General Commentary

Katherine McFate

This conference is about inequality, not poverty alleviation. Presumably, this is because we believe that too much inequality is a problem in and of itself. We care about inequality because when the social distance between the top and the bottom is too great, the trickle-down benefits of economic growth become more questionable, and so growth becomes a less effective mechanism for improving the circumstances of those at the bottom. We care about economic inequality because we worry that too much of it may undermine the legitimacy of our economic system or the functioning of our political institutions. We fear that too much inequality may fragment society, encouraging the rich to exit public space and institutions and setting in motion centrifugal dynamics that undermine social cohesion. I will come back to this point about inequality because I think it underlies the impetus for this conference and has not been adequately addressed in the discussions. But first, let me review the policy implications of the sessions.

Health

There is a vast literature on the relationship between income and health outcomes that was noticeably absent from today's discussions. That literature tells us that access to health care providers (whether one has insurance or not) is a very small part of the correlation between income and health. Rather, diet, risk behaviors (such as smoking), stress (including being a low-status person in a hierarchical society), and other factors are most strongly associated with low-income status and with poor health. This literature holds in western European countries, where health coverage is universal. On the rural/urban divide discussed today, an emerging—although still contested—literature is linking low-income, often minority, communities to environmental pollution. This link is present in both urban and rural areas—brownfields sites in central cities and waste disposal and pollution in rural areas. However, this link has not yet been included in most of the data that demonstrate the links between income and health. When it is, the correlations are likely to become stronger.

Housing

James Orr and Richard Peach, and Joseph Gyourko and Joseph Tracy, suggest that the quality of housing purchased by low-income people has increased, but that the poor pay more (too much) of their income for housing than they did

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in the past. The simple explanation for this is that we have regulated substandard housing out of existence—the result is that the poor have safer but more expensive housing, and less money available for other goods. This makes it more difficult for low-income people to accumulate a down payment and buy a home. Christopher Mayer tells us that home ownership is not necessarily a good thing for poor people—it ties them to a place, where jobs may not exist, and may overcommit their limited financial resources. Having just spent half a day with officers of the Fannie Mae Foundation, I can tell you the argument for home ownership: Not only does it make people feel that they have a "stake" in a community, home ownership represents a vehicle for saving and potential wealth accumulation for this generation and the next. It can be a vehicle for the cross-generational accumulation of assets (educational as well as financial, if parents use home equity to finance their child's college education). If the mobility demands of the labor market and changing real estate and credit conditions are making home ownership a less desirable goal for low-income people, then perhaps we should reexamine the assumptions behind the policies that promote home ownership across all income groups. There is something a little disturbing to me about the idea that home ownership may be good for the rest of us, but not for the poor.

Crime

The general point of Steven Levitt's paper—that high-income people have been less successful sheltering themselves from crimes against their person than from crimes against their property—seems plausible. Statistics do show an increase in the incidence of assault, robbery, and murder by strangers—but without information on the income of murder victims, this work can only be suggestive.

Education

The relationship between income inequality and educational inequality is, I think, at the core of our concern about the long-term social impacts of inequality. Americans believe in starting-gate equality: if you work and study hard, you should be able to have a good life. We believe in the importance of getting a good education. For an individual, education is the ticket to a good income and future mobility. But where American society tends to fall short is in providing a "good education" for the bottom 20 to 30 percent of the income distribution. I want to note that tests show that the bottom 25 percent are getting a better education than they were thirty years ago—they are learning more. *But they are not acquiring cognitive skills at the rate the economy demands, and they are not skilling up as quickly as the children in families in the top 20 percent—your kids.* The relative *rates* at which skills and income are accumulated seem critically important.

Children who have an educated, high-income mother have an educational advantage over children who do not. Nothing that we do inside the public schools seems to make that advantage go away. But huge differences in school quality and resources can *exaggerate* the advantage of higher income kids. In fact, probably every parent in this room is doing whatever he or she can to increase their child's educational advantages. As we in the top 20 percent do everything possible to increase the rate at which our kids accumulate knowledge, we are feeding future inequality—if we do not also support very strong, deliberate policies to *increase the rate* for those at the bottom as well.

The school financing reform paper by Thomas Downes and David Figlio gets at this phenomenon. It suggests that reforms that attempt to equalize financing across districts may actually improve outcomes for children in the bottom 25 percent of the public schools and equalize education accumulation in the public schools. However, the paper also suggests that these reforms are not really reducing overall inequality because children in the top 20 percent of the income bracket just "opt out" and go to private schools (where they may accumulate education at an even faster rate). The rapid accumulation of disposable income by people in the top 20 percent of the income distribution (often two-income professional families) allows and encourages them to pay for the privatization of schooling for their children and the development of a two-tiered schooling system.

If we care about inequality—if we think that a *growing spread* (particularly in education and income) between the top and the bottom is a problem—then we cannot just focus on raising the bottom. We may want to *slow the rate of accumulation* of income and education for the top 20 percent as we try to speed the rate of accumulation for those at the bottom. If the top 20 percent have to pay more for their homes and spend more of their disposable income to get (added) educational advantages for their children, this may be good in that it will make some people more reluctant to choose the opt-out/private-school approach. Even better might be policies that demand that high-income privatizers pay the public schools for the privilege of opting out—in the form of, say, a tax of 50 percent of the direct costs of their child's private school fees to the public systems that they abandon. Such a tax could be a hefty incentive for parents to stay in and make the public schools better, or it would provide more resources to speed the accumulation of knowledge among those left behind.

However, this cannot be very effective as a local policy. As the papers on urban governance presented here demonstrate, cities and states are not appropriate governmental units for redistribution because of the exit option. So we are forced back to relatively straightforward questions about how our national tax and transfer systems feed inequality—an important topic that we tend to ignore at these kinds of conferences. If we care about inequality, then we have to look at distributional policies that affect all of us, not just policies that affect those in the lowest tiers of the economy.