

The Brookings Institution

Metropolitan Policy Program

Matt Fellowes, Fellow

Repairing the Urban, Economic Ladder: *How Cities Get the Market to Work for the Poor*

Mayor Cicilline's Poverty, Work and Opportunity Task Force,
March 6, 2007



Repairing the Urban, Economic Ladder: *How Cities Get the Market to Work for the Poor*

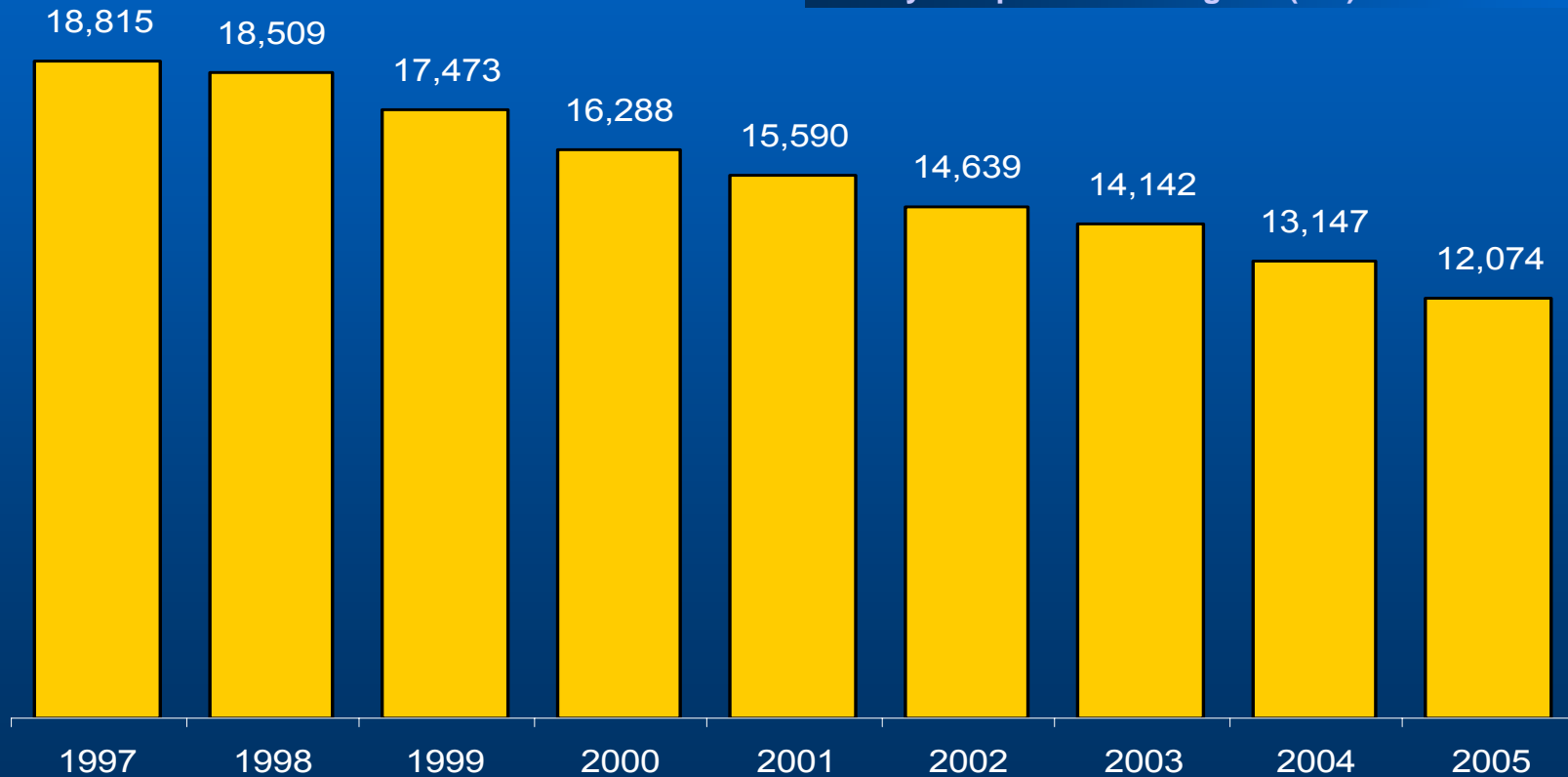
I What is prompting city innovation to repair the economic ladder?

II What are cities doing to repair the economic ladder ?



Like other areas, welfare rolls in Rhode Island are down, but the poverty rate is still high (29.4% in Providence in 2005)

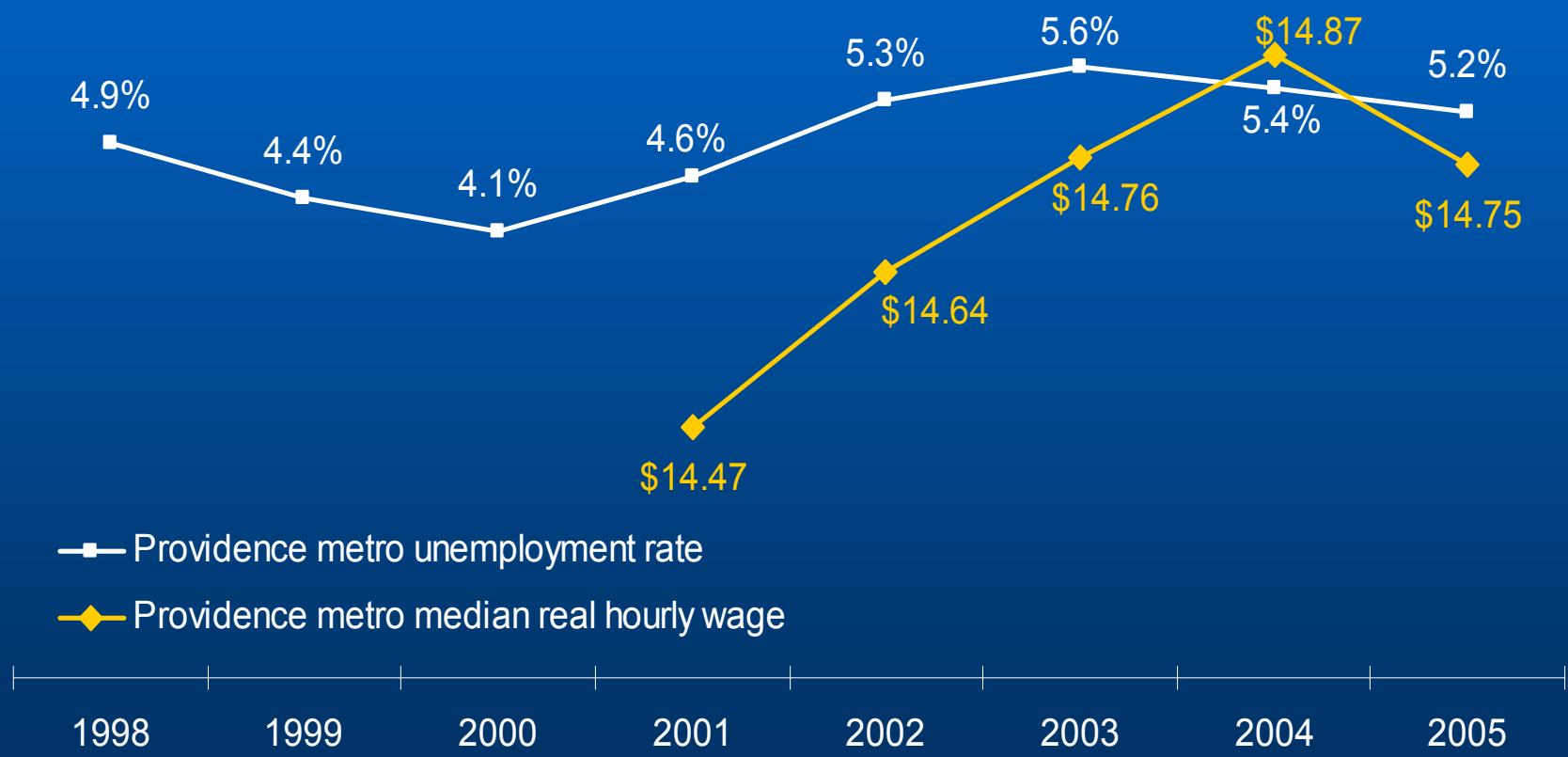
Number of families receiving assistance from Rhode Island Family Independence Program (FIP)



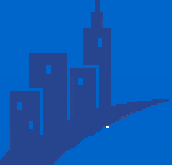
Source: Brookings Institution analysis of data from the Rhode Island Department of Human Services



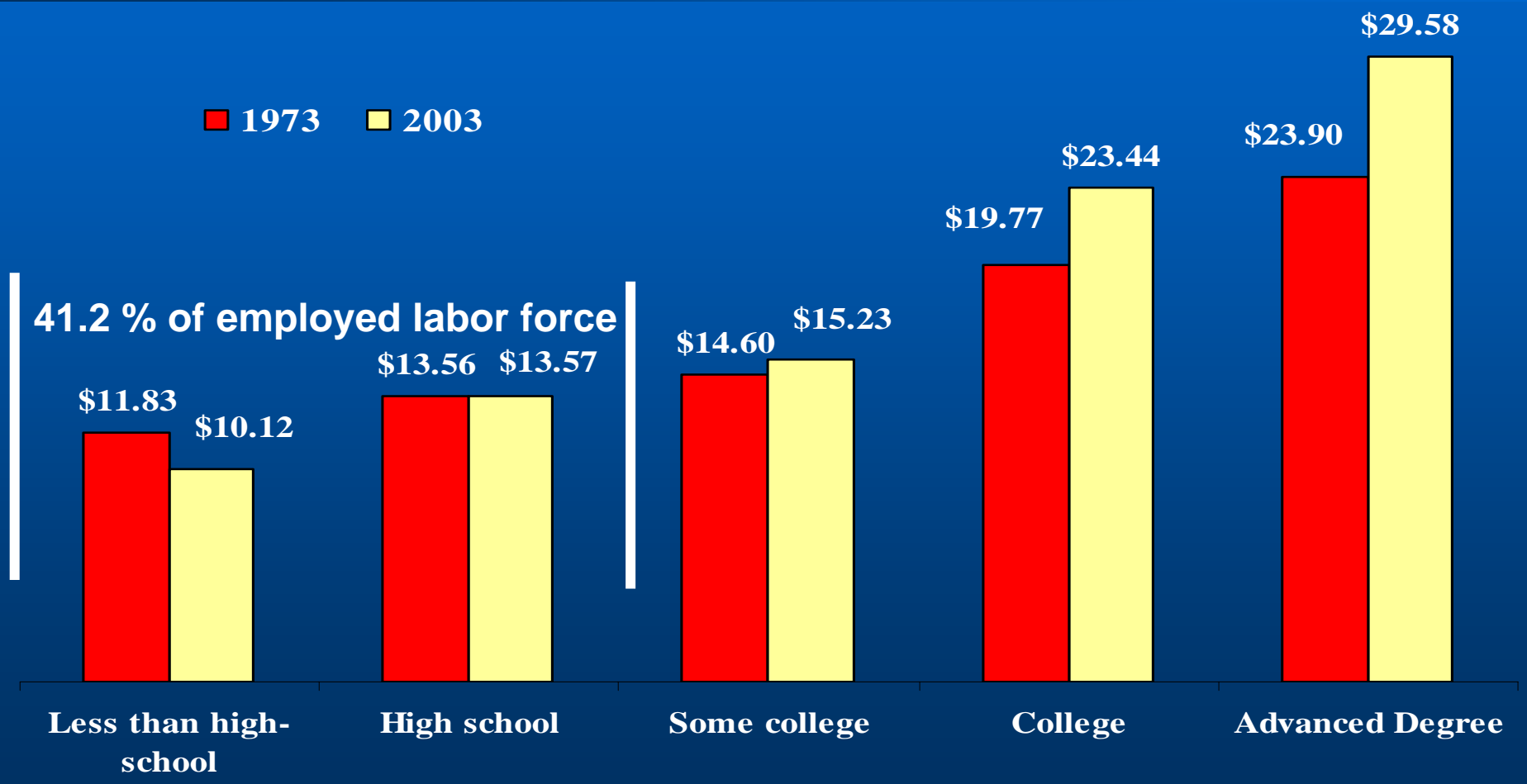
Similarly, unemployment is low through out the country and in the Providence metro area, but wages are growing slowly or losing value, particularly for lower-skilled workers.



Source: Brookings Institution analysis of data from the U.S. Department of Labor



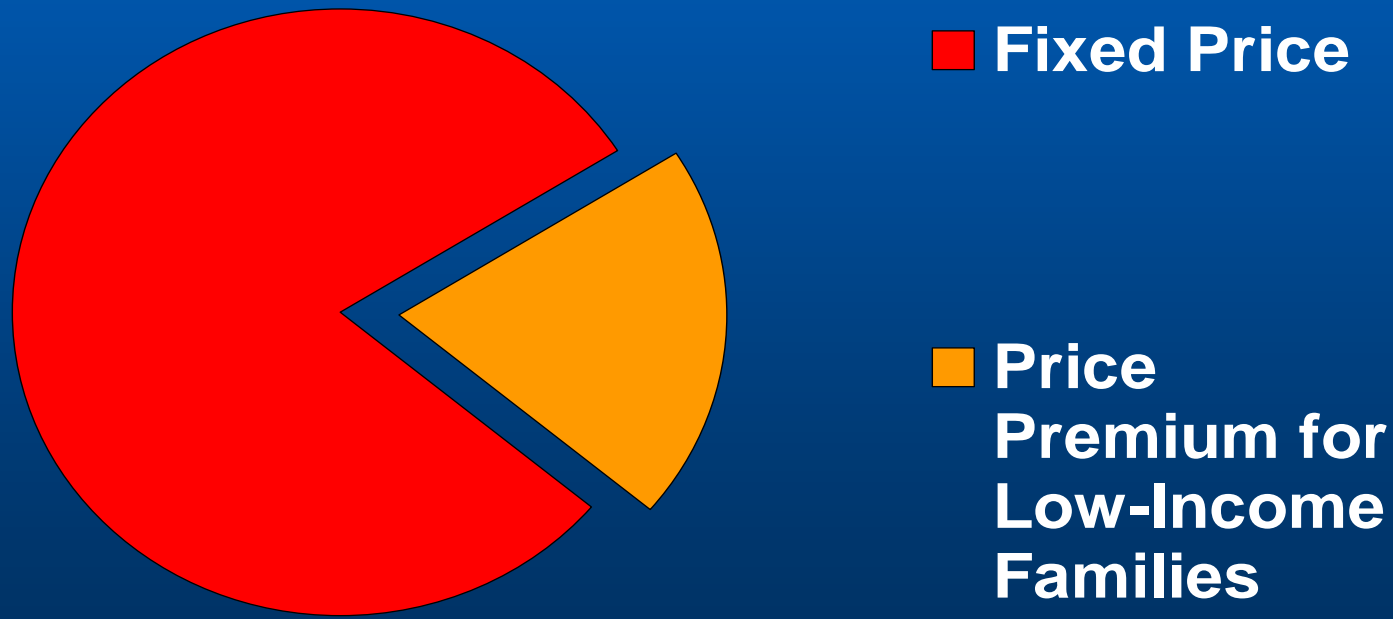
In fact, since 1973, real wages have either declined or have been stagnant for over 40 percent of the U.S. labor market.



Source: Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto. 2006. The State of Working America. Wash, DC: Economic Policy Institute, and Cornell University Press

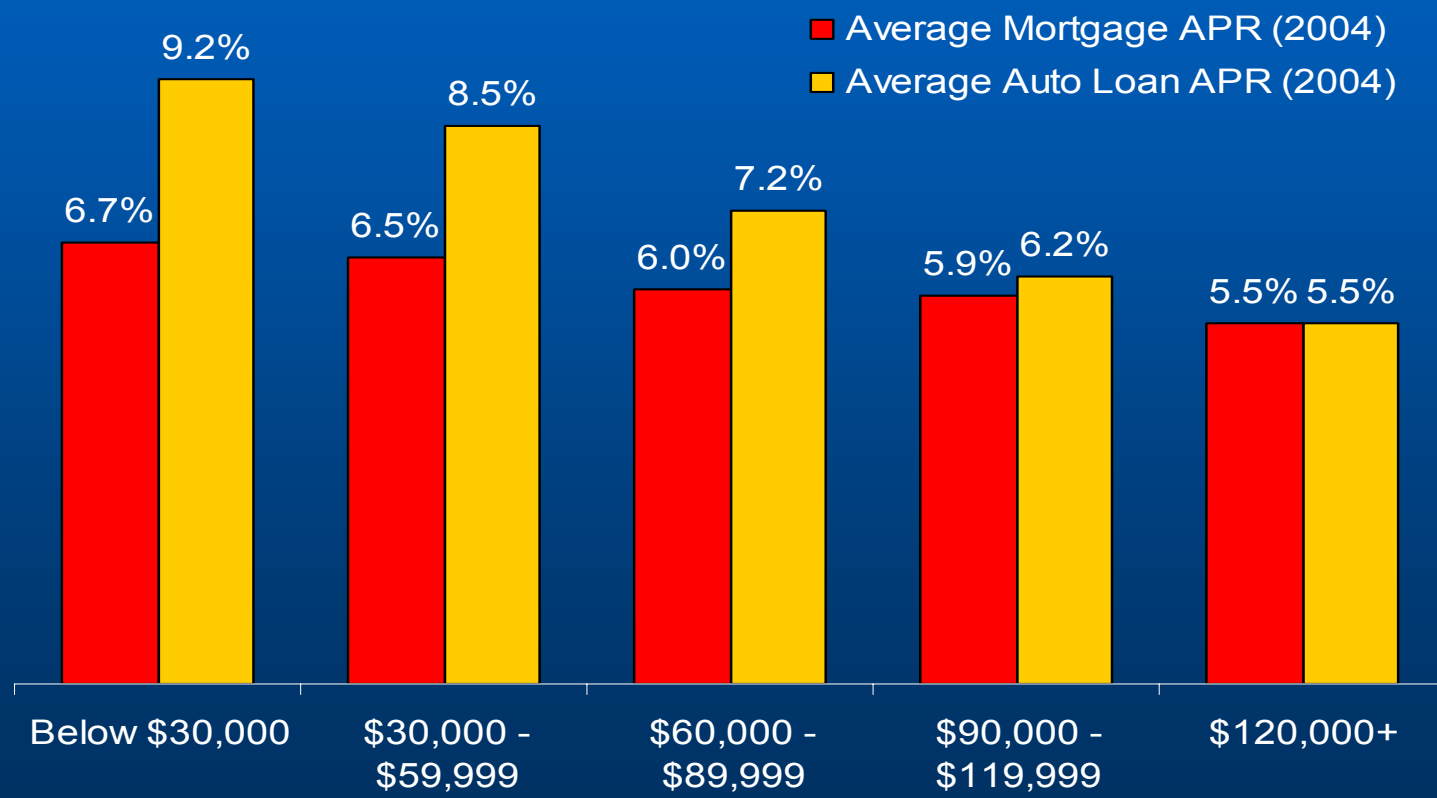


At the same time, there is a growing amount of evidence that the wages of lower income workers are further eroded by higher prices they are often charged for everyday goods and services, from food to financial services.





For instance, over 4 million lower income households pay higher than average auto loan and mortgage rates.



Source: Brookings Institution analysis of data from the 2004 Survey of Consumer Finances



Similarly, millions of lower income households pay higher prices to cash checks and buy short-term loans, because of their much higher demand for higher-priced products.

<u>Short Term Loan Sources</u>	<i>Monthly Advance</i>	<i>Fee</i>	<i>Monthly Interest Rate</i>	<i>APR</i>	<i>Total Monthly Charge</i>
Credit Union (NCESEU Loan)	\$200	0%	1%	12%	\$1.20
Credit Card	\$200	0%	1.5%	18%	\$3
Credit Card Cash Advance	\$200	2%	1.5%	91%	\$7
Overdrawn Checking Account	\$200	\$20	0%	120%	\$20
Auto-title Lender	\$200	11.5%	0%	300%	\$23
Payday Lender	\$200	15%	0%	390%	\$30
Pawnshop	\$200	\$1	15%	403%	\$31

Note: The credit union pay day loan is based off of the North Carolina State Employees Credit Union program; all other quotes are based on reported averages in Fellows (2006); also, all sources are assumed to be utilized once per-month.



Added all up, these higher prices amount to hundreds, sometimes thousands, of dollars in higher costs of living for lower income families.

- \$100s more to buy the same car
- \$100s more to borrow the same amount of money for an auto loan
- \$100s to \$1,000s more to insure the same car and driver
- More to buy food in their neighborhood
- \$100s more to access the same amount of money
- \$100s more to borrow the same short-term loan amount
- \$100s more to establish the same type of utility service
- \$100s more to borrow the same amount of money for a home loan
- \$100s more to insure the same value of a home
- \$100s more to buy the same appliances and furniture

Source: Matt Fellowes. 2006. From Poverty, Opportunity: Putting the Market to Work for Lower Income Families. Washington, DC: The Brookings Institution.



Bottom line: An increasing number of lower income families work and play by the rules in Providence and elsewhere in the country; but poverty and barriers to economic mobility have persisted.



Repairing the Urban, Economic Ladder: *How Cities Get the Market to Work for the Poor*

I What is prompting city innovation to repair the economic ladder?

II What are cities doing to repair the economic ladder?



Some cities have recently organized poverty taskforces, or similar citywide antipoverty campaigns. For instance:





While each of these efforts is focused on poverty, most have placed an emphasis on different populations and problems, pointing to options for this Taskforce. For instance:

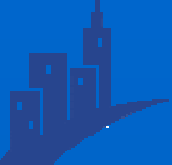
Savannah: Focused on all of the city's poor
Emphasis on raising awareness

New York: Focused on the working poor and the young
Emphasis on workforce supports and development

Miami: Focused on the working poor
Emphasis on financial education and access



A primary benefit of a more focused approach is that it is informed by research that indicates some populations of the poor can dramatically increase their economic mobility following an infusion of public support.



Other cities are organizing around specific antipoverty initiatives. For instance, a growing number of cities are striving to lower costs of living for lower income families:





One of the more common initiatives strives to lower the higher prices lower income families tend to pay for basic financial services, like cashing checks and short term loans. For instance:

San Francisco: Bank on San Francisco

Emphasis on access to checking accounts

New York: Banking Development Districts

Emphasis on access to banks



Together, these broad and more focused city campaigns to reduce poverty add up to three broad strategies that cities are using to repair the economic ladder.



First, cities are striving to ***broaden access to well-paying jobs***. This plays out among all age-groups. For instance,

**Very
Young**

Child Care/Preschool

Examples: Seattle

Young

Improve K-12, Behavioral Incentives, After-school Programs, Internships

Examples: Boston, New York, Charleston

Adults

Workforce Development, Economic Development, Prisoner Re-Entry, De-concentrating Poverty

Examples: Cleveland, Baltimore, Philadel., Montgomery



Second, cities are striving to *make work pay*. For instance:

Access to Benefits EITC, Child Care Tax Credit, Food Stamps
Examples: Atlanta, Chicago

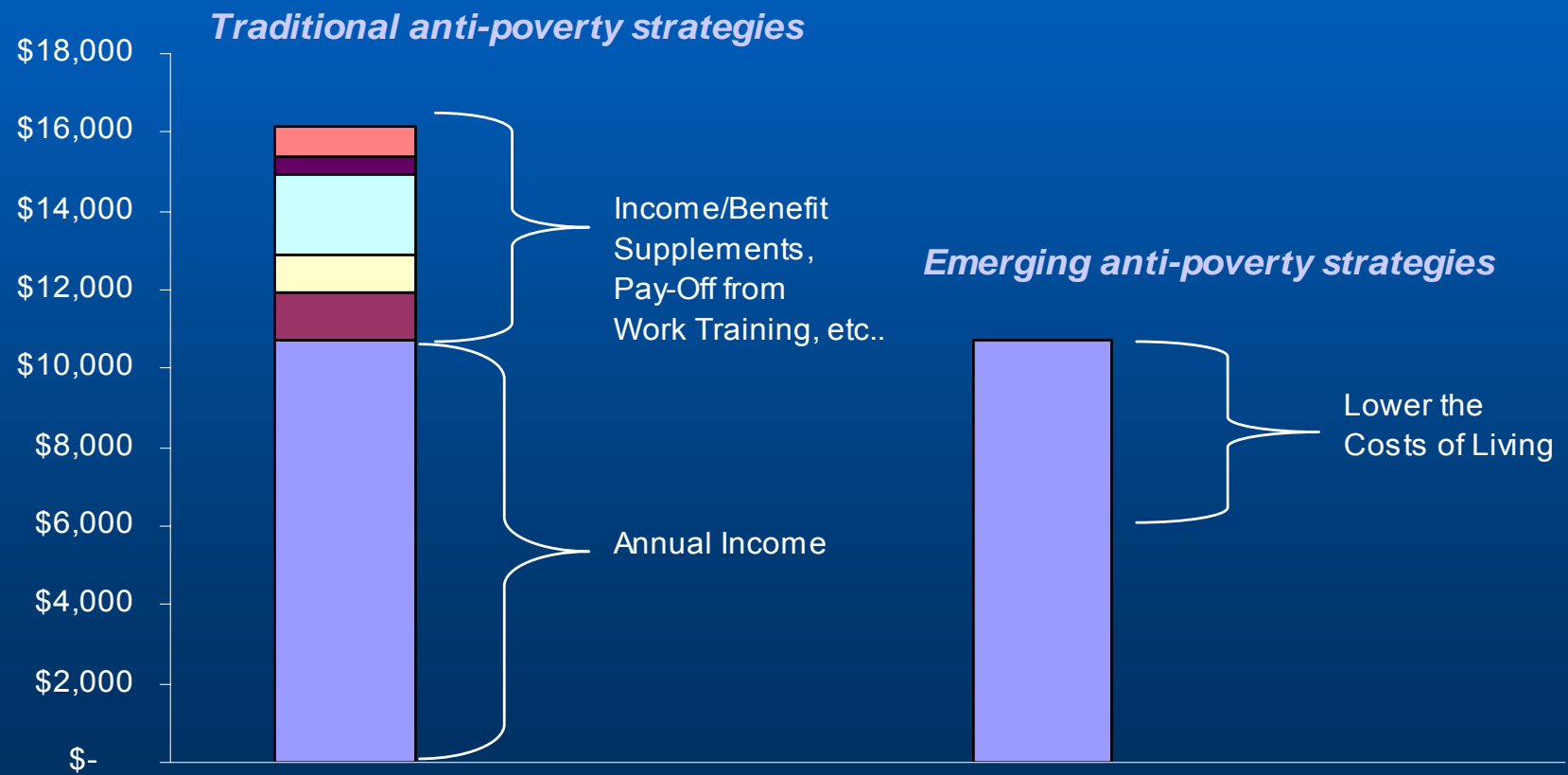
Supplement Benefits EITC, Child Care
Examples: San Francisco, New York

Asset Building Homeownership and Savings Incentives
Examples: Baltimore

Boost Wages Minimum Wage, Living Wage
Examples: Los Angeles, Baltimore



Finally, cities are increasingly striving to ***bring down costs of living for lower income families***; or maximizing the return lower income families get from scarce dollars.



Source: 2004 Consumer Expenditure Survey; note that the estimated effects of policy interventions are hypothetical

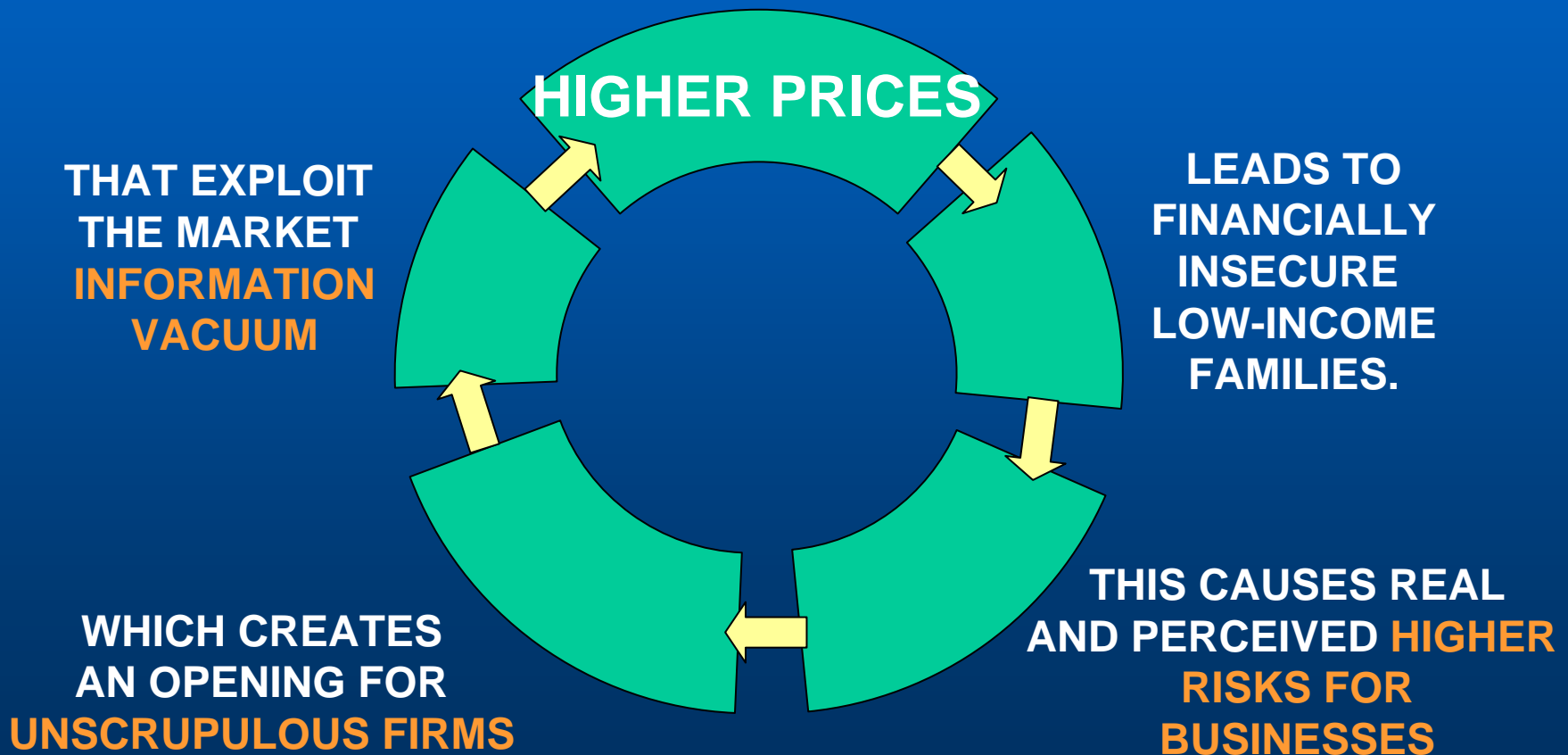


Growing interest in bringing down costs of living is motivated, in part, by the fact that many of the solutions defy the traditional politics of antipoverty policy and cost governments little or no money.

At the same time, cost-lowering initiatives should improve the odds that investments in boosting access to well-paying jobs and making work pay will spur economic mobility.



To do this, leaders are addressing each of the different causes of higher prices for necessities.





Efforts widely vary across the country. For instance:

**Lower Business:
Costs** Grocery Stores, Banks, Insurance
Examples: Philadelphia, San Francisco

**Curb Unscrupulous:
Practices** Non-Banks, Auto Dealers, Mortgages
Examples: Phoenix, Oakland, Baltimore, Philly

**Boost Consumer
Information** K-12 Education, Libraries, Adult Ed
Examples: Miami, Philadelphia, New York



Bottom line: Providence and other cities across the country are pursuing a lot of traditional and innovative initiatives to reduce poverty – *cities can boost economic mobility.*



Still, each of these antipoverty initiatives is or could be further strengthened with coordinated private, state and/or federal initiatives. Cities working on plans of their own should not operate in a vacuum.

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IMMIGRATION

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Metro Washington's "limited English proficient" (LEP) population

