Summary of Observations and Recommendations

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At last year's Federal Reserve Bank of Kansas City symposium on income inequality, Alan Greenspan suggested that measures of income changes, however reliable, cannot fully explain trends in the material or economic well-being of the population. "Ultimately," he noted, "we are interested in whether households have the means to meet their needs for goods and for services, including . . . education and medical care, which build and maintain human capital."*

With these observations in mind, the Federal Reserve Bank of New York organized this conference—"Unequal Incomes, Unequal Outcomes?"—to focus on the evolution of more direct measures of the material well-being of Americans. Of particular concern was the impact of income inequality on trends in health, housing, and crime victimization. Conference participants also examined some of the changes in policymakers' responses to these trends, especially in the areas of education financing and local governance. Finally, the participants discussed efforts to evaluate the social consequences of policy reforms and offered some guidelines on the best direction for future research and policy initiatives.

Unequal Outcomes

Health

Both Barbara Wolfe and Arline Geronimus focused on health as a direct measure of economic well-being that effectively draws attention to those suffering the worst outcomes. Specifically, Wolfe spoke about the strong link between poverty and health. According to her, in 1994 only 10 percent of children under age five in families making $35,000 or more were in less than very good or excellent health. By comparison, one-third of young children in families with income below $10,000 were in less than very good health. Moreover, in recent years the number of poor children whose health is fair or poor has increased relative to the number of nonpoor children in these same health categories. In 1987, for every nonpoor child with health problems, there were close to two children in poverty in poor health; by 1996, that ratio had risen to 2.7.

Geronimus identified a set of young people at particular risk of high mortality rates. She observed that in some U.S. communities—especially urban areas in the North—young people cannot expect to survive through middle-adulthood. Whites generally fare substantially better than African-Americans, yet whites in poor neighborhoods in northern cities experience mortality rates roughly comparable to those of African-Americans nationwide. Furthermore, among the urban African-American poor, mortality rates worsened relative to those of whites from 1980 to 1990. Geronimus also indicated that circulatory disease—not homicide—has been the most important contributor to the higher mortality rates across all poor populations.

Examining health issues in a special address to the conference, Kevin Thurm noted some other disturbing statistics. Thurm observed that infant mortality rates for African-Americans are twice as high as they are for white Americans; Chinese-Americans are four to five times more likely to suffer from liver cancer than other Americans; and Latinos and Native Americans develop diabetes at a rate twice and three times the U.S. average, respectively.

Housing

In the session on housing, James Orr and Richard Peach examined trends in housing outcomes by income group. Orr and Peach indicated that there has been a substantial improvement in the physical adequacy of the housing stock over the past few decades, particularly for households in the lowest income quintile. Neighborhood quality for all income groups has also improved, although sharp differences in quality continue to exist across the groups. In one important respect, however, lower income households are *worse* off than before—housing costs now absorb a larger share of their income.

Joseph Gyourko and Joseph Tracy reported that the cost of good housing has risen for low-income individuals. The National Association of Realtors affordability index shows that affordability conditions are better today than at any time in the past twenty-five years. However, Gyourko and Tracy's analysis suggests that this finding may not hold for low-skilled workers at the bottom of the income distribution. The real incomes of these households have not fully recovered to the levels reached before the 1990-91 recession, yet the constant-quality price of the housing bundle they typically consume has continued to rise in the 1990s. Therefore, to afford a single-family home, these households must be increasing the number of hours worked or shifting down to lower quality housing.

Crime

Turning to another measure of well-being, Steven Levitt examined the changes in the relationship between income and crime victimization over time. He argued that the poor suffer disproportionately more from property crime today than they did twenty years ago, possibly because of the increased reliance on theft-prevention devices by higher income groups. Levitt also indicated that, in stark contrast to property crime, homicide appears to have become more dispersed across income groups, at least based on neighborhood-level data for Chicago. For whites, neighborhood median family income is no longer a predictor of homicide victimization rates—a factor that may explain the increase in the fear of crime across income levels when the crime rate has actually fallen sharply. For blacks, the link between income and crime victimization is found to be only one-third as strong as it was in 1970.

Policy Responses

Several speakers looked at policy responses to the widening of income inequality in state and local communities. Much emphasis has been placed—correctly so, according to conference participants—on improving education as a way to increase the mobility of disadvantaged Americans. One policy strategy adopted by states has been school finance reform, aimed at providing greater equality in the caliber of education received.

Thomas Downes and David Figlio examined the empirical evidence on the relationship between school finance reform and student outcomes, reviewed the economic literature in this field, and presented new evidence of the effects of reform on community and school composition. They argued that if one's goal is to reduce income inequality substantially, one should not look to school finance reform as a particularly effective policy instrument. Even the most optimistic estimates of the impact of school finance reform on the distribution of student performance indicate that these effects are relatively small. Furthermore, Downes and Figlio noted that these small gains may come at a cost—the movement of higher income families into private sector schools, a development that would lead to less diversity within the public schools.

The papers by Edward Glaeser and Matthew Kahn and by Edwin Mills examined the extent to which local government policies can reduce the effects of rising income inequality. Glaeser and Kahn contended that the future scope of city-based redistributive policies is limited. An important way in which policymakers work to reduce inequality is by redistributing income from the wealthy to the poor, channeling income tax revenue into spending on welfare and other services. The authors suggested, however, that New York City and other cities have had to scale back their redistributive policies. New York City's evolution from a manufacturing city to a service city accounts for more than one-third of the reduction in redistribution, because businesses in the service sector are more mobile and are therefore harder to tax than those in manufacturing. In addition, Glaeser and Kahn documented a more general decline in the relationship between land area and redistribution. In 1970, cities with greater land area tended to redistribute more income, but by 1990 this connection was no longer evident. Glaeser and Kahn attributed this change to an erosion in the market power of large cities and observed that increased mobility and the existence of edge cities have contributed to a decline in the monopoly power once enjoyed by large cities.

Using a slightly different approach, Mills considered not only the competition between cities, but also the competition between cities and the surrounding areas—the suburbs. He noted that rising income inequality tends to lead to greater income disparity between the suburbs and the central cities because the rich are more likely to move to the suburbs. In addition, business suburbanization has occurred because modern transportation and communication technologies have reduced the costs of moving people, goods, and messages over considerable distances. Moreover, some central business districts have become so large as to exhaust the advantages of locating there. However, Mills suggested that the movement of businesses away from central cities began to change around 1996. Tighter labor markets have induced U.S. businesses to locate in central cities for the same reason that these businesses have been going to Mexico and East Asia—namely, the availability of relatively low-wage workers. Mills also cited the dramatic fall in central-city crime rates in the 1990s and new legislation allowing cities to limit "brownfields liability"—the liability of businesses for environmental damage that occurred before their occupation of a site—as developments that have made it easier for businesses to return to the central cities.

Future Challenges

Most of the papers and discussions underscored the challenges faced by economists and others who undertake to measure well-being and inequality and to identify inequality's causes and effects. The presentation by Marcia Meyers and Irwin Garfinkel addressed some of these challenges. Their project—the New York City Social Indicators Survey (SIS)—uses social indicators to track economic well-being and inequality. By pushing beyond the limitations of current data sources, SIS will enable the authors to collect the data necessary to define inequality in concrete terms and evaluate whether New York City is becoming more or less unequal. Significantly, it will also shed light on what effect government policies have on inequality's magnitude and consequences.

In another examination of policy challenges, Katherine McFate emphasized that we must do more than simply worry about the effects of poverty on those Americans who fall below some minimum income level. Rather, policy in the future should focus more broadly on the fact that too much inequality of income and wealth is, in and of itself, a serious problem. In McFate's view, when the social distance between the highest and lowest income levels is too great, the trickle-down method becomes an ineffective way to reach those at the lowest level. In addition, McFate argued that too much inequality may undermine the legitimacy of our economic system and the functioning of our political systems.

Timothy Smeeding echoed McFate's sentiments, advocating the need to examine further the effectiveness of policy responses to inequality. Smeeding identified three broad categories of policy responses worthy of study: policies aimed at investing in public goods to enhance human capital, policies that reward socially acceptable actions and provide economic mobility by increasing incomes (such as earned income tax credits), and policies that assist those individuals with the most serious physical and mental disabilities.

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*Opening Remarks, reprinted in *Income Inequality: Issues and Policy Options*. Federal Reserve Bank of Kansas City Symposium Series, 1998.

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