

Reducing Inequality by Means of Neighbourhood Rehabilitation: An Israeli Experiment and its Lessons

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[Paper first received, December 1992; in final form, November 1993]

Summary. Project Renewal, a national programme for social and physical rehabilitation of distressed neighbourhoods, was aimed at reducing inequalities in Israeli society. This study analyses the influence of Project Renewal on the status of its target neighbourhoods, by means of a before-and-after comparison of these areas with matched control neighbourhoods. An extensive analysis of the characteristics of veteran residents, in-migrants, and out-migrants (200 000 households) shows that improving service provision in poor areas is not sufficient to change their status. Renovated housing and improved social services are valuable, but a neighbourhood status and its attractiveness are determined more by its reputation as a place for higher-status households than by the services it offers. Adding new housing to the old neighbourhood, after improving its services, seems to be the required breakthrough, given that the new residents are moderately better-off than the veterans. The final discussion puts the results of this and former studies of Project Renewal in a general context of welfare policy.

The ideologies of political democracy and free market exist side-by-side in Western countries. The democratic state proclaims equality (every citizen has an equal voice in governance), while market forces generate inequality. The development of the welfare state was intended to enable the co-existence of democracy and free market by reducing socio-economic inequalities. Flora (1985, p.12) described the emerging pattern as a 'tripartite structure consisting of capitalist market economy, democratic mass polity, and welfare state'. In theory, this is an ideal structure, but in reality, the welfare state has had only limited success in fulfilling its goals, and it is therefore in a constant search for effective courses of action (Abel-Smith, 1985). This paper analyses a promising ap-

proach; it presents the results of a large experiment of the Israeli welfare state to combine public intervention with certain market forces in order to reduce inequalities between urban neighbourhoods.

The 1950s and 1960s were years of innocent belief in both the will and the ability of the Western welfare states to remedy social ills, including the wide disparities between the 'haves' and the 'have-nots'. Even in the US, a national welfare plan—The Great Society—was carried out by the Johnson administration, and billions of dollars were invested in an attempt not only to offer equal opportunities, but also to achieve more equal results. In the 1970s, doubts were raised and the theory of *Equality and Efficiency: The Big Tradeoff* (Okun, 1975) was developed

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and widely accepted by scholars and decision-makers. In the 1980s, the acceptance of the interpretations of those who did not believe in the capacity of the government to design and operate efficient programmes and to solve fundamental social problems grew immensely. The strategy of 'throwing money at problems' was criticised as ill-conceived and ineffective. The growth of social welfare expenditures was condemned for sapping the countries' resources and vitality. Both the vociferous and the silent majority in the era of Reagan and Thatcher felt that the welfare state had gone too far, and tended to believe the author of *Losing Ground*, who stated that 'we tried to provide more to the poor and produced more poor instead' (Murray, 1984, p.9).

Indeed, there were scholars who had a different opinion. Rawls (1971) developed the rationale of care for the least fortunate. Gans (1973, p.239) predicted that 'ultimately, the economy and the polity will be bent in an egalitarian direction'. The American policy evaluators Levitan and Taggart (1976: p. viii) argued that 'the 1960s programmes and policies...had a massive overwhelming beneficial impact'. In Britain, Marshall (1981) defended *The Right to Welfare* and suggested new ways to achieve it. Kuttner (1984) did the same in the US and offered practical alternatives for pursuing both efficiency and equality.

This paper focuses on such an alternative: area-targeted programmes, which can be considered as a compromise between the two common modes of supplying public services, the universal mode and the selective mode. Universal services, such as free public education, are designed for all citizens in a particular society, irrespective of their economic situation. Providing these services puts extremely heavy loads on public budgets. Selective services, such as maintenance allowances, are provided only to those who pass a means test that verifies their poverty. Economists usually prefer the selective mode, because it involves lower public expenditures and is more directly targeted to the families and individuals in need. But

others advocate refraining from selective services as much as possible, because they often fail to reach the neediest: they stigmatise recipients; they develop large bureaucracies, and they create tension and a credibility gap between the citizens and the government, in addition to other 'neglected negative externalities' (Hoshino, 1969; Garfinkel, 1982; Sheldon, 1985). Area-targeted programmes, which are directed at people in distressed areas, avoid most of the above-mentioned drawbacks, which are inherent in each of the two types of services. Such programmes are not as expensive as universal services and do not require the humiliating bureaucratic process of an individual means test. They are expected to enhance equity through aid to people in need and to be especially beneficial to the society as a whole due to aggregate positive impacts (externalities) beyond the benefits to individual recipients.

An example of an area-targeted programme that was aimed at reducing inequality is Israel's Project Renewal, a national programme for improving housing and social services in distressed neighbourhoods. The programme was directly aimed at advancing social equity and, in addition, had the potential of contributing to economic efficiency by creating positive externalities and increasing the use of human and physical resources which had been only partly used. The paper tells the story of Project Renewal; presents a rigorous analysis of its impact on its target areas; discusses this analysis; and concludes with policy implications.

Israel's Project Renewal

The State of Israel has a long history of deliberate effort to reduce socio-economic disparities within its society. The state has intensively used for this purpose progressive taxation, transfer payments, social benefits to workers, and state-managed social services, universal as well as selective (Lotan, 1973). Unlike other countries, both the leftists and the rightists in Israel support the idea of reducing socio-economic disparities. The left wing supports the idea because of the common socialistic considerations, while the

right wing believes that reducing disparities is necessary to ensure solidarity and social cohesion, which are considered important for a nation in an almost constant fight for survival. Therefore, unlike most Western countries in the era of Reagan and Thatcher, Israel of the late 1970s and 1980s was still interested in large welfare programmes.

Project Renewal was announced in 1977 as a national programme for the social and physical rehabilitation of distressed neighbourhoods. It did not aim at improving the urban-economic functioning of the city, like Urban Renewal in the US, nor did it focus on improving the existing housing stock, like many British programmes. Its ultimate goal was to reduce socio-economic disparities between the 'haves' and the 'have-nots' by means of an area-targeted programme of neighbourhood rehabilitation. The neighbourhoods were subject to a kind of 'means test'; they were selected on the basis of the low socio-economic characteristics of their residents and poor housing conditions. Once a neighbourhood was designated, all the residents—regardless of their economic situation—were entitled to the services offered by the project.

In its first five years, Project Renewal was active in 70 neighbourhoods, from Kiryat Shmona in the north to Eilat in the south, with at least one Project neighbourhood in most of Israel's cities and towns. Later on, another 20 neighbourhoods were added, bringing the total Project population to about 600 000 persons, 14 per cent of the Israeli population. Only a few of the selected neighbourhoods were old, privately built areas, while most of them were public housing projects of the 1950s and 1960s, usually at the periphery of cities and towns. Each was the home of 2000–20 000 residents. The typical residents were middle-aged and younger families with children, with below-average incomes. The typical buildings were 2–4 stories high.

The major principles of operation of Project Renewal were: avoiding relocation of residents and demolition of buildings (i.e. working with the present population and the existing stock of housing); targeting re-

sources at neighbourhoods in need (rather than at individuals or households); integrating social and physical rehabilitation; decentralisation and resident participation; and implementation through existing institutions (for details and for the rationale of each principle, see Carmon and Hill, 1988). All these principles were applied in all the project neighbourhoods and all of them were offered the same kinds of additional services. About \$1000m were invested by Project Renewal in its neighbourhoods (1979–90). Budget spending was at its height in 1981–83; in 1984 it was considerably reduced, but the Project has continued throughout the 1980s and the early 1990s. Half of the budget was spent on physical rehabilitation, mostly housing improvement but also physical infrastructure, and half on social rehabilitation: supporting special educational programmes for infants, children and adults, constructing, equipping and operating cultural and community services, and—to a far lesser extent—supporting health, welfare and employment services. Each neighbourhood had a package of programmes composed of similar items, but the intensity and timing differed depending on its problems and on the order of priority which was determined by the local steering committee (for details of the budget spending, by field of operation and by neighbourhood, see Hovav, 1983–89).

Project Renewal was subject to an exceptional research effort. Studies were commissioned by the International Committee for the Evaluation of Project Renewal (Spiro, 1991) and other organisations. Various aspects of the intervention were evaluated, among them: housing improvement (Lerman *et al.*, 1984; Ginsberg and Werczberger, 1988; Carmon, 1992); educational enrichment (Adler and Melzer-Druker, 1983; Soen, 1993); organisational aspects and implementation (Shimshoni, 1985; Alexander, 1988; Alterman, 1991); power relations and citizen participation (Marx, 1982; Liron and Spiro, 1984; Lazin, 1990; Atzmon, 1992); community change (Hoffman, 1986; Hazan, 1990); working with alienated youth (Gottlieb, 1985); and the relationships with the

diaspora donors and partners (King *et al.*, 1987). About three dozen reports evaluated the Project activities in specific neighbourhoods (almost all of them in Hebrew). In addition, there were two comprehensive evaluations of the Project, each with a different perspective and a different methodology:

(1) The 'integrated evaluation' research was the first one (for Hebrew readers: Carmon, 1989; Alterman and Churchman, 1991; for English readers: Carmon and Hill, 1988; Churchman, 1990; Carmon, 1990b; Alterman, 1991). It was an in-depth study of a representative sample of 10 out of the then 70 Project neighbourhoods, using the integrated evaluation approach developed by the first author of this paper and her colleagues. It reported that the Project was implemented and its budgets were directed to the selected neighbourhoods. It provided a rich variety of findings, among them: over half of the households benefitted from at least one housing improvement programme, 90 per cent of elementary school children participated in at least one (and frequently in several) educational programme supported by the Project; the Project special services to the elderly reached about one-third of the target population; and, in general, residents knew about the Project and 71 per cent of a large sample of them stated that it 'changed things for the better' (Carmon, 1989, p. 275). The findings were interpreted as a 'relative success' in achieving the Project goal of improving the living conditions of the residents and making them more similar to those of the better-off neighbourhoods.

(2) The second comprehensive study was a 'quasi-experimental evaluation' which focused on measuring whether the goal of upgrading the status of the selected areas had been achieved. This paper is the first publication in English on the methodology and findings of this second comprehensive evaluation, the basic query of which was whether area-targeted plans to improve housing and social services, where they are actually implemented as was the case in Project Renewal, have a measurable aggregate impact

(or externalities) beyond the individual utilities to beneficiaries. More specifically, the research question was: can a government-initiated programme of neighbourhood rehabilitation, without relocation and gentrification, improve neighbourhood status and increase its attractiveness?

The Research Methodology

In order to investigate the influence of the independent variable—Project Renewal—on the dependent variable—the status of the neighbourhoods—a 'classical' research design was selected (Cook and Campbell, 1979): a before–after measurement of two matched groups of neighbourhoods, an experimental group and a control group. The experimental group included all the neighbourhoods in metropolitan areas and in medium-sized towns, 52 in all, in which Project Renewal was active during 1978–81.¹ The control group included a similar number of poor neighbourhoods which were not selected for Project Renewal. They were matched with the experimental neighbourhoods by the pre-project distribution of five socio-economic characteristics of their residents (as measured by Egozi, 1978) and by the location and size of city within which the neighbourhood was situated (for details see Baron *et al.*, 1988). Both the experimental group and the control group were exposed to the same exogenous impacts—i.e. events which occurred in the country during the research period, such as war, inflation and changes in unemployment. These factors were thus controlled, in addition to the control of potentially intervening variables that was achieved by means of the matching technique.

The data for the before–after comparisons were selected from the tapes of the 1972 and the 1983 population and housing census, conducted by Israel's Central Bureau of Statistics.² The census encompasses all the households in Israel; basic demographic data are collected on each person, including: gender, date of birth, marital status and religion. In addition, a sample of every fifth household is requested to respond to an extended questionnaire with questions about internal

Table 1. The status index

$$S_i^t = \left[\frac{\text{percentage of 13 + years of schooling in research group}}{\text{percentage of 13 + years of schooling in Jewish population in Israel}} + \frac{\text{mean monthly income/capita in research group}}{\text{mean monthly income/capita in Jewish population in Israel}} + \frac{\text{Percentage of households density < 2.5 in research group}}{\text{percentage of households density < 2.5 in Jewish population in Israel}} \right] / 3$$

S_i^t —aggregate status index in year t for research group i^a

t —1972, 1983

i —research groups: experimental, control; also: veteran residents in-migrants and out-migrants

^aWhen S_i^t equals 1 it means that the welfare of the research group is equal to the welfare of the Jewish population in Israel (see note 4), while when it is smaller than 1, the research group is less advantageous (with respect to education, income and housing density) than the general population.

migration, birth rate, education, employment, income, living conditions and household equipment. The data of the present study are based on this sample of 20 per cent of Israeli households.

The dependent variable, the status of the neighbourhoods, was measured in two ways: by an aggregate status index, composed of selected socio-economic characteristics of the neighbourhoods' residents, and by the attractiveness of the neighbourhoods. The aggregate status index was defined as a simple average of three measures: level of education, family income and housing density, each in relation to the comparable average in the Jewish population in Israel (see Table 1).^{3 4} The neighbourhood attractiveness was measured by two indicators: the quantity of migration into it and out of it, and the 'quality' of the in-migrants and out-migrants—i.e. their socio-economic characteristics and their status index.

The analysis of migration data was made possible due to a question in the 1983 census questionnaire that asked for the respondent's address five years earlier—i.e. in 1978. Using this information, three groups of residents in the neighbourhoods were identified:

—*Veterans*: residents who did not change their address between 1978 and 1983, or residents who changed their address but remained in the same neighbourhood.

—*In-migrants*: residents who migrated into one of the researched areas between 1978 and 1983 and continued to reside in this area in 1983. (We have no data on residents who entered and left the researched areas within this period of five years.)

—*Out-migrants*: residents who moved out of one of the researched areas into another area in Israel between 1978 and 1983. A search for this group was performed by the Central Bureau of Statistics, at our request, among all citizens of Israel who reported having a different address five years before the 1983 census.

The analysis of data of close to 200 000 households, which were included in the experimental group and the control group, took a lot of time and effort. Contingency tables with various significance tests and regression analysis were the main tools. The main findings are presented below.

Findings

Socio-economic Disparities and Neighbourhood Status

The socio-economic characteristics of the two groups of neighbourhoods—the experimental and the control—were similar in 1972, including their aggregate status index grades (0.62 and 0.65), and they were very different from the population at large (with a status index of 1.00). In 1983, there were

Table 2. 'Before' (1972) and 'after' (1983) comparison of socio-economic characteristics and the aggregate status index (percentages and percentage changes)

Socio-economic characteristics	Project neighbourhoods			Control neighbourhoods			Jewish population		
	1972	1983	Change	1972	1983	Change	1972	1983	Change
<i>Demographic variables</i>									
Households with 6 or more persons	25.1	14.1	-43.8	24.5	15.6	-36.3	14.0	10.0	-28.6
Elderly (65 +)	6.5	9.4	+44.6	7.3	8.4	+15.1	8.0	10.0	+25.0
Father or self born in Asia or Africa	74.3	67.5	-9.2	72.1	60.2	-16.5	47.0	44.0	-6.4
<i>Socio-economic variables</i>									
Adults (15 +) without formal schooling	18.8	14.3	-23.9	17.4	12.0	-31.0	8.0	6.0	-25.0
Adults (15 +) with 13 + years of education	5.5	8.9	+61.8	6.8	12.4	+82.4	18.0	23.0	+27.8
Professionals ^a	10.1	13.1	+29.7	10.6	18.6	+75.5	25.0	27.0	+8.0
Average monthly per capita income ^b	283.6	472.4	+66.6	294.2	488.8	+72.0	400.2	664.3	+66.0
<i>Housing</i>									
Household in small apartments ^c	50.5	30.6	-39.4	51.4	26.8	-47.9	42.0	16.0	-61.9
Household in high density ^d	24.3	5.2	-78.6	25.4	5.4	-78.7	11.0	3.0	-72.2
Owner-occupation	42.0	54.0	+28.6	na	58.6	na	64.0	72.0	+12.5
Aggregate status index ^e	0.62	0.69	+11.3	0.65	0.75	+15.4	1.0	1.0	—

^aScientific, academic, technical and managerial occupations.

^bIn 1988 prices, new Israeli shekels.

^cUp to 2 rooms (living room included, kitchen and washrooms not included).

^d2.5 persons per room or more.

^eWeighted average by size of population for each variable in each neighbourhood.

changes for the better in most of the measured variables and the status index grades were higher (see Table 2). Can we attribute these successful changes to Project Renewal? According to the findings in Table 2, the answer is negative. The status index of the Project neighbourhoods rose from 0.62 to 0.69 (+ 11.3 per cent), while the one of the control group, which did not benefit from the Project, changed from 0.65 to 0.75 (+ 15.4 per cent)—i.e. similar improvement was found in both groups, with a slight advantage to the latter. Thus, the research hypothesis that the Project improved the status of its neighbourhoods was not supported by the findings.

The two groups of neighbourhoods actually include almost all the poor neighbourhoods in Israel, and hence, what the table clearly tells us is that the situation of all the distressed neighbourhoods in Israel significantly improved in the years between the census of 1972 and the one of 1983. The improvement encompassed all the tested aspects: education, employment, housing conditions and income. For example, the average per capita income rose by 66 per cent (in 1988 prices, in all the studied neighbourhoods together); additionally, in 1983 the rate of households living in severe housing density (2.5 or more persons per room) was just 20 per cent of what it was in 1972. These considerable absolute improvements only slightly reduced the gap between the poor neighbourhoods and the more affluent ones, because all the population enjoyed similar improvements. It is worthwhile noting, however, that in spite of the fact that the standard of living rose very fast in Israel in the 1970s and early 1980s, there was an even faster rise in the poor areas, that reduced the socio-economic disparities and slightly narrowed the gap between the poor areas and the population at large.

Neighbourhood Attractiveness

The attractiveness of the neighbourhoods was measured by the number of migrants and their socio-economic status. Table 3 presents

numbers of in- and out-migration. It shows that in both the experimental neighbourhoods and the control neighbourhoods there were large movements: about one-third of their residents left them in the five years between 1978 and 1983 (for which census data were available), and the percentage for those who entered them was nearly the same. Once again, there is high similarity in the findings for the two groups, with a slight advantage to the control group. The migration balance of the latter is zero, while the balance for the Project neighbourhoods as a group was - 3.8 per cent.⁵

The detailed information about the socio-economic characteristics of the three categories—veteran residents, in-migrants and out-migrants—in both the experimental and the control groups and in the Israeli population, appears elsewhere (Baron *et al.*, 1988). In general, in the Project neighbourhoods as well as in the control group, both out- and in-migrants had higher socio-economic characteristics than the stable population; the former were younger, had more education, held more prestigious occupations and enjoyed higher income. This trend is reflected in Table 4, that focuses on the status index of the relevant groups.

The findings in Table 4 are especially interesting, because they contradict the common wisdom regarding the behaviour of residents in distressed neighbourhoods. One of the well-known causes for deterioration of neighbourhoods, which is also a clear symptom of distressed areas, is a negative selection of residents: strong households (with more resources and higher socio-economic characteristics) leave, and weaker ones take their place. Our data support the statement that stronger residents tend to leave the neighbourhoods, but their place is taken by people whose socio-economic status is very similar to that of the out-migrants, which is much higher than that of the veteran residents in the neighbourhoods. For instance, while only 7–9 per cent of the veteran residents had 13 years or more of schooling, 18–21 per cent of the out-migrants and the in-migrants had higher-than-high-school

Table 3. Veteran residents and migrants (number of households)

	Project neighbourhoods	Control neighbourhoods
Veterans in 1983 (5 + years in neighbourhood)	73 080	69 580
In-migrants (entered in 1978–83)	25 190	27 155
Total population in 1983	98 270	96 735
Out-migrants (left in 1978–83)	28 980	27 075
Migration balance (%)	– 3.8	– 0.1

Table 4. Status index of veteran residents, in-migrants and out-migrants (1983 data)

Project neighbourhoods			Control neighbourhoods		
Veteran residents	In-migrants	Out-migrants	Veteran residents	In-migrants	Out-migrants
0.654	0.847	0.875	0.691	0.916	0.919

education, in the Project neighbourhoods as well as in the control group. The grades of the aggregate status index for both in-migrants and out-migrants (see Table 4) are in line with the above: they are much higher in both kinds of neighbourhoods compared with those of the veteran residents. It would seem that the neighbourhoods we examined serve as transitory abodes to people, mostly young families, equipped with higher-than-the-average-in-the-neighbourhood resources.

As to the research question regarding the impact of Project Renewal on its neighbourhoods' attractiveness, Tables 3 and 4 clearly show that very similar migration processes occurred in the Project and in the control neighbourhoods. Hence, the hypothesis regarding the positive influence of the Project on the attractiveness of its neighbourhoods was not supported by the research findings.

We also examined the impact of the Project using regression analysis. The dependent variable was the aggregate status index of the in-migrants, based on the expectation that neighbourhoods which benefitted from Project Renewal will attract new residents with higher socio-economic status. Among the independent variables were a binary variable for inclusion in Project Renewal (1 if included; 0 if excluded), distance from a

metropolitan centre, distance from the town centre, socio-economic characteristics of the veteran residents (origin, education, income), and characteristics of the housing in the neighbourhood (percentage of privately owned apartments, percentage of small (up to two rooms) apartments, and percentage of new apartments built in 1975–80 and in 1981–83). As shown by Table 5, inclusion in Project Renewal did not have a significant impact ($\alpha \leq 0.05$) on attracting in-migrants with a higher status index. Hence, the regression analysis was in line with the above conclusion.

There are several independent variables in the regression analysis (asterisked) with t values above 1.97 ($p \leq 0.05$). Salient among them are the educational characteristics of the veteran population and its mean income; as could be expected, persons with educational resources and higher income are attracted to neighbourhoods in which a higher percentage of the residents have comparable characteristics. From the point of view of deliberate change, the salience of this hardly tractable variable limits the chances of planned intervention.

However, the regression analysis also points at a highly malleable variable, the percentage of new dwelling units in the

Table 5. Regression analysis of the status index of in-migrants

	<i>b</i> value	<i>t</i> value
Inclusion in Project Renewal	-0.005	-0.184
Percentage of veterans with 13+ years of schooling ^a	0.013	3.113*
Percentage of veterans with 0-8 years of schooling ^a	-0.080	-3.242*
Percentage of veterans whose parents were born in Israel	0.003	1.330
Mean income per capita of veterans	0.000	2.297*
Percentage of homeowners (households)	0.000	0.212
Percentage of small units (up to 2 rooms)	0.002	1.283
Percentage of new housing units (built in 1981-83)	0.006	2.031*
Distance from metropolitan centre	-0.001	-0.886
Distance from city centre	0.001	0.119
Intersect	0.928	5.744
$R^2 = 0.40$ ($n = 232$)	$F = 13.471$	$p \leq 0.0001$

^aBoth education variables could be used, because the simple correlation between them was only -0.71.
 $p \leq 0.05$.

Table 6. New housing units (completed in 1975-83) in the neighbourhoods and changes in the status index

Addition of new units to the existing housing stock (percentage)	Percentage of neighbourhoods in each group		Percentage change in the status index	
	Project	Control	Project	Control
0-5	48	35	7.5	4.3
5.1-15	26	26	8.6	9.3
15.1-30	13	21	23.7	23.4
30.1 and over	13	18	29.3	33.5

neighbourhood. We could assume that this was an independent rather than dependent variable in our context, because a large share of the new construction in the test areas had been public housing projects.⁶ As this was found to be the only malleable variable among those that were statistically significant in the regression analysis, we continued analysing it from various directions. As shown in Table 6, it was found that the percentage of new housing construction in the neighbourhood was related to both the difference in the rate of status improvement between the project neighbourhoods and the control neighbourhoods and to the differences within each group. This important finding opens the gate for a deliberate neighbourhood change. This point will be returned to towards the end of the following discussion.

Discussion and Policy Implications

This discussion is concerned with the ability of deliberate public intervention to reduce social inequality. It addresses public intervention in general, and area-targeted (neighbourhood) intervention in particular.

Recent publications in the US (Peterson, 1985; Wilson, 1987; McGeary and Lynn, 1988; Waquant and Wilson, 1989; Goldsmith and Blakely, 1992) show that the discrepancies between the 'haves' and the 'have-nots' increased in the decade of the 1980s. A selective migration of black middle-class population to the suburbs has accelerated a process of 'hyper-ghettoisation' in many of the distressed neighbourhoods in large American cities. Very low welfare indices of education, participation in the labour force and family income in these areas are indicators of

the deteriorating situation (Peterson, 1990). The process is partly attributed to changes in the structure of the labour market, but also to increased differences in the accumulation of wealth (with home-ownership being a major component) and in the availability and quality of services provided by public agencies (Peterson, 1990).

The situation in Israel is different. Because the data we used for measuring the impact of Project Renewal included almost all the distressed neighbourhoods in the country (the combination of the Project and the control neighbourhoods), the following general conclusion could be drawn: unlike the situation in the US and in other developed economies, disparities between the less affluent neighbourhoods of Israel and the population as a whole (as measured by average income, housing conditions, years of education, and other variables and combinations of variables) were slightly reduced in the decade of 1972–83. The rapid increase in the standards of living of the 1970s and early 1980s occurred in the poor neighbourhoods not only as much as, but even somewhat more than, in the better-off areas.

The most plausible explanation for this phenomenon is the numerous interventions of the Israeli government which were aimed directly at reducing inequality. The main mechanisms were progressive taxation and a sophisticated system of transfer payments. The lower fifth of employees' households in Israel earned just 1 per cent of the total yearly income of employees from work and property (compared with 49 per cent of the top fifth), but their net income after taxes and transfer payments reached 7 per cent of the total (compared with 39 per cent of the top fifth) (Achdut and Kristal, 1991, p.70). In addition, like every government of a welfare state, the Israeli government provides several free social services on a universal basis, such as 13 years of schooling, as well as various kinds of services on a selective basis to individuals and families in need, on the basis of individual means tests. It also administers national area-targeted programmes such as Project Renewal. The combination of these

public interventions seems to have made a change towards more equality.

Coming back to the evaluation of the specific area-targeted programme of Project Renewal, the data analysis of the quasi-experimental research that was presented in this paper did not support the null hypothesis, since the status improvements which were measured in the control group were similar to those of the Project group. On the face of it, these findings stand in sharp contrast to the findings of our former 'integrated evaluation research', according to which the Project had a significant success in improving the living conditions in its areas (Carmon and Hill, 1988; Carmon, 1989). Consequently, we had to double-check our approach and methodology and to explore several arguments and counter-arguments.

The technical details of this 'double-check process' can be found elsewhere (Baron *et al.*, 1990).⁷ The current discussion brings up only the two most substantial enlightenments.

One possible explanation of the apparent contradiction between the results of the two studies is related to the difficulty in preventing an area-targeted programme from spilling over its area borders. The political pressures that are common in a democratic regime, in which every area has political power, frequently cause the politicians and the officials who run a public area-targeted programme to distribute at least some of its funds to non-target areas. In addition to informal information collected from various organisations, there are research findings regarding the magnitude of this phenomenon: Alterman and Frenkel (1985) found a considerable 'budget displacement' in 31–59 per cent of the social programmes in a sample of 10 Project neighbourhoods in 1982–83. 'Displacement' in this context usually meant that the Project budget was used as a replacement, rather than an addition, to a former investment in a neighbourhood service. The funds that were replaced were not transferred to better-off areas or to general urban tasks, but usually to non-Project distressed neighbourhoods managed by the same

municipality or public agency. For example: when an educational programme which added more maths and English classes to elementary schools was granted funds by the Project, a portion of the previous budget of the school was 'displaced' by being transferred to support classes in another school of needy children in the same town, which was not included in Project Renewal. Another example: when a public housing company, such as Amidar, received a Project budget for the renovation of buildings in a Project area, it often reduced its own support to the same area and used it in another low-income neighbourhood. These common 'budget displacements', that reached many non-Project poor areas, partly explain the finding of similar advancement of the experimental and the control neighbourhoods.

The other essential explanation is rooted in the fairly strict observation of the Project principle of 'working with the present population and the existing housing stock'. Both relocation and gentrification were ruled out and (at the relevant period of time) new construction was intentionally limited in the Project areas. At the same time, new construction was more common in the control neighbourhoods and attracted to them a population that is similar in its characteristics to the stronger parts of the veteran population; as a consequence, their status index was improved.

Our main conclusion is based on the findings of the two evaluation studies: the integrated evaluation of 10 case-studies, which found clear improvements in housing conditions, educational services, community services and level of resident involvement, and the quasi-experimental study of the Project neighbourhoods in comparison to a control group of distressed areas, which did not support the hypothesis that the Project improved the status of its neighbourhoods. The conclusion is that public intervention in service provision in poor areas can be productive; programmes of housing rehabilitation can significantly improve housing conditions and investments in education can improve the level of this important service; however,

such programmes—even when several of them are carried out simultaneously and fairly successfully at the same neighbourhood—are not sufficient to change the status of the area. We should remember in this context the conclusion of the classical urban study of *Land Use in Central Boston* by Walter Firey (1947). He taught us that the image of a residential area is mainly dependent not on its instrumental qualities, but rather on its being perceived as an appropriate place of living for respectable people. Later empirical studies, such as Varady's (1986), supported Firey's theory; it was found that concerns about public services did not play a decisive role in affecting residential mobility decisions. Our findings are in line with the above: improved services in an area with a reputation for distress can reduce inequalities in living conditions, but as long as they exclude changes in the composition of the population, they cannot turn around the low status of the area and cannot make it attractive to higher-status in-migrants.

The above conclusion should not be interpreted as a recommendation for gentrification. What we are suggesting is to adopt the 'soft' approach to neighbourhood rehabilitation with a special addition. The 'soft' approach rejects urban-renewal-style relocation and redevelopment, opposes gentrification (that causes displacement), and supports integrated social and physical treatment with resident participation (Project Renewal style). According to the findings of the first comprehensive evaluation, such rehabilitation programmes can be highly beneficial to their target population, can contribute to the reduction of disparities in living conditions and the alleviation of insecurity feelings, and they should, therefore, be viewed as goals in and for themselves. Unfortunately, according to the findings of the second evaluation study, they do not produce the positive externalities we hoped they would, and hence some addition is needed if we are to achieve the aggregate benefit of improvement in the status of the area. The recommended addition is new residential

construction within the neighbourhood or in its immediate vicinity, to be inhabited by a population that is similar in its socio-economic characteristics to the higher-status veteran residents. New houses tend to attract population with aspirations for social mobility, and such residents are what a distressed area needs in order to break the circle of distress. But—and this is a critical but—if one wants to succeed in attracting this kind of new inhabitant, the time order of the operation should be observed: it should start with social and physical rehabilitation, thus creating an atmosphere of hope, and then go on to the stage of adding new housing.

Who will construct the required new housing units in low-status areas and who would be attracted to inhabit them? Recent Israeli experience in several Project Renewal neighbourhoods shows that if the new construction starts following considerable public investment in the neighbourhood (improvements in the old housing stock, in the educational system and in the community services), then private developers are attracted to build and moderate- to middle-income households are attracted to purchase the new higher-standard dwelling units, in spite of the old bad reputation of the area. What we are actually witnessing is a public-private coordinated operation for the benefit of disadvantaged groups and areas. This is not a description of a pre-planned operation, but rather a post-factum analysis of what happened in reality in a number of Project Renewal neighbourhoods, in big as well as in smaller cities. New empirical research by Offer *et al.* (forthcoming) is investigating this new development.

In order to put the recommended strategy in context, let us go back to the point of departure of this paper. We began with a discussion of the welfare state as a desirable third component of societal order, together with democracy and the free market. This component is currently under attack in most developed countries; it has been argued that it is ineffective in promoting social equity and is counterproductive with regard to economic efficiency. The free market is fre-

quently presented as the only desirable partner of democracy, even though most people admit that there is enough circumstantial evidence to convince us that the free market forces, along with the benefits they bring about, also cause social problems and are unable to cure severe problems of disadvantaged groups. The case of Israel, a clear case of a welfare state, may be used to counter the popular argument that large investments in equity-oriented programmes hinder economic growth. The state of Israel started as a 'developing country'; it maintained economic growth throughout most of its history and succeeded in entering the World Bank list of the 30 highly developed economies of the world, in spite of its high allocations to social services (Kop, 1991). Therefore, it can be used as a living laboratory for studying the consequences of social programmes, at a time in which scholars and policy-makers are looking for evidence regarding the causal relationships between various types of planned interventions and their social and economic results. The analysis of Project Renewal, in addition to its practical implications for neighbourhood rehabilitation programmes, is a step ahead on the long path to understanding these relationships. It teaches us what we may and may not expect from certain types of area-targeted (neighbourhood) programmes, which are potentially powerful carriers of equity-oriented policies. It supports the claim in favour of public-private cooperation which starts with public initiative and heavy investments, continues with free market forces, and ends with considerable benefits to lower- and moderate-income households.

Notes

1. At the relevant period of time, there were 70 neighbourhoods in the Project. Those neighbourhoods which were located in 'development towns' differed considerably from several points of view, and therefore were analysed separately (Baron *et al.*, 1988, ch. 4) and excluded from this paper.
2. The census data were organised by statistical areas and we had to construct the matching

- between the list of neighbourhoods and the statistical areas. Each neighbourhood consisted of at least one statistical area. For details, see Baron *et al.*, 1988, Appendix 1.
3. We arbitrarily allocated equal weight to the three measures of the status index; different weights would have been as arbitrary as our choice.
 4. Jewish population only, because Project Renewal of the relevant years was active in Jewish neighbourhoods alone (except for Wadi Nisnas in Haifa). The official excuses were that the project is limited to urban areas, while most of the Arabs reside in rural areas, and that the Jewish donors to the Project (mainly from the US) refused to support Arab citizens. This discriminatory behaviour of Project Renewal authorities was partly changed in the late 1980s when several Arab and mixed neighbourhoods were added to Project Renewal. Because our data collection goes up to 1983, we had to analyse the Jewish population only.
 5. The aggregated report in Table 3 hides the variation between the neighbourhoods. In the experimental group, we found a small reduction in the size of population in close to 50 per cent of the neighbourhoods and a larger reduction in another 15 per cent, but the increase in the rest of them almost balanced all the reductions. Similarly, in the control group there was a slight reduction in 40 per cent of the neighbourhoods and a larger one in another 20 per cent, that were balanced by the increase of population in the other neighbourhoods in this group.
 6. Public housing projects in Israel are not poor houses for poor people. In earlier years, close to one-half of the new housing construction in Israel was defined as public housing (Carmon and Czamanski, 1990), and its inhabitants included low-class as well as a large share of middle-class households. In recent years, the percentage of public housing has been significantly reduced, but its standards have improved, and it is oriented not only towards poor households but also towards upper-lower class and sometimes even middle-class households.
 7. One set of arguments out of the 'double-check process' is especially important and, therefore, is hereby detailed. It was argued that while changes in services are first-order consequences of investments in them, migration movements and status changes are second-order consequences, and it may take several years until they appear in a measurable way. If that is so, our investigation might have taken place too early, and this could explain why no impact was found.

Speaking of time, two other claims may be brought up against our data analysis. One is that the Project actually started being operational in 1979, while our 'before' data are from 1972; however, there were no comparable data from the late 1970s and thus, when the Project directors started to select the neighbourhoods in 1978, they did so by using the only available set, the one from the census of 1972, just as we did. But is it not too early to expect major changes in 1983, after four years of operation, especially when we know in retrospect that the Project continued several years after that? It is certainly right that not all the consequences and influences would show up after four years, but we had good reasons to believe that major ones would be apparent and measurable. First, 1981–83 were the Project's record years with the maximum budgets that were ever spent in the neighbourhoods (Project Renewal budget for 1982/83 was US\$127m, while two years later it was US\$67.5m, and it has continued being low ever since, see Hovav, 1988). Secondly, and most important, we based our analysis on migration data, and migrants are known to move mainly by expectations for the future (see the human capital model of migration of Sjaastad, 1962). Hence, it was very reasonable to expect that the movements of migrants out of the neighbourhoods and into them in the early 1980s would be influenced by expectations that took into account the operation of Project Renewal. Last but not least, a partial report of in- and out-migration of the Project neighbourhoods (Spindel, 1988), which was based on later data (1983–86), found changes in number of movers (socio-economic characteristics were not available) that were similar to what we found for an earlier period. All the above justifies an analysis based on the 1983 census data, but also calls for reinvestigation when the findings of the next census are available (probably not before the middle 1990s).

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