OPENING STATEMENT

SENATOR HUBERT H. HUMPHREY

CONGRESSIONAL CONFERENCE ON THE CRISIS IN AMERICAN CITIES

WASHINGTON, D.C. - MAY 20, 1976

My brief opening remarks this morning will summarize my program for revitalizing our Nation's major urban centers. I am making that program available today in the form of a white paper on Urban Policy. All of the issues that I raise this morning are discussed in much greater detail in the white paper. I hope that some of you will have time to review my statement. I certainly will welcome any comments you may have.

This morning Senator Javits, Congressman Moorhead and I are sponsoring a Congressional Conference on "The Crisis in the American Cities". We have agreed to sponsor this conference because we are deeply concerned: concerned that the economic and social problems of the cities are not fully understood; concerned that current policies may turn the Kerner Commission's powerful words that "we are moving toward two societies - one black, one white - separate but unequal" into a self-fulfilling prophecy; and, most of all, concerned that there are those who suggest that the destiny of our great cities can somehow be separated from the destiny of our Nation.

All of us recognize that the greatest achievements of man and society consistently have occurred within the boundaries of the great cities - that the destiny of our Nation cannot be separated from the destiny of its cities.

Yet, in this our Bicentennial year, we seem to have forgotten our history. We seem prepared to turn our backs on millions of our fellow citizens - the millions that live in our declining central cities. Unemployment in many of our cities has soared, businesses and middle-income families have fled, public and private infrastructure has deteriorated and crime rates have increased. The problems of the cities are well documented in the white paper that I have prepared and they are well known to all of you. We have heard first person accounts about them this morning. Yet we have seen little response from our government, not even a rhetorical response.

In my opinion, the time for debate has long since passed and the time for action has arrived. It is time that we recognize, once and for all, that our cities cannot be rebuilt with empty promises or unsupported dreams. Rather, a massive commitment is needed - a commitment that possesses all the scope, the vision, the financial backing, and the spirit that the Marshall Plan embodied. We need coordinated planning by all levels of government. We need to reexamine our priorities. We need to establish coordinated and consistent long-term goals. And we need to make resources available on a consistent basis - not in a stop and go manner.

This is what we did in Europe under the famous Marshall Plan. We planned the recovery of Europe. We set goals and a time frame in which those goals were to be accomplished. We committed the resources. We never backed away from that commitment. Why is it that we can plan to rebuild the cities of Germany, and of Italy, and of England, but we can't rebuild the cities of America?

The cornerstone of my program to revitalize our central cities is a binding commitment to maintain full employment. We must recognize that the Federal Government can do little to revitalize our cities when it loses $55 billion a year in revenues due to high unemployment. We must realize that state and local governments can barely keep their heads above water when they experience a $27 billion recession induced revenue loss, as they did last year. We must appreciate the fact that no business will invest in new jobs in the central cities if existing capacity lies idle and there is no prospect of increased demand for new goods and services. In short, we must face the facts. Neither the public nor the private sector will have sufficient funds to invest in the central cities unless reasonable levels of employment are achieved.

The full employment policy embodied in my white paper starts with sound monetary and fiscal policies. But these policies alone will not be enough. Their impact just doesn't trickle down into the pockets of high unemployment in our central cities.

While the national unemployment rate has improved in the last few months, many of our central cities are still in the middle of the recession. In Newark the unemployment rate is 12 percent, in New York it's 11 percent, in Detroit it's 12 percent, in Boston it's 10 percent and in Philadelphia it's 10 percent.

That's why monetary and fiscal policies must be supplemented by employment and investment programs specifically designed to meet the needs of the depressed central cities. That's why we need variable investment incentives to encourage businesses to locate in the cities. That's why we need a Domestic Development Bank to help state and local governments build the infrastructure that is necessary for a favorable investment climate.

But full employment policies are not enough. Supplemental programs which I have described in greater detail in my white paper, must also be developed.

- Federal government procurement and employment expenditures must be used as a catalyst - encouraging the revitalization of the truly needy regions of our Nation. At present we are doing just the opposite. Federal funds are flowing freely into the areas that have little need, while they are being drained from cities and regions that are declining.

- The Federal government also must assume primary responsibility, once and for all, for financing welfare and health programs for the disadvantaged. Poverty is a national problem that can only be addressed through national programs and national solutions.

- A permanent system of anti-recession programs must be established - ready for implementation as soon as the unemployment rate rises above predetermined levels.

- Housing policies must be strengthened so that our national goal of "a decent home in a suitable living environment for every American family" can become a reality.

- Federal government tax expenditure and regulatory policies must be reexamined to insure that they are not contributing inadvertently to the decline of the central cities.

- Finally, our states and cities must be given a greater role in the formulation of Federal government economic policies. Our Federal system must become a true partnership and less of a parent-child relationship.

Our nation's cities represent the best of times and the worst of times -- the hope and the despair -- of 20th Century America. The poverty of the ghetto languishes next to the affluence of Park Avenue. Pockets of 30 and 40 percent unemployment are just a few short blocks from the plush offices of the captains of American industry. Luxurious townhouses cast shadows over crumbling slum tenements. And tightly knit ethnic neighborhoods are surrounded by pockets of alienation.

In many senses our cities represent the apex of American achievement, that portion of society, that results from our hardest work and that which is most worth saving. But in other respects, the shame of our cities is the largest scar on the national body politic, that portion of society that is most in need or work so that it can be saved.

It is that task -- turning despair into hope, promises into results, opportunities into accomplishments -- to which we must turn our attention today. It is with that task in mind that I have offered my white paper to you. I look forward to hearing from the experts.

A STRATEGY FOR REVITALIZING

AMERICA'S MAJOR URBAN CENTERS

STATEMENT BY

SENATOR HUBERT H. HUMPHREY

AT THE CONFERENCE ON

"THE CRISIS IN THE AMERICAN CITIES"

5/20/76

Our cities represent the very best, as well as the worst, that American society has to offer. They are the pinacle of American culture - containing the great orchestras, the theaters, the museums, the universities, the libraries and the great stadiums and arenas. They are the centers of world commerce and industry. They are the great gathering places for the American people - the plazas and marketplaces of twentieth century America. Our cities are wealthy, they are powerful, they are cosmopolitan and, most of all, they are tolerant. Yet in the shadow of these great accomplishments lies the shame and despair of America. Ugly slums, deteriorated housing, overcrowding, hunger and rampant human suffering - all untouched by the grandeur and splendor that stand just a few short blocks away.

There is much in our cities that is worth preserving and much that must be saved. Yet in the last few years, our older central cities have not fared well. Unemployment in the cities has soared above acceptable levels. Crime has become more, not less, prevalent. The deterioration of the slums has expanded slowly but steadily. Middle-income families have gradually fled to the suburbs. And business and industry have sought new locations.

These changes have left behind the poor, the elderly and the minorities, fulfilling the Kerner Commission's eight year old prophecy that "we are moving toward two societies - one black, one white - separate but unequal". But America cannot tolerate this separation - we cannot allow islands of urban poverty to persist in the midst of a sea of suburban wealth. We must recognize that the destiny of the central cities - that successful central cities are a prerequisite for a successful America.

The Declining Economic Base

Many of our Nation's major urban centers have been buffeted by a series of demographic and economic forces that have undermined the viability of our central cities. These forces, many of which are beyond the control of the central cities, have facilitated population outmigration, job losses and growing poverty populations. These developments have squeezed the ability of our central cities to provide essential services and still maintain reasonable tax rates.

From 1960 to 1973, many older central cities experienced significant population losses. As Table I illustrates, these declines have been particularly acute in Northeastern and Midwestern cities. These cities have been victimized by twin problems - the interregional migration of population from the Northeast and Midwest to the South, Southwest and West and intraregional migration from the city to the suburb.

Population declines have a damaging effect on the economic health of a central city. The tax base is reduced as middle and upper-income families flee to other regions or to the suburbs. But the need for public services does not decline at the same rate that the tax base erodes. The reason is quite simple. Many city services, such as police and fire, are provided to a certain geographic area. Even if the population declines, the fire department must still cover the same amount of territory. For this reason, population declines usually erode the tax base without significantly reducing the need for public services. This dilemma, of course, creates

TABLE I

Population of 24 Largest Cities
(thousands)

NORTHEAST	1973	1970	1960	Percent Change 1960 to 1973
Baltimore	878	906	939	-6.5
Boston	618	641	697	-11.3
New York	7647	7896	7782	-1.7
Philadelphia	1862	1950	2003	-7.0
Pittsburgh	479	520	604	-20.7
Washington	734	757	764	-3.5
MIDWEST				
Chicago 1/	3173	3369	3550	-10.6
Cleveland	679	751	876	-22.5
Columbus 2/	541	540	471	14.9
Detroit	1387	1514	1670	-16.9
Indianapolis 3/	728	733	476	52.9
Milwaukee 4/	691	717	741	-6.7
St. Louis	558	622	750	-25.6
SOUTH				
Dallas 5/	816	844	680	20.0
Houston	1320	1234	938	40.7
Jacksonville 6/	522	520	201	159.7
Memphis 7/	659	624	498	32.3
New Orleans	573	593	628	-8.8
San Antonio 8/	756	708	588	28.6
WEST				
Los Angeles 9/	2747	2812	2479	10.8
Phoenix 10/	637	587	439	45.0
San Diego 11/	757	697	573	32.1
San Francisco	687	716	740	-7.2
Seattle	503	531	557	-9.7

1973 Figures Include:

1/ Annexation of 4,737
2/ Annexation of 26, 293
3/ Annexation of 306,732
4/ Annexation of 6,923
5/ Annexation of 11,336
6/ Annexation of 364,643
7/ Annexation of 136,562
8/ Annexation of 14,456
9/ Annexation of 10,293
10/ Annexation of 64,478
11/ Annexation of 9,945

SOURCE: Bureau of the Census

fiscal problems for the central cities.

A second and more damaging trend to the health of the central cities is the disproportionate number of central city residents that are poor, elderly, or handicapped. These groups essentially remain captive in the central cities after others have moved. Table II illustrates the extent to which cities have become "home" to a greater number of low-income families. While the number of people with incomes below the "official" poverty line declined in all cities from 1960 to 1970, the rate of improvement in the cities was well below improvements that were made in the Nation as a whole. As a result, fifteen of the 24 largest cities were providing services to more than their share of the Nations's poor by 1970. This trend undoubtedly has accelerated since 1970 and if cost of living differentials were taken into account, it would be even more pronounced.

Large poverty populations also create significant fiscal problems for the central cities. Low-income families rarely can afford to contribute a full tax share to the city. Yet they demand more services than the average citizen because they cannot afford to buy services with their own income. Thus, a low-income family is likely to drain on the financial resources of a city, demanding more public services than the average citizen and making a lesser contribution to tax receipts.

The third factor contributing to the economic decline of the central cities is the loss of private sector jobs. Table III clearly demonstatres the extent to which central cities, particularly those in the Northeast and Midwest have lost employment opportunities. Here again, it is the

TABLE II

Percent Of Population Below the Poverty Line[1/]
24 Largest Cities

	1960	1970	Percent Change (1960 to 1970)
Nation	18.4	10.7	-41.85
NORTHEAST			
Baltimore	17.9	14.0	-21.79
Boston	14.2	11.7	-17.61
New York	12.8	11.5	-10.16
Philadelphia	15.0	11.2	-25.33
Pittsburgh	16.0	11.2	-30.00
Washington	16.7	12.7	-23.95
MIDWEST			
Chicago	12.0	10.6	-11.67
Cleveland	14.9	13.5	-9.40
Columbus	14.2	9.8	-30.99
Detroit	16.9	11.3	-33.14
Indianapolis	13.7	7.1	-48.18
Milwaukee	9.2	8.1	-11.96
St. Louis	19.1	14.4	-24.61
SOUTH			
Dallas	16.7	10.1	-39.52
Houston	18.1	10.7	-40.88
Jacksonville	28.5	14.1	-50.53
Memphis	25.6	15.7	-38.67
New Orleans	25.6	21.6	-15.63
San Antonio	28.6	17.5	-38.81
WEST			
Los Angeles	11.6	9.7	-16.38
Phoenix	14.7	8.8	-40.14
San Diego	12.0	9.3	-22.50
San Francisco	12.1	10.7	-11.57
Seattle	8.6	6.0	-30.23

1/ Poverty line is defined as follows:

Family size	1960	1970
2	$1894	$2383
3	2324	2924
4	2973	3743
5	3506	4415
6	3944	4958
7	4849	6101

SOURCE: Bureau of the Census

TABLE III

Total Private Sector Employment in
Selected Large Central Cities (thousands)

	1973	1970	Percent Change (1970 to 1973)
NORTHEAST			
Baltimore	328	348	-5.7
New York	2986	3182	-6.2
Philadelphia	709	777	-8.7
Washington	332	343	-3.2
MIDWEST			
Chicago	1271	1367	-7.0
Cleveland	234	203	15.0
Detroit	503	581	-13.4
Milwaukee	285	285	0
St. Louis	215	228	-5.7
SOUTH			
Dallas	394	386	2.0
Houston	581	549	5.8
WEST			
Los Angeles	1315	1281	2.6
San Francisco	409	451	-9.3

SOURCE: Bureau of Labor Statistics

middle and upper income taxpayers and businesses that are fleeing, leaving behind those that are relatively more dependent on the services provided by the city.

Unfortunately, present urban policies offer little hope for reversing this downward spiral of job losses, population declines and large poverty populations. Middle-income families and businesses that still remain in the central cities will have to shoulder a larger and larger tax burden if services are to be maintained. And if services are cut, life in the city will become less attractive. Thus, these families and businesses may be tempted to flee to the suburbs robbing the cities of much needed revenues and further accelerating the downward spiral. Only more activist government policies can interrupt this process.

The Impact of Inflation and Recession

The failure of the Federal Government to maintain full employment with reasonable price stability has exacerbated the problems of economic decline in many central cities. First, double digit inflation caused city government expenditures to rise faster than revenues. This put the squeeze on central city budgets. Recession then administered a second, and far more serious, blow to the central cities.

The recession's effect was particularly acute in the older cities of the Northeast and Midwest because these cities contain the oldest and least efficient facilities, those that are the first to be closed as production is reduced.

In 1975, according to the U.S. Department of Labor, unemployment in all central cities averaged 9.6 percent, compared to 5.3 percent in the suburbs. Yet even these devastating figures mask the disproportionate burden placed on older central cities. Even today, with one year of recovery under our belts, many older cities have unemployment rates well in excess of 10 percent. And these cities have little prospect for improvement.

Recession, however, does more than cause high unemployment. It causes large revenue shortfalls for many central city governments and increases the demands on these governments for more services. Each percentage point increase in the national unemployment rate reduces state and local government tax receipts by approximately $6 billion and increases expenditures by billions more. In 1975, for example, State and local government lost $27.4 billion in revenues due to high unemployment. Much of this revenue loss occurred in the declining central cities.

These revenue shortfalls and increased demands for services forced many cities to undertake austerity measures in 1975 to maintain balanced budgets or to limit the size of their budget deficits. The results are tax increases, cuts in current service levels and capital construction delays or cancellations. There is a direct relationship between high unemployment rates and the size of the tax increases and service cutbacks. Cities that experienced high unemployment, however, were forced to undertake major service reductions and tax increases exacerbating economic decline in the cities that were already experiencing the most severe unemployment problems. Thus, the cyclical decline related to the recession accelerated the economic base decline that was already manifest in many central cities.

Lack of an Urban Policy

While the economic problems of the central cities are indeed large, the failure of the Federal Government to develop a consistent and coherent urban policy also has made a significant contribution to the crisis in America's cities. Federal Government tax, expenditure and credit policies often have contributed inadvertently to the problems of the cities. For instance, Federal policies have encouraged new housing construction at the expense of rehabilitation; they have supported the rapid turnover of real estate holdings; and they have financed the transportation facilities necessary for the outmigration of jobs and people. Moreover, government procurement and employment policies often have contributed to rapid economic growth in some regions while exacerbating economic decline in others.

In short, we must face the facts. While the Federal Government has not articulated a specific urban policy, inadvertent actions have often been extremely influential and at times detrimental. It is clear that the inadvertent side-effects of many government policies have directly undermined the effectiveness of Federal programs designed specifically to aid the central cities. This lack of direction - this floundering from policy to policy - cannot be allowed to continue. We simply cannot afford the luxury of inconsistency any longer.

Full Employment in the Cities

The cornerstone of any comprehensive program to restore vitality to our central cities is a meaningful full employment program. Without full employment the resources simply will not be available to redevelop the cities. The Federal Government will be unable to provide necessary assistance to the cities if it loses $55 billion a year in potential revenues due to high unemployment, as it did last year. State and local government will have to struggle just to keep their budgets balanced much less undertake new initiatives, if they lose $27 billion in taxes as a result of high unemployment, as they did last year. And private industry certainly will not invest in new plant and equipment in the central cities if existing capacity is idle and there are no prospects that demand will increase in the future.

Congressman Augustus Hawkins and I have introduced legislation (S.50 in the Senate and H.R. 50 in the House of Representatives) that would commit the government to achieving and maintaining full employment.[1] This bill reforms the procedures for formulating economic policy as well as mandating policies that will achieve full employment.

The procedural reforms would fall into four broad categories. First, systematic procedures for setting specific quantitative targets for output, employment, and purchasing power would be instituted. Second, all the appropriate agencies of government, including very importantly the Federal Reserve, would be required to follow policies designed to achieve those goals. Third, a time frame for achieving long range goals will be developed through a sensible, democratic planning process. Finally, the government will develop a much more sophisticated understanding of what is

[1] For greater detail, see "A strategy for Full Employment and Balanced Growth" statement by Senator Hubert H. Humphrey at the National Conference on Full Employment.

happening in particular markets, on both the labor and price side, how existing government policies influence the operation of those markets, and how government policies can be altered to improve the functioning of markets.

The primary focus of the policies embodied in the bill is to increase employment in the private sector. Tax policies, expenditure policies and credit policies will be used to achieve this end. Hopefully, this will be sufficient to achieve full employment. However, if these macro-economic policies are not sufficient, the bill establishes specific programs designed to deal with structural problems that consistently emerge in our economy. These structural policies include training programs, public works programs, public employment programs, youth employment programs, counter-cyclical aid for state and local governments and regional economic development policies. It is the regional economic development policies that will provide the foundation for any strategy to revitalize the economies of our central cities.

The regional economic development policies are necessary because all regional and local economies do not experience simultaneous changes in economic conditions. Some approach full utilization of labor and capital resources long before the national economy reaches full employment. Others, like the declining central cities, lag well behind national economic indicators. Some remained chronically depressed for long periods.

Aggregate fiscal and monetary policies simply are not designed to respond to the widely varied economic conditons that individual regions experience. Those policies attempt instead to regulate aggregate demand in the hope that all regional and local economies will be reached by their effects.

This, of course, does not occur. Many cities already are lagging far behind the national rate of recovery. This problem becomes particularly acute as the economy approaches full employment. At that point, additional monetary and fiscal stimulus only places upward pressure on wages and prices in tight labor markets, while doing little to reduce unemployment in depressed areas. More specific policies must be developed to reduce unemployment in regions and areas, particularly core areas of central cities that do not participate fully in national economic prosperity.

There are many related reasons that certain regions or areas do not share the benefits of econmic growth. Migration of jobs may reduce the availability of employment opportunities, members of the labor force may lack the skills necessary for employment, investment capital may be unavailable, energy sources may be completely unavailable or too costly and the deterioration of public services may accelerate the exodus of jobs and middle-income families. Certainly, there is no simple answer that will reverse this downward spiral. Rather, an integrated regional economic development strategy is necessary that will upgrade the skills of the labor force, provide the capital necessary for investment, prevent the deterioration of public services, and offer positive incentives for the development of new employment opportunities.

The key to strengthening the economies of the declining central cities is to encourage new private sector investments to locate in these areas. This could best be done by making long-term capital available at low interest rates to businesses that locate in the declining urban areas. A Domestic Development Bank could perform this purpose. It could make long-term, low interest loans to businesses and State and local governments for the purpose of encouraging private sector investment in chronically depressed areas. The bank should make long-term loans at interest rates that are not higher than Treasury borrowing costs plus service charges. The major purpose of this bank should be to increase the availability of jobs in areas that experience unemployment rates consistently and significantly in excess of the national average.

The Domestic Development Bank is just one component of a comprehensive urban development strategy. Training programs should be used to upgrade the skills of the local labor force. Investment incentives should be used to target new investment in chronically depressed cities. And grants-in-aid should be used to maintain essential city services in cities that have rapidly deteriorating tax bases.

There are three important reasons why targeted regional economic development policies are necessary. First, in order to obtain true full employment with price stability, we must develop policies that target economic stimuli toward areas that are truly depressed without allowing excessive stimuli to leak into fully employed areas. Second, it makes good sense to locate new job opportunities where the people live. Families have social ties and economic investments that they are often unwilling to abandon. This program would bring the jobs to the people. Third, many of the areas that benefit from these programs, particularly the central cities, already have large amounts of unutilized public and private infrastructure in place (i.e. transit systems, housing, sewer and water facilities, etc.). It makes little sense to spend vast amounts of public funds to build new facilities in one area while we abandon sound facilities in another area.

Achieving full employment in the major urban centers will alleviate many of the economic difficulties that these central cities experience. Full employment will greatly reduce the welfare load borne by these cities, it will provide important new revenue sources so public services can be stabilized and it will put additional income in the pockets of center city residents.

Welfare Reform

The Federal Government must accept primary responsibility, once and for all, for financing welfare and health programs for disadvantaged American families. The health and welfare of individual American citizens always has been and should remain a chief concern of the Federal Government.

The existing income maintenance system in our country is fraught with shortcomings. These include:

- Disparate support levels in various States, encouraging migration by welfare recipients to areas with relatively high benefits. In order to finance these benefits, states and cities then are forced to impose disproportionately high taxes on their middle-income residents and businesses, who, in turn, flee to a jurisdiction with a smaller welfare population. This movement, of course, undermines the viability of central cities that have large numbers of welfare recipients.

- Incentives that encourage household heads to abdicate family responsibilities. According to studies done by the Joint Economic

Committee staff, low-income families often are dissolved to maximize income support payments.

- In some areas, the combination of cash and in-kind benefits exceeds the after tax income of some working families, imposing a strong incentive not to leave the welfare rolls for a job.

- The sensitivity of the number of welfare recipients to change in economic condition. High unemployment means larger welfare rolls, forcing states and localities to pay a high price when the Federal Government fails to maintain full employment.

A reform of our income maintenance system will help relieve the fiscal crisis of the cities, restore incentives to work and preserve the dignity of the welfare recipient.

Targeting Federal Expenditures

Federal Government employment and procurement expenditures can be an effective tool for increasing employment in chronically depressed regions and cities. In recent years, however, the largest increases in direct Federal employment have occurred in precisely those regions that are experiencing the greatest private sector growth. Federal nonmilitary payrolls as a percentage of nonfarm income are often three to four times higher in growing States (i.e., Coloradeo, Arizona, New Mexico), than in stable or declining States (i.e., New York, Ohio, Illinois). Federal procurement expenditures also tend to be concentrated in growing regions and cities.

Many of these contract and payroll expenditures could be shifted feasibly to high unemployment areas. Regional and local unemployment rates could be used as one criterion in allocating these expenditures. For example, the Federal Government might accept bids that are slightly higher from a firm that will shift its work into depressed cities. While there is certainly a limit on the level of additional cost that is acceptable, concentrating Federal Government purchases of goods and services in chronically depressed cities could make a valuable contribution to increasing employment in these areas.

Fiscal Assistance

While full employment and welfare reform gradually will strengthen the budgets of many city governments, there is still a pressing need for general fiscal assistance to cities. This assistance falls in two broad categories - general assistance to cities with long-term budget difficulties and temporary assistance that is required to assist cities in periods of high unemployment.

As a mechanism for providing general assistance, I support a renewal of the general revenue sharing program. Revenue sharing has become an important component of city operating budgets. While many cities originally used revenue sharing for capital purposes, the combination of inflation and recession has forced most cities to use every available source of funds just to maintain basic services. Thus, if the Revenue Sharing program is not renewed, cities will be forced to raise taxes or cut services this year.

Since revenue sharing is currently so important to so many cities, I think it would be a mistake to significantly alter the formula this year. Too many cities are depending on the money. However, in the future I believe that Congress should consider adjusting the formula to allocate more revenue sharing funds to the most needy jurisdictions. This might be done by altering the formula to reflect more adequately the number of low-income families that reside in a city.

I also believe Congress should examine the feasibility of using general revenue sharing to encourage regional tax base sharing and other governmental reforms. One of the major problems confronting some of our older central cities is that they are pockets of urban poverty in regions with wealthy suburban areas. However, these cities have no way of sharing even a small portion of this wealth. Revenue sharing could be used to encourage suburban jurisdictions to share a small portion of this wealth with the central city on whom their future viability relies. The Twin Cities in my home State of Minnesota already have developed an extremely effective tax sharing scheme. Other regions should be encouraged to do the same.

In addition to long-term budget difficulties, many cities are experiencing severe fiscal problems as a result of the recession. These cities require additional fiscal assistance above and beyond their general revenue sharing program. This assistance can best be provided through a program of counter-cyclical aid to city government. This program would provide general purpose assistance to cities whenever the national unemployment rate exceeds a predetermined trigger level. The total amount of assistance that is available would vary with the national unemployment rate and the magnitude of State and local government expenditures. More aid would be available as the recession deepens and the program would phase out after recovery is well underway. The assistance would be distributed to individual cities on the basis of a formula that takes into account the total amount of own source revenues raised by that government and the level of unemployment within its jurisdiction. The total amount of this assistance should be sufficient to stabilize State and local government budgets.

The concept behind this proposal is really quite simple. The Federal Government has an obligation to maintain full employment. When it fails to maintain full employment it should compensate cities that experience excessive hardship as a direct result of that failure.

Rebuilding the Physical Environment

Many of our older central cities suffer not only from a declining economic base, but also from deteriorating physical facilities.

Public facilities, such as transit systems, roads and sewer and water lines often are in desperate need of repair. Private structures - factories, warehouses, office buildings and houses - may be in a similar state of deterioration.

In many respects, rebuilding the physical environment of the city is as important as rebuilding the economic base. New public facilities generally lead to more efficient public services. They produce a sense of civic pride - that the city is worth living in and working for. Similary, rehabilitated houses often precipitates a renewed civic spirit and a strengthened interest in the neighborhood.

Several programs should be undertaken to rebuild the physical environment of the central cities. First, we should develop a major public works investment program to modernize and replace deteriorating public infrastructure. For too long, our Nation has been privately rich and publicly poor. It is time to make a major commitment to revitalize our transportation systems, to improve our sewage treatment facilities, to upgrade our housing stock, and to provide day care centers for pre-school education.

We also should identify an inventory of individual projects that could be taken off the shelf quickly if the unemployment rate starts to rise. These should be important projects that can be started and completed rapidly. We then would be prepared to swing into action quickly with useful projects if we enter another recession. It's very simple-- we just do a little planning ahead.

But it is not enough to improve only the public facilities. We must improve the living conditions of the residents of the city - we must rehabilitate the housing stock and the neighborhoods. Where rehabilitation is still feasible, it should be actively pursued. In those areas that the housing is too deteriorated, we should embark on vigorous new construction programs.

We have a national housing goal in this country that I consider to be very important. That goal contains two separate but closely related objectives. The first portion of the goal commits the government to provide "a decent home for every American family." That means a sound structure, with suitable plumbing and heating facilities in compliance with reasonable building standards. The second part of our national housing goal commits the government to provide " a suitable living environment " for families that occupy the home. This suggests that a sound structure is not enough. It must be located in a healthy neighborhood with good schools, clean streets, reasonable public safety and, hopefully, a little greenery.

During the first five years under our goal we did pretty well. New housing starts from 1968 through 1973 averaged 1.9 million units a year.

But since then, we have had nothing short of a disaster. Housing starts in the three-year period from 1974 to 1976, despite the recovery, will average approximately 1.3 million units a year, exactly half the production necessary to meet our goals.

There are several steps that must be taken to restore housing production to levels that are sufficient to meet our housing goals.

- A steady and expansive monetary policy. Every time the Federal Reserve tightens the money supply, the whole economy suffers. But no sector suffers like the housing industry. Monetary policy must be sufficiently expansive to insure an adequate supply of credit at reasonable interest rates for the housing industry.

- Policies designed to make home ownership available to a larger number of American families. That means we have got to reduce mortgage interest rates. If looser monetary policy is not enough, we will just have to do it more directly. The Federal Government must get into the business of making mortgage money available at reasonable interest rates to the average American family. This is the heart of any national housing policy.

The Federal Government should establish a Federal Housing Bank to buy mortgages and assure a steady supply of mortgage money at a fair rate of interest -six to seven percent. The size of the mortgage should be sufficient to finance a modest but adequate dwelling.

- Government assisted housing construction programs for low and moderate income families. In 1968, we made a commitment to build 600 thousand government assisted housing units a year.

Government assisted housing starts in 1974 were about 60 thousand units, one-tenth of our national goal. In 1975, they still were below 100 thousand units.

A New Partnership

We must reexamine our institutions for formulating economic policy and for coordinating Federal, state and local government activities. At present there is no systematic institution through which States and cities can make their concerns known; nor is there any method for coordinating Federal, State and local government policies; nor do we know the impact of Federal Government activities on individual states and cities. Mayors and Governors simply are not actively involved in the formulation of Federal Government policies.

This relationship should be changed in several respects. First, the Vice President should become a permanent liaison with State and local government officials. Mayors and Governors need someone to be their spokesman at Cabinet meetings. When I was Vice President, Governors and Mayors were regularly consulted on major policy decisions and they had direct access to the White House through my office. Now, they're lucky to find out about major Federal policy decisions after they have been released to the press.

Second, a system of permanent regional councils should be established. These councils would be composed of state and local government elected officials and a representative of the Federal Government. The President would use the regional councils to become acquainted with the unique concerns of each region. The Federal representative would be an official just below Cabinet rank, who would act as the eyes and the ears of the President. He or she would report directly to the President or Vice President, and not through the Cabinet.

Finally, state and local government officials should be included in the Federal budget process before the budget is signed, sealed and delivered. Mayors and Governors should be consulted at the beginning of the budget process and given a meaningful input into the content of the budget.