From John Lindsay to Rudy Giuliani: The Decline of the Local Safety Net?

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I. Introduction

The archetypal mayors of the 1990s act like city managers, not social levelers. New York's Rudy Giuliani, Chicago's Richard M. Daley, Philadelphia's Edward Rendell, and Los Angeles' Richard Riordan emphasize their skills at providing safety and attracting business. While many of these leaders enact policies that are aimed at the poor, their political appeal is based primarily on their ability to provide basic public services and to attract businesses. The change from taking care of the poor to providing basic urban services is not just rhetoric. New York City's public assistance rolls have dropped by almost 400,000 during Giuliani's tenure (see Citizens Budget Commission [various years]).

This current phenomenon would not be unusual if it were not for the mayors that these men replaced. In the 1960s, 1970s, and even as late as the 1980s, big-city government often defined itself by its attempts at redistribution. Mayors such as John Lindsay, Coleman Young, and Marion Barry were supported by electoral coalitions whose leaders counted on significant redistribution to the less advantaged, both formally through official programs and informally through patronage. Local redistribution started long before the 1960s. James Michael Curley was just as much of a redistributionary mayor as Coleman Young.

Big cities are still unusually oriented toward providing services to the poor, even controlling for the level of poverty. Cities with more than one million inhabitants spend 2.5 percent of their budget, or $88 per inhabitant, on local welfare expenditures. By comparison, cities with populations between 2,500 and 10,000 spend 0.7 percent of their budget, or less than $3 per inhabitant, on local welfare expenditures. Cities with more than one million inhabitants spend 7.4 percent of their budgets on public housing and public health. Small towns spend 3.6 percent of their budget on these categories. Thus, despite the massive decline in big-city redistribution over the past decade, big cities are still unusual in their tendency to allocate expenditures to the poor.

These expenditure differences result in real differences over space in the amount of income received from the government by the poor. Poorer residents of big cities are more likely to receive public housing and receive larger amounts of public assistance (despite supposedly uniform statewide policies). We believe that the greater abundance of transfers in cities (relative to suburbs and

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small towns) contributes to the segregation of the poor into large cities, which we believe is a policy issue of first magnitude.

We consider two puzzles about the local safety net and New York City. First, why do big cities, and particularly New York, engage in so much more redistribution than small towns? The broad question (the connection between cities and redistribution) is the topic of the companion paper to this one (Glaeser, Kahn, and Rappaport 1999). Our second puzzle is to understand why the level of redistribution in New York City (and to a certain extent elsewhere) has declined so substantially over the past three decades. We use results from our companion paper to explain the level and the trend of New York City's redistribution policies. We need to understand why New York City provides local redistribution to seriously evaluate whether this redistribution will continue to be a feature of New York City life.

Changes in local generosity have both positive and negative aspects. Obviously, we may find it undesirable for the poor to receive less from local government. Such trends might exacerbate income inequality. However, differences in the availability of transfers over space create spatial distortions that encourage the poor to disproportionately live in big cities. Our goal here is not to evaluate the effects of the local safety net, but rather to understand its causes and particularly the causes of its decline in New York City.

This paper has five primary sections. In the first section, we present an overview of the ways in which localities actually redistribute to the poor. In the next section, we discuss the determinants of the costs of redistribution and the benefits of redistribution. Benefits include cash transfers for voters who are themselves poor or who care altruistically about the poor. Costs include tax payments and (depending on the tax instrument used) reduced labor demand and housing prices.

Section III presents a brief overview of the history of redistribution in New York City. New York's exceptionalism really started during the New Deal under LaGuardia. During the 1950s and early 1960s, New York remained distinct from other large cities, but the differences were small. It was really under Lindsay that New York City developed a redistribution system that separated it from all other cities. The last decade has seen a striking increase, followed by a decrease, in the amount of redistribution within the city.

The final two sections attempt to formally explain why New York City is different from other cities and why its redistribution levels have changed over time. Using regression estimates from a nationwide city-level data set, we present a decomposition analysis of underlying city attributes to explain the gap between New York and other cities or between New York in 1970 and New York in 1990. We find that no one variable explains the greater tendency of New York City to redistribute income relative to other large cities. It is, in fact, not an outlier once you control for its tremendous population, but that would be close to assuming the conclusion. We find that perhaps one-quarter of the difference can be explained by low rates of home ownership in New York. Close to 40 percent of the difference can be explained with variables meant to capture the relatively immobile New York tax base. The remainder of the New York redistribution can be attributed to greater proximity between rich and poor in the city and perhaps higher levels of attention to the needs of the poor because of that proximity.

There are four effects that together explain more than 85 percent of the change in New York's level of redistribution relative to other cities over time. Increased home ownership rates and increased population mobility explain a large fraction of the reduction in New York's relative generosity between 1970 and 1990. Reduced manufacturing employment rates explain part of the decline in New York's redistribution efforts, but they do not explain the decline relative to other cities. There has been a general decline in the relationship between land area and redistribution. In 1970, cities with more land area tended to redistribute more income. We interpret this change as relating to the general decline in the market power of large cities. Increased employer and household mobility and the existence of edge cities mean that large cities no longer have the monopoly power that they once

had. As these cities' monopoly power declines, so does their ability to redistribute.

II. How Localities Redistribute

In the long run, economic theory predicts that localities cannot redistribute (Feldstein and Vaillant 1998). Mobility ensures that utility levels are constant for all income groups across space. In practice, cities can and do redistribute. Even if utility levels are ex ante identical across cities, there are almost always quasi-rents created by moving costs, and redistributionary city leaders can exploit these quasi-rents. In other words, even if a firm will in equilibrium be indifferent between all possible localities ex ante, ex post the firm will have sunk down roots and the city can redistribute by taxing the firm. Of course, the firm will have expected this ex ante and firms will receive up-front payments or tax abatements from the city to compensate for higher expected taxes.

There are many mechanisms that cities use to redistribute income from their richer residents and firms to the poor, who are better endowed with votes than they are with income. The most obvious form of spending on local redistribution is local welfare spending itself. The only problem with calling this spending local redistribution is that AFDC (Aid to Families with Dependent Children) levels are officially set at the state rather than at the municipality level.[1] In practice, however, as our case study illustrates, cities have a great deal of discretion about the size of their local safety net.[2] Welfare takeup rates are always much less than 100 percent everywhere. As the costs of getting AFDC payments decline (inconvenience, distance to office, and stigma are all forms of costs), takeup rates rise.

City government chooses the size and character of the bureaucracy, which handles the welfare program and thereby chooses the cost of receiving welfare payments. This bureaucracy can either be inaccessible physically and generally hostile to claimants or accessible and encouraging. More spending on the bureaucratic side of welfare can lead to higher welfare rolls if the spending is targeted toward getting eligible citizens on welfare (Shefter 1985). While welfare spending is not the primary form of redistribution for most cities, it is the clearest form of redistribution enacted at the city level. There are forms of pure redistribution other than AFDC payments.[3] These extra programs give the city flexibility in expanding or contracting welfare rolls that extend beyond the choices made by the federal government concerning eligibility.

The second major form of local redistribution is building public housing. While there is often a sizable local component of public housing spending, much of public housing spending is primarily decided by the Department of Housing and Urban Development (HUD) at the national level. As shown elsewhere (Glaeser, Kahn, and Rappaport 1999), these federal housing payments are particularly targeted toward larger cities, and these transfers reflect the single largest reason why transfer to the poor rises with city size. The discretion of localities over the nature of public spending is certainly limited, but the locality naturally has control over many details of both the construction and operation of public housing.[4]

The third form of public spending on redistribution is public hospitals. Public hospitals serve the city's poorer residents.[5] Spending on public hospitals and the availability of public hospitals is higher in big cities. Some fraction of this greater spending may occur because of scale economies in this sort of health provision. Major cities, such as New York, train a large share of the nation's future doctors. Much of this education occurs at public hospitals. However, the bulk of the connection between hospital spending and city size is due to the greater urban proclivity toward redistribution to the poor, and this form of spending is a big share of total big-city redistribution.

Redistribution also works through the tax system. New York City has personal and corporate income taxes, which are imposed on both residents and commuters (at different rates). These taxes together produce 20 percent of city revenues.[6] The income tax in New York is sharply progressive and has been in place since the Lindsay administration. Corporate income taxes are also progressive (because shareholders are unlikely to be poor) and represent a particular tax on out-of-city shareholders.

Other forms of redistribution are frequently more opaque and include public employment, schooling, policing, and transportation. Public employment has been a classic means of redistributing income to the poor in many cases (Alesina, Baqir, and Easterly 1998). Indeed, Fernando Wood's plans for large-scale redistribution in mid-nineteenth-century New York hinged upon using the poor as municipal laborers (and selling food at below cost to the poor). Redistribution through schooling policies also appears to be important. Lindsay's open-enrollment policy in City College is a classic move to change the target audience of public higher education in New York. Police can either undertake policies that are aimed primarily at protecting the safety and property of richer residents or respecting the rights (and protecting the property) of poorer residents.[7] Public transportation also becomes redistribution if it is underpriced and used disproportionately by the poor. In New York, public transportation is less redistributionary than in many other big cities because an unusually large share of New York's residents use public transportation to get to work.

Two final forms of redistribution are the use of debt financing and a variety of regulations. At first glance, this use of debt appears to be a transfer from future city residents to current city residents. Indeed, at the national level, the effect of borrowing influences these sorts of transfers. However, the classic logic of urban economics tells us that the future taxes implied by debt obligations will be capitalized in the value of real estate. As such, the price of borrowing is paid not by future residents (who after all need to be attracted to New York), but rather by current landlords. Thus, borrowing represents a transfer from owners and landlords to current renters. Regulations, such as rent control, can also be a major form of redistribution.

III. The Determinants of the Level of Redistribution

In this section, we give an overview of the determinants of the level of redistribution. We divide the reasons why voters support redistribution to the poor into three broad groups. First, the voters or groups may be poor themselves. Therefore, supporting redistribution is basic self-interest. Second, the voters may be altruistic and may gain utility from reducing other's poverty. Third, increases in redistribution may be sought because voters believe that poverty induces negative-externality-creating behavior such as crime and riots. Increases in the degree of poverty, the level of altruism, or the fear of crime will all act to increase the desire for redistributing money to the poor.

The primary costs of redistribution are tax payments. The costs of redistribution can be classified into two broad categories. First, there is the series of costs, both direct and indirect, that reduce taxpayer real income even if no household or firm chooses to migrate away from the high-tax city. Second, there are those taxes that affect taxpayers only because they will elicit a mobility response. In other words, in response to these taxes both capital and labor may flee the city. This response will reduce property values and possibly reduce wages. This mobility may also change the ratio of high-skill workers to low-skill workers, which may also be considered undesirable by the median voter.

The direct costs of redistribution include the taxes paid by consumers themselves. These taxes include property taxes (for homeowners), sales taxes, and income taxes. Even in these cases, the incidence of these taxes will not necessarily fall completely on these consumers. Indirect costs include taxes that are not directly paid by consumers. For renters, these taxes include property taxes, which eventually result in higher rents.

The extent to which forms of redistribution have direct costs depends in part on the extent to which federal and state government directly fund the redistribution. Thus, in the case of New York's welfare spending (not Home Relief), the city only spends $.25 on the dollar for its redistribution. As such, the cost of redistribution to the city is much lower than its real social cost because the remainder is being paid by tax revenues shared across the entire country. No observer of federal public housing spending can ignore the fact that powerful local politicians (particularly those in large cities) have been very effective

in gaining generous public housing spending from the federal government. This form of redistribution should be understood not as an exogenous flow of manna from Washington to the cities, but rather as a decision made by city politicians themselves to use their political clout in Washington to go after redistributionary (rather than other) forms of government spending.[8]

A second major long-run cost of local redistribution is to increase the outmigration of households and firms that flee to locations offering higher services per dollar of taxes paid. Since cross-city migration costs are low, taxpayers and firms will leave when localities attempt to redistribute. This will happen any time the representative voter attempts to impose taxes that are unattractive to the marginal resident of the community. Voters have an incentive to recognize that transfer policies will induce migration (Epple and Romer 1991). Local labor demand might fall as employers exit. The tax base would be affected both by employer migration and by the outmigration of richer taxpayers. This dynamic creates the classic negative fiscal externality on the remaining taxpayers. They will need to tax themselves more to maintain the same level of redistribution to the poor. Generous locales will experience outmigration of their tax base and face an inmigration of the poor, who will require more expenditure to maintain the same level of transfers (Borjas 1998). As the rich leave, property values will decline. This lowers homeowner utility levels but raises renter utility levels.

Finally, as the rich leave and the poor enter, the city's average level of human capital is likely to fall. Recent empirical studies have found that local human capital agglomeration increases the attractiveness of the city both as a residential area and as a center for production (Rauch 1993; Glaeser, Scheinkman, and Shleifer 1995). There is some evidence to suggest that these spillover effects are becoming more important over time.

Outmigration by the wealthy in the face of increased local redistribution will anger homeowners but may strengthen politicians whose core constituency are the recipients of local transfers. We call this the Curley Effect. The political leadership may actually prefer to drive away the tax base rather than to attract it. This effect occurs when the leadership is supported by low-income recipients and disliked by high-income taxpayers. Therefore, such leadership may actually like the fact that the city repels its high-income residents, even taking into account that these residents take away revenues as they leave. If the benefits for the political survival of the leadership outweigh the costs of lost revenues, then the leadership will redistribute more rather than less. This type of effect can lead to very segregated cities where the poor receive little local redistribution because the rich have all left. We associate this effect with James Michael Curley not only because he followed a policy of driving the high-income Boston residents (who persistently opposed him) out of the city, but also because he openly proclaimed his desire to see the upper-class Bostonians leave.[9]

Nationwide Evidence on the Determinants of Local Redistribution

As part of a larger project, we have constructed a nationwide data set of all cities with a population greater than 10,000. The 1970 and 1990 data sets are fully discussed in Glaeser, Kahn, and Rappaport (1999). The raw data are from the Census of Governments and the Census of Population and Housing. Our measure of local redistribution is real per-capita local expenditure on public welfare plus housing plus public health net of intergovernmental transfers. Controlling for a city's poverty rate and the city's demographic composition, we explore what factors explain local redistribution.[10] Our regression framework is presented in equation 1.

$$(1)\quad Log(Redistribution) = \sum_i \beta_i X^i_{Location} + \varepsilon_{Location}.$$

In estimating equation 1, we have explored how our results are affected by including state-level fixed-effects. We estimate the equation using ordinary-least-squares and two-stage least-squares regressions.

Building on the previous section's discussion, we focus on six major explanations for differences in city redistribution: (1) poverty and racial effects, (2) home ownership,

(3) the immobility of firms, (4) the immobility of workers, (5) fixed city resources, and (6) the proximity between rich and poor. For use in our subsequent decompositions, we also measure, when possible, if the coefficient estimates have changed between 1970 and 1990. We feel confident in claiming that we have separately identified estimates for 1970 and 1990 using two types of variables: basic poverty effects and city land area.

First, it is natural to believe that the level of redistribution will rise with the level of poverty in the city and with the racial characteristics of the city that often proxy for poverty levels. Our ordinary-least-squares estimate of the effect of poverty is 1.85 in 1990. In 1970, the coefficient is 1.17. These estimates are actually relatively sensitive to the choice of other variables to include. The effects of percentage African-American are .91 in 1990 and 1.54 in 1970. The effects of percentage Hispanic are .56 in 1990 and .96 in 1970. These estimates indicate that, all else equal, if a city's percentage of Hispanic residents in 1990 increased by 10 percentage points, then local redistribution would rise by 9.6 percent.

Homeowners have a greater stake in their city's fiscal health than renters do. Since it is homeowners who suffer when property values decline, it is homeowners who should most fiercely oppose redistribution. We find that the coefficient on home ownership is -1.43. In fact, our range of home ownership coefficients is fairly large, but this figure represents a reasonable midpoint of the different estimates. We do not feel sufficiently confident in our results to argue that we can convincingly measure the change in the effect of home ownership over time.

When there are restrictions on mobility, then the costs of redistributing become lower.[11] Industries that have substantial fixed infrastructure cannot exit easily. For these industries, high taxes may act only to repel new entry. Since most evidence suggests that manufacturing is much more capital-intensive than services (outside of the use of expensive real estate), this argument suggests that the level of manufacturing in a city should increase the level of redistribution. Our best estimate of the effect of manufacturing is 2. This figure is the average of a fixed-effects estimate of 3 and an ordinary-least-squares estimate of 1. We have also found that the impact of industry presence in 1930 is positive, and we believe that this finding emphasizes the importance of fixed resources in predicting the level of redistribution.

Factors determining the mobility of taxpayers will also be important. Demographic characteristics that are associated with higher levels of mobility should predict lower levels of redistribution. Cities where a large fraction of residents work near their homes should have more redistribution. Cities with an older population, or a population featuring lower levels of education, can redistribute more without suffering sharp outmigration because these demographic groups have low migration rates. Using information on a city's resident age and education distribution, we construct a predicted mobility rate. In estimates of equation 1, this variable has a coefficient of -5.59. Again, we do not believe that we can measure different elasticities for 1970 and 1990.

A second measure of taxpayer mobility is whether the taxpayers both live and work in the city. This variable is one of the most effective measures that we have in predicting the level of redistribution. Our best estimate is that an increase of 10 percent in the number of people who live and work in the city raises the level of redistribution by .3 log points. This effect is robust to a range of instrumental variables estimates.

Proximity might be expected to effect redistribution because proximity could lead to higher levels of either altruism or fear. Our measure of proximity is the number of poor people living within one mile of the average nonpoor person. Our estimate of the importance of proximity is .11.

A final effect that can be used to explain redistribution is the land area of the city. For one, it is more difficult to leave larger cities. Moreover, cities that have more land can be thought of as having more fixed resources to redistribute against. The elasticity of redistribution with respect to land area in 1970 is .34; the elasticity of redistribution in 1990 is .25.

IV. Redistribution to the Poor in New York City

In this section, we sketch the history of redistribution by the New York City government. The goal is to use the theory outlined in the previous section to address the substantial changes in the level of redistributionary policies in New York City over the past century.

Before the New Deal

Since before the days of Fernando Wood, whose decline (and the subsequent rise of William Marcy Tweed) was related to his aggressive attempts at redistribution, New York mayors have often attempted ambitious redistribution projects. Indeed, New York City engaged in healthy spending on charities and public hospitals at the beginning of the century. In 1912, the city spent $9.3 million, or $1.86 per capita—equal to $125 million, or $25 per capita in current dollars—on charities and public hospitals. All told, New York City spent 7.5 percent of its total budget on these redistributionary functions.

While these quantities are large in objective terms and large relative to spending across all American municipalities with more than 30,000 inhabitants, these numbers are not all that great relative to other big cities. Across cities with more than 500,000 inhabitants, spending on welfare was $1.34 per capita, or 6.4 percent of total spending. Big cities were redistributing more than small cities (in part because they have a greater number of poor people), but New York City was not unusual among progressive-era cities.

Moderate levels of redistribution to the poor in New York City occurred through the Walker administration. As late as 1928, the city was spending 5.9 percent of its budget on charities and hospitals. By comparison, the average city of more than 500,000 inhabitants was also spending 6.1 percent of its budget on these items. New York's economy was doing well and part of the implicit bargain that existed between Tammany Hall and New York's business elite appears to have been moderate spending on redistributional functions.

LaGuardia to Wagner

Moderation in local charity disappeared completely with the advent of LaGuardia and the New Deal. By 1937, the city was spending 24.4 percent of its budget (or $214 per capita, in 1998 dollars) on charity. The other cities with more than 500,000 inhabitants were spending only 14.3 percent of their budgets on these items. More than 66 percent of this spending in New York was classified as general relief. Smaller quantities were targeted toward children or other specific charities.

Surprisingly, these forms of relief were not primarily transfers from either the federal or state governments. Furthermore, these government transfers were targeted to specific New Deal programs rather than to general relief. The 24.4 percent of the budget that LaGuardia was spending based on local revenues far exceeded the New Deal expenditure in New York and represented the lion's share of relief for the poor in New York City during the Depression.

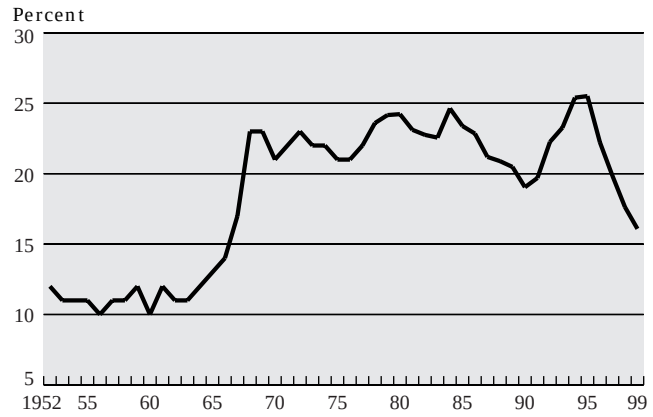
Naturally, this begs the question of why LaGuardia responded to the Depression with so much redistribution or, phrased differently, why voters supported such a redistribution-oriented mayor in New York but not elsewhere. No other big American city came close to being so aggressive in creating poor relief. One explanation is that demand for redistribution rose equally across large cities, but in New York the costs of redistribution were much lower because businesses were less likely to exit. New York was still a manufacturing city with a tremendous industrial base. Transportation was sufficiently expensive to make nearby suburbs tenuous competitors.

The state legislature had already freed up LaGuardia's taxing authority in response to the fiscal crisis of 1933. New York had the lowest home ownership rate of any major city, so increases in property taxes would not affect LaGuardia's voters directly. There are also unique institutional features of New York politics, such as the ascendancy of a reform candidate who needed to create a local and formal support base to combat the still extremely solid support enjoyed by Tammany Hall.

As the economy improved and as priorities changed with the war, New York's level of formal redistri-

Chart 1

Share of New York City Expenditures Spent on Welfare over Time



Source: Citizens Budget Commission (various years).

bution declined. By the early 1950s, spending on welfare was 12 percent of New York City's budget (Chart 1). Of course, this level of redistribution is low relative to the Depression-era heights of redistribution, but it is still high relative to other cities of comparable size. Indeed, this budget share is comparable to that of other cities during the Depression, and much higher than that of other cities during the post-war boom.

While the post-war era saw a general retrenchment of redistribution in the city, that era also witnessed one of the largest single pieces of redistribution in city history—the enactment of rent control. A war-era control on rents, which was eliminated in many other large cities, was maintained (until today) in New York City as renters used their political clout to redistribute from owners to themselves. Given New York's extremely low rates of home ownership, it is not surprising that there was particularly strong electoral support for that type of redistribution in the city.

As Chart 1 shows, the level of formal spending on redistribution rose only slightly under the three Wagner administrations. Between the early 1950s and 1965, the city spent between 10.0 and 12.5 percent of its budget on welfare each year. Business-cycle downturns and the destruction of Tammany Hall in the 1961 election appear to have made little difference in the overall level of this type of redistributional spending.

The Crisis and Its Aftermath: The Lindsay, Beame, and Koch Years

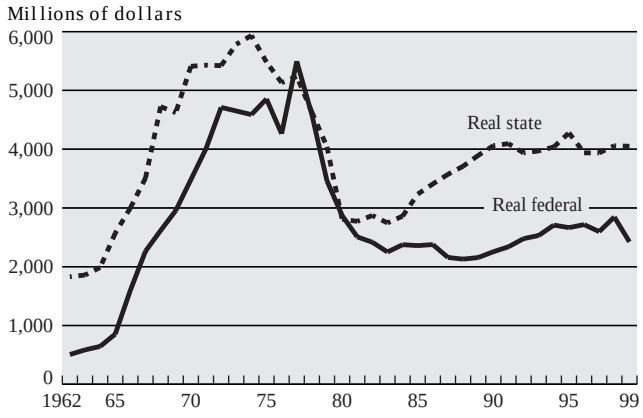
The real explosion in the level of redistribution (as a share of spending) occurred in the three years after the election of John Lindsay in 1965 (Chart 1). The share of welfare spending rose from 12.5 percent in 1965 to 23.0 percent three years later.[12]

Naturally, a significant fraction of this growth was related to changes at the federal government level, as shown in Chart 2. Lyndon Johnson's Great Society was in full swing, and the federal government had begun introducing significant incentives to expand the welfare rolls (by paying for a large fraction of overall welfare expenditures). However, New York's increase was far greater than the increase for urban America as a whole. For example, among other large cities, the share of spending on welfare rose from 5.4 percent in 1964 to 8.5 percent four years later. The base level was already below New York's level of redistribution, and the gap increased during the Lindsay years.

The Lindsay years were also marked by a substantial increase in the overall scale of government. Public employment rose by about 25 percent during the early Lindsay years. Increases in employment were particularly high among minority and lower income groups, which suggests that the increases in employment were another

Chart 2

Trends in Intergovernmental Revenue Transfers to New York City



Source: Citizens Budget Commission (various years).

major way in which Lindsay redistributed income through government. Indeed, it is hard to find an area of government that Lindsay did not try to use to better the lives of the city's poorer residents.

New York still had extremely low levels of home ownership, so few residents were worried that changes in the attractiveness of the city would decrease their property values. Furthermore, because rents were so constrained, landlords also had little to lose from decreasing the future attractiveness of New York by borrowing. As discussed above, under normal circumstances, owners will suffer when cities attempt to borrow to finance current expenditures. In New York, where rents are controlled, only future renters pay the costs for these future taxes, and future renters do not vote.

During the early Lindsay years, manufacturing was still strong and the tax base appeared to be immobile enough to withstand heavy redistribution. Suburbanization of residents had occurred, but starting in the 1960s, New York gained from the state the ability to impose an income tax on commuters so that workers could no longer escape the city's taxing authority by moving beyond city lines. New York's uniquely difficult geography made suburban exodus of firms particularly difficult. As a result, it appeared that New York could tax and spend with relatively little impunity from a tax-base exodus. Of course, that did not happen. Between 1969 and 1985, New York City lost more than 400,000 manufacturing jobs.

Furthermore, federal support for the city abated during Republican administrations. If New York leaders had believed that higher levels of government would bail them out during the Rockefeller-Johnson years, certainly any residual of those beliefs were shattered by Ford's pithy response to city requests for aid.

As government continued to grow and as city leaders turned to borrowing rather than attempting to get state approval for higher taxes, the fiscal crisis developed. Ultimately, the city was unable to sell its bonds and the state set up the Municipal Assistance Corporation to oversee the running of the city. Essentially, the corporation led to a real cutback of local democracy. Business leaders on the corporation were given emergency fiscal powers over the city. These leaders cared more about the city's financial health than electoral support from its poorer residents. This focus led to a major retrenchment in the level of redistribution of the city.

Public employment rebounded slightly during the later Koch years, but spending on welfare and welfare rolls declined in the late 1980s (Charts 1, 3, and 4). However, Koch had been elected as the alternative to redistributionary democracy, and essentially he stuck to his initial campaign appeal. While Giuliani is responsible for a much more severe and quicker reduction in welfare rolls, Koch presided over a slow but steady reduction in spending on welfare during his twelve years in office. Although the share on spending declined (in part because of rising city budgets), the number of people on public assistance essentially stayed constant (at close to 800,000) during his administration.

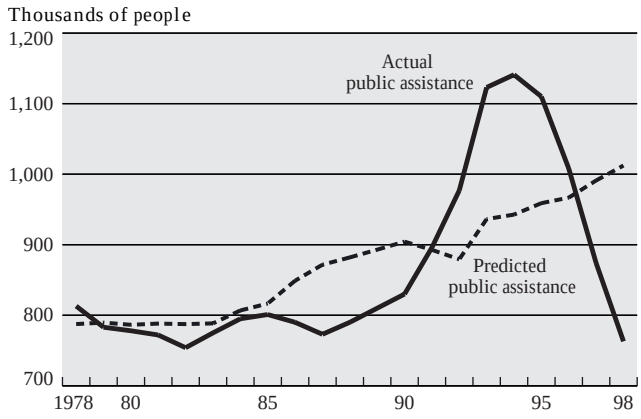
DINKINS AND GIULIANI

The steady reduction in spending on welfare changed radically during the Dinkins years. Although Dinkins never espoused the rhetoric of redistribution used by Lindsay or LaGuardia, his four years in power saw a 50 percent increase in the number of people on the welfare rolls. The share of the budget going to welfare rose by 6 percent during the same period. While this increase is not on the level

Chart 3

The Impact of Local Business Cycles on New York City's Public Assistance Rolls

Trends in New York City Public Assistance Rolls



Source: Citizens Budget Commission (various years).

of the changes implemented either by LaGuardia or by Lindsay, it is quite sizable, representing a radical break with the Koch era.

There is little literature on this phenomenon. The contemporaneous accounts stress the business-cycle downturn of the early 1990s. There are actually surprisingly few of these accounts—a Lexis Nexis search on "Dinkins" and "welfare" turned up 126 articles during his tenure. A similar search on "Giuliani" and "welfare" turned up close to 1,000 articles. Chart 3 shows the actual level of redistribution plotted with the level of redistribution predicted by the New York business cycle.[13]

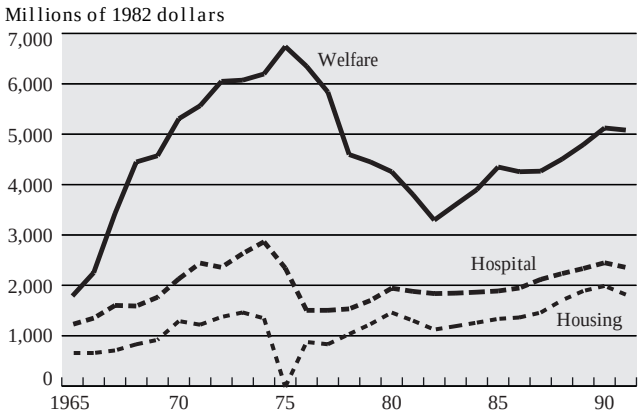
While there is no doubt that actual economic conditions in the city drive some part of the variation in the level of welfare, the intentions of city leadership appear to be far more important. The decision made by the Dinkins administration to be more inclusive in expanding the welfare rolls was the crucial factor in the explosion of redistribution in his administration. Like Lindsay, Dinkins attempted to simultaneously please the business leaders of the city and his poorer constituents. However, by the late 1980s, New York no longer had any real monopoly power over its firms. The city faced a much rougher set of competitors, both locally (such as Stamford, Connecticut) and across America. Local redistribution is likely to have contributed to declining New York City property values during the Dinkins administration.

Voters responded by electing the most clearly anti-redistributionary mayor in New York's post–Fernando Wood history. During the Giuliani years, government spending has been relatively constant, but there have been radical reductions in redistribution. Increased spending on policing, fire, and schooling have offset reductions in redistribution. As Chart 1 shows, the share of spending on welfare declined almost 7 percent during the Giuliani administration. This change marks a radical change in the general level of redistribution of New York City government.

There are several possible explanations for the popularity of reduced redistribution. First, as discussed earlier, the degree of mobility of firms has increased and as such voters no longer can believe that attempts at redistribution will not affect the economic health of the city. Second, there has been a small but significant increase in the level of home ownership. Third, it is possible that in this knowledge-based economy there is increased importance placed on being around more highly skilled neighbors.

Chart 4

Total Expenditures on Redistribution in New York City over Time



Source: U.S. Census Bureau, Local Government Finances.

V. Do the Level and the Trend in New York Have a Safety Net?

In Section III, we sketched national findings on the relative propensities of different cities to redistribute income. Here, we focus on New York City. Using the national estimates of the correlates of redistribution and using the characteristics of New York City in 1972 and 1987, we discuss the model's prediction of New York City's level and time trend in redistribution expenditures. The difference in logarithms between New York City and other big cities is 1.16, which is the per-capita redistribution difference that needs to be explained.

$$(2) \quad Excess\ Log\ Redistribution = \sum_i \beta_i (X^i_{Location} - X^i_{Average}) + \varepsilon_{Location}.$$

Table 1 examines the potential explanations for redistribution; there are several variables that significantly differ between New York City and the rest of the country. New Yorkers support more spending on welfare in the

Table 1
THE LEVEL OF REDISTRIBUTION PER CAPITA IN NEW YORK CITY AND OTHER CITIES IN 1990

	New York City	Other Large Cities	Small Cities
Measures of redistribution			
Redistribution expenditure - intergovernmental support	285.03	89.51	15.67
Total redistribution expenditure	1,228.16	246.81	68.59
Intergovernmental expenditure	767.61	133.89	20.38
Welfare - intergovernmental support	-39.07	16.99	2.24
Health - intergovernmental support	378.51	67.91	34.51
Housing - intergovernmental support	121.10	28.02	11.46
Percentage of total expenditure on redistribution	0.28	0.09	0.06
Total redistribution per person in poverty	6,367.97	1,522.20	530.28
Redistribution expenditure per person in poverty	1,477.85	541.42	158.35
Share of employees working for local government	0.12	0.08	0.07
Explanations of redistribution			
Percentage of respondents who believe that the government should spend more on welfare	.53	.45[a]	.45[a]
Percentage of housing stock that is single-detached	0.08	0.39	0.55
Percentage of workers in manufacturing	0.11	0.15	0.18
Home ownership rate	0.29	0.48	0.57
Average population	7,322,564	1,058,008	73,378
Average land area	800	539	80
Percentage of population that is black	0.29	0.28	0.12
Percentage of population that is Hispanic	0.24	0.17	0.10
Poverty rate	0.19	0.19	0.14
Percentage of workers who live and work in the city	92.20	75.50	46.10
Proximity between rich and poor	13,240	3,450	1,573
Percentage of workers who are commuters	21.29	42.10	60.60

Source: Glaeser, Kahn, and Rappaport (1999).

Notes: "Other large cities" are defined as those with more than 500,000 persons. "Small cities" are cities with a population of between 25,000 and 500,000 people. Except for rates or percentages, variables are per-capita dollar amounts.

[a]Results are for the entire nation outside of New York according to the General Social Survey, produced by the National Opinion Research Center.

opinion poll (which we use as a proxy for altruism). New Yorkers have a substantially lower home ownership rate. New York is underrepresented in manufacturing (but this should predict less redistribution, not more). It has more land area, making it more of a local monopoly. It has greater proximity between rich and poor. This variable is measured as the number of poor people living within one mile of the average rich person. Finally, a greater percentage of New York's residential population lives and works within its own border than is the case in the other cities.

Interestingly, New York is not unusual in its poverty rate or in its racial demographics. Large cities form a reasonable comparison group with New York along these dimensions, at least for 1990. New York has a higher percentage of Hispanics, but we have never found a connection between the percentage of Hispanic residents and the level of redistribution.

Table 2 considers these differences formally and shows that we can account for 64 percent of the difference between New York and other cities with our primary explanatory variables. In the table, we list our elasticity estimates and the differences in the levels of the explanatory variables.

There are four variables that explain the majority of the difference between New York and other cities. The most important explanatory variable for New York City is the level of home ownership. About 23 percent of this difference is related to lower home ownership rates in the city. About 14 percent of the gap can be explained by greater proximity between rich and poor in New York City. About 15 percent of the effects can be explained by two variables relating to the mobility of workers. About two-thirds of that percentage are the mobility variables based on resident demographics. About one-third is related to the

Table 2
A DECOMPOSITION OF THE FACTORS DETERMINING NEW YORK CITY'S REDISTRIBUTION RELATIVE TO OTHER LARGE CITIES IN 1990

Explanation for Local Redistribution Level	Regression Coefficients Estimated Based on Equation 1	New York City's Explanatory Regressor	Average Explanatory Regressor for Other Big Cities	Explanation's Contribution to New York City's Higher Redistribution (Equation 2)
Land area	0.156	6.68	6.03	0.10
Percentage in poverty	-0.121	0.19	0.19	-0.00
Percentage black	1.33	0.29	0.28	0.01
Percentage Hispanic	0.82	0.24	0.17	0.06
Home ownership rate	-1.42	0.29	0.48	0.27
Percentage in manufacturing	2.00	0.11	0.15	-0.06
Population mobility index	-6.67	0.51	0.52	0.10
Percentage of workers who live and work in the city	0.30	4.52	4.31	0.06
Proximity between rich and poor	0.11	9.49	8.02	0.15
Total explained			0.70	
The log differential in New York City versus other big cities' average redistribution level				1.16
Unexplained				0.46

Source: Glaeser, Kahn, and Rappaport (1999).

Notes: Using the 1990 sample from the Census of Governments and the Census of Population and Housing, we use all cities with more than 10,000 people to estimate a multivariate regression based on equation 1. The dependent variable is the log of a city's per-capita redistribution net of intergovernmental transfers. The regression includes all of the variables listed above and state-level fixed-effects. The left column reports the coefficient estimates. The two middle columns report New York City's values for each of these variables and the mean value of the explanatory variables for all other cities whose population is greater than 500,000. "Land area," "percentage of workers who live and work in the city," and "proximity between rich and poor" are all logged. The other variables are percentages. The right column is based on equation 2 in the text. To calculate, we subtract the two middle columns and multiply by the regression coefficient to yield an estimate of how much of the total difference in redistribution between New York City and other big cities can be explained by this variable.

variable that captures living and working in the city. And 10 percent of this difference relates to New York City having more land. Thus, these variables have explained almost 70 percent of the difference. We believe that the remaining difference is best explained by other variables that capture the size of the job base in New York City and the relative immobility of resources in New York in relationship to other cities.

VI. WHY HAS THE LOCAL SAFETY NET IN NEW YORK CITY DECLINED?

To begin to understand why New York City's redistribution level has declined more than that of other cities, we present some basic summary statistics on trends over time (Table 3). Between 1970 and 1990, New York City's per-capita net redistribution level (measured in 1987 dollars) declined from $537 to $285, while the average big city's net redistribution level increased from $65 to $90. Between 1970 and 1990, New York City's home ownership rate and its percentage of blacks and Hispanics increased faster than in other big cities.

We approach the change over time similarly to the way we approached the difference between New York City and other large cities. We allow for one important change: the determinants of redistribution might change over time. Using estimates of equation 1 based on our 1970 and 1990 samples, we are able to measure how the correlation between city attributes and local redistribution changes over time. The first thing that we do is look at a differences-in-differences formulation, where we correct for the mean level of redistribution in all cities and look at the effects of explanatory variables, which are also demeaned.

With this adjustment, the decomposition becomes:

(3) *Change in Excess Redistribution* =

$$\sum_i \beta_{i_i}^{1990}(X_{1990}^i - X_{1970}^i) + X_{1970}^i \sum_i (\beta_{i_i}^{1990} - \beta_{i_i}^{1970}),$$

where all of the explanatory variables have been demeaned.[14] The basic results are presented in Table 4. The change in excess redistribution is .57 (the total reduction for New York City is .63, and the change for other

Table 3
THE PATH OF REDISTRIBUTION AND OTHER VARIABLES IN NEW YORK CITY AND OTHER LARGE CITIES

	New York City		Other Large Cities	
	1970	1990	1970	1990
Measures of redistribution				
Redistribution expenditure - intergovernmental support	537.38	285.03	65.13	89.51
Total redistribution expenditure	1,491.67	1,228.16	216.59	246.81
Intergovernmental expenditure	857.33	767.61	125.21	133.89
Welfare - intergovernmental support	96.31	-39.07	25.67	16.99
Health - intergovernmental support	418.81	378.51	63.76	67.91
Housing - intergovernmental support	119.22	121.10	1.95	28.02
Percentage of total expenditure on redistribution	0.37	0.28	0.12	0.09
Total redistribution per person in poverty	9,992.45	6,367.97	1,374.53	1,522.20
City redistribution expenditure per person in poverty	3,599.81	1,477.85	392.00	541.42
Share of employees working for local government	0.11	0.12	0.08	0.08
Explanations of redistribution				
Percentage of workers in manufacturing	0.21	0.11	0.21	0.15
Home ownership rate	0.24	0.29	0.49	0.48
Percentage of population that is black	0.21	0.29	0.25	0.28
Percentage of population that is Hispanic	0.10	0.24	0.08	0.17
Poverty rate	0.15	0.19	0.15	0.19

Source: Glaeser, Kahn, and Rappaport (1999).

Note: Except for rates or percentages, all variables are per-capita dollar amounts.

cities is .06). Thus, the change in the level of redistribution is considerably smaller than the difference in the level of redistribution between New York and the other cities.

Following equation 3, the change in the level of redistribution can be decomposed into changes coming from changes within New York (given fixed coefficient estimates) and changes in the coefficient estimates multiplied by initial New York variable values. In general, we will focus only on a single important change in parameter estimates: the sharp decline in the importance of the logarithm of land area.

In Table 4, we have allowed the coefficients to change only for four variables (poverty, area, percentage black, and percentage Hispanic). Our view is that we might be able to estimate changing coefficients for these very basic variables. Our coefficients for the other variables are based on a wide range of different estimation techniques, and we cannot sensibly distinguish the changing importance of these variables over time. Furthermore, several of our variables (such as living and working in the same city and proximity to the poor) are not available for 1970, and we therefore must drop them from the decomposition.

There are four major explanations for the decline in the level of redistribution between 1970 and 1990. First, the level of home ownership rose in New York, and this rise can explain about 22 percent of the decline in redistribution. Second, New York's demographics have shifted toward more mobile residents, and this explains perhaps 12 percent of the decline in redistribution. Third, New York had a substantial decline in manufacturing. This does not show up in our numbers because we have examined New York relative to other cities. If we examined New York relative to the entire United States, however, the decline in the level of manufacturing would be a major factor. The overall decline in manufacturing in New York is equal to .092. With our elasticity of 2, this means that the manufacturing decline explains approximately one-third of the total decline in New York's level of redistribution. However, it explains very little of New York's decline relative to that of other cities.

Finally, there has been a general decline in the effect of land area on the amount of redistribution. We examine this variable as opposed to population density or

Table 4
A DECOMPOSITION OF THE FACTORS DETERMINING CHANGES IN NEW YORK CITY'S REDISTRIBUTION RELATIVE TO OTHER LARGE CITIES: 1970-90

	Regression Coefficient		New York City's Explanatory Regressor		Decomposition Based on	
Theory	1970	1990	1970	1990	Middle Term of Equation 3	Right Term of Equation 3
Land area	0.34	0.25	3.28	3.29	0.004	-0.30
Percentage in poverty	1.17	1.85	0.03	0.07	0.06	0.02
Percentage black	1.54	0.91	0.14	0.19	0.05	-0.09
Percentage Hispanic	0.96	0.56	0.06	0.16	0.05	-0.02
Percentage homeowner	-1.44	-1.44	-0.41	-0.325	-0.12	0
Percentage in manufacturing	2.00	2.00	-0.061	-0.067	-0.012	0
Population mobility index	-5.59	-5.59	-0.02	-0.0039	-0.087	0
Total explained					-0.06	-0.38
Actual relative change					-0.57	
Unexplained					-0.13	

Source: Glaeser, Kahn, and Rappaport (1999).

Notes: The actual relative change is defined as the percentage change in New York City redistribution between 1970 and 1990 minus the percentage change in other cities' redistribution between 1970 and 1990. The total explained is the sum of the two decomposition terms listed in equation 3. The two left columns report estimates of equation 1 using the 1970 and 1990 samples of the Census of Governments as discussed in Glaeser, Kahn, and Rappaport (1999). The 1990 cross-sectional estimates presented in the table differ from the results presented in Table 2 because the specifications differ. In particular, we do not have data for the variables "live and work" and "proximity between the rich and poor" in 1970. The explanatory regressors are calculated by subtracting out the sample means.

raw population simply because area is more exogenous and represents a further step backward from what we are trying to explain. Changes in the coefficient of land area lead to a total decline of .30, which is more than 50 percent of the total decline. We believe that the declining connection between land area and the level of redistribution is a result of the increased ability of firms and workers to locate and operate in edge cities and suburbs. Improved transportation has meant that even the largest cities no longer have monopoly power over their local residents and firms.

VII. CONCLUSION

In the 1970s, cities with more land area (such as New York) engaged in more redistribution. Today, they do not. Local redistribution can exist only when cities possess a fixed tax base. As transport costs have declined in the global economy, cities have lost the power to redistribute. Ultimately, this may be good for the poor because it may lessen their segregation in central cities. However, in the short run, as local distribution dries up, the higher levels of government may want to step in to eliminate the hardship that may be caused by the decline of the local safety net.

ENDNOTES

The authors thank James Snyder and conference participants for useful comments.

1. Taking into account the federal matching program, the state sets a benefit level and then (usually) directly pays for those benefits. In the case of New York City, the sharing pattern has generally been 50-25-25, with the federal government paying for one-half of AFDC payments and the remainder being split between the state and city government (Shefter 1985). In principle, these programs are at the discretion of the states rather than of the cities.

2. The massive swing upward in welfare rolls during the Dinkins years (which was much higher than the economic downturn itself would have predicted) followed by the massive swing downward in welfare rolls during the Giuliani years (which has been much larger than the upturn would predict) are at the very least evidence of the power of mayoral discretion in determining the size of these welfare rolls.

3. After all, New York City was spending almost one-quarter of its budget on general relief during the Great Depression. Today, New York maintains Home Relief, which provides aid for poor people who are not technically qualified to receive welfare payments. In addition, older people who have recently moved to the United States may be eligible for Supplemental Security Income.

4. This discretion over operation is occasionally curtailed when the quality of operation has become particularly low, in which case the federal government may set up an independent housing authority. In all cases, however, the city has a great deal of flexibility in determining the rules surrounding construction itself; these rules may be designed to facilitate redistribution or to limit it.

5. In fact, Duggan (1998) shows that these hospitals are particularly ineffective at reaping the cash benefits from increases in Medicaid relative to their nonprofit and for-profit competitors.

6. The commuter tax of .45 percent of taxable income was recently repealed by the New York State Legislature.

7. Police records by precinct in New York show that the ratio of arrests per crime and the ratio of police per capita across area is hardly constant. The differences in crime rates are not the result of an uneven allocation of resources so much as a lack of response to the high-crime area.

8. Urban politicians have a choice about whether to use their influence to try and secure public housing funds, which primarily serve the city's poorer residents, or highway infrastructure funds, which primarily serve the city's richer residents. The decision to focus on public housing rather than transportation represents a choice made at the local level for redistribution. Naturally, this choice in lobbying is accompanied by local spending on redistribution as well. For example, consider two forms of government transfers to large cities: public housing and highway infrastructure (for example, Boston's Big Dig).

9. One famous Curleyism is his response to a request by a British recruiting agent in World War I to allow the agent to recruit Bostonians of English extraction to fight in Europe (before American entry) by saying "go ahead, take every damn one of them" (Beatty 1992, p. 5). Throughout Curley's term, his policies frequently seemed designed with either no attention to migration effects or to an enjoyment of the fact that these policies would induce residents to migrate out.

10. For an analysis of how demographics affect the composition of the public bundle, see Poterba (1997).

11. To try and capture the presence of fixed resources, which can be taxed without inducing outmigration, we investigate the role of relatively exogenous factors such as state capitals and natural ports. In both cases, it is true that these resources are positively related to the level of redistribution.

12. The data source for these figures is the Citizens Budget Commission, *CBC Pocket Summary*.

13. Our method was to regress the level of redistribution on detrended income in the city and to plot the predicted values from that regression over the 1978-98 period. In fact, there is little powerful connection between the number of welfare cases (or spending on welfare) in New York and the business cycle over this period.

14. Technically, we start by writing:

$$NYC\ Excess\ 1990 = \sum_i \beta_i^{1990}(X_{1990}^i - X_{1970}^i) + X_{1970}^i \sum_i (\beta_{i_i}^{1990} - \beta_{i_i}^{1970}).$$

We then subtract excess redistribution in 1970, or

$$\sum_i \beta_i^{1970}(X_{1970}^{NYC} - X_{1970}^{US}).$$

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