Poverty surged back into public awareness on the destructive tides of Hurricane Katrina last year. But this problem extends well beyond the South. Every region of the country has its share of poverty, in areas ranging from rural to urban. In fact, Cleveland was recently named – for the second time in three years – as the poorest city in the United States among those with populations greater than 250,000.* Concentrated poverty – the percentage of poor people living in high-poverty tracts – is of particular concern to researchers, community development practitioners, and policymakers because of its harmful effects on people, neighborhoods, and community reinvestment strategies. *See page 4 sidebar for an explanation of how these rankings were arrived at, along with a caution against drawing conclusions without considering additional factors that were not a part of the poverty rankings assessment.
There are no simple answers to the persistent problem of poverty. But keeping a spotlight on the issue is critical to moving toward solutions. To that end, the Federal Reserve Bank of Cleveland examined the challenges of concentrated poverty at its annual community development policy summit in June 2006.

“By bringing together the key players – academics doing research on concentrated poverty, community development funders and practitioners working directly in low-income communities, policymakers at all levels – we hope to stimulate thinking across disciplines and encourage ongoing discussion and action aimed at positive, market-based solutions to this problem,” notes Ruth Clevenger, vice president and Community Affairs officer at Cleveland, and Richard Walker III, CEO of the Federal Reserve Bank of Cleveland.

This year’s policy summit drew a sell-out crowd of more than 200 community development practitioners from Ohio and neighboring states. Attendees included bankers, academics, elected officials, government representatives, and nonprofit community developers.

“Why does the Fed care?”
What is the Federal Reserve Bank of Cleveland’s connection to concentrated poverty? Federal Reserve Bank of Cleveland President and CEO Sandra Pianalto addressed this question in her opening remarks:

“Why does the Cleveland Fed care about this issue? The fact is that we are committed to the goals of community development. Our Community Affairs program helps us fulfill one of our important public policy mandates – to enforce fair-lending regulations that protect consumers in the financial marketplace. We also believe that understanding the issues behind concentrated poverty will help us better assess overall economic performance.”

Over the past few years, the Cleveland Fed has pursued research involving patterns of wealth, poverty, and regional economic development. Increasingly, research finds a correlation between levels of poverty and the economic health of a region.

“We know that most people who are trapped in poverty cannot participate fully in the labor market or the financial system,” noted President Pianalto. “So there is good reason, just from a macroeconomic viewpoint, for the Federal Reserve to analyze these issues. But our involvement actually reaches much further – the Federal Reserve is involved in community development, especially as the nation’s fair-lending laws have evolved over the past few decades.”

For the full text of President Pianalto’s opening remarks, go to www.clevelandfed.org/2006PolicySummitProceedings.

Community development lens
Examining concentrated poverty through the lens of community development focuses inquiry into which federal, state, and local policies can be most effective. Historically, poverty has been addressed through the social services sector, which assists low-income families.

2006 Policy Summit Highlights

Online proceedings include:
• Overview of all sessions
• Opening remarks by Federal Reserve Bank of Cleveland President and CEO Sandra Pianalto
• Follow-up Q&A among participants and conference speakers
• Speaker presentations for downloading
• Keynote address by Dr. William Julius Wilson

Ignoring poverty won’t solve it
The Plain Dealer credits Fed President Sandra Pianalto with keeping a spotlight on the issue of poverty. See text of editorial and hear WVIZ’s interview with Dr. William Julius Wilson.

What’s the link between poverty and minimum wage?
Policy summit panelists and other experts address questions from conference participants in a follow-up discussion of issues related to concentrated poverty.

“Who knew economists could be so interesting!”
Check out this and other comments from conference evaluations.

Photo Gallery
See pictures from Day 2 of the policy summit.

“We know that most people who are trapped in poverty cannot participate fully in the labor market or the financial system.

So there is good reason, just from a macroeconomic viewpoint, for the Federal Reserve to analyze these issues.”

– Sandra Pianalto, Cleveland Federal Reserve Bank President and CEO

Sandra Pianalto, president and CEO of the Federal Reserve Bank of Cleveland, and Richard Walker III, vice president and Community Affairs officer for the Federal Reserve Bank of Boston, listen to discussion during one of the policy summit’s sessions. In the background is David Buchholz of CFED (Corporation for Enterprise Development).
“The least upwardly mobile in society – mainly low-income people of color – are stuck in neighborhoods with high concentrations of poverty and deteriorated physical conditions.”

– Dr. William Julius Wilson, from his keynote speech

with subsidized housing, health care, and other valuable services. Community development solutions, on the other hand, focus more on physical infrastructure.

One way this is accomplished is through community development lending. In addition to providing mortgage loans for first-time homebuyers and financing for multi-family housing units, lending programs can also include microloans.

The keynote address – given by poverty expert Dr. William Julius Wilson, director of the Joblessness and Urban Poverty Research Program and Lewis P. and Linda L. Geyser Professor at Harvard University – focused on new challenges facing the urban poor. Dr. Wilson, whose latest book, Good Kids from Bad Neighborhoods: Successful Development in Social Context, was released this fall, noted how the economy’s increasing internationalization, transportation issues, and lack of jobs have contributed to the rise in urban poverty:

“Sprawl and economic stagnation not only fuel physical decline, they also isolate disadvantaged residents of the city from meaningful access to social and economic opportunities. With the departure of higher-income families, the least upwardly mobile in society – mainly low-income people of color – are stuck in neighborhoods with high concentrations of poverty and deteriorated physical conditions.

Unlike in previous years, labor markets today are mainly regional, and long commutes in automobiles are common. Most ghetto residents cannot afford an automobile and therefore have to rely on public transit systems that make the connection between inner-city neighborhoods and suburban job locations difficult and time-consuming.

To make matters worse, many inner-city residents lack information or knowledge about suburban job opportunities. In segregated inner-city ghettos, the breakdown of the informal job information network aggravates the problems of job spatial mismatch. The older central cities feature a severe spatial mismatch between inner-city residents and suburban jobs. For example, in Cleveland, although entry-level workers are concentrated in inner-city neighborhoods, 80 percent of the entry-level jobs are located in the suburbs. And the lack of feasible transportation options exacerbates this mismatch.”

To read the entire text of Dr. Wilson’s address, visit www.clevelandfed.org/2006PolicySummitProceedings.

Ongoing efforts
The policy summit is just one example of the Cleveland Federal Reserve Bank’s involvement in concentrated poverty, both regionally and nationally. A second effort is a partnership between the Bank’s Community Affairs and regional Research teams to launch a joint Visiting Scholars program. Economists from the Fed work with researchers at noted academic institutions on issues related to concentrated poverty, such as earnings inequality in Appalachia.

Another effort involves case studies conducted on specific issues related to concentrated poverty – for instance, the impact of the minimum wage on poverty. Check the Bank’s website – www.clevelandfed.org – and the Community Affairs subsite at www.clevelandfed.org/CommAffairs for additional information and resources related to concentrated poverty.
The Fourth Federal Reserve District, which includes all of Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia, encompasses a diverse range of communities and economies. Whether urban or rural, industrial or agricultural, lakeside or Appalachian, these communities all have some residents living in poverty. Just how widespread is poverty across the District? Where is it most concentrated?

In the map shown here, some areas clearly show higher concentrations of people living in poverty than others. It’s important to clarify two distinct terms that this map and graph illustrate: High poverty refers to a poverty rate of 40 percent or more within a specific area—in other words, where nearly one of every two people has an income below the poverty level.1

Do numbers tell the whole story?

Any researcher will tell you that statistics can easily be misinterpreted. For example, Census Bureau data have branded Cleveland as the poorest big city in the United States, with nearly a third of the city’s residents living in poverty.

“The numbers tell us that Cleveland has many poor people,” noted Mark Schweitzer, assistant vice president and economist for the Federal Reserve Bank of Cleveland, and Brian Rudick, senior Research assistant. “But the numbers don’t tell us that Clevelanders have become worse off, that the region’s economy has deteriorated, or even that there are more poor people in the city than before.”

In a recent piece posted to the Bank’s Economic Research & Data website, the two researchers explain how we might jump to the wrong policy prescriptions by focusing on poverty solely within the city limits, and they suggest that we look at the greater metro area for a more accurate picture of the causes of Cleveland’s poverty rate. See the full text of their posting at www.clevelandfed.org/research/regional/features/2006/september/poverty.cfm.
Concentrated poverty refers to the share (or percentage) of poor people living in high-poverty areas.

In the Fourth District, Census 2000 data reveal 187 census tracts where the poverty rate was at least 40 percent. These tracts are located within 42 counties stretching across all four states within the Fourth District. The counties range from high-population urban counties to low-population rural counties.

A clearer picture emerges when examining the percent of a county’s poor population (residents living below the poverty threshold) that resided in one of the census tracts with a poverty rate of 40 percent or greater. Concentrated poverty shows how clustered or disparate the poor are — whether they are huddled together in high numbers in the same census tracts or neighborhoods, or spread out throughout the county.

In the Fourth District, counties in rural eastern Kentucky and western Pennsylvania, along the Ohio River, and within major cities all have areas of concentrated poverty.

The Fourth District includes a number of counties that are part of Appalachia, including counties in western Pennsylvania, West Virginia, southeast Ohio, and most of eastern Kentucky. Many of the Appalachian counties have areas of high concentrated poverty. In particular, three counties in Kentucky — Owsley, Martin, and Clay — have fully 40 percent or more of their poor population living in high-poverty census tracts. Martin County shows a concentrated poverty rate of 48 percent. In Clay County, the concentrated poverty rate is 46 percent. Owsley County, Kentucky, has a staggering 100 percent concentrated poverty rate, which means every one of their poor residents lives in a high-poverty tract.

Outside of Appalachia, the Fourth District’s major urban counties also have concentrated poverty. Both Cuyahoga (Cleveland) and Hamilton (Cincinnati) counties in Ohio, as well as Ohio County, West Virginia (Wheeling), have areas of concentrated poverty ranging from 20 percent to 40 percent. In fact, all but one of the Fourth District’s 14 counties with populations greater than 250,000 have some level of concentrated poverty.

While areas of high poverty in the Fourth District are located primarily in counties in Appalachia and in urban counties within major central cities, all counties in the District have some portion of their population living in poverty. In fact, in 2000 just 13 census tracts — of the more than 4,500 tracts in the entire district — reported a poverty rate of 0 percent. Some of these zero-poverty tracts are located inside counties that also have high-poverty tracts.

Census tracts are sub-county areas defined as small, relatively permanent statistical subdivisions of a county. They usually have 2,000–8,000 residents and, when originally delineated, were designed to be homogeneous with respect to population characteristics, economic status, and living conditions. Census tracts are used to evaluate information in relatively small geographic areas and can be used as a proxy for a neighborhood.
Finding new ways to combat an old problem

BY CLAUDIA COULTON, PHD

Dr. Claudia Coulton, a nationally known expert on urban poverty and a panelist at the 2006 Community Development Policy Summit, shares her perspective on research efforts aimed at addressing concentrated poverty.

Concentrated poverty is a real concern to civic leaders. It impacts their cities’ economic status and ability to provide services and collect taxes.

Poverty has been a problem – and has been studied – for decades. What new directions are researchers pursuing in this field?

We do know some things about concentrated poverty: We know where it’s located, and we know it tends to be associated with social ills such as exposure to violence, worse housing, underperforming schools, and bad health. What we know less about is whether this matters to the individuals and families living in areas of concentrated poverty. And if it does matter, how, why, for whom, and to what extent does it matter?

This line of research attempts to examine the “neighborhood effect” of living in concentrated poverty. Researchers interested in isolating the impact of concentrated poverty on individuals and families are asking questions like, Are the neighborhood conditions impacting outcomes for these individuals and families, or do the individual and family factors play a larger role?

One promising direction this research has taken is in studying individuals and families who move out of areas of concentrated poverty. Two well-known efforts have looked at outcomes for individuals and families, both with optimistic results. The Gautreaux experiment in Chicago found school performance improvements for children and increases in parental employment for those moving into lower-poverty areas. HUD’s Moving to Opportunity, a more rigorously controlled experiment, found that movers to low-poverty areas felt safer, less bothered by crime, and more positive overall about their environment. Researchers also found strong evidence of improved health.

Another new line of concentrated poverty research will look more closely at the mechanisms that may correlate with negative outcomes in areas of concentrated poverty, such as peer-group pressures, lack of services and amenities, attitudinal issues, and social capital. These studies are more qualitative or descriptive than experimental in nature.

How do policymakers use the analyses generated by researchers studying concentrated poverty? Are they considering the data, and if so, how are the data being factored into their policy decisions?

In housing policy, I think we’ve seen a pretty clear effect. Research suggests that the concentrated poverty found in public housing has a negative effect on individuals and...
Changes to CRA aimed at non-metropolitan middle-income areas

Although there were several changes made recently to the Federal Reserve Regulation BB, this article focuses on the revised definition of community development as it relates to the revitalization and stabilization of nonmetropolitan middle-income geographies, or designated disaster areas within a bank’s assessment area. The enhancements to the community development definition can benefit all financial institutions regardless of asset size.

Effective September 1, 2005, “revitalize/stabilize” was expanded to include activities that revitalize or stabilize:

• distressed or underserved nonmetropolitan middle-income geographies, and
• designated disaster areas.

In the distressed nonmetropolitan middle-income areas, the activity must either explicitly help to attract new, or retain existing, residents and businesses in the community. An activity will be presumed to revitalize or stabilize the area if it is consistent with a bona fide government revitalization or stabilization plan. The agencies will consider all activities that revitalize or stabilize a distressed nonmetropolitan middle-income geography, but will give greater weight to those activities that are most responsive to community needs, including the needs of LMI individuals.

Underserved nonmetropolitan middle-income areas are sparsely populated, and they are therefore considered to have trouble financing the fixed costs of essential community needs such as infrastructure improvements and health facilities. To qualify under the expanded definition, the activity must help to meet essential community needs, including the needs of LMI individuals. An example of this type of activity would be a hospital expansion program, because it facilitates essential infrastructure to the area and benefits the entire community, including low- and moderate-income individuals.

Designated disaster areas are major disaster areas designated by the federal government. Activities related to disaster recovery that revitalize or stabilize a designated disaster area will be given CRA consideration for 36 months following the date of disaster designation.

The agencies carefully analyzed the criteria that were added to the CRA regulations in order to give financial institutions CRA credit for qualified community development activity. Additional information can be found at www.FFIEC.gov.
Hold the Date

Publications available to download at www.clevelandfed.org/CommAffairs

CR Report, Summer 2006: Microenterprise: Creating Wealth for Individuals and Communities

System Research Conference: Financing Community Development – Learning from the Past, Looking to the Future
- March 29-30, 2007
  Washington, DC
- Sponsored by the Community Affairs Offices of the Federal Reserve System

Fifth Annual Community Development Policy Summit
- June 21-22, 2007
  Cleveland, OH
- Sponsored by the Community Affairs Office of the Federal Reserve Bank of Cleveland and LISC

of interest

More information is available at www.clevelandfed.org/CommAffairs.