

THE RISE AND FALL OF URBAN POVERTY IN THE U.S. 1970 TO 2010

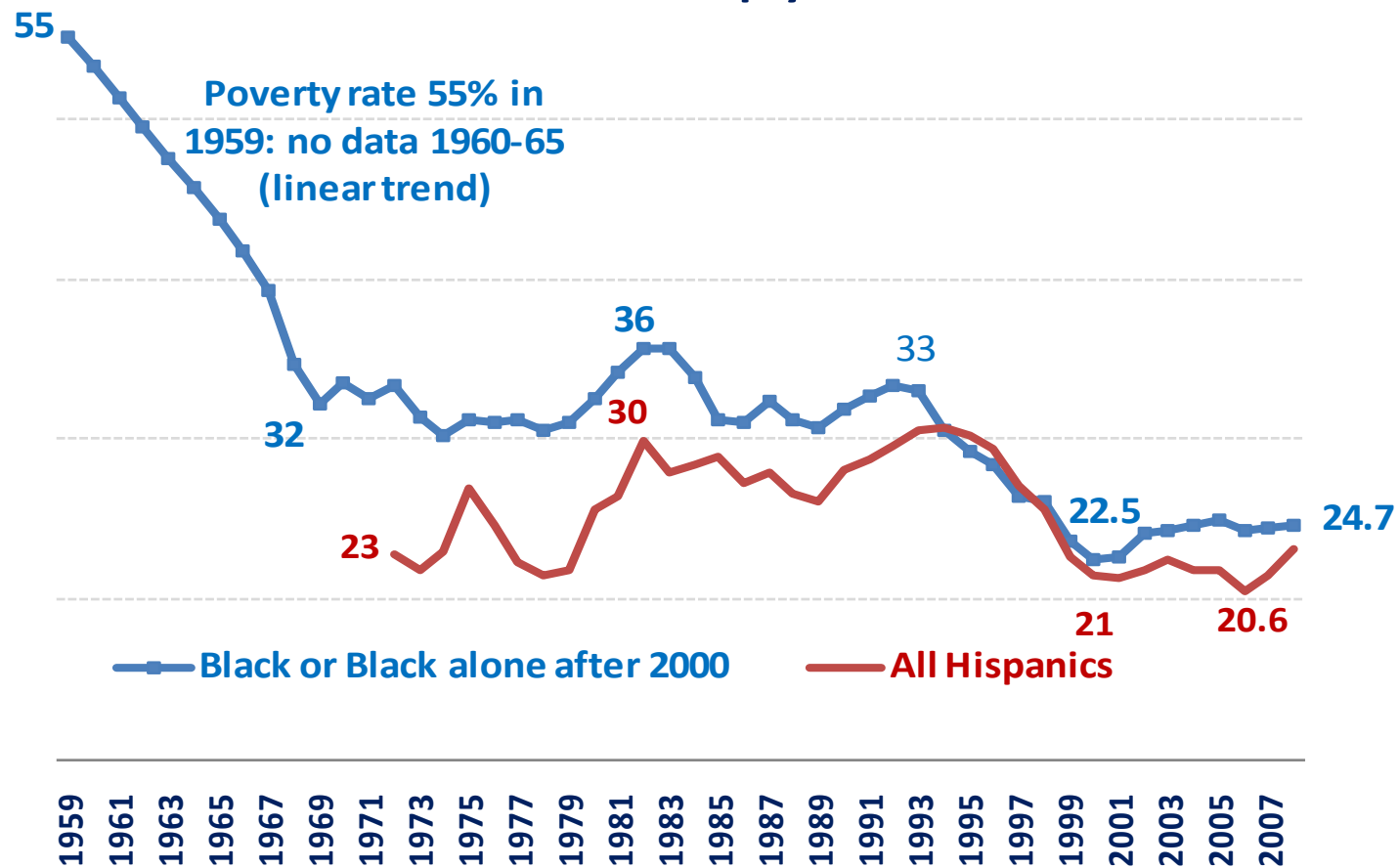
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Poverty lecture notes

Poverty in inner city neighborhoods rose sharply from 1970 to 1990 but still accounted for less than 15% of the poor of about 4 million— over 75% of population in underclass neighborhoods African American or Hispanic.

- In 1970, 1980 and 1990 the number of poor living in urban high poverty areas (census tracts with poverty rates over 40%) rose from 1.9 to 2.5 to 4 million persons, or from about 6% to 12% of poor persons.
- Two explanations for the rise of an “underclass” characterized by high poverty, crime, welfare dependency, high school drop out rates, etc.

After a sharp decline in 1960s, poverty reduction for non-whites stagnated 1970-93

Figure 8: Poverty rates for Hispanics and African Americans fell sharply in the 90s & 60s



Source: U.S. Bureau of the Census, CPS, Annual Social and Econ Supplements

In the 1980s urban poor were often referred to as the “underclass,”

- **William Julius Wilson describes the underclass as**
“Persons who lack training and skills and experience long-term unemployment or have dropped out of the workforce altogether; who are on long term public assistance; and who engage in street criminal activity and other forms of aberrant behavior”

Competing explanations for the rise of Urban Poverty:

- Bad behavior and culture leads to contagious neighborhood poverty and social deviance (Charles Murray, Robert Rector)
- Economic decline of cities leads to contagious neighborhood poverty and social deviance (W.J. Wilson and Paul Jargowsky).
- Common theme: welfare and public housing isolate and stigmatize the urban poor.

Murray and Rector emphasize:

- Decline of family values, falling marriage rates, rising out of wedlock birth rates
- Welfare rights movement of the late 1960s
- Civil rights and counter culture movements of the 1960s changed attitudes toward sex, marriage and work.

Implication: culture and education must be changed via government policy, education and anti-crime measures—family caps on welfare, reduce spending on housing, etc.

Wilson's "Truly disadvantaged" Hypothesis

- Decline of manufacturing in some Northeastern cities during the 1960s (NY, Newark, Detroit, Chicago, etc.).
- Skills-jobs mismatch for less educated blacks (fixed: average education levels now 13 years black workers).
- Spatial Jobs mismatch: low wage jobs grew more rapidly in the suburbs— public transportation to suburbs lacking.
- Marriage rates fell because of fewer eligible men in ghetto neighborhoods— welfare dependency increased.
- Reduced housing discrimination so black/hispanic middle class moves to the suburbs, adding to social isolation in cities

Wilson mapped unemployment against poverty to illustrate his “lack of marriageable men argument....

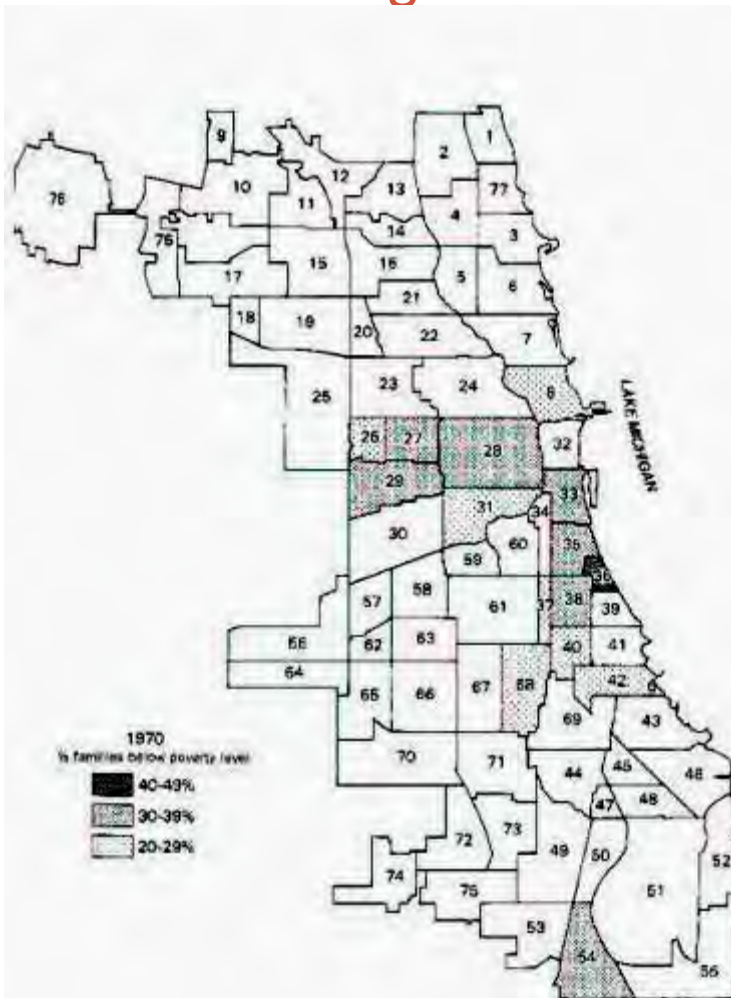


Figure 2.3 Chicago Community Poverty Areas, 1970. Source: Local Community Fact Book: Chicago Metropolitan Area, 1970 and 1990 (Chicago: Chicago Review Press, 1984).

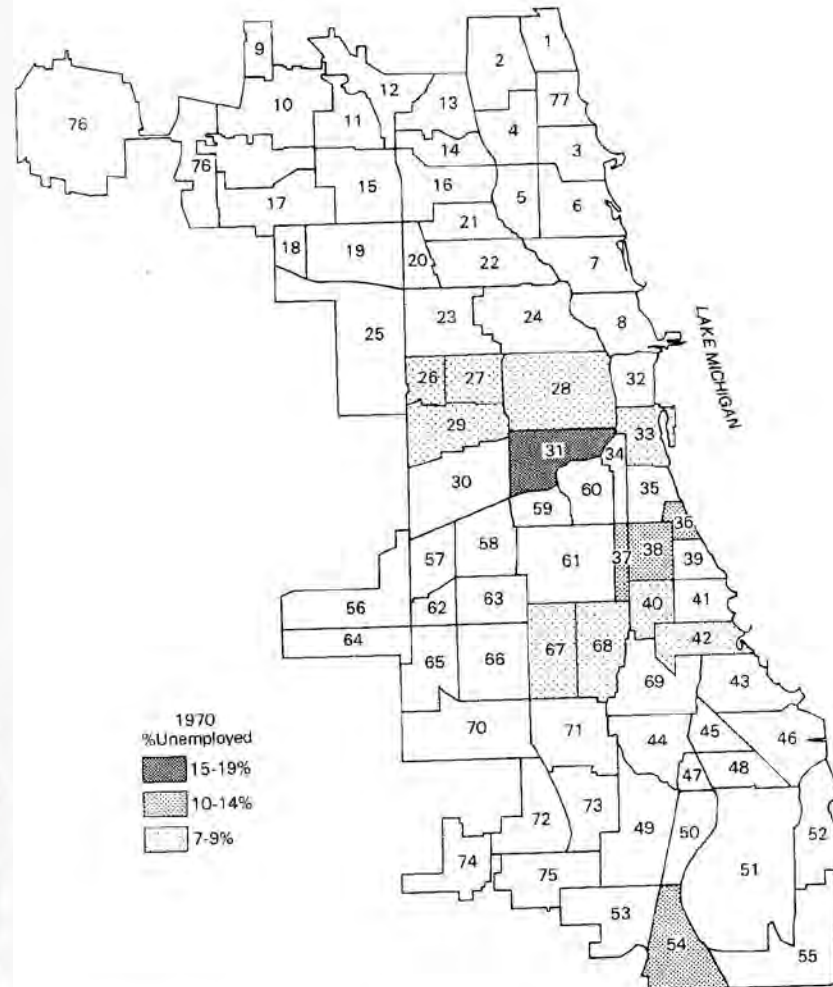


Figure 2.5. Unemployment rates in Chicago Community Areas, 1970. Source: see fig. 2.3.

Evidence that neighborhoods “cause poverty” (or do people move to poor neighborhoods because they are poor?)

- Gautereaux program relocated 342 Chicago public housing residents all over the city and suburbs: those sent to suburbs found better jobs, schools and community services.
- Crane: high poverty risk behavior: teenage pregnancy and high school dropout rates higher in bad neighborhoods adjusting for income etc.

Evidence neighborhood effects are weak and can be overcome with counseling (to leave) and job opportunities elsewhere

- Sharp decline in urban Poverty and welfare caseloads during the late 1990s (see Jargowsky [“stunning progress, hidden problems...”](#))
- Jargowsky and Bain: a few cities dominate urban poverty— the decline of cities leads to urban poverty.
- Osterman: In Boston's tight labor 1980s labor market urban poverty fell (nationwide in the 1990s)
- Kathy Morgan and Eugene Lang— it did not take much (counseling and scholarships) to get some out of the “culture of poverty” or bad neighborhood...

Changes in housing policy helped reduce concentrated urban poverty too...

- Welfare reform: TANF ended long term welfare commitment to single mothers.
- Housing policy reform: large housing [projects torn down](#), replaced with lower density public housing; homeless shelters moved to the outer urban ring...([Angela Mooney](#))
- Housing subsidies switched to vouchers, section 8 rent subsidies can be used almost most everywhere but in the central cities...

Policies to reduce Urban Poverty & the underclass...

1. **Welfare reform:** reduced nonmarital births and welfare dramatically in the 1990s.
2. **Counseling/scholarships:** private sector efforts to help kids get access to college: [Kathy Morgan](#) and [Eugene Lang](#)
3. **Lower unemployment** and poverty in the 1990s especially among African and Hispanic Americans helped a lot.
4. **Reducing crime** reduces “Statistical discrimination”... [Wilson’s “new racism”](#): discrimination and social “profiling” by race diminishes, but zip code still matters...
5. **Changes in housing policy:** [large projects torn down](#), switch to rent vouchers (section 8) that can be used in suburbs or anywhere in city...where jobs and good schools available

Does Globalization hurt the Urban Poor most?

See Wilson: Urban Poverty in a Global Economy...")

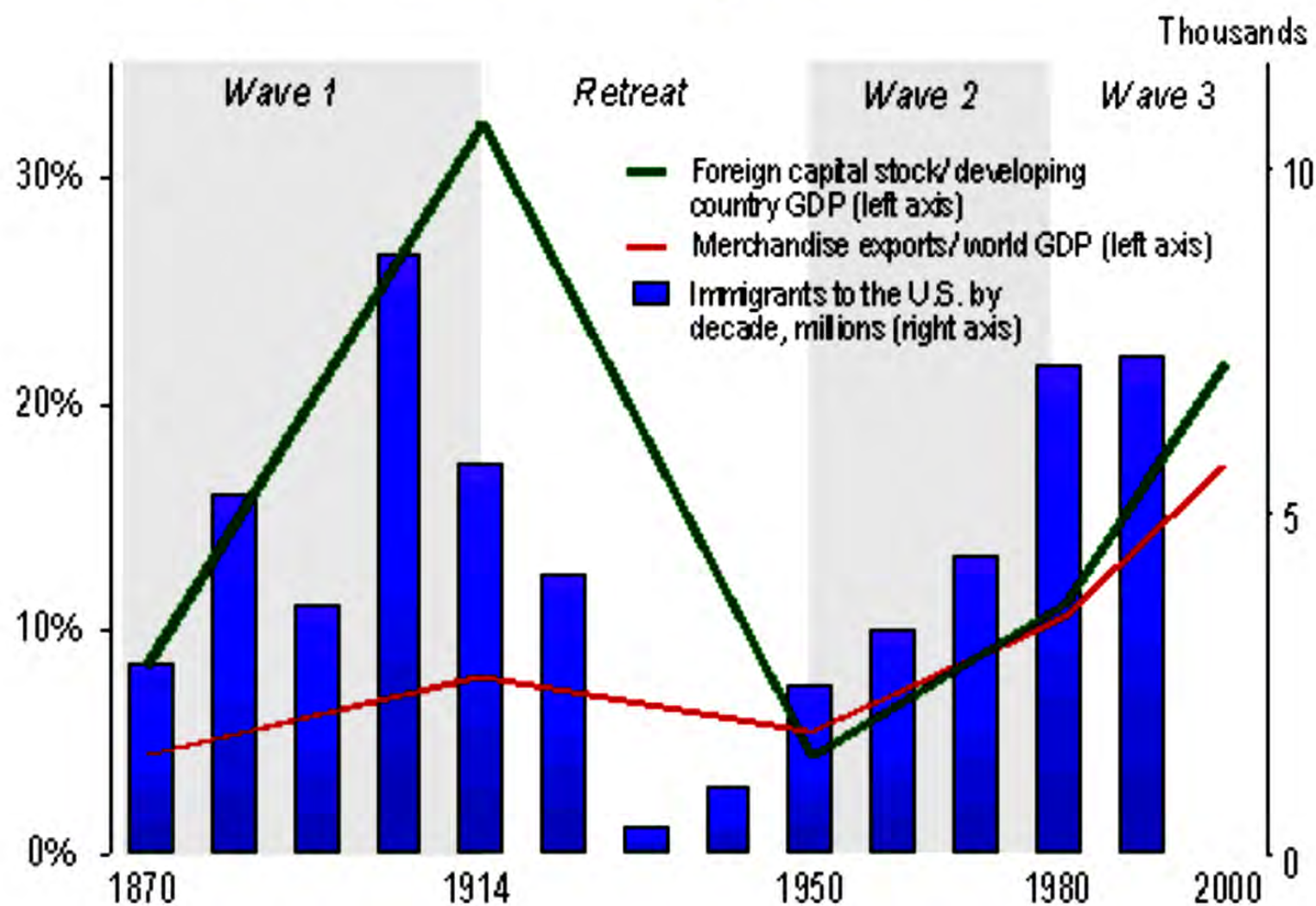
- Immigration of unskilled workers creates competition for low wage jobs.
- Globalization brings cheap imports also reducing low wage manufacturing jobs (but cheap imports help the poor, “the Wal-Mart effect.”)
- Education premium increases due to skills bias of services, but language is a big advantage.
- Inequality increased in the 1990s, but urban poverty and non-white unemployment also fell sharply, and this increase ignores cheap imports...

The 1990s Globalization experiment

- During the 1990s **trade, immigration and capital flows** rose dramatically partly due to trade agreements such as the WTO, NAFTA, CAFTA, AGOA and Caribbean Basin Initiative.
- Urban economy profoundly transformed by switch from manufacturing to services (see Fuentes, 2011)
- Many including WJ Wilson, 1998, *When Work Disappears...** predicted globalization would be hard on the U.S. workers and especially the poor, but it was not...

* William Julius Wilson, 1998, [When Work Disappears: New Implications for Race and Urban Poverty in the Global Economy](#), CASE Centre for Analysis of Social Exclusion CASE paper 17 London School of Economics November 1998 Houghton Street London WC2A 2AE

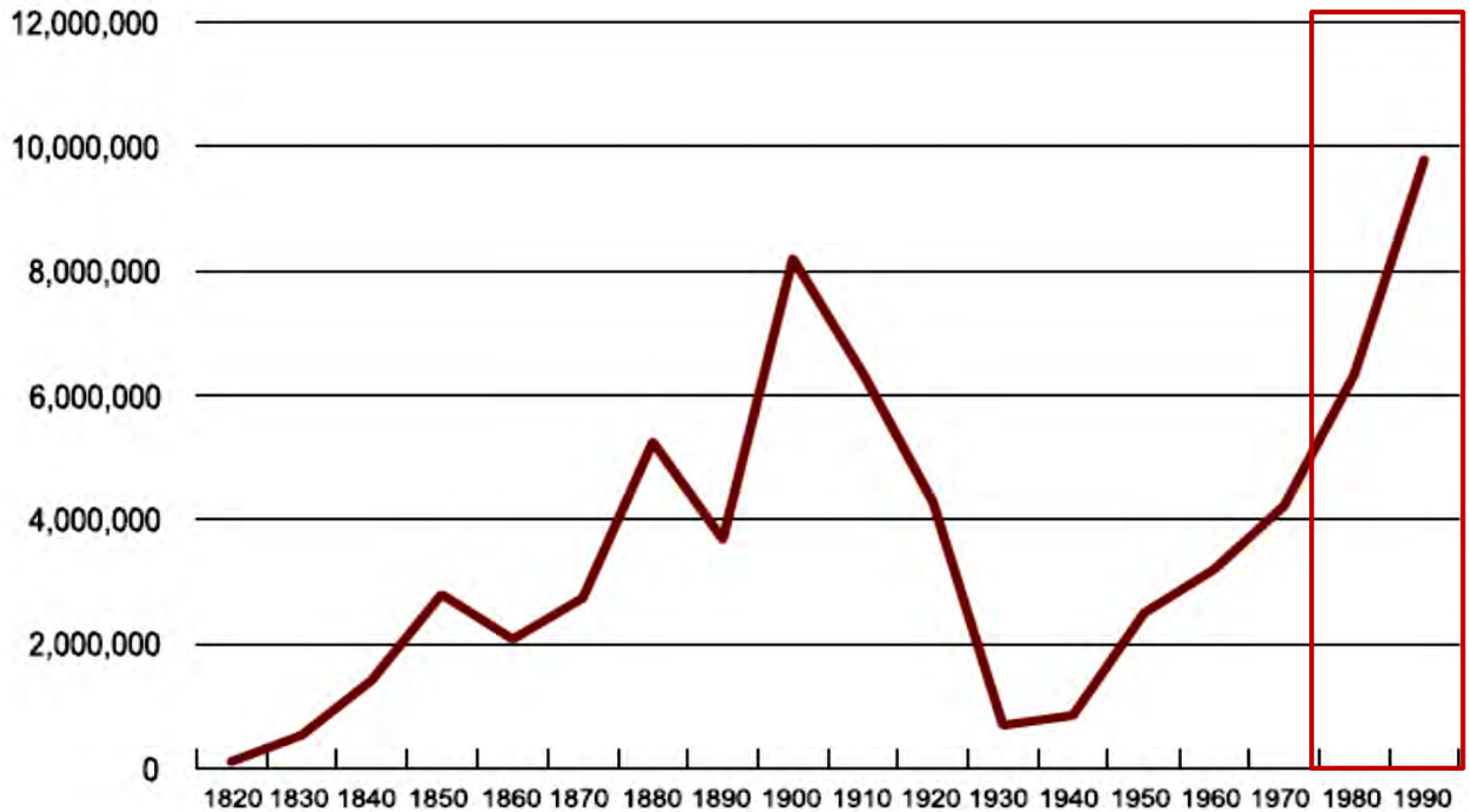
Three waves of globalization



Why globalization helped rather than hurt the poor in the 1990s...

1. Imports and of goods and workers alleviated shortages and sustained a record long boom so unemployment fell sharply from.
2. Welfare policy changed to encourage work and relocation out of high poverty urban areas...
3. Immigrant complements domestic workers competing at lowest and higher skill levels and tend to raise wages of native workers
4. Cheap imports of manufactures leave more to be spent on services: example cheap clothing...

Immigrants in the U.S. by Decade



Saiz (2005) [immigration and U.S. Cities \(Phil reserve bank\)](#)

1990s: the longest boom...

- ***The 1993-99 expansion was longest peacetime economic boom for U.S. economy ever, normally*** labor shortages and higher prices force the Fed to raise interest rates but this time shortages were met with more immigration (Mexican had Peso crisis) and cheap imports from Asia (also in crisis).
- In December 1996: Fed Chair Alan Greenspan complains of “irrational exuberance” propelling rising stock prices— ***(ex Fed governor Meyer says the Fed considered raising interest rates to cool the boom in 1997, but then currency crises hit Asia in 1997 and Russia, Brazil and Argentina in 1998.***
- Simultaneously, the internet/tech boom greatly increase demand for high skilled immigrants (including founder of Google)

What W.J. Wilson (and others) thought would happen...

- Cheap imports from China reduce U.S. light manufacturing jobs reducing job opportunities for less skilled workers...
- New immigrants and outsourcing take service jobs from less skilled workers
- Result: poverty will increase among most vulnerable groups, young unskilled workers, urban poor, single mothers...

Unemployment fell from almost 8% in 1993 to under 4% in 2000

Unemployment rate - Seasonally Adjusted ?



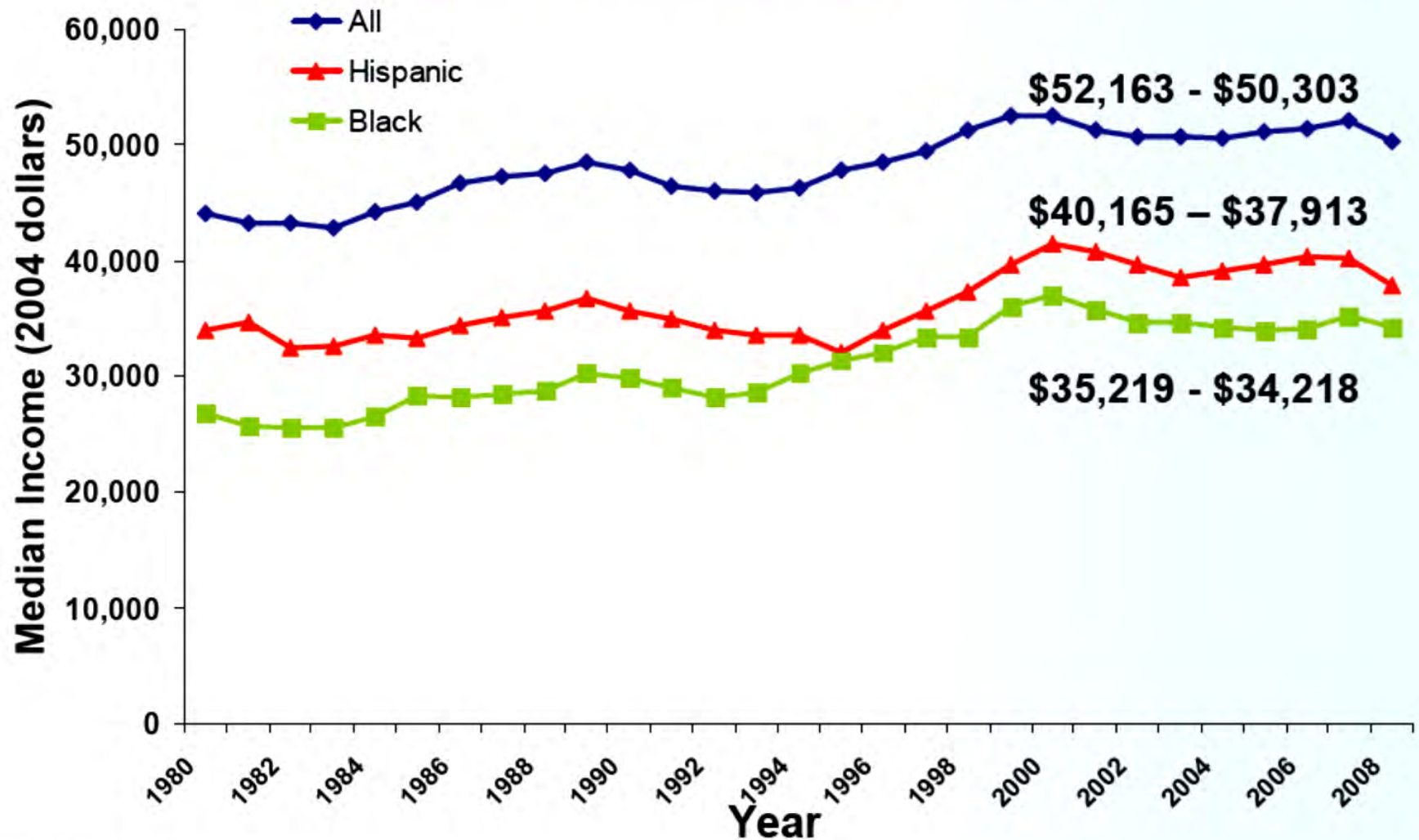
Data from U.S. Bureau of Labor Statistics Last updated: Jun 15, 2012

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What actually happened?

- Unemployment fell to lows not seen since the booming 1960s (under 4%)
- Urban concentrated poverty in high >40% poverty urban areas fell by one third (see Paul A. Jargowsky Stunning Progress hidden problems 2004)
- Poverty fell fastest among African and Hispanic groups – sharpest decline since 1960s driven by a sharp fall in unemployment (See 2000 CEA report)

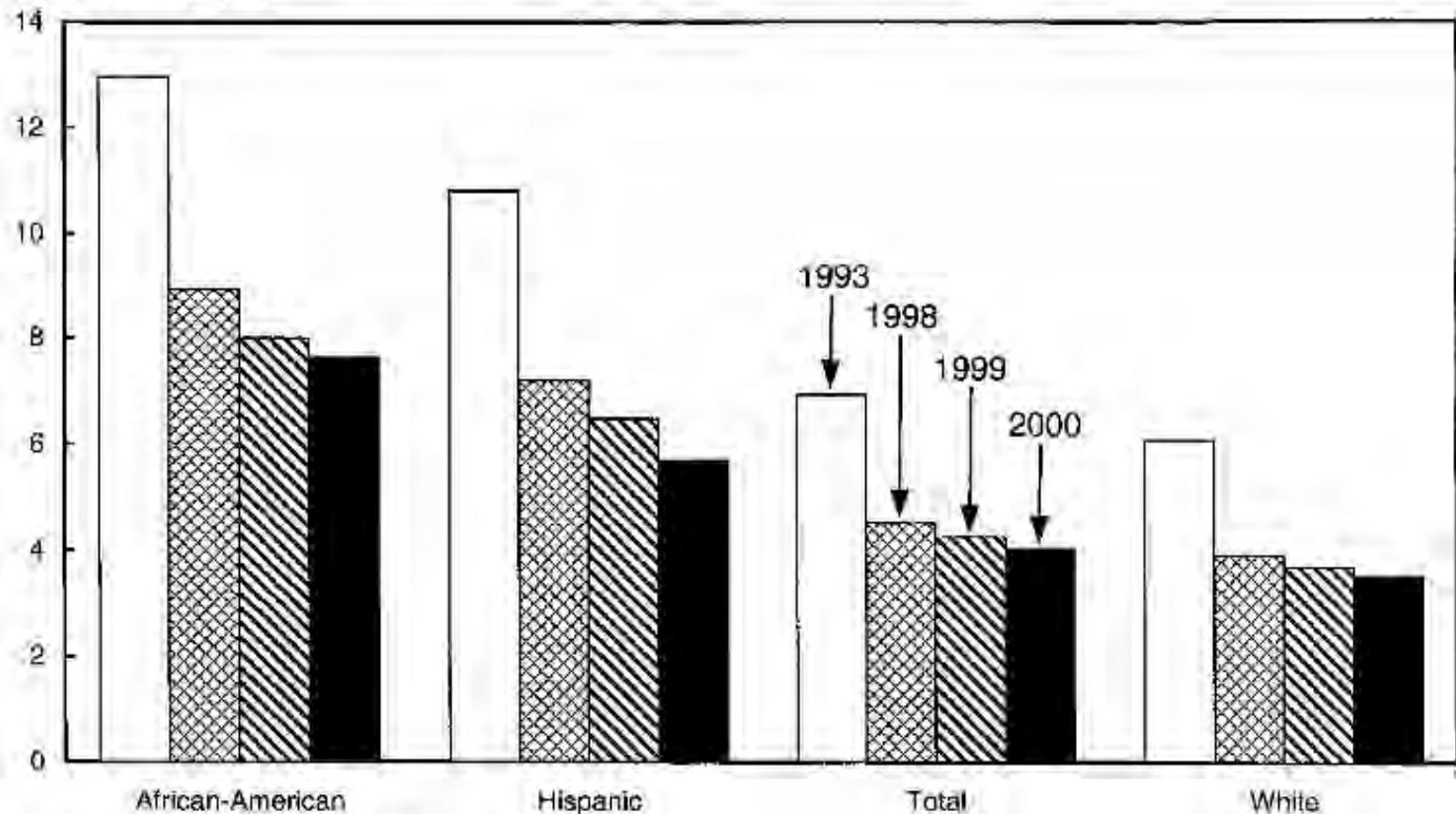
Median Income for All, Hispanic and Black Households, 1980 – 2008



Job opportunities grew after 1993, and the African-American and Hispanic unemployment rates reached record lows in 2000.

Chart 5-1 Unemployment Rates by Race and Hispanic Origin

Percent of labor force

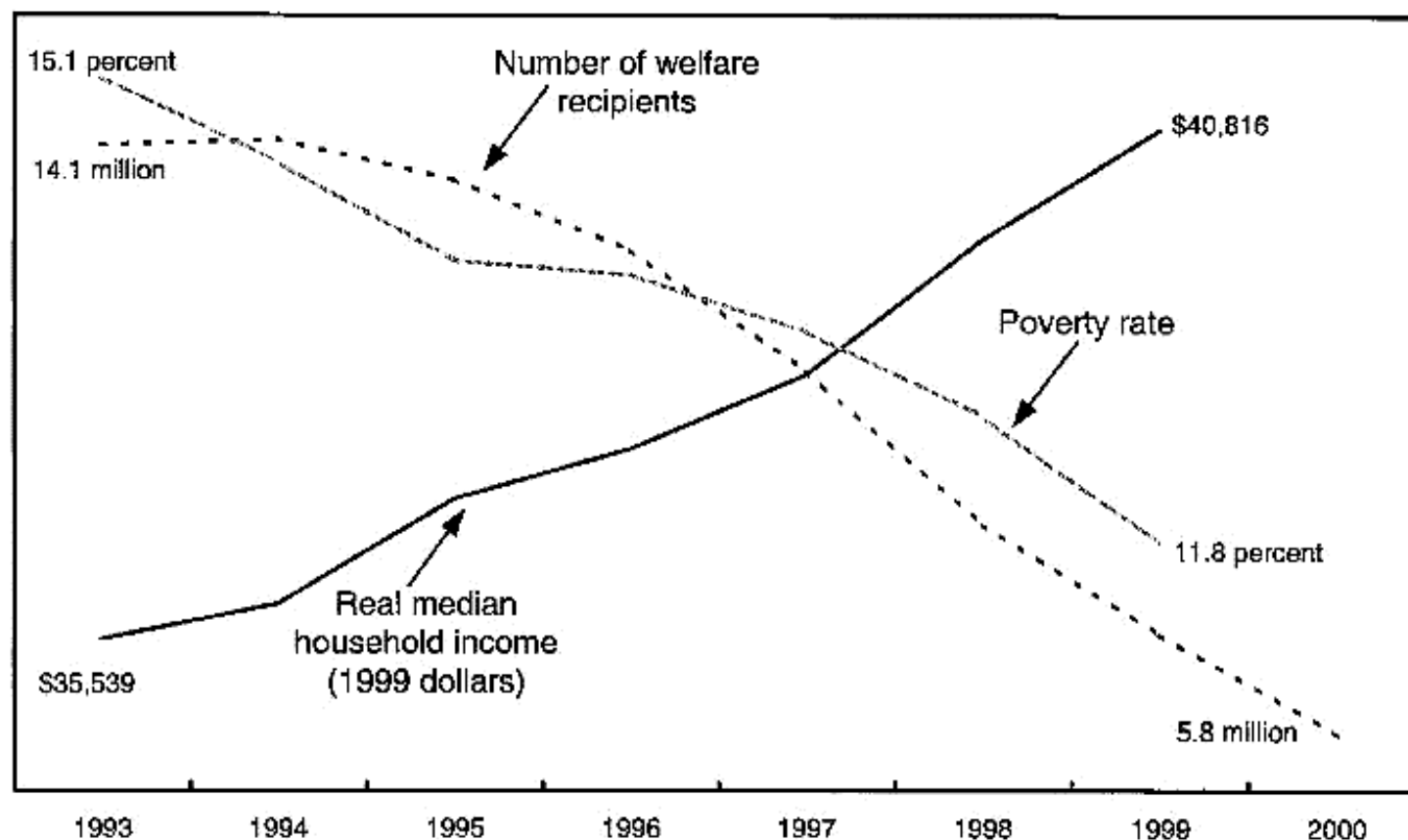


Note: Figures for 2000 are 11-month averages.

Source: Department of Labor (Bureau of Labor Statistics).

Source: U.S. CEA [Economic Report of the President 2000 Chapter 5](#).

Improvements in Income, Poverty, and Welfare Reciprocity



Note: Annual figure for welfare recipients is the average monthly number, except for 2000 which is the June number. Real income is computed using the CPI-U-RS.

Sources: Department of Commerce (Bureau of the Census) and Department of Health and Human Services.

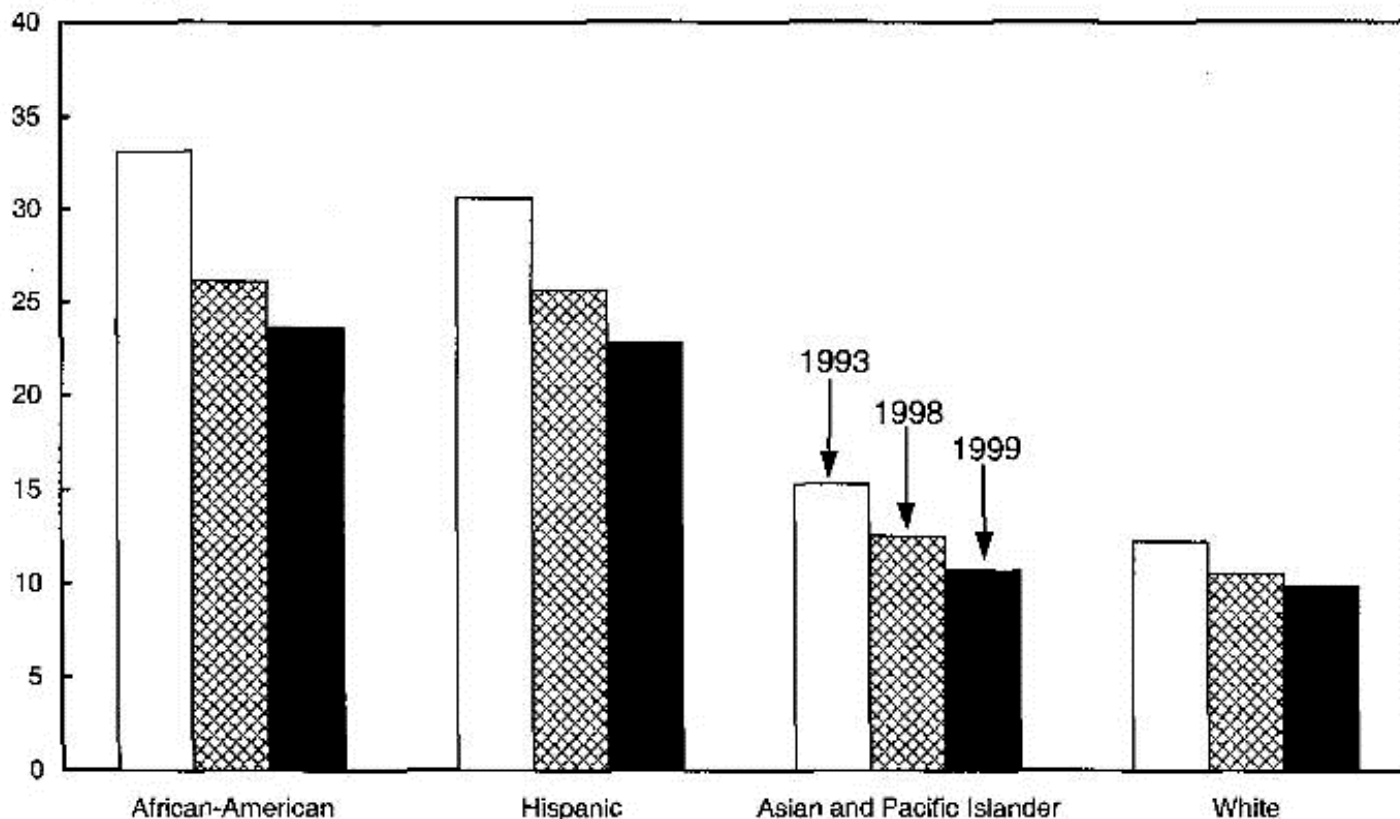
Strong economic growth since 1993 has raised incomes, lowered poverty, and helped reduce welfare rolls.

Source: U.S. CEA [Economic Report of the President 2000 Chapter 5](#).

Poverty rates fell for all measured racial and ethnic groups after 1993, with the largest declines for African Americans and Hispanics.

Chart 5-2 Poverty Rates by Race and Hispanic Origin

Percent of population

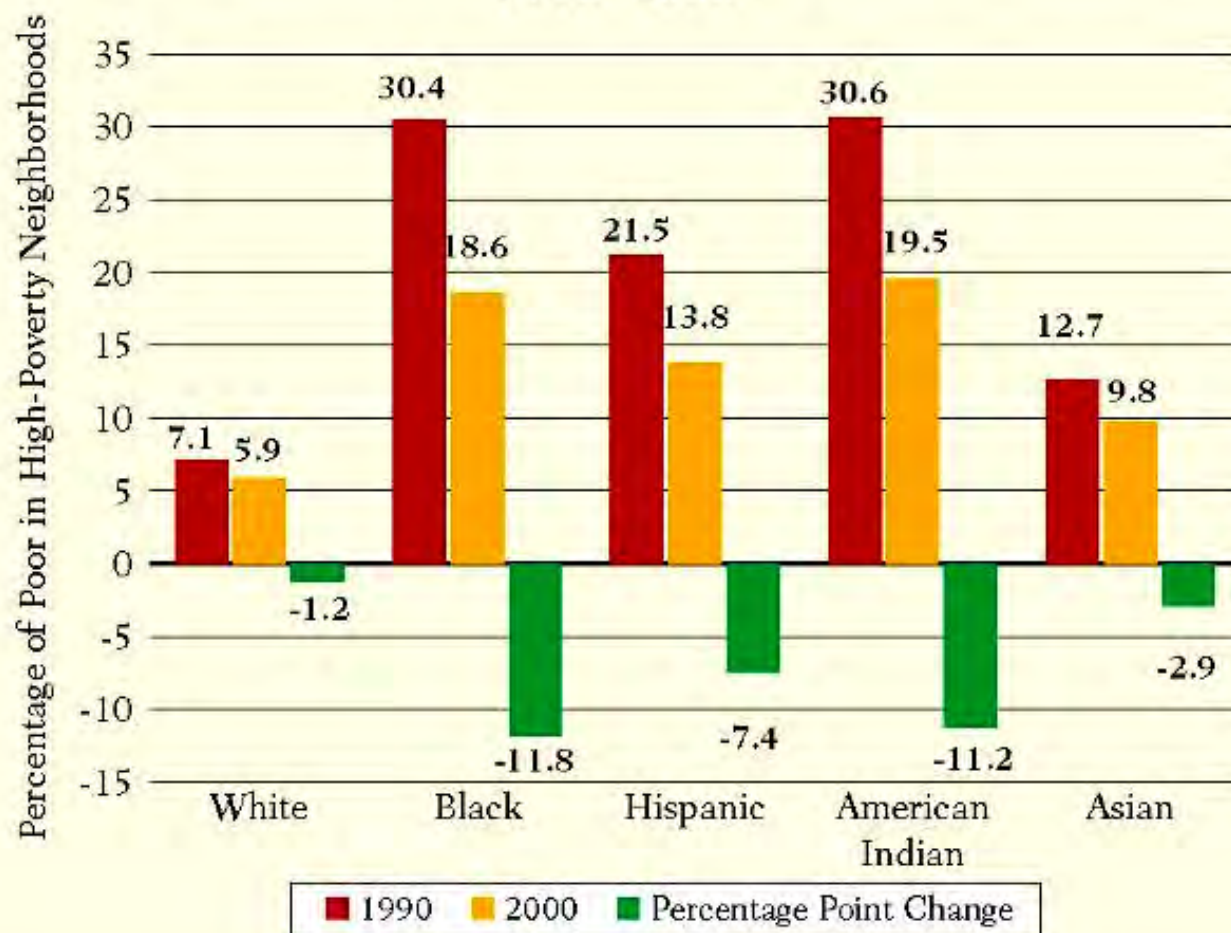


Source: Department of Commerce (Bureau of the Census).

Source: U.S. CEA Economic [Report of the President 2000 Chapter 5](#).

Poverty became less concentrated in urban high poverty areas...

Figure 8. Concentration of U.S. Poor by Race/Ethnicity, 1990–2000



Source: P. Jargowsky (2004) "[Stunning Progress, Hidden Problems](#)"

Welfare reform and demographic change also help reduce poverty

- 1996 welfare reform (TANF) & employment boom **reduced families on welfare by half...**
- Pre and post-transfer child poverty fell...as did poverty in female headed households.
- **Birth rates to single and teenage mothers** slow– and marriage rates stopped falling
- **Crime rates fell dramatically** in major cities

What about immigration?

- Cities that receive immigrants have higher average wages for natives (not foreign born) but more wage inequality (see Card and Saiz below)
- Skilled wage gap encourages more to stay in school by rewarding college degrees.
- Population increases in migrant center cities driving up rents, but not faster than wages (see David Card (2007) [Immigration and U.S. Cities](#) and Saiz (2005) [Immigration and American cities](#))

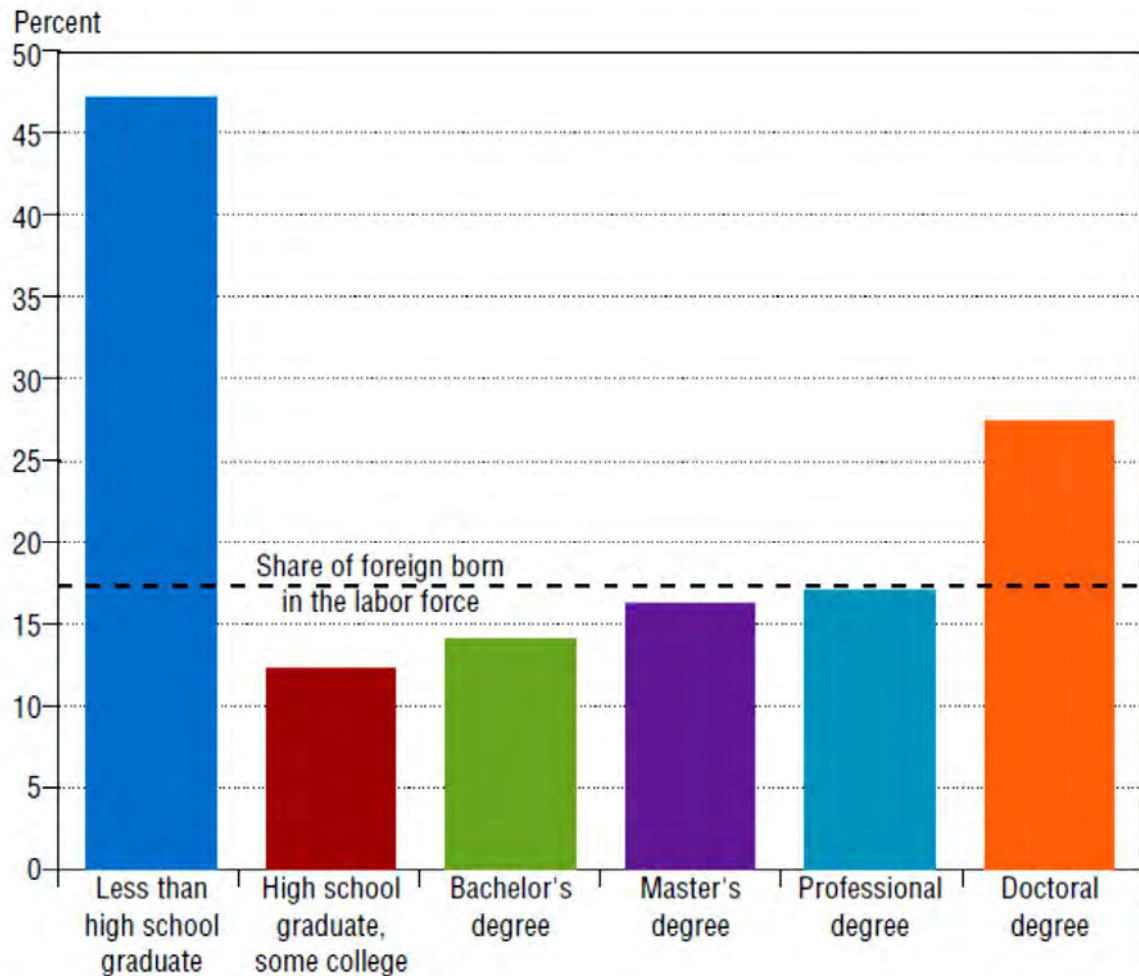
What about immigration II ?

- U.S. labor force expanding at both ends, but not in middle, what Autor (2011) calls polarization,
- High skilled immigrants increase U.S. competitiveness in key technology industry, Steve Jobs aside, many hi-tech firms founded/run by immigrants.
- Rising skill gap in wages encourages more to stay in school by rewarding college degrees.
- Population increases in migrant center cities driving up rents, but not faster than wages (see David Card (2007) Immigration and U.S. Cities and Saiz (2005) Immigration and American cities)

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Immigrant Workers Overrepresented at Extremes of the Education Distribution



NOTE: Percentage of foreign workers age 25 and over in the U.S. labor force by education.

SOURCE: 2009 American Community Survey.

See Dallas Fed,
2010, [From
Brawn to Brains,
how immigration
works for America](#)
Charts 2 and 3
page 7.

So why is immigration so unpopular?

- **Post 1990 migration shifted** from traditional entry cities (NY, LA, Miami, Chicago, etc.) to small communities, that never had many immigrants before (see [Audrey Singer, 2007](#)).
- **Racism or “peer effects”**: Movement of migrants into urban neighborhoods drives down housing values, leads native groups to move out (middle class flight as in Wilson’s truly disadvantaged).
- **School costs** (financed by property taxes not income taxes: migrants pay income and sales tax but rarely property taxes esp. 1st generation).
- **9/11 attack generated anti-immigrant sentiment**, not only against Muslim immigrants.

New immigrant “peer group” effects, David Card (2007)

“Nevertheless, there is strong evidence that many U.S. natives prefer to live in neighborhoods and school districts with fewer minorities and more high-income/highly-educated residents. Newly arriving immigrants pose a “peer group” effect that may partially offset or even completely reverse any positive labor market impacts.”

“One clear indicator of a reaction to this effect is the rise in measures of school segregation between white non-Hispanics and Hispanics in many large cities over the 1990s.”

My view is that such “peer effects” – whether driven by genuine concern about spillovers from neighbors or schoolmates, or by perceived threats to social or group identity – may well be the most important cost of increased immigration in many natives’ minds.”

Table 1: Immigrant and Minority Presence in Top U.S. Cities

	Population (in thousands)	Share of US Pop. (percent)	Immigrant Presence		Overall Minority Share (percent)
			Immigrants (percent)	Second Gen. (percent)	
All US	299,398	100.0	12.1	10.6	33.1
Outside Top Cities	194,311	64.9	6.8	7.5	26.1
Top Cities	105,087	35.1	26.9	19.8	45.9
<u>By City (CBSA):</u>					
New York	18,819	6.3	26.9	18.8	47.2
Los Angeles	12,950	4.3	35.0	24.7	63.7
Chicago	9,506	3.2	15.0	14.4	40.1
Dallas	6,004	2.0	17.4	12.0	45.9
Philadelphia	5,827	1.9	7.9	8.2	31.0
Houston	5,540	1.9	19.8	13.3	57.2
Miami	5,464	1.8	36.0	21.3	59.5
Washington DC	5,290	1.8	21.3	12.2	46.6
Atlanta	5,138	1.7	13.5	8.0	44.1
Detroit	4,469	1.5	8.5	9.3	30.6
Boston	4,455	1.5	15.3	15.7	20.9
San Francisco	4,180	1.4	29.9	22.6	55.4
Phoenix	4,039	1.3	16.1	14.0	40.4
Riverside	4,026	1.3	20.7	21.5	59.6
Seattle	3,263	1.1	12.4	10.9	26.5
Minneapolis	3,175	1.1	9.7	8.0	19.0
San Diego	2,941	1.0	23.8	20.4	48.8

Notes: population counts are Census Bureau estimates for July 1, 2006. Immigrant, second generation, and minority fractions based on tabulations of 2005 and 2006 March CPS. Second generation are native-born individuals with at least one immigrant parent. Minorities include non-whites and Hispanics of any race.

Figure 6: Immigrant Presence and Average Native Wages

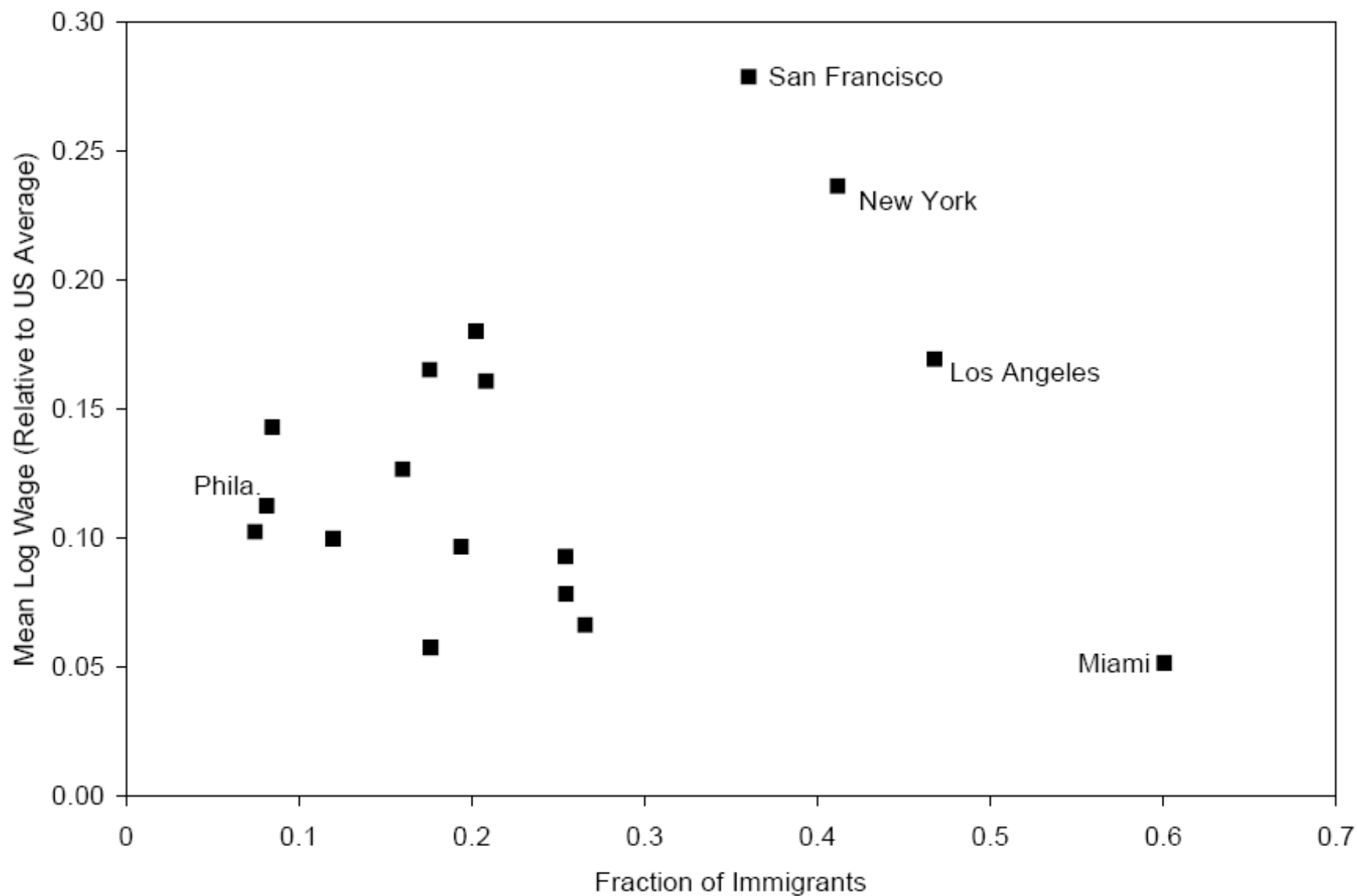


Table 4: Immigrant Characteristics by Country of Birth

	Number of Adults (16-65)	Mean Years of Education	Mean Wage (geometric)	Distribution Across Skill Quartiles:			
				Quartile 1	Quartile 2	Quartile 3	Quartile 4
All	23,400,000	11.4	12.00	38.4	25.9	18.8	16.9
<u>Country of Birth:</u>							
Mexico	7,478,180	8.4	9.09	53.1	26.2	13.8	6.9
Philippines	1,077,560	13.9	14.63	24.9	25.8	23.8	25.4
Vietnam	806,100	11.5	12.24	36.9	27.4	19.9	15.8
India	801,260	15.4	18.30	18.5	22.7	24.3	34.5
El Salvador	695,180	8.8	9.66	51.7	26.5	14.4	7.4
China	687,140	13.3	13.32	33.5	26.2	20.8	19.5
Cuba	583,400	12.1	12.43	37.4	26.8	19.5	16.2
Korea	542,120	13.8	13.69	31.1	26.7	21.8	20.4
Canada	524,880	14.1	17.03	16.2	22.1	24.8	36.9
Dominican Rep.	511,020	10.6	10.40	46.2	27.1	16.5	10.2
Germany	462,800	13.7	15.10	20.0	24.1	24.4	31.5
Jamaica	407,300	12.5	13.41	28.0	27.1	23.0	21.9
Guatemala	395,060	8.7	9.37	53.5	25.8	13.7	7.0
Columbia	391,300	12.4	11.44	40.8	27.0	18.5	13.7
Haiti	319,920	11.6	11.07	40.9	27.3	18.4	13.3
Poland	297,080	13.2	13.85	28.2	26.5	22.5	22.8
England	291,900	14.2	17.53	14.8	21.5	24.8	39.0
Taiwan	279,360	15.3	17.67	21.7	23.6	23.8	30.9
Italy	267,900	11.7	16.28	18.4	24.5	25.3	31.9
Japan	251,140	14.3	17.55	21.2	24.8	24.5	29.5

Notes: based on tabulations from 2000 Census. Sample includes individuals 16-65 only.

Table 9: Average Per Capita Transfers and Taxes, 2004-2005

	All	Immigrants	Natives	Second Generation	Immigrants & Second Generation
Percent Age 16-65	66.5	83.0	64.2	43.5	64.2
Percent Working	52.8	63.1	51.4	33.6	48.9
Mean Annual Hours	979	1,211	947	595	915
Mean Annual Earnings	20,390	22,486	20,101	13,161	17,757
<u>Value of:</u>					
Food Stamps	53	38	55	51	47
Unemploy. Insurance	82	83	82	51	67
Workers Compen.	44	43	44	22	33
Social Security	1,512	970	1,586	1,820	1,266
Supplemental Sec.	107	132	104	58	97
Welfare	21	30	20	12	22
Total Transfers	1,820	1,295	1,892	2,014	1,532
Federal Taxes	2,617	2,275	2,664	1,885	2,007
State Taxes	708	688	711	471	564
FICA Taxes	2,203	2,434	2,171	1,408	1,920
Medicare Taxes	588	650	580	380	514
Total Taxes	6,117	6,047	6,127	4,145	5,005
<u>In Kind Benefits:</u>					
Public Housing ¹ (%)	3.7	3.5	3.7	3.6	3.6
Medicare (%)	13.6	10.9	14.0	16.7	12.8
Medicaid (%)	11.3	10.3	11.5	16.0	13.7
Enrolled in K-12 ² (%)	17.7	8.0	19.0	27.9	18.0
Enrolled in College ² (%)	3.4	2.5	3.5	4.0	3.2

Notes: based on tabulations of March 2005 and 2006 CPS. Federal and state taxes are imputed by Census Bureau. FICA and Medicare taxes are imputed using total reported earnings. Dollar amounts in 2005 dollars. Sample of immigrants and second generation (column 5) reweights second generation to be 48% Hispanic.

¹Includes residents of public housing units and residents of households that receive subsidized rent.

²Enrollment is assumed to be 0 for those over 24 or under 6. Children age 6-15 are assumed to be enrolled in K-12.

Figure 7a: Father-Son Intergenerational Correlation in Education

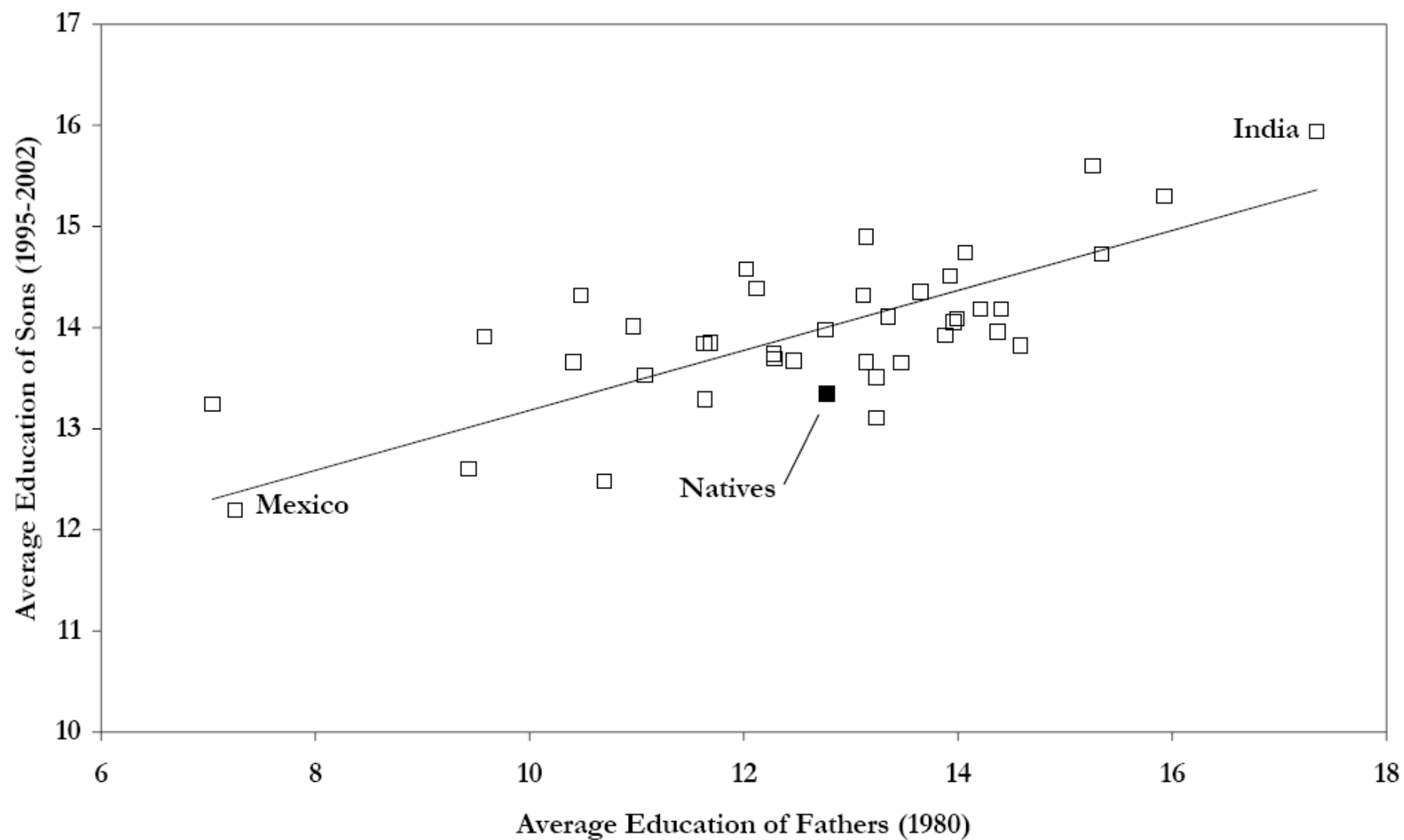
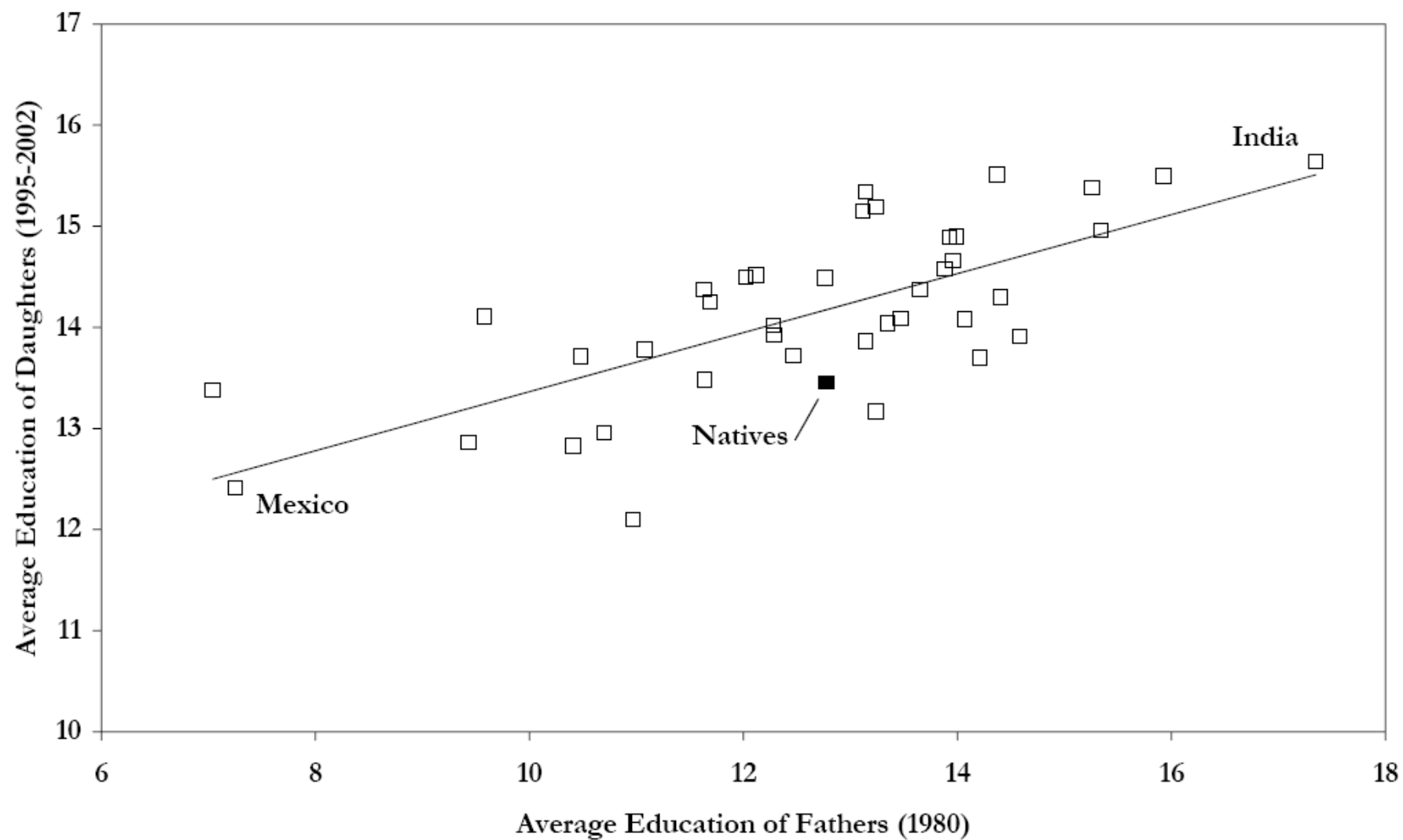


Figure 7b: Father-Daughter Intergenerational Correlation in Education



Do immigrants crowd out native jobs?

Further reading...

LA Times American Apparel [Fights Made in America Fight](#) how long?

WSJ (2007) [Jobs Americans won't do](#)

LA Times (2008) [Crackdown on Illegal Immigrants Spurs Backlash in LA](#)

*Card, David (2005) [Is the new immigration really so bad?](#)

Card, David (2007) [Immigration and U.S. Cities](#)

*[Ottaviano, Gianmarco](#) I.P. and [Giovanni Peri](#) (2005) Gains from "Diversity": Theory and Evidence from Immigration in U.S. Cities, Università' di Bologna, CEPR and UCLA.

Saiz (2003) The [Impact of Immigration on American Cities](#): An Introduction to the Issues,

*Papers presented at a conference on "Immigration in the U.S.: [Economic Effects on the Nation and Its Cities](#)" April 28-29, 2005 at the Federal Reserve Bank of Philadelphia

But what about the U.S. trade deficit?

- Some gains from 1990s have eroded: poverty is now 12.3% in 2006 up from 11.3% in 2000 but has not risen to over 14% as in the early 1990s.
- Unemployment and inflation remain low: job creation has slowed since 2001, but unemployment just reached 5%.
- Big trade deficit finance by China's accumulation of U.S. debt (> \$1 trillion reserves): helped keep interest rates low fueling long housing boom— now over but this is not China's fault...
- Employment continues to expand in services as manufactures get cheaper