

New Directions for Urban Policy

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Abstract

Contrary to the conventional diagnosis of urban problems, this article argues that these problems do not arise from the long-term trends in the decentralization of employment and population in metropolitan areas. Instead, the most important fiscal problems confronted by central-city governments and the most significant social and economic problems of central-city residents arise from increased concentrations of poverty populations and from racial discrimination in the operation of housing markets.

Recognition of these causes leads to urban policy prescriptions that emphasize integration of income transfer mechanisms and vigorous enforcement of fair housing laws and that deemphasize job creation and other employment programs targeted to predetermined central locations. Housing policies emphasizing demand-side subsidy rather than place-oriented supply programs are more consistent with the long-term market forces determining the spatial pattern of economic activity in urban areas.

Introduction

The transfer of responsibility to a new administration of a different party and a different governing philosophy provides a natural opportunity for reevaluating domestic policies and programs. It provides a welcome occasion to examine existing programs and priorities and to consider more effective means of furthering the goals of “a decent home and a suitable living environment” for all Americans. These goals were espoused in the preamble to the Housing Act of 1949 and have been reaffirmed in each subsequent housing act. However, no administration and no Congress has proposed the funding for any specific program that could achieve this goal. Thus the national goal must be considered to be more of a broad aspiration than a specific target for action.

This opportunity for reexamination is especially important in the case of urban policies and housing programs, which may not have received the highest priority during recent administrations. The dubious benefit of a decade of inattention is that some expensive inefficient programs have withered along with other programs that provided tangible benefits to urban residents.

By thinking anew from first principles, it may be possible to make progress in confronting our urban ills and devising solutions to complicated problems.

Causes of urban distress

Much of the popular discussion of urban problems is based on a misconception of the nature of urban distress. Many view the twin facts of central-city population declines and reductions in central-city employment levels as important causes of urban problems. In fact, however, these declines are related to urban distress only quite weakly, and, in many cases, these trends reflect improvements in the well-being of most people living in urban areas.

Central-city population declines during the past several decades have been accompanied by substantial reductions in the fraction of central-city residents living in substandard housing, along with much smaller decreases in the total number of dwelling units within central cities. Indeed, population declines in central cities may be associated with reduced overcrowding and improved average housing quality.¹

Declines in employment in central cities—the flight of firms and employment centers to suburban or outlying areas—reflect long-term trends in technological progress and increased productivity in the economy. In manufacturing, for example, “best practice” technology has been increasingly characterized by the use of more space per employee, the prevalence of single-story rather than multistory plant facilities, and fundamentally different access demands to industrial sites. Similarly, communications advances facilitate the peripheral location of service activities. Thus the relative and, in many cases, absolute decline in central-city employment and business activity reflects increased productivity and higher wages for workers resulting from technical change.

Declines in relative densities in central cities—or at least a flattening of population density gradients in metropolitan

¹ For example, a detailed study by Weicher (1990, tables 3–10) traces changes in neighborhood composition and housing during 1960 to 1980 for poverty neighborhoods in 1960. For seven neighborhoods that were analyzed intensely, population declined by 49 percent, while housing units declined by only 36 percent. Persons per dwelling unit declined from 3.64 to 3.07; the percentage of dwellings that were overcrowded declined from 23 to 13; and the fraction of dwellings with incomplete plumbing was cut by two-thirds.

areas—are attributable in part to this suburbanization of employment. However, secular increases in incomes do support higher levels of housing demand at the urban periphery, where housing prices are lower. Finally, transport cost reductions have further increased the attractiveness of peripheral locations. These two trends—income growth and transport cost decline—ensured that many who continued to work in the central locations in metropolitan areas were nevertheless better off living in the suburbs.

The secular declines in employment and population in central cities have quite benign interpretations; at the end of World War II the density in central cities was higher than would be efficient from the viewpoint of firms or desired from the viewpoint of housing consumers. These long-term changes in metropolitan areas represent and have been associated with increases in housing consumption, increases in real income, and increases in the output and profits of firms.

This interpretation of the historical forces spreading population and employment throughout metropolitan areas runs counter to policies that have been advocated to “bring industry back” to enterprise zones and to subsidize the remigration of middle-income households to higher central densities.

It is misleading to diagnose urban problems as arising from the redistribution of firms and households across political boundaries in response to improvements in technology, reductions in factor costs, and increases in disposable incomes. But this is not to deny that the problems of big cities are real. Indeed the problems are massive.

In contrast, the underlying causes of the fiscal problems confronted by central-city governments and of the social and economic problems of central-city residents are two: poverty concentration and discrimination. *Poverty concentration* is the increasing concentration of the poorest households in particular neighborhoods and political jurisdictions. *Discrimination* is the operation of a housing market that limits opportunities for minority households of all income levels to reside anywhere in the metropolitan housing market.

The increasing spatial concentration of poverty households has been well documented. For example, in the hundred largest central cities, the percentage of the population living in “extreme poverty” census tracts (those with poverty rates greater than 40 percent) more than doubled between 1970 and 1990, from 5.2 percent to 10.7 percent of central-city populations. The

percentage of these cities' *poverty* populations living in such tracts also increased substantially during the same period, rising from 16.5 to 28.2 percent (see Kasarda 1993 for a detailed description). This relative concentration of poverty households has three effects on the urban economy.

First, lack of purchasing power is the principal cause of substandard housing, inadequate health care, and the social disruption that characterizes large parts of central cities.

Second, concentrations of low-income households increase the per capita costs of public services (police, fire protection, primary and secondary education, and other public services). For example, analyses of public service outputs such as school quality (test scores) or public safety (criminal activity) have repeatedly found that increased public expenditures are necessary to equalize outputs between low- and middle-income neighborhoods. Poverty concentrations increase the costs per unit of output for urban services.

Third, the pressure on those jurisdictions containing concentrations of low-income population to provide minimum levels of housing, public health care, public safety, and other services further increases the budgetary pressures that face elected officials and decision makers. Since the ratio of poverty households to the total population is roughly two and a half times as large in the central cities as in the suburbs,² these budgetary pressures are faced disproportionately by big-city mayors. A disproportionate share of the burden of dealing with poverty-related problems and making poverty-related expenditures falls on a few local governments within any metropolitan area. Local governments' heavy dependence on local taxes forces these jurisdictions to increase tax rates, which accelerates the flight of high-income households and employment to other jurisdictions.

The problems arising from discrimination in the housing market against blacks and other minorities are related to, but are distinct from, poverty concentrations. Poverty is more common among minority households than among white households. (Indeed, the poverty rate for blacks is three times that for whites.) Nevertheless, more than three-quarters of the poor in the United States are white (U.S. Bureau of the Census 1992). Substantial literature documents that the concentration of

² In 1991, the poverty rate of all families was 17.2 percent in central cities and 7.2 percent in suburban portions of metropolitan areas. Among families with children, it was 26.6 percent in central cities and 11.9 percent in suburban portions of metropolitan areas (U.S. Bureau of the Census 1992, table 21).

minority households in central cities is far larger than would be expected from differences in income or other demographic considerations. The extreme concentrations of minority households in central areas do not arise from the operation of impersonal market forces (see Kain 1985; Kain and Quigley 1975). Housing market segregation and discrimination have been amply documented in studies in different regions and different housing markets in the United States—most recently in controlled experimental tests of the behavior of housing market intermediaries³ and in careful statistical analyses of mortgage lending patterns.⁴

The segregated and discriminatory pattern of minority housing in metropolitan areas has five effects on the urban economy.

First, as a result of discrimination, minority households are forced to pay higher prices for housing services than comparable white households, and the unit prices of housing services are higher in minority areas than in white areas.

Second, the higher prices are only a small part of the welfare losses imposed on central-city residents by discrimination. For example, minorities—especially black households—are less likely than whites to own or to purchase homes,⁵ and homeownership is the principal vehicle for capital accumulation among low- and moderate-income households. Thus limitations on residential choice among minorities can hurt those households financially.

Third, restrictions on residential choice for minority populations also imply that they may accept employment opportunities only by incurring higher commuting costs, particularly to new jobs, which are increasingly located outside the central city. This suggests that some fraction of the reduced earnings and the higher incidence of unemployment among black and other minority households may be attributed to limitations on residential

³ See Turner (1992) for a review of the evidence from these so-called fair housing audits. Turner also presents evidence of continued racial segregation in the United States.

⁴ Clear evidence of discriminatory lending practices is documented in Munnell et al. (1992).

⁵ These differences are large, and they persist even after controlling as far as possible for differences in income, wealth, and demographic conditions. See Kain and Quigley (1975) for an early summary of evidence and Wachter and Megbolugbe (1992) for recent empirical evidence on the magnitude of these effects.

choice (see O'Regan 1993; O'Regan and Quigley 1991, 1993). If the location decisions of individual households were not distorted by racial segregation and discrimination, the geographic distribution of these households would be quite different. Minorities employed in the suburbs would be expected to select housing near their work following the same rationale as white workers do.

Fourth, without these limitations on residential choice, the demand for central-city dwelling units would have been reduced. Central-city dwelling units would have been more available for middle-income households, for multiple-worker households, and for other households seeking central locations. A reduction in demand caused by dispersal of minority populations would have reduced land prices in some areas of central cities, making them more attractive for redevelopment by the private sector—either through the rehabilitation of housing or through the removal of housing and its replacement by profitable renewal activities. The demand for central-city housing by segregated minorities has maintained higher land and housing prices even though relative prices often favored suburban locations for whites, even for those working downtown.

Fifth, this segregated pattern of development has also ensured a steady expansion of slum housing, an erosion of adequate housing in the central city, and a deterioration of urban neighborhoods.

Policy implications

Recognition of these causes of urban distress leads to a different set of urban policies and a different emphasis on housing policy. It suggests that the most important policies to alleviate urban distress need not be called urban at all. Moreover, the most important housing policies need not explicitly target housing.

First, policies that transfer income to disadvantaged populations by transferring purchasing power or goods in kind would go most of the way toward alleviating the housing problems faced by urban residents and the fiscal problems confronted by central-city mayors.

Second, policies that ensure the vigorous, swift, and certain application of existing law to allegations of racial and ethnic discrimination in the housing market would have far-reaching implications for urban development and for achieving the goals espoused in each postwar housing act.

More generally, policies that are especially *urban* in focus should not impose inefficient incentives for housing or industrial investment in predesignated parts of metropolitan areas—central cities, ghetto neighborhoods, or other places “deserving” renewal. Policies should be pursued that place no limitation on the locations chosen by households and firms; individual policies should be judged by their effects on the spatial concentration of low-income households and racially segregated markets.

In particular, policies that subsidize private industry in return for location in central cities or that subsidize “job creation” there reinforce the metropolitan pattern of segregation by income and race. In addition, they are contrary to the historical forces that have increased American industrial productivity.

Job creation policies should subsidize employment opportunities for low-income residents at the firm’s preferred (profit-maximizing) site. Frequently the sites chosen will not be in the central city; the jobs therefore must be attractive enough to induce disadvantaged households to commute (or they must be combined with transport subsidies). This policy is, however, cheaper than subsidizing inefficient plant location. More important, the policy provides positive incentives for the redistribution of poverty and minority households. Households will find it in their interest to search for accommodations closer to their new worksites and thus to incur the costs of opening the suburbs to minority occupancy.

The most important housing policy for urban areas (in addition to the aforementioned need for fair housing enforcement) is clearly the provision of demand-side housing subsidies for low-income households and the integration of these subsidies with other aspects of the income support system. Consider the following: The median gross monthly rent paid by poor renters in unsubsidized units in the western United States is currently estimated to be \$440, up from \$300 in 1974, in current inflation-adjusted dollars (Joint Center for Housing Studies 1992, table A-2). This means that households in the lowest quartile in the income distribution are spending about 42 percent of their income on rent if they do not receive housing subsidies.

For another example, the lowest quartile of the income distribution for all black households earns just under \$7,000 per year. If a household with this income devotes 30 percent of its resources to housing payments, it can spend only about \$175 per month on rent. Few units, if any, are available at these prices. Thus it is hardly surprising that very low income renters are routinely

forced to devote half or more of their incomes to shelter. Among all black households, about one in five spends at least half its income on rent.⁶

Note, in contrast, that only 20.1 percent of households with incomes below the poverty line receive any housing assistance at all. Fully three-quarters of poor households with children receive no housing assistance. Only 37 percent of the poorest households, earning less than a quarter of area median incomes, receive any housing assistance (Joint Center for Housing Studies 1992, table A-11).

Extension of demand-side subsidies and integration of these subsidies with other aspects of the income support system would reduce the horizontal inequities that arise from the current lottery system of housing support—one that serves only a small portion of eligible households in a seemingly random fashion. Extension of these subsidies would either improve the physical housing conditions of poor households (if recipients spent the subsidy on better housing) or reduce their high rent burdens (if recipients spent the transfer on other necessities). Either outcome furthers national housing goals.

Housing programs and policies for the nonpoor are less pressing. Indeed, there is good evidence that resource allocation in the market for owner-occupied housing has improved recently. Programs that artificially sheltered housing from competition in the capital market have largely been eliminated during the past decade, and an active secondary market providing liquidity to the housing market has arisen.

Conclusion

Make no mistake about it: The important problems of urban areas and especially their housing problems can be solved only by a concerted effort to confront the problems of poverty and racism and to redistribute their spatial impact. This effort will ultimately require substantial increases in the subsidies provided to low-income households to supplement their demand for shelter. Vigorous and vigilant steps must be taken to eliminate racial and ethnic discrimination in the housing market. Solving the problems also calls for a careful consideration of the incentives implicit in other public programs for reducing the concentrations of poor and minority households in urban areas. In

⁶ See Quigley (1993, 260–76) for a detailed comparison of rent burdens by race and ethnicity.

contrast, policies that attempt to focus job creation or low-income housing investment in certain distressed urban areas are likely to be inefficient and also to reinforce the metropolitan pattern of segregation by income and race.

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