The Politics of Inequality: Cities as Agents of Redistribution

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Abstract

We analyze the extent to which mayors and council members direct block grant funds to individuals and communities in need and whether the decisions of these officials are shaped by political considerations. We motivate our analysis by proposing a model in which an elected official has a fixed budget of grant funds and preferences over both redistributive policy and winning re-election. Our model predicts that electorally secure incumbents are more likely to allocate funds on the basis of need than their electorally vulnerable counterparts. To test these expectations we use an original data set of neighborhood-level expenditures of Community Development Block Grant (CDBG) funds by the city of Los Angeles over a seven-year period. In particular, we examine how well neighborhood-level measures of need and neighborhood-level political variables, such as election results and voter participation rates, predict the allocation of CDBG money. The results of this research have broad implications for the design of social welfare policy.

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1 Introduction

The dramatic growth in American economic inequality since the 1970s has been felt most acutely in the nation's urban areas (Wilson 1987; Massey and Denton 1993; Orfield 1997; O'Connor 2001; Sugrue 2005). While affluent central city communities have prospered, the loss of high-wage manufacturing jobs, suburbanization, and changes in the traditional family structure have exacerbated problems of joblessness, poverty, and racial segregation in many low- and moderate-income neighborhoods.

To address urban inequality and poverty, the federal government often relies upon block grants (Rich 1993). In the 1990s, for instance, Congress created new block grant programs to help cities provide affordable housing for low-income families, shelters and support services to the homeless, and housing for persons with AIDS.[1] The popularity of block granting is due largely to the adaptability of the grant instrument (Oates 1999). Block grants enable elected officials at the federal level to fund and define the goals of a program, while allowing cities to tailor elements of program design and implementation to the particular needs and circumstances of their residents. Proponents of this approach argue that it enhances the responsiveness and efficiency of American federalism relative to a uniform policy administered and designed by the national government.

Block granting, however, may be an poor tool for achieving national objectives. The effectiveness of these programs and the extent to which they achieve the redistributive goals of Congress are heavily dependent upon the actions of mayors and city council members. In particular, the electoral incentives faced by local officials may lead them to allocate intergovernmental funds in a manner that prioritizes politics over the objectives established by

[1] These are the HOME Program, Emergency Shelter Grants (ESG), and Housing Opportunities for Persons with AIDS (HOPWA). All are administered by the Department of Housing and Urban Development. More recently (in 2003), Congress adopted the American Dream Downpayment Initiative (ADDI) which provides funds for cities to use helping first-time homebuyers with their downpayment and closing costs. The aim of ADDI is to increase homeownership, especially among lower income and minority households, and to revitalize and stabilize urban communities.

Congress or the need of potential recipients. This fear is supported by the extensive literature on political machines which argues that local political organizations have a long tradition of using federal money to engage in patronage politics (see Erie 1988).

While concerns over municipal use of federal grant funds are often raised, political scientists and economists know relatively little about which groups and neighborhoods actually benefit from these programs. We investigate the use of block grant funds by asking two related questions. First, do mayors and city council members target grant money to its intended beneficiaries? And second, to what extent are the decisions of these officials shaped by political considerations?

To conduct this investigation we examine the neighborhood-level expenditures of Community Development Block Grant (CDBG) money by the City of Los Angeles over a seven-year period—1998 through 2004. The CDBG has, since 1975, provided entitled cities and counties with an annual lump sum grant intended to promote the creation of viable urban neighborhoods. Recipient cities can use program funds to support a broad array of activities, but are required to use a substantial portion of their money for activities that benefit low- and moderate-income neighborhoods and individuals.

We frame our analysis by posing a model in which an elected official, either a mayor or city council member, has a fixed CDBG budget and preferences for both redistributive policy and winning re-election. Our model predicts that electorally secure incumbents are more likely to allocate program funds on the basis of need than their electorally vulnerable counterparts. These hypotheses are tested using data on the geographic distribution of CDBG expenditures obtained via a Freedom of Information Act request from the Department of Housing and Urban Development (HUD). We combine expenditure data with neighborhood-level measures of need and political variables, such as election results and voter participation rates. All of our data is at the level of the census block group, a neighborhood smaller than a census tract, containing roughly 1,500 people.

This research will contribute to ongoing debates in the political economy literature and has implications for the design of urban policy. First, political economists have long debated whether elected officials target government goods and services to their core voters or to swing voters. Our empirical analysis will indicate which of these types is favored at the municipal-level. Second, we need to understand how grant funds are allocated within jurisdictions in order to be able to fully evaluate their merit. If the allocation decisions of municipal officials are not a function of need, this calls into question the extent to which cities can be "trusted" to design and implement block grant programs as well as the usefulness of block grants as a mechanism for pursuing policy objectives. Additionally, if voting or other forms of political influence are found to be the means through which neighborhoods obtain grant money from local officials this would suggest that the poor are likely to be particularly disadvantaged in block granting due to the wide and growing class gap in political participation. In other words, the actions of mayors and city council members may be amplifying rather than diminishing economic inequality.

2 Quantitative Studies of Grant Programs

Much of the quantitative research on federal block grant programs focuses on estimating the stimulative effect of grant money on the total expenditures of recipient governments. Economic theory argues that because grant income and private income are fungible, a lump sum grant will have the same effect on local government spending as an equivalent increase in the median voter's disposable income. As a result, theory predicts that the overwhelming majority of block grant money will be returned to voters via tax cuts, with very little spent on the local public sector (Bradford and Oates 1971).

Early efforts aimed at evaluating this expectation found that local governments did not behave as economic theory anticipates, but instead uncovered evidence that recipi-

ent governments respond strongly to inter-governmental money. These studies concluded that upon receipt of block grant funds, governments tend to increase total expenditures by nearly 100 percent of the value of the grant (see Hines and Thaler 1995 for a review). More recent studies, however, have produced an inconsistent set of results. Knight (2002), Gordon (2004), and Lutz (2006) stress the need to account for the likely endogeneity of grant receipt, and, upon doing so, find results consistent with the theoretical prediction that almost all block grant revenue will be returned to voters via a tax cut. Other recent analyses carefully address concerns of endogeneity and find evidence of a strong flypaper effect (Singhal 2006; Evans and Owens 2007), though Brooks and Phillips (2009, 2010) show that the existence and magnitude of the flypaper effect is conditioned by local political institutions including tax and expenditure limitations and the size of the local legislature.

A second line of inquiry considers the distribution of federal grant funds *across* jurisdictions. These studies typically focus on decision-making at the national level, employing models of Congressional and bureaucractic behavior. Less frequently, they consider local demand for grant funds and features of the grant program itself (see Rich 1989, 1993; Richardson 2005). The aim of this research is to uncover the factors that shape the amount of grant money a jurisdiction receives and to evaluate the extent to which program funds are targeted toward those places with the greatest need. While findings vary somewhat across grant programs, studies show that political considerations shape grant programs, but that there remains a relationship, though imperfect, between need and the amount of intergovernmental revenue a jurisdiction receives.

While the existing quantitative research adds greatly to our understanding of grant programs, it tells us little about the political process by which funds are apportioned *within* jurisdictions. How did mayors and city council members make decisions about the individuals and neighborhoods that will receive grant funds? Without knowing the answer to

this question, we cannot understand the full distributional effects of federal block grant programs (Rich 1993). Even if federal grant money is sent to needy cities and spent (in its entirety) by those cities, there is no guarantee that the increased expenditures are going to the intended beneficiaries. Furthermore, elected officials may prioritize some of the intended beneficiaries over others.

Our uniquely disaggregated data on grant expenditures enable us to advance the existing literature by systematically examining the intra-jurisdictional distribution of funds. Using our data we test hypotheses concerning the process by which elected officials make allocation decisions across neighborhoods, particularly the degree to which they respond to the need of their constituents or political considerations, including past voting behavior and political participation. Our data also allow us to test whether a neighborhood's allocation of grant funds is a function of the power of its representative on the council.

3 Theoretical Framework

Current models on political decision making assume that funds spent by politicians are inherently pork, and attempt to distinguish whether politicians reward supporters or target pivotal voters (Cox and McCubbins 1986; Lindbeck and Weibull 1993; Levitt and Snyder 1997; Dixit and Londregan 1998; Dahlberg and Johansson 2002). Here we propose a model which combines this political orientation with the understanding (McCarthy et al 2006) that politicians may indeed have a taste for redistributive policy. This combination allows us to generate predictions about when neighborhoods are likely to receive funds based on need and when they may receive these funds as a function of political considerations.

To frame our analysis, we posit a simple model (which we will formalize in subsequent drafts of this paper). Imagine a district (either an entire city or a council district) with a

politician who serves many neighborhoods that vary in terms of their need. Now suppose that the politician has a taste for redistribution—all else equal, she prefers to allocate funds to poor neighborhoods rather than to well-to-do neighborhoods. This may be a strong assumption for many elected officials, but assuming at least some taste for redistribution seems reasonable for local politicians in large central cities. The politician maximizes her utility when using grant funds in pursuit of redistribution, contingent on winning reelection. This politician also has a fixed grant budget. In choosing to invest her funds, she can follow her taste for redistribution, invest for re-election, or do some combination of both. If she invests for re-election, she can either spend to change the preferences of voters, or to increase turnout among individuals who already prefer her over any potential opponent. Voters, on the other hand, have an initial taste for the politician as well as an initial propensity to vote, both of which will increase if the politician invests her grant funds in their neighborhood.

Furthermore, we assume that some neighborhoods have community-based organizations (CBOs), and that these organizations lower the cost for the politician of capturing political benefits in that neighborhood. CBOs are non-profit organizations tied to a particular geographic place (usually a neighborhood) and work to provide goods and services to lower income residents, such as affordable housing, child care, drug treatment, legal advice, services for the elderly, and much more. These organizations often receive a sizable share of their budget from the city government, usually have close ties to the community they serve, and are well known and respected (Marwell 2007). CBOs should be able help politicians realize the benefits of grant money spent in the neighborhood, particularly if grant dollars are channeled through the organization. This assumption is motivated by our interviews with municipal officials and representatives of CBOs in Los Angeles. Our interviews indicate that these organizations can motivate their clients on behalf of a politician by making constituents aware of the politician's efforts in the community, by facilitating

positive interactions between the politician and her constituents. Importantly, the geographic distribution of CBOs is uneven.

In such a model, when does a politician allocate her funds on the basis of need, and when does she rely on political considerations? Here, redistributional allocation is a luxury, attainable only when the overall level of voter support is quite high. In making the decision about how to target funds to ensure victory at the polls, the politician should invest where she can increase her vote share at the lowest possible cost-this cost depends on the relative difficulty of changing voter preferences and voter turnout out rates in each neighborhood. Which of these activities is least costly is an empirical question.

Our model generates three key hypotheses. First, when politicians are electorally safe, they should be more likely to make allocation decisions on the basis of need. Thus, spending may be a non-linear function of overall support. Second, the non-needy neighborhoods that receive funds reveals politicians' beliefs as to where they perceive the costs of changing votes to be lower. If high support neighborhoods receive more funds than low-support neighborhoods, it suggests that the cost of increasing turnout is lower than the cost of changing voters' minds; if low-support neighborhoods receive more funds the reverse may be true.[2] Third, politicians are likely to target funds to neighborhoods with CBOs, all else equal.

4 The Community Development Block Grant Program

The Community Development Block Grant (CDBG) program originated as part of the New Federalism reforms of President Richard Nixon and is administered by the Department of Housing and Urban Development (HUD). CDBG combined seven previously established

[2]As stated, our model assumes that all politicians have an equal taste for redistribution. If politicians vary in their taste for redistribution, then needy neighborhoods with politicians who have a great taste for redistribution will receive more funds, conditional on the politician's expectation of electoral success.

federal assistance programs, including Urban Renewal and Model Cities, into a single new block grant.[3] The primary objective of the CDBG program is to transform distressed urban neighborhoods into viable communities (§101(b)1)). In the authorizing legislation, Congress calls on recipient governments to do this by using program funds to provide decent housing, a suitable living environment, and expanded economic opportunities for low and moderate income individuals (§101(c)).

Annually, the CDBG program allocates approximately $4 billion to eligible communities, making it the largest source of discretionary federal aid to cities. The CDBG is administered by a formula that awards funds as a function of a citys poverty, overcrowding, age of buildings, and lack of population growth. Once cities receive their annual grant allocation, they are not required to undertake any specific mix of activities, though Congress has provided recipient governments with broad guidelines by which to make their allocation decisions. Each activity paid for with CDBG money must meet one of three very broadly defined and ambiguous national objectives.[4] Furthermore, recipients are required to spend no less than 70 percent of program money on activities that benefit low- and moderate-income persons, no more than 10 percent on administrative costs, and no more than 15 percent on public services.

Oversight of the CDBG program is difficult because there are several layers of delegation: Congress and the President to HUD, HUD to its field offices and municipal elected officials, and municipal elected officials to city bureaucracies and subgrantee organizations. Oversight is also complicated by the belief that block grant programs, such as the CDBG, should allow for as much local flexibility and discretion as possible. As a result, HUD oversight has focused primarily on municipal adherence to procedural rules aimed at

[3]The CDBG program is authorized under Title 1 of the Community Development Act of 1974, Public Law 93-383

[4]Each activity must benefit low- and moderate-income persons, prevent or eliminate slums or blight, or address an urgent community development need.

preventing fraud and the mismanagement of program funds and less on the substance of local allocation decisions. The autonomy afforded cities means that local politicians, and not HUD officials, ultimately determine the form in which the CDBG reaches its intended recipients and the distributional affects of the program.

Examples of activities commonly supported with CDBG money include low-income housing rehabilitation and construction, public works projects, the refurbishment of parks, and social service activities such as meals-on-wheels and drug treatment programs. When cities spend CDBG funds they can either do so themselves or allocate grant money to private sector entities, such as community based organizations, which then carry out activities on behalf of the city. Additionally, to obtain the financing necessary for large-scale economic development projects, the federal government allows entitled jurisdictions to leverage a small portion of their CDBG money. Cities do this by pledging a portion of their current and future grant allocation as collateral to support Section 108 loans.

The CDBG program, while interesting in its own right, is ideal for an analysis such as ours. For some grant programs, such as grants for highway spending, empirically distinguishing needy and non-needy areas is difficult. However, the stark inequality in many urban communities does allow for a clear distinction between neighborhoods that are more and less needy. Furthmore, the Department of Housing and Urban Development (HUD), sine 1998, has kept excellent data on the CDBG allocation decisions of cities. For each activity funded with program money, municipal officials are required to enter, into a HUD database, a description of the activity, its total cost, and its geographic location (usually an address or census tract). Similar data is simply not available for most grant programs. Because the CDBG is similar to many other federal block grants in terms of its design and the level of federal oversight we believe that results using this program are generalizable.

Despite the apparent usefulness of the CDBG for quantitative analyses, social scientists have not rigorously examined the extent to which political considerations and measures

of need shape municipal CDBG allocations. Research on local use of CDBG funds has been relatively sparse and largely qualitative (see Rich (1993) for an overview). Additionally, the existing quantitative research has focused exclusively on evaluating the impacts of CDBG expenditures in recipient neighborhoods. While studies have found that program funds tend to improve neighborhood quality, they do not inform readers as to whether the money is reaching needy areas or about the processes that are driving such decisions(Urban Institute 1995; Walker et al 2002).

5 Los Angeles and the CDBG

Because the data demands for any one city are substantial, we limit our empirical analysis to the City of Los Angeles, though future drafts of the paper will also include the cities of Chicago and Detroit. In this section we explain our case selection and detail the process by which elected officials and bureaucrats allocate their annual CDBG grant.

5.1 Why Los Angeles?

We have selected Los Angeles for a number of reasons. First, it is consistently one of the largest recipients of CDBG money. Over the past five fiscal years, its average annual grant allocation has totaled over 70 million. The considerable size of this grant means that Los Angeles makes numerous individual implementation decisions each year. The data we received from HUD indicate that elected officials in Los Angeles fund between 100 and 500 activities annually, providing a wealth of observations for our empirical analysis. Also, since Los Angeles receives such a sizeable grant, and is home to some of the nation's most distressed urban neighborhoods, its implementation decisions play a decisive role in shaping the ultimate success of the program.

Second, during the period under study, empirically useful changes occurred in the iden-

tities of key officeholders. The most significant of these took place in 2001 when voters replaced Richard Riordan, the city's term-limited mayor, with James Hahn. This transition signaled a significant shift in the city's majority electoral coalition. Mayor Riordan had been elected with overwhelming support from white, Latino, and Asian voters (Newton and Gold 1997), while James Hahn's winning coalition consisted primarily of whites and African Americans (Rainey 2001; Han 2005). This transition provides an excellent opportunity to test the role that politics may play in the distribution of CDBG funds. If political considerations are key we should observe meaningful shifts in the geographic distribution of program expenditures away from Latino and Asian neighborhoods and towards African American communities. Additionally, because of the city's term limits law, there is a relatively high turnover rate among city council members. We can use these changes (as well as the aforementioned change in the identity of the mayor) to address the potential endogeneity of the political variables used in the empirical analysis.

Finally, Los Angeles is a model case for testing hypotheses that political factors will shape CDBG allocations. The City of Los Angeles, unlike many of America's large urban centers, does not have a tradition of machine politics. Instead, its charter and modern political culture were shaped largely by the ideals of Progressive reformers who emphasized professionalism and efficiency and designed political institutions in a manner that reduced the potential influence of political parties (Parlow and Keane 2002; Sonenshein 2004). As a result, grant allocations in Los Angeles may be less likely to be influenced by political considerations than they would be in cities such as Chicago and New York. If we find evidence that politics matters in Los Angeles, it is very likely to matter in other large cities as well.

5.2 The Allocation Process

The process for making CDBG allocation decisions in Los Angeles involves a number of actors including the mayor, city council, officials within the Community Development Department (CDD), community-based organizations, and the public via the Citizen's Unit for Participation (CUP). While the design of this process is largely the creation of the city, the public input components are mandated by Congress and the U.S. Department of Housing and Urban Development.

Our understanding of the allocation process is informed by field research conducted in Los Angeles during July, 2008. We interviewed individuals who are responsible for some aspect of CDBG implementation or oversight. We met directly with council members, mayoral and city council staff, and high-ranking municipal bureaucrats. Outside of government, we interviewed officials from multiple community-based organizations that receive CDBG money as well as volunteers at CUP. During interviews we discussed both the formal and informal process by which allocation decisions are made. During our interviews, we learned details of implementation that we could not have been obtained by simply reading the existing grants literature or available government documents.

The annual process for making CDBG allocation decision begins in early fall and ends in mid-February of the following year. The first step is a series of public hearings which are co-hosted at various locations throughout the city by CDD—the municipal department responsible for administering the program—and CUP, a citizen oversight board. CUP is responsible for encouraging citizen input in the allocation decisions, particularly the participation of residents from low- and moderate-income neighborhoods, and is staffed by volunteers who are usually appointed either by the a city council member or the mayor.[5] These meetings are intended to obtain the public's input as to what the city's CDBG priorities ought to be. These meetings, however, are poorly attended and usually thought to

[5]The creation and use of a board that invites citizen participation is mandated by HUD.

have little impact on municipal decision making.

In September or October, the mayor issues a policy letter which reports the amount of CDBG money the city will receive from HUD. This letter also identifies the mayor's CDBG priorities and is sometimes, though not always, crafted with input from city council members. At this point, city departments and CBOs are asked to submit applications for program money. Those council members who actively pursue CDBG funds will typically have their office submit several applications on behalf of their district. All applications are submitted to and initially screened by CDD. This screening includes a basic determination of eligibility as well as a determination of merit. Decisions regarding merit are partially informed by council members and the mayor. Ultimately, CDD reports a compiles a list of recommend projects which is then reported to the Mayor's Office. This list includes many more activities than can ultimately receive funding, given the city's allotment of CDBG funds.

Next, the mayor presents, to the council, the projects that he wants funded. The mayor's proposal consists largely of activities that were approved by CDD, though he can (and usually does) include some that were not. The mayor's proposal is then evaluated by the council's Community and Economic Development Committee in conjunction with the Chief Legislative Analyst. The committee typically amends the proposal. Interviewees suggested that a form of universalism is employed, whereby the committee works to ensure that there are activities funded in all council districts and that these activities reflect the priorities of the affected council member as well as those of the mayor. However. interviewees also indicated that the committee advantages its membership in this process.

Once the Community and Economic Development Committee has marked up the mayor's proposal it is forwarded to the full city council. While the budget is at the council, CUP and CDD hold a second set of public hearings, to again gather input from those affected by the CDBG program. This time the CUP membership must vote on all of the projects. Their

approval, however, is notably less important than that of the council or mayor. If the CUP membership votes against a project, they can be overridden by council, though the CUP can delay a project by tabling it and refusing to vote. Additionally, they cannot add a new project to the proposal. Anecdotal evidence suggests that CUP has, in recent years, been able to force changes in some projects.

After CUP takes action, the full council votes on the mayor's proposal as amended by the Community and Economic Development Committee. The amended proposal is typically approved with little disagreement. Once the council passes the budget it is sent to the mayor, who has the authority to issue a blanket veto (though he never does). Ultimately, the CDBG budget must be delivered to HUD by February 15th, 45 days before the start of its program year.

Though there are other actors involved in the decision-making process, it is clear that most of the formal authority to shape the city's CDBG expenditures resides with the mayor, who possesses agenda setting power, and the city council, which has the ability to amend the mayor's proposal. Our empirical analysis will focus on these actors.

6 Data

To evaluate the determinants of local grant allocation decisions, we have constructed a dataset of CDBG expenditures, measures of need, and political variables at the level of the census block group–a neighborhood smaller than a census tract, containing roughly 1,500 people. We obtained, through a Freedom of Information Act request, data on on each CDBG activity funded by the City of Los Angeles from 1998 through 2004.[6] For each activity these data consist of either a geographic description of the area targeted or the name and address of a recipient organization, the amount of money spent, and a

[6]Reliable data on the geographic location of CDBG expenditures are not readily available prior to 1998.

description of activity's purpose.

Since cities typically do not report the affected block group(s) for each activity, we had to do this on our own. If the city provided only a description of the area served (e.g., the area bounded by a set of streets) we simply identify the relevant census tracts using GIS. If the money was provided to a CBO, for example, we determined the neighborhood(s) it serves, usually by visiting the organization's website, and then identified the corresponding census block groups using a GIS program. The block groups within a neighborhood were determined using the *Los Angeles Almanac*.[7] The amount of money spent on the activity was then divided equally among the affected block groups.

The biggest challenge we faced is that some organizations do not identify a particular neighborhood served. In these instances, we divide the expenditure equally among the block groups with a half-mile radius of the organization's headquarters or the location where the organization said the activity was to occur.[8] Additionally, a substantial share of funded activities were not confined to a geographic region, in which case, the expenditure was not assigned to any particular set of blocks.[9]

Our dataset also consists of two measures of need. The first is HUD's list of low- or moderate-income census tracts (available on the HUD website). This is a dichotomous measure, coded 1 if the block is located in a low- or moderate-income census tract and zero otherwise.[10] This list is generated to assist recipient cities in making their CDBG allocation decisions and to help HUD officials monitor program compliance. The second measure we

[7]If a neighborhood was not listed in the *Los Angeles Almanac* we relied upon internet searches to determine its boundaries.

[8]The decision to use a half-mile radius was not entirely arbitrary. A half mile captures, on average, the same number of block groups that are included in a typical Los Angeles neighborhood as defined by the *Los Angeles Almanac*. We have also experimented with alternative values for the radius, however, doing so did not substantively change our results.

[9]The share of CDBG funds dedicated toward non-geographically targeted expenditures in our dataset ranges from 42% in 1998 to 54% in 2004.

[10]Low-Moderate income census tracts or those in which 51% or more of the population has an income below 80% of the SMSA median income.

use is the percent of persons living in poverty. This measure indicates a neighborhood's relative fortune, but is not mandated by HUD for CDBG eligibility.[11]

Our political data consists of election results, voter participation rates, and information on council member institutional power. We have gathered precinct-level voting returns for all mayoral and city-council elections from 1995 to 2004. Los Angeles held mayoral elections in 1997 and 2001 and city council elections in all odd numbered years.[12] We acquired elections results data from the City Clerk's office, as well as hard-copy maps of voting precincts. In order to merge our voting data with data on CDBG expenditures and measures of need, we digitized the precinct maps using GIS software and then created a correspondence between voting precincts and census block groups. With an election dataset at the block group level, we can then merge election results with our measures of need, CDBG expenditures, and Census data. Because the victor is usually decided during the municipal primary election, we only use data from primary as opposed to general elections in our empirical analysis.[13]

We also have collected data on the council members who may enjoy institutional advantages when it comes to obtaining CDBG money for their district. In particular we have identified those members who serve on the Community and Economic Development Committee–the committee with primary responsibility for allocating CDBG funds and overseeing the program–at the time allocation decisions were made. We have also identified the council president for each year in our dataset. In Los Angeles, the council president typically assigns committee chairmanships, controls the flow of proposed ordinances, con-

[11]The correlation between low-mod tracts and the poverty rate is .68.

[12]City council terms are four years in length, meaning that every two years there is an election for half of the seats. There were, however, special elections for district 7 in 1999 and for districts 2 and 4 in 2001.

[13]Los Angeles municipal elections are nonpartisan and use open primaries. If a candidate receives more than 50% of the votes during the primary she is declared the winner and does not have to compete in a general election. For example, of the seven seats on the city council that were up for election during 2003, the winner in all but two was decided in the primary. The 1997 mayoral election was also decided in the primary.

tracts, and other motions to committees and to the council floor for votes, serves as chief spokesman for council, and represents the council in negotiations with mayor. Members who serve on the Community and Economic Development Committee or as the presiding officer of the council may work to distribute program money disproportionately to neighborhoods in their electoral districts.

Unfortunately, we have not yet collected data on the locations of community-based organizations. The addresses of these organizations as well as the types of services they provide are available in published directories. In Los Angeles, this resources is the *Rainbow Resource Directory*, which contains the names, addresses, and brief descriptions of all CBOs in the county. This means that we cannot, at this point, test our expectation that CDBG will flow to neighborhoods with a larger number of CBOs. We will do so in future drafts.

Tables 1 presents summary statistics for key variables for Los Angeles from 1998 to 2004. The first row displays, by census block group, mean targeted CDBG expenditures. By targeted expenditures, we mean funds spent on activities that serve an identifiable geographic area, typically a well-define neighborhood. The second row shows the mean number of funded CDBG activities in the block group. Note that there is substantial variation across block groups in terms of grant receipt: the standard deviation is three times the mean of $19,487. The average block group also has approximately 11 funded activities, again with a substantial standard deviation. Measures of need and politics also vary widely. For example, the mean block group in Los Angeles is composed of roughly half of people of low or moderate income, with a standard deviation of 23%; the average share of votes for the winning council candidate by block group is roughly 60%, with a standard deviation of approximately one-quarter.

Table 2 presents evidence that the geographic allocation of CDBG expenditures varies temporally. The table shows the annual distribution of targeted expenditures (per low-

mod individual) across all 15 Los Angeles city council districts.[14] Consider, for instance, council district eight which is located in central Los Angeles and made up of a number of predominately black and latino neighborhoods with very high poverty rates. Funding for this district averaged approximately $42 per low- or moderate- income individual over the years we consider here, but ranged from a low of just over $18 per in program year 2004 to over $86 in program year 2001. Funding varies similarly in well-to-districts. In District twelve, which is located in the San Fernando Valley and has a small minority population and a high per-capita income, targeted CDBG expenditures have ranged from $5.7 per low- or moderate- income to just under $14. Tables 1 and 2 both illustrate that there is variation to be explained in the distribution of CDBG expenditures across both time and geographic space.

7 Results

We begin by exploring the basic relationship between need and the distribution of CDBG expenditures, utilizing GIS mapping software. We then estimate a multivariate model of CDBG allocation decisions that treats the amount of grant funds received by a census block group as a function of need, politics, and and the institutional position of its council member.

7.1 Mapping the Distribution of Need and CDBG Money

Figures 1 and 2 below map the distribution of need across Los Angeles. In Figure 1, shaded block groups are those that fall within a census tract that has been identified by HUD as being low- or moderate-income–that is, a tract in which 51% or more of the population

[14]Low-mod individuals are those whose household or family income is below 80% of the SMSA median income (these figures are calculated by HUD).

has an income below 80% of the SMSA median income. As one can see by the map, the bulk of these block groups fall within the southern and central regions of the city as well as the north-central area of the San Fernando Valley. Figure 2 displays, also by block group, the poverty rate which functions as an alternative measure of need. Not surprisingly, those block groups that fall within a low-mod tract also tend to have the highest poverty rates.

To compare the distribution of need to that of grant funds, we also present Figure 3. This figure maps the amount of targeted CDBG expenditures by block group for program year 2004, the most recent complete year in our dataset. A simple comparison of this map to those showing low-mod tracts and poverty rates reveals a strong relationship between need and the distribution of grant expenditures. This apparent relationship exists across maps that utilizing data from additional program years and when CDBG expenditures are operationalized as spending per low- or moderate-income individual. Overall, these maps suggest that municipal officials are targeting funds to needy neighborhoods. We further test this below.

7.2 Multivariate Model

We begin by estimating the following model

$$
\begin{aligned}
\exp_{d,g,t} = & \qquad (1)\\
& \beta_0 + \beta_1(\textbf{need})_{d,g,t} + \beta_2(\text{vote for council runner up})_{d,g,t} + \\
& \beta_3(\text{need})_{d,g,t} \text{ * } (\text{vote council runner up})_{d,g,t} + \\
& \beta_4(\text{vote for council winner})_{d,g,t} + \beta_5(\text{vote for mayoral winner})_{d,g,t} + \\
& \beta_6(\text{turnout rate})_{d,g,t} + \beta_7\mathbf{X}_{d,g,t} + \beta_8\mathbf{M}_{d,t} + \beta_9(\textbf{district})_d + \\
& \beta_{10}(\text{year})_t + \epsilon_{d,g,t}
\end{aligned}
$$

where d indicates the city council district, g the census block group, and t the year. Coefficients and variables in bold are vectors. Our dependent variable, $exp_{d,g,t}$,is the total amount of CDBG funds allocated to neighborhood g in year t. As population enters as a covariate in **X**, we do not use per capita figures.

The vector $need_{d,g,t}$ includes the HUD-mandated measure of need: an indicator of whether or not the block group is in a low- or moderate-income census tract. In addition, the vector contains the poverty rate. However, we only interact the low-mod tract variable with *vote for council runner up*$_{c,d,t}$.

The variable *vote for council runner up*$_{c,d,t}$ is the share of the vote the first closest competitor for city council received in the block group. This is our preferred measure of the security of the incumbent. Unfortunately, the parallel variable for the mayor is not identified separately from the council district ($\mathbf{district}_d$) and year ($\mathbf{year}_t$) fixed effects. We measure turnout, *turnout rate*$_{d,g,t}$, as the share of registered voters casting ballots at the neighborhood g level. Finally, *vote for council winner*$_{d,g,t}$ is the share of the vote the winning city council candidate received in neighborhood g in the most recent election. The variable *vote for mayoral winner*$_{d,g,t}$ captures the similar concept for the mayor.

If need is the unique determinant of block grant expenditures, as Congress intended, β_1 should be positive and significant. In this event, the HUD-designated measure of need and other measures of need should comprehensively explain block grant allocations. Also, in this scenario, the political and redistribution variables should be insignificant and their inclusion should not affect the estimates of β_1. If need and politics interact, as our model suggests, we first expect that needy neighborhoods in districts with safer incumbents should receive more funds than the average neighborhood. We measure this effect by looking at the interaction of measures of need and the vote for the closest runner-up in the most recent election. If safer incumbents do redistribute more, then β_3 should be negative and

significant; the strength of β_1 separately remains an empirical question.[15]

Our model also suggests that if politicians do choose to allocate on factors other than need, they will allocate to neighborhoods that give them the greatest electoral return for the least cost. We empirically test whether these low-cost neighborhoods are those with more (or fewer) initial supporters (*vote for council winner*$_{d,g,t}$ or *vote for mayoral winner*$_{d,g,t}$) or whether they are neighborhoods with high voter turnout (*turnout rate*$_{d,g,t}$). If we find a negative coefficient on the neighborhood support, that suggests that politicians target pivotal neighborhoods as suggested by Lindbeck and Weibull (1993) and Dixit and Londergan (1998). If we find a positive coefficient on neighborhood support, that suggests that politicians reward supporters.

In the vector $\mathbf{M}_{d,t}$ we include measures of the institutional position of a block group's council member. These include indicator variables for whether a she serves on the Community and Economic Development Committee (CEDC) or serves as president of the city council. To this we also add a count of the number of terms a council member has served. Coefficients on these variables will be positive and statistically significant if members are able to leverage their institutional standing into additional funds for their constituents.

Note that because our estimation includes council district and year fixed effects our coefficients are identified by within-council district variation. We include other neighborhood covariates, such as the number of people in the block group, in vector $\mathbf{X}_{d,g}$. Our strategy is aided by the large number of neighborhoods we are considering (Los Angeles has approximately 2500 block groups per year), and the temporal variation due to our time series.

To address the potential endogeneity of political indicators—votes drive expenditures, but expenditures may also drive votes—we will analyze newly council members separately.

[15] In future versions of the paper we will allow the security of the incumbent to affect expenditures non-linearly.

As these officials are only just in office, votes for these candidates logically cannot be influenced by past expenditures. If our results with the newly elected members are similar to the previous results, this suggests that the bulk of the effect is driven by the direction of causality we posit.

7.3 Multivariate Results

Our first set of results are reported in Table 3. Here, we present three regressions, first examining block-group-level allocations as a function of need alone, then politics alone, and finally the two in concert. Importantly, our results demonstrate that need is a very powerful determinant of the distribution of CDBG money. Even after controlling for political variables, block groups that lie within a low- or moderate-income tract receive on average $11,813 in increased allocations. We observe a similar strong positive relationship between our second measure of need—the local poverty rate—and grant allocations. A 1% increase in the poverty rate leads to a $396 increase in CDBG allocations.

However, as our theoretical model predicted, need alone does not explain CDBG allocation decisions. Our results show that political considerations matter as well. First, the coefficient on the interaction between our indicator for a low-mod tract (i.e., need) and the vote share received by the council runner-up is negative and statistically significant at the 90% level. This indicates that needy communities receive larger allocations of CDBG money when their council member is electorally safe (i.e., safer incumbents engage in more redistribution). Second, the coefficients on the stand-alone variables that capture (by block group) the share of votes received by the winning council candidate and the winning mayoral candidate are also negative and statistically significant. This suggests that elected officials (both council members and mayors) are more likely to use grant funds in an attempt to persuade non-supporters to switch sides than as a reward for their loyal voters. This result is consistent with the theoretical and empirical work of Lindbeck and

Weibull (1993) and Dixit and Londergan (1998). Interestingly, the coefficient on turnout is negative and significant, suggesting that neighborhood level political participation is not important for determining the allocation of CDBG funds. This may mean that politicians target expenditures to low-turnout neighborhoods in the hopes of increasing turnout for a future election.[16]

Our results also reveal that the institutional position of a council member shapes the amount of grant money received by her constituents as does her political ideology (measured by partisan identification). Council members who have served more terms, those with a seat on the Community and Economic Development Committee, and those who serve as the council's presiding officer are able to secure larger amounts of money for their constituents. In the full interaction model, however, only the number of terms is statistically significant.

Because expenditures may also drive votes, we estimate an additional model (reported in Table 4) that includes observations only for newly elected council members. Since these officials are new to the council, votes for their candidacy cannot have been influenced by past expenditures of grant funds. The results of this new estimation are largely consistent with those obtained using the full sample. There are, however, three exceptions. First while need remains an important determinant of CDBG allocations, the coefficient on the low-mod tract variable now falls just shy of statistical significance, though its substantive magnitude is approximately the same as in Table 3. Second, service on the Community and Economic Development Committee now has a statistically significant (at the 99 percent level) and substantively important affect on allocations, resulting in over a $16,000 increase in allocations. This result indicates that committee assignments may be particularly important for first term lawmakers. Third, the coefficient on the share of votes

[16]It is possible that this coefficient may simply reflect the negative correlation that exists between need and political participation. However, if we limit our analysis exclusively to low-mod tracts the significant negative correlation between allocations and voter turnout remains.

received by the winning council candidate now falls well short of statistical significance. though the interaction between and the winning mayoral candidate are also negative and statistically significant. The coefficient on the interaction between need and the vote share received by the council runner-up remains negative and meaningful, providing additional support for our theoretical expectation that safer incumbents engage in more redistribution.[17] Again, we find strong evidence that local grant allocation decisions are shaped by a combination of need, politics, and institutional factors.

8 Conclusion and Implications

In this paper we study how politicians distribute grant funds across their constituents. In particular, we investigate whether officials target grant money to its intended beneficiaries (needy individuals and neighborhoods) and the degree to which political considerations shape their decisions. To address these questions, we have relied upon an original dataset of CDBG expenditures undertaken by the city of Los Angeles over a seven-year period.

Our results show a strong and robust correlation between need and allocation of grant funds. However, we also find that needy neighborhoods in districts with safer incumbents receive more funds than the average neighborhood–i.e., safer incumbents engage in more redistribution. Furthermore, we observe evidence that lawmakers are use grant funds to pursue electoral gain. In particular, we find that council members and mayors target money to neighborhoods where they performed relatively poorly in the prior election. This suggests that they use grant funds to persuade voters rather than to reward their loyal constituents. Finally, our results show that more senior council members and those on key committees are able to obtain more funds for their constituents.

What does this tell us about the value of urban block grant programs? The strong

[17]The coefficient on this interaction is almost twice as large in estimation using the sample of first term council members.

correlation between need and the allocation of grant funds indicates that money often goes to the intended beneficiaries. The strength of this relationship is encouraging and indicates that such programs are better administered (at least in Los Angeles) than critics suggest. That being said, it is clear that the electoral considerations of local officials do shape the distributional impact of grant money. Our evidence suggests that the effects of politics will be felt most greatly in places with competitive elections (and not necessarily those cities that have a stable dominant regime). We do not, however, find that the political considerations of local officials effect the distribution of CDBG funds such that the actions of council members and mayors amplify rather than diminishing economic equality.

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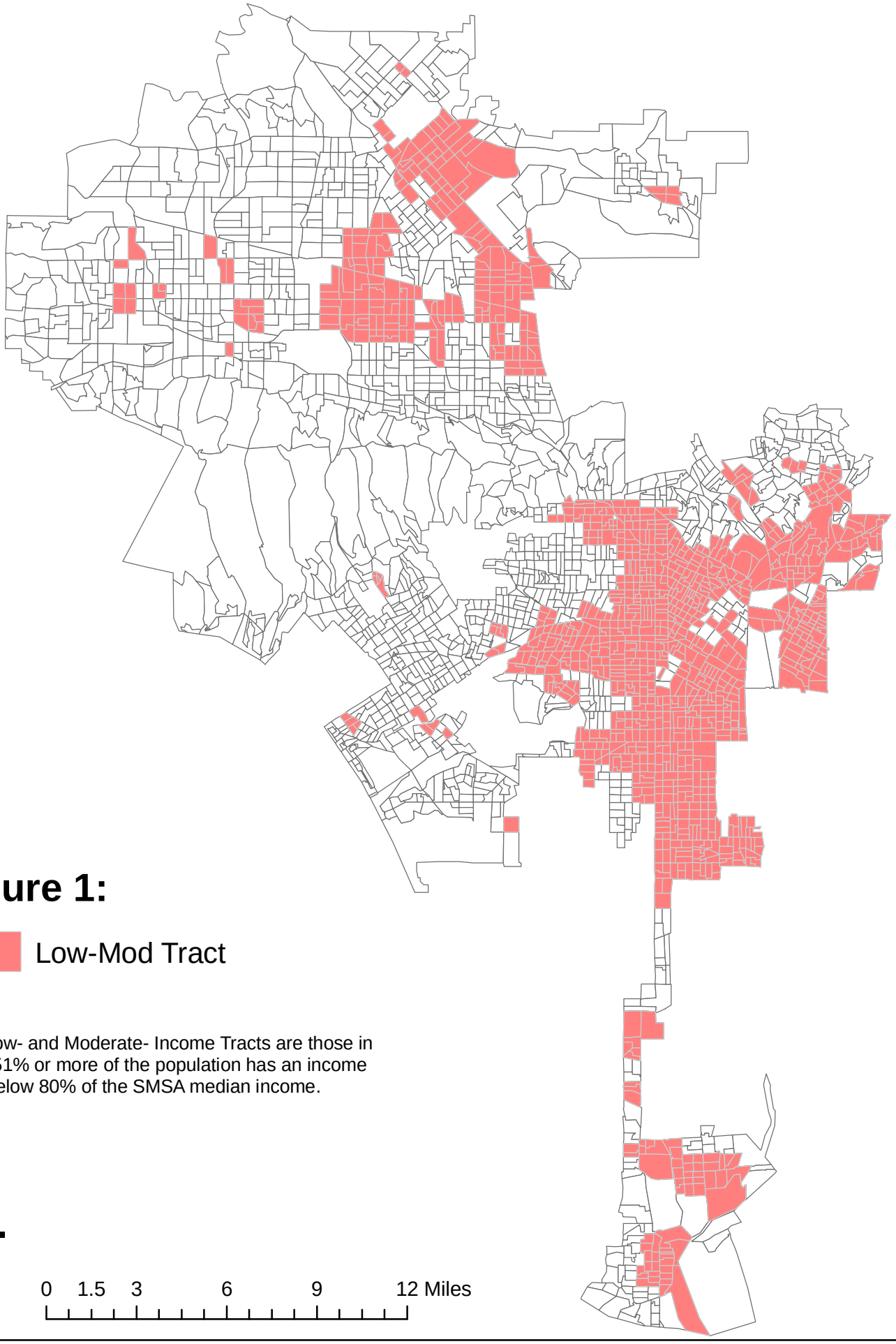

Figure 1:

Low-Mod Tract

Note: Low- and Moderate- Income Tracts are those in which 51% or more of the population has an income below 80% of the SMSA median income.

0 1.5 3 6 9 12 Miles

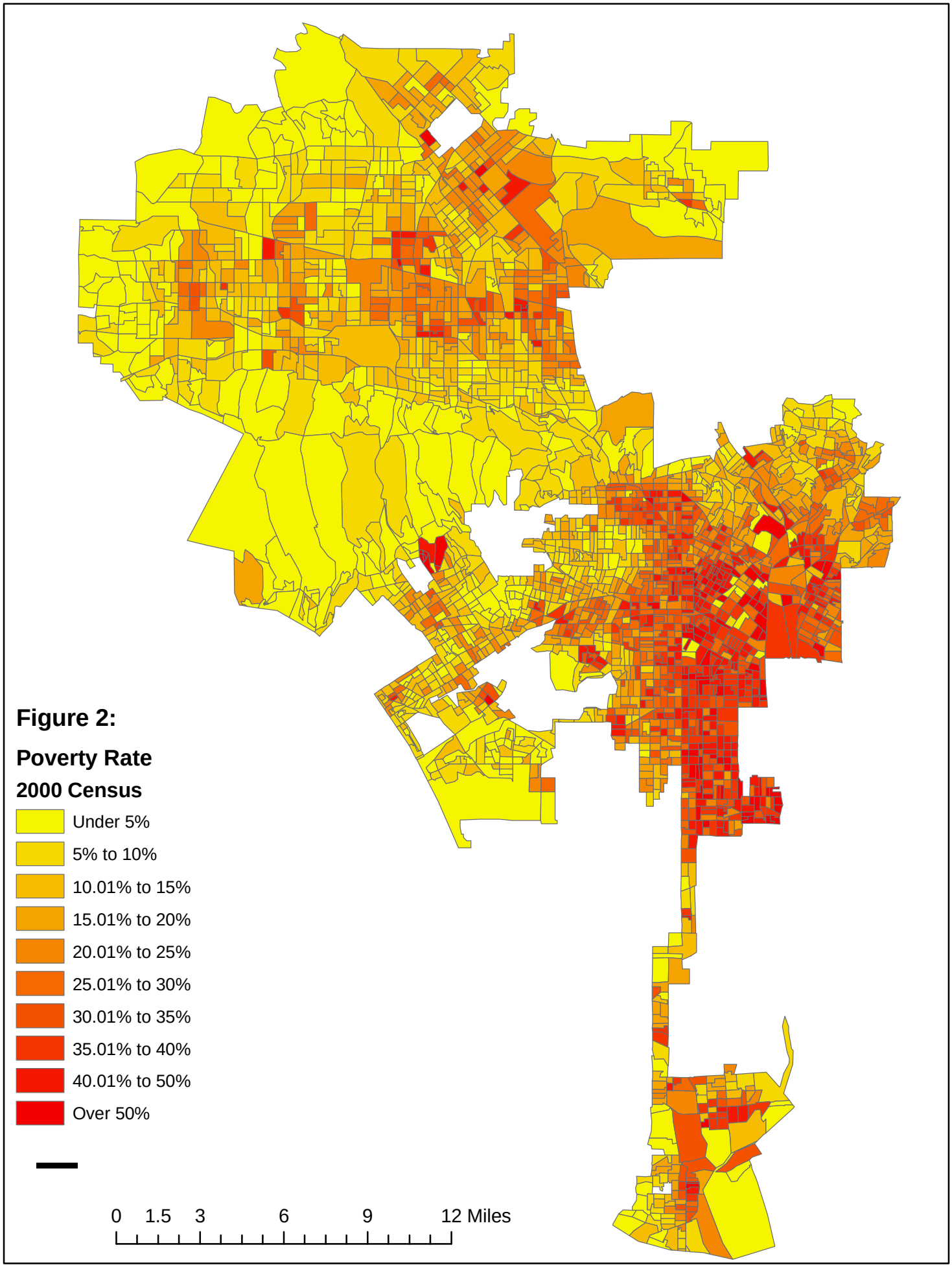
Figure 2:
Poverty Rate
2000 Census
Under 5%
5% to 10%
10.01% to 15%
15.01% to 20%
20.01% to 25%
25.01% to 30%
30.01% to 35%
35.01% to 40%
40.01% to 50%
Over 50%
0 1.5 3 6 9 12 Miles

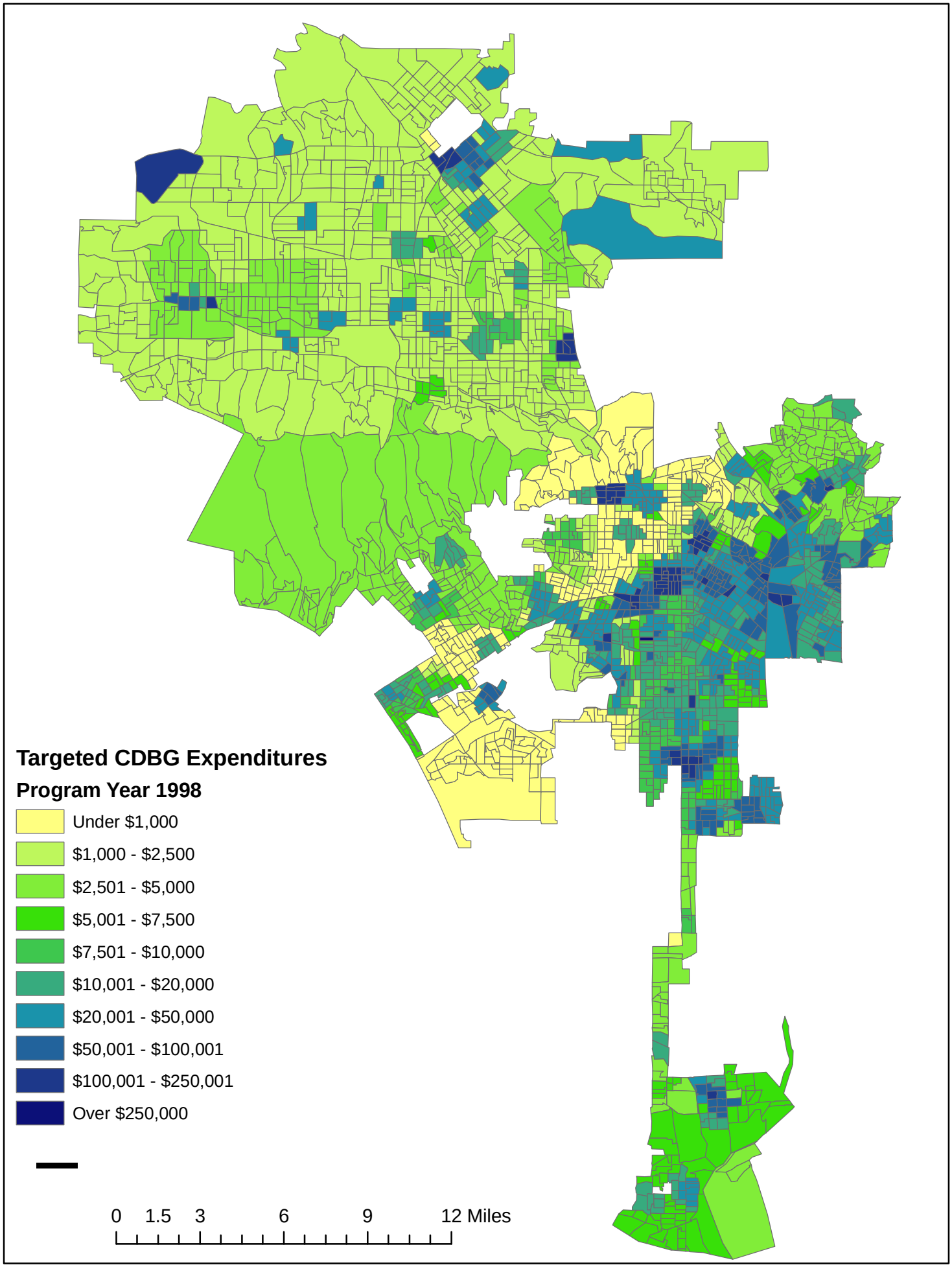
Targeted CDBG Expenditures
Program Year 1998
Under $1,000
$1,000 - $2,500
$2,501 - $5,000
$5,001 - $7,500
$7,501 - $10,000
$10,001 - $20,000
$20,001 - $50,000
$50,001 - $100,001
$100,001 - $250,001
Over $250,000
0 1.5 3 6 9 12 Miles

Table 1. Summary Statistics, Los Angeles, 1998-2004, by Census Block Group

	Mean	SD
CDBG Expenditures		
Total targeted expenditures	$19,487	$60,341
Total number of targeted Activities	10.8	7.0
Measures of Need		
Low- or moderate income tract (coded 1 or 0)	.46	.50
Share low- or moderate-income individuals	47.1	23.1
Poverty rate	20.5	15.3
Political Measures, primary elections		
Turnout rate: votes cast/registered voters	20.5	8.0
Share of votes for winning mayoral candidate	39.7	25.1
Share of votes for winning council candidate	56.9	28.0
Share of votes for council runner-up	23.4	17.6
Institutional Measures		
Service on Community and Economic Development Committee	.24	.42
Council President	.05	.21
Terms	2.25	1.74

Table 2. Targeted CDBG Expenditures per Low-Mod Individual Expenditures by Program Year and Council District

Council District	1998	1999	2000	2001	2002	2003	2004
1	$36.8	35.6	73.8	80.5	39.0	24.4	22.9
2	8.0	7.3	13.4	22.9	13.9	10.8	7.0
3	10.9	10.2	19.9	42.8	18.0	16.7	25.7
4	9.3	18.5	18.8	19.9	33.8	11.4	6.0
5	12.0	12.4	10.4	14.5	11.0	13.2	10.8
6	16.0	15.6	13.0	41.4	14.6	15.4	8.4
7	11.1	13.5	22.7	34.4	28.9	16.7	24.4
8	38.5	39.2	52.1	86.2	37.3	25.2	18.0
9	28.7	25.4	26.9	71.9	47.5	31.5	52.8
10	45.3	24.3	21.0	44.4	36.0	10.9	15.8
11	9.5	13.6	14.6	23.1	19.6	15.8	10.3
12	6.8	7.2	6.8	10.7	13.9	7.7	5.7
13	24.0	25.7	29.9	47.3	17.7	15.8	32.3
14	27.5	34.2	59.6	62.8	42.0	40.3	37.8
15	26.9	36.2	43.4	51.1	42.7	37.3	24.5

Table 3: Need and Politics on CDBG Allocations, City of Los Angeles, 1998-2004

	Need Only	Politics Only	Interaction
Measures of Need			
Low or Moderate Income Tract	8,795***		11,877***
	(2,692)		(3,435)
Poverty Rate	468***		398***
	(93)		(99)
Measures of Politics, Primary Election			
Share of Vote, Council Runner-Up		-60	72
		(95)	(120)
Share of Votes, Council Winner		-64*	-56
		(38)	(37)
Share of Votes, Mayoral Winner		-85***	-85***
		(29)	(28)
Turnout Rate		-883***	-568***
		(184)	(177)
Community and Economic Development Committee		1,163	1,575
		(1,520)	(1,561)
Council President		4,570**	3,649*
		(2,161)	(2,144)
Number of Terms		795**	779**
		(365)	(366)
Interaction between Politics & Need			
Low or Moderate Income Tract * Council Runner-Up			-219*
			(120)
Control Variables			
Total Population	.51	1.07	.24
	(.63)	(.74)	(.72)
Share Black	53	232***	130**
	(54)	(67)	(65)
Share Latino	-106**	74	-94
	(52)	(52)	(57)
Constant	5,956	31,742	20,049
	(2,374)	(6,725)	(6,020)
Adjusted R^2	.07	.06	.07

Notes: Regressions are OLS, and all include council district and year fixed effects and standard errors are clustered at the level of the block group. The unit of analysis is a census block group in a year, and the dependent variable is CDBG money allocated. N = 17,269 * = significant at the 90% level; ** = significant at the 95% level; *** = significant at the 99 percent level

Table 4: Need and Politics on CDBG Allocations, City of Los Angeles, 1998-2004
First Term Council Members

	First Term Council Members
Measures of Need	
Low or Moderate Income Tract	13,835
	(8,474)
Poverty Rate	723***
	(157)
Measures of Politics, Primary Election	
Share of Vote, Council Runner-Up	-186
	(152)
Share of Votes, Council Winner	-26
	(105)
Share of Votes, Mayoral Winner	-607***
	(159)
Turnout Rate	47
	(225)
Community and Economic Development Committee	16,333***
	(2,902)
Council President	--
Number of Terms	--
Interaction between Politics & Need	
Low or Moderate Income Tract * Council Runner-Up	-403**
	(190)
Control Variables	
Total Population	.82
	(1.06)
Share Black	435**
	(192)
Share Latino	-224**
	(95)
Constant	28,760
	(11,415)
Adjusted R^2	.10

Notes: Regressions are OLS, and all include council district and year fixed effects and standard errors are clustered at the level of the block group. The unit of analysis is a census block group in a year, and the dependent variable is CDBG money allocated. N = 5,054 * = significant at the 90% level; ** = significant at the 95% level; *** = significant at the 99 percent level