

# Pathways

*a magazine on poverty, inequality, and social policy*

Spring 2013

## THE QUIET REVOLUTION



## IN HOUSING POLICY

**Is it Working? Was it a Wrong Turn?**

**Where to Go From Here?**



# Pathways

a magazine on poverty, inequality, and social policy

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# Table of Contents

2 **Editors' Note**

## TRENDS

3 **Community Well-Being and the Great Recession**

ANN OWENS AND ROBERT J. SAMPSON

We know a lot about how the Great Recession affected individuals. But we know rather little about how neighborhoods and communities fared. Which communities were winners and which were losers?

## RESEARCH IN BRIEF

8 **A Report on New Poverty and Inequality Research**

MICHELLE POULIN

The effects of the Great Recession on local moves; the sources of the decline in residential segregation; and the abrupt falloff in wealth among recent generations.

## FEATURE

9 **Why Concentrated Poverty Matters**

LISA GENNETIAN, JENS LUDWIG, THOMAS McDADE, AND LISA SANBONMATSU

The best and latest assessment of the Moving to Opportunity experiment. Do the results require a major rethinking of why concentrated poverty matters?

14 **Do Housing Vouchers Work?**

ROBERT HAVEMAN

A full evaluation of a Section 8 housing voucher program in Wisconsin. The effects on mobility, poverty, and neighborhood quality are as expected, but not so for individual earnings. Why did earnings decrease among voucher recipients?

18 **Solving Urban Poverty: Lessons from Suburbia**

DOUGLAS S. MASSEY

What happens when affordable housing is placed in an affluent neighborhood? The big storm of protest ... ends with a whimper and good outcomes all around.

24 **Can Housing Policy be Good Education Policy?**

HEATHER SCHWARTZ

Disappointed with education policy? Housing policy may be the answer.

## INTERVENTION

28 **The Case for Taxing Away Illicit Inequality. A Conversation between Emmanuel Saez and David Grusky**

DAVID GRUSKY AND EMMANUEL SAEZ

Can we eliminate inequality arising from corruption, sweetheart deals, and information asymmetry? The case for making tax policy our anti-inequality weapon.

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## Editors' Note

**Is it an overstatement** to characterize the housing reforms of the last 40 years as revolutionary? No! The transition away from the infamous projects was, first of all, very rapid: Relative to the usual slow-as-syrup reform, the United States rather abruptly rejected traditional public housing for families, with President Nixon halting funding in 1973 and President Ford then expanding the voucher system in 1974. The postwar urban renewal projects, ushered in with great fanfare as part of President Truman's Fair Deal, were quickly left with few defenders.

The tide turned quickly because, as with most revolutions, we were quite convinced that we knew what had gone wrong and why. The main concern among social scientists was that traditional public housing served to concentrate the poor and to isolate them from others. As Jane Jacobs so famously put it, the projects had become "worse centers of delinquency, vandalism, and general social hopelessness than the slums they were supposed to replace." This concern with concentrated poverty has informed our low-income housing policy ever since.

But of course other competing principles are also behind our housing policy. For some commentators, the rise of a voucher system was instead the headline development, a system that was characterized as demand side, market-based, and choice-enhancing. The showcase principles, by this accounting, weren't so much desegregation and deconcentration as a new reliance on the private sector to supply housing and on voucher recipients to choose housing. Although there's no denying that today's housing policy embodies liberal and conservative principles alike, it's hard to find anyone on either side trumpeting the virtues of concentrated poverty. We all want our housing policy to deliver poor people from poor neighborhoods.

It's instructive in this regard that our supply-side housing programs are, like vouchers, also partly rooted in a commitment to desegregation. These programs, which operate by incentivizing developers to construct and operate low-income units, are again complicated amalgams that are partly celebrated for their commitment to harnessing the market and involving the private sector. But at no point is our concern with concentrated poverty dropped altogether. In evaluating these programs, we in fact worry endlessly that such private-sector involvement may compromise our commitment to desegregation, a worry that only reveals how seriously we take that commitment.

The simple point, then, is that our country's housing policy is more radical than is sometimes appreciated, more radical precisely because it evinces a nontrivial commitment to desegregation and deconcentration. Does our education policy likewise commit to desegregation? Certainly not to the same extent. Does our welfare policy? Not at all. But our housing policy does. Although it's sometimes a commitment more honored in the breach than in the observance, it's nonetheless an achievement of social science that it's honored at all.

It's therefore fitting to step back and take a close look at whether our "radical" housing policy has served us well. In a collaborative project with the MacArthur Foundation, we've dedicated this issue to taking on just such an evaluation. The contributors to this issue, all leading figures, ask the simple but important questions: Are voucher recipients moving to better neighborhoods? Are they less likely to be unemployed or in poverty? Is their health affected? Are new "inclusionary zoning policies" getting poor children into good schools?

These are broad questions about broad effects. They pertain to children as well as parents and to the full range of educational, social, and health effects for both. The evaluation is complicated because the policy is holistic: When housing policy is also neighborhood policy, when one of the objectives is not just to provide shelter but to change the context of that shelter, then there's no alternative but to consider effects as wide-ranging as the policy itself. It's precisely this reach that gives housing policy, when broadened out in this way, the potential to become our centerpiece policy on poverty.

—David Grusky, Michelle Poulin, Senior Editors

# Community Well-Being and the Great Recession

BY ANN OWENS AND ROBERT J. SAMPSON

**T**he effects of the Great Recession on individuals and workers are well studied. Many reports document how and why individuals became more likely to be unemployed, to be in poverty, or to face foreclosure.

But how have neighborhoods fared during the Great Recession? Although most research has focused on individual-level outcomes, many of the conventional narratives about the Great Recession are in fact neighborhood-level narratives. In discussing the housing crisis, for example, we don't just focus on individuals facing foreclosure but on entire neighborhoods that were hard hit and with house after house on the same street all in foreclosure. Likewise, the unemployment crisis is often understood to be spatially clustered, with areas that depend disproportionately on construction, manufacturing, and other heavily-affected industries especially hard hit.

These narratives suggest a country increasingly divided into advantaged and disadvantaged neighborhoods. It matters that neighborhood-level inequality may be increasing because social science research has shown that aggregate neighborhood characteristics—beyond the traits of individuals themselves—influence the well-being and future life chances of residents. Declining neighborhood contexts could thus be a key channel through which the Great Recession has affected individuals and families and will continue to affect them into the future. If poor children are now growing up in increasingly disadvantaged neighborhoods with more unemployment, poverty, and abandoned houses, the recession may have quite profound long-term negative effects.

But we simply don't know if the Great Recession has indeed had this inequality-increasing effect at the neighborhood level. This article thus poses these neighborhood-level questions: To what extent have the impacts of the recession been spatially concentrated? Has this been a recession in which all communities have suffered roughly equally? Or has the pain been especially borne by some communities? In answering these questions, we pay particular attention to how communities that were disadvantaged before the recession fared, asking whether historically poor communities were especially hard hit.

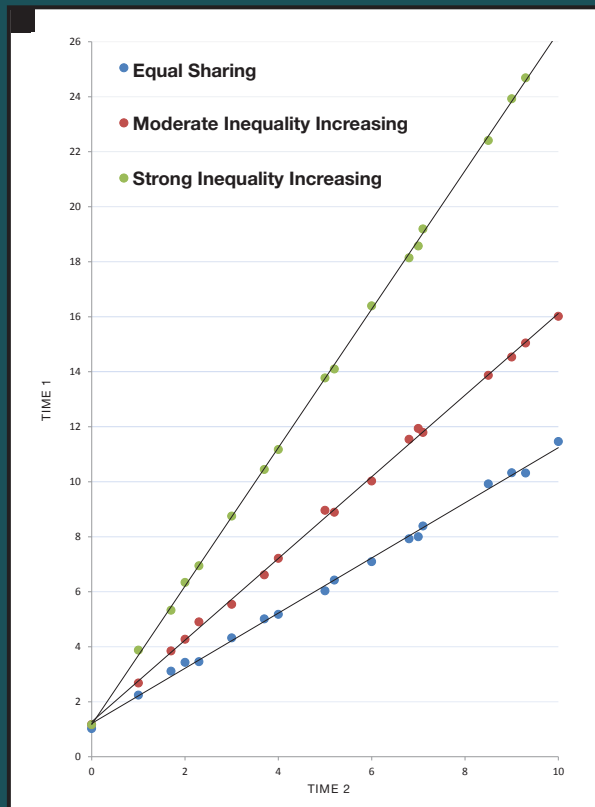
## Monitoring the Rise of Neighborhood Inequality

These questions can be addressed by comparing the same neighborhoods before and after the recession on key indicators. It's useful to distinguish between three possible scenarios of how the pain of the recession is (or is not) equally shared, all illustrated in Figure 1.

*Equal-sharing outcome:* In the first scenario (blue dots), the equal-sharing outcome, rates of unemployment, poverty, or housing vacancy, increase by the same amount in each community. For example, if the recession affected community-level unemployment rates equally, unemployment would increase by roughly the same amount, say one point, in each community. Figure 1 shows that a community with 1% pre-recession unemployment (x-axis) has a post-recession unemployment rate of 2% (y-axis). A neighborhood with 5% pre-recession unemployment has a post-recession unemployment rate of 6%. Therefore, while the most-disadvantaged communities remain so, the absolute differences between the most- and least-disadvantaged communities remain the same before and after the recession (here, 4 percentage points). This type of recession effect does not reduce inequality but preserves the inter-community differences that prevailed before the recession.

*Moderate inequality-increasing:* The second scenario (red dots) operates multiplicatively. Neighborhoods with higher initial rates of, for example, unemployment, experience larger increases in the unemployment rate.<sup>1</sup> Figure 1 presents a scenario in which the unemployment rate increases by a factor of 1.5 (with an additive increase of 1 point, so  $y = 1 + 1.5x$ ). For example, a neighborhood with 1% unemployment pre-recession would have a post-recession unemployment rate of 2.5% while a neighborhood with 5% unemployment pre-recession would have a post-recession unemployment rate of 8.5%. Therefore, the absolute difference between high- and low-unemployment communities would grow (here, from 4 to 6 points), and inequality would increase. The recession appears to have operated in this type of multiplicative fashion for other phenomena, with the most disadvantaged groups bearing the brunt of the recession's impacts (see <http://www.recessiontrends.org> for details).

FIGURE 1. Three Ideal-Typical Ways of Reproducing Spatial Inequality



*Strong inequality-increasing:* The final scenario in Figure 1 (green dots) differs from the previous one only due to its larger multiplicative factor (the slope is 2 rather than 1.5). When the multiplicative factor is very large, there's an especially large penalty borne by communities with high baseline rates.

In this article, we investigate how strongly a community's initial level of disadvantage determines the recession's impact. In Figure 1, each dot representing a neighborhood is very close to the fitted line, representing scenarios in which a neighborhood's initial level of disadvantage strongly dictates its outcome during the recession. If the relationship between initial conditions and the impact of the recession is not as strong (if the dots along the line were scattered more widely), it suggests that other variables influence which communities suffered most during the recession.

We examine how communities fared both in terms of the magnitude of the relationship between pre- and post-recession conditions (the slope of the line) and how precisely pre-recession conditions predict the impact of the recession (the degree of scatter around the line). The magnitude of the relationship reveals the extent to which the recession is inequality-increasing, with a slope over 1 indicating that poor communities bear more of the brunt than rich communities. The precision of the relationship indexes the role of neighborhood characteristics aside from initial disadvantage in determining a community's fate.

We examine community-level poverty, unemployment, and vacancy rates before and after the onset of the Great Recession in late 2007 and the economic collapse in the fall of 2008. Our

results show that the economic well-being of communities, important contexts for individual economic, social, and physical well-being, declined during the economic downturn in uneven ways. Just as we now know that the Great Recession operated to make the rich richer and the poor poorer, we show here that the Great Recession also led to increasing inequality at the neighborhood level.

### Data and Procedures

Our analyses are constrained by how the government collects census data. Past research often defines neighborhoods using the *census tract*, an administratively defined unit of about 4,000 residents on average. The most recent census data on tract-level economic characteristics come from the American Community Survey (ACS) aggregated across the 5-year period from 2007-2011. This is a problem for studying the recession because the available data combine years before and after the recession began.

Because we wish to explore the effects of the Great Recession, we must therefore define neighborhoods in a different way. Our solution is to examine another Census-defined statistical area—Public Use Microdata Areas (PUMAs). PUMAs are geographically contiguous areas with at least 100,000 residents. Although PUMAs are clearly larger than the census tracts or zip codes (average population of 30,000) used in past research, they delineate all places in the U.S. into smaller geographic areas that are proxies for local communities. We compare 3-year estimates from the ACS that aggregate data from 2005 to 2007 (defined as pre-recession) with the latest 3-year ACS estimates currently available, from 2009 to 2011 (defined as post-recession).

We first present national estimates. Then, to explore variation in community patterns within cities, we present results for New York, Los Angeles, and Chicago. Focusing on particular cities allows us to explore some of the factors other than a community's initial disadvantage that shaped how it fared during the recession. Taken in combination, our article thus presents a national, big-city, and local perspective on community experiences in the Great Recession.

### Community-Level Patterns

We begin with simple descriptive maps (see Figure 2) of the spatial distribution of changes in community well-being and then turn to a more formal discussion of the trends in inequality (see Figure 3). Figure 2 presents changes in poverty, unemployment, and vacancy rates for all PUMAs in the U.S. from 2005-07 to 2009-11.<sup>2</sup> Given the role of the foreclosure crisis in this recession, the vacancy rate provides an important indicator of community well-being in terms of the physical and social state of the neighborhood. High vacancy rates are associated with increased crime rates and decreased rates of neighborhood cohesion and residential stability, which influence individual well-being and community-level economic and social changes. When we compare the pre-recession and post-recession periods, we find that the poverty rate (top) increased in 84% of PUMAs (red and yellow shaded areas), the vacancy rate (middle) increased in 74% of PUMAs, and the unemployment rate (bottom) increased in 97% of PUMAs. On average, the changes were modest—about a 2 percentage point increase for poverty rates, 1 percentage point

for vacancy rates and, perhaps most troubling, nearly 4 percentage points for unemployment. The simple conclusion: In most communities, community-level economic well-being has clearly declined alongside families' and individuals' economic hardships, all in a relatively short time.

That the maps display recession-induced decline is hardly surprising. We are more interested in the spatial distribution of that decline. Were there any protected pockets? PUMAs in the middle of the country, from Texas to North Dakota, typically fared better, evidenced by the relative prevalence of areas shaded green (indicating declines). Communities in Michigan, Florida, and several Western states fared particularly poorly in the recession, and these are areas where foreclosures were concentrated as well (though sparsely populated states have few PUMAs, masking declines within them). When it comes to unemployment, however, there's less green in the "protected" midsection of the country, suggesting that labor market problems were widely shared and came closer to being a true across-the-board experience.

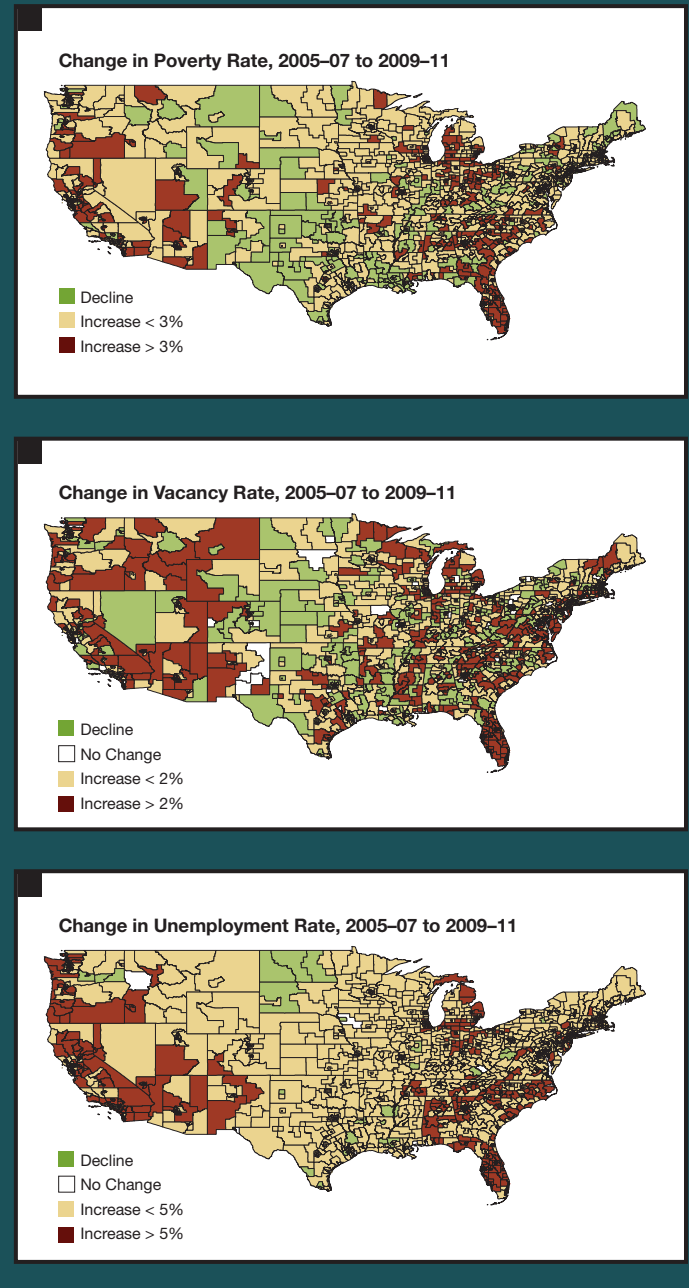
These maps tell us about the regional distribution of the recession's effects. We turn next to the question of whether disadvantaged PUMAs were hardest hit and thus became even more disadvantaged relative to advantaged PUMAs. Figure 3 presents scatterplots comparing poverty, vacancy, and unemployment rates in 2005-07 (on the x-axis) and in 2009-11 (on the y-axis). The first and very important conclusion: These plots reveal striking persistence in community-level inequality throughout the recession—PUMAs with the lowest economic profiles in 2005-07 remain at the bottom in 2009-11, while the well-off communities remain at the top.

But has inequality increased? The reference line in each scatterplot has a slope of 1, representing the "equal sharing" scenario of Figure 1. Departures from this line reveal if recession effects have increased inequality. If the equal-sharing process played out, dots would fall into a line with a slope of one that was shifted on the y-axis by an equal amount for all communities. Instead, we find that the slopes for poverty, unemployment, and housing vacancies are all slightly larger than one. For didactic purposes, Figure 1 presents the possibility of extremely steep slopes, but it's unlikely that a single recession, even an extreme one, could generate such a precipitous increase in neighborhood-level inequality.

We find that poverty rates increased by a multiplicative factor of 1.004.<sup>3</sup> Therefore, poverty rate increases are borne fairly equally across communities during the recession, though they increased slightly more in neighborhoods with higher pre-recession poverty rates. Vacancy rates increased multiplicatively by a factor of 1.04, indicating a slight inequality-increasing effect of the recession.

The unemployment scatterplot departs most strikingly from the reference line, indicating the stronger inequality-increasing effects of the recession. Unemployment increased by a factor of 1.10 during the recession. While Figure 2 showed widespread increases in unemployment across the U.S., the magnitude of the increases was higher in places that initially had high unemployment rates, increasing inequality. Neighborhoods with 1% unemployment pre-recession have 1.1% unemployment post-recession, while neighborhoods with 10% unemployment

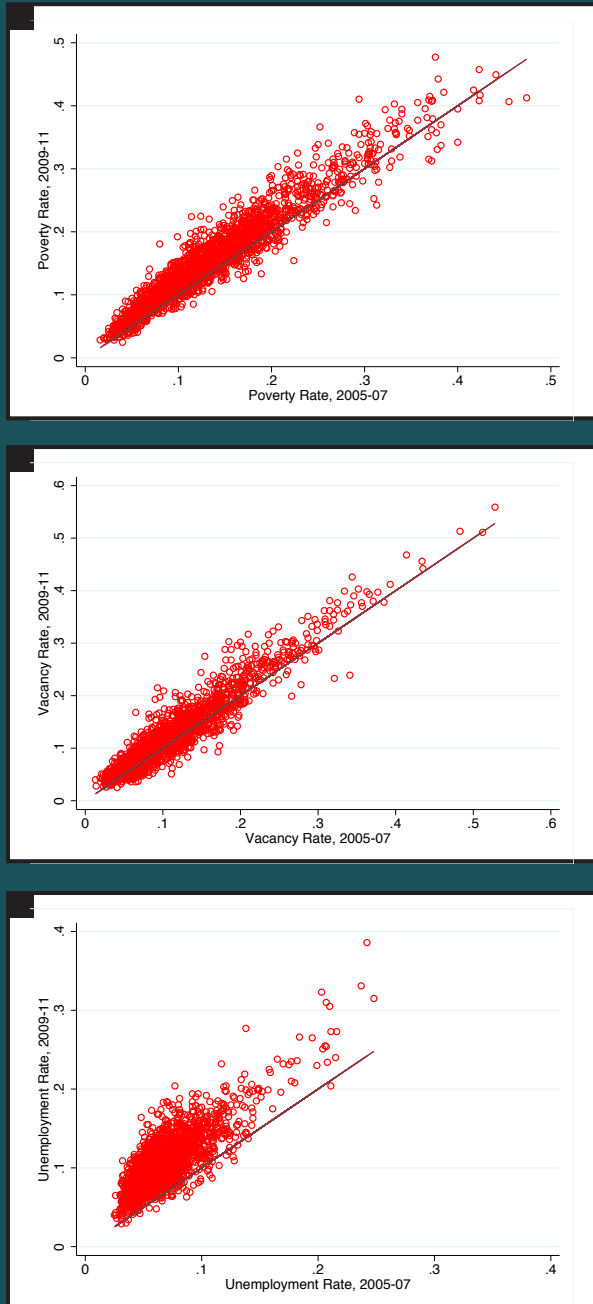
FIGURE 2. Poverty, Vacancy, and Unemployment Rates Before and After the Great Recession



pre-recession have 11% unemployment post-recession, increasing the absolute difference between the two neighborhoods by nearly 1 point. The inequality-increasing impact on unemployment likely arises because industries that were especially hard hit by the Great Recession, such as manufacturing, were typically industries that were already in trouble. In effect, the Great Recession accelerated a deindustrialization process that was already underway, and manufacturing-intensive PUMAs, which had preexisting high unemployment rates, experienced disproportionate increases in unemployment.

As is evident in Figure 3, there is some scatter around these lines, suggesting that factors besides initial poverty, vacancy, and unemployment rates shaped the recession's effect on these

FIGURE 3. PUMA-level Poverty, Vacancy, and Unemployment Rates in 2005-07 and 2009-11



characteristics. What were these other factors? In exploratory analyses, we found that (a) increases in poverty, vacancy, and unemployment rates from 2005-07 to 2009-11 were higher in communities with higher initial proportions of Hispanic and black residents, and (b) unemployment rates increased more in communities with higher initial proportions of immigrants.<sup>4</sup> These results imply that the scatter in Figure 3 arises in part because communities with Hispanics, blacks, or immigrants suffered disproportionately even when those communities didn't have especially high initial poverty, vacancy, or unemployment rates. We explore this further in the next section.

Overall, we conclude that the recession did increase inequality among neighborhoods, particularly with respect to unemployment. PUMAs with especially high poverty, unemployment, and housing vacancy rates before the recession pulled away during the recession and became even more disadvantaged in absolute terms. That minority and immigrant communities were particularly affected demonstrates that the recession has exacerbated long-standing economic and racial inequalities.

### Unemployment in Big-City Communities during the Great Recession

Our national results describe an overall trend of growing community inequality during the recession. We now turn to the “big three” of U.S. cities to explore how the recession impacted unemployment within New York, Los Angeles, and Chicago. We focus on unemployment because the recession's inequality-increasing effect was largest for unemployment and because pre- and post-recession unemployment rates were most scattered around the trend line, suggesting that other characteristics, like minority and immigrant composition, also determined which communities were hardest hit by the recession.

Figure 4 presents the change in unemployment rates from 2005-07 to 2009-11, shaded in Figure 2, for PUMAs in the New York (left), Los Angeles (middle), and Chicago (right) metropolitan areas. PUMAs where more than 50% of the population was black or Hispanic pre-recession (majority-minority communities) are identified with black triangles. Minority areas on average tend to have higher levels of poverty and unemployment than white communities—the question here is whether the Great Recession exacerbated this inequality.

Starting with New York, Figure 4 shows that of the 8 PUMAs with large increases in unemployment rates (shaded red), 5 were majority-minority communities prior to the recession. The relationship between community racial composition and the impact of the recession is stronger in Los Angeles, which had the most majority-minority communities—41 of 66 total PUMAs. In 22 of these 41 PUMAs, the unemployment rate increased by over 5 points. Of the 29 PUMAs with large increases in unemployment rates, 76% were majority-minority communities.

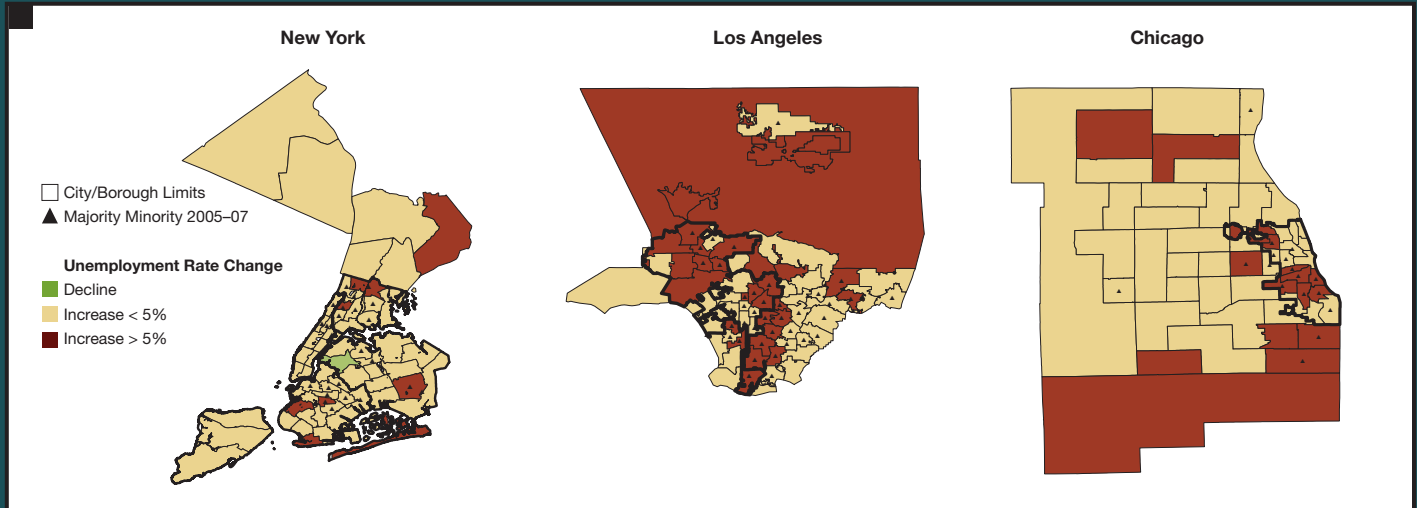
The pattern holds in Chicago: of the 16 PUMAs with large increases in unemployment rates, 10 were majority-minority. Unemployment increased in every PUMA in Chicago, but most strikingly in the historically disadvantaged “black belt” on the city's south side. Evidence from smaller “community areas” in Chicago provides further evidence that community-level disadvantage endured and deepened.<sup>5</sup> Sampson (2012: 405) finds that community areas with the highest levels of concentrated disadvantage in 2000 had the highest foreclosure rates during the recession.<sup>6</sup> This further emphasizes our main result: on average, historically disadvantaged neighborhoods experienced a disproportionate deterioration in their conditions during the recession.

### Communities, Inequality, and the Great Recession

The story of the Great Recession has largely been told in individual terms. Important research documents the burgeoning numbers of long-term unemployed, the rising poverty rate, and the growing number of homeowners facing foreclosures.



FIGURE 4. Changes in the Unemployment Rate by Community Racial Composition



The purpose of this article has been to turn our attention to how neighborhoods fared. To what extent has the Great Recession hit already-disadvantaged neighborhoods especially hard and thus increased neighborhood-level inequality?

Our analyses show that communities, like families and individuals, have suffered economic hardships during the Great Recession and that these hardships were distributed unequally. Many of the nation's most vulnerable communities have borne the brunt of the economic crisis, as poverty, vacancy rates, and particularly unemployment rates increased more in disadvantaged and minority neighborhoods.<sup>7</sup> The simple result is a growing divide between the have and have-not communities.

Should we care? Yes. The large body of social science research on the importance of neighborhoods as a social context means that increased economic disadvantage in disadvantaged neighborhoods will further reduce the well-being of poor fami-

lies and individuals. Beyond its direct effects on individuals, the Great Recession has shaped the economic contexts where Americans live and perpetuated and deepened community inequality, potentially leading to further negative impacts for those individuals living in disadvantaged communities. Because neighborhood effects can take time to register, this legacy of the Great Recession may only be gradually revealed over the next decades and generations.

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*Robert J. Sampson is Henry Ford II Professor of the Social Sciences at Harvard University and Director of the Social Sciences at the Radcliffe Institute for Advanced Study.*

## End Notes

1. A slope less than one suggests that the recession is reducing spatial inequality. We don't represent this possibility in Figure 1.
2. The maps are shaded to indicate decline, no change, moderate increase, and large increase (distinguished by the 75th percentile of each change indicator).
3. Excluding the poorest 5% of PUMAs, the slope for poverty is 1.03, suggesting poverty

increased multiplicatively in most communities but not the very poorest.

4. Regression models predicted changes in poverty, unemployment, and vacancy rates from 2005-07 to 2009-11 from poverty rate, unemployment rate, vacancy rate, percent non-Hispanic black, percent Hispanic, and percent foreign-born in 2005-07.
5. Chicago has 77 community areas (versus 19 PUMAs) with an average population of 37,000.

6. Concentrated disadvantage captures a neighborhood's welfare receipt, poverty, unemployment, female-headed households, minority composition, and density of children.

7. Other research finds that neighborhood economic disadvantage became more concentrated since 2000 at the tract-level (Reardon and Bischoff 2011; Berube, Kneebone, and Nadeu 2011), consistent with our PUMA-level results.

## Additional Resources

Berube, Alan, Elizabeth Kneebone, and Carey Nadeau. 2011. "The Re-Emergence of Concentrated Poverty: Metropolitan Trends in the 2000s." Metropolitan Opportunity Series. Metropolitan Policy Program, Brookings Institution.

Lerman, Bob and Sisi Zhang. 2012. "Coping

with the Great Recession: Disparate Impacts on Economic Well-being and Mobility in Poor Neighborhoods." Washington, DC: Urban Institute, Opportunity and Ownership Project Research Report.

Reardon, Sean F. and Kendra Bischoff. 2011. "Growth in the Residential Segregation of Fami-

lies by Income, 1970-2009." US 2010 Project Report. Brown University and Russell Sage Foundation.

Sampson, Robert J. 2012. *Great American City: Chicago and the Enduring Neighborhood Effect*. Chicago: University of Chicago Press.

## Churning in the Great Recession

It's widely appreciated that geographic mobility slowed dramatically with the Great Recession. This slowdown arose, so it's argued, because too often owners were trapped in houses that were underwater or otherwise difficult to sell. Because they couldn't move, they couldn't take advantage of jobs that might be available in less depressed regions, and our labor market problems accordingly worsened.

This conventional wisdom rests on analyses showing that interstate moves have slowed. In a new study funded by the Russell Sage Foundation, Michael Stoll has examined the changing pattern of local moves, defined as moves that occur within a county. The key question: If interstate moving has declined with the Great Recession, has local moving declined as well?

Using data from the Current Population Survey (CPS) and the American Community Survey (ACS), Stoll finds that, contrary to the results for interstate moves, the amount of local moving has in fact increased. In some metropolitan areas, nearly one in five residents moved in one year.

What accounts for all this local churning? Not surprisingly, the moves were overwhelmingly fueled by economic duress. The areas with high unemployment rates had especially high mobility as out-of-work people scrambled to find housing they could afford. Whereas pre-recession moving was often motivated by an interest in "moving up," that precipitant became less common with the economic downturn. Before the recession, 41.3 percent of local movers sought to own a home or to move to a better neighborhood, compared to only 30.4 percent who moved for those reasons during the recession.

The simple conclusion: The economic downturn is not entirely a hunker-down affair. To the contrary, we're still a mobile society, although the type of mobility in which we engage is increasingly short-distance and motivated by duress and the search for cheap housing.

Stoll, Michael. 2013. "Research Brief: Great Recession Spurs a Shift to Local Moves." New York: The Russell Sage Foundation.

## Why is Racial Segregation Declining?

It's well known that black-white residential segregation has been declining in recent decades. But *why* is it declining? Although some scholars have suggested that fundamental institutional changes (e.g., weakening discrimination) are driving the decline, another possibility is that the population is simply moving from high-segregation regions (e.g., the Northeast) to low-segregation regions (e.g., the South). It's plausible, in other words, that segregation has declined just because people have moved to regions in which there isn't much of it.

Using the 1970-2000 decennial censuses and the 2005-2009 American Community Survey (ACS), John Iceland and his coauthors (Gregory Sharp and Jeffrey Timberlake) show that the redistribution hypothesis is only partly on the mark. Although it's true that the population is flowing away from high-segregation regions (e.g., the Northeast) and toward low-segregation ones (e.g., the South), Iceland and his coauthors find that other forces are more important. Under their decompositions, regional population shifts account for only a small percentage of the decline in segregation, a result that holds for both black-white and black-nonblack dissimilarity.

It follows that much of the decline in segregation has been driven by within-region reductions in segregation. These reductions are sometimes substantial. In the West, for example, blacks once lived in neighborhoods that, on average, were 57 percent black (1970 census), whereas now they're living in neighborhoods that, on average, are 19 percent black (2005-2009 ACS). Even in long-standing hypersegregated cities, like Chicago and New York, segregation has edged downward. There appear, then, to be deep forces at work *within* cities that are making for declines in segregation.

Although it's clear that something fundamental is afoot, we don't yet know what types of institutional factors are causing this within-region drop in segregation. Is the decline attributable, for example, to lessening discrimination? On the basis of these new results, that's a possibility that can't be ruled out.

Iceland, John, Gregory Sharp and Jeffrey M. Timberlake. 2013. "Sun Belt Rising: Regional Population Change and the Decline in Black Residential Segregation, 1970-2009." *Demography* 50(1), 97-123.

## Lost Generations?

Until recently, each successive birth cohort had a higher median family income than the birth cohort that preceded it, a continuous improvement in living standards that was the hallmark of the American Dream. This relentless growth in family income came to a halt, however, among the late baby-boom birth cohorts.

Does the same story of stagnation hold when wealth instead of income is analyzed? In a new Urban Institute report, Eugene Steuerle and his colleagues (Signe-Mary McKernan, Caroline Ratcliffe, and Sisi Zhang) show that, just as with income, recent birth cohorts have less wealth than their predecessors.

This new study, based on data from the Survey of Consumer Finances, begins with the familiar story of generational improvement. When adults between 56 and 64 years of age are compared, one finds a successive increase in wealth from the 1925 to 1951 birth cohorts. But it all changes with the 1952 birth cohort: The average net worth for those born after 1952 was less than that of their predecessors.

The upshot: The American Dream, if interpreted as a story about relentless generational improvement, is not faring well of late. Although we've long known that recent cohorts were bringing home less income, we now know that their net worth, relative to that of prior generations, is declining too.

Steuerle, Eugene, Signe-Mary McKernan, Caroline Ratcliffe, and Sisi Zhang. 2013. "Lost Generations? Wealth Building among Young Americans." Washington, D.C.: The Urban Institute.



# Why

# Concentrated Poverty Matters

BY LISA A. GENNETIAN,  
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In 1987 sociologist William Julius Wilson published his influential book *The Truly Disadvantaged*, which argued that the growing geographic concentration of poor minority families in urban areas contributed to high rates of crime, out-of-wedlock births, female-headed families, and welfare dependency.

As Wilson argued, the exodus of black working- and middle-class families from inner-city areas had adverse effects on the poor families left behind, because it eliminated a “social buffer” that helped “keep alive the perception that education is meaningful, that steady employment is a viable alternative to welfare, and that family stability is the norm, not the exception” (p. 49).

Was Wilson right to worry about concentrated poverty? Although we will suggest that indeed he was, we will also show that he was right partly for the wrong reasons. Our research on the U.S. Department of Housing and Urban Development’s (HUD) Moving to Opportunity (MTO)<sup>1</sup> randomized mobility experiment raises questions about the effects of concentrated poverty on the earnings, welfare receipt, or schooling outcomes of low-income families. The MTO experiment suggests that concentrated poverty does have extremely important impacts, but on outcomes not emphasized so much by Wilson – such as physical and mental health.

### Concentrated Poverty in America

The stark differences across neighborhoods in social composition and social conditions are among the most striking features of American cities.

While our cities remain extremely segregated, it is encouraging that levels of racial segregation peaked in 1970 and have been declining ever since. New research by Harvard professor Edward Glaeser and Duke professor Jacob Vigdor shows that levels of racial segregation are, by some measures, as low as they have been since 1910.

Given that the racial and economic composition of neighborhoods are strongly correlated, it is natural to assume that if racial segregation is declining, income segregation must be declining as well. But, surprisingly, that is unfortunately not the case—since 1970 the poor are increasingly likely to live in neighborhoods populated by lots of other poor families. Research by The Brookings Institution shows that nearly 9 million Americans now live in neighborhoods in which over 40 percent of all residents are poor—what Brookings calls “extreme-poverty neighborhoods,” or what many people used to call slums or ghettos.

Of particular concern is the possibility that public policy has actually contributed to the problem of concentrated poverty in America. For example, the construction of high-rise public housing projects that became notorious nationwide—like Pruitt-Igoe in St. Louis, Robert Taylor Homes and Cabrini-Green in Chicago, the Marcy Projects in New York, or Jordan Downs in Watts—brought together poor families by the hundreds, thousands, or sometimes tens of thousands. At the same time, many suburban townships used zoning rules to keep out low-cost housing.

This concern that living in a high-poverty neighborhood might “doubly disadvantage” the poor families residing in them dates back at least to the Chicago School of sociology in the 1920s. It was, however, renewed with the publication of Wilson’s widely-read book in 1987. Some empirical support for this hypothesis came from Northwestern sociologist James Rosenbaum’s work tracking families who were relocated in the 1970s

as part of a U.S. Supreme Court decision that led to the city of Chicago’s Gautreaux mobility program. Rosenbaum found that public housing families who were moved to low-poverty suburbs rather than to other parts of Chicago fared better in school and in the labor market. While subsequent studies have found less pronounced differences between families who, through Gautreaux, were moved to the suburbs rather than to other parts of Chicago, the initial results were important and provocative enough to motivate HUD to sponsor MTO, a “gold-standard” randomized experiment.

### Moving to Opportunity

Studying the effects of neighborhood environments on people’s life outcomes is challenging because most people have at least some degree of choice over where they live. This makes it difficult to determine the degree to which differences across neighborhoods in people’s outcomes reflect the causal effects of neighborhoods on outcomes, versus the influence of whatever personal or family characteristics caused some people to wind up living in different communities. For example, poor neighborhoods may compromise health, or it might be that unhealthy people are more likely to end up living in poor neighborhoods. To solve this problem of selection bias, in 1992 Congress authorized HUD to carry out the MTO demonstration as a randomized experiment, akin to the sort of clinical trial that is regularly used to produce gold-standard evidence about the causal effects of health interventions in medicine.

Between 1994 and 1998, MTO enrolled a total of 4,604 families with children living in high-poverty public housing projects in five cities: Baltimore, Boston, Chicago, Los Angeles, and New York. The housing projects from which MTO families came were among the most distressed in the country, with an average tract poverty rate of fully 53 percent. These projects were also extremely racially segregated, and so almost all of the families in MTO are members of racial and ethnic minority groups—around two-thirds are African-American and most of the rest are Hispanic.

Surveys collected at baseline (Table 1) show just how disadvantaged these families were when they initially signed up for MTO. The average annual household income was \$12,709 (in 2009 dollars). Most of the MTO households were headed by unmarried women. Fewer than two of five MTO household heads had a high school diploma, while three-quarters were on welfare. Over 40 percent report that someone in the home had been victimized by crime during the six months prior to the MTO baseline surveys.

The families that volunteered for MTO were then randomly assigned to one of the following three conditions:

The *low-poverty voucher group* was offered the chance to use a housing rent-subsidy voucher to move into private-market housing. As part of the MTO design, the vouchers offered to families in this group could only be redeemed in census tracts with a 1990 poverty rate under 10 percent. Families had to stay in these neighborhoods for one year or lose their voucher; after the year was up they could use their housing voucher to move

again, including to a higher-poverty area. Families in this group also received housing search assistance and relocation counseling from local non-profit organizations.

The *traditional voucher group* was offered a regular housing voucher to move into private-market housing, with no special MTO-imposed constraints on where they could move. Families in this group did not receive any special housing mobility counseling beyond what is normally provided to voucher-holders.

The *control group* did not receive access to any new services through MTO, but did not lose access to any housing or other social services to which they would otherwise have been entitled.

The key contribution of MTO's randomized experimental design was to create three groups of low-income families that were on average the same at baseline in all respects, with the following exception: only two of the three groups were offered the chance to use a housing voucher to move into lower-poverty areas. As a result, any differences in average outcomes across the three groups observed after the time of random assignment can be attributed to the fact that some families but not others were offered the chance to use vouchers to move to less distressed neighborhood environments.

In practice, only 47 percent of those offered a low-poverty voucher and 63 percent of those offered a traditional voucher relocated through MTO. In what follows we report the effects of MTO on those who actually moved through MTO with a voucher (in the program evaluation literature this is known as the "effect of treatment on the treated").

Figure 1 shows that the MTO demonstration succeeded in generating pronounced and sustained differences in average neighborhood conditions across the three randomized groups.

Averaged over the entire 10-15 year study period, families who move with a traditional voucher are in census tracts with poverty rates about one-quarter lower than that of their control group

TABLE 1. Baseline Characteristics

	Low-Poverty Voucher N=1456	Traditional Voucher N=678	Control N=1139	All Groups N=3273
<b>Age as of December 31, 2007</b>				
35	0.145	0.132	0.143	0.141
36-40	0.212	0.236	0.229	0.224
41-45	0.236	0.223	0.234	0.231
46-50	0.184	0.203	0.175	0.187
> 50	0.223	0.207	0.219	0.217
<b>Race and Ethnicity</b>				
African-American (non-Hispanic)	0.631	0.608	0.639	0.627
Other non-white (non-Hispanic)	0.034	0.030	0.035	0.033
White (non-Hispanic)	0.024	0.024	0.025	0.025
Hispanic ethnicity (any race)	0.311	0.338	0.301	0.316
<b>Gender and Marital Status</b>				
Female	0.988~	0.978	0.978	0.982
Never married	0.623	0.624	0.637	0.628
<b>Education Characteristics</b>				
High school diploma	0.381	0.347	0.361	0.365
Certificate of General Educational Development (GED)	0.159 *	0.183	0.199	0.179
<b>Employment and Income Characteristics</b>				
Working	0.271	0.269	0.245	0.262
Receiving Aid to Families with Dependent Children (AFDC)	0.763	0.736	0.763	0.756
Total Household income (2009 \$)	\$12,866	\$12,788	\$12,439	\$12,709
<b>Site</b>				
Baltimore	0.134	0.140	0.135	0.136
Boston	0.201	0.207	0.205	0.204
Chicago	0.205	0.209	0.205	0.206
Los Angeles	0.233	0.214	0.226	0.225
New York	0.227	0.231	0.229	0.229
<b>Neighborhood Characteristics</b>				
Household member was crime victim in last six months	0.434	0.414	0.416	0.422
Streets unsafe at night	0.493	0.517	0.512	0.506
Very dissatisfied w/ neighborhood	0.478	0.477	0.467	0.474
Lived in neighborhood 5+ years	0.599	0.616	0.606	0.606

Notes: \* =  $P < .05$ , ~ =  $P < .10$  on a pair wise probability-weighted t-test of the difference between the low-poverty voucher or traditional voucher group and the control group. All values represent shares. Shares are calculated using sample weights to account for changes in random assignment ratios across randomization cohorts and for subsample interviewing. Data source and sample: Baseline survey. All sample adults interviewed for the final evaluation. Measures: The baseline head of household reported on the neighborhood characteristics listed here.

FIGURE 1. Neighborhood and Social Network Characteristics by Treatment Group

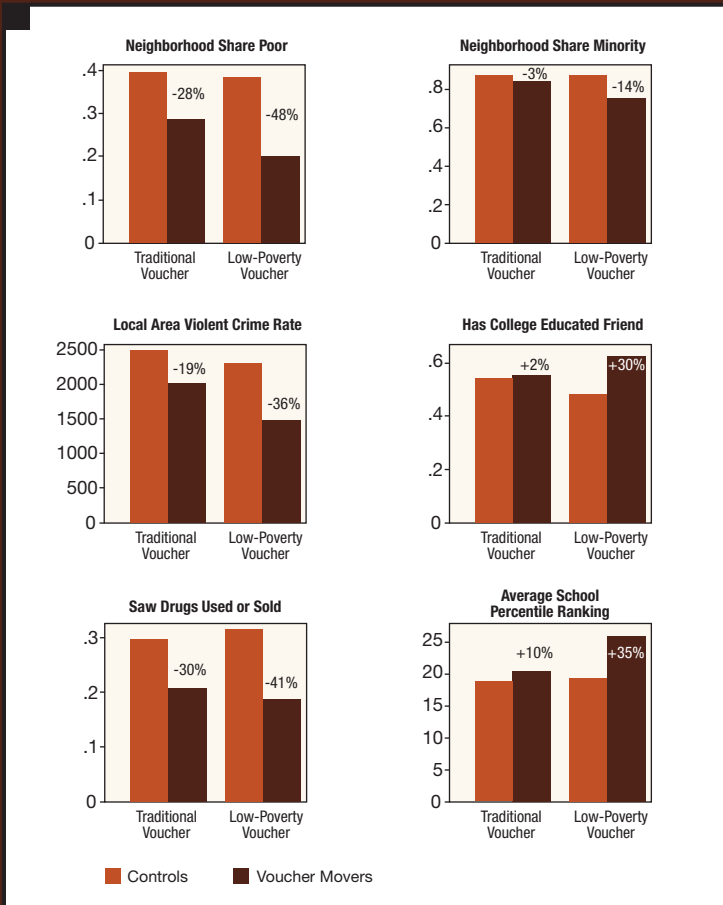
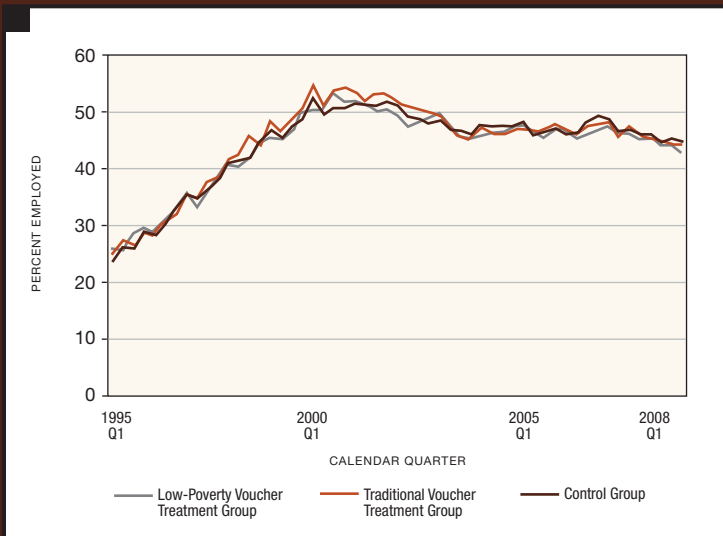


FIGURE 1. Quarterly Employment Rate by Random Assignment Group and Calendar Quarter



counterparts, while families who move with an MTO low-poverty voucher are in census tracts that have poverty rates equal to about one-half those of similar control group families.

Although MTO had more modest impacts on the levels of neighborhood racial segregation and school quality experienced by families, moving with a low-poverty voucher increased the chances of having a college-educated friend by about one-third, reduced the local-area violent crime rate by about one-third, and reduced the chances of having seen drugs used or sold in the neighborhood by about two-fifths.

### What Happens to Families When They Move Out of Extreme-Poverty Areas?

The congressional legislation that authorized HUD to carry out MTO explicitly mentioned the goals of improving children's schooling and adult earnings. With respect to those outcomes, the MTO findings were somewhat disappointing.

Figure 2 shows that adult employment rates increased overall during the 10-15 year period over which we followed up with MTO families, but that the average employment rates were nearly identical across the three randomized MTO groups. Similarly, we found almost no detectable differences in schooling outcomes for children across the three randomized MTO groups—even for children who were very young (pre-school age) at the time their families moved through MTO.

On the other hand, we found that moving to a lower-poverty neighborhood through MTO had very large beneficial impacts on several important physical health outcomes (see Figure 3, which builds on results we published in October 2011 in the *New England Journal of Medicine*). While MTO did not have detectable impacts on overall self-reported health status, Figure 3 shows that a sizable share of the MTO control group met the public health standard of “extremely obese,” defined as having a body mass index, or BMI (weight in kilograms divided by height in meters squared), of 40 or more. For an American woman of average height (five foot four) this would correspond to a weight of about 235 pounds. Moving with an MTO low-poverty voucher reduced the risk of extreme obesity by about one-third. These MTO moves also reduced the risk of diabetes (as measured by blood samples taken from the program participants) by over 40 percent.<sup>2</sup>

These are very sizable impacts on health outcomes. One of the most pressing public health problems in the U.S. is the approximate doubling of obesity and diabetes rates since 1980. The declines in prevalence of extreme obesity and diabetes due to MTO are about equal to the increase in these problems during the “diabetes” epidemic of the last three decades. Another way to think about the size of these impacts is to note that they are similar in magnitude to what we see from the leading medical treatments for diabetes, including medication. These sorts of comparisons are always a bit complicated because clinical trials of medical interventions

typically enroll study samples that are not nearly as economically disadvantaged as the one that signed up for MTO. But still, the fact that changing neighborhood environments has perhaps the same size effect on diabetes as leading medical treatments that are explicitly designed to reduce diabetes is striking.

We also found very sizable impacts of MTO on several important mental health outcomes as well, including major depression. Around one of five women in the MTO control group had ever experienced major depression over their lifetimes. Moving with either a low-poverty voucher or traditional voucher in MTO reduced the risk of major depression by over one-quarter. These impacts compare favorably with what we see from best-practice medical treatment for depression. The effect on mental health from moving to a lower-poverty neighborhood is not so different from that of taking anti-depressants like Prozac.

### Conclusion

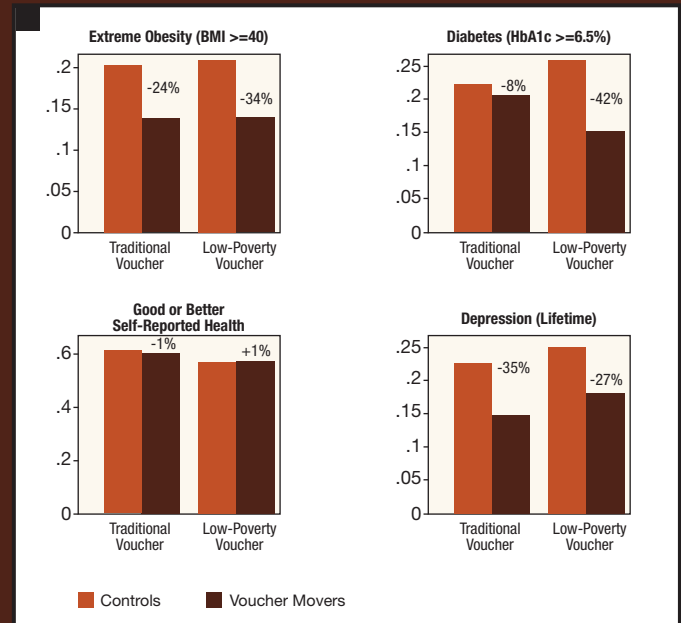
MTO is one of the largest and most ambitious social-policy experiments carried out by the U.S. government in decades. Because it's unlikely that an MTO-style intervention would ever be carried out on a large scale, our findings from the MTO experiment are perhaps most important for their basic science implications regarding how neighborhood environments affect people's life chances.

Of course there is the question of how results for the MTO sample might generalize to other samples and contexts, which is always an important qualification to keep in mind with any social-science study (whether an experiment or an observational study). But for what it's worth, the MTO families and their baseline neighborhoods do not look dramatically different from other samples of high-poverty-area residents that have been studied in the "neighborhood effects" literature.

The MTO findings raise the possibility that very distressed neighborhood environments may be less important for outcomes like children's schooling and adult earnings than hypothesized in William Julius Wilson's landmark book *The Truly Disadvantaged*. But neighborhoods may be extremely important for physical and mental health outcomes.

If the goal of social policy is defined narrowly as that of reducing income poverty, then the growing geographic con-

FIGURE 3. Health Outcomes by Treatment Group



centration of poverty in America that we have seen since 1970 might not be at the top of our list of concerns. But if the goal is understood more broadly to be about improving the lives of poor families, then the geographic concentration of poverty is very much worth worrying about.

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### Endnotes

1. The four of us were part of a larger research team assembled by the National Bureau of Economic Research (NBER) to carry out the long-term follow-up study of families in Moving to Opportunity under contract with HUD. The principal investigator for the overall project was Lawrence Katz of Harvard University and the NBER. Other research team members were Emma Adam, Northwestern University; Greg

Duncan, University of California at Irvine; Ronald Kessler, Harvard Medical School; Jeffrey Kling, Congressional Budget Office and NBER; Stacy Lindau, University of Chicago; and Robert Whitaker, Temple University. All opinions expressed here are those of the authors and do not reflect the views of HUD or the Congressional Budget Office.

2. Our *New England Journal of Medicine* paper reports the effects of being offered the chance to move through MTO, known as the "intention to treat" effect. Because around half the families offered a low-poverty voucher moved with the voucher, the effect of treatment on the treated (which we report above) is about twice as large as the intention to treat effect.





# Do Housing Vouchers Work?

BY ROBERT HAVEMAN

**D**o housing vouchers work? The country's Section 8 housing voucher program, which is designed to enable "very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market," currently serves more than 2.2 million households and more than 5 million individuals, according to the U.S. Department of Housing and Urban Development (HUD). Although the housing voucher program has grown quickly and is in high demand (as evidenced by lengthy waiting lists), its effects haven't been directly examined to the degree that one might imagine or want. The purpose of this article is to indicate the results of a comprehensive assessment of the country's Section 8 housing voucher program.

Families with income below 50 percent of the median income of their area and who desire housing assistance submit an application to their local Public Housing Authority (PHA); upon submission, applicants are assigned a position on the waiting list. When the applicant's name rises to the top of the waiting list, the household meets with housing authority staff who provide recipients with instructions for locating housing in the private market that meets a minimum standard of health and safety and whose landlord is willing to rent under the terms of the program. If a voucher recipient is able to locate suitable housing, the household generally contributes 30 percent of its income toward rent; the Section 8 program then subsidizes the difference between the tenant contribution and actual rent, up to a locally defined "fair market rent" payment standard.

The federal voucher program is a tenant-based (demand-side) housing policy approach toward assisting low-income families. It coexists with a large project-based (supply-side) set

of programs that provide funds to public agencies or private developers to construct or remodel and to operate low-income housing units for low-income households. Each approach has been employed to varying degrees over the years. Initially, all government low-income housing assistance was project-based in nature; indeed the project-based "public housing programs" completely monopolized low-income housing policy from the mid-1930s through the early 1970s. Because of a variety of problems with that approach—cost overruns, high crime rates in major cities, and dilapidated structures—the Housing and Community Development Act of 1974 restructured low-income housing subsidies in a new, tenant-based direction by authorizing the Section 8 voucher program. Later, in 1986, a new program known as the Low-Income Housing Tax Credit (LIHTC) was passed to provide subsidies to private developers who construct housing units that are targeted to the low-income population. Since then, the supply-side approach of the LIHTC has stood alongside the voucher program as the two major efforts to assist low-income families with their housing needs.

Like most policies, the Section 8 program has a variety of consequences for voucher recipients, including effects on labor market performance, housing mobility, neighborhood quality, household composition, and child care usage. In a large research effort supported by the MacArthur Foundation, my colleagues (Deven Carlson, Thomas Kaplan, and Barbara Wolfe) and I—all affiliated with the Institute for Research on Poverty at the University of Wisconsin-Madison—have studied these effects. Our results inform the continuing debate over the direction of national housing policy and the effects of tenant- versus place-based housing subsidy programs.

## Data and Research Methods

We have used a longitudinal dataset containing information on more than 350,000 low-income households in Wisconsin to study the initial and long-term mobility, labor market performance, and other behavioral effects of the receipt of a Section 8 housing voucher. Our data have comprehensive household or individual variables on demographic, income, and benefit receipt information extending over six years, and have been merged with data on employment, earnings, and geographic location. In our primary analysis, we identified a large sample of families that received a housing voucher during calendar years 2001–2003. Then, using a difference-in-differences regression framework coupled with propensity score techniques, we estimated a variety of behavioral effects of voucher receipt relative to a comparison group that received no housing assistance. Within this framework, we can obtain reliable estimates of the effect of the program on various outcomes.

We followed families that first received a Section 8 voucher in 2000 through 2003 for multiple years after their entry into the program. We tracked the patterns of short- and longer-term labor market success, neighborhood quality, and household composition for both housing voucher recipients and the matched comparison group. By analyzing impacts for a diverse and large group of low-income families, we extend findings from prior studies typically based on households that have lived in public housing or in medium to large urban areas.

## Voucher recipients lived in neighborhoods with a significantly greater percentage of 16- to 19-year-olds in school, a lower poverty rate, and a lower unemployment rate.

### Effect of Voucher Receipt on Mobility and Neighborhood Quality

We first analyzed the effect of voucher receipt on the probability that a family would change its residential location. Consistent with prior research, we find that voucher receipt leads to a significantly higher initial and long-term probability of changing residence, relative to the matched comparison group. While 58 percent of the Wisconsin voucher recipients moved within a year after receiving the subsidy, only 44 percent of the matched group moved—voucher receipt increases the probability of moving to another residence by about one-third during the first year. The program stimulates geographic mobility!

However, just moving says little about the quality of the neighborhood to which recipients moved. In our data set, voucher receipt leads to some improvements in neighborhood quality in the long term, but appears to have little effect in the short term. We find that, after four years, voucher recipients

lived in neighborhoods with a significantly greater percentage of 16- to 19-year-olds in school, a lower poverty rate, and a lower unemployment rate relative to the matched families. In addition, the median gross rent of the homes in the neighborhood is higher for the recipient group.

In sum, over time, those families receiving a Section 8 voucher experienced significant gains in neighborhood quality, relative to similar households that did not receive a housing voucher. These results suggest that voucher recipients require some time to learn about the new housing options available to them, but once recipients have evaluated the new options, they make decisions to reside in relatively better neighborhoods.

### Labor Market Effects of Voucher Receipt

It's often argued that housing vouchers will improve labor market outcomes because they allow recipients to move to neighborhoods with better employment opportunities. Is there any evidence for this claim?

The key conclusion that we reach is that such a simplistic account overlooks the countervailing short-term and long-term effects of vouchers on labor market outcomes. We find, for example, a negligible impact of voucher receipt on work effort (quarters worked per year) in the years immediately after voucher receipt, although after six years voucher recipients record a statistically significant, but substantively small, gain in work effort relative to the matched comparison group.

The pattern of effects on earnings is similar. In this case, our results indicate that, on average, receipt of a Section 8 voucher reduces earnings by about 10-12 percent in the first year of receipt, a reduction that amounts to about \$900. These negative effects fade in subsequent years; indeed after six years there is no evidence of a difference in the annual earnings of recipients and non-recipients. In the years following voucher receipt, earnings of the voucher group increased by an average of nearly 5 percent per year, compared to an average annual increase of only about 3.2 percent for the matched comparison group.

Several features of the Section 8 program design can explain this initial negative effect on recipient earnings. First, the voucher program requires participants to contribute 30 percent of their income toward rent. While this provision is intended to ensure that, to the extent possible, recipients contribute to their housing costs, it also acts as a 30 percent tax on their earnings. And increased taxes create a negative incentive to work. Second, the rental subsidy increases a recipient's overall resources (they now have subsidized housing and likely lower rents), which provides an incentive for recipients to reduce their earnings from paid work; it allows households to have the same, or even higher, level of resources while working fewer hours. Finally, as we have seen, voucher recipients often relocate when they first receive their vouchers. Although this relocation may be beneficial in the long-term, it likely disrupts social and labor market networks in the short-term, leading to short-term reductions in earnings, as recipients move and take time to find new jobs.

Although our research raises concerns about the short-term earnings effects of Section 8 vouchers, we also uncovered some evidence in a follow-up study that may help policymakers mitigate these negative impacts. In this study, we compared the

earnings of voucher recipients to the earnings of public housing residents in Milwaukee, the majority of whom reside in Hope VI projects, a HUD program to “eradicate severely distressed public housing.” While Hope VI residents are subject to many of the same program design features as Section 8 voucher recipients, they must also sign a lease addendum that requires them to be working or taking steps to become employed. When we compared the earnings of these two groups in the first year of receiving housing assistance, we found that residents of Hope VI units earned, on average, about 10 percent more than voucher recipients. Because both groups are subject to similar program design features, this finding suggests that requiring residents to sign a lease addendum stipulating that they will be employed or looking for employment can reduce the negative effect of voucher receipt on earnings. It’s a simple intervention with seemingly powerful effects.

### Effects of Voucher Receipt on Family Structure

We also studied the effects of voucher receipt on family structure. The Section 8 program has income, tax, and ceiling effects that are each likely to affect choices about family size and structure. These three effects may combine in complicated ways that are reviewed below.

*Income effects:* Most obviously, receipt of a voucher is likely to result in an increase in resources for recipient families, which may enable a variety of changes in household or family composition that had previously been precluded by financial considerations. For example, recipients may be able to terminate multigenerational housing arrangements or cohabitation relationships with other adults that were previously necessary to meet financial obligations, thus resulting in a reduction in the number of adult members in the household. On the other hand, the increase in income associated with voucher receipt may provide individuals with the ability to support adult children or other individuals experiencing hardship, thus leading to an increase in the number of adult household members. The number of young children in the household may also increase after a voucher is received. The additional real income provided by a voucher gives recipients the resources necessary to support additional children, especially because those children can be used to justify larger housing units and, in turn, larger rental vouchers.

*Tax effects:* Because the Section 8 program requires recipient households to contribute 30 percent of income toward rent, the program subsidy leads to an increase in the marginal tax rate of the household. At the margin, this may discourage the household from adding any earning adults, and it may likewise encourage the household to shed those earning adults who had previously been in the household primarily to meet financial obligations.

*Ceiling effects:* Finally, if a household has income above the income eligibility ceiling, continued voucher receipt is jeopardized. After receiving a voucher, some households—especially those whose income is near the program eligibility limit—may reduce the number of earning adults in the household in order to retain eligibility for voucher receipt.

When these three effects are taken together, the Section 8 program seems to create incentives that should lead to a reduc-

tion in the number of adult members of a household and an increase in the number of child members. Is this hypothesis right? The results from our analyses suggest that, in fact, the pattern of effects is more complicated because of differing initial and long-term effects.

Let’s first consider the effect on adult household members. Although we find a sizable reduction in the number of adult members in the initial year after voucher receipt, the magnitude of this effect then diminishes over time. In some cases, the voucher may allow recipients to leave unproductive relationships and to establish an independent household. For others, the voucher may entail leaving a parental residence and setting up a separate home. Both of these changes suggest that voucher receipt improves overall well-being because it provides additional resources that open up new choices and possibilities.

The effect on the number of children likewise changes over time. Initially, voucher receipt brings about a decrease in the number of children, but the effect is substantively small. Within two years of voucher receipt, the effect on the number of children becomes positive, and the magnitude of the estimated effect then increases in each succeeding year. Five years after voucher receipt, the negative effect on the number of adults is nearly offset by the positive effect on the number of children. As we anticipated, it appears that the voucher income allows recipients to support more children, partly because those within the voucher program can justify larger vouchers when they have additional children to claim.

### Conclusion

The results of our research speak to the ongoing policy debate over tenant- versus project-based housing subsidies. By analyzing the labor market and other behavioral effects of voucher receipt in detail, this article provides some insight into important features of the primary tenant-based housing assistance program in the United States.

What have we learned? It’s clear that the Section 8 program has many welfare-enhancing effects: It promotes mobility that allows voucher recipients to live in neighborhoods with a lower poverty rate, a lower unemployment rate, and better housing. These outcomes, all of which are central to the objectives of the Section 8 program, are delivered more or less as intended.

There are, however, also perverse incentives under the Section 8 program that lead recipients to reduce earnings, especially in the short-run. Because the voucher program requires participants to contribute 30 percent of their income toward rent, they are subjected, in effect, to a 30 percent tax on their earnings that creates a negative incentive to work. This result illustrates the need for policymakers to design housing subsidy programs—both tenant-based and project-based—in a manner that minimizes the adverse incentives for socially desirable behaviors.

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# Solving Urban Poverty



# Lessons from Suburbia

BY DOUGLAS S. MASSEY

In 1983 the New Jersey Supreme Court issued a landmark decision in the case of South Burlington County NAACP v. Mount Laurel Township. Commonly known as Mount Laurel II, the ruling held that all municipalities in New Jersey had an affirmative obligation, under the state constitution, to house their fair share of affordable housing in the region. The decision effectively forbade the use of zoning to prevent the construction of affordable housing units in affluent suburban communities.

Although the township and litigants entered into a consent decree in 1985, the affordable development, which came to be known as Ethel Lawrence Homes (ELH), did not open its doors until late 2000. In that year, 100 affordable units were allocated to low and moderate income families on a first-come, first served basis. Another 40 units were completed and filled in the same way in 2004.

The road to affordable housing in Mount Laurel, New Jersey was long, winding, and fraught with obstacles that had to be overcome one-by-one in a tedious, seemingly endless process of litigation, negotiation, planning, and implementation. When all was said and done, the Ethel Lawrence Homes were 35 years in the making. Over the decades, many fears were expressed and charges levied about the dire consequences of bringing affordable housing to Mount Laurel. Nonetheless the project was built and eventually opened. In 2009-2010, I joined with a team of colleagues to undertake a systematic evaluation of the effect that ELH had on the township and surrounding neighborhoods, as well as on the lives of the people who were able to take advantage of access to affordable housing in an affluent suburb of Philadelphia. In this article, I review the principal findings of this study and consider their implications, both for social science and public policy.

### Fears That Never Materialized

For most households in the United States, home equity is the largest single source of family wealth. Thus threats to home value become de facto threats to a family's economic status. In addition, people tend to become emotionally attached to places in which they grow up, live, and raise their children, and when we consider that a place to live is not readily substitutable or foregone on the part of consumers, we begin to understand why conflicts over land use can be so divisive. When one overlays issues of race and class on top of land use, the mix can be downright combustible.

We certainly saw this combustibility in Mount Laurel. The proposal to build an affordable family housing project in the township met with strong, emotional, and vociferous opposition from the very beginning. Over the course of a long series

of a highly motivated few against the indifference or favorable leanings of the many. Indeed, a decade after the opening of the Ethel Lawrence Homes, a fifth of the residents in neighboring subdivisions were unaware that an affordable housing project existed in the township; nearly a third did not know that a project existed in the neighborhood; almost three quarters could not name the development; and nearly 90% had never interacted personally with a resident of the Homes. In sum, when the project finally opened it was not with a bang but a whimper.

Our research suggests that a whimper rather than a bang was indeed the appropriate reaction. In the controversy preceding the final approval of plans for ELH, township residents repeatedly expressed their fears of dire consequences that were sure to follow in the wake of the project's opening—that crime would increase, that tax burdens would rise, and that property values would decline. Despite these fears, when we carefully assessed trends in crime, taxes, and home prices in the township and surrounding neighborhoods, we found no evidence whatsoever that the project's opening had any direct effect on crime rates, tax burdens, or property values. Moreover, the indirect effect on school expenditures was mitigated by the fact that the number of students was small (only 30 in a district of nearly 3,000 students) and they were scattered across separate primary, middle, and secondary schools. Given that the per-pupil cost was likely lower in Mount Laurel than in the school districts from which the new pupils came, one could argue that the new arrangement represented a more efficient use of taxpayer's money to achieve better educational outcomes. In the end, the grievous effects on the community that so many predicted simply failed to materialize.

### Moving to Opportunity

Our results therefore indicate that an affordable housing project for low and moderate income minority residents can indeed be developed within an affluent white suburb without imposing significant costs on the surrounding community or its residents. On the benefits side of the equation, we found that moving into the Ethel Lawrence Homes brought about a very clear improvement in the lives of project residents and their children. The effects we uncovered for adults are summarized graphically in Figure 1.

The analysis was carried out by comparing ELH residents with a set of non-residents who, like the ELH residents, also self-selected into the population of people seeking to enter an affordable housing project in an affluent white suburb. By using propensity score matching, a technique that renders the two groups comparable on the factors that likely matter, we were able to estimate causal effects with some confidence even without random assignment.

As the figure indicates, moving into ELH brought about a marked reduction in residents' exposure to social disorder and violence, which in turn produced a sharp reduction in the frequency of negative life events they experienced. Reductions in exposure to social disorder and violence and reduction in the

## Indeed, a decade after the opening of the Ethel Lawrence Homes, a fifth of the residents in neighboring subdivisions were unaware that an affordable housing project existed in the township; nearly a third did not know that a project existed in the neighborhood

of court proceedings, newspaper editorials, letters to the editor, planning board hearings, council meetings, and debates in other public fora, displays of vitriolic language, racist imagery, and venomous accusations were in common currency. Although some township residents rose to defend the project and its tenants, the public airwaves were dominated by the voices of opposition. Our survey of residents in neighboring subdivisions revealed, however, that although the public expression of negative emotion indeed reflected underlying racial animus, in the end the controversy was likely a "tempest in a suburban teapot" stirred by a small number of highly motivated, possibly racially antagonistic individuals who mobilized to oppose the project in the strongest possible terms. More than a decade after the first ELH residents moved in, however, most neighbors were either indifferent or positive toward the development.

Although future proposals for affordable housing in other communities will likely also encounter vitriolic opposition, we conclude that public officials might be well-advised to discount the vehemence of the anti-development reaction as the actions

FIGURE 1. Path Model Showing Effect of ELH Residence on Mental Distress and Economic Independence Among Adults

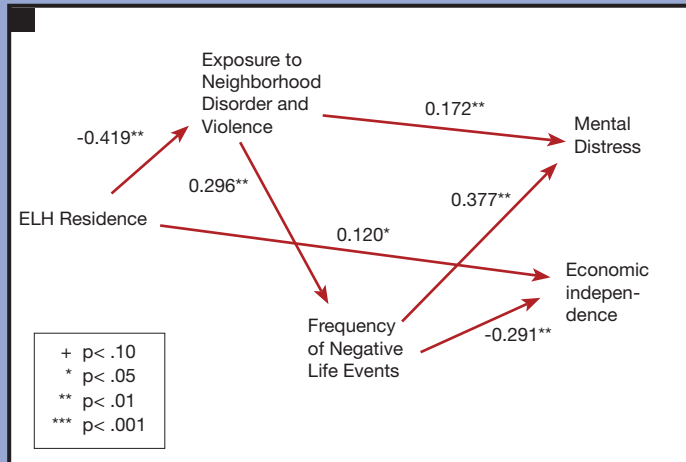
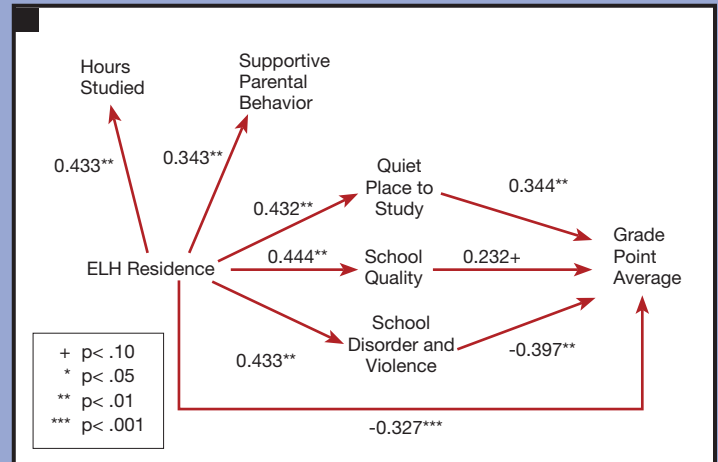


FIGURE 2. Path Model Showing Effect of ELH Residence on Academic Outcomes Among Children



frequency of negative life events both, in turn, were related to reductions in residents' mental distress. These relationships were substantial by the usual standards of social science.

We also created a measure of economic independence to examine whether moving to ELH was associated with changes in residents' economic well-being. A systematic comparison between ELH residents and our similarly self-selected non-residents yielded estimated causal effects that are rather strong by social science standards, and included both direct effects of moving to ELH and indirect effects operating through reduced exposure to disorder and violence and fewer negative life events. ELH residents therefore do appear to have "moved to opportunity" by relocating to affluent suburbia.

But what about the children? Figure 2 summarizes the causal effect of ELH residence on selected educational outcomes observed among adolescent children living in the Ethel Lawrence Homes. This analysis is again based on a matched sample of non-residents that served as the control group.

Although ELH residence significantly increased the number of hours children spent studying and raised the amount of academically supportive behavior by parents, these two factors did not have any influence on grades once other factors were controlled. As shown in Figure 2, ELH residence also has direct effects on the likelihood of having a quiet place to study, school quality, and school disorder and violence. Because these variables in turn influence GPA, it follows that ELH has some indirect effects on children's grades that are beneficial. Although the direct effect of ELH residence on GPA is negative, this negative effect is accordingly offset by three important indirect effects that are positive. Even though students may be thrust into a more challenging educational environment as a result of moving, they also gain greater access to a quiet place to study

(a room of their own or the project-sponsored homework club); they gain access to higher quality schools with lower rates of disorder and violence; and all these gains lead to improvements in GPA that more than offset the negative effects of competing in a more demanding academic environment.

### Implications for Social Science and Social Policy

These findings have important substantive and theoretical implications for social science as well as practical implications for social policy. In terms of social science, a controversial discussion among scholars has focused on the existence and nature of "neighborhood effects." Social scientists continue to debate whether and how exposure to positive or negative circumstances within a residential area influences a person's life chances, above and beyond the influence of that person's individual and family circumstances. Although many studies have documented clear associations between neighborhood conditions and individual well-being along a variety of dimensions even after applying controls, cross sectional and even longitudinal regression models cannot fully eliminate the alternative explanation—that unmeasured variables simultaneously cause poor people to move into poor neighborhoods and to express behaviors that disadvantage them.

Although recent quasi-experimental studies have sought to eliminate this rival hypothesis by comparing outcomes for treatment and control groups, earlier efforts have not been entirely successful. The two most important studies completed to date were both based on housing mobility programs, interventions that sought to move poor people into better neighborhoods and observe the consequences. In the Gautreaux Demonstration Project, public housing residents were assigned to move out of projects and into city or suburban neighborhoods. In the Mov-

**Designed so that all of its units were affordable to an unusually deep range of low and moderate income households, ELH is self-sustaining financially, with tenant rents calibrated on income and reserve funds covering its annual operating costs, including the debt service payments**

ing to Opportunity Demonstration Project, investigators sought to randomly allocate public housing residents to high and low poverty neighborhoods and document the effects. In the former study, however, assignment to treatment and control groups was not random at all, whereas in the latter random assignment was undone by selective processes that unfolded after assignment. Although both studies found that moving into a better neighborhood indeed improved the conditions that people experienced in their daily lives and led to better mental health outcomes, the Gautreaux project generally found significant improvements in adults' economic status and children's educational outcomes whereas the MTO project did not (see, for example, "Why Concentrated Poverty Matters" in this issue).

Our study likewise arose out of a housing mobility program—in this case an affordable housing development that was built to enable low and moderate income minority families to move into an affluent white suburb. Using structurally equivalent treatment and comparison groups we were able to confirm the rather dramatic improvement in neighborhood conditions experienced by program participants as a result of entering Ethel Lawrence Homes. The same comparisons also confirmed that improved neighborhood circumstances did not come at the cost of interpersonal contact with friends or relatives or access to basic services needed for daily living.

Having documented a sharp reduction in exposure to disorder and violence as a result of moving into ELH, we undertook a series of comparisons between ELH residents and a comparison group of non-residents. We found that moving into the Ethel Lawrence Homes brought about a significant reduction in the incidence of negative life events, lowered levels of mental distress, increased employment and earnings while decreasing welfare receipt, and generally produced a higher level of economic independence among participating adults. Among children, residence in ELH increased the quality of schools attended and reduced exposure to within-school violence and disorder, while providing more students with a quiet place to study and offering resident children more supportive parenting and an environment more conducive to studying. Having a quiet place to study and attending better schools with lower levels of violence and disorder, in turn, produced higher grades. Given

the design of the study, we hold that these effects may be taken as causal, thus confirming the hypothesis that neighborhoods matter in explaining life trajectories and that neighborhood effects on socioeconomic outcomes are indeed real.

In terms of social policy, our results suggest that the development of scattered site, de-concentrated affordable housing projects in affluent suburbs can lower levels of racial and class segregation while increasing social mobility for disadvantaged inner city residents. Great strides in economic status were made by adults and significant improvements in educational outcomes were achieved by children as a result of entering the Ethel Lawrence Homes; and these strides were accomplished without imposing significant social costs on project residents or economic costs on project neighbors or the suburban community in general.

The project also did not impose serious costs on the taxpayers of New Jersey or the Township of Mount Laurel (not counting the money wasted in litigation to block the project's construction). Designed so that all of its units were affordable to an unusually deep range of low and moderate income households, ELH is self-sustaining financially, with tenant rents calibrated on income and reserve funds covering its annual operating costs, including the debt service payments (which arise from the subsidies made available for the project). What is unique about the Ethel Lawrence Homes is precisely this range of affordability it offers to prospective renters. Whereas the vast majority of projects financed by the Low Income Housing Tax Credit program (LIHTC) are 100% affordable at 60% of median income, ELH offers units affordable to families earning between 10% and 80% of median income. Although LIHTC financing is sufficient to fund most affordable housing projects, whether constructed by a nonprofit or for-profit developer, it is usually not enough by itself to cover the total costs of projects with the range of affordability seen in Mount Laurel. State funding was, in the case of ELF, essential in plugging this gap. Our results thus offer an endorsement for the continuation and possible expansion of the LIHTC program as well as a plea for greater support at the state level to increase the range of affordability within suburban areas.



### Why Did It Work?

The success of Ethel Lawrence Homes as a development, both for the people who inhabit it and the community that surrounds it, did not just happen, of course, but stems from the hard work, careful planning, and dedicated oversight of many people, especially those connected with Fair Share Housing Development, Inc., and the Fair Share Housing Center. Although it is not possible from the data at our disposal to pinpoint those elements of design and implementation that are primarily responsible for the success of the Ethel Lawrence Homes, several salient elements stand out.

First, the residents of ELH were both self-selected and filtered. All of the tenants went out of their way to show up at the offices of the Fair Share Housing Development to pick up, fill out, and turn in an application form for units that were advertised as being allocated on a first come-first served basis. Such people are almost by definition motivated to improve their lives and their neighborhoods and to increase their opportunities for socioeconomic advancement. In addition, all applicants were screened to be “good tenants” who pay rent, get along with others, and maintain their units.

The Ethel Lawrence Homes thus do not necessarily provide a model of mobility for all poor and disadvantaged families in the United States. Those mired in substance abuse, criminality, family violence, and household instability are not good candidates for affordable housing developments. Their problems are likely to be complex, interconnected, manifold, and thus to require a more comprehensive intervention than simply providing a decent home in a peaceful neighborhood with good schools. Affordable housing developments do constitute an appropriate intervention, however, for the millions of low- and moderate-income families who are currently trapped in distressed urban neighborhoods for lack of anywhere else to go, but who nonetheless plug away to do the best they can at school and work, hoping for a chance to advance. For such people, affordable housing developments such as the Ethel Lawrence Homes can dramatically divert life trajectories toward socioeconomic success, educational achievement, and real integration into the American middle class.

Another important factor is the range of affordability built into the project. During the 1950s and 1960s, public housing projects were reserved for the neediest families, producing developments that virtually by definition concentrated poverty spatially to create an untenable social and economic environment. In contrast, units in ELH were designed to go to households earning a range of incomes, going from 10% of the county’s median income for one person (\$5,630) to 80% of the median income for a five-person family (\$69,440). Even though all families were in a position to benefit from access to affordable housing, not all were abjectly poor, thus mitigating the consequences of concentrating economic deprivation.

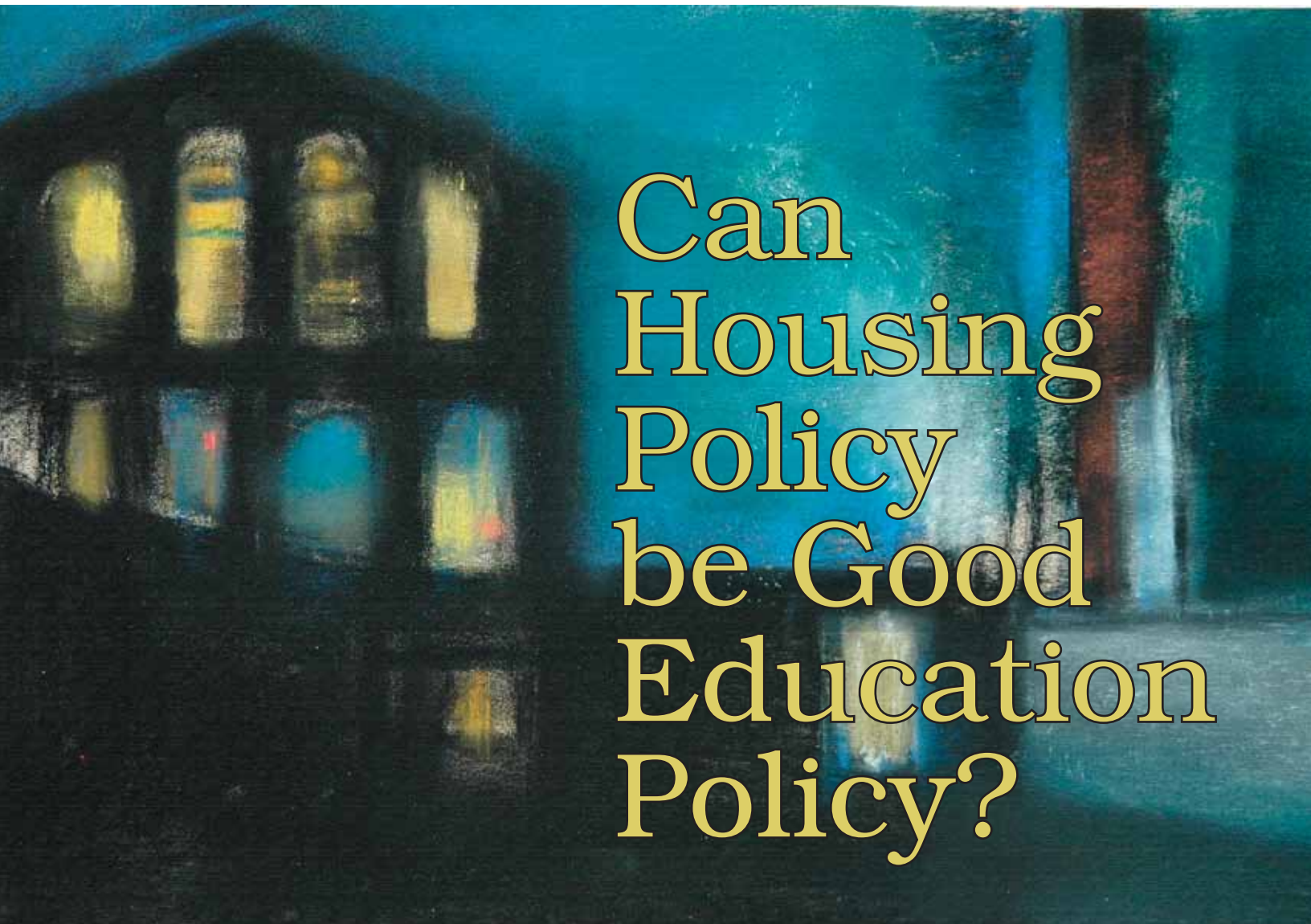
A third element was the careful attention to the project’s design and aesthetics. Its physical layout was deliberately designed to mimic that prevalent in surrounding subdivisions, being situated around cul-de-sacs and public greens, set off from the main road and surrounded by fields and woodlands. The architectural style of its townhouses was chosen to mimic styles found in surrounding neighborhoods and other affluent suburbs in the region, consisting of attractive townhouses built using materials and painted with colors that blended seamlessly with adjoining areas. In addition, the project from the start contained a development budget for landscape architecture and continues to have a line item in its operating budget for landscape maintenance, thereby ensuring it will remain attractive and largely invisible to the surrounding community as “affordable housing.” In this way, developers were able to blunt the reaction of neighbors when the project opened, even to the point where many do not realize it is an affordable development. In so doing, they also avoided the visual stigma usually associated with “public housing” in the United States.

Finally, the management at the Fair Share Housing Development operates as much more than a simple rental agency. From the very beginning, social organization within the development was subject to deliberate design and careful planning. The physical layout and building structures were planned with an eye to how they would influence patterns of social interaction and increase the possibilities for informal social control, with clear fields of vision that provide what Jane Jacobs once called “eyes on the street,” people observing public spaces from individual units and stoops. Management intervenes actively to build internal social cohesion among project tenants, providing space and opportunities for tenants to meet both for formal discussions and informal activities, sponsoring and helping to organize and sustain a Community Watch Group, and offering a Homework Club for children.

Whatever the reason for its success, the Ethel Lawrence Homes offers a proof of concept for the further development of affordable family housing, both as a social policy for promoting racial and class integration in metropolitan America as well as a practical program for achieving poverty alleviation and economic mobility in society at large. Our results show that affordable housing for low and moderate income minority families can be built within an affluent white suburban environment without imposing significant costs on the host community or its residents, while simultaneously increasing the economic independence of project residents and improving educational achievement among their children, all with little or no cost to taxpayers. It is a win-win prospect for all concerned.

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# Can Housing Policy be Good Education Policy?

BY HEATHER SCHWARTZ

**For most children in the U.S.**, where you live determines where you go to school. This remains true in spite of the expansion over the past 30 years of school choice options like interdistrict choice programs, charter schools, magnet schools, distance learning programs, and school vouchers. As of the 2008–2009 school year, 11 percent of children went to private schools, approximately three percent of U.S. public school students attended charter schools, and another five percent attended magnet schools.<sup>1</sup>

Only one percent of public school students enrolled in different school districts through interdistrict choice programs, even though 46 percent of school districts reported offering such a program.<sup>2</sup> Even when districts eschew school residential attendance zones in favor of within-district choice programs (such as in New York City), the sorting of students, teachers, and administrators across school districts means that public schools in struggling districts differ substantially from those in neighboring affluent districts.

Housing and zoning policies are therefore de facto school policies precisely because home residence is the way most children gain access to schools. A recent national study confirms that so-called exclusionary zoning (i.e., zoning laws that yield low-density housing) increases the likelihood that low-income households are priced out of homes located in neighborhoods with high-scoring schools.<sup>3</sup>

Recognizing the connection between housing and schools, HUD has championed the use of “housing as a platform” to give access to high-quality schools. But, so far, the evidence has not yielded promising results for such an approach. In New York City, for example, federal housing voucher recipients—who can theoretically lease any home within a specified price cap with their voucher—were zoned as of 2008–2009 to schools with math and reading proficiency rates about 20 percent lower than average schools in the already low-performing district.<sup>4</sup>

Placing affordable housing in low-poverty neighborhoods is important because high-performing schools are most often low-poverty schools. Approximately half of students in high-poverty schools fail the National Assessment of Educational Progress (NAEP), compared to fewer than one in five students in low-poverty schools.<sup>5</sup> Furthermore, the academic performance gap between children from the top and bottom 10 percent of household incomes has doubled over the last 55 years, which poses a daunting challenge for schools trying to raise low-income student achievement. The concentration of low-income children within a school adds layers of challenges since it is harder to attract and retain well-prepared teachers and administrators, and also to maintain high rates of parental involvement. Rapid turnover in staffing and students undermines stability and trust-building within high-poverty schools, and students’ low performance fuels a rapid succession of reforms as schools scramble to raise achievement.

In light of the considerable challenges that high-poverty schools face, housing policies that provide disadvantaged students with access to low-poverty schools is a promising approach to raising student achievement. Yet the experiences of HUD-assisted housing programs demonstrate that it is hard to provide disadvantaged households long-term access to low-poverty neighborhoods, let alone ones with high-performing schools. As I argue in the remainder of this article, inclusionary zoning—which is a voluntary, locally-adopted zoning policy designed for high-cost housing markets—stands out as one appealing policy alternative that may help narrow the economic achievement gap.

### What is Inclusionary Zoning?

Inclusionary zoning (IZ) is a land use policy that allows lower- and moderate-income households to live in middle- and upper-income communities. Generally, it is “inclusionary” because the policy either mandates or encourages real estate developers to incorporate into their market-rate developments a proportion of homes that are sold or rented at below-market prices. Jurisdictions then offset the financial loss to developers by allowing them to increase the overall size of a development or by providing other zoning variances. Since jurisdictions voluntarily adopt and design their own IZ policies, there is substantial diversity among IZ programs.

Inclusionary zoning policies typically stimulate the production of anywhere from dozens to hundreds of IZ homes per jurisdiction. More than 500 localities in the United States have adopted IZ policies in some form, producing approximately 129,000 to 150,000 IZ units nationally. Most of these are in California, New Jersey, Maryland, and the Washington, D.C. metropolitan area.

### An Example of Inclusionary Zoning

The largest and oldest continuously operating IZ program is located in Montgomery County, Maryland, which abuts Washington, D.C. Since the county’s inception, its median household income has ranked among the top 10 counties within the U.S. Its current median household income is \$93,373, which is almost double the national level of \$51,914.

Montgomery County adopted its IZ program in 1974 against the backdrop of a rapidly heating housing market that was pricing out lower-wage workers. In essence, the county’s IZ program introduced small numbers of affordable homes into market-rate developments, inducing some degree of economic integration into an otherwise non-poor setting. All told, the program has generated about 13,000 affordable homes since the 1970s, which are dispersed wherever new construction occurs within the county.

What is especially unusual about the program is Montgomery County’s public housing authority has the right to purchase up to one-third of the inclusionary zoning homes in any given subdivision. For example, if 15 homes in a 100-unit subdivision must be set aside for IZ, the housing authority may elect to purchase 5 of those 15 homes. To date, the housing authority operates a little over 700 IZ homes for federally-subsidized public housing residents. Beyond the IZ program, the housing authority also owns five developments with 300 homes in which 100 percent of the apartments are leased to public housing residents.

Because the housing authority randomly assigns families to its almost 1,000 public housing homes, and because virtually all of the county’s 131 elementary schools have neighborhood-based attendance zones, children in the county’s public housing are assigned randomly to their elementary schools via the public housing placement process.

As shown in Figure 1, Montgomery County public housing students who attended low-poverty schools (0-20% of students qualified for a free or reduced-price meal) realized cumulative gains in math relative to public housing students who attended the county's moderate-poverty schools (approximately 20-85% of students qualified for a free or reduced-price meal). By the end of elementary school, public housing children in the low-poverty schools performed an average of eight normal curve equivalent (NCE) points higher (0.4 sd) than public housing children enrolled in moderate-poverty schools. Even more importantly, public housing students in the county's low-poverty schools were catching up to their average nonpoor district-mates over the course of elementary school. The math achievement gap between public housing students and their district-mates halved from an initial disparity of 17 points at the outset of elementary school to 8 points by the end of elementary school.

### Inclusionary Zoning Elsewhere

So could IZ work anywhere? The positive effects of giving low-income children access to low-poverty schools in Montgomery County might hold for other jurisdictions if their IZ programs were to offer similar access to low-poverty schools. In aggregate, data from 10 more of the 50 largest IZ programs in the U.S. verify some central assumptions about the social inclusiveness of IZ policies: namely, that they provide lower-income families with access to low-poverty neighborhoods and residentially assign them to relatively low-poverty and high-performing schools.

A closer look, however, reveals that these IZ homes in other localities—particularly in urban localities—do not always obtain Montgomery County's extensive degree of integration. Six of

the 11 IZ programs I examined exclusively served low-income households, while the other five primarily served low-income households, but reserved a portion of units for households earning higher incomes. The IZ policies also predominately serve owners rather than renters. Seventy-eight percent of the IZ homes in the 11 jurisdictions were for sale, and only one of the IZ programs exclusively operated a rental program. This distribution is primarily a reflection of the common requirement that IZ units share the tenure of the market-rate homes within the same subdivision.

As in Montgomery County, the IZ homes in the other 10 cities and counties are widely dispersed throughout the jurisdictions. That is, IZ homes were located in one out of every ten census block groups in all 11 localities, and they were residentially assigned to one in four elementary schools in the 11 jurisdictions. This is important, since one concern about the provision of affordable housing is the potential clustering of low-income families into what can thereby become high-poverty neighborhoods zoned into high-poverty schools.

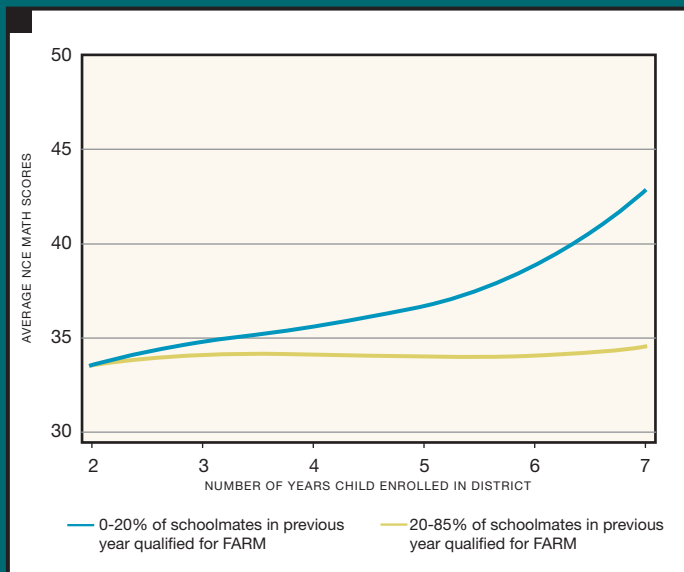
Across the 11 localities, a large majority of IZ homes (75 percent) are located in low-poverty neighborhoods where 0-10 percent of households have incomes below the federal poverty line. The typical IZ unit is located in a census block group (or tract) where seven percent of households lived in poverty as of 2005-2009. This is lower than the average poverty rate among the census block groups without IZ homes in the same jurisdictions (16 percent) and the typical U.S. census block group nationally for the same years (14 percent). However, as shown in Figure 2, the percentage of IZ homes in low-poverty neighborhoods varied substantially across the 11 localities.

In suburban localities like Davidson, Fairfax County, Irvine, and Montgomery County, the majority of IZ units were in low-poverty neighborhoods, while in several of the urban IZ programs, such as Cambridge, Chicago, Denver, Santa Fe, and Santa Monica, a large share of the IZ units were located in neighborhoods with moderate poverty rates (i.e., 10 to 30 percent). Very few IZ homes (3 percent) were in high-poverty neighborhoods where 30 percent or more of the households lived in poverty, which is notable since 17 percent of the block groups across the 11 jurisdictions were high-poverty neighborhoods.

Looking beyond poverty, the typical IZ unit is located in a neighborhood where, according to 2005-2009 Census data, the vast majority of adults of working age were employed (94 percent), the majority of adults aged 25 and older had a college degree, and more than half of the neighborhood population (57 percent) was white. With a few exceptions, IZ neighborhoods did not differ statistically from their non-IZ counterparts in terms of income, education levels, or racial composition.

Almost one half of the IZ homes (44 percent) are residentially assigned to low-poverty schools where 0-20% of students qualified for a free or reduced-price meal. IZ homes also were assigned to schools performing slightly above average within their state. On average, IZ units were located in attendance zones of public schools performing in the third quintile, or the 40th to 60th percentile, in their state. This was slightly bet-

FIGURE 1. Effect of Low-Poverty Schools on the Math Scores of Children in Public Housing



Farm: Free or reduced price meal

ter than the average performance of schools to which no IZ units were assigned; non-IZ schools performed at an average of the 20th to 40th percentile within their state. As with neighborhood poverty levels, there was substantial variation in school quality across the 11 localities but much less variation within them (see Figure 3).

In sum, then, the IZ policies in these 11 localities seem to be operating as intended, providing low-income children access to low-poverty neighborhoods and schools. In contrast to Montgomery County, however, the magnitude of change to which many of these children are exposed is not as dramatic. It remains to be seen, therefore, how much the typical IZ policy will alter children's achievement trajectories. But the experience of Montgomery suggests that when secure access to high-quality low-poverty schools is achieved, the results can be very promising.

## Conclusion

Statistics from the 11 counties and cities reveal that, overall, the IZ policies studied provide access to low-poverty schools and neighborhoods—something other affordable housing policies have struggled to achieve. In providing that access, the IZ policies offer the potential to raise low-income student achievement.

Inclusionary zoning is a policy that pertains to higher-cost housing markets, and is not relevant for all localities. As such, it is not a silver bullet. Instead, the inclusion of affordable housing within higher-performing schools' attendance zones is one of many policies that are needed to improve disadvantaged children's academic performance. But IZ policies promise to be a piece of the policy portfolio for closing the achievement gap.

FIGURE 2. Percentage of IZ Units Located in Low-Poverty Neighborhoods, 2005–2009

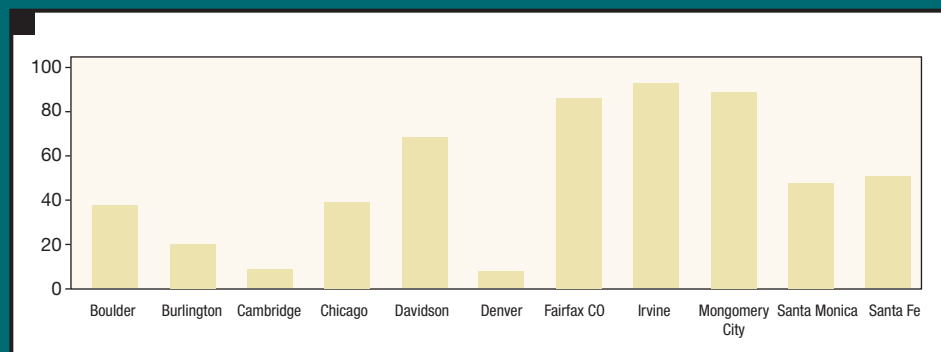
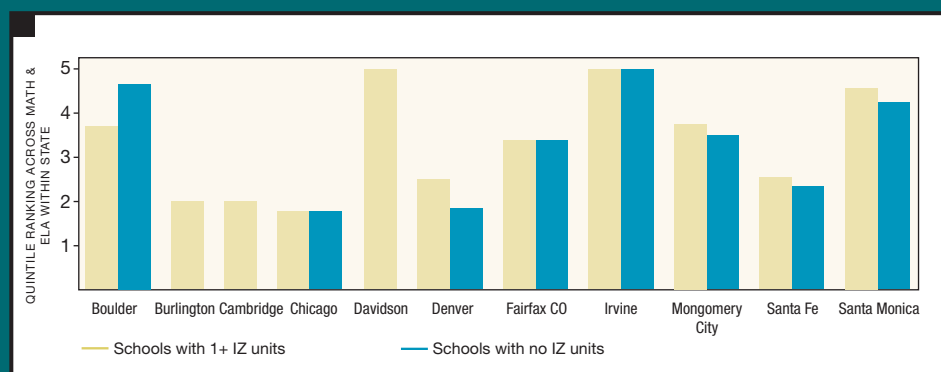


FIGURE 3. Rankings of Elementary Schools to Which IZ Units Were and Were Not Zoned



*Heather Schwartz is a Full Policy Researcher in the RAND Corporation's New Orleans office. This article is adapted from her report Is Inclusionary Zoning Inclusionary?: A Guide for Practitioners, published in 2012 by the RAND Corporation and funded by the MacArthur Foundation. The Montgomery County results are adapted from her chapter "Housing Policy is School Policy" in Kahlenberg (ed.) The Future of School Integration: Socioeconomic Diversity as an Education Reform Strategy. New York: Century Foundation, 2012.*

## Endnotes

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THE  
CASE  
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AWAY  
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INEQUALITY

A Conversation with Emmanuel Saez

BY DAVID GRUSKY AND EMMANUEL SAEZ

There's been much debate of late about whether U.S. tax policy should be reformed. The key player in this debate, Emmanuel Saez, has famously suggested that, if all we cared about were maximizing tax revenues, we could safely return to the relatively high marginal tax rates of the sort that prevailed in the U.S. long ago. But what if we also care about runaway inequality and, in particular, reducing incentives for rent-seeking among top earners? In a candid interview with David Grusky, Emmanuel Saez discusses why tax policy, though a blunt instrument, might also be the best available weapon for reducing rent-seeking as well.

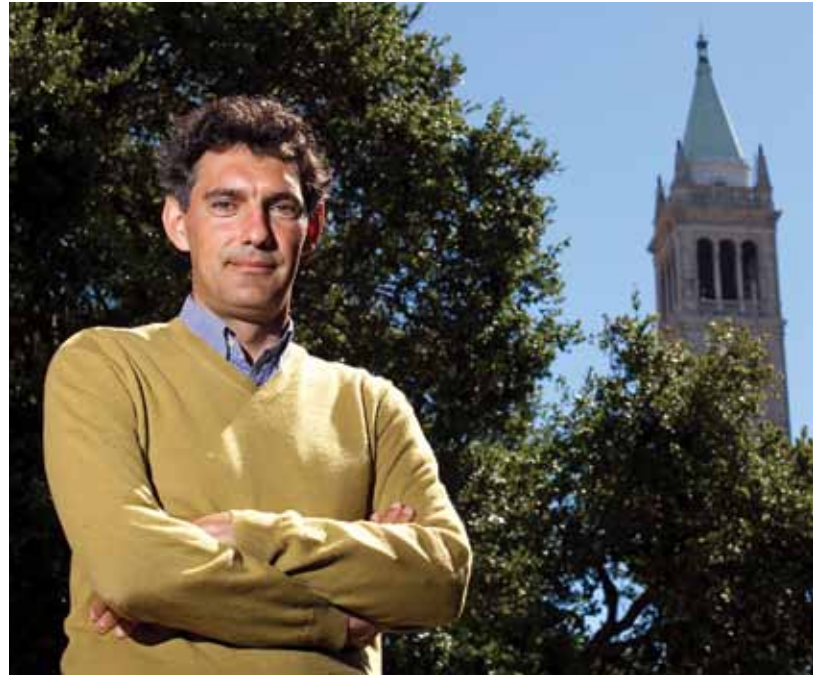
**David Grusky:** In the thirteen years since you secured your PhD, there have been two big developments: first, your research on income inequality, especially its recent takeoff, has taken the world by storm; and, second, a new national conversation about income inequality has broken out, indeed that conversation even played a fundamental role in the last presidential election. I would argue that those two developments are related in the sense that your research, perhaps more than anyone else's, has brought about precisely that change in the conversation.

That said, I suspect that there are some features of your work that you think have been misunderstood or, at the least, inadequately addressed in current debates. Could you talk a bit about this underappreciated side of your work?

**Emmanuel Saez:** I did this key work on income concentration in the United States with my colleague Thomas Piketty, and we were indeed quite surprised by how successful our research has been in the public debate. Initially this was really academic work building on the long tradition of the famous economist Simon Kuznets, who started the data series back in the 1950s. So we never approached it in a way that would necessarily be easy for the broader public and the press to use. We had to adjust over time to try to talk to the public and present our findings in a way that was the simplest, because we've discovered that to have an impact in the broader world, the way you present your research—the design, the framing—has a tremendous impact.

Naturally the public has focused mostly on the very recent period. But the key goal of our study was to show a very long perspective—a century long perspective—and to think about long-term changes rather than year-to-year changes. And I think there's a lot to learn about how those long-term changes are related to policy making and government action.

**DG:** I'm prompted by your last point to suggest that another underappreciated feature of your work is that, by virtue of being so long term, it delivers rather provocative hints about the causes of the increase in inequality. That is, it not only lays out the descriptive trajectory of income inequality, but also suggests what's driving that descriptive trajectory.



*Emmanuel Saez, Professor of Economics at the University of California, Berkeley.*

We recently participated in a *Boston Review* debate on one account of the sources of the recent takeoff, namely the expansion of rent, where rent is understood as sweetheart deals, corruption, and other pay-setting practices that permit those at the top to secure more than they would in a competitive market. On the basis of your research, do you think that rent is an important source of the recent growth in income inequality?

**ES:** If we define rent in terms of situations where pay doesn't correspond to what economists call 'marginal productivity'—that is, the economic contribution a person is providing—I would say yes, because the evolution of income concentration over time and across countries has a number of features that are inconsistent with the story where pay is everywhere equal to productivity. The changes in income concentration are just too abrupt and too closely correlated with policy developments for the standard story about pay equaling productivity to hold everywhere. That is, if pay is equal to productivity, you would think that deep economic changes in skills would evolve slowly and make a gradual difference in the distribution—but what we see

in the data are very abrupt changes. Basically all western countries had very high levels of income concentration up to the first decades of the 20th century and then income concentration fell dramatically in most western countries following the historical narrative of each country. For example, in the United States the Great Depression followed by the New Deal and then World War II. And I could go on with other countries. Symmetrically, the reversal—that is, the surge in income concentration in some but not all countries—follows political developments closely. You see the highest increases in income concentration in countries such as the United States and the United Kingdom, following precisely what has been called the Reagan and Thatcher revolutions: deregulation, cuts in top tax rates, and policy changes that favored upper-income brackets. You don't see nearly as much of an increase in income concentration in countries such as Japan, Germany, or France, which haven't gone through such sharp, drastic policy changes.

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**DG:** There are a few other features of your work that appear consistent with a rent narrative. For example, you've shown that income growth among the top 1 percent often comes at the expense of incomes at the bottom of the distribution. Hence there's a zero-sum character to the distribution that appears consistent with a rent theory. And you've also shown that reducing the marginal tax rate may help the 1 percent but doesn't appear to lead to overall GDP growth, a result that is again consistent with a rent formulation. Do you think those two features of your work offer further supporting evidence for an account based on rent?

**ES:** Yes. There have been a key number of policy developments, especially cuts on top tax rates in a number of countries, that have led to a surge in pre-tax top incomes in those countries, the best example again being the United States and the United

Kingdom. All the data we've gathered from so many countries over so many years tells you that, indeed, the level of top tax rates plays a large role in pre-tax income concentration. The key question is, what is the mechanism that leads higher or lower top tax rates to lower or higher top incomes?

The standard story among economists is that if those in the top bracket earn more that's because they are working more and contributing more to the economic pie. So in that scenario, reducing top tax rates and having higher incomes at the top would be a good thing. However, if that were the case, the growth in top incomes should not come at the expense of lower incomes and it should stimulate economic growth. The difficulty, however, is that if you look at the data you don't see clear evidence that countries who cut their top tax rates and experienced a surge of top incomes did experience overall better economic growth.

An alarming fact in the United States concerns the patterns of economic growth of the top 1 percent versus the bottom 99 percent. We know that in the long run economic growth leaves all incomes growing. If you take a century-long view, from 1913 to present, incomes for all have grown by a factor of four. But then when you look within that century of economic growth, the times at which the two groups were growing are strikingly different. From the end of the Great Depression to the 1970s, it's a period of high economic growth, where actually the bottom 99 percent of incomes are growing fast while the top 1 percent incomes are growing slowly. It's not a good period for income growth at the top of the distribution. It turns out that that's the period when the top tax rates are very high and there are strong regulations in the economy. In contrast, if you look at the period from the late '70s to the present, it's the reverse. That's a period when the bottom 99 percent incomes are actually growing very slowly and the top 1 percent incomes are growing very fast. That's exactly the period where the top tax rates come down sharply. So, of course this doesn't prove the rent-seeking scenario but it is more consistent with it than with the standard narrative.

**DG:** It seems, then, that you and I agree that, in explaining what's driving the recent divergence in the income distribution, we should turn at least in part to a rent narrative. Where we may differ somewhat—and I'd like now to explore our differences—is on the matter of what policies might be adopted to address that portion of the increase in inequality that's attributable to rent. Insofar as there were no rent involved in the takeoff in inequality, many people would argue that the takeoff is unproblematic, and indeed may even be all for the good. But insofar as some of that rise is attributable to rent and cannot be understood in terms of rising marginal productivity at the top, we might regard it as inequality that should be curtailed. So then the policy question comes to the fore.

In the *Boston Review* piece, I suggested that, if there are institutional practices in play that generate rent, we should reform those practices and cut off rent seeking at its source. It's strange indeed, I argued, that the antidote to which most people reflexively move is tax policy. This move is tantamount to saying "just let rent happen, there's nothing we can do about rent itself, all we can do is accept



it and then tax some of it away.” It seems on the face of it rather more attractive to look to the source in addressing rent. And you responded, “Not so fast.” Why do you think tax policy might be a better way to address rent?

**ES:** The first answer is that we have a historical record, and tax policy has been a tried instrument. If we had had that conversation a century ago, when no country had started really steep progressive taxation, you might legitimately have told me, “You are making a theoretical case. How can I trust you are not going to break the economy?” But we’ve seen all major western countries go through periods of very high taxation of top incomes that have indeed reduced deep concentration of pre-tax income without hurting economic growth.

The world of course has evolved. There is more globalization, mobility of capital, and mobility of people across countries for tax reasons could be a concern. I’m not saying it’s as easy as it was in the past, but at least I have a solid record to return to when I suggest that tax policy is the solution.

Now, it’s true that tax policy is a blunt instrument, because it is going to tax all high incomes and rent might differ quite a bit across high incomes. That is, some high incomes probably do reflect true marginal productivity; the example that is most often pointed out are sportsmen who generate great economic value because there is so much public interest in seeing them perform. Other forms of high income started with real production. Think about Microsoft, Google, and Facebook: they really invented new products, but after a while they really have become entrenched—a semi-monopoly. It’s a monopoly because they’ve captured an enormous fraction of the market and they’ve started earning rents based on the products they’ve developed. And then there are some CEOs who have engaged in corrupt practices. But when you tell me we are going to combat rent on a case-by-case basis, I don’t have historical examples showing me that this is going to work as well as taxation. For monopoly there’s the anti-trust policies, and that’s a good and important one. For CEO pay, I think the historical record has been pretty bad for those who think we can regulate the practice. For example, Clinton in 1993 limited the deductibility of top executive pay for corporate tax purposes to \$1 million per person unless the pay was tied to performance. That meant that stock options and bonuses were excluded from that \$1 million. And what you saw then was a surge in this form of pay. Another example is what happened with the corporate scandals a decade ago, such as Enron and Worldcom. CEO and executive practices were really corrupt and discussed a lot in the press in a way that led to some new regulations. But now you look at the data and it doesn’t seem that those regulations have had a strong impact on CEO pay.

So I don’t oppose fixing rents systematically, but you have to come to me and give me examples of why you think certain policies are going to work. Tax policy is blunt, but it works.

**DG:** I confess to the conceit that, despite all the failed reform of the past, we can yet get it right. That said, I think you just gave a very compelling account of how difficult it is to cut rents off at their source, how our best laid plans off go awry. We simply can’t

foresee all the ways in which institutional reform can be manipulated. It’s a difficult task; I understand that. But let me ask you to explain exactly why tax policy can lead to changes in rent-seeking at the very top. That is, if I understand your argument, it suggests that whenever there are relatively high tax rates at the top a CEO might be less inclined, for example, to pack the board of directors with cronies who would support high compensation. This is because our forward-looking CEO appreciates that much of the additional compensation would simply go right back to the government. Is that the main mechanism through which you think tax policy works?

**ES:** Yes, for rent-seeking in terms of excess compensation, I would think that’s likely to be the main mechanism. The other aspect is capital income—the creation and perpetuation of large fortunes. And there again we have good evidence from the historical record: very progressive taxation definitely erodes the ability of those who have accumulated large fortunes to perpetuate those wealth holdings.

The striking fact is that no matter what the mechanism is, what we observe empirically is that in countries that have really steep progressive taxation, you don’t observe sustained high levels of income concentration. So some mechanism must be at work reducing pre-tax incomes.

**DG:** I think a lot of people would be worried that, by resorting to tax policy, you reduce not just the incentive for rent-seeking but also the incentive for undertaking the hard work that makes for real productivity. This may well be a big price to pay. How do you make sense of that dilemma?

**ES:** It is a central question and indeed economists have expended a lot of effort trying to understand the relationship between the rewards of working and behavior. Do taxes and transfers that reduce the reward for working discourage work? There are many situations where reducing the reward to work leads to less work. That’s true for the bottom of the distribution, especially for parents with kids who have very high opportunity costs for work. And that’s true for people near retirement as well: it’s been shown that if you reduce the reward to working through the retirement system you can easily have effects on the retirement margin.

For top earners, we need more research, but I have yet to see a study that shows me that when you increase top tax rates, top earners work less. An interesting study that was done by Robert Moffitt and Mark Wilhelm using the tax overhaul of 1986—Reagan’s big second tax reform—showed that when Reagan cut the top tax rate, pre-tax top income surged, but the authors looked at the hours of work of those high earners and couldn’t see any effect on their reported hours. Of course, it was a small sample, but I hope that in the future, researchers can look at margins like retirement—do highly paid executives retire earlier now that Obama has raised their tax rates? That’s exactly the type of study we need. And of course I would revise my views if you showed me convincingly that those top guys are indeed working a lot less.

**DG:** Let me turn to some of the evidence that I think informs your view on this issue. What you found is that, when top tax rates go down, the top 1 percent garners an increasing share of pre-tax income. My query is whether that's a causal relationship or a spurious one. It may be spurious because those countries that reduced tax rates at the top often happen to be the very same countries that allowed for institutional changes, such as de-unionization, that restricted the capacity of those at the bottom of the distribution to secure higher wages. And so it's possible that the decline in the income share going to the top is actually driven, in part, by what happens at the bottom.

**ES:** I am sympathetic to this argument. It's true that the Reagan and Thatcher revolutions were not only about reducing top tax rates; there were a number of other policies, such as deregulation and restrictions on unions. My best answer to you is that we have to do more data analysis. I've only looked at top tax rates but in principle you can use other variables—like unionization, strikes, and financial deregulations—and then try to tease out the role of each factor. My sense, at this stage, is that it's work we should be doing. The tightness of the correlation between top tax rates and pre-tax top incomes is so strong that I doubt that it will go away entirely. Maybe it will be not as strong but my guess is that a lot will survive.

Another reverse causal relationship that people mention is that if top earners earn more, they have more resources to deploy to influence policy makers through lobbying and campaign contributions. Once you have a very high level of income concentration, it might indeed be harder for policy makers to advocate and enact policies that are unfavorable to top earners.

So let me say this because I think it's important: in the historical record we've seen, there always has to be a dramatic historical event—an economic crisis, a war, or something similarly dramatic—that allows a country to suddenly shift gears and drastically change its tax policy.

**DG:** This leads us to the matter of predicting the future. I can't imagine anyone better positioned than you to assess where we're likely going. And one could posit, off the cuff, three possibilities: the first is that the increase in income inequality, particularly the share going to the top 1 percent, will continue unabated and ultimately take us to unprecedented levels of inequality, levels even exceeding what obtained in the 1920s; another possibility is that the increase will finally level off and we'll remain at the current very high level for the foreseeable future; and a third possibility is that the Great Recession will, just like the Great Depression, usher in major policy and institutional changes that then lead to a compression of incomes. Which of those three possibilities strikes you as the most likely?

**ES:** Starting from the third scenario—yes, I think the Great Recession could have been this event. In the end, though, it probably won't be. In part, it's an effect of timing. In some sense,

Obama was elected a little bit too early. Roosevelt was elected in 1932, at the end of the Great Depression. Obama, by contrast, was elected right when the Great Recession was happening and I don't think he came prepared or with a strong will to address income concentration. As a result, even in the two years where he had quite a bit of power he didn't do much about tax policy for top incomes. He punted, really. Now I believe his thinking has changed, but the political situation is different—it's much harder to push for higher top tax rates given the layout of Congress.

That being said, the increase in top tax rates that was passed with the health care surcharge on top incomes, plus the increase in top tax rates back to the Clinton level is not negligible. It's small relative to the changes that happened during the New Deal, but I wouldn't say it's zero. It's a medium to small change that in my view is not going to dramatically lead to a deconcentration of pre-tax income. So I think that the high level of income concentration we're experiencing is likely to continue. And a dramatic change would happen only if the public really became convinced that it's an unfair economic system, that a lot of that economic concentration is due to rents and those rents come at the expense of the rest of the population. But before the public is really convinced of that fact, I don't think that you will see a dramatic policy change.

**DG:** This suggests the following history-is-perverse narrative: Because Obama was acting with knowledge of what transpired during the Great Depression, he was more likely to turn quickly to stimulus, a stimulus that proved just large enough to forestall a depression. But here's the rub: Had Obama ignored the lessons of history, had he opted against stimulus, we might have had precisely that economic disaster that would have then precipitated more fundamental institutional reform of the sort you mention. In that sense, knowing what happened in the Great Depression undercut the crisis and, ironically, ruled out any possibility of institutional reform of the type that occurred in the New Deal. What do you make of that counterfactual?

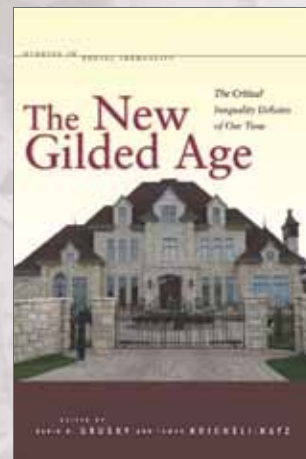
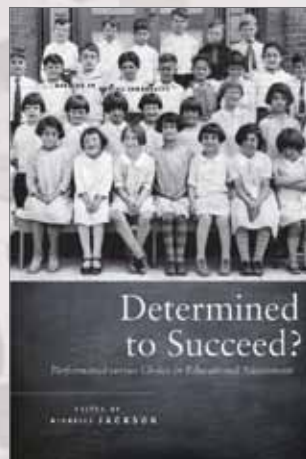
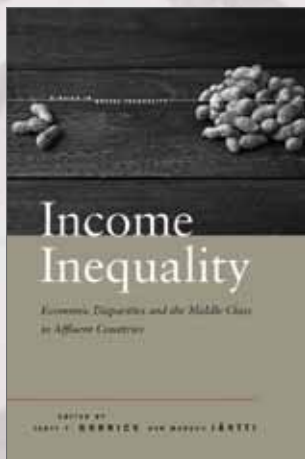
**ES:** I think I agree with this. If you look at the economic team that Obama assembled in his first administration, their preoccupations were “How do we stabilize the financial system?” and “How do we stimulate the economy using lessons from Keynesian economics that weren't there at the time of the Great Depression?” Income concentration was not on their radar map. That's why they were happy to extend all tax cuts, including tax cuts for the rich, because it didn't strike them as that big an issue.

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*Emmanuel Saez is E. Morris Cox Professor of Economics and Director of the Center for Equitable Growth at the University of California, Berkeley.*

*A closely related version of this interview also appears in the Boston Review online, February 28, 2013.*

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