People or Place?

REVISITING THE WHO VERSUS THE WHERE OF URBAN DEVELOPMENT

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The Dudley Street Neighborhood Initiative in Boston works with various partners to convert former vacant lots into affordable housing.

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One of the longest standing debates in community economic development is between "place-based" and "people-based" approaches to combating poverty, housing affordability, chronic unemployment, and community decline. Should help go to distressed places or distressed people?

The question is not an easy one to answer. Poverty and unemployment are often spatially concentrated—whether in the large declining areas of a Detroit or a Buffalo, or a few blocks of small underperforming neighborhoods in otherwise economically healthy metropolitan economies. Marked by low incomes, high social service demands, deteriorating housing stock, and high unemployment rates, these places often have inadequate infrastructure and public services, failing schools, and few jobs matching the skills of residents.

The most direct step toward helping their residents would seem to be by rescuing these places, and indeed that is the focus of most economic development programs. Consider the popularity of enterprise zones, redevelopment projects, and tax increment finance districts, which target investments, job training subsidies, and tax breaks to residents and employers who locate in specific neighborhoods.

Education, safety, health, and inclusionary zoning programs also often restrict eligibility to families living in certain places. Public money frequently underwrites sports stadiums, convention centers, or large commercial districts in struggling neighborhoods (or cities), in the hope they will spur job growth and revitalization. When elected leaders and redevelopment agency staff talk of rebuilding New Orleans, resurrecting Detroit, or revitalizing downtown Buffalo, they have place-based strategies in mind.

Yet despite their prevalence and appeal, many researchers consider place-based programs wasteful and counterproductive. They argue that such strategies are too blunt and indirect at best, and at worst can be seen as ill-conceived bribes to force the poor to stay in poor places. By contrast, these scholars believe that so-called people-based aid—which is not limited to particular places, but rather is based on other personal circumstances—is less wasteful and better targeted, and allows residents of disadvantaged areas to move, if they prefer, to better opportunities without losing program eligibility. Instead of requiring people to stay in distressed areas to get help, these critics ask, why not just help them directly?

Reframing the Debate

That version of the people versus place debate is both incomplete and misleading (see Crane and Manville 2008). In particular, it plays down the dual nature of community economic development. One development challenge, concerned mainly with labor and housing market failures, is fundamentally redistributional in nature; another, less well articulated in the literature, concerns the provision of common community goods.

Problem 1 = Individual Poverty

In one set of community development problems, individuals lack adequate private resources such as food, job skills, jobs, inexpensive transportation, affordable housing, or adequate income. The most direct remedy in these instances is to provide resources through transfer payments. The design of these transfers to account for incentive problems—on both the supply and demand sides—is clearly essential. But another key question is whether transfer design should have a geographic component: Should we simply give poor people money or housing vouchers, or should we also, for example, locate new facilities in their neighborhoods, or try to induce more development where poor people live?

Among academics, and especially among economists, the usual answer is to avoid place-based strategies. Place conditions may have a role in locating and identifying concentrated poverty or unemployment, but they too often add more costs than benefits, especially if the intended purpose of a policy is to increase the incomes of the disadvantaged. Perhaps most obviously, the benefits of place-specific investments accrue primarily to landowners. If landowners are not the intended recipients—and often they are not, since they frequently are not poor—then the place-based program is an inaccurate instrument for redistribution.

In addition, place strategies define beneficiaries spatially, often arbitrarily so, and they discourage movement out of distressed areas by people who might be well served by moving to a different place. Properly designed and implemented, people-based programs—such as vouchers or income tax breaks—simply give more bang for the buck.

Problem 2 = Spatial Externalities + Community Goods

Lack of resources may be the main problem of low-income persons, but it is not their only problem. Their neighborhoods also tend to lack resources, as evidenced by neglected infrastructure, underperforming schools, and insufficient police protection.

Thus a second broad category of community development challenges is characterized by spatial market failures, where specific places experience underinvestment and inadequate provision of spatial public goods, including safety, education, transit, community identity, political networks, and the spatial externalities of geographically linked housing and labor markets. Such failures are quite common and rarely treatable by transfers alone. Indeed, they are hard to treat at all since they represent classic public goods dilemmas, where measuring demand, determining supply, and financing are all extremely problematic.

Evaluating the Problems Together

Another way to view this debate, then, is as an evaluation of two distinct though not wholly separate problems. One is reducing individual poverty, best accomplished with direct transfers to individuals.

The other is providing, coordinating, and financing community-based shared goods, such as local education and public safety. In one sense, direct transfers to individuals can help resolve the public goods problem if the individual recipients simply move to places with better public services. But not all individuals will want or be able to do this.

When these two problems are conflated, policy can lose focus. The remainder of this article recaps the critique of place conditions in development aid, then discusses the place-based public goods problems of community development.

The Case Against Place

Winnick (1966) may have been the first scholar to analytically contrast the means and ends of place-based with people-based policies. He rejected place-based policies for several reasons that have been revisited and expanded recently by Edward Glaeser, whose widely read and provocatively titled essays include "Should the Government Rebuild New Orleans, Or Just Give Residents Checks?" (2005) and "Can Buffalo Ever Come Back?" (2007). (Short answers: checks, and probably not.) This critique of place-based aid has three main elements: targeting, coverage, and mobility incentives.

Targeting refers to the success (or failure) of identifying and truly helping intended beneficiaries. While place-oriented strategies invest resources into distressed places, there is no guarantee that the resources actually reach distressed people. New jobs in poor areas often go to nonpoor residents, or to newly attracted in-migrants. When tax dollars from wealthy areas flow to poorer areas, invariably some poorer people in richer areas pay to help some richer people in poorer areas. This satisfies neither the equity-minded nor the efficiency-minded critic.

Coverage is a related metric, referring to the share of the intended beneficiary base reached. What proportion of the poor or unemployed is helped by the intervention? If assistance is targeted to a neighborhood with concentrated poverty, who is left out? A place-based policy that dedicates housing assistance to one poor neighborhood may ignore many individuals in other neighborhoods, both poor and nonpoor, who also cannot afford housing. A more equitable program would condition the program on income, housing costs, or some ratio of the two, rather than on location alone.

Mobility: The third critique is that place-based conditions send incorrect signals, especially about where to live and work. As a general matter, it is well known that transfers that do not distort decisions—that is, do not change the choice between any two options—are known as "first best" or the most efficient means of shifting resources. To the extent that place conditions increase the attractiveness of specific locations to individuals, they distort the location decision and are thus not first best.

Put another way, if a place lacks good jobs or schools or housing, then conditioning assistance on living or working there effectively both rewards and punishes recipients. The reward, of course, is the aid. The punishment is the requirement that the individual remain in an area that does not serve his or her interests. At its worst, a place-based policy encourages people to stay when they might be better off going. Enterprise zones and some affordable housing programs illustrate this dilemma.

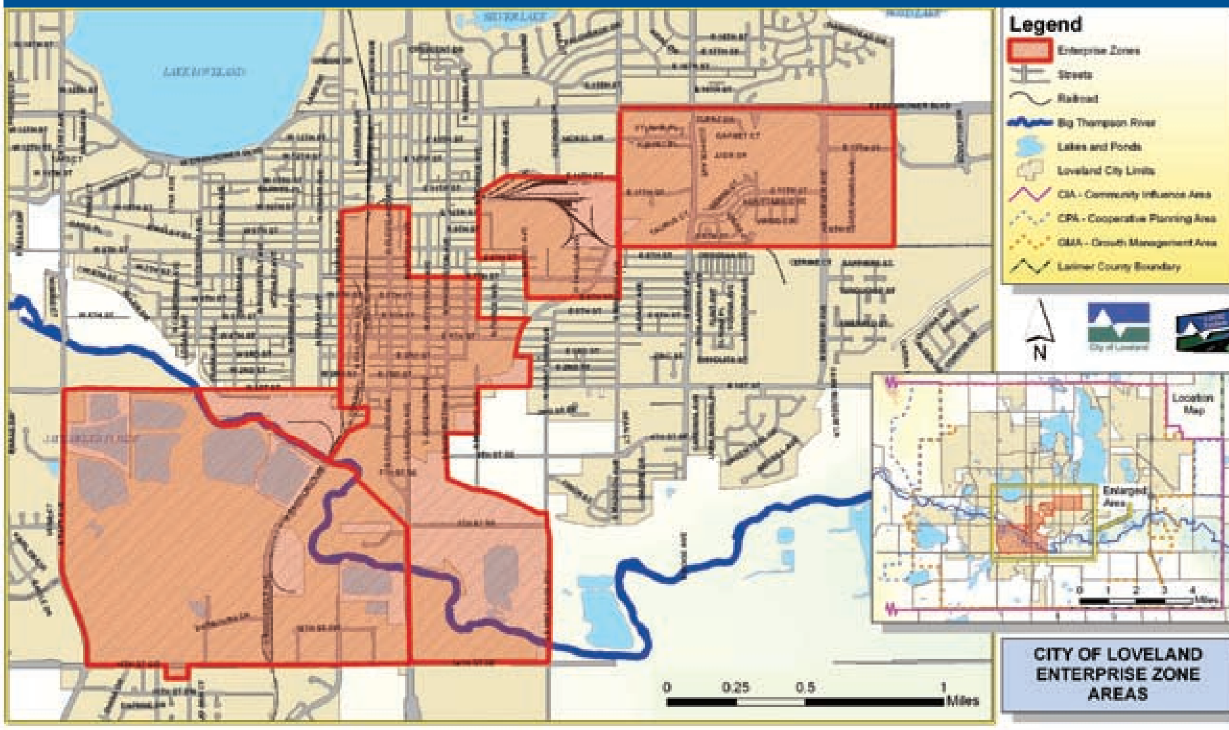
Enterprise Zones

Economic development officials may choose to fight unemployment or poverty in a disadvantaged area by implementing a so-called enterprise zone, which attracts a new firm to the zone via the associated subsidies (see figure 1). Who benefits?

The firm benefits, because its operating costs are reduced. Local landowners benefit, because increased investment will also increase property values. If the increased property values and the new business activity generate tax revenue that exceeds the size of the incentives, then state and local governments might also benefit—although this is true only if the zone's tax breaks were the decisive factor in the firm's location and expansion decisions. If the firm builds a new plant or office, then developers and local trade unions benefit. And the local appointed and elected officials who created the enterprise zone benefit, because the arrival of the firm is visible evidence of their commitment to, and success in, fighting economic distress.

Do the unemployed and underemployed residents benefit? They may, if the new firm hires them. But the new firm might be capital intensive and hire relatively few people, or it might hire skilled workers from outside the distressed area, or it might hire nonpoor workers from the area. Moreover, whatever wage gains accrue to those who are

FIGURE 1
Enterprise Zones Identify Specific Areas for Economic Development



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both local and newly employed will need to exceed the costs imposed by the higher rents and higher prices that will accompany rising land values. For that matter, other local workers may suffer as a result of the enterprise zone, if property values and prices rise, but their wages do not.

So the enterprise zone definitely benefits the subsidized firm, potentially benefits the state and local governments, might benefit the local unemployed, and might benefit (or harm) other local workers. The most certain gains accrue to those least in need, while the least certain gains accrue to those most in need.

Mixed-income Housing

Do project-based affordable housing programs, such as inclusionary zoning, offer advantages that people-based programs do not? Ellickson (2008) concludes that the Low Income Housing Tax Credit (LIHTC), which has financed 1.6 million units since the mid-1990s, is a superior program to traditional public housing, but he finds vouchers to be even better than project-based inclusionary zoning requirements, essentially for all the reasons reviewed above. If the goal is to improve access to low-income housing, a people-based program of vouchers is less wasteful and more targeted, and interferes less with individual mobility.

The Case for Place

The standard arguments against place-based programs upset many observers, especially to the extent they appear callous and defeatist, and imply that some cities or neighborhoods will inevitably decline. Our objection to this view is that the critique unnecessarily oversimplifies the goals, mechanisms, and tradeoffs of community economic development. This is particularly true of local public goods problems, but there are some potential respects in which place can be useful for addressing redistribution as well.

Poverty

If the policy goal is simply to increase individual resources, then the standard critique asserts that place conditions are only second best. However, there may be instances where second best is the best available.

The first area is targeting. Since poverty is often spatially concentrated and imperfectly documented, place conditions can sometimes reduce targeting costs. Location might help policy makers identify the intended beneficiaries of poverty reduction strategies, especially where concentrations are particularly pronounced (e.g., the urban core) or where data are especially incomplete (e.g., areas with a large and continuing inflow of immigrants, not all of whom are documented). Of course, whether the benefits of improved targeting outweigh the costs imposed by any distortions is a crucial empirical question, varying from case to case.

Place-based programs may also offer advantages in project finance, if the land value benefits

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Place-based strategies can enhance the provision of public goods such as better educational opportunities.

of a place-based program can be recaptured and redistributed, as in the case of some Community Benefit Agreements. CBAs are side contracts between developers and community groups that include agreements to raise wages, set aside affordable housing, or make other labor, housing, and social service arrangements. Perhaps the best known CBA is associated with the development of the Staples Center in Los Angeles, but others have been negotiated with various terms and differing degrees of legal and economic success.

Are such programs superior to direct transfer payments? In ideal circumstances, probably not. But in political climates where federal redistribution levels are small or volatile and other transfers are unavailable, these agreements might be both self-financing and feasible.

Public Goods

The most important role for place-based strategies lies in the provision of public goods. A large body of research investigates the idea that places can have an independent influence on material well-being (Fainstein and Markusen 1992–1993). Residents of areas with concentrated poverty often suffer from more than limited individual resources; they also send their children to inadequate schools, and are more likely to be victims of crime, or to commit crimes.

Social networks have spatial features, as places can provide (or fail to provide) good role models and peer pressure for children to succeed in school and avoid criminal activity. Other local networks help people find jobs, mind children, and cope with the challenges of everyday life (Bolton 1992). Transfer payments alone are unlikely to improve these conditions. The production of public goods involves cooperation, coordination, and often a certain level of property wealth. When one or all of these is lacking, necessary public services are underprovided, and the problems of poor places are compounded.

Poor schools are an affront to equality of opportunity, and crime can rapidly turn a marginal area into a bad one. Social researchers have long believed that urban crime was a direct result of urban poverty, but more recent evidence suggests the opposite may be true: unsafe places become poor. Cities or neighborhoods burdened by high crime rates are unattractive to visitors and investors, and unsafe streets and parks stifle the spontaneous interactions that sustain a community's social and economic life (Wilson 1987; Cook 2008).

Reducing crime rates, and especially violent crimes, can dramatically alter the fortunes of a neighborhood. Yet in most of the United States, both education and police protection are provided geographically, through place-based financing mechanisms. There is little reason to believe that this should not be the case in low-income areas.

Resolving the breakdown in public goods provision by moving distressed people into nonpoor neighborhoods forgets that the provision of public goods in nonpoor neighborhoods is often predicated on the exclusion of low-income households. Affluent communities use the place-based power of zoning to prevent low-income people from moving into those communities, and the class homogeneity that results is what facilitates the willingness to pay for public services (Fischel 2001).

For this reason, programs designed to facilitate the mobility of low-income households, such as Section 8 vouchers, rarely transfer people from high-poverty neighborhoods to high-income ones, in part because high-income neighborhoods have little affordable rental housing. So Section 8 recipients tend instead to move from high-poverty neighborhoods into areas of moderate poverty, and in these areas public goods provision is still a concern (Galster 2005).

If we assume that poverty is unlikely to deconcentrate to a large degree in the near future, then we can also see a role for place-based investment. If people are living in distressed areas and either cannot leave (because zoning in more affluent areas prevents their migration) or choose not to leave (because they have networks and attachments in their current neighborhoods), even a generous transfer program does not exempt government from providing basic levels of education and public safety.

Community Land Trusts

This kind of problem thus rationalizes the appropriate use of a wide range of place-based investments, programs, and planning strategies. One example is the community land trust (CLT), a place-based nonprofit organization formed to hold title to land in a way that preserves its long-term availability for affordable housing and other community uses (Davis and Jacobus 2008). Residents usually continue to own their homes as individuals, but the land is owned separately by the CLT. Land is normally leased, and resale prices are controlled to permit equity on the investment, but not windfalls, in order to keep homes affordable to future members of the community.

There are more than 200 CLTs nationally. In the heart of affluent Orange County, California, the City of Irvine created an ambitious program after it realized it had lost hundreds of affordable ownership units and millions of dollars of public subsidy to market speculation. The Irvine Land Trust projects that 10,000 units of housing—roughly 10 percent of the city's housing stock—will be preserved for the long term (Abromowitz and Greenstein 2008).

People and Their Places

The debate over place-based development encompasses two distinct problems, often blurred together. One concerns targeting individuals for labor market, housing market, and/or social service assistance. In this case, place conditions are second best in principle to more direct, or people-based, development instruments, though they may have value in specific instances in identifying problems and intended beneficiaries.

But second, even in a world of generous transfer payments, many low-income households are clustered in areas characterized by low levels of property wealth and high numbers of renters. In many such circumstances, vital local public goods are likely to be underprovided, and it is appropriate for policy makers to channel money to those places for schools, policing, and infrastructure. Even if our ultimate goal is the complete deconcentration of poverty (a goal toward which America has made real progress in the last twenty years), we should acknowledge that in the meantime much poverty is likely to remain spatially bounded. And so long as that is so, there will be a place for place-based economic development strategies.

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