

ABT ASSOCIATES INC.
55 WHEELER STREET, CAMBRIDGE, MASSACHUSETTS 02138
TELEPHONE • AREA 617-492-7100
TELEX: 710-320-6367

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Principal Investigators

David O. Porter
George H. McGeary
William J. Page, Jr.

D R A F T

Three Options for
Administering a Direct Cash
Assistance Program in Housing

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1.0 FOREWORD

The following research paper by David O. Porter, George H. McGeary, and William J. Page, Jr. presents three options for administering a direct cash assistance program in housing. In assessing the analysis provided, the reader may find it useful to consider some of the constraints within which the authors performed their research and some of the background assumptions that are implicit, but not explicitly stated, in the paper.

The paper was conceived of as a preliminary examination of the complex set of administrative issues that would be involved in developing administrative alternatives for a direct cash assistance program formulated by the Department of Housing and Urban Development. Two background factors are of critical importance to an understanding of the paper. First, at the time the paper was designed and written, fundamental decisions about the character of a direct cash assistance housing program had not been made. Second, the paper was developed in a paradoxical context, that is a context in which the focus was upon both (a) pure cash transfer reflecting the emphasis of the current proposals for income maintenance, the earlier Family Assistance Plan, and the extensive research efforts supported by the Department of Health, Education, and Welfare and the Joint Economic Committee of the Congress; and (b) improved governmental arrangements for service delivery underscoring the negative aspects of a remote, impersonal Federal bureaucracy and the value of local governments as administrative units responsive to local needs.

A fundamental premise essential to an understanding of the administrative problems that will face a direct cash assistance program in housing is that it simply does not fit well in either of the analytic categories that have been developed for public assistance programs. A direct cash assistance

program is a hybrid of an income transfer program which seeks to minimize or avoid the discretionary relationships between recipients of public assistance and the government which have led to administrative complexity and undesirable interference in the lives of families, and a services delivery program in which the government accepts some responsibility for influencing or controlling the market in which program participants purchase housing, for aiding participants in negotiating such markets successfully, and for the quality of housing occupied by recipients.

Many of the administrative functions that need to be performed in a direct cash assistance program are similar to those of other means-tested programs: informing potential applicants of the existence of the program, eligibility determination and redetermination, payment level determination, and processing and distribution of checks. The functions which seem to be unique to an earmarked cash assistance program in housing are those which are designed to ensure that subsidy payments are spent on housing, to avoid subsidizing the worst housing stock, and to eliminate the effects of discrimination in housing markets. Providing housing market and equal opportunity information and services to participants and enforcing housing quality requirements both imply a local presence of direct cash assistance program administration. Both types of activities require the collection and processing of significant quantities of information concerning both housing market conditions and participants. A direct cash assistance program earmarked for housing, therefore, will have to be responsive to variations in local conditions and participant needs.

In analyzing intergovernmental alternatives for the administration of a direct cash assistance program, the authors began with an analysis of a direct federal alternative. They found that federal administration seemed best suited for a cash

assistance program that emphasized income transfer and minimized services and housing quality control. They argue that the latter activities require a kind of flexibility and responsiveness that a direct federal administrative option would find difficult to achieve. Therefore, the paper proceeds on the assumption that intergovernmental alternatives involving federal, state, and local governments need to be examined.

The single most important issue raised for the development of intergovernmental alternatives is the question of the responsiveness of such alternatives to national goals and objectives. Over the years, the record of state and local governments with respect to carrying out national intentions in programs for the poor, particularly racial minority poor, has been disappointing. The authors of the paper, therefore, concentrate their attention on developing a structure and a set of administrative mechanisms that would both capitalize on the opportunities for diversity and responsiveness in intergovernmental alternatives and ensure actions congruent with national intent - their performance model.

Given the constraints upon the preparation of the paper, fully developed administrative options for a direct cash assistance program with detailed specifications of functions are not present. It is possible that any of the options for structuring key elements of a direct cash assistance program that are now being considered could be incorporated into any one of the three alternative administrative structures developed here. The major value of the paper is to inform the reader of the developments that have arisen from the experience of other government programs and from the study of public administration that suggest a possible approach for the design of a responsive intergovernmental system.

PART I

TOWARD AN EFFECTIVE ADMINISTRATIVE SYSTEM

2.0 ANALYTIC PERSPECTIVES

2.1 Combining National and Local Objectives

National domestic programs in the United States are becoming more pervasive and more complicated. The scale alone of a national program introduces great complexity into any administrative system which tries to handle it. There are more than 200 million Americans spread out over a huge geographic expanse, and their tastes and living conditions are very diverse.

The number of national programs is increasing because of the number of problems requiring nationwide attention. The regulation and monitoring of our economy was the impetus in the 1930's for a greatly expanded domestic role for government and continues to be one of the primary domestic activities of the Federal government. But many more matters now press for national action. The technological explosion of the twentieth century has created national markets, national communications networks, a much greater social mobility and, it has also pushed ecological problems into national attention. Los Angeles, or even California, has lost the capability to deal with the continuing decline in its air quality. Over 90 percent of the smog in the Los Angeles basin spews from the exhausts of automobiles manufactured in Detroit.

A result of this growing national interdependence has been an expansion of the public sector in general, and of programs in particular. Since 1920, through Democratic and Republican Administrations alike, the public sector has grown as a proportion of the gross national product. Citizens have become accustomed to looking to government for many services.

This growth has not, however, been without problems. The production of goods and services in the public sector has been characterized by an inability to adjust activities to the needs of individual consumers. This problem does not reflect a callous attitude on the part of public servants to the preferences of citizen-consumers. It is more the result of the relationship between consumer and producer in the public sector. They do not deal directly with each other. Tax dollars are paid into a general fund, and from there allocated to producers of public goods and services. Thus, citizen-consumers interact with tax collectors; public producers relate to actors in the appropriations processes. Consumers are unable to convey directly to producers their individual preferences and needs.¹

Public agencies have responded to this situation in two ways. First, they try to discern what the average consumer wants, and they concentrate their efforts to produce services or goods that will satisfy that average. Individuals with needs or preferences on either side of the average are not satisfied.²

Second, agencies cater to special interests, often overreacting. Agencies are insecure in their relations with citizen-consumers, so they either accord undue weight to statements from representatives of consumer or other interest groups, or pay them no attention at all. A letter from a citizen may be given exaggerated attention, being passed up and down the bureaucracy for detailed response. In such a case, few efforts are made to see whether the interest group spokesman or the letter writer fairly represents the views of a broad band of citizen-consumers. Frequently, such spokesmen represent the most vocal, but not

¹David O. Porter, "Responsiveness to Citizen-Consumers in a Federal System," Publius, The Journal of Federalism, Vol. 4 (Fall, 1974).

²Gordon Tullock, Private Wants, Public Means (New York: Basic Books, 1970).

necessarily the most numerous, citizen-consumers.¹ Even if the public agencies do try to find out whether a particular spokesman represents only a segment of their clientele, the agencies are usually unable to respond effectively. Their activities are aimed at providing a single level of service, with few institutional mechanisms for giving a variety of services to meet a diverse set of consumer demands.

These responses by public agencies, i.e., producing for an average consumer or responding erratically to random and unrepresentative statements from special interests and citizens, are inadequate. With the growing interdependence in our society and the consequent growth in the public sector, there is an increasing need for public agencies to be able to respond to two sets of pressures: first, to guarantee that the national interests that led to the establishing of the program are not compromised, and second, to be sufficiently flexible to respond to the legitimate needs and preferences of individual consumers.

2.2 Allowances and Vouchers

Proposals such as housing allowances or education vouchers have been one response to this problem. Allowances and vouchers allow government to set parameters around the choices made by citizen-consumers (thus being responsive to national policy), but at the same time allowing citizen-consumers to choose the producer, the quantity and the quality of the service they prefer with their available resources and within established constraints upon the expenditure or quality of the service. This device allows the government to escape the problem of supplying for the average consumer.

¹Albert O. Hirschman, Exit, Voice and Loyalty (Cambridge, Mass.: Harvard University Press, 1970).

With allowances and vouchers a larger number of interests can be satisfied, thus reducing the potential for conflict. A major constraint may be one of supply. Will there be enough education or housing available to meet the demand created by the vouchers and allowances? Or will the supply be available in a broad enough mix or alternatives to satisfy the diverse preferences of citizen-consumers? Problems in supply have produced critical problems in voucher programs in manpower and education programs, and there is a strong possibility that a direct cash assistance program for housing could be seriously hampered by persistent shortages in the housing supply.

2.3 Administrative Model for Allowances

A general model of administration appropriate to an allowance program has three general features. The first two, the provision of funds and the setting of standards, are most appropriately the responsibility of larger governments -- the State or Federal levels. The Federal government is usually thought to be the most proficient in income transfers.¹ The State and Federal levels often have shared the responsibility to set the standards which constitute the "earmark" for the allowance payments, i.e., the restrictions placed on its use. Third, the administrative structure must be capable of enforcing the stipulations of the earmark and certifying participants in the programs. If there is no earmark, or if it is loosely enforced, the grant may as well be a straight income transfer.

Thus, in the case of a direct cash assistance program with the option of a housing quality earmark requirement, an agency operating at the local level must be able to restrict

¹Wallace E. Oates, Fiscal Federalism (New York: Harcourt, Brace, Jovanovich, Inc., 1972) pps. 3-20.

the expenditures of the housing allowance to acceptable housing, with a minimum of the funds being used for "nonstandard" housing, or diverted into non-housing expenditures. In addition to the necessity for housing inspections this implies that some minimum level of housing information may be necessary to assist participants in their search for acceptable housing.

2.4 Relations with Other Programs

The analysis in this paper assumes that a direct cash assistance program will be set up as a separate administrative operation. In doing so, it is not meant to imply that there would not be substantial gains (or losses) from combining all programs aimed at aiding low-income families into a single administrative agency. This issue, and a detailed discussion of the problems of integrating a direct cash assistance program with other income transfer programs, is discussed by David M. Austin in a separate report in this series.¹

If a direct cash assistance program is organized as a separate administrative operation, there would be a necessity for many interrelationships with other housing and welfare programs at various levels of government. The problems of "integrating" the services of various programs which benefit essentially the same people has been recognized as an increasingly urgent problem. The welter of eligibility criteria and payment schemes in programs designed to help low-income families often produces contradictory results.

At the level of integrating services for each individual, a direct cash assistance program has considerable potential for enabling participants themselves to integrate their allowance payment with the services they receive from other housing or welfare programs. Much discussion in welfare and governmental

¹David M. Austin, "Direct Cash Assistance for Housing and the Existing Income Transfer Programs: Implications of the Administrative Interface Issues for the Design of a Program," October 1974.

reform asserts that individuals are the best judges of their needs. Institutional reforms are recommended which would allow individuals a fuller voice in the coordination of the assistance or services provided to them. A basic feature of a housing allowance is to delegate to participants the task of finding housing that is appropriate to their needs for employment, transportation, training, formal education and community relationships. Further, housing allowances reduce the rent burden of participants, allowing them discretion in the use of funds released from housing costs. This integration of services at the individual level is accomplished in combination with the improvement of the housing stock, because the participants are encourage (or required) as a part of the earmark on their allowances to find housing that meets minimum levels of health and safety.

Certain basic questions of policy will need to be debated and settled at the Federal level, irrespective of the administrative arrangements used for a direct cash assistance program. These policies have to do with the standards and criteria for determining the eligibility of participants, the payment schedules for the housing allowances, what transfer payments will be counted as income in the calculation of the housing allowances, and how standards of housing quality will be determined. All of these questions require uniform, national policies in order for a direct cash assistance program to function in a reasonably equitable and effective manner.

2.5 Policy Assumptions and General Considerations

2.5.1 Scope of Program Coverage

For the coverage of a direct cash assistance program, a large scale national program is assumed, including renters and homeowners within the same income categories. The actual determination of household eligibility in such a program is

potentially one of the most troublesome and costly administrative problems. Experience in other income transfer programs has shown the difficulty of arriving at an unambiguous definition of income. Further, problems associated with computing income are often compounded by adopting short accounting periods or complicated averaging schemes in the computation of participant income.¹ These problems may be aggravated in a direct cash assistance program by the diverse and uncertain sources of income characteristics of the population served by housing allowances.

2.5.2 Separating Payments from Services

Is a cash assistance program with a housing earmark an income transfer program or a services program? According to recent thought in social welfare administration, combining cash transfers and social services is like mixing apples and oranges. Which is a direct cash assistance program, an apple or an orange?

¹Sam Leaman has analyzed the per recipient administrative costs of six existing Federal income transfer programs: Social Security, veterans' benefits, Medicare, unemployment insurance, food stamps, and public assistance. He found that "the administrative structure of the various programs explains much of the difference in administrative costs per recipient." That is, "programs with a complex administrative structure -- including detailed certification and recertification of recipients and earmarking -- tend to have markedly higher administrative costs per recipient than simple income transfer programs." Thus, in 1969, a simple cash transfer program like Social Security had a relative low administrative cost per recipient (about \$20-25 per year), an earmarked transfer program like food stamps had a higher administrative cost per recipient (about \$50 per year), while public welfare, which also provides services, had by far the highest administrative costs per recipient (\$100-135 per year). See Sam H. Leaman, "Estimated Administrative Cost of a National Housing Allowance", Urban Institute Working Paper No. 112-17, February 2, 1971. The quotes are on pages 6 and ii, respectively.

The trend in welfare programs administered by the Federal government has been toward an income maintenance or cash transfer approach, with services being provided separately. There have been suggestions to use this approach with a direct cash assistance program. A direct cash assistance program, like income maintenance proposals, is designed to eliminate the complex and discretionary relationships between the government and individual citizens that have existed in past government programs. However, simply transferring income may not be enough to insure that housing allowance recipients will be able to secure and occupy suitable housing. In addition to problems with supply, participating households must understand the earmarking requirements in the direct cash assistance program, be able to make informed housing choices, and overcome racial or other discriminatory barriers.

It is not clear that complete separation of cash and services is even possible in an earmarked cash assistance program. In an earmarked program, payments are intended to further a goal which goes beyond basic income maintenance, in this case to upgrade housing. If the direct cash assistance program were to limit payments to only those eligible households in acceptable housing, services might be needed to help households find and secure suitable housing. In other words, payments and services may have to be sequentially coordinated for many participants in order to achieve even a procedural goal like efficient income transfer. In welfare the tasks of providing income support and of providing services designed to eliminate dependency can be separated in space and time; in a direct cash assistance program the analytically distinct functions of payments, inspections, and services may have to be performed in a sequence.

2.6 Two Approaches to Decentralization

The current activity in the Federal government encompasses two definitions of decentralization, political decentralization and administrative decentralization. Our discussion of administrative options will be clearer if these two meanings are understood.¹

The proposals for decentralization embodied in revenue sharing schemes call for "political decentralization." In this view of decentralization, power is exercised by units which are territorially based and have general powers. Much discretion is left with the receiving unit. States, counties, and municipal corporations are examples. Proposals for general and special revenue sharing suggest the transfer of resources and power to these geographic and general purpose governments.

Administrative decentralization occurs when a politically independent unit delegates some of its powers to subordinate levels within its organization. These delegations may be revised or retracted at the will of the delegating authority.

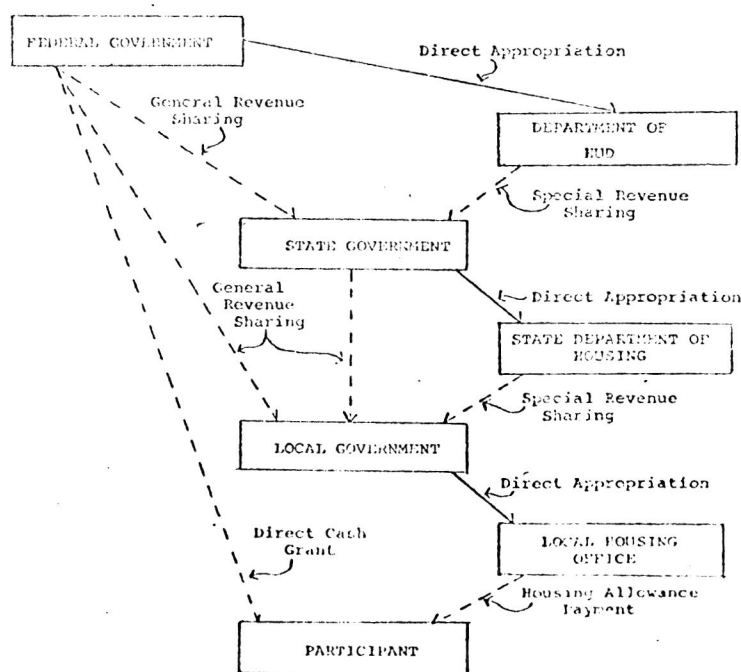
¹James W. Fesler, "Centralization and Decentralization," International Encyclopedia of the Social Sciences, Vol. 2 (New York: Macmillan, 1968), pp. 370-371; David O. Porter and Eugene A. Olsen, "Some Critical Issues in Government Centralization and Decentralization," forthcoming, Public Administrative Review.

The Local-Performance and State Grant-in-Aid alternatives in this paper envision politically decentralized, intergovernmental administrative systems. In the Local-Performance alternative, responsibilities are shared directly at all three levels of government. The State Grant-in-Aid alternative gives States the responsibility for administering a direct cash assistance program within their boundaries. In both alternatives the Federal government does not retain direct line authority for the administration of the program. A system of political decentralization emphasizes the need for general purpose officers to coordinate the governmental activities within a geographic area. General officers living in the area, it is argued, are in closer touch with the residents and can mold the various programs so that they meet area priorities.

Figure 1 illustrates a rather extreme system of political decentralization. Guidelines and control from one level of general purpose government to another are kept at a minimum.

FIGURE 1

POLITICAL DECENTRALIZATION
(AREA)



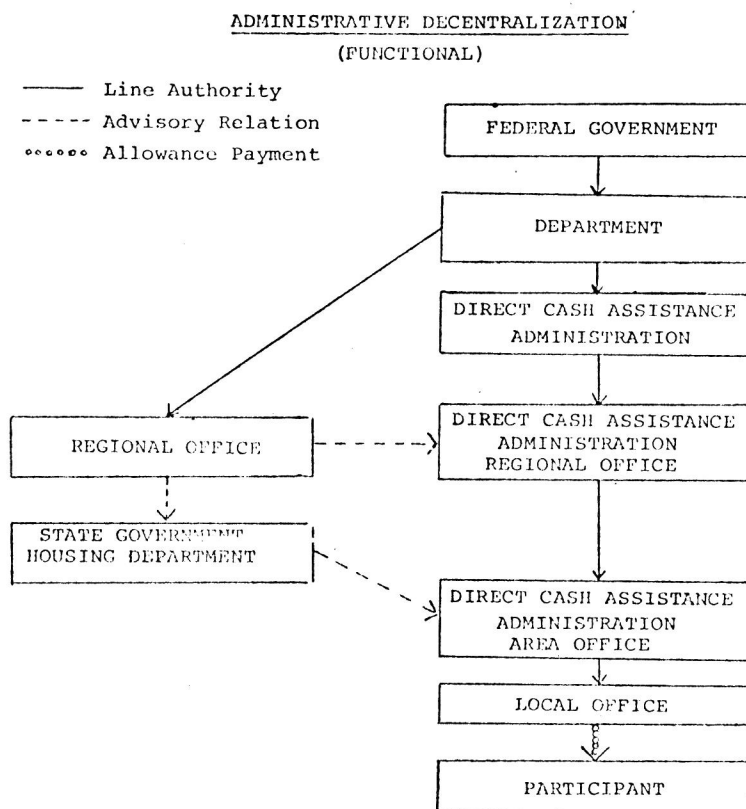
Often, as with general revenue sharing, only funds are transferred. Special revenue sharing and block grants may carry guidelines with them which require that the funds be used within certain broad areas. Local discretion within these areas is emphasized. Further, an individual or family can be considered an important decision-making unit within a decentralized system. The individual, by receiving allowances or vouchers, is placed in a position where he or she can coordinate governmental and private service to meet their needs and priorities.

Recent efforts to decentralize the Federal departments have been forms of administrative decentralization. Functions performed by the contract offices in Washington were transferred to the regional offices. The regional offices still reflect the functional and departmental structure of the central offices, but are expected to exercise increased "final authority" in the execution of programs.

Figure 2 shows one example of an administratively decentralized system. Functional lines are emphasized, with the various units being organized around specialties rather than geographic areas. Subordinate units tend to operate under the control of the higher levels.

A visual examination of Figures 1 and 2 gives an impression of differences in relationships among governmental units under each system. In systems that are politically decentralized, the subunits have considerable power of their own. They tend to coordinate and reshape resources coming into their jurisdictions to meet local priorities. In systems that are administratively decentralized, the field offices are generally more responsive to the functional and professional specialties of the central office bureaus and agencies. A more "national" and "professional" view will be stressed at the expense of the local perspective of the administrators in local, general purpose

FIGURE 2



jurisdictions. This bias in an administrative decentralization is shown clearly in Figure 2. The general purpose officers in the regional office and the state government are off to the side of the direct policy lines.

Each system has different sets of problems that are characteristic of it. Politically decentralized systems are plagued by problems related to the vertical integration of governmental activities. These problems are often manifested in parochialism, an inability to formulate and act on national goals, and problems with compliance. Administratively decentralized systems have difficulty with horizontal integration, i.e., coordinating the activities of several agencies with the same geographic area. Problems are handled in a segmented

manner, with each specialist working independently with little regard for the overall needs of recipient households. Thus, the choice of a scheme of decentralization will also have an impact on policies and programs within the government.

3.0 THREE OPTIONS FOR ADMINISTRATION

3.1 Basic Goals and Functions of a Direct Cash Assistance Program

A direct cash assistance program can be focused on two general orientations or goals; empowering participants to improve the safety and adequacy of their housing, or reducing the rent burden on participants. These orientations are not mutually exclusive, but they can be pursued separately. The administrative options in this paper are constructed on the assumption that a direct cash assistance program would attempt to combine these orientations, encouraging an improvement in the nation's housing conditions and reducing the rent burden of low-income families. There are also a number of other secondary goals -- including equity, simplicity, economy, and more choices for participants -- which have to be taken into account in the design and conduct of a direct cash assistance program, or, for that matter, any government program. The three administrative options discussed in this paper will each contribute to the achievement of these goals, but (as will be discussed in the following section) each emphasizes particular basic and secondary goals over others.

Similarly, the three alternative administrative models -- Direct-Federal, State Grant-in-Aid, and Local-Performance -- will perform the same basic functions, but the emphasis given to any single function may vary from model to model. These functions include:

- Setting standards of:
 - eligibility
 - payment
 - housing quality
 - equal opportunity
- Financing allowance and administrative costs
- Publicity and outreach

- Determining eligibility
- Calculating payment amounts and issuing checks on a timely and accurate basis
- Verifying eligibility and payment information given by applicants
- Inspecting housing quality
- Associated services including equal opportunity support
- Hearings and appeals on eligibility and payment decisions
- Monitoring and evaluation
- Technical assistance
- Research and development

These functions, as they would operate in the three administrative options, are presented in detail in the sections describing each alternative.

3.2 A Capsule Description of the Options

The number of possible administrative options which could have been considered is nearly infinite. Administration is much like education in this respect. Everyone is an expert. This research paper picked three approaches -- Direct-Federal, State Grant-in-Aid, and Local-Performance -- which differ along several dimensions. First, the options stress a Federal, State and local role respectively. Second, the options vary in the pattern of decentralization used, with the Direct-Federal option using administrative decentralization, the State Grant-in-Aid option combining administrative and political decentralization, and the Local-Performance option emphasizing political decentralization. Third, the three options differ in their use of an administrative structure which relies either on a functional organization or on the designation of "performance centers". The Direct-Federal option, in keeping with general Federal practice, is

designed along functional lines. The State Grant-in-Aid option designates the States as performance centers, and allows the States discretion in the manner that they administratively decentralize to sub-state units. The Local-Performance option designates local agencies as the primary performance centers, assigning the Federal and State governments the tasks of (1) setting standards which the local agencies would have to follow, and (2) monitoring the performance of local agencies.

The design of the Direct-Federal alternative along functional lines and the State Grant-in-Aid and Local-Performance alternatives using the concept of performance centers is somewhat arbitrary and was done primarily for the sake of comparison. A Direct-Federal option using the performance center concept could have been designed, in some ways more simply than in either of the other options. But intergovernmental systems, in that they utilize at least two levels of politically independent governments, seem more suited to the performance center concept. Consequently, we opted to develop the performance center concepts more fully in the two intergovernmental options. A reader can, if he or she chooses however, apply much of the discussion in the Local-Performance option to a Direct-Federal administrative system which is designed around performance center concepts.

In summary, the comparison of the three options is not a simple comparison of Federal, State or local administration of a direct cash assistance program. This is only one dimension of the comparison. Given the tasks to be performed in a direct cash assistance program, any administrative arrangement would include local, regional and central components. The major differences in administrative alternatives center on the powers given to each level, patterns of decentralization and methods of accountability.

3.3 An Overview Comparison of the Administrative Options

In practice, there is little current knowledge about specific relationships between program arrangements and program results (e.g., the effect of particular outreach techniques or service levels on participation rates or improvements in housing conditions). Given the existence of multiple, somewhat vague, and sometimes conflicting program expectations, and the lack of knowledge about relationships between program inputs and outputs, it is impossible to determine a single "best" administrative model given a set of objectives.¹ Even so, there are bases of comparison for the three administrative alternatives which indicate the difficulties in orientation among them.

3.3.1 Procedural Equity and Outcome Equity

For a first comparison of the three alternatives, it is useful to make a distinction between procedural equity and outcome equity. Procedural equity occurs when households of similar size and resources receive similar payments and services. Outcome equity occurs when all households, regardless of initial circumstances, achieve suitable housing. Outcome equity has been more sought after than procedural equity, but it is so difficult to define and achieve that some policy makers have given up the quest. Outcomes in service-oriented programs are costly to achieve and difficult to measure. In desperation, procedural equity has been embraced in such reforms as the Family Assistance Program as a more operational basis for evaluation.

Basically, the Direct-Federal alternative is compatible with a program that stresses procedural equity or the uniform and impartial treatment of all clients. It is feasible for a

¹It is also very important to remember that other factors -- such as the kind of payment formula used, the benefit levels, how income and eligibility are defined, local housing market conditions, racial discrimination, and so forth -- may be even more crucial in determining goals than any particular administrative practice or structure.

Direct-Federal system to achieve a reasonable degree of procedural equity in its operation. However, the success of participants in improving their housing circumstances will vary according to factors beyond the reach of Direct-Federal administration, such as housing market conditions, local discrimination patterns, and differential abilities and preferences of participating households. The major trade-off is between procedural uniformity, with its fairness and impartiality toward participants, and the inability of some participants to achieve better housing conditions.

In sum, Direct-Federal administration is broadly consistent with a goal of general income transfer (poverty reduction) and would certainly have an impact on rent burden. Its impact on improving housing quality is more uncertain and depends heavily on the abilities of participants as consumers and the responsiveness of housing markets.

what about federal regulation along with DCA to insure consumer protection

Both the State Grant-in-Aid and Local-Performance alternatives may have the potential for achieving greater outcome equity than the Direct-Federal. The monitoring and evaluation system in each alternative could be keyed directly to participant success. The State or the local agencies, depending on which alternative is adopted, would be expected to adjust performance to pursue outcome equity. There are substantial questions, however, about the likelihood of realizing the potential of these two more flexible systems.

3.3.2 Assumptions About Participants and Governments

A second, and related, comparison can be made of the implicit assumptions each alternative makes about the capabilities of participants and/or the various levels of governments. The Direct-Federal alternative assumes that participants will be able to function effectively in the housing market if they are given increased purchasing power. Increased buying power is the principal emphasis of the system. The Local-Performance and State Grant-in-Aid alternatives follow the assumption that

same argument goes here

participants may need some additional assistance. Housing shortages, supplier resistance or price gouging, discrimination, and ignorance of the operation of the housing market may also contribute to the limited supply of suitable housing. The Local-Performance alternative, particularly, is designed to deal with some of the more individualized problems of participants.

The three alternatives vary as well in their assumptions about the capabilities and potential of the various levels of government. All three alternatives share an assumption that there is a need for a more integrated system of administration for programs which are national in scope. The Direct-Federal alternative assumes, however, that State and local governments will not be as cost-effective as the Federal government can be when acting alone. The effectiveness of the Social Security Administration or the Internal Revenue Service are held up as examples. Inter-governmental administration is viewed as more complex and costly. It is also feared that important national objectives, such as those related to equal opportunity, may be undermined. Given this view of the capability of State and local governments, proponents of a Direct-Federal approach are willing to forego some program flexibility to achieve simpler, more uniform administration.

The State Grant-in-Aid and Local-Performance alternatives assume a more limited capability for the Federal government. Proponents of these alternatives think that the Federal government is too ponderous and slow to adjust to change or to be responsive to special regional, local or individual needs. In the State Grant-in-Aid alternative, it is argued that State governments are capable of adjusting the national objectives of a direct cash assistance program to the regional requirements. State governments and the Federal government have a long history of dealing with inter-governmental programs. These arrangements may need some adjustments and reform, proponents

agree, but the State role may be effective.

In the Local-Performance alternative, it is argued that local governments should be delegated the primary responsibility to administer tasks which require a local presence. It is recognized that local governments may not be uniform in their capabilities or authority, but that they have, or could develop, the capability to handle the local administration of a direct cash assistance program. The Local-Performance alternative includes, as a major objective, the improvement of local governing capability. An underlying assumption is that local governments are an integral part of an intergovernmental administrative system, albeit the least developed component in that system. The inclusion of local governments in a system such as the Local-Performance alternative may be a useful step towards bringing local governments more fully into intergovernmental administration.

3.3.3 Accountability: Process or Performance?

There is a rather sharp contrast between the Direct-Federal and the two intergovernmental alternatives in their approaches to accountability. The Direct-Federal approach adopts essentially a unitary form of organization. All functions and operations will be monitored from the central offices. The operating units will be evaluated in terms of how effectively they handle certain processes. For instance, the administrative cost per participant or the timeliness of payments will be important criteria for evaluation.

The two intergovernmental alternatives focus more on accountability for performance. Efforts have been made to devise summary statistics to measure performance. The administrative processes used to achieve acceptable levels of performance become secondary. Structurally, the intergovernmental alternatives are analogous to the performance center or multi-

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division forms of organization. In this structure, considerable discretion is delegated to the operating agencies, with the central level retaining the power to oversee and monitor through a system of performance measures. The workings of this organization form are discussed in detail in the parts of the paper which deal with the State Grant-in-Aid and the Local-Performance Alternatives.

3.3.4 Relative Efficiency

Which alternative will be more efficient is hard to resolve. The level of expenditure and level of service are closely intertwined. There is some justification for a couple of speculative estimates, however. Both are based on the level of service that is to be provided through a direct cash assistance program.

If there is a relatively high level of service -- i.e., a commitment to improving the housing stock -- then the two intergovernmental alternatives may be more efficient. The Local-Performance system, particularly, is designed to deal with diverse housing conditions and variety in consumer needs and preferences. If a lower level of service -- i.e., a greater concentration on cash transfer than improved housing-- then the Direct-Federal arrangement may be more efficient. The intergovernmental arrangements, particularly the Local-Performance, would have unused capability. The State Grant-in-Aid may, however, be more effective (and thus less costly) than the Direct-Federal even in this circumstance. If the eligibility requirements adopted in a direct cash assistance program are stringent, the administrative tasks involved in certifying and re-certifying participants may overwhelm Federal capabilities. A smaller jurisdiction, such as a State, may well be more effective.

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3.3.5 Summary of the Administrative Options

Chart 1 presents a summary of the three options and details how each would operate. Part II of the paper provides separate analyses of the three options, highlighting their salient characteristics.

CHART 1: COMPARISON of THREE ADMINISTRATIVE OPTIONS

Characteristics	Direct Federal	State Grant-in-Aid	Local Performance
1.0 Similar Existing Programs	<ul style="list-style-type: none"> • Supplemental Security Income Program, Social Security Administration • Veterans Administration program for aged and needy veterans 	<ul style="list-style-type: none"> • Aid to Families with Dependent Children, SRS-HEW • Medicaid, SRS-HEW • Vocational Rehabilitation, SRS-HEW • Work Incentive Program, DOL-HEW • Food Stamp Program, USDA 	<ul style="list-style-type: none"> • Selected Manpower Programs, DOL • Various multi-unit programs, such as the University of California or the New York Hospital Corporation
2.0 Goals	<ul style="list-style-type: none"> • Timely and accurate issuance of benefit payments 	<ul style="list-style-type: none"> • Upgrade housing for eligible population 	<ul style="list-style-type: none"> • Place eligible population in acceptable housing
2.1 Primary	<ul style="list-style-type: none"> • Efficient and uniform administration 	<ul style="list-style-type: none"> • Provide cash supplement rather than in kind or services in housing assistance • Improve market functioning by increasing effective demand for standard housing 	<ul style="list-style-type: none"> • Enhance capability of State and Local Governments
2.2 Secondary	<ul style="list-style-type: none"> • Minimization of direct government involvement in the housing market • Upgrading of housing conditions 	<ul style="list-style-type: none"> • Generate state/local/private capability to provide standard housing for low-income groups 	<ul style="list-style-type: none"> • Reduce direct government involvement in housing market • Transfer income to eligible population
3.0 Strengths, Weaknesses, Major Issues <i>(Separate out and always tell a strength from a weakness)</i>	<ul style="list-style-type: none"> • Will provide procedural uniformity & impartial treatment of participants • Will achieve comprehensive coverage of eligible population • May work particularly well if participation is limited to elderly, or some other fairly homogeneous subgroup of the low income population. • May be more responsive to National priorities in desegregation, participation rates, and housing quality. • May be less responsive to diversity in housing stock and individual needs and preferences. • If efforts are made to adjust to individual income or housing needs of participants, may overburden the administrative capability of a decentralized system. • Would increase the local presence of the Federal government. This could be an issue, even though fewer total employees may be hired if all three levels of government are considered. 	<ul style="list-style-type: none"> • Extends use of categorical or block grants, rather than general revenue sharing • Decentralizes operational authority to state governments • Develops management information system, aggregated at State level keyed to participant success • Use of private organizations in case of state/local disinterest or disability • Full Federal funding and Federal responsibility for setting standards of eligibility, payment levels • Potential exists for racial and other discrimination because of State Administration • Relies on audits, compliance actions to encourage State conformity to Federal priorities 	<ul style="list-style-type: none"> • Takes into account the diversity of participants, localities • Adapts the concept of multi-division management or "performance centers" for use in an intergovernmental administrative system, using participant success as the foci of evaluation • Develops a management information system, keyed to participant success at local level • Recognizes a political role for each level of government • Develops a wide range of incentives to encourage compliance to Federal objectives by State and local governments, but still faces a serious potential for the subversion of National goals, interests

Chart 1 (continued)

Characteristics	Direct Federal	State Grant-in-Aid	Local Performance
4.0 Program Functions and Processes			
4.1 Standard Setting - Eligibility - Level of Payments - Housing Quality - Equal Opportunity - Plans and Performance	<ul style="list-style-type: none"> Federally determined Federally determined Federally determined. Would not be given the same emphasis as in other options Titles VI and VII of the Civil Rights Acts; could be some additions in areas of sex discrimination and affirmative action. Program plans approved within HUD (or HEW); monitored by OMB and Congress 	<ul style="list-style-type: none"> Federally determined Federal minimum; State/local option to supplement Federal minimum; State/local option to supplement Same as Direct Federal in areas of race; States can add laws concerning sex or other types of discrimination. State program plans Federal and State performance standards. 	<ul style="list-style-type: none"> Federally determined Federally determined State Plan, approved by Federal Government Same as Direct-Federal in areas of race; States can add laws concerning sex or other types of discrimination Local plans approved by States; State plans approved by Federal Government
4.2 Finance - Revenue - Expenditures - Check Issuance	<ul style="list-style-type: none"> Federal appropriation Several levels within the Federal agency would obligate funds for administrative tasks Handled through a series of payment centers. Local agencies supply information on amount of allowance to payment centers; centers issue checks to participants. 	<ul style="list-style-type: none"> Federal appropriation, formula allocation to State; State/ local option to supplement At each level for administration; State and/or local levels for allowances State options to issue checks or delegate to local agencies 	<ul style="list-style-type: none"> Administrative and allowance payments supplied by Federal Government Spread throughout this intergovernmental system. Each level commits funds for administrative tasks assigned to it Lump sum payment to States; States to areawide agencies; thence to participants
4.3 Outreach	<ul style="list-style-type: none"> Assigned to Federal area offices. Relies on mass media and mailings. 	<ul style="list-style-type: none"> State option. Could be primarily local, using print and broadcast media, direct contact with groups and individuals in local agencies, local referrals from other agencies. 	<ul style="list-style-type: none"> Media, printed material handled by areawide agency, assisted by generalized efforts of State and Federal governments; neighborhood specific efforts handled by local agencies
4.4 Eligibility Determination - Income - Calculation of Payments - Redetermination of Eligibility and Benefits	<ul style="list-style-type: none"> Handled by local offices, in cooperation with other cash assistance programs. Computed by local offices, or by payment centers based on information sent in from local agencies. Handled by local agency offices, in cooperation with other cash assistance programs 	<ul style="list-style-type: none"> State option. Would probably be performed by local agencies, according to State and Federal provisions; State/Federal performance auditing. Probably computed by local agencies; State/Federal performance auditing. May be performed by local agencies; State/Federal performance auditing. 	<ul style="list-style-type: none"> Performed by local agencies, according to Federal standards Computed by local agencies at time of certification, monitored by State/ Federal levels Performed by local agencies; monitored by State/Federal levels
4.5 Inspection of Housing	<ul style="list-style-type: none"> Self-inspection by participants; ? quality control checks by area <i>only:</i> 	<ul style="list-style-type: none"> State option. Would be best performed by local agencies; State/ Federal performance auditing. 	<ul style="list-style-type: none"> Local agencies assigned primary responsibility; spot checks to insure compliance with State and Federal minimum

Chart 1 (continued)

Characteristics	Direct Federal	State Grant-in-Aid	Local Performance
4.6 Associated Services - Program Information - Housing Information - Legal Services	<ul style="list-style-type: none"> Standardized packages of information prepared by area offices; local offices would respond to individual requests for information. Given less emphasis than in other options. Standardized information prepared by area offices and delivered in group sessions at local offices; problem cases may be assigned to non-housing agencies which provide social services. Initial hearings held in the area-wide office, with appeals handled by the regional and central offices. Legal advice on dealings with suppliers could be handled by area office. 	<ul style="list-style-type: none"> State option. Probably assigned to local agencies, supplemented by material from State. State option. Probably performed by local agency; methods specified in State operational plan. State option. Federal regulations may require hearings and appeals process operated by State, encourage that legal assistance be provided by local agencies. 	<ul style="list-style-type: none"> Shared by areawide and local agencies. Group sessions conducted by areawide personnel, individual or small group sessions by local agencies. Primary responsibility assigned to local agency. Information about each local area shared with others through the areawide agency. Hearings held, at first instance, at areawide level. Appeals available at State and Federal levels. Legal assistance for representation with suppliers available through area-wide level.
4.7 System Performance - Monitoring Ongoing Performance - Evaluation - Technical Assistance - Research and Development	<ul style="list-style-type: none"> More process than performance oriented. Quality control procedures used to determine whether payments are accurate and timely, and to reduce any fraudulent or mistaken claims. Monitoring the quality of housing occupied by participants would raise particular problems. This could either be delegated to a State or local agency, or handled by the area office of the Federal Department administering the direct cash assistance program. Assigned to special evaluation staffs in area and regional offices. Would assess the impact of direct cash assistance programs on rent burden and improvement of housing conditions. Would only be used if some functions, such as housing information or inspection, were sub-contracted to State or local agencies. Handled by central office. Would rely on information generated by evaluation staffs in area & regional offices. Evaluation and research design responsibility of central office. 	<ul style="list-style-type: none"> Based on the performance of State agencies. Would include systematic Federal and State monitoring in terms of performance standards for State and local operational plans, which contain specific performance objectives. Federal concern is mainly with State performance and State systems for monitoring local activities. Local, State, and Federal performances, based on products of State information system. More concerned with policy issues. Federal and State to State and local, respectively; key factor in program performance. Federal project grants and contracts; State and local can participate in Federally determined priorities. 	<ul style="list-style-type: none"> Based on the performance of local agencies. A set of measures, focusing on participant success, would be the foundation for monitoring efforts. Areawide, State and Federal levels involved, with decreasing specificity for detail but increasing attention for policy impact at each higher level. Areawide, State and Federal levels involved. Based on same data as monitoring. More attention to policy questions. Federal role dominant. Areawide, State, Federal levels involved. Most active at areawide level, more expert at higher levels. Primary responsibility of Federal government. Research design and evaluation at Federal level, some research work assigned out to State, local or private agencies. One to three percent of total may be set aside to be allocated to States, areawide and local agencies willing to carry out the research plans of the Federal office.
5.0 Factors Affecting Costs of Admin. 5.1 Determining Level of Allowance	<ul style="list-style-type: none"> The more stringent the definition of income, the more frequently computed, or the more non-income requirements (e.g., a work requirement) the higher the administrative costs. This is particularly true for the Direct-Federal administration, because it would require the expansion of local offices. 	<ul style="list-style-type: none"> Same as under Direct Federal. May be cheaper than Local Performance if requirements are lax; more expensive if strict. 	<ul style="list-style-type: none"> Same as under Direct Federal. If strict, somewhat cheaper for this alternative because of capability to deal with diversity. If more lax, somewhat more expensive than Direct Federal or State Grant-in-Aid because of reliance on local offices in Local Performance.

Chart 1 (continued)

Characteristics	Direct Federal	State Grant-in-Aid	Local Performance
5.2 Mobility of Participants	<ul style="list-style-type: none"> High mobility among participants would drive up Direct Federal costs substantially. Would require creation of large local agencies to follow changes in eligibility and residence. Could put burden on participants by requiring them to report all changes. This may relieve need for local offices, but also may adversely affect participation rates. 	<ul style="list-style-type: none"> Effect on Costs in State Grant-in-Aid would depend on the capability of the local agencies within State. States which opted for local units with considerable capability would be less affected by mobility. 	<ul style="list-style-type: none"> Would not be as affected by mobility as other alternatives. Is designed to be able to deal with diversity and change. <p><i>? really? how do we know!</i></p>
5.3 System Accessibility to Participants	<ul style="list-style-type: none"> Least expensive of the options, unless local offices are expanded to make system more accessible. In that case, Direct Federal would probably be more costly than State Grant-in-Aid or Local Performance because of higher wage scales and greater overhead costs. 	<ul style="list-style-type: none"> State option. Costs will increase as sub-state offices are expanded and accessibility increased 	<ul style="list-style-type: none"> The accessibility of the local agency will be determined by local managers. However, in that they are evaluated on how well they reach their eligible population, it is expected that the local agency will be much more accessible than under the other two administrative alternatives. The cost of this accessibility will probably be higher than through less personal or localized systems.
5.4 Scope and Method of Inspection <i>Is this meant to be the program model?</i>	<ul style="list-style-type: none"> Would rely on self-inspection and spot checks. Would be less effective than Local Performance or State Grant-in-Aid because of necessity to draft extremely broad standards of housing quality, and a likely limitation on the number of personnel assigned to this task in area or regional offices. Would be least costly in terms of operating funds. 	<ul style="list-style-type: none"> Depends on provisions of State plan. Costs probably comparable to Local Performance if local or areawide offices used in State plan. If inspections based on spot checks or self-inspection costs may be lower than Local Performance, although much less reliable in terms of improving housing. 	<ul style="list-style-type: none"> Intensity would depend on conditions of local housing stock. Cost would come out of local agency budget, which is set at an amount per participant. Cost for inspection would vary from site to site, but remain same in aggregate, as most State Grant-in-Aid programs.
5.5 Level and Method of Associated Services	<ul style="list-style-type: none"> Assuming a stress on procedural goals, the Direct-Federal would rely heavily on participants to use their increased purchasing power to find and secure suitable housing on their own. May provide standardized packages of program, equal opportunity and housing information. Would be less costly than State Grant-in-Aid and Local Performance. 	<ul style="list-style-type: none"> Minimum set by Federal standards; methods and quantities stated in State and local operational plans. Costs would be comparable to Direct Federal in States opting for minimum programs; closer to Local Performance if State opted for higher level of services. 	<ul style="list-style-type: none"> Intensity would depend on the needs of the local population. Cost would come out of local agency budget which is set at an amount per participant. Cost would vary from site to site, but remain same in aggregate as most State Grant-in-Aid programs.
5.6 System Information	<ul style="list-style-type: none"> The three systems not comparable along this dimension. Direct Federal would collect different types of information than other options. Information would be keyed to timeliness, amount, and accuracy of payments. This information would be collected in the course of doing business; would not add greatly to program costs. 	<ul style="list-style-type: none"> Major, front-end costs are critical to adequate intergovernmental information. Costs probably greater than Direct Federal, less than Local Performance; integrated with other subsystems in State administration. 	<ul style="list-style-type: none"> May be slightly more expensive than Direct Federal primarily because of the annual survey to determine a profile of participants, housing supply, and housing costs.

Chart 1 (continued)

Characteristics	Direct Federal	State Grant-in-Aid	Local Performance
5.7 Personnel	<ul style="list-style-type: none"> If any housing services and inspections are carried out, the Direct-Federal would require at least 50,000 Federal employees. This makes the Direct Federal more expensive than the other two options because of the higher salary scale in the Federal Service. 	<ul style="list-style-type: none"> 500 Federal, 6,000 State, 45,000 local for 10 million participants. Cost savings for this model because most employees are local, which means lower salary costs. 	<ul style="list-style-type: none"> A very tentative and crude estimate, based on 10 million participants, would be 50,000 employees in the local and areawide agencies, 4,000 to 5,000 in State Governments, 2,000 in the Federal Government.
6.0 Political Considerations			
6.1 Federal Role	<ul style="list-style-type: none"> Federal government would be dominant. Major debates and decisions would be made within Federal institutions. 	<ul style="list-style-type: none"> Federal role dominant in finance, evaluation and system design. Federal policy institutions would focus on these issues. Political appeal is in system control and avoidance of big Federal bureaucracy. 	<ul style="list-style-type: none"> Federal government focuses on setting standards, providing funds. Very active settling disputes with other welfare and housing programs for funds. Questions of eligibility, housing objectives, level of payments and enforcement of anti-discrimination laws would be central in political debates.
6.2 State Role	<ul style="list-style-type: none"> State role would be rather small. Governors would work through Congress or White House to make changes in direct cash assistance program policy. 	<ul style="list-style-type: none"> States dominant in decisions about the administration of a Direct Cash Assistance Program within their boundaries. Would share power with Federal level in decisions on Program level, coverage and evaluation system. Would utilize State political machinery to adjust national goals to regional interests, circumstances. 	<ul style="list-style-type: none"> Much debate at State level would center on extending discrimination provisions to non-racial categories especially women. Housing quality standards would be debated at State level. Some lobbying at Federal level by Governors.
6.3 Local Role	<ul style="list-style-type: none"> Little role for local elected officers. 	<ul style="list-style-type: none"> Influence of local governments would vary, depending on provisions of State plan. As delivery component of the system, local units would advocate higher benefits and broadened eligibility, fewer State/Federal controls. Mayors of big cities and other large local officials would lobby in States, Capitals, and in Washington. 	<ul style="list-style-type: none"> Local officials most concerned with effectiveness of local and areawide agencies. Relatively little lobbying at Federal level; more pressure on State Housing Agency. Real estate interests may be quite active.
6.4 Special Interests	<ul style="list-style-type: none"> Only interest groups with national organization and/or influence would be effective. Interest group pressure would be applied through the Congressional evaluative structure, the White House, and the various professional groups which seem to work most effectively through the bureaucracy. 	<ul style="list-style-type: none"> Federal program design, standards, and monitoring reduce power of interest group based at State/local levels. Significant Washington lobbying only by nationally organized groups. State or local groups would focus first on State power centers, then local administrative structure. 	<ul style="list-style-type: none"> Groups interested in performance of agency would focus on all levels, starting with local and areawide agencies. Groups interested in changing policy or structure of Direct Cash Assistance Program would focus on Federal government. Groups interested in housing quality would focus on States.

Chart 1 (continued)

Characteristics	Direct Federal	State Grant-in-Aid	Local Performance
7.0 Integration With Related Programs			
7.1 Competitive Programs	<ul style="list-style-type: none"> • Competition for Federal funds would be a feature common to all three options. This could take form of direct clashes for funds, or adjustments of eligibility criteria and income computations which would shift portions of the low income population from one program to another. Would be very little activity at State or local levels. 	<ul style="list-style-type: none"> • Competition for funds centers at OMB and Congress. Anticipate State/local problem of collaboration with existing welfare programs. 	<ul style="list-style-type: none"> • Most competition focused at Federal level over funds, standards, and legitimacy of Direct Cash Assistance Program as an approach to housing, welfare policy. May also be considerable competition with other State agencies over setting and enforcing housing standards.
7.2 Complementary	<ul style="list-style-type: none"> • Direct Federal would be rather well suited to working out conflicting or inconsistent standards of eligibility with other programs. It would be much weaker in facilitating (or even allowing) the integration of services at the level of the local government or the individual. 	<ul style="list-style-type: none"> • State and Federal governments could work well to resolve conflicts in standards and levels of payments. Except where States decentralized rather extensively to local governments, the State Grant-in-Aid would not do as well as the Local Performance at integrating services at the local or individual level. 	<ul style="list-style-type: none"> • Integration with other human resources programs at all levels, but primarily at local and areawide agencies. These agencies are part of regular local governments, and have discretion to adjust their program to meet needs of individuals, localities.
8.0 Program Responsiveness and Effectiveness			
8.1 Measures or Indices of Effectiveness	<ul style="list-style-type: none"> • Direct Federal would rely on measures which indicated effectiveness in processing payments. Performance indicators would play a lesser role. 	<ul style="list-style-type: none"> • Federal government would evaluate States based on set of performance indicators. This is an important element in the State Grant-in-Aid. States would have considerable discretion in setting up information requirements for local units. 	<ul style="list-style-type: none"> • A central feature of this option. Relies on indicators of participant success; survey data on profiles of participants, housing costs and housing supply. These data give a fairly clear picture of the effectiveness of the Direct Cash Assistance Program.
8.2 Possible Incentives for Responsive Behavior	<ul style="list-style-type: none"> • Would be fairly difficult to relate incentives to consumer satisfaction. Most incentives would come from interested parties in Congress or White House, as these are the most immediate sources of funds, and therefore capable of rewarding or punishing a Direct-Federal administration. 	<ul style="list-style-type: none"> • Negative sanctions may consist of public exposure of sub-standard State/local programs, or cutting off funds through audit exceptions. Positive incentives may be provided by offering project grants for Research and Development to cooperative States. 	<ul style="list-style-type: none"> • Relies on political institutions in State and local areas. Positive incentives provided through use of general revenue grants to general jurisdictions in which local and areawide agencies meet performance standards. Negative incentives of "going public" with unfavorable reports, or cutting off all or some portion of Federal/State funds.
8.3 Responsiveness to Consumers	<ul style="list-style-type: none"> • May be least responsive, over a long period, of the three options considered. Bureaucracy at the local levels is removed from political pressures of locally, State and Federally elected officials. May be more responsive to professional and bureaucratic norms. 	<ul style="list-style-type: none"> • Depends on State Plan. If locally administered, State Grant-in-Aid could be moderately responsive. May be constrained, as many local agencies are, by Federal/State policies and standards. 	<ul style="list-style-type: none"> • Most responsive of the three alternatives. Designed to deal with diversity of individual preferences and needs.
8.4 Responsiveness to National Policy	<ul style="list-style-type: none"> • Will be responsive to national policy in eligibility and payment levels. May be less able to fulfill national concern for responsiveness to regional local or individual concerns. 	<ul style="list-style-type: none"> • Will be quite responsive to National policy in eligibility, payment levels and overall performance of States. 	<ul style="list-style-type: none"> • Will be sensitive to national policy in eligibility, payment levels and overall performance of local agencies.

Chart 1 (continued)

Characteristics	Direct Federal	State Grant-in-Aid	Local Performance
8.5 Responsiveness to State Policy	<ul style="list-style-type: none"> State policy can be felt primarily through lobbying efforts in Congress or Executive. In that Federal government cannot have 50 different rules on each matter, considerable averaging of preferences will occur. To the extent a State's interests vary from the average, a Direct Federal would be less responsive than the State Grant-in-Aid or Local Performance. 	<ul style="list-style-type: none"> Will be most responsive to State policy. The system delegates important authority to States to decide how a Direct Cash Assistance Program should be administered. 	<ul style="list-style-type: none"> Encourages State action in setting standards of housing quality, and involves them deeply in monitoring of local and areawide agencies. To the extent those areas matters are of interest to a State, this system will be responsive.
8.6 Responsiveness to Local Policy	<ul style="list-style-type: none"> For many of same reasons, Direct Federal is even more unresponsive to local policy than it is to State policy. Only large local jurisdictions will be able to lobby for their position in Washington. 	<ul style="list-style-type: none"> Depends on State plan. States may delegate considerable discretion to local governments. If so, State Grant-in-Aid will be quite responsive to local policy. Without such delegation, would probably be responsive only to the large and/or well organized local jurisdictions. 	<ul style="list-style-type: none"> Performance of local and areawide agencies responsive to local governments. Broader policy issues dealt with at higher levels.
8.7 Responsiveness to Change	<ul style="list-style-type: none"> May be quite responsive to changes in national temper or needs. Will be considerably less responsive to regional, local or individual changes. 	<ul style="list-style-type: none"> May be quite responsive to changes at State or Federal levels. Depending on State plan, may be more or less responsive to local and individual changes. 	<ul style="list-style-type: none"> Local and areawide agencies have discretion to make immediate adjustments to meet local circumstances - a major strength of this alternative. Changes at State and Federal levels would be quite similar to other alternatives, with the one advantage of having better information on which to base adjustments or reforms.

PART II

ANALYSIS OF THREE ADMINISTRATIVE OPTIONS

4.0 DIRECT FEDERAL ADMINISTRATION

4.1 Precedents for Direct-Federal Administration

The concept of direct cash payments by the Federal government to individuals is not a new one. For example, veteran's pension legislation dates back as long ago as 1832.¹ The Social Security Act of 1935 established a vast program of Federally-administered old age and survivor's pensions.² In addition to pensions, the Federal government also administers several needs-tested cash transfer programs. One such program, administered by the Veterans Administration, includes non-service-connected "pensions" - not to be confused with compensation for service-incurred disability - for aged or disabled needy veterans and veteran's needy survivors.³

¹Gilbert Y. Steiner, The State of Welfare (Washington: The Brookings Institution, 1971), p. 238.

²Besides the Federally-administered old age benefits, the Social Security Act approved in 1935 contained a number of State-administered grant-in-aid programs for unemployment insurance, dependent children, the needy aged, blind, and disabled, and improved public health services. Charles McKinley and Robert W. Frase, Launching Social Security (Madison: The University of Wisconsin Press, 1970).

³Steiner, op. cit., describes this program in chapter 7, pp. 237-279. In fiscal 1972, outlays in the Veterans' pension program totaled about \$2.5 billion. See James R. Storey, "Public Income Transfer Programs: The Incidence of Multiple Benefits and the Issues Raised by Their Receipt," Studies in Public Welfare, Paper No. 5, Subcommittee on Fiscal Policy, Joint Economic Committee, United States Congress, December 20, 1973, p. 5.

Beginning January 1, 1974, the Social Security Administration began administering a second major needs-tested income transfer program, Supplemental Security Income (SSI), which provides direct cash assistance to the needy aged, blind, and disabled. SSI replaced similar programs that had been administered by the States.

The Federal government already directly administers about 70 percent of all public income transfer payments, primarily through OASDI, SSI, Medicare, Veterans' compensation, Veterans' pensions, and various Federal employee retirement programs.

4.1.1 A Direct Cash Assistance Program More than Cash Transfer

Both the Social Security Administration (SSA) and the Veterans Administration operate need-based, direct cash assistance programs through a Federal administrative structure with local offices across the country. However, these programs may be different from a direct cash assistance program ^{in having} in several important respects. First, the eligible participants are the needy elderly, blind and disabled (SSI), and needy aged or disabled veterans or needy survivors (VA). Direct federal administration of programs for these "deserving" and "honorable" poor is probably not as controversial as for programs for the larger working and nonworking poor population.¹

¹"... when the class of beneficiaries are the deserving poor (i.e., those society feels need only minimal control), programs tend to become routinized and federalized. Conversely, when programs are for the "undeserving poor" (those society feels it must control), they remain highly discretionary and are administered at the State and local levels." Joel F. Handler, "Federal-State Interests in Welfare Administration," in Studies in Public Welfare, Paper No. 5 (Part 2), Subcommittee on Fiscal Policy, Joint Economic Committee, United States Congress, March 12, 1973, p. 2. Handler defines the deserving poor as those whose condition of poverty is wholly involuntary (e.g., the aged). Steiner describes how Veterans Administration assistance to the needy is considered as an honorable "pension," with entitlement based on wartime service, rather than as relief. Steiner, op. cit., State of Welfare, Chapter 7.

Second, these income transfers are not earmarked for specific use, as a housing allowance would be, which simplifies their administration considerably. Agencies administering income transfer programs can concentrate on the relatively simple and uniform determination of eligibility and benefit levels, and the quick and efficient disbursement of payments without having to worry about how the recipients actually use the assistance. The administration of a direct cash assistance *for housing* program, however, must go beyond a simple income transfer program, and perform such additional functions as: informing recipients on how the benefit payments should be used; perhaps assisting some or all recipients in improving their housing; assuring that there is no discrimination against recipients; and minimizing Federal subsidization of housing injurious to health and safety.

4.2 An Overview of a Direct-Federal Option

One alternative in the administration of a direct cash assistance program is a totally Federal program. The Direct-Federal option presented in this section is based on some policy assumptions that seem consistent with current Federal practice, but need not necessarily be a part of a direct Federal administration.

First, this option is organized along functional and regional lines.¹ Each major function (e.g., payments, audits, field operations and research and development) constitutes a major division within the central office, with counterparts in the regional area and local offices. The central offices supervise all functions down to the local offices. The top leadership group is composed of the agency administrator and the directors of the major functional areas.

¹Williamson refers to this type of organization as the U-form (unitary-form). Oliver E. Williamson, Corporate Control and Business Behavior (Englewood Cliffs, N.J.: 1970).

This type of administrative arrangement is quite different from the "performance center" patterns adopted in the other two options. Under those arrangements, an effort is made to identify centers of activity which can be made relatively independent for purposes of management and evaluation. The State or local governments are designated as performance centers in the other two options.

Performance centers could be developed in a Direct-Federal administrative option. Area and/or local offices could be designated as performance centers, and evaluated by relying on an information system similar to that developed in the State Grant-In-Aid and Local-Performance options. Primarily, for reasons of comparison, the performance center administrative approach is not developed for the Direct-Federal option.

The second major assumption made for the Direct-Federal option relates to the general pattern in public assistance programs to "cash them out" by emphasizing direct payments and de-emphasizing social services. The Direct-Federal option presented de-emphasizes services and concentrates on the effective handling of payments. This option lends itself best to making this assumption, although it is quite possible to design a Direct-Federal option which would attempt to deliver the same level of individualized services as is assumed in the Local-Performance option. But, on the other hand, a Local-Performance option would probably not be as effective in a program where services and individual responsiveness are de-emphasized.

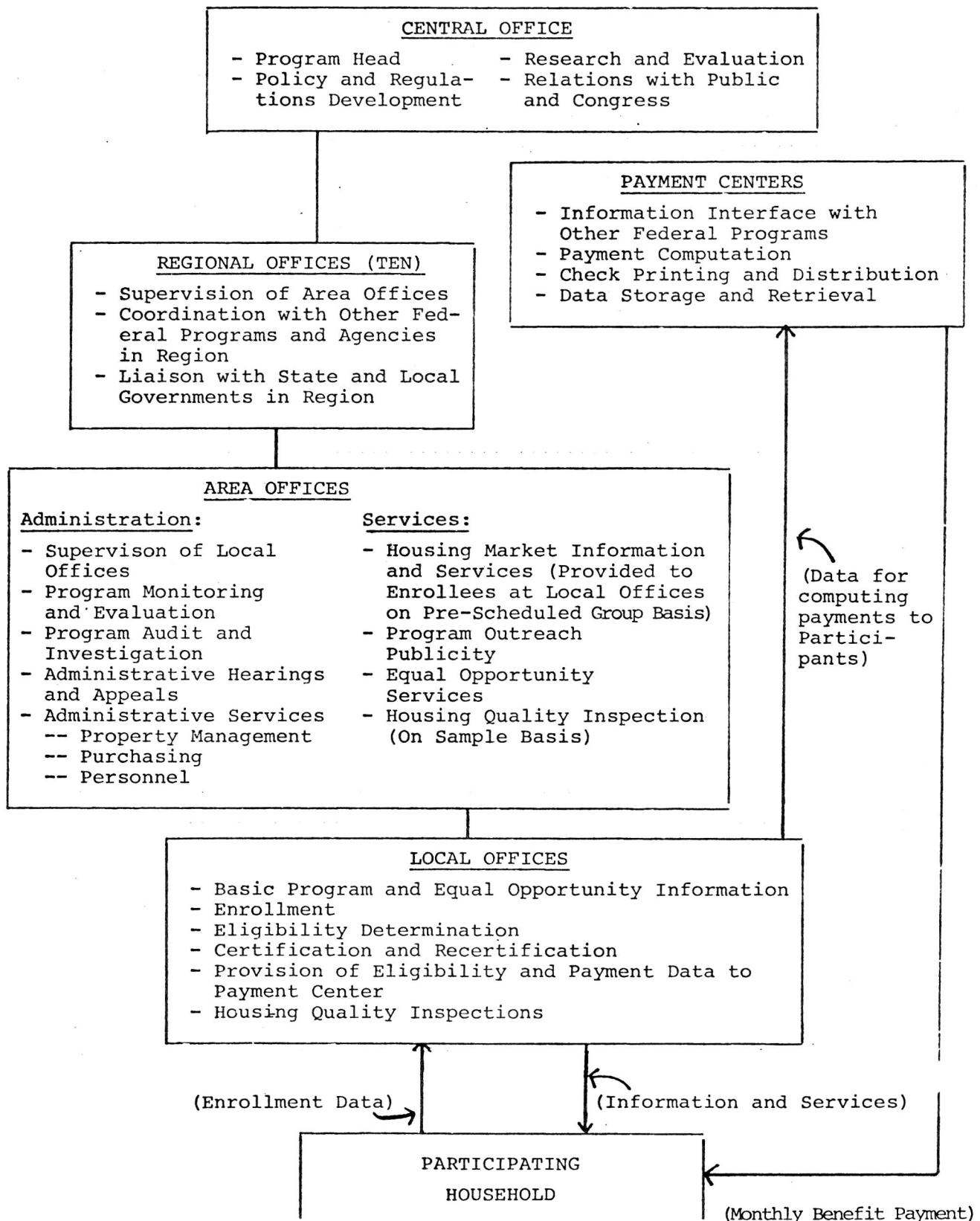
In the Direct-Federal option, the central office of the housing allowance agency or bureau, located in Washington, directly administers the program through regional, area, and local offices. The Washington office contains the head of the program and the staffs responsible for research and evaluation,

development of new policies and regulations, and relations with the public and Congress. There are one or more large data processing and payments centers that print and distribute the monthly benefit checks. The regional offices are primarily responsible for coordination with other Federal programs and liaison with State and local governments. The area offices are the major administrative units of the direct cash assistance program responsible for overseeing the local offices where the direct contacts with recipients occur. (See Figure 3)

An area office contains sections responsible for overall program direction, local office operations, administrative hearings and appeals, monitoring and evaluation, audit and investigations, and administrative services. Local offices take applications, determine and verify eligibility and benefit amounts, authorize payments, and respond to inquiries from the public.

Program publicity and outreach, associated services, equal opportunity support, and housing quality inspections (if required) may be handled at either the area or local levels, depending on their intensity and frequency. For example, if publicity and services are provided in standardized packages and formats, they could be more efficiently assigned to specialized staff in the area offices, if they are designed to be responsive to locally specific conditions, they could be more effectively provided by local office staff specialists. Or if housing quality inspections are required only on a post-audit sample basis, they could be handled by inspectors working out of the area offices, but an intensive code enforcement approach to upgrade the housing of recipients would be better handled by housing inspectors working at the local level.

FIGURE 3
DIRECT-FEDERAL OPTION
Organization Chart



4.3 Distinctive Characteristics of the Direct-Federal Option

4.3.1 Payments and Check Issuance

A single payment formula would be determined at the Federal level using nationally uniform definitions of disposable household income. The payment standard used in the formula, even though it would vary geographically to reflect variations in the gross cost of housing in various housing markets across the country, would have to be determined for each housing market according to uniform Federal procedures and definitions. The overall transfer cost of the program could be controlled by changing the payment levels or by changing eligibility conditions to affect the overall number of recipients. All such adjustments would be nationally uniform.

The data processing and payments systems in a national cash assistance program could be centralized and automated to take advantage of any scale economies of batch processing. David Kershaw has proposed such a centralized data processing and payments system for a national income maintenance program, claiming that the experience of the income maintenance experiments indicates that administering monthly cash payments on the basis of frequently filed income report forms filled out by participating families is not very difficult.¹ Income report forms submitted on a regular basis by participants in a direct cash assistance program could be certified by the local offices and received in payment centers where they would be coded and machine tabulated. The checks would be generated automatically each month.

Using one of the existing SSA monthly payment systems (either OASDI or, more appropriately, SSI because it is need-based) may increase the advantages of centralizing data processing, payments calculations, and check printing because data exchanges with

¹ See David N. Kershaw, "Administrative Issues in Establishing and Operating a National Cash Assistance Program," Studies in Public Welfare, Paper No. 5 (Part 3), Subcommittee on Fiscal Policy, Joint Economic Committee, U.S. Congress, March 12, 1973.

other SSA programs would be facilitated. Indeed, SSI program records could be used to identify potential applicants for a direct cash assistance program, simplifying the problems of reaching the elderly and the handicapped. SSI recipients would only have to supply some additional housing-related information in order to enroll. Eventually, it would even be possible to develop a master record with basic information on identification, income, resources, and other eligibility factors of SSI and direct cash assistance recipients.

On the other hand, there may be reasons not to centralize payments or to integrate them with an SSA payments system. First, a highly centralized payment system may not be sufficiently responsive to a complicated payment formula with varying payment standards, and a large number of changes in the status of individual households from month to month.¹ The scale economies may simply not materialize if the batch processing is so complicated by a large number of monthly and retroactive payment redeterminations (due to household moves or changes in household income or eligibility) that, in effect, forms can no longer be batched. Second, if use of an SSA system is contemplated, consideration would have to be given to the possibility that current program operations would be overwhelmed, especially if the housing allowance program population is much larger than or different from the current program populations. Another consideration might be in the undesirability of centralizing so much personal information on American citizens in one data system.

In sum, one of the advantages of Direct-Federal could be the efficient and economic disbursement of benefits by a highly cen-

¹The experience of the SSI program may be instructive in this regard. The conversion of 149 State administered programs to a single Federally administered program has been difficult. Checks have been delayed due to the sheer logistical problems in enrolling the millions of eligible recipients. In response to change in the benefit levels, individual payment amounts have had to be recalculated three times in the first six months of the program, further adding to the confusion.

tralized and automated payment system; however this advantage may be increasingly reduced by the extent to which the payment formula is individually responsive and therefore subject to many monthly individual household benefit changes, rather than "flat grant" in nature.

4.3.2 Staffing and Personnel

As Kershaw has indicated, the conceptual simplicity of direct cash assistance is not, unfortunately, matched by administrative simplicity.¹ In his influential proposal of a negative income tax in 1956, Milton Friedman felt that the administrative problems would be minor, a mere extension of the existing tax system.² But, in 1973, it had become clear on the basis of the income maintenance experiments that the administration of a national cash assistance program for five million households, even without services or restrictions on the use of funds (e.g., a housing earmark), might entail an administrative structure of about 50,000 Federal employees. It seems likely that a national housing allowance program for about ten million households may

¹Kershaw, "Administrative Issues...", op. cit., p. 2.

²The 1956 lecture proposing a negative income tax to alleviate poverty is reprinted in Milton Friedman, Capitalism and Freedom (Chicago: University of Chicago Press, 1962), pp. 190-195.

³Kershaw, "Administrative Issues...", op. cit. p. 12. According to Kershaw, "We have quite reliable data on the staffing of the local office and payments center. The local office in the Seattle experiment has the same functions which a national (cash assistance) program's local office would have and requires 3.5 staff members per 1,000 families. The national program, in addition, would have ongoing enrollment, roughly estimated at 20 percent per year. Accordingly, we increase this estimate of 3.5 by 20 percent to 4.2 staff members per 1,000 families, which may cover the additional staff needs. The payments center is very similar to the experimental payments offices, which require 3.4 staff per 1,000 families." (p.11) A program with five million participants would therefore have 21,000 local office workers, 17,000 payment center workers, 7,000 sectional office workers (similar to the area offices proposed in this paper), 550 regional office staff, and 2,500 staff in the central office, or a total of 48,050 staff at an estimated cost of \$700 to \$800 million, or about \$150 per case per year (p.12)

require at least that many employees overall because of the staff requirements which may be imposed by the provision of services and by the need to enforce the quality earmark, even if more categorical eligibility and payment rules required less enrollment and payment personnel.¹

It has been argued consistently in this section that a Direct-Federal administrative structure of national scope may not be capable of being highly sensitive to local housing market or client variations, but may be suited to promoting procedural equity in the treatment of participants, i.e., enrolling participants and disbursing housing allowances to them according to simplified, categorical-type rules. However, a direct cash assistance program is a housing as well as a cash transfer program, and some level of services and housing inspections may be required, even if the main responsibility for achieving the housing goals is devolved upon the participants. Services, at a minimum, will consist of standardized information packages and housing inspections (if performed) will entail substantial local presence.

Basically, then, the Direct-Federal option, as described, would be more limited in its activities and goals than the other two options which stress activities to aid and monitor participant success in securing better housing through more extensive and flexible services and housing quality approaches. Thus, this Direct-Federal program would be less costly not only because there are opportunities to take advantage of certain economies of scale in particular administrative functions (data processing, check processing, etc.) but even more because program goals are less ambitious and require some less intensive functions (less individualized eligibility and payments rules, services, and

¹Comparison of this estimate of staff requirements with those for the other two administrative options indicates comparable numbers of staff would be needed, although the distribution of them among levels of government differs.

housing inspections) than contemplated in the State and Local level alternatives.¹

4.3.3 Monitoring and Quality Control

Area offices could continuously draw and analyze samples of cases to enable program administrators to identify administrative and client errors which cause incorrect determinations of eligibility or benefit levels. This quality control program looks at whether the information contained in the sampled case records is correct and whether program rules were correctly applied to this information. The main purpose of quality control monitoring is to provide feedback on the effectiveness of administrative practice and could result in changed rules and procedures as well as redeterminations of particular cases.

Checking the correctness of determinations of household eligibility (related to income, assets, family composition, etc.) and benefit amount is very different from checking housing eligibility (which would require actually inspecting housing units occupied by program participants). These two functions would probably have to be performed by different units at the area level. Coordination problems arising from the administrative division of these two functions would be further increased if

¹It seems that the only realistic way to make government functions less costly is to curtail them. Simply improving their organizational structure according to public administration principles (grouping and consolidating major functions to prevent duplication and overlap, etc.) as proposed by the Brownlow and Hoover Commissions may improve their efficiency and manageability, but not their economy. See Bernard Schaffer, "Brownlow or Brookings: Approaches to the Improvement of the Machinery of Government," in his The Administrative Factor: Papers in Organization, Politics, and Development (London: Frank Cass, 1973), pp. 77-103, and Seidman, Politics, Position and Power, op. cit., p. 12.

they were to be assigned to different agencies.¹

4.3.4 Evaluation

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Some argue that Direct-Federal administration should concentrate on the procedural goals of efficient cash transfer and impartial treatment of clients. The achievement of housing goals - that is, improving the housing of participants and maintaining or upgrading the housing stock - is left to the participants and the response of suppliers. Program evaluation goes beyond the monitoring of administrative activities, however, to see what the effect of the direct cash assistance program is on these ultimate goals.² Evaluation assesses the outcomes of both agency and participant activities.

Evaluations would be performed at the area level by monitoring and evaluation staffs and at the central office by a research and evaluation unit. Evaluating the impact of the program on the housing of participants will be relatively easier than evaluating the independent impact of the program on the housing stock and on those who are not participating in the program.

¹For example, in a draft scenario prepared by a HUD/SSA Task Force to determine the feasibility of administering a direct cash assistance program with HUD and SSA, household eligibility quality assurance is assigned to SSA and housing quality assurance to HUD. HUD, in turn, may handle housing eligibility verification directly through its area offices or delegate it to the States. In either case, inspectors would send a written notice to the SSA district office if a housing unit did not meet requirements. Coordination problems will arise to the extent that there are time lags between the beginning of payments by SSA and HUD inspection of a household's housing unit, between notice by HUD inspectors to SSA that a household unit has failed and the stopping of payments by SSA, and between subsequent inspections by HUD and resumption of payments by SSA if the household upgrades its housing or moves. This is an example of the difficulty in separating payments and services in a cash assistance program; the payments and housing inspection functions need to be sequentially coordinated for the earmark to work.

²According to Rein and Rabinovitz, monitoring is concerned with whether administrative practice complies with the rules; evaluation is concerned with whether practice produces results. Martin Rein and Francine Rabinovitz, "Toward a Theory of Implementation," unpublished paper, MIT, 1974, p. 15.

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4.4 Major Issues in a Direct-Federal Option

Without actual experience in the administration of a direct cash assistance program for housing with the Direct-Federal option, it is difficult to accurately judge its strengths and weaknesses. The following are some of the "perceived" advantages and disadvantages of a Direct-Federal approach.

Advantages

- Comprehensive coverage of eligible population would be ensured from the start and would not rely on voluntary participation of State or local governments.¹
- Equitable administration in which "like cases are treated alike"² throughout the country.
 - uniform treatment of income and assets
 - uniform eligibility conditions
 - single payment formula (however, size of payment would be conditioned by income, family size, and relative cost of decent housing in an area)
 - no overlaps or gaps in program coverage
- Efficient administration
 - single bureaucracy instead of many (unless more than one Federal department is involved in program administration)
 - simplified and consistent rules and procedures
 - easier coordination or integration with other Federal housing-related programs and policies
 - provides comparable administration with SSI and an opportunity to integrate the two administrative structures

¹Arizona and Alaska, for example, do not participate in the Medicaid program; Nevada did not participate in the Aid to the Partially and Totally Disabled program (now superseded by the Federally-administered Supplemental Security Income Program).

²The phrase is used by Derthick in her account of the Federal government's frustrations in promoting the equitable administration of public welfare by the States. See Martha Derthick, The Influence of Federal Grants (Cambridge: Harvard University Press, 1970), 71. A staff study for the Joint Economic Committee also describes some of the problems in administering welfare equitably. See Sharon Galm, "Issues in Welfare Administration: Welfare - An Administrative Nightmare," Studies in Public Welfare No. 5 (Part 1), Subcommittee on Fiscal Policy of the JEC, Congress of the U.S., Dec. 31, 1972.

- Professional administration
 - merit selection of personnel through civil service
 - impartiality in dealing with recipients
 - respect for dignity and rights of recipients
 - thorough and accurate task performance
 - efficient conduct of government business
- High fiscal integrity
 - lowest cost option, because it is designed to emphasize cash payments rather than services

Disadvantages

- Add greatly to "presence" or visibility of Federal government in local areas (comparable to, but more controversial than, the Post Office and Social Security district and branch offices).
- The failure to provide a higher level of services to participants may lead to a diversion of housing payments into non-housing areas, or to a high rate of participant failure in housing search.
- The increased efficiency of single Federal administrative system could be largely vitiated if the program relies upon cooperation of more than one Federal department.¹

¹It is frequently assumed in discussions of intergovernmental programs that the Federal government is a centralized organization with a high degree of internal agreement on goals and which acts consistently on issues and programs. In reality, the Federal government is a conglomerate of semi-autonomous, semi-allied departments and bureaus that do not necessarily coordinate their activities nationally. Harold Seidman has attributed the general lack of effective operational coordination among Federal departments to the sheer size of the Federal establishment, the growing complexity and compartmentalized character of Federal programs, differences among professional groups, and, most of all, the lack of a clear sense of policy direction in the White House and Congress. Both Seidman and Martha Derthick have discussed the weak powers the Office of Management and Budget (OMB) as the central coordinator of Federal agency operations and the inability of interagency coordinating councils to resolve conflicts. OMB derives its power from the negative functions of budget review and legislative clearance, and this power is not easily used in settling policy and jurisdictional disputes between Federal agencies at the point of actual operations. Interagency committees tend to avoid conflict, are paralyzed by the conflicts they cannot avoid, and busy themselves with matters of marginal interest, and threat, to the member agencies. Ultimately, the failure of interagency coordination in the Federal government derives from the lack of authoritative decision-making power sufficient to settle disputes in the face of important goal conflicts. Harold Seidman, Politics, Position, and Power: The Dynamics of Federal Organization (New York: Oxford University Press, 1970), Ch. 6. Martha Derthick, Between State and Nation Washington, D.C.: Brookings, 1974), Ch. 9.

Of particular importance in the analysis of the Direct-Federal option is the consideration of:

- Whether the Direct-Federal approach is more compatible with some program goals than with others.
- How effectively it will deal with diverse circumstances.
- What means may be used for ensuring housing quality, and
- If the Direct-Federal option may be appropriate for a program for serving the elderly poor.

4.4.1 Trade-Off Between Uniformity and Flexibility

The main strength of Direct Federal is its capacity for uniform and consistent procedures and treatment of clients (e.g., procedural equity). Uniform procedures and equitable treatment of clients eliminates many of the common criticisms of needs-based welfare administration - discretionary decisions by individual administrators that appear to be arbitrary, judgmental, and unreasonable, resulting in differential payments to like households.¹ On the other hand, direct Federal administration on a large scale, faced with complex variations in client and housing market conditions across the country, would be limited in its capacity for flexibility - in outreach, in determination of housing quality, in kinds and mixes of services, in individualized treatment of households. Further, the vast extent of the administrative structure itself would limit flexibility and necessitate standardization and routinization in order to ensure administrative control and responsiveness.

¹Even so, a study of SSI, for example, concluded that Federalization of the state programs for the aged, blind, and disabled would not escape all of these criticisms because the recipients' personal privacy and dignity would still be invaded by examinations of family relationships, living arrangements, sources of income, and uses of funds. "The New Supplemental Security Income Program - Impact on Current Benefits and Unresolved Issues," Studies in Public Welfare No. 10, Subcommittee on Fiscal Policy, Joint Economic Committee, United States Congress, October 7, 1973.

4.4.2 Poverty Reduction or Housing Improvement

If it is accepted that the tendency and strength of Federal administration is procedural uniformity and impartial treatment of program participants, and that the weakness of Federal administration is its inability to adapt to special conditions and needs, it follows that Direct Federal is more compatible with a direct cash assistance program that takes efficient cash transfer as its major operative goal than with a program whose principal goal is to upgrade the housing of individual participants. The latter program goal implies a great deal of administrative flexibility to adapt the program to widely different local housing markets.

A program that concentrates on getting the monthly benefit checks out quickly and accurately will have an immediate impact on the reduction of rent burdens. It is also likely to have some positive effect on the housing stock, but this effect would be indirect.

4.4.3 Handling Diverse Housing, Geographic Conditions

Local housing conditions vary widely across the country and over time in any one locality. These variations include the amount and type of housing stock, vacancy rates, cost, location and other key variables. Attitudes about participation and toward participants in government aid programs also vary locally and by demographic group. The ability to function in a direct cash assistance program will differ according to individual circumstances. Race and ethnic barriers to housing market mobility will vary geographically. In sum, the implementation of a direct cash assistance program will take place in a complexly varied environment.

It may not be practical for the Federal government to directly administer a direct cash assistance program with enough flexibility to adapt to these widely varying conditions. It

might be impossible for the administrators of such a program to gather and update information needed to respond to local needs. Political decentralization to the States or to local governments (the second and third options discussed in this paper) would encounter the same problems, but would be responsible to a constituency. The local offices of a Federally administered program would, in effect, set their own goals and explore their own approaches to local conditions without being accountable either to local residents or directly to the Federal government.

It may be argued that it is not possible for any level of government to administer a highly decentralized program that can adapt to locally varying conditions and special client needs consistent with Federal standards. Therefore, it may be desirable for the Federal government to administer the program with reference to more limited, but practical, goals that stress uniformity of procedures and treatment of recipients. This approach would delegate the troublesome problems of choosing and achieving ultimate program goals to the participants, which, it may be argued, is desirable in any case. The Federal government would be left with the more appropriate tasks of uniform determinations of eligibility and benefit levels and the timely and accurate issuance of benefit checks. Again, the key issue here is the trade-off between this efficient and equitable procedural uniformity and the increased likelihood that some families will be unable to find suitable housing without individualized assistance and services.

4.4.4 Setting and Enforcing Housing Quality Requirements

Housing quality requirements would be set at the Federal level. These requirements could be nationally uniform or vary by market area, but it would be difficult for the Federal government to impose more than minimal health and safety requirements without risking rigidity, unenforceability, and administrative problems.

High housing quality requirements would limit the stock of potentially suitable housing and create incentives to subvert the standards. If asked to perform self-inspections, recipients who find it difficult to locate suitable housing could be tempted to pass unsuitable housing in order to receive program benefits. Inspectors could also be led to pass nonstandard housing to the extent that they felt particular housing units were "good enough" and the alternative was depriving many deserving households of the benefits of the program through no fault of their own. It would thus be administratively difficult to enforce housing quality requirements higher than those that are felt to ensure minimum health and safety.

On the other hand, administering minimum health and safety requirements could also present problems. The direct cash assistance program could be criticized for its low standards while perhaps inflating housing costs. The administrative problem here would be to prevent exploitation of recipients by slum landlords who may make only marginal improvements in order to receive higher rents from program recipients.

In sum (regardless of the administrative option used), the administration of high housing quality requirements has to guard against subversion by inspectors, whether recipients or program staff; the administration of low housing quality standards has to guard against exploitation of recipients by owners

and builders.¹

The simplicity-complexity dimension of housing quality requirements has implications for the practicality of self-inspection methods in addition to the high-low dimension just discussed. If there are no incentives to "bend" the requirements on purpose, would they be nonetheless too complex to be applied correctly by non-experts? On the other hand, a few simple criteria may not fairly evaluate the overall or "real" suitability of a housing unit and lead to arbitrary inclusions and exclusions from the program. Even a rating system of housing inspections, which assigns penalty points to various categories of violations and results in a balanced overall housing quality score, turns out

¹Scott Greer has described the problems the Urban Renewal Administration faced in enforcing the Workable Program, which included a requirement of "adequate" local code enforcement, as a condition for the approval of urban renewal projects. Urban Renewal and American Cities (Indianapolis: Bobbs-Merrill, 1965). He noted that, although housing codes have been on the books for some time, they have not been used effectively because local political structures find it difficult to take action on housing stock maintenance that is rational for the community as a whole. Greer related this weakness to moral confusion over what the norms should be, that is, the enforcers themselves are not convinced of the rightness of a single housing code in all concrete situations (p.36). Thus, the process of code enforcement creates severe strains for city agencies which they ease by selectively enforcing the code by areas within the city and by using different standards for what they conceive as different kinds of people, neighborhoods, and housing (p.49). Rosenblatt has described in great detail how inspectors can (and do, given the moral confusion and practical problems in applying a housing code literally) exercise their discretion to selectively enforce the code while appearing to be non-discretionary and professional. See Joel A. Rosenblatt, Housing Code Enforcement and Administration: An Organizational and Political Analysis, (unpublished Doctoral Dissertation, M.I.T., 1971), Chapter 6, pp. 184-278.

to be difficult, and in the end arbitrary, to administer.¹

Finally, the administration of housing inspections will depend greatly on which program goal is emphasized. If the goal of timely and efficient transfer of housing allowances to low-income households is emphasized, Direct Federal could rely primarily on self-inspections by participants according to simple minimum criteria. The assumption behind this program goal and inspection method is that participating households are capable of finding housing in the market of their own and of evaluating it against the prescribed housing quality criteria without error or bias. Housing quality inspections could be performed by area office field staff on a post-audit sample basis to protect the program against criticisms that it is subsidizing slum housing.

If the goal of housing stock maintenance and upgrading is emphasized, it would be desirable to inspect all housing occupied by applicants before they are determined to be eligible for payments. Furthermore, the requirements would be relatively higher and more complex in order to encourage maintenance, if not upgrading, and would therefore have to be performed by housing inspection specialists. These housing

¹The Philadelphia housing code manual lists 143 possible violations and the various degrees of seriousness, and therefore penalty points, they represent. In theory, the housing inspectors are non-discretionary agents who mechanically and efficiently apply predetermined criteria to every case. In practice, judging such violations as "structural deterioration" is not at all straightforward and requires a great deal of discretion which is exercised to, on the one hand, avoid citing housing as unfit, and on the other hand, to work out "reasonable" repairs with landlords. The result is that the inspection agency tolerates the existence of much substandard housing that is not outright dangerous to health and safety in order to avoid forcing owners to abandon their buildings. See Rosenblatt's description of this process in Housing Code Enforcement and Administration, ibid.

specialists would be assigned to the local offices, and their work would be monitored through spot checks. The performance of such a discretionary and judgmental task as housing inspection by a Federal agency may concern some policy-makers.¹ Responsiveness to local political institutions may encourage inspectors to learn and respect local preferences and practices. On the other hand, independence from local political pressures may facilitate a more vigorous enforcement of standards.

¹There are two major advantages to either of the intergovernmental alternatives with respect to inspection: (1) they permit the Federal government to address the housing quality issue without accepting the direct responsibility for it and (2) they open possibilities for local practices to differ in response to differences in a housing market supply.

4.4.5 A Program for the Elderly

A direct cash assistance program could be a universal entitlement program for all low-income citizens in housing of suitable quality or it could be limited to the low-income elderly. There are several reasons why Direct-Federal administration of a direct cash assistance program would be more appropriate if the benefits were restricted to a group such as the elderly. First, the eligible population would be smaller in overall size, which would reduce the administrative burden, especially if the program were run through an existing Federal administrative structure such as the Social Security Administration's Bureau of District Office Operations which already serves many elderly potentially eligible for a direct cash assistance program.

Second, the elderly as a group are often considered more homogeneous in their housing needs and thus may require less administrative flexibility in this respect. For example, most elderly-headed households usually contain only one or two persons. Therefore, they do not face the special problems of finding large suitable housing units. Recent reports indicate that by far the most serious housing problem of the elderly renters is the financial squeeze caused by excessive rent burdens.¹ Few of the elderly live in overcrowded housing because most of their households are small. Some do occupy physically substandard housing, especially elderly blacks. Thus, for many, probably most, participating elderly households, a direct cash assistance program may effectively be a pure income transfer program providing relief from the burdens of high housing costs rather than a program

¹Arthur P. Solomon et al., Analysis of Selected Census and Welfare Program Data to Determine Relation of Household Characteristics, Housing Market Characteristics, and Administrative Welfare Policies to a Direct Housing Assistance Program, Draft-Final Report, July 31, 1974, Joint Center for Urban Studies of MIT and Harvard, pp. 2-32 to 2-34. See also "Eligibility in a Direct Cash Assistance Program," (Abt Associates, August, 1974) p. 10. Data on housing cost burdens are only available for renters. The definition of substandard housing reflects minimal criteria based upon reported Census characteristics.

improving their physical housing conditions.¹

Third, the elderly face a less severe housing market even if they move. A survey of the administering agency staffs in the Administrative Agency Experiment found general agreement that landlords were more receptive to elderly participants because they were considered to be quiet, reliable in paying rent, and less likely to ask for numerous repairs or to take landlords to court.

It may also be speculated that the private housing market would be more responsive to the elderly demand for small (efficiency and one bedroom) housing units than the demand of large families for multiple bedroom units.

Fourth, Direct-Federal administration of a direct cash assistance program for the elderly is consistent with the historical trend toward the federalization of cash assistance programs for the elderly (although services for the elderly remain State-administered). It appears that Federal administration of income transfer programs for the "deserving" poor like the elderly is not as controversial as those for households perceived as voluntarily poor (witness the fate of Family Assistance Proposal and H.R. 1 in this respect). Therefore, a direct cash assistance program for the elderly would be less likely to be perceived as a "welfare" program both by the general public and by elderly participants (who might otherwise be deterred from participating in a general low-income program because of its possible welfare image).

While Direct-Federal for the elderly may be appropriate, it does not necessarily follow that a program for all income-eligible households should begin with an elderly phase-in. For one thing, the administrative structure for an elderly direct cash assistance program would be different in important respects from that suitable for a much larger, more diverse

¹A special study of the elderly households who applied in the Administrative Agency Experiment is being conducted to provide detailed information with which to assess the housing needs of the elderly and the suitability of a direct cash assistance program for them.

population. In particular, it is not clear that it would make sense to expand a direct cash assistance program for the elderly, administered through the Social Security district office structure in conjunction with SSI, to include the much larger, non-elderly income-eligible population. For another thing, it is not likely that the political credit earned by a successful elderly direct cash assistance program could be used to gain approval and acceptance of a larger program, given the public perception of the non-elderly as distinguished from the elderly poor. It is entirely possible that Congress, as it did with H.R. 1, would view proposals for housing allowances for the elderly and the non-elderly quite differently.¹

Finally, given the likelihood that a housing allowance for the elderly would in practice be an income transfer program anyway, a more appropriate program to achieve housing goals for the elderly might be a more adequate minimum income via SSI, or some other guaranteed income approach.

¹According to Moynihan, federalization of the "adult" welfare categories (Old-Age Assistance, Aid to the Blind, and Aid to the Permanently and Totally Disabled) was made part of the Nixon Administration's family assistance proposals from the beginning for political as well as equity reasons. "These were 'deserving poor,' and they were voters. Congress would want very much to associate any transformation of the AFDC program with improvements in these categories also." Daniel P. Moynihan, Politics of a Guaranteed Income: The Nixon Administration and the Family Assistance Plan (New York: Vintage, 1973), p. 198.

4.5 Conclusion

Direct Federal administration, as exemplified by the Social Security Administration, is more conducive to the uniform and impartial treatment of client households and to the efficient and uncomplicated transfer of Federal cash to qualified households. The key issue in Direct Federal as we have discussed it in this option, is the trade-off between procedural uniformity and a system which is sufficiently flexible to help individual households secure suitable housing. Even with the added purchasing power of allowances, certain households with special needs or in difficult housing markets will be unsuccessful in finding an acceptable unit.

The Social Security and Veterans income transfer programs do not face this trade-off as sharply, because they do not have a goal beyond that of delivering benefit payments efficiently and fairly. These programs do not specify any goals regarding the ultimate use of the payments (i.e., an earmark), while the use of payments for housing services is clearly the intended goal of a direct cash assistance program.

The trade-off issue may be resolved with reference to practicality. If the model of SSI is followed, is it possible for a Direct-Federal system to achieve outcome equity? Or, with reference to value: Is the goal of improving housing effectively advanced by Direct-Federal administration? Or, with reference to the intended beneficiaries: Will a Direct-Federal option only be effective if it is restricted to a relatively homogeneous group such as the elderly, which can be treated uniformly.

It may seem reasonable to expect the Federal government to develop an administrative system that stresses uniformity. This has been the thrust of most discussions about Direct Federal for a direct cash assistance program. Perhaps a

Direct-Federal system based on the notions of performance centers would have enough flexibility to promote uniform participant success under widely different conditions. It may be practical to design a highly decentralized administrative system, such as the Local-Performance option, that could adapt to the different problems faced by participants in different areas. But it does not seem as appropriate for the Federal government itself to administer such a system because (1) the intrusion of the Federal government into the allocation of local housing may alarm many State and local officials and (2) a Federal bureaucracy operating at the local level may be more responsive to bureaucratic and professional incentives than the political and community incentives felt by State and local officials.

In conclusion, the choice of an administrative alternative may affect the choice of goals. For a direct cash assistance program, the intended impact may be (1) to reduce the housing cost burden borne by the poor, (2) to place as many of the eligible population as possible in acceptable housing, or (3) to upgrade the quality of the housing. If the Direct-Federal option we have outlined is used, the major impact of the program will probably be to reduce the housing cost burden. Federal administration seems most appropriate for this goal, which is enhanced by procedural uniformity and efficiency. To upgrade housing quality or to concentrate on placing households may require a capability to make fine-grained adjustments to individual preferences, local housing market conditions, local patterns of racial discrimination, and local attitudes toward government programs and their participants. This Direct-Federal option does not seem well-suited for such adjustments.

5.0 STATE GRANT-IN-AID, INTERGOVERNMENTAL ADMINISTRATIVE
OPTION

5.1 Precedents for Grant-In-Aid Programs

A workable alternative for administering housing allowances is an intergovernmental grant-in-aid process, administered through the States. The option is developed from existing programs of size and complexity comparable to the prospective direct cash assistance programs and in part as an abstraction, based on successes, failures, and operational problems of existing or precedent programs.

The State grant-in-aid option offered here is not significantly different in its legislative base and fiscal process from many other multi-billion dollar programs. Some of these programs have operated for more than thirty years and others are relatively new, having been established in the 1960's. The following discussion provides four examples of these programs.

5.1.1 Aid to Families with Dependent Children

This program currently administered by the Social Rehabilitation Services agency in HEW was established in the 1930's to provide cash assistance to widows and orphans. It has been expanded to include additional groups and now serves several million persons at a cost of several billion dollars per annum, appropriated on an open-end basis. Recipients of program benefits are mainly children in households where the father is not present, although some states include unemployed fathers. Controversy has attended this program because its increasing size and cost, the widely held opinion that people "on welfare" are parasitic loafers, rumors of widespread fraud, and disparate levels and conditions of payments among the states. Some programs are state administered and others are administered locally under state supervision. States pay approximately half of the administrative costs and share in cash payments in a range of approximately 20 percent to 50 percent.

Controversy stems from misinformation or ignorance and a deeply ingrained cultural bias toward self-sufficiency and against "getting something for nothing". Often the severest critics are ignorant of the fact that approximately 75 percent of the beneficiaries are minor children and that adult recipients are mainly mothers with young children. Despite studies which show that many "welfare mothers" do work, usually at or below the minimum wage, and others are eager to work, the stereotype persists.¹

All states participate in the program but the program mix and levels of payment vary widely. Some states provide extensive social services in connection with AFDC while other states provide only the services required by Federal statutes and regulations. States with low per capita income usually pay the lowest benefits, around \$100 per month for a family of four. A few of the more affluent states pay nearly three times that amount for a comparable family. Federal initiatives in recent years include a "quality control" program. This process involves Federal review of a sample of cases to ascertain whether the family is eligible, currently certified, and receiving the proper amount of payments. Error rates in 1973 averaged approximately 15 percent. Comparatively, cases of fraud are relatively few, though highly publicized. Errors which cause underpayment or overpayment count whether the amount is large or insignificant. Errors occur mainly for the following reasons:

¹Michael C. Barth et al., op. cit., pp. 62-3 cite three sources of evidence for the labor force attachment of the welfare population. The latest Census data available indicate that 41% of the women who headed low-income families worked in 1971, 18% of those working did so full time year round. A study of AFDC recipients has indicated a high motivation to work. David S. Franklin, "A Longitudinal Study for WIN Dropouts: Program and Policy Implications," University of Southern California, [April 1972]. Similarly, a Brookings Institution study has shown that the commitment to work among welfare mothers was as strong as (or perhaps stronger than) that among nonwelfare recipients. Leonard Goodwin, Do the Poor Really Want to Work? [Washington, D.C.: The Brookings Institution, 1972].

- Exceedingly complex regulations, especially provisions governing disregard of income and imputed income;
- Judgments of intake workers about the value of things owned or services provided to a family;
- Simple miscalculations, frequently attributed to untrained workers with heavy caseloads;
- Incomplete or erroneous information supplied by the applicant or the caseworker;
- Insufficient staff and inadequate methods for updating and keeping current eligibility information.

This program was included in various "Welfare Reform" proposals of the past five years. Other programmatic elements -- e.g., Aid to the Blind and Old Age Assistance -- were federalized in SSI but AFDC remains as an intergovernmental program. The certainty of added Federal cost, adverse public opinion, and objections by some States to federalization were the principal reasons for continuance of the grant-in-aid scheme.

5.1.2 Medicaid

This program is related to AFDC and other public assistance programs in that eligibility for these programs makes recipients eligible for medical services. This means millions of eligibles and expenditures of several billion dollars annually under an open-end appropriation. Services usually are obtained in the marketplace. The State or local jurisdiction pays the vendor for medical products and services. States share administrative and health service costs with the Federal Government. Legislation in 1967 provided an addition for poor children called "Early And Periodic Screening, Diagnosis, and Treatment" (EPSDT). Because of major cost and service supply problems, neither Federal nor State governments took significant action to implement the program for several years. Court actions and Congressional pressure raised the priority of implementation in 1974. Federal, State, and local staff currently are being employed to implement the EPSDT program. Legislation in 1974 provided a penalty of 1 percent per month of AFDC funds if a State failed to implement EPSDT.

The principal controversies around Medicaid are modification of free enterprise in medical practice (i.e., fee schedules and the like), enormous Medicaid incomes of some practitioners with heavy caseloads of poor people, and failure of Federal administrators to promulgate and enforce policies. Concerning the last of these complaints, the Federal Government in 1972 and 1973 clarified policy on safety factors in nursing homes and initiated vigorous enforcement action through the States. Many sub-standard nursing homes corrected deficiencies or were closed by the States, which have the licensure authority.

5.1.3 Work Incentive Program (WIN).

This program, jointly administered by HEW and DOL, also is related to public assistance. It selects some of the relatively few able-bodied persons in the welfare caseload, provides training and other services, and attempts to place them in a job. The program has a high cost per trainee, only modest success in placement, and applies to very few of the total welfare caseload. The principal deficiency is that jobs are not available. Trainees are usually young, minority group members, female and unskilled. The charge of "creaming" is justifiably made against this program because it admittedly selects persons who are most likely to be employable with a minimum of training and services.

5.1.4 Vocational Rehabilitation (VR).

This program has a legislative base independent of the Social Security Act. Its purpose is to restore disabled persons to employable status and to assist these persons to find and keep jobs. VR has an annual Federal budget of approximately \$750 million. Grants to States provide for medical restoration, training, and other services to participants. The principal controversies surrounding VR derive from a tendency to cream the eligible population. VR has an history of refusing to serve

the welfare population or other persons who are difficult to rehabilitate. The Federal program is organizationally placed in close relation to the welfare programs of SRS-HEW, but in most states, organizational placement is in the Department of Education. States and other special interest groups have repeatedly brought national pressure to move the VR program out of the Federal welfare complex. Those efforts, mainly applied to Congress, seem likely to succeed in 1974.

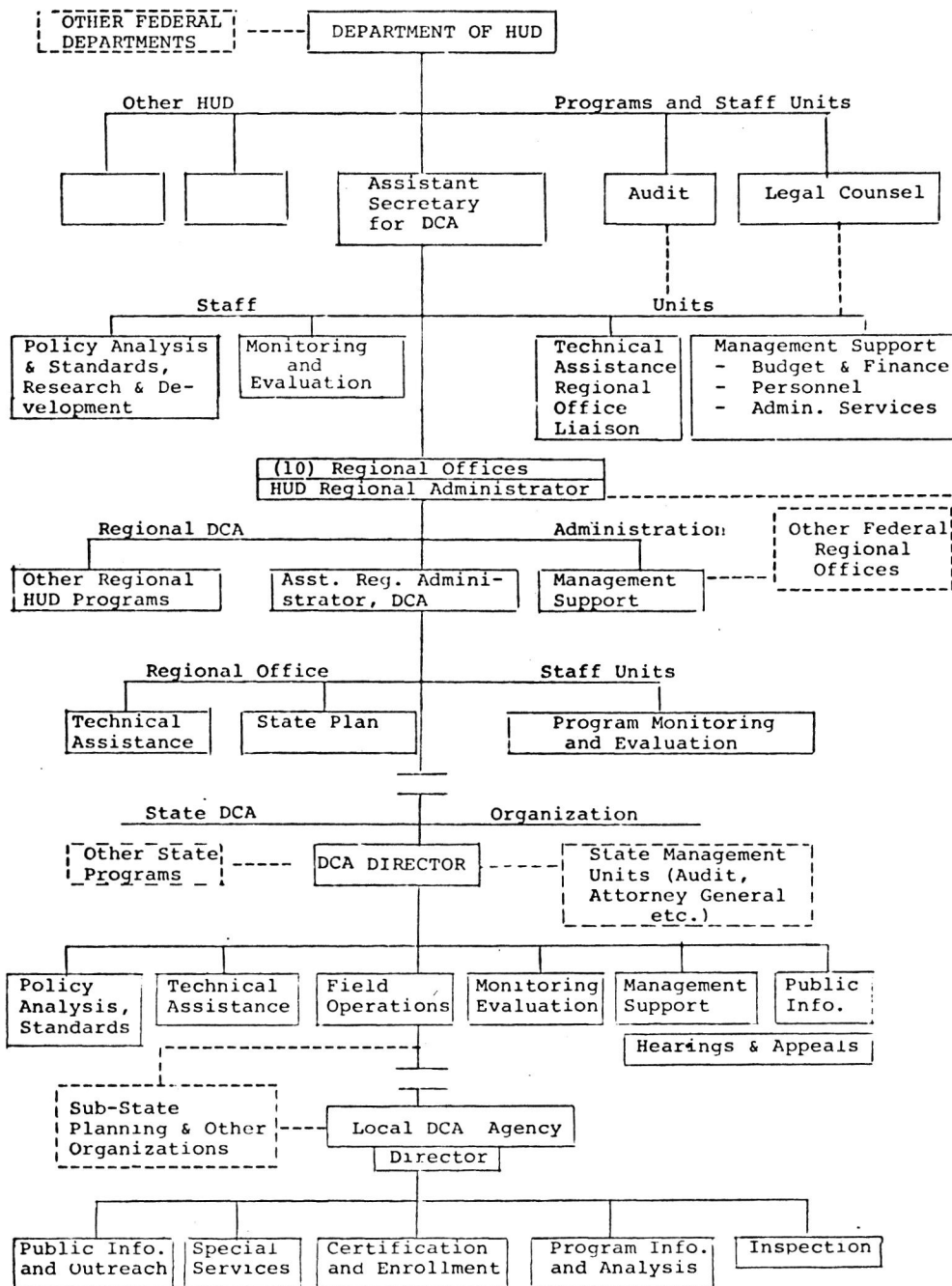
Although no existing program adequately demonstrates the performance standards and information system which distinguishing features of the proposed state grant-in-aid option for a direct cash assistance program, the Vocational Rehabilitation program is closest both in terms of programmatic goals and standards, and its intergovernmental informational process. Goals are set collaboratively on an annual basis between Federal and State administrators. Policies are reasonably clear and simple to follow. In addition to formula grants, special project grants are used as incentives and resources for program development and experimentation.

5.2 An Overview of the State Grant-In-Aid Option: A New Model for State Administration

The option presented is substantially different from existing grant-in-aid program operations in two respects which will be explored later. First, enforceable contracts would be negotiated with States to meet certain pre-established programmatic performance standards. Second, an intergovernmental information system could be designed and implemented as an integral part of the program.

Major characteristics of this option are revealed in its goals, organizational structure, and major elements of process. The broad goals to which this administrative system are best suited are: to upgrade housing for low-income persons; and to generate capability to State and local governments and the private sector to provide quality housing for low-income groups.

FIGURE 4
STATE GRANT-IN-AID INTERGOVERNMENTAL ADMINISTRATION OPTION



Assumptions

1. No Federal Sub-Regional Administrative Units
2. No State or Metro Area Administrative Units.
3. Private organizations can be substituted for any unit below HUD regional offices.

Organizational structure is shown in Figure 4. Radical departure from existing grant-in-aid programs is not required, nor is extreme variance particularly desirable. The Federal structure consists of executive offices in Washington and ten regional offices. The headquarters organization is headed by an Assistant Secretary, who delegates to HUD Regional Administrators authority for Federal program management in their respective regions. The HUD Regional Administrator (RA) in turn delegates authority to an Assistant RA for a direct cash assistance program, who manages the day-to-day work with states. This arrangement appears to be compatible with existing HUD organizational structure.

The headquarters units are organized according to functions: Technical Assistance; Research and Development; Public Information; Program Information and Analysis; and Financial Management. Audit and legal counsel are provided by consolidated units in the Office of the Secretary, HUD.

State organizations are heavily impacted by the Grant-in-Aid option. Lacking existing capability, most States would need to create an agency to handle the grant-aided activity. This new organization might be a separate cabinet department or a component of the umbrella-type "department of human resources," or an equivalent agency. A few States (i.e., governors) might choose to distribute responsibility for specific functions among existing agencies. The assumption in this paper is that the Governor will establish or adapt a single State agency for management of housing programs. State organizations will usually be similar to the Federal agency in structure and major functions.

The organizational structure shown in Figure 4 assumes no intervening layers of administration between HUD regional offices and the States, and between the State direct cash assistance program offices and local units. The organizational concept is not changed if such organizational units are inserted. The local organization may, depending on the State plan, also be structured according to its basic programmatic functions. Information and Outreach, Special Services, Certification and Enrollment, Program Information and Analysis, and Inspection are useful labels for the major units.

The major problem in organizing this intergovernmental program is not the formal structural arrangement. Any one of several organizational patterns probably would work. States would, for instance, have the option to structure their interrelationship with local units in any way they wanted. Figure 4 merely shows one possibility. The critical problem is to define and differentiate the roles and interdependencies in the three elements of the federal system -- Federal, State, and local. This step is essential to a division of labor, the development of intergovernmental interdependencies, and the systematic enforcement of performance expectations.

High valuation of the State as a crucial element of the Federal system is implicit in this administrative alternative. The State is perceived as a major political unit representing legitimate regional or other sub-national interests.¹ The Federal government is considered unable to sense and respond to the panoply of regional and local differences. Since it is not possible for the national government either to ignore or to cope with thousands of local political subdivisions, the use of fifty States for this task appear desirable and feasible. National investment in State capability achieves a multiplier effect through the States' relationships with local governments - a result which may be especially valuable in a society which paradoxically depends heavily upon the national government but wishes to minimize its size and power.

¹Daniel J. Elazar, American Federalism, (New York: Crowell, 1972), pp. 1-3.

5.3 Distinctive Characteristics of the State Grant-in-Aid Option

5.3.1 Division of Tasks Among Federal and State Governments

Major elements of the Federal role in the State Grant-in-Aid model are the following:

- Financial support of the program;
- Establishment and enforcement of standards of State program design and performance;
- Assurance of accountability for national policies, objectives, and funds;
- Design of a national information system, with provisions for program monitoring, analysis, evaluation, and intervention;
- Provision of technical assistance to States;
- Program research and development

These functions are essential to the establishment, maintenance, and adaptation of a national system but they do not assume the mammoth bureaucratic burdens of eligibility determination, check issuance, and other direct services to millions of potential participants. To that extent, the Federal governmental component is made smaller and charges of a "big Federal bureaucracy" are minimized.

The State role is mandated by the responsibility to establish a subsystem for the national program. To a great extent, its role is more to adjust national goals to the needs of its region than to satisfy purely State interests in housing. The State's major work is as follows:

- To establish and enforce standards for local program design and performance;
- To provide technical assistance to substate areas;
- To establish and maintain a Statewide information system, as a component of the national information system, with provisions for monitoring, analysis, and evaluation;
- To provide for hearings and appeals to assure administrative due process;

- To allocate funds to substate areas.

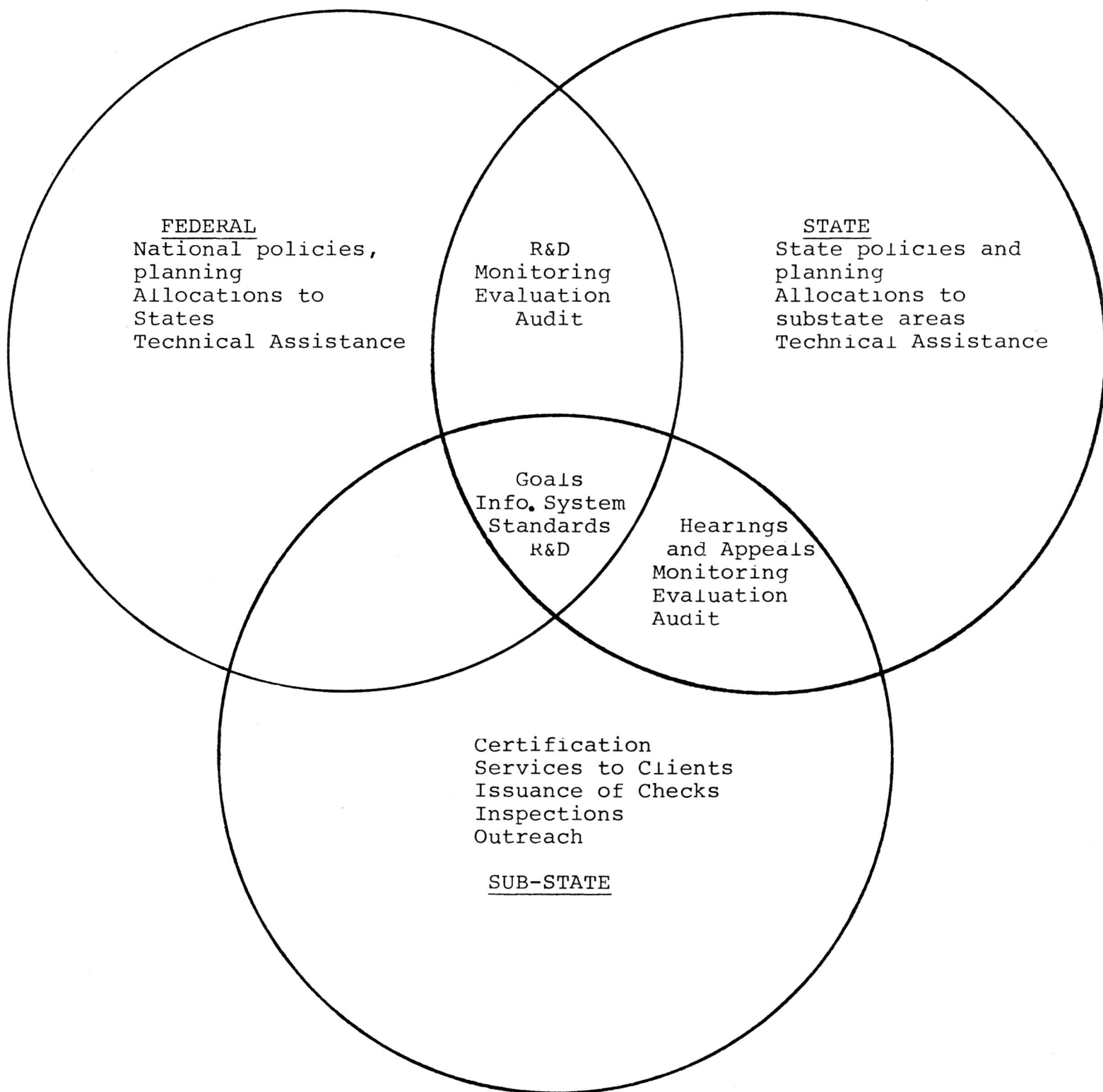
Under State Grant-in-Aid, States may perform the tasks assigned to them through a variety of administrative arrangements. For example, a State might choose to establish local offices of a State agency, rather than delegating authority to local political subdivisions. In that arrangement, the State would be responsible for both the State and local roles.

The local role is expressed in face-to-face relationships with participating individuals and families, cooperating agencies, and other interested parties in the local environment. Basic functions are aggregated in organizational units concerned with public information and outreach, certification of eligibility and enrollment of participants, advice and guidance to participants, program information and analysis, and inspection. The local unit would prepare an annual operational plan, according to State guidelines, for the achievement of specific objectives. The State reviews the plan, negotiates necessary changes, and then monitors local performance in terms of the approved plan. Local planning permits innovation and variance in program emphasis to fit local situations but the plan and its execution must conform to State standards. The State plan, in turn, must be responsive to Federal requirements. This "bottom-up" pattern of planning permits responsible participation by State and local governments within the constraints of National goals, policies, and funds. The Federal role is the design, maintenance, and adaptation of the total system.

The foregoing definition of Federal-State-local roles is organizationally structured in the conventional way in Figure 4. Another way to display allocated functions and interrelationships is shown in Figure 5. Representation of discrete and inter-related performances is useful because it is descriptive of operational realities. The interlocking circles show that each

Figure 5

Division and Sharing of Work in the State Grant-in-Aid System



governmental unit performs some shared and some discrete tasks; other tasks may affect the entire system. For example the information system integrally and extensively involves all governmental levels. Inspection is a local responsibility but the States perform quality control checks of local inspections as part of the State monitoring task. Federal monitoring is concerned with the State systems.

5.3.2 Two Administrative Innovations

Two aspects of the State Grant-in-Aid model described here could represent major improvements over conventional administration of grant-aided operations. First is the concept of an annual contract between the Federal and each State government for conformity with national policy and standards. The second innovation is an intergovernmental information system which consists of linked subsystems for local, State, and Federal program operations.

5.3.2.1 A State Plan: An Intergovernmental Contract

The ultimate administrative power in the State Grant-in-Aid system resides in the Federal component. This is appropriate because the program serves national goals, is authorized by national legislation, and is nationwide in coverage. However, operational success of the program depends less on a particular locus of power or authority than on the establishment of workable methods of intergovernmental management. A principal method in the State Grant-in-Aid alternative is the intergovernmental contract. The documentary expression of the programmatic contract would be an annual plan which is prepared by the State and reviewed and approved by the Federal government. Regional HUD offices could be given authority to approve such plans; disapproval authority should be retained in HUD headquarters

to be exercised only when HUD regional office negotiations fail to produce agreement with a State.

States would not plan in an informational or policy vacuum. HUD annually would update a planning guide which would contain information such as the following:

- Format and structure expected in State plans;
- National goals;
- Budgetary and fiscal constraints;
- Program design standards (e.g., all State and local programs must provide certain services to participants);
- Non-negotiable requirements, such as nondiscrimination, information system specifications, audit of local programs;
- Programmatic performance standards such as percentage of eligibles to be contacted, maximum time allowed for processing applications, success ratio (i.e., households obtaining standard housing/families seeking standard housing), productivity requirements such as manpower per 1,000 of caseload, technical assistance to local units;
- Published regulations on eligibility, payment levels, inspection, criteria for standard housing;
- Basis and procedure for Federal intervention;
- Information to be supplied through the information system to HUD.

The State's operational plan provides the terms and conditions of the annual contract and is responsive to Federally established standards. This plan is not necessarily voluminous. Its content is characterized by specific, measurable commitments expressed as objectives and methods for achieving these objectives.

An example of an objective might be:

"To place N households now living in substandard housing in standard housing in fiscal year 19__."

Some objectives might be expressed in terms of administrative process, for example:

"To reduce errors of eligibility determination (or payment) to N percent by June 30, 19__."

A State plan with these characteristics allows measurement of performance and provides a justifiable basis for Federal intervention and negative sanctions if performance does not equal commitments. Performance reports which indicate deficiencies also trigger Federal technical assistance efforts. If technical assistance fails to correct deficiencies, the question of availability and use of sanctions inevitably arises. The ultimate sanction is a complete withholding of Federal funds. This drastic action would be used only in extreme cases and therefore is a blunt instrument to gain compliance. However, governors and other state officials are often embarrassed by unfavorable public opinion when mass media and other sources indicate that the State's deficiencies are the cause of the threatened withholding.

The power and corrective effects of public disclosure can be offset in part though by State or local claims of Federal heavy-handedness or lack of sensitivity to State/local situations. Effectiveness of such resistance is reduced when the Federal sanction is based on provisions of law rather than administrative discretion and when Federal administrators and policy have local support. Desegregation of hospitals and other health facilities in the South was substantially accomplished within a year, despite fairly widespread protests of the Federal requirement. Media disclosure of resistance among local officials and the prospect of hospital closure provided the necessary motivation.

Sanctions which fall short of complete withholding of Federal funds might be provided. For example, the legislation which has been passed to penalize States one percent per month of their Federal public assistance allotments if they fail to implement statutory provisions for health services to children. The preliminary reactions of currently non-conforming States indicates that this sanction will elicit the desired State action.

"State plans", so-called, are required by several major grant-in-aid programs. The existing plans are not conceptually or operationally similar to the one proposed here for a direct cash assistance program. Aid to Families with Dependent Children is a good example. The AFDC plan is based on Federal policies which are inconsistent and ambiguous, make no specific commitments except to spend the money and make other inputs, and are not supported by performance reporting or adequate Federal monitoring. Further, the Federal government has not established and enforced significant standards of performance and has no meaningful way of measuring outcomes of the program.

The direct cash assistance program State plan would attempt to avoid these pitfalls through terms and conditions of State/local participation which are explicitly stated not less than annually. A plan containing objectives which conform to Federal goals, methods of achieving goals, resources to be applied, and a timed schedule for performance facilitates Federal and State reviews of operations. Therefore, it provides a potential basis for an enforceable Federal-State contract for the administration of a direct cash assistance program.

The State plan under the State Grant-in-Aid option could have other desirable effects. Federal-State operational planning

and administrative linkage is only one segment of the inter-governmental management process. The State and local agencies form another segment of the system. Depending on State plans, local direct cash assistance program agencies may be asked to prepare annual operational plans, which could be reviewed and become the basis for the States' evaluation of their program performance. This process would be similar to the Federal-State process in terms of procedure, content, and effects. Specific, time-limited, measurable performances could be committed. It is clear that the State plan would not be a simple aggregation of the local plans; it is an appropriate abstraction. For example, a local plan might commit itself to placing N households in standard housing but the State would have the prerogative of increasing or decreasing the aggregate number in its commitment to the Federal Government.

5.3.2.2 An Informative System: A Means of Performance Evaluation

A second innovation in the State Grant-in-Aid plan might be the design, installation and extensive use of a performance-based information system. This element of the State Grant-in-Aid links all three levels of government in a common informational scheme. The significant assumptions are that it is possible to identify information essential to successful management, to design a systematic scheme to communicate such information to persons who need it, and to use the informational products for administrative control and adaptation. Many government programs cannot, because of the task to be performed, satisfy the demands of these functions. A workable information system as presented in both this and the Local-Performance options may be feasible in an direct cash assistance program.

¹See the discussion of the information system in the Local Performance option. The information systems of the State Grant-in-Aid and the Local Performance could be quite similar. The major difference would be the assignment of the major responsibility to the State or local governments.

A direct cash assistance program might use as a monthly index of national, State, or local program performance the following ratio:

Number households succeeding in finding standard housing

Number households enrolled for 60 days or longer.

A presumptive standard might be 1/10. If a local direct cash assistance program index is far below the standard, say 1/25, the State technical assistance group could investigate, and take remedial action in cooperation with the local direct cash assistance program. The State-to-Federal informational transmission would not routinely show a particular jurisdiction's low success rate. (An exception might be routine transmission of data for the largest cities or selected metropolitan areas.) However, if many local units or a few large jurisdictions have this same deficiency, the State index also would reflect a more general poor programmatic performance. If the State's report shows this deviation from the standard, the HUD technical assistance group could investigate and join the State, if necessary, in remedial action. If the problem required extensive analysis, Federal analysts might be brought into action to assist or supplement State efforts. If the problem requires an unusually specialized resource, a specialist might become involved from the HUD technical assistance group. If the State refuses or neglects to cooperate in remedial action, the threat of sanctions may begin.¹

¹A possible undesired effect of such an information-evaluation system following the example given would be local action to relax housing quality requirements in order to meet the performance standard. Unless the program only sets easily realizable levels of performance (which may not satisfy public demands) and guards against administrative subterfuge, the evaluative efforts may be counterproductive. The practices of housing inspectors noted in Section 4.4.4 suggests the results when unrealizable expectations are set. Without the resources to overcome market constraints or the authority to direct participant behavior, the satisfaction of housing-related performance standards may be beyond the reach of state and local efforts.

One example certainly does not suffice to demonstrate the capability and utility of the information system. It could be designed to provide States and local units with a variety of data, including national data and information from other jurisdictions for comparative purposes. Figure 6 illustrates how a State Grant-in-Aid information system may be designed, and the categories of information that would be needed.

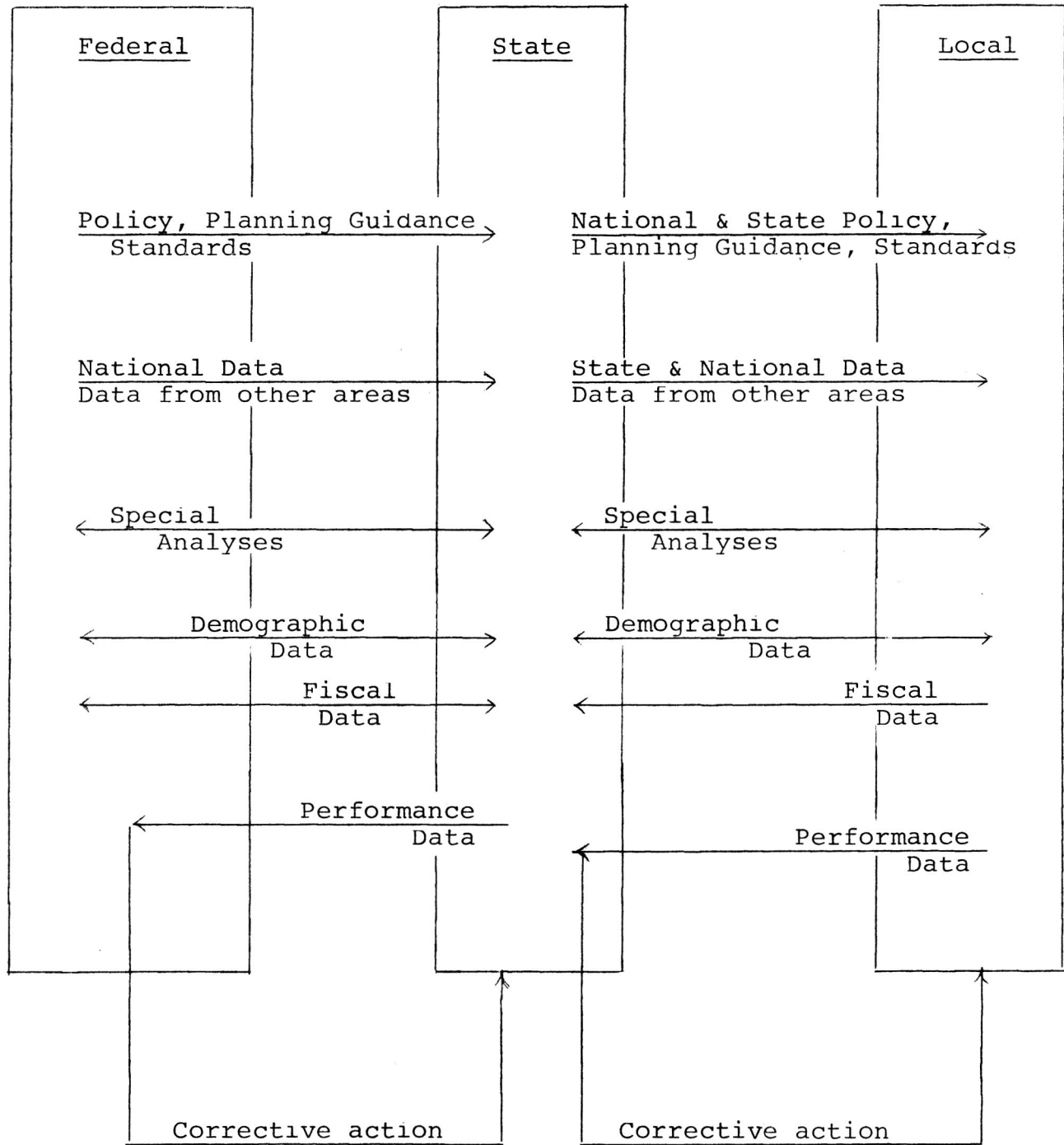
5.3.3 Staffing the State Grant-in-Aid

Federal staffing under the State Grant-in-Aid model could be fewer than in comparable programs which are of different design, especially if they lack the support system suggested here. Ideally, the difference is not merely quantitative. This State Grant-in-Aid option requires a few Federal executives, a few program and professional specialists, very few middle and junior managers, and relatively few clerical staff. A small Federal staff may be sufficient. High competence of the analysts, program consultants, and information system specialists would permit the system to be largely self-correcting. The Federal specialists in Washington have great influence in the system because they have the knowledge and are strategically placed in the organization for effective use of it. These specialists would have the ability to anticipate issues, obtain and analyze data, and otherwise enable executive decision-making. Federal regional staff are mainly technical and coordinative rather than executive and directive.

State staffing is substantially different from the Federal group. Most states will not be able to employ proportionately as many specialists, either because the supply is limited or because they cannot pay competitive salaries, or both. More mid-level managers, lower grade technicians, and clerical employees will be employed in the state dimension of the system. A total of about 6,000 people would be needed within the 50 states.

Figure 6

Systematic Information and Corrective Action Patterns in
State Grant-in-Aid System



The local agencies may have the greatest difficulty in attracting quality staff. Managerial talent and good analysts are relatively scarce. Fortunately, fewer analysts than clerical and service workers will be required. It is hard to estimate the number of local employees, because State plans will differ so substantially. If most States provide some associated services and assign inspection to the local level, about 45,000 employees would be needed.

5.4 Major Issues in State Grant-in-Aid

A new model for state grant-in-aid administration has been proposed. The following suggests the potential advantages and disadvantages of this option.

Advantages

- State and local governments are given opportunity and resources to generate capability for managing programs at levels of government "closest to the people";
- Coordination with related State programs, e.g. AFDC, would be facilitated;
- Objections to expansion of the Federal establishment are minimized;
- States and cities are potential sources of political support when they are included.

Disadvantages

- Anxiety about the capability of States and local governments to administer the program;
- Concern for equity, if State programs vary appreciably or if equal housing opportunity is not achieved by the States;
- Fiscal and programmatic accountability might be compromised.

State and local governments, whatever their capabilities, provide most of the services received by the general population. Education is mainly a State/local responsibility. Health services to poor people (Medicaid) and family income maintenance similarly are not Federally administered. The grant-in-aid pattern is dominant in the administration of domestic programs and is likely to be more acceptable. State/local sources of political support could substantially reduce the time required to achieve the goal of decent housing for every American. With State/local administration, the Federal Government would be relieved of tens of millions of decisions annually about details of eligibility, suitability of housing, and amount of individual allowances. The Federal focus would be on standards of eligibility, financial resources, and overall performance of the direct cash assistance program.

Concern about loss of necessary Federal control can be reduced to the issue of accountability. This issue arises in any administrative system. The usual perception is that a hierarchical arrangement of multiple levels of supervision is superior to an intergovernmental structure in assurance of accountability. That assumption is questionable. Empirical evidence to support either side of the issue does not exist. The contractual nature of the State Grant-in-Aid arrangement and systematic performance information are perhaps as good a protection against loss of accountability as the creation of a Direct Federal system. Without adequate monitoring and performance information, a Direct Federal operation would be susceptible to low accountability, albeit of a different sort. State administration of Federal programs may be more responsive to regional than national objectives; a large bureaucracy, such as the Direct Federal option may be more responsive to bureaucratic or professional interests than the interests of consumers, State policy-makers or even Federal objectives.

5.4.1 Fiscal Responsibility

The proportion of State or local contribution to a grant-in-aid program may not significantly affect the quality of State administration. In the Hill-Burton program, Federal contributions nationwide were less than 50% of program expenditures, yet States and local communities frequently built excess bed capacity or neglected hospital construction entirely. The prospect of 75 percent Federal matching of social service programs, which was possible from the late 1960's through fiscal year 1973, was not sufficient incentive for a majority of states to provide extensive social services to poor people. It would be impossible to support factually the claim that Federally financed, State administered programs are more or less profligate spenders and poorly managed than exclusively State/local programs. Public education is a prime example of heavy State/local expenditures, management of doubtful quality, and low Federal financing. In the public assistance programs and in Medicaid, States pay 50 percent of enormous administrative costs and variable percentages of benefits but there is no apparent correlation between their outlays and their efficiency.

The State Grant-in-Aid option for a direct cash assistance program assumes a high proportion of Federal financing. Some States and local governments are not likely to exercise reasonable care in eligibility determinations and economy of administration. The option relies on the quality of Federal managerial design and performance evaluation more than the amount of State investment to influence State administrative performance.

5.4.2 Enforcing Federal Regulations

State and local governments managing grant-aided programs are perceived by some critics as giving lip service to Federal policy and programmatic requirements, while following their own inclinations in program implementation, because they know that the Federal Government cannot or will not impose sanctions

even when States violate the law or regulations. This is a common stereotype. Each year, however, Federal audit exceptions result in the recovery of millions of dollars misspent by States and local governments. Evidence of the efficacy the auditing technique is found in court actions brought by States to reduce or prevent Federal recovery of funds. For example, the State of Washington has filed a complaint in a Federal District Court to recover \$27 million dollars of social service grants which the State repaid to HEW in 1972. Several other states, jointly or separately, have filed court actions because of administrative sanctions or constraints imposed in the same Federal program.

Nonetheless, the observations of wide variations in State programs and the selective non-participation of States in some inter-governmental grant-aided programs - courses of action often permitted in the authorizing legislation - tend to support the stereotype view of the grant-in-aid approach. Poor quality of program design, ambiguous and obsolescent policy, lack of management information, and lack of will to enforce "good" administration add to the cynicism. The State Grant-in-Aid option for a direct cash assistance program is intended to remedy some of these problems through greater Federal responsibility for program design specification, technical assistance, and information-evaluation systems. Enforcing Federal regulations can only be indirect through the State Grant-in-Aid. It is unclear, then, how in cases of strong differences in policy objectives the Federal government can clearly enforce its intent without the reins of direct administrative control. Some may argue, however, that the existence of such strong policy divergences have a legitimacy of their own based upon the State or local government's constituency.

5.4.3 More Racial Discrimination?

It is often charged that State and local participation is an invitation to racial discrimination and other deprivations of civil rights. Constitutional and statutory constraints on denial of civil rights apply to all public activities, not just to Federally administered programs. The will and capability to enforce the laws are major variables. Federal insistence on equal opportunity desegregated health facilities in 1965-66. State and local conformity were a condition of funding. Failure of consistent Federal enforcement and ineffective national policies have been principal complications in school desegregation efforts, however. The Federal performance has been tardy, spotty, variable over time, and less effective than the actions of some States and local areas in assuring basic civil rights. These lessons from hospital and educational institutions are transferable to a direct cash assistance program for housing. The ultimate sanction of fund withholding may have some effectiveness. In other than extreme cases, however, the State Grant-in-Aid option must rely upon local public opinion to provide support. On controversial issues in which a substantial body of opinion may run counter to the legitimate demand of minorities, little effective progress may be made.

5.5 Conclusion

Theoretical underpinnings for this option are found in cooperative federalism. This concept permits national, State, and local units of the federal system to function as subsystems, each performing appropriate tasks in a single, nationwide program to be implemented in thousands of local places. The arrangement is conducive to a potentially constructive interdependence and sharing of power. The system is governed by systemwide policies and standards of programmatic performance. The "learning" as self-corrective capability of the overall system is heavily dependent on the design and installation of an information subsystem.

The environment of the system is the entire Nation and it tends to maximize public support through involvement of a broad spectrum of government, special interest groups, and clientele. Thus, the administrative system design precludes certain deleterious effects of the Office of Economic Opportunity administration which nearly excluded all State and many local governments. Exclusions of this sort stimulate powerful and potentially destructive opposition.

In behavioral terms, the State Grant-in-Aid model tends to maximize identification and responsibility through extensive participation of governments. Impersonality and insularity of a large Federal bureaucracy (e.g., the experience of SSI) are reduced by establishing multiple State and local units as the operators of the program. It is significant that the SSA district offices, though they usually have strong place identification, seldom engender a sense of local or popular "ownership" comparable to the community hospital.

The State Grant-in-Aid option achieves a balance among the requirements of national goals and State/local governmental and private participation. It is flexible enough to accommodate variable housing markets and situations, which are local rather than national. National standards assure essential uniformity of policy, technical performance, equity of benefits, and an objective basis for measuring and evaluating outcomes. Localization of much of the administration of a direct cash assistance program is the system's best assurance of accessibility and ownership by the citizen-participant.

In summary, the State Grant-in-Aid alternative is based on some general practices which have been in use for a generation. The existing intergovernmental arrangements have not been systematized and modernized to use available systems knowledge and technology. It is customary to say that these huge intergovernmental programs are unmanageable or unresponsive. Nearer

the truth is that they lack adequate methods for their effective management. The establishment of performance standards as a basis for intergovernmental contracting and the installation of a properly designed information system are the necessary improvements in the generic grant-in-aid scheme. These innovations are particularly appropriate for intergovernmental management of a direct cash assistance program, if as has been argued, there are relatively good summary measures of the performance of the State (or local) housing allowance agencies.

How does this
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so long
by HUD?

Is this not
the model of the
government

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federal
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6.0 LOCAL-PERFORMANCE INTERGOVERNMENTAL ADMINISTRATION

6.1 Precedents for Local-Performance Administration

Several programs have features of the Local-Performance administration but none include all of the elements of this option.

The "voucher" characteristics of the allowance have been tried in several Federal programs. The basic feature of a voucher is that an earmarked transfer is made, leaving the recipient to find and/or choose a supplier. The GI Bill (which pays college tuition and expenses) or the Medicaid-Medicare programs delegates to the recipient the responsibility of finding a supplier and negotiating for the services.

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total
system
is not
specified

Some elements of the Department of Labor's manpower programs combine the voucher and some of the evaluation aspects of this alternative. Participants were encouraged to make arrangements for the training they wanted; the programs' effectiveness was evaluated through the success of the participants in finding jobs after the training. A critical problem in the programs' operation was, however, that they did not have control over any jobs; they had to rely primarily on jobs that were available in the private economy. Through most of the operation of these programs, few jobs were available.¹

A growing number of governments are utilizing performance center concepts to manage programs which can be divided into relatively independent segments. An example will illustrate this trend. In higher education, many States are following the lead of the University of California in setting up a number of campuses and managing them from a central office. The University of California has nine campuses. An allotment is passed to each campus in

¹See Alice M. Rivlin, Systematic Thinking for Social Action (Washington, D.C.: The Brookings Institution, 1971), pp. 127-29.

faculty and support funds based on its enrollment. Decisions on how to use these allotments, what students to recruit, and what educational programs to promote are left substantially to each campus.

6.2 An Overview of a Local-Performance Option

Consistent with the underlying assumption in a direct cash assistance program, this administrative option relies on the participant to perform several important program activities. Participants will have the basic responsibilities of searching for, securing, and maintaining suitable housing. While the housing may need to meet some criteria of quality, the participant will exercise "free choice" in the selection of a particular unit. It is argued that the complexity of these functions, and the high degree of subjective judgment involved, makes the participant more effective than a government counselor or clerk in performing these activities.

This alternative recognizes that each participant has different capabilities, and that local housing markets will present participants with differing opportunities to find the housing they may prefer. Reasons for these variations will depend on many factors, including the personality and motivations of the participants, the nature of the local housing stock and the activities of the government agencies that administer the program. Government may play a role in ameliorating some of these problems. The administrative system proposed in this section is designed to give the local agency the incentives and resources to provide such assistance as participants may need to find and secure acceptable housing.

In the diverse and complex circumstances of different housing markets and households across the country, it may be unrealistic to expect to discover the "best" way to provide such highly discretionary and variable functions as outreach, certification,

associated services, and inspection. Different mixes and levels of each of these will be required for each housing market and for particular groups of participants. What is needed, if the assumptions presented in this alternative are accepted, is an administrative system which allows the exercise of discretion at the operating level, but guides the exercise of that discretion in directions which will be consistent with the overall objectives of a national direct cash assistance program. In the past, Federal government programs administered at the local level have tended to be too centralized and administratively rigid to allow for differences in local situations. The result has been to impede the responsiveness of programs at the local level and make them ineffective, or to foster patterned evasions of requirements and thus decrease the integrity of the Federal programs.

An important reason for procedural rigidity in Federal programs is that it is difficult to establish clear measures of program success in terms of output or impact. Program administrators go to great lengths to specify and document procedures and their success in adhering to them. Efforts to enforce uniformity in processes, on a national scale, are the inevitable result. But, given the great diversity of local conditions relating to housing and of participants' needs and capabilities, it is inappropriate to require national uniformity of administrative process and procedure. The Federal government should focus instead on establishing program objectives, and setting eligibility benefit levels. If local administrative units could be monitored and evaluated according to performance measures relating to these broad policy parameters, authority could be decentralized to them which would allow them to vary their administrative procedures and services according to the needs of the local area, but within the boundaries laid out by Federal policy.

In broad outline the functional responsibilities in the Local

Performance option are distributed as follows:

- Federal Office
 - Set Standards of Eligibility
 - Set Standards for Certification
 - Determine Payment Levels
 - Provide Funds for Participants and/or Administrative Costs
 - Audits
 - Legal Services
 - Set Standards for Evaluating Local Performance
 - Conduct Special Studies and Analyses of Problems of National Relevance
- State Office
 - Formulate State Standards of Housing Quality
 - Technical Assistance to Area-wide and Local Agencies
 - Post Audits of Area-wide and Selected Local Agencies
 - Spot Checks of Housing Quality
 - Conduct Sample Surveys of Housing Stock, Rent Levels and Participant Profiles
 - Integrate Allowance Activities with Other Housing Programs
 - Legal Assistance
 - Pass-on Funds for Participants and Administrative Costs
 - Conduct Special Studies or Analysis of Problems of Regional Relevance
- Area-Wide Office
 - General Outreach through Media
 - Technical Assistance to Local Agencies
 - Monitoring the Performance of Local Agencies
 - Housing Information for Region; Compile Local Agency Information for Wider Distribution
 - Legal Services, General Information and Representation with Suppliers
 - Compliance Activities
 - Post Audits of Local Agencies
 - Integrate Allowance Activities with Other Housing Programs and Human Resources Programs
 - Make Payments
 - Hearings and Appeals
- Local Agency
 - Localized Outreach
 - Certification
 - Enrollment
 - Counseling
 - Inspection
 - Localized Housing Information

- Participant
 - Housing Search
 - Find Standard Unit
 - Negotiate Lease
 - Have Free Choice in Search

Figure 7 describes the organizational framework for a Local-Performance option with the proposed outline of responsibilities.

6.3 Distinctive Characteristics of the Local-Performance Option

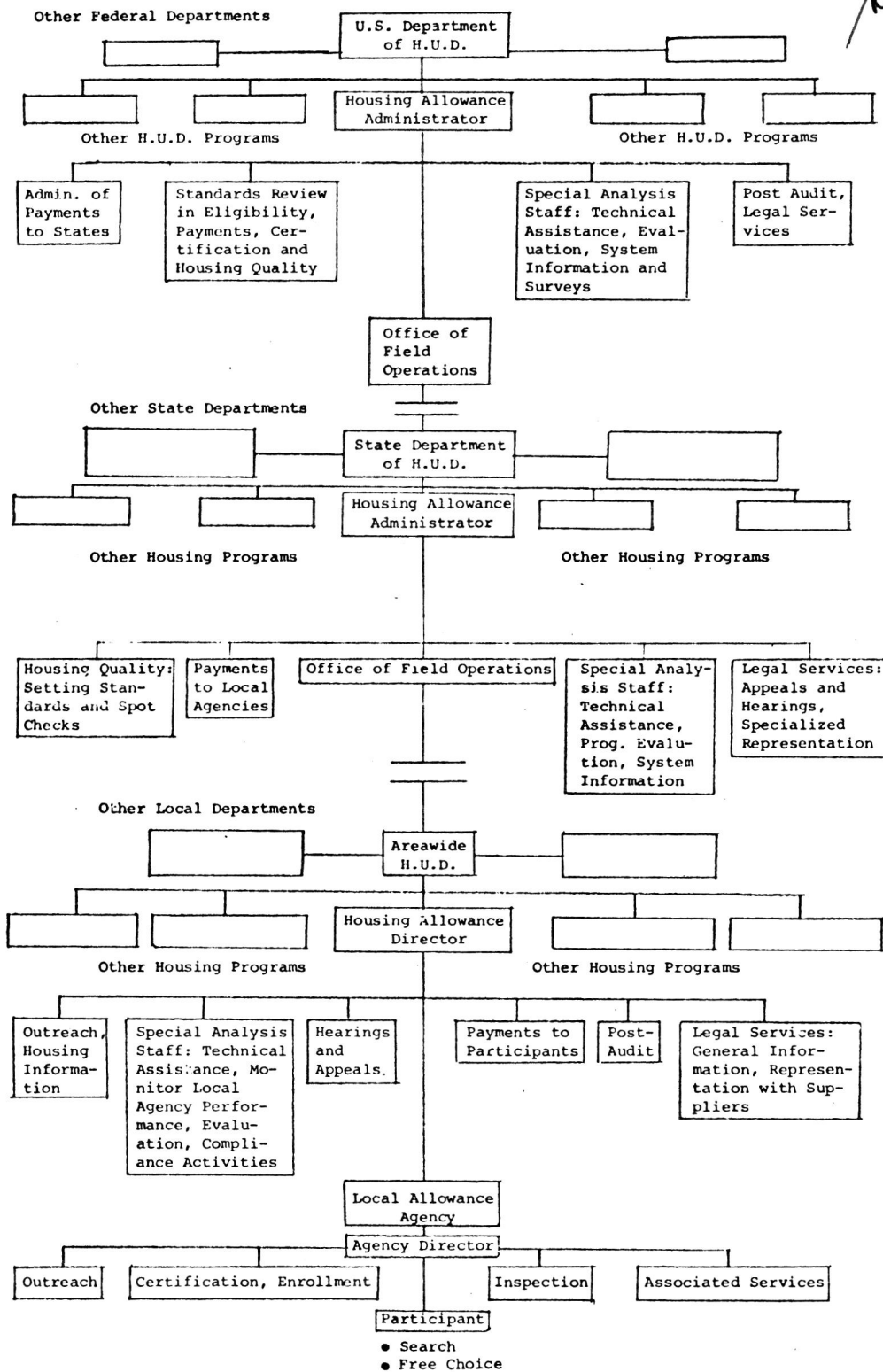
6.3.1 Performance Center Concept¹

In the public sector, the Local-Performance option is a functional equivalent of the multi-divisional type of organization in private industry based upon quasi-independent "profit or performance centers" that are given broad discretion in day-to-day operations, but are held accountable by a central management staff for their contributions to the firm's overall growth and profits. There are important differences, however, between local governments in an intergovernmental system and divisions in a private firm. Most important is the political independence of the local government, in relation to either the Federal or State government. This independence may be useful in public administration, because it allows a local influence on the administration of all intergovernmental programs at the lowest level, but may still allow the central offices to set the basic parameters within which the local governments will operate.

It could be argued, however, that there is no absolute necessity to rely on State and local government, rather than Federal, Federal regional, and Federal area offices, to serve as performance centers in a National program. There are some advantages, however, if the system is to focus on the interests of the participants. Because of their political independence, the State and local jurisdictions serve an important function in mobilizing support

¹The Local-Performance option is an alternative with a developing literature and theoretical framework. An appendix to this paper provides some theory and bibliography to aid in the consideration of the option.

FIGURE 7
LOCAL-PERFORMANCE



It should not be a luxury. There should be feedback in the system.

or articulating localized demands for programs.¹ In a substantive matter as closely tied with local climates, history and traditions as housing, it seems unlikely that broad Federal standards will be able to encompass local or regional variations in preferences and housing stock. Politically responsive sub-national jurisdictions may provide the most effective way to adjust national program objectives to local or regional needs.

Existing State and local governments would be used to the fullest extent possible. Only at the level of the local or areawide agencies would the creation of a new unit be considered. This is because there is no uniformity of jurisdiction, resources or powers among local governments as they are presently constituted. Some local governments are more like States than cities, others more like small neighborhoods than cities. In a direct cash assistance program, such a substantial bundle of activities require a "local presence," and can best be performed by a unit which is serving a population of between 25,000 and 50,000. Large local jurisdictions would be divided up into a number of local agencies, with a metropolitan jurisdiction serving as an "area-wide" agency. Smaller local jurisdictions would serve directly as the local agencies, with several being combined into an area-wide unit that would be comprised of one or more counties. It would be desirable, but not always possible, to have the boundaries of the local and/or the areawide agencies coincide with pre-existing local jurisdictions.²

¹Samuel H. Beer, "The Modernization of American Federalism, "Publius, The Journal of Federalism," Vol. 3 (Fall 1973), pp. 85-87.

²David O. Porter, "Federalism, Revenue Sharing and Local Government," a paper presented at the annual meetings of the American Political Science Association, August, 1974, Chicago, Illinois.

6.3.2 Summary Statistics, Performance Evaluation

The multi-division form of organization has been extremely powerful in the private sector. It allows effective administration of large organizations by expanding surveillance capability.¹ Attempts to apply this concept to the public sector have been complicated by the difficulty of finding and applying summary statistics of evaluation that are comparable to profits and growth. Public sector organizations are not trying to maximize tax returns or growth. Money and personnel are both instrumental to their mission to provide benefits. Measures of effectiveness often become bogged down in efforts to identify outputs or to find the most efficient production processes. In the provision of services, outputs are ephemeral and hard to isolate. The methods of production are not fully rationalized and are complex to analyze; relationships between specific inputs and specific outputs are extremely difficult to establish.²

The direct cash assistance program appears, at this point, to have potential to overcome some of the informational difficulties in adapting the strengths of the multi-divisional form of organization to the public sector. The ability to derive a set of indices measuring performance is crucial to the success of the Local-Performance model. Such indices would allow evaluations of performance rather than the processes of the agency.

There are three elements to the indices proposed for the Local-Performance option:

¹Oliver E. Williamson, Corporate Control and Business Behavior, op. cit.; A.D. Chandler, Jr., Strategy and Structure (New York: Doubleday, Anchor Books ed., 1966).

²James D. Thompson, Organizations in Action (New York: McGraw-Hill, 1967), pp. 83-100.

- Measures of participant success in finding adequate housing.

*how is
success
measured?
what
criteria?*

The number of participants in the program is a simple and direct measure of this activity. Placing participants in a rental unit, or certifying owner-occupied housing for allowances involves many discreet functions, i.e., outreach, eligibility certification, enrollment, housing and program information, inspections, legal services and others. To evaluate agency effectiveness in providing each of these services, and to determine whether the agency provided the appropriate mix for individual circumstances, would be an extremely difficult task. In fact, it is because of this task that most program evaluations flounder and sink. By using the number of successful participants as the primary statistic of evaluation, the task of deciding whether each of these functions was done well, or what mix of functions is appropriate for an agency's eligible population and the condition of their housing is delegated to the local managers. The judgment of the managers will be evaluated by the success of their participants.

- Survey data on the size and composition of the eligible population, the availability of housing, and the cost of housing.

If agencies are evaluated on placements of participants, the natural tendency will be to cream the eligible population. Those easiest to place will be worked with; while difficult cases will be ignored. As a hedge against this behavior, the monitoring agencies would need to have independently collected information on the "profile" of the eligible population. Ideally this information would be collected by regular sample surveys (conducted yearly), and would include information on the size of the eligible population, its racial, age, and income characteristics, and its geographic location.

Along with information on participants, two other crucial data should be gathered in the survey. Information on the availability and cost of housing, broken down into relatively small regions, will greatly improve the operation and evaluation of the local and areawide agencies. It would be difficult to evaluate a local agency according to its success in placing participants if the evaluation did not have current information on the availability and cost of housing. Agency action, no matter how effective, cannot place people in housing if none are available, or if payments are insufficient to purchase acceptable housing.

- Spot checks of eligibility of participants and quality of housing.

The monitoring agencies will not specify the methods of inspection or certification adopted by local agencies. It is assumed that local conditions in housing and the characteristics of participants will influence local managers as they choose specific techniques. The monitoring agencies would conduct spot checks of (1) successful and unsuccessful participants to see if their eligibility was properly evaluated, and (2) the housing occupied by participants to be sure it meets quality requirements.

The combination of the indicators of participant efficacy, intake of participants through outreach profiles, and housing supply and cost would provide sufficient management information to permit a rather extensive decentralization to local agencies. With local agencies functioning as the performance centers, the balance of the system, i.e., the Federal, state, and areawide components, would serve three broad functions:

*fund
and*

To set and enforce standards for eligibility, housing quality and acceptable levels of performance by the local agencies; and

*fund
and*

To provide and limit the funds for the allowance payment and for some portion, or all, of the funds to administer the program;

*fund
and
0*

To provide technical assistance to and monitor the performance of the local agencies.

evaluate performance

6.3.3 Setting Program Standards

The Federal and State governments would play the primary role in setting standards for this administrative option. Basic criteria for determining eligibility, judging housing quality, insuring equal opportunity, and evaluating agency performance would be set by Federal legislation and regulations. States could adjust and augment these basic criteria, especially in the areas of housing quality and equal opportunity. (See the discussion of discrimination concerns in the analysis of the State Grant-in-Aid option.)

6.3.4 Housing Quality Requirements and Enforcement

Primary responsibility for the enforcement of housing quality requirements reside with local agencies. The rigor of enforcement and the items to be covered may vary substantially from agency to agency. Local managers will retain the discretion to decide how their enforcement activities are to be conducted.

The areawide agencies and the State governments would play an important role through spot checks of the housing occupied by direct cash assistance program participants. To the extent the local agencies do not meeting State or areawide standards, they would be advised (or required) to make adjustments in their enforcement methods.

Federal guidelines would be more in the form of objectives than standards. States would submit plans to the Federal government for approval. These plans would be required to satisfy Federal objectives and guidelines. After approval the Federal government would play a passive role, relying on States for spot checks and enforcement. Only in extreme cases would the Federal government get involved in enforcing housing quality requirements.

6.3.5 Providing Payments and Administrative Costs

The Federal government is, by almost all observers, thought to be the most appropriate source of funds. Redistributive income transfers have not been effectively handled by sub-national government units. Tax competition among States and localities, spillovers of benefits and costs, migrations of eligible populations to jurisdictions and more generous benefits, and other problems, discourage States and localities from financing large scale income transfers.¹ Further, many argue that administrative costs should be paid fully by the Federal government in programs such as a direct cash assistance program. The objectives

¹Wallace E. Oates, Fiscal Federalism (New York: Harcourt, Brace, Jovanovich, Inc., 1972), pp. 3-20.

of the program are primarily Federal; requirements to share administrative costs do little to improve State/local efficiency. Such requirements do, however, slow down or block implementation of the program in many States and localities.

To limit administrative expenses, this option proposes that administrative funds be allocated to State and local agencies based on the number of participants, the size of the direct cash assistance payment, and a factor for population density. This constraint is particularly important at the level of the local agency. The managers are given discretion to use these funds as they think will be most effective, and will be evaluated on how well their eligible population functions in the program.

6.3.6 Technical Assistance

Technical assistance to and monitoring of the local unit will be handled through the Federal, State and areawide governments. The major burden for providing the assistance will be carried by the areawide level. The substance and amount of assistance will be determined by requests from the local agencies and by evaluations of the success of eligible population by the higher levels within the system.

Technical assistance to the local agencies is an important element of the Local-Performance option. Hopefully, this assistance will be effectively focused on local agencies needing the most help because of the manner in which the monitoring system is designed. Evaluations of the success of the eligible population will give the monitoring units specific information on where problems are occurring.

Technical assistance personnel will become increasingly more specialized at the higher levels. Federal advisors, for instance, will be expected to provide State or local agencies with information on how a particular problem is being handled in

agencies throughout the country. State advisors would be expected to pass some of this information on to local agencies, and add their own knowledge of experiences within the State. Areawide advisors would serve as the primary contact with local agencies, and would handle most of the day-to-day problems that may arise.

6.3.7 Staff and Personnel

For the purposes of discussion, a reasonable estimate of how many personnel would be required to operate the local and areawide agencies combined, is 5.0 employees for each 1,000 participants. This figure is similar to the estimates made to operate the local offices of the Family Assistance Program.¹ The Federal government, based on its experience in the Social Rehabilitation Service in HEW and the Food Stamp Administration in the USDA, would need about 2,000 employees. This is about 500 fewer than the HEW and USDA programs, because the Federal responsibilities would be somewhat fewer. State governments would need approximately 4,000 to 5,000 employees. Total personnel for a program of ten million participants would be approximately 57,000 with 2,000 at the Federal level, 4,500 at the State level, and 50,000 at the local and areawide levels.

6.4 Major Issues in a Local-Performance Option

As indicated in the description of the Local-Performance model, this presents an administrative approach which has not been fully implemented in other programs. Thus, its strengths and weaknesses have not been illuminated in the light of comparable experience. The following presentation of advantages and disadvantages represents tentative perceptions.

¹David N. Kershaw, "Administrative Issues ..." op. cit., pp. 11-12.

Advantages

- Local government administration with discretion to adjust procedures to meet local conditions and needs;
- Performance evaluation based upon participant success;
- Political role for each level of government and encouragement for the development of an inter-governmental administrative system.

Disadvantages

- Expensive and complex informational system required for evaluation;
- ✓ • Performance evaluation may not have the political clout necessary to encourage compliance with program goals;
- Possible inequities among households served (or not served) by different local governments.

key problem

6.4.1 Gaining Compliance with National Goals

Gaining the compliance of the State or local agencies in situations of continuing poor performance has been an extremely difficult problem in all intergovernmental programs. It is one of the most difficult problems for the Local-Performance option, because at least three levels of government are involved each with an independently elected political executive. Getting a local agency to comply with national priorities may be very difficult in this setting. This option provides a number of techniques for encouraging compliance. All of them have been used before, but they may be made more effective by the availability of better evaluative information.

It is anticipated that most agencies, whether at the local, areawide or State level, will be responsive to the suggestions and evaluations that are made as participant profiles and successes are evaluated. It is expected that local agency will try to make the adjustments suggested by the areawide office,

or the areawide office will be responsive to the suggestions of the State agency. Technical assistance will be provided to agencies having difficulties, and as a normal course of action, one might expect the advice to be followed if it is thought to be useful.

A second, and more powerful, incentive is offered to encourage local and areawide agencies to make adjustments in their performance. General revenue grants could be given to the State and general purpose local jurisdictions which are politically responsible for the operation of the direct cash assistance program in their areas. Such grants would encourage political executives to put pressure on errant local or areawide managers, and encourage States to build the capability for governance at the local and areawide levels.

The use of general revenue grants as an incentive for local performance or structural reform is not new. It has been used extensively by State governments, particularly in education. States, for instance, offered such incentives to school districts which consolidated.¹

A third incentive open to the monitoring agencies lies in their ability to "go public" with a bad report. The data on which these reports would be based is area specific, and may be the justification for the loss of the general revenue grants discussed above. Political pressure would be placed on a poorly performing agency to improve.

The final technique for gaining compliance will be the withholding of funds from an agency or State. This is a very blunt instrument and often hurts the participants, or potential participants more than the recalcitrant administrators or politicians. The mere threat of losing funds, however, may be a useful tool where a large,

¹David O. Porter, "Federalism, Revenue Sharing and Local Government." A paper presented at the Annual meeting of the American Political Science Association, Chicago, Illinois, August, 1974.

established program is concerned. It is likely that a direct cash assistance program administered under this option would become an integral and important element of State and local governments after it is adopted. A credible threat of losing the funding for such a program would be an incentive for compliance. Many of the difficulties identified in the State parallel discussion of the State Grant-in-Aid option would likely arise in the Local-Performance option with these procedures for compliance.

6.4.2 Integration With Related Programs

Under the Local-Performance option, adjustments, compromises and integrations with related programs will make adjustments appropriate to its arena of activity. Local and areawide agencies will integrate the service of related housing and welfare programs for individual citizens. This kind of integrating probably cannot be done effectively by higher levels of government.

In the Federal and State arenas, adjustments with other programs will be made in eligibility payments, standards of housing quality, and standards of performance.

The strength of this option in the integration with other programs is that it recognizes a role for each level. These roles are defined in large part by the complexity of the task and the geographic location where it is performed. It is unrealistic, in the extreme, to expect the Federal government to integrate its human resource services at the level of individuals. It is more probable that Federal policy-makers can integrate the various standards which define national objectives in human resources. Even this task is extremely complicated.

States are similar, administratively, to the Federal government. Their role, and it is a very important one, is to adjust Federal objectives to regional interests. This role has often been disparaged by arguments that States have frequently worked to frustrate national policy. It is not clear that all States, or even most States, will adopt predominantly negative or obstructionist policies.¹

Integration of services for individuals are sufficiently complex that only local governments or individuals themselves may be able to handle it effectively. The direct cash assistance program, by delegating to participants the responsibility to secure standard housing, allows individuals themselves to integrate their housing needs with their non-housing needs or preferences. Local and areawide agencies are close enough to participants and neighborhoods to mobilize and coordinate the resources needed by individuals. Local politicians will make the judgments about how these adjustments are to be made. However, and this is important to this system of intergovernmental administration, there will need to be regular evaluation of local performance by higher levels of government. An effective evaluation procedure will not leave local officials completely on their own to decide how they will discharge their responsibilities in a national program such as a direct cash assistance program. They will have parameters placed around their discretion.

6.5 Conclusion

There are a growing number of intergovernmental activities in the United States. Many argue that it is no longer adequate to rely on the rather haphazard relationships among the Federal,

¹See Daniel J. Elazar, "The New Federalism: Can the States Be Trusted?" The Public Interest, Number 35 (Spring, 1974), pp. 89-102.

State and local governments to cope with this expanding level of activity. Explicit roles need to be thought through for each level of government, so that together they can set the broad policy parameters within which a national program will operate, adjust these parameters to the regional interests and differences of the States, and empower the local governments to handle the fine grained coordination needed in the ultimate delivery of the services or goods. In short, an administrative system which is truly intergovernmental is needed.

The Local-Performance option attempts to provide an administrative system which has the capability to meet the diverse needs of the participant, and at the same time, encourage the Federal and State governments to exercise their powers of standard setting, oversight and evaluation. These objectives are facilitated in a direct cash assistance program because the participants are directly involved in performing key functions and because indices of their success may be derived.

Further, if there is to be a truly intergovernmental system, the administrative capability of each level of government will need to be made more uniform and complementary. This option attempts to upgrade and refine the capabilities of each level through positive incentives, and without taking the power and responsibility to make adjustments to regional and individual needs and preferences from State or local units.

Problems can be expected in the implementation of this system in two areas. First, and most important, housing shortages outside the control of the program may frustrate participants in their search for housing. The best administrative system will not be effective if there is no suitable housing available. Second, there is a reliance on each level to carry out its role. Particularly important will be the standard setting

and monitoring functions of the Federal and State governments and the development of a reliable system for enforcing national priorities on State and local governments. If these functions are neglected, State and local jurisdictions may be left with inadequate guidance and would, in all likelihood, pursue local priorities to the neglect of the broader national aims.

APPENDIX

SOME THEORY AND BIBLIOGRAPHY FOR LOCAL PERFORMANCE

The Local-Performance option is based on two assumptions about the milieu in which it is operating. It assumes, first, that participants in a direct cash assistance program will have widely differing preferences and needs for housing, and, second, that the housing stock available to participants varies substantially from site to site. There is, to sum up, great diversity from city to city in the housing stock and the needs and preferences of the participants. Third, there are substantial national interests to be pursued in a housing program. The tension created by combining a need for national requirements with a situation of local diversity is at the center of many problems in intergovernmental administration.

The diversity fosters the development of a complex and variable set of interrelationships as specific consumers attempt to find housing which meet their individual preferences and needs. Many writers, coming from administrative, economic, and political backgrounds, have suggested that smaller units of government are needed to coordinate these relationships.

The administrative theorists base their case on two arguments. First, as has been convincingly stated by Herbert Simon, people have limited or "bounded rationality." They cannot understand or perceive everything that is going on about them.¹ Consequently, the more complex or variable a situation, the more need for either "satisficing" (i.e., making do without fully understanding or analyzing a problem) or dividing the labor into bundles that can be understood by the members of the organization. In this alternative, we opt to divide the tasks into smaller bundles to handle the diversity of consumer preferences and the complexity of the housing market, rather than ignore much of this complexity by reverting to flat grant types of approaches. James Thompson, following the concept of bounded rationality, suggests that organization structure will

¹Herbert Simon, Administrative Behavior, 2nd edition, (New York: The Free Press, 1965. First published in 1947).

reflect the complexity of the technology and environment. The more demanding or uncertain the requirements of the technology and/or the more heterogeneous and unstable the environment of the organization, the more the organization will subdivide its tasks to cope with the increasing complexity.¹

Reinforcing this administrative theory is a growing literature in citizen participation and neighborhood government.² The thrust of these arguments is that local citizens are unhappy with distant bureaucracies (e.g., big city school districts³) and want to increase the influence of neighborhoods. A similar argument is advanced by the "new political economists." They emphasize a need to give citizens better institutional mechanisms for articulating individual demands for publicly produced services and goods.⁴

This line of thinking suggests that the effective performance of certain tasks requires a "local presence." Tasks with intensive technologies and/or shifting and heterogeneous environments require an organization structure which includes small, localized units. To be effective, these units should

¹James D. Thompson, Organizations in Action (New York: McGraw-Hill, 1967).

²For an excellent review of this literature see Henry J. Schmandt, "Municipal Decentralization: An Overview," Public Administration Review, Vol. XXXII (October 1972), pp. 571-88.

³Marilyn Gittell, Participants and Participation: A Study of School Policy in New York City (New York: Queens College Center for Urban Education, 1967).

⁴Robert L. Bish, The Public Economy of Metropolitan Areas (Chicago: Markham Publishing Co., 1971), p. 2; Vincent Ostrom, The Intellectual Crisis in American Public Administration (University Park, Ala.: University of Alabama Press, 1973); Gordon Tullock, Private Wants, Public Means (New York: Basic Books, Inc., 1970).

be endowed with considerable discretion, for they must make judgments about appropriate responses to clients, or decide how to cope with complicated environments.¹

Along with these demands for smaller, more responsive local governments has been a push from an opposite direction. As the Federal government becomes more involved in domestic activities, there has been increasing concern with the ineffectiveness of our intergovernmental administrative systems. Deil S. Wright has observed that the main problems faced in our intergovernmental system, since 1965, turned around coordination, program effectiveness, citizen access and delivery systems.² Concern for implementation of national objectives is evident in a large number of books.³

In summary, then, a critical problem in the design of an administrative system for a direct cash assistance program is to create a series of administrative units which can simultaneously pursue the goals of the Federal and State governments, and still give local jurisdictions enough discretion to deal with the variability inherent in the production processes of many functions, and the diversity of the preferences and need of citizens. Very large private firms have dealt with a similar

¹David O. Porter, "Federalism, Revenue Sharing and Local Government" (paper presented at the 1974 Annual Meeting of the American Political Science Association, Chicago, Ill., August 1974), p. 14.

²Deil S. Wright, "Intergovernmental Relations: An Analytical Overview," forthcoming in The Annals, November 1974. Also see James L. Sundquist, Making Federalism Work (Washington, D.C.: The Brookings Institution, 1969).

³This literature is growing very rapidly. Two interesting examples are Martha Derthick, The Influence of Federal Grants (Cambridge: Harvard University Press, 1970) and Jeffrey L. Pressman and Aaron B. Wildavsky, Implementation, (Berkeley, Calif.: University of California Press, 1973).

problem by breaking their operations up into a number of "profit centers" or divisions.¹ In this way, these firms delegate responsibility for day-to-day operations to division managers, yet still monitor their performance by evaluating the division's contributions to profits and growth. On the surface, it appears that the problems faced by the large firms and an intergovernmental direct cash assistance program administration are similar. Both have a need for some central direction, but the local agencies or operating divisions face very diverse and complicated situations in which local managers need to exercise considerable discretion.

There are several key elements in the design of a multi-divisional organization. These elements, to be discussed in turn, are the divisibility of tasks into relatively independent bundles of activity, the availability of summary evaluative statistics such as profit or growth, and a central guidance cluster which is supported by a skilled analytical staff and which has the power to discipline the actions of division managers. Obviously, not all public sector operations will be able to meet these rather demanding prerequisites. It appears at this point, however, that these conditions may be met in a direct cash assistance program. Tasks must be relatively divisible if they are to be assigned to divisions that are separately evaluated. Interdependence in the technologies of various tasks makes evaluation of the individual divisions

¹A.D. Chandler, Jr., Strategy and Structure (New York: Doubleday, Anchor Books edition, 1966); Oliver E. Williamson, Corporate Control and Business Behavior (Englewood Cliffs, N.J.: 1970). Robert Anthony is writing a very important book on managerial accounting for non-profit organizations. Such accounting techniques are essential to multi-division organizations. Alice M. Rivlin, in Systematic Thinking for Social Action (Washington, D.C.: The Brookings Institution, 1971), suggests the application of a multi-division form of organization in the decentralization of our federal system. She gives an excellent analysis of some of the advantages and problems in such systems, and how both voucher and multi-division systems rely on the derivation of better measures of effectiveness. See Systematic Thinking, pp. 122-30.

more difficult. Some interdependence can be dealt with through a budgeting system that charges each division its full share of its costs, even when transfers are within the jurisdiction. Such budgeting systems are common in the public sector, but not as fully worked out as in large private firms.

In a direct cash assistance program, there do not appear to be serious problems in designating local agencies as divisions within each areawide agency. Local agencies function relatively independently of each other. Each local agency would be held responsible for placing participants in acceptable housing. Area-wide agencies would function as divisions within states. The areawide agencies would be responsible for the performance of local agencies. States would function as divisions, responsible to the Federal Government for the activities of the areawide and local agencies in their states.

The availability of summary evaluative statistics is a difficult condition to satisfy in most public sector organizations. Profits and growth, the most common of such statistics in the private sector, are inappropriate. Money and organizational size are instrumental values in public organizations, not ends in themselves. This situation forces public administrators to seek measures of outputs or inputs and substitute these for more comprehensive or summary statistics. Unfortunately, few of these statistics are reliable indicators of effectiveness.

There may be relatively good summary statistics available in a direct cash assistance program. The number of participants finding suitable housing summarizes the success of much agency activity. Many agency functions -- e.g., outreach, eligibility certification, counseling and housing inspection -- may be involved in the successful placement of a participant. Monitoring agencies can allow local managers to select the mix

of such functions they think appropriate, yet still hold managers responsible for the ultimate goal of the program, i.e. to place the eligible population in suitable housing.

Other statistics and constraints are available to supplement a statistic on the number of successful participants. The primary constraint would have to be on the budget of the local agency (or "division"). If local managers are to be given broad discretion in the use of their resources, they will need to operate within some sort of budget constraint. In a direct cash assistance program, an administrative budget could be given for each participant, with the allotment varying positively with the size of the allowance payment.

A second set of constraints would attempt to prevent (1) "creaming" of the eligible population, (2) participants from renting or remaining in unsatisfactory housing, or (3) failing to screen out ineligible applicants. To prevent creaming, the monitoring governments would conduct surveys to discover the size, income, racial and age characteristics of the eligible population. Local agencies would need to justify any substantial deviations in the profile of their participants and the profile of the eligible population.

Errors or laxness in the certification of eligibility or in the inspection of housing would be monitored through a series of spot checks by the State and Federal levels. If error rates were too high, local governments would be requested to reduce them, but would not be required to adopt one particular administrative process or another. That judgment would be left to local officials and administrators.

To conclude this discussion of the availability of summary statistics, the aim has been to find a statistic or set of statistics which will permit an evaluation of the performance of local agencies. The availability of such statistics will

allow each division to exercise a great deal of discretion in handling day to day operations, but still allow for considerable direction from the next higher level. Such statistics are not available in all programs which are administered through an intergovernmental system. The direct cash assistance program, however, appears to satisfy the requirement for relatively unambiguous summary statistics.

The creation of a skilled analytical staff at the Federal, State and areawide levels of an intergovernmental system is an important feature in this system. This staff evaluates the performance of each division, selects appropriate evaluative statistics, and adjusts standards of performance to conform with observed practices. Based on these analyses, actions would be taken to modify or "improve" agency or divisional performance. In more conventional terminology, the Federal and/or State government would be trying to get local agencies to comply with broader standards of performance.

A final issue concerns persuading State and local governments to comply with Federal guidelines. Obtaining compliance in an intergovernmental system is always difficult and chancy, but the notion of general revenue grants may add a positive incentive to the essentially negative incentives currently used. General jurisdictions in which the local and areawide agencies are performing well could be given additional general revenue grants as a bonus for good management. These general revenue grants could also be offered to local jurisdictions which reform their administrative, evaluative, and budgeting structures so that they may function as "divisions" in this intergovernmental administrative system. If the positive incentives of such grants were not sufficient to gain compliance, the State and Federal governments could still use any of the older techniques for persuading an errant jurisdiction. These techniques included "going public" with adverse reports, threatening to cut off funds, and finally cutting off all or some portion of the funds transferred to the jurisdiction.