

Fighting Poverty One Place at a Time

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Prepared for the Federal Reserve Bank of Atlanta

Poverty Symposium

December 2, 2013



DEPARTMENT OF
AGRICULTURAL, ENVIRONMENTAL,
AND DEVELOPMENT ECONOMICS

The Geography of
**American
Poverty**

Is There a Need for Place-Based Policies?



Mark D. Partridge and Dan S. Rickman



Motivation

- ▶ Poverty is a problem but too often it is ignored!
- ▶ Nearly 46.5m Americans lived in poverty in 2012 and 1.8m Georgians. Source 2012 CPS.
 - ▶ Rural poverty is even more overlooked
 - ▶ Most probably due to its dispersed nature.
 - ▶ I will stress rural poverty for this reason—but describe urban poverty.

Why Should We Care?

- ▶ **Fairness/equity: equal opportunity and the American Dream**
 - ▶ Partridge and Rickman (2006)
- ▶ **Children in poor families and neighborhoods:**
 - ▶ Poverty can be intergenerational—do not attend college.
 - ▶ Lack successful role models in poor neighborhoods
 - ▶ Peer effects for school and labor market contacts
 - ▶ Lack healthcare
- ▶ **High poverty “places” are associated with:**
 - ▶ more crime, which is ‘bad’ for the economy and society (OECD, 2010).

Why Should We Care? —cont

- ▶ Low income citizens have worse health outcomes, or more expensive (Mellor and Milyo, 2002).
- ▶ In this economy, more households are at risk of being in poverty—a weak safety net.
- ▶ In the global economy, we cannot compete if a large share of our population is not contributing to their fullest capacity.

Why Should We Care? —cont.

▶ **Why should the Fed Care?**

- ▶ Poverty is linked to higher inequality and higher inequality is linked to less economic growth (Berg and Ostry, 2011, IMF Discussion Paper).
 - ▶ Once inequality crosses a threshold, it is inversely associated with growth (Partridge and Weinstein, 2013; Partridge, 2005).
 - ▶ Why?
 - **Credit constraints where the poor can't afford human capital investments such as university education.**
 - Rent seeking among the poor and the wealthy.
 - More volatile consumption.
 - Less social stability.
 - Weakening of incentives for skill acquisition and innovation if only a handful benefit.

Why Should We Care? —cont.

- ▶ **Why should the Fed Care?—cont.**
- ▶ **Scarring of the Long-term Unemployed—workers in poverty tend to be less educated. Less educated tend to be underemployed and experience greater likelihood of unemployment (Lowrey, 2013; Arulampalam and Gregory, 2001).**
 - ▶ Skills depreciate and employers are reluctant to hire long-term unemployed.
 - ▶ Ex: Oct. 2013 Unemployment Rate of less than HS degree is 10.9% and 3.8% for college graduates (BLS).
 - ▶ Today, there is a much greater likelihood of experiencing long-term unemployment (≥ 27 weeks).
 - 36.1% of the unemployed in Oct. 2013 vs 22.4% in Oct. 2003 (BLS).
 - ▶ Rising concern that long-term unemployed will not be hired—increasing structural unemployment (reducing potential GDP) or accelerating inflation may begin at higher unemploy. rates.

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
 - ▶ Ex: facilitate job creation in the Black Belt or inner Atlanta
- ▶ **Place and People Policies are intertwined**
 - ▶ Childcare & 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 much truth, they argue that:
 - ▶ 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 argued to give each New Orleans resident \$200k rather than rebuild after Katrina (Pettus, 2006).

Why even do place-based policies?

- ▶ **Market may not work as efficiently as desired**
 - ▶ Moving is costly and people are attached to place (Partridge et al., forthcoming).
 - ▶ Commuting is costly
 - ▶ Families are not capital flowing to the “highest return”
 - ▶ People lack information about distant jobs
 - ▶ Local labor markets adjust sluggishly, especially post 2000 (Partridge et al., 2012).
 - ▶ 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 and a poverty trap.

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

What is 'Poverty'?

- ▶ **Poverty is usually a relative concept.**
 - ▶ Most developed countries use a definition of less than $\frac{1}{2}$ of the median household income.
 - ⇒ The poverty threshold changes over time:
 - As average incomes rise → poverty threshold rises
 - ⇒ Upper middle-class households in the late 19th Century would be poor today.

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.**
 - Being 'poor' in 1964 would be 'really poor' in 2013.
 - ▶ 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)
 - ▶ Experimental 'supplemental' poverty measures (considering income after taxes, food, clothing, shelter, utilities)

What are the U.S. Poverty Lines?

- ▶ These are the official federal income thresholds:

In 2012:

- ▶ For a family-unit of 5: **\$27,827**
 - ▶ For a family-unit of 4: **\$23,492**
 - ▶ For a family-unit of 3: **\$18,284**
-
- ▶ **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
 - ▶ A place that has high poverty under the official definition has clear economic degradation.

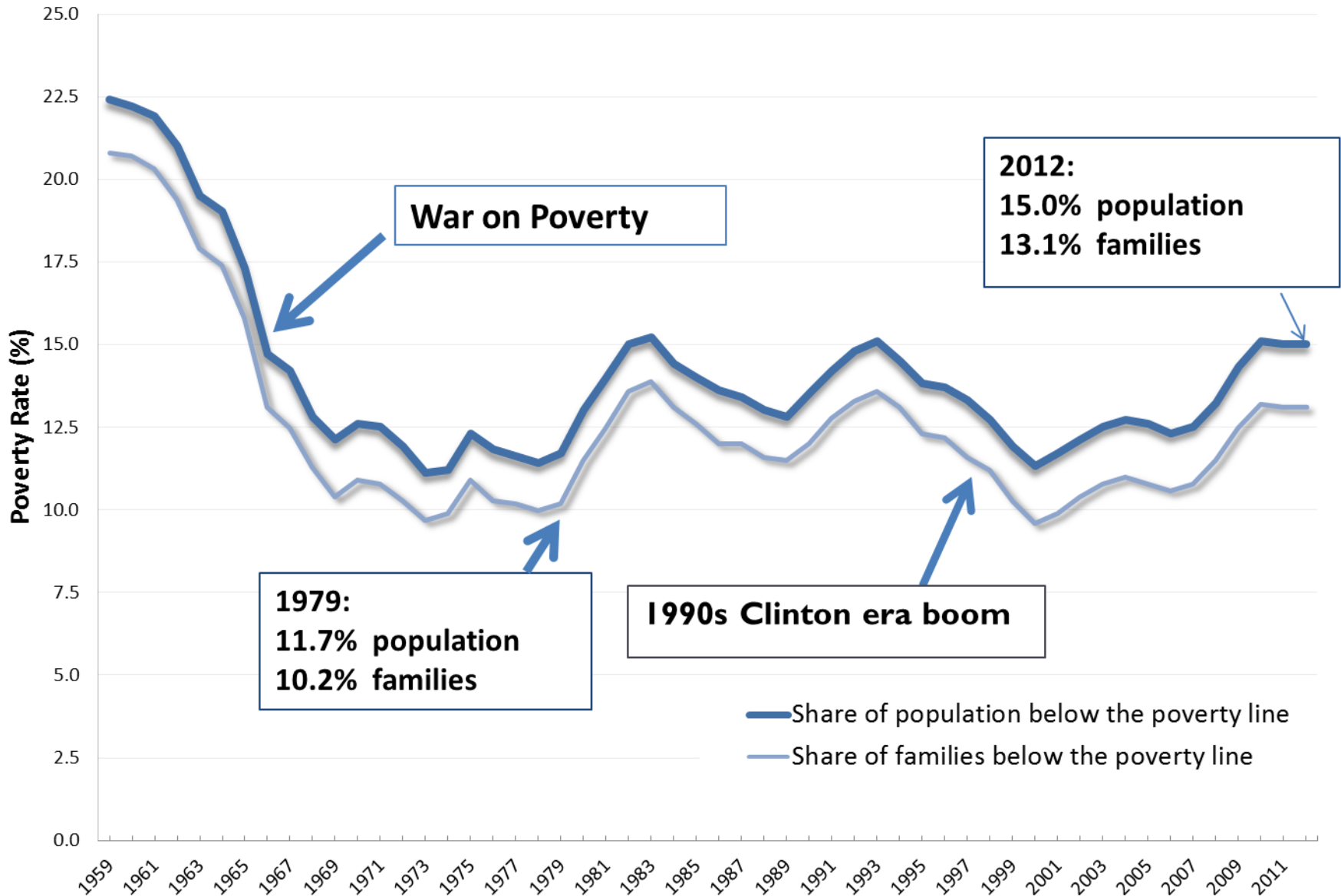
Poverty Rates in the U.S.

...and then in Georgia

Overview of National Poverty

- ▶ 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

Poverty Incidence in the U.S. (1959-2012)



Who is in poverty?

▶ In 2012, the overall rate was **15%**

□ U.S. Census Bureau, <http://www.census.gov/hhes/www/poverty/data/historical/people.html>

▶ Children under 18 years old: **21.8%**

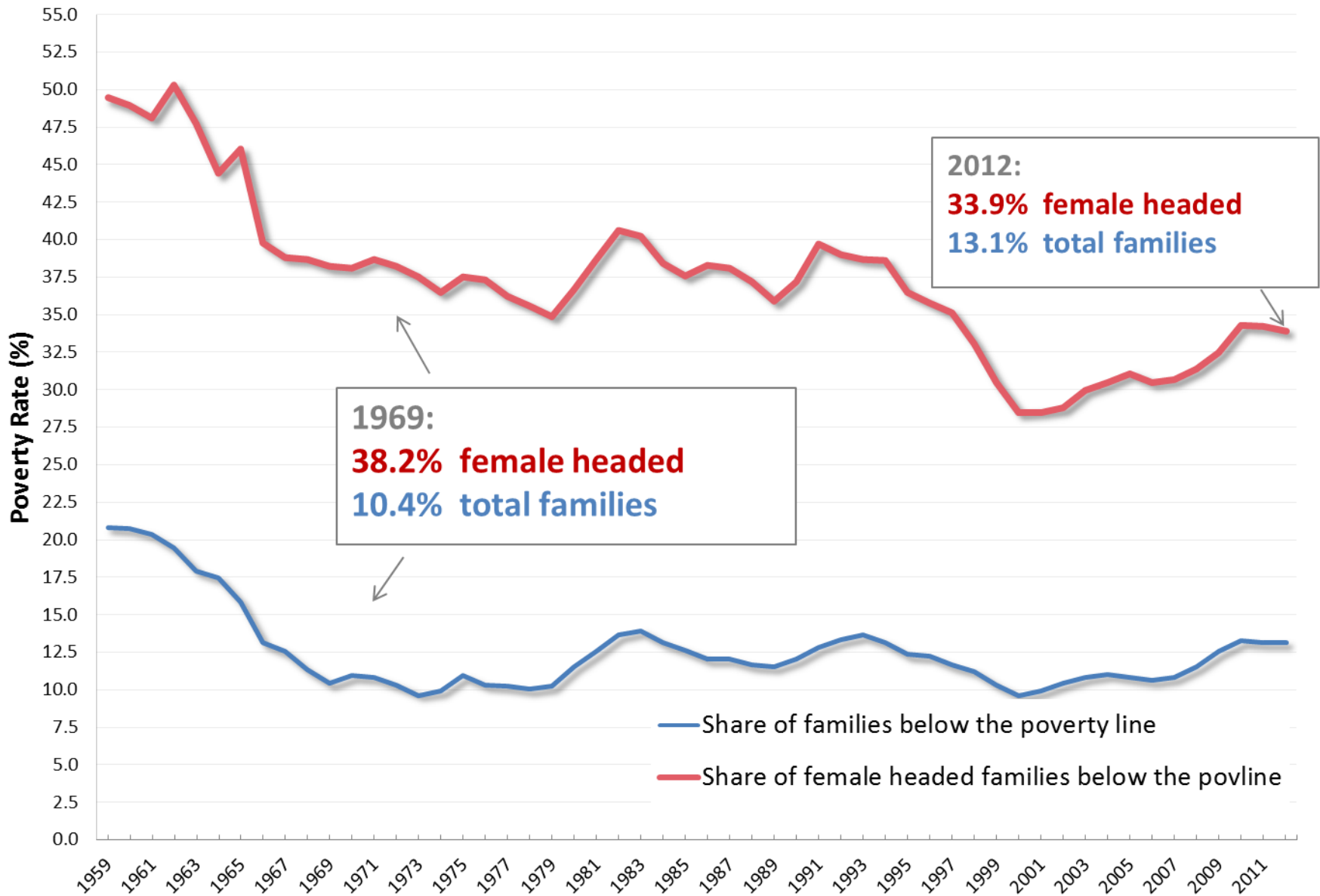
▶ Children can't work! Not their own fault.

▶ Intergenerational transfer of poverty

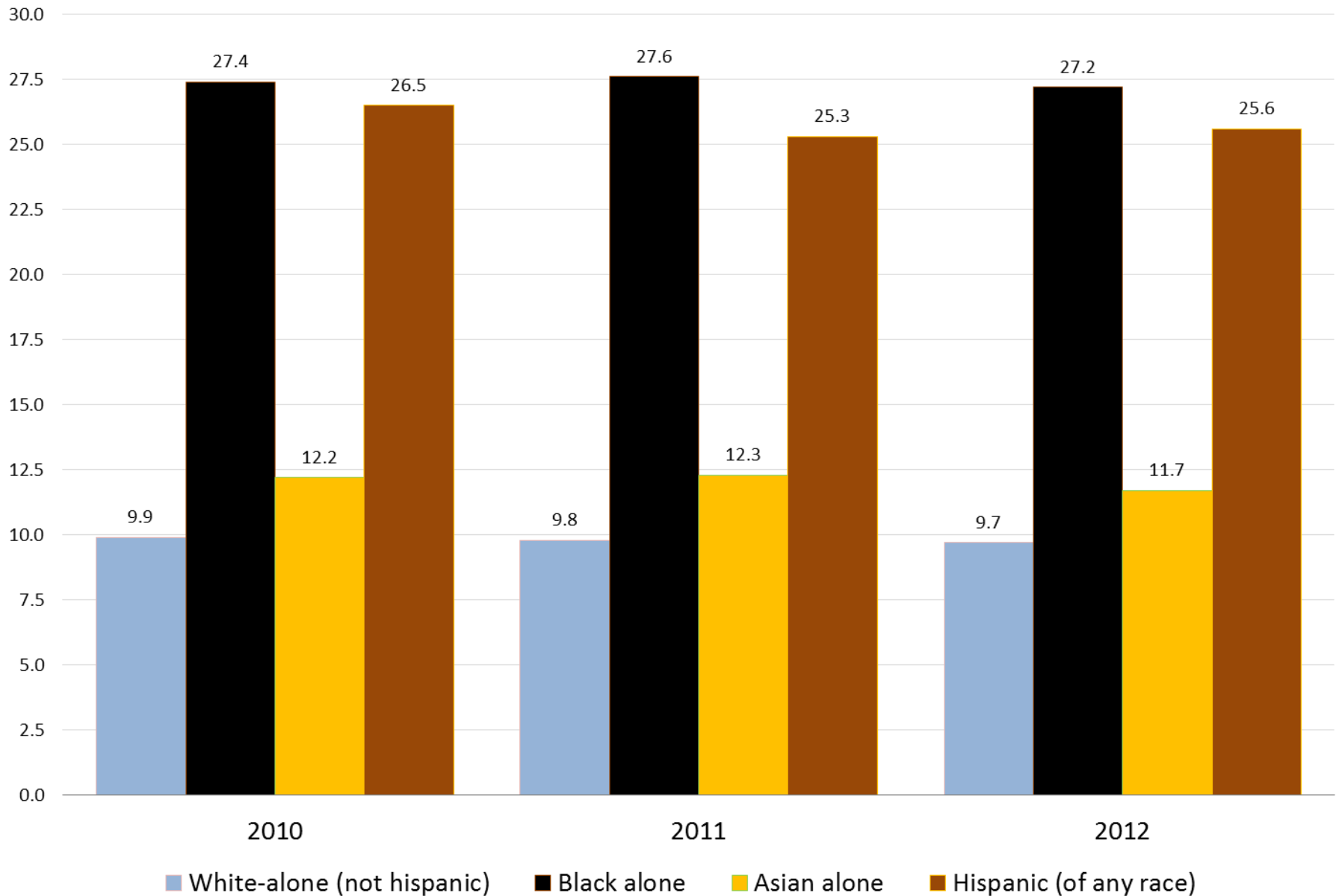
▶ Female headed families: **33.9%**

▶ Poverty has a racial/ethnic component.

Poverty Incidence in the U.S. : The Gender Bias



Poverty Rates by Race/Ethnicity

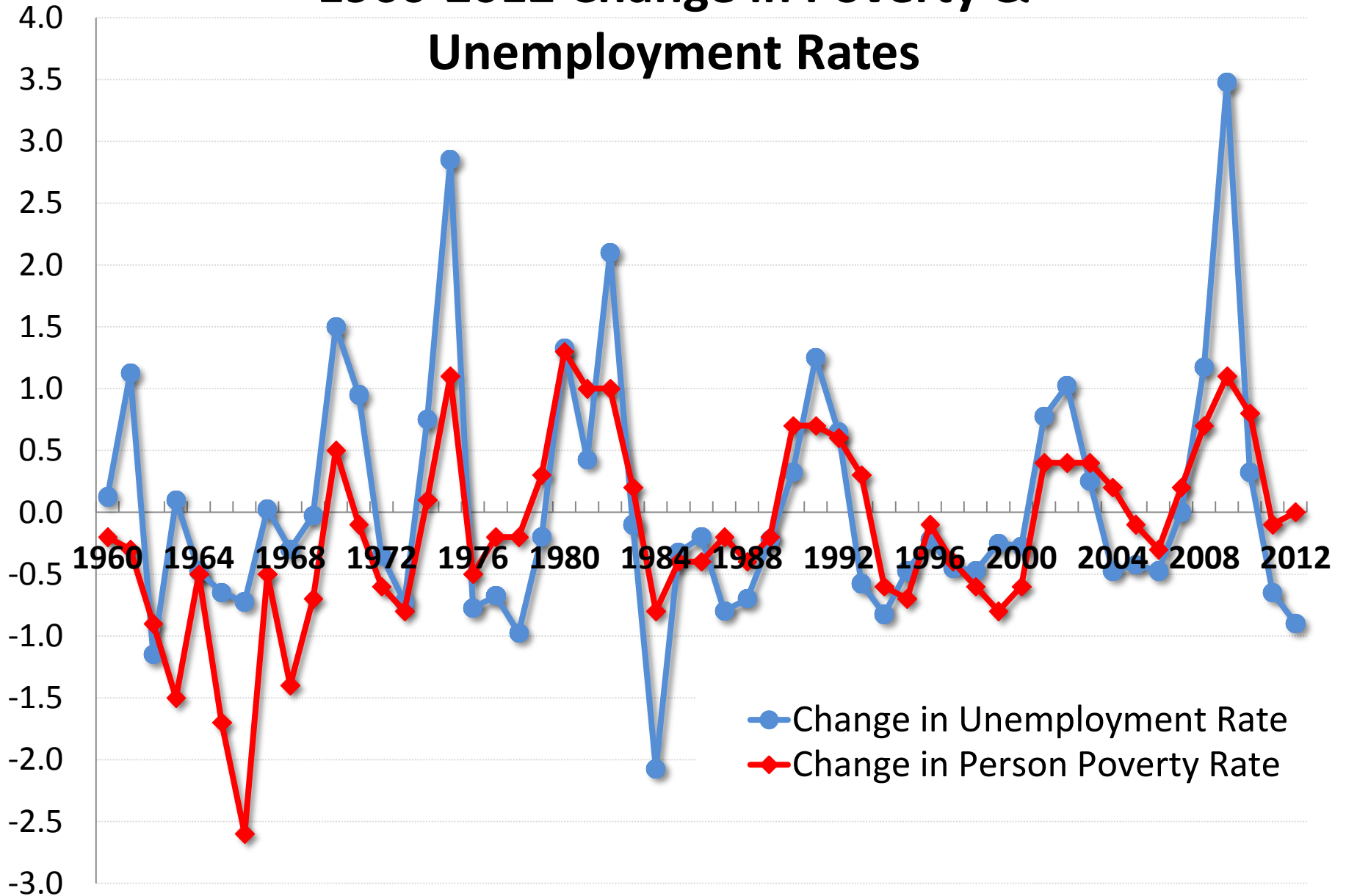


Source: U.S. Census Bureau, <http://www.census.gov/hhes/www/poverty/data/historical/people.html>

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 grew between 2001-2007 & 2010-2013.
 - ▶ 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.

1960-2012 Change in Poverty & Unemployment Rates



Source: U.S. Bureau of Labor Statistics for Unemployment Rate and U.S. Census Bureau for Poverty Rate

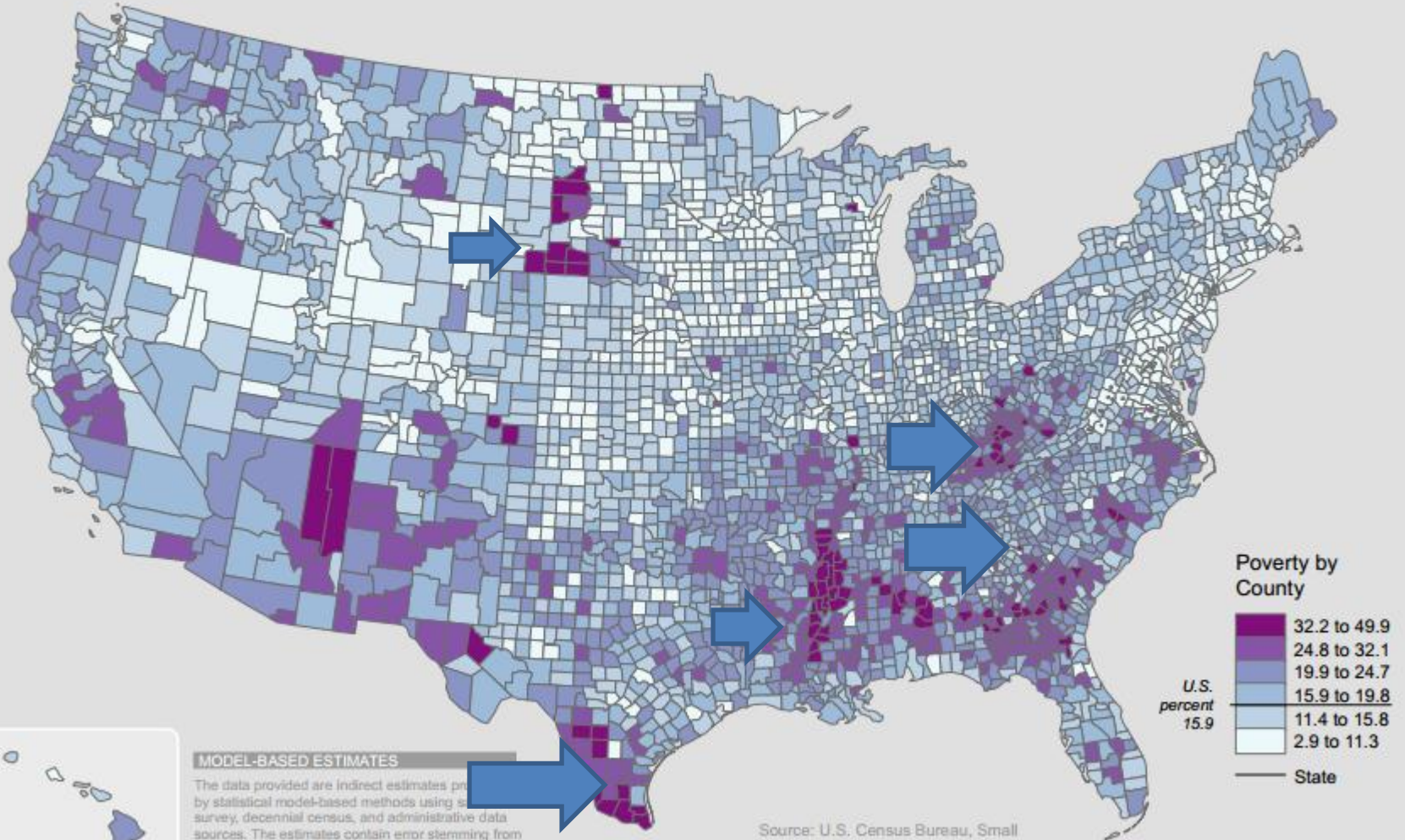
Geography of Poverty

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

PERCENT IN POVERTY, 2011

Total Population



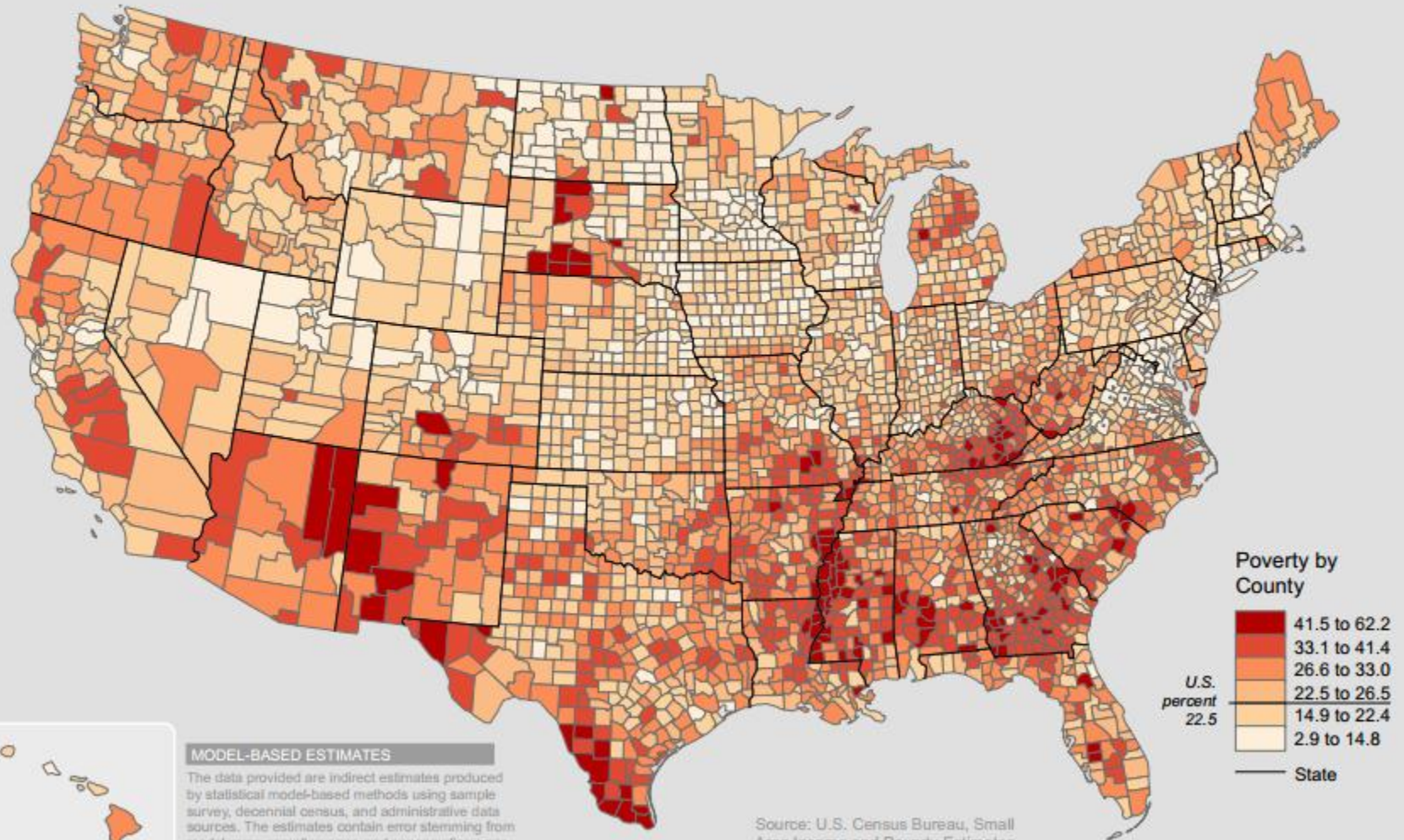
MODEL-BASED ESTIMATES

The data provided are indirect estimates produced by statistical model-based methods using survey, decennial census, and administrative data sources. The estimates contain error stemming from model error, sampling error, and nonsampling error.

Source: U.S. Census Bureau, Small Area Income and Poverty Estimates (SAIPE) Program, Dec. 2012

PERCENT IN POVERTY, 2011

Under Age 18

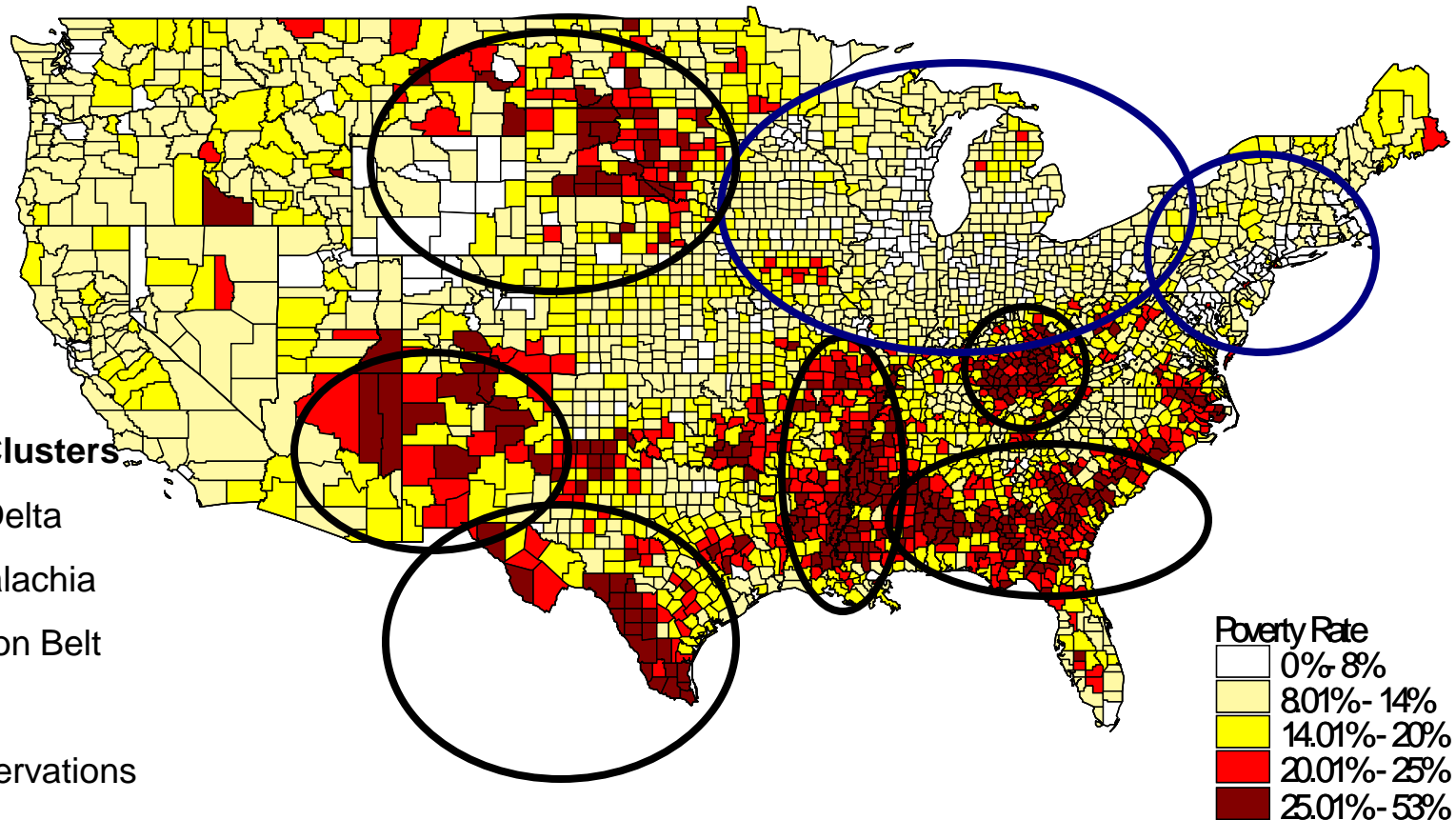


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Poverty Rates, United States, 1979



High Poverty Clusters

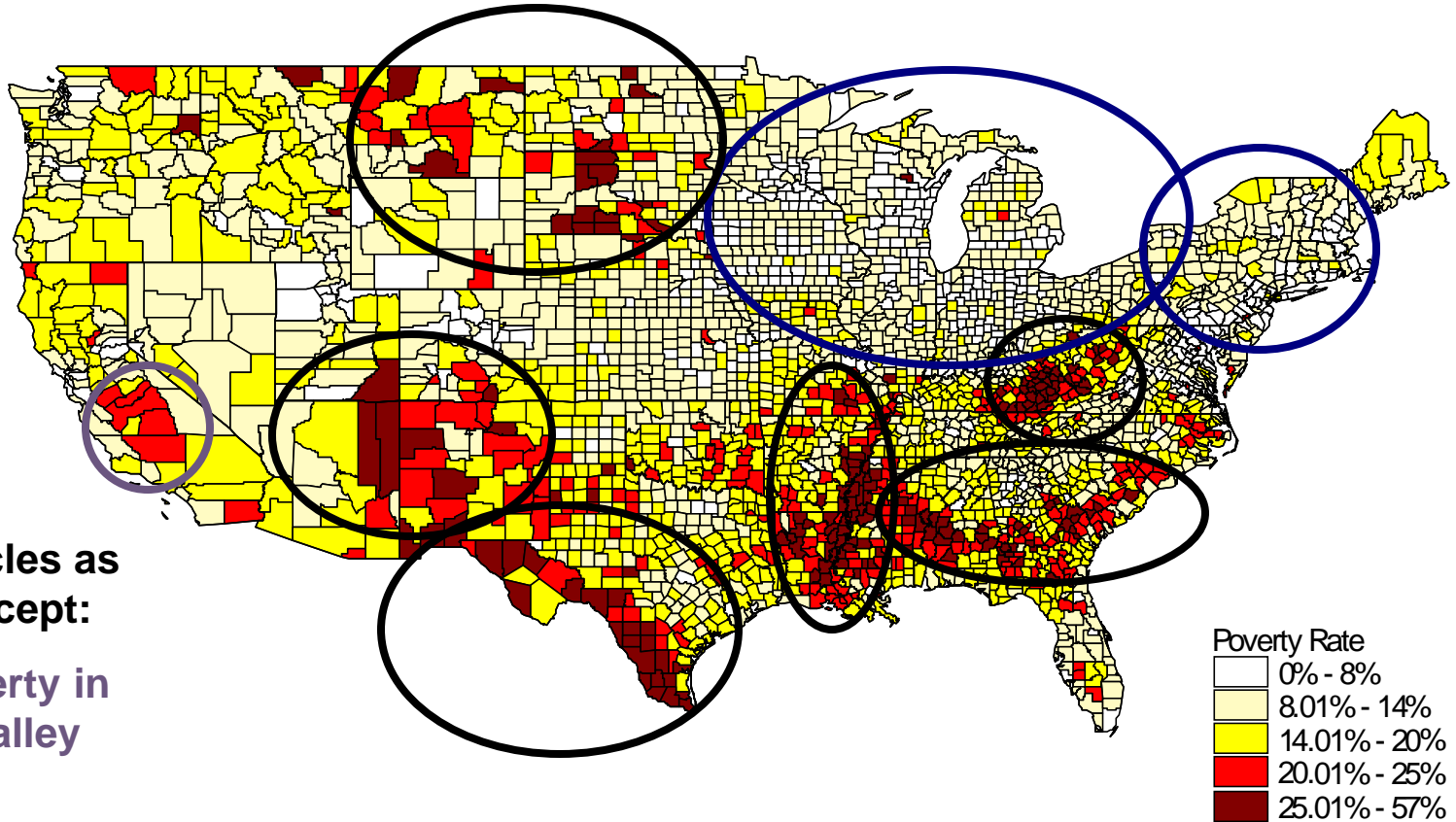
1. Mississippi Delta
2. Central Appalachia
3. Historic Cotton Belt
4. Rio Grande
5. Western Reservations

Low Poverty Regions

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

Source: Partridge, M.D. and D.S. Rickman. *The Geography of American Poverty: Is there a Role for Place-Based Policies?*, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2006

Poverty Rates, United States, 1999

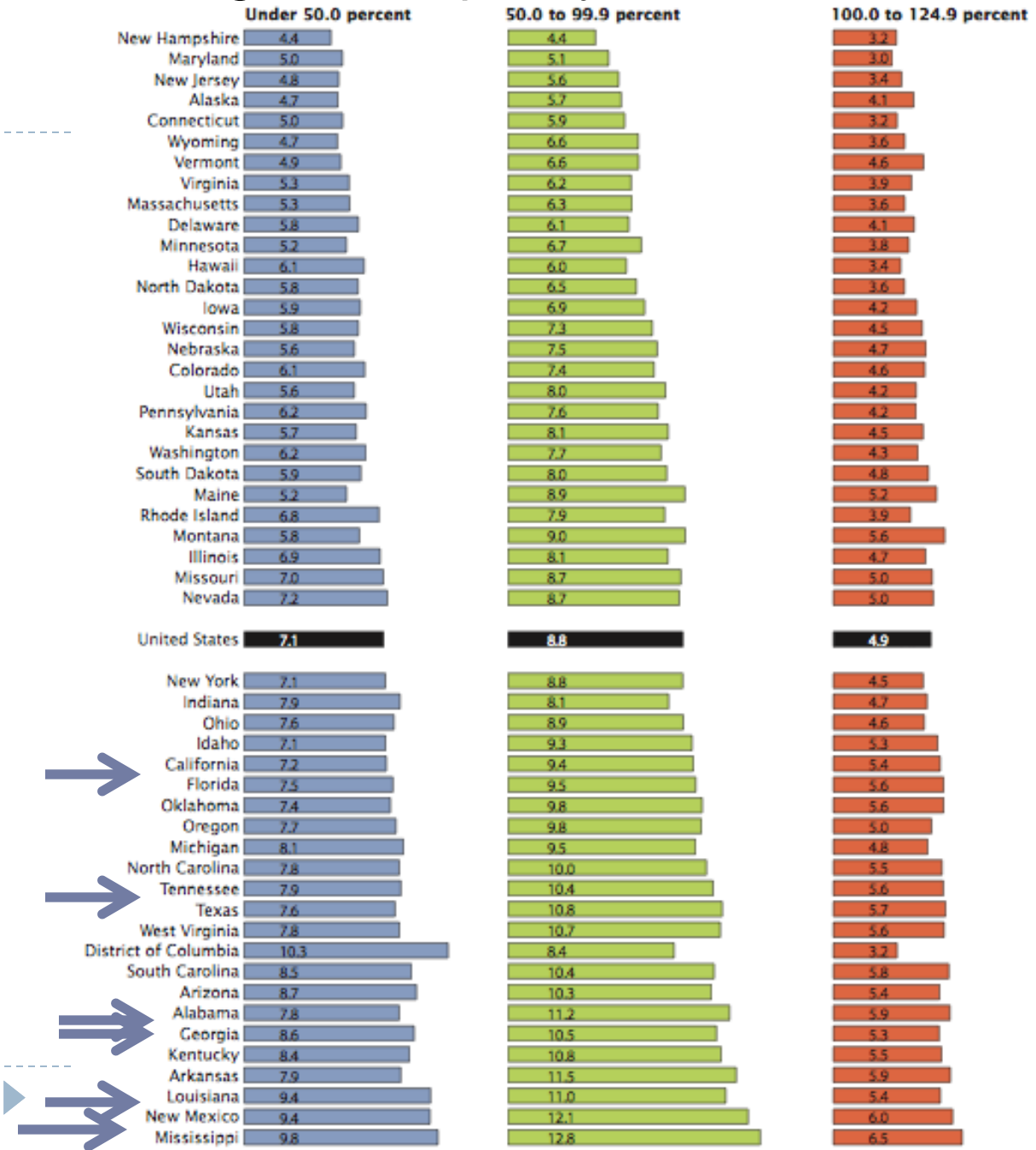


Same circles as
before except:

High poverty in
Central Valley
of CA

Poverty in Georgia

Percentage of People by Income to Poverty Ratio, 2011



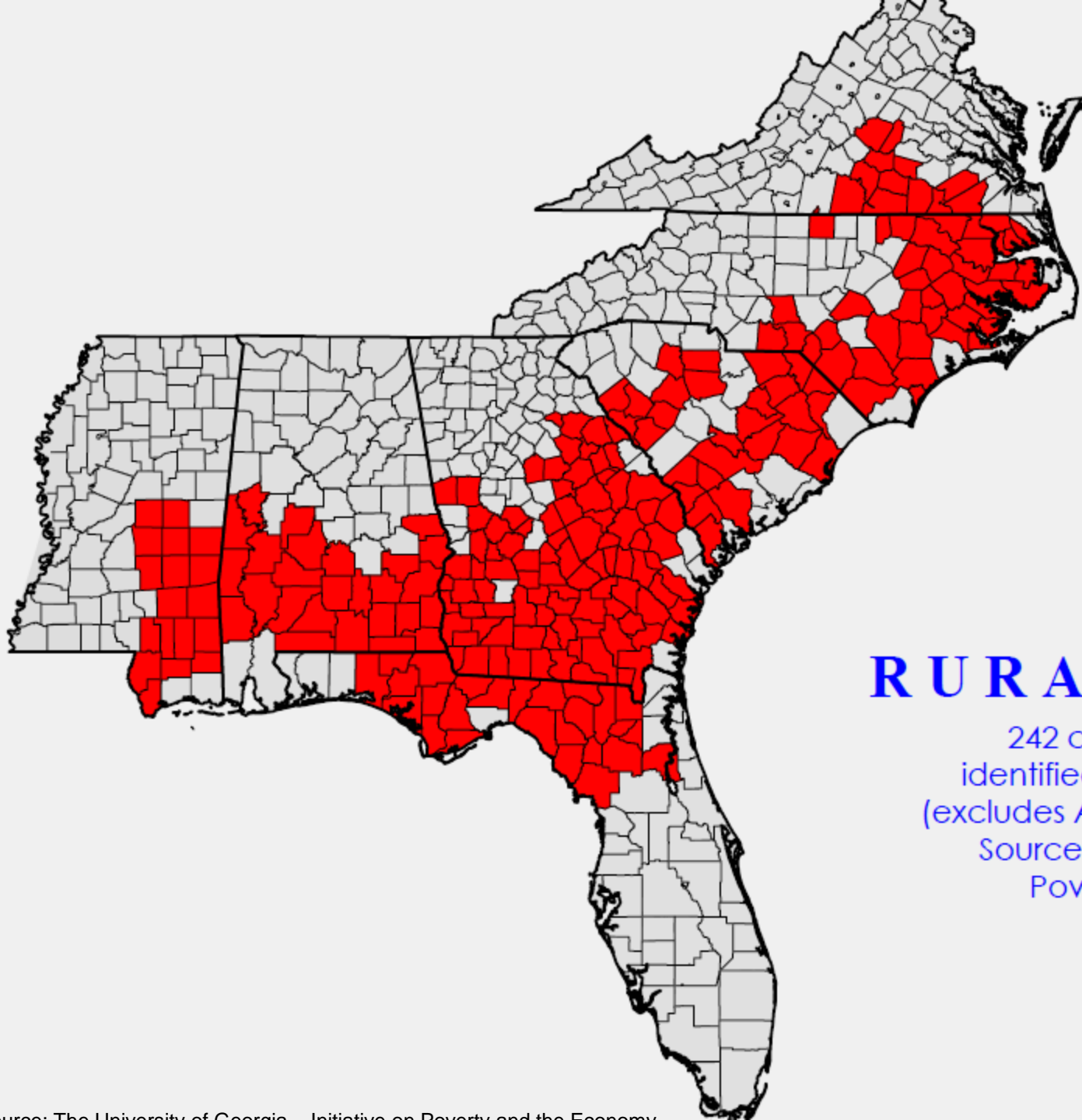
US Poverty Rate 15.9%,
Up 0.6% over 2010

GA Poverty Rate 19.1%,
Up 1.3% over 2010.

U.S. Census Bureau,
American Community Survey,
<http://www.census.gov/prod/2012pubs/acsbr11-01.pdf>

Poverty in Georgia

- ▶ Georgia has its unique patterns.
 1. **GA mostly falls in the South high-poverty cluster**
 2. Persistently high poverty in the Black Belt
 3. Atlanta metro area is vibrant and rich
 4. Relative to US, GA poverty has not changed since 1979
 - Metro GA on average relative to the U.S. metro areas
 - Nonmetro GA higher poverty rate compared to the U.S.



RURAL SOUTH

242 counties in 7 states
identified as persistently poor
(excludes ARC and MDR counties)

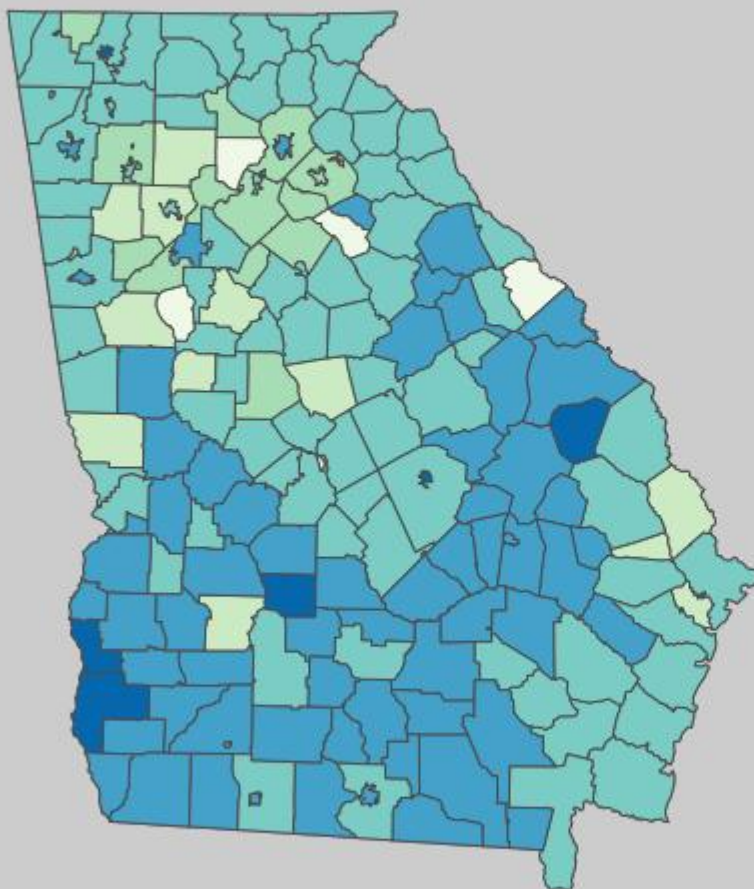
Source: Study on Persistent
Poverty in the South

Poverty in Georgia

- ▶ Georgia has its unique patterns.
 1. GA mostly falls in the South high-poverty cluster
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 -

Poverty Estimates, 2009: Georgia

School Age Children In Poverty by School District



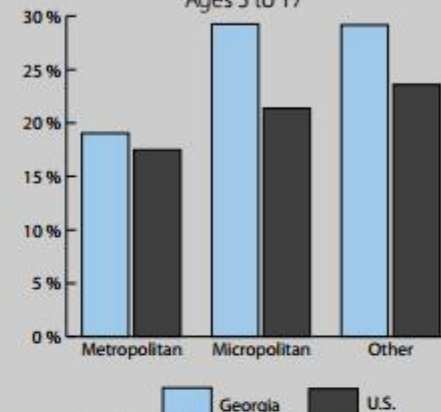
Source: U.S. Census Bureau, Small Area Income and Poverty Estimates (SAIPE) Program, Dec. 2010

0 20 Miles

Unified and Elementary School District boundaries are as of January 1, 2010

Poverty by Metropolitan Status

Children in Families
Ages 5 to 17

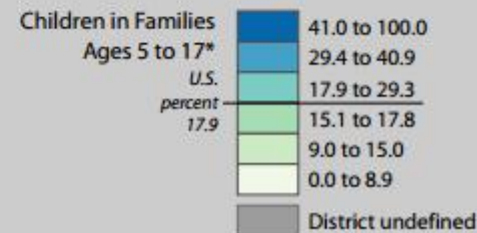


Metropolitan and micropolitan statistical areas defined by U.S. Office of Management and Budget as of Nov. 2008

Median Household Income



Percent in Poverty by School District

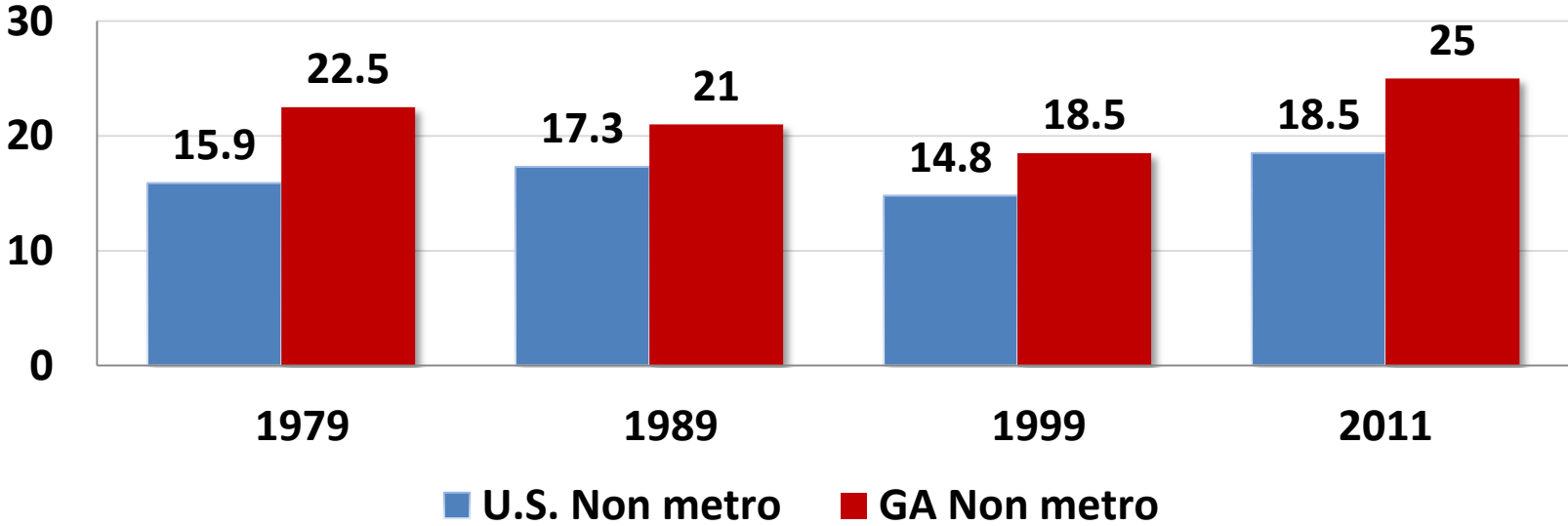
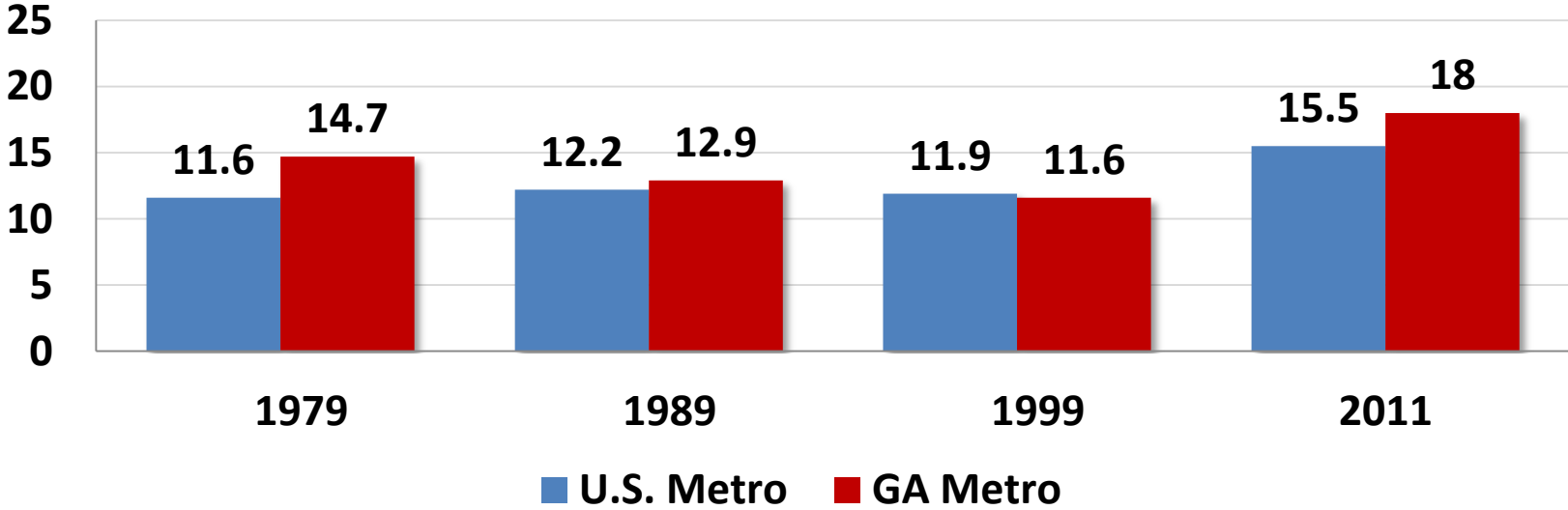


* Percentages shown are not true poverty rates as the denominator includes all children ages 5 to 17

Poverty in Georgia

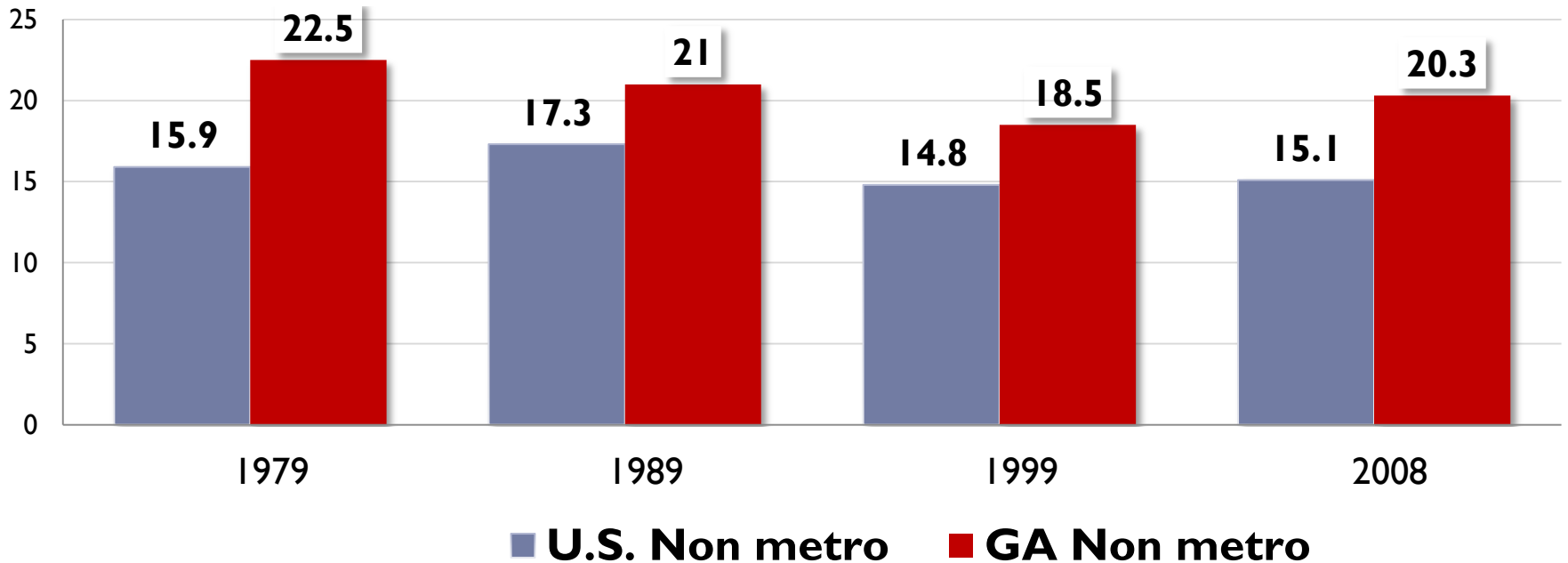
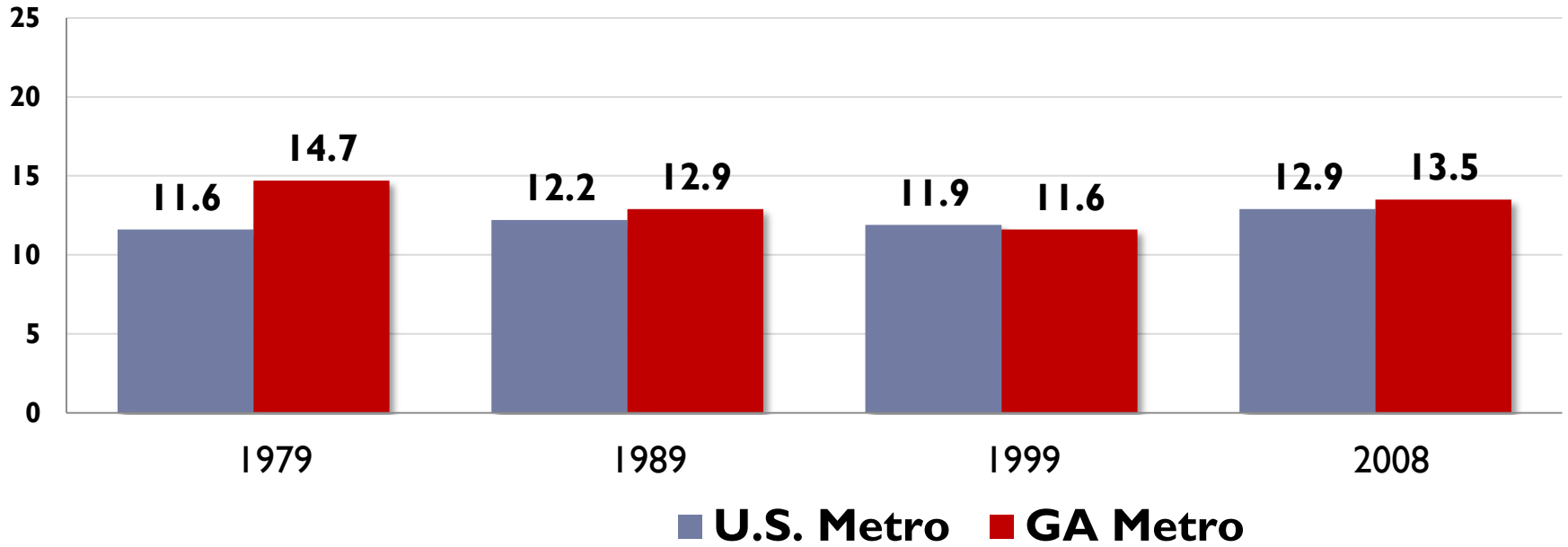
- ▶ **Georgia has its unique patterns.**
 1. GA mostly falls in the Southern high-poverty cluster
 2. Persistently high poverty in the Black Belt
 3. Atlanta metro area is vibrant and rich
 4. **Relative to US, GA poverty has not changed since 1979**
 - **Metro GA on average relative to the U.S. metro areas**
 - **Nonmetro GA higher poverty rate compared to the U.S.**
 - **However, GA poverty rates have increased more than the U.S. since the Great Recession.**

1979-2011 Poverty Rates: Metropolitan and Nonmetro U.S. and GA



Source: USDA, Economic Research Service.

1979-2008 Poverty Rates: Metropolitan and Nonmetro



Rural Poverty Research

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)

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** (Ihlanfeldt and Sjoquist, 1998).
 - ▶ Public transport is inadequate
 - ▶ Discrimination, segregation & zoning limit suburban moves
 - ▶ Does not require racial explanations for this argument.
- ▶ A **rural spatial mismatch of jobs** (Blumenberg and Shiki, 2004; Partridge and Rickman, 2006).
 - ▶ 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

Spatial Mismatch —cont

- ▶ **Argument against spatial mismatch theory is that it is really just ‘selectivity.’** (Davis et al., 2003)
 - ▶ Akin to arguments **against** place-based policy
 - ▶ E.g., the less able or less motivated **choose** to live in central cities or in rural high-poverty clusters
 - ▶ E.g., all the local jobs in the world won’t matter because this group generally won’t/can’t work

Spatial Mismatch —cont

- ▶ P&R (2008) 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 (1 sd) 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 (1 sd) jobs a year → corresponds to roughly 547 fewer people in poverty. (all else equal)
 - ▶ **Even stronger impact in high-poverty rural counties.**

Spatial Mismatch —cont

- ▶ P&R (2007) find that job growth attracts fewer new residents and helps retain long-term residents in more remote areas.
- ▶ Our conclusion is that place-based policy can be effective in trickling down.

Reducing Poverty

One place at a time

Reducing Poverty

- ▶ 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 Família** in Brazil or **Oportunidades** in Mexico pay families a subsidy when their children attend school and get basic healthcare.
 - ▶ In New York, **Opportunity NYC** is a privately-funded \$63 million pilot CCT program for children education, family health and adult workforce
 - ▶ If implemented in high-poverty places, this could break intergenerational poverty transmission and save more money than having schools to do everything.

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 and reward **residents**.
- ▶ State earned income tax credit
 - ▶ Federal EIC is successful—rewards ‘good’ behavior, Milton Friedman
 - ▶ State efforts are small: 25 states including DC (OH is the latest state). **GA does not have a state EITC.**
 - ▶ 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

Reducing Poverty —cont.

- ▶ **Generous tax credits above a certain base level**
 - ▶ 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.
 - ▶ Busso and Kline (2013) find large positive effects from the Enterprise Communities—though their methodology has been criticized (Hanson and Rohlin, 2011a, 2011b, 2013).

Reducing Poverty —cont.

Local Institutions

- ▶ **Regional collaboration to build wealth**
 - ▶ Regional governance stops unnecessary competition in metro areas and around regional growth centers.
 - ▶ Break local institutional barriers to broad-based growth (Glasmeier, and Farrigan. 2003).
- ▶ **Strong regional/local gov'ts that provide basic services such as infrastructure and police**
 - ▶ Capacity of local gov'ts is important (Labao et al., 2012)
- ▶ **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** (Partridge and Olfert, 2011).
 - ▶ Business Retention and Expansion
 - ▶ Support micro-enterprises and micro-lending
 - ▶ Support entrepreneurship
 - ▶ Tax incentives to bribe outside firms to come are ineffective
- ▶ Once expectations about a community change and good institutions are in place, a virtuous cycle of growth can begin.

Conclusions

Conclusions

- ▶ **Poverty is a corrosive condition that undermines communities and our economy.**
 - ▶ Concentrated poverty is especially damaging
- ▶ **Poverty can be reduced, not hopeless!**
 - ▶ Poverty reduction needs to be a higher priority.
- ▶ **Place-based policies can be used to complement people-based policies.**
 - ▶ Job growth works in poor places.

Thank you!

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

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

(under *presentations*)



DEPARTMENT OF
AGRICULTURAL, ENVIRONMENTAL,
AND DEVELOPMENT ECONOMICS

Swank Program in Rural-Urban Policy

2000 Poverty in Georgia – Updated UGA Fact sheet

	Georgia	United States
2009 Poverty Rate	16.5%	14.3%
2000 Population living in poverty	1,033,793	33,899,812
Poverty rate	12.99%	12.38%
Population living in poverty at 50% of the poverty rate	488,190	15,337,408
50% poverty rate	6.13%	5.60%
Population living in poverty at 150% of the poverty rate	1,719,251	57,320,149
150% poverty rate	21.60%	20.93%
Families living in poverty	210,138	6,620,945
Family poverty rate	9.88%	9.16%
Aggregate income deficit	\$1,546,905,600	\$47,983,703,500
Average family income deficit	\$7,361.38	\$7,247.26
Child poverty rate (Population under age 18 living in poverty)	17.14%	16.56%
% of the poverty population that is under 18 years of age	35.35%	34.65%
Elderly poverty rate (Population over 64 yrs old living in poverty)	13.55%	9.86%
% of the poverty population that is over 65 years of age	9.89%	9.70%

Twenty-four States Have Enacted EITCs, June 2009

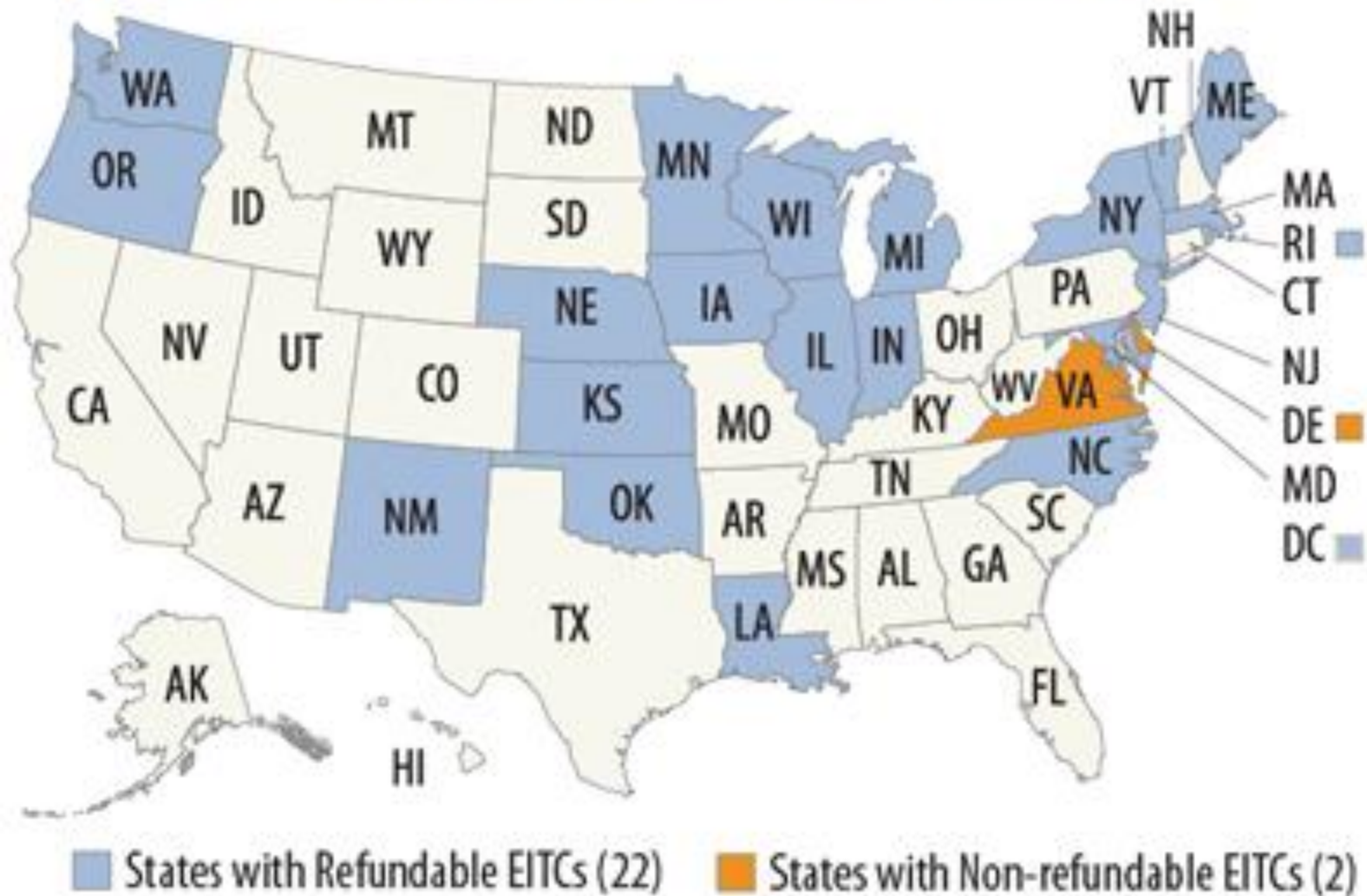
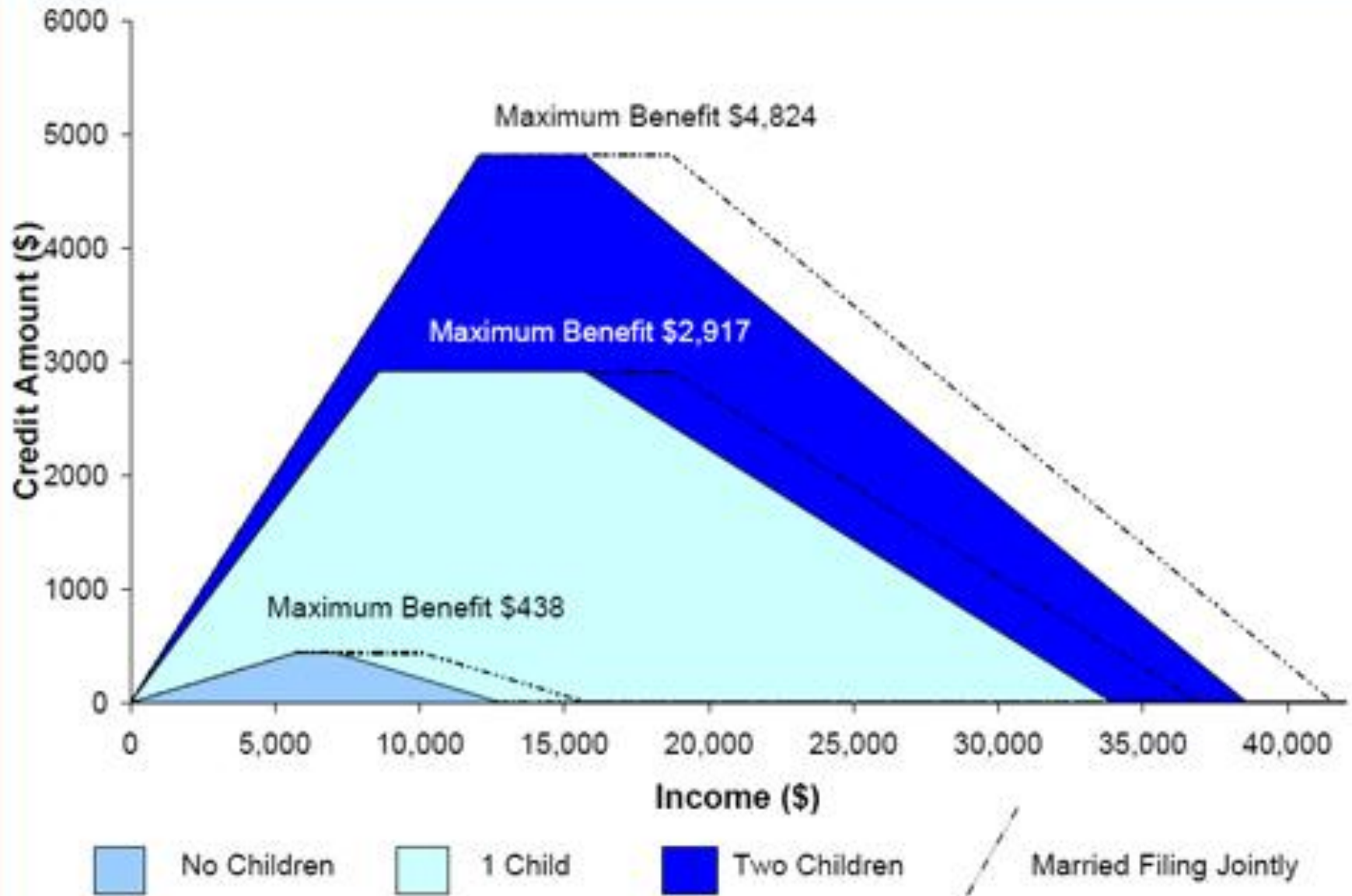


FIGURE 2. Value of Federal Earned Income Tax Credit, 2008



**TABLE 1:
STATE EARNED INCOME TAX CREDITS BASED ON THE
FEDERAL EITC**

State	Percentage of Federal Credit (Tax Year 2007 Except as Noted)	Refundable?	Workers Without Qualifying Children Eligible?
Delaware	20%	No	Yes
District of Columbia	35%	Yes	Yes
Indiana ^a	6%	Yes	Yes
Illinois	5%	Yes	Yes
Iowa	7%	Yes	Yes
Kansas	17%	Yes	Yes
Louisiana	3.5% (effective in 2008)	Yes	Yes
Maine	5%	No	Yes
Maryland ^b	20%	Yes	No
Massachusetts	15%	Yes	Yes
Michigan	10% (effective in 2008; to 20% in 2009)	Yes	Yes
Minnesota ^c	Average 33%	Yes	Yes
Nebraska	8% (to 10% in 2008)	Yes	Yes
New Jersey	20% (to 22.5% in 2008, 25% in 2009)	Yes	Yes
New Mexico	8%	Yes	Yes
New York ^d	30%	Yes	Yes
North Carolina ^e	3.5% (effective in 2008)	Yes	Yes
Oklahoma	5%	Yes	Yes
Oregon ^f	5% (to 6% in 2008)	Yes	Yes
Rhode Island	25%	Partially ^g	Yes
Vermont	32%	Yes	Yes
Virginia	20%	No	Yes