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# WORKING PAPER SERIES

## **Poverty, Policy and Place: How Poverty and Policies to Alleviate Poverty Are Shaped by Local Characteristics**

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How Poverty and Policies to Alleviate Poverty Are Shaped by Local Characteristics**

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## **I. Introduction**

The importance of the local environment – of “place” – regularly emerges in discussions about poverty and policy. For instance, an extended research conversation on urban underclass neighborhoods took place in the late 1980s and early 1990s (Wilson, 1987; Jencks and Peterson, 1991). Welfare reforms in the mid-1990s moved responsibility for the design of cash support and welfare-to-work programs back to the states, in part because states were thought to be better at judging the place-specific needs of their poor populations. A growing literature since the mid-1990s has analyzed the particular impact of welfare-to-work efforts in specific locations – in center cities (Allen and Kirby, 2000) or in rural locations (Weber, Duncan and Whitener, 2002). These literatures are often quite effective at analyzing the specific attributes of a given location and describing how these attributes interact with the causes of poverty and the effectiveness of anti-poverty policies.

This paper attempts to generalize from this place-specific literature and to provide a broader theoretical structure by which to think about how local characteristics might affect the nature of poverty and the effectiveness of anti-poverty policies within the United States. In other words, this paper categorizes the key elements of place that interact with poverty and policy. Such a discussion is a bit more familiar in the development literature, where the resource, demographic, and institutional attributes of a region are often discussed as important determinants of the prospects for long-term economic development (Schultz, 1991; Venables and Kanbur, 2003). The contribution of this paper is to provide an overview of the impact of these factors in the context of U.S. (first world) anti-poverty efforts.

In the remainder of this paper I discuss the potential importance of five attributes of a particular region or locality: its natural environment, its economic structure, its public and community institutions, its existing social norms and cultural environment, and the demographic characteristics of its population. I am interested in how these attributes might affect the nature of poverty within a locality and their implications for anti-poverty policy. Throughout the discussion, I emphasize the importance of a dynamic perspective. In the short run, these different characteristics are fixed. In the long run, many of these attributes are changeable. Even more important, long-term changes in these attributes are endogenous. Changes in economic development, population characteristics, or behavioral expectations all tend to be interrelated and simultaneous. This makes formal modeling of the role of “place” extremely difficult, and also makes it hard to empirically measure the impact of changes in one of these variables independent of the others because of the simultaneous causality between them. This paper does not try to develop formal models, but serves as a descriptive discussion of the importance of each of these variables separately and of their potential interrelationships.

## **II. The Role of the Natural Environment**

### *A. Important aspects of a region’s geography and natural resources*

One of the most important aspects of any particular place is its unique location and the specific environmental attributes that distinguish it from other locations. Among the attributes that might be particularly important are isolation, climate, and natural resources.

Isolation is created by limited accessibility or ease of travel from a location to specific markets or nearby population centers. This may be approximated by measures of physical distance, but may include more complex metrics that take account of geographic barriers that block travel (rivers or mountains, for instance).

Climate is also an element of the natural environment that can affect the economic trajectory of a location. Inhospitable climates – too hot, too cold, too rainy – make a place less attractive for settlement. Climate may determine the type of people and the type of businesses that are attracted to the area. Certain crops can't be grown in certain climates; some types of production are hindered by hot or cold weather.

Natural resources are also important. Areas with ore reserves or rich soils may grow in population and economic wealth more quickly. Similarly, close proximity to water power, to natural beauty, or to harvestable resources (timber or fisheries) can also determine the path of economic development.

By definition, cities have fewer problems related to natural environment. They are located where they are because (historically at least) these were accessible points near resources that people wanted. Hence, rural areas are rural because they lack at least some geographic advantages in comparison to more heavily settled regions.

*B. How does this matter for poverty?*

Geographic isolation creates distance from product markets. It can hinder economic development by limiting market exchange. More isolated populations are much more likely to be involved in subsistence agriculture, unable to benefit from the comparative advantage of trading for locally-hard-to-acquire commodities.



It is not only product markets that are hindered by geographic isolation, of course, but labor markets as well. Geographic isolation that keeps trade from coming in also keeps local inhabitants from leaving, particularly when geographic isolation is compounded by differences in language or custom. Fewer jobs and fewer job choices limit skills and lower wages. Greater geographic isolation is almost always associated with lower incomes and greater poverty.

The climate and natural resources in an area often determine the type of industries and markets that do emerge. Communities are created because they are near particular natural resources, and the industries associated with the use of these resources arrive first. Communities with particular resources that could be used to support multiple economic enterprises (such as a natural port or available water power) are much more likely to develop mixed economies than are communities with single-use resources (such as rich prairie soil). The economic structure of a locality is closely linked with the nature of poverty in the locality, as I discuss below. To the extent that economic structure is dependent upon natural resources and particular geographic features, these two attributes interact.<sup>1</sup>

The importance of natural environment as a determinant of poverty within a community has declined over time. Modern transportation and communication methods have reduced geographic isolation as freeways, airports, and the internet make even remote areas more accessible. Similarly, the importance of climate has declined as new technologies evolve for climate control. For instance, the advent of air-conditioning has dramatically altered the relative attractiveness of the south and southwest for business

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<sup>1</sup> Rural Sociological Society (1993, Chapter 3) provides a longer discussion of how spatial location and economic development interact.

and residential location in the United States. In short, while the natural environment has historically been highly important in determining the relative impoverishment of some communities, its role will probably be less important in the years ahead.

*C. What does this mean for policy?*

The effectiveness of anti-poverty policies may be shaped by the different geographic advantages or disadvantages within an area. In geographically isolated communities, anti-poverty policy may be most importantly focused on reducing that isolation by building roads, subsidizing infrastructure, or other activities. Indeed, an effort to provide anti-poverty services before this infrastructure is available may fail. For instance, the implementation of effective welfare-to-work policies in both central city and rural areas of the United States required attention to home-to-job transportation issues. Work expense subsidies to transportation costs have been an important component of welfare-to-work efforts (Nightingale, 1997; Duncan, Whitener, and Weber, 2002, Chapter 16).

When the primary economic base of a community relies on nearby natural resources, this can result in single-industry economies, or a predominance of particular types of industries and jobs. As discussed in the next section, the economic structure of a community can be important in determining which anti-poverty efforts are most useful or needed, and can also heavily influence the opportunities for mobility out of poverty by local residents.

In short, the geographic attributes of an area set the environmental context that helps or hinders economic development. Places that are more isolated or that have fewer natural advantages are likely to have fewer economic opportunities, leading to smaller

and poorer populations. Policies designed to mitigate these environmental disadvantages and encourage greater economic growth may be more effective at reducing poverty in the long run than policies designed to address immediate income shortfalls.

### **III. The Role of Economic Structure**

#### *A. Important aspects of economic structure*

The economic structure of a locality is reflected in its mix of industries and job opportunities. Economic structure determines entry level opportunities as well as opportunities for promotion, income growth, and career development. Skill demands and the opportunities for wage growth vary across industry and occupation.

Economic structure and the skills of the local work force are jointly determined. Areas with few skilled workers will attract only less skilled jobs; younger workers who perceive only less skilled job opportunities will not pursue higher education. Observers are often concerned with the effect of economic structure on worker investments; in the long run, it may be just as important to pay attention to the effect of worker characteristics on industry location.

The vulnerability of a local economy to business fluctuations is also linked to economic structure. Some industries, such as manufacturing, are historically more affected by the economic cycle, with greater variation in production and employment. Some industries have historically been more affected by technological change or economic restructuring due to changes in trade patterns. In general, areas that rely heavily upon only one industry for employment are much more vulnerable to major

economic disruption, should that industry experience market changes.<sup>2</sup> Areas with a mix of industries and jobs are likely to be more “recession proof” and less devastated by changes in any one market.<sup>3</sup>

As noted above, economic structure is closely related to natural environment. An area’s geographic isolation or its natural resource availability, will affect the types of industries that locate there and the size of the local economy. Simply because of their smaller size, rural areas or small towns typically have more limited job opportunities and are more likely to be heavily reliant upon one industry, such as agriculture, fishing, mining, or one major local employer.<sup>4</sup>

#### *B. What Does this Mean for Poverty?*

The mix of job opportunities within a locality defines its wage and income opportunities. If the local economy is dominated by businesses that primarily utilize lower-skilled workers, the adult population will be less-skilled; those persons who wish to acquire more education and earn higher wages are likely to leave. Even controlling for skill mix, however, some industries have lower wages than others. Economists have long noted the presence of industry wage differentials, which appear to exist even after all differences in skill and management are controlled for (Allen, 1995; Borjas and Ramey, 2000). Within rural areas, for instance, rural wages appear to be lower both because a higher share of available jobs are low-skilled and low wage (reflecting the lower skill

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<sup>2</sup> Duncan (1999) provides a description of how economic restructuring in small towns with a limited economic base can perpetuate poverty.

<sup>3</sup> One type of economic cyclicality is annual seasonality. Many areas that rely upon seasonal industries (tourism, fisheries, agriculture) experience seasonal fluctuations in job availability (Brady, et. al., 2002.)

<sup>4</sup> Rural Sociological Society (1993, Chapter 4) summarizes research on why natural resource-dependent communities are often poor.

levels in the rural population) and because rural areas tend to attract industries with lower wage levels, even holding skill constant (Gibbs, 2002).

The available jobs in an area (particularly the jobs held by parents and older siblings) create a set of expectations among children. As discussed below in the section on social norms and expectations, those who foresee only limited earning opportunities are less likely to invest in education. Young adults whose ambitions or abilities are greater are likely to move out of the area. Hence, if the local economy provides only limited job opportunities, this can reinforce lower skills both by limiting educational ambitions and by creating selectivity in who stays in town. Places with limited job opportunities are more likely to have older, less mobile, and lower-income residents.

Local economic opportunities not only affect the probability that native residents will stay or leave a region, but they can also affect in-migration of non-natives. New migrants are heavily drawn from more mobile populations; for instance, they are likely to be younger. The U.S. has long been a target for international migrants from around the world. Particularly in the past few decades, immigration has been high into the U.S. These new immigrant populations are actively seeking job opportunities and areas with expanding economic opportunities are more likely to attract them. Once some critical number of persons from a particular ethnic national background have arrived, their very presence in an area will attract new migrants from that same background. Thus locations become magnets for migration among a particular ethnic or national group. As an area selectively attracts (or loses) persons with specific demographic characteristics, these population changes in turn affect future economic opportunities and the attractiveness of the area to new business location.

Because the economic structure of an area is closely linked to its overall wealth and income levels, this in turn affects the wealth available to the local public sector. Areas with more limited jobs and lower wages typically have a lower tax base as well. This can lead to poorer schools, poorer health care, or limited public services. As we discuss further in the next section on public and community institutions, more limited capacity within the public sector can also help perpetuate poverty and limit economic mobility.

### *C. What Does This Mean for Anti-poverty Policies?*

Many anti-poverty programs are harder to operate effectively in areas with a limited set of industries and jobs. Programs focusing on job placement or job-finding are likely to be less successful in places where private sector job opportunities are limited. Programs that focus on raising educational attainment may be stymied if local teenagers see little opportunity for better local jobs if they invest in greater educational effort.

This suggests that public sector investment in job-creating activities might have greater anti-poverty effects in some areas than in others. For instance the location of public facilities (such as prisons) in isolated rural areas with few other job options may have much greater anti-poverty effects than if such facilities are sited in urban areas already rich with a range of job opportunities.

Transitional assistance to those who experience job loss due to economic restructuring may also be of more value in areas where other job opportunities are more limited. When there are fewer jobs available, it takes longer to find the next job. This is particularly true if large numbers of people are displaced from jobs when the primary

local industry experiences economic difficulties.<sup>5</sup> It is exactly these locations that might benefit most from extended unemployment insurance payments, or targeted job loss assistance such as is provided by programs like Trade Adjustment Assistance. In rural areas with limited alternative employment options, support for unemployed and displaced workers may need to be differently designed as well as available for a longer period of time.

While cash assistance programs can help subsidize incomes and may provide important anti-poverty aid to displaced workers and their families, it can also induce them to stay in their current location. In situations where economic restructuring has permanently lowered long-term employment opportunities in a region, one may want to structure assistance programs to encourage geographic mobility.

In regions with limited economic opportunities the education system can play an important role in assisting economic mobility, providing information on job and career opportunities to children and adolescents beyond those they observe among the adults in their community. Access to low-cost schooling past high school (for instance, a nearby community college) may also be important. Of course, strategies to encourage educational investment in poor communities are likely to increase outmigration as well.

Anti-poverty strategies that encourage geographic mobility among young or relatively more advantaged populations may raise their incomes. These strategies remain controversial, however, since they also can accelerate economic decline within the poor area itself as an older and less mobile population is left behind.<sup>6</sup> Ideally, if the economic structure of a region provides a limited set of opportunities, one would prefer to expand

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<sup>5</sup> See Stevens (1997) for a discussion of the effects of job displacement on long-term earnings loss.

<sup>6</sup> For a discussion of place-based versus mobility strategies, see Hughes and Steinberg (1992) or Buss (2001).

the economic base within a region and develop a broader mix of job and wage options. This is hard to accomplish, however. In his review of the research on state and local economic development efforts, Bartik (1991) notes that “Empirical evidence...suggests that the benefits and costs of state and local economic development policies will often be close.” There is no cheap or easy way to alter an area’s economic structure in the short term through public policy. Over time, improving the skill base of local workers may be as effective in attracting a broader mix of jobs as any direct effort to manipulate industry location through tax incentives or subsidies.

#### **IV. The Role of Public and Community Institutions**

##### *A. Important aspects of public and community institutions*

Public and community institutions are those organizations that operate within the community in order to assure its effective functioning. These include the standard set of locally-operated and publicly funded institutions such as police and fire forces, the mayor’s office, the road commission, or the park commission. It also includes those public institutions in a community that may be at least partially funded and controlled from outside the community, such as the court system, the educational system, public assistance programs, or utility/communication systems. In addition, there are typically a host of not-for-profit community organizations that exist outside of both the public and the private sector but which can deeply impact a community, including churches, youth organizations (YMCA, Boy Scouts and Girl Scouts), and fraternal or ethnic organizations (the American Legion, the local Italian-American club, the Lion’s club).



These public and community organizations often help a community function more effectively. They create and enforce a framework of rules about appropriate individual behavior, enforcing property rights and civil conduct codes as well as reinforcing social norms (discussed more in the next section). They “grease the wheels” within which economic institutions operate. I mention here a few of the key attributes of these organizations that can deeply affect a community and its economic opportunities.

The presence of public sector institutions and community institutions is a sign of organization and order within a community. These institutions indicate a willingness among residents to work with each other on common goals. When public institutions function effectively, they can create a network of associations and connections that determine economic and social relationships among residents. When such trust breaks down – such as in situations of civil war -- these public institutions devolve into chaos and are unable to operate effectively.

The openness and incorruptibility of public and community institutions is equally important. Public institutions can be highly developed and effective, yet also be highly authoritarian and controlled by a community elite (defined by wealth, by ethnic background, by race, etc). This can affect the goals of these institutions and determine whose interests they serve and how they serve them. Complete control by one particular group in the community, or corrupt operating procedures that allow bribery and side-payments, can lead to their “capture” by special interests that have the power or the funding to subvert public activities to their own personal benefit.

The extent to which local institutions are integrated with non-local institutions is also important. Integration with state or national organizations may be correlated with

geographic isolation or economic structure. The more unique the community – the more distant from other communities or the more dominated by a particular industry – the less likely that the community has extensive voice or representation in non-local public institutions (such as the state legislature) whose rules and activities have authority within the community. Of course, even if local political institutions are not integrated into larger political structures, other local institutions may be highly integrated into larger organizations (such as a local branch of the union, or the local Catholic church). The integration of local institutions with non-local organizations can be useful when it links local institutions with outside agents and larger professional and political agendas that assist local effectiveness; under some circumstances, such linkages can be dysfunctional if the aims of the larger institutions are inconsistent with the needs of the local community.

There are many factors that determine the effectiveness and impact of local governments or community organizations. Only a few are mentioned here. As discussed next, these institutions are important since they both influence the development of economic opportunities within a locality and they are responsible for the actual operation of any anti-poverty efforts.

#### *B. What Does This Mean for Poverty?*

Public and community organizations can have a range of effects on economic opportunities within a community. An effective public sector with well-operating local government can help attract businesses and stimulate economic development. Public and community institutions can also help create the community amenities (good schools, nice parks, family and community activities) that attract in-migration.

Furthermore, effective public and community institutions often help raise concern about problems of poverty within a community. Schoolteachers see the problems of poverty among their children; mayors court votes among low-income voters by promising improved services; churches educate their members about the needy in their city. The more that local poverty is seen as a problem, the more likely that it will be addressed through explicit policies.

The role of these institutions can be negative as well as positive, however. Public and community institutions, particularly when they are less open, may reinforce class patterns and social norms. Local communities have found many creative ways (both legal and illegal) to limit political participation, economic opportunities, and community voice among disfavored groups.

Community organizations often play a role in the lives of poor families, providing an alternative message to that which they receive elsewhere. Churches or youth programs may instill a sense of possibility or ambition among lower-income youth; these programs can provide mentoring and role models to young people. Some of these institutions offer opportunities for greater mixing among income and occupational groups than occurs within the workplace, providing job networks and role models.

### *C. What Does This Mean for Anti-poverty Policies?*

The absence of good public services within a poor community -- poor schools, inadequate health care, bad roads, limited policing -- increases the depth and misery associated with poverty and makes it highly likely that poverty will continue. Without a public infrastructure that enforces minimum requirements for housing, health, and education, individuals and families in poverty live more desperate and dangerous lives.

These services improve the lives of all residents, but may matter more for the poor than for those who can purchase at least some of these services on the private market.

The design and implementation of effective anti-poverty policies – whether job programs or cash assistance programs – requires an effectively functioning public sector. Legislation that mandates subsidies or services to the poor is only as effective as the local government’s ability and willingness to implement it. In isolated rural regions where government has little presence, people may remain unaware of available services or unable to access them. In areas where government serves the interests of only a limited group of people, parts of the population may be excluded from assistance. For instance, local welfare offices in the southern states typically made it extremely difficult for African American women to receive welfare payments in the 1950s and 1960s (Lieberman, 1998), one reason why the 1967 welfare reforms gave the Federal government more authority to define and enforce eligibility rules.

Well-functioning community institutions often interact closely with public institutions. They frequently impact public policy in at least two ways. First, they can raise concern about poverty and create citizen pressure to improve public services for the poor. Churches or civic improvement organizations have often played this role. Second, community institutions can provide a supplemental set of anti-poverty programs. Churches run soup kitchens or food pantries; local youth programs provide tutoring and mentoring programs; and community fraternal organizations organize donation drives to provide toys or food for needy families at the holidays. At times, these organizations run anti-poverty programs that are closely linked with the public sector. Many homeless programs, health programs, foster care programs, or other major outreach efforts by not-

for-profit organizations are run as public-private partnerships, with substantial public funding and regulation (Blank, 1997, Chapter 5).

Governmental institutions often play a unique mediating role with both private sector and community organizations. They work with local businesses, helping create the regulatory and tax environment in which private sector institutions function. The public sector also helps prepare workers for jobs through the educational system. At the same time, public institutions assist populations who lack job opportunities in the private sector, operating public assistance and safety net programs for low-income families, offering job search assistance, or enforcing community health and housing standards. In this role the public sector often works closely with informal and community organizations.

## **V. The Role of Social Norms or Expectations**

### *A. What are social norms?*

I use the term “social norms” to discuss learned behavioral preferences. Think of a social norm as a behavioral pattern (that is, a commonly observed behavior) whose development is based on past common experiences, such as learned economic incentives or common history within an ethnic/race/gender group, and which is enforced by informal social sanctions. Economists have historically been reluctant to use this term, preferring to assume preferences are fixed among adults, with no real model of exactly how such preferences are acquired or shaped.<sup>7</sup> Yet, outside economics the concept of social norms occurs frequently. Within economics, more recent attention to the overlap

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<sup>7</sup> The use of “expectations” within economics is a way to imbed learning over time into economic models of behavior, although expectations in economic models usually refer to short-term constrained knowledge about a particular fact rather than long-term imbedded preferences.

between psychology and economics has increased interest in applying the concept of “social norms” within an economic model.<sup>8</sup>

Even within older economic literatures, however, the role of social norms is recognized, although typically in a way that takes such norms as fixed constraints. For instance, the economics literature discusses the role of “stigmatized behavior.” Stigmatized behavior is costly because of the disapproval it engenders among one’s friends or family, even though there might be economic incentives to engage in this behavior. Cash welfare usage is often discussed as stigmatized (Moffitt, 1983). Discriminatory behavior may be an example of a disfavored group being stigmatized when workers or employers view it as “costly” to hire or work with someone from that group, regardless of his/her actual economic productivity on the job (Becker, 1971). In another example, empirical efforts to explain long-term changes in marriage and fertility behavior have focused on the effect of changes in the economic incentives for marriage; unfortunately, these empirical efforts tend to explain only a small fraction of the long-term marriage trends. A common explanation is that divorce, cohabitation, and single parenting have become much less stigmatized among certain populations over time (Mare and Winship, 1991).

Key decisions, such as schooling choices and job choices, may be heavily affected by social norms. Girls who grow up in communities where early marriage is viewed as an attractive and expected option are much more likely to marry and have children at a young age, making them less likely to invest in schooling. Boys who live in communities

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<sup>8</sup> This is particularly true in studies of developing economies. For instance, see Fehr and Fischbacher (2004), or Henrich, et. al. (2004). For examples of the attention given to social norms outside economics, see Bendor and Swistak (2001) in sociology or Sober and Wilson (1997) in psychology.

with extensive gang activity are more likely to view crime and underground economic activities as socially approved options within their peer group.

More isolated and rural communities may have stronger social norms. This may be because they are better able to maintain a stable class structure; those who are dissatisfied must move far away to get out. As a result, there may be strong expectations about who fits in which “place” in the community. This can influence adult behavior and expectations of children, and provides an example of how the natural environment, the economic structure and the social environment can all interact.

### *B. What Does this Mean for Poverty?*

Having a sense of social “place” can provide self-identity, but it can also limit opportunities. Ethnographic research provides ample evidence of situations where children from a particular group (black children, female children, children of Appalachian miners) are taught by their parents as well as their schoolteachers that only certain life choices and job options are open to them. Greater poverty by race or ethnicity or gender is at least partially due to the self-fulfilling social norms of racism or sexism that lower children’s expectations so that they don’t protest their more limited educational or job opportunities.<sup>9</sup>

Past history matters a great deal in the development of social norms. Parents’ learned experiences may be transmitted to children (even when they are no longer accurate in a changing world). This is a reason for high correlations between parent and child outcomes, and can help explain low economic mobility among the children of poor

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<sup>9</sup> For instance, Duncan (1999) provides a detailed snapshot of three poor rural communities and emphasizes the role of strong class structures and different learned social norms for different groups of children and young adults. Sullivan (1989) discusses the roles of learned norms in an ethnographic look at three populations of high school males in an urban community in New York City.

families, particularly in more geographically or socially isolated communities. For instance, daughters of unwed mothers appears to be more likely to themselves become unwed mothers, even after controlling as fully as possible for all other variables (Gottschalk, 1992).

The structure of the economy and of community organizations will reflect social norms; norms are shaped by economic and community structure and institutions are also shaped by social norms. Structures of class or racial segregation will be reflected not only in the social realm, but in the economic and public realm as well. In a community where heavy alcohol use is considered “normal”, cheap beer will be more readily available at local bars and liquor stores will dominate the streetcorner. Joining the group at the local bar will be a primary form of social interaction. In this situation, abstaining from alcohol means much more than just not drinking; it also means cutting oneself off from regular patterns of social interaction among friends or family. Policies designed to address behavioral issues (unwed parenting, substance abuse, engagement with crime) within low income populations must grapple with the fact that these behaviors may reflect social pressures that are not easily eliminated.

### *C. What Does this Mean for Anti-Poverty Policy?*

The importance of social norms suggests that economic incentives are likely to be far more effective when they reinforce existing social norms (providing people with an even stronger reason to do something they already think is a good idea) than if they fight against social norms. For instance, many low-income persons – including single mothers – state that they consider marriage an attractive choice (Karney, Garvan and Thomas, 2003; Oklahoma State University, 2002). This finding has increased support for policies



designed to encourage marriage and discourage divorce, by suggesting that such policies are working in the same direction as social norms and preferences, and may be more likely to achieve positive effects.

Programs that try to encourage behavior that goes against prevailing social norms may have small effects. When trying to break down socially undesirable social norms (gang behavior, teenage unwed pregnancy), some argue that policy should move beyond creating incentives and instead try to enforce new behavioral norms. Work mandates can be viewed as an effort to break through behavioral norms among single mothers who needed more than a gentle nudge to enter the labor market (Mead, 1986). Similarly, time-limited welfare, while clearly providing an economic incentive to leave welfare quickly, can also be viewed as an effort to “restigmatize” welfare use by sending the message that long-term welfare use is deviant and unapproved.

Because social norms are based upon a history of shared experiences, when certain demographic groups are more prevalent among the poor in an area (i.e., single mothers, elderly, specific immigrant groups), then some policies may be more effective than others. This is because different groups might have different expectations about themselves and their relationship to work or to public assistance. For instance, Moffitt (1983) finds that welfare programs are more stigmatizing and “costly” to participate in for some demographic groups. Such differences in behavioral responses reinforce the need for local anti-poverty agencies to know the local population and to target their efforts effectively.

If peer effects and role models matter because they help shape social norms, then socially isolated high-poverty neighborhoods are doubly dangerous. Not only should we

be concerned about those who are poor in these locations today, but we should be concerned that these areas may perpetuate poverty tomorrow through their effects on the behavior and attitudes of today's children (Wilson, 1987). If one believes that social structures are more rigid and class divisions greater in more isolated rural communities, this suggests that poverty will be more intransigent and less responsive to policy efforts in those communities. Unvoiced assumptions about appropriate roles and expectations – on the part of the non-poor as well as the poor – may sabotage efforts at job training, job placement, or educational improvement.

These concerns have led to an ongoing discussion about the value of policies designed to move people out of high-poverty socially isolated neighborhoods. Evidence from the Gatreux program in Chicago indicates that children from high poverty areas did better when placed in mixed-income neighborhoods and higher-achieving schools (Rosenbaum, 1995). To test these results more rigorously, HUD recently launched a series of random assignment social experiments known as Moving to Opportunity (MTO) for Fair Housing Demonstration, designed to test the effect of relocation out of urban poor neighborhoods. Evidence from the MTO studies are still being analyzed; the interim results indicate that moving into lower poverty neighborhoods was associated with improved housing and safety, improved adult and child health, but had mixed effects on youth delinquency. There appear to be insignificant effects on adult earnings or teen educational achievement (Orr, et. al., 2003).

Policies themselves provide an historical context of learned experiences and can affect social norms over time. This is the claim of Murray (1984) and others who argue that welfare policies have caused “dependence” – reduced the stigma (and the economic

cost) of unwed motherhood and created a presumption that welfare receipt is a long-term viable source of income rather than a short-term source of emergency assistance. This argument suggests there is a trade-off between a more generous social safety net and the higher social and governmental costs of long-term welfare dependence. Such claims have provoked a vigorous debate about the extent to which cash assistance results in perverse incentive effects that reduce labor force participation or increase fertility. Measuring these incentive effects is difficult to do in a completely persuasive way; different approaches result in larger or smaller effects, which means that both sides have been able to find evidence to support their viewpoint.<sup>10</sup>

If social norms and future expectations are important, this can significantly complicate the work of a policymaker. Social norms may increase the variability in response among different populations to the same program. Social norms may persuade some people that policies should be more mandatory than voluntary. And concern with changing social norms and learned “dependence” are a key reason why some argue against an extensive public assistance system for low-income adults who are able to work.

## **VI. The Role of the Demographic Characteristics of the Population**

### *A. Are demographic characteristics unique factors?*

The demographic characteristics of a local population are almost entirely dependent upon past history and hence highly responsive to the factors identified above. If local industry attracts certain migrant groups, these groups will become prevalent in the population. As noted above, locations with only lower-skilled jobs are likely to have

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<sup>10</sup> Moffitt (1992) reviews the social science evidence on these issues.

large concentrations of less-skilled and older workers, as younger workers are drawn out of the community to other opportunities. Over time, the accrued population in an area reflects its past economic and social history.

Yet, the characteristics of one's neighbors can have reinforcing effects on behavior, through role model and peer group effects. In many cases, demographic characteristics are closely linked to the issue of social norms. We care about demographic characteristics because they often signal differences in behavioral traits or in economic or social expectations. Knowing that a community has a large Hispanic population is important not because Hispanics are inherently different from all other peoples, but because specific Hispanic groups tend to have common cultural histories that make it more likely that a Hispanic community will exhibit certain patterns of language, family formation, and job connections.

#### *B. What Does this Mean for Poverty?*

A high share of research articles about poverty in specific locations focus on the question, "Who are the poor in this location?" For instance, there are detailed descriptions of the rural poor available (e.g., Duncan, 1992). While these are useful and interesting as descriptive pieces of work, if one believes that over time demographic characteristics in an area respond to the environment, economic opportunities, and social norms, then such research contributes little to the causal question, "Why are these people poor?" Hence, a conclusion such as "high concentrations of poverty in rural America are due to the large number of elderly who have remained in small agricultural communities" is less useful than research that seeks to understand the processes that led younger folks to flee these areas.

Because poor areas tend to be populated by those with fewer choices, demographic descriptions of these areas provide insight into which populations are least mobile or face the fewest choices in U.S. society. In rural areas, this is often older persons, who have limited access to or skills for non-farm living. In American cities, the housing segregation faced by African Americans gave them little choice about where they lived. And since limited resources can restrict the opportunity for mobility, knowing something about the demographics of long-term poor areas can tell us something about who was poor in the last generation as well.

### *B. What Does This Mean for Anti-Poverty Policy?*

Even if demographic characteristics provide little causal information about why a region is poor, such information might be highly important in determining effective anti-poverty policies. A characteristic such as age both relates to innate physical needs and to lifecourse needs, and tells the observer something about the services and the nature of anti-poverty programs that might be offered. Places with large poor elderly populations are likely to be in need of more health services than other locations, while job training programs are less likely to be useful. Poor places with a high birthrate are more likely to benefit from good schools and good health care programs aimed at children and pregnant mothers. It is not important to understand *why* a migrant population with high birthrates is living in an area, in order to determine the type of immediate services most useful to them.

In short, even if demographic characteristics provide little causal information, *per se*, about why people are poor, they are easily measured and observed. Because demographic characteristics are correlated with specific behavioral issues, they may

provide very useful signals about what types of policy are more likely to be useful and how they should be targeted.

## **V. Concluding Comments**

This paper has provided a condensed overview of some of the key reasons why the nature and character of poverty varies across different types of locations. Rural poverty is different because rural areas are more isolated, rural economies are different, the public and community organizations in rural communities operate differently, social norms in rural areas are different, and because rural populations are different.

While the natural environment is preset, all other factors in this list are endogenously determined. This typically makes it impossible to identify any “prime cause” behind poverty in an area...or any single silver bullet that will significantly lower poverty. Just as effective causal stories focus on the simultaneous role of multiple and interactive causal factors, so effective policy solutions require attention to multiple strategies. Economic development strategies aimed at bringing in a greater mix of employers should occur side-by-side with educational investment strategies. Cash or in-kind assistance to low-income families should occur along with efforts to increase job-seeking and discourage long-term welfare use. Anti-corruption efforts in the public sector, road-building projects, and mentoring projects run by local community organizations can all be part of an effective anti-poverty strategy in any particular region or community.

These multiple issues underscore the ongoing tension between local and more centralized anti-poverty efforts. Locally-designed efforts can take into account the

specific history, geography, and demographics that produced local poverty. But the very presence of higher poverty rates almost inevitably means that there are fewer local resources available for anti-poverty efforts. More centrally funded programs can provide anti-poverty opportunities that the local community itself could not fund, but centralized funders rightfully demand to monitor and control the use of their funds. The primary policy problem is to maintain the appropriate balance between local/central authority so that local authorities have an ability to utilize their own unique knowledge of the community and its needs in shaping programs, while central authorities have the ability to impose broad restrictions regarding effective evaluation and monitoring of program effectiveness.

Because local authorities will be more competent and/or more inclusive in some communities than in others, the appropriate local/central balance is probably different in different places. The difficulties of running place-specific policies from a central public authority make this almost impossible to accomplish. This is one argument for a mixture of federally-funded program options, among which local communities can pick and choose. Hence, in the U.S., communities can choose how much they participate in subsidized housing programs, or which options they select for designing their welfare-to-work programs. Those who believe local authorities are typically less competent or unrepresentative of their entire community (captured by special interests or elite racial or demographic groups) are likely to favor greater central control.

There has been a recent retreat from the trend toward greater federal involvement in anti-poverty programs that began in the 1930s. In the 1990s, welfare reform legislation “devolved” greater control over welfare to state governments, and a number of

states have in turn passed along greater control to local authorities as well. While the long-term impact of these changes are just beginning to be understood (Blank, 2002), there continues to be a lively conversation over which services and programs should be centrally funded and operated and which ones should have variable rules in different locations. One effect of these program changes has been renewed interest in studying poverty and policy in specific locations rather than in the nation as a whole, leading to new research that focuses on poverty within a state or within similar areas (such as rural poverty or central city poverty).

Ideally, one would like to move from a general discussion (as this paper provides) of how place and poverty might interact, to a body of knowledge that indicates which place-specific issues are highly important and should be taken into account in locally-designed anti-poverty strategies and which place-specific issues are less important. Only good research can tell us about the differential effectiveness of centralized anti-poverty strategies, such as national wage subsidies or health insurance programs, in comparison to more locally designed and controlled (and more locally funded) anti-poverty efforts.

For many years, economics research on poverty has largely focused on evaluating the aggregate national effects of more centralized programs, with little attention to regional variability in effectiveness. The recent policy changes, giving more authority to local and state governments in the design of programs, should be an impetus for more research that focuses on the effectiveness of locally-oriented programs or the differential effectiveness of centralized programs within different localities. The history and structure of a place is closely entwined with the needs of its residents. More attention to the role of place on poverty and anti-poverty policies is long overdue.



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