Chapter 9

Updating Urban Policy

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In the 1990s, urban policy is once again at the forefront of antipoverty discussions. Early in the decade, escalating economic and racial polarization around America's largest cities facilitated outbursts of violence against and by poor minority groups. During the 1992 Presidential campaign, the three major candidates all emphasized the need to develop policy elixirs that might restore a sense of urban health.

Other chapters in this volume discuss general antipoverty policies. Given the high concentration of poverty in the cities, those policies are inseparable from any serious discussion of urban policy. Indeed, a strong case can be made that the best urban policy is not limited to cities, but is rather a "nonurban urban policy." (Kaplan 1990).

This chapter's mandate is to consider the most prominent urban policy proposals domain that are not discussed in other chapters. Two such proposals stand out. "Enterprise zones" are (primarily) an urban urban policy, designed to stimulate economic activity in depressed neighborhoods. "Guaranteed public jobs" are a nonurban urban policy, many of whose beneficiaries would be residents of our most depressed cities.

How should one evaluate such proposals? One fruitful source of ideas is history: one can review the knowledge gained from our nation's experience with similar programs in the past. A second source is theory: one can attempt to measure such programs according to how well they promote whatever societal aspirations one thinks most relevant. In the domain of urban policy, for example, such aspirations might include the commitment to give each citizen a fair opportunity for geographic and social mobility through employment. This chapter aims to synthesize historical and theoretical arguments, in order to frame an agenda for updating urban policy.

Section I reviews in some detail the most significant current proposals for enterprise zones and guaranteed public jobs. I first examine the enterprise zone proposal that was vetoed by President Bush during the fall of 1992 and revived in modified form by President Clinton during the spring of 1993. I then consider the failings of past experiments with guaranteed public jobs programs and the ways current proposals for revived public service employment respond to some of those failings.

Section II then argues that urban policies such as enterprises zone and guaranteed public jobs proposals should be viewed in the light of a more general societal aspiration: that each citizen have opportunities for geographic and social mobility through employment. Many of our most disadvantaged city dwellers face restricted opportunities for mobility. Work mobility is sometimes restricted directly by employer racial discrimination; it is sometimes restricted indirectly through the effects of housing segregation. Each form of mobility restriction suggests important long-term policy responses that should be pursued immediately.

And yet long-term policies designed to enhance opportunities for mobility through employment are unlikely to have much short-term effect on the opportunities available to ghetto residents. Accordingly, Section II concludes by arguing for limited experimentation with a hybrid policy that I dub "access-to-enterprise zones" (AEZ's). Under this hybrid, the federal government would identify a few distressed neighborhoods as that seem to be locked into downward spirals as AEZ's. The federal government would give residents of AEZ's portable private-sector wage subsidies, backed up by public jobs guarantees, in exchange for commitments from the relevant state and local governments to nurture experimental efforts to rebuild the social infrastructure of those neighborhoods.

The "Underclass" and Employment in the Formal Economy

In Chapter 5, Ron Mincy reviews the substantial research literature on the "urban underclass." He documents the fact that average incomes in some urban neighborhoods have declined sharply since 1970. And individuals living in those neighborhoods have suffered in ways that are not fully captured by the Census Bureau's measure of income poverty. Significantly, the great majority of citizens who are living in America's most deprived urban neighborhoods are black.

The "underclass" literature has explored a range of significant social phenomena, including education, crime, and nonmarital childbearing. But one concern dominates: the extent to which the residents of some neighborhoods lack employment in the formal economy. Joblessness is not merely a source of ultimate concern; it also enters into many models of neighborhood decline as an intermediate cause of other forms of social distress. Wilson (1987) sees lack of employment as a cause of nonmarital childbearing. For Sabol (forthcoming), unemployment is linked directly to crime. Van Haitsma (1990) calls weak attachment to the formal labor market "the thread that ties the various indicators together." Mead (1992) declares "nonwork" to be "the most fundamental" problem "afflicting the racial ghetto and the long-term poor." To the extent some neighborhoods seem to have slipped into downward spirals of mutually reinforcing self-destructive behaviors, all these commentators see employment in the formal economy as the best way to break that spiral.

Yet the specific policy responses advocated by different commentators have varied widely. Wilson has argued for a comprehensive program of economic and social reform, highlighting macroeconomic policies to promote growth and tight labor markets, child support assurance, child care support, and family allowances. Ellwood (1988) has stressed an expanded earned income tax credit, transitional support, universal health insurance, child support assurance, and a guaranteed minimum-wage public sector job as a last resort. Kaus (1992) would modify Ellwood's plan by replacing the children's allowance with "day care ... integrated into the larger system of child care for other American families" and by paying a subminimum wage in the public sector jobs. Mead (1992) would simply impose "a more authoritative work policy" until "at least the lion's share of today's nonworkers accept that some opportunity exists for them, ... take and hold available jobs, and get on with their lives." And a broad spectrum of political leaders have advocated the creation of federal "enterprise zones."

What is the best way to increase employment in underclass neighborhoods? In Chapter 7 of this volume, Rebecca Blank suggests that aggregate data for the national economy over the past three decades are consistent with the perspective "that the simple availability of jobs has not been a major constraint for less-skilled U.S. workers who seek employment, at least over the long run." The country as a whole seems capable of sustaining an adequate supply of jobs -- an adequate demand for workers. That observation might seem to support the view that policymakers should rivet their attention on the supply of labor, stressing either human capital investment or Mead-style authoritarianism.

But as important as concern with the nature of the workforce may be, it should not be the end of the story. For one thing, there are important social costs to insisting that all workers be willing to relocate to whatever corner of the country promises the most plentiful supply of jobs. Moreover, even if all workers were always willing to move, the underclass literature provides suggestive (albeit not conclusive) evidence that traditional human capital investment programs may not suffice to bring some communities fully back into the general job market.

Consider the following social dynamic disclosed in interviews conducted as part of the Urban Poverty and Family Structure Project in Chicago. Many young black male employees distrust white employers, grounding that distrust in centuries of American racial oppression. Yet that distrust can, in and of itself, make them less valuable as potential employees. In one anecdote, a black employee views a request that he take on extra responsibility as the continuation of a legacy of exploitation. He resists. But by resisting he makes himself less valuable to the employer than a Mexican American who sees the request as benign. (Taub 1991; see also Kirschenman & Neckerman 1991).

The distrust problem exemplifies a more general concern with job accessibility. A job that is outside of commuting distance may be inaccessible to a worker who appears formally capable of doing the task. Similarly, a job controlled by an employer who is distrusted may be inaccessible to a worker who appears formally capable of doing the task. It could be inaccessible because the worker refuses to take the position. Or it could be inaccessible because the worker's defensiveness makes him less productive for the employer.

Some public policies must respond to the sense of potential employers that some workers are unqualified. But other public policies may be needed to fully respond to the fact that for some potential workers, some jobs are inaccessible. Enterprise zones and guaranteed public sector employment are each potential initiatives to respond to the problem of job inaccessibility. The next two subsections consider each initiative in turn.

Enterprise Zones and the Problem of Spatial Targeting

Enterprise zones are a simple idea. Troubled neighborhoods are first identified as targets for redevelopment. Entrepreneurs who subsequently initiate new ventures in those neighborhoods benefit in a variety of ways, ranging from relaxed zoning regulation to direct governmental grants. (See generally Boeck 1984.) The redevelopment offers a cluster of different benefits to the community, but it is often said that "job creation is the goal of enterprise zones." (Pitts 1992).

While the U.S. has, at various times, endorsed the use of federal incentives to encourage economic development in "underdeveloped" regions such as Appalachia, the notion of a generalized program of "enterprise zones" that could help cities as well as rural areas did not attract widespread attention until the late 1970's. The concept had been popular in Asia, and then in England. In the U.S., the phrase was introduced by the Heritage Foundation in early 1979, was advanced in Congress by Republican Jack Kemp and Democrat Robert Garcia, (H.R. 7240, 96th Cong., 2d Sess. 1980), and was then popularized in a book by Stuart Butler. (Butler 1981). But notwithstanding the endorsement of the concept by President Reagan in his 1982 State of the Union message, no full-fledged enterprise zone proposal emerged from Congress during the 1980s.[2]

Despite the absence of federal legislation, 37 states and the District of Columbia have established enterprise zone programs, offering a grab bag of small incentives. (Levitan & Miller 1992; Rubin & Wilder 1989; Note, 1989). Some have emphasized investment incentives. Others have stressed incentives. Still others have furnished subsidies for employment and employee training.

Enterprise zones are nonuniversal programs, since they draw clear distinctions among communities. To be sure, no social welfare program is truly "universal" (offering benefits to every living human being); what distinguishes different social welfare programs from one another is the way they define their particular "targets." What makes enterprise zones particularly intriguing is that they are spatially targeted programs.

Most social welfare programs are targeted on the basis of nonfinancial personal characteristics of recipients, such as age, disability, or family structure. In addition, "means-tested" programs are targeted on the basis of the financial characteristics of a family or household. Spatially targeted programs are distinctive because, in addition to whatever nonspatial target restrictions they may impose, they show a special concern for one or more plots of land. Some such programs, like the Tennessee Valley Authority, act directly upon the land. Most, however, like enterprise zones, address spatial needs indirectly; they provide benefits to individual human beings who demonstrate some link to the favored area.

Spatial targeting is not a binary condition. Just as income-targeted programs can use a low or high eligibility cutoff, programs can be more or less spatially targeted by aiming at a larger or smaller region. And whereas some programs are spatially targeted by design from the beginning (as in the case of programs aimed exclusively at "blighted neighborhoods"), others become spatially targeted by default (as in the case of a large public housing project that could have been situated anywhere, but is ultimately built on a specific site).

One need not rely on spatially targeted programs in order to concentrate benefits on the residents of distressed neighborhoods. For example, a nationwide subminimum wage public jobs program would provide no benefit to a neighborhood where everyone is already employed at an average wage; such a program could, however, provide substantial benefits to residents of a neighborhood where most of the residents are looking for work. A program that is relatively universal in form may thus, in practice, distribute its benefits in a spatially targeted manner.

At least three equity-based concerns should make policymakers somewhat nervous about spatial targeting. The first relates to potential arbitrariness in who benefits from the program and who must bear its costs. A spatially targeted program benefits some people who are characterized by deprivation x at the same time as it fails to benefit other people who are just as fully characterized by x. The assumption that the fortunate beneficiary is worse off because there is more of x in the immediate environment is an empirical assumption, not a universal fact. Similarly, a spatially targeted program may impose its costs unequally across the community. The dollar costs of a program to subsidize the construction of a new factory in a depressed neighborhood may well be allocated broadly; but the burdens of increased pollution and traffic are likely to be concentrated on residents of the targeted area.

The second, related concern has to do with the artificiality of geographic boundaries. Metropolitan areas, neighborhoods, and communities are more sociological than geographic. Two people living on opposite sides of a census tract boundary may have more in common with one another than either one does with some of their fellow census tract co-residents. In the same way, next-door neighbors may have entirely different sets of links to social and employment networks, or to sources of transportation and child care. The policy relevance of geography is not automatic.

Whereas the first two concerns were static, the third is dynamic, relating to the danger of creating new restraints on mobility. A person who receives spatially targeted benefits may well forfeit those benefits if he or she moves out of the relevant area. That may well not be a significant deterrent to movement for some recipients, but it could be for others. To the extent a spatially targeted program deters beneficiaries from taking advantage of opportunities that present themselves, it might exacerbate rather than alleviate the problem it is intended to address.

Yet those three concerns are just that: concerns. None of them are necessarily dispositive. The following four examples suggest situations in which one might well want to define the beneficiaries of a social welfare program on the basis of geography:

(1) Geographic markers might reflect, or even define, a community where the harms to bystanders ("negative externalities") of individual or collective conduct interact in such a way that the cumulative effect is intensified. (Imagine a neighborhood where employment levels were so low that children grew up believing that no matter what they did, they would not be able to get jobs.) In the underclass literature, this possibility is commonly addressed under the rubrics of "neighborhood effects" and "concentration effects."

(2) Geographic markers might reflect, or even define, a community where cooperation will leave everyone better off than if everyone pursues

an individualistic strategy. (Imagine a neighborhood where high income families fled because they feared that all the other high income families were about to flee.) In the underclass literature, this variant of a Prisoner's Dilemma is sometimes discussed as a problem of "tipping," of "vicious cycles," or of "downward spirals."

(3) Geographic markers might be the best available proxies for nongeographic features that one cannot or does not wish to measure. (Imagine a wealthy commmunity giving money to everyone who lived in a particular "poor neighborhood" because it did not want the invasion of privacy associated with determining the incomes of individual families in that neighborhood.) In the underclass literature, one frequently encounters arguments about whether the identification of particular neighborhoods as the locus of a particular kind of suffering or misconduct reflects reliance on a "good proxy" or merely on a "bad stereotype."

(4) Geographic markers might define a political community that feels enough mutual identification and solidarity that it wishes to undertake wealth redistribution within its borders. (Imagine a mixed-income community in which the wealthy residents banded together and paid to establish a public library that would provide equal benefits to all residents, rich and poor.) In the underclass literature, this possibility is usually discussed only indirectly, when the boundaries to such political communities are challenged through, for example, proposals to finance public schools on a metropolitan or statewide basis.

In Chapter 5, Mincy effectively makes the case that, in some cities, with regard to some neighborhoods, one or more of the foregoing justifications may apply with enough force to warrant experimentation with spatially targeted responses. But when thinking about a proposal like enterprise zones, one must analyze the details of the proposal and the specific context in which it is to be implemented.

I shall discuss in some detail the enterprise zone proposal (estimated to cost $2.65 billion over five years) that was adopted by Congress and vetoed by President Bush in October 1992. (U.S. Congress 1992). As this chapter goes to press in May 1993, a revived and somewhat altered version of the 1992 bill, sponsored by President Clinton, has just passed the House of Representatives. In note 5 to this chapter, I analyze the differences between the 1992 bill and the current form of the Clinton proposal.

The 1992 proposal authorized the creation of 50 enterprise zones, 25 of which would have been "urban" enterprise zones designated by the Secretary of HUD after having been nominated by the relevant state and local governments.[3] To be eligible for nomination as an "urban" zone, an area had to consist of no more than three parcels of land, in a single state and within a single metropolitan area, where at least 4,000 people lived in an area of no more than 20 square miles that did not include any portion of a central business district. In addition, a nominated zone would have needed:

-- to have a poverty rate of at least 20% in each of 90% of the area's census tracts,

-- to have an unemployment rate at least 50% above the national average,

-- to show other signs of economic distress and social distress such as high crime rates, high vacancy rates, or drug trafficking,

-- and to have obtained state and local government commitments to a "course of action" that would include direct public investments in the region and indirect support for private for-profit and nonprofit institutions to do likewise. (The course of action could not have included state or local government support for companies that were merely relocating existing businesses from outside to inside the zone.)

Once a zone was designated, the proposal would have given a package of investment incentives to enterprises dedicated to carrying on business in the zone, if at least 1/3 of the enterprise's employees were zone residents. In addition, the proposal would have created a nonrefundable tax credit equal to 15% of the first $20,000 in wages paid to any employee who was a zone resident and worked in the zone. This credit would have been available to any employer on the basis of the employee's characteristics, whether or not the employer was sufficiently involved in the zone to qualify for investment incentives.[4]

Several features of this proposal should be emphasized. Note first the requirement that other governmental entities nominate the zone and commit themselves to a "course of action" with regard to the zone. One theoretical justification for spatially targeted programs is that they can catalyze cooperation in an environment where cooperation can yield significant social dividends. (In practice, it is not always clear how significant those social dividends will be in any given neighborhood.) Yet the notorious failure of the most visible federal effort at "comprehensive" mobilization of resources in poor neighborhoods, the "Community Action" programs of the late 1960s, demonstrated that federal funds cannot by themselves catalyze cooperation. Indeed, they can have the opposite effect if they promote political competition for control over scarce funds. (Lemann 1991: 129-202; Morris 1980: 61-67; Moynihan 1969).

The "nomination" and "course of action" requirements would have used the prospect of federal subsidies to encourage advance bargaining by those constituencies whose cooperation is desired. Moreover, the criteria to have been used in designating enterprise zones included the extent to which private entities committed to participate in the joint effort, and the extent to which the overall course of action was enforceable. Ideally, such advance commitments should increase the likelihood that such a program would yield whatever social dividends are possible. Standing alone, however, they cannot ensure that such social dividends are in fact possible.

Second, note the eligibility requirements for investment incentives: (a) the business had to be conducted within the zone, and (b) one third of the employees had to be zone residents. The requirement that business be conducted within the zone suggests a belief that the mere physical location of new businesses within the zones will be beneficial. That is not implausible, especially where effects unrelated to employment are concerned. The flow of workers to an active business could increase a neighborhood's sense of vitality and make it less attractive to criminals. At a minimum, it could provide another voice to ask for attention from the police. A retail business, for example, could provide new consumer opportunities for local residents. But there is little evidence that a bare requirement that a business locate in a neighborhood will significantly improve the employment prospects of residents. (Pitts 1992).

The burden of improving resident employment prospects was clearly intended to be borne by the second requirement: that one-third of employees be zone residents. Yet not even that requirement would have ensured that the new business would increase resident employment. The new businesses could still have hired residents who were previously employed elsewhere. Those residents would presumably have been willing to switch jobs only if they believed the new jobs would be better for them. But if the goal was to increase total employment rates for zone residents, there is no guarantee that even one third of the new jobs would have contributed toward that goal.

Even worse, the 1992 proposal would have allowed an employer to qualify for tax incentives by moving an existing business that already relied on zone residents for one third of its workforce into the zone from outside. To be sure, the "course of action" requirements would have prohibited state and local governments from helping such businesses that simply move. But nothing in the bill would have prohibited such businesses from claiming the federal investment incentive benefits.

The experience with limited state-based enterprise zone programs to date gives reason to be cautious when predicting the net employment gains from a federal enterprise zone program. Some evaluations have found positive benefits to regional employment from certain programs. (Papke 1991; Rubin & Trawinski 1991). But others have found the incentives inadequate to stimulate very much new enterprise in the zones. (James 1991; Birdsong 1989; General Accounting Office 1988). Moreover, to the extent there has been any effect, it appears at most to have been "locational" (affecting where within a given market a business locates) rather than "generative" (affecting the aggregate amount of employment or business activity for the economy as a whole). (Birdsong 1989; Levitan & Miller 1992). These results mimic the results found by researchers who have studied the effects of state and local tax incentives more generally. (Dewar 1990). The magnitude of the incentives under a federal enterprise zone program would, to be sure, be far greater than under any existing state program. But the case remains to be made that any amount of simple investment incentives tied to the location of a business will generate higher levels of employment in that area.

Third, consider the feature of the vetoed proposal that seemed to hold more promise in that regard -- the 15% credit for employers who hire zone residents to work in the zone (even if other of the same employer's employees do their work outside the zone). The new credit would have resembled the Targeted Jobs Tax Credit ("TJTC"), without the TJTC's usual requirement that a worker live with an economically disadvantaged family, but with two spatial constraints -- worker residence and work situs. The policy question posed by the work situs restriction is the same one discussed above with regard to the investment incentive provisions: what benefits might flow from having a given worker doing his or her job inside the zone rather than outside it? If the work situs restriction were discarded, one would then simply be left with the question whether tax credits like the TJTC are good programs, and are good in ways that might sensibly lead to the inclusion of "zone residents" as a new target group.

Evaluations of the TJTC, which has been available since 1978, express disappointment with the program. It has been described as "perhaps the most outstanding example of an entitlement program with extremely low participation rates despite a very generous subsidy offer." (Bishop & Kang 1991). Moreover, those employers who have claimed the credit have tended to do so with regard to employees whom they would have hired even in the absence o~f the credit. (Bishop & Kang, 1991; Levitan & Gallo 1987; deHaven-Smith 1983). For many employers, membership in a targeted group stigmatized a prospective employee in a way that reduced the employer's expectations of the employee's productivity more than the credit would have reduced the employer's expected wage costs. (See Burtless 1985). For others, the information costs of determining whether a prospective candidate was in fact a member of a targeted group were too high. (Bishop & Kang, 1991). Indeed, problems associated with implementing the target requirements seem little different from the implementation problems often associated with implementing programs that deliver services directly through the public sector. (deHaven-Smith, 1983).

Presumably the information costs associated with determining whether a job candidate lives in an enterprise zone would be lower than the costs of determining whether he or she is a member of a TJTC targeted group.[5] But there is little reason to believe that the stigma associated with being an enterprise zone resident would be any lower. Overall, given the experience with the TJTC and the restrictive work situs requirement, one should not be wildly optimistic about the potential employment gains from the employment credit features of the vetoed 1992 enterprise zone bill.

To be sure, the lesson of this analysis is not that we should give up on any program that might be labeled an "enterprise zone" proposal. Rather, it is that the effects of such a proposal are likely to turn on small details of its structure. Some enterprise zone proposals are not likely to have much effect at all. Others might make it marginally more likely that an investor will be able to turn a profit from a venture that he or she might well have undertaken in any event. Some might make it easier for neighborhood residents to buy retail goods. Still others might significantly enhance the employment opportunities available to neighborhood residents. However, if one's primary aim is the last one -- to substantially expand the number of jobs available to the ghetto poor -- it seems that one needs a different enterprise zone plan from the one that was vetoed in 1992.[6]

Guaranteed Public Sector Jobs

A more direct approach to increasing employment among the ghetto poor is to have government agencies hire people. David Ellwood has argued that welfare should be replaced by a form of "transitional assistance" and that governments should "offer a limited number of minimum-wage jobs to those who had exhausted their transitional assistance." (Ellwood 1988: 124). Ellwood expects that this program would be small and temporary because few people will find such jobs attractive once they can do better in the private sector. (Ellwood 1988: 125).

Philip Harvey has made the case for a more expansive "employment assurance program," suggesting that guaranteed public sector jobs be provided at "market wages." Harvey defines "market wages" to mean "wages equivalent to those normally offered for similar work in the regular labor market. ... Indeed, the program could simply adopt existing government wage schedules for comparable jobs." (Harvey 1989: 31). He argues that a large, permanent program would come at surprisingly low net cost, and that taxpayers would gladly pay that cost in exchange for full employment security. In response to concerns about productivity, he suggests that the range of salaries available to different kinds of public sector jobs (ranging down to purely routine casual labor paid per day or on a piecework basis), combined with the possibility of being fired from any particular job, would be enough to maintain appropriate worker incentives. In response to concerns about competition with the private sector, he offers a list of areas where the private sector currently maintains only a minimal presence and where the social benefits of a public presence would be appreciated.

Mickey Kaus has taken the idea in the opposite direction from Harvey, arguing for a more restricted form of transitional assistance and a different kind of guaranteed public job. Whereas Ellwood envisions minimum-wage public jobs (supplemented by a greatly expanded earned income tax credit), Kaus prefers "a useful public job at a wage slightly below the minimum wage for private sector work" (supplemented by an even more greatly expanded earned income tax credit). (Kaus 1992: 125). And whereas Ellwood describes his public sector jobs as available only to those who had exhausted transitional assistance, Kaus would make them "available to everybody, men as well as women, single or married, mothers and fathers alike ...[i]t wouldn't even be necessary to limit the public jobs to the poor." (Kaus 1992: 125). By having his jobs pay less than the minimum wage (before the EITC is taken into account), Kaus would ensure that participants would always have an incentive to prefer work in the private sector.

Guaranteed public sector jobs programs have traditionally been analyzed under the heading of "public service employment" ("PSE"). PSE proposals must contend with at least four types of criticism:

(1) The jobs will be "bad jobs." PSE positions might not be worthwhile in some absolute sense -- because from the worker's perspective the jobs might not be "fulfilling," because from society's perspective the jobs might not be "socially valuable," and/or because they might not provide workers with skills that are transferable to the private sector.

(2) The jobs will "substitute" for jobs that would otherwise exist. PSE positions might simply replace jobs that are already being performed, so that there will be no net increase in employment opportunities. Some relatively high-paying jobs might even be eliminated in favor of PSE jobs.

The net result would be a kind of back-door federal subsidy of the costs of local government operations.

(3) The jobs will go to the non-needy because of "creaming" or patronage abuses. PSE positions might be allocated to the most capable workers -- workers who are the most likely to have "gotten by" without them -- in order to create a deceptive appearance of success. Or they might be allocated to workers solely to enhance their loyalty to a particular local politician.

(4) The jobs will be more expensive than they are "worth." PSE positions might have some value and might create some net new employment opportunities, but not enough to justify the overall cost.[7]

Some sense of the weight to be given these objections can be gained from the most recent federally funded PSE programs. After the large-scale Works Progress Administration projects of the 1930s, the most substantial experience with PSE in the U.S. came during the 1970s, in the form of the Emergency Employment Act of 1971 and its successor the Comprehensive Employment and Training Act of 1973 ("CETA"). CETA supplemented traditional employment and training programs with PSE for victims of both "structural" and "cyclical" unemployment.[8]

CETA was administered in the form of federal grants to local government "prime sponsors" (state governments in the case of rural areas) which in turn established the PSE positions. In response to complaints of "overcentralization" in prior education and training programs, most authority for planning and managing the programs had been delegated to state and local elected officials. (Mucciaroni 1992: 153).

In its early implementation, CETA was subjected to all four types of criticism. Just as significantly, the program's reputation was badly damaged when the national press published a series of stories describing some of the more outlandish local projects such as the infamous "nude sculpting workshop." (Mucciaroni 1992; Baumer & Van Horn 1985). Accordingly, when CETA was reauthorized in 1978, it was amended in significant ways. Advisory groups called "private industry councils" were established to increase the role of the private sector and thereby improve placement rates. Wages were lowered to minimize the likelihood of creaming. The duration of PSE positions was limited so as to minimize fiscal substitution. And strict new penalties were combined with heavier-handed centralized administrative control, to combat fraud, waste, and abuse.

CETA was not subjected to experimental, random-assignment evaluation, and the econometric evaluations yielded varying conclusions. Nonetheless, the evaluation literature suggests that even before the 1978 amendments, PSE was providing significant long-term earnings increases for white and minority women participants, although not for men. (Barnow 1987; Bassi & Ashenfelter 1986; Bassi 1983). Rough efforts to undertake more comprehensive cost-benefit analyses were also encouraging. (Franklin & Ripley 1984: 198). Moreover, the 1978 reforms provided effective responses to the most concrete criticisms outlined above. (Baumer & Horn 1984; Mirengoff et al. 1982; Mirengoff et al. 1980). For example, with regard to "creaming," by 1980 as many as 92% of new PSE enrollees were low-income workers.

Unfortunately, those same 1978 amendments helped to undercut the program's political support. More intrusive bureaucratic fraud-prevention efforts meant heavier administrative burdens for local governments. Furthermore, stricter targeting and lower wages meant that the jobs were more likely to be "bad jobs" in two senses -- they were less likely to produce genuine value for the local government agencies and they were less likely to yield a worker who could make an easy transition to the private sector. (Mucciaroni 1992; Franklin & Ripley 1984; Baumer & Horn 1984). And the earlier scandals had forever tainted the program in the public mind. When Ronald Reagan was elected on a platform dedicated to shrinking the size of the federal budget, it was only a matter of time before the program was eliminated and replaced by the Job Training Partnership Act, which explicitly precludes the use of its funds to pay for public service jobs.

CETA left a legacy of skittishness about public service employment. On the one hand, it appears feasible to run a decentralized PSE program that is popular with local officials, provides a form of revenue sharing, and (in part by "creaming" the pool of eligibles) produces alumni who can make a successful transition to the private sector. On the other hand, such a program would not in any way respond to the concerns that motivate the underclass literature.

More ambitious guaranteed public job proposals along the lines suggested by Ellwood, Harvey, or Kaus would respond more directly to those concerns. All propose relatively universal programs where "creaming" would be impossible. Among the three, Harvey's plan offers the most latitude for structuring genuine worker incentives within the PSE ranks, but also runs the greatest risk of creating a separate worker pool with little movement to the private sector. Harvey's plan also promises the most significant changes in the overall structure of the economy. Kaus's plan would cause the least disruption in the private sector and maintain the most mobility, but also poses the greatest administrative challenges for the managers responsible for running his projects.

Far more damagingly, however, all three proposals must confront a serious political problem noted by Harvey. Americans have deep ideological concerns about the size and scope of government. While they may endorse guaranteed job proposals when responding to surveys, in practice the logic of limited government has trumped the logic of the work ethic and economic opportunity.

Designing a Policy Response -- Mobility Enhancement and "Access-to-Enterprise Zones"

The primary concern with spatially targeted programs, such as enterprise zones, is a concern about mobility -- in space and in society. To the extent mobility is a simple descriptive fact about the existing world, to the extent people are free and able to move easily across geographic boundaries, there is great force to the equity concerns identified in Section I.A. of this chapter. Although those concerns may be outweighed by the benefits of spatial targeting, we must worry about arbitrariness and artificiality in the designation of program beneficiaries.

Yet, in America, mobility is not merely a descriptive property; it is also an aspiration. Our conceptions of equal opportunity require that citizens have a fair chance at competing for jobs for which their talents qualify them. Those conceptions are threatened if some citizens are forced to compete in a significantly "smaller" labor market than others, whether because they lack the same access to transportation as others or because they are impermissibly penalized by some employers for traits that should be treated as irrelevant.

Thus, at a minimum, urban employment policy should work to ensure that no group of citizens is forced to compete in an artificially constricted labor market. A labor market can be constricted in at least two ways. It can be constricted directly, if employers discriminate in choosing employees. Or it can be constricted indirectly, if there is discrimination in residential markets and if one's employment opportunities are influenced by where one lives.

Mobility, Part I: Race-Based Employment Discrimination

The "underclass" described in Chapter 5 encompasses the residents of the most heavily depressed urban black ghettos. There continues to be strong evidence that labor markets for blacks are constricted "directly" because employers discriminate on the basis of race. Before exploring potential policy responses, it is useful to distinguish among three different types of discrimatory behavior:

-- actions that are contrary to the actor's monetary self-interest, but nonetheless indulge his or her personal animus or ignorance (actors who pay to satisfy a "taste" for discrimination, sometimes called "pure" discrimination by economists),

-- actions that promote the actor's monetary self-interest (at least in the short run) because they indulge the prejudices of other people the actor engages with, such as customers, suppliers, other employees, or lenders (actors who make money by "catering" to the discriminatory tastes of others), and

-- actions that promote the actor's monetary self-interest (again, at least in the short run) by exploiting generalizations that are true on average even though they are false in a substantial percentage of specific cases, where it is expensive to identify the specific cases (actors who make money through "statistical" discrimination).

While some of these forms of discrimination could be predicted to disappear eventually if they occurred in isolation in a perfectly competitive market (Arrow 1971; Becker 1957), in contemporary America many if not all of them are likely to prove quite durable for a long period of time. (Strauss 1991; Donohue 1986; Akerlof 1985; Brest 1976).

Moreover, these durable forms of discrimination are all morally objectionable. Some writers appear to take the position that statistical discrimination is perfectly acceptable because the actor wants "only" to make profits and has no active desire to harm others in the process. (Epstein 1992). But such a view is quite out of synch with our ordinary sense of morally acceptable behavior.

Lawrence (1987) and Kelman (1991) have argued that tacitly transmitted cultural stereotypes about racial minorities inflict pervasive harms on all members of the group by shaping the larger society's unconscious and habitual patterns of perception. Even if one ignores those generalized harms, however, a strong case can be made that statistical discrimination is socially unacceptable. In his overview of the subject, Strauss (1991) identifies three costs of statistical discrimination:

-- It can lead members of the group that is discriminated against to underinvest in human capital in a way that is inefficient for society as a whole.

-- It can perpetuate the harms that flow from past wrongs.

-- It can entrench demoralizing racial stratification.

Strauss thus argues that statistical discrimination is objectionable, not because of its effect on "the individual victim of discrimination," but rather because of "the aggregate effects of statistical discrimination on the minority population." (Strauss 1991, p. 1648).

I would go even further and suggest that statistical discrimination will often be objectionable even when one restricts one's attention to the individual victim. Focus for a moment on a person who does not match the stereotype being deployed. She in fact has a competence the employer desires. Yet, the employer has concluded that she lacks that competence merely because she has an immutable trait that in earlier times was the basis for socially accepted violence. The pain she experiences seems qualitatively different from the disappointment any job applicant feels when the employer underestimates her competence.

The statistical discriminator might try to excuse the discrimination by protesting that many of the group members being discriminated against -- maybe even a majority -- will not in fact have their competence underestimated because, by hypothesis, they will match the stereotype. Yet in other contexts we do not normally find such an excuse for self-interested behavior satisfactory. In civil society, we use informal norms and legal rules to lead people to "take into account" the interests of others. That means considering the number of individuals who could be harmed, the likelihood that each of them will in fact be harmed, and the extent of harm they could suffer. We fault people who press ahead with behavior that they know carries a significant risk of seriously harming innocent victims.[9] When one considers both the frequency with which individuals do not fit racial stereotypes and the extent of harm inflicted on such individuals by statistical discrimination in employment, the practice seems morally intolerable.

The most obvious response to employment discrimination is antidiscrimination legislation. Since 1964, federal law has generally prohibited employers from engaging in any of these forms of durable discrimination. The evidence suggests that such laws have had a substantial impact in reducing the incidence of discriminatory behavior. (Jaynes & Williams 1989). At the same time, however, it is clear that the legal prohibition has fallen far short of eliminating the behavior. (Aleinikoff 1992). In the past few years, several studies have confirmed that racial discrimination remains a significant feature of American society. In the area of direct discrimination by employers against employees, studies using "testers" by both the Government Accounting Office (1990) and the Urban Institute (Turner et al. 1991; Cross et al. 1990) have documented significant levels of discrimination against blacks and Hispanics. And Kirschenman and Neckerman (1991) have documented an extraordinary willingness of employers to articulate racial generalizations about potential workers in face-to-face interviews with the researchers.

The Civil Rights Act of 1991 made several significant changes that should make it easier for victims of racial discrimination to recover damages, and should therefore strengthen the legal deterrent to such discrimination. If a black job applicant can show that race per se played a role in an employer's decision not to hire him, the Act provides that the employer cannot attempt to justify the decision by asserting that the applicant would not have been hired in any event. And to combat the possibility that employers might find ways to rely on other factors as subterfuge proxies for race, the Act provides that employers whose hiring policies have a disparate impact on black workers must bear the burden of showing that those policies are justified by business necessity.

Surely a national urban policy agenda must seek to enhance mobility by responding to racial discrimination in employment. And yet, given the limited power of legal regulation to alter rationally self-interested behavior, policymakers should realize that antidiscrimination legislation is unlikely to trigger radical growth in the labor market opportunities of black adults. Accordingly, this aspect of the agenda should have other components as well. The federal government should draw on the tools of public education and advertising to educate citizens about the phenomenon of statistical discrimination and its moral objectionability. Moreover, to the extent those efforts remain inadequate, the public sector may need to develop other ways to compensate for the artificial restrictions imposed on some workers' employment opportunities.

Mobility, Part II: Indirect Constriction of the Labor Market

Even if direct constriction of the labor market opportunities of black workers were eliminated, one would still be concerned about the possibility that employment opportunities for some urban black adults are constricted indirectly, via residential segregation. Massey (1990) has argued that a great deal of the increase in concentrated disadvantage known as the "underclass" is due to the interaction between a general nationwide increase in the poverty rate and high levels of residential segregation by race. And it is an undisputed fact that American housing markets are profoundly segregated on the basis of race. (Farley 1991; Jaynes & Williams 1989; Farley & Allen 1987).

Given the extent of residential segregation, the so-called "spatial mismatch" hypothesis describes another social phenomenon that might constrict the employment options available to some black adults. In general form, the "spatial mismatch" hypothesis suggests simply that ghetto residents have fewer earnings opportunities than they would have if they lived in the suburbs. To the extent the hypothesis is accurate, one can address urban employment problems by helping ghetto residents to overcome the barriers of space. Until quite recently the federal government spent substantial amounts of money to directly support residential segregation (Schill 1990; Judd 1988), so the argument that the federal government owes such assistance to ghetto residents seems morally compelling.

Social scientists have attempted to measure the importance of spatial mismatch ever since John Kain articulated the hypothesis in 1968. Several recent reviews have reached differing conclusions. Schill (1992a), Holzer (1991), Kasarda (1990, 1989), and Ihlanfeldt & Sjoquist (1989) have all been persuaded that spatial mismatch is at least "a significant factor" in explaining poverty among urban blacks. In contrast, Moss & Tilly (1991), Jencks & Mayer (1991), and Ellwood (1986) are largely unconvinced.

However, even if spatial mismatch is important, the policy implications depend on the mechanism through which the spatial mismatch arises. It could arise simply because the cost in money and time deters potential employees from taking jobs that they are aware of and that are available to them. In that case, substantial gains can be made by extending urban public transportation networks to efficiently link all parts of metropolitan areas and by distributing transportation vouchers to citizens who could not otherwise afford to get to work. One might even make such gains by subsidizing the purchase of cars.

But any spatial mismatch could also have arisen for other reasons. For example, space could be a proxy for social, rather than geographic isolation. It could indicate isolation from information about when jobs become available. Or it could indicate isolation from the personal acquaintanceships and informal networks that can enable one applicant to gain a job ahead of an otherwise indistinguishable competitor. (Pedder 1991).

Information isolation can be partially remedied through the creation of computerized job banks and information centers of the sort advocated by Kasarda (1988) and Wilson (1991). Isolation from personal acquaintanceship, however, is a much tougher problem. It calls for strategies to reduce the extent of residential segregation. Such strategies could include increased enforcement of laws against residential racial discrimination, structural efforts to reduce the extent of residential economic segregation, and increased use of housing vouchers to improve the purchasing power of low income blacks.

The choice among these strategies depends on the causes of residential segregation. Such segregation reflects the interaction of several different factors. The most important are (i)úovert racial discrimination by landlords, homesellers, realtors, and lenders, (ii)ú"race neutral" socioeconomic residential segregation, and (iii)úthe preferences of tenants and homebuyers to live with neighbors of their own race ("self steering"). (Jaynes & Williams 1989; Galster 1986; Yinger 1979, 1976; Schelling 1972).

Even if one puts to the side the almost intractable issue of consumer preferences, the housing market continues to be permeated by overt racial discrimination. (Turner 1992; Massey & Gross 1991; Darden 1987; Galster 1986). An extensive study using "testers" found high rates of discrimination by sellers and landlords against black and Hispanic homebuyers and renters. (Turner, Struyk, & Yinger 1991). An econometric analysis of lending practices in California and New York found widespread discrimination against racial minorities. (Schafer & Ladd 1981). Moreover, preliminary 1991 data on national lending practices offered little reason to believe that much had changed in the succeeding decade. (Wienk 1992; LaWare 1992). Finally, while the tester study concluded that, on average, realtors are not "steering" black clients to significantly different neighborhoods than white clients, nonetheless, "blacks were steered to substantially less white neighborhoods in 8 percent of the audits, to substantially lower income neighborhoods in 5 percent of the audits, and to substantially lower value neighborhoods in 12 percent of the audits" and "neighborhoods that are higher percent [sic] black or Hispanic are less likely to be advertised, recommended, or shown, all other things being equal." (Turner, Struyk, & Yinger 1991, pp. 28, 32).

As in the case of employment discrimination, it would thus seem that antidiscrimination law enforcement is a necessary but imperfect tool of public policy. On the one hand, it has been suggested that the legal prohibition of overt discrimination stretched the geographic boundaries of the ghetto in ways that, while not producing integration for most blacks, have "permitted the filtering process to work to eliminate much of the completely unacceptable housing stock and to upgrade the quality of housing for minority families." (Orfield 1986, p. 24). On the other hand, the Fair Housing Act received remarkably little administrative and judicial enforcement during the first twenty years after its enactment. (Kushner 1988).

In 1988, Congress amended the Fair Housing Act to make both public and private enforcement much more feasible. A preliminary review of the effects of those amendments found that enforcement through both public and private litigation has grown significantly, but that efforts at increased administrative enforcement have been handicapped by inadequate administrative capacity. (Kushner 1992). Drawing on his own work and the work of others, Anthony Downs (1992) has offered a catalog of ways to reduce residential discrimination. Within that catalog, he assigns highest priority to the following six kinds of direct action:

(1) expanding HUD's enforcement staff,

(2) establishing metropolitan-area-wide antidiscrimination agencies,

(3) increasing HUD support for state and local agencies,

(4) expanding HUD-sponsored tester-based activities,

(5) requiring state agencies to abolish caps on the amount of damages that victims can recover, and

(6) conditioning the availability of Community Development Block Grant funds on the use of certain minimal antidiscrimination enforcement tools.

The Downs suggestions should unquestionably be an important part of a comprehensive urban policy. And yet, not even stepped-up antidsicrimination enforcement will counteract the segregating effects of socioeconomic differentials and of "self steering" by both black and white consumers. One response to the effects of socioeconomic differentials would be to attack suburban zoning practices that preclude the production of inexpensive housing in some suburban towns. In 1991, the President's Advisory Commission on Regulatory Barriers to Affordable Housing called for the limitation of federal subsidies to states that do not take action to minimize such practices. (Downs 1991; U.S. Advisory Commission 1991). Michael Schill (1992b) has argued that such initiatives, while legally feasible, are unlikely to make much political headway unless the suburbs are coopted with a significant payment of federal funds.

A more likely possibility would be to greatly expand the availability of housing vouchers or "allowances" that would permit low-income households to leave the ghetto if they wished to. During the 1970s, Congress spent approximately $150 million to conduct an enormous social experiment known as the Experimental Housing Allowance Program ("EHAP"). (Lowry 1983; Friedman and Weinberg 1982; Bradbury & Downs 1981; Struyk & Bendick 1981). While the experiment examined the effects of housing allowances on household demand and government administration, the biggest component had to do with how much housing allowances would affect housing supply. It offered housing allowances for up to ten years to all low-income renters and homeowners in metropolitan Green Bay, Wisconsin, and metropolitan South Bend, Indiana. (Lowry 1983).

Before the experiment, empirical disputes had given rise to a stalemate between advocates of supply-oriented programs (programs designed to increase the total number of housing units available) and advocates of demand-oriented programs (programs designed to give poor people more money with which to bid for existing housing units). Advocates of demand-oriented programs observed that they were likely to be more efficient than supply-oriented programs, since they enhanced the freedom of tenants to make utility-maximizing choices. Critics of demand-oriented programs observed that in tight housing markets where race- and class-based discrimination restricts options, a demand-oriented subsidy could easily lead to a bidding up of rents without any increase in quality -- at least in the short-run. That kind of bidding up of rents would shift the benefits of the program from participants to landlords. Moreover, unless the demand-oriented subsidy were provided as a universal entitlement for all low-income households, a generalized bidding-up of rents could actually harm nonparticipating low-income households. (Hartman and Keating, but see Stegman 1972.)

The debate over the choice between demand-oriented and supply-oriented subsidy strategies recapitulates several other longstanding debates in the housing policy community. One concerns the efficacy of the "filtering" or "trickle-down" process as a source of housing supply for low-income households. That process has always been, and remains, the principal source of low-income housing in the U.S. (Downs 1990: 88-92). New housing units of very high quality that are added to the stock can only be afforded by upper-income households. Those households leave slightly older, slightly deteriorated houses, which drop in value as the demand for them falls, and are then taken over by middle-income households. Those households, in turn, vacate still-older housing, and the process continues, so that each income class upgrades its living conditions without an enormous increase in costs. Old units, still in serviceable condition, trickle down to expand the supply of housing available to low-income groups.

Over time, supporters of supply-oriented housing policies have had substantial internal debates over where in the filtering process new housing units should be added. Tax incentives for homeownership and other tax incentives for new residential construction have long been viewed as useful mechanisms for adding new units at the top of the process. "Shallow" subsidies (providing a small amount of money per beneficiary) for moderate-income families add new units into the middle of the process. "Deep" subsidies (providing a substantial amount of money per beneficiary) for low- and very-low-income families add new units at the bottom.

Supporters of heavy reliance on filtering have argued that the higher one looks to add units in the trickle-down chain, the less expensive the subsidy that is required "per unit." In theory, that permits policymakers to simultaneously "loosen" the housing market through low-cost supply-side policies while expanding a demand-side policy of voucher assistance for the poor. Critics of heavy reliance on filtering have objected that large old houses designed for high-income families may require such high ongoing maintenance expenditures that they deteriorate more and more rapidly as they near the bottom of the filtering chain. Such houses can quickly deteriorate beyond serviceability, so that they are abandoned without adding to the supply of decent quality housing for the poor. Critics have also objected that the process can be slow and uneven -- dependent on aggregate levels of housing supply and demand in a given area, and subject to disruption by market imperfections such as racially segregated housing markets.

The findings of the different EHAP experiments were, in broad outline, quite consistent. They indicated that recipients of housing allowances ended up with decent quality housing and used almost all of the allowance to reduce the burdens of rent on their overall budget. Moreover, additional housing consumption did not stimulate rent inflation, at least in markets with a vacancy rate of at least five percent. In markets with such a vacancy rate, suppliers redistributed vacancies and made improvements to existing dwellings. (See also Weicher 1990). These findings were consistent with the results of an Urban Institute simulation in the late 1970s. (Struyk, Marshall, & Ozanne 1978). The Urban Institute study argued that local market conditions have a strong impact on the effectiveness of various housing programs and that over the long term local conditions should determine the optimal mix between supply- and demand-oriented programs.

Since EHAP, the most extensive study of the effects of housing vouchers on the employment opportunities of ghetto residents has been undertaken in connection with the Gautreaux Assisted Housing Program. The Gautreaux program was created through a consent decree in the aftermath of a judicial finding of widespread discrimination in Chicago's public housing program. (Warren 1988). It gives applicants for public housing a choice among up to three homes in either the city or the suburbs. (Schill 1992a).

A research team has undertaken a series of studies comparing those households that took advantage of the Gautreaux program to leave Chicago with those that remained in the city. (Rosenbaum 1991; Rosenbaum & Popkin 1991; Rosenbaum, Kulieke & Rubinowitz 1988). Gautreaux participants who moved to the suburbs were 14% more likely to have a job than those who remained in the city, even though there was no difference in the average hourly wage obtained by workers in the two groups. (Rosenbaum & Popkin 1991). While the magnitude of the effect is not enormous, it is substantial enough to justify continued support for the use of housing vouchers as an employment enhancement program. Moreover, other studies seem to find even greater effects along other dimensions, such as the level of children's school achievement and overall "neighborhood satisfaction." (Rosenbaum et al. 1992; Schill 1992a).

In sum, a national urban policy agenda should address indirect restrictions on employment opportunities -- restrictions that flow from residential segregation. This aspect of the agenda should have several components. It should include improvements in public transportation and job information networks. It should incorporate Downs's proposals to improve enforcement of antidiscrimination laws. And it should expand the availability of Gautreaux-style housing vouchers, so as to improve families' ability to compete in the housing market (subsidizing increased construction where necessary to maintain adequate vacancy rates).

Beyond Mobility -- Access-to-Enterprise Zones

Policymakers should appreciate that even the most aggressive pro-mobility strategy will inevitably be incomplete. For even if people are given broader opportunities to move out into the labor market, they may not choose to take advantage of them. Movement almost always involves costs. Old friendships and sources of informal support suffer; it takes effort to establish new ones. For some people, those costs may prove more important than the new opportunities that moving might bring.

Undoubtedly some people will be tempted to say that no further public action is required once everyone has been offered a meaningful opportunity to move. But such a response is too glib. For the justification for public action is not merely one of individualized compensatory justice. Rather, it is that, by hypothesis, certain neighborhoods are the scenes of interacting externalities whose synergistic harms to the community as a whole exceed the sum of their harms to individual citizens.

What approach should policymakers take to intervening in underclass neighborhoods? I would recommend that we begin by devoting some federal dollars to experimenting with something that could be called "access-to-enterprise zones" ("AEZs") -- neighborhoods whose residents are singled out for the intensive provision of job opportunities through work subsidies and guaranteed public jobs.

Return to the possibility posed at the beginning of this chapter -- that young adults in a neighborhood share an overwhelming distrust for the formal job market. Suppose that their environment offers them few examples of adults who have held down jobs that pay a wage adequate to keep them out of poverty. Suppose further that out of frustration and boredom they become actively engaged in predatory crime within their neighborhood. The increased crime drives away the retail businesses that help to make neighborhoods attractive and drives away neighbors with the financial ability to support neighborhood institutions. A downward spiral ensues. (See Blakely 1989; Wilson 1987; Myrdal 1957).

What is called for is a set of policy interventions designed to break the downward spiral. More effective police services might help. But it would also seem essential to provide young adults with reason to believe that they can achieve an acceptable level of material prosperity through lawful work. To reverse the spiral, one needs to combine lower crime rates with higher neighborhood income, to enable the restoration of commercial and social anchors that act as stabilizing forces for a community.

Unfortunately, there are no sure-fire policy interventions guaranteed to accomplish those goals. We are still experimenting, groping for policy configurations that work. It is in that spirit that I would propose experimentation with the AEZ hybrid. AEZ's would blend ideas from earlier enterprise zone and guaranteed jobs proposals. The overall AEZ program would emphasize two kinds of employment stimulus: a private sector AEZ tax credit and an AEZ guaranteed jobs program.

The AEZ tax credit would give any private sector employer who hired an AEZ resident a nonrefundable tax credit equal to 40% of the first $15,000 of the worker's wages each year. A similar credit was proposed in the Senate's version of the 1992 enterprise zone bill. Unlike the Senate proposal, however, the AEZ tax credit would not require that the worker carry out job activities within the AEZ. The AEZ tax credit would be more generous than the 1993 Clinton proposal that "empowerment zone" residents from economically deprived families be eligible for the Targeted Jobs Tax Credit. The AEZ credit would apply to the first $15,000 worth of wages instead of the TJTC's first $6,000. Moreover, since the justification for AEZ intervention is the assumption that individuals sometimes benefit when they have a neighbor in the workforce, regardless of that neighbor's family income, the AEZ tax credit would not carry the TJTC's usual requirement that a worker live in an economically disadvantaged family.

In Section I of this chapter, I discussed the low takeup rates associated with the TJTC. That phenomenon suggests that an AEZ tax credit alone might well not be enough to trigger a surge in AEZ employment. Accordingly, I would supplement it with a public sector guaranteed jobs program for AEZ residents -- a more limited and slightly modified version of Harvey's proposal.

The AEZ guaranteed jobs program would carry out tasks identified in consultation with the local government AEZ sponsor. The CETA experience gives reason to be concerned about the risk that local political priorities might overwhelm and distort the program. To minimize that risk, the AEZ guaranteed jobs program would be federally funded and administered, along the lines of the Works Progress Administration of the New Deal.

Perhaps the trickiest problem associated with designing a guaranteed jobs program involves choosing what wage to pay program participants. Flat wage proposals such as Kaus's and Ellwood's would seem to offer workers little reason not to shirk on the job. But Harvey's "market wage" proposal could lead some workers to forgo private sector opportunities, thereby increasing program costs and passing up options that, at least in American society, might provide a better stepping stone to long-term employment. Accordingly, I would propose experimentation with a "compressed wage scale" for participants in the AEZ guaranteed jobs program. The scale would start at the minimum wage and go up, but would be designed with the goal of maintaining a genuine incentive for participants to seek out and accept private sector opportunities for which they have the appropriate skills.

To avoid the perverse effect of undermining the mobility of AEZ residents, it would be necessary to maintain "transitional" eligibility for AEZ "benefits." Consider a hypothetical worker who takes an AEZ guaranteed job and then moves to a private sector job, thanks in part to the private sector AEZ credit. Suppose she is able to save enough money to move to a safer neighborhood in the city, and that she would like to do so. In order to allow her to do so, the AEZ program would provide that, for one full year after moving, she would retain full eligibility to participate in the guaranteed jobs program and to qualify an employer for the private sector tax credit. The employer tax credit would be phased out during the succeeding two years.

Access-to-enterprise zones would be designated by the Department of Housing and Urban Development, based on applications received from the relevant state and local governments. The research literature discussed by Mincy in Chapter 5 indicates that the most serious urban problems are concentrated in a relatively small number of metropolitan areas. Accordingly, those areas should be the targets of the AEZ experiment.

It is important that each AEZ application include a local commitment to a "course of action" to revitalize the AEZ, similar to the commitment required in the 1992 enterprise zone bill. Priority would be given to applications from local governments that had obtained referendum approval from zone residents. The primary criterion for designating which zones would be eligible to participate in the experiment would be the unemployment rate within the zone.

The theme of social mobility discussed earlier reinforces the importance of the local "course of action" commitment. Mincy's discussion in Chapter 5 documents the relationship between "socialization effects" and youth opportunities for social mobility, including wages, total earnings, and hours worked. Thus, to enhance social mobility, the "course of action" should concentrate on developing responses to those socialization effects. Such responses might involve reorienting police services towards community policing models. (Clairmont 1991; Leighton 1991; Skolnick & Bayley 1988; Green & Mastrofski 1988; Belknap et al. 1987). Or they might involve commitments to support nonprofit groups that are engaged in economic development, training, or mentorship activities within the AEZ. (Lehman & Lento 1992; Caftel et al. 1992; Ferguson 1990; Mincy & Wiener 1990; Ross & Usher 1986; Mayer 1984).

Moreover, anecdotal evidence suggests that sometimes programs designed by community-based organizations are able to accomplish more than centrally designed programs. Local design may enable more supple responses to relevant variations in the socioeconomic context in which the program functions. (Taub 1988). Participation in design may induce volunteers to cooperate more enthusiastically in implementation. Accordingly, the "course of action" requirement could facilitate community-based experiments with new ways to counteract socialization-effect obstacles to social mobility. (Schramm 1987).

Past experience with CETA and the Model Cities program suggests a potential political trap associated with the AEZ proposal. The trap would be set if the proposal's design were substantially altered in order to obtain political approval. For example, one direction of alteration would make the program touch a greater number of electoral districts, but with much less intensity. The trap would be sprung if that type of alteration led to a program that would be too small to catalyze change anywhere and would therefore be adjudged a complete failure. (Frieden & Kaplan 1975; Warren, Rose, & Bergunder 1974; Sundquist & Davis 1969).

A different direction of alteration would maintain the intensity of programmatic intervention, but would simply raise the total cost by addressing it to many more electoral districts. Note that this kind of alteration need not, in and of itself, be a problem. The budget constraint facing social welfare programs is not entirely exogenous to the policymaking process. Programs about which people are genuinely excited can increase the overall amount available to be spent on human needs.

But the trap that would lie dormant in this kind of alteration is that, while the program might well bring about valuable improvements in some areas, substantial amounts of money would also be spent in areas in which spatial targeting was never theoretically justified to begin with. The trap would be sprung when someone decided to criticize the program as "target inefficient." Or, even worse, the inescapable consequences of political compromises in the design phase might be characterized as scandalous examples of "waste" in the implementation phase. (Mucciaroni 1992).

These sorts of political traps may not be avoidable. Much depends on the extent to which political leaders are genuinely persuaded that our large cities face genuinely distinctive problems that are of genuinely national concern. If they are persuaded, a targeted AEZ experiment may be a useful source of insight into other questions. Is the phenomenon of distrust such a significant feature in urban racial landscapes that it affects job opportunities? Would the availability of guaranteed public jobs really make much of a difference in the extent of that distrust? To what extent do other, more locally driven aspects of urban policy determine the effectiveness of federal programs like AEZ's? At this point, we simply do not know enough to speak with confidence.

Conclusion

In the early 1990s, concerns about the plight of the black urban poor have led to increasing interest in devoting substantial public resources to enterprise zones and guaranteed public jobs programs. In Section I, I reviewed those proposals and discussed the technical and political objections they have faced. In Section II, I proposed an alternative approach to updating our national urban policy, organized around the theme of social and spatial mobility.

I have suggested that long-term and short-term policy responses to ghetto unemployment should proceed simultaneously on three fronts. The first front involves direct mobility constrictions that take the form of racial discrimination in employment. As part of the long-term response to those constrictions, policymakers and citizens generally need to be educated about the ongoing role played by direct racial discrimination in employment -- particularly the variant known as "statistical discrimination." And over the next few years, it is important to monitor how the changes made by the Civil Rights Act of 1991 are implemented.

The second front involves indirect mobility constrictions that may flow from residential segregation. Here the long-term response should include improvements in public transportation and job information networks, and it should include intensified enforcement of laws against discrimination in housing. Perhaps most significantly, it should include expansion of the provision of housing vouchers to low-income families living in depressed urban neighborhoods.

The third front involves policies addressed to the needs of people who cannot or will not move. The access-to-enterprise zone proposal is an idea for providing a short-term response to the lack of meaningful employment opportunity in depressed neighborhoods. The proposal combines three elements: (i) private sector tax credits, (ii) guaranteed public jobs, and (iii) a commitment from local governments to interventions that address other contributors to neighborhood distress.

Any discussion of an urban policy agenda should conclude with a note of caution and timidity. Action along the three fronts I have described cannot, standing alone, do much to respond to the broad array of problems confronting the urban poor. National policies described in other chapters in this book -- policies of macroeconomic stimulation, human capital development, health care, and income support -- remain far more significant. The point of this chapter is that, even after all those other policies are in place and fine tuned, more can be done to address the needs of America's black urban poor.

Notes

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[2] In 1987 Congress authorized HUD to designate 100 zones nationally on the basis of measures of economic distress, but put little economic value behind the designation -- merely funding priority under programs such as Urban Development Action Grants and Community Development Block Grants. The authority lapsed without being exercised.

[3] It also provided for 25 "rural development investment zones" to have been designated by the Secretary of Agriculture in consultation with the Secretary of Commerce and for separate employment and investment incentives for businesses located on Indian reservations.

[4] The enterprise zone proposal described in the text reflected the Conference Committee's decision to adopt, with a few minor modifications, the House version of the plan, rather than a Senate version that was almost twice as expensive. It is instructive to note the manner in which the Senate plan had grown over the course of the legislative process. The House had recommended spending the equivalent of $53 million on each of 50 enterprise zones (moderate investment on a moderate number of areas). The Senate Finance Committee had recommended spending the equivalent of $100 million on each of 25 enterprise zones (heavier investment in a few areas). But on the floor the full Senate voted to spend the equivalent of $45 million on each of 115 enterprise zones (lighter investment in many more areas). This change in focus -- from deep and narrow to shallow and broad -- echoed the politics that had shaped the Model Cities program a quarter-century earlier. (Frieden and Kaplan 1975).

[5] The groups are "(A) a vocational rehabilitation referral, (B) an economically disadvantaged youth, (C) an economically disadvantaged Vietnam-era veteran, (D) an SSI recipient, (E) a general assistance recipient, (F) a youth participating in a cooperative education program, (G) an economically disadvantaged ex-convict, (H) an eligible work incentive employee, (I) an involuntarily terminated CETA employee, or (J) a qualified summer youth employee." I.R.C. 51(d)(1).

[6] As this chapter was going to press in May 1993, the House of Representatives has just approved a form of enterprise zone proposal that had been submitted by the Clinton Administration. (U.S. Congress 1993).

The most significant differences between the 1993 proposal and the 1992 vetoed bill were as follows:

> 1) Whereas the 1992 bill would have provided for up to 50 enterprise zones (25 urban), the 1993 proposal provided for up to 10 "empowerment zones" (6 urban) and 100 "enterprise communities" (65 urban).
>
> 2) Whereas the 1992 bill would have made all 50 enterprise zones eligible for the full package of investment incentives and wage credits, the 1993 proposal limited eligibility for the

full package to the 10 empowerment zones. Enterprise communities would have been eligible only for two of the investment incentives: special tax exempt financing benefits and an expansion of the low-income housing tax credit.

3) Under the 1993 proposal, empowerment zones would have had to show higher poverty rates than were required by the 1992 bill.

4) Whereas the 1992 bill required a fairly specific "course of action" from the local authorities, the 1993 proposal called for a somewhat more general "strategic plan," but still retained (in slightly modified form) a statement that the strategic plan not include any action to help a business relocate into the zone from outside the zone.

5) Whereas the 1992 bill established a 15% nonrefundable credit against the first $20,000 of wages paid to a zone resident working in the zone, the 1993 proposal would have established a 25% nonrefundable credit against the first $20,000 of wages paid to a zone resident working in the zone. In addition, the 1993 proposal would have made low-income zone residents automatically eligible for the targeted jobs tax credit.

6) The 1992 bill provided a fairly broad range of investment incentives for businesses located in enterprise zones, at least 1/3 of whose residents were zone employees. The 1993 bill provided a different package of incentives for businesses located in empowerment zones, at least 35% of whose residents were zone employees.

7) The 1992 investment incentives included "expense" treatment for purchases of certain tangible property, partial exemption from tax on capital gains, a special deduction for the purchase of certain stock in enterprise zone businesses, favorable tax treatment of losses, special tax exempt bond authority, and a credit for contributions to community

> development corporations. The 1993 investment incentives included even more generous "expense" and accelerated treatment for investments in tangible and real property, additional tax exempt bond authority, and special credits for contributions to the pension funds of zone residents who work in the zone.

None of these differences between the 1992 bill and the 1993 proposal respond to the criticisms presented in this chapter.

[7] Kaus estimates that his subminimum wage positions would cost "at least $10,000 per job." (Kaus 1992: 134). In 1984, Baumer and Van Horn put the cost of public service jobs at $10,000 per job and the cost of "public works" (construction oriented) jobs at $30,000 per job. (Baumer & Van Horn 1984: 172).

[8] Title II of CETA, the direct successor to the Emergency Employment Act of 1971, was justified as a source of "transitional" jobs for unemployed victims of "structural" unemployment. Title VI, added at the end of 1974, was justified as a "countercyclical" response to recession. In practice, however, there were no significant differences between participants in the two types of PSE program -- for the most part, they were nondisadvantaged adult whitemales who had been unemployed for relatively short durations. (Mucciaroni 1992).

[9] To be sure, this argument leaves open the possibility that some forms of statistical discrimination might be morally tolerable. We do not always fault people who harm others through actions based on generalizations that are almost always true. To criticize such forms of statistical discrimination, one would need to rely on one of the other arguments made in the text.