

## Devolution and Equity: Lessons from Germany and Boston

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For several years now there has been a trend towards shifting burdens and money away from the federal government and placing a greater share of responsibility on state and local governments. Known as “devolution” this trend has been praised by some who believe that government has come in the way of individual rights and responsibilities, and that a strong central government is not the appropriate locus of collective action. But to the critics, devolution has caused concerns and expectations that social problems may worsen with a declining federal role in counterbalancing unfavorable social and economic developments. Thus the dilemma: how to decentralize without abandoning those communities most lacking in resources.

Equity planning is a potential answer to this dilemma. It is the conscious attempt by the local planning community and policymakers to reverse unbalanced social developments. In this essay I shall briefly explain two examples of equity planning which are well known to specialists but not to the general public. The examples are the German system of interjurisdictional revenue sharing and Boston’s linkage policy. I will also discuss their transferability to different political and cultural milieus. A cross-cultural perspective can be quite useful in view of cross-cultural problems. European cities, for example, are experiencing increasingly “American style” urban problems of “ghettoization,” inner city decline, changing ethnic balance, and the “new poverty” afflicting ordinary middle class people. It is important to understand American solutions to these problems. Similarly, European equity planning may be relevant to U.S. urban problems. Understanding each other’s concepts of equity planning may increase op-

portunities for sustaining communities that have the greatest need but the least capacity to help themselves.

### Revenue Sharing in Germany

Most Western European countries have been “practicing” devolution for years. There are institutionalized redistributive policies that channel resources and wealth to lagging communities. In Germany the most important mechanism is revenue sharing. This occurs at many levels, the most important being between the federal government and the states. Revenues taken in at the federal level, which come from the federal income tax and a variety of other taxes, are distributed to each state according to need. This is determined using indicators such as local levels of unemployment and other variables reflecting the structural problems of regional economies and infrastructures. Some revenue sharing also occurs among the states, between the states and their local communities, and among the communities, such as between the jurisdictions within a metropolitan area.

Revenue sharing is constitutionally mandated and is designed to equalize basic services, such as transportation and telecommunications infrastructure, education, and housing. It does so by ensuring that municipalities of the same size have a roughly equal per capita amount to cover per capita expenses. Before explaining how this is achieved, let us first consider the case of the United States. In the United States, property taxes make up the largest part of local revenue. Thus, in urban areas (or any area) with few property owners and a large number of persons on welfare, hardly any tax funds are generated. In the absence of revenue sharing, this generally results in fewer services for the local citizenry.

In German communities the lion’s share of local revenue comes not from property taxes, but from business and income tax. This could potentially lead to problems similar to those in America, as a community having few taxable businesses and a high share of the population on welfare would imply fewer funds to provide decent living conditions. The same is true when the municipal tax base gradually erodes, which may happen when firms relocate, or when competition for private investments results in local tax breaks that many communities

really cannot afford, leaving those communities worse off while others compete successfully and prosper.

But this is when revenue sharing kicks in. Communities with lower revenue are provided with subsidies to ensure the provision of basic services. Thus revenue sharing eases the pains of competition, balancing the individual's (the individual community's and the individual firm's) right to prosper against the individual person's right to have access to basic services, as German municipalities in poorer areas have adequate funds to provide infrastructure, social services, and promote economic development.

### Boston's Linkage Policy

In 1983 the City of Boston adopted "linkage policy." Linkage policy is based on a Massachusetts State Law of 1976 which introduced a mandate requiring policymakers to aim for balanced economic developments. This was the first such mandate in a state constitution in the United States. While this policy began well before the current move towards devolution, a look at its principles and practices can be instructive.

Linkage policy tries to achieve a balance between economically prospering and declining parts of the city by generating funds from private enterprise and redistributing them. Specifically, it requires developers of lucrative downtown projects to pay a fee into a trust fund. The trust fund is then used exclusively to subsidize development efforts in poor neighborhoods. In other words, developers in areas with high profit potential are being taxed to generate funds for investments in areas with less profit potential. The goal is to spur investments in housing, economic development, and employment training and educational programs.

The way the program works is that linkage fees must be paid in advance in order to get the building permit. About 83 percent of the linkage fees are paid into a housing trust fund and the remainder to educational programs. Linkage funds have a leverage function. The housing funds are not used to cover the entire building costs of housing for the low income population; rather funds are used as a one-time subsidy to make regular standard housing units affordable. That

is, the subsidy lowers the building costs so that the units can be rented to qualifying persons at below market rates. Linkage fees subsidized almost one third of the 9000 housing units that were built in Boston between 1980 and 1990. In one specific year, 1989, about \$7.4 million subsidized 525 new housing units and about \$15.2 million financed 505 SRO (single room occupancy) housing units for the homeless. Given that between 1983 and 1992 over \$120 million in linkage funds were generated, one can see that the overall impact of the program has been quite significant.

It is interesting to note that the policy of enforcing linkage fees involves many sectors of the city. Since linkage fees must be prepaid there is an agreement between the City of Boston and Boston's financial sector. The city of Boston sells the linkage obligations at their present value to the Boston financial institutions which provide mortgages to developers for downtown developments. Thus the city collects linkage funds in a timely manner, the Housing Trust Fund has the means to invest, the financial sector incorporates the payment of the linkage fee into the mortgages, and the developer gets the permit to build on a profitable location. And because the city ties the developer to the financial market, the developer cannot forget about his linkage obligation, as has been the case in cities that only recommend linkage contributions. As for concerns regarding the impact on downtown development, linkage fees have not hindered the city's massive boom of triple A office space development. The end result is a type of "corrective capitalism" that allows everyone to prosper and at the same time tackles social problems in run-down areas.

Just as with revenue sharing, linkage policy sees financial commitment to the needy as a pivotal element in making urban society better. If the federal commitment is reduced, funds must be generated locally. Very few American cities practice some form of linkage policy, although the concept has been discussed widely in the urban planning community. San Francisco, Seattle, and San Diego are among the few cities with linkages policies. Boston, however, has the strictest and most comprehensive policy and has the strongest enforcement; some cities practice linkage more by appealing to private developers to make voluntary contributions to social concerns. Such programs, as can be expected, have not had the impact of the Boston program.

## Lessons to Be Learned

European urbanists look at American urban developments with a great deal of concern, given that many major trends in American society, polity, and economy seem to reach European countries with a time lag of only several years. With the massive influx of immigrants, a changing ethnic balance, the formation of urban ghettos and inner city poverty areas, and new poverty accompanied by rising crime, European countries see a dramatic turn in urban developments. These have commonly been associated only with U.S. cities and have been conceived of as an "American Dilemma." Looking at U.S. cities European urbanists seem to get a glimpse of the future of their own cities and societies.

Because of different constitutional, political, and cultural contexts, one cannot simply cut and paste the practices of the United States on European cities, or vice versa. But each side could benefit from trying to see what elements of each other's policy could fit one's own cultural context. Much could be learned by Europeans from the interesting models of equity planning, grassroots community activism, and private voluntarism that have arisen in the United States. Similarly, American society could benefit from learning about European institutionalized efforts of redistribution between regions of growth and those of decline. For example, the German model of revenue sharing, although the outgrowth of a strong state-oriented cultural tradition, could be adapted so that decisions are made at the local, metropolitan, or state level in societies with strong traditions of local autonomy, such as the United States. With such attention to similarities and differences, the process of devolution could proceed in a manner that achieves the decentralization goals of its supporters, without fulfilling the fears of inequity voiced by devolution's critics.