Community Development, Race and Ethnicity, and Urban Public Finance

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This paper explores the links between racial and ethnic composition of communities, community development, and urban public finance. Public finance has two parts: taxation and other sources of revenue for the public sector, and the level and allocation of public expenditures. I argue that race is closely linked to both parts of public finance. At the outset, I emphasize that this review finds many gaps in our knowledge of the racial dimensions of local public finance. Questions that seem obvious in their importance have simply not been addressed, or have been abandoned in recent years. Therefore, I conclude with a set of questions for further research.

The paper is organized as follows. The first section discusses the budget constraint faced by local jurisdictions. Next I consider the role of race in influencing the overall availability of public sector resources, and the distribution within the metropolitan area. The discussion focuses on factors influencing racial and income mixing within communities, and on the effect of racial diversity on spending decisions. The third section considers the fiscal health of cities, and the consequences for particular neighborhoods. I discuss briefly the distribution of public services and taxes by neighborhood. The fourth section considers some policies for improving the fiscal condition of cities, and by extension the neighborhoods within. I conclude with a set of research questions.

I. The Local Resource Constraint.

It is useful to start with some simple budget identities for the allocation of resources to the public sector. At the local level, the two sides of public finance are linked by a budget balancing requirement of the form. Except for short term borrowing to cover differences in the timing of revenues and expenditures over the year, local governments can only borrow for longer term capital expenditures. Hence budget restrictions are more severe at the local than at the national level. If a city violates these constraints by repeatedly spending more than it can or is willing to raise in revenues, it will be thrown into fiscal crisis and penalized by the bond markets in the form of higher interest rates for borrowing. (Capeci, 1991).

II. Race and Public Sector Resources.

Community development is affected through both sides of equation (1). The amount of revenue which can be raised depends on the fiscal capacity of jurisdictions, the tax rate which the community is willing to impose on itself, and the amount of assistance from higher levels of government. These three factors can be denoted by In equation (2) *Taxbase* denotes fiscal capacity. *Taxbase* is made a function of *taxrate* to reflect the potential effects of fiscal competition. At some (though certainly not any) rate of taxation, the relation between the tax rate and the tax base is likely to be inverse. Taxes which are too high relative to those of surrounding jurisdictions could have an adverse effect on the fiscal base. Thus the ability of localities to taxis limited by fiscal competition with other jurisdictions. Race affects all the determinants of revenue - the tax rate, the tax base, and intergovernmental aid - and it could affect the nature of the functional relationship between *Taxbase* and *taxrate*.

The major taxes at the local level are the property tax, general and selective sales taxes, and in a few cities, income or earnings taxes. The magnitude of the tax base for each of these taxes is systematically related to the income of residents. If racial or ethnic minorities have incomes which are lower than the average for the region, this translates into low values for property, taxable sales, and income. If a family has a low income level, it is very likely to have a low level of consumption of private goods. However, because the financing of public goods is shared by all residents and firms in a jurisdiction, a low level of own resources can be offset by income mixing between poor and more affluent citizens, and by the ability to share costs with resident business firms. Low levels of own resources can also be offset by aid from higher levels of government.

Racial and Income Mixing within Communities.

All other things equal, the greater the degree of income mixing within jurisdictions, the greater the level of fiscal resources which are available to provide public services to lower income households. Given the fact that whites have much higher average incomes than most racial and ethnic minorities, racial and ethnic diversity within a jurisdiction can potentially increase available fiscal resources and the quality of public services available to minority neighborhoods. Similarly, the greater the extent to which racial minorities are grouped in communities with substantial business activity, the greater the fiscal resources potentially available to minority communities. However, whether racial and ethnic diversity actually does increase public services to African-American neighborhoods depends on two factors: the effect of diversity on the jurisdiction's willingness to impose taxes, and the influence of income and race on the spatial distribution of public services within jurisdictions.

Racial segregation is widespread in U.S. metropolitan areas, and minorities are disproportionately concentrated in central cities. To a large extent, suburbanization of minorities seems to be preserving patterns of racial segregation, with minorities concentrated in a few typically older and poorer suburbs (Massey, 1990). However, in Southern and Western cities, racial and ethnic minorities are less concentrated in central cities than in Northern cities (Cutler et al, 1997). For example, almost 50 percent of black children enrolled in grades 6 through 10 in the five largest Texas metropolitan areas (Houston, Dallas, Fort Worth, San Antonio, and Austin) attend suburban schools (Kain and O'Brien, 1998).

Racial minorities have much lower incomes than whites. Because a substantial share of the finances for local governments come from local sources (almost 70 percent in 1992), if families are sorted into communities largely on the basis of income, there is likely to be considerable inequality in access to public services by race. Thus the degree of jurisdictional segregation by income level, and the strength of the correlation between income level and race will, taken together, provide a first approximation to the degree of racial inequality in the provision of public services. In addition, there is a separate racial dimension to public service access. Earlier research on the suburbanization of blacks in the northeast suggested that even in the suburbs access to high quality public services, particularly schools, is largely denied to blacks (Schneider and Logan, 1982). More recent research on this topic would be extremely useful.

Given the importance of income segregation in the distribution of local public spending, it is important to understand the forces producing this segregation. Is income segregation is mainly a (legal) proxy for racial segregation? One way to test this would be to examine whether metropolitan areas with more homogeneous racial composition are less segregated by income class?

There are several theories of income segregation. One stems from a basic model of urban economics, under which households with higher incomes demand both more housing and more space on which to live (Mills and Hamilton, 1984). Because land prices generally decline with distance from the central city, it is cheaper to satisfy this demand for space by moving away from the central city. [Follain and Malpezzi, ref.] Households must balance the cheaper space against the fact that transportation to jobs in the central city is more expensive the greater the distance from the central city. Under this model, the strength of the forces leading higher income households to leave the central city depends primarily on the relationship between income and housing demand. The stronger the relationship, the greater the incentive for high income households to leave the central city.

The urban location model has been forcefully challenged by a number of authors. However, even taking the model on its own terms it is important to note that tax policy has an important effect on the income-housing demand relationship. Mortgage interest and property taxes are deductible from federal (and state) income taxes. The value of this deduction rises with the marginal tax rate. Since marginal tax rates increase with income, the subsidy to housing increases with income.

Fiscal Fragmentation and the Isolation of Minority Communities.

A number of economists have argued that the simple income-housing model cannot explain the degree of income segregation observed in U.S. metropolitan areas. Wheaton (1977) argues that suburbanization is most closely related to demographics, rather than income. Central cities are most attractive to the young and childless couples, and it is changes in family structure that are the most important reason for suburbanization.

The Tiebout model provides another explanation for income segregation. Under this model, the existence of many jurisdictions in a metropolitan area offers an opportunity for households to vote with their feet, and sort themselves into "fiscal clubs" with others who have similar preferences for public services. The positive aspect of this process is that it provides an efficient means for individuals to obtain that level of public services which they are willing to pay for. There is considerable empirical support for this model, in that property values seem to be related to the quality of public services. However, some authors have argued that in fact there is more variation in income within suburban jurisdictions than would be predicted by the Tiebout model (Pack and Pack, 1978).

For voting with your feet to work, however, communities have to be able to restrictaccess to those with higher levels of fiscal resources than the average. Each household has a strong incentive to locate in a jurisdiction where the average income or fiscal base is greater than its own fiscal base. For example, if a poor household were able to buy (or rent) very modest housing in Scarsdale, it would be able to take advantage of the high quality schools in that town, while paying less than the average property tax. To prevent this "subsidy", communities use a variety of zoning techniques, including set-backs, minimum lot size, and maximum density requirements, to prevent low-income housing from being available in their communities (Fischel, 1992). From an efficiency point of view, zoning is essential to a well-functioning local publicsector, because of the stability that it brings to property values. In the absence of zoning, there would be a continuous process of low-income households attempting to move to high-income jurisdiction, while high-income households move to escape the poor (Hamilton, 1975).

There is some empirical evidence on the fiscal zoning model. Harrison (1982) finds that, controlling for a variety of other factors, housing costs in New Jersey in 1970 are correlated with stricter zoning requirements. The higher the minimum lot size, the higher the average price of housing in that community. Harrison also finds that the degree of racial segregation by county is correlated with the strictness of the zoning requirements.

The negative aspect of zoning is precisely the mirror of its positive side, i.e. that it is a tool for preventing income mixing, and indirectly, racial mixing. Zoning reduces the housing choices of lower income minorities, and restricts their ability to locate in communities with high quality public services. Moreover, since the central city is typically the only jurisdiction in the metropolitan area than cannot use zoning to prevent the poor from locating there, it increases the concentration of the poor in central cities. Bradbury, Downs and Small (1982, p. 177) argue that the exclusion of low-income families from the suburbs is "neither accidental nor caused by the operation of free markets." However, it is very hard to change these policies precisely because they benefit a majority of urban households.

An implication of the "fiscal club" model of jurisdictional composition is that the greater the extent to which local jurisdictions must rely on their own fiscal resources to pay for public expenditures, the greater their incentive to engage in fiscal zoning. This idea has been tested by

Hamilton, Mills, and Puryear (1975). They found that the greater the share of local spending which comes from intergovernmental aid, as opposed to local sources, the greater the degree of income mixing within communities. Using the 100 largest metropolitan areas in 1970, Harrison (1982) found that where state aid is a larger proportion of local expenditures on education, there was less metropolitan residential segregation by race. He also finds that where there is a larger number of local governments in a metropolitan area, there is more residential segregation by race and greater inequality in education expenditures.

Gyourko and Voith (1998) argue that the deductibility of housing related expenses (mortgage interest and property taxes), combined with minimum lot size zoning, explains why high income households are likely to leave the central cities of the United States, and why there is so much sorting by income level among suburban jurisdictions.

However, income alone cannot explain the concentration of minorities, particularly African-Americans, in central cities. The effects of tax subsidies and zoning are reinforced by continuing discrimination in housing markets, primarily through racial steering by real estate agents (Yinger, 1995). Kain (1985) reports that in 1980 roughly half as many black households lived in the suburbs of America's metropolitan areas in 1980 as would be predicted on the basis of household income and family structure. As of 1990, "…twice as many whites live in suburbs as in inner cities, whereas half as many blacks live in suburbs as in inner cities." (Mills andLuBuele, 1997). Mills and Lubuele (1997) downplay the role of racial discrimination, arguing that the high level of dependence of the poorest inner city residents on government transfers means that they are less inclined to move to locations with more job opportunities, and that cheaper housing in the central city also keeps many poor blacks from relocating to the suburbs.

III. The Fiscal Health of Cities.

To summarize the above discussion, a combination of national tax policy, income-related demand for housing, decentralized local finance with fiscal zoning, and discrimination in housing all work together to concentrate minorities within central cities. Given this concentration, the adequacy of the public services available to minority neighborhoods will depend heavily on the fiscal health of central cities.

Chernick and Reschovsky (1997) argue that the fiscal health of cities is substantially worse than that of the average suburb. There are four major reasons for this poor fiscal condition relative to their suburbs: (1) relatively low fiscal capacity in many cities, (2) higher uncontrollable costs in cities relative to their suburbs, (3) declining intergovernmental assistance, and (4) a pro-suburban bias in federal housing, transportation, and tax policies.

Fiscal capacity is low because the income of central city residents is low relative to the income of those in the suburbs. The exit of high income households from older central cities has been going on for a long time, leaving most cities substantially poorer than their suburban rings. Of the ten most populous cities in the Northeast and the Midwest, the ratio of per capita income inside the central city to per capita income in the suburban ring fell between 1960 and 1989 (Chernick and Reschovsky, 1997).

In the New York region in 1995, among jurisdictions with more than 5000 households, New York City ranked 33rd out of 38 in income. Income in New York City was only 75 percent of the household income in the median jurisdiction (Chernick, 1998). Moreover, New York City is also poor in terms of property base. Despite the concentration of high-valued office buildings in Manhattan, the city's property tax base was only 76 percent of the median, and ranking 34th in the region. Household income in the richest jurisdiction in the region was almost 5 times that of New York City.

The frequently noted increase in the inequality of income also has important implications for the intercommunity distribution of income and public services. Within the New York metropolitan area, increased inequality in the size distribution of income appears to be matched by an analogous widening in the spatial distribution of income, with the gap between richer and poorer jurisdictions increasing.[1]

Not only is the fiscal capacity of cities lower than that of their suburban rings, but the costs of providing public services are higher. Higher costs can be divided into three categories: costs associated with the poor, costs associated with the age of the infrastructure and housing stock, and costs of providing services to nonresidents. Studies by Bradbury et al (1984), Ladd and Yinger (1991), Green and Reschovsky (1994), and Pack (1995) suggest that the growing concentration of low-income households within central cities is increasing the costs to city governments of providing public services. Pack (1995) estimates that,

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1 If we compare the average income by quintile for families in New York State to the average income by quinine for jurisdictions, we find that there is a very close correspondence for the second to the highest quinine. However, average income among the poorest twenty percent of families is much lower than average income among the poorest twenty percent of jurisdictions. This reflects of course the fact that New York City is home to some of the richest households in the nation, as well as some of the poorest.

However, taking account of the city's ability to impose special taxes such as the corporation income tax, its fiscal capacity is about 15 percent higher than the median.

even for non-direct welfare expenditures, each additional percentage point of poverty is associated with another $23 per capita in municipal expenditures for corrections, housing and community development, and public safety. In education, Duncombe and Yinger (1997) find that because of higher costs large cities in New York must spend twice as much as the average school district to obtain the same educational outcomes. The factors which affect costs include poverty rates, percent of households which are female headed, percent of students with severe handicaps, and percent of students with limited English. Notably, they also find that the efficiency of spending in the large cities is above the state average.

Central cities also face higher costs than their suburbs because their infrastructure is older, thus raising the cost of maintenance. Though central city infrastructure is more expensive to maintain than newer suburban infrastructure, from a societal standpoint it may still be considerably cheaper to maintain or even expand existing infrastructure in the central city than to build new infrastructure in the suburbs. Persky and Wiesel (1995) find that "the private gains associated with decentralization are approximately equal to the social costs imposed by that process." These authors find that new middle income households in the outer suburbs receive substantial subsidies from other suburban residents and from state and federal governments. The equity issue is that those realizing the private gains don't pay the social costs.

Intergovernmental Assistance.

It would be possible to offset low local fiscal capacity or high needs with targeted state and federal aid. Indeed, one of the major rationales for intergovernmental aid is that it can help to offset fiscal disparities between jurisdictions, disparities that lead either to widely unequal public spending or local tax burdens. While some equalization does occur, the recent trend has been one of reductions in state aid. Gold (1994) reports that in 1992 local government aid accounted for the lowest proportion of state spending in 35 years.

Controlling for overall amounts of state aid, is state assistance targeted to the most needy cities? Ladd and Yinger (199 1) find that, in comparing cities in different states, state assistance to large central cities has played a very important role in improving their fiscal health. However, within a state the geographical distribution of state aid typically reflects the distribution of political power within state legislatures. As people and jobs have exited the central city for the suburban and exurban ring, political power has been shifting away from central cities towards suburban jurisdictions. As far back as 1957, Campbell and Sacks (1967) found that state aid to suburbs was higher than for central cities, both a per capita basis, and for education, on a per pupil basis. Although no comprehensive data exist, it appears that the share of most states' intergovernmental aid budget being allocated to large cities is declining over time.

Relative to city spending, state aid declined between 1977 and 1992, from 25.4 percent to 21.2 percent. There has also been a precipitous decline in federal aid to cities from its high point in 1977. For the largest cities, federal aid declined from 13.6 percent of spending in 1977 to 4.3 percent in 1992. Operationally, state aid formulas have typically failed to recognize the greater costs of providing public services in cities. A number of studies have found that in many states there is little relationship between the amount of state aid and the fiscal health of particular jurisdictions.

The reason for this lack of targeting of state aid to cities with greater needs seems clear: it is very expensive. Since all communities are reluctant to reduce their own amounts of state aid - the famous hold-harmless clause in any revision of grant-in-aid formulae - targeting to needy jurisdictions must come out of an increased state budget. Duncombe and Yinger conclude, in their study of education in New York, that "a state that is serious about bringing all districts up to a reasonable performance standard must come up with new broad-based sources of revenue or new forms of revenue sharing..." (D-Y, p. 108)

Jurisdictional Composition and the Willingness to Tax.

The level of public services which are provided to minority communities within cities will depend on the overall level of public spending, the functional composition of spending, and the geographical distribution of public services. Pagano and Moore (1985) divide city expenditures into economic infrastructure (transportation, sewer systems, water, electricity, etc. and social infrastructure (education, social services, police, fire, parks and recreation). With a limited sample of nine cities, they find that for the entire period between 1957 and 1979, social capital expenditures grew more rapidly than economic capital expenditures. However, within that longer period, by the mid 70's the pattern had already begun to change, with economic infrastructure growing more rapidly than social expenditures. Thus, it appears that there has been a very limited window of time in which cities attempted to reallocate their budgets towards (broadly defined) social outlays.

The barriers to providing adequate public services to lower-income black neighborhoods are not simply low fiscal resources in the jurisdiction. Even within jurisdictions, the distribution of taxes and government spending may be affected by ethnic and racial diversity. While income mixing may potentially benefit minority communities, public spending is not solely a function of the average wealth or fiscal base in a community. A number of studies have found that public spending is influenced not just by the size of the tax base but also by the racial and ethnic composition of the citizenry. Poterba (1996) finds that the greater the gap between the racial composition of the elderly and the young, the less states spend on education per pupil. Cutler et al (1993) provide some evidence for the hypothesis that people have "discriminatory community preferences" where their concern about the welfare of others is restricted to those "within their ethnic community". (P. 180) Alesina, Baqir and Easterly (1997) study the effect of ethnic diversity on local government spending. They posit that increased diversity leads to more variation in preferences for public goods, leading in turn to less public spending. They also suggest that more ethnic diversity will increase "interest group" politics. Transfers and patronage spending will be favored, as opposed to "productive" local public goods. They find that greater ethnic diversity leads to a smaller share of government spending going to education, roads, and sewerage and trash pickup, a smaller share going to welfare, and a higher share for police spending. Local spending per student is negatively associated with ethnic diversity.[2] They also find that more ethnically diverse communities get a higher share of education spending from state governments.

City Fiscal Strategies.

Property tax discrimination may also be a device to provide fiscal benefits to higher income neighborhoods. Discrimination can arise over time by allowing long lags in reassessment, or complicated grandfathering clauses in local property tax laws. Variation within New York City is extensive. The case of Newark is also instructive (Herszenhorn, 1998) Shocked by the trauma of long-term economic decline, Newark's real estate base has not been reassessed in 40 years. In recent years, differential rates of appreciation by neighborhood have lead to much higher effective property tax rates in the poorest neighborhoods of Newark, as well as a shifting of the property tax burden to businesses. The state and the county are putting legal pressure on the city to conduct a reassessment which will equalize effective tax rates across the city. The policy dilemma that confronts Newark is that this equalization will raise property taxes in the most stable neighborhoods, and the fear has been raised that this would hurt those very neighborhoods which have been leading the recent recovery of Newark as a viable city. However, the cost of not equalizing rates is lower property values, higher rental rates, more abandonment and less renovation in black neighborhoods of Newark.

Evidence on inequality in the within-city distribution of public services is ambiguous, and does not provide consistent evidence that lower-income or minority neighborhoods receive lower expenditures than higher income neighborhoods (Lineberry, 1977; Jones, 1982). Patterns differ across cities and across types of services. Different bureaucracies use different rules, some of which are rooted in long-ago decisions.

While equity in service provision within cities was studied extensively in the 1960's and 70's, there appears to be little or no more recent research on this important topic. Topics for academic research tend to be influenced by (as well as influencing) current policy trends. One can speculate that interest in the spatial distribution of services has declined because of the ascendency of the view that it is self-defeating for cities to try to target services to minority neighborhoods. Instead, it is argued that the best economic development strategy for cities to follow is to favor middle class neighborhoods and keep the general level of taxation low. The current view may be stated as the belief that "redistribution at the local level causes major distortions to locational. choices of both the rich and the poor." (Glaeser, 1998)[3] Support for this view is provided by Innian, Craig and Luce (1994), who argue that the adverse effects of increased taxes on the fiscal base of cities are quite strong. They find that Philadelphia's fiscal situation is such that an increase in taxes will actually reduce total tax revenues, because the fiscal base will decline.

The racial dimension of the tax base effect is not well known. If racial diversity leads to reduced willingness to support public services, then an attempt to ignore such preferences could lead to greater white flight from the central city. However, it has proved very difficult to separate the role of race from that of other factors in migration patterns. To the extent that poor, minority communities have high taxes and low services, some of the studies may be overstating the role of race in migration decisions.

The transcendency of economic development as the primary goal of city policy can also

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[2] My colleague Cordelia Reimers has pointed out to me that the measure of ethnic diversity in the Alesina study is suspect, and is in fact almost entirely black-white.

[3] Glaeser (1998) cites evidence by Rappoport (1997) that cities that engage in large welfare spending repel population.

be discerned in the increased reliance on private financing of collective services. The growing use of Business Improvement Districts (BID's) and other targeted financing devices is a means of reducing the sharing of local resources across the entire population of a city. Instead, tax-like fees are imposed on a specific geographic area of the city, and the funds are spent on services in that area. Though there is no directly observable reduction in services in poorer neighborhoods, such special taxes make businesses less likely to support general tax increases. Private supplementation of public services is part of the same general trend. The city provides a low common level of services, and those who can afford to are able to supplement the public resources with private resources. This further increases the inequality of public services within cities.

The debate over the level of public services to minority neighborhoods can be expressed in terms of the overall size of the fiscal pie versus the division of that pie across neighborhoods. The argument that is implicit in current strategies is that it is more efficient to concentrate on policies that increase the size of the pie. A smaller share of a larger pie is still greater than a larger share of a smaller pie. The real nature of the tradeoffs are largely guesswork. For example, does a city that reduces public spending on education to pay for tax reductions and business improvement districts wind up increasing overall employment and economic activity in the city? More research is needed to answer these questions.

IV. **Policies to Improve Public Services in minority communities.**

1. Persuade Suburbs to Join in Metropolitan-Wide Sharing of Fiscal Resources.

The fact that cities face a highly competitive fiscal environment means that it difficult for any one jurisdiction to unilaterally increase the amount of fiscal resources allocated to low-income neighborhoods. One policy that holds some promise for reducing fiscal disparities between poorer and richer jurisdictions is metropolitan area tax base sharing. The one example of tax base sharing is in the Twin Cities metropolitan area in Minnesota. Under the Minnesota plan, 40 percent of all increases from a 1971 base in the market value of commercial-industrial property is shared among municipalities within the metro area. The formula that distributes the shared base favors jurisdictions with low per capita property values. After nearly 20 year of operation, tax base sharing has substantially reduced fiscal disparities within the metropolitan area (Baker, Hinze and Manzi, 1991). In some periods, Minneapolis has been a net recipient of shared resources, while in others it has been a net contributor. This experience illustrates the value of tax base sharing as a kind of fiscal insurance.

There are many barriers to central-city suburban fiscal cooperation. Most importantly, suburban residents need to be convinced that it is in their own interest to share some resources with the central city. Recent research has shown that there are important economic linkages between the economic vitality of a metropolitan area, including its suburbs, and the fiscal and economic health of the central city (Voith, 1992). Haughwout (1998) finds that enhancements to central city infrastructure significantly increase suburban property values.

Possibly the greatest obstacle to metropolitan cooperation is the difference in the racial composition of cities and suburbs. Despite the potential advantages, it is noteworthy that the only metropolitan area to adopt an explicit tax base sharing regime is also the most racially homogeneous in the nation. Martin (1995) has argued that the Minneapolis tax base sharing system could never be adopted de novo today, because of increased racial and ethnic diversity in the region. If racial attitudes influence fiscal policies, then collective action will be most difficult in metropolitan areas with greater racial disparity between the central city and its suburbs. These attitudes may also lead to lower grants from the state to its cities, reduced state support for city fiscal policies, and more stringent fiscal zoning in the suburbs of central cities with high proportions of minorities. However, animosity towards blacks on the part of whites can also act to encourage metropolitan cooperation. In Nashville, curbing black political power in the central city was an explicit argument used by white supporters of efforts to annex surrounding suburban territory (Eisinger, 1980). Opposition to formation of metropolitan governments can also come from minorities who fear the dilution of political power.

States and the federal government could play an important role in brokering metropolitan fiscal cooperation, both by smoothing the legal path and providing fiscal incentives which lessen the initial transfer of fiscal resources from wealthy suburban jurisdictions to poorer central cities and older suburbs. Under one such scheme, commuters who live in the suburbs but work in the central city would be allowed to take a partial credit against their residential property tax bill for wage tax payments to the central city.

The state could increase the incentive for such cooperation by compensating localities for a portion of the forgone property tax revenues (Chernick and Reschovsky, pp. 165-166). Federal assistance, perhaps through a partial income tax credit, could also be used to increase the incentive for this form of fiscal cooperation.

2. Increase reliance on state aid, and reassign functions to the state level. State aid reduces the importance of local fiscal disparities, and the incentives for fiscal zoning. Even if the suburbs are favored in the distribution of a given amount of state aid, higher level finance still reduces fiscal pressure on central cities.

3. Increase Political Influence of Minority Neighborhoods. Voting matters in the distribution of city services, and areas with weak turnout are likely to be penalized. The accession of minority mayors in a number of cities has had the effect of redressing some of the imbalances in service distribution. However, given that minority ascendancy to political power typically reflects increasing minority populations, and hence lower levels of fiscal resources, minority mayors find themselves heavily constrained in their ability to reallocate resources to minority neighborhoods.

4. Legal Action. Murray et al (1998) find that education finance reform has reduced within state inequality in education spending by between 19 and 34 percent. Moreover, they argue that this reduction in inequality has been achieved not by leveling down the highest spending districts, but by raising up the lowest spending districts. This finding suggests that court ordered challenges to inequities in local public finance can improve access to resources.

V. **Suggestions for Future Research.**

In general the role of racial and ethnic composition question has not been sufficiently addressed in the literature on urban public finance. I have been unable to find studies that attempt to categorize and measure the fiscal health of cities in terms of their racial composition. A set of questions that call for additional research include:

a) To what extent has minority political control improved the quality of public services for minority neighborhoods of the city? How is the overall budgetary and fiscal health of cities affected by having minority mayors.

b) How is state aid to cities and suburbs is influenced by racial composition.

c) How are city services distributed by neighborhood? To what extent are they influenced by racial and ethnic factors. I have hypothesized that geographic inequalities in public services within communities has diminished, replaced by a strategy of low common services to all city residents, and private supplementation for those who can afford it. Research to test this hypothesis would be extremely useful.

d) Fiscal strategies of cities. There has been insufficient sufficient

analysis of the economic and long-run fiscal implications of decisions to reduce spending on social services. For example, New York City was among the few large cities which chose to offset reduced federal funding for housing in the 1980's. What has been the long-run impact of the city's fiscal choices? Has the resultant neighborhood improvement been worth the extra fiscal resources required?

e) Income Mixing. We need to analyze the extent to which racial and/or ethnic diversity leads to greater income segregation by jurisdiction.

f) What has been the fiscal impact of Business Improvement Districts on the availability of public resources in minority neighborhoods?

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