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ABSTRACT

Despite general recognition that nonmetropolitan areas have a disproportionate share of the nation's problems; that this is both a cause and an effect of rural-urban migration and metropolitan compaction; and despite official rhetoric in favor of "rural-urban balance", virtually all evidence points to a pattern of inequity in Federal outlay for rural areas and small towns. Examination of "Federal Aid to State and Local Governments" (reported annually as part of Special Analysis of the Budget) and the series of reports titled "Federal Outlays" (distribution of all Federal outlays and of federally insured credit programs down to the county level and to towns of 10,000 or more population) reveals that in most categories of Federal outlays, nonmetropolitan areas get less than their fair share, and where they get more, the effect frequently is to make things worse. For example, Federal outlay for highways in nonmetro areas has accelerated the demise of smaller communities, since highway development has helped enlarge the trading areas of larger towns. We need, therefore, to take a much closer look at what the budget impact is in terms of rural-urban balance, and geographic, racial, and economic equity, particularly in reference to income security, welfare, jobs, job training, education, retirement, social security, housing, farm programs, health, and medical assistance. (JC)

THE FEDERAL BUDGET AND RURAL AMERICA:

Where do all the Federal dollars go?

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THE FEDERAL BUDGET AND RURAL AMERICA

Beginning as a basically agrarian society, the American nation -- like the rest of the world -- reacted to the technology of the industrial revolution with increased urbanization. As is the way in such things, the pace of change steadily intensified through the years and we became -- particularly in the years following the Second World War -- a metropolitan society. More recently still, the pattern that has emerged has been that termed megalopolitan -- a social landscape that is as unappealing as the term used to describe it.

This process, though rapid, has never been without its critics and resistants. Most visible in recent years have been those raising questions about the impact of megalopolis on the environment and human ecology. Preceding even that concern have been the warnings of some that the polarization and racial and economic concentration implicit in metropolitan and megalopolitan growth pose dangers for the society. Overlaying these more specific questions has been increasing evidence of general unhappiness with the pattern of population distribution. For at least a decade the public opinion polls have consistently reflected a preference for rural and small town life far exceeding the opportunity to enjoy it. A 1971 survey found the greatest dissatisfaction with the place of residence on the part of those living in large urban areas, the least on the part of those living in rural areas or small towns. 1/

As a counterpoint to this rising concern about urban concentration, there have been legislative pronouncements on the need for "more balanced development of all areas of the nation," for "promoting a sound balance between rural and urban America," and to "help reverse trends of migration and physical growth which reinforce disparities." 2/ There is also, fortunately, greater recognition that the debate is not really about whether to have a policy but what the policy should be, and how it should be implemented. The 1972 report on national growth sent to Congress by the Nixon Administration argued that it would be inappropriate for the Federal government to seek "the establishment of a single national policy on growth." In fact, a decision not to seek such a policy represents a ratification of what is, an endorsement of the trends already manifested.

The more recent report of the Ford Administration at least admits that "the public sector does influence growth patterns." If not a recognition of Federal responsibility in an affirmative sense, this is at least acknowledgement of some negative responsibility. As a bare minimum, that negative responsibility requires us to ask the question: Does the Federal government bias the situation? Is the pattern of Federal impact one of equity as between metropolitan areas and rural and small town America, or is it one of discrimination against the latter? And a good place to start looking for the answer is with the Federal Budget.

1/ See "National Population Distribution Policy," Report of Task Force No. 1 of the Science Advisory Panel, Committee on Public Works, U.S. House of Representatives, A National Public Works Investment Policy, Task Force Reports, pp. 12-14 and 25-26.

2/ See Title VII, Housing and Urban Development Act of 1970, and Title IX, Agriculture Act of 1970

Trying to Get A Handle on the Budgetary Impact

Obviously, the Federal Budget, now equal in size to one-fourth of the Gross National Product, has some effect on where people live, how well they live while they're there, and whether or not they want to go on living there or move some place else. Just as obviously, measuring what that effect is with any precision is a very tricky proposition. It is not only a matter of how much money is spent, but on what and where. Moreover, the expenditure side of the Budget doesn't tell the whole story. We make all too frequent use of our tax structure to attempt to influence behaviour -- economic and otherwise. We have now legislatively recognized that these tax preferences are the equivalent of outlays and call them "tax expenditures." Their total size is approaching $100 billion a year -- which puts them at a level of one-fourth or more of the direct spending side of the Budget.

Beyond the Budget, which can at least be quantified in dollar terms, even if we disagree as to the per-dollar effect of various programs, lie other Federal policies which have geographic distributional effects and which may make up part of a de facto growth policy by discriminating against some people and places in favor of others. Their effect is indirect and even more difficult to measure, but nonetheless real. Fiscal and monetary policy affect not only the level of economic activity but the type and they can also affect its location. Regulatory activities represent another type of impact -- most clearly in the field of transportation, but elsewhere as well.

All of these have their effects and probably none of them is subject to unchallengeable measurement. In attempting to determine what the impact of a particular program is, you have to make some assumptions about what would constitute neutrality: under what circumstances or with what pattern would there be no discrimination for or against a group or an area? In attempting to measure the impact of the Federal Budget one probably should 'weight' some programs more heavily than others, since some programs have more effect on where people live than others. When dealing with non-quantifiable areas, like regulatory policy, things get even more difficult.

The fact that it is difficult to measure the distributional impact of Federal activities and that the job can probably never be done to everyone's satisfaction does not mean that we shouldn't be trying to do it. It is nothing short of scandalous that we aren't trying it a lot more than we are. The Administration, after admitting in the Second Biennial Report on "National Growth and Development," that "the public sector does influence growth pattern that originate in private market decisions," goes on to list

> at least seven major growth-influencing Federal activities: grants and loans to State and local governments; location and employment levels of Federal installations; procurement

of goods and services; direct and indirect Federal construction of public works; taxation; credit management; and regulatory activities.

Knowledge about the cumulative long-term effects of these Federal actions, especially on localities and regions, is very limited....1/

One way to change that situation may be to start pointing out what we do know or at least think we know about the pattern of Federal spending. That is what this paper, and earlier efforts by others 2/, attempts: to use the data available to document a pattern of "metropollyana" on the part of the Federal Budget. Let those who don't care for the conclusion and/or think our analysis is simplistic and based on weak data answer with their own analysis and better data. At least let the Federal government start asking itself just what the impact of its Budget is and whether there is not a great deal of room for more equity in it.

Where DO All the Federal Resources Go?

There are two major official series indicating the metropolitan-nonmetropolitan distribution of Federal expenditures. One is limited to Federal aid to state and local government and is prepared in terms of national aggregates only. It appears each year as a part of the Special Analysis of the Budget, "Federal Aid to State and Local Governments." The other is a far more ambitious effort and attempts to reflect the distribution of all Federal outlays and of Federally-insured credit programs down to the county level and to towns of 10,000 or more population. The effort has been coordinated since the mid-1960's by the Office of Economic Opportunity (now the Community Services Administration), and is published in a series of reports titled "Federal Outlays."

Both sets of information use computerized data and both are really dependent on the quality of the input from the various administrative agencies and departments. There, the similarity ends. The Special Analysis series, prepared by the Office of Management and Budget, requires of the agencies simply an estimate for each program included (i.e., those making grants to public agencies), of the percentage of outlays going to metropolitan areas. The reliability of those estimates obviously varies from agency to agency and program to program. The Federal Outlays series asks each agency to report for as many of its programs as possible the allocation of outlays by state, by county, and by towns of 10,000 or more population. In many instances the actual pattern of distribution may be known. In others it has to be estimated on some basis or another.

1/ National Growth and Development, Second Biennial Report to Congress Submitted pursuant to Section 703(a) of Title VII, Housing and Urban Development Act of 1970, December 1974, p. 3.

2/ Notably Dr. Fred Hines of the Department of Agriculture.

Again, the reliability of those estimates varies from program to program and agency to agency. 1/ Despite these caveats, the two series must be regarded as the "best guess" available from the Federal agencies as to the geographic distribution of their expenditures.

Outlay, Who Gets the Outlays?

Taking the more limited series first, Table 1 summarizes the figures for FY'74 outlays to state and local governments in this year's Special Analysis. Covered are about $46 billion in grants, nearly one-fourth of those going for income security programs (including public housing payments). Of the total, 30% is estimated as going to nonmetropolitan areas. In some categories they do pretty well, receiving 34% of aid in the natural resources field, 37% of that in commerce and transportation, and 36% of that in health. In other categories, nonmetropolitan areas get distinctly less than their proportional share of Federal aid to public bodies: 28% of that for community and regional development, 27% of grants for income security, 22% of those for education, manpower and social services, and only 12% of money from the Law Enforcement Assistance Administration.

Even with those categories where nonmetro areas seem to do well, there are significant variations. The figure for commerce and transportation is skewed by the figures for highway aid, for example. Within the natural resources category, funds from the Environmental Protection Agency are disproportionately aimed at metropolitan areas. If one excludes from Table 1 the outlays for the highway program, Medicaid, and general revenue-sharing, then the share of the remainder shown as going to nonmetropolitan areas is only 26%, significantly below their share of the population.

As has been noted, Table 1 reflects only a limited aspect of the Budget. The outlays covered in this series amounted to 17% of all outlays in FY'74. Data from the more comprehensive "Federal Outlays" series are summarized in Table 2, which presents figures for FY'72 and FY'73 from the most recent report on "Government Services to Rural America." 2/

1/ Perhaps the most flagrant case of unreliability is that for public housing payments where the HUD staff person responsible couldn't be bothered to estimate below the state level and simply assigned all of each state's share to its largest city.

2/ Fifth Annual Report of the President to the Congress on Government Services to Rural America, Pursuant to Title IX, Section 901(e), of the Agricultural Act of 1970, December 1974. Analysis of the OEO-collected data has become a regular feature of this report. For an earlier analysis, see also The Economic and Social Condition of Rural America in the 1970's, Part 3, "The Distribution of Federal Outlays Among U.S. Counties," Committee Print, Senate Committee on Government Operations, December 1971.

Table 1

FEDERAL AID TO STATE AND LOCAL PUBLIC AGENCIES,

FISCAL YEAR 1974

Selected Programs & Functions	($ in millions) Total Outlays	Nonmetro Outlays	Percent Nonmetro
National Defense	$ 64	32	50%
Natural resources: EPA	1,623	406	25
Other	514	322	63
Total	2,137	728	34%
Agriculture	511	303	59%
Commerce & Transportation: Highways	4,512	1,923	43
Urban Mass Transit	518	2	(a)
Other	258	56	22
Total	5,288	1,981	37%
Community & Regional Development:			
Urban Renewal & Model Cities	1,671	324	19
Community Svcs. Adm'n.	622	120	19
Appalachia	286	174	61
Other	745	296	40
Total	3,324	914	28%
Education, Manpower, & Social Services: Elementary & Secondary Education	1,665	309	19
Vocational Educ'n.	569	68	12
Comprehensive Manpower Ass'nce	1,137	285	25
Social Services	1,471	368	25
Rehabilitation Services	1,240	372	30
Other	2,639	512	19
Total	8,721	1,914	22%
Health: Medical assistance	5,818	2,251	39
Other	1,474	365	25
Total	7,292	2,616	36%
Income Security: Public ass'nce	5,423	1,404	26
Food & nutrition	4,315	1,334	31
Housing payments	1,116	279	25
Other	458	92	20
Total	11,311	3,108	27%
Revenue Sharing & Fiscal Assistance: Revenue Sharing	6,106	1,832	30
Other	518	217	42
Total	6,624	2,049	31%
Law Enforcement Assistance:	637	77	12%
Other functions:	130	103	79%
TOTAL AID	$46,040	$13,826	30%

a/ Less than 5%

Source: Special Analyses, Budget of the United States Government, Fiscal Year 1976, "Federal Aid to State and Local Governments", Tables O-6 and O-8, pp. 244 and 246-9.

Table 2

SHARE OF FEDERAL OUTLAYS AND CREDIT PROGRAMS

GOING TO NONMETROPOLITAN AREAS, BY FUNCTIONS,

FY 1972 AND FY 1973

	FY 1972			FY 1973			Per Capita Outlays			
	Outlays (millions of $)		Percent Non-Metro	Outlays (millions of $)		Percent Non-Metro	Metro		Nonmetro	
	Total	Nonmetro		Total	Nonmetro		1972	1973	1972	1973
Direct Outlays (including Grants):										
Commercial Agriculture	$ 3,942	$ 3,035	77%	$ 4,628	$ 3,648	79%	$ 6	$ 7	$ 56	$ 67
Resources and Conservation	1,217	791	65	1,340	837	62	3	3	14	15
Community Development	3,726	663	18	4,997	876	18	23	29	14	18
Transportation	5,799	2,102	36	5,346	1,669	31	25	25	38	30
Revenue Sharing	--	--	--	6,636	1,493	22	--	35	--	27
Housing	816	208	25	620	163	26	4	3	4	3
Education	1,832	654	36	2,058	690	34	8	9	12	12
Health & Medical Assistance	5,247	1,532	29	6,719	1,531	23	25	33	28	25
Welfare and Poverty	10,418	2,904	28	10,473	2,835	27	48	52	50	51
Social Security and Retirement	57,211	16,610	29	72,377	20,914	29	275	351	301	371
Employment & Manpower Training	4,509	747	17	4,119	711	17	25	23	14	13
Defense and Space	69,895	10,472	15	70,621	10,776	15	402	404	188	195
Total Direct Outlays	$164,612	$39,716	24%	$189,935	$46,142	24%	$ 845	$ 974	$ 718	$ 826
Loans and Federally Insured Credit:										
Commercial Agriculture	$ 3,650	$ 3,186	87%	$ 2,474	$ 2,134	86%	$ 3	$ 2	$ 57	$ 38
Community Development	2,734	1,359	50	4,357	1,774	41	9	17	24	32
Housing	21,140	3,338	16	18,166	3,727	21	122	102	61	60
Medical Facilities	215	31	14	234	35	15	1	1	--	1
Total Credit	$ 27,739	$ 7,914	29%	$ 25,231	$ 7,669	30%	$ 135	$ 122	$ 142	$ 131
GRAND TOTAL	$192,351	$47,630	25%	$215,165	$53,812	25%	$ 980	$1,097	$ 859	$ 956

Numbers do not always add to totals because of roundings.

Source: Adapted from Appendix Tables 1 thru 4, Fifth Annual Report of the President to the Congress on Government Services to Rural America.

Direct outlays covered by this analysis totalled $164.6 billion in FY'72 and $189.9 billion in FY'73 -- roughly three-fourths of all Federal outlays in each year. The share of this accounted for by nonmetro areas was 24% in each of the two years, well below the share reflected in the OMB's series on aid to public bodies. Again, there are wide variations between program areas. Nonmetro areas account for about three-fourths of Federal outlays for agriculture and resources and conservation. The only other categories in which more than 30% of outlays went to non-metro America were transportation (again including the highway program) and education. At the other end of the scale, nonmetro areas got less than one-fifth of the outlays from community development grants, for employment and manpower training, and on national defense and space.

Putting it another way, per capita Federal outlays were smaller in nonmetro areas than in metro areas in six categories, slightly larger in five, and the same in one. Over all, per capita outlays in nonmetro areas were about 15% lower than in metro areas.

In addition to direct outlays, Table 2 summarizes data on Federal credit programs -- either direct or guaranteed. The program levels involved here totalled $27.7 billion in FY'72 and $25.2 billion in FY'73. About three-fourths of this is in housing credit -- most of that accounted for by Federal Housing Administration programs. While the non-metro share of this housing credit increased between FY'72 and FY'73 (from one-sixth of the total to one-fifth), the disparity was still substantial in the second year. On a per capita basis, Federally influenced housing credit in non-metro areas was less than 60% that in metro areas.

The other major categories of Federal credit reflected in Table 2 are agriculture and community development. In both cases, nonmetro areas got more than their share, on a per capita basis. Given the recognized shortage of credit in most rural areas, the increased role of Federally-influenced credit is not too surprising. Note also, that the situation for community development loans is the reverse of that for community development grants. When the per capita figures for both categories are combined, then metro areas and nonmetro areas received nearly comparable amounts: $46 and $50, respectively. Given the far greater subsidy implicit in grants as compared with loans, the balance is clearly in favor of the metropolitan areas.

The pattern for the two years is rather stable. In only five of the fifteen categories is the share going to nonmetro areas different by three or more percentage points in FY'73 as compared to FY'72. As noted, the nonmetro share of housing loans increased by 5%. The nonmetro share of community development loans dropped 9%, and the nonmetro share of grants also declined for health and medical assistance (by 6%), transportation (by 5%), and resources and conservation (by 3%).

Taking a Closer Look

While these over-all patterns of Federal outlays tell part of the story, it is worth looking behind the simple per capita figures to the extent we can. As an earlier analysis pointed out,

> Equal per capita Federal outlays among county groups does not necessarily mean that the people living in these counties received the same quality of service. Particularly in low income, low density, rural counties, per capita Federal outlays may need to be higher because of: (1) the limited ability of low income counties to raise State and local moneys to finance government services, (2) the inability of more sparsely settled counties to achieve economies of scale (lower cost per person) in providing comparable government services, and (3) the frequent need for more capital investment, on a per capita basis, to compensate for past inequities. 1/

The first of those reasons is particularly relevant, for example, to the case of community development outlays. As has been already noted, an apparent near-parity in this category between metro and nonmetro outlays can be regarded as an example of relative short shrift for nonmetro areas.

- Housing -

Moreover, for programs the constituency of which is not necessarily the total population, differences in outlay distribution are to be expected. The question is whether or not they are equitably related to the distribution of those the program is supposed to serve. Housing provides a particularly striking example. The 1970 Census data show that nonmetro areas account for 57% of the nation's "sub-standard" year-round housing, and for 54% of that which is occupied. An analysis of housing need done for the Department of Housing and Urban Development by the Harvard-MIT Joint Center for Urban Studies concluded that nonmetro areas contain 57% of the households occupying "physically inadequate" housing as they defined it, and 41% of total housing "deprivation" (including that stemming from rents that take too large a bite out of family income). 2/ Compared with any of these measures, Federal housing assistance to nonmetropolitan areas has been lagging far behind. With half or more of the problem, those areas have gotten less than one-fourth of the outlays and credit.

1/ "The Distribution of Federal Outlays Among U. S. Counties," op. cit., pp. xi-xii.

2/ Housing Needs in the United States, 1970-1980, December 1973. The use of rental housing as the basis for measuring "economic deprivation" biases the estimates in favor of urban areas where rental housing is more prevalent.

- Income Security and Welfare -

Similarly, both Table 1 and Table 2 show nonmetro areas receiving about 27% of outlays for income security or welfare and poverty. But the Census data show that almost 44% of the nation's officially-designated poor reside in nonmetropolitan counties. On that basis, outlays per capita for the poverty population in nonmetro areas were less than half those in metro areas.

- Jobs and Job Training -

Outlays for employment and manpower training look bad enough on a straight per capita basis, with only 17% shown by Table 2 as going into nonmetro areas. Here, too, Census data indicate that things are even worse, with nonmetropolitan counties having 29% of the labor force and 31% of the unemployed. 1/

- Education for Children -

Looked at in this way, the figures on Federal aid for education seem decidedly less satisfactory for nonmetro America. It accounts for nearly 32% of the nation's elementary and secondary school enrollment and a slightly larger percentage of the population five to nineteen years of age. Yet the Special Analysis data indicate that only one-fifth of grants for elementary and secondary education go to nonmetro governments, and the figures on total education outlays show only 34% going outside of metropolitan areas.

- Retirement and Social Security -

The same sort of adjustment is necessary in the case of outlays for retirement and social security -- the second-largest category in dollar terms. Nonmetropolitan areas contain almost 36% of the nation's population aged 65 and over. They account for more than 47% of the poverty population in that age bracket. Given those figures, the 29% of outlays for social security and retirement going to nonmetro people seems distinctly inadequate. Based on the more conservative definition of "target population," per capita outlays in nonmetro areas are seen to be less than three-fourths those in metro areas.

- Highways -

An implicit assumption in all this has been that dollars spent in an area help that area. This is presumably an assumption that is

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1/ The unemployment situation has obviously changed dramatically since the Census, but there is serious question as to the reliability of more current unemployment data for rural areas. In any event, the outlay data are for periods prior to the recent surge in unemployment.

generally more or less valid. In some cases, though, it needs to be scrutinized. Highway programs furnish a prime example. As is set forth in Table 1 and implicit in Table 2, outlays for highway construction are a dominant element in the transportation category. Between 35% and 45% of those funds reportedly go to nonmetropolitan areas, which get only a miniscule share of other transportation expenditures. At least one study of the locational impact of Federal activities lists the national highway program as one of "the most powerful influences on patterns of regional development." But, it goes on to say that "the national highway program has reinforced established patterns of settlement and communication," and by "enlarging the trading areas and commuting sheds of many larger towns" has been "accelerating the demise of smaller communities and accelerating the polarization of national development patterns." 1/ In short, the highway dollars going into rural and small town America have had a reverse impact, often stimulating decline rather than economic health.

- Farm Programs Subsidize Concentration -

Agriculture programs offer another, though more complex example. To the extent that it can be argued that Federal outlays in agriculture have been biased toward large-scale production and agri-business, it can be argued that they have contributed to metropoliyana rather than countered it. Indeed, the study just cited lists as the first of the "perhaps unintentional" results of our "congeries of policies and programs" the promotion of "the industrialization of American agriculture." 2/ This factor must be kept in mind when regarding those substantial nonmetro dollars in the agriculture category.

Finally, as argued earlier, some programs may be more important than others in their impact on where people live and how well. A 1970 survey of 42 Federal assistance programs, for example, concluded that only six had "moderate or heavy impact on national development." 3/ Only the national highway program, previously discussed, was rated as having "heavy impact." The others were: sewer and water programs,

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1/ David Hartley, Janet Patton and Lucia Findley, "The Regional Impacts of Federal Policy," in A National Public Works Investment Policy, Background Papers prepared for the Committee on Public Works, U. S. House of Representatives, November 1974, pp. 94 and 96.

2/ Ibid., pp. 92-93

3/ Federal Activities Affecting Location of Economic Development, cited by Terrie Gale, "National Growth Policy," Toward a National Growth Policy: Federal and State Developments in 1973, Congressional Research Service, December 1974, p. 373.

urban renewal, housing guarantees by the Federal Housing Administration, housing interest deductions (in the tax law), and new community assistance. Estimates of the FY'73 distribution of expenditures under four of those are presented below. 1/

	Total Outlays	Nonmetro Outlays	Percent Nonmetro
Sewer and water programs	$ 2,027 million	$ 584 million	29%
Urban renewal program	811 "	157 "	19%
Housing guarantees (FHA)	18,244 "	3,742 "	21%
Housing interest deductions	4,400 "	880 "	20%
TOTAL	$25,482 million	$5,363 million	21%

Source: Interest deductions estimated: rest same as source for Table 2.

It is worth noting that only funds for water and sewer programs go into nonmetropolitan areas in anything like an equal per capita basis.

Some 'Off-Budget' Items

The inclusion in the list of programs significant for national development of the tax deduction for mortgage interest underlines another previously mentioned aspect. So-called tax expenditures play a very large role in our economy. Although they are equal in size to almost one-third of direct spending by the Federal government, they don't appear in the Budget. As the recent report on housing goals notes, "The most important housing tax subsidy is the deduction by homeowners of mortgage interest payments and local real estate taxes. 2/ Together, these two deductions cost the Treasury an estimated $7.9 billion in 1973. As that report also points out, the subsidy greatly favors the wealthy. Of those taking advantage of the subsidy, the one-fourth with adjusted gross incomes of $20,000 and above received more than half the benefits. (These taxpayers, it should be noted, constitute less than 15% of all taxpayers.) At the other end of the

1/ Outlays for new community assistance were too small to be of any significance ($121,000 in FY'73 grants).

2/ Sixth Annual Report on National Housing Goals, House Document 94-18, January 1975, pp. 17-18.

income scale, tax payers with incomes below $10,000 received less than 9% of the benefits. (More than half of all taxpayers are in this income category, but only a small portion of them -- less than 15% -- were in a position to take advantage of the tax subsidy.)

Because of this bias in favor of upper income homeowners and because of the preponderance of lower incomes in nonmetropolitan areas, the mechanism is automatically biased against nonmetropolitan areas. Based on Census data showing the distribution of homeowners by income class inside and outside of metropolitan areas, it is certain that no more than 20% of the benefits from these tax expenditures go to nonmetro households. If allowance is made for the fact that the average value of houses and the average property tax per $1,000 of value are both lower in nonmetropolitan areas, the share is likely to be closer to 15% and perhaps below.

Studies of other tax policies conclude also that they favor new construction and development. This means a further reinforcement of the pattern of outmigration from older areas, both rural and urban, toward increased suburban sprawl. 1/

Monetary policy also has regional effects, though indirect. Tight money has a substantial adverse effect on local government borrowing and small business borrowing. In both cases, nonmetro areas feel the pinch more. The result of Federal policy here as in other places is to accelerate and reinforce the direction set by the private sector -- and that usually means more metropollyana.

Summing Up

This look at the Federal Budget and its impact on rural areas and small towns has been necessarily abbreviated. The analysis, like the data, must be regarded as tentative and far from complete. But the general pattern is depressingly clear. Despite general recognition that nonmetropolitan areas have a disporportionate share of the nation's problems; despite equivalent recognition that this is both a cause and an effect of rural-urban migration and metropolitan compaction; and despite substantial official rhetoric in favor of "rural-urban balance," of giving priority to "the revitalization and development of rural areas," of fostering "the continued economic strength of all parts of the United States," and the like, virtually all the evidence we have points to a pattern of inequity for rural areas and small towns.

"The stone bumps the jug..."

In most categories of Federal outlays, nonmetropolitan areas get less than their fair share, and where they get more than their share, the effect is frequently to make things worse.

1/ See Richard Slitor, The Federal Income Tax in Relation to Housing, 1968, cited in Hartley et al, op. cit., p. 102

Conspiracy or a System - What's the Difference?

If there is no conscious policy of metropolitan bias on the part of the Federal government, there certainly is convincing evidence of an unconscious one. One need not subscribe to any conspiracy theory to explain this. In listing the various aspects of this "perhaps unintentional" body of policy, David Hartley and his associates include four points which are of key importance: 1/ Federal policy "Reacts to rather than shapes the economic consequences flowing from the patterns of private investment;" with few exceptions, public investment follows rather than leading private investment; the allocation and direction of geographic shifts of manpower is left to private decisions and information "with minimal public attempts to influence these flows;" and the resulting de-populated rural regions are left "to their own devices in adjusting to shifts in the patterns of national settlement and economic activity."

- People Versus Business -

In short, public policy underwrites private sector decisions rather than offering a framework even of neutrality, much less conscious direction in the public interest. In the face of the ever-mounting evidence that the shape of the society we have is neither the healthiest possible nor the one which most people want, this reactive role is unacceptable. The market mechanism is an extremely useful institution -- particularly when it is in a position to deal with all the facts and it is not subject to manipulation by concentrations of forces. But we have long recognized that economic activity has costs that are not reflected in the market mechanism. In times of depression we are particularly conscious of some of the social costs. In recent years, we have also begun to give priority attention to ecological costs. The point is that it is the role of the political process and the duty of public policy to deal with those issues. To go on blindly underwriting the metropolitan bias of the market mechanism is to abdicate public responsibility.

We need to take a much closer look at what the Budget impact is in terms of rural-urban balance, in terms of geographic equity as well as racial and economic equity. Considering our sophistication in complex econometric modeling and our passion for detailed accounting and cost-benefit analysis, the state of our real information about those impacts is pretty pathetic.

But more important than that closer look and the better data and analysis that must go into it, is the willingness to do something about it. If we really mean what we say about "rural-urban balance" and "a decent home in a suitable living environment," then we should see to it that the impact of the Budget is in support of those goals. At the very least, we must seek to end the situation in which the impact is undermining those goals.

1/ *Ibid.*, p. 93.