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Neighborhood Deterioration and  
the Urban Housing Market Complex

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## I. Introduction.

Neighborhoods have come increasingly to the attention of urban students as both a vital arena where critical urban problems are generated and played out, and as an analytical unit for the understanding of these problems. We have the evidence before our eyes that neighborhoods decline, sometimes so far they they become like battlefields, swept by the bitter wasted lives and physical structures, and both abandoned, wrecked and burned out. And more - that the waste does not stay in one place: it travels across the city, like raw sewage.

What causes this human and physical destruction? What can stop it?

This paper is an attempt to throw some light on neighborhood deterioration, primarily by placing it within the context of the working of the urban housing market. The primary emphasis of the paper is that decline is not an unusual, traumatic event that happens to a city; it is rather an integral aspect of a continuing process that is part of the city.<sup>1</sup> When viewed in this context, not all decline is socially undesirable. Indeed, much of it is a conveyence for social benefits. But excesses do occur, and result in serious loss of human and property resources. The paper will try to distinguish the advantageous normal process and its excesses, and explain the source of the latter. It is beyond the scope of the paper to discuss public policy measures for rectifying the distortions of the system; but an attempt will be made to structure the problem for a productive discussion of public policy.

The plan of the paper is as follows. In section II we show how the concept and reality of neighborhood arises out of the provision of urban housing services, and examine how neighborhood influences the welfare of

the urban population. In section III we relate neighborhood - as environment and actor - explicitly to important aspects of the urban housing sector. In section IV we give a brief overall analysis of the urban housing market complex, to show the context within which important neighborhood processes occur. Section V elaborates neighborhood changes as explicit aspects of the adjustment process of this market complex and discusses in more detail how the system furnishes housing for the urban poor. This discussion of neighborhood change is specialized in section VI to consider decline and the various components that comprise it. Finally, in section VII, distinctions between socially advantageous and disastrous versions of decline as an adjustment process are examined, and both the character and some contributing factors of the latter are discussed. Section VIII concludes with an attempt to derive from the foregoing a structure of the problem of neighborhood deterioration for public policy action.

## II. Housing, Neighborhood and Welfare

One of the most distinguishing features of urban housing is that it localizes the consumption of housing services and other commodities. A considerable amount of time must be spent in a single location. Thus, casual social encounters can deepen by repetition, shopping and recreational habits can form, a distinct character of public services can be absorbed, and - perhaps most important - the style and substance of one's attitudes, values and behavior can develop as an adjustment to dependable expectations about others' behavior and values and attitudes toward one another and toward oneself. Both children and adults become socialized within the arena of repeated, customary and dependable interactions with others.

Thus, neighborhood is the result of the stationarity of the residential function that not only itself comprises a varied repertoire but acts as

a magnet to the spatial provision of private goods and public goods. It not only anchors behavior as a "consumer" of both market and non-market goods (and as a producer of many of these non-market goods), but also creates and even deepens values.

Because housing units are spatially fixed, a household establishing itself in one, buys or rents not only the physical structure with its sheltering services but also the location - the neighborhood. This comprises the people, with their styles of life, the other housing structures and lots, the public infrastructure (streets, parks, lights, sanitation, etc.) and other local public goods (public education, police and fire protection, etc.), the nearby seller of private goods, and the physical environment. The value of different "housing packages" to the household is substantially affected by the neighborhood components of the packages, both because the physio-socio-politico-economic character of the closely surrounding area matters in itself by shaping choice options, attitudes and passive receipt of experiences, and also because different neighborhoods generally differ in various ways in performing these functions.

How important to a household's welfare is the neighborhood component of the housing package? The physical environment dimension can influence life, death, and morbidity via illness and security of person and property through fire hazard; the demographic dimension can influence security of person and property through crime, and some of the deepest human relationships via friendship; the political dimension can promote or retard the health and life chances of household members via education, health care, etc.; the economic dimension can influence job selection, variety of consumption, and the level of real income via availability, accessibility and prices of private goods and employment opportunities.

Finally, neighborhood is the matrix of some of the most important values and attitudes of the individual and, as such, is at the base of much of the individual's valuation of non-neighborhood commodities and opportunities and of the degree of his/her own well-being.

So neighborhood is significant, and changes in the quality of a neighborhood can considerably influence for better or worse the well-being of its inhabitants. This gives relevance to our enquiry concerning the nature, courses and consequences of neighborhood deterioration.

### III. Neighborhoods and the Housing Market Complex

In large urban areas housing is anything but a homogeneous commodity. Housing packages differ in innumerable ways: numerous components of the structure itself, as well as differences in lot characteristics, accessibility and neighborhood. It is not merely that packages differ in these many dimensions; households care deeply about most of these differences. Very substantial search efforts and large price differentials for even modest differences in many of the dimensions, testify to this significance and variety of differences "that matter". So the housing market for any urban area is in reality a complex of related markets for commodities with various degrees of substitutability. A market analysis of urban housing must take these differing degrees of relatedness into account.

The economic theory of multiple related markets is not strongly developed. On a highly formal level it is the theory of general equilibrium. But this provides little concrete aid as a fabric for introducing various degrees of empirically established commodity relatedness in both demand and supply.<sup>2</sup> Recent research by the author and others has provided, in the theory of commodity hierarchies, a framework more suited to the analysis of the housing market complex.<sup>3</sup> Different housing packages are deemed capable of being ordered in a hierarchy of quality. The author's treatment differs from

that of Sweeney in that Sweeney treats this hierarchy as an objective fact, while the author treats it as a simplifying empirical construct. So long as household tastes for housing differ appreciably there is no logically consistent way to define a quality hierarchy to which all or nearly all households will agree. The author develops a hierarchy of housing packages empirically, as a statistical approximation to the differing degrees of marginal substitutability among differing housing package actually established on the average in the market. These different substitution rates apply to both demand and supply.

The main reason for applying a commodity hierarchy theory to the housing sector is to explain/predict the chain of consequences to a change that has its initial impact in a specific part of the sector. The variety of package differences suggests many different kinds of repercussions. Hierarchy is a way of organizing these differences that enables one to hypothesize a general principle of repercussion: an impulse of change generated in one part of the hierarchy will induce a larger similar impulse in a part closer to it in the hierarchy than in one farther away, all other things being equal. Stronger substitutes will behave more similarly than weaker substitutes. Thus, an impulse beginning in a particular part of the market complex will damp as it spreads to more and more distant parts of the complex, finally disappearing. This is a powerful organizing structure for a multi-commodity complex.

Where do neighborhoods fit into this structure? The approximately hierarchical structure of housing quality suggests that the housing market complex can be treated as a string of quality submarkets, each submarket comprising housing units concentrated in a narrow interval of quality levels and behaving like the market for a normal good having

variously related substitutes. Neighborhood characteristics go a long way to determine which housing units will cluster in the same submarkets. While housing structures can conceivably combine the most varied mixes of components, the strong household desire for consistent styles of life leads to a high degree of homogeneity in the quality of the separate components of overall housing packages: structure mix characteristics tend to be complementary (consistent) with the quality of the neighborhood. Neighborhoods are highly, although not completely, homogeneous in reflecting a consistent quality of living; so they reflect and help to induce a homogeneity not only in housing packages but through household self-selection, in demographic characteristics like per capita income and lifestyle.

Thus, a sizable percentage of units in any neighborhood is likely to belong to the same quality submarket, and a single such submarket is likely to comprise the majority of units in neighborhoods of comparable quality. Neighborhoods can therefore be treated almost as homogeneous constituents of quality submarkets, and sets of similar neighborhoods can be taken as approximations to the quality submarkets themselves.

This analytic treatment of the several housing units within any neighborhood is not, however, simply a theoretical convenience. It has a representation in actual behaviour. Suppose market forces change in a certain way, and that almost all of the housing properties in a given neighborhood have been adjusted to them by their owners in a similar way, say by downgrading quality. Consider the situation of a property that has not yet been adjusted. A contrary adjustment for this property is very unlikely, because such an important part of the overall attractiveness of the unit depends on the character of the surrounding neighborhood that

an investment in upgrading here would be likely to produce an inadequate increase in perceived quality to permit the investment to pay off. A compatible downgrading, on the other hand, is likely to give a higher return than either upgrading or remaining unchanged - since the saving in maintenance expense or the investment in splitting units would be likely to be competitively protected by the similar predominant neighborhood response.

A predominant upgrading also predisposes the response of the individual unit to imitate, because first the otherwise risky investment in upgrading with higher asking prices is competitively protected here by the group increase; second, while an attempt to avoid upgrading and to take a free-ride on the increased attractiveness resulting from group upgrading would be more profitable if it could be maintained, a symmetric free-rider attempt would sabotage group upgrading and bring the rest back to the level of the free ride and a uniform upgrading-group. So the most profitable stable policy is for a near-uniform conformity with group-signaled upgrading.

Given this structure of incentives, abetted by the closeness of housing substitutability in a neighborhood, and the ease of perceiving discrepant adjustments, highly conformist behavior is most likely: the neighborhood tends to act and react as a unit. As we shall indicate below, the behavior of real estate agents, financial institutions, and even government tend to increase this uniformity. So neighborhood is in important respects to be seen, and analytically treated, as an important behavior unit.

An individual neighborhood may usefully be treated as a unit within a single quality submarket. But the fortunes or misfortunes of that submarket cannot be treated as independent of forces operating in the whole set of quality submarkets. Since the different submarkets are related in differing degrees, what happens in one has repercussions on the others, some strong, some weak. Indeed, the fortunes of a submarket in which a

given impulse is first generated is not accurately predicted by that initial impact because not only is that impulse propagated in differing degrees to the other submarkets, but those secondary impacts lead to adjustments elsewhere that reverberate back to the original source of the disturbance, thereby changing the final net effect there. So changes in each neighborhood stem only partly from internal changes; potentially important changes either originate elsewhere and are spread here, or are the returning repercussions of changes spread from here to others. The individual neighborhood is an integral part of a larger system, not a free-standing entity. We now turn to a brief description of how that system operates.

#### IV. Analysis of the Urban Housing Market Complex

We assume that the diversity of housing packages can be decomposed into a segmentation of the market that consists of an ordered string of quality level submarkets (with neighborhoods as largely homogeneous constituents of these submarkets). Each submarket acts like a "normal" market, with demand and supply forces and a market adjustment equilibrating mechanism.<sup>4</sup> Both demand and supply reflect the presence of numerous substitutes of differing degree, and thus circumscribe the range of independent variation achievable by any submarket in question. But since the substitutes are not perfect, some room does remain for changes in relative prices and activity levels between each submarket and all the rest.

The demand for housing units in any submarket is subject to various comparative static and dynamic features. For simplicity we shall concentrate on the static ones. Since for each household the quality level and internal composition of housing that maximizes utility depend on the household's income level, its demographic structure (size, age composition, education, race or ethnic membership, etc.) and relative prices of the



different housing packages available, the number of units demanded in each quality submarket for the urban area as a whole depends on the absolute distribution of income and demographic features in the urban population as well as the price of accommodation in all of the submarkets. High prices generally repel, low prices attract, demand. Over time, changes in relative distributions or in the absolute size of the population will induce demand changes in the different submarkets.

The supply side too has significant dynamic as well as static factors. Here also we concentrate only on the static; but even so the situation remains complicated. There really are two different kinds of supply response to market conditions. One is the conventional notion of supply as new construction. But the durability and malleability of housing capital creates a second form: the modification of services from existing housing structures. Housing structures are extremely durable, they can be modified in various ways architecturally and with respect to physical condition at moderate cost, and they are extremely expensive to demolish physically. In every period the standing housing stock built before that period comprises the overwhelmingly preponderant source (more than 95%) of housing services. The ability to modify existing structures during their lifetime provides an alternative to either passively allowing them to age undisturbed or to retiring them. Changes in market conditions and the high cost of demolition often make this option more profitable than either of the other two. Deliberate modification of tenure status (owner occupier vs. rental), physical characteristics or condition of premises constitutes a genuine form of supply response to market conditions. Moreover, since it can affect an overwhelming proportion of the available housing units, sometimes in significant ways, it must be considered a coequal partner with new construction.

Modification of existing units and new construction are competitive supply modes. They have different technologies, but are potential rivals in meeting additional demands for units at any quality level. New construction meets such demands by adding net units to the overall stock at the target level; modification does so by shifting units away from less profitable submarkets to the target level. This process does not necessarily maintain the same total number of units, since the shift may consist in either splitting larger units into more numerous smaller units or the reverse.

Rivalry between the two modes has a number of aspects. For one, the stock modification option, combined with the high cost of demolition, tends to decrease retirement of units and so prolong the lifetime of existing structures, thereby decreasing the average importance of new construction over time. This also affects the spatial distribution of new construction. It decreases the incentive to replace existing structures on the same site. So new construction tends to take place on previously undeveloped land, and thus to be part of new neighborhoods. Even where heavy neighborhood deterioration has resulted in abandonment and fire destruction of structures, new construction is likely to be deterred from such sites by the value-depressing character of the surrounding neighborhood. The chief exception to this spatial relationship is the situation where a radical increase in land-use density is profitable. In such cases even high quality housing in excellent condition may be demolished to make way for the significantly different land-use.

The amount of new construction in any quality submarket is determined by the differential prospective profitabilities to be obtained by adding units at the different quality levels. This depends in turn on the expected

strength of demand for such units at these quality levels and the cost of producing a new unit at each. The latter stems from building technology and input prices (including interest rates). The former depends on both the overall demand schedule for units at each level (i.e., number and price) and the expected number that will be provided by the existing stock, both through passive care and stock modification - in other words it is the excess at present price levels of total demand over the expected number to be provided by the alternative supply mode. Submarkets with high "excess demand"<sup>5/</sup> low construction cost combinations will be especially favored against others; those with low excess demands and/or high costs will be especially avoided. It is important to note that it is the combination of excess demand and costs, not either alone, that determines both the absolute number of new units constructed and their submarket distribution.

The number of units from the existing housing stock that will appear in any submarket at any time (neglecting dynamics) depends on expected relative profitability achievable at different quality levels for all units in the existing stock. This too depends on expected revenues and costs at the different quality levels. The relevant revenues depend on corresponding expected excess demands, here modified to mean total demand (at present prices) at each quality level less expected number of units to be supplied at that level by new construction. Cost involves a different technology. Each existing unit in the stock has a cost of modifying it to any particular target level that depends on the initial (start of period) level of the unit (as well as on certain structural particularities). So "the" cost of supplying units at a given target quality level via stock modification (including zero modification) is in reality a frequency distribution of costs,

the relative frequencies depending on the distribution of initial quality levels in the initial stock.

New construction and stock modification are not symmetrical forms of supply. The former can treat capital as perfectly malleable, the latter is constrained by the character of the capital embedded in the existing stock, and the two therefore also have different opportunity costs of capital. Stock modification makes no new demands on the land supply, and can take place on any already-developed site; new construction requires land sites not occupied by non-demolished structures. New construction at each quality level has a cost function based only on current technology and input prices; modification costs, on the other hand, depend not only on these but also critically on the distribution of characteristics of the existing stock: it is, in this respect, more history-bound.

In any period, a given population will have an overall structure of demand that calls forth a combination of new construction and stock modification. But the mix depends heavily on the specific terms of the competition between them. The same change in demand will call forth quite different amounts and quality levels of new construction in cities beginning the period with very different distributions of quality levels in their otherwise equally adjusted initial housing stocks. These supply relationships are crucial for understanding and evaluating neighborhood deterioration.

For any submarket, both demand and supply depend on conditions in other submarkets - prices, numbers of units, excess demands. By the repercussion hypothesis, these dependencies are stronger for closer submarkets, weaker for more distant ones. It is easy to see strings of repercussions occurring among submarkets in response to any initial impact. One such that fits into the present framework is the so-called "filtering" process, whereby

new construction for high income households leads to a sequence of changed occupancies for successively lower income households in successively lower quality units, everyone moving up into units released by a higher group's moving up, like musical chairs, until units are finally released to the lowest income group and they in turn move up, releasing their units to vacancy. In sum, changes in any one submarket - and in its constituent neighborhoods - depend only partly on events having their origin in the submarket. Many changes depend on events or processes originating in other submarkets. What a neighborhood can do for itself to moderate an unsatisfactory state of affairs depends on whether the source of its trouble lies within or outside the submarket.

#### V. Neighborhood Transition as Market Adjustment

A neighborhood maintains or changes its character for reasons which stem from inner forces or outer, or a combination of the two. Generally the repercussions generated from any initial impetus to change are adequately explained in terms of static (long-run) relationships belonging to the analytic framework sketched in the last section, and so, are self-limiting: that is, affairs are not so unstable that any nudge produces a cumulative, uncontrollable change. Propagation of inter-submarket impulses is circumscribed by a set of conditions governing inter-submarket relationships at rest, especially if general equilibrium is approached. Under some circumstances, however, dynamic considerations may lead to cumulative changes. The constrained or unstable character of change constitutes one basis for evaluating neighborhood decline.

What are the conditions for a neighborhood maintaining its character over time? A balance between outflow and inflow of households is required, along with a maintenance of the average quality of housing. Stability does

not require an absence of change; as a result of life-cycle forces there is a continuous normal turnover of households out of present accommodations into different ones as age, size, job location, income, etc. change over time. Because of stock modification responsiveness to demand, average housing quality may be induced to change unless these outflows are matched by inflows of households with demand for the same kind of housing as the turnover made available. So numerical balance of flows is not sufficient: a match of demographic characteristics is also needed.

The match or mismatch of flows occurs against a backdrop of two relationships: (1) the competitiveness of the neighborhood in question with other neighborhoods that offer a highly similar typical housing package - neighborhoods in the same or in a very close quality submarket; (2) the relationship between this submarket and others currently subject to significant changes. The first concerns the appearance and change of minor, possibly chance or transitory factors affecting the attractiveness of a neighborhood or the temporal sequence of market transactions. Slight aberrations may confer slight competitive edges or disadvantages among closely competitive neighborhoods, and these may form the basis for a large modification of household perceptions.

It is in this connection that dynamic forces must be appraised. Recent research<sup>6</sup> has stressed "neighborhood perception" by households, real estate agents, financial institutions, and local government as having a vital effect on the stability of neighborhood character. Everyone is assumed to be making present decisions on the basis of expectations about the future, and all of them assumed to predict the future by examining very subtle, very slight changes in present circumstances. It is argued that even small stochastic events may be perceived by these actors as signaling quite substantial future changes, and so it triggers actions by them

that self-fulfill their predictions. This is assumed to refer both to neighborhood upgrading or decline, but to be somewhat more likely for declines.

Such a view of market dynamics is contrary to the spirit of the theoretical model described above. In terms of the latter, any small or temporary realignment of relative attractiveness among neighborhoods perceived by actors will lead to behavior that is self-limiting, not self-augmenting. A slight improvement for neighborhood A relative to B and C, for example, will lead to increased and/or demographically higher inflows. But this will result in higher prices for accommodations in A relative to B and C - and, instead of signalling how much more attractive A is than B or C than was originally thought, it serves to equalize the overall attractions of representative accommodation - cum price packages across A, B, and C, and thereby lead to a new resting place. The difference in treatments lies in how much information actors have about future attractiveness independent of price. A world in which price change and other transactional change indices are typically taken as the most dependable indicators of expected housing quality is a very unstable world. Our model assumes the existence of a variety of informational sources and therefore a less explosive formation of expectations. Having said this, we admit that expectation formation of that unstable sort does sometimes occur; but when it does, there are reasons for it. Thus, it is a possible, and sometimes important, phenomenon; but it is exceptional, and an attempt will be made to suggest some of the circumstances under which the exception is likely to occur.

The relationship of the neighborhood in question to changes in other neighborhoods is a more important exercise of the model. Both outflows and the potentially balancing inflows of households may be due to normal

background turnover due to life cycle processes. Then, so long as the population is demographically stable (size, age distribution, income distribution), the flows may well balance. But if there are considerable changes in any of these dimensions they will have the effect of changing the absolute and/or relative demand for accommodations in some initial set of submarkets, and these changes will generate market adjustments there - prices, quantities, induced qualities - that transmit repercussions into other sets of submarkets. . . These indirect effects in a second generation of impacted submarkets will in turn transmit repercussions to a third generation of submarkets, and so on. Our neighborhood in question will be swept by one of these generations of repercussions, the strength of which will be, as usual, directly related to the neighborhood's closeness of substitutability to the submarkets receiving the initial impact. The same scenarios are true of large-scale changes in supply-side variables.

So stability of a particular neighborhood essentially depends on the macro-stability of both demand and supply-side variable in the urban area as a whole. Failure of the latter stability will produce changes in generally more than one neighborhood. Some types of macro-change will result in mixed, indecisive, idiosyncratic types of change across neighborhoods. Others of some importance will produce a much more distinguishable pattern of changes. Among these latter, major currents of population, income and transportation change generate highly characteristic configurations.

Strong population growth, especially concentrated within the lower half of the income distribution, has been one of the most important and pervasive experience for American cities from 1945 to 1970. Its schematic



effect, taken by itself, is as follows. Low quality submarkets (say neighborhood set A) experience increased demand. Prices are bid up and, on the one hand, current residents find it more advantageous to move to higher quality submarkets, a.d, on the other, newcomers to the impacted neighborhoods find it desirable to buy a lower quality of housing (less housing) than originally offered in the typical accomodation. Original residents who were owner-occupiers find it more profitable to sell their houses and move to areas with prices as yet less impacted (neighborhood set B). Renters find that the now-higher prices make the overall accomodaton-price package in the impacted neighborhood set A less a bargain than slightly higher quality housing at less-inflated prices (set B). Meanwhile the impact demand for lower quality housing induces owners in the neighborhood set A to modify the quality of their structures downward - by splitting, lower level of maintenance and repair, shift from owner-occupier to rental status, etc. Less marked downward modification will occur also in the slightly higher quality submarkets of set B to which original impact-area residents move.

The first wave of demand and supply adjustments leads to further waves. Inflows to set B raise prices and induce quality declines there. Original set B residents are in a slightly weaker version of the original set A residents, and some of them now flow to a slightly higher quality submarket - neighborhood set C. The successive waves flow to higher and higher quality submarkets, with attendant rising prices and declining quality. At some submarket level L these changes induce not only stock modification supply adjustment but also new construction at a quality level roughly equal to the level to which stock modification is reducing initial levels in set L. This may give an additional impetus to turnover within L as well as a secondary spurt to inflows from L-1. The further upward shifts become successively

dominated by a new construction response relative to stock modification, until at the highest levels it is almost entirely new construction that furnishes the additional units demanded by upflows. This is appropriate since at these highest levels there are no higher levels from which stock modification can supply net additions to the stock.

Overall, then, the adjustment process involves an upward shift in occupancies throughout, but a corresponding part-way downward adjustment of quality in the existing stock throughout, with the overall increase in numbers of units required to support the larger household population furnished by splitting at lower levels and new construction at higher levels. Accompanying all this is a general, but damped, increase in prices - highest at the initial impact levels and progressively less at higher and higher quality levels.

This process results in a quality decline in every submarket - thus, implicitly, in every neighborhood. The declines are graded and are greatest in the lowest neighborhoods. They are not, however, the result of a weakening of market demand in each of these, as the analysis in terms of inflow-outflow balances would suggest, but rather due to a strengthening of market demand relative to supply. The excess demands raise price and thereby induce a consumption of less housing per unit, which the flexibility of stock modification is capable of providing.

Are the neighborhood declines to be deplored - or applauded? In this case they result from a supple supply adjustment to meet revised household budget priorities stemming from a change in the price of housing relative to other commodities. Ought not the price of housing rise at all as a result of population growth? We would expect an increased press of demand on resources in other commodities to raise prices and thus help

to set limits to the increased claim to those commodities. Since this is an integral part of an efficient allocational process, we would want this to take place for other commodities. Why not for housing? Evidently, a decline in housing quality in each neighborhood, accompanied by the decline of socio-economic status in the population resulting after net turnover, may not be deplorable but a feature of an efficiently allocating market mechanism.

Similar shift waves are generated by significant sustained changes in per capita income, or important changes in the urban transportation system. Income increases also raise housing demands, but now they are demands for higher quality per unit by households experiencing income increases. Assume the income increases are widespread and proportional to existing incomes. Then demand for higher quality will generally affect all neighborhoods. A combination of two types of supply response may now occur.

In each neighborhood some owners may wish to upgrade their property. If not enough owners are of the same mind the combination of neighborhood externalities and close physical contact will deter the owners from carrying out this desire, as discussed earlier. An important reason for many owners not wanting to upgrade is that they can expect a higher demand for their property unchanged or even slightly downgraded from initial residents of lower quality neighborhoods who seek the higher housing quality their higher income warrants by moving to a better neighborhood. This is likely to be the dominant adjustment pattern. It results in large upward shifts into better neighborhoods by many across most of the quality spectrum, with little or no downgrading of property. It is accompanied by higher prices throughout. As in the preceding scenario, at some sufficiently high quality level the demand for higher quality elicits new construction,

above which an increasing proportion of upward shift behavior takes the form of moving into new units. In large measure this involves creation of new neighborhoods at quality levels paralleling older neighborhoods.

Overall, the pattern is a widespread move by households into better neighborhoods. At high quality levels increasing percentages of shifts are into new units. Since more total units now exist with an increase in number of households only via a higher income-induced splitting of households, net vacancies will be created as a result of the musical chairs shifting. These vacancies are clustered at the lowest quality levels - the poorest neighborhoods. So while each neighborhood experiences high turnover, the replacement flow essentially demographically duplicating the original status of outflow, a form of deterioration, higher vacancy rates - at least a trigger for deterioration, as we shall note below - afflict already low quality neighborhoods.

Suppose instead of increasing income, the population had suffered falling income. Then the musical chairs chain of shifts would have been to lower quality neighborhoods throughout. Again inflow would match outflow demographically, but now the greater clustering in poor neighborhoods must be made up predominantly by widespread downward stock modification instead of new construction, although the latter may arise at moderate quality levels to attract downward shifting households. Any net vacancies created are likely to be concentrated at very high quality levels. So most neighborhoods will experience demographic stability but physical downgrading of property.

Scenarios of widespread wave-like shifts can be drawn for other exogeneous impulses, like important changes in the urban transportation system (with differential impacts based on spatical accessibility), but

they will resemble the configurations already drawn. The message in all of them will be similar: some form of deterioration - demographic status or housing quality - will afflict some or most or all neighborhoods; but this is not necessarily bad in itself. Rather it represents an aspect - generally not the most important aspect - of the resource allocative adjustment by the housing sector to changing exogenous forces. The demand side of adjustment is responsible directly for making demographic shifts and indirectly for giving signals to suppliers to adjust. Stock modification is responsible for quality deterioration, new construction for creation and clustering of vacancies. So all elements of the adjustment share responsibility for neighborhood deterioration.

One final scenario is especially important. It concerns how low-income groups and the poor are housed in American cities. We have referred in the earlier scenarios to a lack of uniformity in the appearance of new construction at different quality levels. This is neither arbitrary, accidental, nor inevitable, but rather the result of special institutional features in American cities. At each quality level new construction must compete with stock modification to supply units demanded there. How are the low quality units demanded by low income households supplied? In many nations they are newly constructed expressly at the targeted quality levels. This is the character of the innumerable shanty towns that mushroom on the outskirts of the city in the response to heavy urbanization by the poor. In U.S. cities, on the other hand, they are supplied almost entirely by downward stock modification of old housing units originally built at much higher levels.

This is the so-called "filtering" process, whereby households move up to better units and/or better units move downward to poorer households. The concept of filtering is somewhat confusing because it does not distinguish

among occupancy changes by households, quality changes by housing units, and changes of prices for different units. Our model on the other hand is founded on these distinctions, and can therefore distinguish situations involving very different welfare implications but which are smudged together when the analysis is in terms of filtering.

The dominance of quality-downgraded units for the poor stems heavily from the fact that various building and health codes and zoning regulations make it either literally impossible or prohibitively expensive to build housing units of qualities relevant to the demand of approximately the lowest half of the income distribution.<sup>7</sup> The lowest level permitted cannot be afforded by the very poor, and low levels that are permitted cost so much to produce that they can be easily undercut by competition from downward stock modified units, especially old units for which downgrading has low opportunity costs.

This form of supply for the poor inherently involves deterioration of existing housing units. Yet, given this social valuation implied by code and zoning regulations, it may well represent an efficient market adaptation to the existence of poverty and low income generally. If one deplores the significant deterioration of property involved, and the associated downward demographic drift of neighborhoods, it is in fact either the presence of a low income population or the presence of building and land-use constraints that one is deploring.

The above case is made deliberately provocative to underscore the fact that neighborhood decline cannot be considered in a vacuum, but must be seen as part of a complex response by households, builders, property owners, financial and real estate agents, and others to market conditions, exogeneous forces and institutional constraints.

Within such complex processes, neighborhood changes may well represent the key desirable aspects of the system's response. Beyond this, the poverty scenario is exaggerated. We shall discuss below some of the disadvantages of depending on this pattern of meeting the housing wants of the most disadvantaged population groups.

## VI. Components of Neighborhood Decline

### A. Types of Decline

In the last section we argued that there are a number of different circumstances under which it can be said that a neighborhood has declined. A neighborhood may decline if it becomes less attractive to households like that of its typical present residents. But it may also decline if it becomes more attractive to households at lower socio-economic status, since the latter then can bid away accommodations from present residents even if present residents feel just as much attracted as before. This pattern is abetted especially if property owners find that large-scale splitting of existing units and other means of accommodating higher density land-use would strongly enhance profitability. In this case, then, the neighborhood declines not because of failure to attract but because of spectacular success in attracting a different kind of clientele. The "fault" does not lie within the neighborhood but in the existence of large system-wide forces outside. A number of treatments of neighborhood decline emphasize the internal failure case, but the latter may be more pervasive.

Both of the above concern the paucity or poverty of in-migrants to a neighborhood. But some researchers lay an important source of the trouble to the character of the population outflow. If American households did not upgrade their housing by moving out to better neighborhoods, but instead upgraded in place, this would avoid much of the

neighborhood transitions, and prevent some of the consequent deterioration that accompanies it.<sup>8</sup> The point is that upgrading of some property in a neighborhood may tend to encourage others to do so too, because it suggests the possibility of thereby achieving a critical mass for overall neighborhood uplift; or at least that such selective upgrading will deter other property owners from downgrading their property because maintained neighborhood quality makes decent housing quality pay off. Any upgrading in place is a signal to others that neighborhood externalities can be made to provide a steady or even enhanced overall neighborhood quality. Frequent upgrading in place might generate a pattern of more heterogeneity in neighborhoods.

Such heterogeneity at present is encountered mostly in ghetto areas, where households with diverse living styles are forced to live near one another because discrimination bars entry to them in other areas; also it occurs in some ethnic neighborhoods (e.g. Greek and Chinese) where strong ethnic identification exceeds income-induced desires for different life styles. Finally, it occurs in a few neighborhoods that possess special amenities - e.g. an urban university - that are very important to a minority of households at some given economic status/income level.

This is a rather narrow incentive base. The alternative pattern of upgrading by moving to a different neighborhood<sup>9</sup> rests on the strength of the influence of neighborhood externalities on the overall character of lifestyle and the fact that social mobility in the U.S. is quite high - so that locational change is socially acceptable and is an accepted way to change status identification. Upgrading housing as part of a lifestyle upgrading is seen to require a homogeneous environment that reflects that lifestyle. To achieve a comparably adequate consonance of environmental



components via upgrading in place is far more problematic, because it rests upon sufficiently numerous other residents, owners banks realtors and government taking upgrading actions as well - something that can not be guaranteed by any household faced with the choice of the two options. So inter-neighborhood flows, with their resulting neighborhood transition phenomena, are likely to remain the dominant mode of household upgrading.

#### B. Expectations and Dynamics

Until now we have either neglected expectations and dynamics or depreciated their importance. Both injuries must now be redressed. Inflow and outflow decisions for a given neighborhood depend, regardless of the internal or external forces operating, on expectations about the future character of this and other neighborhoods. This is because the costs of moving occupancies are high both in money and in emotional expenditure (few people want to develop an emotional attachment to a neighborhood only to have to terminate it shortly and abruptly). Households cannot afford to make mistakes about the continued congeniality of their surrounding in less than a "decent interval". So presently available information must be processed to form appropriate expectations.

In highly stable times, or in situations pregnant with strong unambiguous forces, most indicators are dependable and judgments are nearly objective. But completely changing circumstances make the task more difficult. Familiar - and yet unresolved - problems about expectations abound here. It is in such situations that information may be processed faultily, and people's actions based on them may lead to inadvertent outcomes.

Interested parties read disparate signs, take non-random samples, be-

cause complete information is not open to them. They are likely to project the individual case into the representative, perceiving the particular as the general: So the characteristics of individual transactions, of particular outmovers, changes in the external upkeep and appearance of specific properties, incidents involving public services, applications for mortgage loans, etc. Where currents are genuinely uncertain these specifics are likely to contain a high chance content, so they are undependable for generating predictions about the future. Yet people act on them - by moving in or out or refusing mortgage applications, or realtors shunting "the right kind of people" away from the neighborhood and channeling "the wrong kind" there, or government agencies allowing sanitation services or police protection or code enforcement to slip there. All these set in motion self-fulfilling movements: predictions of decline will lead to decline-oriented adjustments, which lead to instances of actual decline, which justify the original predictions, augment them and lead to further rounds of adjustment, justification and wider instances of decline, in a cumulating movement of scope and intensity well beyond the validity of original predictions. It is the absence of factual incursions from unambiguous strong currents of any sort, along with the widespread perception that the times are unstable, that prevents reality-testing to check the vicious circle.

The viciousness of the circle is especially abetted by the neighborhood externalities we have emphasized frequently. Even agents who do not themselves believe the original predictions are trapped in the currents so provoked, because the attractiveness of their own options are tied to the behavior of the larger group. The individual is swept by the group. Neighborhood homogeneity is exacted by panic or fatalism or both.

The adjustment process itself, fed in certain circumstances by unstable expectations, can thus sometimes determine outcomes. Our theoretical mainstay has been situations in which expectations simply mirrored highly discernible real forces, so that a comparative static analysis has been appropriate. But the unstable expectations case must be considered as well. In the next section we shall consider under what conditions it is likely to arise.

### C. Components of Decline

We have alluded to, but never made explicit, the characteristics of deteriorated neighborhoods, or the elements that contribute to decline. This is not an accident. There is such a variety of decline types that features that fit some do not fit others. Thus, attributes of weak demand are present in some forms of decline but not in those where it is a superabundant demand for lowered quality that powers decline. The purpose of this section is, then, not to present the picture of a deteriorating or deteriorated neighborhood, but to indicate the different aspects of a neighborhood that are party to the decline process or state.

#### 1. Physical structures

In most forms of decline the quality of housing decreases. The main exception is where quality is maintained but the new occupants are of lower status. This may occur if strong price declines in this general part of the market complex relative to elsewhere make higher quality units available to lower income groups than heretofore. Again, this may result either from relative weakness of the neighborhood in question or from larger forces like population decline, a building boom, change in accessibility patterns, etc.

Two forms of housing quality decline may occur in the usual cases.

One is a deterioration in maintenance and repair or accelerated wear and tear attendant on overcrowded or abusive use of property. Often this is a consequence of pessimistic expectations about the competitive viability - the income-earning potentialities - of the property. The other form involves considerable increase in land-use density. Property is modified to accept more housing units per structure, more individuals per unit. This is usually attendant on no loss of competitive viability, but a change in the kind of population for which the property is most profitably used.

An additional dimension is sometimes associated with physical decline, especially in structures which are owner-occupied. It is a situation where simple aging of the structure makes for a cumulative deterioration or obsolescence that requires extensive repair or modernization. The owner attempts to borrow money on mortgage for the rehabilitation but is rejected by financial institutions. Except for tight overall credit conditions this is likely to derive from perceptions of neighborhood weakness by financial agents. Rejection because of perception of population as a bad risk suggest population status decline as well.

## 2. Tenure

Tenure has a significant effect on owners' decisions about the level of maintenance and repair. In the presence of actual or expected market weakness, landlords of rental premises may well allow the condition to decline by skimping on upkeep. It is a calculated strategy to maximize profits. Owner-occupiers have different motives. Since they consume the services of their own premises, they are less likely to accept lower consumption standards just because of commercial weakness afflicting other people's property. Their maintenance standards are likely to be and remain higher than those of rental units.

Another difference between the two tenure types is that an owner-occupier is somewhat more likely than a renter to obtain improved housing conditions by upgrading in place rather than moving to a better neighborhood. This is due to both a higher cost of changing occupancy and a stronger allegiance to the neighborhood due to a longer residential duration (renters are likely to be more transitory residents in general).

So the mix of tenures in a neighborhood influences the vulnerability of upkeep decisions to even temporary changes in market conditions. A high owner-occupier ratio insulates the neighborhood against physical declines initiated by only slight weakness. One of the symptoms and predictors of real neighborhood decline is therefore a significant shift of structures from an owner-occupier to rental status.

### 3. Demographic Character

We have mentioned before that one of the dimensions of neighborhood quality is the status of its residents. This really means the perception by residents of how desirable other actual or potential residents are as neighbors. While researchers often treat this subjective perception as having an objective representation in socio-economic status, this is not always so. The habits, mores, values, even appearance of different groups may influence perceptions of their desirability. The case of racial prejudice is especially important and widespread. Whites of any social class may view blacks of every social class with suspicion, fear, hatred - regardless of the latter's actual behavior. Inflow of any blacks into an otherwise white neighborhood will often be considered an unmistakable sign of neighborhood decline, and provoke responses appropriate to decline - like panic, flight or defensive behavior.

Another population type is especially important to neighborhood

deterioration. This is the so-called "multi-problem population".<sup>10</sup> These are individuals and households with very high incidence of welfare dependency, crime, violence and other anti-social behavior toward one another and other groups. Their presence in significant numbers in a neighborhood is both itself a dimension of the low quality of neighborhood social interaction and a trigger for defensive adjustments (like flight) that further weaken the social fabric of the neighborhood.

Although the individuals that make up this group constitute a special concern for the society whatever their location within the urban area, there is some belief that the level of negative externalities generated by them is partly a function of their spatial clustering in critical masses. This is due to the greater (often fiscal) difficulty of using public services effectively to mitigate the problem and to the greater likelihood of deviant behavior when supported by alternate value systems that are the likely products of subcultures.

#### 4. Realtors

Real estate agents are important to the functioning of the housing market complex. In the presence of the considerable heterogeneity of housing and the less than 20% turnover of accommodations in each period, realtors are the richest sources of information about the characteristics of units and their availability on the market. As such they have great power to influence the match between households and housing units.

In carrying out their functions it has been argued that realtors both evince a concern to act as agent to their clients' welfare, and bear many of the attitudes and prejudices of at least some of their clients. The first leads them to try to fit buyers into neighborhoods "suitable" for them; the second helps to define suitable match in majority stereotypic ways. Thus, on the one hand they will steer the "right people"

away from poor, worsening or prospectively declining neighborhoods, permitting only less desirable clients, if anyone, to be placed there. On the other hand they are likely to match white with white, black with black, thereby helping to maintain stringent racial segregation in housing.

An exception to this careful separation policy is blockbusting, where deliberately provocative "mismatches" by the above standards are made for the purpose of inciting large-scale flight and thereby, speculative gains and heavy property sales for realtors and their associates.

Realtors can aggravate an incipient decline by acting on negative predictions so as to change the character of inflows negatively. They can trigger rapid deterioration by blockbusting. The formation of their expectations about the future of different neighborhoods is thus a very important influence on neighborhood transitions.

##### 5. Financial Institutions

Financial institutions play a role in neighborhood transitions by determining which applicants for mortgage credit will be successful. Credit for upgrading, new construction, maintenance, and market turnover exerts sometimes decisive effect on whether or not those activities take place. Allegedly decided on grounds of whether the project is a good credit risk, the decision is often a judgment on the credit-worthiness of the applicant and the quality of the neighborhood. Poor neighborhoods are deemed to be poor credit risks because the negative externalities generated there effectively doom the productivity of upgrading or even of market turnover investments. The response is often a redlining of such neighborhoods - a general policy to withhold mortgage finance from such neighborhoods. Clearly this contributes to worsening any small declines already begun. It is one of the ingredients of the cumulative self-fulfilling prophecies

that power the vicious circles discussed above.

## 6. Local Government

Even local government is a contributing actor in the deterioration of some neighborhoods. The quality and variety of public services provided in badly deteriorated neighborhoods is likely to fall significantly: first, because the inhabitants of such areas are likely to be politically weak; second, because it may be believed that police and fire protection, for example, is too difficult or dangerous in such areas, or that school-room conditions are too chaotic because of the problem population to warrant serious attempts to maintain, let alone upgrade, the quality of schooling. The worsening of public services adds to the lowering of neighborhood quality both directly in itself and indirectly by triggering additional flight by the portion of the remaining population that might have helped to prevent further deterioration. Insofar as the government devises its service quality differentiation on the basis of population change stereotypes rather than the evidence of actual decline it should be characterized as an initiator of decline, an integral participant in some of the worst vicious circles.

## VII. Social Costs of Neighborhood Deterioration

### A. Social Costs of Neighborhood Transition

In an earlier section we argued that neighborhood transition is often the form that the housing market takes in adjusting to large exogenous changes, and that, subject to some institutional constraints which have been placed on adjustment as a reflection of social values, it may well be an efficient form of adjustment - in the sense that so long as the exogenous changes must be experienced, alternative adjustments may



well involve less overall social advantage. Having presented a number of the kinds of elements associated with neighborhood decline in the last section, we are in a better position to examine certain features of the neighborhood transition process more closely, to discover welfare issues that were not discussed earlier.

The first issue is the link between what we have called the comparative static (long-run) transition process as a stable adjustment and the dynamically unstable process. Under what conditions are individual perturbations likely to generate cumulative self-fulfilling vicious circles? The most important conditions seem to be associated with racial discrimination in housing. Truly idiosyncratic perturbations may indeed, in the absence of broader information, be read by some individual as a harbinger of some larger movement to come. But other individuals are likely to read the same instances differently. Then their respective adjustments are likely largely to cancel one another out. The individual instances are likely to be perceived in the same way only if there is some common frame of reference held by most of the group within which the kind of instance in question is conventionally treated the same way. Racial discrimination and its consequences provide just such a common perceptual framework. The following seems to be the crucial chain of reasoning underlying the common perception: racial discrimination in housing exists; it generates a dual housing market, white neighborhoods, black neighborhoods<sup>11</sup>; black households are effectively excluded from white neighborhoods, not primarily by their own choice but by the choice of others (unlike whites, who can choose whether or not to live in black neighborhoods); so overall opportunities are not equalized, and black neighborhoods may harbor a pent-up demand by households to "escape" that reflects adverse differentials facing them; in the face

of this, neighborhoods that are all-white are so because of the existence of effective barriers against blacks. Given this background, if an all-white neighborhood experiences a black household moving in, whites in the neighborhood may well reason that this shows that the erstwhile barrier is no longer so effective, that seeing this, blacks with pent-up demand, having very few other breaks in the dike through which to flow, will concentrate their efforts at "escape" to this neighborhood and, regardless of the blacks' percentage in the overall city population, will be capable of totally filling it up - so long as current white residents and/or owners behave in such a way as to let this happen.<sup>12</sup> But these latter, in turn, are likely to do just that, since each of them may well reason that, seeing the break and anticipating the blacks' concerted efforts, his/her unwillingness to sell out to blacks and move away will only be effective if all the others do likewise; but there is no way to guarantee that they will especially since all of them will also reason that their own uncoordinated efforts will be ineffective. Since coordinated exclusionary behavior stronger than their initial barrier is illegal, the reasonable conclusion can be drawn by the individual that the other residents/owners will cave in, the neighborhood will be transformed completely, so the sooner he/she adjusts to the inevitable the better off he/she will be from a financial point of view.

It is clear that the above mind-set is conducive to a homogeneous reading of small signs (one swallow does make a spring), and a rapid adjustment to it, so that contrary perceptions have little chance to register before the observed larger consequences of first-round adjustments to these expectations take over, and the cumulative self-fulfilling process is under way. The scenario drawn here applies to other types of

unwanted "neighborhood invasion" as well as that relating to black-white relations. The key is this shared sense of impending larger forces held at bay by a precarious process, and the belief that the individual is helpless in the face of danger, part of which consists in the inability to secure coordinated action by the "defenders".

The neighborhood invasion pattern is likely to be present when large inter-submarket shifts occur in response to heavy low-income in-migration to the city. The impetus from below, the price-raising, demand quality-decreasing character of the shifts, bode both demographic status and housing quality declines. This is exacerbated when the in-migrants are blacks or other non-white groups (because of their easy recognizability).

Another invasion-type scenario, although less marked, occurs where the worst neighborhoods have become concentrations of anti-social problem groups because of upgrading by the poor or because of a general thinning out due to population declines. Their heavy presence is accompanied by crime, violence, vandalism, housing abandonment, arson, all of which serve to drive out households and force them to cope with higher priced accommodations in better neighborhoods. This centrifugal impulse can provoke the same sequence of quality-lowering invasions.

The discussion suggests that market adjustment processes may well trigger destabilizing downward spirals. A main characteristic of such spirals is that they typically carry adjustments beyond the degree called for by comparative static relationships. In efficiency terms, there is an inadvertant excess - an inefficient outcome.

A second welfare issue relates to the first. Inter-submarket shifts constitute equilibrating market adjustments. In effect, if group A is dissatisfied with its present residency relative to other alternatives,

it adjusts by moving - or attempting to. But group A's adjustment makes group B worse off than before, and they are induced to adjust by moving - which makes groups C worse off, and they in turn move, thereby spreading the impulse of "coerced" adjustment. Thus, neighborhood invasions, beginning at either quality extreme, produce a string of adjustments by making each successively impacted group worse off. Only groups more extreme than the initiating site of the disequilibrium find themselves induced to move because they are now better off (i.e. their initial occupancy is no worse for them but they now have better alternatives than previously).

In most conventional commodity markets, an initiating disequilibrium produces a string of linked adjustments primarily by making participants no worse off in their present consumption situation but better off by shifting to a different pattern. They are induced to change in order to improve their situation. The housing market adjustments proceed by compelling people to change in order to escape worse damage. The former proceeds largely by allocating gains, the latter by allocating losses. The difference stems from the strong neighborhood externalities, by which an action by A, involving no exchange with B, can nevertheless make B worse off, with no chance for B to gain redress from A and thus potentially to deter A's action.

Neighborhood turnover is thus a socially very expensive form of market adjustment. Each adjustment by one group generates a whole sequence of adjustments by other groups instead of being quickly damped. There is a very costly magnification of impact, since each household's move is both financially and psychologically costly, and the disruption of established neighborhood institutions through large-scale neighborhood transformation is especially costly.

How can market adjustment be made less costly? The culprit is the strength of neighborhood externalities, which is an attitudinal, not an objective, reality. With weaker preferences for very high degrees of neighborhood homogeneity, a whole family of upgrading behavior can be more nearly decoupled from inter-neighborhood shifts. Many households interested in upgrading would be more likely to do so on site, and financial institution would be less pessimistic about the safety of loans on such ventures. Similarly, modest changes in degree of heterogeneity in a neighborhood stemming from inflow - outflow discrepancies would not necessarily be perceived as destructive of attractiveness or property values.

A special source for the intensity of distaste for mixing is ethnic racial prejudice. The taste for similarity is likely to be less virulent than the distaste of particular differences. Indeed, the former is likely to be at least partly developed as a respectable facade for the latter. A more understandable genesis of strong neighborhood externalities is the presence of actual flamboyantly anti-social behavior. This is heavily concentrated in, but not exclusive to, very poor neighborhoods, especially where occupied by disadvantaged minority groups. It has the double disadvantage of worsening the welfare of residents in those neighborhoods and spreading the stereotyped association of any member of such groups with anti-social behavior. So a mentality of incipient invasion from various potential threats is engendered in neighborhoods considerably above the lowest.

The American ethos of social mobility, with its emphasis on housing and neighborhood status as validation of household status, is thus partly responsible for the high social cost of market adjustment. But valuation of neighborhood quality need not insist on as much homogeneity as it apparently does. It could afford to tolerate, even cherish, variety. Moreover, some of the actual fear or hatred of particular differences is objectively

excessive. Changes in tastes concerning neighborhood characteristics, as induced by various public programs, could permit a less costly form of market adjustment. Significantly changed costs of achieving existing tastes, as engineered by other public programs, can help to accomplish the same behavioral changes.

#### B. The Problems of Very Poor Neighborhoods

In the last section we spoke of welfare problems under the present system concerning quality-decreasing neighborhood transitions generally. We did not refer specifically to very poor neighborhoods. In the former we were concerned about changes in quality levels; for the latter there is an additional concern about the absolute level of quality.

Very poor neighborhoods experience a worsening for a variety of reasons: 1) increasing poverty of its residents, 2) heavy in-migration of poor people, 3) substantial upgrading among the poor, accompanied by heavy outflows to better neighborhoods. The first lowers average housing demanded; the second raises the real price of housing to the poor; the third results in a heavy concentration of the least mobile, most problem-beset individuals in the poorest neighborhoods, at the same time as an emptying out of upward mobile, generally more socially-responsible groups.

Of these sources, the third involves something like the vicious circle problem: although they are not in an income position voluntarily to move upward, the more peaceable remaining population are victimized and repelled by various anti-social behavior by the highly concentrated, and highly visible, violent groups. They flee to better neighborhoods to avoid worse losses, just as in the general neighborhood invasion pattern. The location of the poor is therefore to some extent inadvertent as a result of this of poverty flight. That such flight induces subsequent reverberatory

exodus by higher income groups from these flight sanctuaries, and so on, serves to exacerbate this inefficiency.

All these, but especially the third, lead to real social problems which go beyond the mere poverty of the population. At least three main facets should be mentioned.

1. Social costs of a concentrated problem population.

The population is likely to be heavily welfare-dependent, demoralized, influenced by deviant subculture values. The result is a high level of violent and other anti-social behavior. Property is abused and worn out prematurely. Owners cannot hope to rent their property profitably under these conditions, so they avoid upkeep or abandon the property altogether. Resulting vacancies and absence of custodianship lead to vandalism and arson. The consequence is high inadvertent housing disinvestment and deplorable operating conditions. More generally, social interactions approach jungle ferocity. The absolute quality of the social and physical environment is reduced far below what can be explained in comparative static terms by poverty alone. Thus, there is a disastrous inadvertent welfare loss for the very poor.

2. Non-recyclability of unused and under-used land.

Neighborhoods suffering from high vacancies, vandalism and demolition by violence have considerable wastage of land. In the presence of high urban land price generally, such wastage would seem an invitation to recycling, especially in changed re-uses. But the land can rarely be used, because so long as remnants of the highly deteriorated neighborhood are still present, they cast an environmental pall over prospective new uses. Unless there is comprehensive demolition to achieve a critical mass of homogeneous new use, the land is an economic liability. So it remains

wasted.

### 3. Fiscal problems of the central city government.

Inter-neighborhood shifts have the effect of concentrating most of the problem population of the metropolitan area within the jurisdiction of the central city government. But most of the area's fiscal base is in the suburbs, out of reach of the central city government. Thus, there is a growing disparity - a jurisdictional mismatch - between needs for public services and the fiscal base to meet them. Local government becomes a more and more ineffectual instrumentality for meeting even the living needs of the local population, let alone for moderating poverty. The increasing fiscal crises lead to lowering the quality of public services, raising effective tax rates, and disproportionately cutting programs with redistributive purposes. Suburban jurisdictions offer services at considerably higher quality levels and at lower effective tax rates. And their zoning and other regulations prevent establishment of low income neighborhoods there to take advantage of the more attractive government offering.

### VIII. The Problem of Public Policy

This section is only a postscript, essentially distilling the problems of neighborhood decline as discussed above in terms of a public policy context.

The basic policy problem seems to be how to allow or promote a highly decentralized housing market to operate efficiently, in the presence of social values reflected in high minimum housing construction and use standards, and against a backdrop of high social and geographic mobility, with status expressed in neighborhood lifestyles. Add to this a very unequal income distribution and a federal system of government in which local



public services are decided on and financed by decentralized fiscal bases which are to an important extent self-separated to maintain high degrees of neighborhood homogeneity.

As presently constituted, the system adjusts to exogeneous changes by generating significant losses through negative externalities which induce locational and housing quality adjustments. It generates wasteful waves of population flight, a continuation of approximately all-or-nothing neighborhood turnover, and a maintenance of suspicion and fear about invasion by undesirables. It makes social mixing of various sorts extremely difficult by discouraging gradualism.

In addition to the general properties of the adjustment processes, it exacerbates the living conditions of the poorest groups by spatially and jurisdictionally overconcentrating them, isolated from the presence of a fiscally stronger group with deeper community ties. This leads to a highly destructive environment in which to live, an environment which local government cannot help to ameliorate because spatial separation is accompanied by jurisdictional separation, whereby the central city jurisdiction is left with the problem population and the suburban jurisdictions with the strong fiscal base.

The issue of public policy is complicated by the fact that not only is the complex of problems extremely difficult, but government which must be an instrumentality in their resolution, is a not-inconsiderable part of the problem.

FOOTNOTES

<sup>1</sup>Much of the viewpoint of the paper, as well as many of the details, are similar to the argument of work-in-progress by Anthony Downs, Understanding Neighborhoods, (Brookings Institute, forthcoming). We have come to this confluence independently.

<sup>2</sup>The contributions of Kenneth Arrow, Gerard Debreu, Leo Hurwicz, Lionel McKenzie and Herbert Scarf are among the notable landmarks in this tradition.

<sup>3</sup>For example, James L. Sweeney, "A Commodity Hierarchy Model of the Rental Housing Market," Journal of Urban Economics, July 1974; \_\_\_\_\_, "Quality, Commodity Hierarchies and Housing Markets," Econometrica, January 1974; Jerome Rothenberg, "Urban Housing Markets and Housing Policy:", in Samuel J. Bernstein and W. Giles Mellon, Selected Readings in Quantitative Urban Analysis, Pergamon, 1978; J. Rothenberg and John Pitkin, "Demand, Supply and Market Interaction in a Segmented Model of Urban Housing Markets", paper presented to AEA meetings, Chicago, 1978.

<sup>4</sup>For various reasons "normality" is somewhat qualified. Some of the important qualifications bear on the character and completeness of the equilibrium achieved by market adjustment. We need only say here that each submarket moves separately in an equilibrating direction without prejudging whether general equilibrium is in fact achieved. Rather compelling reasons suggest it is not.

<sup>5</sup>In this sense.

<sup>6</sup>See for example, Rolf Goetze, Building Neighborhood Confidence, Ballinger, 1976; Rolf Goetze and Kent Colton Stabilizing Neighborhoods: A Fresh Approach to Housing Dynamics and Perceptions, Boston Redevelopment Authority, Boston, 1978, op. cit.

<sup>7</sup>This explanation is stressed by A. Downs, op. cit.

<sup>8</sup>Cf. A Downs, op. cit.

<sup>9</sup>Called "creaming" by Downs, op. cit.

<sup>10</sup>The term is used in Downs, op. cit.

<sup>11</sup>This exaggerates a bit; racial mixtures appear in both types of neighborhood, but rarely approaching 50-50: one group generally predominates.

FOOTNOTES (continued)

<sup>12</sup>The likelihood that one or a few in-migrants will be viewed as harbingers of an incipient invasion - indeed, as its trigger - depends on specific situational features relating to the particular neighborhood and recent history. One of the important situational features is the neighborhood's nearness to neighborhoods that are already mostly black or are currently undergoing transition in that direction. Both physical nearness and rates of transition in nearby neighborhoods are influential. The importance of nearness has been stressed in the St. Louis study of neighborhood change. See Charles L. Leven, James T. Little, Hugh O. Nourse and R.E. Read, Neighborhood Change: Lessons in the Dynamics of Urban Decay (N.Y.: Praeger Publishers, 1976). I am indebted to Mr. Nourse for emphasizing this element in the vicious circle.

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