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**The Impact of Housing on Community:
A Review of Scholarly Theories and Empirical Research
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Executive Summary

Scholars have achieved much in their quest to understand the ways that housing markets and urban communities influence each other. Over eighty years of research has produced increasingly sophisticated models of neighborhood change, innovative efforts to understand the reasons why communities typically are segregated by race and income, and the causes and effects of concentrated poverty. This research has at various times influenced the nation's public policies, helping to shape varied programs and regulations aimed at improving economic efficiency, correcting market failures, ensuring fairness, and promoting equity.

This paper reviews the ways in which housing markets shape initial neighborhood conditions and drive changes in these conditions over time. In addition, it examines the impacts of the operation of housing markets on communities and individuals. Lastly, it considers the public policy responses to results of the operations of the housing market. This summary is organized around five important impacts of housing markets on community character: 1) residential segregation by race and income; 2) neighborhood change leading especially to urban decline and distressed neighborhoods; 3) uneven quality of public services across jurisdictions; 4) uneven access to opportunities by community; and 5) socioeconomic distress associated with distressed neighborhoods of concentrated poverty.

Residential Segregation and Policy Responses

One of the most pervasive and persistent outcomes of the operation of housing markets in the United States is the segregation of residential space by race, ethnicity, and income. The literature in this area documents this segregation, traces changes to it over time, examines cross-sectional variations in segregation across places, and posits explanations for it. The findings in this area, together with civil rights and fair housing movements, have in turn inspired policies intended to either promote integration or outlaw discrimination. The literature makes plain that:

- **Residential segregation is created and reinforced by multiple social, political, and economic forces. This makes it difficult for policy makers to reduce it:** The factors singled out in the literature as playing especially significant roles are: 1) observed consumer preferences for some degree of racial and income segregation, 2) competitive bidding for neighborhood amenities and public services in an economy characterized by unequal

distribution of income, 3) discrimination in housing markets, 4) the use of local property taxes to fund public services, and 5) local control of land use.

- **Although racial segregation has been easing since the 1970s, and income segregation since the 1990s, racial and income segregation remain at high levels in many places:**

Progress reducing residential segregation has been slow and the reasons for apparent reductions remain the subject of some debate. Some evidence suggests that preferences are slowly changing in ways that result in higher acceptable thresholds of both racial and income integration. Strengthened antidiscrimination, fair housing, and anti-redlining laws and a shift to housing programs that help disperse the poor have also been cited as possible causes. Indeed, there is evidence that the number of integrated neighborhoods is growing and that older ones are remaining integrated longer.

- **A range of policies and programs have been designed to promote integration, but relatively little effort has been made to study the individual and collective impacts of these policies:** Policies have been designed both to eliminate discriminatory behavior and encourage the dispersal of the poor. Although anti-discrimination and fair housing laws have been on the books for nearly four decades, there is considerable evidence that housing market discrimination, as measured by audit studies, persists. There is also considerable evidence that the Home Mortgage Disclosure Act and Community Reinvestment Act have each expanded access to mortgage credit in low-income communities; but high levels of subprime lending in these communities are raising new concerns over fair treatment. Court-ordered desegregation of public housing has occurred in some places and has been effective in reducing the concentration of the poor and moving them to areas with greater opportunities. And although not initially designed with the intention of dispersing the poor, the shift in federal housing policies towards housing vouchers appears to have diminished the concentration of low-income households.

- **Local regulatory barriers to the production of affordable housing remain strong, and court-ordered remedies and state-sponsored overrides to barriers remain limited:** Of the more than 16,000 permit issuing places, fewer than 200 have adopted inclusionary zoning ordinances to promote production of affordable rental housing and only a handful of states have laws that allow builders to seek legal remedies if places fall short of their fair share of

affordable housing. Court-ordered inclusionary zoning in New Jersey has succeeded in dispersing low-cost housing to some degree, but is the only state under such an order.

Neighborhood Change and Effectiveness of Urban Revitalization Policies

Many scholars have attempted to measure and explain patterns of neighborhood change. More recently, at least one economist has endeavored to predict neighborhood change over the course of a decade based on characteristics at the beginning of that decade. Despite considerable research on the causes of neighborhood change, and more particularly the role of housing markets in precipitating these changes, the appropriate public policy response to neighborhood decline is still being actively debated. Research in this area supports the following conclusions:

- **Economic and social change is the rule, not the exception, in neighborhoods:** Median incomes in most census tracts move up or down the metropolitan income distribution every decade. On average, median incomes of neighborhoods move up or down the distribution by 13 percentage points over a ten year period. Nearly two-thirds of neighborhoods in the bottom quintile of their metropolitan distributions moved to a higher quintile between 1950 and 2000.
- **Many models have been posited to explain neighborhood change, with empirical confirmation that physical depreciation of housing and externalities drive it at least in part:** From early efforts by sociologists at the University of Chicago dating back to the 1920s, to studies of neighborhood succession and filtering in the 1960s, 70s, and 80s, to attempts to quantitatively model neighborhood change in the 1990s and 2000s, the focus on understanding the process of neighborhood change has been constant. The weight of evidence suggests that neighborhood change is a complex process produced by the cycling of residents through a relatively durable housing stock and the expansion of metropolitan areas. Factors implicated include: 1) processes that give rise to residential segregation as newcomers to neighborhoods trigger responses by current residents; 2) functional obsolescence of older homes as homes built to new tastes, standards, and technologies are added to the stock; 3) the physical depreciation of housing which erodes quality unless its effects are countered by capital spending; 4) the filtering of some older neighborhoods to lower income residents less able to support the capital expenditures needed to keep housing from falling into disrepair and abandonment; 5) negative externalities created by abandoned

properties or changing environmental conditions; 6) the homeownership rate in a community; 7) the availability of credit for property owners and buyers; 8) the degree of poverty in an area; 9) changing demand for particular locations within a metropolitan area based on their proximity to jobs and amenities, and the changing income and racial composition of its residents with time, and 10) the investment decisions of property owners.

- **The complexity of neighborhood change and the paucity of data defy efforts to predict economic change at the neighborhood level with much confidence:** One recent study suggests that up to 25 percent of decadal change can be anticipated from census variables, with a variety of the above listed externalities making up four-fifths of that amount and physical depreciation the rest. But the explanatory power of such models remains low, and many of the likely influences on the process of neighborhood change are unmeasured. Furthermore, it is difficult to isolate the impact of each contributing factor because many of them are inextricably linked. It is still unclear why certain neighborhood conditions, such as racial composition, ownership rates, and subsidized housing shares in one period are associated with changes in neighborhood status ten, twenty, and thirty years later. Still, progress in understanding neighborhood change is being made through the use of econometric methods. Overcoming data limitations would improve the fit and power of models. That said, the attention to econometric approaches has come at the expense of more detailed ethnographic and sociological studies of the detailed process of neighborhood change.
- **Many approaches to avert the process of neighborhood decline or revitalize economically distressed neighborhoods have been tried:** Initially, the approach to reversing neighborhood deterioration was literally to bulldoze neighborhoods. Razing neighborhoods displaced residents. This approach gave way to a variety of anti-poverty efforts and the Model Cities in the 1960s and 1970s, Community Development Block Grants and Urban Development Action Grants in the 1970s and 1980s, HOME block grants and HOPE VI revitalization of public housing projects in the 1990s, and the use of Low Income Housing Tax Credits to support neighborhood revitalization efforts in the 1990s. More recently, homeownership programs have gained in popularity as tools to foster revitalization. Yet some have pointed out that low-income owners are vulnerable to changes in their personal financial situations that can leave them unable to meet their mortgage and other

ownership obligations. The most recent tools for revitalization are the use of charter schools and other school-based program. But it is too soon to gauge the impact of the use of school-based interventions, and they are still not that common.

- **Because comprehensive, careful impact studies of these approaches are rare, it remains unclear whether the arsenal of interventions presently available are sufficient to stabilize or reinvigorate distressed communities:** We are still a long way from understanding specifically, and under what circumstances, which types of interventions may work best to reverse neighborhood decline. However, some carefully done recent studies give reason to believe that concentrated housing investments, such as New York's Ten-Year Plan, can shore up ailing housing markets. Our knowledge of what might prevent neighborhoods from becoming distressed in the first place is even less developed.

Uneven Quality of Public Services

Another community outcome identified with the operation of housing markets is uneven distribution of and access to quality public services. The explanation of this outcome is now generally accepted and empirical evidence of this unevenness compelling. A review of the literature supports the following conclusions:

- **Local control over land use, uneven distribution of household income, and funding of services from local property taxes lead to an uneven distribution of public services across jurisdictions because homebuyers and renters sort themselves into communities that provide the level of public services they want *and* can afford:** Lower income jurisdictions are the clear losers: they have more social and economic problems and less revenue to address them with. Therefore, short of wholesale changes in the household income distribution, preferences for income mixing, or local funding and land use control, this situation is unlikely to change or yield to public interventions on the margin. The quality of public services within jurisdictions is more complex and less studied. In the area of public education, limited evidence suggests that poorer areas typically spend more per student but have schools that are staffed by less experienced and educated teachers.
- **Government leaders have made few efforts to redress imbalances in the quality of public services among jurisdictions:** Regional revenue sharing is a possible solution but few local governments have embraced it. Where permitted by state law, districts for service

provision that overlap jurisdictions can also be effective. However, higher income communities are typically unwilling to participate with lower income communities in forming these districts.

Uneven Access to Economic and Social Opportunity

Yet another aspect of residential segregation is its influence on the spatial access of minorities, and to some degree low-wage individuals, to social and economic opportunities. Although interest in the topic is great, there is a lack of consensus on how to measure these spatial mismatches, and on its root causes. However, this has not prevented policy makers from pursuing policies aimed at moving low-income households to neighborhoods thought of as offering greater social and economic opportunities. Several policies are now aimed at creating low-income housing opportunities near areas of rapid job growth and in moderate and middle income communities. The literature in this area supports the following conclusions:

- **Despite lack of agreement on the best way to measure spatial mismatches, by most measures the poor and African Americans are often remote from where they work and jobs are located:** Several studies have found that African Americans incur higher commuting costs and take longer to get to work than others. In addition, it is now generally agreed that levels of spatial mismatches are greater for blacks in areas with higher measured levels of decentralization.
- **Empirical research on deficits in social capital in low-income areas has lagged research on spatial job mismatches:** Although there is a well developed conceptual framework for thinking about the role that social capital plays in uneven opportunity, it needs updating to reflect more recently developed concepts of social capital and community efficacy. In addition, we need more quantitative and qualitative research on spatial differences in broader opportunity sets than just proximity to jobs.
- **Policy makers have not waited for detailed studies to take action aimed at moving low-income and minority households out of concentrated pockets of poverty:** Despite the fact that the implications of uneven access to opportunity and methods for measuring it are not well established, many policy initiatives are aimed at locating the poor and minorities in places with more abundant opportunities for social and economic advancement. The most

noteworthy is the Moving to Opportunity program, which helps voucher holders move to neighborhoods with greater racial and economic integration.

- **Early evaluations of the Moving to Opportunity Program suggest that altering the geographic location of low-income households can result in improved work and social outcomes:** Although still under evaluation, and even though early results are mixed, most studies have found evidence of improvements in educational achievement, employment rates, and crime rates of program participants. It is also evident that vouchers and tax credits have been far more successful in dispersing the poor than public housing and older assisted housing programs of the 1960s and 1970s have been.
- **Government leaders have made few efforts to remove the regulatory barriers that stand in the way of producing lower cost housing in areas experiencing rapid employment growth:** As noted above, there have been few successful efforts to topple regulatory barriers that inhibit production of lower cost housing closer to low-wage jobs.

Socioeconomic Distress in Concentrated Poverty Areas

In the extreme, housing markets result in the concentration of the poor in areas of extreme poverty. Although operating definitions of extreme poverty areas vary, the most widely accepted definition is census tracts (or counties in nonmetropolitan areas) where the poverty rate is 40 percent or more. Census tracts or counties where the poverty rate is between 20 and 40 percent are usually considered poverty areas. Initially, these areas were labeled as ghettos and the social and economic conditions in these areas were studied descriptively. The War on Poverty in the 1960s resulted in greater attention to concentrated poverty and widespread access to census data in the 1980s led to studies of its magnitude. Once it became apparent that the problem was significant, and had worsened over the course of the 1970s, sociologists and economists began to pose theories of the causes of concentrated poverty and to test for its influence on its residents. The literature supports the following broad conclusions.

- **Whether it is a “culture of poverty” or the structure of the economy that is to blame, it is now widely accepted that a considerable fraction of the poor end up in areas with high concentrations of poverty:** In 1990, 10.4 million people lived in extreme poverty areas. Though that number had fallen to 8.0 million by 2000, it remained high. Indeed, about one in ten poor people lived in extreme poverty areas in 2000. There are now about 2,500

census tracts where the poverty rate tops 40 percent. Concentrations of poverty may be declining, but it is unclear whether 1990s gentrification will lead to re-concentration as the poor spill over to other neighborhoods and reach higher – possible threshold-tipping points – in these places.

- **Isolating the impact of neighborhood conditions from individual impacts of poverty is methodologically daunting; the evidence which suggests concentrated poverty compounds the problems of poverty is inconclusive but strongly suggestive of negative consequences:** Along with the despair and stress that can be associated with living in these areas, it appears that lower levels of social and economic opportunity contribute to poor conditions in these places. Social capital, information networks, and community efficacy are all generally lower in pockets of poverty. However, in poverty pockets where these measures are higher, resident outcomes tend to better.
- **Several programs aimed at de-concentrating poverty appear to improve economic and social conditions of program beneficiaries:** To lower the concentration of poverty, policy makers have pursued dispersal strategies. As noted above, the Moving to Opportunity program and vouchers more generally appear to be successful. Policy makers have also begun to combine housing assistance with welfare-to-work assistance. The one carefully controlled study in this area suggests housing assistance can help enhance work outcomes. Neighborhood reinvestment strategies, as noted above, may also help mix incomes. Intentional income mixing is increasingly being built into the designs of programs such as HOPE VI public housing revitalization programs and tax-credit financed developments. In addition, court-mandated dispersion and production of affordable housing in suburban communities has positive dispersal impacts, but thus far the scope of these mandates has been limited so their impact has been small.

General Conclusions

Although the literature on the interactions between housing and communities, most of which takes the form of quantitative methodology or economic theory, has been fruitful and thought-provoking, researchers of social issues in urban communities would be well advised to redress the imbalance between the quantitative and qualitative methods. In conclusion,

- **We need detailed studies of the culture, motives, and experiences of the people living in low-income and racially segregated communities:** Emphasis on using economic theory and large scale datasets to model the operation of housing markets and neighborhood effects has come at the expense of a richer understanding of the communities and individuals being studied. Economics is waking up to the value of behavioral economics in which theories are built up from an understanding of the way that consumers make decisions, the information on which their decisions are based, and the practical constraints they face in making them. More emphasis on these aspects of the drivers of housing markets and the responses to them is needed.
- **We need additional studies of the effects of housing market outcomes (such as concentrated poverty, property abandonment and deterioration, and racial segregation) on individuals and communities:** Without such studies, it is more difficult to make the case that public policy ought to allocate greater resources to ameliorating the negative externalities of the operation of housing markets.
- **We need additional studies of the efficacy of the many interventions that have been used to try and blunt these impacts:** Despite a great many program evaluations, the specific mechanisms in programs that lead to improvements in neighborhood housing markets and under what circumstance are weakly understood.

Regardless of the challenges, it is essential that scholars continue the effort to understand ways that housing markets have influenced and helped differentiate communities by race and socio-economic standing, and in turn influence the lives of residents in low-income communities. These processes are and will continue to be crucial to some of the most important domestic issues facing the nation.

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Introduction

Of all the elements that determine a neighborhood's quality of living, homes are by far the most influential. The types and condition of a neighborhood's homes – whether houses or apartments, owned or rented – determine whether the residents will live in comfort and safety. The value or change in value of an area's housing directly influences the financial condition of its occupants by providing more or less expensive shelter and, in the case of homeowners, increasing or decreasing the investment in the home.

Yet the value of homes in a given place depends upon a complex of intertwined factors. These factors include the type of dwelling, its physical condition, and as the old real estate adage emphasizes, its location. The value of location in turn varies according to the amenities, services, residents, and other structures – including homes – in the immediate vicinity.

The housing market is made up of the production, buying, selling, leasing, and renting of homes, and the financing for all such purposes. The value of homes and neighborhoods when they are initially built attracts some kinds of residents more than others, thereby influencing the demographic and socio-economic character of particular neighborhoods. The demographic character of a neighborhood in turn also influences the local housing market. Thus, the housing market both shapes and is shaped by the values of homes and neighborhoods. To make matters more complicated, markets and concomitantly the mix of residents in particular places change over time.

Regardless of their complexity and changeability, the operation of housing markets, in a society characterized by an unequal distribution of income and wealth, as well as racial and ethnic differences that influence social and economic behavior, results in an uneven distribution of population by income, race, and ethnicity, as well of the quality of goods and services provided in different communities. In many times and places, the urban poor have been and are burdened with inadequate homes, and communities that are racially segregated contain only expensive stores and have lower quality public services. Scholars have long labored to understand the workings of housing markets, the extent to which they contribute to social inequities, and most importantly, what can be done to counteract their harmful effects.

The following pages review the scholarly theories and research about the operation of housing markets and their effects. Much of the literature is concerned with examining how the

operation of housing markets at the metropolitan level gives rise to observed patterns of growth, development, and change in the physical housing stock as well as the residents that cycle through it.

The paper first surveys the ways that housing markets and communities have evolved and influence each other. This section includes a discussion of the complex problem of how neighborhoods change, the theories that racial and economic segregation of neighborhoods arises through deliberate discriminatory actions, and theories that the sum of individual preferences, mediated by the market, causes communities to differentiate. The second section scrutinizes the effects of market sorting on low-income communities. These effects are divided into the physical problems faced by low-income communities and the array of social and economic problems they confront. In the latter category, the text traces the emergence of a school of thought concerned with the so-called “underclass” and its isolation economically, socially, and spatially in pockets of concentrated poverty. In particular, the paper reviews literature about the effects low-income communities have had on their residents, in the areas of housing, employment, crime, public services, schools, and youth.

In the discussions of the scholarly literature, the paper attempts to encapsulate the origins and essence of important theories and briefly relate both their worth and shortcomings. Finally, the paper discusses the relevant government programs that have attempted to assist in producing housing, redevelop communities, and otherwise compensate for the inequities created by the housing markets. To supplement these discussions, an appendix reviews the main features and assessments of twenty programs related to the operation of housing markets, the unequal distribution among communities of goods and services, the redevelopment of low-income neighborhoods through housing and schools, and the dispersal of residents of low-income communities to obtain better opportunities in education and employment.

Housing, Housing Markets, and their Impact on Communities

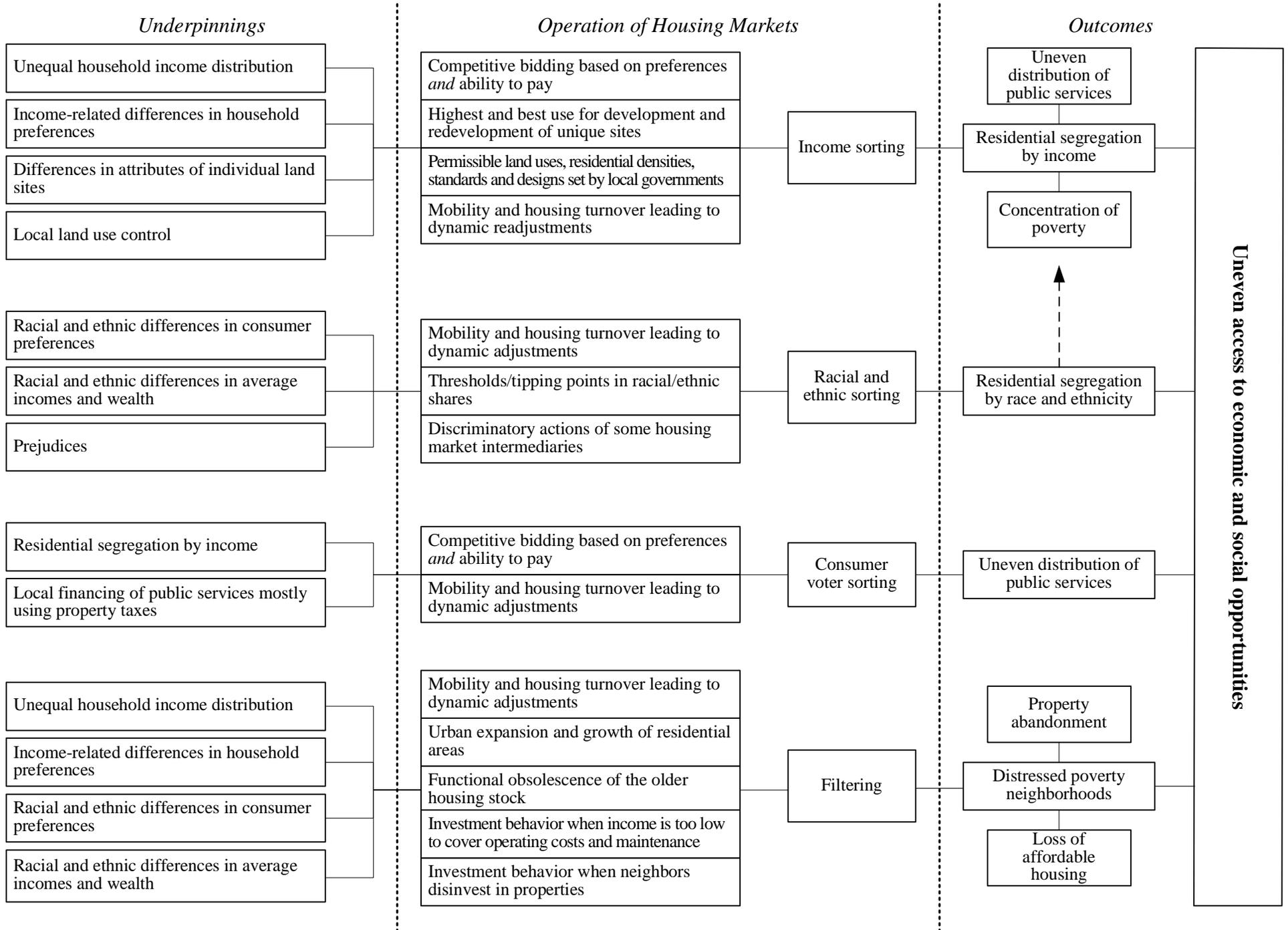
The mechanisms through which housing has an impact on communities are varied and mediated through the operation of housing markets and the unique political geography of the United States in which relatively small local jurisdictions have enormous control over land use and the financing of public services.

For decades scholars have studied the way that housing markets sort the population to understand their impact on communities. The reason they are interested is that the operation of

housing markets sorts the populace in a way that produces clusters of people of similar race and economic standing in ways that produce different life experiences and opportunities. The tendency to sort people of one group or another – even if it only sometimes produces complete segregation of particular people – is one of the most striking features of urban life. Yet as sorting continues over time, it can undo the result of previous sorting. In a recent study, Rosenthal (2005) found that nearly two-thirds of the lowest income neighborhoods he studied had improved in economic status over a 50 year period and 60 percent of the highest income neighborhoods had declined.

It is now widely and correctly held that housing market mechanisms give rise to general patterns of neighborhood characteristics that have endured for at least a century. These include residential segregation by income, race, and ethnicity, uneven quality and access to public services, uneven access to jobs, and neighborhood succession from one profile of residents along income and racial/ethnic lines to another. In turn, the process of neighborhood change and succession has culminated in a pattern of urban decline and renewal as well as the concentration of poverty (See Chart 1).

Chart 1. Housing and Community Outcomes



Theories of Residential Sorting by Income and by Demand for Public Services

To even casual observers it is clear that: 1) housing markets tend to sort individuals by race, ethnicity, and income, 2) prices and densities of housing are typically higher at locations that are closer to employment and cultural centers, and 3) the quality of public services is uneven across jurisdictions.

Economists have provided compelling reasons for why competition for land in a market characterized by bidders with different levels of income and wealth will tend to lead to sorting by income (DiPasquale and Wheaton 1996). Each parcel of land upon which a home is built has unique endowments as a result of its topography, proximity to natural amenities and natural risks, and proximity to economic and cultural activities. Land will be developed to its highest and best use (the use people are willing to bid the most for), subject to local zoning constraints and what is permissible to build on a site. In this sense, housing markets define communities because they determine simultaneously the type of housing that is built at a site and the type of occupants that will be able to bid successfully for it. This bid-rent theory of spatial patterns of residential development has also been used to explain residential densities and rents within metropolitan areas characterized by one or a few employment centers.

As households sort themselves based on preferences for where they want to live and their ability to bid on different homes, they select not only among attributes of locations related to their natural attributes and their proximity to other things, but by the level and quality of public services provided at different locations as well. The consumer-voter hypothesis has been advanced as a way to examine the economic efficiency of public service provision at the local level, as well as how spatial variations in public service provision influence locational choices and the voting behavior of homeowners.

The bid-rent and consumer-voter theories are briefly described in this section. These simpler abstract models have provided important insights into the processes that produce residential segregation, but by generalizing from the complexities of the forces driving the pattern of residential choices often omitted key influences. Including these might well have altered the empirical findings of these studies.

Households also often end up sorted into areas of relatively homogenous racial or ethnic characteristics. The question of why housing markets sort households by race and ethnicity is equally complex. One set of theories emphasizes the role of discrimination in creating this

outcome and another set emphasizes the role of consumer preferences. The two theories of racial segregation are treated in sections of their own below.

The Bid-Rent School of Land Use Economics

During the middle decades of the twentieth century, a new generation of economists inspired by the tenets of neo-classical economics devised ways to explain the growth patterns of urban areas. Scholars developed models of urban land use and location of land values based on the concept of a major employment center, and consumers bid for particular locations for shelter within metropolitan areas based on desire for space, willingness to pay costs of transport (to workplaces), and incomes which determined their ability to pay for the first two factors (Alonso, 1964; Muth, 1969). The neo-classically minded economists described how bidding for space created agglomerations of businesses and communities, which represented an optimal result of the operations of economic laws. Scholars labeled this approach as the bid-rent school of urban land use economics. Dozens of papers have been published in this vein, although less so recently. Highly abstracted and generalized, the model failed to explain variations in the value of housing in areas of equal accessibility to a central place (Wheaton, 1977; Richardson, 1989).

Tiebout, the Consumer-Voter Model, and the Uneven Distribution of Public Services

Economists have also argued that the movement of populations of varying characteristics to different localities represents a competition for the goods and services offered by local governments. Charles Tiebout (1956) propounded this theory in a seminal article that opposed the contention of Richard Musgrave and Paul Samuelson that there could be no market mechanism for setting the most optimal amount of government services, which they assumed would be provided by the central authority of the federal government. Tiebout argued that such a mechanism existed and that it was the choice exercised by “consumer-voters” for the local jurisdiction that provided the satisfactory amount of public goods. Hamilton (1975) supplemented a missing link in Tiebout’s theory by adding the component of zoning as a way that communities could influence the level of taxation of new properties by ensuring the future construction of only houses of certain (large) size. In this way homeowners new and old would bid up the quality of their services for future consumer-voters.

William Fischel (2001a), a follower of Tiebout, specified that important buyers in the public goods market were homeowners (whom he dubbed “homevoters”). Incorporating the issue of property taxes into Tiebout’s model, Fischel concludes that capitalization (value of properties taking into account external factors such as taxes and community services) tends to mitigate the effect of different property tax rates. To allow the system of consumer-voting for goods and services to operate as freely as possible, Fischel favors the collection of local property taxes and opposes centralization of services, such as in multi-community school districts. He also argues, surprisingly, that poor people often live in “property-rich” communities: places with commercial and industrial properties that should yield taxes to pay for services such as schools.

Nonetheless, although there are heterogeneous jurisdictions where low-income households can enjoy the services demanded and paid for by high-income households, the thrust of Tiebout’s work is that jurisdictions that provide services efficiently – which are generally some subset of middle- and upper-income communities – will benefit from the competition. Therefore, the Tiebout model is helpful for understanding that the difference in communities extends beyond housing and income to include a wide variety of services. Further, the Tiebout model shows that income sorting will result from homeowners acting on their different willingness and ability to pay for public services. But it does not address the fundamental problems faced by impoverished people in impoverished neighborhoods. Fischel proposes that state governments give financial supplements to communities with poor households so that they will be better able to provide desired goods and services, particularly in schools. He would also create a set of incentives and penalties to discourage local governments from adopting exclusionary regulations such as zoning. Both these proposals have currency but have seldom been adopted.

Consumer-Voting Inequities

Whatever the virtues of these proposals, the necessity for them indicates that the consumer-voting system produces inequities in goods and services that the market does not address. Excepting those communities with large amounts of commercial and industrial land, localities with more poor people generally will have smaller tax bases, and therefore revenues. They will be forced to lower their services, raise their taxes, or both. In the ideal of economic models, inhabitants move to a community to obtain better services. In the real world, as

researchers on areas of concentrated poverty have shown, the ability of low-income “consumer-voters” to vote with their feet and move to such areas is severely constrained.

Thus, the bid-rent and Tiebout schools of thought have contributed the useful insight that households in effect bid against one another to obtain housing, public services, and other goods in different often homogeneous communities (Yinger, 2005). In addition, their theories inspired the interesting studies on commuter sheds and central places by geographers, such as Brian J. Berry, that illuminate the changing morphologies of metropolitan areas.

Shortcomings of the Bid-Rent and Consumer-Voter Models

Nonetheless, the bid-rent and consumer-voting approaches to understanding housing markets have significant shortcomings. For one, they generally omit the critical influence of federal policies and financial regulations. Federal mortgage insurance, inexpensive home purchase programs such as the one directed by the Veterans Administration after World War II, depreciation and capital gains tax laws, and the organization and regulation of mortgage markets – to name a few of the most important interventions in the market – have promulgated suburban and exurban home purchases for middle- and upper-class Americans. The administration of low-income housing programs, particularly the public housing program, has influenced the location of households of modest means. However, Tiebout-school scholars such as Fischel, have recognized the role of local government policies, such as zoning and building regulations in determining the characteristics of housing and communities.

Because of the practical requirements of constructing a coherent model that can be tested mathematically, these economists in general have bypassed or omitted non-economic reasons – such as racial prejudice or status consciousness – for creating agglomerations. The social and economic realities, including problems for residents of certain communities, created by this type of economic segregation also lay beyond the scope of the bid-rent school of inquiry. As two scholars recently observed, market and non-market (critical Marxian) approaches “have shown considerable discrepancies when applied to real-life situations (Hoang and Wakely, 2000, 8).” And as shown below in the discussions of housing abandonment and gentrification of communities, real-life situations can change faster than the economic models that are supposed to predict and describe them.

Theories of Segregation through Deliberate Actions

Another line of scholarly attack on the causes of social clustering in urban neighborhoods derives not from classical economics but from the civil rights movement. This prodigious body of work holds that the deliberate actions of individuals in the market and government officials have promulgated segregation, particularly by race.

The Roots of Theories about Discrimination

The discrimination theory school has roots in the time when whites explicitly supported, through physical intimidation and legal mechanisms, a system of racial residential segregation. Indeed, some of the greatest triumphs of the National Association for the Advancement of Colored People (NAACP) were successful legal challenges that ended first racial zoning and later racial restrictive covenants (Vose, 1959; Tushnet, 1994). As it came to a climax in the late 1940s, the legal campaign against racial covenants produced a flood of articles and books. Even after the Supreme Court outlawed racial covenants, the persistence of racially segregated neighborhoods led advocates, such as Robert Weaver and Charles Abrams, to found the National Committee against Discrimination in Housing (NCDH) and add to the literature against discriminatory practices (Weaver, 1948; Abrams, 1955).

In the 1960s the cresting civil rights movement and the outbreaks of violence in African-American neighborhoods in large American cities spurred further charges that the segregation of African Americans had created viciously harmful “ghettos,” a term that had previously been used to describe the legally conscribed quarters of Jewish inhabitants of European cities (Clark, 1965; National Advisory Commission on Civil Disorders, 1968).

Leaders of the “black power” wing of the civil rights movement as well as proponents of community-based advocacy, however, challenged the idea that the inner-city neighborhoods were the fundamental cause of poverty and despair. This assertion triggered a lively debate and a series of scholarly studies aimed at proving or disproving the notion that living in a predominantly black neighborhood hindered its residents from prospering. The policy question at the heart of this debate was whether to attempt to improve conditions in inner-city neighborhoods with high concentrations of racial minorities and the poor – what the critics of this approach called “gilding the ghetto” – or to promote racial and economic integration by eliminating barriers to or actively placing inner-city residents in predominantly white and

middle- or upper-class outer-city neighborhoods and suburbs (Piven and Cloward, 1967; Horne, 1967; Kain, 1968; Kain, 1969; von Hoffman, 1998; Glaeser, Hanushek, and Quigley, 2004). As the discussion below reveals, the government in the following years adopted both types of policies – some aimed at redeveloping existing low-income communities and others that encouraged the dispersal of inner-city residents.

Victories in the Fight for Fair Housing

The events of the 1960s resulted in two triumphs for the opponents of discrimination in housing in 1968. One was the passage of Title VIII of the Civil Rights Act of 1968. The Fair Housing Act, as it became known, banned discrimination on the basis of race, color, religion, and national origin in any kind of real estate transaction except for the sale of single-family houses without a broker or advertising and owner-occupied buildings with four or fewer units. The law prohibited biased real estate brokering (known as steering), blockbusting, and redlining (the withholding of mortgages from residents of inner-city and low-income areas). The second triumph was the ruling of the Supreme Court in the case of *Jones v. Mayer* that racial discrimination in any real estate sales or rentals was illegal.

These victories gave the fair housing movement the legal ground for an all-out assault on exclusionary zoning, building permits, and other land-use controls that prevented African-American and low-income households from settling in predominantly white and high-income neighborhoods and towns. The best known results of the legal actions are the lengthy court ordered programs brought about by decisions in the two suits that bear the name of a Chicago public housing resident, Dorothy Gautreaux,¹ intended to counteract the agency's policies of segregating its public housing, and the Mount Laurel, New Jersey, law suits aimed at inducing suburban towns to develop low-income housing. In addition, the NCDH championed the use of audits – whereby evenly matched pairs of black and white renters or buyers anonymously test real estate firms for discrimination – and with HUD funding directed a \$1 million audit in 1976-1977 that covered forty metropolitan areas across the country (Kirp et al., 1995; Haar, 1996; von Hoffman, 1998). (For a brief description of related programs and studies that assess their

¹ *Gautreaux et al v. Chicago Housing Authority* and *Gautreaux et al v. U. S. Department of Housing and Urban Development*.

effectiveness, see Appendix, Section 2, Anti-Exclusion, Uneven Distribution of Public Services, and Local Governance.)

Investigating Discrimination in the Housing Industry

Despite these legal and policy accomplishments, scholars have spent many years investigating the notion that discrimination by real estate brokers (“steering”), credit lenders (“redlining”), and sellers and renters has caused racially segregated housing patterns in American metropolitan areas. The most sweeping and perhaps best-known example of this school of writing is Douglas S. Massey and Nancy A. Denton’s 1993 book, *American Apartheid: Segregation and the Making of the Underclass*. Using the two favored methods of measuring segregation, the index of dissimilarity and isolation index², they found persistent levels of segregation in American cities and what they called “hyper-segregation” in cities such as Milwaukee and Detroit. They blamed the lack of enforcement teeth in fair housing laws and called for a massive federal effort that would expand Gautreaux-type programs, fund legal actions by open housing groups, institute annual audits permanently, and require all licensed real estate brokers to take a HUD anti-discrimination course.

A large literature and federal government policies have pursued the problem of discriminatory practices by credit lenders. Some have blamed the practice of redlining (the refusal to lend money to people within certain boundaries where poor or minorities either are expected to move or live already) on the racial transitions of certain neighborhoods. The most vividly described case of the Dorchester neighborhood of Massachusetts (Levine and Harmon, 1993) has been shown to be overblown (Gamm, 1999). Nonetheless, there is a large literature showing that loan applications from African Americans and members of other minority groups are rejected at a higher rate than members of other groups. As often happens in these cases, many factors may be at play – the locales and the households may carry higher risks – but it is hard to believe that bias is not involved to at least some degree.

Even without any discriminatory intent, lenders can act in ways similar to redlining when credit markets fail (Litan et al., 2000). A dearth of transactions in low-income markets can make

² The index of dissimilarity, the most frequently used measurement, indicates the proportion of the black population that would have to move in order for a given area to achieve integration. The isolation index attempts to measure interracial contact by calculating the extent to which African Americans live in areas inhabited by other African Americans.

it expensive for a single lender to gather a sufficient amount of information to price risk effectively. Lenders' imperfect access to information, therefore, may lead to credit rationing and cause lenders to overlook potentially profitable transactions. In addition, it takes multiple lenders to supply credit to a market before it becomes liquid enough to facilitate the proper functioning of the market. Because any one lender acting alone will not fully benefit from the initial investment there is a collective action problem that can lead low-income communities to have less access to capital (Ordoover and Weiss, 1981; Lang and Nakamura, 1993; Petersen and Rajan 1995). CRA and other regulations are intended to correct these market failures. (For a brief description of related programs and studies that assess their effectiveness, see Appendix, Section 1, Anti-Discrimination and Redlining in Housing and Housing Finance.)

Discrimination Pessimists and their Critics

For the last two decades, two scholars in particular, John Yinger and George Galster, have regularly reported on the practices of real estate brokers and consistently found them wanting. In numerous studies (Yinger, 1986, 1991, 1993, 1995, 1998; Galster, 1986, 1990; Galster and Godfrey, 2005), they analyzed audits and concluded that agents steer members of different racial and economic groups away from certain neighborhoods and toward others. Other scholars (Orlebeke, 1997; Patterson, 1997; Thernstrom and Thernstrom, 1997), have vigorously challenged their conclusions (questioning, for example, whether the degree of discrimination they find is sufficient to alter the housing market) and their methods (for example, finding a tendency to assume discrimination and its effects). Audits themselves are somewhat controversial, as they may discover discrimination in circumstances that do not reflect actual conditions in which people seek housing.

The larger argument revolves around whether discrimination is making and keeping people segregated and poor, or poverty and its attendant ills lead to living in segregated communities. The implications for policy is whether governmental and private agencies should spend funds on audit and other tests to ferret out discrimination or on programs to ameliorate or remove people from the conditions of poverty.

Does the Prejudice of Real Estate Professionals Have a Significant Effect?

There can be no doubt that racial prejudice is alive and well in this country. Laws banning discrimination in housing markets and their enforcement notwithstanding, the studies using paired testers (one white and one minority) that reveal remarkably widespread examples of bias (Turner et al., 2002) cannot be dismissed. Recent studies even show that the sound of voices on the phone can cause disparate treatment if an accent or manner of speech is perceived as signaling that a minority is on the line (Massey and Lundy, 1998). Religious and ethnic bias in word and deed can be easily documented as well.

The fundamental question facing scholars of real estate discrimination, however, is not whether they have proved that racial bias exists but to what degree prejudice by itself determines the composition of neighborhoods. For decades, scholars have criticized studies that exclude consideration of economic and social factors other than discrimination (Anas, 1980; Clark, 1988). Moreover, since discrimination practices appear not to have abated, the audit studies themselves suggest that such bias either no longer or never had a great impact on housing markets, regardless of laws banning discrimination in the brokering of housing. After reviewing an audit conducted in 2000, Galster found that as in many earlier studies the practice of steering persisted in the face of strict government regulation. “Perhaps the most sobering finding,” he concludes, “is that steering does not appear to have decreased since tougher fair housing laws were introduced in 1988” (Galster and Godfrey, 2005, 260.) Yet while the practice of steering apparently continued unabated, the levels of segregation, as discussed below, have dropped across the nation. Presuming that Galster and Yinger’s conclusions are accurate, the decline in segregation casts serious doubt upon the importance of steering in determining housing markets.

Theories of Segregation Through the Market Force of Preferences

Another group of scholars has demonstrated that segregation can occur in the absence of intentional acts of discrimination and animus. Their work indicates that segregation results from people expressing their preferences for a degree of racial or ethnic integration, with some exiting an area that reaches a threshold of racial integration.

How Individual Preferences Can Create a Group's Tipping Point

Another body of scholarship has hypothesized that the preferences of households of different racial groups, rather than the deliberate actions of outside agents, caused clustering and segregation in urban communities. The essential theory, as noted above, is that if members of different racial groups prefer to be surrounded by a certain percentage of members from their group or prefer not to live in areas with certain percentages of another group, clustering will occur (Schelling, 1971). Moreover, the model implies that a rise of one group's proportion of the community's population to a certain level creates a "tipping point" that causes all the remaining members to flee. Hence, the logic of this argument as well as urban folklore hold that the arrival of African Americans in white neighborhoods shifts the composition of the population until the tipping point brings "white flight" and makes the transition to a black neighborhood inevitable. These ideas, borne of observations made by scholars and open housing activists in the 1950s and 1960s, have been guiding research on racial settlement patterns for a half century (Duncan and Duncan, 1957; Sugrue, 1996; Seligman, 2005). This literature paid less attention to what might be done to achieve racial balance than it did to what caused the imbalances. As discussed below, it appears that preferences can change over time. But how to change them and whether mixing race results in greater tolerance or merely reinforced preferences by whites to live in more racially homogeneous areas.

The Mutually Exclusive Comfort Levels of Blacks and Whites

Analyses of surveys of white and black attitudes strongly support the idea that on the whole members of the two groups have different preferences about racial make-up. In general, when asked, African Americans have expressed a willingness to live with a higher proportion of whites than the proportion of blacks that whites have said they are willing to live near.

This discrepancy by itself could create high segregation scores in metropolitan areas. Large majorities of surveyed African Americans have favored an integrated neighborhood, but one comprised of 50 percent or more black residents – a proportion with which most whites are uncomfortable. Moreover, surveys (Farley et al., 1993; Farley et al., 1997) have shown that a significant minority of African-Americans reported a desire to live in an all-black neighborhood

and less than 10 percent wanted to live in a predominantly white neighborhood.³ Even if all African Americans in a city with a twenty percent black population inhabited racially integrated, 50 percent white-50 percent black neighborhoods, that city would have a segregation index of 75 – higher than the index of nine of the metropolitan areas with the largest black populations (Thernstrom and Thernstrom, 1997).

Of course, the attitudes of the historically larger and politically dominant white population have been crucial to patterns of racial integration of housing and communities. Traditionally northern urban whites have been averse to living among blacks, or at least many blacks. Although at least some portion of this sentiment is due to racial prejudice, scholars have also noted that many whites' feelings about race *per se* may not be as important as their fear of crime or anxiety about future deterioration of conditions (Taub, Taylor, and Dunham, 1984). In addition, some whites feel social solidarity with members of their income or religious or ethnic group (Kantrowicz, 1979; Logan and Stearns, 1981; Logan and Schneider, 1984).

A Hint of Progress in Race Relations

Survey analysis indicates that preferences varied over time and from metropolitan area to metropolitan area. In surveys, white Americans have expressed a much greater willingness to live in neighborhoods with members of racial minorities. From 1958 to 1997 Gallup polls found that the proportion of a national sample of whites who said they would move if a black lived next door fell from 44 to just one percent. In the same period, the proportion of white respondents who would move in the face of “great numbers” of blacks dropped from 80 to 18 percent (Ellen, 2000, 107). However, whites in some metropolitan areas in the Midwest and Northeast have shown greater opposition to racially integrated neighborhoods than in other regions (Farley et al., 1997).

³ The analysis by Farley, Elaine L. Fielding, and Maria Krysan (1997) of data from Atlanta, Boston, Detroit, and Los Angeles showed 57% of African Americans chose a half-black, half-white neighborhood; 19% chose a predominantly black neighborhood; 16% chose an all-black district; and 8% chose a predominantly or all-white area. Farley et al, 1998 combined first and second choices of Detroit area respondents in 1976 and 1992. Of these, 29% and 22% respectively chose predominantly white areas (but only 5% and 4% chose an all white neighborhood); 82% and 77% respectively chose the half black and white district; and 17% and 20% respectively chose all black neighborhoods. Clark's interpretation of survey data from Detroit, Kansas City, Cincinnati, and the nation between 1978 and 1983, however, found African-American preference for all-black neighborhoods was relatively low (5% to 12%) but strong (66% to 92%) for half and mostly black neighborhoods; with some aversion (3% to 10%) to mostly white areas. See William A. V. Clark, "Residential Segregation in American Cities," *Issues in Housing Discrimination*, 39.

Weaknesses of Research on Residential Preferences

However useful they may be in conceptualizing the process of change, the methods and models of the preference hypothesis approach are not without faults. As with other attempts to create a quantifiable model, the necessity to flatten the variegated features of real life into something approaching a featureless plain has produced an artificial scheme that can mislead. The oft-used survey question, “If you were looking for a house and had found one that you could afford, what racial combination of the neighborhood would you choose?” implies that race plays a greater role than the other characteristics such as schools, transportation, access to jobs, etc. that many scholars posit as influential (as shown in the above discussion of filtering). Thus, Taub et al. (1984) criticized Schelling’s racial equilibrium (tipping) points for neglecting such critical factors as availability of housing and degree of black and white demand for housing.

Moreover, some scholars have cast doubt on the old models of white flight and tipping that have long been part of scholars’ conceptual framework. These concepts distort the issue of neighborhood transition by implying one population group (black) enters and another one (white) decides if and when to exit. Because Americans are mobile and therefore depart their communities regularly, it is the type and number of *newcomers* a neighborhood attracts that determines the composition of its population (Ellen, 2000). Therefore white avoidance is a better description of neighborhoods that undergo that racial transition.

Furthermore, empirical research about how people decide where to live shows that exit decisions or “white flight” do not cause racial transition in mixed neighborhoods. Ellen analyzed several preference studies and data from the American Housing Survey in 1980 and 1990 and found that both black and white households were less concerned about a neighborhood’s racial mix than surveys of racial preferences indicate. As long as a neighborhood remained stable (a term that embodied more than just racial composition), black and white households were willing to remain.

Criticisms of the Tipping Model

Most ominously for this approach, it appears that Schelling’s elegant equilibrium model and the widely accepted notion of a racial tipping point concept does not describe the process by which areas experienced changes in racial composition in recent decades in the United States. In a comprehensive study of more than 41,000 metropolitan-area census tracts from 1970 to 2000,

Easterly found that the tipping point hypothesis could not explain patterns of racial transition. The original population density of a place was a better predictor than racial composition. “The main factor in neighborhood change,” Easterly concludes, “was a movement of whites from central cities and inner suburbs to outer suburbs in metropolitan areas.” (Easterly, 2004, 43)⁴ It may be that Schelling’s model and the notions of tipping points reflected reality in the early or mid-twentieth century but have become outmoded as a way of understanding recent history or the present.

Measuring Community Racial Characteristics

One point in favor of the significance of surveys of racial community preferences is that as the surveys reflected greater tolerance of integration (especially among whites), the number of integrated neighborhoods has risen as well. Scholars usually measure racial segregation by one of two ways. The average index of dissimilarity, the most frequently used measurement, indicates the proportion of the black population that would have to move in order for a given area to achieve integration. The isolation index attempts to measure interracial contact by calculating the extent to which African Americans live in areas inhabited by other African Americans. These studies indicate that racial segregation within communities is still high, particularly in certain metropolitan areas, but that it has been declining for decades.

To be sure, a number of scholars have found reason to be pessimistic about the distribution of the races. Prominent among them are Massey and Denton (1993) who grimly described the situation in the United States as an “American Apartheid.” In it they wrote that segregation reached its high point about 1970 and has stubbornly persisted since. Similarly, recent studies (McArdle, 2003a, 2003b, 2003c) for the Civil Rights Project at Harvard University’s School of Education have been less than optimistic. Although these case studies of Boston, Chicago, and San Diego metropolitan areas up to 2000 show segregation declines overall and in the central cities, the reports reflect concern about the levels of segregation in the suburbs and among schoolchildren. The general picture is of some improvement in some areas against a backdrop of still high levels of racial segregation.

⁴ Clark (1991) also tested the Schelling segregation model with data in five cities (Omaha, Kansas City, Milwaukee, Cincinnati, and Los Angeles presumably from the 1980s) and found that the empirical curves did not match what the

Residential Segregation in Decline

Nonetheless, studies across the board indicate that the degree of segregation in urban areas has been falling. Massey and Denton themselves reported that between 1970 and 1990, in 27 of the 30 metropolitan areas with the largest black populations, the index of dissimilarity fell on average by eight points to a moderate figure of 67.⁵ Cutler, Glaeser, and Vigdor (1999) examined hundreds of metropolitan areas with at least 1000 African American residents for the same time period and found a sharper decline. The index of dissimilarity fell on average from 72.6 in 1970, to 62.9 in 1980, and 55.9 in 1990.⁶ Farley and Frey (1994) investigated what happened in 232 metropolitan areas during the 1980s. In analyzing changes in the composition of census block groups (a unit smaller than census tracts, which tends to produce higher segregation scores than tracts do), they found that the index of dissimilarity fell from 69 to 65.

The 2000 census data indicates the trends have continued. Tracing the changes that occurred in the subsequent decade of the 1990s, Glaeser and Vigdor (2003) recorded that segregation levels as measured by the index of dissimilarity declined in 272 out of 291 metropolitan areas. (The figures for the isolation index of these metropolitan areas followed a similar trend.) The authors concluded that although too many metropolitan areas were still, in Massey's and Denton's term, "hyper-segregated," the degree of segregation between blacks and non-blacks had reached their lowest point since 1920.

Residential Integration as the Key to the New Pattern

An important reason for the decline in segregation has been the increased stability of integrated neighborhoods. In the 1950s and 1960s, many observers of neighborhoods in racial transition despaired of preventing communities from changing from predominantly white to predominantly or all-black. That pattern too appears to have changed about 1970. In a study of racially mixed census tracts in 38 cities, Wood and Lee (1991) found that from 1970 to 1980 the proportion of stable integrated neighborhoods increased from 17 to 23 percent and the proportion of those experiencing a racial turnover decreased from 72 to 61 percent. In a sample of 34

Schelling model would have predicted.

⁵ Massey and Denton, *American Apartheid*, Table 8.1, 222.

⁶ The number of metropolitan areas in the sample was 211 in 1970, 284 in 1980, and 313 in 1990.

metropolitan areas, Ellen (2000) found that of 2,773 tracts that were racially integrated in 1980, 76% remained so in 1990.⁷

There are apparently regional differences in integration trends. Racial ghettos – communities with great concentrations of African-American residents – first evolved in large Northeastern and Midwestern cities. Massey and Denton (1993) gave such places most of their attention and were dismayed by the persistent high levels of segregation in them. In contrast, geographically broad-based studies conducted by Glaeser and Vigdor (2003), Cutler, Glaeser, and Vigdor (1999) and Ellen (2000) found that segregation in metropolitan areas of the South and West declined more rapidly than those in the Northeast and Midwest. Glaeser and Vigdor observed that segregation retreats most in areas of population change – particularly places where the black population has changed or places that experienced population growth – and tends to stay in place in areas that are not undergoing much population change. This would help explain the patterns in the Northeast and Midwest, where many metropolitan populations have stagnated or grown slowly.

Finally, it is important to note that the arrival of tens of millions of immigrants from foreign lands during the last thirty years has dramatically altered urban settlement patterns. The subject of immigration and the academic literature about it is too large to explore in the present paper. Suffice it to say, however, that demographers (such as Fasenfest et al., 2004) have observed that the movement of the foreign-born into many large metropolitan areas has been breaking up the old racial profiles of neighborhoods and has created many multi-ethnic communities. The great flow of immigration to American urban areas has, to a large extent, rendered the old integration-segregation models – based on a black-white dichotomy of the population – irrelevant.

The Need for New Approaches to Understand Neighborhood Differentiation

Despite more tolerant attitudes and an increase in the number of racially integrated areas, it is highly likely – given American history – that race, either directly or indirectly, continues to play a part in the competition for urban space and the ever-shifting composition of communal territories. Scholars have relied heavily, in fact almost totally, on either analysis of quantitative

⁷ Looking at the census tract data for 1990, Ellen concluded that the number of integrated areas seems “surprisingly large in a country described by some as being characterized by residential apartheid.” Ellen, 2000, 21.

data or constructing models based on earlier theory and data analyses. These approaches are unsurpassed in tracking large trends, costs, and other matters for which data is routinely collected and accessible. In areas such as population and housing that the United States Census Bureau or other agencies collect information, quantitative analysis with theoretical underpinnings is indispensable, and it can only be hoped that such research will be expanded to new data sets and over larger time periods.

These approaches, however, keep researchers at a far remove from the conditions and decisions that they hope to understand. Students of different kinds of segregation, for example, rarely if ever directly observe the individuals and households whose actions create the homogeneous population clusters that make up the urban landscape. They therefore lack an understanding of the values, conditions, and other circumstances that bring people to make decisions about where or how they choose to live.

In addition, almost all analysis of racial segregation and isolation is based on arbitrary units of study – census tracts and blocks – rather than the places that people actually consider and treat as neighborhoods.⁸

How do people define their communities and what are their actual experiences in them? Why do families choose to live in one place as opposed to another? How do they make use of the resources that are available to them? How do people behave toward or, more importantly, interact with those of other races and backgrounds? The way to answer these sorts of questions lies in returning to the fieldwork methods of social scientists, community organizers, and the best journalists (for a superior example of such an early community study see Drake and Crayton, 1962 and see also DeParle, 1997). In that way, we will be able to build theoretical models that reflect reality, and more importantly, formulate policies that can effectively ameliorate the housing and community problems faced by low-income Americans.

The Complex Problem of How Neighborhoods Change

Making sense of the many forces that cause neighborhoods to change is a difficult task fraught with empirical problems. Chief among them are the limits placed by available data on

⁸ As a result, scholars today may have less knowledge of urban communities than their forbears who conducted research in the field (For a superior example of such a community study, see Drake and Cayton, 1962).

the variables that can be included in models of neighborhood change and the difficulty in differentiating between cause and effect among intertwined forces.

At first, the discussion of how neighborhoods changed was based on broad observations of patterns of neighborhood change made by a group that was later labeled the Chicago School. Their theories of change were multidimensional but not rigorously tested. This was followed by a period of more abstract models heralded by work on filtering by Homer Hoyt in 1939. After a detour into the abstract bid-rent and consumer-voter theories, already by the late 1960s, there was a return to more elaborate theories led by William Grigsby that echoed the earliest neighborhood succession approaches of the Chicago School. Since then, these more involved theories of neighborhood change and filtering have been subjected to more rigorous testing and deeper elaboration.

The Chicago School of Urban Sociology

In the early twentieth century, sociologists at the University of Chicago under the leadership of Robert Park took up the city as a field of study and began the quest to understand the forces that continually shape and reshape urban communities. Drawing inspiration from biology, members of the Chicago school of sociology (Park and Burgess, 1925) conceived of the city as an organism made up of different types of communities and in a state of expansion. Burgess categorized the city's communities in large part according to the types of housing – e.g., slums, workingmen's homes, high-class apartment buildings and single-family houses – that characterized early twentieth-century Chicago.

Burgess ascribed the tendency of communities to undergo changes in character and types of inhabitants to the expansion of the city. In a process he labeled “invasion and succession,” generally low-income and ethnic groups who had originally located near the center of the city moved outwards into other areas further out. Although later scholars would greatly refine these ideas about housing and communities, the Chicago school conception – housing as central to the character of neighborhoods, urban expansion as constant process, and succession – has remained as the fundamental framework for scholarly thinking about the making and remaking of urban places.

With the election of Franklin D. Roosevelt, the federal government embarked upon housing and urban redevelopment policies that set the framework for government activity for

much of the twentieth century. The impetus for the most important government programs came not from the research of social scientists, such as the University of Chicago sociologists, but from political interest groups. The real estate and home building industries supported and won the passage of the 1934 National Housing Act that established government insurance for mortgages, and the National Public Housing Conference, with the help of organized labor and the Catholic Church, lobbied successfully for the 1937 public housing law. Hence, the nascent understanding of neighborhood change and housing markets did not influence public policy.

Land Economists Join the Fray

Although the academic scholars had relatively little influence on the new housing and community programs, these public policies inspired more social scientists to investigate the forces that shaped urban communities. While sociologists continued to study urban communities, land economists, such as Ernest M. Fisher and Richard U. Ratcliffe, took up the task of evaluating the effectiveness of government housing programs and trying to devise models of the transactions that comprised housing markets and created communities in cities.

The Potent Concept of Filtering

Among the most influential notions to emerge from this group of thinkers was the concept of filtering or filtering down, which Homer Hoyt (1939) first described in detail. Revising the earlier notion of succession and invasion, Hoyt described “forces constantly and steadily at work...causing deterioration in existing neighborhoods.” The primary forces for deterioration he called “filtering” of the inhabitants of homes in low-rent areas into houses left behind by members of high-income groups. He noted that the movement of first immigrants and then African Americans through the low-rent areas provided the population that filtered into new areas.

Hoyt explained that the aging of both dwellings and their occupants worked together to render high-income neighborhoods vulnerable to filtering. “Physical depreciation of structures and the aging of families constantly are lessening the vital powers of the neighborhood.” Hoyt felt that depreciation of housing values and obsolescence (caused by construction of new high-income housing elsewhere) could cause neighborhood transitions, but also noted that the arrival of poor immigrants or racial minorities could also trigger filtering. The result of this chain of

outward succession, Hoyt observed anticipating the nettlesome policy issues with which we still wrestle, was that the oldest and cheapest houses were either occupied by the poorest families or abandoned and eventually demolished.⁹

The federal urban renewal program, included in the Housing Act of 1949, incorporated the idea of filtering. Real estate interests and downtown political leaders led the effort for federal grants and tax write-downs to redevelop “blighted areas.” They justified this approach, however, as a way of restarting the cycle of filtering by demolishing old “obsolete” housing and replacing it with new upscale residences. Clearly the policy makers seemed more interested in improving deteriorated places than the people who inhabited them.

Hoyt was unclear about the relative importance of physical structures and their occupants in filtering, and the economists who followed in his wake have also struggled to disentangle the relationship of housing and populations in neighborhood succession. Some authors concluded that the movement of low-income peoples into high-income areas causes the market value and rent to decline (as opposed to the other way around), but many others emphasized the functional obsolescence of housing that occurs when higher-income groups move out to acquire new housing and low-income populations inherit the now-depreciated older housing.

Filtering and Neighborhood Succession Revisited

Perhaps searching for a model better grounded in real-life conditions, economists in recent years returned to Hoyt’s concept of filtering and employed the sophisticated mathematical tools of their trade to explore the complex relationship between housing markets, housing stock, residents, and the changing communities that contain them. William G. Grigsby’s formulations of the filtering process have particularly influenced scholars who have studied the processes by which neighborhoods change (Grigsby, 1963; Galster, 1996; Megbolugbe et al., 1999). Grigsby’s thinking on this subject evolved over time, but one of his most important contributions was to place primary importance on the residents of neighborhoods undergoing the filtering process. Before Grigsby’s findings took hold, researchers had tended to explain the change in housing values chiefly as a result of the aging and deterioration of the housing stock.

⁹ Homer Hoyt, *The Structure and Growth of Residential Areas in American Cities* Washington, D.C.: Federal Housing Administration, 1939, 120-122 (quotations, 121).

The degree that housing conditions and values declined, Grigsby felt, depended upon a number of factors at play in a given community. In brief, his scheme held that social and economic factors – such as number and size of households, income, societal attitudes about housing preferences, the relative cost of housing, public policies, and business investment, caused households, who participated in a system of housing suppliers – including owners, developers, builders, brokers, lenders, housing agencies, etc. – to act in the housing market by moving or not, building, renovating, maintaining at a particular level, and so on. The result of these decisions would change the aggregate neighborhood characteristics – including not only total and range of income, but also social environment, race, ethnicity, type and condition of homes, housing costs, and general locational attributes. In short, the effect of the process was neighborhood succession.

To clarify his emphasis upon the matrix of variables at work when a lower-income group occupied a higher-income area, he preferred the term “neighborhood succession” to “filtering.” Regardless of the label, Grigsby believed that many forces or externalities – ranging from population shifts to mortgage redlining – could cause the shift from higher- to lower-income residents. Grigsby’s thinking was in its own way limited – “neighborhood succession,” for example, always seemed to move down the socio-economic ladder although the opposite also occurs. In fact, the gentrification of neighborhoods was something that few if any economists predicted, and perhaps as a result, the scholarly literature on the subject has been thin, and according to a recent survey, methodologically weak in demonstrating the its effects on poor households (Vigdor, 2002). Nonetheless, Grigsby demonstrated to the filtering theorists that the process was far more complex than many had realized.

The filtering literature, like the neighborhood succession literature, has been the subject of more theoretical than empirical work. Notable exceptions are empirical studies by Somerville and Holmes (2001), Rothenberg et al. (1991), and Weicher and Thibodeau (1988). The closest there is to a study of the neighborhood factors associated with loss of rental housing from the stock, or from the affordable stock, uses a broader area than a census tract for the analysis (Somerville and Holmes, 2001). The study found that median household income and average age of rentals in a “zone” (areas of about 100,000 people compared with only about 4,000 in a census tract) were by far the most important neighborhood predictors of losses of affordable rental housing, even after controlling for the age and adequacy of the property. In fact, a 10 percent

change in the median income of a zone drove larger changes in the probability of an affordable rental unit getting lost from the stock than a 10 percent change in the age of the unit. The study also found that a 10 percent change in average age of rentals in a zone had a larger impact on the likelihood of a low-cost, affordable rental being lost to demolition or conversion than a similar change in the age or adequacy of the unit itself.

The most recent attempt to use econometrics models to make sense of the broader process of neighborhood succession was made by Rosenthal (2005). Rosenthal set out to understand the factors that drive changes in the relative economic status of census tracts within a metropolitan area. Following Bond and Coulson (1989), he distinguished between two causes of changes in neighborhood economic status. One is the aging of the housing stock and the other is neighborhood externalities. Like Grigsby, Rosenthal argued that higher income households tend to occupy newer housing and that most of the older housing ends up being located closer to city centers because development expands out from the center of cities. Over time, older housing becomes functionally obsolete as incomes and tastes change. As a result many neighborhoods “filter” down from higher income residents to lower income residents over long periods of time. The impact of neighborhood externalities on the economic condition of places is partly independent of the age of the housing stock. Features of a neighborhood such as educational level of residents, homeownership rate, presence of subsidized housing and of certain minority groups, and overall density all produce externalities – he argued – that impact the income standing of an area. Rosenthal found that the magnitude of these effects varies with the externality in question and the initial economic condition of the neighborhood. For example, presence of college educated residents had a larger effect on the status of lower income than of higher income communities, while presence of African-American households was more likely to affect higher income than lower income communities. Homeownership rates, however, appeared to have a roughly equal effect across the economic spectrum of neighborhoods.

Rosenthal concluded that the strength of his models was great enough to offer hope that that one and two-decade changes in the income status of neighborhoods could be forecasted. He found that racial composition, homeownership rates, and share of subsidized housing in a tract all are strong predictors of changes in economic status. Rosenthal found that neighborhoods with “middle-aged” stock were most at risk of economic decline. He posited that this is likely the case because this stock was already approaching obsolescence as newer units elsewhere

attracted higher income households, but the physical condition of these units had not yet deteriorated to the point where replacement and upgrading with new properties was imminent. His approach, however, does not provide insights into why this might be the case and whether these variables may be correlated with unobserved variables that play a causal role.

The Importance of Tipping Points

Schelling (1971) was the first to suggest that threshold effects could play a significant role in the context of neighborhood change. He created a theoretical model that showed that if different racial groups prefer to be surrounded by different percentages of other racial groups, when a certain threshold share of one of the groups is reached, tipping will occur as one or more of the other racial groups depart. Though placed in a context of racial change, the same logic applies to preferences for living with people of different income levels.

Rosenthal also argued that externalities can result in much more rapid rates of change in neighborhoods if they create “tipping” points, though he did not explore these econometrically. In the context of neighborhood decline the tipping points most commonly implicated are property abandonment (Sternlieb, 1966; Simmons-Mosley, 2003), redlining (Massey and Denton, 1993), increases in poverty rates (Galster, Quercia, and Cortes, 2000), increases in rentership rates (DiPasquale and Glaeser, 1997; Galster, Quercia, and Cortes, 2000; Rosenthal, 2005), white flight (Schelling, 1971; Megbolugbe, Hoek-Smith, and Linneman, 1999), and homeowner foreclosures (Baxter and Lauria, 2000).

But few have studied the impact of threshold effects on neighborhood change. The most elaborate formal attempt was made by Galster, Quercia, and Cortes (2000). Examining the period from 1980 to 1990 and using bivariate models with spline functions to test for nonlinearities, they explored whether reaching a critical point in a variable accelerates either its rate of change or the rate of change in another variable. The four variables they explored were poverty rate, adult unemployment rate, percent female headed households, and secondary school drop out rates. They did not, however, examine how these relate to changes in rental supply at the tract level or consider local variations in their findings.

Galster, Quercia, and Cortes found that poverty rates exhibited clear threshold effects, with starting poverty rates above 53 percent in a census tract associated with escalating poverty rates by the end of a ten-year period. Further, they found that tracts with initially low poverty

rates were more likely to see poverty rates fall than increase in the next period. Shares of households with children headed by females were also found to have threshold effects, with moderate starting shares (in the 12 percent to 53 percent range) more often leading to an increase over the decade and both lower and higher shares more often leading to a decline. Adult unemployment rates and secondary school drop out rates were found to have no measurable threshold effects

Evidence of threshold effects on the independent variables was similarly mixed. Mobility, presence of vehicles, and vacancy rate did not exhibit any threshold effects when modeled on poverty and female householder rates. Share of households in non-professional occupations and of renter occupied units, however, both had some distinct levels at which poverty and female householder trends shifted. Specifically, at 8 percent non-professional unemployment, both the rates of poverty and female householders accelerated sharply, indicating that very high rates of low-skilled workers in an area had a larger detrimental effect on the neighborhood than lower rates. Likewise, in places with very high rentership rates (over 85 percent), the increases in poverty rates were much higher than for places with more homeowners. The share of families with female householders, however, actually declined for tracts with mixed tenures (between 32 percent and 85 percent rentership rates), but increased in tracts dominated by either renters or owners.

However, Galster et al. concluded that their analysis of the threshold effects on neighborhood characteristics is exploratory and in need of further testing before concrete conclusions could be made for policy applications. Nonetheless, their findings suggest that in some neighborhoods, conditions past a certain point would require significantly more interventions to reverse than others.

The Difficulties of Modeling Changes in Housing and Communities

Perhaps inspired by Grigsby's approach, Kerry Vandell (1995) attempted to improve upon the models such as the bid-rent scheme.¹⁰ Vandell bravely tried to catalog all the possible factors – except for explicit racial barriers – that caused different types of households to cluster

¹⁰ Vandell did not cite Grigsby, but as Megbolugbe, et al point out, Grigsby's influence was so pervasive that many scholars have not acknowledged their intellectual debt to him.

in different places. Vandell grouped characteristics that encouraged segregation among places¹¹ into four main categories: 1) housing stock/service and site characteristics (such as occupancy status, tenure, units in structure, size, number of bedrooms and bathrooms, basement, and lot size); 2) accessibility characteristics (including proximity to places of work, shopping, schools, worship, recreation, and modes and routes of transportation); 3) neighborhood amenities (such as schools, parks, fire and police protection, natural landscapes) and dis-amenities (such as congestion or pollution), and 4) resident household characteristics (including race, income wealth, size, age of members, occupations, etc.). These market-based factors create spatial concentrations of types of households and housing, Vandell argues, regardless of restrictions on land use or prices, or monopoly practices of housing suppliers.

The operations of this system, however, are exceedingly complicated. These factors, Vandell explains, operate on either or both the supply and demand side of the market. He admitted, moreover, that his model showed a market in a static equilibrium, whereas the effects on spatial patterns “are even more complex because the market is in constant dynamic tension (and potentially even in disequilibrium)” (Vandell, 1995, 129). In the end, Vandell had to acknowledge, that even his residential location model “is a simplistic one.”

In an attempt to avoid economic determinism, Hoang and Wakely (2000) incorporated such non-economic values as status and calibrated physical distance subject to the size of sphere of influence exerted by social forces, rather than defining it as a fixed and defining type of factor. As a result, they were able to show that geographic residential patterns are not caused simply by the trade-offs between economic and spatial advantages, but rather by individuals balancing other kinds of social values in making their decisions about location. Nonetheless, they concluded “it is never possible to model the residential structure of a city with all its complexities: there are too many variables and irregularities (Hoang and Wakely, 2000, 34).”

Vandell’s and Hoang and Wakely’s findings underscore the limits of econometric modeling in estimating the impact of the complex of influences on neighborhood change. With so many relevant variables unobserved and necessarily omitted from econometric models of neighborhood change, estimates of the magnitude of effects are liable to be biased and ought to be interpreted with caution. Other disciplines such as sociology, anthropology, and history, that employ qualitative data collection methods and analysis can provide more direct information

¹¹ Vandell somewhat confusingly calls this “heterogeneity across neighborhoods.” Vandell, 105.

about the conditions faced by, and the decisions made by the many agents who operate as consumers, middlemen, and sellers in the housing market. In the end, it may be this rich understanding that will provide a firmer basis for policy interventions aimed at influencing neighborhood change.

Effects of Market Sorting on Low-Income Communities

Decades of study have shown plainly that powerful market forces cause segregation of residential space by race and income. Not only do these forces bring about initial segregation, but they also change patterns of residential income and racial segregation at the metropolitan level. Thus, housing markets have a defining influence on the changing character of communities and the nature of neighborhood social and economic problems. Political forces and the political geography of metropolitan areas reinforce these markets tendencies, leaving some communities with predominantly higher and middle income households with high quality public services and others with poorer households and lower quality public services.

Scholars and policymakers recognized that filtering and sorting of the American population has advantages for all those moving into higher-income and therefore presumably better quality homes and communities, but that the same processes create vexing problems for the people and places at the bottom of the chain of succession. For even if we still do not precisely understand how the process occurs, it is evident that the sorting that results from the operations of housing markets creates places that are home to poor and often minority people. The problems of areas where many low-income people live can be characterized as physical, social, governmental, and economic.

The Physical Problems of Low-Income Neighborhoods

The physical problems of low-income neighborhoods arise chiefly from the interrelated factors of the lack of value of properties and the low incomes of residents, which lower the amount of capital (either as rent or as homeowners' assets and income) available for maintaining and improving the housing stock. Once a market reaches a point where the only people willing to live there lack enough income to cover regular operating costs including properly maintaining properties, property deterioration leading to eventual abandonment by some owners likely follows. Complicating matters, as these places become less attractive for ongoing investment by

property owners, they also become less attractive to lenders concerned that property values will fall. Loss severities on mortgage loans then rise. This can make it more difficult or expensive to get competitively-priced mortgage loans precisely when price sensitivity of owners to making maintenance decisions is greatest. As a result of these factors, much of the housing stock in such areas often suffers from poor quality and depreciation. Some owners of properties in such areas may live elsewhere and take little role in managing their properties or choosing their tenants – which, among other problems, can lead to drug dealers taking over properties (von Hoffman, 2003).

Subsidized housing itself may depress surrounding property values. A number of studies have found harmful effects of certain types of federally subsidized housing on nearby property values (Lyons and Loveridge, 1993; Goetz, Lam, and Heitlinger, 1996; Lee, Culhane, and Wachter, 1999). However, more recent studies have concluded that subsidized housing often has little or no effect on surrounding neighborhoods (Briggs, Darden, and Aidala, 1999; Santiago, Galster, and Tatian, 2001). Some studies have examined externalities of subsidized housing based on whether it replaces abandoned properties in the neighborhood. If subsidized housing replaces an abandoned boarded-up building or a littered vacant lot then it appears to have a positive effect (Kellner, 1997; Myott, 1999).

Property Abandonment

In extreme situations, the loss of value in low-income housing markets results in the abandonment of property by its owners. As the share of households unable to pay rents high enough to cover operating costs and a competitive return on an investment mounts in an area, properties decay, it becomes harder to fill vacancies, buildings are abandoned, and neighborhood conditions deteriorate even more (Downs, 1981). Poverty concentration in low-income communities tends to exacerbate this problem because the poor especially lack the rent-paying ability to avert property deterioration and abandonment. As a number of scholars have pointed out (Scafidi et al., 1998; Cohen, 2001), there has been relatively little research, especially useful empirical research, on the problem. There is even disagreement about the classification of abandoned as opposed to temporarily tax delinquent property. Economists have attempted to construct models of the causes or “determinants” of the abandonment of housing properties (Ingram and Kain, 1973; Bender, 1979; Simmons-Mosley, 2003). Among these, the recent study

by Scafidi et al. (1998) that investigates whether the amount of delinquent taxes can trigger tax foreclosures of properties to the government, has practical implications for policy.

Regardless, most agree that when urban areas decline in value and quality of life sufficiently, properties may generate little or no income, so that outlays for property taxes, utilities, insurance, and other associated expenses causes landlords to lose money. After a period of time, landlords may choose to walk away from the properties rather than suffer further losses. In some cases, landlords have been known to hire arsonists to burn down the properties in order to get reimbursements from insurance policies or occasionally just to rid themselves of an albatross (Jonnes, 2002). Furthermore, practitioners in the field of neighborhood revitalization find that abandoned properties, like absentee landlords, can depress values and otherwise frustrate efforts at community development. In addition, Brown et al. (2004) found that criminal activity is much more intense in the vicinity of abandoned buildings and vacant lots.

Abandoned Properties--Policy Gets Ahead of Research

In this area, the practice of making and implementing policy seems to have run ahead of academic research, which failed to predict extensive abandonment of urban properties in the 1960s and 1970s. A number of municipalities – including New York City, Philadelphia, and Baltimore – and states have attempted to collect tax and other relevant data to identify properties likely to be abandoned and mitigate the tax debts through a variety of means (Cohen, 2001; Kromer, 2002; Governor’s Growth Planning Council, 2003; Mallach, 2004). What to do with properties that have already been abandoned is somewhat more difficult problem. The City of Baltimore has embarked on a controversial program of extensive demolition, which is somewhat at odds with the idea of historic and neighborhood preservation.

While abandoned properties constitute a threat to the health of neighborhoods, they can also be a potential source of additions to the low-cost housing supply. Therefore, the ultimate goal of programs is to put the abandoned properties, in some form or another, into use in a thriving real estate market. In some sense this goal is part of a general program of community development and neighborhood revitalization and, where these efforts have been successful, the problem of abandoned properties has abated. The City of Boston runs several programs aimed at recycling abandoned properties, including one that sells city-owned vacant lots at discounted prices to builders and neighbors and another that places pressure on landlords to use or sell

abandoned buildings (von Hoffman, 2003). Such programs, along with the revival of urban housing markets, have begun to abate the problem. Between 1997 and 2001, for example, the number of abandoned residential buildings in Boston fell from 790 to a mere 260 and between 1999 and 2002 in the District of Columbia the number of abandoned buildings of all types (about 98% of which were privately owned) fell from 4,000 to 2,300.¹²

Social and Economic Problems in Low-Income Neighborhoods

Although physical problems of the housing stock and the infrastructure in neighborhoods may in and of themselves give rise to social and economic problems in low-income communities with deteriorated housing and abandoned properties, it is the social and economic problems of concentrating poverty itself that have received the greatest attention in the literature. This literature can be divided into efforts to understand and measure the process by which poverty concentrates and efforts to investigate the social and economic impacts of concentrated poverty.

The Resurgence of the Study of Urban Poverty

The concept that certain kinds of neighborhoods, especially low-income neighborhoods, have their own unique conditions that influence the lives of their inhabitants dates from the earliest American urban sociological work (Park and Burgess, 1925). In the 1960s, the controversies about the baleful influence of racial ghettos in the United States revived the sense that neighborhoods with certain characteristics work to the disadvantage of their inhabitants (Clark, 1965; National Advisory Commission on Civil Disorders, 1968; Rainwater, 1970). By the 1970s a net outflow of working and middle-class people from the racial ghettos of the inner city left clusters of low- and extremely low-income households in public housing projects and inner-city neighborhoods. Their plight was captured by Auletta (1982) in a vivid journalistic account that popularized the term, “underclass,” for those seemingly permanently mired in poverty, welfare programs, and a host of social and personal problems. Recording the resurgence of urban poverty were census data that showed that the proportion of the population, especially African Americans and single women with children, living in poverty had increased (Jencks, 1991).

¹² Alexander von Hoffman, *House by House, Block by Block The Rebirth of America's Urban Neighborhoods* (New York: Oxford University Press, 2004), 107-108; *A Vision for Growing an Inclusive City –A Framework for the*

Early Efforts to Explain and Solve Urban Poverty

Although most observers of these trends found them disturbing, they disagreed about the causes and therefore also the cures. An anthropological tradition had produced the concept of a “culture of poverty,” which imbued people who were raised in it with apathy, short-term perspective, sense of dependency, and feelings of marginality that made it difficult for them to participate in a society dominated by middle-class norms (Lewis, 1966). In this vein were works (Liebow, 1967; Hannerz, 1969) that described unemployment, illiteracy, out-of-wedlock relationships, and violence in lower-class urban communities.

Students of the problems of poverty on the political left and right agreed on the need for some sort of behavioral change, but disagreed about the source of the problem and therefore what policies should be implemented to attack it. For the politically liberal authors of such studies (Rainwater, 1970) environmental influences, such as racism, were primary causes of the culture of poverty. The anti-poverty programs of Lyndon Johnson’s Great Society administration reflected this perspective. By the 1980s, writers of a conservative political bent produced an alternative approach. The conservatives agreed that symptoms of alienation and despair characterized the culture of poverty, but blamed government programs that they argued stifled individual initiative and indulged antisocial behavior (Anderson, 1978; Murray, 1984). This approach helped inspire the welfare reform policy adopted in the 1990s.

Explaining Concentrated Poverty

Although behavior was the focus of much analysis and policy concerning poverty, an alternative approach concerning the influence of place has produced a wide scope of research literature and policy goals. Unlike the theoretical literature discussed above, which was intended to explain the broader forces that give rise to income and racial segregation and neighborhood change, another has emerged to explicitly examine the causes of concentrated poverty. In *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy*, a seminal work of what may be called the “concentrated poverty” school, the sociologist William Julius Wilson (1987) theorized that the emergence of the underclass resulted from economic rather than social or governmental factors. Wilson argued that structural changes in the American economy – such as loss of manufacturing jobs that had been located in urban areas – had a disproportionate effect on

Washington, D. C. Comprehensive Plan Update. District of Columbia, July 2004, 31.

minority residents of the inner city. The lack or relocation of employment opportunities raised the rates of unemployment and underemployment of inner-city males, whose lack of dependable income in turn disturbed marriage relationships and thereby caused the number of female-headed households to rise. The departure of middle-class whites and blacks for suburbs that held better opportunities for schools, homes, jobs, and safety exacerbated the isolation of poverty-stricken inner-city residents who now lacked role models. As the concentration and isolation of poor and unstable households increased, dysfunctional behavior – including sexual promiscuity, crime, violence, and drug addiction – spread relatively unchecked. To counteract this downward spiral, Wilson proposed full employment, federal income supports and other government-sponsored social services, and programs that would break down the segregation of race and class in metropolitan areas.

The extent of concentrated poverty areas is, of course, fundamental to the entire research project. Jargowsky, who has done the most extensive research on the subject (Jargowsky and Bane, 1991; Jargowsky, 1997), analyzed census data at the tract level and calculated that in 1990, 8.4 million persons were living in high-poverty areas, as defined by a 40 percent poverty rate. Most of these by far were members of minority groups who lived in highly segregated neighborhoods. Jargowsky reported that the concentration of poverty worsened between 1970 and 1990, when the proportion of the black poor living in ghettos and other high-poverty neighborhoods rose from 26 percent to 33 percent. Recent evidence suggests, however, that the concentration of poverty diminished during the 1990s (Kasarda, 1993; Jargowsky, 2003), and that the circumstances that created a high number and intensity of such areas may be passing. Jargowsky now estimates that 10.4 million households lived in high-poverty areas in 1990 and that the number had fallen to 8.0 million in 2000. Furthermore, he estimated that one in ten poor people lived in these 2,510 census tracts in 2000. Thus, a significant number of low-income households still reside in poor areas and presumably suffer the consequences.

Policies to Fix the Problem of High-Poverty Places

The belief that concentrations of poor people contribute to social problems has led to the creation of government policies that aim to produce a mix of incomes in housing developments and/or neighborhoods. The policies can be grouped into two categories. One type of policy encourages the development of new or rehabilitated low-income housing, often in existing low-

income neighborhoods but sometimes in new sites as part of market-rate developments. The programs used for redevelopment of existing low-income communities include the Community Development Block Grant, which is used to assist development projects or nonprofit community development organizations; and the HOME program, which provides block grants to subsidize new construction, rehabilitation, homebuyer assistance, and tenant-based assistance, with some funds set aside for local nonprofit community housing developers. The Low Income Housing Tax Credit (LIHTC) provides tax incentives for private sector production of affordable housing. It has a minimum requirement of low-income units in an eligible project, which in practice frequently creates mixed-income developments. Other important redevelopment projects are the Nehemiah homeownership programs, the massive housing development program carried out by New York City's government, the HOPE VI program for redeveloping large public housing projects, and the use of rehabilitation building codes. (For a brief description of these programs and studies that assess their effectiveness, see Appendix, Section 3, Redevelopment Of Existing Low-Income Communities Through Housing.)

Another group of policies inspired by the concentration of poverty theory aims to disperse residents of low-income communities to mixed-income environments. The best known efforts are the court-ordered Gautreaux program in Chicago and the federal government's Moving to Opportunity program implemented in Baltimore, Boston, Chicago, Los Angeles, and New York. In addition, programs that provide vouchers or certificates to supplement rent payments and vouchers for use at private or suburban public schools are also attempts to counteract the effects of high-poverty neighborhoods. These approaches raise the question of whether they can, in the end, lead to the re-concentration of poverty with a lag. If there are tipping points and threshold effects then it is conceivable that efforts to reduce poverty concentrations may ultimately lead to their reproduction elsewhere. (For a brief description of these programs and studies that assess their effectiveness, see Appendix, Section 5, Dispersal of Residents of Low-Income Communities.)

Social Impact Analysis

Wilson's theory brought together several lines of social research based on the idea that communities play an important part in influencing people, and particularly people with low incomes. In the nearly two decades since Wilson published *The Truly Disadvantaged* numerous

scholars have avidly pursued the link between a high degree of poverty in neighborhoods and social problems. Failure and dropping out of school, juvenile delinquency, high teenage pregnancy rates, lack of employment opportunity, and crime are among the variety of ills attributed or correlated with communities with concentrated poverty (Jargowsky and Bane, 1991; Massey and Denton, 1993; Brooks-Gunn et al., 1997a,b; Vartanian and Gleason, 1999). In a thoughtful survey of the literature, Ellen and Turner (1997) found that researchers identified six ways that impoverished neighborhoods could affect the lives of individuals who lived in them: quality of local services (including public schools), socialization of youth by adults, youth peer influences, social networks (for support and information, including about economic opportunities), exposure to crime and violence, and physical distance and isolation from jobs. Sampson, Morenoff, and Gannon-Rowley (2002) reviewed more recent research on the effects of neighborhoods and found more than 40 relevant academic articles published from the mid-1990s to 2001. Extrapolating from these studies, the authors hypothesized that the major mechanisms for community influence were neighborhood social ties, social control and social cohesion, presence of institutional resources (in the form of libraries, child care, schools, medical facilities, etc.), disorder, and routine activity patterns determined by the urban geography of the neighborhood.

Here follows a brief discussion of several important areas of research on the effects of high-poverty communities on their inhabitants. The effects of concentration of poverty on housing tenure, employment, crime, public services, schools, and children and youth are the topics treated here.¹³

Concentration of Poverty and Housing Tenure. One noticeable effect – or symptom – of the concentration of poor people in certain communities is a distinctive nature of housing tenure. Within these poverty-stricken areas live disturbingly large shares of low-income renters (Belsky, 2005). In 2000, 38 percent of renters earning less than \$20,000 annually lived in poverty tracts in which at least one in five households lived in poverty, whereas only 25 percent of all renter households and 16 percent of all households lived in such areas. Furthermore, while only two percent of all households lived in the highest poverty tracts (those in which at least four in ten households were living in poverty), fully eight percent of all renters households with incomes of

¹³ There is in addition a growing literature on the effects of high-poverty neighborhoods on health, including infant mortality, low birth weights, and asthma, that lies beyond the scope of this paper.

less than \$20,000 lived in them. The renters in such areas are often in painful financial straits. More than a quarter of renters living in the highest poverty tracts had severe housing cost burdens, and fully 43 percent of them had at least a moderate cost burden in 2000. The sheer financial burden notwithstanding, low rates of home ownership correlate with a variety of social problems (Brooks-Gunn et al., 1997a,b; Harkness and Newman, 2002; Haurin, Parcel and Haurin, 2002). Nevertheless, cause and effect is especially difficult to disentangle when it comes to housing tenure because a variety of unobserved characteristics that may also be associated with lower propensities for social problems may also be associated with higher propensities to own homes. These include greater propensity to make financial and human capital investments, stay in a place longer, and have a more stable family environment. Hence, there is a self-selection bias to homeownership that is difficult to control for and may lead to spurious correlations (Apgar, 2004). (For a brief description of related programs and studies that assess their effectiveness, see Appendix, Section 3, Redevelopment of Existing Low-Income Communities through Housing, in particular, the subsections on Homeownership and Nehemiah Homeownership.)

Concentration of Poverty, Employment, and the Spatial Mismatch Hypothesis. The lack of employment opportunities in deindustrialized urban regions (Kasarda, 1989) has been a central part of the concentration of poverty theory. John Kain, an economist, first outlined what has come to be known as “the spatial mismatch hypothesis” in 1968, and from the 1980s, Wilson and Kasarda’s publications renewed interest in Kain’s hypothesis and have inspired numerous tests of the validity of the hypothesis.

Kain’s hypothesis is simple in concept: inner-city residents have limited access to employment in the distant and prosperous suburbs – but it has proved difficult to confirm. The biggest problem has been determining precisely the effects of spatial mismatch and then finding ways to measure them. It is possible that inner-city blacks responded to the mismatch by commuting a long way to jobs or moving to the suburbs. If so, would comparing white and black commuting distances or rates of suburbanization establish spatial mismatch or were they caused by other social trends? Kain himself reviewed the studies in 1992, rebutting numerous critics, including Ellwood (1986) who believed that race, not space, constrained employment possibilities for African Americans. In recent years, the movement of African Americans to the suburbs where they may or may not have better access to jobs has made the hypothesis even

more difficult to measure. Nonetheless, a battery of new studies appeared that tested the hypothesis by examining commuting, job accessibility, single and multiple metropolitan areas, and comparing employment among central city and suburban residents.

Ihlanfeldt and Sjoquist (1998) assessed the studies that appeared after Kain's review and found that a majority of them supported the hypothesis, and those that did not were methodologically flawed. Nonetheless, while believing that the findings may underestimate the effects of the spatial mismatch of jobs, they admitted "it remains a formidable challenge to measure with any degree of precision the individual's proximity to available jobs for which he or she is qualified." (Ihlanfeldt and Sjoquist, 1998, 880). Furthermore, they note the effects of the mismatch probably vary across metropolitan areas and a number of other factors – including ignorance of suburban job opportunities, reluctance to seek employment in potentially hostile environments, lack of transportation, and old-fashioned racial discrimination may also affect people's ability to find jobs.

Stoll (2005) used zip code level data to explore the mismatch between the residential location of blacks and jobs. He found that the higher levels of decentralization in a metropolitan area were associated with greater spatial mismatches for blacks but not for whites. He found this to hold true regardless of the region, size of the metropolitan area, and percentage of blacks in the metropolitan area.

Galster and Killen (1995) proposed the term 'geography of opportunity' to refer to the various ways in which geography influences individuals' opportunity and may even "modify the innate and acquired characteristics of participants ... [and their] ability to plan and sacrifice for the future" (pp. 9, 12). If, as they contend, "our options are limited both by the very real social and economic conditions of our existence and by the limitations we perceive regardless of the accuracy of those perceptions" (p. 28), then place may affect individuals' sense of their own control over the events in their lives. The authors argue that the perceived benefits or harms from geography arise from social externalities and community interaction effects.

High-Poverty Neighborhoods and Crime. Poor neighborhoods are notorious for high rates of crime, which has prompted researchers to investigate the "neighborhood effects" on crime rates. The work in this area has been extensive and wide in scope. The concept of social contagion – for example, that neighborhoods can encourage youth crime by exposing young people to peer pressure or an entrenched pattern of gun violence – has inspired a large literature

itself (Cook and Goss, 1996; Fagan and Davies, 2004). Another theory that helps explain delinquent behavior in low-income areas is a low degree of social capital or “collective efficacy” in the form of strong interpersonal relationships with adults (Sampson, Raudenbush, and Earls, 1997; Short, 1997).

A tenacious stereotype holds that there is a racial component in criminal behavior – namely, that poor African Americans are more inclined toward crime and violence. Nonetheless, a long line of sociological work (Shaw and McKay, 1942) has demonstrated that delinquency rates remained high in certain disadvantaged areas regardless of which racial or ethnic group inhabited it. Indeed, Hannon and DeFina (2005) recently employed a regression technique to estimate the race-specific effects in census tracts in Cleveland, Ohio between 1990 and 2000 and concluded that reductions in neighborhood poverty appear to reduce violent crime in both white and black neighborhoods.

Strangely enough, however, there has been very little research on whether the lack of employment opportunities in poor communities has encouraged young men to engage in crime, particularly drug dealing, as a way of earning money. At least one recent study suggests that employment can help reduce drug crime in poor neighborhoods (Ihlanfeldt, 2003), and that further research in this area is warranted.

Concentration of Poverty and Public Services. The sorting out of types of communities by income and race has also created disparities in productivity and public costs. A study commissioned by the National Research Council, for example, estimated that high levels of racial segregation result in a three to six percent reduction in metropolitan-level productivity while also increasing the public costs of policing a disadvantaged population that perceives it has been denied opportunities (Altshuler et al., 1999). Public costs at all levels of government (through higher public expenditures on welfare, medical care, food stamps, social services, housing assistance, police protection, and prisons) are reflected directly in higher tax burdens. These findings beg the question of what can be done to promote integrated neighborhoods – a question not much considered in the literature.

As Yinger (1996) and Altshuler et al. (1999) have pointed out, the relative burden that falls on taxpayers in poor communities – where the tax rate must be high to raise revenue from low-income property owners – is greater than in high-income places. Although the capitalization of the taxes into house values may mitigate the burden, it does not solve the underlying gap

between the ability of a low-income community to raise revenue and the cost of services. Furthermore, states may restrain the kinds and rates of taxes that local governments can levy on their citizens. Some local governments have found some relief from state grants-in-aid and other fiscal “stretching” techniques (Pagano, 1999).

The chief result of fiscal strains appears to be a lower level of services in communities with a significant impoverished population. Using a regression analysis to determine the effect of neighborhood characteristics on the cost public services, Ladd (1994) concluded that one city with a one percent higher poverty rate than another would incur 5.5 percent higher average costs for police services.

Because individual municipalities collect and publish budget data, most of the studies of fiscal disparity compare different jurisdictions, either in different metropolitan areas or within a metropolitan area. Nonetheless, there is some evidence to suggest that school quality, at least, does vary with the income profile of a neighborhood. Steifel, Rubenstein, and Schwartz (2004) found that the dollars spent per pupil tend to be higher in low-income neighborhoods but the experience and educational achievement of the teachers tends to be lower. Venkatesh (2000) found that protective services broke down in some of the more distressed public housing projects. It would be a helpful supplement to the research on fiscal disparity, then, to trace the extent that – and also the mechanism by which – poor neighborhoods may be deprived of services that are supplied to better-off neighborhoods within the same municipality. (For a brief description of a program and assessment of its effectiveness aimed at counteracting the unbalanced provision of services, see Appendix, Section 2, Anti-Exclusion, Uneven Distribution of Public Services, and Local Governance, in particular the subsection, Regional Revenue Sharing.)

The Impact of Concentration of Poverty on Schools. Nowhere is the fiscal disparity between types of communities more evident than in the area of education. Local property taxes, supplemented by local and state bonds, provide the capital to run a majority of public schools. Because low-income communities are less able than high-income municipalities to raise large sums for property taxes or bonds to fund schools, the distribution of wealth and resources thus creates a hierarchy of school districts. Even within school districts, the wealthy neighborhoods are more likely than poor communities to have public schools that are in better condition and have access to more resources.

Hence the residential sorting process has promoted racial, economic and social segregation of students in America's primary and secondary schools. Low-income and minority children – who are already “at risk” of school failure – are often concentrated in urban centers and isolated rural communities. In contrast, higher-income, better-educated white families typically send their children to suburban and private schools.

The pattern of segregated housing, communities, and schools has had a dramatic influence on educational environments and academic performance of American children. Household incomes and the price of homes have been strongly associated with the quality of instruction and levels of student achievement. In particular, areas of concentrated poverty have been linked to lower educational achievement and high drop-out rates (Kasarda, 1993). High degrees of poverty among schoolchildren correlate with low scores for many variables that affect a school's overall chance at successfully educating students. Parent education levels, availability of advanced courses, teachers with credentials in the subject they are teaching, stability of enrollment, numbers of dropouts, untreated health problems, and college attendance rates are among the many important factors that show the disadvantages of schoolchildren who are poor and segregated (Orfield and Yun, 1999). Although scholars have demonstrated the correlation of segregated and high-poverty neighborhoods with poor academic performance, they have yet to precisely identify the mechanisms by which the environment influences the behavior of school children (Ainsworth, 2002) – a possible field for additional research. (For a brief description of related programs and studies that assess their effectiveness, see Appendix, Section 4, *Redevelopment of Existing Low-Income Communities Through Educational Programs.*)

The Effects of Concentrated Poverty on Children and Youth. The perverse effects of concentrations of poverty on children and young people are not restricted to schools. Most research on the effect of high-poverty neighborhoods has focused on children and youth, on the widely held assumption that the young are more vulnerable and susceptible to environmental influences than adults are. Ellen and Turner (1997) hypothesize about ways that high-poverty neighborhoods may influence preschool and elementary school children, but note that so far there has been relatively little work done along these lines. In contrast, a great deal of research has been devoted to the effect of neighborhoods on adolescents (Jencks and Mayer, 1990; Wilson, 1997; Ellen and Turner, 1997; Brooks-Gunn et al. 1997a,b; Ainsworth, 2002; Sampson, Morenoff, and Gannon-Rowley, 2002). The studies show a strong correlation between a high-

poverty environment and poor adolescent performance in schools, adolescent sexual activity and pregnancy, educational attainment, juvenile delinquency, and to some extent between poor neighborhoods and adolescent unemployment. For many scholars the keys to the behavior of youth are collective socialization, in which there are few role models or adults who espouse middle-class values: social control, in which there is a lack of supervision of youth by responsible adults; and social networks, which provide positive support and information. The subject of the effects of low-income communities on adolescent behavior continues to attract researchers, although there remain many questions as to which aspects of high-poverty neighborhoods influence young people.

Project on Human Development and Chicago Neighborhoods

Some of the most wide-ranging and compelling research on the negative impact of concentrated poverty on residents comes from the Project on Human Development and Chicago Neighborhoods (PHDCN). The project was designed to determine why some neighborhoods exhibit signs of social stress and pathology while others do not, and to examine the mechanisms by which neighborhood milieus influence a range of human developmental outcomes. The principal finding of the effort so far is that “concentrated disadvantage” – a high level of poverty and racial segregation – is often associated with poor outcomes, though certain neighborhoods that score highly on “collective efficacy,” despite these disadvantages, have better outcomes (Sampson et al., 1997). Collective efficacy is a measure of social cohesion and shared norms that predicts how likely residents are to intervene to advance the common good. It is generally, but not always, lower in areas of concentrated disadvantage than elsewhere. In areas where collective efficacy is low, researchers found, violent crime was more likely, school performance tended to be worse, and birth weights of babies were lower (PHDCN, 2004). The newly assembled data on neighborhood conditions and childhood outcomes in Chicago holds great promise to provide more definitive answers to the questions that remain about the magnitude, relative importance, and mechanisms through which neighborhood characteristics influence behavior and lives of children.

The remarkable findings made possible by the richness of the PHDCN database suggest that another promising and important area for further research is what gives rise to community

efficacy and what policies and programs might help create more of it in the lower incomes areas where it is more likely to be lacking.

The Difficulties in Gauging the Effects of High-Poverty Neighborhoods

Despite many suggestive studies and its widespread acceptance among advocates, policymakers, and researchers, the assertion that living in an extremely poor area negatively affects residents has by no means been established categorically. A variety of individual and family factors – outside the severe disadvantage of low-income – can mediate the way that neighborhood conditions affect their residents. Researchers have tried to find unconventional data and methods to control for parental characteristics, but it simply may not be possible to isolate the influence of parents and home life from that of the neighborhood (Ellen and Turner, 1997; Duncan, Connell, and Klebanov, 1997; Small and Newman, 2001). Furthermore, although most researchers treat neighborhood effects as a linear phenomenon – increasing proportionally to the incidence of particular condition – some scholars believe that they are more likely to be nonlinear. Neighborhood environments, they assert, will have their greatest effects when particular conditions are present at certain levels or intensities or when they reach epidemic proportions (Crane, 1991; Ellen and Turner, 1997). The magnitude of environmental influences almost certainly depends on the age of the individual and how long they are exposed to adverse neighborhood conditions.

Even more serious is the issue that researchers – in considering the effect of neighborhoods – almost always calculate data for a spatial unit that bears little or no relation to areas urban residents consider a local community. As in the case of segregation studies, researchers frequently use census tracts as units of study because the census data offers a practical source of data for computations. Nevertheless, this practice casts doubt on the analysis, as the effects are imputed to a location that people may not have any sense of, or even contact with. A few researchers (e.g., Sampson et al., 1997) have gone to the effort of drawing neighborhood boundaries that reflect perceptions of local residents, but such care is too expensive and lengthy a process for many researchers. Moreover, there have been few efforts to understand the extent to which low-income people use social networks that transcend confined local areas in the way that other Americans do (Fischer, 1977, 1982). Knowing the actual geographic boundary of circumscribed neighborhoods and the extent to which low-income

residents live and act within them are crucial to measuring the effects of communities upon their inhabitants.

Finally, the scholarly literature still has not been able to identify the causal mechanisms by which neighborhood conditions influence the behavior of individuals (Ellen and Turner, 1997). We know little, write the authors of a review of recent literature on neighborhood effects, “of the causes of social processes or whether they are responsive to neighborhood policy interventions” (Sampson, Morenoff, and Gannon-Rowley 2002).

In sum, despite the progress scholars have made in connecting concentrated poverty to social behavior and conditions, they continue to find the effects of neighborhoods, and especially high-poverty neighborhoods, exceedingly complex and difficult to disentangle. Like the research on the processes that shape and differentiate neighborhoods, the methodological approach to the study of the effects of urban environments on their residents seems to have reached its limit.

The Search for Methodologies Useful to Theory and Policy

In the quest to understand the social processes at work in urban neighborhoods, scholars have not often considered the issue of culture – both of their research subjects and their own – in great depth. Researchers often assume that the subjects of their study are deficient in culture because of their isolation from or resistance to the mainstream value system (which is usually also the researchers’). For example, when applied to racial groups, the idea of cultural conflict or oppositional culture espoused by authors such as Massey and Denton (1993) implies that the principal motive of poor urban blacks who do not work steadily, shun marriage, or speak Black English is to avoid behaving like middle-class whites (Small and Newman, 2001). These kinds of assumptions, which undergird the work of many concentrated poverty researchers, are “empirically unsubstantiated” (Small and Newman, 2001, 37) and frequently unexamined. Such notions about culture not only come perilously close to invidious stereotypes, but they prevent the accurate analyses of peoples’ beliefs and reasons for their behavior that lead to effective policies.

Fortunately, some recent ethnographic studies point the way to a fresh assessment of the role of culture in high-poverty communities (Small and Newman, 2001). In research conducted in Philadelphia, Nightingale (1993), found that African-American boys were exposed a great

deal to mainstream American culture and upheld such mainstream values of individualism and consumerism. Studies of a group of low-income black men on Chicago's South Side (Duneier, 1992) and poor inner-city residents in New York (Newman, 1999) revealed a strong belief in work, family, and responsibility. As of yet, such ethnographic studies are few in number and focus on single locales, their approach holds the promise of explaining inner-city culture – or more likely, cultures – in ways that will lead to practical and useful public policies

As with the effort to understand what factors shape housing markets, communities, and racial settlement patterns, more qualitative research will be useful to theory and policy. Like quantitative studies, however, qualitative studies have methodological pitfalls. The unconscious biases of social scientists can cloud their observations (Rainwater, 1970) and indirect observations made from a great distance create a risk of superficial or subjective measurements of conditions and behavior (Sampson and Raudenbush, 1999).¹⁴ Nonetheless, the work of Venkatesh (2000) in explaining the social structure, survival techniques, and values of very low-income public housing residents in Chicago has demonstrated that – as in the heyday of sociological studies (e.g., Drake and Cayton, 1962) – a disciplined approach to direct observations can produce an objective understanding of poor people. In addition, studies, such as that of Briggs (2005), show that an ethnographic approach can speak directly to policy issues. At the very least, qualitative studies are necessary to complement and inform large quantitative research efforts.

Conclusion

In their quest to understand the ways that housing markets and urban communities influence each other and the residents of urban neighborhoods, scholars have achieved much. Over eighty years of research has produced increasingly sophisticated models of neighborhood change and innovative efforts to tie such factors as fiscal policies and house prices to the differentiation of types of communities. Inspired by fair housing efforts, scholars have delved into the causes of segregated patterns of population settlement and considered the role of factors ranging from discriminatory real estate practices to the expression of individual preferences for

¹⁴ Rainwater's book reads today as a dated and naïve rendition of lower-class culture. In the second study, researchers drove through inner-city neighborhoods in a sports utility vehicle, videotaping and taking notes about what they observed, then categorizing observations in subjective terms as physical disorder and social disorder. The

homes and neighborhoods. In their prolific quantitative efforts to study the effects of poverty concentration, researchers have found significant correlations between high degrees of poverty and problems of housing, employment, crime, schools, and youth behavior. The Project on Human Development and Chicago Neighborhoods, a broad program for studying Chicago-area neighborhoods that is reminiscent of the investigations launched in the 1920s by University of Chicago social scientists, has produced the promising concept of “collective efficacy” as a way to understand mechanisms of social control.

Scholarly research about urban communities – the ways they form, evolve, and diverge in character and affect the people who inhabit them – has at various times influenced the nation’s public policies. Research on the hardships created by the housing market, patterns of racial segregation, and effects of concentrated poverty have helped shape a wide variety of programs. Scholars have analyzed the effectiveness of programs such as the Home Mortgage Disclosure Act. The social scientific concept of the concentration of poverty inspired the goal of mixed-income housing and communities embedded in such programs as the Low Income Housing Tax Credit and HOPE VI. Academic program assessments like those summarized in the appendix are and will be indispensable in judging the efficacy of policies. It also would be useful to tie as closely as practical the theoretical studies of urban community issues to the formulation of government programs.

Although the literature on neighborhood change and neighborhood effects, most of which takes the form of quantitative methodology or economic theory, has been fruitful and thought-provoking, researchers of social issues in urban communities would be well advised to redress the imbalance between the quantitative and qualitative methods. This is important for many reasons. The first is that, as economists themselves have acknowledged, econometric modeling and data computation have failed to explain satisfactorily the workings of housing markets or settlement patterns. The second reason for pursuing more qualitative efforts is the need for theoretical constructs that will inform both scholarship and public policy. Sociologists – such as William Julius Wilson, who inspired many of the studies of concentration of poverty – have contributed some of the important concepts in this field.¹⁵ Third, too often researchers conduct

authors, however, took steps to avoid interpretive bias, and in any case were interested primarily in perceptions of residents not observers.

¹⁵ Of course, economists have also contributed or refined theoretical concepts. Yet even Homer Hoyt, the land economist who developed the housing filtering concept, was probably inspired by his experiences as a real estate professional.

research with little understanding of the culture, motives, and experiences of the people they are studying. Last but not least, direct information from the field may help social theorists avoid being surprised by trends such as gentrification or immigration that were not part of their earlier perspectives.

This review of the literature also suggests that more attention ought to be paid to the economic and social inefficiencies that housing markets can produce. Among them are higher public expenditures than would be necessary if poverty and minority groups were less concentrated. Concentrating the poor leads to higher public health costs because it apparently exposes poor children to lead, high concentrations of allergens, and other hazards found in older, improperly maintained homes. Furthermore, isolating low wage workers from low wage jobs causes losses in economic productivity. Concentrating the poor also may lead to poorer educational outcomes and higher rates of costly social problems such as teen pregnancies. As crucial as these points are to making a public case for investing in activities aimed either at preventing segregation or managing its consequences, surprisingly little research has estimated the unnecessary public costs and economic inefficiencies these problems create.

In addition, despite significant expenditures of government funds to help reverse neighborhood decline by investing in the housing stock of distressed neighborhoods, little sound research is available to test to see if these investments payoff in improving these neighborhoods. With the exception of some analysis of New York City's Ten-Year Plan that strongly suggested that the type and level of investment did result in at least higher property values in and around housing investments, there is no evidence of whether these investments improve other neighborhood outcomes such as crime rates, school performance of children, or rates of teen pregnancies. Furthermore, there has been little attention paid in policy or in academic studies to whether public investments in unsubsidized housing in stable low-income neighborhoods at risk of decline can avert the emergence of poverty concentration and its ill effects.

Regardless of the challenges, it is essential that scholars continue the effort to understand ways that housing markets have influenced and helped differentiate communities by race and socio-economic standing and in turn influence the lives of residents of low-income communities. The study of housing and neighborhood filtering both up and down the income and rent/value scales within neighborhoods is a potentially fruitful line of research that can now benefit from longitudinal analysis of decades of change at the census tract level. Until recently, these data

were not readily available in digital format and census tract matching software had not yet evolved to the point where consistent units of geography could be tracked through time. With these changes, a great deal of productive work can be done and has already started. Such studies, however, should be pursued along with others that ascertain and study the precise areas residents consider to be better communities. These processes are and will continue to be crucial to some of the most important domestic issues facing the United States. Research regarding these issues will thus shape public policies of utmost importance to the nation.

Appendix

A Review of Research on Selected Programs Aimed at Influencing Housing and Communities

Anti-Discrimination and Redlining in Housing and Housing Finance

Community Reinvestment Act and Home Mortgage Disclosure Act

The Community Reinvestment Act (CRA) and Home Mortgage Disclosure Act (HMDA) were passed in the 1970s to curb redlining: the discriminatory lending practice of financial institutions which refuse mortgage loans to neighborhoods because of their racial composition or the age of their housing stock. The CRA established that federally insured depository institutions had an obligation to help meet the credit needs of the communities they are chartered to serve, including low- and moderate-income (“LMI”) people. The HMDA requires public disclosure of data on individual loan applications, including the race and income of the applicants, thus making it possible to assess the CRA’s effectiveness. While the existing literature (Fishbein, 1992; Litan et al., 2000; Apgar, 2002) broadly supports the view that CRA and HMDA have expanded credit flows into LMI areas and extended home-buying opportunities for minority families, it is hardly definitive. It is difficult to identify and isolate the specific effects of CRA and HMDA because other legislative changes, such as the Fair Housing Act and ECOA, occurred simultaneously and also helped to expand credit. Anecdotal evidence suggests that the CRA influenced lenders’ activities in community investment and services, but further research is warranted to prove the impacts of CRA and HMDA on community development.

Fair Housing Act

The federal Fair Housing Act was designed in 1968 to eliminate residential segregation. As amended in 1988, the act prohibits discrimination on the basis of race, disability, familial status, national origin, sex, religion, and color in most housing-related transactions, including apartment rentals, home sales, homeowners’ insurance, and mortgage lending. Despite thirty years’ efforts since the first passage of the Fair Housing Act, discrimination in housing against racial and ethnic minorities and other protected classes has persisted. Studies (Yinger, 1998; Downs, 1992) consistently reveal high levels of unlawful discrimination in housing and show that minorities are likely to encounter discrimination approximately 50 percent of the time when

buying or renting. Thus the cost of discrimination is still high, constraining the opportunities of people in those groups to go to good schools, to find jobs, and to accumulate home equity. While many studies examine changes in discriminatory activities of lenders and landowners in order to evaluate the Fair Housing Act (Ambrose et al., 1995; Yinger, 1998), a recent study by Galster and Godfrey (2005) looked at steering by real estate agents. The authors found no evidence that their steering declined over the last decade, even though the federal legislation was toughened in 1988. Thus, the Fair Housing Act communicates a clear message that discrimination is illegal and socially inappropriate, but according to the research, has not affected discriminatory practice much. Further study of the efficacy of the act may be useful.

Equal Credit Opportunity Act

The Equal Credit Opportunity Act (ECOA) was enacted in 1974 to promote the availability of credit to all creditworthy applicants without regard to race, color, religion, national origin, sex, marital status, age, receipt of public assistance funds, or the exercise of any right under the Consumer Credit Protection Act. For home mortgage lending, that prohibition is also reinforced by the Fair Housing Act of 1968. Both intentional discrimination (as measured by disparate treatment) and statistical discrimination (as measured by disparate impact) are prohibited by the ECOA. According to Elliehausen and Durkin (1989), available statistical studies as well as theory do not offer any grounds for optimism about ECOA's impact. While they conclude that the ECOA stands as a monument to principles rather than profoundly influencing credit availability, others (Litan et al, 2001; Barr, 2003) feel that the ECOA has helped increase lending to minorities. Even though he admits ECOA's weaknesses, Barr argues that ECOA itself sets out important anti-discrimination norms and should be strengthened by the cross-model strategies with the CRA.

Anti-Exclusion, Uneven Distribution of Public Services, and Local Governance

Inclusionary Zoning

The fundamental purpose of inclusionary zoning is to allow the development of affordable housing to become an integral part of all development taking place in a community. Inclusionary zoning policies can be categorized as either mandates or overrides (Rusk, 2002).

The first category requires that, above a specified scale, a certain proportion of affordable housing units in any housing development be set aside. Montgomery County, MD's Moderately Priced Dwelling Unit (MPDU) policy and Fairfax County, VA's Affordable Dwelling Unit (ADU) policy are prime examples. The second category provides that existing local zoning restrictions that discourage affordable housing can be overridden by a state agency or a state court for a specific affordable housing project proposed by a local housing developer. Prime examples of "inclusionary zoning overrides" are Massachusetts's Anti-Snob Zoning Act (Section 40 B), Connecticut's Affordable Housing Land Use Appeals Process, and New Jersey's Fair Housing Act of 1985/Council on Affordable Housing (COAH).

Advocates of inclusionary zoning argue that this regulatory tool makes possible the integration of populations that traditional zoning segregates, and allows local governments to create more heterogeneous communities at little or no direct financial cost (Smith et al., 1996, 170; Parrott, 1999). The affordable housing created by inclusionary zoning does not produce a segregated area of the poor but rather residences integrated into the overall community. Thus, it avoids problems of over concentration, ghettoization, and stigmatization generally associated with isolated subsidized housing projects (Innovative Housing Institute, 1999; Municipal Research and Service Center of Washington, 1999). Inclusionary zoning, however, has been criticized for shifting the burden of affordable housing provision to other groups, including occupants of new projects and the owners of the land they sit on (Mallach, 1984; Ellickson, 1985; O'Sullivan, 1996; Johnson, 1997; Calavita and Grimes, 1998). In addition, courts have heard arguments that inclusionary zoning constitutes a taking of property, and the resulting decisions have given inclusionary zoning less solid constitutional grounding than other land use regulations (Kayden, 2002). Others have criticized inclusionary zoning for removing the upwardly mobile poor from the other inner-city residents (Burchell et al., 1995) and for causing undue development of locations that would not otherwise have experienced it (Innovative Housing Institute, 1999).

Even though no definitive source or comprehensive national survey of these efforts exists, the literature indicates that there are 50 to 100 jurisdictions nationally that employ one or more, or a variant of, inclusionary ordinances (Mallach, 1984; Nenno, 1991; Goetz, 1991; San Diego Housing Commission, 1992; Newman, 1993). Nationally, the adoption of inclusionary programs increased modestly from 11 to 14 percent between 1994 and 2003 (Pendall et al.,

2004). These ordinances are, however, practically never found outside the Northeast and West. Higher levels of adoption in these regions are the result of the existence of state mandates in some of the states and more acute housing affordability problems. Socioeconomic characteristics and local demography also appear to influence the adoption or retention of inclusionary zoning. For example, jurisdictions with more college-educated adults tend to have more inclusive land use practices.

Studies on the effectiveness of inclusionary zoning programs have been very limited. Massachusetts's Chapter 40B, among them, was more studied than others due to its long history. Based on many years of research beginning in 1977, Sharon Krefetz (2001) has concluded that Chapter 40B has been instrumental in opening up the suburbs to some affordable housing that otherwise would be rejected by local zoning authorities. However, she indicates that resistance to low- and moderate-income housing in many communities has remained strong and a very small number of communities (23 out of 351) have achieved the 10% threshold. One of the reasons for the sluggish impacts of this override strategy is its slow and painful path, which causes more time lost and more money spent on litigation (Rusk, 2002). Given critical needs of program evaluation for policy makers, the impact of inclusionary zoning on low-income people in the new mixed-income projects and the old neighborhoods, urban communities in general, and on suburban growth are potentially fruitful subjects of future research.

Court-Ordered Integration – Mt. Laurel Decision

To fight discriminatory practices and achieve their goal of residential integration, housing activists and their lawyers have often resorted to litigation, which has produced noteworthy court-ordered integration programs. The New Jersey Supreme Court launched perhaps the most sweeping program aimed at counteracting exclusionary zoning and providing affordable housing in suburban locales. The court held in *Mt. Laurel I* (*Southern Burlington County N.A.A.C.P. v. Township of Mt. Laurel*, 336 A.2d 713, 728 (NJ 1975)) that all of New Jersey's municipalities had an affirmative obligation to plan and provide low and moderate cost housing. After the broad principles enunciated in the first opinion were resisted and proved difficult to enforce, the New Jersey Supreme Court eight years later reaffirmed its earlier decision in *Mt. Laurel II* (*Southern Burlington County N.A.A.C.P. v. Township of Mt. Laurel*, 456 A.2d 390, 415 (NJ 1983)). This ruling required that municipalities adopt zoning that would ensure that they provided their fair

share of the regional need for affordable housing. In response, the New Jersey legislature intervened legislatively and adopted mandatory inclusionary zoning with mandatory regional planning and assistance in defining the hard numbers of ‘fair share’ and overseeing municipal compliance with housing targets. Even though Mt. Laurel decision itself has not been widely copied, the sentiments it embodies are shared by courts in other states as well (Fischel, 2001b).

Mt. Laurel demonstrates the potential role of the judiciary – in the absence of legislative action – to ensure that all of a state’s citizens have the opportunity to meet fundamental needs such as housing. In his book on the Mt. Laurel decisions, *Suburbs Under Siege*, Haar argues passionately that strong judicial intervention is needed to counter the ills of exclusionary zoning, and that in New Jersey courageous, innovative judges took the action that was needed. He advocates that other states should follow New Jersey’s court-based strategy and perhaps even go further. Yet the Mt. Laurel decision has also been criticized as an example of the judiciary usurping the role of the legislature in making policy for the state, thereby undermining its legitimacy and squandering judicial resources. In *Our Town: Race, Housing and the Soul of Suburbia*, Kirp, Dwyer, and Rosenthal (1995) cover much of the same ground that Haar does but come to different conclusions. They also argue that a top-down strategy such as litigation cannot extend economic rights when it undermines local community institutions and fails to empower the poor and middle class. Furthermore, they depict the political stalemate that occurred as the judiciary attempted to enforce its dictates and question its worth.

Regional Revenue Sharing

The concept of regional revenue sharing has been a topic in economic literature since as early as 1950 (Fisher, 1982). The most prominent intellectuals proposing contemporary metropolitan regional planning are David Rusk (a former mayor of Albuquerque) and Myron Orfield (a state representative in the Minnesota legislature and the head of the Metropolitan Area Research Corporation in Minneapolis). Both men have developed sophisticated proposals for regional revenue sharing that are derived from their efforts to promote metropolitan administrative reform in their home cities. The main purposes of regional tax-base sharing are: to eliminate wasteful competition for external capital investment among municipalities within an urban region; to spread the costs of economic growth and public infrastructure investments more evenly throughout a metropolitan region; and to counteract the effects of concentrated urban

poverty (Hamilton, 1999). One of the most developed tax-revenue sharing systems has been established in the Twin Cities, where approximately 20% of local taxes are transferred into a regional tax pool which is then distributed among low-tax-capacity municipalities (Orfield, 1997). A different model of tax sharing, organized through regional asset districts in which suburbs contribute funds to support major central city infrastructural facilities (museums, zoos, sports arenas, recreational centers, etc), has been implemented in the Denver, Colorado, region and in Allegheny County/Pittsburgh, Pennsylvania (Hamilton, 1999).

In addition to tax-base sharing, another important component of metropolitan regionalism focuses on the region-wide provision of low-income housing. Such projects have been implemented in Montgomery County, Maryland, (which borders Washington, D.C.) and were debated intensively during the 1990s in Minneapolis–St. Paul (Orfield, 1997; Rusk, 1999). However, even though this redistributive strand of metropolitan regionalism has recently been discussed widely in the media – due to the influence of figures such as Rusk and Orfield – its actual effects on urban governance have been relatively limited so far. According to Orfield’s (1997) description of his own efforts to forge a progressive regional coalition in the Twin Cities, neoconservative resistance to such redistributive schemes is particularly pervasive in the predominantly white middle-class suburban communities that surround most major U.S. city centers. Consequently, the establishment of a regional coalition which includes both central cities and suburban communities and which has the support of state legislatures to institute its policy proposals is an extraordinarily difficult task. Nonetheless, if further research can verify that existing regional revenue sharing and redistributive policies have relieved unequal intra-metropolitan situations and brought community revitalization, it will promote similar policies in other metropolitan regions.

Redevelopment of Low-Income Communities through Housing

Early Redevelopment Programs

Over the course of the twentieth century, the federal government adopted a series of programs aimed at redeveloping low-income, physically deteriorated neighborhoods. The initial approach to reversing neighborhood deterioration was to bulldoze areas in the name of “slum clearance.” Although the authors of the public housing law, enacted in 1937, had different

intentions, local authorities generally implemented the program by demolishing low-income residences and replacing them with the new federally financed public housing projects. The Housing Act of 1949 specifically aimed at rebuilding congested inner-city neighborhoods through what came to be known as “urban renewal.” Besides restarting the funding of the public housing program, the act authorized the federal government to loan cities money to purchase slum land (which could be taken under the power of eminent domain) and to issue grants to help public agencies or private companies to redevelop the land. In 1954, the Congress broadened the urban renewal program to allow for demolition of not only slums, but also blighted and even potentially blighted areas and increased the opportunities for replacing such areas with non-residential projects. By the 1960s, however, the urban renewal program fell under attack from the right, which saw it as unjustly usurping property owners’ rights, and the left, which felt it unjustly deprived poor and minority people of their homes.

The War on Poverty and Model Cities

While maintaining support for public housing and urban renewal, the administration of Lyndon B. Johnson (1964-1968) attempted more holistic approaches to upgrading impoverished areas and helping impoverished people. Johnson’s War on Poverty included an array of programs, including employment training and jobs for youth. A key component was the Community Action Program, which created Head Start preschools, legal services, and community health centers in inner-city neighborhoods. It also started a novel and controversial type of organization, the community action agency, to help low-income people work with local social service agencies and institutions to plan and carry out anti-poverty measures for their communities.

In 1968, the government enacted the Model Cities program, which resembled the community action scheme on a grand scale. Under its aegis, social service agencies, government departments, and schools would coordinate their efforts and invent new ways to improve distressed neighborhoods and help their residents escape poverty. Originally conceived as a limited experiment, Model Cities was expanded by Congress to cover many more cities than originally planned, and it lacked practical means to make institutions cooperate on projects.

The impetus for Johnson’s anti-poverty programs lasted through the first term of his successor as president, Richard Nixon, but in 1972, the Nixon administration froze spending for

new projects under all housing, Model Cities, and urban renewal programs. A long political battle ensued, and it ended with the termination of Model Cities and urban renewal and the creation of a new federal approach to urban redevelopment embodied in the Housing and Community Development Act of 1974.

Community Development Block Grant (CDBG)

The Housing and Community Development Act of 1974 created the Community Development Block Grant (CDBG) program, a formula grant program that consolidated seven previous HUD programs. With the federal government awarding from \$2.5 to \$3.5 billion in most years (Urban Institute, 1994), the CDBG has supported a wider range of community development activities than the narrow provision of housing. Under the belief that local governments can better assess community-improving economic opportunities especially for low- and moderate-income persons, the CDBG program made affordable housing and community development its priority. Indeed, the CDBG program is “an emphatically neighborhood-centered initiative” (Walker and Boxall, 1996, 25). As a result, there have been arguments as to whether local governments have successfully met a federal mandate that at least 70% of the CDBG funds benefit low- and moderate-income households (Urban Institute, 1994; Mayer, 1995; Connerly and Liou, 1998). This question has caused researchers to examine where and how CDBG funds have been spent, which groups the CDBG has benefited most, and how efficiently its plans have been implemented (Wong and Peterson, 1986; Rich, 1993; Urban Institute, 1994). Many studies suggest that the largest portion (about 28-35 %) of funds has been devoted to housing (Urban Institute, 1994; Connerly and Liou, 1998). The income-targeting requirement, researchers report, may have caused localities to try to benefit the poor and minorities, but it still leaves them room to pursue projects for the broader community (Urban Institute, 1994; Mayer, 1995). Nonetheless, the Millennial Housing Commission (MHC) received many responses that called for better targeting of CDBG monies to aid lower-income populations (MHC, 2001).

Yet there has been relatively little research on whether, under what circumstances, and to what extent the CDBG investments have contributed to neighborhood improvement or revitalization. Although they do not present any detailed analysis or statistical evidence, existing studies of Bleakly et al. (1983) and the Urban Institute (1994) agree that the CDBG Program has made an important contribution to community development, including demonstrated successes in

achieving local neighborhood stabilization and community revitalization. More recent research (Walker et al., 2002; Galster et al., 2005) found that larger CDBG investments are more likely to improve neighborhood quality. According to Galster et al., statistical evidence suggests that CDBG spending has helped conditions in lower-income urban neighborhoods. However, further research with more accurate data is still needed because existing research reveals that amounts of CDBG spending are somewhat inconsistent with indicators of subsequent neighborhood change. As mentioned above, since the forces that influence communities are complex and changeable, productive research in this area will require careful thought and a range of methodological approaches.

A similar program, the Urban Development Action Grant (UDAG), enacted in 1977 and effectively terminated in 1988, aimed at providing funds for large redevelopment schemes, which could consist of commercial, industrial, or residential projects that lay outside the requirements of the CDBG program. The UDAG program was designed to encourage private-public ventures by requiring private investors to commit funds five to six times the amount of the federal contribution before the grants were made. Although UDAG increased the money available for community development, the perception that its projects often subsidized wealthy private interests selectively and were not cost effective in producing new employment or community improvements cost it crucial political support (Hays, 1995).

Home Investment Partnership Program (HOME)

The HOME Investment Partnership Program (HOME) was enacted as the central feature of the National Affordable Housing Act of 1990. As with the CDBG, participating jurisdictions would receive a formula-based HOME grant each year and, within broad national guidelines, have greater flexibility in their choice of activities by utilizing a mix of separate housing programs to subsidize new construction, rehabilitation, homebuyer assistance, and tenant-based assistance (Turner et al., 2002). The HOME program is one of the largest federal block grants (approximately \$2 billion per year) to state and local governments designed exclusively to create or preserve affordable housing for low-income households. To address this objective, the HOME program requires that its rental and homeownership projects serve low-income families and that local jurisdictions must save 15% of the funds for nonprofit Community-Based Housing Development Organizations (CHDOs) (Urban Institute, 1999).

Similar to CDBG studies, existing literature on the HOME program often reviews how local governments comply with program requirements, how much of the funds go to the low-income homeowners and the very poor renters, and how much of the total allocation is committed to CHDOs' projects. In the early research, Nelson and Khadduri (1992) argued that HOME did not meet the severest needs of extremely low-income renters. However, more recent research suggests that the program aids substantially more lower-income households than the statute requires (Mayer, 1995; Urban Institute, 1999). According to the Urban Institute, the HOME program supports the projects developed by CHDOs more than the federal mandate. While the existing research broadly agrees that HOME has made a substantial contribution to local housing needs, its impact on community development has not yet been the subject of much research. Therefore, future research should focus on whether and in what ways the HOME program has contributed significantly through its affordable housing provision to efforts to revitalize low-income communities.

Low Income Housing Tax Credit (LIHTC)

The Low Income Housing Tax Credit (LIHTC) was originated in conjunction with the Tax Reform Act of 1986 to provide incentives for private sector production of affordable housing. During its first fifteen years, the program has contributed to the rehabilitation or construction of roughly 1.2 million units, with over \$50 billion in tax credits committed (Malpezzi and Vandell, 2002). Despite its importance, the LIHTC program has not been sufficiently studied. Several practitioner-oriented articles, however, (ICF Inc., 1991; U.S. General Accounting Office, 1997; Cummings and DiPasquale, 1999) have been written to assess the impact of the program. They have focused on such issues as the relative contributions of for-profit versus nonprofit developers, the prime beneficiaries of the program, and the extent of subsidy "layering."

Advocates of the LIHTC argue that the program provides the only means to finance the creation of new affordable apartments and serves a broad range of housing needs. Advocates for supply-side programs argue that the program has contributed to increasing the supply of housing in general (Apgar, 1990; McClure, 2000). Cummings and DiPasquale (1999) also reported that LIHTC has provided better housing in poor neighborhoods than in wealthier neighborhoods. At the same time, the authors note that these projects generally do not serve the poorest households. Nelson (1994) points out that the LIHTC program usually provides units with rents that only

moderate-income households can afford. The LIHTC program by itself is not sufficient to produce affordable housing for low-income households (Rosen and Dienstfrey, 1999). The private sector has criticized the LIHTC because of its complexity and the need for developers to find additional funding to develop low-income housing (Stegman, 1991; Wallace, 1995). Further consideration should be given to overcoming policy barriers to financing low-income housing and to coordinating the LIHTC program with other federal block grants such as the CDBG and the HOME.

Regardless, the LIHTC program, like the CDBG and the HOME programs, should be studied further. The nature of the development system and the role of LIHTC in it, the usefulness of LIHTC to nonprofit and commercial developers, and the kinds of communities that have helped to create are all fertile subjects for future research.

Homeownership and Nehemiah Homeownership

Homeownership has become one of the highest priorities in the area of affordable housing, and a number of researchers have concluded that it is an effective device for achieving neighborhood stabilization. Goetz and Sidney (1994) argue that homeowners move less frequently and that having a mortgage provides a homeowner with a greater stake in the community. According to Galster (1983), owner-occupied homes are far less likely to have interior, exterior, or structural problems than the homes of comparable renters. Since owners take better care of their properties, communities with high homeownership rates often look more attractive than neighborhoods with few homeowners. Also, the market value of nearby properties often increases as homes in a neighborhood switch from rental units to owner-occupied housing.

Studies indicate that owner-occupied homes provide secure, safe, and stable places for family activities. In fact, research shows that homeowners are more inclined to behave in ways that produce positive environments for children (DiPasquale and Glaeser, 1997). Neighborhoods where residents have a commitment through homeownership and a shared interest in improving their environment show a reduction in the level of crime (<http://www.fight-back.org/vnr.html>, Retrieved November 13, 2002). Owner-occupied housing also has a beneficial effect on the local economy by increasing consumer spending, providing tax revenues and fees, and growing businesses and jobs. Building and rehabilitating homes requires additional employees, goods, and services from the general economy (Collins, 1998). Most studies of

homeownership examine the effects of homeownership in general, not the effects of subsidized low-income homeownership specifically. Nonetheless, the positive outcomes correlated with homeownership in general have proven a powerful motive for encouraging homeownership in central-city neighborhoods (Rosenthal, 2005). Indeed, a host of public policy programs, such as the Nehemiah Program, strongly advocate homeownership as a means of revitalizing severely depressed neighborhoods.

To subsidize the development of affordable, owner-occupied homes in distressed urban neighborhoods (Ellen et al., 2001), the Nehemiah Program was launched in the early 1980s by East Brooklyn Congregations, a group of thirty-six churches in Brooklyn (Stuart, 1997). The national Nehemiah Housing Opportunity Grants Program (NHOP) was created under Title VI of the National Housing and Community Development Act of 1987. Under the program, HUD is authorized to make grants to non-profit organizations to provide loans to families purchasing homes that are constructed or substantially rehabilitated in accordance with a HUD-approved program (Cummings, DiPasquale, and Kahn, 2001). In several cities around the country, local officials have promoted homeownership through Nehemiah programs. In these programs, subsidies from a variety of sources make it possible for low-income households to purchase newly constructed or rehabilitated homes for a fraction of construction costs – in some cases, as little as one-third (DiPasquale and Glaeser, 1997). Also, the high-volume, mass-production approach has allowed the Nehemiah Program to deliver units at a very low price. Finally, Pare (1993) cites the Nehemiah program as a strategy to overcome the fixed costs of regulations and land use controls that often prevent for-profit developers from creating new affordable units.

There has been little work that examines the neighborhood spillover effects generated by the subsidized construction of ownership homes. Cummings, DiPasquale, and Kahn (2001) examined two Nehemiah housing developments in Philadelphia, but they found no statistical evidence on its spillover effects on community development. However, several recent studies (Lee, Culhane, and Wachter 1999; Santiago, Galster, and Tatian, 2001; Ellen et al., 2003) have found positive effects of homeownership programs on surrounding communities. Ellen et al. suggest that affordable homeownership programs in New York, including the Nehemiah, have increased property values in their immediate neighborhoods. Nevertheless, in order to determine a strategy to revitalize high-poverty neighborhoods, researchers still need to conduct an analysis

comparing the impact on general community quality of the Nehemiah type of homeownership to that of other subsidy programs.

Local-Government Sponsored Housing (New York City)

In the era of federal devolution, states and local communities throughout the nation have become more important in developing affordable housing (Turner and Cook 1989; Goetz 1993), but New York stands alone in the extent to which it uses its own resources for housing development. When Edward Koch first announced New York's 10 Year Housing Plan in his State of the City Speech, city officials in New York were under pressure to provide housing to all homeless individuals and families as a result of a series of decrees in the early 1980s (Culhane, Metraux, and Wachter, 1999). Later, New York City embarked on a set of policies which expanded the city's financial commitment to \$5.1 billion to build or rehabilitate over 182,000 apartments and houses (New York City Office of the Mayor, 1988). A principal objective of the 10 Year Plan was to create additional housing for low- and moderate-income families as well as the homeless (Ellen et al., 2003). In addition, from the very beginning, the plan focused on neighborhood revitalization. According to the mayor and the New York City Department of Housing Preservation and Development (HPD), they intended to undertake a major effort to rebuild entire neighborhoods and anticipated that such concentrated revitalization would provide the hub for further development (Koch, 1985; HPD, 1989). For these main goals, over a hundred separate programs were implemented by dozens of government agencies, for-profit developers, financial institutions, and community-based organizations.

Ellen et al.'s two studies in 2001 and 2003 conclude that the 10 Year Plan has had substantial positive impacts on neighborhoods and has contributed to neighborhood revitalization – what some have characterized as the rebirth of inner-city neighborhoods. They list several factors contributing to New York City's exceptional success. First, the mix of housing types may have generated larger neighborhood spillover effects. More importantly, rather than concentrating the very poorest households in particular neighborhoods or projects, the city generally aimed to create housing for mixed incomes. Second, Mayor Koch and his housing agency committed the city to an effort of unprecedented magnitude and scope. The city's investment in housing production was unprecedented; various studies reported that the amount New York City spent on housing over the course of the 10 Year Plan was more than three times

the total housing expenditures of several dozen of the next largest cities combined (Berenyi, 1989; Schwartz, 1999). Finally, as described above, New York City's explicit emphasis on neighborhood revitalization led to significantly beneficial effects on community redevelopment. Based upon the optimistic results of New York's 10 Year Plan, the existing literature (Schwartz, 1999; Ellen et al., 2001; Ellen et al., 2003) advocates more local-government sponsored programs, but more research is needed, such as a direct comparison with vouchers and/or the possibility of replication in other cities.

HOPE VI

In 1992, the Urban Revitalization Demonstration Program, known as the HOPE VI program, was launched to address the most troubled portion of the public housing stock and severely distressed public housing sites. HOPE VI is a competitive grant program, under which public housing authorities (PHAs), local entities that administer federal housing programs, apply to the HUD for funding to redevelop or demolish public housing sites. Since its first implementation, 446 HOPE VI grants have been awarded in 166 cities, 63,100 severely distressed units have been demolished, and another 20,300 units are on the list for redevelopment (Holin et al., 2003). As a new-born program, HOPE VI has not been fully evaluated due to a lack of consistent data on the program results. Existing evaluation (Fosburg, Popkin, and Locke, 1996; Salama, 1999; Holin et al., 2003) focuses on HOPE VI sites and redevelopment plans through local case studies rather than nation-wide research with specific performance measures.

Zeilenbach (2002) examined neighborhood impacts at eight HOPE VI sites. He concluded that HOPE VI was contributing to improvements in surrounding neighborhoods by reversing the negative effects of deteriorated public housing. He found that average per capita incomes rose 57 percent faster in HOPE VI neighborhoods than citywide while unemployment levels fell an average of 10 percentage points but were flat citywide. He also found mortgage originations were on average higher in HOPE six counties than in surrounding counties. Holin et al. (2003) examined six projects and found that crime rates were significantly lower after the redevelopments were completed. They also rated reductions in unemployment and poverty as high in half the sites they studied and modest in the other half. In two of the sites, racial concentrations remained high but fell measurably over a relatively short period. Piper and Turbov (2005) studied four sites and found crime was reduced in all of them. A study conducted

by the U.S. General Accounting Office (GAO) (2002) looked at 165 awards through 2001 and found most communities surrounding HOPE VI projects had experienced improvements in measures of educational achievement, income growth, and housing conditions. The GAO also looked at four sites and matched them to similar neighborhoods. This analysis did not produce consistent results. Furthermore it is unclear in each of these studies if the sites selected were in areas about to gentrify, already in the process of gentrifying, or especially well positioned to begin a process of gentrification (Keating, 2000; Swope, 2001; Cunningham, 2001; Lang and Morton, 2002; Popkin and Cunningham, 2002).

Many studies have also pointed out the program's unclear standards and misleading and contradictory regulations. National Housing Law Project et al. (2002) noted that without clear rules or standards, HOPE VI has resulted in the involuntary displacement of existing tenants and the permanent loss of large numbers of public housing units. More recent studies (Popkin et al., 2004a; Popkin et al., 2004b) attempt to gather information about the original residents and to track resident outcomes. However, there is only a minimal effort to connect HOPE VI projects to community development factors.

Rehabilitation Codes (Smart Codes)

The regulation of building construction is an exercise of the government police power to protect public health, safety, and welfare. Through laws passed in 1954 and 1964, the federal government first encouraged and then mandated the use of building code regulations for the purpose of renewing and preserving blighted or slum neighborhoods. By the early 1960s, more than 700 communities had enacted such housing codes (Friedman, 1968, 50). Since then, the use of building codes for the purpose of improving communities has received less attention than other programs, but has continued to spread. While in theory, building code regulations should lead owners to maintain housing in good condition, in practice the decision of whether to abide by codes is influenced also by the owner's current cash flow and expectations for future cash flows, the underlying building condition, and the extent to which financial assistance is available or utilized. Not much empirical research has been done on how landlords react to more vigorous code enforcement. George Sternlieb completed a classic study of the issue in 1966. Among the handful of studies completed recently, most are based upon anecdotal accounts or poorly

specified models (Ross, 1996). One reason that makes studies of this subject complicated is the erratic and often complaint driven nature of most code enforcement programs.

Until the 1990s, the rehabilitation of existing buildings was regulated by building codes designed for new construction that often reduced housing supply by hindering the rehabilitation of buildings. To encourage rehabilitation work, several states and local jurisdictions, including New Jersey and Maryland, began to develop their own regulations known as “rehabilitation codes” or, in some places, as “smart codes.” Nationally Applicable Recommended Rehabilitation Provisions (NARRP), International Existing Building Code (IEBC), and National Fire Protection Association (NFPA) 5000’s Chapter 15 were also developed as national models for rehabilitation codes, though the extent of their local adoption of is unknown at this time (Listokin and Hattis, 2004). The literature on the impact of rehabilitation codes on housing and community development is extremely sparse. In most contemporary literature (Forest, 1999; Listokin and Listokin, 2001; Burby, Salvesen, and Creed, 2003), the rehabilitation code figures as only one component of the larger subject of building codes and housing costs.

Some recent research suggests that the adoption of rehabilitation codes may have reduced costs and substantially increased the amount of building renovation (Burby, Salvesen, and Creed, 2003; Listokin and Hattis, 2004). According to Listokin and Hattis, the adoption of a rehabilitation code by the State of New Jersey may have reduced costs by between 10 and 40 percent, and increased the amount of building renovation activity substantially. Forest (1999) also concluded that the code reform in New Jersey brought a spurt of rehabilitation activity as a result of the potential savings it allowed, showing the increase of rehabilitation activity from \$176 million in 1996 and \$179 million in 1997 to \$287 million in 1999. More carefully controlled study is needed before firm conclusions can be drawn. Comparative analysis is also needed to examine differences among the various emerging rehabilitation code regulations.

Redevelopment of Low-Income Communities through Educational Programs

It has often been asserted, particularly by education advocates and public leaders, that improving schools has a positive impact on community development. According to the National League of Cities’ survey of its members in 2000, it is clear that city officials view the quality of public education and local schools as the cornerstone of their cities’ success. As for the general public, in a recent public opinion survey the assertions that public schools “bring benefit to

families” and “improve the local economy and attract business” were identified as the most and the second most important benefit which schools bring to communities (Education Week and Public Education Network, 2002). The quality of public schools was rated as more important for community improvement than lowering crime rates, creating community pride, and instilling civic values. Using schools as tools for community redevelopment has also been a field of emerging interest for researchers. However, existing literature, while very strong in particular areas, is weak when it comes to assessing the impact of improving schools on community revitalization as a whole. The complexity of the education/community relationship has caused measurement difficulties that belie easy answers. Given how often the theme is mentioned in public debate, it is surprising that few studies or compilations describe how schools do or do not benefit from community development.

Instead, the literature has focused on whether there is an association between school quality and neighborhood property values. Clapp and Ross (2002) found that the literature on public service capitalization provides strong evidence that households are willing to pay for school quality in the form of higher housing prices. Many studies (Weimer and Wolkoff, 2001; Cheshire and Sheppard, 2002) find a positive relationship between standardized test scores and housing prices using cross-sectional regressions. While isolating this effect is difficult because better schools tend to be located in areas that may cost more for reasons other than school quality (Chiodo, Hernandez-Murillo, and Owyang, 2005), a few studies provide more compelling evidence (Bogart and Cromwell, 2000; Weimer and Wolkoff, 2001). They examined the differences in housing prices across transactions for units with the same detailed neighborhood attributes apart from school quality.

Charter Schools

One of the fastest growing educational reforms in the country, the charter school movement has strong appeal at all levels, from local communities to the U.S. Congress. The charter school movement has bipartisan support nationally, and many states have enacted charter school laws. Since 1995, the federal government has encouraged the development and implementation of charter schools through the Public Charter Schools Program (PCSP), a major grant program administered by the U.S. Department of Education (Finnigan et al., 2004). In many cases, a low-income community cannot convince the school district or the city to build a

new school even when there is tremendous need. Charter schools have responded to this need in inner-city areas and offered free public elementary and/or secondary education under a charter granted by the state legislature or other appropriate authority (National Center for Education Statistics, 2002). According to Jonathan Schor's article "Give Charter Schools a Chance (2000)," students at model charter schools often surpass other children academically in their respective cities. Charter schools also have the flexibility to cater to special needs that regular public schools do not address – for example, the needs of immigrant students and their families.

Charter schools have proven an effective tool for urban community development. While their academic records are admittedly mixed, many charter schools are yielding unexpected benefits in urban renewal and neighborhood revitalization (Halsband, 2003). A growing number of community-based organizations (CBOs) are starting charter schools as a way to increase the impact of their programs and provide one-stop shopping. In her article "Charter Schools Benefit Community Economic Development," Robin Halsband notes that several charter schools are slowly helping to decrease economic and racial segregation. Ethnic segregation, however, is greater in charter schools, according to a recent study by PACE (Policy Analysis for California Education) of the University of California. Despite anecdotal evidence, charter schools may actually increase diversity by attracting and retaining families who can choose by program quality rather than location. Further research, especially quantitative but also qualitative, is needed on this subject.

The transformation of decrepit and often abandoned structures into beautiful new school buildings represents the final example of how charter schools can contribute to community development. Because charter schools are not provided with a building, they often purchase or lease vacant, dilapidated properties, and renovate them into spectacular new schools and even community centers (Bingler, 1999). In conclusion, while charter schools have been models for how neighborhood-based public schools can impact community development, they are still a relatively new concept and present a mixed record of failure and success.

Magnet School Assistance Program (MSAP)

Magnet School Assistance Program (MSAP) grants are intended to support magnet schools that are part of an approved desegregation plan designed to bring students from different socioeconomic, ethnic, and racial backgrounds together. Beginning in 1985, MSAP has offered

multiple-year grants to school districts through a competitive process administered by the U.S. Department of Education (Christenson et al., 2003). This federal intervention relies on a strategy of disassociating poverty from education. Some schools helped by MSAP have shown success in eradicating inequalities in the public school system (Varady and Raffel, 1995; National Association of Realtors, 2002).

When Varady and Raffel argue in *Selling Cities: Attracting Homebuyers through Schools and Housing Programs* that improving school quality is a key to attracting middle-income buyers to central cities as a prerequisite to urban revitalization, they cite the success of Cincinnati's magnet school program as a tool for attracting middle-class families back to the city. In their study "New Schools for Older Neighborhoods," the National Association of Realtors (NAR) holds up the example of magnet schools in Tennessee. Hamilton County School District in Chattanooga worked with local partners to build two downtown K-5 magnet schools as part of the city's efforts to revitalize the neighborhood and encourage people to live in the city's center. Though the schools were available to students from other neighborhoods, priority was given to downtown residents as an effort to revitalize urban communities.

However, this remedy can be ineffective because it often disconnects schools from communities. As a strategy for solving inequality in public schools, magnet schools have not taken into account the community context. Indeed, federal funding programs alone cannot solve community-related problems (U.S. Department of Education, 2002). Therefore, the strategy of extending educational desegregation to a community by creating magnet schools needs to be addressed in future research. More local jurisdictions need to conduct formal evaluations to prove positive economic results of magnet schools on community revitalization.

Dispersal of Residents of Low-Income Communities

Most programs that attempt to ameliorate conditions of concentrated poverty and low-income neighborhoods focus on improving housing, education, or other aspects of community life in the particular place where poverty is high. Another approach has been to remove or disperse the residents of low-income communities to places where they will enjoy better housing conditions and educational and economic opportunities. Usually such programs are complex and time-consuming, and researchers are divided as to the success of this approach.

Gautreaux/Moving to Opportunity

In the set of legal actions known as the Gautreaux cases after Dorothy Gautreaux, the lead plaintiff, the courts found that the Chicago Housing Authority (CHA) and the Department of Housing and Urban Development (HUD) had discriminated against minority tenants, concentrating them in huge-scale developments located in racially segregated neighborhoods. After years of litigation and the untimely death of Gautreaux herself, the cases produced court orders and a negotiated agreement with HUD that low-income families with rental vouchers be placed in suburban homes and that the government build “scatter-site” low-rise public housing units outside predominantly African-American neighborhoods. A local fair housing organization was given responsibility to screen low-income families and find them homes in carefully chosen and prepared communities. This effort lasted fifteen years, from 1981 to 1996, and in the end relocated 7,100 families, a small fraction of the low-income African Americans who lived in Chicago.

Since the Gautreaux decision created the first scattered-site and mobility programs more than thirty years ago, public and assisted housing has been transformed to remedy racial segregation and concentrated poverty. A study of Yonkers, Briggs, Darden, and Aidala (1999) analyzed the impact of seven scattered-site public housing developments on neighborhood property values. Using a census tract fixed effects model, they found little price change effect on the surrounding area. Santiago, Galster and Tatian (2001) used a similar model to examine how the scattered site public housing program in Denver influenced the sale prices of surrounding single-family homes. They concluded that the acquisition and rehabilitation of property to create dispersed public housing units brought positive impacts to surrounding neighborhoods, especially in the values of single-family homes.

Based on the desegregation order from the Gautreaux decision, in 1992 Congress initiated a federally funded demonstration program called Moving to Opportunity (MTO) to offer better opportunities to public housing tenants living in distressed areas. MTO was implemented in five cities (Baltimore, Boston, Chicago, Los Angeles, and New York) and differed from the Gautreaux program by considering the poverty rate of the receiving neighborhood rather than its racial composition as the deconcentration criterion (Popkin et al., 2000). While most literature has revealed negative effects of living in areas of high poverty concentration, the positive influences of neighborhood environments were studied only recently (Brooks-Gunn et al.,

1997a,b; Sampson, Morenoff, and Gannon-Rowley, 2002). Several researchers report that neighborhood effects are much clearer for children and teenagers than for adults (Leventhal and Brooks-Gunn, 2001; Goering, Feins, and Richardson, 2002). Evidence for the potential effectiveness of policy tools for housing mobility and deconcentration comes in part from research done on Gautreaux families in the late 1980s (Kaufman and Rosenbaum, 1992; Popkin, Rosenbaum, and Meaden, 1993). However, issues of selection bias and small and non-representative fractions of sample families cause them to question these studies about whether the Gautreaux strategy benefited the neediest public housing residents (Rubinowitz and Rosenbaum 2000; Popkin et al., 2000).

While MTO research was intended to address some of the shortcomings of the Gautreaux research, the complete results concerning participant outcomes are not yet available (Popkin et al., 2000). Reports from small studies, however, conducted on individual sites (Leventhal and Brooks-Gunn, 2001; Goering, Feins, and Richardson, 2002) suggest many positive short-term outcomes, especially employment and educational benefits for the participants. Ludwig and Kling (2005) report that moving to neighborhoods with lower poverty and crime rates reduces criminal behavior for participants, though this varies according to gender and age of the individuals. The reduction in the rate of arrests for violent and property crimes were highest among female youth (Kling, Ludwig, and Katz, 2004). The MTO's ongoing longitudinal research plan will help us understand neighborhood effects on life chances of the poor as well as evaluate residential mobility programs. Future research may also provide a clearer understanding of the overall costs and benefits of MTO, what types of households or family members are affected and under what circumstances, and whether neighborhood effects are long-lasting.

Rental Vouchers

Reflecting the legacy of the Gautreaux case described above, over the past decade dispersing tenants throughout a metropolitan area by means of Section 8 vouchers or certificates has become a larger and more important component of federal housing policy. This tenant-based housing assistance program can potentially help counteract patterns of poverty concentration and racial segregation by allowing low-income participants to search for housing in the private rental market. In general, researchers agree that Section 8 tenant-based assistance effectively addresses the segregation patterns created by traditional public housing programs (Turner, 1998). Indeed,

only 14.8 percent of certificate and voucher recipients live in high-poverty neighborhoods (greater than 30 % poor) while 53.6 % of public housing residents live in those neighborhoods (Newman and Schnare, 1997). Despite successes in dispersing tenants reported in early studies, recent research reports that Section 8 recipients are not as successful in finding a house or apartment to qualify for assistance under current competitive market conditions (National Low Income Housing Coalition, 1999) and that there is still discrimination against black Section 8 recipients, and recipients who live in central cities (Turner, 1998).

Limited research has been done on specific benefits for the regular Section 8 participants compared with increasing research on households participating in the MTO program. One study conducted in four counties of California suggests that Section 8 participants are more likely to be employed than either public housing residents or poor households in the private market (Ong, 1998), but it is not clear how much of a role self-selection plays in these outcomes. Other studies (Varady and Walker, 2000; Cunningham, Sylvester, and Turner, 2000) find that when their Section 8 contracts expire, former recipients of the program tend to move to somewhat better neighborhoods but not far from their original developments.

Recently researchers have turned around the question of the effect of Section 8 on the holders of vouchers to ask how low-income Section 8 households affect the neighborhoods in which they live (Popkin and Cunningham, 1999), in so far as bringing social and safety problems correlated with poverty. The answer appears that any negative impact upon neighborhoods depends upon the degree to which program participants are geographically concentrated. Therefore, the potential for geographic clustering and adverse neighborhood consequences should be studied carefully in the future.

Most dispersal policies including tenant-based housing assistance rest heavily on assumptions about positive impacts of changing neighborhoods. While admitting problems of segregation and benefits of moving opportunities, Briggs and Venkatesh suggest a new perspective for designing those policies. Both indicate the importance of community interaction and advise policy makers to reflect real lives and preferences of poor families. From careful observations and interviews, Venkatesh (1997) discovered an intricate network of social support and social control among tenants in the Robert Taylor Homes, known as one of the worst public housing developments in Chicago. Briggs (1997) noted that social network may play a more important role in the harsh conditions of concentrated poverty. Indeed, many blacks who moved

out of poor neighborhoods often reenter such neighborhoods and stay for long periods of time (Briggs, 2005). More recently, Briggs (2005) points out that repeat mobility by low-income renters makes it harder for them to leverage the value of new neighborhoods. He asserts that policy discussions should incorporate this issue to increase social leverage of low-income households.

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