UDAG: Targeting Urban Economic Development

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The Urban Development Action Grant (UDAG) program, the principal urban policy innovation of the Carter administration, was intended to stimulate economic recovery in America's most distressed urban areas. Enacted in October 1977 as section 119 of the Housing and Community Development Act of 1977, it provided $400 million in each of its first two years of operation, fiscal 1978 and 1979. Congress increased funding to $675 million for fiscal 1980. Popular among the nation's mayors, UDAG survived the Reagan fiscal 1982 budget cuts despite initial inclusion among doomed programs.

In authorizing the program, Congress provided specific instructions concerning who was to receive action grants, but said little about what recipients could do with the money. The law states that UDAG funds should go "to severely distressed cities and urban counties to help alleviate physical and economic deterioration through reclamation of neighborhoods having excessive housing abandonment or deterioration, and through community revitalization in areas with population outmigration or a stagnating or declining tax base."[1] Relative levels of "severe distress" and "excessive" deterioration were to be measured by "factors such as age and condition of housing stock, including residential abandonment; average income; population outmigration; and a stagnating or declining tax base."[2] Congress clearly intended that eligibility be narrowly restricted and that eligibility criteria emphasize physical aspects of urban deterioration.

[1] Housing and Community Development Act of 1977, sec. 119 (a), 91 Stat. 1125 (1977).
[2] Ibid., sec. 119 (b).

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By contrast, the law is remarkably vague and permissive in describing how action grants are to help alleviate distress. Applications are to "describe a concentrated urban development action program setting forth a comprehensive action plan and strategy to alleviate physical and economic distress through systematic change." In its strongest hint about what such programs should include, Congress required that they "be developed as to take advantage of unique opportunities to attract private investment, stimulate investment in restoration of deteriorated or abandoned housing stock, or solve critical problems resulting from population outmigration or a stagnating or declining tax base."[3] Congress intended, in short, that UDAG be a highly targeted program. But it did not specify that the program should focus primarily on private investments as its way of stimulating economic development.

This focus is nonetheless the distinctive feature of the UDAG program. This approach flows not from the authorizing legislation but from Department of Housing and Urban Development (HUD) rules and regulations. Using the law's "unique opportunity" provision, HUD officials wrote regulations stating that "no project will be funded . . . unless there is a firm commitment of private resources to the proposed project."[4] With this provision, HUD shaped the action grant program as an instrument for achieving public goals by securing the cooperation and active participation of private business. HUD's first annual report on UDAG explains the strategy behind the requirement for private commitments.

> This is a fundamental principle distinguishing the Action Grant program from previous urban revitalization efforts. This requirement is based on the recognition that public funds, alone, are not sufficient to revitalize distressed cities. The private sector is essential, working in partnership with local government, to carry out economic development and neighborhood revitalization projects.[5]

These regulations mean that action grants cannot fund just any activity that would "help alleviate deterioration," but can only support projects that stimulate new private economic activity in distressed urban areas. Applications must contain legally binding commitments for private investment: no UDAG money can be spent until private funds begin to flow.

In sum, the law specifies who can receive UDAG grants; the regulations specify what can be done with them. Together, these legislative and administrative requirements define the two principle goals of the UDAG program: to stimulate private economic activity, and to do so in the nation's most distressed urban areas. This article assesses how well the program met these goals in the first two years of its operation. It uses two sources of information: data provided by HUD on the 520 grants that were awarded between April 1978 and January

[3] Ibid., sec. 119 (c) (2).

[4] *Federal Register,* vol. 43, no. 6 (19 January 1977), p. 1608.

[5] U.S. Department of Housing and Urban Development, Office of Evaluation, *Urban Development Action Grant Program: First Annual Report* (Washington, D.C.: Government Printing Office, 1979), p. 4.

1980; and case studies of eight UDAG projects in five New Jersey cities—four projects in Newark and one each in Paterson, Morristown, New Brunswick, and Salem.

The Mechanics of Action Grants

To obtain an Urban Development Action Grant, an eligible city or urban county must put together a financial package. This package is the central component of a UDAG application, and understanding the process of putting together the package is the key to understanding how the UDAG program works.

In brief, an application must show first that government officials and prospective private investors have worked out a project that would be viable if a specific problem were solved, and second that an action grant to the municipality can reasonably be expected to solve that problem. The application must also estimate how many jobs the project will create, predict how the project will affect the municipality's fiscal position, show how much experience the local government has had with similar undertakings, and provide information on how distressed the municipality is. In choosing which projects to fund from among those submitted in each calendar quarter, HUD looks at all the supporting information. But first HUD officials review the plans for the specific project and the information provided on a specific problem to be solved by an action grant.

Action grants can be used to solve a wide range of problems connected with new private investment projects. Like traditional public works and community development grant programs, action grants can be used to provide infrastructure, access, or public facilities for a proposed project. Like urban renewal, funds from UDAG may be used to assemble and discount developable tracts of land. Other uses for action grants have more in common with Economic Development Administration and Small Business Administration programs. In these cases, a grant can enable a municipality to extend direct financial assistance to a potential investor.

This last form of assistance requires some elaboration. In a pattern HUD has encouraged, cities have lent or occasionally given UDAG funds directly to project developers.[6] Often private investors have found land and adequate public facilities in declining cities, but have claimed that they could not raise adequate capital cheaply enough to make the project feasible and attractive. In such cases, cities, often acting through quasi-independent development corporations, can provide UDAG money in the form of loans to private developers. Such loans usually take the form of a subordinated second mortgage on land and buildings. The most common form of subsidization is to charge interest below the market rate. Such "soft" loans, as illustrated by the New Jersey case studies, can amount to a substantial subsidy.

[6] David Cordish, "Overview of UDAG," in *The Urban Development Action Grant Program: Papers and Proceedings on Its First Two Years of Operation,* eds. Richard P. Nathan and Jerry A. Webman (Princeton, N.J.: Princeton Urban Regional Research Center, 1981), p. 16.

The variability in uses for UDAG money is an important attribute of the program. Cities, their development corporations and consultants, and potential investors have considerable flexibility in developing financial packages for proposed projects.

The advantages of this flexibility for an economic development program can be seen by contrasts with the urban renewal program, a predecessor of UDAG.[7] Urban renewal also attempted to help revitalize declining cities by subsidizing private investment in blighted areas. Before it ended in 1974, the urban renewal program had attracted $9.15 billion in private investment in various renewal projects; federal grants and public investment in the same areas amounted to $9.03 billion.[8] Despite this accomplishment, the program was a rather blunt instrument for economic development. The urban renewal program could provide money to local redevelopment authorities that allowed them to buy land and sell it at greatly reduced prices to developers. It could also provide some indirect aid for infrastructure and public facilities. But it could not give direct aid to a business in return for an investment in a renewal area. One of the strengths of the UDAG program is the ability to adapt to a specific firm's investment needs.

This flexibility is particularly significant when considered together with another major way in which UDAG differs from previous urban development programs, namely the HUD requirement that UDAG projects be "wired"—that is, that both the local government and the private investor be committed in advance—before grants are approved. Under the urban renewal program, local renewal authorities were required to dispose of redevelopment land through competitive bidding. Projects could not be tailored to fit a specific developer's needs. The urban renewal program had a mixed record in attracting developers. Some redevelopment agencies offered land that was so attractive that developers did compete for its use; in other cases the agency had to quietly make arrangements with a developer before the project proceeded. In many cities, however, redevelopment agencies assembled and cleared land but could find no private developer to buy and use it. Some of these sites were eventually used for public facilities, but many sat empty.[9]

In fact, many of the UDAG projects that were funded in the first two years of the program were built on land that had been acquired under the urban renewal program but had been vacant for several years. As the UDAG program con-

[7] For comparisons see, M. Carter McFarland, *Federal Government and Urban Problems: HUD: Success, Failures, and the Fate of Our Cities* (Boulder, Colo.: Westview Press, 1978), p. 94.

[8] U.S., Congress, Senate, Committee on Banking, Housing and Urban Affairs, Subcommittee on Housing and Urban Affairs, *The Central City Problem and Urban Renewal Policy,* Committee Print, 93rd Cong., 1st sess., 1973, p. 65.

[9] A legion of urban renewal case studies could be cited. Those dealing in particular with implementation problems include Roger Montgomery, "Improving the Design Process in Urban Renewal," in *Urban Renewal: The Record and the Controversy,* ed. James Q. Wilson (Cambridge, Mass.: MIT Press, 1966), pp. 454–87; Harold Kaplan, *Urban Renewal Politics: Slum Clearance in Newark* (New York: Columbia University Press, 1963); and Jean L. Stinchcombe, *Reform and Reaction: City Politics in Toledo* (Belmont, Calif.: Wadsworth Publishing Co., 1968).

tinues, some municipalities may eventually run out of such publicly owned land. If this happens, local governments may find in some cases that to make a deal with a private business they must offer the business a tract of land, and that before they can make such an offer they must acquire the land. As the urban renewal program showed, land acquisition can take years and create tremendous controversy. In this way, the UDAG program's requirement that packages be agreed upon in advance may in some places slow the program's implementation; analysts cannot know whether this problem will actually arise, however, until more UDAG projects are built.

HUD's requirement of an advance commitment has had another effect that is already clear. This effect is related to the process of developing projects. By requiring that deals be "wired," the UDAG program brings private investors directly and publicly into the political process. Business people willing to invest in eligible cities thus become major participants in the design of development projects. The result is a development package that brings together the local government's concern for economic development and a private developer's evaluation of the potentials and requirements for a specific investment at a specific location.

The local government and the developer are not the only participants in the UDAG development process. The UDAG office in HUD's Washington headquarters reviews each proposal for an action grant, evaluating what is being proposed and how the proposed project will be carried out. HUD thus has extensive influence over the details of a project. This approach is the opposite of the funding method used in other recent urban aid programs, such as the Community Development Block Grant (CDBG) program and activities funded under the Comprehensive Employment and Training Act (CETA). Those programs leave local governments more flexibility in deciding what projects to fund with federal money.

Approved UDAG projects, in sum, reflect an amalgam of the requirements and interests of local government, HUD officials, and private investors. Thus, the balancing and negotiation needed to prepare a successful package must affect the content of approved projects.

Does UDAG Attract New Private Investment in Declining Urban Areas?

As noted earlier, one of the UDAG program's two principal goals is to stimulate new economic activity. HUD's regulations state that a grant should be made only where it will pin down an investment that otherwise would not have been undertaken in that particular jurisdiction. Some critics of the UDAG approach have argued that a significant portion of the private investments that applicants claim were stimulated by action grants would actually have been made without a grant to sweeten the deal.[10] In response, HUD officials have required local govern-

[10] U.S. General Accounting Office, *Improvements Needed in Selecting and Processing Urban Development Action Grants* (Washington, D.C.: General Accounting Office, 1979).

ment officials and developers to sign in their applications what amounts to an oath that the proposed project would not go forward "but for" the UDAG grant. As a result, the issue is often referred to as the "but-for" issue.[11]

In most previous discussions, the "but-for" question has been considered in terms of particular grants for particular projects at particular sites. It is also necessary to discuss the more general issue: Do action grants support a pattern of investment that is different from current trends? Is UDAG altering, however marginally, the locational patterns that have led to urban economic decline?

In discussing these questions, we are stepping back from the "but-for" question. Unfortunately, there are not yet enough reliable data to allow a comprehensive assessment of the record of UDAG in affecting investors' decisions on whether to locate a business in one place or another. This article suggests an approach that could eventually be used in making such assessments. For now, it is instructive to review information on the kinds of places that businesses have been favoring in recent years and to determine whether private investments tied to UDAG projects are going to the same or different kinds of places.

Action Grants and General Investment Trends

Trends in the location of private investment can be briefly summarized: Older central cities are losing economic activity; less built-up areas—suburbs, rural areas, growing cities—are gaining such activity. The process is not simply the movement of existing enterprises; it also involves a bias in the choice of location of new activities. Various explanations for this shift have been offered; the economic factors are most important for assessing the UDAG program.

In brief, the transportation, infrastructure, density, and other advantages of the older cities no longer outweigh the advantages of other more dispersed places—the suburbs, rural areas, and newer cities in the South and West. No longer do manufacturers need to be near the railroads and waterways that brought them their raw materials and carried their goods to customers. No longer do most manufacturing firms find it economical to use multistory factories to save on land costs. Now these firms bring in their raw materials and send out their finished products by truck or air, using factories built on one level on open, cheaper land, in keeping with the most modern production techniques.

This dispersion of business began with manufacturing firms but has extended to business services and retail and personal services as well. As manufacturing has declined, many older large cities have lost population, jobs, and large parts of their tax base. Because the law authorizing UDAG uses several of these factors in measuring distress, many of the cities eligible for UDAG aid are those that have experienced this pattern of decline.

Yet other locational forces are at work as well. The same large cities that have lost manufacturing still offer advantages to other types of businesses. Many service activities still require center-city locations that facilitate "face-to-face" con-

[11] Cordish, "Overview of UDAG," p. 10.

TABLE 1

Average Percentage Change in Value Added, Sales and Receipts, 53 U.S. Cities, 1967-1977

Activity	*Percentage Change, 1967-1977*
Value added by manufacturing	+80.8
Wholesale sales	+98.0
Retail sales	+93.3
Selected Service receipts	+190.0

Source: James W. Fossett and Richard P. Nathan, "The Prospects for Urban Renewal," in *Urban Government Finance in the 1980s*, ed. Roy Bahl (Beverly Hills, Calif.: Sage Publications, 1981), p. 77.

tacts. These activities include finance, advertising, publishing, information services, law, specialized medicine, and government.[12] Several older cities have experienced growth in their central business areas, even though other areas have declined—a pattern of "islands of prosperity" surrounded by decline.[13]

The same locational forces have affected smaller cities of the Northeast and Midwest, some of which had prospered in the past because they were close to raw materials or power sources. These cities have declined as old industries have either moved away or grown smaller; but some have other advantages, such as good transportation and skilled workers, that could attract new industries.

Impressions of these trends are more readily available than are hard measures of their magnitude.[14] Table 1, which shows data for fifty-three of the fifty-seven largest U.S. cities, provides evidence of a shift in all central cities from manufacturing to service activity. Similarly, Varaiya and Wiseman conclude from a study of thirty metropolitan areas that "in old and intermediate aged cities such [high-wage] services constitute the only source of significant employment growth other than local government. For cities in all classes, the share of employment in this category has doubled between 1958 and 1972."[15] In central

[12] This process has been well documented and discussed at length. For a recent example see James W. Fossett and Richard P. Nathan, "The Prospects for Urban Renewal," in *Urban Government Finance in the 1980s,* ed. Roy Bahl (Beverly Hills, Calif.: Sage Publications, 1981). For a classic overview, see Raymond Vernon, *The Myth and Reality of Our Urban Problems* (Cambridge: Harvard University Press, 1966), esp. pp. 20-22 and 46-51. Others would add an explicitly political explanation for these patterns. For example, see David Gordon, "Capitalist Development and the History of American Cities," in *Marxism and the Metropolis: New Perspectives in Urban Political Economy,* eds. William K. Tabb and Larry Sawers (New York: Oxford University Press, 1978), pp. 25-63.

[13] Anthony Downs, "Urban Policy," in *Setting National Priorities: The 1979 Budget,* ed. Joseph A. Pechman (Washington, D.C.: Brookings Institution, 1978), p. 168.

[14] For example see John Herbers, "Urban Center's Population Drift Creating a Countryside Harvest," *New York Times,* 23 March 1980, and idem, "Commuter Travel Stretches with Metropolitan Areas' Spread to Countryside," *New York Times,* 24 March 1980.

[15] Pravin Varaiya and Michael Wiseman, "The Age of Cities, the Employment Effects of Business Cycles, and Public Service Employment," in *Studies in Public Service Employment: Project Report,* ed. Michael Wiseman (Berkeley: Institute of Industrial Relations, University of California, 1978), p. 36.

TABLE 2

Change in Manufacturing Employment by Area, 1967-1973

Area	Number of Manufacturing Jobs (thousands)		Change, 1967-1973 (thousands)	
	1967	1973	Number	Percentage
United States	18,569.3	18,710.0	+ 145.7	+ 0.8
Metropolitan	13,482.0	13,054.5	- 427.5	- 3.2
Nonmetropolitan	5,082.0	5,655.0	+ 573.0	+ 11.3

Source: M. F. Petrulis, "Regional Manufacturing Growth Patterns," U.S. Department of Agriculture, Rural Development Research Reports, no. 13 (June 1979).

cities, rich and poor, service activities and service employment constitute the major point of growth.

Manufacturing activity, in contrast, has become more dispersed. Furthermore, between 1967 and 1973 manufacturing employment increased very little in the United States as a whole (see Table 2). What increases did occur were concentrated *outside* metropolitan areas. During this period central cities and suburbs alike were largely unable to attract enough new manufacturing activity to offset the loss of jobs caused by disinvestment and more capital-intensive production techniques. Although comparable employment data are not yet available for subsequent years, nonmetropolitan areas have continued to outstrip cities and suburbs in population growth (see Table 3). Because population and jobs have generally shifted from metropolitan to nonmetropolitan areas at similar rates, it can be assumed that the population figures mean that jobs are still shifting.

Does UDAG support investments that counteract these trends? Figures 1 and 2 indicate that it does not. These charts use figures for the program's first two years and compare two things: the proportions of *all* grants and *all* private investments that went to central cities, suburbs, and nonmetropolitan areas; and

TABLE 3

Changes in Population of Standard Metropolitan Statistical Areas (SMSA) and Nonmetropolitan Counties, 1970-1977

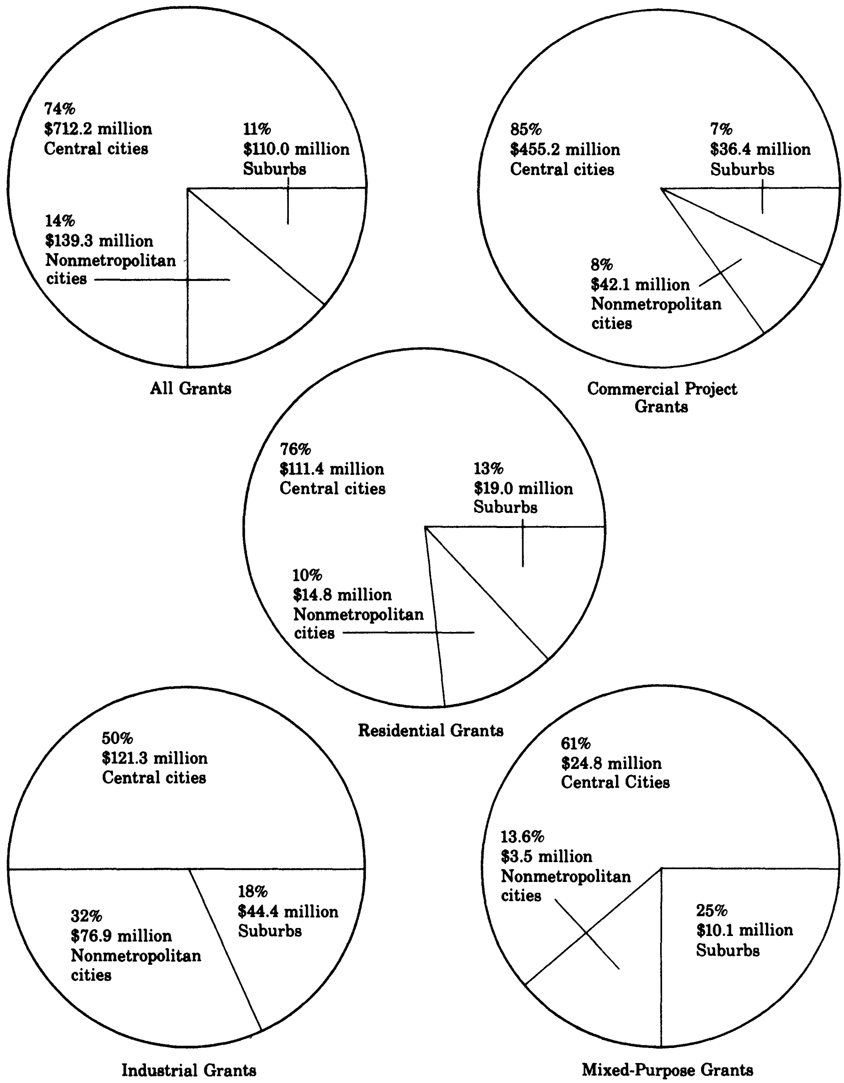
Type of Area*	Population (thousands)		Population Change, 1970-1977 (thousands)	
	1970	1977	Number	Percentage
Metropolitan	137,058	143,107	6,049	4.4
Nonmetropolitan	62,761	69,459	6,698	10.7

* Data use the Census Bureau's definitions of SMSAs as of 1970.

Source: U.S. Department of Commerce, Bureau of the Census, "Social and Economic Characteristics of Metropolitan and Non-Metropolitan Population: 1977 and 1970," Current Population Reports, Special Studies P-23, No. 75 (November 1978).

FIGURE 1

Proportions of All UDAG Funds, 1978–1979

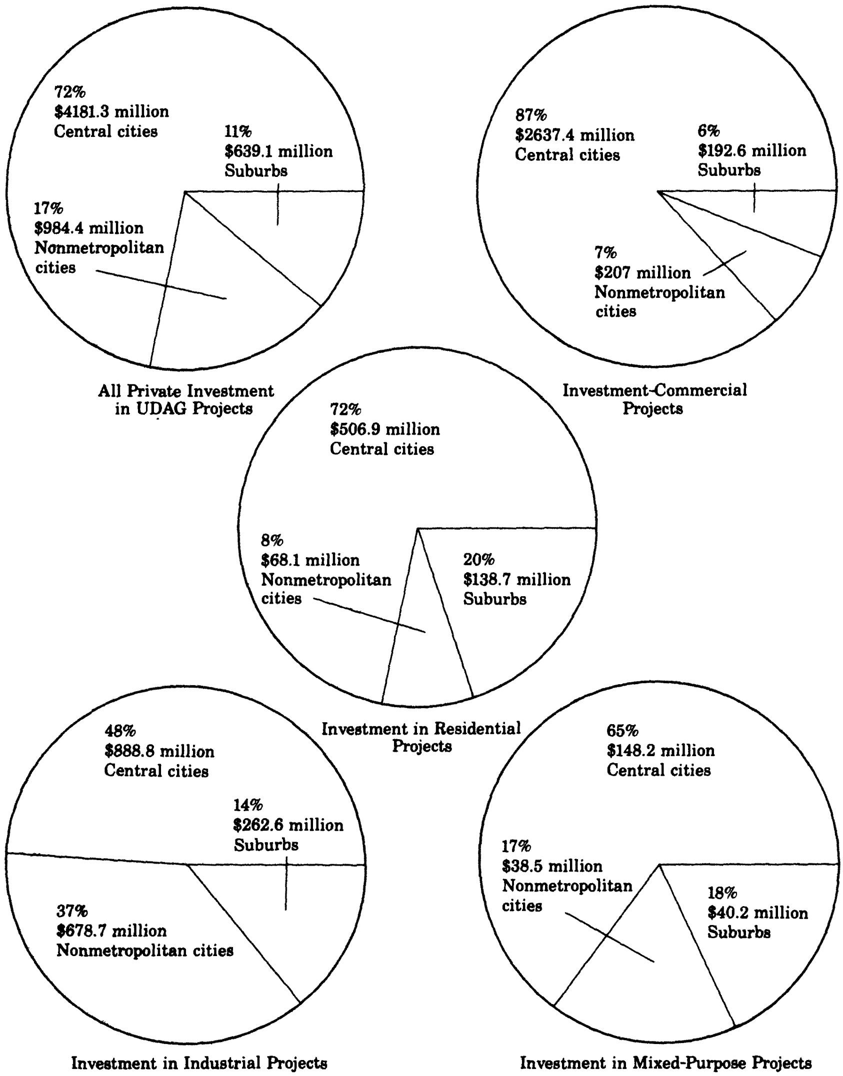


Source: U.S. Department of Housing and Urban Development, Office of Evaluation, *Urban Development Action Grant Program: First Annual Report* (Washington, D.C.: Government Printing Office, 1979); HUD news releases; and HUD Action Grant Information Service.

the proportions of each of four different *types* of UDAG grants and private investments that went to each of the three types of jurisdictions. The four investment types are commercial, industrial, residential, and mixed use. In effect, the figures compare the whole with its parts—that is, the locational pattern for all

FIGURE 2

Proportions of All Private Investment Committed to UDAG Projects, 1978-1979



Source: Same as Figure 1.

UDAG grants and all private investments is compared with the pattern for each separate type of grant and investment.

By concentrating on the two categories most directly related to economic development, it can be seen from the charts that, compared with their share of overall grants (74 percent) and investments (72 percent), central cities attracted a disproportionately large amount of commercial activity (85 percent of grants, 87 percent of investments) and a disproportionately small amount of industrial activity (50 percent of grants, 48 percent of investments). Commercial activity includes offices, hotels, and retail stores. For the same types of projects, nonmetropolitan cities reversed the pattern: Relative to these cities' overall shares of grants (14 percent) and investments (17 percent), industrial projects proved disproportionately important (32 percent of grants and 37 percent of investments) and commercial projects disproportionately unimportant (8 percent of grants, 7 percent of investments). Distressed suburban cities showed a slightly greater tendency to attract industrial grants (18 percent) and residential investments (20 percent) than overall patterns would predict, but otherwise remained close to their overall share for each type of project (11 percent).

These findings suggest that action grants support the general *kinds* of locational choices investors have been making in the program's absence. UDAG tends to follow rather than to counter current urbanization patterns. Thus, one should not dismiss UDAG's impact on distressed cities, but rather stress that its impact does not constitute a reversal of the current and dominant patterns in American urbanization. The location of the projects that action grants support reflects the existing locational advantages of the distressed cities—a point that can be illustrated with examples from the New Jersey case studies, which demonstrate the advantages of central business districts for commercial development and the attraction of peripheral areas for expanded industry.[16]

Newark is New Jersey's business, legal, and financial center, although that city's dominance in these activities has certainly diminished in the past fifteen years. The city's Washington Park UDAG project provides a $10 million second mortgage to help finance a $35 million office building in Newark's central business district. This will be only the second speculative office building constructed in Newark in more than a decade. The completed project is to provide retail space, parking, and facilities for a corporate headquarters and for legal and financial offices—that is, the sort of activities that are still drawn to the downtowns of central cities, but that increasingly find suburban and nonmetropolitan "campus" sites a suitable alternative. Modern downtown office space can help maintain the relative attractiveness of central-city locations.

Twenty miles west of Newark, Morristown is using a $5 million action grant to build a foundation and provide subsidized parking for a $60 million office, retail, and hotel project. Because it is on the edge of the northern New Jersey metropolitan area, Morristown and its environs have been attractive locations for "exurban" corporate headquarters and business services—some of which were previously situated in Newark. The problem that the UDAG project deals with is the growing attractiveness of the environs at the expense of the aging center of Morristown itself. By subsidizing construction costs, the action grant allows the project's developers to benefit from Morristown's existing commer-

[16] These eight case studies were conducted between June and November 1979. For details of history, financial package, and implementation prospects, see Jerry A. Webman, "UDAG Case Studies," in *The Urban Development Action Grant Program,* Nathan and Webman, pp. 25–39.

cial and business locational advantages and still charge rents competitive with outlying sites.

New Brunswick varies the theme slightly. The action grant will help finance a hotel-conference center project, which abuts the new Johnson and Johnson Corporation headquarters, Rutgers University, the county offices, and a medical center. This combination of research, business, government, and medical services is not typical of the traditional downtown area. It is an example of the kind of central-city concentration that is becoming more common. UDAG helps provide an additional facility appropriate to the kind of urban development New Brunswick is experiencing, but once again the project builds on inherent strengths rather than attempting to reorient the city's economy.

These three cases illustrate growth in nonmanufacturing activity in cities. There is, however, one case under study that is out of keeping with prevailing trends: a $5.8 million project to restore a traditional, central-city, multistory industrial building. The restoration will accommodate a number of small manufacturers and distributors in the buildings of a bankrupt brewery in Newark. Manufacturing may indeed be "no longer an urban-seeking sector of our economy,"[17] but the demand for inner-city industrial space has not entirely disappeared—as some 15 percent of UDAG investment indicates.

Still, the most attractive sites for industrial expansion remain those with open land and easy access to transportation, especially by road. Accordingly, other industrial UDAG projects in Newark and in Paterson use sites that are more characteristic of suburbs and nonmetropolitan areas than of central cities. In both instances, developers will locate industry on undeveloped or underdeveloped sites on the edge of the cities near major interstate highways. Sites like these are hard to find in central cities, but they do show the kind of locational advantages industry will likely seek.

This point is made more clearly by a $730,000 industrial project in Salem, a city of 7,000 in the southern part of New Jersey, outside the state's metropolitan areas. Located near tomato fields, factories in Salem once made both catsup and the bottles to put it in. As New Jersey agriculture declined, Salem's factories closed and the city's unemployment rate rose to 18 percent. The UDAG project helped finance the rehabilitation of an abandoned linoleum factory near a state highway on the edge of town. The new owner is using it to make military electronics components. With an experienced labor force and good road transportation in Salem, this factory can take advantage of the availability of land and the ease of access found in an essentially rural location. Available studies reveal less about development patterns in nonmetropolitan areas. It is known, however, that well over one-third of investment in industrial UDAG projects has been directed to such locations.

[17]Academy for Contemporary Problems, *Revitalizing the Northeastern Economy: A Survey for Action: General Summary and Recommendations* (Columbus, Ohio: The Academy for Contemporary Problems, 1977), p. 43.

Action Grants and Particular Investment Decisions

To summarize, the kinds of places where commercial and industrial UDAG projects are locating are very similar to the kinds of places where commercial and industrial firms are making unsubsidized investments. But this does not mean that businesses benefiting from UDAG aid are getting windfalls for doing what they would have done anyway: Action grants may *influence* the location of investments, but only within the bounds of dominant nationwide patterns of economic development.

These general patterns help to clarify what effect UDAG has on particular investors' decisions to locate particular facilities in particular places. From the viewpoint of local governments—and of public-policy analysts—this is an important issue. The owner of a small electronics manufacturing firm may look at several sites and find that two or three of them are equally attractive, but it makes a big difference whether the firm moves to an economically distressed town like Salem or to a nearby "green field" site or a less distressed city. Similarly, a developer interested in putting up a speculative office project may find that a traditional urban center like Newark or Morristown offers the advantage of easy face-to-face contacts while a campus-like site near an expressway has the advantages of easier access and more space. For both the electronics firm and the office developer, a subsidy package made possible by UDAG can tip the scales in favor of the fiscally distressed city.

Whether or not an investor locates in a distressed city is important to that city for two reasons. First, the investment can bring jobs closer to relatively immobile disadvantaged people. Of course, a firm that locates in a jurisdiction with large numbers of disadvantaged people may or may not actually hire those people. But if the firm were to locate in a more prosperous location, the exclusionary residential policies in force in many such communities may well assure that disadvantaged people from other jurisdictions would *not* benefit.[18] Second, new economic activity may have a positive effect on municipal finance, although local tax abatements may limit the impact. An improved tax base provides municipal government with some relief from the widespread problems of fiscal stress.

These benefits can be attributed to UDAG only if the enterprise in question, or another one with similar fiscal and employment characteristics, would not have selected the given location without an action grant. It is difficult to determine that nothing as good or better would have occurred without the UDAG grant. The aggregate data on general patterns of investment do not help here; the case studies of individual projects enable analysts to make preliminary judgments about those projects, but these judgments cannot be generalized to other projects.

In short, one cannot now assess whether, in specific cases, the UDAG pro-

[18] Michael N. Danielson, *The Politics of Exclusion* (New York: Columbia University Press, 1976)

gram makes a difference in investors' decisions about where to locate new or expanded enterprises. But this is an important issue in evaluating UDAG. What is needed is a more continuous and larger research effort than has so far occurred. Such a project would consider the history, financial package, and local economic environment of a representative sample of UDAG projects and would gather information over a period of several years. This information would then provide the basis for uniformly structured and well-informed judgments about the stimulative effects of the action grants. If such studies were carried out in enough cases for a long enough time, according to sufficiently uniform research and analysis procedures, then conclusions could be drawn about the locational impact of the program.

Are Action Grants Awarded to the Most Distressed Cities?

The basic purpose of the UDAG program implies that grants should be targeted to the most distressed urban areas. The law setting up the program mandates that UDAG money is to be "targeted"—that is, directed toward the most distressed cities—in two ways. First, eligibility standards allow only the most distressed urban areas to compete for action grants. Under HUD regulations, 2,067 towns and cities are eligible to apply.[19] Second, in choosing among applications HUD is supposed to give preference to the most distressed eligible cities that apply. The law states that the selection criteria must include "as the primary criterion, the comparative degree of physical and economic distress among applicants as measured (in the case of a metropolitan city or urban county) by the differences in the extent of growth lag, the extent of poverty, and the adjusted age of housing in the metropolitan city or urban county."[20] In principle, UDAG is a "worst first" program.

How has HUD put this principle into practice? To help choose among eligible metropolitan cities, HUD has devised an "impaction index." This approach takes into account the percentage of housing built before 1940 (weighted 0.5), the percentage of the local population with incomes below the poverty line (weighted 0.3), and the percentage rate of population growth (or decline) between 1960 and 1975 (weighted 0.2). Using this index, HUD has ranked eligible metropolitan cities from 1 (most distressed) through 322 (least distressed).[21]

Do heavily distressed eligible cities benefit more from UDAG than relatively better-off cities? The answer is yes with a qualification, considering the relative amounts of private investment. Table 4 indicates that the most distressed cities did receive a disproportionate share of grants. The most distressed quartile, in fact, received nearly four times as many grants as the least distressed quartile.

[19] As data extend through the last round of UDAG awards made before the 1980 revision of the program, this discussion of targeting ignores the "pockets of poverty" provision added to the program in 1980.

[20] Housing and Community Development Act of 1977, sec. 119 (e).

[21] HUD has excluded from this ranking cities eligible for the small cities (less than 50,000 population) set-aside.

TABLE 4

Distribution of Approved UDAG Projects by Impaction Ranking of Cities

Impaction Ranking of Cities	*Number of Approved Projects*	*Percentage of Total Projects*
Most distressed quartile (n = 80)	122	44.8
Next most distressed quartile (n = 80)	84	30.9
Next most distressed quartile (n = 80)	32	11.8
Least distressed quartile (n = 78)	34	12.5
Total projects	272	100.0

Source: HUD eligibility rankings; U.S. Department of Housing and Urban Development, Office of Evaluation, *Urban Development Action Grant Program: First Annual Report* (Washington, D.C.: Government Printing Office, 1979); and HUD news releases.

These findings, however, do not take into account the likely effects of a city's size on success in winning action grants. Larger cities are likely to have more economic activity, a larger administrative staff, and more experience with federal grant programs than smaller cities and thus win more action grants whatever their levels of distress may be. A multivariable analysis allows analysts not only to hold population constant but also to estimate the effects for particular cities of relative levels of distress.

Equation I in Table 5 displays the results of such an analysis for the number of grants cities received. Clearly, population is an important determinant of how many grants a city received. But even with population held constant, the impaction index is still strongly related to this measure of program benefits. (Recall that the impaction index runs from the most distressed to the least distressed city, so that a negative regression coefficient indicates that HUD favors more distressed cities.) Thus with population held constant, a city with the median score on the impaction index received an additional .8 of a grant and the most distressed city an additional 1.6 grants over the least distressed city.

The results suggest that more distressed cities did measurably better in the UDAG contest than did their relatively less distressed competitors. But how much was this success worth? HUD administrators may have some measure of control over who gets an award ahead of whom; they may have less control over how much each award is worth.

Because action grants are tied closely to the amount of private investment they supposedly leverage, the size of grants will vary to some extent with the amount of money private investors are willing to risk in a city.[22] The most distressed cities are in difficulty in part because they are not desirable places in which to invest. As a result, the most distressed cities might end up applying for and receiving more but smaller action grants. Thus, better-off cities might

[22] Levels of private investment are based on applicants' estimates and are probably somewhat inflated for purposes of strengthening applications. In the remainder of this analysis, I have assumed that this bias is constant across all cities. Less distressed cities are as optimistic as more distressed ones.

TABLE 5

Regression Equations: Effects of Population and Impaction Ranking of UDAG Recipients on Number of Grants Recipient Received, Total UDAG Funds Recipient Received, and Private Investment Received, 1978-1979, Metropolitan Cities (in dollars)

Equation		*Regression Coefficient*	*Standard Error*	*Significance*
I. Number of grants city received, 1978-1979 =				
1. City's population plus (thousands)	×	.0017	.00015	.00001
2. City's ranking on impaction index plus	×	−0.005	.00123	.00001
3. Intercept		2.01		
R^2 = .50				
N = 149				
II. Total UDAG funds city was awarded, 1978-1979 =				
1. City's population plus	×	$4.144	0.5702	.00001
2. City's ranking on impaction index plus	×	$-9,111.00	4,713.5	.05
3. Intercept		$5,202,302		
R^2 = .28				
N = 149				
III. Total private investment committed to city's UDAG projects, 1978-1979 =				
1. City's population plus	×	$5.87	3.0	.01
2. City's ranking on impaction index plus	×	$61,973.29	21,171.20	.005
3. City's total of awarded UDAG funds plus	×	$6.33	0.37	.00001
4. Intercept		$-13,022,760		
R^2 = .76				
N = .49				

Source: HUD UDAG eligibility rankings; HUD, *UDAG: First Annual Report;* HUD news releases.

receive more in total dollars from the program even though more distressed cities might receive more grants.

The findings reported in equation II of Table 5 indicate that this problem is less severe than might be expected. Total UDAG funds are strongly related to the impaction index when population is held constant. According to these estimates for a "typical" city of 500,000, the difference between being the most and the least distressed eligible city amounted to about $2.9 million over the course of two program years.

Clearly UDAG grants are awarded in a way that provides disproportionate benefits to heavily distressed cities. But what about the private investments that these grants "leverage"? The evidence in equation III suggests that the pattern is reversed for private grants: with both population and action grant money held constant, less distressed cities attracted more private investment than more distressed cities. For a city of 500,000 with the predicted relative success rate for winning UDAG funds, being the *least* distressed rather than the most distressed was worth an additional $1.4 million over two years in private investment within UDAG projects.

Equation III also indicates that although grant money is targeted to more distressed cities, private investment in UDAG projects is less targeted. This equation uses data from HUD, which are based on cities' own estimates of how much private money will be invested in a project. Although these estimates are likely to be inflated, there is no reason to believe that estimates from cities at one end of the impaction ranking will be any more or less inflated than estimates from cities at the other end of the ranking. As a result, the figures are probably reliable for making comparisons. Thus, despite relative success rates in winning UDAG funds, better-off cities will still attract more private investment than worse-off cities. The program, as noted earlier, may counter but will not alone reverse prevailing urban development trends.

One caution implicit in this discussion of targeting is that these estimates of the effect of relative distress on UDAG funding assume that all factors besides population and distress ranking are equal among recipient cities. Obviously they are not. Calculated percentages of variance explained in numbers of grants and funding levels (the R^2 statistics) indicate that the other factors are important determinants of relative levels of UDAG funding. Among these factors are likely to be relative political influence, differences in experience with federal grant programs, and HUD administrative procedures. These and similar explanations may be important and are candidates for further research. Even so, the importance of other factors, whether proven or assumed, does not diminish the impact of distress as it has been estimated here. That impact is considerable.

Conclusion

During its first two years, was the UDAG program implemented in a way that was consistent with the targeting and economic development goals set by Congress and HUD? With some caution, one can conclude from available evidence that it was. Action grants did subsidize private investment in America's most distressed urban places. They subsidized this investment more heavily where distress was more severe, although not heavily enough to compensate for greater private investment in better-off cities.

The question, however, does imply that this private investment was somehow "new"—that is, different from what would otherwise have occurred. Here the evidence is much weaker. General trends suggest that UDAG projects build on existing locational advantages rather than attempt to create new ones.

Still, these advantages may have gone unexploited in the absence of the grant. A grant, for example, probably was required before Paterson's well-located but underutilized industrial space would attract new investment. Land assembly and capital costs might have remained too high for the small firms involved. In contrast, Morristown's city-center tract would probably have been developed without UDAG. The alternative may have been smaller and thus less competitive with suburban facilities, but some development would probably have occurred. Judgments of this sort will have to be made more systematically for a larger number of cases over several years before the program's overall effectiveness can be assessed. Nevertheless, UDAG does offer an innovative approach to urban policy and has important political and economic implications.

UDAG introduces two major innovations to federal urban policy. First, the program takes an explicitly economic approach to issues of urban decline. HUD has limited action grants to projects that seem likely to create or maintain economic activity in cities whose economic base has been eroded. The second innovation follows from the first. The program's economic objectives are to be realized not solely through governmental action, but through a public-private partnership. A city government agrees to apply for grants (and probably to provide other services and facilities) and the federal government agrees to award a grant because a private business commits itself to invest in industry, commerce, or housing in that city. This partnership for economic development in distressed urban areas defines both the potentials and the limitations of the UDAG program.

UDAG's potential may lie less in its influence on the location of specific investments than in the incentives it provides for cities and private firms to work together. A financial package to which HUD, a municipal government, and a private developer will all agree must provide a balance among public—that is, local and federal—and private interests. Negotiating this financial package can bring the city's economic development problems squarely before policymakers. These findings on the program's first two years suggest that UDAG will especially encourage this process in the most distressed cities.

Furthermore, UDAG will be most effective where existing conditions and other subsidies attract the private investor. As shown earlier, the general locational pattern of UDAG investments matches the locational pattern of unsubsidized growth. The UDAG program will not restore large numbers of manufacturing jobs to most declining metropolitan areas. Only in rare instances can action grants be expected to provide investors with a locational incentive big enough to overcome the forces that have led to shifts in economic activity from the North and Midwest to the West and South, and from large central cities to suburban areas.[23]

[23] For a summary of these trends, see George Sternlieb and James W. Hughes, "New

UDAG must be considered as one of a number of available types of aid to distressed cities and to the people who live in them. By encouraging shifts in investment among areas, UDAG can speed the transition of distressed areas to new—if reduced—economic functions. If UDAG indeed shifts investment to distressed areas where it would not otherwise occur, and if UDAG continues its "worst first" strategy in awarding grants, then the program can play an important role in this adjustment process.

Further assessment of the UDAG program as an element in federal urban policy must take account of three aspects of the program: UDAG as *subsidy,* as *symbol*, and as *process.*

This article has concentrated on UDAG as a subsidy and has raised several public-policy questions about the way funds are dispersed. We could ask other questions. For example, what exactly is the federal government buying with action grants: economic transformation, support of lame-duck industries, or help for low-income households? Answers to these questions must await a longer record of implemented projects. Once again a longitudinal study of a large sample of action grant projects would be needed to provide data for analysis of these issues.

UDAG and the action grant office in HUD symbolize the federal commitment to distressed urban areas. The extent, durability, and appropriateness of that commitment may be questioned. The program, nevertheless, does help to maintain the visibility of this commitment.

The UDAG program must also be appraised for its effect on the process of urban policymaking. The program not only subsidizes private firms, but also brings them into a bargaining process with public officials. The bargains that are struck in this process are the basis for the program. Further study of the UDAG program must consider the political results of the program and the effects of these public-private partnerships in the realization of public objectives for distressed cities.*

Metropolitan and Regional Realities in America," *Journal of the American Institute of Planners* 43 (July 1977): 227-41.

* This article is based on a research project conducted by the Princeton Urban and Regional Research Center and partially supported by the Department of Housing and Urban Development. Special thanks for comments and assistance are due to David L. Aiken, Professor R. Douglas Arnold, William Natbony, and Professor Richard P. Nathan. Mr. Natbony, Uday Mehta, Michael Multari, and Michael Spies assisted in preparing the New Jersey case studies.