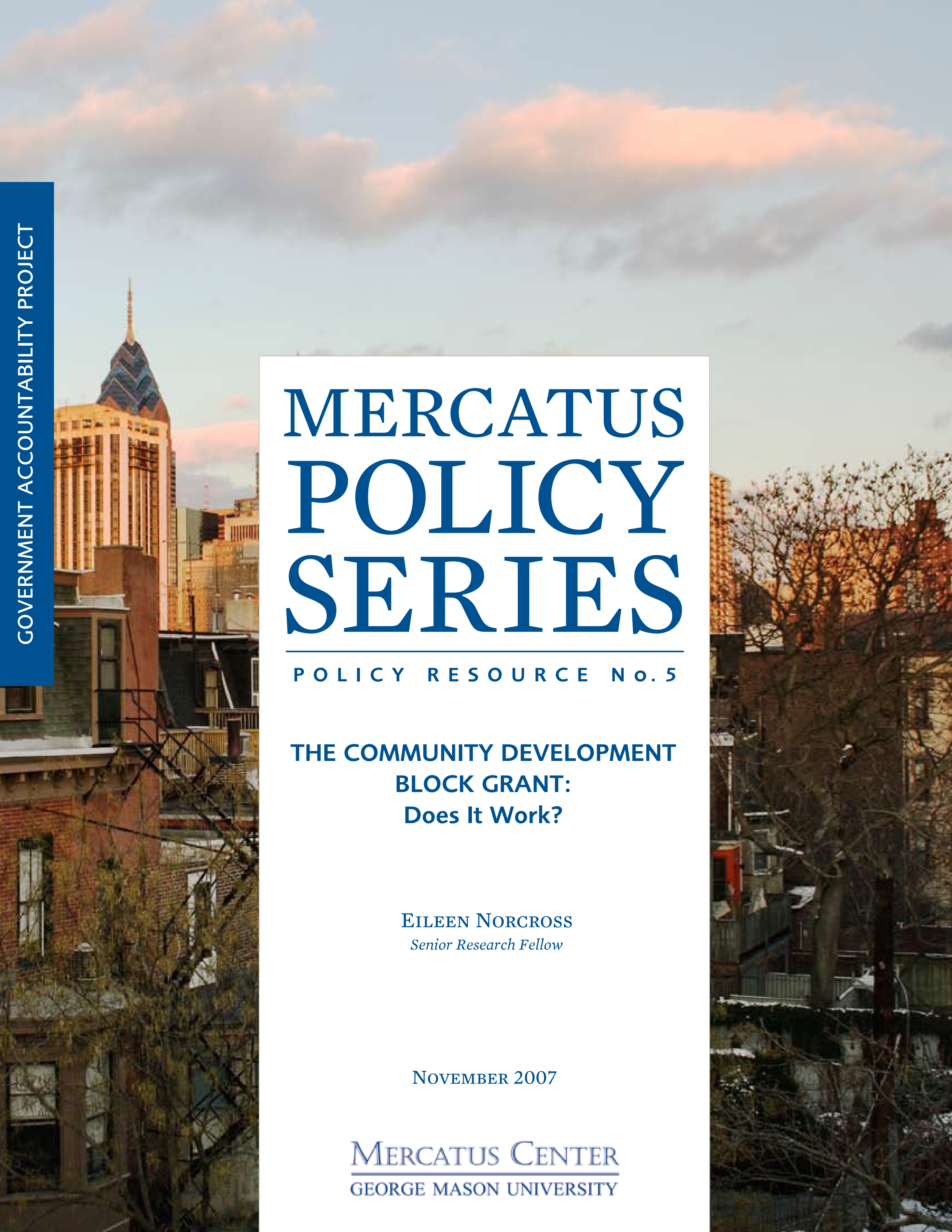

GOVERNMENT ACCOUNTABILITY PROJECT

MERCATUS POLICY SERIES

POLICY RESOURCE No. 5

THE COMMUNITY DEVELOPMENT BLOCK GRANT: Does It Work?

EILEEN NORCROSS
Senior Research Fellow

NOVEMBER 2007

MERCATUS CENTER
GEORGE MASON UNIVERSITY

About Eileen Norcross, author

Eileen Norcross is a senior research fellow at the Mercatus Center at George Mason University. Before joining Mercatus, Eileen was a Warren Brookes Fellow at the Competitive Enterprise Institute where she focused on trade and tax policies affecting the European Union and the United States. Previously, Eileen worked as a consultant for KPMG's transfer pricing division. Eileen holds a masters in economics and bachelor of arts in economics and U.S. history from Rutgers University. Her current research areas include economic development policy, urban economies, the U.S. budget, and tax and fiscal policy.

About Frederic Sautet, editor

Frederic Sautet is a senior research fellow at the Mercatus Center at George Mason University and a member of the graduate faculty at George Mason University. Prior to joining Mercatus, Frederic was a senior economist at the New Zealand Commerce Commission and a senior analyst at the New Zealand Treasury where he focused on economic transformation, entrepreneurship, utility development, and tax policy. Frederic holds a doctorate in economics from the Université de Paris Dauphine and did the course work for his doctorate at the Institut des Etudes Politiques in Paris. He also studied at New York University as a post-doc. Frederic's current work focuses on entrepreneurship, institutions, and social change.

Cover photo: luminouslens/istockphoto of Philadelphia, PA.

MERCATUS CENTER
GEORGE MASON UNIVERSITY

THE COMMUNITY DEVELOPMENT BLOCK GRANT: Does It Work?

EILEEN NORCROSS

EXECUTIVE SUMMARY

The federal government operates hundreds of programs intended to stimulate regional economic development and revitalize communities. The largest of these, the Community Development Block Grant (CDBG), has awarded $118 billion since 1974 to thousands of localities.

Where communities lack sufficient revenues due to an eroded tax base or economic stagnation, CDBG is intended to provide stop-gap funding for crucial infrastructure, public safety, housing, and social service projects. In addition, it is argued that CDBG can help stimulate economic development through business loans and commercial revitalization projects intended to attract residents and investment to the community. However, there is little evidence that the program accomplishes its stated aims.

The wide scope of the program, the lack of consistent data, and the varied applications of CDBG funds hamper formal evaluations. Where beneficial outcomes are observed, evaluators must also address the problem of causality. Did CDBG cause the development? What would have happened in communities if they had not received funds? Claims of effectiveness tend to rest on intermediate measures, such as the number of jobs created, houses built, or dollars leveraged. These metrics are not evidence of success. They indicate how funds were spent, not the objectives achieved by the program.

Economic assessment of one of CDBG's achievements—the Poplar Nehemiah Homeownership project in North Philadelphia—reveals the new development did not spur revitalization. Though it is of only one particular use of CDBG funds, the analysis reveals how the application of CDBG funds in a blighted neighborhood interferes with market signals, and the limitations of local planning due to the "knowledge problem."

For more information about the Mercatus Center's Government Accountability Project, visit us online, www.mercatus.org/governmentaccountability, or contact Richard Williams, Director of the Government Accountability Project, at (703) 993-4515 or rwilliav@gmu.edu.

THE COMMUNITY DEVELOPMENT BLOCK GRANT: Does It Work?

INTRODUCTION

How do regional economies and communities—urban or rural—form and thrive? If they fail to grow and prosper, can government turn them around? These questions, central to the study of economic development, have undergone fundamental reconsideration in the last decade in the context of international aid. The ideas behind prevailing development policies are rooted in economic theories and models that are largely out of date. An emerging view suggests direct investment in the infrastructure and human capital of nations is deeply flawed, addressing the consequences and not the causes of economic development.[1] This view suggests that policy makers should consider a society's institutional framework (tax, regulatory, legal, or constitutional arrangements) to create the climate or pre-conditions for economic growth.

Much has been written on how infusions of foreign aid have fallen short of their promise in the developing world. Arguably, these same concepts may also inform domestic economic policy. The federal government invests in hundreds of programs to stimulate economic development and prosperity in the United States.

These programs are intended to harness and direct the power of markets to deliver specific economic outcomes, such as attracting a particular industry to a region, stimulating private investment or entrepreneurship to spur the revitalization (or rebuilding) of a city, or backing the discovery of new technologies to unleash their economic potential. Programs created to address earlier phenomena—the flight of industry and population from cities to suburbs—are employed to address current crises. For example, 25 percent of the $110 billion federal aid to the Gulf in response to Hurricane Katrina was funneled through economic development programs.

Overall, these programs represent relatively small federal infusions into regional economies, existing to supplement, not replace markets. But do these interventions work? This is the first in a series of Policy Resources addressing that question. This Policy Resource examines the largest and most comprehensive federal economic development program, the Community Development Block Grant (CDBG). Since 1974, CDBG has awarded over $118 billion to thousands of communities to fund infrastructure, social services, and local community-based projects.

This paper examines two questions concerning CDBG. First, what are the goals of these grants? Second, do these grants accomplish their goals in whole or part?

The goal of CDBG is to provide localities that have suffered long-term decline, or may show signs of going into decline, with supplemental funds for public projects. The out-migration of residents and businesses and attendant economic malaise that afflicts many central cities leave local governments with an eroded tax base. It is argued if the situation is allowed to persist, this could lead to a downward spiral: deteriorating infrastructure and public safety leads more businesses to flee and neighborhoods are abandoned. CDBG is needed as a government-to-government transfer of funds to help localities identify their needs and undertake a wide range of projects: road or transit repair, social service activities, or housing rehabilitation. The operating theory is that these investments will reverse the economic decline of the city.

1. William Easterly, *The Elusive Quest for Economic Growth* (Cambridge, MA: MIT Press, 2001).

The idea of repairing a city to salvage its fortunes sounds commonsensical. A city cannot rebound if its structure is crumbling. Infrastructure, it is argued, is a basic ingredient for a city; without it commerce, economic activity, and community-building is impossible. Many infrastructure projects are costly relative to the tax bases of many central cities, which cannot support such large-scale investments.

A more pragmatic question is this: even if it is accepted that there are some situations (large scale destruction caused by terrorism or natural events) from which cities can not be expected to rebound, what factors signal that an investment succeeds or is likely to fail?

The fundamental problem with this view is that it reverses causation. Infrastructure is an output of development, not an input. Better roads do not beget development. As development occurs, the economy improves, and with it tax revenues or private funds are available for infrastructure projects.[2] A more pragmatic question is this: even if it is accepted that there are some situations (large-scale destruction caused by terrorism or natural events) from which cities can not be expected to rebound, what factors signal that an investment succeeds or is likely to fail? In some cases, CDBG has awarded funds to the most depressed cities for over thirty years. The steady and expected infusion of federal dollars may act as a "signal buffer" in city governments, encouraging less efficient management of public dollars, or forestalling more significant policy reforms that might stimulate economic development (such as regulatory or tax reforms).

Advocates for CDBG also argue that, by awarding loans to small businesses or subsidizing the revitalization of downtown areas (storefront façade repair, building parking garages, shopping malls, and convention centers), CDBG can act as a signal to investors, stimulating entrepreneurship. Again, this view confuses cause and consequence, while also misunderstanding the role the entrepreneur plays in identifying profit-making opportunities in the economy.

Although CDBG funding has been steadily reduced, it remains a popular program, defended by legislators, mayors, and grantees as a vital source of community development dollars. Supporters claim it is responsible for creating over 2.2 million jobs and producing $150 billion in economic benefit.[3] This policy resource analyzes these claims in the light of economic theory, evidence provided by formal assessments, and a case study of a project that the Department of Housing and Urban Development offers as a CDBG success story.

CDBG is chosen for evaluation because it is the largest—and one of the oldest—economic development program operating in American cities. It represents an approach to development grounded in the assumption that infusions of funds can stimulate development.

The first section surveys the history of federal involvement in regional economies, which provides the context for the creation of CDBG as a consolidation of earlier categorical grants directed at urban areas. After describing the structure, characteristics, and funding history of CDBG in the second section, the paper turns to a review of the program's performance in a highly promoted success story—the Poplar Nehemiah Homeownership project in North Philadelphia. Evidence suggests that even where CDBG is applied to achieve its statutory aim—in this case, building subsidized housing to spur revitalization in a distressed neighborhood—it is likely ineffective.

Section four evaluates CDBG, in light of economic theory. Intended to increase local control and citizen participation, block granting urban renewal has not necessarily led to a more efficient use of federal funds. Instead, it has given rise to specialized non-profits existing to administer state and federal development dollars. Furthermore, even where citizens are directly involved, CDBG cannot overcome the "knowledge problem." That is, CDBG

2. P.T. Bauer, *Dissent on Development* (London: Cox & Wyman, Ltd., 1971). Bauer notes, in the context of international development policy, that infrastructure investment in developing countries "ignores the fact that the infrastructure develops in the course of economic progress, not ahead of it . . ..Much of the literature suggests that the world was somehow created in two parts; one part with ready-made infrastructure of railways, roads, ports, pipe lines and public utilities and has therefore been able to develop, and the other which the Creator unfortunately forgot to endow."
3. The CDBG Coalition, *Consequences for American Communities: A National Survey on the Impact of Recent Reductions in Community Development Block Grant Funding* (Washington, DC: National Association of Housing and Redevelopment Officials, 2006).

suffers from the same obstacle that faced the earlier programs. It is unable to efficiently allocate resources absent the market process.

Section five reviews formal evaluations of CDBG. These reveal the difficulty of assessing the program comprehensively, due to theoretical and data limitations. Evaluations also illuminate the need for transparency in how funds are used and how that data is displayed. It concludes with specific recommendations for policymakers.

I The Extent of the Federal Role in Economic Development

A. Diffuse Policies and Broad Goals

> Each year the federal government spends at least $188 billion on economic development, dedicating $17 billion specifically to regional economies.[4]

Economic development programs vary in statutory intent and design (e.g. grants, loans, and tax incentives), and reflect various definitions of what constitutes economic development and arguments over how to encourage it. All programs share one element: they are by their nature, a form of planning. Where these programs operate, the government (federal, state, or local) acts to "mandate the consequences of development": job creation, improved public services, better quality housing, or entrepreneurial activity.[5]

Two recent studies attempting to define the extent of the federal role in economic development note that the first obstacle is that there is no standard definition of economic development within or across agencies.[6] Department of Commerce officials define economic development programs as those that save or create jobs. The Department of Agriculture includes programs that increase opportunities and improve quality of life. Other federal agencies, including the Department of Defense, the Department of Transportation, and the Department of Housing and Urban Development (HUD) do not have definitions of economic development.[7] Though an entire budget category (450) is assigned to community and regional economic development (including disaster relief), this category does not capture all programs.

The Government Accountability Office (GAO) identifies 73 programs. GAO's criteria are infrastructure-heavy: planning and developing economic development strategies; constructing or renovating nonresidential buildings; establishing business incubators; constructing industrial parks, water and sewer systems, and roads. GAO's initial keyword search of the terms "community development," "economic development," and "small business" in the Catalog of Federal Domestic Assistance yielded 342 programs.

Mark Drabenstott refined GAO's definition, including human capital activities such as "workforce training," "technical assistance and technology transfer," and "business development." His search resulted in 180 programs.

These two lists have 46 programs in common, highlighting the difficulty in identifying federal activities related to economic development. Not only does it suggest, "a very diffuse policy,"[8] it also raises questions as to the existence of any particular strategy or broad economic goals on the part of policy makers.

B. The History of Federal Involvement in Local Development

Federal involvement in regional economies dates to the establishment of the Department of Agriculture in 1862. The growth of land-grant colleges in the nineteenth

4. Mark Drabenstott, "A Review of the Federal Role in Regional Economic Development," (Kansas City,KA:Federal Reserve Bank of Kansas City, Center for the Study of Rural America, May 2005), 11. Available online at http://www.kansascityfed.org/RuralCenter/RuralStudies/FederalReview_RegDev_605.pdf.

5. Frederic Sautet, Brian Hooks, and Daniel Rothschild, *The Challenge Ahead: Maintaining a Focus on Incentives to Enable Development, Public Interest Comment on the Millennium Challenge Corporation's Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in FY 2006*, Policy Comment No. 2, Mercatus Policy Series, (Arlington, VA: Mercatus Center at George Mason University, 2005): 8.

6. U.S. Government Accountability Office, *Economic Development Programs Fund Similar Economic Development Activities* GAO/RCED/GGD-00-220, (Washington, DC: 2000); Drabenstott, "Federal Role in Regional Economic Development."

7. U.S. Government Accountability Office, *More Assurance is Needed that Grant Funding Information is Accurately Reported* GAO-06-294 (Washington, DC: 2006): 5-6.

8. Drabenstott, "Federal Role in Regional Economic Development," 7.

century was intended to give farmers research and technical assistance to "build profitable farms."[9] Other early economic development legislation includes the Snyder Act of 1921, which created parks programs on Indian reservations. The Great Depression prompted heavy federal involvement in the economy, though relatively few economic development programs date to this period. Two notable examples are the Tennessee Valley Authority and the Rural Utilities Service, which were created to bring electricity to remote regions. As with many programs, missions evolve over time, and programs designed with finite horizons are instead institutionalized. For example, the Rural Utilities Service states, "Today . . . [the] program carries on this tradition helping rural utilities expand and keep their technology up to date, helping to establish new and vital services such as distance learning and telemedicine."[10]

> Nearly all economic development programs lack a definition of success.

After World War II, federal involvement in local economies began in earnest with the Housing Act of 1949. Congress turned its attention to the many American cities that had been declining since the 1930s. The Housing Act created the Urban Renewal program of the 1950s and 60s, intended to eliminate blight and revive American cities that had been losing population and industry to suburban expansion. However, its execution, which included liberal use of the eminent domain clause to eliminate entire neighborhoods, and its ultimate effects—the substitution of low-income housing for high-rent apartments and commercial development—led to controversy.

The number of grants multiplied during this period, leading the Johnson administration to attempt to coordinate place-based development dollars under the Model Cities program. The failure of Model Cities to effectively coordinate the grants prompted the Nixon administration to consolidate them into the Community Development Block Grant in 1974.

In the 1980s, new thinking about the role of government in economic development coincided with the Reagan administration's embrace of New Federalism.[11] Various agencies and programs formed previously to alleviate unemployment and promote development, such as the Economic Development Administration (EDA), CDBG, and the Appalachian Regional Commission, were recommended for elimination, as part of the administration's market-oriented policy approach.[12] Many states began launching private-public partnerships between universities, manufacturing extension services, nonprofits, and governments to encourage research and development, technology commercialization, and entrepreneurship.[13] New federal programs included the National Science Foundation, the Department of Commerce's Manufacturing Extension Partnership, and the Advanced Technology Program, investing "with the states and the private sector to accelerate innovation activity."[14] States also began experimenting with enterprise zones—offering tax incentives to industry to locate in a particular region—a policy first tried in Great Britain in the 1970s. In 1993, the federal government followed suit with Empowerment Zone and Renewal Community tax incentive programs. The continued popularity of tax incentives is reflected in President George W. Bush's 2005 designation of Gulf Opportunity Zones (GoZone) in areas affected by Hurricane Katrina.

As this brief history shows, federal emphasis has shifted over time from an infrastructure-heavy approach aimed at industrial recruiting towards encouraging new technology and supporting entrepreneurship.[15] Assessing federal economic development policy as a coherent strategy is impossible. A coherent strategy did not create the current apparatus. Not only do multiple programs

9. National Academy of Public Administration, *A Path to Smarter Economic Development: Reassessing the Federal Role* (Washington, DC: National Academy of Public Administration 1996): 11.

10. U.S. Department of Commerce, "Rural Development–Utilities programs–Rural Utilities Service," available online at http://www.usda.gov/rus/index2/aboutus.htm.

11. The Reagan administration's New Federalism aimed to devolve control of federal grants to the states through block granting many existing grants in aid programs.

12. Natural Academy of Public Administration, *A Path to Smarter Economic Development*, 11.

13. U.S. Department of Commerce, *Report of the Strengthening America's Communities Advisory Committee*, July 2005.

14. Ibid.

15. Drabenstott, "Federal Role in Regional Economic Development."

serve similar activities, but individual programs serve multiple goals.[16]

Critics frequently object to the redundancy and fragmentation of federal economic development policy.[17] These criticisms include: no standard definition of economic development among, or within, agencies; experimentation with various approaches; the institutionalization of activities; and adaptation of missions to serve entrenched interests.

Nearly all economic development programs have one thing in common: they lack a basic definition of success. But even when programs lack a clear definition of success, do they achieve the purpose envisioned by legislators?

2 History and Characteristics of the CDBG Program

A. Early Attempts at Urban Development: The Housing Act of 1949

CDBG WAS CREATED in 1974 by consolidating seven preexisting grant programs targeted at revitalizing central cities. In its first year of operation, more than 90 percent of CDBG's funds came from two of the largest of these: Urban Renewal and Model Cities. CDBG has little in common with the Urban Renewal program of the 1950s and 60s; but to understand CDBG's genesis, a review of this initial federal attempt at urban development is in order.

Urban Renewal's authorizing legislation, The Housing Act of 1949, promised "the elimination of substandard and other inadequate housing through the clearance of slums and blighted areas, and the realization as soon as possible of a decent home and suitable living environment for every American."[18] The act, also known as Title I, had roots in the early twentieth century Progressive movement to eradicate slum conditions in immigrant neighborhoods. Title I also grew out of the Hoover administration and Roosevelt's New Deal policies intended to stimulate housing supply and reduce the rate of home foreclosure for working- and middle-class families during the Great Depression.[19]

Title I was the culmination of these earlier efforts. It encouraged a comprehensive approach to re-planning cities. The act represented the belief held by many urban planners, architects, and social activists that cities could be "cleansed of their ugly past and re-clothed in the latest modern attire."[20]

Title I allowed local governments (through state legislation) to use eminent domain and federal funds to re-plan cities on a large scale by eliminating working-class or poor neighborhoods and erecting offices and retail complexes, highways, and high-rise apartments in their place. The program gave control to localities to design their own renewal plans, while requiring them to match federal dollars with local funds. It also allowed architects and city planners to impose modernist visions on cities with little input from residents. As a result, "by the 1960s Urban Renewal was widely regarded as a program for tax-hungry city officials, downtown business interests and their hirelings in big planning and architectural firms, and institutional imperialists seeking to expand their campuses of hospital complexes."[21]

In his empirical critique, *The Federal Bulldozer*, Martin Anderson argues that the program's true effect was the distortion of urban housing markets.[22] Congress, Anderson asserts, misdiagnosed the "housing problem," by relying on city planners' biased estimates. In fact, housing quality and supply were actually rising during the 1940s when the crisis was declared. By discounting the ability of markets to supply a range of housing needs for all income levels, the program created a housing shortage. Never intended to replace the market, but to stimulate development, Title I led to unintended consequences. Between 1950 and 1960, 126,000 residences were destroyed and only 28,000 built, resulting in the displacement of over one million residents,

16. U.S. Government Accountability Office, *Economic Development Programs*.
17. U.S. Government Accountability Office, *Economic Development Programs*; Dick Thornburg, "A Path to Smarter Federal Leadership in Economic Development: Learning, Leveraging, and Linking," *Economic Development Quarterly* 12 (1995): 291-98; Drabenstott, "Federal Role in Regional Economic Development."
18. *Housing Act of 1949*, *Declaration of Policy*, 63 Stat. 413, 42 U.S.C. § 1441 (1958).
19. Jewel Bellush and Murray Hausknecht, *Urban Renewal: People Planning and Politics* (New York: Doubleday and Company, 1967): 4–11.
20. Jon C. Teaford, "Urban Renewal and Its Aftermath," *Housing Policy Debate* 11 (2000): 443.
21. Teaford, *Housing Policy Debate* 11:448.
22. Martin Anderson, *The Federal Bulldozer* (Cambridge, MA: MIT Press, 1964): 492.

most of whom were minorities.[23] Discrimination in suburban housing markets compounded the problem for African Americans, leaving them few options except to hold out for the promise of public housing.

> Urban Renewal could change the appearance of the city, but it could not create one.

Perhaps the most influential criticism of the federal urban renewal program and top-down city planning of this period is Jane Jacobs' *The Death and Life of Great American Cities*. Jacobs argues that cities are organic and complex entities emerging from the free interaction of human beings. Planned attempts at urban renewal short-circuited this complex system by disrupting the social (and market) signals people use to follow their own individual plans.[24] The city "is a spontaneous order: self ordering, self-sustaining, and self-regulating."[25] In her analysis, "the life of the city and its economic prosperity percolates up from the people, whose expectations and interactions with one another on the streets and sidewalks are the building blocks of a city's social order."[26] In this spontaneous ordering, or "organized complexity,"[27] humans continually create and recreate the fabric, structure, and life of the city. Urban Renewal could change the appearance of the city, but it could not create one. Controversy and discontentment over Urban Renewal's execution and effects grew during the 1960s and early 70s, "generally [evoking] images of destruction and delay rather than renaissance and reconstruction. By the time it died the federal Urban Renewal program was much maligned and at best could claim mixed results."[28]

B. Johnson's "Model Cities" Program

Urban Renewal was a distinct federal program primarily used for demolition and construction. In response to the civil unrest that tore apart many central cities in the 1960s, the federal government took another approach, gradually increasing the number and kinds of grants to address a growing variety of community needs: social services, sewers, parks, rehabilitation, and other activities. This rapid multiplication of grants led to confusion and lack of coordination at the local level as well as growing administrative and reporting burdens—"detailed and cumbersome . . . procedures and requirements," creating long delays between projects and completion,[29] as well as "ambiguous and ill-defined" goals leading to constant controversy over its application.[30]

It was also argued that these categorical grants, by serving narrow purposes, contributed to the problem of control by special interests and redevelopment authorities. Categorical grants "held particular appeal to some politicians, allowing them to claim success undertaken with allocated funds."[31]

This led the Johnson administration to create the Model Cities program in an effort to weld the programs together.[32] Under Model Cities, HUD initially selected 75 cities to receive funds based on how detailed their plans were and the likelihood that they would meet their objectives.[33] Though mainly concentrated on the most distressed cities, some (e.g. Smithville, Tennessee, population 2,300) were chosen due to the influence of congressional representatives.[34] The program operated through

23. Anderson, *The Federal Bulldozer*, 67.
24. Jane Jacobs, *The Death and Life and Great American Cities* (New York: Random House, 1961).
25. Ikeda, "Urban Interventionism and Local Knowledge,"*The Review of Austrian Economics*, 17, no. 2-3 (2004): 253.
26. Ibid.
27. Ikeda, "Urban Interventionism," 262.
28. Teaford, *Housing Policy Debate*: 443.
29. Richard H. Leach, "The Federal Urban Renewal Program: A Ten-Year Critique," *Law and Contemporary Problems* 25, no. 4 (1960): 780.
30. Teaford, *Housing Policy Debate*: 445.
31. Timothy J. Conlan, "The Politics of Federal Block Grants: From Nixon to Reagan," *Political Science Quarterly* 99, no. 2 (1984): 254. Conlan quotes David Mayhew's *Congress: The Electoral Connection* (New Haven, CT: Yale University Press, 1974).
32. James Judson, "Federalism and the Model Cities Experiment," *Publius* 2, no. 1 (1972): 72.
33. Neil Gilbert and Harry Specht, "Picking Winners: Federal Discretion and Local Experience as Bases for Planning Grant Allocation," *Public Administration Review* 34, no. 6 (1974): 566.
34. Gilbert and Specht, *Public Administration Review* 34:566.

a Community Development Agency (CDA), "related to both the Mayor's office and the neighborhood community."[35] Funds were to be spent on studying, planning, and developing a plan, as well as coordinating grants. Greater citizen involvement in planning was mandated.

For a variety of reasons, the attempt to coordinate the grants did not work. "Varied and conflicted meanings" of citizen participation led to tension between those favoring control by the Mayor's office with a planning board that included citizens, and community activists who favored "advocate planning," driven by confrontation between a government board and a citizen board.[36] "The repeated shifts of emphasis about citizen participation generated confusion and bitterness among many participants in the Model Cities process."[37]

In terms of achieving better planning and coordination, the "vast expectations in planning overwhelmed the limited capacities of local governments . . . and 'the cooperation of most national agencies was grudging, especially where it concerned the earmarking of funds.'"[38] The agencies responsible for the grants resisted surrendering autonomy to a new coordinating agency.[39] And, a large portion of the program's budget went to administration and evaluation, leaving less for cities.[40] Model Cities' problem—trying to rationalize the use of federal funds—reveals the difficulty of coordinating information and responding to the wants of individuals absent the market process.

C. The Creation of Community Development Block Grants

In response to the difficulties of coordinating various categorical grants into a cohesive plan, Congress and the Nixon administration consolidated them into the Community Development Block Grant (CDBG) in 1974. Block granting is a mechanism whereby the federal government transfers funds to a regional government with few stipulations on use. Using this tool for local development was part of the Nixon administration's attempt to simplify the federal grant system. By giving more control to the states, the administration sought to reverse, "the trend towards ever more centralization of government in

35. Judson, "Federalism & the Model Cities Experiment," 73.
36. Ibid., 77–78.
37. Ibid., 88.
38. Ibid., 88–89.
39. Ibid., 88–89.
40. The Urban Institute, "Federal Funds, Local Choices: An Evaluation of the Community Development Block Grant Program," (Washington, DC, Urban Institute, Center for Public Finance and Housing, 1994): 1, 2.

Washington."[41] The block grant was first recommended by the Hoover Commission in 1949 to remedy fragmentation, redundancy, and lack of coordination in the federal grant system. Proposals by the Truman and Eisenhower administrations to use block grants in health and welfare programs were rejected in part due to opposition from beneficiaries of threatened programs.[42] By the 1960s, the number of federal grants had grown dramatically, leading the Johnson administration's budget director, Charles Schultze to argue, ". . . the ability of a central staff in Washington to judge . . . thousands of local plans . . . and to control their performance is severely limited."[43]

Each distinguishing feature [of block grants] provides a benefit, but each has its own unintended consequence as well.

Unlike other programmatic areas, beneficiaries supported block granting the multiple categorical grants that Model Cities tried to coordinate.[44] Mayors could "gain control over community development funds from special purpose agencies that administered urban renewal and other federal categorical programs."[45] Block granting was based on the insight that localities knew best how funds should be applied.

D. How CDBG Works: Characteristics of the Program

CDBG FUNDS CAN be spent on more than 72 different uses. These activities fall into several categories: (1) subsidizing traditionally private sector activities such as home construction, rents, and housing rehabilitation, and providing small business loans to stimulate economic development; (2) funding projects traditionally funded by local taxes—sewers, infrastructure, roads, and parks; and (3) funding "community" or social service activities such as theater, arts, youth clubs, senior centers, and homeless shelters.

CDBG operates as a block grant, which is defined by several distinguishing features: (1) block grants may be used for a wide range of activities according to a broadly defined mission; (2) beneficiaries have flexibility in how they apply funds; (3) reporting requirements are limited to minimize administrative burdens; and (4) funds are allocated according to a statutory formula.[46] Each distinguishing feature provides a benefit, but each has its own unintended consequence as well.

(1) *Block grants may be used for a wide range of activities according to a broadly defined mission.*
For CDBG, this meant collapsing the activities of seven smaller grants—Urban Renewal, Model Cities, water and sewer facilities, open space, neighborhood facilities, and rehabilitation—and allowing beneficiaries to undertake a wide range of eligible activities serving six broad areas, as defined in Table 1.

According to CDBG's statute, activities funded through the grant should serve three objectives: (1) direct 70 percent of funds for the benefit of low-to-moderate-income people; (2) aid in the prevention of slums or elimination of blight; and (3) meet urgent community development needs. These three objectives meet the purpose of CDBG's authorizing legislation, "the development of viable urban communities, by providing decent housing, a suitable living environment, and by expanding economic opportunity, principally for persons of low-to-moderate income."[47]

(2) *Beneficiaries have flexibility in how they apply funds.*
With CDBG, the federal government essentially abandoned attempts to define community development.[48] Local governments define activities to meet their understanding of community development. The primary restriction is that grantees must use at least 70 percent

41. Timothy Conlan, "The Politics of Federal Block Grants: From Nixon to Reagan," *Political Science Quarterly* 99, no. 2 (1984): 252. Conlan is quoting "Address to the Nation on Domestic Programs," August 8, 1969, *Public Papers of the President of the United States: Richard Nixon* (Washington, DC: GPO, 1970): 637.
42. Conlan, "The Politics of Federal Block Grants," 249.
43. Ibid, 105. Conlan is quoting Charles Schultze, *The Politics and Economics of Public Spending* (Washington, DC: Brookings Institute, 1968).
44. Ibid.
45. The Urban Institute, "Federal Funds, Local Choices," 1–4.
46. Paul Posner and Margaret T. Wrightson, "Block Grants: A Perennial but Unstable Tool of Government" *Publius* 26, no. 3 (1996): 88.
47. *Housing and Community Development Act of 1974* Section 5301 (c).
48. The Urban Institute, "Federal Funds, Local Choices," chapter 1–4.

TABLE 1: ELIGIBLE USES FOR CDBG FUNDS

1. ACQUISITION/PROPERTY
- Acquisition of real property
- Disposition
- Clearance & demolition
- Clean-up of contaminated sites
- Relocation

2. ECONOMIC DEVELOPMENT
- Rehab: public or private
- Land acquisition/disposition
- Infrastructure
- Building acquisition, construction, rehab
- Other improvements
- Direct financial assistance to for-profits
- Technical assistance
- Micro enterprise

3. HOUSING
- Loss of rental income
- Housing construction
- Direct homeownership assistance
- Rehab: single-unit residence
- Rehab: multi-unit residence
- Public housing modernization
- Rehab: publicly owned residence
- Energy efficiency
- Rehab: acquisition
- Rehab administration
- Lead-based/hazard abatement
- Code enforcement
- Residential historic preservation
- HOME admin
- HOME CHDO operating
- CDBG non-profit capacity building
- CDBG operation & repair of foreclosed property

4. PUBLIC IMPROVEMENTS
- Public facilities: general
- Senior centers
- Handicapped centers
- Homeless facilities
- Youth centers
- Neighborhood facilities
- Parks, recreation
- Parking
- Solid waste disposal
- Flood drain
- Water/sewers
- Sidewalks
- Child care centers
- Tree planting
- Fire stations
- Streets
- Health centers
- Abused/neglected children centers
- Asbestos removal
- HIV/AIDS facilities
- Operating costs: homeless/AIDS
- Interim assistance
- Architectural barriers
- Privately owned utilities
- Non-residential historic preservation

5. URBAN RENEWAL
- Urban renewal completion
- CDBG higher education

6. PUBLIC SERVICES
- Public services: general
- Senior services
- Handicapped services
- Legal services
- Youth services
- Transportation services
- Substance abuse
- Battered spouses
- Employment training
- Crime awareness
- Fair housing
- Health services
- Abused & neglected children
- Mental health services
- Lead screening
- Subsistence payments
- Homeownership assistance
- Rental housing subsidies
- Security deposits
- Tenant/landlord counseling
- Child care services

of funds to principally benefit low-to-moderate income people.[49] There are also limits on how much grantees may spend on planning and administration (20 percent) and public services (15 percent).

The result is a program that is applied differently from city to city. A 1994 Urban Institute report found that more distressed cities tended to spend their CDBG budget on housing and economic development.[50] Suburban areas with smaller populations (and those located in the southern and western United States) tended to spend more on public facilities projects than large, central cities in the Northeast and Midwest.[51] Cities also showed variation in the amounts allocated to different activities from year

49. An activity is considered to principally benefit low-to-moderate income people if 51 percent or more of those benefiting meet that definition.
50. The Urban Institute, "Federal Funds, Local Choices," 4–8 through 4–10.
51. Ibid., 4–80

TABLE 2: THREE CITIES' USE OF CDBG FUNDING FOR FISCAL YEAR 2005

CITY	ACTIVITY	ACTIVITY FUNDING	% OF TOTAL	EXAMPLE PROJECTS	PROJECT FUNDING
CHICAGO, IL: $124,926,482	Acquisition	$6,318,123.45	5.1%	Neighborhood Development–conservation area	$4,569,434.00
	Administrative and Planning	$23,630,142.59	18.9%	Boys & Girls Club–after-school program	$241,008.00
	Economic Development	$16,930,117.66	13.6%	Home Repair–install security repairs and enabling devices in senior housing	$247,580.00
	Housing	$35,555,957.85	28.5%	Geographic Information Systems–assistive technology equipment for people w/ disabilities	$400,000.00
	Public Improvements	$154,886.12	0.1%		
	Public Services	$38,947,693.31	31.2%	Emergency Housing assistance–housing grants/loans	$6,050,000.00
	Repayments of Section 108 Loans	$3,389,561.23	2.7%		
MADISON, WI: $4,544,485	Acquisition	$504,174.00	11.1%	Boys & Girls Club core funding	$150,281.00
	Administrative and Planning	$698,737.00	15.4%		
	Economic Development	$1,462,132.00	32.2%	Centro Hispano Badger Road acquisition–acquisition of office space for agency serving the Latino community.	$225,000.00
	Housing	$888,057.00	19.5%		
	Public Improvements	$176,864.00	3.9%	Operation Fresh Start–acquires lots or existing houses for rehab for low-income residents.	$166,816.00
	Public Services	$413,678.00	9.1%		
	Repayments of Section 108 Loans	$400,843.00	8.8%	Madison Development Corporation–provides loans to small businesses	$373,845.00
PARAMOUNT CITY, CA: $1,542,099	Acquisition	$0	0%	Graffiti Removal	$187,500.00
	Administrative and Planning	$246,391.11	16.0%	Code Enforcement–funds for salaries for officers in low and moderate-income areas.	$382,500.00
	Economic Development	$267,867.39	17.4%		
	Housing	$373,240.92	24.2%	CDBG Administration	$295,000.00
	Public Improvements	$454,429.11	29.5%		
	Public Services	$200,170.70	13.0%	Street Improvements–for low and moderate-income areas	$250,000.00

to year.[52] Housing and public services spending was the most stable, while economic development and acquisition and clearance activities exhibited greater swings.[53]

To characterize this variation with recent data, Table 2 (see p.10) shows how three cities spent their funds in Fiscal Year 2005 with examples of individually funded projects. The examples were chosen to show a representative sample of projects that are carried out with CDBG funds.

(3) *Reporting requirements are limited to minimize administrative burdens.*
To receive a grant, the entitlement community submits a Consolidated Plan (ConPlan) to HUD describing how it intends to meet program goals. This application is the criteria against which HUD evaluates the grantee's performance. CDBG grantees must inform citizens of their plans by holding public hearings and allowing citizens to make suggestions and receive answers to complaints. The city also submits an Annual Action Plan to the local HUD office, stating community needs and planned projects. The Consolidated Annual Performance Evaluation Report (CAPER) describes how funds were spent and public benefits achieved.

The grantee city's executive office—mayor, city manager, or commissioner—is ultimately accountable for how funds are spent.[54] However, it is typical for an appointed "lead agency" to manage the program.[55] In 1992, more than 65 percent of cities administered CDBG through a designated Community Development Agency.[56] From this stage, funds may be passed on to sub-recipients, including non-profits, Community Development Corporations (CDCs), homeless shelters, and social service agencies.[57] Sub-recipients may elect to contract CDBG funds out further to churches, schools, or individuals.

In some cities, CDBG funds may travel through hundreds of channels. In 2005, Chicago was awarded a grant of $95,490,820, which the city's Office of Budget and Management administers. Fourteen other agencies received funds.[58] These agencies in turn contracted with approximately 500 delegate agencies or sub-recipients.

Individual grant amounts and project details are sometimes appended in CDBG Activity Summary Reports. HUD's internal database, the Integrated Disbursement and Information System (IDIS), houses the data. Grantees use IDIS to report plans, projects, and activities, and draw down funds. Another database, Grants Management Process (GMP), monitors whether funds are expended properly. Despite these systems, the Government Accountability Office maintains that HUD does not centrally maintain the data necessary to determine if grantees are spending funds according to statutory limits.[59]

HUD is transforming IDIS from an internal management tool into a performance evaluation system. The U.S. Office of Management and Budget's Performance Assessment Rating Tool (PART), which requires federal programs to develop outcome measures and demonstrate effectiveness, is largely driving HUD's effort.
For now, it should be noted that this feature of block grants—relaxed reporting requirements—has resulted in a tradeoff of less consistent data collection over time, hampering the monitoring and evaluation of the CDBG program.

(4) *Funds are allocated according to a statutory formula.*
When previous community development funds were distributed as categorical grants, cities competed for awards through an application process. The block grant eliminated this competition, "entitling" cities to CDBG.[60] In 1981, Congress enacted a "70/30 split." This split distributed 70 percent of total CDBG allocations to "entitlement" cities,[61] and awarded 30 percent of total allocations to non-entitlement communities (The Small Cities program).[62] Since its enactment, the 70/30 split has

52. Ibid., 4–120
53. The Urban Institute "Federal Funds, Local Choices," 4–120.
54. Ibid., 3–20
55. Ibid.
56. Ibid., 3–40
57. Ibid., 3–70
58. Agencies receiving funds include the Department of Business and Information Services, Buildings, Children and Youth Services, Comptroller's Office, Cultural Affairs, Health, Housing, Human Services, Law, Planning and Development, Mayor's Office of Workforce Development, Aging, and Commission on Human Relations. The Chicago Housing Authority helps to implement the ConPlan.
59. U.S. Government Accountability Office, *Community Development Block Grants: Program Offers Flexibility But Oversight Can Be Improved* GAO-06-732 (Washington, DC, 2006): 12.
60. Donald Kettl, "Can the Cities be Trusted? The Community Development Experience" *Political Science Quarterly* 94, no. 3 (1979): 438.
61. An entitlement community is defined as (1) a principle city of a Metropolitan Statistical Area (MSA); (2) other metropolitan cities with populations of at least 200,000; and (3) qualified urban counties with populations of at least 200,000 (excluding the population of entitled cities).

TABLE 3: CDBG FUNDING FORMULAS

ENTITLEMENT COMMUNITIES		STATES (NONENTITLEMENTS)	
FORMULA A 25% * population 50% * poverty 25% * overcrowding	**FORMULA B** 20% * growth lag 30% * poverty 50% * pre-1940 housing	**FORMULA A** 25% * population 50% * poverty 25% * overcrowding	**FORMULA B** 20% * growth lag 30% * poverty 50% * pre-1940 housing
Metropolitan denominators except for growth lag. Grant is larger of two formulas less a pro rata reduction.		State nonentitlement total denominators. Grant is larger of two formulas less a pro rata reduction.	

Source: HUD, "CDBG Formula Targeting to Community Development Need," viii (Formulas used as of 2004.)

contributed to a sharp increase in the number of communities receiving assistance, up to 1,180 from the initial 594.[63] From the total amount of CDBG funds appropriated, Congress also sets aside a small portion for Indian reservations, Hawaii, insular areas (American Samoa, Guam, the Northern Mariana Islands, and the U.S. Virgin Islands), and *colonias* in Arizona, Texas, New Mexico, and California.[64]

The amount of money awarded to each community is determined by one of two formulas, Formula A or Formula B. Both are defined in Table 3. HUD calculates the amount for each jurisdiction under both Formula A and Formula B and then awards the locality the larger of the two sums.

CDBG remains a popular program with mayors and grantees, who argue that funds are vital for community survival. HUD states CDBG is "the most reliable source of funding for addressing the critical social, economic, and environmental problems in our cities . . . [it] has improved water and sewer systems, provided loans for business development, supported services for lower income elderly and children, and expanded homeownership opportunities . . . [helping to] create a better standard of living for all of America's people."[65]

Although there has been a slight reduction in funding over the past few years, CDBG remains the largest economic development program in operation today. Until 2004, CDBG was funded at roughly $5 billion annually and represented between one-half and one-third of total spending in community and economic development programs. After the Gulf Coast hurricanes, a sharp increase in other disaster relief spending programs has dwarfed the size of the grant in comparison. CDBG grants to the Gulf Coast region totaled $16.7 billion in 2006.

Whether or not CDBG is an improvement over previous programs, or is successful according to the original intent of the program ("the development of viable urban communities, by providing decent housing, a suitable living environment, and by expanding opportunity, principally for persons of low-to-moderate income"), can be illustrated by examining a case that HUD highlights as a major CDBG success.

A North Philadelphia homeownership project discussed

62. A non-entitled community is defined as (1) a city with a population of less than 50,000 and (2) counties with populations of less than 200,000. Currently, 49 states and Puerto Rico participate. Hawaii has elected not to participate. Its funds are administered through a separate program.
63. Todd Richardson, "CDBG Formula Targeting to Community Development Need," (Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, 2005).
64. According to HUD a "colonia" is any identifiable community in the U.S.-Mexico border region of Arizona, California, New Mexico, or Texas, determined on the basis of objective criteria, including lack of a potable water supply; inadequate sewage systems; and a shortage of decent, safe, and sanitary housing. The border region means the area within 150 miles of the U.S.-Mexico border, excluding Metropolitan Statistical Areas with populations exceeding one million. See HUD Web site, http://www.hud.gov/offices/cpd/communitydevelopment/programs/colonias/cdbgcolonias.cfm
65. The CDBG Coalition, "Consequences for American Communities: A National Survey on the Impact of Recent Reductions in Community Development Block Grant Funding," (Washington, DC: National Association of Housing and Redevelopment Officials, 2006), 2.

below highlights some of the distinguishing features of block granting and illustrates the effects that CDBG grants can have on a local community, its government, and its market dynamics.

3 CDBG in Action: The Poplar Nehemiah Homeownership Project and North Philadelphia

A. Community Revitalization in North Philadelphia

In 2004 HUD marked CDBG's thirtieth anniversary by posting a series of success stories on its website.[66] The Poplar Nehemiah Homeownership development, located in one of the most persistently blighted sections of Philadelphia, was nominated for recognition. The grantee was the Poplar Enterprise Development Corp, a local Community Development Corporation (CDC).

Poplar Enterprise received $14.6 million in CDBG and Section 108 loan funds,[67] plus a Nehemiah Housing Opportunities grant[68] to form a joint venture between a CDBG supported Neighborhood Advisory Committee (West Poplar NAC) and the Enterprise Foundation, "a nationally known affordable housing developer and intermediary."[69]

The CDBG funds were used by the Enterprise Foundation and an architecture firm to construct the units. West Poplar NAC advertised the Nehemiah program locally, offering low-to-moderate income first-time buyers interest-free second mortgages to buy the new homes. The city of Philadelphia financed land acquisition and site improvements.

The project's policy goal is two-fold: first, "provide quality residences to people," and second, "stimulate new investment in the area."[70] It is theorized that new homes will encourage middle-income people to move to high-poverty areas. Subsequent "spillover" effects will attract business and economic development.

Between 1997 and 2000, 176 new units were built. The average cost to build a unit was $163,407. A typical three-bedroom unit sold for an average of $59,881. The average public subsidy was $103,526 per unit, or 63 percent of the total cost.[71] Overall, the total subsidy for the West Poplar development amounted to $18,220,613.

Residents who moved took a personal and financial risk. On average, they moved from, "significantly better neighborhoods,"[72] exposing the new residents to higher murder rates. The average black household in Philadelphia lives in a tract with 50 percent less murder than in the Nehemiah tracts.[73]

Though the units are new, they were built on vacant land in the highest poverty census tracts in the city with a poverty rate of 57.9 percent. The average black resident in Philadelphia lives in a census tract with a 27.8 percent poverty rate. The average white resident lives in a tract with a 13 percent poverty rate.[74] By moving to Poplar Nehemiah residents chose to live in a more racially segregated community, while remaining relatively close (about 2.5 miles) from Center City. Schools are worse than in other areas, and residents surrounding the new homes have lower educational attainment.

66. These stories were retrieved from the Department of Housing and Urban Development's Website, http://www.hud.gov/offices/cpd/communitydevelopment/programs/cdbg30/, October 2007.
67. Section 108 operates as one of the activities of CDBG.
68. The Nehemiah Housing Opportunities Program (NHOP) was created by the Housing and Community Development Act of 1987. It offered select non-profits federal funding of up to $15,000 per unit, used to provide interest-free second mortgages to low-and-moderate income first-time homebuyers who bought units produced for the program.
69. The Enterprise Foundation, http://www.enterprisecommunity.org, "helps build affordable housing for low-income Americans by providing financing (grants, loans) and expertise to community and housing developers. Its for-profit subsidiary, Enterprise Community Investment offers tax-credit financing (e.g. the Low-Income Housing Tax Credit, New Markets Tax Credit) and asset management services."
70. Jean L. Cummings, Denise DiPasquale, and Matthew E. Kahn, "Measuring the Consequences of Promoting Inner-City Homeownership," *Journal of Housing Economics* 11 (2002): 330-59.
71. Cummings, DiPasquale, and Kahn, *Measuring the Consequences*, 336.
72. Ibid., 339.
73. Ibid., 338.
74. Ibid., 338.

Residents increased the size of their homes and amenities, making "structure gains . . . [but] community sacrifices."[75] Residents surveyed indicated they viewed having a new house surrounded by other new homes as very important, though they indicated they had problems with the surrounding neighborhood—only 26 percent rated the schools as good, 66 percent of residents had taken precautions against crime, and 84 percent noted that blight was a problem, yet 65 percent still said they were satisfied with their new neighborhood. Cummings, DiPasquale, and Kahn believe this indicates that residents likely considered the new development as their neighborhood, making the homes an "oasis" in the middle of a distressed neighborhood.[76]

By 2001, Cummings, DiPasquale, and Kahn estimated that the homes were worth 23 percent less than the average purchase price. Even with subsidies, the portion of costs paid by residents (an average of $59,991) were considerably more than the estimated market value ($46,108).[77] Appreciation in housing throughout the city between 1995 and 2001 averaged -0.2 percent annually, making real estate a worse investment than the stock market.

However, between 2001, when the study of the Nehemiah neighborhoods was conducted and 2007, when this Policy Resource was written, home prices in Philadelphia began appreciating dramatically. The city's population began rising for the first time in 40 years, including some sections of North Philadelphia.

B. Poplar Nehemiah and Philadelphia's Housing Market

Several possibilities account for Philadelphia's rising home prices. Beginning in 2001, Mayor John F. Street began an anti-blight program—The Neighborhood Transformation Initiative—to spur development by consolidating vacant tracts of land. There was an increase in the population of higher-income residents over the age of 50. Living in Center City grew in popularity among young professionals. This may have stimulated increased demand for converted lofts and townhouses. In addition, the initiative coincided with a period of low interest rates on home mortgages. Finally, many partially credit the city's property tax abatement program (begun in 1997) for increased building and renovation and the sudden rise in property values.

Have the new homes spurred revitalization in West Poplar? According to the tax assessor's office, Nehemiah units purchased for $63,000 in 1999 have an assessed value for the purpose of taxation of $13,440 (including

75. Cummings, DiPasquale, and Kahn, *Measuring the Consequences*, 344.
76. Ibid., 345.
77. Ibid., 348.

FORMAL EVALUATIONS OF CDBG'S EFFECTIVENESS

1. DOES CDBG REVITALIZE CITIES?

While grantees maintain CDBG creates jobs, builds houses, and attracts investment to communities, care must be taken when interpreting these claims. Evaluators need causal evidence that these benefits resulted from CDBG, and not some other set of factors.[1] Evaluators must also ask what the cost and ultimate impact of building homes or creating jobs is to society. Formal program evaluations have attempted to address these issues, though they vary by type and intent. As shown below, they can range from process-oriented to impact-oriented.[2]

Process/Formative EVALUATION		Outcome/Summative EVALUATION			
Monitoring Daily Tasks	Assessing Program Activities	Enumerating Outcomes	Measuring Effectiveness	Costs and Benefits	Assessing Impact on the Problem

On the left are process evaluations, assessing *how* a program is delivered. These focus on *inputs* (e.g., program staff trained to help grantees) and *outputs* or *activities* (e.g., the number of grants awarded, or the number of people assisted). On the right are outcome *evaluations*, which examine program effects, that is, the intended benefits (e.g., did homeownership increase as a result of building houses?) The highest form of evaluation, *impact assessment*, tries to answer a more difficult set of questions: did CDBG create the job or lead to home construction? If so, did benefits exceed costs? And, finally, was society made better by the investment?

1. Timothy J. Bartik and Richard D. Bingham, "Can Economic Development Programs be Evaluated?" (working paper, Upjohn Institute, 1995).
2. Ibid., 2.

2. PROBLEMS WITH CDBG'S FORMULA

Most studies of CDBG to date are process oriented.[1] One study, released by HUD in 2005, showed that the current formula's ability to target funds appropriately has worsened.[2] Though the top 10 percent of communities with the greatest need receive four times as much as the 10 percent of communities with the lowest need, the formula's ability to target has drifted. Per capita grants awarded to the neediest communities have decreased, while per capita grants awarded to the least needy communities have increased.

This is due to a few reasons. Four of the five variables in the formula produce anomalies. The poverty rate variable includes college students. Large per capita grants go to college towns.[3] The pre-1940s housing variable favors wealthier communities, which tend to renovate housing, while poor communities tend to demolish. Growth lag—a measure of a city's population loss since 1960—doesn't always indicate a city in decline, but shrinking household size. For example, Royal Oak, Michigan, is an affluent community with a 2 percent poverty rate and a $31,000 per capita income that has lost 25 percent of its population since 1960. It receives a grant of $17.58 per capita.[4]

Congress is considering four possible HUD-recommended adjustments to the formula:

1) exclude college students from the poverty variable,
2) eliminate or reduce the weight of the population variable,
3) replace the pre-1940s housing variable with one that includes residents' income, and
4) reduce the growth lag variable by including residents' per capita income.

However, some grantees argue that any change will derail current projects.[5]

Though important, this information does not show whether CDBG "develops viable urban communities." To determine this, we need to begin by identifying CDBG-funded activities and define the outcomes they produce.[6]

1. Numerous studies were conducted by the Brookings Institute in the late 1970s and early 1980s on allocation patterns and local factors affecting CDBG spending decisions. See for example, Raymond A. Rosenfeld, Laura A. Reese, and Vicki Georgeau, "Community Development Block Grant Spending Revisited: Patterns of Benefit and Program Institutionalization," *Publius* 25, no. 4 : 55–57. U.S. Department of Housing and Urban Development, Paul R. Dommel et.al, *Deregulating Community Development,* Washington, DC (1982); Donald F. Kettl, "Can the Cities be Trusted? The Community Development Experience," *Political Science Quarterly* 94, no. 3 (1979): 437–51; Charles J. Orlebeke, "CDBG in Chicago: The Politics of Control," *Publius* 13, no. 3 (1983): 57–72; Sarah F. Liebschutz, "Neighborhood Conservation: Political Choices under the Community Development Block Grant Program," *Publius* 13, no. 3 (1983): 23–38; Michael J. Rich, "Targeting Federal Grants: The Community Development Experience," *Publius* 21, no.1 (1991): 29–49.
2. Todd Richardson, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, "CDBG Formula Targeting to Community Development Need" (GPO: Washington,DC, 2005)
3. Ibid, 46.
4. Ibid.
5. See House Committee on Government Reform, *Bringing Communities into the 21st Century: A Report on Improving the Community Development Block Grant Program*, 109th Cong., 1st sess., 2005, 39.
6. Urban Institute Study, *Federal Funds, Local Choices: An Evaluation of the CDBG Program*, prepared for the Department of Housing and Urban Development, November 1994. In 1994 the Urban Institute conducted an extensive analysis of the CDBG program at the request of HUD. To date, this study is the most comprehensive—documenting spending patterns, community characteristics, and how they affect the targeting of funds and the extent of citizen participation. Though mainly process-oriented, the study also drew inferences on the impact of the program through interviews and data analysis of 250 CDBG funded census-tracts. Information about spending patterns and the distribution and application of funds fall under the umbrella of process-oriented evaluations. This kind of information informs the agency and Congress of how and where funds are being applied.

the land) and a “certified market value” of $42,000 as of January 2007. The authors of the 2002 study found there was no statistically significant difference between appreciation rates in the Nehemiah tracts as compared to other high poverty census tracts. Nehemiah homes increased in price by 12 percent after construction, yet average home prices in other poverty tracts grew by 22.3 percent.[78] Further, they found that commercial development did not follow in the Nehemiah tracts.

However, according to the tax assessor’s office, in 2006 one of the Poplar units sold for $212,900, indicating the homes may have continued appreciating in value, though the city continues to list the property tax assessment at $35,200.[79]

To judge how well the West Poplar Nehemiah homes have performed in Philadelphia’s improving home market, it is necessary to compare current market valuations of West Poplar tracts with a control group. This would show if the home values are underperforming, keeping pace with, or outperforming in comparison to similar neighborhoods.

The purpose of building the new homes, however, was not only to provide first-time homebuyers with newly constructed houses at a subsidized price, but to also stimulate neighborhood revitalization. Yet, “West Poplar still struggles with drugs and violence . . . and there has been little commercial development, a shopping center on Girard Avenue stands fenced off and derelict. The area needs a grocery store, and those planned, upscale residential developments have yet to break ground.”[80]

That is not to say that West Poplar will not experience the revitalization that other parts of North Philadelphia are witnessing. A new development is slated to be built in the West Poplar neighborhood, raising the question was it necessary to subsidize builders to do what they would have done anyway? Evaluating the policy’s effectiveness means asking whether the new homes have led to neighborhood revitalization. It may be that the West Poplar development is instead beginning to benefit (ten years after construction) from other policies and market forces, such as increased housing demand and private revitalization efforts in other parts of the city.

Why did residents buy in one of the most distressed parts of Philadelphia? When residents bought the units, housing prices in Philadelphia were low compared to other U.S. cities. The median price of a home purchased in the city between 1986 and 1997 was $54,604 (1998 dollars). Nehemiah residents could have bought a home elsewhere in Philadelphia.

Cummings, DiPasquale, Kahn offer a few theories. The homes offered a unique opportunity to live in a new development. Residents may have believed that the community would improve, thus attracting business and driving up home values. Residents may not have looked in other neighborhoods and did not evaluate the alternatives. Interestingly, Nehemiah residents were less likely to use realtors, but preferred newspapers, friends/relatives, neighborhood organizations (such as the CDCs that build and offer federal financing for the homes), and church networks. It is also possible they found HUD’s offer of no-interest second mortgages attractive.

We do not know what would have happened to Poplar and Ogden Streets at 12th and 13th Streets in the absence of the CDBG-funded Nehemiah projects. It may have remained vacant land. Or it may have been developed without subsidies. The residents who moved into the new homes may have opted to buy equivalently priced, but higher-maintenance row houses in other parts of the city, or they may have chosen to continue renting.

Four months before HUD posted Poplar Nehemiah as a CDBG success story, HUD’s Office of Policy Development and Research published a report titled, “Targeting Housing Production Subsidies.”[81] This report not only includes the negative findings of Cummings, DiPasquale, and Kahn, it further notes that the “benefits resulting from [the Nehemiah developments] would have to be

78. Ibid., 352.

79. An unpublished 2002 study by Kevin Gillen, "Measuring the Efficiency and Equity of Property Tax Assessment Practices" finds systematic error in the way Philadelphia estimates its property tax for single family homes, "a substantial under-assessment bias for District 5 is revealed: all other Districts are relatively over-assessed by comparison. The result is consistent with geographic analysis: District 5 incorporates most of North Philadelphia and is the poorest district in the City. Additionally, the District was the constituency of Philadelphia's powerful City Council President, John Street, who has since become mayor. It is well known that Mr. Street used his considerable influence during this time period to exempt the 5th District from a tax lien sale as well as to direct a disproportionate amount of federal CDBG funds to his District's neighborhood," (p.8), available online at http://gislab.wharton.upenn.edu/RESEARCH/PhilAssmt_Paper_Gillen.pdf.

80. Larry Eichel, "Mixed Blessings," *The Philadelphia Inquirer*, December 5, 2005.

81. Jill Khadduri, Kimberly Burnett, and David Rodda, *Targeting Housing Production Subsidies*, (Cambridge, MA: Abt Associates, Inc, 2003).

FORMAL EVALUATIONS OF CDBG'S EFFECTIVENESS

3. DEFINING OUTCOMES FOR CDBG

Defining outcomes for CDBG means linking program activities with objectives. Two studies have tried to do so:

1) Urban Institute, *The Impact of CDBG Spending on Urban Neighborhoods*, October 2002[1]
This study statistically linked three indicators to CDBG investments: mean loan amount, loan approval percentage, and number of businesses. Median loan amount and number of businesses were good proxies for some (but not all) dimensions of neighborhood quality. Yet, when CDBG grants fell below $86,737 per poor person in a census tract, there was little effect. However, larger amounts were linked to neighborhood improvement in 17 cities. The study found an overall relationship between CDBG spending and neighborhood improvements, but it could not prove CDBG investments are correlated with specific results. Among the study's limitations: it did not reflect a nationally representative sample of cities; it could not account for other public investments, including earlier CDBG investments; and it could only test the years 1994 to 1996. While inconclusive, the study advances knowledge on how to assess CDBG and the kinds of data needed to do so. It also highlights a policy trade-off of CDBG. One of CDBG's effects—increasing the median loan amount—may be the reverse of the program's intent to keep housing affordable.

2) National Academy of Public Administration, *Developing Performance Measures for the Community Development Block Grant*, February 2005[2]

In 2004, CDBG received an "Ineffective" PART rating from OMB, partially for lacking meaningful outcome measures. To remedy this, HUD set up a working group of national community development associations and solicited a report from the National Academy of Public Administration (NAPA).[3] The new "outcome measurement system" assesses CDBG according to three objectives: (1) fostering a suitable living environment, (2) developing decent and affordable housing, and (3) fostering and creating economic opportunity, economic development, commercial revitalization, and job formation.[4] Grantees must match activities to the outcome produced, as shown in the Performance Outcome Measurement System in the Appendix.

The indicators are mainly output-oriented, counting the number of persons served, the number of affordable units, and the number of jobs created. Due to the program's complexity and "disagreements in what is to be measured and how with respect to CDBG,"[5] NAPA cautioned HUD to focus on things that can be quantified: people, businesses, organizations, rather than notions of community or neighborhood where, "considerable conceptual ambiguity exists."[6] The measures mainly reflect the Council of State Community Development Agencies' (COSCDA) suggestions. While valid for performance management purposes, they are not evidence of effectiveness.

The next step is to establish that CDBG caused the home to be built, or the job to be created, that is, would the activity have happened without the program?

1. Christopher Walker et al., *The Impact of CDBG Spending on Urban Neighborhoods*, (Washington, DC: The Urban Institute, October 2002).
2. National Academy of Public Administration, *Developing Performance Measures for the Community Development Block Grant*, prepared at the request of the Department of Housing and Urban Development, February 2005.
3. These groups included the Council of State Community Development Agencies (COSCDA), National Association for County Community and Economic Development (NACCED), National Association of Housing and Redevelopment Official (NAHRO) and National Community Development Association (NCDA).
4. *Federal Register*, March 7, 2006, "Notice of Outcome Performance Measurement System for Community Planning and Development Formula Grant Programs," 71, no. 44, 11474.
5. NAPA, *Development Performance Measures for CDBG*, 13.
6. Ibid.

large to justify the high subsidy per unit. The fact that no benefits were readily apparent suggests that even if there were some benefits, they likely did not justify the investment. The lesson from the Philadelphia Nehemiah experience, then, is that a small development is not sufficient to turn around a very distressed neighborhood.[82]

In general, housing production subsidies are not the most efficient option in some markets, for several reasons:[83]

1. They are generally more expensive to the government than portable rental vouchers.

2. They are not needed in places where the real estate market works well. In these places, subsidies crowd out unsubsidized production of new units. The result is less filtering of new housing stock to lower-income residents. "Building government subsidized units in well-functioning markets is wasteful."[84]

3. In weak real estate markets, production subsidies may accelerate abandonment (rather than improvement) of older structures as people "trade up." One solution may be to demolish the worst housing and replace it with new subsidized supply. However, if private developers do not arrive (because rents are too low in the neighborhood to support unsubsidized construction), this could lead to a community even more dependent on subsidies as people abandon, rather than improve, the older, unsubsidized units.[85]

82. Khadduri, Burnett, and Rodda, *Targeting Housing Production Subsidies*, 71.
83. Ibid.
84. Ibid., 50.
85. Ibid., 54.

FORMAL EVALUATIONS OF CDBG'S EFFECTIVENESS

4. ROADBLOCKS TO OUTCOME AND IMPACT ASSESSMENT: THE PROBLEM OF CAUSALITY

Linking outcome measures to CDBG is difficult. Evaluators must face the counterfactual, the "but for" test: would the activity have occurred without CDBG? Is CDBG simply a substitute for other funding?

A randomized control trial is one method of addressing the problem of causality. While randomization may be possible for a specific activity that is funded in part or entirely by CDBG, such as a job-training program, it is not a practical or ethical option in the case of a whole city, since it means denying some grantees funding.[1] Other techniques include comparing the subject's performance before and after the program through surveys and case studies. However, depending on how the case study is designed, this approach lacks rigor and may lead to false conclusions. Thus, it should not be used to generalize across the program.

A 1994 Urban Institute study analyzed how CDBG funds were spent. Researchers also tried evaluating impacts. They compared individual census tracts before and after CDBG, deriving what they termed "intermediate impact" assessments through interviews. Among their conclusions: some cities would not have undertaken housing projects to the same extent without CDBG, and the program is an important source of support for community development agencies, which in many cases "critically depend on CDBG funds."[2]

In terms of "ultimate impacts," the researchers concluded that CDBG *appears* to have led to neighborhood change. They linked specific CDBG and non-CDBG investments in particular cities for certain projects, assessing the change. A $15 million housing rehab project in a Brooklyn neighborhood "[prevented] deterioration" . . . indirectly encouraging middle-class in-migration fueled by rising incomes citywide."[3] The project was not significantly supported by other investments, though "market demand for housing in the Brooklyn neighborhood prompted private investment in middle-income housing." The researchers admit that market demand, not the $15 million rehabilitation project, may have been the real reason for investment in middle-income housing, calling into question their conclusions.

Before-and-after tests do not (and cannot) demonstrate that CDBG was the catalyst for neighborhood change. These are not truly "ultimate impacts." As the authors of the Urban Institute study note, "given the extreme difficulty of measuring impacts across diffuse . . . communities, only the most speculative assessment . . . will be made."

1. See PART Guidance (http://www.whitehouse.gov/omb/part/2004_program_eval.pdf).
2. Urban Institute, "Federal Funds, Local Choices," xii.
3. Urban Institute, "Federal Funds, Local Choices," 7–25.

4. Subsidizing rental units may lower property values in some neighborhoods. The other factor that can drive up the cost of housing production is regulation. In any segment of the market: zoning laws, codes, and licensing fees ultimately constrain supply. Fewer new market-rate units are built, slowing the filtering process of older units for low-income residents and driving up rents for existing units as landlords choose to make improvements to raise their rate of return.[86]

According to the HUD report, production subsidies are likely only justified in certain cases. Residents with special needs—the disabled, elderly, or large households may benefit from production subsidies because they require more expensive vouchers to meet housing needs (handicap access or extra bedrooms).[87] While production subsidies may have aided community revitalization in a moderately distressed New York City neighborhood, the immediate effects in Philadelphia suggested that "a small number of subsidized homeownership units in a severely distressed neighborhood will be unable to revitalize the community."[88]

4 Local Control and Citizen Participation in CDBG: Lessons from Economic Theory

A. CDBG and the Rise of Community Development Organizations

The Poplar Nehemiah case, though not a typical use of CDBG funds, challenges, among many things, a much promoted feature of CDBG: that funds are better administered by local mayors' offices rather than through a centralized bureaucracy. The program has given rise to CDBG-dependent non-profits. Mayors, affordable-housing advocates, and economic development organizations strongly defend CDBG as key to community prosperity and survival. Many of these advocates' claims do not stand up to formal assessment. Local control was intended to involve citizens on the theory that democratic participation would result in a more equitable and effective use of CDBG dollars. Yet, this has not necessarily happened. On the contrary, CDBG faces the same problems as its

86. Khadduri, Burnett, and Rodda, *Targeting Housing Production Subsidies*, 16, 57.
87. Ibid., 85.
88. Ibid., 86.

FORMAL EVALUATIONS OF CDBG'S EFFECTIVENESS

5. WHAT IS CDBG'S COST TO SOCIETY?

Even if we can establish causality for CDBG outcomes, we cannot conclude the program should be funded.[1] Program benefits must be weighed against costs. This raises another counterfactual question—the fiscal substitution test. What other investments or economic activity were forgone by the transfer of taxes to fund CDBG?

CDBG's ultimate cost is not just its on-budget expenditure, but the effect on the economy of moving dollars from the private to the public sector. The evaluator must enumerate (and attempt to quantify) the different costs and benefits of the program. This helps identify the full range of program effects.[2]

Costs can be thought of in three ways: (1) CDBG may take resources from projects that benefit people in these neighborhoods. If CDBG is less effective than the other projects, the net effect on outcomes will be lower. (2) CDBG may take resources from other programs that might benefit the neighborhood or individuals. (3)There is also the opportunity cost to society to consider (i.e. what is the cost of moving funds from the private sector, the deadweight loss, to the public sector?) Those who support CDBG may argue that this cost is worth bearing, since those benefiting bear little of the cost and the benefit meets a social objective, such as moving people from welfare to a job.

1. Bartik and Bingham, "Can Economic Development Programs Be Evaluated?" 3.
2. Ibid.

predecessor programs, whether administered on a local or national level.

Philadelphia's experience with the Neighborhood Transformation Initiative provides evidence of the tensions that can arise between CDCs and the local executive. Mayor John F. Street did not want to rely on federal funds to revitalize the city. He believed harnessing the private sector was key to revitalizing the city, ". . . not that Street had turned into a free-market libertarian—he still believes the public sector has a crucial role to play in terms of attacking the most visible forms of blight, enforcing codes, fighting crime, and acquiring and clearing land to stimulate private redevelopment."[89] CDCs, at odds with this view, lobbied hard "for increased resources for housing rehabilitation and neighborhood preservation."[90] Under pressure, the mayor supported subsidized housing projects with CDBG and other public funds.

Economic theory offers several reasons why CDBG and variations of it cannot work. First, CDBG is premised on the idea that infusions of money can repair or help stimulate economies by investing in infrastructure or in economic development projects. The fundamental flaw of this view—public investment in capital formation will create growth—is that it reverses causation. Infrastructure—roads, sewers, bridges, and highways—is not a *cause* of economic growth, but its *result*.[91] An important precondition for economic growth is not physical infrastructure, rather it is the institutional infrastructure (the legal, regulatory, and tax arrangements) of a society that creates the conditions for growth and prosperity.

Second, as a federal grant, CDBG funds are subject to capture by special interests. No amount of democratic participation in economic planning can solve the knowledge problem arising from the absence of a market in allocating resources.

Various formal evaluations have attempted to assess the impact and effectiveness of CDBG in communities. The series of sidebars throughout this section examine some of the challenges evaluators face in conducting these studies and explain the program's weaknesses as identified by these evaluations of CDBG's performance.

Several studies in the 1970s and 80s examined whether block granting categorical grants changed the delivery and application of funds. A key finding was that, despite its new wrappings, CDBG was "administered in the same political and socioeconomic environment as its predecessor programs. . . . it has not proved any better or worse in furthering national social goals than the categorical grants it replaced."[92] Now administered by the local mayor's office, control over the grant gradually shifted away from the executive and towards legislators and citizens' groups who "became more influential in spreading benefits more widely across cities."[93]

89. McGovern, *Housing Policy Debate* 17:533.
90. Ibid., 17:552.
91. Bauer, *Dissent on Development*; Easterly, *The Elusive Quest for Growth*.
92. Henry J. Schmandt, George D. Wendel, and George Otte, "CDBG: Continuity or Change?" *Publius* 13, no. 3 (1983): 21.
93. Urban Institute, "Federal Funds, Local Choices," 1–12.

FORMAL EVALUATIONS OF CDBG'S EFFECTIVENESS

6. THE OVERALL IMPACT OF CDBG

The ultimate question for the academic evaluator is this: was society made better by the investment? That is, does CDBG produce viable urban communities?

Current assessments of CDBG stop at the establishment of outcome measures. Though they do not provide evidence of overall policy impact, they motivate inquiry, which drives better data collection and increases mission clarity and transparency in reporting. This process indicates commitment to understanding the complex forces that form cities and the role of institutions in fostering economic and community development.

Perhaps the ideal approach is to use case studies of cities that suffer from the blighted conditions that Congress sought to eliminate through CDBG and similar programs. A case study would not only ask questions of CDBG, but would also observe those forces that drive change in that community. Case studies don't permit widespread conclusions about the program, but they reveal the incentives CDBG creates and the effects of particular investments. Economic analyses of the individual activities of CDBG are also useful. An econometric analysis of the Poplar Nehemiah Homeownership project indicates the project did not produce the outcomes intended.[1] Though these results only provide evidence for one CDBG funded project, the study reveals how CDBG may operate where it is spent to subsidize homebuilding in distressed neighborhoods.

Further econometric work may help draw out CDBG's impact in neighborhoods. A carefully designed methodology, driven by the right questions and supported by good economic theory, gets us closer to understanding how cities operate and what policies produce the intended outcomes.

1. Cummings, DiPasquale, and Kahn, *Measuring the Consequences of Promoting Inner-city Homeownership*.

Importantly, CDBG's creation coincides with the growth of "generalist" community development agencies in local governments and the rise of specialized non-profits and community development corporations (CDCs), organized around securing CDBG funds for development projects.[94] Today, there are about 3,600 CDCs. They are "an integral part of housing development programs . . . funded wholly or in part by the block grant. Jurisdictions [have become] partially reliant on CDCs to implement development activities."[95]

CDCs are located in the community, operated by citizens and professional advocates. Local organization is intended to lessen administrative burden, making the program more efficient. Typically CDCs combine CDBG funds; other federal, state, and local funds; and charitable and corporate donations to meet development goals. In addition, federal tax credits such as the Low-Income Housing Tax Credit may be offered to attract or "leverage" private investment. CDCs use these funds to stimulate housing production and business and community development. There is little empirical or theoretical support for this model. Though CDCs claim success, they cannot demonstrate whether investments produce revitalization.[96] HUD acknowledges the limits of CDCs, noting in the case of Poplar Nehemiah, that "even the most concerted community development efforts cannot turn around devastated neighborhoods. [CDCs] can be very successful in terms of output, yet unable to radically transform their neighborhoods."[97] This admission by HUD is stunning, if we understand CDCs as leading distributors of CDBG dollars.

The efficacy of CDCs is discussed in the political science literature. One view holds that CDCs are "a cleverly decentralized HUD, almost entirely financed through federal funding and provisions of the federal tax code, not through the assets and initiatives of neighborhood residents . . . sustained by government resources and outside organizers, [CDCs] potentially [impede] the new, spontaneous development that is the hallmark of urban vitality."[98]

One critique argues that CDCs occupy a necessary middle ground between overly centralized bureaucracy and the "unpredictable, unstable, unaccountable [market process]." In this view, CDCs are needed to "preserve community space that would otherwise be sold for profit.[99] While supporting CDCs in concept, this view admits the non-profits' reliance on outside funds means there is very little community control over CDCs,[100] and that when

94. Urban Institute, "Federal Funds, Local Choices," 3–7

95. They were represented nationally by the National Congress for Community Economic Development until the association closed on August 31, 2006, "due to lack of financial resources.".

96.See: Roadblocks to Outcome and Impact Assessment" in this Policy Resource, p.18.

97. Khadduri, Burnett, and Rodda, *Targeting Housing Production Subsidies*.

98. Howard Husock, "Don't Let CDCs Fool You," *City Journal*, Summer 2001.

99. Randy Stoecker, "The Community Development Corporation Model of Urban Redevelopment: A Political Economy Critique and an Alternative," (working paper, University of Toledo, Toledo, OH, August 1996).

100. Stoecker, "Model of Urban Redevelopment.

CDCs compete amongst themselves for funds, "they put organizational profit ahead of community benefit," causing them "to behave as market-oriented organizations . . . becoming part of the same disorganizing forces."[101]

However, the disorganization and failure to effectively serve communities is not a failure of markets. It is a failure of the absence of markets. In pursuing government funds, CDCs act as rent-seeking bodies. They compete with each other in any given city to get a share of a static amount of public funds to push a non-competitive good (e.g., subsidized housing) onto the market.

Though CDCs claim success for creating thousands of affordable housing units throughout the United States (one estimate suggests they have rehabilitated or constructed over 55,000 units),[102] "numerous analysts, including CDC advocates, cannot find evidence that CDCs have enough impact to reverse neighborhood decline, or that the development would not have happened anyway."[103] CDC's claims have not held up to more careful scrutiny. "Despite the persistent belief that CDCs represent a unique and important force for community development in cities, researchers have provided little evidence linking CDCs to overall indicators of neighborhood improvement."[104]

Supporters maintain that fine-tuning is all that is necessary to improve CDCs. Suggestions include removing the word *community-based*, and encouraging other neighborhood groups to form to "[hold] CDCs accountable" when they pursue development objectives at odds with the desires or best interests of some residents—in essence, a proposal for more CDCs.[105]

In reality, no amount of tinkering or re-organization will make the CDC, or variations of it, work. CDCs suffer from a fundamental flaw. Lacking the knowledge contained in the price mechanism, CDCs cannot truly reveal or respond to resident demands.

B. CDBG, Community Development Corporations, and the "Knowledge Problem"

THE MAIN PROBLEM with government attempts at community planning of land use and economic development is that they operate outside the market process. CDCs cannot satisfy resident demands no matter how they involve residents. Government planners are not omniscient; the information relevant to the development of neighborhoods is dispersed among local economic actors and is not in the hands of policy makers. That is, involving residents in discussions is simply not the same as consumers and producers communicating though the price mechanism to determine what gets built and where. It is impossible to mimic the market through government planning because crucial information is obscured.

The lack of knowledge necessary to make planning decisions outside of the market process is referred to as the knowledge problem. This is why "participatory planning models are insufficiently attuned to the problems of social coordination generated by the absence of market prices and the importance of private property rights in facilitating experimentation."[106] Such models do not take into account the information that would be necessary to make the plan succeed because they cannot have access to that knowledge. Moreover, they do not use the profit and loss mechanism, which detects bad decisions. In the absence of profits and losses born by CDCs and policymakers, the funds cannot be allocated in the most needed way.

Private property rights let economic actors bid for resources and, reveal the information they possess. Relative prices reflect the subjective value bidders attach to resources. It is only in the market process that the knowledge necessary to coordinate the plans of many can be

101. Stoecker, "Model of Urban Redevelopment, 7.

102. McGovern, *Housing Policy Debate*, 17:533.

103. Stoecker, "Model of Urban Redevelopment," 2.

104. H. Gibbs Knotts, "Sticks, Bricks, and Social Capital: The Challenge of Community Development Corporations in the Deep South," *Community Development Journal* 41, no. 1 (2006).

105. Stoecker, "Model of Urban Redevelopment."

106. Mark Pennington, "Citizen Participation, the 'Knowledge Problem,' and Urban Land Use Planning: An Austrian Perspective on Institutional Choice," *Review of Austrian Economics* 17, no. 2/3 (2004): 213–14.

revealed via entrepreneurial activity. It is because entrepreneurs have access to private property and the price mechanism that they can discover the information that enables an efficient use of land. Because planners (even local ones) cannot access all the relevant facts necessary to coordinate a local economy, they fail in their attempt to consciously plan land use.

> There is little evidence CDBG can accomplish any particular federal policy objective, even where it is targeted according to statute and spent on a tangible aim.

More citizen involvement cannot improve community-based planning. There is "a large body of knowledge that simply cannot be communicated" by debate, organization and discourse, but can only be communicated through the private exchange of property, the use of money prices, and with the sanction of the profit and loss mechanism.[107]

5 Policy Implications

The problems with the CDBG program outlined above, along with the highlighted problems in measuring the effectiveness of the program, suggest that some changes should be made. Implementing the policy changes outlined below would promote a healthy approach to local community development.

CDBG cannot meet its broad statutory objective of revitalizing urban communities, as demonstrated by economic analysis of the activities it funds. In view of this evidence, Congress should de-fund the program. Instead of using grant programs such as CDBG, policy makers might consider a far more powerful approach to revitalizing cities: ensuring that the institutional environment encourages economic growth. This means, for instance, loosening restrictions or regulations that might hamper entrepreneurial activity, ensuring that the tax climate is non-discriminatory and not overly burdensome, and eliminating corruption and crime.

If Congress is not successful in de-funding the program, legislators should still consider the importance of encouraging the right institutional environment in localities. This means also acknowledging that CDBG cannot achieve the aim of economic revitalization, but is simply a source of supplemental revenue for cities.

If CDBG is not de-funded, and legislators continue to promote CDBG as instrumental to local economic development, then Congress and HUD should continue to monitor the program and improve data collection. Measurement ensures grantees are articulating their objectives and spending funds according to statute. However, intermediate measures, such as creating jobs and building houses, though often used to promote CDBG's achievements, are not evidence of success. From the standpoint of academic evaluators, these are descriptions of how funds are spent. They reveal nothing about the economic impact of such activities on individuals, communities, or society. If CDBG's goal is to revitalize communities, a true measure of success is a city that no longer needs funds.

6 Conclusion

There are many parallels between the failures of international aid in the last few decades and local development policies in the United States. In most cases, solutions have confused the causes and consequences of local economic development, overlooking the most fun-

107. Pennington, Review of Austrian Economics, 17:213–14.

damental aspects of policy. It is widely recognized that foreign aid has fallen short of its promise in the developing world. Yet these same concepts still inform domestic economic policy, as evidenced by the large investment the federal government makes each year in hundreds of programs designed to stimulate economic development and prosperity in the United States.

CDBG was created to help revitalize cities, a goal that is largely subjective and difficult to define. The original intent of the program is rooted in largely discredited economic development ideas that assert that capital infusions could revitalize cities and bolster economies. However, such infusions act to confuse market signals while promoting rent-seeking behavior. At best they serve to "Band-Aid" fundamental problems in the institutional environment. There is little evidence CDBG can accomplish any particular federal policy objective, even where it is targeted according to statute and spent on a tangible aim. Cities are spontaneous orders arising from personal interactions, and it is through the market process that entrepreneurs discover opportunities. Cities and economies grow in this complex ordering of people pursuing their own individual plans and responding to market signals.

In the case of the Poplar Nehemiah Homeownership project, CDBG subsidized the construction of new homes in a distressed area of Philadelphia for purchase by low-income residents. In so doing, residents were encouraged to buy deeply subsidized units in a neighborhood that lagged in appreciation while real estate values in other parts of the city rose significantly. Though well-intended, such investments cannot produce revitalization.

Economic evaluations of Poplar Nehemiah show the project produced unintended consequences. Subsidies merely enticed builders to undertake projects they might not otherwise have taken on, in order to force a particular outcome, in this case neighborhood revitalization. Builders did not arrive voluntarily because they would not have been able to sell new units for market rates in that neighborhood. The presence of a new house does not mean revitalization will occur. Consumers in the real estate market must first value the property, including all of its surrounding aspects, and be willing to bid for it. This is the price signal builders use to meet consumer demands.

The mechanism of awarding flexible block grants for revitalization suffers from two fundamental weaknesses.

1. The existence of federal funds to be distributed creates opportunities for local interest groups to capture public funds for their own benefit. CDBG's creation coincides with the rise of CDCs, locally formed non-profits that apply for CDBG funds to undertake projects that may or may not benefit the community or promote economic development.

2. Despite the view that greater amounts of local participation by residents and democratic planning in how funds are spent can ensure that CDBG operates more effectively and efficiently in communities, no amount of citizen participation can overcome the knowledge problem. Absent market signals, local planners cannot know how to best allocate resources to benefit citizens.

The worst consequence of CDBG may be that it stifles or derails true revitalization. As localities have relied on funds for over 30 years, the rent-seeking behavior that the program encourages may undermine real institutional reform and lead to more ineffective policies for residents. When used to interfere in markets, CDBG may blur the signals entrepreneurs use to make decisions, while subsidizing bad investments. It may be argued that supplemental funds are necessary for cities that cannot meet basic infrastructure and public safety needs, but the question remains: for how long should cities receive these dollars and how do policy makers know when the program's goals have been met?

Communities of widely varying income and circumstance have received funds for decades, calling into question the program's goals and effects. As CDBG is one of the federal government's primary funding mechanisms in rebuilding the Gulf, articulating the program's intent and monitoring its progress is essential to these efforts.

APPENDIX

PERFORMANCE OUTCOME MEASUREMENT SYSTEM

STEP 1: ASSESS NEEDS AND SELECT GOALS

STEP 2: SELECT OBJECTIVES WITH OUTCOMES

AVAILABILITY/ACCESSIBILITY	AFFORDABILITY	SUSTAINABILITY
Enhance Suitable Living Environment Through New/Improved Accessibility	Enhance Suitable Living Environment Through New/Improved Affordability	Enhance Suitable Living Environment Through New/Improved Sustainability
Create Decent Housing with New/ Improved Availability	Create Decent Housing with New/ Improved Affordability	Create Decent Housing with New/ Improved Sustainability
Promote Economic Opportunity Through New/Improved Sustainability	Promote Economic Opportunity Through New/Improved Affordability	Promote Economic Opportunity Through New/Improved Sustainability

STEP 3: DESIGN PROGRAMS AND CHOOSE ACTIVITIES

Housing Rehabilitation
Rental Housing Production
Community Facilities
Public Safety
Infrastructure
Lead-based Paint Activities

HIV/AIDS Housing
Tenant-based Rental Assistance
Economic Development
Housing for Homeless
Special Needs Housing
Homeownership Assistance

Housing Counseling
Public Services
Code Enforcement
Water/Sewer
Utilities
Transportation

STEP 4: COMPLETE THE CONSOLIDATED PLAN/ACTION PLAN

STEP 5: DEVELOP THE OUTCOME STATEMENT

output (quantified) + Outcome + Activity (description) + objective

Choose indicators based on activity and outcome: (examples)

Number of households assisted
Number of new buisinesses assisted
Numbers of jobs created/retained
Number of units made 504-accessible
Number of years of affordability guaranteed
Number of jobs with health care benefits
Number of units meeting Energy Star standards

Number of persons stabilized
Acres of brownfields remediated
Amount of money leveraged
Number of affordable units
Numbers of housing units for HIV/AIDS
Numbers of units for chronically homeless
Numbers of units made lead safe

STEP 6: REPORT (IDIS, CAPER, PER)

For all projects report program requirements plus:

Income levels of persons, or households (30%, 50%, 60%, or 80% of area median income)
Leverage
Number of communities/neighborhoods assisted
Number of persons, households, units
Current racial/ethnic and disability categories

About the Mercatus Center

The Mercatus Center at George Mason University is a research, education, and outreach organization that works with scholars, policy experts, and government officials to connect academic learning and real world practice.

The mission of Mercatus is to promote sound interdisciplinary research and application in the humane sciences that integrates theory and practice to produce solutions that advance in a sustainable way a free, prosperous, and civil society. Mercatus's research and outreach programs, Capitol Hill Campus, Government Accountability Project, Regulatory Studies Program, Social Change Project, and Global Prosperity Initiative, support this mission.

The Mercatus Center is a 501(c)(3) tax-exempt organization. The ideas presented in this series do not represent an official position of George Mason University.

ABOUT THE MERCATUS POLICY SERIES

The objective of the Mercatus Policy Series is to help policy makers, scholars, and others involved in the policy process make more effective decisions by incorporating insights from sound interdisciplinary research. The series aims to bridge the gap between advances in scholarship and the practical requirements of policy through four types of studies:

Policy Primers present an accessible explanation of fundamental economic ideas necessary to the practice of sound policy.

Policy Resources present a more in depth, yet still accessible introduction to the basic elements of government processes or specific policy areas.

Policy Comments present an analysis of a specific policy situation that Mercatus scholars have explored and provide advice on potential policy changes.

Country Briefs present an institutional perspective of critical issues facing countries in which Mercatus scholars have worked and provide direction for policy improvements.

Mercatus Center
George Mason University

3301 North Fairfax Drive, Suite 450
Arlington, Virginia 22201
Tel: (703) 993-4930
Fax: (703) 993-4935