The Underclass: Long-Term Unemployment, Race And Space In The American Context

James H. Spencer, Ph.D.
Chapter Three

THE UNDERCLASS:
LONG-TERM UNEMPLOYMENT, RACE AND SPACE IN THE AMERICAN CONTEXT

James Spencer  
James.spencer@aya.yale.edu

Michael Storper  
Storper@compuserve.com

UCLA School of Public Policy and Social Research

FRAMING THE QUESTION: THE UNDERCLASS VERSUS THE POOR

Studies of labor market inequality generally examine the distribution of wages across a given population in order to determine proportions of workers earning high, low and mid-level wages. In general, higher proportions at either end of the spectrum are seen to be a socially negative trends, and a solid, employed middle class to be a sign of economic health. Such kinds of analysis account for some of the poor. The bottom quintiles and deciles include many working people earning barely enough to keep their families above the poverty line. Those who are not working but in the labor force typically fall into a separate category: the unemployed. The unemployed may or may not be poor, but in either case conventional labor market analyses treat the temporarily or "frictionally" unemployed as a necessary by-product of an efficiently functioning labor market, because central to its capacity to achieve a dynamic equilibrium of labor supply and demand. By contrast, long-term and intergenerational unemployment is not considered functional.

Our analysis focuses on unemployment and joblessness among the poor. While unemployment measures only those looking for work who have not found it, joblessness includes those of working age who either cannot find work or have no interest in looking for it. Specific attention to the unemployed and jobless poor shows a structural and intergenerational inability to accumulate financial and other assets. We identify this group as the underclass. This definition of the underclass as a subset of the primarily minority poor affected by the intergenerational transmission of poverty through asset deficiencies makes it particularly worrisome for labor market analysts.

The existence of an intergenerational American underclass and its consistent inability to enter the labor market and accumulate assets is thus evidence of inequality and distress that are not accounted for in analyses that look only at wages and
unemployment. In this paper we argue that intergenerational poverty, joblessness and inability to accumulate assets is part of a larger set of processes that include racial discrimination, self-destructive individual behavior, and a lack of educational and other kinds of human capital opportunities. In general, the underclass is disproportionately non-white, spatially concentrated in poor urban areas, and historically tied to industrial and social changes that once provided labor market opportunities to low-skilled minorities but subsequently placed them outside the labor market. In particular, we focus on the experience of African Americans and Puerto Ricans because they seem to have shown persistent employment and asset instability heavily influenced by mid-century industrial development and decline.

This characterization is different from what is known about similarly poor groups such as Southeast Asians and non-Puerto Rican Latinos (such as Mexicans and Central Americans). For example, even though Southeast Asians in the US have higher poverty and unemployment rates than African-Americans (see Cheng and Yang 1996; Zhou and Bankston 1998), their experience may be conditioned more by refugee status and native country status than by long-term intergenerational inability to accumulate assets. Since there is very little relevant research, and because a second generation of Southeast Asians is only now reaching employment age it is premature to classify them as an underclass even though they may in fact constitute either an existing or an emerging one.

Alternatively, Mexican Americans and Central Americans born outside the US who are very poor – often further below the poverty line than the underclass - may share qualities with our definition of the underclass. However, there is evidence that these subgroups have much higher rates of employment (see Ortiz 1996: 266; Lopez, Popkin and Telles 1996: 294) and thus may constitute the “working poor” more so than the “underclass unemployed.”

Clearly there is a need to assess the poverty characteristics of these two groups from a comprehensive underclass perspective, especially as the second and third generations enter the labor market. However, the literature is much less developed for these groups than it is for America’s long-standing minority poor. Despite this lack of a literature, one important qualitative difference between these poor groups and African Americans or Puerto Ricans is the historical context of their labor market and housing experiences. The cycle of Fordist urban industrial development and decline have conditioned the work and residence experiences of blacks and Puerto Ricans that are central to our definition of the underclass.

The chapter begins with basic facts about the distribution of the poor over space and race, with particular attention to residence and homeownership patterns. Traditional notions of the underclass have attributed the high poverty and joblessness rates simply to self-destructive behavior. However, our analysis of the nexus of employment, residence and asset instability will suggest that the intergenerational inability to accumulate assets may be the main reason why there is so much self-destructive behavior. We also note that a racial analysis of poverty in the US shows higher rates of residential segregation for poor minorities than for poor whites which has led to residential instability and low home equity -- the principal asset problem -- for blacks and Puerto Ricans. We conclude the section by defining the underclass as primarily those residentially isolated in poor and minority neighborhoods and therefore locked out of the homeownership and wealth accumulation that might help them, in turn, avoid the vicious circle of bad behavior,
educational failure, and labor market exclusion that are the proximate causes of belonging to the underclass. Thus, space enters into our analysis in a critical respect.

Section II begins with some basic facts about the distribution of minority workers in the labor market and argues that, like housing instability, employment instability is a major factor explaining intergenerational poverty and the inability to accumulate assets. Moreover, it documents some of the disproportionate effects on inner city minority youth who experience lower status occupations, lower wages and work instability. Since minority wealth accumulation has traditionally been driven by low-skilled manufacturing jobs, the youth joblessness problem, as with residential segregation, represents an employment instability problem closely correlated with spatial poverty.

Section III describes the historical and industrial cycles that have led to the creation of these high-poverty, minority underclass areas characterized by housing and work instability. Given the difficulties of the disproportionately young and spatially concentrated urban underclass, Section IV explores the various schools of thought used to explain high rates of poverty, joblessness, and inability to accumulate assets among poor minorities. These schools of thought – human capital deficits, location and mobility, and discrimination – have all formed the basis for antipoverty policies that we explore in Section V. We conclude with some comments on how the experience of the American underclass may be relevant in other contexts.

Figure 1 places the underclass in broader context and underscores the emphasis we will place on the relationship between income and assets over time in the analysis which follows.

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**Figure 1: The Underclass Framework**

<table>
<thead>
<tr>
<th>Assets</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>High</strong></td>
<td>Wealthy</td>
<td>Upper Middle Class</td>
<td>Middle Class</td>
</tr>
<tr>
<td><strong>Medium</strong></td>
<td>Wealthy</td>
<td>Middle Class</td>
<td>The Poor</td>
</tr>
<tr>
<td><strong>Low</strong></td>
<td>Non-Working Wealthy</td>
<td>Working Poor</td>
<td>Underclass</td>
</tr>
</tbody>
</table>

I. SPATIALLY CONCENTRATED POVERTY: THE ROLE OF ASSETS IN THE SOCIAL REPRODUCTION OF LABOR MARKET EXCLUSION
Table 1 provides a general picture of poverty in the United States from 1970-1990 and clarifies what are often misperceptions by those not familiar with the US. First, it is clear that contrary to popular opinion most people who live below the poverty line are ethnically white, not African-Americans or Latinos. From 1970 through 1990 there were twice as many whites living below the poverty line than blacks and more than blacks and Latinos combined. Thus, strictly speaking poverty cannot simply be attributed to minorities, even though underclass characteristics have been. The data do show, however, that as percentages blacks and Latinos live in poverty with much higher frequency – 29.1 and 24.7 percent respectively – than do whites who experience poverty at a 9.0 percentage rate. Although the data show increases for all groups over the past twenty years, there have also been much greater percentage rises in the number of poor for blacks and Latinos – 11.1 and 148.1 percent - than for whites, 4.3 percent.1

Table 1. Who is Poor in the United States?

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number poor (000s)</td>
<td>Percentage poor</td>
<td>Number poor (000s)</td>
<td>Percentage poor</td>
</tr>
<tr>
<td>Total</td>
<td>26,931</td>
<td>13.6%</td>
<td>27,393</td>
<td>12.4%</td>
</tr>
<tr>
<td>white</td>
<td>17,157</td>
<td>10.3%</td>
<td>16,353</td>
<td>9.0%</td>
</tr>
<tr>
<td>black</td>
<td>7,596</td>
<td>34.6%</td>
<td>7,649</td>
<td>29.9%</td>
</tr>
<tr>
<td>latino</td>
<td>2,178</td>
<td>24.4%</td>
<td>3,391</td>
<td>23.6%</td>
</tr>
</tbody>
</table>


Indeed there is also a perception that the underclass involves deepening inherited poverty among all American blacks. This perception is not exactly accurate. In fact, the African-American poverty rate declined from 35% in 1970 to 29% in 1990. Thus, there seems to be considerable economic mobility among African Americans.

Nonetheless, even though blacks have managed to make progress against poverty-line measures, their ability to accumulate wealth that can be transferred across generations is quite limited compared to the mainstream population. Using net worth (NW) and net financial assets (NFA) measures, Oliver and Shapiro (1994) have shown that even though African Americans may have a median income approximately 61% the value of whites’, their NW ratio is only 8% and their NFA is effectively 0% (86: recalculations by author). Their analysis of asset ownership shows just how unequally wealth is distributed by racial category and consequently how difficult significant, intergenerational gains against poverty can be in the long term. 61% of blacks and 54% of Hispanics live without any NFAs, compared to 25% of whites (Oliver and Shapiro 1994: 87).

One major determinant of household assets is home value. As African Americans and other ethnic groups were excluded from the housing markets of the 1940s, 50s and 60s they lost an opportunity to build equity and use their homes as collateral to borrow

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1 The vastly greater increase in Latino poverty may be attributable to a major change in immigration rates.
for investments in businesses, educational improvements, transportation and other
traditional bases for personal financial security. Jargowsky (1997: 93) found that only
24% of those in high poverty neighborhoods (40% or greater) owned homes, 38% in
neighborhoods with 20-40% poverty rates and 62% in 0-20% neighborhood poverty
rates. Oliver and Shapiro (1994: 109) found that the average African American
homeownership rate was 42% - 18% higher than all people living in high poverty
neighborhoods – and 64% for whites – approximately the same rate as all people in low-
poverty neighborhoods. Thus, homeownership is more of a problem among those in high-
poverty areas than it is among blacks in general. Since the average homeownership rate
for whites approximates that for non-poor areas, we can say that whites tend to own
houses and likely own them in non-poor neighborhoods, giving them good opportunities
for homeownership.

The negative home equity effects of living in poor areas distinguishes blacks from
poor blacks, and is supported by Massey and Denton’s (1993) findings that those that did
own homes in black neighborhoods have seen the market value of their equity appreciate
much less rapidly than comparable black owned houses in white neighborhoods.
Therefore, the main way for upwardly mobile blacks to accumulate home equity is to buy
property in white neighborhoods. Blacks unable to afford these homes have bought
homes in poor areas, however their equity has declined as crime increased and services
decreased throughout the 80s and early 1990s in their neighborhoods.

These findings indicate that location is a significant factor for understanding the
challenges to asset development for blacks and likely for Puerto Ricans. We will describe
this phenomenon as spatially concentrated poverty (SCP). Table 2, for example, shows
that poverty has different spatial characteristics for blacks and Latinos than for whites. In
1990 only 3.5 percent of whites living below the poverty line lived in a census tract
where greater than forty percent of the population was poor. The figure for Latinos is
more than five times greater and that for blacks more than seven times greater. In
addition, over the past twenty years the concentration rate of poor blacks has increased
8.6 percentage points as it has increased only 2.0 points for whites and 0.7 for all Latinos.
These figures are not promising for the underclass interested in accumulating home
equity. Why are poor blacks and to some degree Latinos concentrated in ghettos, and is
this concentration more immune to policy responses than poverty that is more equally
spread geographically throughout the population?

Table 2. Spatially Concentrated Poverty: percent of poor people living in high poverty census tracts

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All poor persons</td>
<td>7.0%</td>
<td>8.7%</td>
<td>11.8%</td>
<td>4.8</td>
</tr>
<tr>
<td>Poor Whites</td>
<td>1.5</td>
<td>1.8</td>
<td>3.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Poor Blacks</td>
<td>16.4</td>
<td>20.2</td>
<td>25.0</td>
<td>8.6</td>
</tr>
<tr>
<td>Poor Latinos</td>
<td>17.7</td>
<td>15.6</td>
<td>18.4</td>
<td>0.7</td>
</tr>
</tbody>
</table>

The case of Latinos is not as clear as it is for blacks regarding SCP and underclass characteristics. To be sure, many Latinos are poor. The median household income of Puerto Ricans, Mexican Americans and blacks were all comparable at $6,100, $5,500 and $6,000 respectively in 1989 (Rivera-Batiz and Santiago 1994:30). Their percentage living below the poverty line was also comparable at 30.3%, 25.4% and 29.8%\(^2\) in 1990 (Rivera-Batiz and Santiago 1994:41). These data suggest that Puerto Ricans and blacks are slightly worse off than Mexican-Americans regarding the poverty line. More importantly they suggest poorer access to home asset accumulation.

<table>
<thead>
<tr>
<th>Ethnic Group</th>
<th>US Total</th>
<th>US Metropolitan Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>1.0%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Black</td>
<td>14.3%</td>
<td>17.1%</td>
</tr>
<tr>
<td>Other non-Hispanic(^4)</td>
<td>3.3%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Mexican</td>
<td>9.0%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Puerto Rican</td>
<td>19.1%</td>
<td>19.7%</td>
</tr>
<tr>
<td>Cuban</td>
<td>3.3%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Other Hispanic</td>
<td>6.3%</td>
<td>6.8%</td>
</tr>
</tbody>
</table>


Tables 2 and 3 confirm the importance of SCP for minorities and in particular distinguish Puerto Ricans as a spatially concentrated poor group more similar to blacks than to other Latinos. Nationally, blacks have neighborhood poverty rates of 14.3% compared to 19.1% for Puerto Ricans. By comparison, Mexican Americans – who have similar individual poverty rates show much smaller rates of neighborhood poverty at 9.0%. Therefore, it is not clear that all poor Latino groups exhibit SCP and the asset instability that comes with it. Thus, our analysis of the underclass will focus primarily on Puerto Rican and black poverty but incorporate other groups where SCP seems to generate underclass characteristics.

We believe that the inability to accumulate assets has been one of the main causes of the instability that conditions social behavior and has generated a popular and academic perception that the underclass are not simply disadvantaged, but dysfunctional as well. According to Jencks (1991), a definition of the underclass includes several attributes of what was once termed the “lower class” and the “persistently poor.” Jencks

\(^2\) The data that Rivera-Batiz and Santiago use to obtain a 29.8% black poverty rate based on the same 1990 Census data used by Jargowsky in Table 1 to claim that the black poverty rate was 29.1%. Differences are likely due to slight differences in Census tracts included in the figure.

\(^3\) Neighborhood poverty rate is defined as the percentage of an area’s poor population living in census tracts with a 40% poverty rate or higher.

\(^4\) In this context I use Latino and Hispanic interchangeably.
believes four ranking schemes combine to create the problems of the underclass: low income levels, unstable income sources, low “cultural”\(^5\) skills, and different moral norms. Importantly, he notes that by the 1980s a general “consensus had developed that the underclass was a subset of America’s poor and that it included only those families and individuals whose poverty was somehow attributable to their behavior” (31, emphasis added).

Many analysts have tried to explain the underclass that Jencks described. Early researchers saw the problem as one of a “culture of poverty” where poor groups endogenously evolved adaptive social mechanisms to deal with economic marginality (Lewis 1968; Banfield 1970). Later research has retained some focus on these endogenous factors of the underclass but expanded to include external factors. Behavioral dysfunction among the underclass is likely due to socialization which occurs both within families and social networks, many of which are defined spatially for the poor. Work instability and lack of assets are likely culprits for many of the behavioral problems associated with the underclass and the reason why underclass poverty is different from the simple poverty caused by low wages. This distinction is based on the fact that non-wage assets allow families to buffer the effects of low wages and unstable work, and in turn allow them to function normally in the socialization of their children, promoting educational and economic success and hence, social and spatial mobility. Without assets, though some individuals are able to escape poverty permanently, many relapse because of they lack the assets that could protect them from temporary setbacks. Those who fall back and those that remain in poverty constitute the harder-core poor and are the underclass. Thus, the spatial aspect of the underclass may be an important way that asset instability is institutionalized, and the underclass socially reproduced.

Thus, given that homeownership is not an effective mechanism to escape intergenerational poverty for those living in poor neighborhoods and that negative socialization is likely in poor neighborhoods, it is reasonable to conclude that the underclass is a subset of the poor consisting of those 14% of poor blacks, 19% of poor Puerto Ricans, 1% of white, and 9% of Mexican-Americans that live in poor, isolated neighborhoods.

This establishes a framework for further analysis, consisting of a triangle of interacting forces. First, there is the question of why members of the underclass fail in the labor market, suffering from durable unemployment or underemployment, especially in the American economy, where employment is high? As we shall see, there are long-term historical processes at work, as well as proximate causes of individual labor market exclusion, notably educational and skill deficits. Second, there is the question of why the underclass is spatially isolated. Third, there is the question of how labor market failure and spatial isolation influence the failure to accumulate assets, and -- in turn -- how this strongly affects family structure, socialization and behavior, and the educational failure which lead back, in a vicious circle, to the inability to get out of the ghetto. Each of these elements must be unpacked carefully and then placed in its complex context.

\(^5\) Here Jencks means the different social norms between local underclass interactions and the larger society. In particular, the barrier that these differing norms often erect when underclass individuals seek employment in the larger economy where different norms exist.
II. THE UNDERCLASS AND THE LABOR MARKET: UNEMPLOYMENT

To the extent that there is “consensus” on the causes of the underclass, un- and under-employment have become accepted as critical drivers of SCP (e.g. Wilson 1996; Jargowsky 1997; Kasarda 1989). As opposed to much unemployment in the USA, underclass unemployment is equivalent to long-term labor market "exclusion," frequently intergenerational. Moreover, its incidence seems to be only partly affected by favorable conditions in the overall American labor market, which include high levels of employment, labor force participation, job generation and low unemployment (see chapter 1).

There are thus several causes of unemployment, only some of which are relevant to an understanding of the underclass. Frictional and search-related unemployment is related to the “natural” rate at which individual workers constantly find and leave jobs based on personal preference and the relationship between specific firms and specific workers. The characteristics of this kind of unemployment are that it is short-term, based
primarily on the relationship between the firm and the worker and generally seen by economists as an element of an efficiently functioning labor market. Long-term unemployment falls into two categories: structural economic transition and permanent unemployment. Unemployment can occur when there are changes in the structure of output or techniques that eliminate some occupational categories or replace them with others. This kind of shift forces some workers into a labor market that requires them to acquire retraining and other kinds of human capital investment. Permanent unemployment, on the other hand, refers to workers who, for both supply and demand reasons, are shut out of labor market opportunities with no real prospects of becoming employed. In the U.S. since the 1960s, it seems that these two categories may be related for the underclass, with structural unemployment placing a great stress on low skill minority workers, leading to high levels of permanent unemployment since the 1960s.

Spatial concentration of the long-term unemployed or underemployed seems to be correlated with a significantly worse overall labor market experience and social environment for young minority males. Consistent with our focus on instability, wages remain relatively constant across all groups, thereby suggesting that employment rates are a more important difference between the groups than pay levels, differentiating the phenomenon from that of low-wage employment, as analyzed in Chapter Two.

### Table 4: Inner City Youth Compared to Other Youths, Boston, Chicago, Philadelphia, 1979-80.

<table>
<thead>
<tr>
<th></th>
<th>Inner City Black</th>
<th>All Black</th>
<th>All White</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Out of School Youth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% in Labor Force</td>
<td>80%</td>
<td>90%</td>
<td>94%</td>
</tr>
<tr>
<td>% Unemployed</td>
<td>41</td>
<td>33</td>
<td>20</td>
</tr>
<tr>
<td>% Employed</td>
<td>48</td>
<td>61</td>
<td>76</td>
</tr>
<tr>
<td>Average Wages</td>
<td>$4.26</td>
<td>$4.29</td>
<td>$4.53</td>
</tr>
<tr>
<td>Average Weeks Worked in a Year</td>
<td>26</td>
<td>29</td>
<td>37</td>
</tr>
<tr>
<td><strong>Family Background</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Man in Household</td>
<td>28%</td>
<td>51%</td>
<td>69%</td>
</tr>
<tr>
<td>Household Member Working/in School</td>
<td>41</td>
<td>56</td>
<td>71</td>
</tr>
<tr>
<td>Family on Welfare</td>
<td>45</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>In Public Housing</td>
<td>32</td>
<td>10</td>
<td>1</td>
</tr>
</tbody>
</table>

*Source: Freeman (1989: 124).*

In their analysis of both income and its translation into stable assets such as homes, cars and financial assets Oliver and Shapiro (1994) point out the importance of work stability as one of several important factors determining the wealth accumulation capacities of poor blacks. They show that work instability has a greater effect on developing assets than it does on relative income. Table 5 shows that white moderately stable workers make only 62% of the incomes of highly stable white workers. For blacks this figure is 51%. More starkly, moderately unstable white workers accrue 43% of the Net Worth of highly stable workers while the figure for blacks is 26%. Thus, work instability affects blacks more than it does comparably employed whites, particularly

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6 This figure is obtained by calculating the income ratio of moderately stable workers to highly stable workers.
regarding assets. This work and family instability’s disproportionate effect on African Americans’ ability to accumulate wealth is clear.

Table 5: Work Stability and Wealth.

<table>
<thead>
<tr>
<th>Degree of work stability</th>
<th>Income</th>
<th>Net worth</th>
<th>Net financial assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>White</td>
<td>Black</td>
<td>White</td>
</tr>
<tr>
<td>High</td>
<td>$32,420</td>
<td>$23,545</td>
<td>$46,082</td>
</tr>
<tr>
<td>Moderate</td>
<td>20,081</td>
<td>12,070</td>
<td>20,000</td>
</tr>
<tr>
<td>Low</td>
<td>6,553</td>
<td>5,129</td>
<td>1,000</td>
</tr>
</tbody>
</table>


Table 6 shows that unemployment is a problem for blacks, Puerto Ricans and, to a lesser extent Mexican Americans in the mutually reinforcing nexus of assets, family and work instability.

Table 6: The Underclass: Ethnicity, Employment and the Labor Force

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US-Born</td>
<td>Immigrant</td>
</tr>
<tr>
<td>US Avg.</td>
<td>75.7%</td>
<td>77.7%</td>
</tr>
<tr>
<td>White</td>
<td>76.4</td>
<td>69.9</td>
</tr>
<tr>
<td>Black</td>
<td>69.3</td>
<td>82.2</td>
</tr>
<tr>
<td>Puerto Rican</td>
<td>73.3</td>
<td>69.9</td>
</tr>
<tr>
<td>Mexican-American</td>
<td>76.1</td>
<td>84.8</td>
</tr>
<tr>
<td>Females</td>
<td>US Avg.</td>
<td>57.9%</td>
</tr>
<tr>
<td>White</td>
<td>57.7</td>
<td>46.0</td>
</tr>
<tr>
<td>Black</td>
<td>58.9</td>
<td>71.7</td>
</tr>
<tr>
<td>Puerto Rican</td>
<td>59.8</td>
<td>44.8</td>
</tr>
<tr>
<td>Mexican-American</td>
<td>58.9</td>
<td>50.4</td>
</tr>
</tbody>
</table>


The data show that of the disproportionately poor populations (blacks, Puerto Ricans and Mexicans), native-born blacks and all Puerto Ricans experience slightly lower-than-
average labor force participation rates\textsuperscript{7}. Moreover, of the poor populations, immigrant Puerto Rican and native born black men\textsuperscript{8} worked at only about 69%, compared to 85% for immigrant Mexican and 76% for US-born Mexican American males. The average Puerto Rican attachment to the labor force (72%) compares unfavorably to the average Mexican-American attachment at 80%. Slightly lower numbers for the average of Puerto Rican immigrant and native-born women support the thesis that Puerto Ricans work in lesser proportions than do Mexican-Americans. However, the data do show a downward trend for native-born Mexican-Americans, supporting the claim that the native-born poor, (as opposed to the immigrant population) through lesser workforce participation, may be one way to describe an underclass and how it develops. Table 6 also shows that from 1980-90 similarly high levels of unemployment increased most significantly for Puerto Rican males (2.3%), somewhat significantly for black males (1.6%) and not as significantly for Mexican-American males (0.9%) while it decreases for white men. This trend is mirrored on the female side only for black women. Thus, the data show that between 1980 and 1990 higher percentages of black and Puerto Rican men became unattached to the labor market than whites. A similar, but not quite as pronounced trend applied to Mexican Americans.

We noted earlier that the labor market exclusion of the underclass seems to be due to a combination of structural changes and permanent group-based exclusion. Manufacturing jobs were once the way that black and Puerto Rican men could accumulate wealth. The high inner city black youth unemployment experience shown in table 4 is partly a result of the loss of these manufacturing jobs in poor neighborhoods. Table 7 shows that fully 55% of employed black males in 1949 were employed in blue collar manufacturing jobs – a figure that had been reduced to 47% by 1996, replaced by higher-level white collar jobs and to some degree lower-skilled service jobs. More importantly, as Chapters One and Two have shown, manufacturing wages -- especially for the lower-skilled, have deteriorated very significantly in real and relative terms in the USA, and employment has become less stable.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional and Managerial</td>
<td>3.8%</td>
<td>8.5%</td>
<td>14.4%</td>
<td>28.6%</td>
</tr>
<tr>
<td>Other white collar</td>
<td>5.6</td>
<td>13.6</td>
<td>16.6</td>
<td>19.4</td>
</tr>
<tr>
<td>Blue Collar</td>
<td>55.3</td>
<td>52.0</td>
<td>47.4</td>
<td>38.5</td>
</tr>
<tr>
<td>Service workers (lower skill)</td>
<td>14.0</td>
<td>15.2</td>
<td>16.8</td>
<td>8.1</td>
</tr>
<tr>
<td>Farmers and farm-related workers</td>
<td>20.2</td>
<td>3.2</td>
<td>2.2</td>
<td>2.9</td>
</tr>
</tbody>
</table>


\textsuperscript{7} Labor force participation means an individual is actively looking for or holding a job.

\textsuperscript{8} I exclude black immigrants because immigrants from Africa and the Caribbean differ not only in government entitlements but also in socio-economic characteristics from American blacks.
Table 8 confirms that from 1980 to 1990, as white manufacturing employment remained constant, Puerto Rican employment in manufacturing dropped by 12.4% (from 32.7% to 20.3%) compared to 6.1% (from 26.8% to 20.7%) for Mexican Americans and 4.5% for blacks (from 23.2% to 18.7%), whose levels had already dropped between 1949 and 1979. Moreover, the percent of whites working in professional services jumped 11.4 percentage points while that for blacks declined by 8.3 percentage points over the decade and increased only 3.4 for Puerto Ricans.

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional and Related Services</td>
<td>20.1</td>
<td>31.5</td>
<td>24.7</td>
<td>16.4</td>
<td>17.4</td>
<td>20.8</td>
<td>13.7</td>
<td>14.6</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>16.7</td>
<td>9.1</td>
<td>11.1</td>
<td>12.5</td>
<td>13.2</td>
<td>17.5</td>
<td>15.6</td>
<td>18.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>22.1</td>
<td>22.3</td>
<td>23.2</td>
<td>18.7</td>
<td>32.7</td>
<td>20.3</td>
<td>26.8</td>
<td>20.7</td>
</tr>
</tbody>
</table>


Tables 7 and 8 show that blacks, Puerto Ricans, and to a lesser degree Mexican Americans have historically had relatively high rates of employment in blue-collar manufacturing work. The slightly greater reduction in employment for this kind of work among blacks and Puerto Ricans is consistent with our hypothesis that the underclass is a subset of the minority poor, and that the loss of these manufacturing jobs contributes to underclass employment instability and youth joblessness. The industrial change that stimulated these occupational changes did not necessarily force massive numbers of working class minorities into permanent unemployment, as some believe. Rather, they removed a traditional mechanism for accumulating assets from the menu of opportunities available to some young urban minority men who over time became the underclass. We will return to some explanations of this labor market exclusion in Section V.

Let us summarize the current state of the argument. Long-term labor market exclusion -- consisting of unemployment and unstable employment and incomes, is highly though not exclusively correlated with spatial concentration of the excluded. People affected by these conditions also have no significant financial or non-financial assets. As a result, they have no significant buffer against economic uncertainty, as individuals or as families. We shall now see that the effect of spatial concentration is to magnify the difficulty of accumulating assets, due to upward social and economic mobility and spatial mobility of successful minorities. This changing geography of poverty in the USA has made it more likely that this subset of the poor lacks the means to escape from its condition, and through resulting behaviors, participates in its reproduction.

III. THE AMERICAN HISTORICAL AND GEOGRAPHICAL CONTEXT
How did this subset of poor African Americans and Puerto Ricans become so vulnerable to instability? The effect of sectoral and technological changes was not simply in the labor market. Structural unemployment has not historically been sufficient to create an underclass. Other systemic factors created locational, human capital and social barriers that turned structural unemployment into a permanent jobless underclass.

Long-term unemployment significantly decreases one’s ability to accumulate assets, it eliminates working role models for youth, and reduces structures of stable social relationships that poor people can draw upon for economic and other kinds of support. Table 4 supports our contention that the underclass is a subset of the poor disproportionately confined to poor neighborhoods and with generally negative social and family characteristics. Roughly half of spatially concentrated inner city black youth are on welfare, three times as many inner city as overall black youth are in public housing, and about 8% more are unemployed than all black youth. Furthermore, only 28% had a man in the household compared to 51% for all blacks. To understand how this situation came about, the constitution of the underclass as an economic and geographical phenomenon needs to be seen.

From the late 19th to the mid-20th century in the USA, there was mass migration to northern industrial cities, on the part of both southern blacks and Puerto Ricans, in order to hold manufacturing jobs, along with considerable foreign immigration from Europe. This mass in-migration of working class ethnic minorities led to the formation of working class ghettos where poor, but employed workers and their families lived. In response to this massive influx, residential discrimination transformed what had been relatively racially-integrated working class neighborhoods. In other words, American ethnic groups were segregated from the native white working class and from white European immigrants. By contrast, because there was a black middle class and even a bourgeoisie, blacks ended up progressively in racially homogeneous but mixed class neighborhoods.

However, with the 1970s recession and the migration of many of the lower-skilled jobs to the suburbs and out of the north, many of these lower-skilled minority workers lost their jobs. Anti-discrimination laws, from the 1950s onward, enabled the more mobile and more skilled blacks and Puerto Ricans to escape the ghettos. The less skilled were relegated to poor, ethnically-segregated neighborhoods. This separation of better-off and worse-off co-ethnics removed an important stabilizing social influence from these poor, unstable neighborhoods that exacerbated dysfunctional behavior and reduced opportunities for home equity (Wilson, 1987).

Other poor groups, such as recent Latino immigrants, are not as residentially segregated as blacks and Puerto Ricans. The weaker tendency for ghetto formation among non-Puerto Rican Latinos is related to migration patterns significantly different from those which followed by blacks and Puerto Ricans. Mexican-Americans are less segregated in part because massive in-migration occurred after anti-residential discrimination policies were banned in the 1960s.

**Industrial development in the North: the creation of a segregated black minority**
The geography of poverty in the US has undergone a radical transformation over the last century and a half. At the end of the Civil War in 1865, there were subnational regional concentrations of poverty that to some degree transcended race. In the South, there were significant concentrations of poor rural whites and poor rural blacks, both displaced by the war. Both were also generally much poorer than poor rural whites in the more developed North. This geography was modified after the war, as industrial development provided jobs for those willing to move to northern industrial centers (Levy 1998; Lemann 1991). Although the first wave of poor migrants from the south to the north was primarily white, increased levels of low wage economic opportunities following World War II were created in northern manufacturing cities such as New York, Chicago and Detroit. Along with the pull of these opportunities for blacks, mechanical agricultural improvements pushed many rural southern blacks off the farms and into the low wage northern industrial labor market (Lemann 1991). Former black sharecroppers and agricultural laborers migrated out of the south en masse, slicing the percentage of all black men working on farms and in farm-related occupations from 20.2% in 1949 to 3.2% in 1979 (Levy 1998:100).

Although it offered well-paying manufacturing jobs for blacks, according to Lehman (1986), this large scale migration upset a somewhat racially integrated northern society. Thus, scale effects and prejudices combined to create racially antagonistic and segregated northern industrial cities as early as the 1950s.

A similar immigration and industrial development story applies to Puerto Ricans. Puerto Ricans have enjoyed many of the benefits of citizenship since 1917 when the island was incorporated as a US territory and the barriers to migration to the mainland virtually eliminated (Meles 1994: 128). Taking advantage of these low barriers, Puerto Ricans on the mainland have historically taken low-skill operative jobs in the New York – New Jersey area in both durable and non-durable manufacturing industries such as textiles and machines (Hernandez 1983). Such mass migration created segregated Puerto Rican neighborhoods. Though segregated, these neighborhoods were relatively class-integrated and stable.

The Post-Sixties Economy: Loss of Urban Manufacturing

Employment opportunities in manufacturing for blacks and Puerto Ricans have significantly changed in recent years. In particular, technological changes in manufacturing, outsourcing of lower-skilled stages of the production chain to other regions or countries, and the relocation of firms have eliminated many of the blue-collar jobs in northern cities that provided economic opportunities for poor blacks and other minorities (see Kasarda 1995; Deskins 1996; Bluestone and Harrison 1982). On the one hand, microprocessors and other kinds of technical improvements biased the labor market towards higher-skilled occupations (e.g. Berman, Bound and Machin 1997). On the other, improved communications and transportation, as well as the increased division of labor in manufacturing during the 1980s separated high-skilled jobs from low-skilled ones. This separation enabled large firms to take advantage of weaker union laws and cheaper labor outside of traditional urban manufacturing areas (Harrison and Bluestone, 1988; Glickman and Woodward, 1990). Thus, many firms eliminated manual occupations and
left traditional northern urban employment centers either for the suburbs (Levy 1998:126-46) or for the south (Bellante and Kogot 1996). Compared to an approximate 4.3 million gain in jobs in the south, 2.3 million gain in the western states, and a 2.4 million gain in the midwest, Harrison and Bluestone (1982: 30) found that the northeast lost about 182,000 jobs between 1969 and 1976. Similarly, Noyelle and Stanbeck (1984: 20) found that for all manufacturing the snowbelt cities lost industrial jobs to the sunbelt in the sixties and seventies. In 1959 the snowbelt accounted for 69% of American industrial jobs, but by 1976 this figure had declined to 60%. The sunbelt cities’ share increased a corresponding 31% to 41%, which accounted for virtually 100% of the increase in manufacturing jobs from 1969-76. These processes accelerated in the following decades, and by the year 2000, the northeast states held only 3.3 million manufacturing jobs and the midwest states only 5.8 million. By contrast, the south 6 million of the manufacturing jobs and the west 3.3 million of them (Bureau of Labor Statistics 2000) These most recent figures confirm the overall deindustrialization of the northeast and midwest, showing that the sunbelt has pulled even with the frostbelt in its share of manufacturing jobs.

The impact of this deindustrialization on urban manufacturing workers and the minorities concentrated in these industries was great. By 1989, the median household income per capita of Puerto Ricans on the mainland was $6,100 compared to $6,000 for blacks and $11,468 for whites, and the mean household income per capita9 of mainland-born Puerto Ricans was $8,379 compared to $8,662 for blacks and $15,521 for whites (Rivera-Batiz and Santiago 1994: 30-32).

Residential Segregation by Income, Race and Ethnicity

To what extent have black and Puerto Rican groups migrated in response to the changing location of jobs in recent years? Recall that in response to previous waves of structural change in the economy -- the end of the Civil War, mechanization of southern agriculture, the successive waves of industrial development in the North, and desegregation of the North in the 1960s -- blacks and Puerto Ricans migrated to take advantage of the new opportunities opened up in each wave. This seems to have ended for the underclass. There is a significant growing racial and class residential segregation gap particular to the underclass. Table 9 shows that African Americans and Puerto Ricans share high rates of residential segregation, even compared to other poor Hispanic minorities. In 1980 82% of blacks and 73% of Puerto Ricans would have to relocate in order to distribute themselves evenly among the majority whites in New York City. Segregation rates of blacks and Puerto Ricans are consistently higher than even places with high proportions of Latino poor almost everywhere.

As has been noted, racial segregation was not always a barrier to steady employment and homeownership. What is worrisome from an assets perspective is the residential segregation of the poor. For example, the segregation rate for Puerto Ricans in Boston, who are generally poor, is about 50% higher than that for Hispanics in El Paso, a

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9 This figure represents an indirect measure of per capita incomes obtained by dividing household incomes by the average number of persons per household rather than a direct measure of per capita incomes.
city with a high proportion of Mexican and Central American poor. Assuming similar poverty rates, Puerto Ricans in Boston are much more residentially segregated than poor Hispanics in El Paso and limited in their ability to accumulate assets through the housing market. This is because poor neighborhoods have zero or negative asset appreciation over time, while mixed and richer neighborhoods have positive appreciation of housing values.

Table 9: Residential Segregation, 1980.

<table>
<thead>
<tr>
<th>Metropolitan area</th>
<th>black/white</th>
<th>Hispanic/white</th>
<th>Puerto Rican/white</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York, NY</td>
<td>0.819</td>
<td>0.656</td>
<td>0.725</td>
</tr>
<tr>
<td>Chicago</td>
<td>0.878</td>
<td>0.635</td>
<td>0.806</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>0.811</td>
<td>0.570</td>
<td>N/a</td>
</tr>
<tr>
<td>Newark</td>
<td>0.816</td>
<td>0.656</td>
<td>0.764</td>
</tr>
<tr>
<td>Boston</td>
<td>0.774</td>
<td>0.579</td>
<td>0.782</td>
</tr>
<tr>
<td>El Paso, TX</td>
<td>0.347</td>
<td>0.512</td>
<td>N/a</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>0.788</td>
<td>0.629</td>
<td>0.793</td>
</tr>
</tbody>
</table>

Source: Rivera-Batiz and Santiago (1994: 98)

Official race-based housing segregation through policies of the Federal Housing Authority (FHA) and the Home Owners Loan Corporation (HOLC) (as discussed in Oliver and Shapiro 1994: 16-8) created a locational constraint on upwardly mobile minorities until the 1960s when policy reforms outlawed residential segregation by race. Only after this change were wealthier African Americans able to begin the process of accumulating wealth through homeownership in appreciating markets, by moving out of the ghetto. They also thereby gained access to better education and transportation. This process accelerated real estate value declines in the ghetto, and accelerated its social instability by concentrating the disadvantaged there. Thus, Wilson (1987, 1996) argues that this outmigration has separated the black middle class from poor and unemployed blacks, promoted continued in-migration of the poor and unemployed, and thus created a vicious circle of further weakening of the social tissue of the ghetto (Rosenbaum 1995).

This view is consistent with the finding that wealthier people of all races are moving to be closer to wealthier people and poor people are moving to be closer to poor people. Decreases in residential racial segregation for the overall black population is due to the growing income gap among African Americans. Table 10 shows a u-shaped income spread among all blacks. Income losses among the lowest quintile were $2,078 from 1975 to 1992, as against a gain for the highest quintile of $12,750. Thus, the poorest fifth of all blacks lost approximately one third of their income as the richest fifth increased its income by about one quarter.

Table 10: Average Income of Black Families by Income Group, 1992.
Levy (1998) and others have stated that this quarter-century-old pattern of black income segregation – which has been significantly higher than for whites – has led to residential shifts. Between 1973 and 1983, for example, the number of blacks living in inner city high poverty areas declined from 7.7 million to 7.1 million – or from 33% to 25% of the entire African American population (Levy 1998: 217fn). Combined with a decrease in the percentage poor for all blacks from 1970 to 1980 of five percentage points from 35% to 30% (see table 1 above) it is likely that this within-group class segregation is significantly related to within-group residential segregation according to income. This mobility, however, is not due simply to greater incomes.

The Puerto Rican underclass shows a somewhat different pattern of within-group class-space segregation. Table 11 shows stark spatial differences in both absolute and relative economic status of Puerto Ricans across regions.

**Table 11: Distribution of Mean Household Income Per Capita Among Puerto Ricans in Metropolitan Areas with Largest Puerto Rican Populations, 1989.**

<table>
<thead>
<tr>
<th>City</th>
<th>Mean Household Income Per Person</th>
<th>Mean P.R. Hshld. Income Relative to Overall Pop.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles-Long Beach, CA</td>
<td>$12,032</td>
<td>79.5%</td>
</tr>
<tr>
<td>Tampa-St. Petersburg, FL</td>
<td>9,267</td>
<td>67.3</td>
</tr>
<tr>
<td>Miami, FL</td>
<td>8,903</td>
<td>68.9</td>
</tr>
<tr>
<td>New York City, NY</td>
<td>7,989</td>
<td>49.2</td>
</tr>
<tr>
<td>Chicago, IL</td>
<td>7,685</td>
<td>48.9</td>
</tr>
<tr>
<td>Bridgeport, CT</td>
<td>7,549</td>
<td>46.5</td>
</tr>
<tr>
<td>Boston, MA</td>
<td>7,186</td>
<td>38.8</td>
</tr>
<tr>
<td>Hartford, CT</td>
<td>6,095</td>
<td>32.6</td>
</tr>
<tr>
<td>Lawrence-Haverhill, MA</td>
<td>4,228</td>
<td>35.2</td>
</tr>
</tbody>
</table>

Puerto Rican household income is $12,032, or about 80% of the regional mean household income in Los Angeles, but only $4,228, or 35% in Lawrence, MA. First, in highlighting these regional poverty variations, the data support the idea that Puerto Ricans have been disproportionately affected by the decline in manufacturing. Those metropolitan areas in which Puerto Ricans had higher absolute incomes in 1989 were also those where their relative prosperity is also higher. Similarly, those areas where Puerto Ricans fare the worst in both absolute and relative terms are those areas where northern industrial manufacturing saw significant declines.

Rich and poor Puerto Ricans are thus not distributed equally throughout the country. Class segregation among Puerto Ricans is inter-regional rather than intra-metropolitan. Rivera-Batiz and Santiago (1994:36) state that poor Puerto Rican areas have grown at the same rate as wealthier ones from 1980-90, fueled by in-migration from Puerto Rico. Poor Puerto Ricans emigrating from the island go to Boston, Hartford and other northern cities. Wealthier ones go to Los Angeles, Tampa and Miami, perhaps due to social networks and housing affordability. Social division within the Puerto Rican population is thus expressed as the income differences between Puerto Rican populations in different cities, rather than between neighborhoods within cities, as for African-Americans.

In sum, the problem of intergenerational failure specific to the underclass is largely the result of two sequential filtering mechanisms that were responses to industrial change. First, industrial development in the northern cities stimulated African American and Puerto Rican migration for economic opportunities. Because of racist and discriminatory laws and attitudes they formed segregated neighborhoods. With the loss of urban manufacturing, these ethnic neighborhoods began to differentiate along class lines as civil rights laws enabled residential mobility and allowed qualified minorities to follow work to the suburbs and to the south. This mobility also allowed non-underclass blacks and Puerto Ricans the opportunity to accumulate non-earnings wealth through homeownership and other kinds of assets. In the process, however, it physically isolated the underclass, and destroyed its capacity to maintain or accumulate assets.

IV. RECONSIDERING EXPLANATIONS OF THE UNDERCLASS: LOW ASSETS AND PERSONAL INSTABILITY REINFORCE AND REPRODUCE SPATIAL AND LABOR MARKET EXCLUSION

Thus far, we have emphasized long-term unemployment, spatial segregation, and resulting incapacity to accumulate assets, and we have suggested the processes which have led to an aggravation and concentration of these factors on subgroups of the poor, disproportionately black and Puerto Rican, but including as well members of other ethnic groups. The literature has implied, but not made entirely explicit, the possible linkages among these three forces. Wilson (1987) focuses on the socialization effects of increasing the physical and economic isolation we describe above, suggesting that a downward spiral of negative socialization in underclass neighborhoods may be the way these different processes become intimately linked and mutually reinforcing. Negative
socialization leads to school and labor market failure, and in turn prevents social and spatial mobility. This then lock certain populations into underclass status.

But precisely why is this the case? Most arguments focus on educational failure and resulting skills deficits that prevent the long-term unemployed from enjoying economic and hence spatial mobility and escape from negative socialization and further educational failure. Jencks and Peterson (1991) argue that bad behavior is both cause and effect of socialization under conditions of spatial isolation. Other arguments have called attention to the "broken family" as a key reason why many children fail in school and hence in labor and housing markets.

We will now review the rather lengthy literature on the different separate components in personal failure, and suggest that these components are interrelated in the following manner. Labor market exclusion is indeed related to educational and skill deficits, and these latter are related to negative socialization. But in turn both educational failure and negative social are related to problems within the family, and these in turn are strongly heightened by the inability of the family to accumulate assets which could buffer it from external instability, hence promote strong family relationships and the ability of the family to establish the conditions under which children can avoid the effects of negative neighborhood conditions and take advantage of educational opportunities. Thus, the lack of assets is what separates the low-skilled or working poor from the underclass. Analyses that focus exclusively on income levels, or education, or family structure, or employment status, or spatial location, miss the key dynamic interconnection between these factors which crystallizes them into the underclass phenomenon.

Human Capital Deficits

Education

Many argue that education is the primary cause of the underclass, and therefore is the best means for providing economic opportunity to those currently excluded from the mainstream economy (e.g. McMurrer and Sawhill 1998; Levy 1998). These educational arguments are based on the idea that formal education represents both substantive knowledge accumulation and a signaling marker for employers and others that a potential employee falls within a certain educational category of employable or non-employable workers. In either case the educational gap represents a significant barrier to wealth accumulation through work for African Americans and Puerto Ricans. However, whether education is a marker of relative status or an accumulation of functional expertise is an important distinction when considering policy and other kinds of approaches to alleviating underclass poverty.

In 1990 about 11% of African Americans and 9% of Puerto Ricans over the age of 25 years had a college degree compared to a rate of 22% for whites. Moreover, only 21% of whites over 25 had less than a High School degree, while 37% of blacks and 47% of Puerto Ricans (over twice the rate for whites) had less than a high school degree (Rivera-Batiz and Santiago 1994: 88). This educational difference is important for understanding employment compensation and poverty. In the 1950s those with a college degree earned income levels 30% higher than those with only a high school education.
This figure declined in the mid-1970s to 20%, but then rebounded to 50% in the 1980s (Kelso 1999: 67).

More importantly, though, the education gap is associated with even larger asset development gaps, which explain much of the financial, social, employment and family instability that characterizes the underclass. Oliver and Shapiro’s (1994) data show how important educational inequality is for creating the financial base that enables families to keep pressures to find a job off their children and to monitor their children’s education. In Table 12, while income ratios between blacks and whites remains relatively constant by educational level, the Net Worth ratio is not only much lower for all blacks, but also varies more significantly by education level. The net worth of blacks with a high school degree is only 4% that of whites. Although this ratio remains much lower than the comparable black-white income ratio (at 0.67), the figure increases to 0.23 for those with a college education. Thus, the difference between a high school and college education shows a 19% improvement on income, but a 475% improvement in net worth.

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Black/White Income Ratio</th>
<th>Black/White Net Worth Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elementary</td>
<td>0.99</td>
<td>0.10</td>
</tr>
<tr>
<td>Some High School</td>
<td>0.76</td>
<td>0.02</td>
</tr>
<tr>
<td>High School Degree</td>
<td>0.67</td>
<td>0.04</td>
</tr>
<tr>
<td>Some College</td>
<td>0.76</td>
<td>0.15</td>
</tr>
<tr>
<td>College Degree</td>
<td>0.80</td>
<td>0.23</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>0.77</td>
<td>0.23</td>
</tr>
</tbody>
</table>


It is clear, then, that in aggregate educational achievement is likely critical for blacks not necessarily for raising incomes, but for creating wealth and the resulting financial stability that is so elusive for the underclass. However, even at equal educational levels, stark asset gaps – as represented by the net worth ratio - remain, thereby showing that educational achievement is not the only factor in determining poverty. History, family structure, discrimination, location and other factors also contribute.

College enrollment trends, however, do not seem to be promising. College enrollment has been dropping for all poor people, but the figures are especially bad for blacks, showing that it is not simply economic situations that determine college enrollment. Table 13 shows that between 1976 and 1990 overall low-income black college enrollment has declined about 50%, while that for poor whites by only about 31%. It seems, then, that the transition from High School to College is becoming disproportionately difficult for blacks – those who benefit most from education in both income and asset development.

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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Blacks (low-income)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Pessimistic as the educational trends are, our definition of the underclass suggests that these data may systematically underestimate the problem. Since most educational analyses by race are conducted according to aggregate grouping, the data is likely biased upwards of the real educational achievement levels of the underclass. Even among the African American poor, for example, those from families living in inner cities may have much lower than expected rates of college enrollment due to greater employment and home instability.

In *The New Dollars and Dreams* (1998), Frank Levy claims that the educational infrastructure is one of the few “equalizing institutions” that can systematically improve the labor market experience of the black underclass. In *Savage Inequalities*, Jonathan Kozol (1992) makes a strong case that inequality in school funding is linked to poor student performance and that state and federal equalization in funds will lead to more equal achievement. However, there are two problems with their conclusions.

First, the evidence linking increased government support for schools and educational attainment is weak and sometimes shows a negative correlation (Kelso 1999: 62-3). Levy and Kozol isolate education from socio-spatial factors that are important for understanding the possibilities for improving high school-level education and thereby focus overly on the educational structure itself rather than its interaction with neighborhoods and segregation.

Seeing how schools are funded helps to reveal the relationship between education, segregation and poverty. The degree of SCP determines – in large part – the educational opportunities open to the underclass. 50 percent of elementary and secondary public school expenditures are – on average – financed through local property taxes. Given the high levels of residential segregation and class spatial differentiation for low income blacks and Puerto Ricans described above it is easy to see that the schools that serve blacks and Puerto Ricans are often relatively underfunded. The tax base of the Mount Vernon school district (Westchester County in suburban New York City), for example, spends $9,112 per student per year, while neighboring Greenburg spends $15,128. This gap comes from overcrowding, as public schools in poor districts tend to be overcrowded (Rivera-Batiz and Santiago 1994: 97-9). SCP concentrates levels of those with the greatest educational needs into the neighborhoods with the fewest educational resources. Poor residents finance poor schools and create higher demand for their services. This double jeopardy has created a huge gap in school funding that is unlikely to be easily overcome. It mirrors a general phenomenon in American metropolitan development, consisting of fiscally impoverished central cities in contrast to suburbs with high fiscal capacities, but where needy populations are concentrated in the former areas (Orfield, 1997). Even those states that have laws which require inter-jurisdictional equalization of basic school funding (such as California) do not solve the problem, because the

<table>
<thead>
<tr>
<th></th>
<th>Men</th>
<th>37.2</th>
<th>36.1</th>
<th>23.0</th>
<th>29.0</th>
<th>23.0</th>
<th>17.9</th>
<th>-51.9</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Women</td>
<td>41.7</td>
<td>32.9</td>
<td>34.2</td>
<td>27.1</td>
<td>35.6</td>
<td>22.1</td>
<td>-47.0</td>
</tr>
</tbody>
</table>

*Whites (low-income)*

<table>
<thead>
<tr>
<th></th>
<th>Men</th>
<th>34.9</th>
<th>33.8</th>
<th>29.9</th>
<th>29.1</th>
<th>32.1</th>
<th>22.4</th>
<th>-35.8</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Women</td>
<td>39.4</td>
<td>38.1</td>
<td>35.3</td>
<td>34.8</td>
<td>46.4</td>
<td>28.1</td>
<td>-28.6</td>
</tr>
</tbody>
</table>

*Source: Kelso (1999: 68).*
equalization occurs at a very low level, leaving richer areas the discretion to add funding in other areas.

Even if this funding gap were to be overcome, however, greater education would not necessarily make significant progress on poverty, unemployment rates and wealth accumulation among the underclass. If all poor African Americans and Puerto Ricans received greater education, then their opportunities would approach parity with whites, it is argued. However, if education only skims off the best-prepared for further education, then educational initiatives will reach only a subset of the underclass. Family structure, asset development, and social structure have all historically been found to impact the underclass youth to at least as great a degree as educational attainment (Jencks 1972).

Table 4 showed that only about 28% of inner city, disadvantaged youth lived with a man in the household, indicating that single-parent – in particular single-mother – households are correlated with underclass characteristics. Despite changes in the household composition of all members of the society, having a household comprised of two economically active parents tends to increase the resources available to children. Increased gender differences in education, however, are likely to decrease the rate of within group two-parent households if individuals tend to select relationships with those sharing similar education levels and therefore life opportunities. According to this logic, the proportion of single parent (overwhelmingly single female-headed) households may grow if increases in educational attainment are unevenly distributed among men and women, because such increases actually reduce the pools of potential similarly-educated partners and tend to segregate out the unskilled, whose likelihood of achieving stability when in a relationship with another unskilled person are quite low.

Figures 1 and 2 suggest that overall educational attainment is unlikely to result in equal within-group distribution. Black females can achieve significant earnings returns to education, whereas black males can expect much lesser returns. A college-educated black male, for example, could expect to earn approximately $30,000 while a college-educated black woman could expect approximately $33,000. This slight divergence is much greater the lower or higher the education level. Thus, uneducated black women are at a great disadvantage compared to uneducated black men. Conversely, higher-educated black men are at a great disadvantage compared to higher educated black women regarding income. Thus, focusing policy solely on educational attainment may well increase overall earnings of the unskilled; but these gains may come at the expense of within-group gender equality, thereby exacerbating some of the underclass problems of family instability, single motherhood, and the asset instability this implies.
Thus, beyond looking simply at aggregate measures of education of a group, we need to ask the following sorts of questions: do blacks and Puerto Rican males not seek out education because of the relatively flat curve regarding income gains to education? Are the children of homeowners more likely to do well in school because they have stable assets? Does parents’ employment stability influence interest in seeking out education and school performance?

Skill Mismatch Arguments

In general technological change affects all blue collar workers, as described in Chapter One. However, since African Americans and Puerto Ricans have traditionally occupied the lowest end of the native-born labor force they have become the most susceptible to any kind of technological change that stimulates the higher-skilled occupations rather than the lower-skilled ones.

This leads to the proposition that urban black and Puerto Rican ghetto residents may suffer from a "skills mismatch:" they are not qualified for jobs in the current economy. A second and linked argument is that even if they were qualified, they do not know about these jobs or have spatial access to them: this is known as the "spatial mismatch." Yet the analysis we have advanced thus far leads to skepticism about any simple application of these two mismatch arguments. Instead, there may be differentials in desire to receive appropriate skills according to family employment situation, asset situation, and spatial location that make some of the unemployed relatively immune to any kind of human capital accumulation. To define the current problems of the underclass as primarily human capital deficiencies ignores important variations in the within group distribution of improved educational resources, and obscures important issues of family history, social networks and spatial isolation.

Location and Mobility

Simple versions of the skills mismatch argument ignore some basic structural barriers to human capital development: location and discrimination.

Housing, Residential Segregation and the Spatial Mismatch Hypothesis

Since the late 1960s (Kain 1968), researchers have been debating the relationship between housing segregation, suburbanizing employment opportunities, and labor market
The original hypothesis that the underclass suffers from a spatial mismatch with job opportunities consists of the following elements: 1) there are fewer jobs per eligible worker in inner-city African American neighborhoods than in white ones; 2) the main explanation for higher black unemployment rates, lower wages, and longer commutes than whites with similar job qualifications is geographic isolation from jobs; 3) black unemployment is mostly a result of unequal allocation of the poor minority population within metropolitan regions rather than a result of discrimination, educational status, or lack of skills; 4) spatial proximity of employment opportunities and poor people, through information networks and physical contact, would necessarily link the two; and 5) housing segregation exacerbates labor market disadvantages of the urban poor. A less-well-documented but still significant literature on Latino spatial mismatch makes a similar argument.

One part of the spatial mismatch hypothesis focuses on the supply-side causes of SCP: residential segregation. In their influential book *American Apartheid*, Massey and Denton (1993) document the severe degree of racial segregation (see Table 9 above) and focus on its causal relationship to the underclass. Spatial mismatch studies have attempted to explicitly and causally link the relationship between this residential segregation and diminished labor market opportunities and performance. Kasarda (1989), for example, describes a national trend for job-growth in expanding suburbs and exurbs, linking it to increased unemployment in central cities and limited mobility options that constrict poor people’s opportunities to take advantage of these new jobs. Hughes and Madden (1991) investigated the spatial mismatch hypothesis for Cleveland, Detroit, and Philadelphia, incorporating intra-metropolitan variations in rents and wages. They found that the economic status of blacks could be significantly improved by changing their residential location. However, these residential changes did not significantly alter physical accessibility to better jobs. Rather, they conclude that a lack of information in ghetto neighborhoods about suburban jobs may be the most significant aspect of a spatial mismatch. This attention to the informational networks that enable employment is important because it may account for some of the racial differences in employment patterns. In Los Angeles, for example, Central American Latinas travel long distances on public transportation for housecleaning jobs they obtain through ethnic networks (Lopez, Popkin and Telles 1996). Thus, it may be that residential location is important not simply for who you live next to and where the jobs are, but as importantly because it determines from whom you get your information.

Stoll (1999), Ihlanfeldt and Sjoquist (1990; 1991), Leonard (1985; 1987), Mayer and Jencks (1989), Danziger and Weinstein (1976), Farley (1982), among others conducted analyses of urban minority employment and wages, and each concluded that location and proximity to job opportunities are significant variables—among several—in explaining either lower wages or unemployment. The problem is that unemployment and low wages cannot simply be attributed to location in the absence of other characteristics. As Stoll (1999) has found, location does not improve labor market performance for all young males equally. In his analysis of spatial mismatch in the Washington, DC region, Stoll found that employment rate ratios between young black out-of-school males with a High School diploma and their white counterparts were 5-7% higher in job-rich suburbs than in the inner city (85). In other words, suburban residence improved employability for all young men, but more so for whites than blacks.
Most spatial mismatch studies make the probably incorrect assumption that all workers with similar skills are alike except for their location. But the analysis of the underclass we have been building above suggests that there may be significant differences among individuals’ search behavior, spatial job access and tolerance based on different asset levels, previous employment instability and residence instability. Space is important because of its link to assets, family structure, and socialization, which in turn define the differential ability of people to connect to jobs in the metropolitan labor market. The mere difference of location between the underclass and jobs explains little of the reason why the underclass suffers from persistent long-term unemployment and instability.

The Effects of Immigration

It has frequently been suggested that immigrants outcompete native unskilled workers and thus reinforce the exclusion of the underclass from the labor market. If workers from the underclass had physical and educational access to jobs and were willing to work for extremely low wages, would they be employed? Do they have any competitive advantage, or are their reservation wages too high? Ong and Valenzuela (1997) divide native-immigrant low-wage competition into substitution, complementary and growth effects. Substitution effects generally apply to markets where immigrants offer similar skills at lower costs to firms than native workers. Complementarity can occur where the presence of low-skilled immigrant workers stimulates overall demand and output for goods and services related to the industry hiring the immigrants. These related goods and services often require native language or slightly different skill sets from those possessed by native-born workers. Finally, growth effects can occur where low-skilled immigrants not only expand the local labor market at the firm level, but also generate additional demand for goods, services and support-related jobs – through consumption - that low-skilled native labor can provide.

Ong and Valenzuela (1997) also found moderate substitution effects in Los Angeles. Low-skilled male Latino immigration to Los Angeles decreased African American youth employment levels by about 7% and employment levels of all unskilled African American males by about 5%. However, it had negligible effects on the earnings of those male youth or adults who were working.\(^{10}\)

However, as with the analysis of education, immigration effects can affect the underclass differentially regarding gender. Grant, Oliver and James (1997) have associated the immigration of low-skilled Latinas with improvements in the black women’s labor market. Their analysis holds that the movement of Latinas into domestic servant jobs have largely displaced low-skilled African American women out of a traditional niche. This succession coincides with black women’s greater educational attainment and movement into corporate and health care positions within the Los Angeles area. On the other hand, reinforcing Ong and Valenzuela’s findings, they found that low-wage Latino immigration displaced many low-wage black males from janitorial jobs from which they were unable to upgrade and kept them out of the construction industries. Rather than becoming unemployed, however, some of these low-skilled males moved

\(^{10}\) The study did find that Asian and other non-Hispanic immigration had positive complementary effects on black earnings.
into other low-wage jobs. Ong and Valenzuela did find, however, that race played a greater role in black labor market outcomes in Los Angeles than did Latino immigration effects, implying yet another explanation: labor market discrimination, which we will discuss below.

These studies help define the relationship between low-skilled immigrants and native workers. However, as with the other schools of thought, they ignore personal asset characteristics aside from education. An examination of whether asset deficiencies affect immigrant poor in the same measure as they do the native-born underclass, and whether it is a question of material resources alone or in association with other factors which seem to separate the working poor from the underclass, is now urgently needed. Such information would also help determine whether intergenerational non-Puerto Rican Latinas and Southeast Asian underclasses are now emerging in the United States.

**General Economic Conditions**

Some researchers have found that regional economic growth is the primary influence affecting the underclass and concentrated poverty. Galster and Mincy (1993), using national census data from 1980-90, found that the growth in African American neighborhood poverty is a result of the growth of jobs in comparison to the population change and the location of manufacturing industry (345). However, they found a similar pattern for Hispanic, mixed and white neighborhoods, thereby indicating that the fate of all groups is tied up in the macroeconomic change of the metropolitan area.

Similarly, Jargowsky (1997: 145) found that metropolitan-scale economic change had the greatest correlation with the increase in concentrated poverty. His national analysis showed that the most important variable determining neighborhood poverty was the “functioning of the metropolitan economy.” By this he means that the overall metropolitan income level and its distribution across groups are more important than other, more localized factors such as spatial mismatch. This is the old canard of "a rising tide lifts all boats."

Finally, Freeman and Rogers (1999) have come to similar conclusions but add that the gains in employment and wages have been enjoyed disproportionately by African American youth in the late 1990s. Their national analysis suggests that the 1990s economic boom improved the employment rates of young black males by 12% in areas where the jobless rate was less than 4%; 17% in areas where the jobless rate was above 7%. These figures favorably compare to 6% and 4% gains for all youth and 0% and –2% changes for African American men. This school of thought shows important correlations between improved employment levels, wages and overall economic growth. It is important to remember, however, that the ability of policy interventions to maximize job growth is not clear.

Overall, it seems that economic expansion is a key factor determining the conditions for the underclass. However, this provides very limited reason for long-term optimism. Since economic activity is cyclical, economic conditions that provide temporary improvements in employment rates deteriorate in downturns (this is known as the "last hired, first fired" phenomenon). Moreover, only those gains that provide real opportunities for asset accumulation become durable. But the underclass is precisely in those labor market niches that provide few such opportunities for asset accumulation.
Discrimination

Non-Labor Market and Non-Housing Discrimination: Incarceration

In general, incarceration is not considered a cause of the underclass but a result of it. Yet imprisonment may be increasingly important in limiting asset accumulation of the underclass.

In addition to housing market discrimination African-Americans and Puerto Ricans exhibit very high rates of involvement with the criminal justice system. Incarceration is perhaps the most extreme form of social isolation. Although the negative socialization effect of prison is not precisely established, its magnitude is likely significant. In Los Angeles, for example, of all the blacks that migrated out of Los Angeles County from 1985 to 1990 fully fourteen percent were incarcerated in 1990. 82% of these “migrants” were men (Grant, Oliver and James 1997: 402).

Incarceration may also contribute to unemployment. 33% of black male youths and 7% of all black males in 1995 were under some form of state supervision (Western and Beckett 1999). In fact, more crime and consequent increased incarceration (both justified and unjustified) likely increases underclass characteristics by disrupting young males’ relationship to the outside society and creating disincentives for asset accumulation and planning. From a more sociological viewpoint high incarceration rates may have effects beyond the labor market that reinforce what Jencks called different moral norms. The social isolation of young males only adds to the gender and class differentiation described in the previous section. In addition, a criminal record creates yet another liability in the labor market once inmates are released from prison and look for a job (see Freeman 1999; Western and Beckett 1999).

Research has established that black and Puerto Rican incarceration rates are in part due to stricter and harsher application of the law for minorities (Sullivan, 1989; Oliver and Lichter, 2000). Freeman and Rodgers (1999) suggest a troubling phenomenon: on the one hand, differential application of criminal laws leading to high rates of minority incarceration that take younger males (in general) out of the labor force decreases the unemployment rate of the underclass and masks part of the problem of joblessness among young males. Western and Beckett (1999: 1039) found that the national unemployment rate would increase from 5.6% to 6.2% for all males if the effect of incarceration were included. On the other hand, a criminal record is a significant liability in the labor market.

Given the central role of unemployment in the creation of the underclass, there is some evidence to suggest that incarceration and criminal justice discrimination may both mask presently higher unemployment rates for blacks and Puerto Ricans and create another barrier to employment in the future. In doing so it reinforces both current and future problems of SCP and the underclass. Moreover, we suggest that criminal records

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11 Here it is very important to distinguish between racism and racial discrimination. As we define the two, the former is an unfortunate result of general racial antagonisms that does not explicitly hamper one’s position in a labor (or housing) market. Racial discrimination, on the other hand, specifically and unfairly disadvantages a labor market participant based on irrelevant criteria.
are also significant liabilities in applying for car, home, education and other kinds of loans that can help to increase assets. In any case, if there is racism and discrimination in incarcerating black and Puerto Rican males, then the criminal justice system can be considered an institution which reinforces the existence of the underclass.

Racial Discrimination in the Labor Market

Discrimination in hiring practices contributes to the high unemployment rates of inner city residents. It needs to be distinguished from the spatial and educational disadvantages that urban minorities face.

Stoll (1999) found that having a suburban residential location does improve labor market opportunities for all young males, yet more for whites than comparable black youth. He concludes that racial discrimination is at least as important as suburban location in labor market outcomes for young black men, and advocates for policies that complement residential mobility programs with antidiscrimination enforcement efforts in suburban labor markets. Stoll’s finding is also similar to Harrison’s (1974) earlier study, which found that suburban minority residents experience greater unemployment and lower earnings than similarly skilled urban minorities, and claimed that discrimination plays an important role in explaining this difference.

Ellwood (1986) found that race contributes to unemployment more than does location. His position is corroborated by Leonard (1985), who found that the racial composition of a census tract in Los Angeles accounts for more of the variation in employment-population ratio than does either personal characteristics or location. However, Wilson (1996) argues quite convincingly that both black and white employers discriminate against young black males from poor neighborhoods, assuming that they would be dangerous and unreliable workers.

Racism in the Housing Market and Infrastructure Development

Although generally not considered an explanation of the underclass, we include infrastructure and housing policy discrimination in this section because there is an emerging body of literature which shows that physical improvements of all sorts are the basis upon which home values are assessed. Transferable homeownership wealth -- family assets -- is systematically conditioned by the public goods that government policy provides.

Ironically, the federal government has contributed to the development of the underclass through its development policies, beginning with the creation of the Homeowners’ Loan Corporation (HOLC) in 1933 to refinance urban home mortgages in danger of default. HOLC was the first institution to implement and bureaucratize “redlining,” the discriminatory practice of systematically undervaluing ethnically mixed and older neighborhoods that led to an unavailability of loan capital in poor neighborhoods (Jackson 1985; Massey and Denton 1993: 51). During the 1940s and 50s, the new Federal Housing Administration (FHA) and the Veterans Administration (VA) inherited these discriminatory practices and subsidized, through low-interest loans and new construction techniques the suburbanization of the working class and veterans in a massive effort to increase homeownership. As with the HOLC, these incentives were
predicated on race and nationality characteristics (Jackson 1985; Massey and Denton 1993). Thus, Jews, blacks and other minorities were excluded from incentives for homeownership largely based in the expanding suburbs. These policies contributed to the departure of white, middle class taxpayers from older urban areas.

Housing policies targeted at the development of underclass neighborhoods also greatly contributed to the perpetuation of the underclass. Some researchers have argued that residential segregation is in part a result of public policy. The Housing Acts of 1949 and 1954, for example, provided federal funds to local agencies to redevelop urban slums. This came at a time when the middle classes were abandoning cities and moving to the suburbs, generating a downward spiral in the cities, consisting of lowered fiscal capacity due to a suburbanizing population, exactly at the time when cities needed to make significant investments in order to reinforce the attractiveness of the city to the middle classes. Under the guise of providing housing for poor residents, these federal programs empowered local authorities to raze poor neighborhoods and relocate low-income blacks and Puerto Ricans into more concentrated public housing developments, while gentrifying their former neighborhoods (Massey and Denton 1993: 55-7; Meles 1994: 130). This replacement of low-density slums with high-density housing projects contributed to a reduction in the class diversity of African-American and to some degree Puerto Rican communities that served to lock the underclass into physical isolation of a much greater degree than had formerly been the case.

More recently, Federal transportation and sewage policy have come under scrutiny for contributing to the isolation of poor inner city neighborhoods. The National Interstate and Defense Highway System Act of 1956, for example, was intended to facilitate military movement throughout the country during the Cold War but channeled over half of its funds to roadbuilding within metropolitan areas that also facilitated the decentralization of urban centers. $652 billion were allocated to this program, while only $85 billion was made available for mass transit that tends to serve the denser urban centers where most of the underclass lives.

Also contributing to this outward spread were cheap gasoline prices – which states and the federal government kept very low through minuscule taxes - that further facilitated automobile-based development and mobility (Rusk 1999: 91-2). Similarly, since 1956 Washington has given $130 billion (1996 dollars) to local governments to clean up water problems. Rather than use these funds for remediation in older neighborhoods, local governments have built new capacity for suburban growth. The federal government has subsidized the construction of water treatment plants on the order of 75 percent of the costs (Rusk 1999: 92) thereby effectively subsidizing middle class mobility and flight from poor minorities. In this sense, the high level of spatial expansionism of American metropolitan areas, and the spatial mobility of the American population, is a "machine for exclusion" of less mobile populations.

Finally, the Mortgage Interest Deduction has been a point of blame for some analysts of the urban disinvestment that has isolated the urban underclass (Jargowsky 1997b: 52). This tax-code policy allows homeowners to deduct their mortgage payments from their taxes, thus creating incentives for homeownership at the higher end of the housing market. It provides no comparable incentives for investment in low-income housing. Most of the limited stock of low-income housing is in poor neighborhoods, and
it contains little social mix. According to Oliver and Shapiro (1994), these housing policies have been a major cause of asset differentials between the underclass and the rest of society.

V. POLICIES INTENDED TO ASSIST THE UNDERCLASS

There are many policies that have had significant intended and unintended effects on the underclass. What follows is a sample of only those with the most direct effects; a number with indirect unintended effects have already been noted above as contributors to the existence of the underclass.

Perverse Policies: Welfare

Welfare policy affects the underclass most directly; its effects have been both positive and negative. Many have attributed the problem of “welfare mothers” and lack of motivation in the job-search (J.Q. Wilson 1994; Hill and O’Neill 1994; Kasarda and Ting 1993) to perverse policies that create incentives for the unemployed to remain so. The hallmark policy identified with the underclass has been the federal program titled Aid to Families With Dependent Children (AFDC). Originally called ADC (Aid to Dependent Children), the program began under the Roosevelt Administration during the Great Depression to help families with children through the downturn, and it was intended to wither away once the country’s economic stability returned.

However the program continued to provide benefits, steadily increasing during the sixties. In 1960 308,000 families received benefits, in 1967 1.3 million, and in 1973 3.2 million (Levy 1998: 171). By 1973 one in fifteen white children and two in five black children received AFDC benefits – a sixfold racial difference. In that year approximately equal numbers of black and white families received AFDC despite huge percentage differences in the general population (Levy 1998: 172).

The criticism of the program hinges on its role in cutting off urban blacks from the larger economy: jobless men, female-headed households and welfare (Levy, 1998). During the early 1970s AFDC made male-headed households ineligible for assistance. This perpetuated female-headed households and undermined efforts to promote family stability. The ultimate effect of AFDC, it is argued, is the feminization of poverty: between 1959 and 1973 the proportion of poor living in female-headed families increased from 21% to 41%. Over this period the percentage of black population in poverty fluctuated from 25% to 31% (Levy 1998: 176-7).

In the absence of significant policy for the low-wage poor, AFDC and other benefits for the underclass offered greater income than the labor market, it is argued. It rewarded poor single women with children for not working, thereby boosting the unemployment rate. The negative effect of AFDC was exacerbated by a post-1973 reduction in the benefit levels from $203 per month in 1975 to $177 in 1984. The

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12 The Earned Income Tax Credit of 1975 was a minor effort to supplement the incomes of working poor mothers. See Liebman (1997).

13 Figures here are in 1997 dollars.
The economic downturn of the 1970s and federal limitations on the number of households receiving AFDC kept the growth in number of cases relatively modest, with an increase from 3.2 million to 3.7 million from 1973 to 1984. However, over this same period the number of female-headed households with small children, many of them poor, increased from 4.6 million to 6.8 million (Levy 1998: 178-80).

In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act replaced AFDC and its associated disincentives to work with the Temporary Assistance to Needy Families program (TANF) (Ong 1998). It awarded block grants to states to develop their own welfare programs with limits to the number of years an individual could receive benefits. At the same time, there was a major expansion of the Earned Income Tax Credit in 1993. The EITC is essentially a negative income tax. A family with minimum wage work and food stamps can now benefit from the EITC to remain just above the poverty line. These changes appear to have contributed to greater labor force participation and the black poverty rate declined in the late nineties, though government expenditures for the underclass remained approximately the same as under AFDC (Levy 1998: 184).

Though economic expansion and welfare changes have coincided with greater employment and incomes among former welfare recipients, it is not clear that they are accumulating greater assets (Friedlander and Burtless 1995; Epstein 1997). This critique of the disincentives to work that AFDC created, however, does not necessarily apply to poor Puerto Ricans: in 1989 two thirds of those eligible for welfare benefits did not receive them, thereby undercutting the argument that welfare was an incentive for Puerto Ricans to remain unemployed (Rivera-Batiz and Santiago 1994: 49).

**Head Start**

The Head Start Program was initiated in 1965 and authorized the Head Start Bureau, the Administration on Children, Youth and Families, the Administration for Children and Families, and the Department of Health and Human Services to support comprehensive child development programs for children aged 0-5, pregnant woman and their families. The overall objective of this program is to increase the school-readiness of young children in low-income families through development of educational, medical, dental and nutritional services as well as through support for parental involvement in a child’s education.

The Fiscal Year 1999 budget allocation was significant: US$ 4.7 billion for the nation. These funds were matched by another $ 4.2 billion from the states to provide services for over 800,000 children (Health and Human Services 2000). One evaluation of the Head Start Program’s presence in the public school system found that overall the quality of services provided to children enrolled in Head Start was superior to those offered for non-Head Start children (Resnick and Zill 2000).

However, the program is not an unqualified success. Some studies find that gains for Head Start children dissipated within two years of completion of the program, as they become more influenced by other social, family and neighborhood dynamics (as cited in Kelso 1999: 54). This implies, once again, the importance of a context in which overall instability in the child's life is reduced.
Comprehensive Employment Training Act (CETA)

The Comprehensive Employment Training Act of 1973 was developed to improve the labor market experience of chronically disadvantaged workers suffering high unemployment and low wages through the subsidy of local public employment. It made federal funds available to state and local governments to expand public sector employment. The new jobs were restricted to the long-term unemployed, had a wage ceiling, and were not intended to be permanent, but rather to be stepping stones in countercyclical times. One study (Wiseman 1976), however, found that CETA’s effectiveness decreased significantly over four successive quarters. The explanation for this failure is attributed to two factors: first, since the public sector is a skill-intensive it is likely that the program initially “creamed off” the higher skill members of the underclass, leaving the lesser-skilled essentially ineligible for even these public sector jobs. Second, there may be a “shuffling effect” of simply shifting funds from the federal sector to local governments (Johnson 1978: 136-40).

Job Training Partnership Act (JTPA)

In 1983 the Department of Labor authorized a national program to assist laid-off workers (mostly due to the strong reduction in manufacturing employment in the late 1970s through mid 1980s) through a broad program of retraining. Specifically, this program was intended to help move all the unemployed into work through the creation of partnerships between the federal government, state and local governments and private industries. The JTPA authorized and encouraged the creation of State Job Training Coordinating Councils to coordinate the needs of the private sector with training initiatives, the establishment of Service Delivery Areas to receive federal retraining funds, and Private Industry Councils to implement the training, primarily within the service delivery areas.

The program provided individual assessment of an unemployed person’s needs and abilities, classroom training, on-the-job training, job-search assistance, counseling, basic skills training and other support services. In addition, the JTPA was strengthened by the Worker Adjustment and Retraining Notification Act in 1988 which required advance notice from firms of a closing, thereby allowing more time for the dislocated worker to retrain (Department of Labor 2000). Overall, JTPA has had some positive effects in the labor market experience of the unemployed. These improvements, however, are modest and the results seem to vary widely depending on the region (National Center for Research in Vocational Education 2000).

Earned Income Tax Credit (EITC)

The federal government enacted the EITC in 1975 as a refundable tax credit within the federal tax code for any adult who worked within the previous year. The EITC functions as a pay bonus, and thus offsets many of the increases in social security taxes and living expenses (such as transportation, clothes, childcare, etc.) associated with work. Since many critics of AFDC have claimed that welfare benefits create disincentives for work, the EITC suppresses this disincentive by crediting working people and raising their incomes beyond the welfare income level. Much of the current debate around the EITC
centers on its ability to move the unemployed from welfare and unemployment to work, by making low-wage employment more attractive than welfare.

The EITC was revised and expanded in 1986, 1990 and 1993 (for which the benefits did not become implemented until 1996) to include an increasing variety of family structures. The current criteria include the following: the recipient must have earned income within the previous year and have income below a specified amount depending on the number of children living within the household as dependents (U.S. Treasury 2000 – www.irs.ustreas.gov/prod/ind_info/eitc4.html).

In the year 2000 beneficiaries received average credits on the order of $US 3,888 for families with two or more children, $ 2,353 for families with one child, and $ 353 for those without dependent children (Zahradnik and Lav 2000). Since the 1980s the EITC has succeeded in moving some of the welfare-dependent into work. Meyer and Rosenbaum (1998) found that EITC expansions explain over half the increase in single mother employment from 1984–96. It has also contributed to reduced inequality between the underclass and mainstream society. Liebman (1998) found that over the past 20 years the EITC has offset between one-fourth and one-third of the income decline of the poorest quintile of households with children. In part because of its proven success at providing some assistance to the underclass, these federal credits have been matched with similar state tax credits from eleven states. However, as with TANF, the evidence that this greater employment will lead to sustainable asset accumulation and career paths in the long term is not as promising.

Transportation Subsidies

Based on the finding, associated with the spatial mismatch hypothesis, that the poor have difficulty in getting to the places where jobs are located (Kingsley and Turner, 1993), in the late 1990s several philanthropic foundations teamed up with the federal government’s Department of Housing and Urban Development to initiate the “Bridges to Work Demonstration Program.” These projects took the form of urban-suburban and public-private partnerships to increase understanding and stimulate thinking and action to coordinate services that would reduce administrative barriers to finding jobs and help individuals find transportation to work (Palubrasky and Watson 2000). While it is too early to systematically evaluate the long-term effect of these projects, there was enough evidence to support their implementation on a larger scale through federal policy action.

HUD’s new Welfare to Work vouchers program in the FY 1999 budget reflected the positive lessons from the Bridges to Work program, and allocated US$ 238 million for local public housing agencies to provide 50,000 transportation vouchers for residents of public housing projects beginning work in suburban jobs that are difficult to access. Similarly, the federal Department of Transportation has allocated $600 million in FY 1999 to an Access to Jobs Initiative that will improve the public transportation infrastructure – presumably through improvements in public transportation. These funds will, the DOT hopes, increase the ease which inner city residents can gain access to low-wage suburban job opportunities (Housing and Urban Development 2000a). It is still too early to assess their effectiveness.

Economic Opportunity Act of 1964
In creating the Office of Economic Opportunity (OEO), the Economic Opportunity Act of 1964 solidified Lyndon Johnson’s War on Poverty into a concrete policy aimed at enhancing and promoting economic opportunities and preparing youth (and to a lesser degree adults) to take advantage of these opportunities. The policy was to focus almost exclusively on low-income communities themselves, and primarily through new local institutions called Community Action Agencies (CAA) (Halpern 1995: 107). These CAAs were composed of local officials and low-income community residents, under the assumption that poor residents knew best how to solve their economic problems. Modeled on a prior program initiated and supported by the Ford Foundation called the “Gray Areas Program,” CAAs came under heavy criticism for not taking into account some of the shortcomings of the Ford experiment (Halpern 1995: 100).

Overall, the OEO helped to stimulate some fragile improvements in some neighborhoods where the CAAs could achieve some small-scale victories such as holding public service agencies accountable for their work, contributing to the blockage of some harmful urban renewal programs, and the construction of some parks. However, tension between the priorities of the OEO and the local CAAs sometimes paralyzed local action. Many of the representatives on the CAAs represented personal interests rather than community-level ones, and most importantly they never really addressed the fundamental issue of attracting private investment back into inner city neighborhoods (Halpern 1995: 116-7). In light of these shortcomings, many neighborhoods fell further into poverty despite some useful local projects.

Model Cities Program

The Model Cities program was a federal effort begun after a series of urban riots in black neighborhoods around the country led to a federal investigation into the causes of urban unrest (Kerner Commission 1968). The program called for development of “model cities” in 150 areas, with $300 million in federal funding (Halpern 1995: 121). Under this program neighborhoods created City Demonstration Agencies, composed of elected officials, major agencies, labor unions and business leaders, that planned the implementation of more integrated housing and a concerted social service delivery system that would provide incentives for middle class blacks and whites to remain connected to inner city areas (Halpern 1995: 121). Much of the funding, however, was coopted by local development elites and politicians. By 1969 President Nixon had declared the “urban crisis” over, and the Model Cities program was allowed to lapse (Halpern 1995: 122-4).

Urban Development Action Grants (UDAG)

In 1976, the Carter Administration and Congress authorized the Urban Development Action Grant program, allocating $400 million to the northeast and midwest cities hit hardest by deindustrialization. These grants were intended to finance urban housing and economic development projects that required major capital investments. While similar to the earlier urban renewal programs outlined above, UDAGs differed by requiring up-front commitment from private sources before development could begin.
UDAGs were not effective at improving the housing and labor market conditions for the underclass. The grants were criticized for cementing cozy relationships between local corporate elites and local governments. Even though they effectively channeled financial resources to poor areas for development, as with most place-based programs, the tangible benefits for the urban underclass were less clear than the physical projects they financed. In sum, UDAGs subsidized construction of commercial and multiunit residential complexes in urban places (Bingham 1998) and in doing so somewhat improved the appearance of the neighborhoods in which the underclass lived. However, like other place-based programs, these “environmental” improvements did not have many labor market improvements or long-term stabilizing effect for the underclass.

Gautreux Housing Experiment and Section 8 Housing Vouchers

A recent and significant policy intervention on behalf of the underclass is "people based" rather than "place based:" Chicago’s Gautreux Housing Mobility Experiment. Due to a chance court ruling on housing discrimination, the federal Department of Housing and Urban Development (HUD) ordered the Chicago Housing Authority to desegregate. This directive resulted in the “random” relocation of low-income urban African Americans into either suburban or other urban neighborhoods in an effort to desegregate public housing. Relocation has improved the likelihood of employment and educational attainment for those it helps move to suburban locations. These improvements are greater than those for program participants who moved to other poor urban neighborhoods. However, evaluations also found that other factors (such as the number of children) were equally or more important in determining the positive outcomes (Rosenbaum and Popkin 1991; Rosenbaum 1995; Kingsley and Turner 1993).

HUD’s Section 8 voucher program extends the Gautreux approach. HUD contracts with local public housing agencies to provide vouchers for low-income families. These vouchers can be used in the private housing market and serve to subsidize poor people’s residential mobility out of ghettos and barrios into wealthier suburbs. In his analysis of California data, Ong (1998) found that section 8 vouchers may offer the poor “greater residential choice and mobility, improving opportunities for employment” (Ong 1998: 779). Ong goes on to conclude not only that residential mobility can help low-income minorities gain a greater attachment to the labor market, but that a housing program should go beyond simply the provision of shelter to promote other desirable outcomes such as employment opportunities where possible. Both Gautreux and Section 8 have offered increased opportunity for small numbers of the underclass, but are fundamentally limited in scale due to significant structural difficulties in extending the program. American metropolitan areas have very fragmented local government structures, and each municipality defends its own interests. Wealthy suburban jurisdictions are unlikely to welcome many poor minority residents, because beyond a few "token" residents, they perceive a “tipping point” in the presence of poor and minorities that would induce their residents to migrate out. This would in turn eliminating the rationale for the residential mobility programs in the first place.

This threshold effect reminds us of the intimate relationships between social and spatial mobility and the difficulty of solving a structural problem at a local level.
Community Development Corporations and the Community Reinvestment Act

Unlike most other place-based and people-based strategies, community development originated in low-income neighborhoods as residents’ organized responses to the problems of poverty and discrimination. Community Development Corporations (CDCs) emerged in the late sixties out of loose local coalitions, local responses to urban riots, or defunct planning agencies as efforts to promote indigenous economic and social development. Unlike most of their original institutions, CDCs had explicit development missions designed to assess local problems and develop solutions for them rather than simply to protest or lobby for policy changes. Through a reauthorization of the Economic Opportunity Act in 1972, Congress provided federal support of efforts at stimulating local business development and local infrastructure renewal – in particular affordable housing. Subsequently, the Ford Foundation became a major participant in the early 1970s – almost equaling the federal government itself (Halpern 1995: 132).

Rusk (1999), Vidal (1995), Foster-Bey (1997), and Halpern (1995) have all described many of the individual programs that make up this diverse category of community-based institutions. In general, these groups see themselves as community-based capitalists making risky investments in the construction of affordable housing, purchasing local businesses in danger of bankruptcy, and financing small retail establishments. In order to survive institutionally, some have spun off private, for-profit subsidiaries that manage local businesses but are subject to the parent-CDC control.

While often quite successful as perhaps the only enduring social institution operating in underclass communities, CDCs – like other place-based actors – work counter to the prevailing force of the economy. Even though many have been able to stimulate some reinvestment in inner cities and provided limited opportunity to low-income residents, the neighborhoods they serve continue to reflect the larger pattern of disinvestment from older, poor neighborhoods as firms and the middle class of all races become increasingly mobile.

The Community Reinvestment Act (CRA) of 1977 was a great help to many CDCs, who subsequently began to see their role change from general community-based activists and developers to organizations focused on building affordable housing. The CRA mandated federal oversight of financial institutions to assess their record in providing credit. As a response to the common practice of “redlining” (discussed above), the results of CRA analysis were to be included in bank applications for “deposit facilities,” which included mergers and acquisitions. If a bank’s credit record proved discriminatory against redlined communities, the Federal Deposit Insurance Corporation (FDIC), The Office of the Comptroller of the Currency, or the Office of Thrift Supervision would veto its application. Banks were thus mandated to channel some funds into underclass neighborhoods where CDCs could finally raise capital for development projects.

In 1986 the CRA was amended to include incentives for the provision of Low Income Housing Tax Credits aimed at stimulating the construction of multi-family housing and small businesses in poor neighborhoods. This amendment also provided federal incentives for the direct support of CDCs by private banks – in particular in supporting their ability to implement the Low Income Housing Tax Credits (Enterprise Foundation 2000). This inclusion of CDCs into the private banking sector’s credit provision in primarily underclass neighborhoods had both positive and negative effects.
First, it increased CDC operating funds, enabling them to provide some useful services in
the form of more affordable housing and more technical support for small businesses in
poor urban neighborhoods. However, this direct injection of funds focused on the Low
Income Housing Tax Credit often detracted their attention from the wider context of
community development and centered them on the narrower task of housing
development. As a result, they were less equipped to tackle the broader context of
community problems, such as the increased suburbanization of both middle class
residents and low-skilled jobs. As these firms and residents moved out of older, poor
neighborhoods, many CDCs were stuck as property owners and managers in areas where
real estate values continued to plummet despite the CDCs’ successful efforts to construct
of some housing and attract some businesses.

Despite these difficulties, CDCs and the CRA were very effective in the
infrastructure and business development they did stimulate. Moreover, they seem to have
avoided much of the corruption of earlier place-based initiatives, such as Model Cities
and UDAGs. As minor reorientations in the way that the federal government operated,
the CRA and the use of CDCs as implementing agents brought private sector funds into
programs intended to support the underclass at virtually no cost. For this reason, there has
been relatively little debate over the value of these programs.

Empowerment Zones (EZ)

The American Empowerment Zone program is modeled on the British system of
Enterprise Zones; it attempts to attract businesses to persistently poor neighborhoods
through tax incentives.

The program was originally implemented in 1991 at the state policy level, with
thirty-seven states and the District of Columbia passing enterprise zone legislation for
approximately 500 zones. In 1994 the federal government authorized a national
Empowerment Zone program, allocating US$ 100 million to six cities over a ten-year
period. This program was expanded in 1998 to include twenty more inner city and poor
rural areas. In addition to the federal funds, an additional $250 million has been made
available through tax credits. These credits include wage tax credits, tax exempt zone
facility bonds, and an increased deduction on depreciable zone property. Although the
primary goal of the program is employment of local residents through the attraction of
firms, the legislation includes an array of other incentives to increase public-private
cooperation, community-based partnerships and resident planning for neighborhood
development (Flint 1999).

It is not clear, however, that these incentives have made significant progress in
alleviating the problems of the underclass. First, there is little evidence that businesses
move to particular locations because of lower taxes. Second, even if businesses do move
there, it is unlikely that they will hire local residents rather than import workers (Lemann
1994). Finally, the visible existence of EZs has decreased pressure for a federal response
to the underclass problem. In lieu of other systematic approaches to the underclass, the
EZs have become the de facto policy to solve the problems of the underclass – a role for
which they are not qualified. In large part because of these problems, evaluations of
Empowerment Zones and similar programs conducted to date have found that their effect
has been negligible (Flint 1999 ;Dowall1996 ).
Policy Lessons

One striking characteristic of this brief overview is that the idea of wealth accumulation and intergenerationally transferable wealth has not had a comprehensive influence in framing policy initiatives. Programs have tended to focus on discrete causes via single-purpose policies. Some policies have tried to provide portable assets to people, while others have attempted to develop infrastructure and institutions in fixed places. Most place-based programs focus on ghetto infrastructure or spatial mismatch problems, while job training and wage tax credit efforts attempt to deal with individual capacities to overcome structural unemployment. There is little coordination between these efforts and even less attention to how these improvements can be translated into stable assets. Moreover, the one attempt to deal with a variety of causes simultaneously, -- the Empowerment Zone program - is open to wide criticism.

The one policy which addresses the lack of assets of the underclass is the recent program known as Individual Development Accounts. It provides government contributions to underclass individuals investing in long-term assets such as homes, education and retirement accounts. Because it is such a new program it has yet to be evaluated.

Unfortunately, thus far a piecemeal approach to policy that takes little advantage of possible cross-policy synergies has become the de facto way that American policymakers have approached the underclass.

VI. IS THE AMERICAN EXPERIENCE UNIQUE? IS FRANCE DEVELOPING AN UNDERCLASS?

The creation of the American underclass is the result of a complex historical and geographical process. Many different causes interact over time and space to create a phenomenon which it is not possible simply to "reverse engineer" by attacking the individual causes. It is such a vexing social and economic problem because vicious circles of causes and effects have to be untangled, not just discrete cause and effect relationships.

These complex, interactive and evolutionary roots of the problem also make it rather difficult to compare different countries. But it is with this sense of the problem, and the risks of making comparisons, that we shall make some comments about the possible appearance of something like an underclass in France.

An Historical Process with Paradoxical Outcomes: Desegregation

The end of legal discrimination and the formal recognition of civil rights for American blacks created the initial conditions of vast inequalities between blacks and other citizens. Suddenly blacks could expect the same legal opportunities that whites of all ethnicities expected. However, the long history of slavery and the failure of Reconstruction to promote accumulation of individual assets among African Americans meant that this sweeping legal change was not accompanied by an appropriate economic
reality. Similarly, the incorporation of a poor island like Puerto Rico into a rich country like the United States created a different kind of instantaneous, and huge asset gap among citizens with the same rights and entitlements.\(^{14}\) Other nations may or may not face an analogous history of stark asset gaps generated by immigration from poorer countries that create similar conditions of discrimination and asset-poverty.

These two situations contrast with those of economic immigrants, who tend to be self-selected, often based on very high education levels or on strong economic aspirations. Puerto Ricans fall neatly into neither category of poor immigrant nor native-born poor. As with blacks, they enjoy many of the legal benefits of native birth, residency and other attributes of being born in an American territory, as well as the benefits of low financial and administrative costs of internal migration. On the other hand, Puerto Ricans share with Mexican immigrants language barriers and anti-immigrant bias.

Perhaps most importantly, however, Puerto Ricans share with African Americans similar historical migration patterns. During the post World War II period, both Puerto Ricans and blacks migrated to older industrial cities in search of low-skilled industrial jobs. Upon arrival they were directed into racial and ethnically segregated residential areas characterized by working class industrial jobs.

Poor blacks and Puerto Ricans differ from other poor groups because of their disproportionate physical concentration, related barriers to the labor market and related barriers to asset accumulation. The degree to which the negative aspects of underclass characteristics might affect groups in other countries depends in large part on the degree to which residential class and racial segregation, human capital development, and discrimination interact to limit the intergenerational accumulation of wealth.

**Fragmentation and Mobility**

One could argue that segregation has always existed in the United States, and that if older black and Puerto Rican neighborhoods used to be vibrant, so it can be the case today. However, given the importance of middle class mobility for all ethnic groups as a prerequisite for labor market opportunities and asset accumulation this argument seems untenable. Within the fragmented American governmental structure, the institutionalized region-region, state-state, and municipality-municipality competition that enables firms to gain from mobility by abandoning existing locations have enabled firms to relocate purely on profit-margin efficiency grounds since the cost of remaining in a particular location often exceeds the cost of relocation. Without a spatially constrained African-American and Puerto Rican middle class, suburban and regional mobility has enabled successful minority residents of ethnic and racial neighborhoods and areas access to the larger economy.

The United States is a physically and socially mobile society. Moreover, it has a decentralized governance structure, with strong states’ rights and individual entitlements that differ by state and region. As we have shown, this mobility and decentralized government structure have facilitated physical mobility as an expression of social mobility – in particular, physical mobility to respond to changes in the regional

\(^{14}\) A similar phenomenon in Europe might be the incorporation of East Germany into the West German economy, although the scale issues would imply an “underclass” of vastly different resources and political power.
distribution of labor market demand, and residential mobility to take advantage of stark differentials in the quality of services between alternative jurisdictions. These three factors have exacerbated the conditions of the underclass throughout the late 80s through the mid 1990s.

The ability of many successful urban minorities to take advantage of these opportunities does not necessarily imply increasing inequality overall. They do, in fact, represent increased opportunities for some historically disadvantaged blacks and Puerto Ricans in the labor market and housing markets. However, as this progress has unfolded class segregation has broken down some of the hidden social ties that once provided social and economic stability among poor and working class urban minorities.

Recognition of this fact in no way implies that a return to racially segregated housing and labor markets are a way to solve the problem of the underclass. However, it does imply that specific policies should be implemented to provide opportunities in both the labor market and the housing market that support the social, physical and economic reintegration of the underclass into the mainstream economy and society. In particular, it indicates policies that simultaneously integrate the underclass spatially with the rest of the society, develop job skills and education at least equal to most Americans, and remove any remaining barriers to racial and ethnic discrimination in the housing and labor markets as well as the criminal justice system. Such policies should be used to bolster transferable asset accumulation that can reduce intergenerational poverty. Gains achieved by focusing only on one of these aspects would likely be lost through changes in the other two factors. Educational achievements, for example, would mean little if newly minted underclass college graduates had no access to job openings in the suburbs, or faced continued housing, labor market and other kinds of discrimination. Likewise, any improvements in residential integration would fall flat if they didn’t improve access to educational resources, jobs and appreciating real estate.

Such a comprehensive approach to alleviating underclass poverty has never been attempted. Isolated efforts in particular places have attempted to integrate these different policy approaches, but they have never been brought to larger scales.

Is France Creating an Underclass?

The United States, as we saw in Chapter One, has generally higher levels of overall wage and income inequality than France, but much lower rates of unemployment, and especially a much lower share of long-term unemployment in its unemployment than does France. Moreover, the USA is a high employment economy in general, strongly expansionist, whereas France is an economy with stable to declining levels of employment (in the USA there is a rapidly expanding employment and population base, high rates of labor force participation, more employment intensity than France in general, more hours of work per person).

France has now experienced a generation of high unemployment, and this leads one to ask the essential question of whether this situation is leading to an evolutionary vicious circle consisting of the advent of multigenerational exclusion from the labor market, and thus the possible creation of an underclass-like population. In other words, whereas in the USA, the beginnings of the underclass can be traced back to discrimination, desegregation, and social and economic mobility and expansion, is the
equivalent point of departure for a French underclass the generation-long existence of structural unemployment which touches a certain population in a particularly dramatic way?

It would appear that, as in the USA, economic difficulty visits its real effects on the affected populations in very different ways. Unemployment in the USA does not transform all its victims into the underclass, because certain populations have the assets to offset its effects and stay within the social and economic mainstream. Even among blacks and Puerto Ricans, family assets (material and immaterial) have permitted many to move up, either to the "working poor" or to the middle and upper classes. In France, long-term unemployment for many has not confined them to social and economic exclusion, essentially because they have family or personal assets which, combined with stronger revenue support programs than in the USA, permit them to weather their labor market status without tragedy, even if with difficulty.

But this may not be the case for certain subgroups of the long-term unemployed in France. And this is notably so for two groups, whose characteristics often overlap: the young, and the beurs and other racial minorities of North African origin. It is true that the processes of social and spatial exclusion in France are somewhat less dramatic than those observed in the United States. For example, whereas some census tracts in the USA have very high percentages of racial minorities (going up to 80%), in France the percentages found in îlots or arrondissements rarely if ever exceed 50%. There are many reasons for this, including a much more important role of public housing in promoting a certain spatial "mixity" in France, and a greater emphasis on public goods in cities which makes spaces less amenable to radical differentiation, as in the situation described in the previous section for the USA.

Recently, however, certain housing projects and neighborhoods in France (the cités of certain suburbs of major metropolitan areas) are coming to exhibit some of the classical signs of urban ghettos that the US witnessed in the 1960s: physical degradation, a stigma for being dangerous, domination by unruly youth gangs, and a sense of social and cultural difference from the society at large. Along with these stigma can be found two other classical aspects of ghettoization in the United States: a recognition that schools in these areas are de facto not meeting the standards of the national school system, and labor market discrimination based on "having the wrong address," which corresponds to having the wrong "look" and "suburban behavior." These are all commonly-recognized phenomena in French society today, and they have an ominous resemblance to what the United States has lived with since the 1960s.

Whereas the American underclass was a result of desegregation combined with high employment growth, in a context of structural employment change and ongoing spatial mobility, in France the segregation and exclusion cycle has a different starting point, that of structural economic change which has taken the form of high levels of overall unemployment and a strong component of long-term unemployment. The original sin in the USA was racism and the failure to carry out economic Reconstruction after the Civil War and after desegregation, as well as the failure to carry out economic integration after the forced incorporation of Puerto Rico. The original sin in France appears to be the policies which transformed the 1970s economic crisis into durably high unemployment and failure to recognize that the trickle down effects of this process would be visited in a dramatically unequal way on those without significant material and immaterial assets.
France has had an extremely active and expanding social welfare state during this period, but its modes of intervention are not well adapted to the social and economic vicious circles which are in evidence here; they are better adapted to problems of inequality than to those of exclusion.

As noted, the underclass is a result of evolutionary processes which combine many causes, and therefore the causes are not simply reversible in discrete ways. In the USA, even a sustained economic boom cannot eliminate the underclass, nor mere equalization of educational funding or even income transfers. In France, a decline in unemployment would undoubtedly have important positive effects on some of the population said to be becoming part of the underclass, but -- just as was the case for desegregation in the United States two generations ago -- it will now very likely just skim off a part of the excluded population and leave the rest in even greater isolation than it is now. In other words, overall employment growth will help, but it is likely to harden the problem of those who are no longer able to take advantage of the opportunities provided by a growing economy. The point where macroeconomic solutions could have addressed the problem of exclusion was irreversibly passed at least twenty years ago in France. If the American experience is any indicator, effective approaches to the problem which appears to be emerging in France will now require innovations in social policy that go well beyond mere income supports, educational policy and behavioral intervention with youthful populations.
References to Chapter Three


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