

The Geography of American Poverty: Is There a Need for Place-Based Policies?

by Mark D. Partridge and Dan S. Rickman. 2006. Kalamazoo, Michigan: W. E. Upjohn Institute for Employment Research. 354 + xi. ISBN 0-88099-287-9, cloth, \$56; ISBN 0-88099-287-5, paper, \$22.

As suggested by their title, Partridge and Rickman aim to describe the geographic landscape of poverty in the United States, shed light on the processes that engender local concentrations of poverty, and draw implications for policy. It is an ambitious project. Though the authors approach the subject systematically by level of geography—first taking a national perspective, then regional, then state- and county-level—they cannot help but be distracted by the many simultaneous forces affecting the economic circumstances of households. Nevertheless, several key themes emerge that highlight the importance of studying poverty from a spatial perspective.

There are at least two distinct reasons to care about the spatial distribution of poor households. First, the geography of poverty affects the distribution of peers, role models, social networks, local public goods, and so on. A world in which poverty is highly concentrated is likely to be a world in which most poor households experience inferior neighborhood effects relative to their wealthier counterparts. There also may be nonlinearities in these local externalities that make high concentrations of poverty particularly undesirable.

A second motivation to investigate the spatial concentration of poverty, and the one that drives this book, stems from the notion that local processes matter for poverty rates. If local conditions indeed affect economic well-being of households, then individual characteristics do not fully explain poverty. It follows that person-based policies need not be the only ones in the antipoverty tool kit. Thus, the authors are primarily concerned with poverty reduction, and treat spatial processes as an important determinant of the overall poverty rate.

The first two chapters give a nice overview of spatial poverty trends in America from 1969 to 1999. There are consistent clusters of poverty in parts of Appalachia, in the lower Mississippi delta, along the Rio Grande and Mexican border, and on many Native American reservations. Central counties of large metropolitan areas are also poor. None of these findings is surprising, though the authors note a remarkably high level of persistence in county poverty (a correlation of 0.84 between 1979 and 1999).

Why do some places have persistently high poverty rates? In chapter 3 Partridge and Rickman consider equilibrium and disequilibrium approaches in the literature. In a simple neoclassical model, real wage differentials among similar workers should disappear if capital and labor are mobile. In theory, firms should enter low-wage areas and workers should leave those areas, until poverty rates are similar across regions. If areas differ in amenities, compensating differentials in wages may exist, but utility should be equalized. The equilibrium approach suggests that local economic development policies are unlikely to improve the well-being of the initial residents; new migration will offset any wage gains arising from increased labor demand. Indeed, policies artificially stimulating labor demand may prevent socially optimal migration away from declining areas.

The patterns of spatial variation suggest that poverty rates are persistently unequal across regions. The disparities are larger than would be expected based on cost-of-living differences alone. While it is possible that differences in amenities and local public goods generate persistent poverty differentials, the authors favor a disequilibrium

approach. They cite previous literature indicating that frictions prevent the rapid adjustment of labor to economic shocks.

Barriers to mobility are potentially important to regional adjustment and to adjustment within metropolitan areas. The authors note that less-skilled workers are less likely to move in response to regional economic conditions and may face higher migration costs, broadly conceived. Analogously, within metropolitan areas, frictions include housing market constraints, transportation costs, and imperfect information. The spatial mismatch literature hypothesizes that these barriers generate persistently lower wages for central city residents relative to suburban residents. In both the regional and intrametropolitan contexts, a lack of mobility generates spatial differences in poverty that are likely to persist over time. Unlike in the equilibrium models, local economic growth may reduce local poverty rates.

In chapter 4, Partridge and Rickman explore the empirical relationship between economic conditions and poverty at the national and state levels. At the national level, there is strong evidence that the unemployment rate and median income affect the poverty rate in the expected directions. State labor market conditions, particularly employment growth, also appear to affect poverty rates. At both state and national levels, the effect of a strong economy is most pronounced when the labor market is tight. The analysis also considers the effect of welfare policy, and concludes that the 1996 welfare reform had only modest effects on overall poverty rates.

Localities within states are tied together by policy regimes, and the authors would have been remiss if they had ignored state-level factors. Welfare policy is clearly important in a study of poor households, for example. However, states are not particularly meaningful economic units, and state policies are only indirectly related to the geography of poverty. Thus, the discussion of state poverty and welfare reform in chapters 4 and 5 moves some distance away from the key insights of the book.

The analytical heart of the work is represented by three chapters on county-level poverty. Partridge and Rickman assess how local labor market conditions affect poverty rates using a cross-section analysis of counties in 1999. In a similar analysis, they investigate county poverty in 1989. Two stylized facts reported earlier in the book are confirmed: poverty is persistent and spatially clustered.

A key result of the county analysis is that employment growth affects poverty negatively, after controlling for lagged poverty, state fixed effects, and many other factors. This finding should be approached with some caution. The inclusion of dozens of control variables, including the employment-to-population ratio and the unemployment rate, makes it difficult to interpret the coefficient on employment growth. It is also important to note that unobservable characteristics of individuals are likely to differ across counties. Residents with the weakest attachment to the labor force are the least likely to leave slow-growth areas, generating a spurious relationship between employment growth and poverty.

If one is willing to accept the results at face value, however, the analysis suggests a potentially important role for local economic development in reducing poverty. The authors also detect some subtleties in this relationship. For example, two-year employment growth does not have the same benefits as five-year growth. That may be because poverty reduction occurs only after a prolonged expansion trickles down to the least advantaged. The results also suggest that poverty is particularly sensitive to female employment.

A major insight from the county analysis is that all employment growth is not created equal. It is here that a spatial approach proves especially valuable. The results

suggest that local employment growth is more beneficial when the broader economy is doing well. Furthermore, employment growth driven by national industrial trends (as opposed to growth relative to the industry average) has a greater effect on poverty. When a county is performing relatively well compared to its neighbors or others with similar industrial patterns, it will be attractive to migrants who will bid down wages. On the other hand, if growth is part of a broader regional or industrial expansion, the initial residents may benefit. It is useful to elucidate these patterns because they help circumscribe the role for place-based policies.

The importance of migration indicates that rural areas might respond differently to local economic growth. This is borne out by the empirical analysis in chapter 8. Local economic conditions are more important in nonmetropolitan areas, presumably because the threat of immigration or inward commuting is lower. Furthermore, among nonmetropolitan areas, poverty is most sensitive to growth in those areas that do not border metropolitan counties. In some places, geographic isolation impedes the equilibrium adjustment to labor market shocks. This is a root cause of poverty, but at the same time it provides a potential lever for poverty reduction. These findings underscore the value of a spatial perspective.

The book concludes by translating the results of the analysis into policy conclusions. Taken as a whole, the results suggest that economic growth policies are likely to be most effective in isolated nonmetropolitan areas or other areas facing barriers to mobility. The authors rightly note that generating economic growth in areas with extremely low density is a challenge, and highlight the potential benefits of targeting rural economic centers. In metropolitan areas, enterprise zone policies should provide incentives for firms to hire local residents to mitigate the threat of in-commuting. Macroeconomic growth is particularly helpful to revitalization because immigration or inward commuting is less diluting when economic improvements are broad.

In sum, this book makes an important contribution to the debate on place-based versus person-based policies. Because the focus is on reducing poverty, rather than reducing poverty concentration or improving the overall economic health of declining areas, it approaches the question from a unique and valuable perspective. The most important insight is that space matters: economic geography is likely to influence the success of local economic development as a poverty reduction tool. Policymakers, take note.

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Amenities and Rural Development: Theory, Methods and Public Policy, edited by Gary Paul Green, Steven C. Deller, and David W. Marcouiller. 2005. Series: New Horizons in Environmental Economics. Cheltenham, U.K. and Northampton, Massachusetts: Edward Elgar. 338 + xviii. ISBN 1-84542-126-4, \$130.

This volume is a collection of papers that address conceptual, empirical, or policy-related questions regarding amenities and economic growth and development of rural areas. Many of the papers draw upon the same themes, such as the waning of manufacturing-based rural economies and the growing importance of natural amenities in quality of life and migration, to motivate research questions on the nature of