sections that follow, the report first examines the improvements in the quality and

quantity of publicly provided goods and services resulting from the increased funding for urban grants-in-aid. Next, the report shows the net economic impact for the nation as a whole of implementing this new urban agenda financed by reduced military spending.

### **The National Benefits: Improved Public Goods and Services**

The nation would gain important benefits by spending \$30 billion more per year on education, public health, housing and mass transit instead of on the military. This increased funding would allow cities to meet needs which in many areas are at a crisis level.

The estimated increases in goods and services from the new funding are derived from national data on current program purchases, services rendered, and the number of clients served annually. Because these figures are based on national averages, they should be viewed as approximations, rather than precise estimates. Nevertheless, the tangible goods and services generated by this new funding illustrate the programs' real benefits for the cities.

#### *Housing and Community Development: New Funding, \$5 Billion per Year*

Increasing rents and disinvestment in public housing have led to a dramatic decline in the availability of low-income housing and have contributed to the growth of the homeless population. The number of homeless is now estimated by the U.S. Department of Housing and Urban Development at 350,000 and by the Coalition for the Homeless at 3,000,000. One third of the homeless are families.<sup>8</sup>

According to a 1988 study by the Department of Housing and Urban Development, a \$9 billion dollar investment must be made to rehabilitate over 50% of the existing public housing units simply to bring them up to legal standards.<sup>9</sup> If this investment is not made, the number of habitable units will fall at a time when eligible applicants for public housing often wait five or ten years for an opening.

\* Current dollars are not inflation adjusted and simply reflect the value of the dollar in a given year.

The shift in federal budget priorities would allow an additional \$5 billion for housing and community development. Close to \$3 billion annually would go to housing construction, rehabilitation and management, and \$2 billion annually would go to other community development projects. **Based on the distribution of spending developed in this study, about 30,000 additional public housing units would be constructed over the five-year period. This would mean that between 90,000 and 120,000 individuals, or approximately 30,000 additional families, could find homes in public housing.**

The largest share of the funding would go to repair and renovate existing public housing. Over 900,000 public housing units could be brought up to federal standards by this funding increase, or 71% of the units targeted by the Department of Housing and Urban Development.<sup>10</sup> This new funding would save these units from deterioration and abandonment and prevent the families housed in them from becoming homeless. Over 37,000 public housing em-

ployees could be hired to improve the management, maintenance, and security of public housing projects.

About \$2 billion of the additional funding would go to community development projects to meet other critical housing and economic development needs. Urban Development Action Grants (UDAGs), for which no new funds have been appropriated, would be maintained under this alternative budget. UDAGs have an extremely successful record of drawing private investment into cities to revitalize neighborhoods and business districts. For example, over the last five years, the UDAG program invested \$6.2 billion in revitalization projects which leveraged over \$68 billion in private investment in urban areas.<sup>11</sup> Based on this record, the new UDAG funding advanced in this study would draw over \$26 billion in new private investment into urban areas.

**Primary and Secondary Education: New Funding, \$11.8 Billion per Year**

"A Nation at Risk" was the alarming title

**Table 2**  
**National Increases in Spending on Grants-in-Aid Resulting**  
**from a \$30 Billion Transfer from Military Outlays**  
 (in current dollars)

	Average Annual Funding Increase (1986-1990)	Total Five Year Funding Increase (1986-1990)
Primary and Secondary Education	\$ 11,859,300,000	\$ 59,296,510,000
Employment and Training	3,098,570,000	15,492,850,000
Housing and Community Development	5,002,710,000	25,013,550,000
Mass Transit	3,088,311,000	15,441,550,000
Public Health	2,013,704,000	10,068,518,000
Social Services	4,937,401,000	24,687,000,000
<b>TOTAL</b>	<b>\$ 30,000,000,000</b>	<b>\$ 150,000,000,000</b>

(Figures may not add up precisely due to rounding.)  
 United States Population 243,084,000 (Census estimate for 1987)  
 Per Capita New Funding \$123.21

of a 1983 report describing the state of our nation's schools. This Department of Education study and others like it have had a profound effect on the public's thinking.

A broad consensus of opinion now recognizes the pressing need for major improvements in the quality of primary and secondary education. The needs of urban school districts, where large percentages of the student population come from low-income households, are particularly urgent. High dropout rates and students with low educational proficiency contribute to higher unemployment, drug abuse, and unwanted pregnancy, as well as the costs of doing business.

In this alternative budget, an additional \$11.8 billion per year would go to federal education programs. This would lead to an increase of approximately 195,000 teachers, thereby reducing the national student-teacher ratio from 18.05 to 16.6.<sup>12</sup> A large share of these new teacher hires would be in poorer districts where existing student-teacher ratios are the highest, and the need for specialized attention is the greatest. An average of 26,000 additional school staff including counselors, principals, nurses, and learning disability specialists would also be added as would 166,000 support staff including teacher's aides, maintenance staff, and clerical support.

Schools would also be able to purchase badly needed educational equipment and teaching aids. Assuming that schools would make purchases similar to the ones they currently make, they would buy each year: \$60 million of new scientific instruments; \$294 million of new books and printed material; \$55 million of furniture and fixtures; almost \$65 million of new computers and electronic equipment; and over \$132 million for audio-visual and communication equipment. Much of this additional money for educational purchases would go to poorer school districts where shortages in books and equipment are most acute.

#### ***Urban Mass Transit: New Funding, \$3.1 Billion per Year***

The nation's urban areas are facing criti-

cal transportation problems including mounting traffic congestion, lengthening travel time, and worsening air pollution, all of which increase the costs of doing business and diminish the quality of urban life. Federal underinvestment and disinvestment in urban transportation systems have contributed to a deterioration in existing rail and bus systems in many cities, and slowed the development of new transportation alternatives in others.

Federal authorities have recently justified cuts in urban mass transit funding on the grounds that mass transit is essentially a local activity with local benefits, and therefore not a federal responsibility. However, the scope and benefits of mass transit funding clearly transcend local boundaries. Over 30% of federal highway system mileage is in urban areas, which means that congestion resulting from inadequate urban transit systems directly affects the national transportation network as a whole.<sup>13</sup> The oil crises of the 1970s underscored the need for a diverse, flexible and energy efficient national transportation system that is less dependent on the automobile.

During the 1970s and early 1980s, increased investments in urban mass transit led to a significant rise in mass transit ridership.<sup>14</sup> However, over the last six years federal support for mass transit has dropped dramatically, even as urban and national transportation problems continued to grow. Further federal neglect threatens to undo previous accomplishments, and to limit future progress in mass transit. This will only increase the nation's vulnerability to future oil shocks and undermine the nation's long-run energy security.

This new funding would generate significant improvements in the urban mass transportation network. Almost \$3.1 billion would be added to existing and projected federal mass transit funding. Capital projects would receive almost \$2.2 billion, allowing for major new purchases of buses to replace and expand bus fleets, as well as new purchases and rehabilitation of rail cars. Cities would also be able to expand their railroad tracks, and upgrade their rail stations, bus stations and

maintenance facilities.

Because the capital needs of urban transit systems vary widely, it is difficult to precisely detail the additional equipment purchases, renovations, and miles of new transportation routes which could be added by the new mass transit capital funding.<sup>15</sup> However, if the new funds were spent in a similar fashion as in program years 1986 and 1987, then over a two year period the nation's urban transportation could invest in:

- 8,900 more buses;
- 188 more locomotives and rail cars purchased or rehabilitated;
- 1,000 miles of new transportation routes begun or completed; and
- \$900 million annually for additional transit operations and planning.

#### ***Public Health: New Funding, \$2 Billion per Year***

Demands on the public health system have grown substantially over the last decade, and the strain from the AIDS epidemic has just begun to add to the burden on the nation's public health care system. Over 37 million Americans have no health insurance, and the number of people living in poverty without adequate health care has grown.<sup>16</sup>

An important part of the national responsibility for public health care falls on counties and cities. The reduction in federal Public Health Block Grants has undercut the capacity of city and county health delivery systems to respond to the tremendous needs for basic prenatal care, infant and child health care, treatment for alcoholism, drug abuse and sexually transmitted diseases.

Local public health systems are overburdened. Individuals seeking drug abuse treatment are often turned away from overcrowded facilities. Sexually transmitted diseases of all types have been growing. The rates of preschool children's immunization have declined. And progress in reducing infant mortality rates has slowed.

The failure to meet immediate health needs will increase the long-term costs to the society as more people become seriously ill, suffer permanent disability, or turn to drug related crime. Over the long-run, federal cuts in public health care only increase expenses in other areas.

Over \$2 billion a year would become available with the new budget priorities. This funding would lead to important improvements in the entire public health infrastructure. Approximately 30,000 additional public health care personnel could be permanently hired. The addition of over \$400 million in construction spending annually would allow for significant expansion and improvements in public health care facilities, and over \$800 million could be spent on medication, equipment, family planning and health education provided by non-profit organizations.

This large supplement to existing federal public health spending would allow a major expansion in the number of clinics and clients served, enabling cities to keep pace with accelerating public health demands for prenatal, infant and child care, family planning services, and the treatment of alcoholism, drug abuse and sexually transmitted diseases.<sup>17</sup>

#### **This new funding would allow:**

- 320,000 more pregnant women to get care at clinics;
- 780 community and migrant health centers to be expanded;
- 6,500,000 more people to be cared for at community and migrant worker clinics;
- 6,000,000 more women to have access to family planning;
- full immunization against childhood diseases to be made available to the entire population;
- Increased support for AIDS treatment, medication and public education.

### ***Social Services: New Funding, \$4.9 Billion per Year***

Social Service Block Grant and Community Service Block Grant funding supports a highly varied set of programs and activities, including child care services, prevention of family violence, and services addressing the problems of child abuse and teenage run-aways. Human Development Service Grants selected for this study primarily go to fund Head Start and special programs for the aged.

Although it is difficult to estimate exactly the extent to which child care services could expand nationally, local officials in Chicago, Trenton, Austin, and Irvine indicate that the additional funding would dramatically improve existing child care services, and possibly double their current child care capacity. The additional funding would also provide for major expansions in other programs.

**These social services, which have proven record of success, could be expanded by \$4.9 billion.** Assuming the current mix of funding among these categories, this would mean nearly \$2 billion for Human Development Services, \$2.6 billion for Social Services Block Grants, and \$330 million for Community Development Block Grants. This would mean that:

- 490,000 additional children would join Head Start;
- 2,300,000 more senior citizens would get served in their homes or at centers;
- 3,000,000 more home visits to the elderly would be provided by volunteers;
- City transportation for the elderly would increase.

### ***Employment and Training: New Funding, \$3.1 Billion per Year***

Employment and Training programs address a wide range of problems facing many Americans who have difficulty getting and keeping a job in today's complex labor market. Unemployed adult workers, minority and disadvantaged youths, workers displaced by international competition, older workers and

migrant workers would all benefit from the \$3.1 billion annual increase for training and job placement programs.

Under these new budget priorities, outlays on Title IIA of the Job Training Partnership Act (JTPA) would go up by \$1.9 billion annually, allowing 1,300,000 more unemployed adult workers to be enrolled each year. Higher funding could also permit an increase in support payments for enrollees, which go to defray the costs of job-related transportation and provide medical care, child care and other social services. On-the-job wage supplement payments could also be increased, thereby raising the wage levels for workers enrolled the program. Funding for the Summer Youth program would nearly double over 1986 levels, so there could be a major increase in the number of young people getting job-related classroom training and vocational experience.<sup>18</sup>

Other job training programs would increase annually by:

- \$165 million for The Dislocated Workers Program;
- \$76 million for The Older Americans Community Service Program;
- \$64 million for The Migrant Workers Program; and
- \$119 million for research and development and demonstration projects.

### **The National Economic Impact of a Shift in Federal Priorities**

Nationally, a shift of \$30 billion per year from the military budget to urban programs increases the Gross National Product, jobs, personal income and private fixed investment. These positive economic effects are a welcome collateral benefit of implementing new budget priorities.

As Table 3 shows, the Gross National Product increases annually by an average of \$3.5 billion from 1986 to 1990. Fixed domestic investment in residential and non-residential construction, and producers' plant and equipment increases by an

annual average of \$550 million. Personal disposable income increases each year by an average of \$2.2 billion. The increase in personal income will generate approximately \$495 million annually in additional income tax revenue for federal, state and local government. These estimates reflect the total net impact of the shift in federal priorities, which includes the direct, indirect and induced effects.\*

In addition, there will be an estimated net gain of over 197,500 jobs for each year. These jobs gains are over and above those which would occur from normal economic growth.

Another way to examine the effects of these policy changes is shown in Table 4, which depicts the net effect for each year of implementing these policies. This shift from military to urban programs raises the Gross National Product in every year. Personal dis-

posable income (personal income after taxes) also rises in every year. The increase in personal income (before taxes) generates \$2.5 billion over five years in additional income tax revenues for federal, state, and local governments. These higher tax revenue estimates do not include the additional corporate and sales taxes that would be generated by this higher level of national income, so the overall impact on tax revenues is higher than \$2.5 billion.

Every category of private fixed investment shows net gains throughout the five-year period, including gains in residential construction, nonresidential construction, and producer's durable plant and equipment. These gains do not include the public fixed investment in public housing, urban transit facilities and infrastructural improvements. In essence, the gains in private fixed investment are indirectly stimulated by higher public investment in public housing, transit and public infrastructure. Indeed, annual net public investment increases by \$1.7 billion on average over the five years.

These results demonstrate that a shift in federal spending can generate more fixed investment in residential and non-residential construction and producers' durable goods,

\* Direct effects show, for example, how many construction workers and other people would be hired if more were spent on public housing. The indirect effect measures the change for other industries when, for example, the construction contractor buys machinery and other goods. The induced effect shows what happens when all the newly hired people go out and spend money at grocery stores and buy cars.

**Table 3**  
**The National Economic Impact of a Shift in Federal Priorities**  
**Annual Average for 1986-1990**  
 (Measured in 1982 dollars)

	Increases from Urban Programs	Decreases from Military Cuts	Net Impact
Gross National Product	+ \$39,600,000,000	- \$36,100,000,000	+ \$3,500,000,000
Personal Disposable Income	+ \$13,600,000,000	- \$11,400,000,000	+ \$2,200,000,000
Private Fixed Investment	+ \$ 7,220,000,000	- \$ 6,670,000,000	+ \$ 550,000,000



more personal disposable income, and a higher Gross National Product.

One of the main factors contributing to a higher GNP is that a greater share of the goods and services are purchased domestically when federal spending is shifted to urban programs. The urban programs are more labor intensive and principally employ American labor. Also, most of the fixed investment in public works, housing and urban transportation generates demand for domestic construction and the production of materials and equipment.

By contrast, the production of military goods is more capital intensive and employs less labor. A significant share of military outlays go to purchases made overseas, and to pay troops stationed abroad. In addition, the amount of imports used by military industry has been rising, especially in many of the high-technology sectors.<sup>19</sup>

Personal income also increases because urban programs hire many more workers than would the armed forces and military contractors. Also, many troops are stationed overseas and spend much of their income there, rather than at home where it would generate higher

demand, and hence greater employment and income.

The modest gain in private fixed investment reflects the higher domestic production for goods and services generated indirectly by federal spending on the urban programs. The real value of these new public investments lies in the fact that they directly contribute to improving the productive base of our nation, thus enhancing the long run productivity of both the private and public sectors, as well as improving the quality of life of our citizens.<sup>20</sup>

### *The National Employment Impact*

Nationally, higher spending on urban programs and reduced military outlays generate more jobs. Virtually every major category of employment, with the exception of the military-oriented durable goods and mining, shows a net gain in employment. There are net employment gains in non-durables goods; construction; transportation; public utilities; finance, insurance and real estate; wholesale and retail trade; and services.

Table 4  
The Net Effect on the Gross National Product of a Shift in Federal Priorities  
Annual Figures for 1986-1990  
(Billions of 1982 dollars)

	1986	1987	1988	1989	1990
Gross National Product	+\$2.575	+\$3.051	+\$3.567	+\$4.096	+\$4.166
Personal Disposable Income	+\$2.340	+\$2.300	+\$2.147	+\$2.192	+\$1.981
Private Fixed Investment					
Residential Construction	+\$ .040	+\$ .073	+\$ .089	+\$ .105	+\$ .109
Non-residential Construction	+\$ .012	+\$ .116	+\$ .198	+\$ .249	+\$ .275
Producers' Durable Equipment	+\$ .019	+\$ .195	+\$ .340	+\$ .438	+\$ .497

There would be an annual average of 197,500 more jobs generated from 1986 to 1990 with this \$30 billion shift of funds from military spending to these selected urban programs. The job impact of this change in spending varies substantially among the different sectors of the economy.

It is important to understand how to interpret the employment effects of the cutbacks in military spending because there are two quite different groups of jobs involved.

The first type are the jobs generated by manufacturing military hardware or specialized services directly purchased by the Pentagon. This would include people working on the manufacture of missiles, nuclear weapons, military aircraft, ships and tanks, as well as military research and development. Much of this production is highly specialized. Some of it could be converted to civilian production relatively easily, some of it could not. However, the key point is that much of the military hardware has little or no civilian use.

The second type of jobs are those that produce ordinary consumer and commercial goods and services such as clothes, food, office supplies, computers, cars, and banking and other services. Some of these civilian-oriented jobs come from direct purchases by the Pentagon and purchases by people employed in the military and military-related manufacturing. These goods and services have a direct civilian use. People employed in these jobs could continue working in the same occupations if demand for these goods and services were maintained by comparable civilian-oriented government spending to offset the military spending cutback.

There would be a substantial net gain of 98,000 jobs in services. This is a very diverse category which includes private health services, educational services, miscellaneous professional services, business services, auto repair and recreation. There would be 317,800 more jobs with the urban program spending and 219,700 jobs foregone under the military spending cuts, for a net gain of 98,000 jobs.

Construction employment would also fare well under this spending shift. This category,

which includes residential construction and non-residential construction, would gain 74,300 jobs under the urban program spending. Although there would be 46,500 fewer construction jobs from the military reductions, there would be a net gain of 27,800 jobs.

Military-oriented durable goods industries, which includes aircraft, missiles, shipbuilding, tanks and rest of transportation equipment, electronic and electrical equipment, fabricated metal products, and non-electrical machinery, would have 179,100 fewer jobs with the military cuts. There would be 54,300 more jobs for these industry groups due to urban program spending. So the net change is 124,800 fewer jobs in these industries. The mining sector shows a net loss also, of 300 jobs.

The rest of durable goods industries includes lumber, furniture, motor vehicles, stone, clay and glass, primary metal products, scientific instruments and miscellaneous manufacturing. These industries would gain 44,800 new jobs under the urban program spending, while the military cuts would mean 44,400 fewer jobs. The net result for these industries would be a net gain of 400 jobs.

The non-durable goods category includes food, textiles, apparel, paper, printing, and petrochemical products. There would be 57,200 more jobs in these industries because of the urban program spending, while the military spending cuts would lead to 44,100 fewer jobs. Thus, these industries would enjoy a net gain of 13,100 jobs, largely generated by the increased incomes that people would have to purchase these consumer goods and services.

Transportation and public utilities employment would also have more job openings. There would be an additional 47,300 jobs from urban program spending, while military cuts would mean 38,700 fewer jobs. The net impact would be 8,600 more jobs.

Finance, insurance and real estate would gain 53,700 jobs under the new urban spending. This category involves people working in banks, insurance and real estate. There would be 46,900 fewer jobs with the military spend-

ing cuts. The net impact would be 6,800 more jobs.

Wholesale and retail trade involves people working in stores, restaurants, warehousing and distribution. There would be 161,000 more jobs with the urban spending shift. The military cuts would mean 149,400 fewer jobs. The net gain would be 11,600 jobs.

The size of the uniformed armed forces would be decreased by these military cuts, going from 2,167,000 in 1986 to 1,917,000, a reduction of 249,550 people. This would not necessarily involve an equivalent number of actual layoffs since some of the losses could be absorbed by reducing the number of new recruits, as well as through normal attrition. There were, for example, an annual average of 298,000 first-year recruits between 1983-1985.<sup>21</sup> The military spending cuts would also result in 108,150 fewer non-uniformed military personnel, but the overall impact of this too could be mitigated by normal attrition.

This reduction of government personnel on the federal level would be more than offset by increased hiring by state and local governments of new personnel for education, public health and other services. In public education, there would be 195,000 new teachers and 192,000 additional school staff. This would include counselors, nurses, principals, teacher's aides, maintenance and clerical staff. The total addition to educational staff with this shift in spending to urban programs would equal 387,000 more jobs.

State and local governments would be able to hire additional public health workers, bus and train operators, people involved in housing, in child care, in care for the elderly and the myriad of other services which they provide. There would be an additional 127,000 jobs created by the urban program spending to provide critical social services.

When interpreting the job impacts of the military cuts, it is important to note that for the national economy, there would be little displacement of people working in civilian-oriented industries. For instance,

for an auto worker in Detroit, it doesn't matter whether a purchaser of a car is employed by a military contractor or a school district; what matters is the overall consumer demand for autos, which is determined by aggregate employment and income.

Regional employment, however, would be affected by spending shifts from the military to urban programs. The regional employment losses in military-oriented industries, highlight the need for implementing national and local frameworks for economic conversion, which would allow for a planned transition from military to civilian production. Conversion planning would minimize the employment losses due to cutbacks in military contracts, and would avoid many of the job losses reported in this study. Economic conversion planning would also minimize the regional economic dislocations that many militarily dependent communities would suffer from an unplanned transition from military to civilian production.

#### *Sensitivity of Results to Changing Assumptions*

These employment gains are based on relatively conservative assumptions about the number of new hires associated with the various state and local grant-in-aid funded programs. For example, the spending mix in this study involved a lower share of total expenditures going to wages and salaries than average state and local spending. Total wages and salaries as a percent of all program expenditures in this study amounted to between 41% and 45%. This is lower than the national average for all state and local governments, which averaged between 53% and 55% over the 1983 to 1987 period.<sup>22</sup>

The national percentage dedicated to educational wages and salaries is the only assumption which substantially affected the estimates of net national employment. This study assigned 80% of all education expenditures to the wages and salaries of educational staff, which is higher than the national average of 62.2%.<sup>23</sup> However, the higher figure reflects the decision of the cities in our study to use the new funds primarily for educational

compensation. This decision probably better reflects the response of states and cities to the addition of new funds than does the national average for educational compensation.

Nonetheless, since new hires for educational staff comprises about three-quarters of the new hires for all of the urban programs, it makes sense to see what changing this assumption does to the results for total net employment. Using the 62.2% national average of educational compensation as a percent of total expenditures lowers the net job gains for all types of employment to an annual average of 110,400 instead of 197,500 per year. This lower estimate is not a complete estimate of the net change in jobs because it was not derived from a computer simulation. Therefore, this lower net job calculation does not account for the additional job gains from shifting spending away from educational compensation to more construction, equipment and maintenance spending.

On balance, the national evidence indicates that funding urgently needed urban programs by reducing military spending not only provides the public with essential goods and services, but also generates significantly more jobs, income, investment and economic activity. Thus, a shift in federal spending priorities allows the nation to finance a renewed initiative on critical urban problems without contributing further to the federal deficit. Moreover, an investment in the social and physical infrastructure represents a long-run investment in our nation's future economic and social well being, thus enhancing the security of our cities.

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### **PART III. THE IMPACT ON THE CITIES: FOUR CASE STUDIES OF THE REGIONAL EFFECTS OF NEW FEDERAL PRIORITIES**

The \$30 billion shift in federal budget priorities has diverse social and economic impacts on the four cities studied. There are three key determinants of the economic im-

fact. The first is the amount of military contracting and pay, and its relative importance for the overall economy of the city. The second is the amount of money which the city receives for these selected urban programs. The third is the city's size, the composition of its industrial base, and the extent of its public service infrastructure.

The most visible social impact of increased urban spending is measured by the additions and improvements in each city's public infrastructure and human services. The amount of benefits which each city receives depends upon the local government's policies and the degree to which each city takes part in the specified urban programs.

Of the four cities studied, Chicago shows a very strong net economic gain in jobs, income, investment and overall economic activity. Austin exhibits a modest net economic gain. Trenton shows slight net gains. And Irvine, which is located in Orange County, California, a very militarily dependent region, shows a net economic loss. On balance, when these results are examined within the broader county economy in which each city is located, they indicate that Chicago experiences clear net gains, Austin and Trenton break even, and Irvine, in Orange County, is a net loser.

All four cities receive tangible benefits from the substantial improvements in their public infrastructure, educational systems and social services. Chicago and Trenton, which have historically had higher participation rates in federal urban programs, gain the most in improved services and public investment, while Austin and Irvine experience more modest improvements from the new funding.

Regional disparities in the volume of federal grants-in-aid and of military contracting and payrolls are brought to light by the analysis of these four cities and counties. Chicago and Cook County participate in a relatively high proportion of the grant-in-aid programs, as measured on a per capita basis, while Irvine and Orange County have a relatively low per capita participation rate. For

example, of the grant-in-aid programs examined in this study, Cook County is estimated to receive additional new funding of \$167 on an annual average per capita basis between 1986 and 1990, while Orange County receives an annual addition of \$63 per capita. These new funds are over and above the estimated baseline of existing funding levels for the period, where Cook County is estimated to receive an annual average of \$127, and Orange County \$48 per capita.

The reverse is true for military contracting and pay, where Orange County ranks among the highest in the nation with \$1,897 per capita on an average annual basis between 1986 and 1990, while Cook County ranks very low with an annual average of \$226 per capita. Given these differences, an 11.6 percent cut in military spending falls far more heavily on Orange County than it does on Cook County. On the other hand, an increase in funding for these programs in this study has a greater effect in Cook County than it does in Orange County, because Cook County participates in a greater number of grant programs than does Orange County.

The study shows that despite these regional differences, in three out of the four cases government spending on civilian needs generates equivalent, if not greater, economic activity than does military spending. This finding runs contrary to the common misconception that government military spending creates higher levels of economic activity than does domestic federal, state and local spending.

In the fourth case, the adverse impact of this policy on Orange County highlights the vulnerability of a region's economy because of overdependence on military-industrial activity.

Before examining in more detail the specific benefits and net economic effects of these policies on each of the cities, it is useful to review briefly the method used to calculate for each city the changes in federal military and urban grant spending resulting from a \$30 billion annual shift in federal budget priorities.

## Calculating the Changes in Federal Spending for Each City

The first step was to estimate the current baseline of military procurement contracts and payrolls, and urban grants-in-aid for each city and county over the period 1986-1990. The second step was to calculate the change in funding levels for each city from a national shift of \$30 billion annually from military outlays to increased spending on these federal grants-in-aid. The third step was to calculate separately the effects on the demands for 53 industries due to reduced military outlays and increased spending on grants-in-aid. In the fourth step, these changes in the demands for industrial output were used in two separate computer simulations to calculate the economic effects on each city.

The first simulation for each city calculated the economic effects of the reduction in military spending, including all direct, indirect and secondary (or induced) changes in income, investment, employment and output. The second simulation for each city calculated the economic effects of increased spending on urban grants-in-aid. The results of the two simulations were then compared to determine the net effects.

The computer model used to simulate these changes estimates the net effects after adjusting for the projected changes in employment, income, investment and output. Thus, the estimated economic impact of these policy changes already has accounted for the projected economic growth of the city or county over the period.

Each city is modeled as part of the county in which it is located because the economic data used in the economic model are collected on a county-by-county basis. For Chicago, Austin and Trenton, the city's economy is the dominant factor in the county, however, for Irvine, the city is so small in relation to Orange County, that it makes more sense to look at the county as a whole.

A questionnaire was sent to the mayor of each city to determine how the new grant monies would be spent. The relevant admin-

istrative departments provided Employment Research Associates with detailed responses on expenditures for major types of purchases, the amount going for new personnel and for raises, and the amount going for contract services provided by private and non-profit organizations. A follow-up telephone survey

was also done to determine how these expenditures would increase services, and the number of additional people that would be served.

**Table 5  
CHICAGO AND COOK COUNTY  
FEDERAL GRANTS IN AID TO THE CITY AND COUNTY**

**CHICAGO'S NEW FUNDS DUE TO INCREASED SPENDING ON GRANTS-IN-AID  
(measured in current dollars)**

	ANNUAL AVERAGE 1986-1990	FIVE YEAR TOTAL
Housing and Community Development	\$158,367,000	\$791,837,000
Social Services	99,008,000	495,038,000
Employment and Training	69,502,000	347,508,000
Mass Transit	247,581,000	1,237,906,000
Education	157,376,000	786,879,000
Public Health	16,787,000	83,935,000
<b>TOTAL</b>	<b>\$748,621,000</b>	<b>\$3,743,104,000</b>

(Five-Year Totals may reflect discrepancies due to rounding.)

Population 3,010,000 (Census estimate for 1987)

Per Capita New Funding \$248.71

**COOK COUNTY'S NEW FUNDS FROM INCREASED SPENDING ON GRANTS-IN-AID  
(measured in current dollars)**

	ANNUAL AVERAGE 1986-1990	FIVE YEAR TOTAL
Housing and Community Development	\$180,840,000	\$904,203,000
Social Services	99,546,000	497,728,000
Employment and Training	83,666,000	418,329,000
Mass Transit	281,458,000	1,407,289,000
Education	215,013,000	1,075,066,000
Public Health	17,712,000	88,561,000
<b>TOTAL</b>	<b>\$878,235,000</b>	<b>\$4,391,175,000</b>

(Five-Year Totals may reflect discrepancies due to rounding.)

Population 5,274,000 (Forecasted annual average 1986-1990)

Per Capita New Funding \$166.52

## CHICAGO: The Social Benefits and the Economic Impacts

Chicago, the nation's third largest city, has an extremely diverse population and economic base, and has experienced steady economic growth in recent years. It is an older industrial city with a variety of urgent infrastructural and social needs. Both Chicago's unemployment rate, and the share of its households living below the poverty level, are well above the national average.<sup>24</sup> The city's aging transportation and housing infrastructure is in need of extensive renovation and repair.

Chicago is finding it extremely difficult to solve these problems in an era of reduced federal commitment to urban areas. Yet the needs associated with these problems must be addressed in order for the city to maintain its status as a premier center of service and manufacturing, and as a major economic nexus of the Midwest.

The change in federal priorities envisioned in this study would more than double existing federal support to Chicago and Cook County in the areas of housing and community development, education and job training, mass transit, and health and social services. Table 5 indicates the average annual increases, and the five-year total of new funding in each program category going to Chicago and Cook County from 1986-1990. These additional federal expenditures would translate into concrete additions and improvements in public goods and services in areas where the city has been hard pressed to keep up with existing demands.

### ***Housing and Community Development: \$158,367,000 in New Funding Per Year***

Chicago has a severe problem of homelessness, and a public housing system which is in desperate need of additional support. During 1987 alone, federal cutbacks forced the Chicago Housing Authority (CHA) to reduce its workforce by over 30%; this will increase maintenance problems, and reduce security in public housing. In the last twelve months, the CHA has lost 1,550 units, while

over 40,000 applicants are waiting for public housing space and over 200,000 live in substandard or inappropriate housing.<sup>25</sup>

As indicated in Table 5, Chicago would receive an annual average of \$158.4 million, equalling a five-year total increase of nearly \$792 million in housing and community development funding. This sum would allow the Authority to hire 1,120 additional permanent employees to replace those lost through previous cutbacks, and increase security and maintenance personnel.

Over \$30 million of this federal spending for housing would go to new construction. This money would leverage significant private housing investment, and lead to the addition of about 230 new units, which could house between 900 and 1,000 individuals.

The main housing priority in Chicago is rehabilitation of currently unoccupied or abandoned units. Of the total additional new housing funds, \$263 million would go to rehabilitate nearly 17,000 existing public housing units. This would maintain or provide additional housing for 63,000 individuals over the five-year period, who might otherwise become homeless or relegated to substandard housing. An additional \$338 million dollars would remain for other housing and community development projects which would further enhance the public housing stock, recreational facilities and business and shopping areas.

### ***Primary and Secondary Education: \$157,376,000 in New Funding Per Year***

A high percentage of the students in Chicago's public school system have special needs. Over 65% of the students in the school system come from households that live below the poverty level. The dropout rate is approaching 45%, and 37,000 students have limited English proficiency.<sup>26</sup> With the Chicago public school system projecting a deficit for FY 1988 of \$188 million dollars, further cutbacks in federal assistance to the city's schools would be disastrous. The change in federal priorities advanced in this study would bring over \$157 million a year in desperately

needed funding to Chicago's public schools, adding up to nearly \$787 million over the five years studied.

This additional educational funding would allow 2,270 new teachers to be hired, lowering the student teacher ratio to 16.1, thereby permitting the increased specialized attention required to improve student performance and reduce the high dropout rate. Over 2,000 additional instructional and support staff could also be hired to staff special learning and literacy programs, improve security, and increase the attractiveness of school facilities. Furthermore, over \$31 million annually could be spent to purchase scientific instruments, books and teaching aids, classroom furniture and fixtures, and audio visual equipment currently in short supply in many of the city's schools.

#### ***Employment and Training: \$69,502,000 in New Funding per Year***

With its relatively high unemployment and school dropout rates, Chicago would also benefit greatly from the additional federal employment and job training support. These services, which often overlap and complement public education, would enjoy a significant expansion.

Adult and youth Job Training Partnership Act programs would receive approximately \$45 million in additional funding annually to support job training and placement activities. Based on actual 1986 data on costs per enrollee, over 29,000 adults and youths could enroll in a job training program. Summer youth programs, which give high school students training and valuable employment experience, would receive an additional \$21 million annually, and would allow almost 33,000 new enrollees.

Retraining programs for workers dislocated by plant closures would receive nearly \$1.3 million annually in new funds, thus providing for the retraining of nearly 2,000 more workers. And the Older Workers Program would receive another \$1.2 million annually, which could provide services for an additional 1,100 people.<sup>27</sup>

#### ***Mass Transit: \$247,581,000 in New Funding Per Year***

The Chicago Transit Authority (CTA) manages a transit system servicing over 2 million riders each weekday. Operating 1,200 transit cars and 2,250 buses, the system is one of the most comprehensive in the nation. However, because of the advanced age of parts of the system, coupled with past underinvestment, a recent study by the Illinois Regional Transportation Authority estimated that a \$3.7 billion investment is required over the next ten years to bring the current CTA mass transit system up to good condition. This is almost three times the capital funding available from local sources over the period.

The additional federal support to Chicago mass transit activities proposed in this study, totalling over \$1.2 billion for five years, would go a long way toward meeting this shortfall. It would allow the city to maintain the transit services so critical for sustaining economic growth and development.

Of the \$1.2 billion in total additional federal funding, officials indicated that over \$560 million would be targeted to reconstruction of track, bridges, transit stations, and other capital needs. Nearly \$51 million would be spent on bus purchases enabling the system to purchase approximately 500 buses to replace aging equipment. Rail equipment purchases could amount to \$256 million for the entire period. Rough estimates suggest that this would allow the replacement of 190 units of older transit rail stock. Also, over \$100 million could be directed to replacement of worn out signal and communications equipment. The remaining \$230 million could be used for operations, which would permit the hiring of approximately 1,500 transit employees, thereby improving security, station cleanliness, and rider information services.

#### ***Public Health: \$16,787,000 in New Funding Per Year***

The Chicago Department of Health operates and manages a wide variety of health care services, many of which are geared to



individuals without access to the private health care system. The demands on the city's public health system have been increasing in the areas of drug abuse, sexually communicated diseases, including AIDS, mental illness, and infant and child health. For instance, there are currently only six employees in the Chicago Health Department who are responsible for investigating and treating over 5,000 cases of infectious diseases each year. The \$16.8 million annual addition to public health would go for critical extensions in public health services.<sup>28</sup>

Mental health services to children, adolescents and families could be extended to 2,000 additional individuals. Over 1,000 additional deinstitutionalized mental patients could be provided with case management, and intensive support services. A new mental health facility could be opened to provide short-term residential care to 600 chronically ill mental patients. Over 100 additional beds could be added to an existing drug and alcohol treatment facility capable of handling 1600 more patients each year. Additional staffing could be provided to overburdened community health centers, and 40,000 additional children per month could be vaccinated against childhood diseases.

Increased funding for public health would also allow monies that have been diverted from the treatment of sexually transmitted diseases to meet the AIDS epidemic, to be restored. Money would still remain to improve prenatal

and infant health care. This needs survey shows that a rather modest increase in federal public health funding would lead to an impressive expansion in services to those in critical need of help.

#### *Social Services – \$99,008,000 in New Funding Per Year*

The 11% unemployment rate, high levels of poverty, and the associated problems of crime and drug abuse make a strong commitment to social services imperative for Chicago. The increase of approximately \$100 million would allow for significant concrete improvements in social services. An improved and expanded spectrum of child care and child development services, youth and family counseling, and drug education and treatment would complement efforts in education, job training and public health, making it possible for the city to meet its human service needs more efficiently.

Increased federal support for social services in Chicago could be directed to a large number of social and community services, particularly child care and child development, community-based services to youth and families, and special services to the aging. Two hundred additional day care facilities could be opened to service 8,000 additional children. The highly successful full-day Head Start programs could be instituted at many of these new facilities. Over 500 programs serving 112,500 people could be initiated:

**Table 6**  
**THE EFFECT ON CHICAGO'S GROSS REGIONAL PRODUCT**  
**FROM A SHIFT IN FEDERAL PRIORITIES**  
 Annual Average for 1986-1990  
 (Measured in 1982 dollars)

	Increases from Urban Programs	Decreases from Military Cuts	Net Impact
Gross Regional Product	+ \$621,700,000	- \$36,000,000	+ \$585,700,000
Personal Disposable Income	+ \$446,200,000	- \$22,300,000	+ \$423,900,000
Private Fixed Investment	+ \$ 59,100,000	- \$ 3,900,000	+ \$ 55,200,000

for youth and family counseling; programs directed at youth gangs; and emergency protective services for family violence.

Agencies providing services to senior citizens could increase the number of elderly households receiving homemaking and household assistance by 800, extend nutrition programs to 2,000 households thereby eliminating the current waiting lists, and extend protective services for abused elderly individuals to 1,000 households.

### **CHICAGO: The Economic Impacts**

Chicago has a well developed public service sector that participates in many of these urban programs; a large, diversified industrial base; and a relatively low level of military contracting and pay. This enables the city to realize an annual average net gain of 20,020 jobs. Civilian sector employment increases annually by an average of 21,210 jobs, while military-related job losses amount to an average of only 1,190 per year. These net job gains reduce Chicago's unemployment rate from 11% in 1987 to 9.5%.<sup>29</sup> Job gains are primarily registered in construction, finance, wholesale and retail trade, services, and state and local government. The manufacturing sector, on balance, experiences no real net change in employment for durable and non-durable goods production.

A broader measure of the policy's economic impact is indicated by Chicago's Gross Regional Product\*, which increases by an annual average of \$586 million. Personal disposable income rises \$424 million. Private fixed investment in residential and non-residential construction and producers' goods increases by an annual average of \$55 mil-

lion. However, this amount does not include the net additions of public fixed investment, which increases by \$139 million each year. This net public investment represents the additions to the public housing stock, urban mass transportation facilities, and public infrastructural improvements, as compared to the reductions in military-related construction.

These gains for Chicago are amplified by the fact that Cook County as a whole also shows net economic gains in employment, income, investment and overall GRP. Employment in Cook County registers net gains of 22,300 per year with all major industrial sectors either gaining in jobs, or remaining the same. Gross Regional Product for Cook County goes up \$741 million in 1982 dollars.

Net gains for Cook County redound on Chicago's economy through regional trading between the city of Chicago and the rest of Cook County thereby reinforcing the overall positive effect for Chicago and the region.

On balance, Chicago and Cook County would gain economically and socially from the adoption of this shift in federal budget priorities. Both the higher level of economic activity and the funding for new public goods and services would improve the overall quality of life for the citizens of the city and the county.

### **AUSTIN: The Social Benefits and the Economic Impacts**

Austin is a medium-sized southwestern city and the state capital of Texas. It experienced very rapid growth and development in the late 1970s and early 80s. The growth boom slowed in 1985, as the oil, real estate and agricultural sectors of the state economy began to falter. Over the last three years, population growth has stabilized, and Austin's unemployment rate has leveled off in 1987 and the first half of 1988 at 6.5 %, which is eight-tenths of one percent above the national average.<sup>30</sup>

This experience of rapid growth followed

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\*Gross Regional Product measures the value of the city's output of goods and services, net of its balance of trade with the rest of the world

by a marked slowdown, has put considerable pressure on the fiscal capacities of the city and county governments. The earlier period of rapid expansion overwhelmed the existing public infrastructure, schools and social services, forcing the city to make large new in-

vestments in many of these areas. But the recent period of low growth diminished the city's tax base just as many of these projects and expansions were in mid-stream. The recent economic contraction has placed additional fiscal pressure on the city.

Table 7  
AUSTIN AND TRAVIS COUNTY  
FEDERAL GRANTS-IN-AID FOR THE CITY AND COUNTY

**AUSTIN'S NEW FUNDS DUE TO  
INCREASED SPENDING ON GRANTS-IN-AID**  
(measured in current dollars)

	ANNUAL AVERAGE 1986-1990	FIVE YEAR TOTAL
Housing and Community Development	\$17,546,000	\$87,731,000
Social Services	662,000	3,311,000
Employment and Training	3,515,000	17,574,000
Mass Transit	1,460,000	7,299,000
Education	17,908,000	89,540,000
Public Health	697,000	3,486,000
<b>TOTAL</b>	<b>\$41,788,000</b>	<b>\$208,940,000</b>

(Five-Year Totals may reflect discrepancies due to rounding)

Population 551,000 (Census estimate for 1987)

Per Capita New Funding \$75.84

**TRAVIS COUNTY'S NEW FUNDS FROM  
INCREASED SPENDING ON GRANTS-IN-AID**  
(measured in constant dollars)

	ANNUAL AVERAGE 1986-1990	FIVE YEAR TOTAL
Housing and Community Development	\$17,546,000	\$87,731,000
Social Services	728,000	3,641,000
Employment and Training	3,515,000	17,574,000
Mass Transit	1,584,000	7,921,000
Education	21,350,000	106,749,000
Public Health	697,000	3,486,000
<b>TOTAL</b>	<b>\$45,420,000</b>	<b>\$227,102,000</b>

(Five-Year Totals may reflect discrepancies due to rounding)

Population 581,800 (Forecasted annual average 1986-1990)

Per Capita New Funding \$78.06

The earlier period of economic growth and low unemployment also helps explain why Austin has a relatively low per capita participation in many federal block grant programs. Yet, Austin and Travis County would fare well with an expansion of these programs.

The additional federal expenditures for Austin and Travis County shown in Table 7 would allow the city to manage its current problems more effectively and sustain its ongoing efforts to extend and improve its infrastructure. The higher levels of federal support in education, public health care, social services, employment and training, housing and mass transit would help Austin meet the needs of its expanded population, and maintain the high quality public facilities and services necessary to achieve stable growth and development in the future.

***Housing and Community Development:  
\$17,546,000 In New Funding Per Year***

Like many medium-sized cities, Austin has a significant number of households living near or below the poverty level, and a shortage of affordable housing. The injection of additional federal monies for public housing and community development would enable the city to develop and rehabilitate low-cost public and private housing and provide a substantial number of families with decent, affordable living space.

Austin would receive nearly \$88 million over the five-year period for housing and community development. Nearly 970 housing units could be built providing living space for over 3,800 individuals. An additional \$13 million would be spent over the five years to rehabilitate approximately 1,650 units of existing housing for nearly 6,700 individuals. Over \$1.7 million annually could be spent to hire 59 permanent personnel to better manage and maintain Austin's existing public housing units. Furthermore, \$5.3 million dollars annually would remain available to complete critical community development projects in the city.

***Primary and Secondary Education:  
\$17,908,000 in New Funds Per Year***

Additional federal support for public education would allow Austin to maintain and improve its high quality public schools, and increase the resources needed for schools serving students with special literacy and language needs.

Austin could hire 345 new teachers and 179 additional support staff such as librarians, teachers' aides, learning disabilities specialists and maintenance personnel. This addition of teachers and other specialists would allow the city to give greater attention to students with low proficiency, which would help reduce the dropout rate. Nearly \$2.7 million dollars would remain to purchase additional audio-visual equipment, books and teaching aids, recreational equipment, computers, and furniture and fixtures.

***Employment and Training: \$3,515,000 In  
New Funds Per Year***

Austin would also receive \$3.5 million for employment and job training programs annually. This would allow the city to meet the retraining and job placement needs of workers displaced due to the recent economic downturn.

About 2,600 additional enrollees could be added to the city's highly successful Job Training Partnership programs. Summer Youth Job Programs, and programs geared to retraining and placement of older workers and migrant workers could also be expanded. City officials said that new federal funding could expand special job training and placement services to two groups: a special group of the ex-prisoners falling outside county and state parole services, and school dropouts with low literacy skills.

***Mass Transit: \$1,460,000 in New Funds  
Per Year***

The rapid growth experienced by Austin between 1975 and 1985 overtaxed the city's

road and highway system, creating problems of traffic congestion and poor access to business and retail centers. The city responded through a major expansion of its mass transit system based primarily on buses. More federal assistance would allow Austin to make important additions and improvements in its transit network and continue to increase ridership.

New funding would permit the transit authority to meet one of its main priorities, which is the introduction of smaller buses on residential routes with lower ridership. With nearly \$1.5 million in new funding annually, transit authorities would be able to purchase and maintain about 118 small buses. This would free up large buses to service the major routes with high passenger loads, thereby reducing the disruption on narrower neighborhood streets.

Over \$2 million of the total additional mass transit funding would go toward the construction and maintenance of bus lanes and pick-up points, while almost \$1.4 million would be used to purchase a more sophisticated rider information system providing instant access to route and scheduling information. The city would also be able to provide

senior citizens with better access to medical, recreational and social service facilities.

**Public Health: \$697,000 in New Funds Per Year**

The City of Austin and Travis County jointly operate a highly effective public health service for individuals who cannot gain full access to private health care. The health department currently oversees 10 clinics providing a range of health services in the areas of sexually transmitted diseases, maternal and child health, and alcohol and drug abuse. The most immediate needs are for AIDS treatment and education. The city currently has 205 confirmed AIDS cases, and estimates that there are 20,000 H.I.V. positive cases. This explosion has put a severe strain on public health personnel and budgets. Additional federal funding would allow the public health system to cope with this crisis without reducing its other critical health services.

The Austin-Travis County area would receive about \$3.5 million between 1986 and 1990. This would enable the department to hire an additional 12 full-time staff, to expand

**Table 8**  
**THE EFFECT ON AUSTIN'S GROSS REGIONAL PRODUCT**  
**FROM A SHIFT IN FEDERAL PRIORITIES**  
 Annual Average for 1986-1990  
 (Measured in 1982 dollars)

	Increases from Urban Programs	Decreases from Military Cuts	Net Impact
Gross Regional Product	+ \$38,600,000	- \$33,500,000	+ \$5,100,000
Personal Disposable Income	+ \$22,200,000	- \$16,200,000	+ \$6,000,000
Private Fixed Investment	+ \$11,600,000	- \$13,700,000	- \$2,100,000

AIDS testing and support services, and AIDS education and outreach. Funds could also be available to assist AIDS patients in the purchase of expensive medication which most cannot afford. In addition, the department could increase testing for tuberculosis and new forms of sexually transmitted diseases, both of which are on the rise in the area.

Family planning services could be expanded to as many as 3,000 eligible individuals not currently served. As in the other cities studied, the expansion and improvements in public health care made possible by a larger federal role would, in many cases, provide earlier intervention into health problems, and thus reduce the need for expensive long-term hospitalization.

#### ***Social Services: \$662,000 in New Funds Per Year***

Austin's economic slowdown has increased its needs for social services. The additional federal funding would equal \$3.3 million for the entire five-year period. This expenditure would allow Austin to improve the quality of existing programs, and extend needed social services to those in temporary need due to the current economic problems.

Day care and child development services could be expanded to meet the demands of eligible households not currently served. New funding would also allow significant new enrollments into the Head Start program.

City officials indicated that additional funding would immediately be channeled into expanding temporary housing, and adult literacy programs. Special programs for the aging could also be expanded, thereby reducing waiting lists for homemaking assistance and home meal delivery. The additional funding to senior programs would increase the delivery of home meals by over 46,000 per year, eliminating the current waiting list. An estimated 20,000 to 24,000 hours of homemaking and housecleaning services could be provided so that many elderly could remain in their homes rather than having to go into nursing facilities.

## **AUSTIN: The Economic Impacts**

Austin shows a small net gain of 380 jobs, as well as gains in personal income, and Gross Regional Product. This is despite the fact that there is a considerable amount of military contracting in the city. However, Travis County, which includes a large military base, shows a modest net loss of 740 jobs per year, and small net losses in personal income and Gross Regional Product. For both Austin and Travis County, the amount of cuts in military contracting and pay are larger than the inflow of new urban grants. Again, the size and composition of the industrial base and the public sector determines the local impact of this policy change.

As Table 8 indicates, Austin's Gross Regional Product registers a very slight net increase of \$5 million on an average annual basis, while personal disposable income rises by \$6.0 million. Private fixed investment declines slightly by an average of \$2.1 million per year, but this figure does not include the net gains due to changes in public investment in public housing, mass transit facilities, and infrastructural improvements, which increase by an average of \$8.5 million per year.

These gains occur despite the fact that for every 62 cents in new grant funding there is a dollar cut in military contracts and pay. There are, however, several reasons why spending on grants-in-aid would stimulate the local economy more than military spending. The new funding for urban programs would generate more locally-based jobs in construction, finance, retail trade, and state and local government. By contrast, military-related industry has a higher import content, which tends to provide less direct stimulus to the local economy. As a result of the reduction in military spending, imports to the Austin region go down, reflecting the change toward more locally generated economic activity.

For Austin, these gains are partly offset by the fact that Travis County as a whole suffers a modest net loss in employment, income and investment. Travis County losses amount to 740 jobs per year, and the Gross Regional Product declines by an average of

\$23 million per year. It is unlikely, however, that these losses would produce negative results for Austin because the main source of the losses in Travis county are due to cuts in troops levels and operations at Bergstrom Air Force base.

While Austin's economy undoubtedly services some of the needs of the base, the

main effect on retail sales would likely occur at the base's PX. The effect on wholesale trade would be dispersed through the national procurement system, rather than in the immediate area. Employment losses are largely a result of troop reductions at Bergstrom, which would not affect Austin because troop reductions would not add to the local supply of the

**Table 9**  
**TRENTON AND MERCER COUNTY**  
**TRENTON'S NEW FUNDS DUE TO INCREASED SPENDING ON GRANTS-IN-AID**  
(measured in current dollars)

	ANNUAL AVERAGE 1986-1990	FIVE YEAR TOTAL
Housing and Community Development	\$6,464,000	\$32,320,000
Social Services	278,000	1,389,000
Employment and Training	1,929,000	9,645,000
Mass Transit	1,864,000	9,320,000
Education	5,599,000	27,993,000
Public Health	391,000	1,953,000
<b>TOTAL</b>	<b>\$16,524,000</b>	<b>\$82,620,000</b>

(Five Year Totals may reflect discrepancies due to rounding.)

Population 92,000 (Census estimate for 1987)

Per Capita New Funding \$179.61

**MERCER COUNTY'S NEW FUNDS FROM**  
**INCREASED SPENDING ON GRANTS-IN-AID**  
(measured in current dollars)

	ANNUAL AVERAGE 1986-1990	FIVE YEAR TOTAL
Housing and Community Development	\$7,845,000	\$39,224,000
Social Services	329,000	1,671,000
Employment and Training	2,050,000	10,249,000
Mass Transit	1,864,000	9,320,000
Education	8,471,000	42,353,000
Public Health	647,000	3,235,000
<b>TOTAL</b>	<b>\$21,206,000</b>	<b>\$106,028,000</b>

(Five Year Totals may reflect discrepancies due to rounding.)

Population 310,000 (Forecast average for 1986-1990)

Per Capita New Funding \$68.41

civilian labor force, but instead would be dispersed around the nation as these personnel relocated.

On balance, the analysis indicates that Austin's economy would probably break even as a result of increased spending on grants-in-aid and lower military spending. Austin would benefit from the improvements in the quality and volume of public services in education, health care, employment and training, urban mass transportation, housing and social services. Over the longer run, these improvements would enhance the quality of life and the investment climate in Austin and the region.

### **TRENTON: The Social Benefits and Economic Impacts**

Trenton, an older industrial city of 92,000, is the state capital of New Jersey. The severe pressure on the manufacturing sector throughout the 1980s hindered the growth and development of Trenton. Currently, the city's share of its population living below the poverty level is above the national average. The added burden of federal cutbacks in urban programs made it more difficult for Trenton to restructure its economy and improve its public services.

Because of these special problems, Trenton could make impressive gains with this redirection of federal priorities to meet urban needs. Table 9 outlines the additional federal expenditures going to Trenton under the new urban agenda. The tangible benefits of greater public investment in housing, education, mass transit, and health and social services, would aid Trenton in retaining and attracting new businesses, and significantly improve the prospects of many of its citizens.

#### ***Housing and Community Development: \$6,464,000 in New Funds Per Year***

Trenton has a severe shortage of adequate low-cost housing, which contributes to the problem of homelessness. A significant number of families are homeless, and over 10% of the homeless are employed.

Currently, only 25% of the city's homeless and inadequately housed population is being served. Waiting time for public housing averages between 24 and 36 months. Trenton would gain an additional \$32 million in new funding for housing and community development over five years.

This additional expenditure would mean that 160 additional public housing units could be constructed over the five-year period. They could house over 600 individuals who are presently homeless or in urgent need of decent housing. Over half of the additional money would go to rehabilitate about 1,200 existing public and private units, which could house 4,000 people. Twenty-four full-time management and maintenance personnel could be hired to improve the quality and security of existing public housing projects. A five-year total of approximately \$3.2 million would remain for additional housing and community development to help revive neighborhoods and small businesses.

#### ***Primary and Secondary Education: \$5,599,000 in New Funds Per Year***

The economic problems and the extent of poverty affecting Trenton have led to greater needs for specialized education. The city's high poverty rate is related to the low levels of literacy among many of the poor. These problems can only be effectively attacked with increased resources going to the public school system. The increased federal educational program support put forward in this study was designed to meet precisely the kinds of needs seen in cities such as Trenton. The school system would receive \$5.6 million annually in additional federal support to education, totalling about \$28 million for the period.

This would allow Trenton to add personnel and improve its educational facilities to tackle its special problems. About \$2.2 million annually could go to hire 54 new teachers and 36 additional support staff. Over \$1.1 million dollars would be spent to raise teacher salaries which are below the national average. Another \$1.1 million annually



would be channelled into new construction in several of the city's aged school buildings. Close to \$5.6 million would remain available over the period to purchase new furniture and fixtures, books and teaching aids and audio-visual equipment. Such purchases would ensure that the public schools could offer modern, high quality classrooms.

#### ***Employment and Training: \$1,929,000 in New Funds Per Year***

The \$2 million in city and county programs would allow about 727 new participants in the adult JTPA program, and 700 new participants in the youth program. The increase in job training and placement services will help to attract new businesses and transform unemployed workers into income earners. Program expansions would also link Trenton residents with job openings in the outlying areas of the county where job growth has been rapid. In addition, the Summer Youth Jobs program could be expanded to help the disadvantaged inner city youth improve their basic skills and acquire vocational experience.

#### ***Mass Transit: \$1,864,000 in New Funds Per Year***

The mass transit system of Trenton and Mercer county is operated by the State of New Jersey Transportation Authority (NJT). Bus and train service within the city as well as intercity service is managed by NJT. The most critical transit need for the City of Trenton and Mercer County, is to increase transit links between the City of Trenton and suburban and outlying areas of Mercer County where growth has been higher. Officials said that improved and additional bus service would make the development prospects of both city and county much better. The \$9.3 million addition for the period would make this critical improvement in service possible.

The Authority would be able to buy 22 additional buses, hire 15 additional drivers, and provide over \$2.3 million for the construction of new bus routes and pick-up points. These mass transit additions, by improving the

links between the city and outlying areas would generate new employment and income possibilities for residents of Trenton, while providing workers to new firms located in the county.

#### ***Health Care: \$391,000 in New Funds Per Year***

Trenton's public health services have also been stretched by its high poverty rate and by cutbacks in federal assistance. Various public health services provided by the city include: prenatal and child health care; treatment of sexually transmitted diseases, including AIDS; alcohol and drug treatment; family planning; and the treatment of mental illness. Over 42,000 clients were served by the city's public health system which reported severe understaffing in several areas. The city would receive close to \$391,000 in additional annual support, or more than \$1,953,000 over five years. This modest increase would allow the public health system to meet very substantial unmet needs.

Public health officials said that the additional federal funding would be used to address three key problems. First, prenatal and child health services would be expanded. Despite recent improvements, Trenton still has a problem with infant mortality and low birth-weight babies. Satellite clinics could be set up to extend outreach, education and services to expectant mothers, and to monitor the health and nutrition of newborns. An extra 3,200 home visits could be made by nursing and support staff.

Second, the city needs to expand services to meet the growing problem of sexually transmitted diseases. The city had over 3,200 cases of sexually transmitted diseases in 1987, and could expand staff, purchase medication, and extend treatment hours to help stop the spread of these diseases.

Third, the health service could hire more nurses to help the growing number of drug or alcohol dependent mothers through treatment and family intervention. A single nurse managed treatment for 510 such cases last year.

The additional staff would reduce this burden and bring more of these cases under treatment. Beyond these three problem areas, the added federal support would allow for needed expansions in the childhood immunization and family planning services.

**Social Services: \$278,000 in New Funds Per Year**

Good day care is among the many social services which Trenton needs. Having it available would allow more people from low-income families to take jobs and begin earning wages. Early childhood development programs are essential for children to enter school with good basic skills. These pivotal services would be expanded and improved, since the city would receive over \$1.4 million cumulatively for more social services.

These added outlays would provide 200 additional day care slots and enroll 75 children in full-day Head Start programs. Waiting lists are long for both programs. Recreational programs for youth could be extended to 200 children and young adults, helping to involve them in team sports and other activities rather than gangs and crime.

The additional money would allow for a considerable expansion in food and nutrition

and home care services for seniors. Over 500 additional senior citizens could receive meals and homemaking assistance.

**TRENTON: The Economic Impacts**

As a result of this shift in federal priorities, Trenton shows slight net gains in Gross Regional Product, income, investment and employment. Together with the improvements in the social and physical infrastructure, these economic gains are a significant collateral benefit. Within the broader context of Mercer County as a whole, Trenton still enjoys either a slight net economic gain, or breaks even.

The city realizes a net average annual gain in its Gross Regional Product of \$2.4 million. As Table 10 shows, the economic gains from public investments consistently more than offset the reductions in GRP due to military cutbacks. Both personal disposable income and private fixed investment show slight net gains. It should be emphasized that the net change in private fixed investment indicates only the secondary (or induced) effects from higher spending on grants-in-aid programs. It does not reflect the net effect on public fixed investment in public housing, mass transit facilities and public improvements, which amounts to \$5 million each year.

**Table 10**  
**THE EFFECT ON TRENTON'S GROSS REGIONAL PRODUCT**  
**FROM A SHIFT IN FEDERAL PRIORITIES**  
 Annual Average for 1986-1990  
 (Measured in 1982 Dollars)

	Increases from Urban Programs	Decreases from Military Cuts	Net Impact
Gross Regional Product	+ \$8,600,000	-\$6,200,000	+ \$2,400,000
Personal Disposable Income	+ \$4,800,000	-\$3,500,000	+ \$1,300,000
Private Fixed Investment	+ \$ 628,000	-\$ 516,000	+ \$ 112,000

Net employment changes are small but positive. On average, Trenton gains 95 jobs per year, while the rest of Mercer County loses only 8 jobs per year. The more important effect is a change in the composition of employment. Employment increases in construction, transportation, finance, retail and wholesale trade, services, and state and local government. Employment decreases slightly in both durable and non-durable goods production, as well as for uniformed and non-uniformed Defense Department personnel.

Overall, Trenton breaks even in the major economic indicators. Nonetheless, the real impact of these policy changes would be measured in terms of the improvements in the quality and quantity of the improvements in education, public housing, mass transit, employment and training programs, and social and health services.

### **IRVINE: The Social Benefits and Economic Impact**

Irvine, is a city of 88,000, located in rapidly growing Orange County in Southern California. This relatively affluent city has enjoyed the benefits of rapid growth in the high-technology and service sectors of the Orange County area. Adding to the economic vigor of the city is the University of California at Irvine, and the Orange County international airport.

High rates of economic growth and an above average household income explain the low per capita participation of Irvine and Orange County in many of the urban grant programs. However, the extremely high rates of development and population growth in the Irvine-Orange County area have put a severe strain on the region's physical infrastructure, especially transportation and low-cost housing. Moreover, the region's economic expansion has bypassed a significant number of citizens who need low-cost housing, health care, and social services.

Table 11 shows the share of additional federal spending going to Irvine and Orange County. The injection of additional money will

allow the area to make much needed investments in its overburdened transportation system, its supply of low-income housing, and to extend health and social services to those in need.

### ***Housing and Community Development: \$263,000 in New Funds Per Year***

The rapid growth of the Irvine-Orange County area has caused rents and housing prices to skyrocket, making it extremely difficult for the region's low-income families to obtain decent affordable housing. The homeless population of Orange County has been estimated at between 4,000 and 6,000 individuals. Increasing rents in the area have increased the demand for public housing from families with low incomes, who are often forced to spend up to 50% of their income on rent. The additional federal housing and community development funding going to the Irvine-Orange County area would equal almost \$238 million over the period.

Increased funding of this magnitude would help relieve the pressure on the county's low-income households to obtain a decent living space at a price that allows them to buy other basic necessities. These additional expenditures would allow for the construction of over 500 additional units of public housing in the county, and the rehabilitation of nearly 4,300 existing public and private units.

Over 2,000 individuals would be able to obtain new public housing and 16,000 people could be housed in rehabilitated units. These additions and improvements would help meet the region's homelessness problem. New housing expenditures would also open up 175 new management and maintenance jobs to improve the operation and the condition of existing low-income housing. More than \$26 million per year would be directed to other community development and housing programs in Orange County.

### ***Primary and Secondary Education: \$2.8 million in New Funds Per Year***

Rapid population growth and immigration

has placed a burden on the school systems of Irvine and Orange County. The additional federal support for education would allow

Irvine and other cities in Orange County to meet the demands of a growing student population, particularly those in less affluent school

**Table 11  
IRVINE AND ORANGE COUNTY**

**IRVINE'S NEW FUNDS DUE TO INCREASED SPENDING  
ON GRANTS-IN-AID**  
(measured in current dollars)

	ANNUAL AVERAGE 1986-1990	FIVE YEAR TOTAL
Housing and Community Development	\$ 263,000	\$1,314,000
Social Services	0	0
Employment and Training	91,000	457,000
Mass Transit	465,000	2,326,000
Education	2,790,000	13,950,000
Public Health	2,524,000	12,620,000
<b>TOTAL</b>	<b>\$6,133,000</b>	<b>\$30,670,000</b>

(Five Year Totals may reflect discrepancies due to rounding.)

Population 88,000 (Census estimate for 1987)

Per Capita New Funding \$69.69

**ORANGE COUNTY'S NEW FUNDS FROM INCREASED SPENDING ON  
GRANTS-IN-AID**  
(measured in current dollars)

	ANNUAL AVERAGE 1986-1990	FIVE YEAR TOTAL
Housing and Community Development	\$47,528,000	\$237,640,000
Social Services	15,368,000	76,839,000
Employment and Training	5,736,000	28,682,000
Mass Transit	19,804,000	99,019,000
Education	36,104,000	180,522,000
Public Health	17,521,000	87,607,000
<b>TOTAL</b>	<b>\$142,061,000</b>	<b>\$710,306,000</b>

(Five Year Totals may reflect discrepancies due to rounding.)

Population 2,252,000 (forecast estimate 1986-1990)

Per Capita New Funds \$63.08

districts. The City of Irvine would get a five-year increase of about \$14 million. Other school districts in Orange County would gain over \$36 million annually, or a total of more than \$180 million over the five years.

Sixty new teachers and instructional staff could be hired for Irvine where the current student-teacher ratio is above the national average. The new instructors would lower Irvine's student-teacher ratio from 22.2 to 20.9. The addition of 40 full-time support staff would also be possible. School districts throughout Orange County would be able to hire teachers and other staff, as well as purchase books, computers and other educational equipment.

#### ***Employment and Training: \$91,000 in New Funds Per Year***

For job training and placement, Irvine would only receive an additional \$91,000 per year. However, Orange County would receive \$5.7 million annually under the new federal priorities, totaling well over \$28 million for the period. This increase would make it possible to match the training and placement of unemployed workers with employers' rapidly growing demands for particular occupations. Over 4,600 additional workers annually could be trained through expansions of Orange County's JTPA adult, youth and senior programs, as well as the Displaced Workers and Migrant Workers programs.

#### ***Mass Transit: \$465,000 in New Funds Per Year***

The transportation problems of Irvine, Orange County and the entire Southern California area are among the worst in the nation. This heavily populated region is almost completely dependent on the automobile, and problems of congestion and air pollution are at the crisis point. Unless immediate solutions are found, transportation deficiencies threaten to throttle the area's dynamic development.

New federal funding for mass transit would provide Irvine with \$465,000 annually, and Orange County would receive close to \$20

million annually, amounting to nearly \$100 million over the period. This badly needed mass transit support would allow Irvine to extend the services of its Multi-Modal Transportation Center. This facility is currently under construction and will eventually provide a terminus for bus, rail, and car pool transit. It will add to the convenience and efficiency of the city's mass transit alternatives. The funding would also allow the city to expand its park-and-ride lots which are a major incentive for using the existing bus service. It would also make possible the acquisition of vehicles to transport the elderly and handicapped.

For the county, the infusion of federal mass transit assistance would help the Orange County Transit District (OCTD) to complete its long term capital plan. With mass transit ridership expanding quite rapidly, the capital plan aims to rapidly increase service by attracting new riders. In concrete terms, the county could purchase 115 buses and channel nearly \$27 million dollars into the construction of freeway transit lanes for buses. Computer and communication equipment could also be purchased, which would allow for improved management of the system. The OCTD would be able to hire 440 drivers, as well as management and maintenance personnel to staff the expanding system.

By contributing to the mass transit initiatives of Irvine and Orange County, a revived federal effort in mass transit development would help defuse the transportation crisis in Southern California. This is a problem which currently affects a large population across hundreds of local jurisdictions, underscoring the need for a greater federal role in mass transit.

#### ***Health Care: \$2,524,000 in New Funds Per Year***

Public health activities affecting Irvine are under the jurisdiction of the county. Orange County would receive an annual average increase of \$17.5 million for Public Health Block Grants. Of this total, \$2.5 million annually would go to institutions in the City of Irvine. Much of the new funding would go to the

University of California at Irvine, which is very active in research and program development in such key fields as alcohol and drug abuse research, treatment, and prevention, as well as in the field of preventive health research.

Additional federal health funding would also assist the county in servicing the public health needs of its growing population. Three alcohol and drug detoxification facilities could be added, with 90 beds in each of these county facilities. Drug abuse prevention and early intervention programs could be expanded. Mental health in-patient services could be expanded by 35 beds, and mental health services for institutionalized juveniles could be increased. Current programs for the diagnosis, treatment and prevention of AIDS could be tripled. And prenatal care could be extended to 2,000 more mothers. Finally, family planning services could be expanded for county-wide programs.

***Social Services for Orange County:  
\$15,368,000 in New Funding Per Year***

The Irvine and Orange County area have growing needs for child care and child development, special services to the aging, and shelter for the homeless. The county would

obtain more than \$15 million in additional federal support annually, totaling over \$75 million for the five-year period. It would then be allowed to expand its services to the two fastest growing segments of the population: children and senior citizens.

The number of day care slots in the county is far short of current demands. The additional federal money could just about double the number of children enrolled in day care programs, and increase the number of children in Head Start. For example, in Irvine, 50 to 100 children could be brought into full-day Head Start type programs, eliminating the current waiting list.

A major expansion of services could also be provided to the county's growing senior population. An increase in transportation services would allow the elderly better access to the county's public and private medical facilities, and reduce the need for hospitalization and nursing home care. With the expansion of the homemaking and home meal program, more seniors would be able to remain in their own homes.

Additional shelter for the homeless could also be provided where there is a currently a shortage of shelter space. And services to deal

**Table 12**  
**THE EFFECT ON IRVINE'S GROSS REGIONAL PRODUCT**  
**FROM A SHIFT IN FEDERAL PRIORITIES**  
**Annual Average for 1986-1990**  
(Measured in 1982 dollars)

	Increases from Urban Programs	Decreases from Military Cuts	Net Impact
Gross Regional Product	+ \$6,500,000	- \$12,800,000	- \$6,300,000
Personal Disposable Income	+ \$4,200,000	- \$6,300,000	- \$2,100,000
Private Fixed Investment	+ \$ 800,000	- \$2,700,000	- \$1,900,000

with the problem of family violence could be expanded.

## **IRVINE: The Economic Impacts**

Irvine is a rapidly growing high-tech city located in Orange County, California, one of the most militarily dependent regional economies in the nation. The City of Irvine shows a very slight average net loss in employment of 72 jobs per year, and a slight loss in personal income and overall economic activity as a result of this policy change.

As Table 12 shows, Irvine's Gross Regional Product declines by an average of \$6.3 million per year, personal disposable income falls by \$2.1 million per year, and private fixed investment by \$1.9 million. As noted before, the private fixed investment figures do not reflect the effects of net public investment on public infrastructural improvements.

In examining these economic impacts on Irvine, one should pay particular attention to the policy's effect on Orange County as whole, because Irvine is relatively small and is dependent on the county's economy. Indeed, the overall impact on Irvine's economy will actually be greater than these figures suggest, because the negative economic repercussions of these policies on the rest of Orange County may feed back into Irvine's local economy.

Orange County, an economy with both substantial military contracts and large military bases, shows an annual average net loss in Gross Regional Product of \$272 million. The net loss is attributable to a decline in GRP of \$387 million from reductions in military contracts and personnel, which is only partly offset by a \$115 million increase in GRP from additional grants-in-aid. Most of these losses occur principally because of cutbacks in military contracts in defense electronics and aerospace, which in turn lead to reductions in subcontracts in other industries and services.

Net employment losses average 6,920 jobs per year, and are distributed throughout the Orange County economy. The reduction in employment, however, primarily affects the defense electronics and aerospace industries,

and certain key business and professional services in consulting and research and development. These reductions in employment and industry demand then ripple out into the local economy and lead to lay-offs in other sectors. These secondary or induced job losses, however, are relatively small. However, because the Orange County economy is so large, the net job losses do not cause very large increases in the overall unemployment rate, which rises six-tenths of one percent in 1986 and 1987.

Troop reductions account for the balance of the employment losses, but the impact of these losses on the county's unemployment rate would likely be minimal since they would be dispersed across the nation as the troops were relocated.

**The net economic losses highlight the need to think about economic conversion planning for militarily dependent regions which may experience downturns in military contracting. Economic conversion planning could minimize the impact of such a cutback in military spending, especially if the key industries were targeted for programs to develop new civilian products, new industrial production techniques, and civilian-oriented research and development.**

Alternative use planning would allow the orderly transition of capital, labor and scientific resources from military to civilian production, thus preventing the idle production capacity and layoffs of engineers, scientists and production workers so typical of past downturns in the Southern California defense industry.

Employment data from this study indicate that a carefully targeted program of alternative use planning and the reorientation of the engineering, scientific and production skills in aerospace, defense electronics and key research and development sectors, could significantly offset declines in military employment. Advance planning in these key industries would thereby preempt the secondary employment losses, as there would not be the shutdowns and lay-offs.

Indeed, the federal grants-in-aid for demonstration and research projects in employment and training could conceivably be targeted for alternative use planning and the redeployment of the labor force in these industries. For alternative use planning to be successful, however, it must be done before the contracts are completed so that a blueprint is in place for the transition to civilian production.

In summary, the impacts on Orange County and Irvine are relatively small when compared to the size of the local economy and workforce, and these negative effects can be minimized by advance planning. Moreover, Orange County and Irvine benefit from the tangible improvements in the quality of life through increased public goods and services in urban mass transportation, public health care, low-income housing, employment and training, infrastructural improvements and social services.

### **What the City Case Studies Reveal**

The case studies show how substantially different city and county economies would respond to a change of this magnitude in the composition of federal spending priorities. However, the results for these cities do not represent a statistically significant sample of how the nation's cities would fare under this \$30 billion change in federal budget priorities. It is the national results which provide the proper context in which to view the overall impact on the nation's economy. Both the national and case study results, however, provide critical information for thinking about how the nation's budget priorities could be reordered, and what the national and regional effects would be.

On balance, the results show that our nation and our cities would directly benefit from a much needed increase in spending for our local city services, which after all, provide the most immediate and tangible contribution to our citizens' well being and security. Local elected officials should find this study a useful contribution to the new debate over how to rebuild our local and national economies.

## **CONCLUSION**

This study shows that a \$30 billion shift of federal budget priorities from the military to urban grants-in-aid provides a viable means of meeting the growing social needs of our cities, while generating the additional collateral benefits of higher economic growth and more jobs.

Even after such a transfer were made, the nation's military budget would still be permitted an average annual real spending increase of \$41 billion over 1981 levels after inflation.

The national results of this study demonstrate that this new funding could provide direct assistance to cities of the scale and scope necessary to address many of their most pressing problems. The initiation of this policy would generate more employment, income, output, and investment than do our current budget priorities.

The city studies of Chicago, Austin, Trenton and Irvine demonstrate that this spending shift could make a sustained contribution to a higher quality of life. It could mean that the cities' children are better educated, the public health system improved, the elderly receive better care, and more housing is provided for the poor.

As these long-run investments bear fruit, the nation's citizens would become more productive, its industries more competitive, and the quality of life improved for the millions of Americans who live the nation's cities.



## ENDNOTES

1. See *Historical Tables, Budget of the United States Government, FY 1989*, Executive Office of the President, Office of Management and Budget, Table 3.1 for total federal on- and off-budget outlays and Table 6.1, for total grants-in-aid including payments to individuals and all other grant-in-aid programs, pages 43-44 and 129-131.
2. *Ibid.*
3. See *Reagan and the States*, by Richard Nathan, Fred Doolittle, et. al., Princeton University Press, New Jersey, 1987, page 14. Also see "Receipts and Expenditures of State Governments and of Local Governments: Revised and Updated Estimates, 1983-86," by David Levin and Donald Peters, *Survey of Current Business*, November 1987, pages 29-35. These figures are deflated using the implicit price deflators taken from Table 6.1 of the *Historical Tables* cited above.
4. See Resolution #5, of the U.S. Conference of Mayors, point 7 on National Priorities, June, 1987.
5. "The Education of David Stockman", by William Greider, *Atlantic Monthly*, December, 1981, page 35.
6. See, "Pentagon Waste, \$45 Billion Estimated", *The Miami Herald*, February 11, 1988, page 1-A.
7. See *Defining American Strength, Results of a Survey of American Voters* Conducted for the World Policy Institute, October 15-20, 1987, by Mellman & Lazarus Research, Washington, D.C.
8. See *The Continuing Growth of Hunger, Homelessness and Poverty in America's Cities, 1987*, by The U.S. Conference of Mayors, Washington, D.C., March, 1988, p. 21.
9. See, *HUD Perspective on Public Housing Modernization*, U.S. Department of Housing and Urban Development, Washington, D.C., March 1988, pp. 2-3.
10. *Ibid.* Appendix 1, for calculation of the total costs of repair and additions of public housing. Estimates of the average costs for mandatory repairs and additions in *Study of the Modernization Needs of the Public and Indian Housing Stock*, Abt Associates, March 1988, p. xxi.
11. See *Taking Exception, A Time for Serious Discussion of Urban Policy*, by Representative, Howard E. Wolpe, Democrat, Third Congressional District of Michigan, an unpublished paper, page 1.
12. See *Projections of Education Statistics to 1992-93* by the National Center for Education Statistics, Office of Educational Research and Improvement, United States Department of Education, June 1985, Table B-2, page 44.
13. See *Statistical Abstract of The United States, 1987*, op.cit., Table 1013, page 581.
14. *Ibid.* Table 1043, page 595.
15. Calculations are based on data from *Urban Mass Transportation Administration Grants Assistance Programs, Statistical Summaries* by the U.S. Department of Transportation, Washington, D.C. June, 1988, Tables 11, 13, and 22.
16. *City and State*, published by Crain's Newspaper of Public Business and Finance, Chicago, Illinois, June 20, 1988, page 1.
17. Calculations are based on data from the *Children's Defense Budget, 1989*, op. cit., pages 75-79.
18. See *Summary of JTQS Data for JTPA Title II(A) and II Enrollments and Terminations During July-September 1987* by the U.S. Department of Labor, Division of Performance Management and Evaluation, Office of Strategic Planning and Policy Development. Also see *Occupational Projections and Training Data 1986*, Biennial Report, April 1986, Bureau of Labor Statistics Bulletin #2251, Appendix E.
19. See "Military's Dependence on Foreign Suppliers Causes Rising Concern" in the *Wall Street Journal* March 24, 1988, page 1.
20. See, *Net Private Investment and Public Expenditures in the United States, 1953-984* by David Aschauer, Federal Reserve Bank of Chicago, 1987. Also see, *Chicago Federal Reserve Newsletter*, October, 1987 #2.
21. See *The Statistical Abstract of the U.S., 1987*, op.cit., Table 541, 554, pages 326-330.
22. See "State and Local Government Fiscal Position in 1987", by David Levin, in *Survey of Current Business*, February, 1988, pages 25-27.
23. See *Finances of Public School Systems in 1984 - 85* by the U.S. Dept. of Commerce, Bureau of the Census, Government Finance, GF85-No. 10, pages vii-ix.
24. See *Geographic Profile of Employment and Unemployment, 1987* by the Bureau of Labor Statistics, U.S. Department of Labor, April 1988, Table Table 23. Also see *Employment and Earnings*, by Bureau of Labor Statistics, U.S. Department of Labor, May 1988, Table 3.
25. See "CHA Flats Vacant Though 40,000 Wait" by Jorge Casuso, *Chicago Tribune*, June 26, 1988, page A-1. Also see *The Continuing Growth of Hunger, Homelessness and Poverty*, op.cit., page 44.
26. See "A School System Near Meltdown", *Newsweek*, July 4, 1988, page 60.
27. Calculated from data provided by the Mayors Office of Employment and Training in Chicago.
28. See "Skeleton Staff Guards City From Disease", by Deborah Nelson and Tom Brune, in *Chicago Sun Times*, August 12, 1988, page A-1.
29. See *Geographic Profile of Employment and Unemployment, 1987* by the Bureau of Labor Statistics, U.S. Department of Labor, April 1988, Table Table 23. Also see *Employment and Earnings*, by Bureau of Labor Statistics, U.S. Department of Labor, May 1988, Table 3. These data were updated by the Bureau of Labor Statistics, Office of Employment and Unemployment Statistics, Washington, D.C.
30. *Ibid.*

## APPENDIX A

### National Priorities

Resolution No. 5  
Mayor Larry Agran  
Irvine

1. WHEREAS, the Administration and the Congress have cut \$20 billion from key urban programs over the last ten years\*, representing an 80 percent reduction in real terms, in such cuts including outright elimination of the general revenue sharing program, major reductions in Community Development Block Grants, economic development programs, wastewater treatment, public transportation assistance and job training activities; and
2. WHEREAS, military spending continues to escalate, with the Administration proposing new budget authority of \$312 billion for defense in FY88, a rise of \$200 billion over the FY77 level, with a sizable proportion of this increase dedicated to research and development of new weapon systems; and
3. WHEREAS, the Administration proposed new budget authority of \$1 trillion for military programs over the next three years, FY88-90; and
4. WHEREAS, social programs which serve our poorest and most vulnerable citizens have been cut drastically over the last few years, including most assisted housing efforts, education aid, food stamps, child nutrition, Medicaid, Medicare and other health programs, social services, legal services, Aid For Families with Dependent Children, child support programs, and refugee services; and
5. WHEREAS, military spending creates fewer jobs per billion dollars of spending than do urban programs; and
6. WHEREAS, if military spending were reduced and social and infrastructure spending increased, the result would be a net increase in jobs,
7. NOW, THEREFORE, BE IT RESOLVED that the U.S. Conference of Mayors calls upon the Congress and the Administration to redress the imbalance between military spending and important domestic spending, consistent with national security; and
8. BE IT FURTHER RESOLVED that the U.S. Conference of Mayors calls upon the Congress and the Administration to ensure that reduced military spending is accompanied by special assistance to those communities with militarily-dependent economies; and
9. BE IT FURTHER RESOLVED that the U.S. Conference of Mayors pledges its own examination of the economic and employment impacts, including the impact on individual cities if national priorities are realigned to increase spending on urban programs and decrease spending for military purposes.

\*This calculation is based on a comparison of the changes in the levels of Budget Authority for these programs in FY 1978 versus the Administration's proposed Budget Authority in FY 1988. These figures are in current dollars. See *The Federal Budget and the Cities*, by The U.S. Conference of Mayors, January 1987, page v.

## APPENDIX B

### FEDERAL GRANTS TO AID CITIES

#### FUNCTIONAL CATEGORY

From: Code of Federal Domestic Assistance  
(December, 1987 Listing)

#### ASSISTANCE TYPE

(A) = Formula Grants [State/Local]  
(B) = Project Grants  
(C) = Direct Payments (Specified Use)  
(D) = Direct Payments (Unrestricted Use)

#### RECIPIENT

#### AGENCY

##### SUBAGENCY

Code of Federal Domestic Assistance Number & Program Description

### TRANSPORTATION

#### DEPARTMENT OF TRANSPORTATION

##### URBAN MASS TRANSIT ADMINISTRATION

20.500 Urban Mass Transit Capital Improvement Grants	B	S/L
20.503 Urban Mass Transit Managerial & Training Grants	B	S/L
20.505 Urban Mass Transit Technical Studies Grants	B	S/L
20.507 Urban Mass Transit Capital & Operating Assistance	A	S/L
20.511 Human Resource Program	B	S/L
20.512 Urban Mass Transit Technical Assistance	B	S/L

### EDUCATION

#### DEPARTMENT OF EDUCATION (Includes Only Elementary, Secondary & Vocational Ed.)

84.002 Adult Education - State Administered Programs	A	S/L
84.003 Bilingual Education	B,C	S/L
84.004 Civil Rights Technical Assistance & Training	B	S/L
84.009 Education of Handicapped Children in State Schools	A	S/L
84.010 Educationally Deprived Children - Local Agencies	A	S
84.011 Migrant Education - Basic State Formula Grant	A	S
84.012 Educationally Deprived Children - State Admin.	A	S
84.013 Neglected & Delinquent Children	A	S
84.014 Follow Through	B	S/L
84.023 Handicapped - Innovation & Development	B	S/L
84.024 Handicapped Early Childhood Education	B	S/L
84.026 Handicapped Media Services & Captioned Films	B,C	S/L
84.027 Handicapped - State Grants	A	S/L
84.028 Handicapped Regional Resource & Federal Centers	B	S/L
84.029 Handicapped Education - Special Ed. Personnel Dev.	B	S/L
84.040 Impact Aid - Construction	B	L
84.041 Impact Aid - Maintenance & Operation	D	L
84.042 Student Support Services	B	S/L
84.044 Talent Search	B	S/L
84.047 Upward Bound	B	S/L
84.048 Vocational Education - Basic Grants to States	A	S
84.051 National Vocational Education Research	B	S/L
84.053 Vocational Education State Councils	A	S
84.066 Educational Opportunity Centers	B	S/L
84.069 Grants to States for State Student Incentives	A	S/L

84.073 National Diffusion Network	B	S/L
84.077 Bilingual Vocational Training	B,C	S/L
84.086 Handicapped Education – Severely Handicapped	B	S/L
84.099 Bilingual Vocational Instructor Training	B,C	S
84.100 Bilingual Vocational Materials, Methods, etc.	B	S
84.103 Training for Special Programs Staff & Leadership	B	S/L
84.122 Secretary's Discretionary	B	S/L
84.126 Rehabilitation Services – Basic Supports	A	S
84.128 Rehabilitation Services – Service Projects	B	S/L
84.129 Rehabilitation Training	B	S/L
84.132 Centers for Independent Living	B	S/L
84.133 National Institute on Disability & Rehab. Research	B	S/L
84.136 Legal Training for the Disadvantaged	B	S/L
84.141 Migrant Education – High School Equivalency Program	B	L
84.151 Improving School Programs – State Block Grants	A	S
84.154 Public Library Construction	A	S
84.155 Removal of Architectural Barriers to Handicapped	A	S
84.158 Secondary Ed. & Transitional Services for Handicapped Youth	B	S/L
84.159 Training for Handicapped Individuals	B	S
84.160 Training Interpreters for Deaf Individuals	B	S/L
84.161 Client Assistance for Handicapped Individuals	A	S/L
84.162 Emergency Immigrant Education	A	S
84.164 State Grants: Teacher Skills in Math, Science, Foreign Language, Computer Learning	A	S
84.165 Magnet School Assistance	B	L
84.167 Library Literacy	B	S/L
84.168 Secretary's Discretionary Program for Math, Science, Computer Learning Critical Foreign Lang.	B	S/L
84.169 Comprehensive Services for Independent Living	A	S
84.171 Excellence in Education	B	L
84.172 Construction, Reconstruction & Renovation of Academic Facilities	B	S
84.174 Vocational Education – Community Based Org.	A	S/L
84.178 Leadership in Educational Administration Development	B	S/L
84.180 Technology, Education Media for the Handicapped	B	S/L
84.192 Adult Education for the Homeless	A	S/L
84.194 Bilingual Education Support Services	B	S/L
84.195 Bilingual Education and Training Grants	B	S/L
84.196 State Activities -Education of Homeless Youth	A	S

## HOUSING AND COMMUNITY DEVELOPMENT

### DEPARTMENT OF COMMERCE

#### ECONOMIC DEVELOPMENT ADMINISTRATION

11.300 Economic Development – Grants for Public Works Fac.	B	S/L
11.302 Economic Development – Support for Planning Org.	B	L
11.303 Economic Development – Technical Assistance	B	S/L
11.304 Economic Development – Public Works Impact Proj.	B	L
11.305 Economic Development – State & Local Dev. Planning	B	S/L
11.307 Special Economic Development & Adjustment Assistance Program Severe Dislocation etc.	B	S/L

**HOUSING AND COMMUNITY DEVELOPMENT (continued)**

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**HOUSING – FEDERAL HOUSING COMMISSIONER**

14.156 Lower Income Housing Assistance Program	C	S/L
14.169 Housing Counseling Assistance Program	B	S/L
14.174 Housing Development Grants	B	S/L

**COMMUNITY PLANNING AND DEVELOPMENT**

14.218 Community Development Block Grants/ Entitlement	A	L
14.219 Community Development Block Grants/ Small Cities	B	S/L
14.221 Urban Development Action Grants	B	L
14.227 Community Development Block Grants/ Secretary's Discretionary Fund/ Technical Assistance	B,C	S/L
14.228 Community Development Block Grants/ State Programs	A	S
14.230 Rental Housing Rehabilitation	A	S/L
14.231 Emergency Shelters Grants Program	A	L
14.232 Community Development Block Grant/ Secretary's Discretionary Fund/ Special Projects	B	S/L
14.401 Fair Housing Assistance Program	B	S/L
14.506 General Research & Technology Activity	B	S/L
14.550 Solar Energy and Energy Conservation Bank	B	S
14.851 Low Income Housing – Homeownership Opportunities	C	L

**EMPLOYMENT AND TRAINING**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**FAMILY SUPPORT ADMINISTRATION**

13.790 Work Incentive Program	A	S
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**DEPARTMENT OF LABOR**

**EMPLOYMENT AND TRAINING ADMINISTRATION**

17.235 Senior Community Service Employment Program	A,B	S
17.246 Employment and Training Assistance-Dislocated Workers	A	S
17.247 Migrant and Seasonal Farm Workers	A,B	S/L
17.248 Employment and Training R&D	B	S/L
17.249 Employment Services and Job Training – Pilot and Demonstration Programs	B	S/L
17.250 Job Training Partnership Act	A	S

**SOCIAL SERVICES**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**OFFICE OF HUMAN DEVELOPMENT SERVICES**

13.600 Administration for Children, Youth & Families Head Start	B	S
13.633 Special Programs for the Aging-Grants for Supportive Services and Senior Centers (Title III)	A	S
13.635 Special Programs for the Aging-Nutrition Services (Title III)	A	S
13.667 Social Services Block Grants	A	S

**FAMILY SUPPORT ADMINISTRATION**

13.792 Community Services Block Grants	A	S
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13.793 Community Services Block Grants - Discretionary	C	S
13.795 Community Services Block Grants - Discretionary/ Community Food and Nutrition	A,C	S/L

**PUBLIC HEALTH**

DEPARTMENT OF HEALTH AND HUMAN SERVICES

PUBLIC HEALTH SERVICE

13.110 Maternal & Child Health Consolidated Programs	B	S
13.116 Tuberculosis Control Programs	B	S/L
13.118 AIDS Activity	B	S/L
13.125 Mental Health Planning & Demonstration Projects	B	S
13.141 Alcohol & Drug Abuse Treatment Block Grant	B	S
13.217 Family Planning Services	B	S/L
13.224 Community Health Centers	B	S/L
13.226 Health Services Research & Development Grants	B	S/L
13.242 Mental Health Research	B	S/L
13.260 Family Planning Personnel Training	B	S/L
13.262 Occupational Health & Safety Research	B	S/L
13.263 Occupational Health & Safety Training	B	S/L
13.268 Childhood Immunization Grants	B	S/L
13.273 Alcohol Research Programs	B	S/L
13.279 Drug Abuse Research Programs	B	S/L
13.824 Area Health Education Centers	B	S/L
13.888 Home Health Service & Training	B	S/L
13.891 Alcohol Research Center Grants	B	S/L
13.977 Preventive Health Services, Sexually Transmitted Disease Control	B	S/L
13.978 Preventive Health Services, Demonstration & Public Information and Education	B	S/L
13.991 Preventive Health & Health Services Block Grants	A	S
13.992 Alcohol, Drug Abuse & Mental Health Block Grants	A	S
13.994 Maternal & Child Health Services Block Grants	A	S

## APPENDIX C METHODOLOGY AND DOCUMENTATION FOR U.S. CONFERENCE OF MAYORS STUDY

### I. INTRODUCTION

The results of this study are based on two computer simulations for the national impact analysis, and two simulations for each of the four cities. All of the computer simulations were performed with the Multiregional Forecast Simulation Model (FS-53) developed by Regional Economic Models Inc. (REMI) of Amherst, Massachusetts. The first set of simulations estimated separately the impact of reducing annual military expenditures by \$30 billion over the 1986-1990 period on the nation as a whole, and the four cities and counties selected for the study. The second set of simulations estimated separately the impacts on the nation and the selected counties and cities of increasing specific categories of federal grants-in-aid to state and local governments by \$30 billion per year over the 1986-1990 period.

Employment Research Associates estimated the changes in the final demand for goods and services which would occur as a result of reduced military spending, and increased urban grants-in-aid for the 1986-1990 period. These demand changes formed the inputs for separate simulations of the national impacts and the impacts on the four cities of reduced military spending and increased urban grant spending. These inputs were entered into the REMI model to estimate the employment, output, income, and investment impacts for each area over the period. These estimates include all direct, indirect and induced impacts due to the \$30 billion transfer from military to urban programs.

The first set of simulations estimated the economic effects of the reduction in military spending, including all direct, indirect and induced income, investment, employment and tax losses. The second set of simulations estimated the economic effects of the increases in spending on education, health care, housing, transportation, and certain social services. The net impacts were a result of comparing the losses in economic activity estimated by the military simulations with the gains in economic activity estimated by the urban program simulations.

Separate REMI models were developed for the nation and the four cities to forecast the baseline economic conditions in each, and to simulate the effects of reduced military spending and increased urban grants. These baseline forecasts formed the basis for analyzing the impacts of changes in demand due to lower military spending and higher urban grant spending.

Each city (Chicago, Trenton, Austin and Irvine) was modeled as a portion of the county economy in which it is located (i.e. the counties of Cook, Mercer, Travis, and Orange, respectively). Separate runs were also done for each county economy so as to gauge the relative impact of the proposed policy changes on the county as a whole. This allowed for a comparison of the county-wide repercussions with the effects on the city so that an overall net assessment could be made.

### THE REMI FS-53 MODEL

The REMI forecast simulation model combines the advantages of an input-output model and an econometric simulation model. The input-output characteristics of the model accurately track inter-industry purchases (for example, the purchase of steel by the auto industry). The econometric parameters in the model make it possible to trace competitive effects by industry, wage changes by occupation, shifts between capital and labor, and migration effects through time as the multi-regional economy responds dynamically to exogenous changes.

The multi-regional dimension of the REMI Model makes it possible to accurately estimate the dynamic response of an individual county's economy to changes in the size and composition of demand for a county's output. In the REMI Model, estimates of county impacts are developed through a bottom-up approach. An exogenous change in demand will first affect the demand for goods and services produced by the county's industries, and in turn, affect the demand for labor in the county, as well as the wage rates and other costs of production. At the same time, part of the change in demand will occur outside the county's economy, as the county's pattern of exports and imports from the rest of the nation will change. Impacts within a county are based on the proportion of local demand supplied locally by each industry in the county (this proportion is called the regional purchase coefficient). The higher the proportion of locally supplied inputs for local production, the greater a change in demand will affect the county's economy.

The assumptions and relationships contained within the REMI Model have been well documented in several published articles (see Treyz and Stevens, "The TFS Regional Modelling Methodology," *REGIONAL STUDIES*, 13, 1985, pp. 547-562, and Treyz, "Predicting the Economic Effects of State Policy Initiatives," *GROWTH AND CHANGE*, vol. 12, #2, April 1981, pp. 2-8). The model's methodology has been widely reviewed

in the regional economics literature (see Roger Bolton, "Regional Econometric Models," *JOURNAL OF REGIONAL SCIENCE*, vol. 25, #4, 1985, pp. 510-511, and Jeffery Round, "Nonsurvey Techniques: A Critical Review of the Theory and the Evidence," *INTERNATIONAL REGIONAL SCIENCE REVIEW*, Vol. 8, #3, 1983, pp. 189-212). Technical questions about the REMI Multiregional FS-53 Model should be addressed to Dr. George I. Treyz, Regional Economic Models, Inc., 306 Lincoln Ave., Amherst, MA 01002.

### II. THE MILITARY IMPACT SIMULATIONS

The reductions in military procurement outlays, personnel payments and number of personnel due to the \$30 billion dollar cut in military expenditures were estimated separately for the nation as a whole, and for each city and county studied. This process first required separating out the components of the military budget which could not be subject to cuts in the short term, namely, retirement payments to uniformed and non-uniformed personnel. These payments are past obligations of the Department of Defense and therefore are not properly the subject of cuts in pay. Second, the portion of domestic military spending cuts had to be separated from the share of the cuts which would fall on foreign producers of military goods, and personnel payments abroad. Finally, after these deductions were made, the domestic military cuts could be shared out as across-the-board annual percentage cuts in military purchases of goods and services, reductions in military personnel, and personnel payments, which were estimated separately for the nation, and each of the cities and counties.

#### A) Estimating the Reductions in National Military Procurement Outlays, Personnel, and Personnel Payments.

Department of Defense domestic procurement purchases, personnel payments and total uniformed and non-uniformed personnel were calculated for FY 1986 and FY 1987. Projections of future spending and personnel were used to derive estimates for FY 1988 through FY 1990. Total DOD outlays for military and civilian functions were taken from the *Budget of the U.S. Government* for fiscal years 1986 through 1989. Estimates of total DOD spending for FY 1990 were taken from *Historical Tables Budget of the United States Government FY 1989*.

Once total D.O.D. outlays were estimated for each fiscal year, retirement payments to uniformed personnel were

estimated from *U.S. Budget Appendices* (editions FY 1987-1989). Estimates of non-uniformed retirement payments were taken from the *Object Class Analysis Budget of the United States* (editions FY 1987-1989). Because retirement payments to uniformed and non-uniformed personnel were transfer payments from past obligations, these payments were deducted from total D.O.D. outlays to arrive at the portion of the military budget subject to the budget cut.

The cut in \$30 billion dollars to finance urban programs as a share of total discretionary D.O.D. programs was then calculated. This equalled the following percentage cut for each fiscal year:

1986	1987	1988	1989	1990
12.1%	11.8%	11.7%	11.4%	10.9%

Since it was assumed that an equal across-the-board cut would be made to finance the urban initiative, these are the annual percentages by which all domestic D.O.D. expenditures were reduced. Cuts falling on military procurement outlays from foreign firms and payments to personnel stationed abroad were excluded because they do not directly affect the U.S. economy.

To estimate the economic impacts of this military outlay reduction, expenditures for domestic procurement purchases from the private sector had to be separated from wage payments to uniformed and non-uniformed personnel. The process of developing the inputs to the model for each year to estimate the economic impacts of the military budget reduction involved four steps.

#### 1. Estimating payments to uniformed and non-uniformed D.O.D. personnel and procurement outlays for goods and services.

a) Actual and projected uniformed and non-uniformed personnel payments were taken from Office of Management and the Budget *Object Class Analysis Budget of the United States* FY 1987-1989. The share of personnel payments going to domestic personnel was based on the ratio of payments to domestic personnel to total personnel in 1986 derived from the D.O.D.'s *Atlas State Data Abstract FY 1986*. It was assumed that the share of personnel payments going to domestic personnel versus payments to personnel stationed abroad would equal the share in 1986 for each subsequent year of the study.

b) Total procurement outlays for goods and services were obtained by subtracting all domestic and foreign personnel payments from total discretionary D.O.D. outlays (excluding retirement payments). To get total D.O.D. procurement outlays

in the domestic economy, total D.O.D. outlays for goods and services were multiplied by the ratio of domestic contracts to total contracts for each fiscal year. This ratio was based on foreign and domestic contract data for FY 1984-1987 obtained from the Federal Procurement Data Center. This ratio was linearly interpolated from the 1984-1987 data to determine the share of domestic procurement outlays for 1988-1990. Once total D.O.D. domestic procurement outlays for goods and services were estimated for each year, these outlays were multiplied by the annual percentage reduction in discretionary defense spending from the \$30 billion dollar cut.

#### 2. Allocating the national cuts in D.O.D. procurement to 53 industries.

The distribution of the cuts in procurement outlays among the 53 industries in the REMI model was derived by using the "Defense Translator" developed by Employment Research Associates. First, detailed prime contract information for the nation was purchased from the Federal Procurement Data Center. The contract data is classified by the four digit Federal Procurement Code. Next, by using the Employment Research Associates Defense Translator—a bridge between the Federal Procurement Codes and the 466 Bureau of Economic Analysis industry specification—the percentage of total D.O.D. contracts going to each industry was estimated for FY 1986 and 1987. A three year moving average was used to estimate the contract distribution for FY 1988-90.

Procurement outlays going to each industry in a given year are a result of new contracts begun in that fiscal year and contracts from previous years. This pattern reflects the fact that the share of outlays going to an industry lag behind the share of contracts obligated for an industry. Evidence indicates that the share of outlays going to a given industry in a given fiscal year is about 60% of the share of contracts obligated for that industry in that year, 30% from the previous year's contract obligations, and 10% from two years prior to the outlay. This approach was used to allocate the cuts in outlays by industry for each fiscal year. The cuts were initially distributed among 466 industries, and then were aggregated to the 53 industries represented in the REMI model. These cuts in outlays (representing a vector of reductions in final sales by industry) were entered into the model to estimate the national economic impacts of the procurement cuts.

#### 3. Estimating the reduction in domestic uniformed and non-uniformed personnel due to an annual \$30 billion dollar cut.

a) The number of active duty domestic uniformed and non-uniformed personnel

for FY 1986 and 1987 was taken from *Selected Manpower Statistics FY 1986* and *Civilian Manpower Statistics* (FY 1986 and 1987 editions). Estimates of military personnel for FY 1988-1990 were taken from *Report of the Secretary of Defense to the Congress FY 1988/1989*. The ratio of domestic uniformed and non-uniformed personnel to total personnel in 1986 and 1987 was used to estimate the number of personnel stationed in the U.S. in FY 1988-1990 under the assumption that this ratio would remain constant over these three years.

b) Once the total number of domestic uniformed and non-uniformed personnel were estimated for each fiscal year, it was reduced by the annual percentage cut in total D.O.D. discretionary outlays from the \$30 billion reduction. These reductions in employment were entered into the REMI model to calculate both the direct and indirect employment losses as a result of the reduction in personal income. A full estimate of the economic activity foregone due to these cuts in employment and personal income required an adjustment to the total wage bill of military and civilian federal employees contained in the REMI model.

c) The reduction in military personnel abroad were added to the domestic personnel reductions to calculate the direct employment effects of reduced military spending. Because the wages and salaries of these personnel are largely spent abroad rather than at home, the wage effects were not added to the model because the effects of this reduced income are felt abroad, rather than in the domestic economy.

#### 4. Adjusting the wage bill of military uniformed and non-uniformed personnel to capture the full effects of the reduction in domestic employment.

The REMI model estimates the economic impacts of reduced demand from the lower wage income resulting from the cuts in total employment. To estimate the full economic impacts of a reduction in uniformed military employment by 100, for example, the model reduces direct employment by 100, and reduces the wage bill and income based on the average wage per military-related employee. However, the average wage implicit in our estimates of cuts in military uniformed and non-uniformed payroll (step 1 above) and numbers of personnel (step 2 above) differed from the average wage for military and civilian personnel contained in the model.

The difference stems from REMI's use of the Bureau of Economic Analysis employment and wage data, which does not distinguish between DOD civilian workers and other civilian federal workers. Furthermore, the BEA's wage data for military personnel understates the average



nominal wage levels for full-time active-duty personnel because it includes temporary and part-time personnel. An adjustment was necessary so that the correct wage level was modeled. The difference between the DOD and BEA data on average wages for military uniformed and non-uniformed employees was multiplied by the annual total cut in each category of employment. This was then entered as a change in the wage bill of federal military and civilian employees. Therefore, the reduction in income resulting from the cut in military personnel multiplied by the average wage per employee in the model, plus the adjustment in income necessary to reflect the difference between the average wage in the model and the average wage in our estimates.

#### **B) Estimating the Reductions in Military Procurement Outlays, Personnel, and Personnel Payments in Each City and County.**

National cuts in military outlays, personnel, and personnel payments had to be correctly distributed to each of the four individual cities and counties in the study. This required four steps.

#### **1. Allocating cuts in procurement outlays to each county and city.**

Data on total D.O.D. procurement contracts in each city and county by principal place of performance were obtained from the Federal Procurement Data Center for FY 1984-1987. The cuts in D.O.D. procurement outlays at the national level were allocated to each city and county by the ratio of a city's or county's prime contracts to total national prime contracts. For example, if 3% of national prime contracts went to Orange County in 1986 then 3% of the national cut in D.O.D. procurement outlays were allocated to Orange County in 1986. Ratios for the FY 1986-1990 period were derived using a three-year moving average so that the FY 1986 ratio was based on the average ratio from the 1985-1987 period. The use of contract data to allocate actual outlays is necessary because the distribution of government outlays by location and industry is not available from any source.

#### **2. Allocating the city and county cuts in D.O.D. procurement to 53 industries**

Once the cuts in D.O.D. outlays were determined for each year these cuts were distributed among 53 individual industries in each region. Detailed prime contract information for each city and county was obtained from the Federal Procurement Data Center. Using Employment Research Associates' Defense Industrial Translator, the percentage of total D.O.D. contracts going to each industry in each city and county was estimated for FY 1984-1987. A three-year moving average was used to estimate the

industrial contract distribution for FY 1986-1990.

Procurement outlays for goods and services going to each industry were estimated in a manner as described in step A.2. above. This procedure was used to allocate the annual cuts in outlays by industry in each city and county. The cuts affecting the 455 industries analyzed were then aggregated to the 53 industries used in the REMI model. For each city and county, these cuts in outlays (representing a vector of reductions in final sales by industry) were entered into the model as changes in final sales to estimate the economic impacts at the local level.

#### **3. Estimating the reduction in uniformed and non-uniformed personnel in each city and county from the annual \$30 billion cut.**

The number of uniformed and non-uniformed personnel in each city and county for 1986 was obtained from the Department of Defense, *Distribution of Personnel by State and Selected Location FY 1986*. These totals were cross checked against the U.S. Office of Personnel Management, *Employment by Geographic Area Biennial Report, 1986*. To estimate the number of personnel in each county or city for FY 1987-1990, it was assumed that the cities' or counties' share of total U.S. personnel would remain constant over this period. Therefore, the ratio of the number of uniformed and non-uniformed personnel in a city or county to total U.S. uniformed or non-uniformed personnel in 1986 was multiplied by the number of actual and projected U.S. military related personnel in FY 1987-1990. This yielded an estimate of the total uniformed and non-uniformed personnel in each city and county for each year. These totals were then reduced by the percentage cut in total discretionary D.O.D. outlays from the \$30 billion cut for each year to derive the personnel cuts in each city and county.

#### **4. Adjusting the wage bill of military uniformed and non-uniformed personnel to capture the full effects of the reduction in employment for each city and county.**

An adjustment also had to be made at the city and county level to account for differences in the implicit wage rate between ERA's estimates of military personnel and payroll (based on DOD data) and those contained in the REMI model of each county (based on BEA data). The method described in step A) 4. was used.

### **III. THE URBAN GRANTS IMPACT SIMULATIONS**

The study has estimated the effect of shifting \$30 billion annually from the Department of Defense budget to federal

grants-in-aid to state and local government urban programs for fiscal years 1986-1990. There are four steps to computing the share of federal grants-in-aid going to the urban programs and cities selected for this study: (A) Identification of the urban programs to receive the \$30 billion transfer of federal funds; (B) Estimation of the existing baseline of current federal urban program obligations and outlays for grants-in-aid for the nation, and for the four cities and counties in the case study; (C) Distribution of the new funds transferred to urban programs; (D) Sectorization of program outlays for direct and final demands resulting from the injection of new funds.

#### **A) Identification of Targeted Urban Programs to Receive New Funds**

The U.S. Conference of Mayors selected the federal urban programs which serve some of the cities' most pressing needs in public health, social services, mass transit, education, employment and training, and housing and community development. Only those grants-in-aid programs that are funded out of general revenues were selected to receive the budget transfer of \$30 billion annually. Trust-funded programs were excluded because they are generally funded out separate federal accounts.

Specific federal grant-in-aid programs were then selected by The U.S. Conference of Mayors in consultation with the mayors and the staffs of the selected cities (see Appendix A for the set of selected programs). Only formula and categorical grant programs that are funded from general revenues were selected to include in the mix of urban programs, particularly those that go directly to cities or are passed through from state block grants to the localities.

The *Code of Federal Domestic Assistance of Fiscal Year 1986 & 1987*, by the General Services Administration (available in any reference library), was used to identify specific Federal Grants-in-Aid programs. In addition, the Advisory Commission on Intergovernmental Relations' publication, *A Catalog of Federal Grant-In-Aid Programs to State and Local Governments: Grants Funded FY 1986, 1987* (by the Advisory Council on Intergovernmental Relations, Washington, D.C., August, 1987) was used as a guide to select programs that met the above criteria.

#### **B) Estimation of Baseline Grant Program Obligations and Outlays, 1986-1990 National and Local Estimates.**

##### **1. Data Sources**

Data for national and local grant obligations and outlays were drawn from *The Budget of the United States Government FY 1989, Historical Tables*, by the Office of Management and Budget.

of the Executive Office of the President, Washington, D.C., and the *Consolidated Federal Funds Report, 1985, 1986, 1987* by the Governments Division, Bureau of the Census, Dept. of Commerce, Washington, D.C. 20233.

a) **Outlay Data on Federal Grants-In-Aid.** National budget outlay data on Federal Grants-In-Aid to States and Localities were drawn from Table 12.3 of the *Historical Tables of the U.S. Budget*. Each budget line in the respective functional category of programs (for example, under Housing and Urban Development there appears the Community Development Grants) provides revenues to fund a set of particular grants-in-aid for cities or state block grants for cities. The grant programs listed in the Code of Federal Domestic Assistance are funded out of these various budget lines.

b) **Obligations Data on Federal Grants-In-Aid.** National budget data on obligations for Federal Grants-In-Aid to States and Localities were drawn from the *Consolidated Federal Funds Report (CFFR) Data Tape*, by the Division of Governments, Bureau of the Census, U.S. Department of Commerce. This data base provides information on grant obligations for the nation, and for the individual cities in the study.

c) **State Block Grant Pass Throughs to Local Governments.** The CFFR data base on obligations covers all grants-in-aid that go directly to states and localities, but does not report funds that are passed through the states to the localities. Therefore, the CFFR data tends to underreport the amount of grants-in-aid ultimately awarded to cities. In addition, the CFFR reporting convention lumps all state block grants together as being received by the state's capital city.

To remedy these two reporting problems, ERA used the *Schedules of Federal Financial Assistance* (required to be filed by each city under the Single Audit Act) to determine the amount of monies passed through from state block grants. In addition, the attribution of all state block grants to the state's capital city (in this case Trenton, New Jersey and Austin, Texas) was corrected by netting out all block grants, and then individually adding back in only those monies directly received for use in the city itself.

State educational block grants, however, are not covered by each city's *Schedule of Federal Financial Assistance*, so the annual reports by the respective state education departments were consulted to determine the pass through of monies to the city school districts.

## 2. Crosswalk Between Budget Lines and Code of Federal Domestic Assistance

A crosswalk was developed between

the budget lines of the Federal budget for grants-in-aid to states and localities and the Code of Federal Domestic Assistance (CFDA). This crosswalk allows for the identification by CFDA code of all the grant programs which were funded by specific budget lines.

The grants-in-aid selected for this study represents a subset of the programs listed in the above crosswalk, and therefore constitute only a percentage of all grants-in-aid for states and localities. A second list of only those programs selected for the Conference study was drawn up by CFDA code, so that they could be selected out from among the other programs funded in the relevant budget line.

## 3. National Budget Outlays and Obligations for Selected Urban Programs.

Using these CFDA program ID codes, two summary reports were compiled from the 1986 and 1987 CFFR data tape to determine: first, for the nation, the annual grant obligations for all programs listed in each budget line; and second, the annual grant obligations for all the programs selected for the U.S. Conference Study. For each major category of grants (for example, primary and secondary educational grants-in-aid) the ratio was calculated of the annual budget obligations of the programs selected for the study to the annual budget obligations for all the programs in the budget line.

These percentages were then applied to the outlay figures reported in in the *Historical Tables*, Table 12.3, to derive the annual budgetary outlays in 1986 and 1987 going to grant-in-aid programs selected for the study. The average of the 1986 and 1987 shares was applied to the outlay projections for 1988-1990 to determine the share going to these selected grant programs.

## 4. City and County Participation in Selected Programs: Obligations and Outlays Data Sources

Obligations for each of the counties and cities of the study were determined from the CFFR data tapes for 1986 and 1987 and from the *Schedule of Federal Financial Assistance*, which are required to be filed by each governmental unit under the Single Audit Act.

The *Schedules of Federal Financial Assistance* were consulted to adjust the CFFR figures for Trenton and Austin so that state block grants were not counted as grants going to those cities for their own use. In addition, the Single Audits provided information on state block grant funds that were passed through to the individual counties and cities. These reports were received from the respective city or county comptrollers, auditors or finance managers. Education block grant monies going to school districts in each city and county were derived from state

reports from the respective state departments of education. Urban Mass Transit grants were also checked against *Schedules of Federal Financial Assistance* of the individual transit authorities.

## 5. Baseline Estimates of City and County Grant Programs

Annual summary accounts for each city and county were drawn up for each major program area based on the above data sources. In most cases grant obligations committed to each city by program was the accounting basis for estimating the total program grants. However, in some cases, more complete actual expenditure data was available through the Single Audit Reports, and these were used for the Baseline estimates.

Using the baseline estimate for each city's and county's grants by program, the city's and county's share of the national budgetary obligations (or outlays) was calculated for each program area. Generally, a two-year average of the city's share (1986-1987) was applied to the out years of the national budget forecast from the *Historical Tables* (table 12.3) to derive each city's share of national grant outlays for the years 1988-90.

Two factors determine these baseline forecasts. At the national level, the Office of Management and Budget's federal funds forecast was used to determine the actual and estimated outlays for urban grant programs. Second, the current participation of each of the cities and counties in the selected programs determined the current baseline of grant funding, and hence their individual percentage of national programs. These two baseline estimates formed the basis for distributing the new funds from the annual transfer of \$30 billion from the military budget into Federal urban grants-in-aid.

## C) Distribution of New Funds from the Military Budget to Urban Grants

For the nation, the new funds resulting from the transfer of \$30 billion from the military budget to federal urban grant programs, were distributed according to the percentage of current funding going to each major category of grants of all urban programs being studied. Using these percentages, the \$30 billion in new funds were distributed to each major category for each year.

City and county new funds were distributed to each city's program based on the city's (or county's) percentage share of national programs that were derived from the baseline estimates of current grant outlays.

## D) Sectorization of New Program Funding for Direct and Final Demands by Industry and Service Sector

To determine how the new funds would be spent by each city, Employment

Research Associates developed and circulated a questionnaire for each city, asking how they would spend the specified amounts of new funding in each grant program.

The questionnaire sought to determine for each category of grants, how the money would be spent on employee compensation, construction, and all other expenditures, including contract services with private and non-profit organizations, operation and maintenance, and miscellaneous expenditures.

### 1. City Spending Mix by Program

The city questionnaire data was used to break out the program expenditures of each city into the following types of spending.

a) Employee compensation was broken out into the percentage to be spent on new hires versus raises.

b) Construction expenditures for all types of grants were further broken down into the percentage going to construction of:

- 1) new residential 2 to 4 unit structures;
- 2) new residential garden apartments;
- 3) new residential high rise apartments;
- 4) additions and alterations;
- 5) other new residential construction.
- 6) new educational facilities
- 7) new public health facilities
- 8) new mass transit facilities.

c) Employment and Training program funding was further broken down into the percentage going for:

- 1) general support payments for program participants (including payments for medical care, daycare, transportation, etc.);
- 2) training services (including contract services with non-profit and private organizations and schools);
- 3) wage supplement payments for workers in on-the-job training.

d) Urban mass transit spending was also broken out into equipment purchases for:

- 1) motor vehicles (i.e. buses, vans and cars);
- 2) other transportation equipment (i.e. city rail rolling stock)
- 3) other equipment.

The amount spent on transfer payments (i.e. general support payments for employment and training programs and wage supplement payments for on-the-job training) was also calculated from the questionnaire data.

The number of new direct hires was calculated based on the Treyz model forecast for average yearly personal

income for state and local government workers.

### 2. National Spending Mix by Program

National percentages for the spending mix of each program area were based on statutory requirements, agency annual program reports and, where these proved insufficient, the city questionnaire results were weighted by population to determine a proxy for the national percentages.

Statutory requirements largely determined the spending mix for Employment and Training programs, Housing and Community Development programs and Social Service Block Grant programs. The Urban Mass Transit spending mix was determined from Table 1 of the *Statistical Summaries of the Urban Mass Transportation Administration Grants Assistance Programs, 1986 and 1987*. The Public Health Care Block Grants and the Education spending mix were determined by using the questionnaire results to calculate percentages based on an average which was weighted by the population of the four city sample.

The overall spending mix in this study involved a lower share of total spending going for wages and salaries than the average share of state and local government spending. Total compensation as a percent of all spending in this study amounted to between 41% and 45%, which is lower than the 53% to 55% average percentage of total state and local government spending over the 1983 to 1987 period (see the *Survey of Current Business*, February, 1988, pages 25-27).

The national percentage of educational compensation going to new hires versus raises was, perhaps, the only calculation which affected the national net jobs calculations. This study assigned 80% of all new educational spending on wages and salaries of all educational staff, with 96% going to new hires and the rest to raises. The 80% figure is higher than the average expenditure on salary and wages for all public schools, which is reported to be 62.2% (see *Finances of Public School Systems in 1984-85* by the U.S. Dept. of Commerce, Bureau of the Census, GF85-No. 10, p.vii).

Yet, the 80% figure reflects the decision of the cities in our study to use the new educational funds primarily for compensation, which probably better reflects the response of cities and states to the addition of new funds, than does the average compensation figure. More importantly, the fact that the percentage going to compensation for all grants in the study is lower than the national average for all state and local governments, cancels out the higher than average compensation for education.

A change in the assignment of 96% of educational compensation to direct hires

would affect the estimates of the number of net new jobs. However, a separate simulation would have to be performed to determine the overall effect of higher pay versus more raises.

Modeling of Employment and Training programs for both the national and city runs attempted to capture both the demand effects of the way new funds would be spent, and the labor supply effects arising from the programs. Statutory requirements dictated the spending mix of all cities: employment and training programs, with 15% going for general support payments, 15% to compensation for the program's administration and staff, 50% to general training programs and 20% to on-the-job training. On-the-job training monies were treated as transfer payments, since they go to pay for half of the workers' wages while on the job. The other training monies were divided evenly between final demand for non-profit organization services and final demand for public educational services.

No national survey data is compiled on the types of organizations that provide training services, however, it is well known that non-profit organizations and public educational institutions are the primary providers (See *Summary of JTPA Data for JTPA Title IIA and III Enrollments and Terminations During July-September 1987* by the U.S. Department of Labor, Division of Performance Management and Evaluation, Office of Strategic Planning and Policy Development, also see *Occupational Projections and Training Data 1986*, Biennial Report, April 1986, Bureau of Labor Statistics Bulletin #2251, Appendix E, and "Community Colleges Emerge as Centers for Job Training", *New York Times*, June 20, 1988, p.1-A).

The supply effects of occupational training were modeled using a vector of occupational job training categories derived from the Bureau of Labor Statistics study *Occupational Projections and Training Data 1986*, Biennial Report, April 1986, Bureau of Labor Statistics Bulletin #2251, Appendix E, Table E-1, the City of Chicago's study by the Mayor's Office of Employment and Training, *Company Customers and Job Placement Occupations in Program Year 1986, Part I*, and the *Mercer County Job Training and Employment Services Annual Report for Program Year 1986*, by the Mercer County JTPA of Trenton, New Jersey.

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