

## INSTITUTE VIEW

BY GLENN YAGO

**Whose interests** should come first: people or places? The question is rarely put that way, for politicians are loath to make such stark choices. Yet whether the argument is over the portability of pension benefits, tax incentives for convention centers, employment training or the elusive promise of urban inner city development, it is often at the heart of the matter.

Underlying this tension is a false trade-off between economic efficiency and social equity – the notion that promotion of productivity through the mobility of resources is the enemy of economic justice.

Is the people-places debate relevant in an era of smaller government? Watch what they do, not what they say.

A dozen Federal agencies spend \$6 billion annually on geographically targeted assistance. And in a kind of bureaucratic competition, state governments emulate the Feds, piling place-based programs on top of place-based programs. Indeed, if indirect tax breaks are included in the accounting, the sums spent on places by all levels of government soar into the hundreds of billions of dollars.

The issue, of course, was with us even before the time of (Robert) Moses and his all-powerful, off-budget authorities that reshaped New York. Heroic and monumental architecture ensued, and with it the shape of cities today. Location-based policies have always exerted a powerful appeal because they mobilize public resources for private interests and, in the process, sustain political power – a long way of saying that location-based policies fill the pork barrel. By contrast, policies that enable citizens to vote with their feet – to move from one jurisdiction to another – undermine the power of the political establishment.

This tension came to light long before Ronald Reagan declared war on The Great Society. Jefferson scrapped Hamilton's plan for a major national government role in promoting economic development. Andrew Jackson followed suit, identifying government as the source and protector of economic privilege. The Jacksonians dismantled the Second Bank of the United States, slashed tariffs and privatized government transportation. Similar conflict arose in reaction to the Progressive era.

Programs designed to benefit localities rarely add up to much. There are few examples of regional development that create jobs, as opposed to moving them from locality to another. In attempting to respond to market failures – for example, chronic regional unemployment – government compounds the failures by building the wrong factory in the wrong place. If planning doesn't work in Russia or Indonesia, there's no particular reason to believe it will work in America.

To understand the advantages of people-based programs, consider Joseph Schumpeter's analogy between the distribution of income and the registration at

a hotel. The accommodations vary from shabby closets on the airshaft to penthouse suites with grand views. But to the degree that people have a good chance to move to better rooms next month or next year, one doesn't feel compelled to redecorate. By analogy, geographic mobility has often proved a potent substitute for conventionally defined economic mobility. Public education and support of interstate transportation are just two examples of successful government policies that enhanced equity even as they promoted growth.

Yet from Johnson's Model Cities program to current experiments with Urban Enterprise Zones, urban policy has been almost exclusively place-based. Since the Watts Riots, the vicious cycle characterized by unemployment, crime and a lack of public services has persisted. Neighborhoods swallowed urban development dollars with hardly a trace, even as people and private wealth took flight. The intransigence of urban problems contrasts with more promising people-based developments. Today, the earnings of blacks have nearly caught up with those of whites with similar education. The proportion of young adults who complete high school is now the same for blacks and whites. There are more than 2 million minority companies with \$250 billion in sales – 25,000 of them with revenues exceeding \$1 million.

Since 1987 the number of minority companies has grown 10 percent annually versus 4.7 percent for non-minority companies, while sales have grown 21 percent annually versus 10.7 percent. Skill-intensive areas such as finance, insurance and business services have been the fastest growing kinds of minority enterprises.

By contrast, the denouement of place-based programs have been painfully consistent. Model Cities failed because it emphasized bricks and mortar and ignored human capital. Nixon-era programs that pressed Fortune 500 companies to create inner city subsidiaries failed when those enterprises were eclipsed by foreign competition. Location-based programs since then have also failed where they focused on services for inner city markets and never developed links to the outside world. Finally, the failure to leverage government investment with private sector money has often inhibited minority business development by restricting entry into mainstream markets.

What works for minority business development works for home ownership. Since 1994, 43 percent of all new homeowners have been minority families. Success in this market was based on efficiencies achieved in the lending process: standardized applications, credit scoring, underwriting and secondary market developments. It is highly unlikely that costly subsidies would have had more impact than low-cost, market-based incentives such as the government-guaranteed secondary market for mortgages.

It is no surprise that nuts-and-bolts development programs to support individuals work better than those that support bureaucracies. The real surprise is that otherwise sensible people haven't seen the light. America's great advantage over other mature industrial economies lies in the ability of its markets to move people and capital to where they are most productive. Where markets have failed us, the answer is to make them work – not to transfer the power to allocate resources to government.

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