Economic Inequality and Public Policy: The Power of Place

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In recent decades two broad trends in American society have been well-documented: rising income inequality and rising segregation of economic classes across space in metropolitan areas. The thesis of this article is that rising economic segregation is both a cause of rising economic inequality and amplifies its effects in ways that do not showup in the income statistics. The article synthesizes the evidence on the contextual effects of economic segregation in three areas: 1) jobs and income; 2) public services; and 3) retail services. Economic segregation does not only undermine equal opportunity, it also damages American democracy. Although more research is needed on the effects of economic segregation, the evidence is more than sufficient to call for public action.

Growing class segregation in America's metropolitan areas has had an enormous effect on the daily lives of urban residents, on the nation's efforts to address its urban problems, and on the condition of our democracy. William Julius Wilson's seminal book *The Truly Disadvantaged* (1987) catalyzed a lively scholarly debate on the causes and consequences of concentrated urban poverty. This literature, now grown to considerable proportions, sheds light on how living in a high poverty neighborhood has negative impacts on human development and family life over and above those of simply being poor. At the same time, its focus on ghetto poverty suffers from a kind of tunnel vision. By examining just one extreme, concentrated poverty neighborhoods, researchers working in this vein have failed to appreciate the broader dynamic of how economic classes are distributed across metropolitan space—and why that dynamic undermines efforts to address the needs of those in poverty and near poverty. It is this broader metropolitan dynamic and its effects that we explore here.[1]

Few would dispute that economic inequality has widened greatly in the United States since the 1970s. The Census Bureau reports that between 1980 and 1998, the share of all income going to the lowest fifth of family earners declined from 4.3 to 3.6 percent, while

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the percent going to the top fifth increased from 43.7 to 49.2 percent (Jones and Weinberg, 2000).[2] A scholarly cottage industry has risen to explain this phenomenon (Levy and Murnane, 1992; Galbraith, 1998; Ryscavage, 1998; Welch, 2001; Mishel, Bernstein, and Schmitt, 2001). It has identified five broad, interrelated factors explaining rising economic inequality: (1) the shift from manufacturing to services, which replaces well-paid industrial jobs with less-well-paid service jobs; (2) technological changes that increase the demand for (and the wages of) highly skilled and educated workers at the expense of unskilled and less educated workers; (3) globalization of the economy, which forces American workers to compete with workers around the world, driving down American wages; (4) immigration, which drives down wages among less skilled workers; and (5) decline of unionization, which reduces the bargaining power of workers to raise wages. With a few exceptions, however, these explanations ignore the role of space or geography in widening inequality.[3]

Our thesis is simple: *the sorting of economic classes across space in American metropolitan areas both promotes rising economic inequality and amplifies its effects in ways that do not show up in the income statistics*. We are not arguing that spatial relations are more important than the five explanations noted above. Rather, we argue that spatial relations are an important additional cause of rising inequality, and one that the literature largely overlooks.

Our core argument is that neighborhood and community context have important impacts on life chances over and above individual characteristics and family background. Even when we factor in individual and family characteristics such as gender, race, and family income, we discover that one's access to decent jobs, health care, and good quality food, one's exposure to environmental hazards, and one's opportunities to participate in voluntary groups, or even vote, is partly determined by the kind of place where one lives. These places do not just passively reflect our income (and tastes), as market theory would suggest, but actively shape our ability to earn income in the first place. In short, place matters.

Understanding the power of place not only helps explain income statistics, but also enables us to interpret what role they actually play in people's lives. We draw on the work of Nobel-Prize-winning economist Amartya Sen, who argues that inequality must be understood in broader terms than income or wealth. Drawing on the Aristotelian ideal of the good life, Sen argues that focusing only on income or wealth confuses the means to the good life with the good life itself. He challenges researchers to measure inequality in terms of what he calls human "functionings and capabilities." "[R]elevant functionings can vary from such elementary things as being adequately nourished, being in good health, avoiding escapable morbidity, and premature mortality, etc., to more complex achievements such as being happy, having self-respect, taking part in the life of the community, and so on" (Sen, 1992, p. 39). By capabilities, Sen means our ability to choose what activities to undertake. No matter what our functionings, a life that has more significant choices is a better life.

Sen argues that the ability of people to convert income and wealth into meaningful choices about life varies by age, race, gender, and health. A person with kidney disease cannot enjoy the same quality of life as a healthy person because of the large monetary and emotional costs of dialysis. Scholars must take such contextual factors into account when evaluating economic inequality. We think place of residence should be added to Sen's list of contextual factors. Without an analysis of spatial context, or place, no evaluation of economic inequality can be complete.

The literature on the contextual effects of place is large and growing. It seeks to measure the *impact* of economic segregation on the ability of people to meet basic

needs and its consequences for the larger society. Most quantitative studies of the contextual effects of economic segregation involve regression analysis of individual-level data in the context of the characteristics of the census tracts in which people reside. One major difficulty with this approach is that controlling for individual characteristics that are systematically related to context, such as income and education, tends to wash out the strength of contextual effects. Another difficulty is that we typically lack measures of important aspects of the context. Nonetheless, urban ethnographies and journalistic accounts—such as *Manchild in the Promised Land, Tally's Corner, Norman Street, There Are No Children Here, Amazing Grace, The Code of the Street,* and *American Project*—vividly document the costs of growing up in severely disadvantaged urban neighborhoods. At the same time, quantitative studies have shown significant negative neighborhood effects stemming from concentrated poverty—and significant positive neighborhood effects stemming from concentrated affluence. Although neither approach will necessarily persuade skeptics, we believe the evidence shows that life chances are significantly linked to place.

We synthesize literature in three areas here—jobs and income, government services, and consumer goods and services. Space limits prevent us from looking at other important topics, such as access to health care services, the quality of the physical environment (including exposure to unhealthy pollution), and the consequences of living in a high-crime area.[4] We seek to lay out what we know with certainty, as well as areas where scholarly controversies persist and further research is needed. Notwithstanding the significant gaps in our knowledge and opportunities for further research on contextual effects, we conclude that the evidence is more than sufficient to make a compelling case for policy interventions to address the problem of rising economic segregation.

THE FACTS OF ECONOMIC SEGREGATION

Measurements of economic segregation rely almost completely on the decennial censuses. The census is the only nationwide data source on where people live and work, broken down by small geographical units, such as census tracts. As we write, data from the 2000 census on income, earnings, and journeys to work is about to be released. A definitive account of the current distribution of economic classes across space must await the analysis of that data. Older census data points solidly to the conclusion that no matter what scale one examines (regions of the United States, cities versus suburbs, among suburbs, or across urban neighborhoods), economic segregation began to increase in the 1970s.[5] Although we do not examine this evidence here, a few observations will help to set the context for our subsequent discussion of the effects of economic segregation.

The concept of economic segregation has a number of different dimensions. It does not just mean that the poor live isolated from the rest of society, but that the well off and other income strata also live separately from other economic groups in society (Massey, 1996; Coulton et al., 1996; Abramson, Tobin, and Vandergoot, 1995). Moreover, the different economic strata do not just live in different neighborhoods, but in separate local political jurisdictions, particularly municipalities and school districts. Because these local jurisdictions fund and provide many important public services in the United States, economic segregation widens disparities both in the cost to taxpayers and the quality of public services. Also, competition among local governments for tax base distorts metropolitan

development, leading to geographical mismatches between where people live and where they work and shop that further exacerbate economic inequalities.

The timing and strength of changes in economic segregation in the United States each support our contention that it is an important component of growing overall inequality. Economic segregation between neighborhoods declined between 1950 and 1970 (Simkus, 1978). Throughout most of the 20th century, the economic fortunes of regions in the United States converged (Browne, 1989; Nissan and Carter, 1993; Fan and Casetti, 1994). But in the 1970s both trends reversed, at about the same time that wage rates and family incomes also began to diverge. It is also suggestive that the United States not only has the largest amount of income inequality compared to other developed countries (Gottschalk and Smeeding, 1995; Mishel, Bernstein, and Schmitt, 2001, p. 374), but that it also has the most spatial inequality, to the extent discernable by comparable data (Dreier, Mollenkopf, and Swanstrom, 2001, pp. 53–55).

JOBS AND INCOME

Economic segregation affects both people's ability to get a job and their overall level of income. Living in a concentrated poverty neighborhood undermines workforce participation primarily in two ways: (1) by accentuating the physical distance between place of residence and jobs and (2) by limiting access to networks that link people into job opportunities. (In the next section, we will examine how place of residence also affects economic success by shaping the ability of individuals to acquire various kinds of skills through locally funded public schools.)

In 1968, Harvard economist John Kain wrote a seminal article about what came to be known as the "spatial mismatch" problem. Using simple statistical techniques, Kain argued that Chicago's blacks lost 22,000–24,000 jobs because racial discrimination prevented them from following jobs as they migrated out to the suburbs (Kain, 1968). Most research on the spatial mismatch issue has focused on race, but economic segregation also produces spatial mismatches. Research by John Kasarda and others shows that urban economic restructuring has perverse consequences, with jobs and the workers who could qualify for them moving in opposite directions (Kasarda, 1983, 1985, 1989, 1995; Lang, 2000). Entry-level jobs such as manufacturing, retail, and data entry are leaving central cities and moving to the urban periphery, where rental housing is often in short supply.

At the same time, advanced corporate services jobs, such as in law and accounting, have increased in central business districts. A study of 101 metropolitan areas found that annual pay averaged 10.5 percent higher in the central city than for the same jobs located in the suburbs (U.S. Department of Housing and Urban Development, 2000, p. 2), even though the incomes of central city residents lag well behind those of suburban residents (Dreier, Mollenkopf, and Swanstrom, 2001, p. 40). Indeed, the neighborhoods surrounding central business districts (CBDs) of major American cities are often the poorest in the region, with few residents possessing the qualifications for nearby professional jobs. For young urban professionals, many of whom may have grown up in the suburbs, gentrification of historic neighborhoods around downtowns, which appears to have undergone a resurgence in the 1990s, provides one way to address the mismatch between jobs and housing (Wyly and Hammel, 1999). This has not been matched with the same kind of new housing opportunities in the suburbs for low-skilled urban workers, however.

To demonstrate a spatial mismatch, one must show not only that people are geographically separated from jobs, but also that this separation impedes success in the labor market. The best way to test for a spatial mismatch would be to conduct an experiment by comparing outcomes between a control group that stays in central city high-poverty areas distant from job centers and an experimental group, alike in all respects, who move to areas closer to jobs in middle-income suburbs. In a free society, such public policy experiments are almost impossible to perform.

Fortunately, a "natural experiment" of this type ensued after a 1976 U.S. Supreme Court decision in the case of *Hills v. Gautreaux*. Public housing residents sued the Chicago Housing Authority and the U.S. Department of Housing and Urban Development for deliberately locating public housing only in poor minority neighborhoods (Rosenbaum, 1995; Dreier and Moberg, 1996; Rubinowitz and Rosenbaum, 2000). The Court ordered the Housing Authority to give public housing tenants housing vouchers so that they could move to middle-class white neighborhoods throughout the Chicago metropolitan area. When the program ended in 1998, more than 7,000 low-income families (mostly blacks) had participated, with more than half moving to middle-income white suburbs and the rest moving to low-income, mostly black neighborhoods in Chicago. Although not perfect, *Gautreaux* represents the closest thing we have to an experimental test of the contextual effects of place.[6] Analysis of this experience shows that adults who moved to the suburbs had higher rates of employment, though not higher wages or better working hours, compared to those who remained behind in segregated low-income communities. The differences for the suburban children were more dramatic. They were "more likely to be in school, in college-track classes, in four-year colleges, employed, and in jobs with benefits and better pay" (Rubinowitz and Rosenbaum, 2000, p. 189). In the 1990s, the federal government replicated *Gautreaux* in six cities through the Moving to Opportunity program and studied the differences in results for participants and comparable nonparticipants. This study also showed important positive impacts of moving (Goering et al., 1999; Turner, Popkin, and Cunningham, 2000).

Lacking the ability to design experiments, most analysts of spatial mismatch rely on regression analysis. Controlling for a series of individual characteristics, researchers test for whether location of residence has an independent effect on success in the job market. In 1999, Keith Ihlanfeldt reviewed more than 60 such studies and concluded that the vast majority support the conclusion that physical distance from job openings has a negative effect on labor market outcomes (Ihlanfeldt, 1999; see also Ihlanfeldt and Sjoquist, 1998). This research suggests that spatial mismatches are more of an impediment for youth, minorities, and women than for other groups. Residential location explains much of the difference in employment rates between black and white youths. The effects of spatial mismatches are not just felt by racial minorities who face discrimination in housing and lending markets; less-educated whites are also affected (Ihlanfeldt, 1999, p. 222)

Finally, research shows that women suffer more from being distant from jobs than men. Women of all classes are much more likely to turn down jobs because they are too far from home or from their children's caregivers (Thompson, 1997; Wachs, 1992; Lawson, 1991). The spatial mismatch is a major stumbling block in moving welfare recipients, most of whom are women with children, into jobs. Not surprisingly, studies of recent changes in welfare policy reveal that welfare recipients who live in low-income central city neighborhoods are least likely to leave welfare and move into the labor force (Allen and Kirby, 2000; Leonard and Kennedy, 2002;. Fisher and Weber, 2002; Pugh, 1998; Katz and

Allen, 1999). Although approximately three-fourths of all welfare recipients live in central cities or rural areas, two-thirds of all new jobs are located in suburbs (Allen and Kirby, 2000). Nationwide, only one in twenty welfare recipients owns a car and mass transit is notoriously poor at delivering inner city residents to sprawled out suburban jobs. (Taylor and Ong, 1995; Blumenburg and Ong, 1998; Wachs and Taylor, 1998; Harbaugh and Smith, 1998). To further complicate things, if a welfare recipient purchases a decent car, his or her benefits may be penalized (*New Republic*, 2000).

Barbara Ehrenreich conducted a personal experiment to see if she could survive on the entry-level wages offered to an inexperienced woman worker. Her one major departure from this limit on her lifestyle was that she allowed herself a car that she did not have to pay for out of her wages. This turned out to be essential to her survival. In Key West, the only affordable housing was a 45-minute drive away from the beaches and tourist areas where the entry-level jobs were available (Ehrenreich, 2001, p. 12). A recent study of 158 metropolitan areas found that more and better public transit is significantly correlated with reduced wage inequality, after controlling for a number of confounding variables (Sanchez, 2002). This provides further evidence that the physical distance between home and work is an important barrier to labor market success, especially for low-income workers.

Besides physically separating work from home, living in a concentrated poverty neighborhood limits access to the social networks that link individuals to job opportunities. Grounded in economic sociology, this aspect of the spatial mismatch hypothesis argues that markets function most effectively when they are "embedded" in social relations (Granovetter, 1985). According to conventional economics, free markets are driven by rational utility maximizers unencumbered by attachments to groups or places. By contrast, economic sociologists hold that social trust, produced in face-to-face relations, is necessary to fair exchanges in the marketplace. Conversely, Fukuyama argues that distrust imposes a tax on market exchanges. In a distrustful society, economic actors must pay experts who negotiate, formalize, and enforce market relations (Fukuyama, 1995).

The role of trust in economic relations has been explored utilizing the concept of social capital (Coleman, 1990; Putnam with Leonardi and Nanetti, 1993; Putnam, 2000). Early on, it was shown that social networks are important to career advancement (Granovetter, 1974). More recently, social capital theorists have distinguished between bonding and bridging social capital.[7] Bonding social capital reinforces group identities through strong ties among similar people. Bridging social capital, by contrast, establishes weaker ties between insiders and different outsiders. Granovetter has observed that when seeking jobs, weak ties to distant acquaintances are more important than strong ties to immediate neighbors (Granovetter, 1972). As de Souza Briggs put it, bonding social capital is good for "getting by," but we need bridging social capital to "get ahead" (Briggs, 1998).

Social capital theory predicts that economic segregation will damage the ability of poor people to succeed economically. Physical proximity increases social interactions (Blau, 1977). If poor people live mainly with other poor people, their social networks will be confined to people who are disconnected from crucial job networks. Poor people (as well as youths, the elderly, and those with less education) do rely more on face-to-face networks that are confined to the neighborhoods where they live (Fischer, 1982; Pastor and Robinson, 1996). Ethnographic research suggests that this bonding social capital can help poor people cope with poverty (Stack, 1974; Susser, 1982), but it does not generally help them to get ahead economically.

From the viewpoint of economic sociology, it makes sense for employers to fill job openings by relying on social trust accumulated with present employees, who can guarantee the trustworthiness of their friends and relatives. In fact, research has shown that more than half of all jobs are found this way, not through want ads (O'Regan, 1993). One survey of Chicago firms reported that 40 percent did not advertise their entry-level openings in newspapers, but relied on word-of-mouth through present employees (Wilson, 1996, p. 133). Unfortunately, living in a neighborhood with many unemployed people means that your friends will be less valuable in helping you find a job, no matter how skilled, honest, or hardworking you may be. Survey research shows that jobless blacks in the inner city are more socially isolated than other groups and less likely to have even one employed friend (Wilson, 1996, p. 65). This may help explain why another study found that blacks and whites living in Atlanta had very poor knowledge of the spatial distribution of job openings in the suburbs (Ihlanfeldt, 1997).

In short, research demonstrates a strong connection between living in areas of concentrated poverty and lack of economic success. Exactly how much economic segregation costs workers will vary according to the context. One study based on census data of 11,000 male workers in Los Angeles County concluded that "moving an individual with exactly the same human capital and demographic characteristics from high-poverty Compton to the more middle-class city of Glendale would raise wages by fifteen percentage points" (Pastor et al., 2000, p. 32). In short, rising levels of concentrated poverty have exacerbated inequality by imposing structural barriers to labor market success of the poor.

Economic segregation has also made economic inequality more entrenched, with families mired in poverty from one generation to the next. The United States has always prided itself on having a fluid class structure. Since the 1960s, however, economic mobility in the United States has declined (Mishel, Bernstein, and Schmitt, 2001, pp. 77–79; Bernstein, 1996). One study found that poor people in the United States had the lowest "escape rate" out of poverty of the six industrialized countries studied (Oxley, Dang, and Antolin, 1999, as cited in Mishel, Bernstein, and Schmitt, 2001). Economists have constructed models showing how economic segregation can lead to persistent economic inequalities across generations (Durlauf, 1996, 1998; Benabou, 2000). The key link in these models is the perpetuation of educational inequalities generated through the local funding of education in the United States.

PUBLIC SERVICES

The quality of public services varies widely within metropolitan areas, due primarily to the great variation in fiscal capacity across wealthy and poor municipalities. Though Americans take this reality for granted, it has resulted from three highly unusual facets of the U.S. political system. First, metropolitan areas are highly politically fragmented. The 315 metropolitan areas in the United States in 1992 had an average of 104 general-purpose governments, not counting school districts and special authorities (Stephens and Wikstrom, 2000, p. 19). Metropolitan Chicago had more than 1,400 governmental jurisdictions, Philadelphia 877, and Houston 790 (Altshuler et al., 1999, p. 23). Second, local governments must raise most of the revenues to support public services from local sources, primarily real estate taxes. Higher levels of government, particularly the federal government, provide only limited support for local municipalities, mostly state funding for local public education. Third, local governments have considerable autonomy over land use

and zoning. The interaction of these three factors produces a competition among local jurisdictions to attract high-value real estate investments and shed "expensive" residents, especially those whose income (and property values) are below the median. Every other major democracy in Europe and Canada provides more central government financing for local public services and exercises more national control over land use than does the United States.

The "beggar-thy-neighbor" competition in the United States is therefore extreme (Anderson and Wassmer, 2000; Orfield, 2002; Rusk, 1999). Each jurisdiction has a strong incentive to adopt zoning and development policies that exclude potential low-income, high-need residents. This system encourages better-off residents to view these people as "free riders" who do not pay enough taxes for the services they use. It provides a rationale for discriminatory practices in the rental, sales, and financing of housing. Similarly, each jurisdiction seeks new land uses that will pay more taxes than the costs of the services they will require. These practices may be rational from a short-term fiscal viewpoint, but they tend to defeat long-term, metropolitanwide efficiency and equity (Katz, 2000; Greenstein and Wiewel, 2000). As the federal and state governments devolve more responsibilities to local government, the dynamic of local political fragmentation and competition will become an even stronger propellant of economic segregation and suburban sprawl.

Most city governments are perched on the brink of fiscal distress. In the past decade, more suburbs—primarily older, inner-ring suburbs populated by working-class residents and with a limited commercial and industrial tax base—have joined them (Lucy and Phillips, 2000, 2001; Orfield, 2001; McCarron, 1998). Local governments must be prudent in not overtaxing local economic activities, and these revenues fluctuate with local economic conditions. But demand for local services and expenditures tends to be inexorable and difficult to control (as in the case of the local share of Medicaid expenditures). As a result, even economically successful cities face chronic difficulty balancing their budgets.

In 1996, local governments spent $794 billion, or 26 percent of all government spending in the United States (U.S. Bureau of the Census, 2000, p. 301). They provide and finance the services that Americans use on a daily basis. As Lineberry noted, they are "vital to the preservation of life (police, fire, sanitation, public health), liberty (police, courts, prosecutors), property (zoning, planning, taxing), and public enlightenment (schools, libraries)" (Lineberry, 1974, p. 10). Cities cover most of the cost of providing these services through whatever they can raise from property, sales, and income taxes; fines; fees; and other sources. Because of the competition among localities in the same metropolitan area, however, localities are reluctant to raise taxes or fees, fearing an exodus of businesses, well-off residents, and shoppers.

In comparing cities' fiscal capacities, Ladd and Yinger found a significant gap between their ability to raise revenue and what it cost them to provide average-quality basic services. The typical American city had poor "fiscal health" (Ladd and Yinger, 1989, p. 9). Although some cities are better managed than others and some suffer from corruption, these factors do not explain urban fiscal stress. As Ladd and Yinger explain, "[a]lthough the financial difficulties of these cities may be exacerbated by politics or management practices ... the policy tools available to city officials are weak compared to the impact on city finances of national economic, social, and fiscal trends" (Ladd and Yinger, 1989, p. 292).

Urban fiscal conditions improved as the nation's economy boomed in the late 1990s. Urban poverty finally began to decline, residents' incomes rose, and businesses prospered (U.S. Department of Housing and Urban Development, 2000). But cities still could not

raise enough revenue to provide everyone with good schools, public safety, and rehabilitated infrastructure, or to compensate their employees at rates that kept up with inflation, much less to lift the incomes of the poor. Their improved bond ratings masked the deeper reality that many cities had already tightened their belts and lowered residents' expectations during the downturns of the mid-1970s, early 1980s, and early 1990s. They closed public hospitals; reduced library hours; deferred maintenance on aging sewers, playgrounds, and parks; and reduced the numbers of public employees. If many cities were able to live within their means in the late 1990s, it is because they attempted to do less than they had in earlier years, especially in addressing the needs of the poor. In early 2000, cities and the nation once more entered a recession, with renewed fiscal difficulty.

The net result of the last several decades is that not only do the well-off live apart from the poor, but they receive strikingly different public services because the poor live in places that lack fiscal capacity, while the rich live in places that can fund high-quality services at relatively low tax rates. In one extreme case, Camden, New Jersey, where almost half the 85,000 residents live in poverty, the city cannot provide even minimal services despite punishingly high tax rates (Hill and Nowack, 2000; Smith, Caris, and Wyly, 2001). Meanwhile, residents of nearby wealthy suburbs receive much better services while paying lower tax rates. Urban disinvestment left central city per capita incomes lower than those of suburbanites in almost every metropolitan area. It also lowered the tax base as the average level of need among city residents was rising. "To compensate, the city must increase tax rates or reduce public spending, further convincing middle-class residents to leave" (Chernick and Reschovsky, 2000, p. 6).

Most cities are still vital centers of culture, entertainment, and other key services within their metropolitan areas. Suburbanites and tourists flock to central city restaurants, museums, sports complexes, concert halls, theaters, and convention centers, as well as to hospitals and universities. But many of these institutions, in particular the nonprofit ones, often do not directly generate tax revenue. One-third of New York City's property is exempt from real estate taxes, compared with 13 percent in suburban Nassau County and 22 percent in suburban Westchester County (Chernick and Reschovsky, 2000, p. 6). Nor can municipal governments generally tax the incomes of high-earning suburban individuals who commute to jobs in central city corporate service firms. Businesses often threaten to downsize or move from cities that adopt "commuter" taxes; in metropolitan areas with multiple local governments, most public officials are reluctant to test whether such businesses are bluffing.

Cities also have broader service responsibilities than do most suburbs. The federal and state governments and courts have mandated that cities provide many services without simultaneously providing the funds necessary to carry them out (MacManus, 1990; Zimmerman, 1990; Pagano, 1990; Kelly, 1992; Conlan and Beam, 1992; U.S. General Accounting Office, 1992; U.S. Advisory Commission on Intergovernmental Relations, 1992). In 1992, Chicago officials estimated that the city would spend more than $95 million that year for capital improvements required by federal and state environmental mandates. Atlanta had to borrow $400 million in the early 1990s to comply with federal clean water mandates (U.S. Conference of Mayors and Price Waterhouse, 1993).

Many of the new social problems of the 1980s, including homelessness, AIDS, crack cocaine use, and violent crime, were concentrated in cities, some of which persisted into the 1990s, exacerbated by the deepening shortage of affordable housing, especially in cities and older suburbs (Joint Center for Housing Studies, 2002; U.S. Department of Housing

and Urban Development, 2000; Bipartisan Millennial Housing Commission, 2002). Local governments did not create these problems, but they have to deal with them. Moreover, cities are also high-cost environments in which to provide services. Even when cities spend the same dollar amounts on public services as the better-off suburbs, they cannot provide their residents with the same quality of services. Treating places with different underlying capacities and needs the same way can reinforce overall patterns of inequality.

For example, jurisdictions with many poor and near-poor residents typically have older, lower-quality housing. Older buildings require more frequent inspections and more rigorous enforcement. Jurisdictions with this sort of housing must commit more resources to inspections in order to achieve the same level of safety expected in middle-class areas. In Los Angeles, where almost one out of six apartments is a substandard slum, the city has a huge backlog of inspections (Kondo, 2000). Similarly, police sometimes refuse to patrol dangerous public housing projects. Such neighborhoods need more resources to achieve the same outcomes that fewer resources can achieve in better-off areas.

This same logic holds for cities and metropolitan regions. The differences *between* governments, not *within* governments, generate the most glaring inequalities. Central cities and inner-ring suburban municipalities often have to spend more to maintain service levels below those of affluent suburbs, yet the median income of their taxpayers is lower. The fact that large central city governments spend more per capita than do middle-class suburbs is often taken as a sign of their corruption or inefficiency or that they are spending on the undeserving poor (Simon, 1979; Hayward, 1998; Moore and Stansel, 1993; Siegel, 1997). In fact, it is largely a matter of greater need (Ladd and Yinger, 1989; Downs, 1994).

Not surprisingly, cities with many poor people spend more on anti-poverty functions. But cities with high poverty rates also spend more on nonpoverty-related services such as police, fire, courts, and general administrative functions. For every one-point increase in the poverty rate, cities spent $27.75 per capita more on nonpoverty-related services (Pack, 1998). This suggests that concentrated poverty carries a substantial fiscal burden. Moreover, these expenditures typically do not achieve the same results in public security or educational achievement as their suburban counterparts. To add insult to injury, these citizens are forced to pay more of their income in taxes (Sacher, 1993).

Suburbanization also drives up the cost of central city services because suburbanites use central city services without contributing tax revenues to support them (Judd and Swanstrom, 2002, p. 308). Even when they do, they rarely pay the actual cost. Sprawl also reduces the efficiency of central city public services because it is more costly to serve depopulating areas. Urban decline has reduced the population density in most areas of concentrated poverty (Jargowsky, 1997, p. 36). Cleveland's population fell from 915,000 people in 1950 to less than 500,000 today. Even though it has 400,000 fewer people, and they are poorer, the city has to maintain the same number of miles of streets, sewers, and water lines.

Many inner-ring suburbs have similar problems in providing local services, without the benefit of downtown commercial properties that generate tax revenue. Orfield notes that 59 Chicago suburban municipalities had a lower tax base per household than did Chicago, which was itself considerably below the regional average (Orfield, 1997, p. 162). If the average fiscal capacity of regional governments were scored 100, the city of Chicago (at 87) would be 13 percent below average, but the inner-ring suburb of Maywood would score 54, and North Chicago would score 60. At the other extreme, Winnetka would score 207 and Lake Forest 266 (Rafuse, 1991, pp. 14–19).

Public education is probably the most important service provided by local governments. It certainly absorbs the most resources. Public education in the United States is run by 13,726 independent school districts (U.S. Bureau of the Census, 2000, p. 299). Their revenue capacities vary tremendously. In 1973, the Supreme Court ruled, in *San Antonio v Rodriguez*, that the U.S. Constitution does not guarantee education as a fundamental right, and therefore it does not fall under the Fourteenth Amendment's equal protection clause. Eighteen state courts have ruled that fiscal inequalities across school districts do violate state constitutions and have ordered action to reduce them. State equalization grants have lessened the gap in spending between the richest and poorest districts in many states, but expenditures per pupil still vary significantly. In 1997, per pupil expenditures varied from $8,171 in New York City to $12,492 in suburban Nassau County and $12,760 in suburban Westchester County (New York State Education Department, 1999).

As with other public services, the same resources will not produce equal educational outcomes across districts because poor districts have more social disadvantage. State aid only addresses fiscal disparities, not social disadvantages. Wong estimates that only 8 percent of state aid to local school districts is specifically targeted for the socially disadvantaged (Wong, 1999, p. 12). Many have concluded that schools simply reproduce the class inequalities that are present in American society. Children from poor families typically have lower academic performance than do those from middle- and upper-class families. This has nothing to do with their intelligence but much to do with the social conditions that handicap their ability to learn, which are worst when they live in concentrated poverty neighborhoods (Traub, 2000; Hanushek, 1996; Rothstein, 1998). Poor children move frequently and poor neighborhoods have less stability (Briggs, 1997). Of those children living in families with incomes below $10,000 a year, more than 30 percent have attended three or more different schools by the third grade (U.S. General Accounting Office, 1994). Poor children are more likely to be malnourished and to come to school tired and are less likely to have books at home and parents who read with them. High crime levels in poor neighborhoods lead mothers to keep children inside for their safety and to send them to worse nearby schools rather than have them travel farther to magnet programs.

Equalizing the quality of all public services, particularly education, across these different types of metropolitan jurisdictions would have profound implications. Confronted with the structural disparity between their revenue and their needs and unable to bridge the gap through regional tax sharing, cities have typically looked to federal and state governments for fiscal help. All urban leaders, regardless of political party or ideology, want more state and federal resources. But cities are in a weaker political position than they were even a few decades ago. When the federal government was at its most generous in the 1970s, it filled only part of the gap. Since then, federal aid to cities has dropped dramatically, from 15 percent of municipal revenue in 1978 to less than 3 percent today. State aid did not make up the difference (Kincaid, 1999, p. 136). As a result, locally generated revenue now makes up 70 percent of city budgets (U.S. Bureau of the Census, 2000, p. 13). "Fend-for-yourself federalism" has exacerbated the fiscal stresses and disparities that lead to unequal public services (Swartz and Peck, 1990; Hill, 1990).

Proponents of the "free market"—including advocates of public choice theory—celebrate this situation. They view local political competition as creating a marketplace for public services parallel to the market for private goods and services. In this view, consumer choice promotes efficient and effective allocation of resources. Just as shoppers can choose from many brands of toothpaste or television sets, they should be able to choose

from a wide array of cities and suburbs, each providing a distinct bundle of amenities and services at a distinct tax price. For public choice theorists, choosing a detergent and choosing a local government have much in common: "Individual choices differ for public goods and services as well as for private. Some consumers want more freeways; others want a rapid transit system instead. Some prefer local parks; others, larger private backyards" (Bish and Warren, 1972, p. 99). Public choice theorists view the competition among local jurisdictions as creating an efficient and responsive market for public services (although interference by government bureaucrats and other special interests distort the marketplace) (Tiebout, 1956; Ostrom, Tiebout, and Warren, 1961; Ostrom, Bish, and Ostrom, 1988; Peterson, 1981; Schneider, 1989; Stephens and Wikstrom, 2000).

Public choice theory justifies economic segregation on the grounds that people with similar tastes for public goods and a similar ability to pay for them will naturally settle in local government jurisdictions that provide those goods. According to Warren, public choice theory "assumes that a metropolitan area is composed of diverse communities of interests which are territorially distinct from one another and which have different preferences for goods and services in the public sector" (Warren, 1964, pp. 198–199).

The public choice perspective has two major flaws. First, it assumes that markets are actually "free" of government influence. Although people do make real choices among alternatives in housing, business location, and other markets, government policies shape every aspect of how they make those choices and what they have to choose from. Indeed, government establishes the regulatory and legal framework that makes it possible for markets to function at all. Markets therefore cannot be isolated from government, public policy, and politics. The "free market" is an abstraction, not a reality. In his celebration of outer-ring suburbs, which he calls "edge cities," Garreau (1991) hardly acknowledges that edge cities have grown up around and depend entirely on publicly funded highways and, in some cases, airports and other government facilities. Local governments compete with each other to attract desirable residents and investments (and to keep out unwanted facilities), but the rules of the game under which they do so are neither free nor fair. These rules do not give all places an equal chance to succeed. In fact, most federal and state policies—including transportation, tax, housing, and even the siting of defense facilities and contracts—are strongly biased away from central cities and toward suburban jurisdictions (Dreier, Mollenkopf, and Swanstrom, 2001, pp. 92–132).

The second major flaw is that public choice theory seems to work better for middle-class homeowners than for the inner-city poor. It ignores the features of society that constrain or empower people's ability to choose. Most obviously, people with fewer means (or the wrong skin color) have a highly constricted range of choice. The market not only fails people who live in poverty; it punishes them through the negative effects of concentrated poverty.

RETAIL SERVICES

Surprisingly, the best prices for groceries in metropolitan areas are not found in run-down, dingy inner-city stores but at massive, gleaming supermarkets in the suburbs. Not only do these suburban stores offer lower prices, they also offer many more selections and fresher foods. The basic reason for the difference between the two locations is clear: since almost every household in the suburbs has at least one car, shoppers compare prices in many competing stores, each of which applies the latest technology to remain competitive. In

the inner city, on the other hand, many households, lacking a car, are forced to shop in local grocery stores, which, lacking high volume, tend to be technologically backward and less efficient. The situation in groceries is mirrored across the retail sector: retail services are inferior and more expensive for those who live in areas of concentrated poverty in central cities and inner-ring suburbs compared to other parts of the metropolitan area.

Economics 101 teaches us that supply meets demand. The retail sector of major metropolitan areas often violates this truism. Even taking into account reduced consumer spending per household, areas of concentrated poverty have an undersupply of retail outlets—grocery stories, banks, pharmacies, and so forth—and areas of concentrated wealth have an oversupply. One study of retailing in 100 zip codes (averaging 15,000 in population) in seven Ohio cities found a consistent pattern: the number of stores per capita in 10 retail categories fell as the poverty rate rose. Department stores disappeared entirely in the poorest zip codes. Even more revealing, the ratio of retail employees to the population in poor neighborhoods fell even faster than the number of stores (Bingham and Zhang, 1997). In other words, poor central areas export shoppers, and rich outlying areas import shoppers.

This was not always the case. Cities used to be shopping magnets, attracting consumers from miles around. Until the 1950s, most American cities drew people downtown to shop at department stores and farmers' markets. The automobile gradually freed shopping from its central location and central city retail was slowly "malled" to death. Now more city residents travel to the suburbs to shop than vice versa. A 1999 federal government study documented that many central cities have huge "retail gaps" between the purchasing power of their residents and total retail sales in the city. Famous for its shopping, New York City had an astounding $37.1 billion retail gap. City residents must travel to Long Island or Westchester to make many basic purchases. The retail gap was $9.9 billion for Chicago, $5.4 billion for Los Angeles, $3.9 billion for San Jose, and $2.8 billion for Washington, DC. When researchers looked at smaller geographic areas, they found even more problematic imbalances between supply and demand. Forty-eight inner-city zip codes were found to suffer an $8.7 billion retail gap, with many suffering from unmet retail demand of 50 percent or more (U.S. Department of Housing and Urban Development, 1999b).

Food prices are higher in areas of concentrated poverty. Michael Porter of the Harvard Business School argues that corporations have overlooked profitable opportunities in cities: "At a time when most other markets are saturated, inner city markets remain poorly served" (Porter, 1995, p. 58). Porter suggests that if governments simply educated entrepreneurs about the opportunities, the retail sector would blossom in the inner city. It is certainly true that profitable opportunities are being overlooked. The central Newark Pathmark is now one of the highest grossing in the nation, but NCC had to assemble a complicated deal involving eight different public and foundation subsidies in order to get Pathmark to locate in that neighborhood (*Hearings Before the Select Committee on Hunger*, 1992, p. 185).

Unfortunately, the evidence suggests that the problem is rooted more deeply in the environment of concentrated poverty. The main reason why the poor pay more is that different types of stores serve poor neighborhoods than serve well-to-do suburbs. Large, efficient supermarkets serve the suburbs. They are marvels of modern retailing, typically offering over 12,000 separate items and operating on a high volume that enables them to prosper with profit margins of less than 1 percent of sales. They buy in bulk and apply the latest technology, including automated just-on-time inventory systems.

Central cities are losing their large supermarkets. Between 1970 and 1992, Boston lost 34 out of 50 big-chain supermarkets. The number of supermarkets in Los Angeles County fell from 1,068 to 694 between 1970 and 1990. Chicago did worse, losing half its supermarkets (Turque, 1992). One study found that supermarkets with more than 50 employees were nonexistent in the poorest zip codes: "Ghetto residents simply do not have access to chain supermarkets" (Bingham and Zhang, 1997, p. 786).

Why don't modern, efficient supermarkets serve low-income areas? The costs of doing business, including insurance, theft, parking, and land assembly, are indeed higher in poor neighborhoods than in suburbs, but these costs are not the main problem. The main problem is that population densities and rates of car ownership in low-income areas do not generate the required volume of customers. As Adam Smith observed in *The Wealth of Nations*, the division of labor depends on the size of the market. The smaller markets for groceries generated by areas of concentrated poverty are not sufficient to support the modern, specialized, high-volume supermarket. Therefore, areas of concentrated poverty are serviced by small, technologically backward mom-and-pop stores that charge higher prices. The problem cannot be solved until the segregation of the poor is addressed.

The pattern of a two-tiered retail sector, a high-quality, low-price one for well-to-do areas and the opposite for poor areas, is a pattern found throughout the retail sector in American metropolitan areas. One of the best-researched areas is banking. The evidence on redlining by banks and insurance companies is substantial.[8] Residents in low-income areas, especially those with many black and Latino residents, are more likely to be rejected for mortgages, even when they have the necessary income to qualify for them and for homeowner insurance. In many areas of concentrated poverty banks have pulled out entirely, and these areas also suffer from a severe shortage of home insurance agencies (Caskey, 1994a; Munnell et al., 1996; Joint Center for Housing Studies, 2002; Squires, 1997; Squires and O'Connor, 2001). Children in poor neighborhoods grow up not even knowing what the inside of a bank looks like, reinforcing the isolation of low-income families from the economic mainstream. Fringe banking institutions, such as check-cashing operations and pawnbrokers, have rushed in to fill the vacuum in low-income central city and inner-suburban areas (Caskey, 1994b). Check-cashing outlets charge 1.5–2.5 percent to cash a payroll check and pawnshops often charge 200 percent per year for a loan (Caskey, 1994b). In effect, these practices act like a tax on poor people's incomes, lowering them in ways that do not show up in the official income statistics.

ECONOMIC SEGREGATION AS A PUBLIC POLICY ISSUE

Economic segregation is a fact of life, or so it seems. The rich will always distance themselves from the poor in societies with private housing markets. Putting physical distance between oneself and those who are of lower status, primarily the poor and minorities, enhances one's social status, perhaps especially in the United States, where, besides race, fewer outward signs demarcate rank or status. Although many people can afford an expensive suit or fancy car, only a few families can afford to live in exclusive enclaves—whether the Hamptons on Long Island, Ladue in the suburbs west of St. Louis, or Beverly Hills. Living far from the poor is one way of signaling that you have "made it" in American society. In fact, a 1994 a survey by *Town and Country* found that 60 percent of those making more than $400,000

a year felt it was important to live in an exclusive neighborhood (reported in Blakely and Snyder, 1997, p. 76).

Those who defend economic segregation generally see it as an expression of free choice. According to this view, neighborhood composition is determined by a sequential process of bidding in the marketplace. If the rich outbid the poor for a parcel of land, then the rich get to live there. Neighborhood residence is a reflection of one's economic success. Poor families are more likely than the middle class or the wealthy to live in high-poverty neighborhoods. Presumably, under free markets, all the disadvantages discussed above will be reflected in lower land values. Thus, if a neighborhood is distant from jobs and shopping and has poor public services and schools, this will be accurately reflected in land prices. According to this view, people who live in the neighborhood will pay very much lower rents. If the housing market is in equilibrium, then all the utility differences between parcels of land will be eliminated. Everybody, rich and poor, will basically get what they pay for.[9]

In an article attacking the *Gautreaux* experiment, Rockwell reflects this free-market perspective. He argues that "markets mean choice, and with choice comes sorting. People tend to choose to work, socialize, and live with others in their own social, religious, cultural, and economic group. There's nothing wrong with that." He calls segregation "a natural pattern, a product of rational choice," which "makes possible strong communities" (Rockwell, 1994). According to a report for the Heritage Foundation by Howard Husock, sorting people by social rank upholds justice and morality. Those who work hard, defer pleasure, and save to get ahead are able to move into good neighborhoods. Those who lack these virtues are forced to live in bad neighborhoods. The threat of having to live in areas of concentrated poverty, with all the costs we discuss above, provides a constant prod to hard work and good values. For the government to step in and subsidize low-income housing in middle-class neighborhoods, Husock says, gives the poor "an ill-gotten gain," a "reward not commensurate with accomplishment" (Husock, 1991).

From the free market perspective, then, there are many reasons to question whether public policy should even try to address the issue of economic segregation. We may frown on status seeking and deplore the conditions in poor neighborhoods, but if residential sorting is basically the product of consumer choice, then government should not tamper with it. Economic class is not a "suspect classification," like race or religion. It is unconstitutional for local governments to intentionally segregate minorities, but the courts have generally upheld their right to discriminate against people on the basis of incomes (Judd and Swanstrom, 2002, ch. 10). Just as no one has a right to own a Mercedes Benz, no one has a right to live in a privileged neighborhood.

We believe this view is fundamentally wrong. The argument for affirmative policies to address economic segregation has a number of different dimensions.

First, public policies promote economic segregation. Contrary to the contention of free market conservatives that the government has unfairly pushed for economic integration, the overwhelming weight of government policies at the federal, state, and local level has in fact favored economic segregation. These policies range from the interstate highway system, to home mortgage deductions, to the way states have organized local governments, to the zoning decisions of local governments.[10] Government policies have driven "excessive" economic segregation that cannot be justified by free market economics (Dreier, Mollenkopf, and Swanstrom, 2001).

Second, economic segregation creates extensive ripple effects, or negative externalities. From the viewpoint of the individual household, it is certainly rational to move

into an exclusive suburban enclave. From society's viewpoint, however, economic segregation imposes large costs on the general public. Perhaps the biggest negative externality is suburban sprawl. The problems associated with growing concentrations of poor people, especially crime and poor schools, drive households to move further and further out into the suburbs.[11] This creates inefficient land use patterns and requires the building of massive new infrastructure at the same time that central city and inner-ring suburban infrastructure is being abandoned. It also exacerbates traffic congestion, pollution, the time spent traveling from home to work, and the social and family consequences of long-distance commuting. Another negative externality of economic segregation is school performance. According to a recent study of St. Louis area public schools, two-thirds of the variation of test scores on the Missouri Assessment Program (MAP) can be explained by the percentage of students on subsidized lunches (LaFleur and Hacker, 2002). Reducing economic segregation could boost overall student achievement without spending a single additional dollar on public education (Benabou, 2000; Durlauf, 1996).

Third, economic segregation undermines equal opportunity: Even if addressing economic segregation did not make society more efficient, it would still be a way of achieving equal opportunity, or social equity. Far from upholding justice and morality, as many free market conservatives maintain, economic segregation violates the fundamental American value of equal opportunity. We have argued that economic segregation significantly promotes economic inequality in the United States. The places we live not only reflect our incomes, they help to determine those incomes. Concentrated poverty not only limits people's earnings potential, it limits the quality of life that people can enjoy, whether through public services or private goods. Concentrated poverty imposes other burdens that are impossible to quantify, including exposure to crime, unhealthy environments, heightened stress, and general alienation from society.

Fourth, economic segregation damages democracy. Tocqueville said that "[a] nation may establish a system of free government, but without the spirit of municipal institutions it cannot have the spirit of liberty" (Tocqueville, 1961, p. 55). Economic segregation saps the spirit of municipal institutions. It not only severs economic and social ties between economic classes, it also severs political ties. Economic segregation short-circuits the messy but crucial process of political accommodation and compromise between economic classes. The spread-out nature of suburbs also undermines the sociability that is so directly connected to a healthy civil society. As Putnam noted, "each additional ten minutes in daily commuting time cuts involvement in community affairs by 10 percent" (Putnam, 2000, p. 213). People who cannot drive are remarkably isolated, whether in cities or suburbs, making it difficult for them to participate in community activities, union meetings, or any other form of civic engagement. Those who drive are unlikely to have the kind of chance meetings made possible by the front stoop or sidewalk. As Jane Jacobs put it, "[l]owly, unpurposeful and random as they may appear, sidewalk contacts are the small change from which a city's wealth of public life may grow" (Jacobs, 1961, p. 72).

The political consequences of economic segregation are significant. Economic segregation makes it easier to isolate people with similar economic and social backgrounds in the same legislative districts. As suburbs and cities become more economically homogeneous, and legislative districts more "safe," politics becomes more boring and predictable, driving down levels of civic engagement, including voting (Oliver, 1999, 2001). The urban share of the actual electorate is smaller than the urban share of eligible voters, partly because of economic segregation (Nardulli, Dalager, and Greco, 1996; Gainsborough, 2001; Sauerzopf and Swanstrom, 1999). The voice of cities in state legislatures and in Congress has become increasingly weaker as the number of congresspersons and state legislators from urban districts has declined more rapidly than their overall population (Wolman and Marckini, 1998; Weir, 1996). Moreover, economic segregation undermines party competition within legislative districts and especially within central cities. This results in entrenched incumbents and political machines with few incentives to mobilize new groups of voters or develop new issue appeals.

Some scholars have concluded that the evidence for the negative contextual effects of concentrated poverty—and, by extension, economic segregation—is "at best equivocal" (Jargowsky, 2002, p. 443), and therefore the justification for public policy interventions is weak (Jencks and Mayer, 1990; Galster and Zobel, 1998).[12] But when the outcomes examined move from problematic individual behaviors to the broader issues of unequal access and cost examined here, we believe the evidence for the impact of contextual effects is overwhelming. To call for more research is simply an excuse for tolerating the status quo. Indeed, we think urban researchers have a duty to communicate to policy elites and the public the evidence about how place shapes people's lives. Americans tend to believe that each individual is captain of his or her own ship. Advances in technology have fostered the illusion that we have somehow conquered space and that where we live does not matter much anymore. Awareness of the power of place, especially the negative effects of economic segregation, has the potential to alter the agenda of American politics.

Elsewhere we outline a policy agenda and political strategy for addressing the problems of economic segregation at the federal, state, and local levels, with particular emphasis on finding common ground between cities and older suburbs, the poor and the middle class (Dreier, Mollenkopf, and Swanstrom, 2001; see also Orfield, 2002; Rusk, 1999). Key elements of this strategy include creating new frameworks for metropolitan politics, removing as many of the factors that promote local fiscal competition as possible, promoting geographic mobility of the poor out of central cities and into suburbs, continued efforts to improve and diversify inner-city neighborhoods, and encouraging urban political forces, be they political parties, trade unions, or community organizations, to adopt a more metropolitan perspective in their work. We believe such an agenda is realistic, but only if key actors—labor unions, community organizations, some civic and business leaders, local government officials, and others—rethink existing approaches.

Americans believe in equal opportunity. Economic segregation violates that bedrock value. We believe that where people live in relationship to jobs and other opportunities, including education, is an important cause of rising economic inequality in the present period. Moreover, place accentuates inequalities in ways that are not captured by economic statistics. Liberal democracies can tolerate a great deal of economic inequality, but they cannot tolerate the combining of economic, political, and social inequalities into a vicious circle of rising inequality. This is exactly what we believe is happening in American metropolitan areas.

A "secession of the successful," as Robert Reich put it, threatens a central pillar of American democracy: the belief that we are all basically in the same boat (Reich, 1992). In a metropolitan landscape characterized by economic segregation and sprawl, a rising tide does *not* lift all boats. In what is arguably the most prosperous economy ever on the face of the earth, many places (and the people who live in them) are being left behind. Not only are places becoming economically isolated from the mainstream; they are becoming politically cut off as well. The flight to the suburban fringe does not just sever social relations; it

also severs political relations. Never before have economic classes sorted themselves into separate governments the way they have in the United States today. The result is a bland politics at the local level that short-circuits the normal processes of political conflict and compromise and undermines civic participation in both cities and suburbs. Stereotypes and mistrust thrive in such an environment, depleting precious stores of social trust that are necessary for democracy to function effectively. The revival of American democracy requires us to address these matters. We all have a stake in this.

Notes

[1]For a fuller treatment of the issues addressed in this article, see Dreier, Mollenkopf, and Swanstrom, 2001.

[2]Census income data seriously understates income inequality, mainly because it does not include sources of income for the wealthy. Reporting pretax income, census data also does not reflect the significant decline in recent years of taxes on the wealthy (Johnston, 2002). For recent data on rising wealth inequality, see Wolff, 2000, 2002.

[3]Two exceptions are Janice Madden, 2000, and a Special Issue on Earnings Inequality of the *New England Economic Review* (Federal Reserve Bank of Boston), May–June 1996.

[4]In *Place Matters* we also examine the effects of place on health, environment, and safety.

[5]For a synthesis of the evidence on economic segregation at various geographical scales in the United States, see Dreier, Mollenkopf, and Swanstrom, 2001, ch. 2. Evidence on divergence in regional economic well-being is found in Browne, 1989; Phillips, 1992; Fan and Casetti, 1994; and Drennan, Tobier, and Lewis, 1996. The best source on economic segregation by neighborhoods or census tracts is Jargowsky, 1996. For data on economic segregation among suburbs, see Lucy and Phillips, 2000, and Orfield, 2002.

[6]Households were not randomly assigned to the control and experimental groups. Because they had to voluntarily pursue admission, participants may not represent a random sample of public housing tenants. But their assignment to city or suburban locations was on a first-come, first-served basis, determined by the availability of units. As a result, "the city and suburban groups were highly comparable" (Rubinowitz and Rosenbaum, 2000, p. 77).

[7]Robert Putnam attributes this distinction to Gittell and Vidal, 1998, p. 8 (Putnam, 2000, p. 446).

[8]The literature on redlining is voluminous. For a summary of this literature, see U.S. Department of Housing and Urban Development, 1999.

[9]For the free market theory of the capitalization of utility differences in land values, see Mills and Hamilton, 1989, esp. p. 316.

[10]For a synthesis of the evidence on this important question, see Dreier, Mollenkopf, and Swanstrom, 2001, ch. 4.

[11]William Fischel estimates that about 25 percent of suburbanization is motivated by "push" factors that cannot be accounted for by market variables such as changing consumer preferences and technology (Fischel, 1999, p. 161). We believe this estimate is conservative.

[12]With regard to whether neighborhood context shapes problematic behaviors, such as teen pregnancy or dropping out of school, the evidence is mixed, even though the preponderance of the evidence, we believe, points in the direction of significant contextual effects.

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