

# Urban Policy Perspectives in the U.S.A.: An Extension of the Yarmolinsky Option

JOHN E. TROPMAN AND ROGER LIND

*School of Social Work, University of Michigan*

---

## ABSTRACT

Building on a suggestion by Adam Yarmolinsky that the Federal American government insure the equity that homeowners have developed in their property, we suggest some additional elements which would make a more complete urban policy package. Educational opportunity is seen as a critical element in property value within the American context and any scheme such as Yarmolinsky suggests needs to take into account the fact that “house price” reflects heavily the general judgment of the quality of the school to which that residence has access. Hence, a stabilization of the housing market is heavily dependent upon an equalization of educational opportunity. Two ideas to this end are suggested. One, the “school parity adjustment,” would grant funds directly to the school district, generally in inverse proportion to the assessed property valuation, and consistent with the funding required for a quality education. The second notion, the “urban tax credit” would help to rectify the desirability of suburban locations for parents of school age children by giving them tax credits for living in the city, and in effect, equalizing the subsidy which the government already provides suburban dwellers through insuring the school-inflated value of their property through Mortgage Insurance.

---

Adam Yarmolinsky has proposed that the American government consider insuring the equity which small homeowners have in their homes.<sup>1</sup> This plan is analogous to the Federal treatment of crops in the price support program, which recognizes the tremendous equity that the farmer has in his crops, and the great dependence of that equity on market forces well beyond the control of the individual farmer. Alternatively, it resembles the insurance feature of the Federal Deposit Insurance Corporation (FDIC) which insures money deposited in member institutions up to \$20,000. The mere presence of this insurance, and the knowledge that the faith and credit of the Federal government stands behind it, is sufficient to prevent panic when a bank develops financial trouble. The homeowners’ equity insurance would be

---

<sup>1</sup> Adam Yarmolinsky, “Reassuring the Small Homeowner,” *Public Interest*, 22, (Winter 1971), pp. 106–110.

especially applicable to persons in areas of racial change, where profiteers now buy cheaply from nervous whites and sell handsomely to blacks, who have a restricted market. Other areas where there is great market uncertainty because of urban renewal, highway construction, or the vagaries of the housing market would be affected as well.

This proposal is one of the most creative and far-reaching ideas for stabilizing the costs of social change put forward in recent years. It would be fruitfully considered alone, as a plan appropriate to the housing field. If it were combined with two other policy ideas, however, it could become part of a policy package designed to stabilize and revitalize the urban place, making it the multi-class, multi-racial center which could really provide opportunity for its residents. We would, therefore, like to build upon the Yarmolinsky option two additional pieces: (1) a school parity adjustment; and (2) an urban tax credit.

### **Educational Opportunity as a Property Value**

The price of a home in the U.S.A. is the product of many factors, from its physical condition to the desirability of its location. As always, a portion of the final price is based upon personal calculus and the interaction between the buyer and the seller. The fact that the purchase of a home in a certain location remains the way that most parents of school age children secure access to the school of their choice accounts for a substantial component of the price of the house. Except for those parents who are able to send their children to private schools, and thus pay no attention to the school district in which a home is located, families with school age children can only send their children to the school which serves the neighborhood or community in which they live.<sup>2</sup> Parents rate school systems, and generally would seek to purchase a home in that school district which is relatively best from their point of view. This informal system (sometimes formalized through real estate brokers) generates a desirability gradient for schools. Since access to schools is dependent upon location within the district, the price of the house inevitably reflects the desirability of the resulting school opportunity, regardless of the actual condition of the house itself. What a family is buying, then, in purchasing a house, is access to some level of educational opportunity for their children, as well as a physical structure in which to live. Educational opportunity thus becomes a property value and can be considered in that light. The move to the suburbs can in part be understood as a way to purchase access to preferred school systems. If the cities are to compete, their school systems must have at least similar levels of resources to attract and keep families with school age children.

The dilemmas posed by the interaction of educational choice and property values are obvious. In effect, the quality of public schooling is up for sale. This has long been true for private schools, but from this perspective, the difference between a "prestige" community with a highly desirable school system is minimal if it exists at all. Home prices are high because the school system is good, or *vice versa*. Indeed,

<sup>2</sup> To a degree school districts overlap. So, for example, a piece of property can be located in a desirable grade school area, a moderately desirable junior high, and an undesirable high school district.

they are high for all property, whether or not a person wishes to take advantage of the school system (or has children at all), because the property could be sold to someone who would take advantage of it. This has the effect of limiting the access to quality public education. It means that the child's educational opportunity depends in part on what his parents can afford to pay for a house. In short, the housing market cannot be stabilized as Yarmolinsky suggests without some attention to the discrepancy in educational systems and a plan to equalize this discrepancy, so that poorer areas have, within the school at least, the same level of resources available to the more wealthy communities.

### School Parity Adjustment

There are several ways that access to educational quality can again be made. Federal support is certainly required. The federal government, through its aid to impacted areas, has already recognized that some conditions require special attention. This plan can be the basis for a national program of educational opportunity.

If we can assume that the value of residential property in any area reflects the desirability of the school system then we could design a federal grant program based on the inverse of the property value. Hence, an adequate expenditure standard per pupil could be set,<sup>3</sup> adequate not only in terms of educational output, but in terms of making the resources available to the school comparable to those of moderately good school systems around the country. The lower the assessed valuation of the property in the area served by the school, the more money the school district would receive, up to an amount which would represent an acceptable cost per pupil ratio. The amount would be adjusted (added to or subtracted from) on the basis of the tax effort being made by the community to support its schools.<sup>4</sup> If the community did worse than the national average, they would lose by the proportion of difference. If they were doing better, they would secure an additional amount in proportion to the amount by which they exceed the national average of tax effort. It may well be (and is in certain areas of welfare expenditure) that poor communities spend more *per capita* than rich ones, and have poorer services.

We would anticipate that this type of approach would have several effects. First, it will mean that areas where the housing is less expensive will have the same financial resources at their disposal as communities with more expensive housing. In turn, this can mean that access to educational opportunity is no longer dependent upon being able to afford relatively expensive property. It becomes a way of channeling aid into school districts, something which we would wish to undertake in this country in any case, and indeed, which must be undertaken. Thirdly, it can begin to counteract the outflow of persons from the city due to dislike of the educational system and in the belief that the resources available to the suburbs can provide for a much better

---

<sup>3</sup> The cost figure should not be set independently of the parental level of education in the community. It costs more to bring a child to a given level of educational performance when the educational level of the community from which he comes is low, rather than high. Hence, this difference must be taken into account.

<sup>4</sup> By tax effort we mean the degree to which the community is trying to help finance its schools. One measure could be the ratio of *per capita* school mileage to *per capita* income.

educational system. In short, it adjusts, on a parity basis, the resources available to the various school systems.

### **Urban Tax Credit**

Two features of urban life—concern about property values and the provision of an education for children—which make it relatively less desirable than suburban living are somewhat addressed by the two policies just discussed—the home owners insurance and the school parity adjustment. A third problem which must be addressed is the growing disagreeableness of city life in the view of many citizens. Whether it is the reputed high cost of living, the fear of crime, the level of “hassle” in traffic of whatever, Americans are feeling that it costs them more in several salient senses to live in the city. As such, we have another reason for exit, and a reason for the non-return of people, who, even under the present system, could do so. Older people who seek apartment living, for example, are more likely to seek quieter climes.

It would be appropriate, therefore, if the Federal government recognized this increased cost in some tangible way, and both underscored and underwrote it. One very simple way would be to allow all taxpayers residing in urban areas a certain amount of tax credit for living in the city. This urban tax credit, along with the other recommended measures, could serve as an inducement for people to remain in the city. The idea of tax advantage, or “tax break” has long been used by communities to lure industry, or at least make an attractive package. It is more than ever clear that if the city is not appealing to people, it cannot be appealing to commerce. We therefore could adapt this policy to apply to citizens themselves, not only to business. It is the simple recognition of costs.

### **An Urban Package**

The direction of these three policies is clear. They would tend to equalize the benefits of residential location, as that location is itself representative of differential access to the goods of life. The national housing policy, for example, considering the interaction of urban renewal and F.H.A. mortgage insurance, has been to underwrite the access of those people with some cash into a community system which had many advantages, while systematically removing units within the inner core. Combine, in turn, these effects with the tax provision which allows one to deduct school taxes (and other property taxes) from the federal tax, and the incentive picture is clear—the federal government itself has subsidized the development of suburban schools indirectly, and has subsidized access to them, directly. The tax subsidy, by crediting direct rather than proportional amounts, made it possible for suburbanites to deduct the cost of their expensive school systems. Urbanites, because of their lower income, resisted the higher school tax in the first place, so could not take advantage of the deduction feature to the same extent. These same people may even so have been exerting proportionally greater effort. Without the financial base, however, the dollar levels per child could never be comparable. We need to redress the balance.

As Yarmolinsky points out, policy which operates in this direction need not, in every phase, be costly. The house insurance would represent minimal cost. The urban

tax credit would be modest. The educational parity plan would be expensive in initial outlay. Yet we have set up a program for insuring the appropriate flow of foodstuffs in the country, subsidizing farmers and storing food we can't use immediately. We have an "oil depletion allowance" to help insure the appropriate supplies of oil products to our society. And, when certain firms doing heavy defense contract work develop severe financial troubles, we "bail them out". The education of young people is no less important a problem; in fact, more serious than any of the ones in which we have already taken extensive and expensive action. From a manpower perspective alone, we cannot let school systems be anything but excellent. And it is ironic when the educational opportunity of a child depends upon his parents' resources and sagacity. We can already tell that whole groups of our citizens—those in minority-oppressed groups and those in families which begin childbearing during the teen-age period—are more than likely to have access only to less than adequate educational opportunity. When one considers that good educational systems are a result in part of government policy, then no less can be done for other school systems.

In attempting to deal with at least two of the very critical variables which create difficulties in the major urban centers, we can once again give urban places the measure of desirability they need and deserve.

### **Summary and Conclusion**

The original suggestion developed by Mr. Yarmolinsky has great potential in and of itself. It has even greater potential when the relationship of the house price to the school system is seen, and when we develop policy attendant to this "package" of concerns. We are sure that much more attention must be given to this type of problem, and to considering alternative policies and formulations to the one mentioned here, but which would have the same general effect. The main purpose now is to provide, as Yarmolinsky has done, some new approaches to some of the critical problems besetting the urban area.

### **Acknowledgements**

We would like to thank Wayne Vasey and Steve Burghart for helpful comments.