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DATE: 11 MAR 78

FOR ACTION:

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INFO ONLY: THE VICE PRESIDENT

STU EIZENSTAT

JACK WATSON

JIM MCINTYRE

CHARLES SCHULTZE

SUBJECT: MARSHALL MEMO RE URBAN POLICY

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+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: +

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ACTION REQUESTED: STU - PRESUMABLY WILL BE INCORPORATED IN URBAN POLICY MEMO

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

U.S. DEPARTMENT OF LABOR

OFFICE OF THE ASSISTANT SECRETARY

WASHINGTON, D.C. 20210



March 10, 1978

MEMORANDUM FOR: THE PRESIDENT
FROM: SECRETARY OF LABOR *for*
SUBJECT: URBAN POLICY

Participating in the urban and regional policy group process has been a useful opportunity for the Department to review the relationship of our programs to the larger goals of economic and social development. Many of the principles which you have approved to guide the urban policy planning process will also be helpful in my evaluation of DOL's activities. Our DOL programs, like other urban-oriented Federal programs, must be designed for the complexity and diversity of urban problems in the United States.

There are no easy answers; indeed, it is clear that the questions are not the same in all places. Policies should, therefore, provide flexibility to adjust to local needs. The Federal government is already spending massive sums in urban areas. Recommendations for new initiatives should, therefore, make maximum use of existing programs and those that you have already proposed. Recommendations should also reflect caution in prescribing short-term policy remedies that will impede the longer-term structural changes that are needed to help the cities and people in distress.

I recommend that the long-range objective of your urban policy be to equalize economic opportunities among and within labor markets. Achievement of this objective should both increase the earning capacity of persons and improve the economic base of places. I further recommend that you reach the objective by altering the economic and social forces that influence the migration of persons into and out of the cities.

Alternatives Strategies

The problems of the cities are the product of long-term social and economic forces. These forces include changed

production processes that emphasize large, horizontal industrial plants; improved transportation and communication technologies that eroded the earlier economic advantages of urban locations; and the increasing disadvantages of urban living that make suburban and ex-urban life more attractive.

Governmental policies have frequently reinforced unfavorable trends inadvertently (for example, transportation, tax, and housing policies encouraged suburbanization) and deserve to be remedied. In other cases, policies that are desirable on other important grounds (for example, school integration) may have increased geographic segregation. But reversing fundamental social and economic forces through direct governmental intervention will be difficult and will not be accomplished by "band-aid" approaches that only make urban conditions tolerable for a little while longer.

A great deal of the urban problem can be explained in terms of migration--of employers, jobs, employees and the unemployed. Urban policies should be directed to these migrations, trying to offset those adverse patterns which can be most easily influenced.

An important choice is between policies that will:

- attempt to change the locational decisions of firms by tax incentives or low interest loans, or,
- attempt to change the locational decisions of individuals. For disadvantaged individuals, this includes giving them skills and reducing the economic and social pressures that tend to restrict their geographic mobility. Such policies also include reducing those factors which tend to drive or keep higher income persons out of the Nation's cities.

Our reading of history suggests that the second alternative, concentrating primarily on the locational choices of persons, is more likely to be successful.

Immigration, including the illegal immigration that goes on today, has always responded to economic factors. Similarly, the postwar domestic migration of blacks and the on-going exodus of the middle class from the cities have responded to economic opportunity and social conditions. Current policies with regard to the location of low income housing and the

provision of social and welfare services are leading to further segregation along economic and class lines. A continuation of these migration patterns will lead to an unstable pattern with the poor, supported to a great extent by Federal funds, increasingly concentrated in the nation's older cities.

The racial integration that is occurring as a result of the increasing number of middle-class and upwardly mobile blacks provides the nation with the opportunity to reverse the trend towards economic segregation. Integration need not take place within neighborhoods. But there must be sufficient integration within and among labor market areas to provide access to employment for persons with limited job skills and access to skilled labor for firms who require a diversity of workers.

Uses and Limitations of Place-oriented Policies

I do not mean to suggest that policies oriented towards urban places rather than persons are not useful in combatting certain types of urban decay. However, experience would suggest that considerable local flexibility should be allowed in determining their appropriate application.

Community assistance, housing rehabilitation and associated services have demonstrated both their effectiveness and their limitations. They "work" where urban decline has not proceeded "too far," that is, in areas which are threatened by outmigration of a previously stable middle or lower-middle income population. An important characteristic of these areas is that, while unemployment may be high, it is still of manageable proportions.

In such instances successful community development activities have not only arrested and even reversed a process of decline, but have spontaneously engendered indigenous economic development at least in the form of an active intra-community service economy. Soft public works and public service employment can help this process particularly if PSE programs are used creatively in conjunction with other governmental initiatives.

Public service employment programs can serve to improve marginal neighborhoods by increasing the level of community services and by providing income and work experience to residents. These improvements can, in turn, help to attract employers into an area or facilitate the access of residents

to jobs within or outside the community. Programs to improve the employment opportunities of the disadvantaged city residents are thus clearly a basic part of an urban strategy. But we must recognize their limits in order to determine how they can be most helpful. Public service employment and public works can provide jobs where the poor live. Although programs of both types are needed to provide short-term relief, neither one by itself will provide employment that will sustain itself for long when Federal funds are stopped.

Urban policy must recognize that there are some areas within our cities where a critical mass of self-reinforcing problems has developed. In these areas, incremental policies aimed at specific symptoms of decay have little hope of substantial success and, indeed, may impede the transformations required to achieve major improvements for either the area or its current residents. Not only is the possibility of attracting employers into such areas dim, but the impact on resident income is unclear. Most people do not work where they live. Studies have shown that even during the 1960's, when central city employment was increasing, the share held by central city residents declined markedly.

The continuing trend towards economic segregation threatens the economic viability of the nation's cities. No feasible amount of Federal urban aid will provide sufficient incentive for business to return to those places besieged by a critical mass of problems. The only solution for such cities is to stem and if possible reverse the current outmigration of the skilled workforce. Only if the cities can achieve greater economic integration will they become a more attractive location for business.

Policies to Increase the Locational Choices of Individuals

In this country geographic mobility has historically been either the source or companion of social and economic mobility--poor people get better off when they move and they move when they get better off. Obviously, there may be important social and economic costs associated with migration. Adjustment policies, including income maintenance, social services and employment and training measures are required to minimize hardship. It would be unfortunate, however, if palliative measures prevented young people from making the locational and vocational decisions that will put them on the road to unsubsidized careers.

There are several specific policy actions that could produce more favorable migration patterns into and out of urban suburban areas. Many of these are already part of other

Administrative initiatives. Specific policies that will help reduce economic segregation within and among labor market areas include:

- tax incentives to alter the hiring practices (as opposed to the locational decisions) of private firms; an employment tax credit for disadvantaged persons irrespective of location will--if it increases their employment--help the poor and improve migration patterns;
- broad-based skill training and work experience, combined with relocation assistance, that give disadvantaged persons the confidence and skills to move where employment opportunities exist;
- closer coordination between private employers and CETA programs so that those assisted can make rapid and permanent transition to private employment; the CETA reauthorization includes a new title to establish private industry councils to improve private sector linkages;
- equalization of low-income housing and social services programs among geographic areas;
- vigorous enforcement of anti-discrimination laws to improve both the occupational and locational choices of minorities;
- flexibility for hard-pressed cities, which provide a high level of services to the poor, to use Federal funds for fiscal relief that will tend to moderate the tax burden for the middle-class in urban areas;
- transportation policies that will provide inner-city residents with access to suburban jobs; and
- policies to moderate geographic differentials in welfare, medicaid, and housing benefits, thereby reducing incentives which encourage low income people to move where opportunities are greater.