Policy Implications: A Panel Discussion

A Statement of Our Concerns

Moderator Anita A. Summers

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I will begin with two general comments and then summarize the possible policy implications that flow from today's papers.

Defining the Problem

To my mind, an important issue remains that we have not discussed, and should: the fact that we are all here because we agree that existing inequalities are too great. We have not really demonstrated that such inequalities are so terrible, however, and we need to lay out the welfare function explicitly. It is not clear that the current Congress has the same welfare function in mind as the one that seems to prevail here.

The biggest divisions about what is the right amount of inequality can be described as follows. One way of thinking would support some sort of safety net that would protect medical care, housing, and education at a minimal level, while leaving the rest up to the market. The other way of thinking about inequality argues that we should allow the market to operate sufficiently to ensure that such programs maintain an efficient purpose in society. The United States now has such a large group relying on our safety net precisely because we have not done so, according to this point of view. Some statement about the actual level and reasons for concern about earnings inequality should accompany any policy discussion.

My second general comment relates to the decision, in this conference, to focus on both spatial and labor market contributions to earnings inequality. Spatial inequality analysis usually emphasizes the group with the lowest level of income, the bottom decile, the underclass. We have concentrations of the poor, and growing disparities between the city and the suburbs in income and many related socioeconomic measures. Policies derived from spatial inequality studies emphasize improved mobility of residential location, and improved ability of people living in one place to get to employment in another. Such policies assume that if the poor were more dispersed, we would have fewer problems.

Labor market inequality analysis, on the other hand, looks at the whole range of the income distribution. A researcher may compare the lowest income group to the highest, or measure the difference between the second and the eighth deciles. Such studies are interested in how the market rewards skills in relation to productivity, and in wage determination as it is related to the demand for and supply of labor. The focus on the lowest income group, in some labor market studies, overlaps the similar focus of most studies of spatial distribution. The policies flowing from these studies are directed to education, training, the minimum wage, and the role of internal private sector management.

Mobility and Neighborhoods

The spatial papers—the overview paper by Mayer, and the papers by O'Regan and Quigley, and Holzer and Ihlanfeldt—point strongly and clearly to both the role of transportation and the role of neighborhood effects in the spatial reinforcement of earnings inequality. Such papers provoke much discussion and interest here, because we operate at the margin in determining which is more important: neighborhood effects or transportation effects. As empirical social scientists, however, we must understand the tension that exists between the partial equilibrium or individual questions that drive our research and the general equilibrium reality in which both transportation and neighborhood play an important role.

Over the past quarter century, one of the great flaws in public policy has been to use single-pronged policy programs to aid those at the lowest end of the income distribution, rather than to use the more complex, multi-pronged approaches. We who do research have helped to drive that misguided policy approach. We identify one or another input as a significant coefficient in our regressions and tend to design policies accordingly. Much of the current thinking in research circles and in the experimentation funded by large foundations has shifted to ways to assist low-income families by addressing many areas simultaneously. While specific research projects may point to one approach, effective results will require combining the knowledge from all our research efforts into a comprehensive policy program.

Much of the current thinking about assisting low-income families emphasizes addressing many disadvantages simultaneously.

The research results on transportation and neighborhood effects discussed today combine in the following questions: Can an individual freely choose where to live, given the income constraints? Does every geographic area provide a supply of residential locations for whoever wants to live there? And can people get to the places where the jobs are located? The papers presented today said that mobility matters and that neighborhoods do have effects on earnings.

So what are the policies to think about? In our policy discussions, we must take into account the devolution of power that is taking place in this country. How much, and in what form, we may not know yet, but some devolution surely will take place. One tool to implement devolution is block grants to state and local governments. Although block grants have received much support, little attention is being paid to just how they will be distributed—not even by big city mayors, who will certainly be among those most affected. This is clearly a case where it is all in the details! There is a well-known example from the 1970s of the need to understand the details. The formula for the distribution of Community Development Block Grants used the log of the unemployment rate to calculate funding. How could big city mayors have allowed the log to get in, rather than the level? The question is whether states, with their increased power, will regard spatial and labor market inequalities as a major concern. And the question is also whether the federal government will use the block grant formulas to give incentives for them to do so.

How much will be spent on increasing mobility by tailoring transportation to provide access to jobs? Will there be constant legal pressure for the availability of housing for all who can pay? Much of the current immobility comes from a certain fixity, or even expansion, in the size of the underclass, the poorest group. We have not been successful in breaking through that fixity, and it is not clear that transportation will change it, either. Marginal effects are important, so we should ensure that transportation is available, but we should think about them as marginal effects.

When thinking about neighborhood effects, it is important to focus on the dispersion of poverty. No systematic study has been done on what happens to income inequality if neighborhoods are changed by a reduction in the spatial concentration of poverty. In New Jersey, for example, the latest Mt. Laurel decision was interpreted to mean suburbs could "pay" or "play"—either contribute financially or build low-income housing—and all opted to pay. If the decision had been to put low-income housing in many of these suburbs, rather than sharing only fiscally, this would have been a good case study for the effect of dispersion policies. That is the only such court decision I know of that has gone so far in trying to alter the poverty concentration—and legal scholars differ as to whether that decision will, in fact, have wide implications.

A few years ago, I organized a conference that took place in that great urban setting, Bellagio on Lake Como, comparing urban economic development in Western Europe and the United States. A major conclusion emerging from the comparison was that European cities are healthier than U.S. cities for two reasons. First, the poor are much more dispersed in Europe than in the United States; lower-income families tend to live around the periphery of major cities, not in the center, as in the United States. Second, most European cities receive centralized funding. Their state of well-being is nowhere near as dependent on the local tax base as that of cities in the United States. So, I encourage thinking about deconcentration policies.

The Kain-Singleton paper suggests that spatial inequality translates into fewer resources going to schools in poor and minority communities than to schools in more affluent areas. We still do not know whether these resources matter. If they do, we need to think about ways to add or reallocate dollars to resources that in fact have an impact on education. If resources do not matter, then we are left thinking about policies that do not necessarily involve resources but, rather, involve a major restructuring of the organization and incentives of our educational system.

Labor Market Issues

What are the real labor market issues in connection with earnings inequality for those at this conference? If they are not primarily issues about those at the bottom, then what is there to worry about? We might worry about those unemployed who have a temporary skills mismatch for labor market needs, who need help with mobility or retraining. We might worry about today's middle class that has less income than its predecessors. To my mind, this does not seem to be such a worrisome thing to contemplate. We might worry about international competitiveness, in which case we want to ensure that international markets are freed up, leaving it to the market to translate those changes into the labor market. It is the group at the bottom, however, that warrants most of the attention from public policies—a view that probably reflects the social welfare function of the participants in this conference.

Immigration policy has strong spatial implications, as well as general implications for the labor force as a whole. In the past decade, most of the new immigrants ended up concentrated in the central cities.

Peter Cappelli and Richard Freeman see some possible solutions in the private sector. Cappelli argues that managers influence the wage structure; but if you believe in markets, then presumably they manage the wage structure so as to maximize profits. It is difficult to think of managers of private companies as the guardians of more equality; they have quite different roles. I do not see any significant public policies about income inequality arising from the activities of internal management, although the notion of an independent role for internal management in lessening earnings inequality is quite interesting—profit-driven training programs and educational standards for hiring, for example.

Richard Freeman's policy recommendations were based on a reexamination of a number of institutions that affect earnings. I agree with Peter Gottschalk that such institutions are largely endogenous. They obviously have been supported by laws, but on the whole, they emerged from our society endogenously rather than exogenously.

So to address inequality in the general distribution of earnings and income, the list of non-spatial public policies would include changing tax policies, raising the minimum wage, improving training and higher education opportunities for low-income individuals, and changing immigration policy. Immigration policy, of course, has strong spatial implications, as well as general implications for the U.S. labor force as a whole. Five metropolitan areas in the United States received 58 percent of all new immigrants in the past decade, with Los Angeles accounting for 24 percent. Most of the new immigrants ended up concentrated in the central cities. Although immigration policy is set nationally, the effects are concentrated in a limited number of metropolitan areas. In the central cities of those areas, the fiscal impact of that concentration affects the local governments' abilities to provide services to those at the bottom of the income distribution.

Cities Are Special

As we look ahead, new policy options will emerge as power devolves from the federal government, largely in the form of block grants to states. These grants offer a new opportunity to build in incentives that would encourage state and local governments to reduce the inequality of income by reducing the spatial concentration of poverty. We do not know now how policymakers will choose to structure these block grants, but they certainly open up the possibility of establishing incentives to change the spatial distribution of the poor within a state, to change the minimum wage, and to alter tax policy. It is a big challenge to our current thinking to focus our concerns about income inequality on the roles of state and local governments. In the past, based on very sound public finance principles, redistributional policies were activated on the federal level. Now, we will have 50 political arenas to consider. This certainly suggests that spatial inequality will not be addressed in a uniform way, and that we will have to concern ourselves, increasingly, with the effects of competition among the states in welfare reform—who will spend the least?

This should leave us worried about one of America's greatest problems—our large old cities, where the biggest inequalities of income are found. Within the states with these large cities, the vote counts of the suburbanites plus the rural areas exceed the vote of the cities. That is not grounds for optimism about the likelihood of reducing income inequality in the United States!

Income Trends and the Housing Market

Panelist Ann B. Schnare

Vice President for Housing Economics, Federal Home Loan Mortgage Corporation

I was asked to address the impact the mortgage market may be having on income inequality. I find that a difficult hypothesis to address and have decided to turn it around a bit. I will discuss the impact that income trends are having on the housing market and the pressures they are putting on the mortgage industry as well as on the housing programs that serve the poor, such as those run by the Department of Housing and Urban Development (HUD).

Let me begin with a few words on how the effects of earnings inequality have played out in the housing market historically. Enormous and rapid improvements occurred in the homeownership rate after World War II. We went from a nation of renters to a nation of owners. But in the early 1970s, homeownership rates began to decline and continued to do so until last year. Many feared that the American Dream of homeownership was being threatened.

If you look at the numbers, much of the decline in the homeownership rate can be explained by demographic trends, for example, the rise of single-person households. But more important, in my view, are the income trends we have examined today. Younger, middle-class households between 25 and 35 years old, the classic first-time homebuyers, have experienced stagnating or even declining wages. Homeownership rose among younger households without children, both singles and married couples, but it fell significantly for both single and married parents with children. These were also the groups who experienced declining incomes.

Poverty in the Cities

The middle class certainly has been affected, as the stagnation in wages put pressure on homeownership rates, but the big impact has been on the rental market, as both relative and real incomes fell for those at the bottom of the income distribution, the people who traditionally have been renters. As a result, there is a large and growing gap between what it costs to operate an apartment building and the rents households can afford to pay. This has led to two problems,

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the physical decay we see in urban areas and an increased demand for government subsidies. And HUD has been severely hit by reductions in the resources put into low-income programs, a trend that will only intensify in the future, in my opinion.

These are individual effects, in a way. But the papers we discussed earlier make clear that not only are individuals pulling apart, so are neighborhoods and communities. Increasingly, the poor are concentrated in highly impacted neighborhoods within the city. Most who can get out have been getting out. These changes are having a growing impact in turn on the fiscal health of cities and their ability to pay for essential services. And city fiscal difficulties may in turn intensify some of the negative neighborhood effects that we have discussed today. The problems of urban areas are now linked intrinsically to problems of income distribution. To what extent they are contributing to or causing such problems is a matter for debate, but income distribution problems certainly are affecting the future viability of urban areas.

Implications for the Mortgage Industry

What does this mean for the mortgage industry? Certainly there is a lot of concern about the ability of low- and moderate-income households, especially minorities, to get access to the mortgage market. Following the Boston Fed study, as well as other work on mortgage flows in low-income and minority neighborhoods, the response by the mortgage industry has been fairly dramatic as we reexamined our underwriting criteria to see if we had unnecessary barriers to getting credit to inner-city neighborhoods.

This reexamination has led to a lot of experimentation, which has intensified in recent years. Unfortunately, the initial results are not very comforting. The mortgage industry has seen a real decline in credit quality, due in part to a drop-off in loan origination volumes. Mortgage originators were staffed up, and then they saw the refinancing market go away. Thus, there has been increasing economic pressure to preserve volume as well as political pressure.

At Freddie Mac we have found it important to distinguish between the performance of special programs and that of mainstream programs as they relate to the income of the borrower. In our special programs designed to lift certain underwriting guidelines, the record is not very good. These programs are relatively new, but as the data begin to come in, they are showing significantly higher default and foreclosure rates. These are low-equity loans, where only 2 percent of the money comes from the borrower's equity, and often even this is paid by or borrowed from the bank. Other aspects of risk are typically involved as well; in fact, layering of risk appears to be a significant problem. In my opinion, it is bad public policy to put individuals into houses they cannot afford to support. Some of the biggest abuses of government programs occurred in FHA during the early 1970s, when neighborhoods were blown away by bad underwriting.

If one examines mainstream programs, in particular the relationship between loan performance, borrower income, and neighborhood income, some interesting results appear that we do not fully understand yet but that relate to spatial effects. We have found, for example, that low-income loans perform the same way as high-income loans, with not much difference between the two groups. The important factor seems to be, rather, neighborhood income, which may mean that neighborhood income is picking up something more fundamental about permanent income than is revealed by examining only the current income of the borrower.

In looking at Freddie Mac's own mortgage purchases, we have found again that credit quality is not related to the borrower's income but rather to neighborhood income. This gets at the fact that serving distressed inner-city neighborhoods does involve more risk, that these are very difficult loans to do. The lending industry has much to learn. It is doing a lot of experimentation but concern remains about how far to go.

People versus Places

Shifting the focus now from Freddie Mac to HUD, one issue HUD has always been unsure about is whether it should subsidize people or places, rely on supply-side programs or on voucher programs. HUD has tried to serve both purposes with the same set of programs. Over time, as HUD monies dried up, they have increasingly targeted their subsidies to the poorest of the poor. The problem is that they locate such households in precisely the neighborhoods they are trying to upgrade. While housing programs may improve individuals' bricks and mortar, public housing has consistently reduced the quality of the neighborhoods people are living in, compared to equally poor households not involved in housing programs—a pretty serious indictment. These findings suggest several policy recommendations: One is to increasingly regard vouchers and mixed-income developments as solutions; another, more fundamental, is to break the link between trying to provide assistance to the poor and doing community development. Trying to do both together simply has not worked.

Inequality, Growth, and Restructuring

Panelist Frank Levy

Daniel Rose Professor of Urban Economics, Massachusetts Institute of Technology.

What is the effect of inequality on growth? In particular, will growing income inequality retard growth? The answer, I think, is mixed. In the long run, increasing inequality may limit the national rate of growth, for reasons I discuss below.

In the short run, I think the causality works in exactly the opposite way. The inequality we now see is a by-product of enormous industrial restructuring that began in manufacturing in the early 1980s and spread to the services sector by the end of the decade. On the one hand, this restructuring is responsible for raising the rate of productivity growth across the economy. On the other hand, this same restructuring has sharply reduced the demand for semi-skilled labor, and their falling wages have significantly increased earnings inequality.

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The underlying problem is that labor demand can shift much faster than labor supply. In this case, the demand for semi-skilled labor can fall much faster than semi-skilled labor can acquire new skills. The issue is much bigger than minority communities in central cities. Median earnings for 25- to 34-year-old men with a high school diploma or a GED is now \$20,500. This is a big decline; 15 years ago, similar men earned about \$28,000 in today's dollars. The number is particularly significant because 40 to 45 percent of all 30-year-old men have not gone beyond high school. A plausible connection can be made between these wage numbers and the "angry white males" we hear about in political argument. A lot is at stake. We need short-run policies to address how we can get through this period without atomizing our society. We need longer-run policies to help us get out of this situation.

In the short term, I would recommend that we treat the situation as an unanticipated natural disaster—like a flood or a hurricane. In response, we might expand our safety net to ensure that, say, health care is not linked to jobs, since the trends that are pushing down wages also reduce fringe benefits. In addition, we could expand or at least strengthen the earned-income tax credit. In all of this, we must recognize that for a large part of the population who played by the rules, the rules have changed in the middle of the game, leaving people in economic jeopardy when it may be too late to alter their choices. In this regard, we know from training studies that it is difficult for workers to pick up new skills at the age of 35 or 40.

Special Role of Schools

As for the future, the major issue is education and the provision of human capital; this is where the spatial aspect of these problems comes in. Schools, in particular our public schools, run on routines, like most organizations. In the 1970s, the established routines were perfectly adequate because high school graduates still could get decent jobs. The labor market has changed quite fast since then, but it is hard to get schools to change their routines in response. The highly decentralized structure of our schooling system makes it doubly hard. Local schools operate within their state's context. And states have become something of a deregulated industry themselves, with the federal budget playing a much smaller role in supporting state budgets. This leaves the states in very intense competition for jobs, putting pressure on resources. Within states, schools are governed in fairly income-homogeneous local districts. So the schools and communities that have been hit hardest must make the biggest adjustments. The towns where all the parents are highly educated have fine schools to begin with, and their taxpayers are also doing pretty well. But poorer working-class communities that have been hit harder by economic restructuring are also the places that need to make the biggest changes in their schools.

As John Bishop noted, kids make decisions early that have a kind of path-dependence in terms of which classes or tracks they are put in. The issue of their access to information about what is out there for them is very important. Programs such as apprenticeships for students in low-income high schools, like Project ProTech here in Boston, change the information on which kids are acting.

But more than that, we must keep saying that states should be upgrading educational standards and imposing minimum requirements, even though it may run against their short-run interests. These standards and measures should give parents some sense of what their kids are learning. In a period when we need to upgrade standards and increase the provision of human capital, providing more information externally to the school district is crucial.

The Migration Question

I will close with one final issue, migration, that I wish had been discussed more this morning. Massachusetts, for example, recently flirted with zero population growth. During the "Massachusetts Miracle" of the 1980s, the wage structure got pushed much higher than national wages because of a lack of in-migration. The loss of manufacturing jobs here was masked by a construction boom, then the construction boom ended. Anecdotally we hear that fewer decent jobs remain for less-educated people, although well-educated people have few problems. Is zero population growth being pushed by the out-migration of less-educated or more-educated workers? A more general question is, to what extent is migration affecting the distribution of human capital around the states and the underlying issue of earnings inequality? I hope this issue will be discussed more in the future.

Shifts in Labor Demand and Supply

Panelist Lawrence F. Katz

Professor of Economics, Harvard University.

The presentations at this excellent conference have shed further light on rising inequality, one of the truly big stories in American economic life over the last 20 years. The enormous disparities in the fortunes of American families in recent years have largely been associated with labor market changes that have increased overall wage inequality and shifted wage and employment opportunities in favor of the more-educated and more-skilled. Less-educated young men have suffered unprecedented losses in real earnings and are at greater risk of nonemployment than in years past, both in absolute terms and relative to more-skilled workers. In short, the U.S. labor market has experienced a massive twist against "disadvantaged" workers—those with limited education or skills or from impoverished families and neighborhoods—that has diminished their earnings prospects and made it more difficult for them to keep their families out of poverty and intact.

Many analysts believe a key driving force behind these changes has been a strong shift in relative labor demand against the less-educated and those doing more routinized tasks and toward more-educated workers and those with problem-solving skills. Changes over time in wage inequality can be thought of as being the outcome of a footrace between technology (the demand for skills) on the one side and the supply of educated labor on the other side. It is clear that the technology and demand side has been winning the footrace, outstripping supply and stretching out the wage structure during most of the past two decades. These demand shifts favoring the more-skilled have been reinforced by changes in pay-setting norms, increased competition in many product markets, increased immigration of less-educated workers, and the weakening of institutions that have protected non-college workers (for example, the decline of unions and the erosion of the real value of the minimum wage). While much debate exists concerning the relative importance of these different underlying causes of rising inequality and increased returns to skill, none of the suspected factors show any apparent signs of abatement.

The Role of Macro Policy

Strong macroeconomic performance traditionally has been a crucial factor in improving the labor market prospects for disadvantaged workers. But the experiences of the long boom of the mid and late 1980s and the current U.S. expansion suggest that sustained economic growth by itself, unassisted by specific initiatives to deal with increased structural labor market barriers facing the less-skilled, is unlikely to be sufficient to reverse recent trends in inequality or to overcome increased labor market barriers facing the disadvantaged in America's inner cities.

Market incentives for increased individual educational investments and skills upgrading can play some role in alleviating growing inequality in the United States. The large increase in the college wage premium in the 1980s has been associated with an increase in college enrollment rates from 49 percent of high school graduates in 1980 to more than 60 percent in the early 1990s. Evidence from U.S. time series and cross-country studies strongly suggests that rapid expansion of the supply of more-educated workers narrows earnings differentials and improves the labor market position of the less-skilled. But the process of supply adjustment can take many years, and many disadvantaged individuals face financial and informational barriers to pursuing further education and training. Furthermore, the overall supply of college graduates has not grown very rapidly in recent years, as John Bishop showed, because the current baby bust cohort is quite small. Not many 40-year-olds return to college when the college premium expands.

Rapid expansion of the supply of more-educated workers narrows earnings differentials and improves the labor market position of the less-skilled. But the process of supply adjustment can take many years.

These facts suggest a number of different strategies. First, we could try to improve the supply side of the labor market, as Frank Levy discussed. Obviously, primary and secondary education is key to that, although access to higher education is important as well. Second, we could try to affect the demand side of the labor market. We are not going to shut down the borders to trade; that would be foolhardy. But we could undertake some form of targeted demand policies, such as employer-side wage subsidies for economically disadvantaged workers, based either on people or on place. Third, government could play a better role in trying to make work pay, through an expanded earned income tax credit, possibly a higher minimum wage, or even doing more with the tax system. Fourth, we could do more to match up jobs and people who have very little connection to the labor market, such as welfare recipients and disadvantaged youth. Given that a lot of state and local governments will be making these decisions, we should draw lessons from the past on which approaches work best.

Choosing Policies That Work

Our 30 years of experimenting since the Great Society with training and wage subsidies and location-based assistance policies have given us a menu of options from which government can make its current decisions. We have had a number of negative messages, but this is probably the one area in the government budget where we have the most random-assignment evidence on which programs actually might work. So from this menu of options, policymakers such as state governors could make better-informed decisions than those made in the past.

The first thing we have learned on the negative side is that it is extremely hard to turn around the lives of people who have become disconnected from the mainstream educational system and dropped out of high school. Countless programs have attempted to help disadvantaged youth who have dropped out of high school and, aside from the Job Corps, a very expensive residential program, almost all have shown very little return. On the other hand, a number of recent demonstration projects suggest we can be more successful by starting earlier to work to keep kids in high school and prevent dropouts. The Quantum Opportunities program is a good private sector example, and the Department of Education has run a number of very successful demonstration projects: not traditional programs that help a 16-year-old get a summer job and do not last very long, but rather programs that start at age 14 or earlier and set up an inexpensive infrastructure with extra tutoring, together with a group at school responsible for helping kids make connections to the labor market. Some of the best examples, like the "I Have a Dream" programs, also guarantee some financial assistance for college. A number of these programs have had substantial effects on high school dropout rates and college attendance rates, and certainly they seem like potentially good uses of the funds that states will have available.

The second thing we have learned is that the returns to getting more education, such as attending college, are particularly high for those from disadvantaged backgrounds. Thus, the limited response of this group is not because they themselves do not generally experience high returns. When we have seen interventions such as increasing access to college or cutting tuition levels and studied them as natural experiments for estimating the rates of return to schooling, people

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from lower-income households have been the most affected. These are people on the margin who decide whether or not to go to school when you change access or tuition levels. When you estimate their rates of return, as David Card did in a recent survey, they look higher than the average difference in earnings between college- and high-school-educated workers, which suggests that capital market constraints are important. That does not mean that we know exactly the right ways to reduce the cost of education. But access to education combined with information seems to have a very high return for low-income people with high abilities. Policies to prevent dropouts and increase access to college do not work complete miracles, but they are also not that expensive when targeted to those at the margin, for example, in inner cities.

In another area, we have learned from the Gautreaux program and from a number of other quasi-experimental programs that neighborhoods, and the spatial concentration of the poor, do seem to matter. There is no chance in the world that the public will agree to huge residential dispersion policies, as the Baltimore experience with the Moving to Opportunity (MTO) program and the Mt. Laurel decision indicate. Small-scale attempts have a role, however, as shown in the current MTO program that, despite Baltimore talk radio disparagement, is in operation in the Baltimore metropolitan area as well as in Boston, Chicago, New York, and Los Angeles.

A striking characteristic of this program is that the majority of those who agree to participate in it say that the primary reason they want to move out of their neighborhood is because of problems with crime and worry for their children, but they lack the resources to leave public housing. Most claim to have been victimized by crime within the previous six months. In terms of transportation, 87 percent of them do not have cars, and the vast majority do not have driver's licenses. It is, therefore, plausible that these people are not choosing a place to live after evaluating neighborhood and transportation possibilities, but rather that public housing is the one place where they can get a subsidized living situation. Dispersion policies could accomplish a bit here, and what I call place-based people policies could do a lot more. This would not be subsidizing employers with tax breaks for setting up warehouses in enterprise zones, but rather targeting training and human resources funds towards areas with greater needs. Such programs may be less stigmatizing than those based on individuals' characteristics, such as the targeted jobs tax credit.

Finally, good returns may come from greater investments in improving information for kids. A number of mentoring programs provide such connections. Project Strive in Harlem is a good example: It provides training and two years of follow-up services for youth, where they try to make connections with and help resolve problems with employers. States and localities can do a lot to break down the barriers between the offices of central-city Job Training Partnership Act agencies and suburban employers, providing connections beyond just the transportation link.

In conclusion, massive increases in human capital investments would be required to overcome the changes of the past 15 years, increases in the $100-billion-a-year range for a decade, based on some estimates by Jim Heckman. We are certainly not going to embark on such an investment. But in a limited "cut and invest" budget situation, we could probably target our money better. States and localities should be looking at the research on what has worked and what has not, to determine how to use possible future block grants and their current resources. Also, these policies will be more effective in an environment of tighter labor markets.