

Employment Policy and Urban Economic Development

John B. Engberg
Carnegie Mellon University

Abstract

Despite continued national prosperity, the employment and earnings prospects of urban unskilled workers have deteriorated substantially in the past decade. Federal interventions on the supply side of the labor market include training programs and cash assistance. Demand-side interventions attempt to increase the hiring and training of disadvantaged workers by private employers. The new geographically targeted Empowerment Zone Program combines supply- and demand-side interventions with attempts to reduce the isolation of impoverished communities.

Federal training efforts have been modestly effective for adult women, but not for other target groups such as youth. There is some evidence that training subsidies have a positive impact, but wage subsidies are stigmatizing. Past experiences with state enterprise zone programs have not been positive, but the federal program addresses some of the weaknesses of the state programs. Spatially targeted programs show promise as an effective way to assist disadvantaged workers without the stigmatizing effect of individual eligibility determinations.

Keywords: Policy; Labor market; Mobility

Urban labor markets in the 1990s

The past decade brought high unemployment, reduced labor force participation, and lower real wages for many inner-city residents. For example, black men without high school diplomas had only a 47 percent labor force participation rate in the fourth quarter of 1991. While wages have increased for highly educated workers, real wages have decreased for people with the least education. While many questions remain unresolved, there is consensus that both supply and demand factors are important. Analysts have identified causes: a declining manufacturing base, changing technology, increasing import competition, decreasing unionization, declining school quality, increasing illicit opportunities, and so forth (Levy and Murnane 1992). Clearly, there is no single explanation for the increase in urban poverty.

A review of urban labor issues needs to be concerned particularly with issues of race and of metropolitan structure. Smith and Welch (1989) show that black/white wage differences (for individuals of similar age and education) have decreased substantially over the past 50 years. However, because of lower (although increasing) educational attainment, blacks are disproportionately affected by the decrease in real wages for poorly educated workers. Holzer (1994) outlines the barriers that slow the adjustment of black workers to shifts in labor demand.

Some analysts believe that changes in metropolitan structure explain much of the black/white earnings differential. The spatial mismatch hypothesis (Kain 1968) states that the suburbanization of jobs, coupled with barriers to black residential suburbanization, explains racial differences in labor force participation, employment rates, and wage levels. Although the impact of continuing employment decentralization on the total amount of poverty is still under debate, there is little disagreement that the changing metropolitan structure has led to an increasing spatial concentration of poverty. Specifically, the migration of skilled workers to the suburbs has left the center of many older cities in the Northeast and North Central regions with fewer and poorer residents (Abramson, Tobin, and VanderGoot 1995; Jargowsky and Bane 1990).

Some analysts claim that living in a neighborhood with a high concentration of poverty and unemployment has an impact on the behavior of the residents, especially the youth. Such an impact leads to even higher rates of poverty, unemployment, and other negative outcomes than individual characteristics would predict. In a review of the impact of neighborhoods, Jencks and Mayer (1990b) conclude that growing up in a predominantly black neighborhood or a neighborhood with high welfare reciprocity leads to less success in the job market, but the level of neighborhood median income does not appear to matter. This suggests that isolation from the majority, rather than lack of income per se, constrains future outcomes.

Because of tight public budgets, policy makers are faced with difficult choices. Given the increased concentration of poverty, is it most effective to dedicate government resources to incentives for employers to hire and train disadvantaged workers (a demand-side approach) or to training and other support for inner-city residents so they can successfully compete for jobs (a supply-side approach)? Does the apparent spatial mismatch between low-skill jobs and low-skill workers require geographically targeted programs?

Supply-side interventions

Supply-side policies typically reduce workers' costs of acquiring skills or searching for jobs. These interventions range from pure training to cash transfers. This section will focus on four major initiatives that affect the decisions of workers. Most federally funded training is governed by the Job Training Partnership Act. The Job Opportunities and Basic Skills Training Program mediates between welfare participants and the labor market. For people who are employed at low wages, the Earned Income Tax Credit provides an earnings subsidy. Finally, the Unemployment Insurance Program provides income assistance to experienced workers in the event of a layoff.

The Job Training Partnership Act (JTPA) is the cornerstone of federal training policy. In 1983, JTPA replaced the Comprehensive Employment and Training Act (CETA) as the primary federally funded training program. JTPA places less of an emphasis on public service employment than CETA did. It institutes private industry councils (PICs) of business, education, and labor representatives chosen by elected officials in each service delivery area to provide guidance and oversight for the job training programs. It develops performance standards to evaluate the success in each area.

JTPA is divided into separate titles for each of the target populations. Title II-A of the act provides classroom training, on-the-job training (OJT), and job search assistance to economically disadvantaged adults and out-of-school youth. Title II-B provides jobs and training for disadvantaged youth during the summer. Title III, as amended in 1988 by the Economic Dislocation and Worker Adjustment Assistance Act, provides training and related services to dislocated workers. Finally, Title IV provides for the Job Corps as well as for some smaller programs and projects. The Job Corps is an intensive residential education and training program for severely disadvantaged youth in more than 100 centers throughout the country. A more detailed review of JTPA and other Department of Labor programs can be found in the *Training and Employment Report of the Secretary of Labor* (U.S. Department of Labor 1992b).

There have been mixed reviews on the effectiveness of the JTPA training programs. Like the programs they replaced, they appear to have more success increasing the earnings of adult women than of other demographic groups. Youth appear to be especially unreachable except by the most intensive (and expensive)

programs such as the Job Corps. A brief review of training evaluation follows.

Barnow (1989) reports that the consensus in the evaluation community based on nonexperimental analyses of pre-JTPA programs indicates that classroom training raises earnings for adults by \$500 per year. The analogous figure for OJT is \$750 per year. There is not a consensus on the effectiveness for youth, with various studies revealing either large positive impacts or negative impacts.

Experimental evaluation of JTPA Title II-A has produced similar conclusions. Bloom et al. (1993) report a 15 percent increase in earnings for adult women, 8 percent for adult men. These increases more than offset the direct costs of the training. OJT also appears to be beneficial for both adult men and adult women. "Other services," including basic education and job search assistance, led to earnings increases for women but not men. Classroom training for occupational skills did not produce increases for men or women. Consistent with earlier results, none of the service strategies was found to have a statistically significant effect on out-of-school youth.

An important aspect of the value of training involves the durability of its results. Analysis of the long-run impact of an earlier training program demonstrated that eight years after participating in the National Supported Work Experiment (a relatively intense program), adult women continued to show earnings gains and youth continued to show no impact (Couch 1992). Although it is too early to know whether JTPA will have similar long-term results, the current experimental analysis indicates the earnings increases for adults were sustained throughout the 30 months of available data (Bloom et al. 1993).

In a review of the experimental evaluation of JTPA, Heckman, Roselius, and Smith (1993) emphasize that the gains to adults are so small that the level of public investment necessary to reverse the decade's decline in earnings for low-skill workers is prohibitively large. Rather than focusing on additional support for public training programs, they suggest increasing the incentives for employers to train low-skill workers (see below) and capitalizing on the flexibility of the U.S. labor market by encouraging better job and occupation matches.

Two other features of JTPA that were intended to improve on CETA deserve mention. The PICs have received mixed reviews. While most analysts praise the notion of local (business

community) guidance, the success of PICs in providing such leadership has been mixed. In its review of the role of the PICs, the National Commission for Employment Policy (1993) stressed the need for more creative approaches to assisting “hard-to-serve” populations and for better coordination between PICs and their counterparts at the state level (i.e., the State Job Training Coordinating Councils).

JTPA also emphasizes performance standards intended to make local agencies and trainers accountable for the quality of their product. Critics note that these standards have encouraged “creaming,” that is, the selection of the most job ready in the applicant population. While this procedure improves the raw counts of successful placements, it defeats the purpose of serving those most in need. Indeed, creaming reduces the impact of the program, since evaluations show that the training does the most good for the least job ready.

Perhaps the biggest challenge for JTPA is to find training strategies for youth that are both successful and affordable. As demonstrated by both experimental and nonexperimental evaluations, low-cost, broadly directed training programs have had their least success with youth. More hope is given to the intensive mix of basic education and occupational training provided by the Job Corps (JTPA Title IV). Although a large-scale experimental evaluation is currently in process, many observers claim that extremely disadvantaged youth require the wide range of services and the removal from adverse influences provided by a residential program. This optimism has produced real funding increases for the program since 1989. However, the price tag of over \$15,000 per enrollee limits the reach of the program to approximately 60,000 youth (U.S. House of Representatives Committee on Ways and Means 1994).

A recent review of job training alternatives for youth highlights the need for providing more comprehensive services to at-risk youth. The notion of “case management” appears to be a promising compromise between the residential nature of the Job Corps and the ineffective Title II programs (U.S. Department of Labor 1992a). As teen violence increases, more creative solutions to this challenge will be forthcoming.

The transition from welfare to work not only catches the public eye but has obvious budgetary implications for both expenditures and revenues. Fortunately, among the adult target groups for whom training programs appear to be effective, female recipients of Aid to Families with Dependent Children (AFDC) have

consistently realized moderate gains from training and related programs. The Family Support Act of 1988 recognizes this by emphasizing training as the road to independence. The core of the act is the Job Opportunities and Basic Skills Training Program (JOBS), which provides new federal matching funds for welfare-to-work programs. JOBS does not specify program design but instead sets targeting and participation goals for states and mandates cooperation with JTPA. Because they tend to experience long welfare spells, young mothers with little education or work experience are specifically targeted by JOBS.

Gueron and Pauly (1991) reviewed pre-JOBS welfare-to-work programs. They categorized programs along a spectrum from broad coverage/low cost (primarily mandatory job search) to high cost/selective-voluntary (primarily subsidized employment). Both show consistent and sustained increases in employment and earnings. Broad coverage programs save more welfare dollars but produce less of a wage increase. As noted in the JTPA studies, gains are positive but modest—they are usually not sufficient to provide an escape from poverty.

Consequently, JOBS legislation encourages a mix of these strategies. The Center for Employment Training (CET) in San Jose, California, is an example of a mixed-strategy program that appears to be working. An evaluation of four welfare-to-work programs run by community-based organizations singled out CET for praise (Burghardt and Gordon 1990). The analysis suggests the need to integrate remedial education into skill training and to make support services such as child care and counseling easily available. Targeting of skills in short supply and the marketing of program graduates were also cited as crucial to the program's success. Harrison, Gant, and Weiss (1993) also find that strong links to community-based organizations, potential employers, and educational institutions (especially community colleges) are important ingredients in successful job training programs.

Another tenet of the administration's employment policy is to "make work pay." Toward this end, the Omnibus Budget Reconciliation Act of 1993 increased the Earned Income Tax Credit (EITC) substantially. This refundable tax credit to working poor families with children has always had participation rates higher than most transfer programs, although the benefits have been relatively modest; in 1984, the maximum benefit was \$500. When the changes are completely incorporated, the maximum benefit will be increased almost sevenfold and the program will surpass AFDC as the largest transfer program. The program has

broad-based political support, perhaps because it encourages work by people in the lowest income ranges. However, the large increase in generosity prompts concerns about new types of fraud such as the overreporting of self-employment income. See Scholz (1994) for a review of the EITC.

The final major component of federal intervention into labor supply is the unemployment insurance (UI) system. Virtually everyone working for a wage or salary is covered by the UI system. Although it serves as a social insurance program that provides temporary income support in the event of layoff, there is consensus that it slows down the adjustment process slightly by conditioning benefits on remaining unemployed. Recent demonstration programs have attempted to find solutions that will maintain the income support function of UI without inducing the behavioral distortions. Of particular note are bonus demonstration programs that were implemented in four states.

The New Jersey UI bonus program was typical of this group. It paid \$500 if a worker found a job within 11 weeks. An interesting distinction occurred between demonstrations in which the bonuses were paid to the workers and those in which the bonuses were paid to the new employers. Economic theory predicts that the \$500 bonus would be split between worker and firm through slight adjustments to the wage, regardless of who got the check. However, as Woodbury and Spiegelman (1987) report, worker bonuses were successful at shortening unemployment spells but employer bonuses were not. If anything, employer bonuses seemed to discourage firms from hiring eligible workers. This may be attributable to the stigma placed on the worker by being eligible for a bonus.

The bonus programs have also been criticized for shuffling rather than creating jobs. Worker bonuses cause eligible individuals to search more intensively. Therefore, available jobs are filled by eligible workers instead of ineligible workers (Davidson and Woodbury 1993). The dependence of UI eligibility on a stable employment history suggests that bonuses could actually reduce the employment prospects of disadvantaged individuals, who generally have less steady employment records.

Demand-side interventions

Demand-side interventions are incentives and regulations intended to alter the hiring and training practices of employers. A persistent problem, exemplified by the employer UI bonuses, is

that employers recoil from workers who are eligible for special treatment. Perhaps, employers believe that the subsidy is not sufficient to offset the expected deficiencies of workers who are targeted for assistance.

This section will focus on four issues pertaining to demand-side intervention. Subsidies for employing disadvantaged individuals, such as the Targeted Jobs Tax Credit (TJTC), are a long-standing pillar of demand intervention. Training subsidies from JTPA and state programs encourage firms to increase the skills of their current low-wage workers. The minimum wage law requires that firms pay above a specified threshold, which some believe has deleterious effects on employment. Finally, affirmative action regulations require some employers to make plans and take actions to increase the proportion of underrepresented demographic groups in their employ.

The main subsidy for firms is TJTC. It provides firms with a 40 percent income tax credit for the first \$6,000 of wages paid to targeted individuals—primarily welfare recipients and poor youth. Although such a large tax credit would appear to create a substantial incentive to hire disadvantaged workers, there are two factors working against the cost-effectiveness of this policy. First, it is difficult to subsidize marginal employment without also subsidizing inframarginal employment. Many unskilled jobs are characterized by high turnover. Therefore, employers are likely to collect subsidies for filling existing vacancies without creating “new” jobs. In fact, the time limit on the subsidy could exacerbate the high turnover in these jobs. Second, as with UI bonuses paid to employers, there is concern that categorical eligibility for TJTC stigmatizes a worker. Employers would rather pay full price than collect the subsidy for an individual whom the government deems to be in need of special treatment.

A variety of research methods have demonstrated the ineffectiveness of this type of subsidy. Bishop and Montgomery (1993) analyze employment data from a sample of firms and estimate that at least 70 percent of payments do not create jobs. Their estimates indicate that it takes from three to eight subsidies to get one new job. This is consistent with anecdotal reports of leakage—firms use subsidies for workers they would have hired anyway. Furthermore, Burtless (1985) reports experimental evidence showing that workers with vouchers were significantly *less* likely to find work than were workers in a control group, perhaps because of a stigmatizing effect of the voucher.

On the other hand, there is some evidence that subsidizing private training has a positive impact. In addition to the OJT component to JTPA mentioned above, some states have experimented with training subsidies. Holzer et al. (1993) find that a state-financed training grant program for manufacturing firms in Michigan substantially increased training for the duration of the subsidy. The additional training was associated with an increase in the quality of output (as measured by scrappage rates), which should lead to long-run gains, but did not have a measurable short-run impact on sales or wages. Krueger and Rouse (1994) present some preliminary evidence of wage gains attributable to subsidized training from analysis of personnel records of two firms in New Jersey. It would appear that subsidizing the training of firms' current (low-skill, low-wage) employees is more successful than trying to have an impact on their hiring practices.

The minimum wage law has a long tradition in American labor policy. There is a standard economic argument that a binding minimum wage increases the unemployment rate of low-skill workers by reducing demand and increasing supply. In their review of the empirical literature, Brown, Gilroy, and Kohen (1982) conclude that the elasticity of demand for teenage workers is approximately $-0.3 (\pm 0.1)$. Card and Krueger (1995), in their recent book, claim this estimate is too large. They examined data from surveys of fast-food restaurants and from the Current Population Survey before and after selected state and federal minimum wage increases and found that teenage employment may actually have risen as a result of the minimum wage increases. On the other hand, Kim and Taylor (1995), in a sophisticated econometric analysis of one of the same "natural experiments," have estimated elasticities for retail trade employment of approximately -0.7 , suggesting large employment losses. In a thoughtful review of this literature, John Kennan (1995) concludes "that the minimum wage may have a small effect on employment, but it is hard to detect in noisy data. . . . [W]e just don't know how many jobs would be lost if the minimum wage is increased to \$5.15" (p. 1964).

Throughout much of the past three decades, affirmative action policies and equal opportunity law have been visible and controversial attempts to affect the choices of employers. Leonard (1990) gives a review of the legal and regulatory history and an overview of the empirical analysis. He concludes that during the peak of enforcement in the late 1970s, affirmative action requirements on federal contractors led to a higher growth rate in black employment than was observed among establishments that were

not federal contractors. However, in the 1980s, affirmative action requirements were no longer enforced and the black employment growth rate of contractors ceased to exceed that of noncontractors. Litigation and the threat of litigation under Title VII of the Civil Rights Act of 1964 also led to increased employment for blacks, but recent Supreme Court decisions have diminished their impact.

Although the two main policy instruments to combat discrimination have been virtually eliminated, racial discrimination is a continuing feature of the labor market (Holzer 1994). An ever-expanding list of econometric studies shows that racial differences in labor market outcomes cannot be explained entirely by differences in education, ability, residential location, or a host of other observable characteristics. In addition, quasi-experimental research has demonstrated that, on average, employers show a preference for hiring whites instead of blacks, *ceteris paribus*. Turner, Fix, and Struyk (1991) report the results of discrimination "audits" in which white applicants were more likely to receive a job offer than black applicants with closely matched credentials. Ethnographic evidence from employer interviews (e.g., Kirschenman and Neckerman 1991) also supports the conclusion that race is a consideration when judging the potential productivity of job candidates.

Spatially targeted policies and programs

Many recent studies provide convincing evidence that the spatial concentration of unemployment and poverty into underclass neighborhoods of large cities is continuing to increase (e.g., Abramson, Tobin, and VanderGoot 1995; Jargowsky and Bane 1990). To design effective policies and programs to combat concentrated poverty, we must understand whether residence in an impoverished neighborhood is primarily an unfortunate consequence of unsuccessful labor market experiences or also an important cause of further unemployment and low earnings. If living in an underclass neighborhood has detrimental effects, either because of the long commute to available jobs or because isolation prevents an understanding of labor market opportunities, then policies that bring people and jobs closer together or that introduce mainstream information should improve labor market outcomes. On the other hand, if the spatial concentration of poverty is a symptom but not a cause, then spatially targeted programs will be useful only if they provide an effective way to address the fundamental labor supply and demand deficiencies discussed above.

To estimate the true impact of residential location on employment, the analyst must exploit variation in location that is not caused by employment potential. If the variation in location is attributable to past or future differences among individual earnings capacity, then the observed relationship reflects selective migration rather than spatial labor market differences. Although recent reviews (Holzer 1991; Ihlanfeldt 1994; Kain 1992) conclude that spatial mismatch has led to persistent labor market disadvantages for central city workers, I believe that a close examination of the empirical evidence does not rule out a selective migration explanation (see also Jencks and Mayer 1990a).

If residential areas near employment growth centers are more desirable and more expensive, then high employment rates and earnings in these areas could reflect high levels of skill rather than labor market disequilibrium. Given the strong dependence of residential location on wealth because of geographic differences in the quality of housing, it must be assumed that there is a significant dependence of residential location on both past and future employment and earnings. A spatial equilibrium of the labor market does not require that all individuals have access to all jobs but only that mobility is sufficient to compete away differences in employment probabilities and earnings opportunities among the various locations within a metropolitan area.

For example, if employers in all parts of the metropolitan area are indifferent between hiring low-skill black and white workers, but discrimination in the housing market restricts the residential location of black workers, then residential mobility by white workers can eliminate suburban/city differences in employment rates and earnings. Black workers will suffer real losses since they cannot consume their preferred bundle of housing services and locational amenities, but removing restrictions on residential location will not improve their employment and earnings opportunities. If the labor market is in spatial equilibrium for white workers, but blacks can improve their labor market opportunities by moving to the suburbs, then this indicates spatial differences in labor market discrimination, not labor market disequilibrium.

Many studies have demonstrated that living closer to job centers or living in the suburbs is associated with higher employment probabilities and higher earnings. To interpret this association as the effect of residential location on an individual's employment probability or earnings, it is necessary to control for endogenous differences in residential location.

For example, Ihlanfeldt and Sjoquist (1990) examined the relationship between residential location and employment for youth ages 16 to 24. Presumably, residential location is more likely to be exogenous for youth than for older workers. Their analysis controls for many family characteristics and uses distance to low-skill jobs rather than a suburban/urban dichotomy to represent residential location. However, most of the variance in employment status remains unexplained. If families who, *ceteris paribus*, have a stronger commitment to the labor market live near areas of economic growth (perhaps to minimize commuting time), then the observed relationship could reflect such a sorting rather than an impact of residential location on youth employment probabilities. In other work, Ihlanfeldt and Sjoquist (1989) found that earnings for central-city residents are negatively related to the extent of job suburbanization in the metropolitan area. Again, if more highly skilled workers move to areas of job growth, the relatively low wages found in the central cities of metropolitan areas with high suburban growth could reflect the lower proportion of skilled workers who remain in the central city.

Rosenbaum (1995) made use of the quasi-experimental variation in residential location provided by the Gautreaux program in Chicago. Public housing residents, under a consent decree, were randomly assigned to subsidized housing in either middle-income white suburbs or low-income black urban neighborhoods. Results from a random sample survey approximately five years after the assignment indicate that a suburban assignment raised the employment probability by 0.13 (64 percent employed in suburbs, 51 percent employed in city). Unfortunately, many families who were sampled from the assignment could not be found at the time of the survey. Forty percent of the families in the suburban sample and 13 percent of the city families were not found and therefore not interviewed. This suggests an alternative explanation for the higher employment rate among the remaining suburban residents. If the more employable participants in both the city and the suburbs stayed in the program, then the higher attrition rate among the suburban participants, perhaps because of a more difficult adjustment, could account for the difference in observed employment rates. For example, an employment rate of 26 percent among suburban dropouts and 33 percent among city dropouts would imply an equal employment rate (49 percent) for both participants assigned to the suburbs and those assigned to the city.

On the other hand, empirical analyses of spatial earnings variation that explicitly control for endogenous location find that

improved access to suburban labor markets will not increase earnings nor will it substantially increase employment. Using a bivariate normal sample selection model, McMillen (1993, 147) finds that "it is not possible for central-city blacks to automatically increase their earnings by taking a suburban job." In recent work that invokes minimal parametric assumptions to correct for endogenous residential location, I find that the labor market for low-skill workers within a metropolitan area is in spatial equilibrium (Engberg and Kim 1995). Kim (1995) demonstrates that differences in residential patterns between blacks and whites account for very few of the racial differences in employment and earnings.

However, even if one concludes that the evidence does not support spatial mismatch, spatially targeted programs should be considered. The spatial concentration of individuals with deficient skills suggests that spatially targeted programs may be an efficient delivery system for supply and demand interventions. Spatially targeted programs may circumvent the stigmatization caused by individual eligibility calculations. Therefore, as we examine interventions, we should judge them not only on their ability to treat spatial problems (i.e., reduce isolation or distance) but also on their ability to implement proven nonspatial supply and demand treatments more effectively.

There have been many proposals for dealing with spatially concentrated poverty, most of them premised on the existence of spatial mismatch. They include residential dispersion (such as the Gautreaux program mentioned above), reverse commuting programs (Hughes 1995), and various forms of inner-city economic development assistance. Unfortunately, there have been few evaluations that measure actual changes in labor market outcomes after systematically controlling either for an individual's or a site's selection into the program or for other sources of bias.

Enterprise zones are a familiar method used by state and national governments to spatially target economic development assistance. Such aid usually focuses on employers but varies in the degree to which it subsidizes capital or labor use. Most existing evaluations of previous programs are based on surveys of employer intentions. As noted by Papke (1993), responses to such surveys are notorious for not corresponding to actual behavior.

In a careful empirical analysis based on outcomes data, Papke (1994) found mixed results. She analyzed an Indiana enterprise

zone program that provided a tax credit to offset local property taxes on inventories of businesses located in the zone. She shows that the enterprise zone areas in Indiana had greater inventory growth and fewer unemployment claims than comparable non-zone areas. On the other hand, in an analysis of zone and comparable nonzone areas using 1990 census data, Papke (1993) suggests that the earnings of zone residents did not show a positive impact. However, it should be noted that the tax incentives in the Indiana program favored capital over labor.

Ladd (1994) presents an excellent overview of the theory and empirical evidence regarding the impact of geographically targeted assistance. Her conclusion, based on the empirical work by Papke and others, is that previous attempts at geographically targeted assistance by several states and in England have not been cost-effective methods for creating new jobs. Job growth that occurs in designated zones is often attributable to other factors such as general economic recovery or is simply the relocation of existing jobs from similar areas outside of the zone.

Another method to encourage inner-city economic development is to provide assistance to community development corporations (CDCs). Vidal (1995) makes a strong case that CDCs are in a unique position to work with the residents of blighted neighborhoods to formulate a strategy tailored to their social and economic needs. Though no formal outcomes evaluation has been completed, a series of case studies (Harrison, Gant, and Weiss 1993) suggests that some CDCs have been successful in providing both employment opportunities and skills training.

The new federal Empowerment Zone and Enterprise Community (EZ/EC) policy provides tax credits for both capital and labor as well as additional funding for social services and community development. The U.S. Department of Housing and Urban Development (HUD) has designated six urban empowerment zones (EZs) and 60 urban enterprise communities (ECs) in areas of concentrated poverty. Each urban EC received \$2.95 million of new money in social service block grants (SSBGs) as well as priority for many other programs originating from a wide array of federal agencies. Each urban EZ received \$100 million in SSBGs and substantial tax benefits. Two features of the EZ/EC policy deserve mention: a change in the employment tax credit and the impetus for geographic concentration of existing programs. (See HUD [n.d.] for an overview of the EZ/EC policy.)

One of the three tax incentives introduced by the EZ/EC policy is the Employer Wage Credit. The tax credit equals 20 percent of

the first \$15,000 of qualified wages and training expenses for each employee who is a zone resident and works in the zone. (However, the \$15,000 wage limit must be reduced by the amount of wages used for TJTC.)

EZ/EC policy differs from TJTC in two important ways. First, eligibility is determined by place of residence and of work, rather than by individual disadvantaged status. Although this feature will lead to the subsidization of some high-skill, high-wage workers, it has several advantages. It streamlines eligibility determination, it eliminates stigma caused by determination based on individual characteristics, and it discourages flight from areas of concentrated poverty by individuals who obtain employment. Second, the new tax credit combines subsidization of training with subsidization of wages. Most minimum-wage workers have annual earnings under \$10,000. There remains plenty of room under the \$15,000 cap to get credit for training these low-wage workers. There is considerable emphasis in the EZ/EC guidebook on the need for networking workers and employers and for expanding linkages to educational institutions and private training programs. Although this language is guided by the issues of alienation described, it also addresses measured deficiencies in productive skills. This is a spatial program that does not rely completely on breaking down spatial barriers but also uses spatial targeting to focus resources for improving skills.

The other notable feature of the EZ/EC policy is the incentive for increased geographic concentration of federal interventions. The EZ/EC application language emphasizes that all federal agencies will give priority to funding requests from EZ/EC areas and that each agency has designated programs that will explicitly give credit to EZ/EC areas in their awards criteria. By the same token, EZ/EC designees were required to develop strategic plans incorporating a broad range of federal programs as well as other sources of public and private assistance. This policy is intended to geographically target federal intervention to the most concentrated areas of poverty. As suggested by the analysis presented above, the increased intensity, the breadth of services, and the increased coordination of agencies could have an impact on hard-to-reach groups such as youth.

Another reason for optimism is the current divergence between the vigorous macroeconomic situation and the lack of demand for unskilled workers in many inner-city labor markets. The current economic boom differs from its predecessors. In the past, general economic recovery had a tremendous positive impact on the

earnings and employment prospects of disadvantaged workers (Blank and Blinder 1986). It has been well documented that the current boom has increased income disparity by leaving behind unskilled workers (Harrison and Bluestone 1988). Although training programs, wage subsidies, and increased social services have not been useful remedies during weak economic times, these interventions might be sufficient to remove barriers to job-creating investments in the inner city at a time when labor markets for skilled workers are increasingly tight. By concentrating efforts on six large empowerment zones and by removing the stigmatizing effects of determining eligibility person by person, the obvious lessons from the past have been implemented. However, the historical experience suggests that aggregate demand in the region surrounding the zone must be sufficiently high. Without such a context, microinterventions have proven ineffective.

Conclusion

Is the current array of employment policies adequate to address the needs of urban labor markets in the current decade? The problems of geographically concentrated poverty and unemployment, racial inequality, and declining opportunities for the poorly educated pose apparently intractable difficulties. Given current budgetary constraints, the new emphasis on geographic concentration of interventions and subsidization of private training in areas of concentrated poverty is the most promising new initiative. This policy direction is responding to the needs of youth, who are traditionally the hardest population to reach. However, based on the evaluation of earlier efforts, we should expect the impact to be modest.

Author

John B. Engberg is Assistant Professor of Economics at the H. John Heinz III School of Public Policy and Management at Carnegie Mellon University.

References

- Abramson, Alan, Mitchell Tobin, and Matthew VanderGoot. 1995. The Changing Geography of Metropolitan Opportunity: The Segregation of the Poor in U.S. Metropolitan Areas, 1970 to 1990. *Housing Policy Debate* 6(1):45–72.
- Barnow, Burt. 1989. Government Training as a Means of Reducing Unemployment. In *Rethinking Employment Policy*, ed. D. Lee Bawden and Felicity Skidmore, 109–35. Washington, DC: The Urban Institute Press.

- Bishop, John, and Mark Montgomery. 1993. Does the Targeted Jobs Tax Credit Create Jobs at Subsidized Firms? *Industrial Relations* 32:289–306.
- Blank, Rebecca, and Alan Blinder. 1986. Macroeconomics, Income Distribution, and Poverty. In *Fighting Poverty: What Works and What Doesn't*, ed. Sheldon Danziger and Daniel Weinberg, 180–208. Cambridge, MA: Harvard University.
- Bloom, Howard, Larry Orr, George Cave, Stephen Bell, Fred Doolittle, and Winston Lin. 1993. *National JTPA Study, Overview: Impacts, Benefits and Costs of Title II-A*. Cambridge, MA: Abt Associates.
- Brown, Charles, Curtis Gilroy, and Andrew Kohen. 1982. The Effect of the Minimum Wage Law on Employment and Unemployment. *Journal of Economic Literature* 20:487–528.
- Burghardt, John, and Anne Gordon. 1990. *More Jobs and Higher Pay: How an Integrated Program Compares with Traditional Programs*. New York: Rockefeller Foundation.
- Burtless, Gary. 1985. Are Targeted Wage Subsidies Harmful? Evidence from a Wage Voucher Experiment. *Industrial and Labor Relations Review* 39:105–14.
- Card, David, and Alan Krueger. 1995. *Myth and Measurement: The New Economics of the Minimum Wage*. Princeton, NJ: Princeton University Press.
- Couch, Kenneth. 1992. New Evidence on the Long-Term Effects of Employment Training Programs. *Journal of Labor Economics* 10:380–88.
- Davidson, Carl, and Stephen Woodbury. 1993. The Displacement Effect of Reemployment Bonus Programs. *Journal of Labor Economics* 11:575–605.
- Engberg, John, and Taeil Kim. 1995. Person or Place? Parametric and Semiparametric Estimates of Intra-Metropolitan Earnings Variation. Working Paper No. 95-22. Carnegie Mellon University, Heinz School of Public Policy and Management.
- Gueron, Judith, and Edward Pauly. 1991. *From Welfare to Work*. New York: Russell Sage Foundation.
- Harrison, Bennett, and Barry Bluestone. 1988. *The Great U-Turn: Corporate Restructuring and the Polarizing of America*. New York: Basic Books.
- Harrison, Bennett, Jon Gant, and Marcus Weiss. 1993. *Building Bridges: Community Development Corporations and the World of Employment Training, Final Report*. Submitted to the Urban Poverty Programs of the Ford Foundation.
- Heckman, James, Rebecca Roselius, and Jeffrey Smith. 1993. U.S. Education and Training Policy: A Re-evaluation of the Underlying Assumptions behind the “New Consensus.” Working Paper No. CSPE94-1. University of Chicago.
- Holzer, Harry. 1991. The Spatial Mismatch Hypothesis: What Has the Evidence Shown? *Urban Studies* 28:105–22.

Holzer, Harry. 1994. Black Employment Problems: New Evidence, Old Questions. *Journal of Policy Analysis and Management* 13:699–722.

Holzer, Harry, Richard Block, Marcus Cheatham, and Jack Knott. 1993. Are Training Subsidies for Firms Effective? The Michigan Experience. *Industrial and Labor Relations Review* 46:625–36.

Hughes, Mark Alan. 1995. A Mobility Strategy for Improving Opportunity. *Housing Policy Debate* 6(1):271–97.

Ihlanfeldt, Keith. 1994. The Spatial Mismatch between Jobs and Residential Locations Within Urban Areas. *Cityscape* 1(1):219–44.

Ihlanfeldt, Keith, and David Sjoquist. 1989. The Impact of Job Decentralization on the Economic Welfare of Central City Blacks. *Journal of Urban Economics* 26:110–30.

Ihlanfeldt, Keith, and David Sjoquist. 1990. Job Accessibility and Racial Differences in Youth Employment Rates. *American Economic Review* 80:267–76.

Jargowsky, Paul, and Mary Jo Bane. 1990. Ghetto Poverty: Basic Questions. In *Inner-City Poverty in the United States*, ed. Laurence E. Lynn, Jr., and Michael G. H. McGeary, 16–67. Washington, DC: National Academy Press.

Jencks, Christopher, and Susan Mayer. 1990a. Residential Segregation, Job Proximity, and Black Job Opportunities. In *Inner-City Poverty in the United States*, ed. Laurence E. Lynn, Jr., and Michael G. H. McGeary, 187–222. Washington, DC: National Academy Press.

Jencks, Christopher, and Susan Mayer. 1990b. The Social Consequences of Growing Up in a Poor Neighborhood. In *Inner-City Poverty in the United States*, ed. Laurence E. Lynn, Jr., and Michael G. H. McGeary, 111–86. Washington, DC: National Academy Press.

Kain, John. 1968. Housing Segregation, Negro Employment, and Metropolitan Decentralization. *Quarterly Journal of Economics* 2:175–97.

Kain, John. 1992. The Spatial Mismatch Hypothesis: Three Decades Later. *Housing Policy Debate* 3(2):371–460.

Kennan, John. 1995. The Elusive Effects of Minimum Wages. *Journal of Economic Literature* 33:1950–65.

Kim, Taeil. 1995. Place or Person? A Labor Market Analysis of Central City Poverty. Ph.D. diss. Carnegie Mellon University, Heinz School of Public Policy and Management.

Kim, Taeil, and Lowell Taylor. 1995. The Employment Effect in Retail Trade of California's 1988 Minimum Wage Increase. *Journal of Business and Economic Statistics* 13:175–82.

Kirschenman, Joleen, and Katherine Neckerman. 1991. "We'd Love to Hire Them But ..." In *The Urban Underclass*, ed. Christopher Jencks and Paul E. Peterson, 203–32. Washington, DC: The Brookings Institution.

- Krueger, Alan, and Cecilia Rouse. 1994. New Evidence on Workplace Education. Working paper. Princeton University.
- Ladd, Helen. 1994. Spatially Targeted Economic Development Strategies: Do They Work? *Cityscape* 1:193–211.
- Leonard, Jonathan. 1990. The Impact of Affirmative Action Regulation and Equal Opportunity Law on Black Employment. *Journal of Economic Perspectives* 4:47–63.
- Levy, Frank, and Richard Murnane. 1992. U.S. Earnings Levels and Earnings Inequality: A Review of Recent Trends and Proposed Explanations. *Journal of Economic Literature* 30:1333–81.
- McMillen, Daniel. 1993. Can Blacks Earn More in the Suburbs? Racial Differences in Intrametropolitan Earnings Variation. *Journal of Urban Economics* 33:135–50.
- National Commission for Employment Policy. 1993. *Private Industry Councils: Examining Their Mission under the Job Training Partnership Act*. Special Report No. 35.
- Papke, Leslie. 1993. What Do We Know about Enterprise Zones? In *Tax Policy and the Economy*, no. 7, ed. James Poterba, 37–72. Cambridge, MA: Massachusetts Institute of Technology Press.
- Papke, Leslie. 1994. Tax Policy and Urban Development: Evidence from the Indiana Enterprise Zone Program. *Journal of Public Economics* 54(1):37–49.
- Rosenbaum, James. 1995. Changing the Geography of Opportunity by Expanding Residential Choice: Lessons from the Gautreaux Program. *Housing Policy Debate* 6(1):231–69.
- Scholz, J. Karl. 1994. The Earned Income Tax Credit: Participation, Compliance, and Antipoverty Effectiveness. *National Tax Journal* 47(1):63–87.
- Smith, James, and Finis Welch. 1989. Black Economic Progress after Myrdal. *Journal of Economic Literature* 27:519–64.
- Turner, Margery, Michael Fix, and Raymond Struyk. 1991. *Opportunities Denied, Opportunities Diminished: Discrimination in Hiring*. Washington, DC: The Urban Institute.
- U.S. Department of Housing and Urban Development. n.d. *Building Communities: Together. Guidebook for Community-Based Strategic Planning for Empowerment Zones and Enterprise Communities*. Washington, DC.
- U.S. Department of Labor. 1992a. *Dilemmas in Youth Employment Programming: Findings from the Youth Research and Technical Assistance Project*. Research and Evaluation Report Series 92-C. Washington, DC.
- U.S. Department of Labor. 1992b. *Training and Employment Report of the Secretary of Labor*. Washington, DC.
- U.S. House of Representatives Committee on Ways and Means. 1994. *1994 Green Book*. Washington, DC: U.S. Government Printing Office.

Vidal, Avis. 1995. Reintegrating Disadvantaged Communities into the Fabric of Urban Life: The Role of Community Development. *Housing Policy Debate* 6(1):169–230.

Woodbury, Stephen, and R. Spiegelman. 1987. Bonuses to Workers and Employers to Reduce Unemployment: Randomized Trials in Illinois. *American Economic Review* 77:513–30.