Conquering Poverty One Place at a Time

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USDA Poverty Rates: http://www.ers.usda.gov/data/povertyrates/
Motivation
• Poverty is a problem but ignored!
  – New Orleans and Katrina only slightly changed the dynamics.
  – Rural poverty is even more ignored
    • Most probably due to its dispersed nature.
  – I slightly stress rural poverty for this reason—describe urban poverty with New Orleans as a backdrop.

Americans know poverty is a problem, but ignored. We know it contradicts with our notion of the American Dream and “rags to riches”.

John Edwards has not gained traction from stressing poverty.

My experience in Amsterdam 2005 before Paris riots with Europeans asking why should American scholars care about such unimportant issues as poverty.

Smugness in other Western countries!

Yellow slide vs. red slide.
Why Should We Care?

• Fairness/equity—equal opportunity and the American Dream.
  • Partridge and Rickman (2006)
• Children in poor families and neighborhoods lack:
  – Poverty can be intergenerational
  – Successful role models
  – Peer effects for school
  – Lack healthcare
• High poverty “places” are associated with:
  – more crime, which is ‘bad’ for the economy and society.
  – less FUTURE economic growth.
Why Should We Care?--cont

- Low income citizens have worse health outcomes, or more expensive.
- In the global economy, we cannot compete if a large share of our population is not contributing to their fullest capacity.
- In this economy, more households are at risk of being in poverty—a weak safety net.
Place-Based vs. People-Based Policy

- People-based is build soft and hard skills
  - Education! Training! Help with job search.
  - Help with migration to rapidly growing areas
  - Focus on the people who are poor regardless of residence

- Place-based is help places with poor people
  - Policies designed to fit each place (not ‘one-size-fits-all’)
  - Tax incentives, wage subsidies, infrastructure
  - Governance changes to improve economic outcomes
    - Ex: facilitate job creation in MS Delta or inner New Orleans

- Place and People Policies are inter-tangled
  - Child-care & transportation to work combine both notions
Place- vs. People-Based

• Need People Based! But do we need both?
• Most economists have a disdain for place-based policies. With some truth, they argue that:
  – even in best case, some benefits trickle to the better off.
    • Jobs may go to new migrants/residents & commuters, not the intended original residents
  – wasteful pork barrel spending for the elite and politicians
  – encourages a culture of dependency
  – slows migration to areas with strong growth
  – Harvard Economist Ed Glaeser famously argues to give each New Orleans resident $200k rather than rebuild
Why even do place-based policies?

• Market may not work as efficiently as desired
  – Moving is costly and people are attached to place.
  – Commuting is costly
    • Families are not capital flowing to the “highest return”
  – People lack information about distant jobs
  – There can be a coordination failure where
    business won’t locate in ‘poor’ places even if
    wages and other costs are low.
    – Self-fulfilling expectations.
Why place-based?—cont.

– Why get training if there are no nearby jobs?
  • Local job creation increases the incentives to enter training programs

– Place policies can be designed better to help the poor and complement people policies
  • It is not as though people-based policies have been wildly successful as poverty is stuck at ‘high’ levels.
  • Place policies should only be used when there is likelihood of success
Upjohn published this book, 2006
What is “Poverty”?

• The popular standard changes over time.
  – Upper middle-class households in the late 19th
    Century would be poor today.
  – Poverty is usually a relative concept.
    • Most developed countries use a definition of less
      than ½ of the median household income.
    • As average incomes rise → poverty threshold rises.
Measuring poverty rates is more art than science. What is poverty and so on? Is it a relative or absolute concept?

Rural America has lower cost of living, but not as low as implied by lower housing costs.

Note that we will only use rural areas, thus so-called cost of living differentials across rural America are small (especially compared to metro America)—i.e., cost of living differences are not driving differences in rural poverty rates.

Also, we control for population in a county, which is the largest determinant of underlying cost of living differentials [Can’t control for current housing costs because it is endogenous.]

Nonetheless, the official poverty rate is very highly correlated with what we are trying to measure and that is whether a community has a large share of its population living under economic degradation, however defined.

For more details of the official definition of poverty, see:
Fisher, Gordon, “The Development of the Orshansky Poverty Thresholds and Their Subsequent History as the Official U.S. Poverty Measure.” available at:

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What is Poverty?—cont.

– The U.S. uses a 1960s absolute definition that is *ad hoc* and does *not* change over time:
  • A federal researcher defined poverty as 3 times the level of income to meet an adequate food budget.
  • Annually adjusted for family size and then inflation.
  • **The U.S. definition of poverty is very strict.**
  • No cost of living adjustment between rural-urban
    – Higher housing costs in urban, but higher transportation costs and less access to ‘big box’ stores in rural.
  • Does not count in-kind transfers (money income)
What are U.S. Poverty Thresholds?

- They are adjusted for inflation each year.
- In 2006:
  - For a family-unit of 5: $24,382
  - For a family-unit of 4: $20,614
  - For a family-unit of 3: $16,079

- **Absolute nature of the U.S. definition of poverty implies that I will understate the problem—**
  - i.e., I am reporting a 1960s notion of being poor.
  - Yet, a place that has high poverty under the official definition has clear economic degradation.

Poverty Thresholds for 2006 are from:
http://www.census.gov/hhes/www/poverty/threshld/thresh06.html
Overview of National Poverty Then Louisiana

- U.S. poverty-employment growth link was re-established in the 1990s
  - Strong link in 1960s and early 1970s
  - Weak between 1973-1993 (high poverty in 1993)
  - Lyndon Johnson's War on Poverty was much more successful in the 1960s than it is given credit for.
    - Criticism suggests that poverty is "impossible" to address

Explain President Johnson's War on Poverty in the 1960.
Poverty in 1993 was at the rates not seen since the mid 1960s as the War on Poverty began.

Who is in poverty?

- In 2006, the overall rate was **12.3%**
  - Children under 18 years old: **17.4%**
  - Children can’t work! Not their own fault.
  - Intergenerational transfer of poverty
  - Female headed households: **28.3%**
  - Poverty has a racial/ethnic component.
Hispanic is officially an ethnic group—not a racial group.
1st Take: How do we eliminate Poverty?

- A rising tide should lift all boats!
  - Yet, the 1980s had the 3rd longest economic expansion on record, the 1990s was the longest, and the economy has grown since 2001.
  - National unemployment rate can’t fall below zero.
  - To eliminate high pockets of poverty takes LONG-TERM growth, better expectations about local prospects, and more skills for the residents.
    - Climate for wealth creation is essential
    - Better local governance and social capacity.
Shows the change in the national UR almost exactly mirrors the change in poverty rates.
Geography of American Poverty

- Rural poverty is somewhat clustered.
- Low poverty in the Midwest and Northeast.
- High poverty in the South and West Coast.
  - Persistent High Poverty Clusters
    - (USDA, 1969-99, 20%+ in every year)
    - Central Appalachia, Historic Southern Cotton Belt, Rio Grande Valley and Western Reservations.
- Poverty rates are spatially persistent.
- Large *inter-regional* variation.
Poverty is centered near the MS Delta through Rio Grande and up to WV.
Notice spatial diversity across the country

Notice the 5 clusters of high poverty

1. Western reservations
2. Rio Grande
3. MS Delta through historic Cotton Belt
4. Central Appalachia
Poverty Rates, United States, 1979

High Poverty Clusters
4. Rio Grande
5. Western Reservations

Low Poverty Regions
1. Upper Midwest
2. Northeast
3. Western regions (not shown)

356 rural counties (out of about 2200) had poverty rates exceeding 20% in each of 1979, 1989, and 1999 with about 28% of the rural population living in these counties.

Notice that 1999 map is similar to the 1979 map in terms of regional patterns, illustrating persistence.

Note Lowest Poverty is in Northern Midwest and New England.

High poverty creeping up in California where there are more immigrants.
Poverty Rate Change, 1979-1999

The West has higher poverty and so does the lower MS River Delta and Central Appalachia

Upjohn Institute for Employment Research, 2009
Rural/Urban Poverty

• Nonmetropolitan America has higher poverty rate than metropolitan America
  • ‘Rural’ = ‘nonmetropolitan’ in my discussion
• Yet, job growth seems to have a stronger anti-poverty impacts in less populated or more remote areas.
Blue is 1989 and Red is 1999 and Yellow is the change over the 1990s.

Poverty rates are inversely related to urban scale and access to urban areas in metro adjacent rural counties.

However, rural areas, especially the most remote rural counties had the largest decline in poverty rates in the 1990s.
Louisiana

- Louisiana has its unique patterns.
  1. The state mostly falls in the MS Delta high-poverty cluster.
  2. New Orleans has had persistently high poverty.
  3. Baton Rouge and Lake Charles more successful
  4. Relative to US, LA poverty has not changed since 1979
     - Nonmetro LA slightly improved compared to the U.S.
     - Metro LA slightly worse relative to the U.S.

Closer to more successful Texas labor markets is better.
1. NE part of state is less urban more part of MS Delta high poverty cluster
2. Baton Rouge has state government
3. New Orleans and persistent poverty with low-wage industry
4. Lake Charles area and more oil and better linkages to more wealthy Texas labor markets.
Total Poverty Rate LA – U.S. was 6.2% in 1979 and 6.5% in 2004.
Total metro Poverty Rate LA – U.S. was 5.1% in 1979 and 5.9% in 2004—both metro U.S. and metro LA got worse over 25 year period.
Total nonmetro Poverty Rate LA – U.S. was 8.1% in 1979 and 6.6% in 2004—both nonmetro U.S. and nonmetro LA got better. Nonmetro LA is a success story.

Overview of Past Rural Poverty Research

- Rural and Urban share many of the same causes of poverty.

- “Some of the same signs of despair and breakdown that wore out aging American industrial cities in the 1960’s have come to the rural plains. Among teenagers, there is now a higher level of illicit drug use in rural areas than in cities or suburbs, ...The middle class is dwindling, leaving pockets of hard poverty amid large agribusinesses supported by taxpayers.”


- “Fundamental structural changes in technology, markets, and organizations are redrawing our nation’s economic map and leaving many rural areas behind.”

  Robert D. Atkinson of the Progressive Policy Institute
Causes of Rural and Urban Poverty

• The major view in regional science and econ geog. is that rural areas are disadvantaged due to small scale and remoteness:
  – Low wages, weak job growth

• *Examples:*
  • "Oakridge, OR was a prosperous timber community of about 4,000 people until its last mill closed in 1990. Many households now struggle in or just above poverty, though they seem determined to remain in their scenic community. Flourishing Eugene could provide employment opportunities, but being 55 miles away limits the ability of Oakridge’s residents to take advantage." (Eckholm, 2006, New York Times)

  • "Among Appalachia’s problems are that it is “too far from big cities to easily attract businesses.” (Altman)

Need to increase rural access to better urban labor market opportunities.
### Spatial Mismatch

- Jobs requiring lower skill levels are not where the low-skilled workforce resides
- Urban: jobs are in the suburbs and the poor live in central city.
  - Public transport is inadequate
  - Discrimination, segregation & zoning limit suburban moves
  - Does not require racial explanations for this argument.
- A rural spatial mismatch of jobs
  - Jobs are often in the city, but not in the country
    - Thin labor markets weakens rural employment matches
    - Lack transportation, childcare, work supports
    - Structural change out of primary sector & manufacturing

For more details, see Davis et al., 2003 vs. Partridge and Rickman, 2006.

Whether spatial mismatch actually exists is controversial and whether it is just racial discrimination is also debated (race not space).

Debate on whether economic opportunities help poor rural families to the same degree as in urban areas

Other issues include:

**Social isolation, peer effects, insufficient community capacity or social capital.** (Glasmeier and Farrigan, 2003)

Spatial Mismatch-cont

• A part of the solution to spatial mismatch is place-based policy (along with people-based)
• Argument against spatial mismatch theory is that it is really just ‘selectivity.’
  – Akin to arguments against place-based policy
  – The less able or less motivated choose to live in central cities or in rural high-poverty clusters
  – All the local jobs in the world won’t matter because this group generally won’t/can’t work
Spatial Mismatch--cont

- P&R find that job growth especially reduces poverty in high poverty areas:
  - Central cities, especially with high shares of blacks
  - High-poverty rural areas
- Exactly the opposite of selectivity: Job growth reduces poverty more in high-poverty areas.
  - For a central county in large urban areas:
    - 5 yr job growth of 14,000 more jobs per year → roughly 5,000 fewer people in poverty (all else equal)
  - For a ‘noncore’ rural county:
    - 5 yr job growth of 627 jobs a year → corresponds to roughly 547 fewer people in poverty. (all else equal)
    - Even stronger impact in high-poverty rural counties.


• P&R (2007) find that job growth attracts fewer new residents and helps retains long-term residents in more remote areas.
• Our conclusion is that place-based policy can be effective in trickling down.
  – Vigdor (2007): ‘evacuees’ who returned to New Orleans are better off than those who did not.
    • I argue this shows that simply relocating the ‘poor’ to places with more jobs is insufficient (info problems).
    • He argues that this shows that skills matter more—though he did not consider whether evacuees who returned received more training while they were away.

Note that it is likely that those evacuees that did return were more assured having a job in New Orleans. There are ‘selectivity’ concerns.
Yet, looking at the same data, we have very different conclusions.
Reducing high poverty
One place at a time

- War on Poverty in 1960s was successful
- 1996 Welfare Reform and its “Work First” showed good things about work supports—but no panacea
- Promising international ideas should be tried
  - *Bolsa Familia* in Brazil or *Oportunidades* in Mexico
    - Pay families a subsidy when their children attend school and get basic healthcare.
  - In New York, the Rockefeller Foundation and Michael Bloomberg are trying to implement a similar program
  - If implemented in high-poverty places, this could break intergenerational poverty transmission and save more money than having schools to do everything.


Also see our book: *The Geography of American Poverty: Is there a Role for Place Based Policy?* Just published by Upjohn Institute for more about policy.
Reducing poverty—cont.

• Work supports such as flexible childcare and transport—give poor families a reliable auto.
  – Place-based:
    • childcare differs in rural vs central city.
    • transportation is more problematic in rural settings.

• Help provide more skills
  • Provide better access to rural and urban training.
  • Recognize that people will want more training if there are nearby work opportunities.
Reducing Poverty—cont.

- Create targeted zones within and proximate to high poverty/low income areas
- State earned income tax credit.
  - Federal EIC is successful—rewards ‘good’ behavior.
  - State efforts are small: 23 states including DC.
    - LA just enacted, but modest: 3.5% of federal (effective in 2008).
  - Federal and state EIC should be more generous for a worker who began the year as a targeted-zone resident.
    - Rewards workers if they move to other areas or stay in zone.
    - Combines people-based migration with place-based policy.


A map with states shown in the Appendix. A figure showing the federal benefit for 2007 is in the Appendix. State EICs shown in Appendix.

Childless parents should receive enhanced benefits, see: http://www.cbpp.org/10-10-07tax.htm [Center for Budget and Policy Priorities]
Reducing Poverty—cont.

- Generous tax incentives in targeted zone—job tax credits above a certain base level.
- **Say an “Opportunity Community”**
  - Wealth creation underlies strong regions.
  - But, subsidize people, not capital investment
  - The key is the job credits should be tied to place of residence of the workers—i.e., the ‘special’ credit mostly applies to workers from the zone.
- Wage subsidy for firms near targeted zone.

Hard to attract outside capital to a disadvantaged place. Need to change the dynamics.
Start in the center in job creation and work your way out in rural areas, or backfill in urban areas.
Isolated communities may need to break down a ‘class system’ for everyone’s benefit.
Tell the story that it is less expensive to create job opportunities in growth clusters and then bring workers to the clusters, than to try to create the jobs in more challenged locals.

Transparency and good gov’t builds business and citizen confidence.

Corruption creates poverty by undermining credibility

**Tuscaloosa AL began to change in the 1970s—this allowed them to bring in the auto industry such as Mercedes.**

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**Reducing poverty—cont. Local Institutions**

- Regional collaboration to build wealth
  - Stronger regions build wealth
  - Regional governance stops unnecessary competition in metro areas and around regional growth centers.
- Strong regional/local gov’ts that provide basic services such as infrastructure and police.
- Build neighborhood and community institutions to give local citizens a voice.
  - Churches, community groups, youth groups, business groups such as Chambers of Commerce.
Reducing poverty—cont.
Local Institutions

• Need to build wealth from within
  – Business Retention and Expansion
  – Support micro-enterprises and micro-lending
  – Support entrepreneurship

• Once expectations about a community change and good institutions are in place, a virtuous cycle of growth can begin.
Policies need to be more innovative
Patience: It takes many years to for a tangible impact.
Reward wealth creation, but especially target people from high poverty zones
Gov’t should stress earned income tax credits that target workers in who began in poor places.
Eliminating poverty pockets requires strong communities with transparent, effective gov’ts.
Thank you!

Presentation will be posted at The Ohio State University, AED Economics, Swank Program website:

http://aede.osu.edu/programs/Swank/

(under presentations)
Source, Center for Budget Priorities, http://www.cbpp.org/10-5-07sfp.htm
Source, Center for Budget Priorities, http://www.cbpp.org/10-5-07sfp.htm
State EITCs are extremely simply to implement, administer, and claim. They typically "piggyback" on the federal EITC, meaning that they are set at as a fixed percentage — between 3.5 percent and 35 percent.”