26. *Urban Policy*

Congress should

- downsize the federal government, starting with spending programs that are most irrelevant to cities—such as the Departments of Agriculture, Commerce, Energy, and Labor;
- end failed urban aid spending programs and use the savings to cut taxes;
- eliminate the capital gains tax as a means of luring capital back to cities;
- implement a policy of no net new mandates imposed on cities;
- identify and eliminate existing federal mandates that impose severe fiscal burdens on cities;
- replace the welfare state with a system that stresses moral values, work, family, private charities, and personal responsibility;
- shut down the U.S. Department of Education and return public schools to state and local control;
- shut down the Department of Housing and Urban Development (HUD) and devote any remaining funds to a program of housing vouchers for low-income families and transfer ownership of the existing public housing stock to the residents;
- decriminalize drugs to end the culture of crime and terror in our inner cities; and
- promote free trade and more liberal immigration policies.

Since Lyndon Johnson declared war on poverty 30 years ago, more than $2.5 trillion of federal money has been funneled into America's cities. Yet most objective measures of the livability of inner cities indicate more urban despair and decline. The single greatest indication of the deterioration of America's once mighty industrial centers—New York, Chicago, Cleveland, Buffalo, Detroit, St. Louis, and others—is that Americans are voting with their feet against the social conditions and economic policies of those cities. Between 1965 and 1994, 15 of the largest U.S. cities lost a total of 4.2 million people, while the total U.S. population rose by 60 million.

Much of the urban lobby today is predictably demanding even fatter checks from Washington as the cure for the problems of the inner cities. Fortunately, an increasing number of reform-minded mayors are beginning to publicly acknowledge the futility of that approach. As John Norquist of Milwaukee recently stated, "We need to return to a more traditional American paradigm of government, where power is retained as close to the people as possible. Washington can best help, by leaving us alone." That is still a minority view among urban advocates, but skepticism about the effectiveness of federal aid is growing.

A new urban policy should be based on the realization that conventional strategies for helping cities by expanding the federal budget cannot solve the problems of our inner cities (and arguably have made those problems worse). What is needed from Congress is a new economic development strategy based on the principle of "markets, not mandates."

The Comparative Advantage of Cities

Throughout most of American history, cities were the very symbol of the nation's industrial might and economic progress. One needed only to travel to the neighborhoods and business districts of New York, Chicago, Los Angeles, Cleveland, Detroit, Dallas, Milwaukee, and other cities to see the marvels of the marketplace at work—markets where industrious people came to earn good wages, where businesses and trade flourished, and where wealth was created.

Sadly, in recent decades the economic environment of many of America's largest cities has atrophied. Today, many cities have high levels of poverty, excessive crime rates, poor schools, joblessness, and—perhaps the most visible sign of decline—flight. As Table 26.1 shows, since the mid-1960s cities such as Cleveland, Detroit, Pittsburgh, and St. Louis have lost more than one-third of their population. What began as white flight has now become middle-class minority flight. One consequence of the migration from central cities is that urban America is losing economic and political clout to the suburbs.

Yet, as Jersey City's mayor Bret Schundler has emphasized, "There is no inevitability to the decline of America's central cities." Indeed,

Table 26.1
America's Shrinking Cities

City	1994 Population (thousands)	Estimated 1965 Population (thousands)	Change, 1965-94 Thousands	Change, 1965-94 Percent
New York	7,333	7,839	-506	-6
Chicago	2,732	3,460	-728	-21
Philadelphia	1,524	1,976	-39.0	-23
Detroit	992	1,592	-600	-38
Baltimore	703	922	-219	−24
Cleveland	493	813	-307	-39
Washington, D.C.	567	760	-193	-25
Milwaukee	617	729	-112	−15
St. Louis	368	686	-318	-46
Boston	548	669	−121	-18
New Orleans	484	610	-113	-21
Pittsburgh	359	562	-203	-36
Denver	494	504	-36	-2
Buffalo	313	498	-185	-37
Minneapolis	355	459	−104	-23
15-city total	17,881	22,081	-4,200	−19
Total U.S. population	260,341	191,313	+69,028	36

SOURCE U.S. Census Bureau.
NOTE: Numbers may not add to total due to rounding.

the demise of central cities seems to be almost uniquely an American experience.

America's cities still command substantial intrinsic economic advantages over suburbs. Those comparative advantages include

- Their physical location. Cities did not grow where they did by accident. They are typically strategically located at ports of entry and have an integrated transportation infrastructure.
- Their high population density. Their density creates market opportunities not generally available outside cities.
- Their vitality as centers of intellect and culture. Most of the top universities, museums, theaters, opera houses, sports stadiums, and restaurants are in central cities.
- Their status as magnets of regional clusters. Cities are critical to the well-being of surrounding suburbs; they define the identity, architecture, culture, and civic life of their regions.

It is also important to emphasize that although many American metropolises are losing people, businesses, and capital, not all are suffering decline. Dozens of the nation's largest cities—many on the West Coast, in the Sunbelt, and in the Southeast—have been steadily prospering for at least the past 20 years. Las Vegas, Nevada; Phoenix, Arizona; Arlington and Austin, Texas; Sacramento and San Diego, California; Raleigh and Charlotte, North Carolina; and Jacksonville, Florida, all have rapidly rising incomes, populations, and employment and low poverty and crime rates.

Meanwhile, many of the downtown areas of the older northeastern and midwestern cities are starting to be rebuilt as well. Baltimore, Chicago, Cleveland, and Pittsburgh, for example, have enjoyed a healthy renaissance in their downtown business districts in the 1980s and 1990s. Unfortunately, the decaying social conditions and the culture of poverty in those cities continue unabated even as surrounding suburbs flourish.

How Washington Harms Cities

Although there is little if any objective evidence that the federal government's multi-billion-dollar spending policies have improved the livability of urban America, many federal actions actually erode the natural comparative economic advantage of cities. Here are eight prominent examples:

- Economic instability fostered by years of reckless federal fiscal and monetary policies has wreaked havoc on cities. The massive federal budget deficit is sapping the American economy of its vitality and crowding out private investment that could be taking place in cities.
- Environmental regulations insensitive to market forces have reduced reinvestment in cities. For example, Superfund legislation discourages business development in cities because of potential liability costs.
- Labor rules, such as the Davis-Bacon Act and the Service Contract Act, have added unnecessary costs to city services. The minimum wage prices low-skilled inner-city residents out of jobs.
- The welfare state has disconnected the poor from the larger urban economy and disrupted the patterns of upward mobility that traditionally characterized the urban marketplace.
- Federal maritime policies have destroyed the value of one of our cities' oldest industries, shipping. The Jones Act and related protectionist laws have reduced the value of American ports.
- Federal mandates on cities have inflated and destabilized city budgets.

- Public housing programs have contributed to urban blight and have trapped the urban poor in an environment of poverty, fear, and hopelessness.
- Education grants have been designed to benefit the education establishment more than children. Federal education dollars have only propped up failing school systems and discouraged innovation.
- The federal government's failed war on drugs has converted our cities into America's equivalent of Beirut, as drug warlords create a climate of terror and lawlessness.

Are Cities Underfinanced?

For the past 30 years federal aid programs have been tragically predicated on a false premise: that declining cities are starved for resources. The truth is precisely the opposite. A recent Cato Institute Policy Analysis found that spending and taxes are much higher in declining inner cities than in growing inner cities or in suburbs. Table 26.2 highlights the huge disparities between the fiscal policies of the 10 cities with the greatest population growth in the 1980s and the 10 largest urban population losers. It shows the following:

- For every $1.00 spent per person in the high-growth cities, the shrinking cities spend $1.71. Expenditures in the high-growth cities average $673 per person and 5.7 percent of personal income versus $1,152 and 11.8 percent in the shrinking cities.
- A typical family of four living in one of the shrinking cities pays $1,100 per year more in taxes than it would if it lived in a high-growth city. A family of four pays $2,352 in taxes in shrinking cities and $1,216 in high-growth cities.
- Shrinking cities are much more likely to impose an income tax on residents man are high-growth cities. None of the 15 highest growth cities has an income tax, whereas 10 of the 15 lowest growth cities do. With very few exceptions, every city in America with a city income tax is getting poorer.
- Shrinking cities have bureaucracies twice as large as those of growth cities. The high-growth cities have 99 city employees per 10,000 residents; the shrinking cities have 235.
- Cities with high spending and taxes in 1980 lost population in the 1980s; cities with low spending and taxes gained population. High spending and taxes are a *cause*, not just a consequence, of urban

Table 26.2
Spending and Taxes in the 70 Highest Growth and 70 Lowest Growth Cities, 1980 and 7990

City	Percentage Change in Population, 1980-90	City Tax Revenue per Capita, 1980	Expenditures* per Capita, 1980	Expenditures* as Percentage of Money Income, 1990	City Tax Revenue per Capita, 1990	Expenditures* per Capita, 1990	Expenditures* as Percentage of Money Income, 1990	City Employees per 10,000 Residents, 1990
Highest growth cities								
Mesa	89%	$153	$547	5%	$149	$649	6%	81
Las Vegas	79%	$252	$547	4%	$213	$829	7%	74
Arlington	63%	$212	$385	3%	$323	$580	4%	68
Fresno	62%	$296	$645	6%	$279	$514	5%	82
Santa Ana	44%	$236	$446	4%	$329	$526	5%	69
Stockton	42%	$284	$860	8%	$305	$574	6%	75
Aurora	40%	$332	$501	4%	$369	$668	5%	84
Raleigh	38%	$249	$560	5%	$322	$734	5%	131
Austin	35%	$250	$529	5%	$365	$924	8%	215
Sacramento	34%	$309	$748	6%	$388	$732	6%	115
Average	53%	$257	$577	5%	$304	$673	6%	99
Lowest growth cities								
Newark	–16%	$508	$843	12%	$307	$1,117	15%	184
Detroit	–15%	$476	$1,300	13%	$507	$1,328	14%	215
Pittsburgh	–13%	$433	$953	9%	$601	$936	9%	159
St. Louis†	–12%	$687	$1,102	12%	$725	$1,205	12%	195

Cleveland	–12%	$386	$937	10%	$530	$959	11%	175
New Orleans†	–11%	$396	$1,047	10%	$547	$1,275	14%	197
Louisville	-9%	$377	$815	8%	$524	$1,144	12%	168
Buffalo	-8%	$439	$1,106	12%	$376	$1,083	12%	400
Richmond†	-7%	$882	$1,092	10%	$1,189	$1,502	12%	503
Chicago	-7%	$389	$756	7%	$574	$971	9%	149
Average	–11%	$497	$995	10%	$588	$1,152	12%	235

SOURCE: U.S. Census Bureau.

*Do not include expenditures on health, education, and welfare.

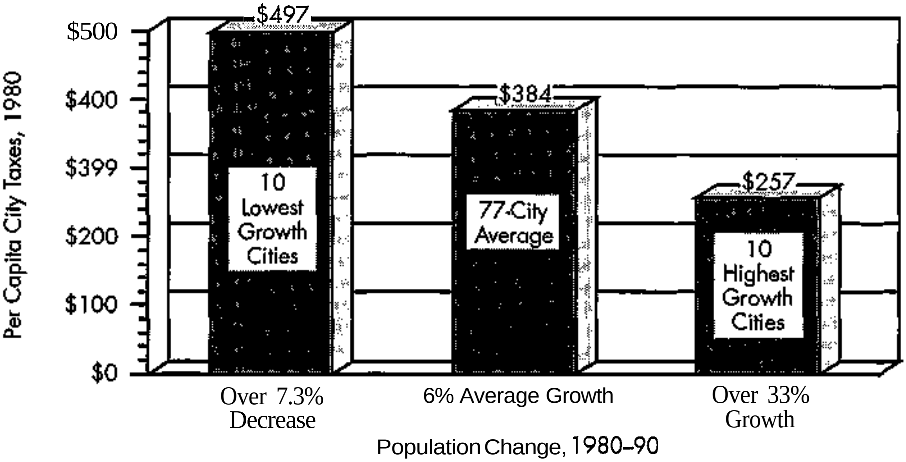
†County-type area without any county government.

> decline. The fastest growing cities in the 1980s had very low spending—$577 per resident—at the start of the period. The cities with the most severe population losses had average spending in 1980 of $995 per resident. Taxes were $257 in the growth cities and $497 in the shrinking cities in 1980 (see Figure 26.1).

Expenditures are high and rising in large central cities primarily because their governments generally have above-average unit costs of educating children, collecting garbage, building roads, policing neighborhoods, and providing other basic services. For example, in 1989 the shrinking cities spent roughly $4,950 per pupil, whereas the high-growth cities spent $3,600. That $1,350 cost differential cannot be explained by better schools in places such as Detroit and Newark.

The influence of municipal employee unions also accounts for higher costs in declining central cities. Compensation for unionized local employees tends to be roughly 30 percent above wages for comparably skilled private-sector workers. In New York City the average school janitor is paid $57,000 a year. In Philadelphia, when Ed Rendell became mayor in 1991, the average municipal employee received more than $50,000 a

Figure 26. J
Relationship between 1980 City Taxes and 1980–90 Population Growth



SOURCE: Cato Institute, based on data from U.S. Census Bureau.

year in salary and benefits. According to the Census Bureau, cities with populations over 500,000 pay their mostly nonunionized workers more than 50 percent more than do cities with populations under 75,000. In short, thriving cities are places where costs are lower, bureaucracies are smaller, and services are better.

The good news is that many cities are beginning to reform themselves. City leaders are starling to understand that, to compete effectively with surrounding suburbs, they need to follow the basic strategy of an effective and profitable business: deliver quality services at lower cost.

Mayor Norquist of Milwaukee often states that "America's cities will never be rebuilt on pity.'' Urban renewal will only occur when city officials begin to fully implement more intelligent, market-based policies—and when Washington begins to do the same.

Defining a Federal Role in Urban Renewal

The federal government is a creation of the states. The cities are creations of the states. A proper adherence to the constitutional principles of federalism would dictate that the federal government have almost no direct relationship with cities. Federal aid, to the extent that it continues at all, should be provided to the states. To the extent that cities and other jurisdictions of the states are in need of financial aid, it should be provided by the state legislatures.

Probably the only truly effective federal agenda for aiding the cities is to promote national economic growth. The lesson of the past three decades is that central cities' economic fortunes often turn with the national economy. In the slow-growth, high-inflation 1970s cities rapidly deteriorated; in the prosperous 1980s cities partially revived; but in the slow-growth 1990s cities are again financially strapped.

By far me most vital step is to create an overall policy climate in America that maximizes freedom, growth, and prosperity. That involves fixing the tax code, eliminating the capital gains tax, balancing the budget, reversing the regulatory reign of terror in Washington, privatizing Social Security, maintaining a noninflationary monetary policy, ending the war on drugs, and undertaking the other policy prescriptions detailed in this book. Each of those policies will promote the livability of cities much more effectively than the targeted urban aid policies that Washington has implemented with such futility over the past 30 years.

Federal Spending and Urban Revival

One of the most constructive steps that Washington could take to help cities would be to eliminate federal agencies that are inconsequential to cities. Currently hundreds of billions of dollars are spent on such agencies. The Departments of Agriculture, Commerce, Energy, and Labor, for example, have virtually no impact on the financial well-being or livability of cities. Yet city residents pay billions of dollars in taxes each year to pay for those departments. Cities are often the victims of government expansionism in Washington because many urban areas are actually losers in the game of federal roulette. For example, a Manhattan Institute study has shown that New York City's residents send more money to Washington than they retrieve in federal aid.

Even for cities that receive more federal assistance dollars from Washington than their residents and businesses pay in taxes, the funding is so encumbered with mandates and restrictions that only marginal benefits are produced. Indianapolis mayor Steve Goldsmith reports that there are now more than 500 federal programs providing aid directly to cities like Indianapolis or to disadvantaged populations living in cities. The aid comes with so many federal strings attached, he says, that "it is practically useless."

The urban lobby disagrees and insists that federal handouts to cities should be expanded. The U.S. Conference of Mayors has been demanding a new "Urban Marshall Plan" for cities with as much as $35 billion more spending each year. But the $2.5 trillion of federal checks delivered to cities over the past 30 years—the equivalent of 30 Marshall Plans—stands as a monument to the futility of that approach. Many cities are visibly worse off today than they were before the expenditure campaign began. Virtually all of the federal aid programs invented in the 1960s and 1970s turned out to be expensive failures. For example, Urban Development Action Grants, which were finally abolished in 1987, subsidized the construction of major chain hotels, such as Hyatts, and luxury housing developments with health spas and tennis courts in Detroit.

Despite federal grants totaling over $50 billion for urban transit since the mid-1960s, total transit ridership has declined. The federal government spent over $2 billion to build Miami's Metrorail, which Miamians call "Metro-fail"; today it has less than 20 percent of predicted ridership, and its operating subsidies are in the hundreds of millions of dollars a year. Before he retired from the Senate, William Proxmire presented his "Golden Fleece" award to the federal transit agency for "playing Santa Claus to America's cities" and for being "a spectacular flop." Similarly, a Congressional Budget Office audit of federal wastewater treatment grants to cities found that construction costs were 30 percent higher when plants were built with federal funding than when local taxpayers footed the bill.

Even cities that have been saturated with federal aid have not been able to leverage those funds to resuscitate their economies. In one famous experiment, from 1968 to 1972 Gary, Indiana, received more than $150 million for urban renewal—or about $3,000 per resident in today's dollars—yet Gary's deterioration continued.

Even the *New York Times* conceded in 1992, "Despite trillions of dollars spent over the years on thousands of different government social programs, politicians are no clearer today than they were a generation ago about the best ways to lift people out of poverty and make the cities a better place to live."

If trillions of dollars in spending and thousands of social programs won't revive inner cities, what will? Probably the most promising economic redevelopment strategy is a general tax rate cut to help lure investment back to capital-starved cities. In the 1980s after income tax rates and the capital gains tax were reduced, the number of inner-city minority-owned businesses tripled, according to statistics gathered by the U.S. Civil Rights Commission. Investigative reporter Joel Garreau, author of *Edge City*, has documented that in the 1980s dozens of downtown areas of industrial cities flourished as businesses returned. The lesson: pro-capital investment policies are pro-city.

Regulations and Mandates

Washington has proven over the past 30 years that it is incapable of balancing its budget, and through unfunded federal mandates it is now intent on making sure that states and cities can't balance theirs. Unfunded mandates are a popular method used by federal lawmakers to intervene in the affairs of state and local governments and thereby add huge costs to their budgets. Some cities, such as Columbus, Ohio, have calculated that federal mandates raised city costs by more than $1 billion over 10 years, or about $850 per household per year. The problem is getting worse each year. Currently, more than one-third of many city budgets is devoted to complying with federal mandates. Enough is enough.

Congress should promote urban renewal by shedding unnecessary regulations and mandates imposed on state and local governments. Increasingly, federal regulations are imposed on our cities without consideration of the costs of compliance. An agenda that would identify strategies for reducing regulatory costs to cities is long overdue.

One possibility would be the creation of an independent commission, modeled after the Military Base Closing Commission, to identify counterproductive or excessively expensive mandates imposed on cities. Easing the cost of mandates would allow cities to reduce local tax burdens and spend city revenues more productively.

Ending Welfare

The culture of poverty perpetuated by the current welfare state is—perhaps more than any other single factor—devastating the physical, economic, and moral infrastructure of cities. In many of our cities, we are now witnessing a third generation of Americans trapped in poverty. Thirty million Americans still live in poverty. Most of them reside in inner cities. The welfare bill passed by the 104th Congress is a start at ending the failed welfare state, but much more change is needed.

One of the most pernicious effects of welfare is that all too often it has become a deterrent to work. A recent Cato study shows that, in many cities, a typical welfare recipient living in public housing would have to find a job that paid upward of $10 an hour to replace lost welfare benefits. Table 26.3 shows that in New York City, a welfare mother would have to find a job paying at least $13 an hour to make work pay better than government income support programs. We have essentially priced low-wage workers out of the market. As discussed in Chapter 25, the way to improve the lot of the poor is to end the welfare system that traps people in the culture of poverty.

All income assistance for employable adults should be predicated on the recipient's working. One option to consider would be replacing all federal cash welfare programs, food stamps, and Medicaid for employable adults with a refundable tax credit (up to the amount of Social Security payroll taxes paid) for low-income families, if at least one adult in the household works at a full-time job. The idea behind the tax credit is that every family with a full-time worker should be able to afford the basic costs of food, shelter, child rearing, and other necessities. (Such a tax credit system could be made compatible with a flat tax.) If we guaranteed all working Americans a livable income, but ended all means testing of federal benefits, the work and marriage disincentive of the current welfare system would disappear and the dignity of work and family would be elevated. Finally, because that scheme would de-bureaucratize welfare, it

Table 26.3
Value of Welfare in Selected Cities, 1995

City, State	Pretax Income Equivalent*	Hourly Equivalent**
New York, NY	$30,700	$14.76
Philadelphia, PA	$25,900	$12.45
Baltimore, MD	$23,600	$11.35
Los Angeles, CA	$23,500	$11.30
Detroit, MI	$22,700	$10.91
Indianapolis, IN	$21,100	$10.14
Akron, OH	$20,100	$9.66
Toledo, OH	$20,100	$9.66
Cleveland, OH	$20,000	$9.62
Pittsburgh, PA	$20,000	$9.62
Lexington, KY	$19,800	$9.52
Cincinnati, OH	$19,800	$9.52
Columbus, OH	$19,500	$9.38
Chicago, IL	$19,400	$9.33
Louisville, KY	$18,600	$8.94
Kansas City, MO	$17,700	$8.51
St. Louis, MO	$17,450	$8.39
Birmingham, AL	$15,300	$7.36
Houston, TX	$15,200	$7.31

SOURCE: Michael Tanner, Stephen Moore, and David Hartman, "The Work vs. Welfare Trade-Off," Cato Institute Policy Analysis no. 240, September 19, 1995.
*Includes federal, state, and local income taxes and FICA taxes.
**Based on a 2080-hour work year.

would ensure that virtually all expenditures wound up in the pockets of the intended recipients.

Housing

HUD seems to exist more for the benefit of bureaucrats in Washington, D.C., than for that of America's inner cities. Currently, HUD has 15,000 federal employees. That's roughly 150 federal workers for every central city in America. But most of those federal employees have never set foot in our cities. They, and the vast programs they administer, are only marginally important to city development.

HUD should be abolished. The major beneficiaries of HUD are, not the inner-city poor, but federal workers, urban lobbyists, government contractors, mortgage bankers, and the construction industry. The urban aid programs have produced no positive results in revitalizing inner cities.

The construction of public housing should be terminated entirely. The strategy of spending billions of dollars over the past 40 years to segregate the poor in public housing projects has been a distinct and widely recognized failure. But for inexplicable reasons the strategy continues. Construction companies seem to be the sole advocates of the program.

Congress should recognize that most of the low-income housing supply problems are a result of misguided local housing regulations, such as restrictive building codes; prohibitions against inexpensive, prefabricated housing; zoning; and rent control.

One final responsibility of HUD is mortgage financing, handled primarily by the Federal Housing Administration. Increasingly, FHA does not serve lower income minority homebuyers, and it certainly does not boost homeownership in cities. Only 18 percent of FHA loan applications in 1993 were for homes in low- or moderate-income census tracts. Some low-income areas seem to be virtually quarantined by FHA. For example, a recent study found that 94 percent of the mortgages in south central Los Angeles were conventional, not FHA, mortgages. Instead, the FHA has aggressively moved into more upscale housing markets. Today, with its $153,000 mortgage cap—up from $67,500 in 1980—the FHA is serving wealthier families. Those markets are already well served by private mortgage insurers.

Even when the FHA does subsidize homebuyers in low-income neighborhoods, the assistance may be more of a burden than a benefit. Over the past 10 years more than 700,000 families suffered the trauma of losing their FHA-insured homes. FHA foreclosures often contribute to the deterioration of low-income neighborhoods. Gail Cincotta, head of the National Training and Information Center in Chicago and a long-time slum fighter, says, "The number 1 problem in revitalizing neighborhoods is FHA." She notes that in many low-income neighborhoods, FHA's default fate is 28 percent. Private insurers are much more likely to work with a financially distressed homeowner to refinance the mortgage and make other accommodations to keep the family in the home. A privatized FHA would, on balance, benefit cities.

Education Reform

In 1978 the federal government created the U.S. Department of Education. Since then the quality of inner-city schools—indeed almost all public schools—has visibly deteriorated. As former Dallas mayor Steve Bartlett laments, "If the Department of Education—and the $300 billion it has spent over the past fifteen years—has had any positive effect on the learning going on in classrooms in our cities—we have not seen it."

Cities are not inherently unsuitable environments for learning. After all, some of the best universities in the world are located in or around inner cities—the University of Chicago, the University of California at Los Angeles, Marquette, Harvard, Yale, Johns Hopkins, the University of Pennsylvania, the University of Minnesota, Columbia, and so on. Why then are those very same cities also home to some of the world's worst elementary and secondary schools?

The principal answer is that in the first case, the students and their families have a choice of schools. In the second, they do not. We know that monopolies don't work well in the private sector: they don't control costs, they aren't responsive to customer needs, and they are slow to change. We should not be surprised that monopoly systems work with equal inefficiency in the public sector.

The Education Department should be abolished. Education is a state and local responsibility. Congress needs to be frank with the American public by declaring that virtually any federal involvement in their local schools is likely to make them worse, not better. If states and cities are serious about improving their schools, they should break up the monopoly structure of inner-city schools through a means-tested voucher program that empowers parents and students, not teachers' unions, school boards, school districts, and PTAs. The vouchers could then be used by low-income parents to send their children to whatever school, public or private, they chose. Today, in most inner cities—including Washington, D.C., New York, Chicago, and Jersey City—children can receive a better education at half the cost of the public school monopoly in private schools.

In Milwaukee an experimental state voucher program is already in place and has generated widespread enthusiasm on the part of participating families. The children are experiencing greater academic success. In other cities, such as Dallas and Indianapolis, successful privately funded voucher programs have been launched. Most of the families served are low-income minorities.

Empowering parents with a choice about where they can send their children to school, perhaps more than any other single reform, would bring American families back to cities. Ultimately, the fate of this critical school reform rests in the hands of state and local governments—not in Washington.

Crime and Drugs

High crime rates in cities are one of the primary factors driving middle-income families out to the suburbs. Washington, D.C., with more than 500 homicides in 1993, has become derisively labeled the "murder capital of the world." Cities like Atlanta, Detroit, and Miami have crime rates that are as high as Washington's.

As is education, fighting crime is a state and local responsibility. The federal crime bill of 1993 was one of the most misguided pieces of legislation to pass Congress in many years. The $30 billion bill attempts to combat crime with $8 billion to $10 billion of new social spending—on arts and crafts programs, federally funded job training, self-esteem classes, and, of course, midnight basketball leagues. Yet if social spending were the antidote to high crime in cities, East Los Angeles and the Bronx would have the safest streets in the world. Another $10 billion is now being spent on Bill Clinton's 100,000 cops on the street program. Yet, it turns out, not surprisingly, that the cops will be primarily added, not in areas with significant crime rates, but rather in politically crucial areas where votes might be bought from appreciative voters with "free" federal dollars. In any case, there is no conceivable reason why cities and states cannot pay for their own police. The 1993 crime bill ought to be immediately repealed in its entirety.

The most critical step that the federal government could take to reduce crime in cities would be to end the war on drugs. Prohibition hasn't ended and won't end the use of marijuana, cocaine, and heroin, but it does make the drugs 10 to 100 times more expensive on the street than they would be on legal markets. The higher price means that users often commit crimes to pay for a habit that would be more affordable if drugs were legal. It has been estimated that at least half the property crime in major cities is a result of drug prohibition.

An even more frightening level of crime results from the fact that drug warlords (the modern-day Al Capones) now rule many of our inner cities. Participants in the drug trade have no. peaceful means of settling disputes between buyer and seller or between rival sellers. A few years ago police estimated that 60 to 80 percent of Washington's murders were drug related. Law-abiding residents of inner cities are often caught in the cross-fire of the drug war.

The federal role in ending drug prohibition should be similar to the federal role in the repeal of alcohol prohibition in the early 1930s. The Twenty-First Amendment did not legalize alcohol sale and consumption;

rather it returned to the states the authority to set alcohol policy. The Controlled Substance Act of 1971, which makes drugs illegal, should be amended to eliminate the federal prohibition against psychoactives. Then states could establish their own policies. Many states would probably choose to treat marijuana and cocaine the way states now treat alcohol: sale to adults but not to children is legal, and taxes are high. That reform would take the astronomical profits out of drug trafficking and destroy the illicit drug trade that terrorizes so many of our cities. Not only would there be much less crime in inner cites, but police time could be freed to deal with other serious criminals. It is noteworthy that after alcohol prohibition was overturned in 1933, the crime rate fell for 10 straight years in the United States as the bootlegging industry collapsed.

Trade and Immigration

In general, America's cities are the beneficiaries of free trade and open immigration. Historically, cities prospered precisely because of their roles as trading centers. For example, many large American cities have ports that were hubs for international commerce until increased trade protectionism reduced their use. Moreover, immigrant businesses, which are flourishing in cities, are typically tied to imports to and exports from home countries. Many of the large American cities that are booming today—Miami, San Diego, San Francisco, Seattle, to name a few—owe much of their growth in enterprise to international trade. For example, the Miami area now accounts for nearly one-quarter of all U.S. trade with South America. Miami—with its flourishing financial services and communications industries—is now considered the capital of Central America. As Joel Kotkin, senior fellow at the Center for the New West, notes, "Global trade is critical to urban America's quest to regain its full economic potential."

Milwaukee mayor John Norquist says that "free trade can only be a huge asset to American cities." He is right. A vital pro-urban policy for the 105th Congress to adopt is tearing down restrictions on free trade.

Another huge asset for cities is immigration. That runs contrary to the views of many restrictionists and urban leaders, who argue that immigrants impose a burden on cities. The argument is made that states and especially localities with very large concentrations of immigrants are increasingly incapable of absorbing the large numbers of newcomers and that U.S.-born citizens, particularly low-income minorities, living in those areas and competing with foreign workers for jobs, are the victims.

Immigrants are also said to be changing the face of America's cities in ways that many Americans find deeply disturbing. For example, *Newsweek* recently raised the alarm for Californians with a frightening headline: "Los Angeles 2010: A Latino Subcontinent." Within a generation, predicts the article, "California will be demographically, culturally, and economically distinct from the rest of America." Gordon J. McDonald, former chief of the U.S. Border Patrol, is even more blunt in his assessment of the urban impact of immigrants. "Major cities have already been turned into extensions of foreign countries," he warns. Urban unrest, such as the 1990 rioting in Los Angeles, is said to be a sign of black rage resulting from job displacement by immigrants.

It is true that immigrants disproportionately affect our urban areas. Over half of all immigrants reside in just seven cities: Los Angeles, New York, Chicago, Miami, San Diego, Houston, and San Francisco. Most of the rest of the nation is negligibly touched by immigration. But the facts show very clearly that, on balance, the migration of foreign workers, businesses, and families into cities provides an economic vitality to those areas. The cities that attract immigrants tend to be much more economically successful than cities without immigrants. Moreover, the argument that American's inner-city underclass is hopelessly burdened by the presence of immigrants is refuted by the fact that America's most depressed urban areas—Detroit, St. Louis, Buffalo, Newark, Philadelphia, for example—have virtually no immigrants.

A recent study by the Alexis de Tocqueville Institute contrasted the economic conditions of the cities with the most immigrants and those with the fewest immigrants over the period 1980-92. The study examined seven variables measuring the prosperity of cities—from population growth, to poverty rates, to income growth, to crime, to taxes—and found that cities with large foreign-born populations fared much better than cities with few immigrants. The institute concluded, "Immigrants appear to be a primary catalyst for rebuilding and revitalizing America's inner cities."

James Madison once observed, "That part of America that has encouraged [foreigners] has advanced most rapidly in population, agriculture, and in the arts." That appears to be as true today as it was 200 years ago. Restrictionist immigration laws—which were considered by the 104th Congress and may be revisited by the 105th—will only deny cities the human capital so essential to their resurgence while exacerbating their fiscal problems.

Conclusion

The primary impetus for rebuilding cities has to come from city residents themselves. Much of the decline of America's once-mighty industrial cities

10 Most Burdensome Federal Regulations Imposed on Cities

- Davis Bacon Act
- Service Contract Act
- Superfund
- Clean Air Act amendments
- public housing admission and occupancy standards
- Fair Labor Standards Act
- 14(c) transit policy
- Jones Act
- Community Reinvestment Act
- minimum wage

has been a result of misguided policies—most important, soaring taxes and runaway municipal budgets—that cities have imposed on themselves. For too many years our cities have operated as if their primary clientele were government employee unions and big-business campaign contributors, not the residents themselves.

But Washington shares some of the blame for the collapse of cities, and thus a part of the responsibility for helping rebuild urban communities. The way for the federal government to help revitalize America's cities is to abandon one-size-fits-all bureaucratic dictates from Washington. Allow inner-city residents the maximum freedom to solve their own problems their own ways. In the past, federal aid to cities seems to have been predicated on the baffling notion that federal lawmakers have a better idea of what's best for cities than do the residents themselves.

The basic tenets of a sound and effective urban development strategy include reducing federal taxes and deficit spending; calling a "time-out" on unfunded mandates; devising policies that maximize the free choice of even the poorest residents of cities; ending drug prohibition; and, finally, upending federal policies such as the current welfare trap that reward bad behavior and punish the virtues of work and family.

If Washington were to start following those simple principles, the federal government could begin to be a constructive partner in rebuilding America's cities.

Suggested Readings

Boaz, David, ed. *The Crisis in Drug Prohibition*. Washington: Cato Institute, 1993.

Moore, Stephen, and Dean Stansel. "The Myth of America's Underfunded Cities." Cato Institute Policy Analysis no. 188, February 22, 1993.

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Tucker, William. *The Excluded Americans: Homelessness and Housing Policies*. Washington: Regnery, 1989.

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