

5-21-2019

Can Antipoverty Policies Change Neighborhood Outcomes in the Long Run?

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Citation

Asquith, Brian J. 2019. "Can Antipoverty Policies Change Neighborhood Outcomes in the Long Run?" Policy Brief. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/pb2019-9>

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POLICY BRIEF

Can Antipoverty Policies Change Neighborhood Outcomes in the Long Run?

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BRIEF HIGHLIGHTS

- *Over the long run, the EITC increases employment and reduces poverty and public assistance.*
- *Shorter welfare time limits reduce poverty and public assistance in the long run.*
- *We find some suggestive evidence that higher minimum wages over time lead to declines in poverty and the share of families on public assistance, whereas higher welfare benefits have adverse long-term effects.*
- *Our evidence on how antipoverty policies change economic outcomes in disadvantaged neighborhoods gives policymakers levers to think about how to encourage upward mobility for children.*

Ongoing research and policy debates about antipoverty policies have had two important shortcomings. First, they have tended to focus on short-term effects, rather than asking how these policies have affected poverty in the longer term. Second, they have largely ignored “place,” focusing on individuals and their families, without asking whether these policies have succeeded in lifting the economic fortunes of particularly disadvantaged areas.

Our companion paper addresses these shortcomings by studying the long-term effects of the main antipoverty policies in the United States. These policies attempt either to increase income from work, such as the minimum wage or Earned Income Tax Credit (EITC), or provide funds that may substitute for work earnings and thus might strongly affect the incentive to work (welfare). We estimate the effects of these policies on measures of economic self-sufficiency—most importantly, poverty and receipt of public assistance—and focus on their effects in neighborhoods that are initially disadvantaged. The long-term effects of these policies may differ: we might expect that policies that encourage more work will lead over time to greater accumulation of human capital, and hence higher wages and earnings.

To briefly summarize the results, our strongest findings are twofold. First, over the long run, the EITC increases employment and reduces poverty and public assistance. Second, shorter welfare time limits also reduce poverty and public assistance over the long run. While the decline of public assistance may be mechanically related to the shorter time limits of eligibility, the decline in poverty is more likely due to a behavioral change. We also find some suggestive (but not conclusive) evidence that higher minimum wages over time lead to declines in poverty and the share of families on public assistance, whereas higher welfare benefits have adverse long-term effects.

We want to be clear, at the outset, that determining longer-run effects of policy—especially multiple policies—is a challenge. We may rarely, if ever, have the kinds of compelling methodological strategies sometimes available to study the short-term effects of a single policy. Furthermore, since we observe changes only at 10-year intervals because of our usage of decadal censuses, we necessarily miss the full evolution of policy impacts. Nonetheless, even if one remains cautious about interpreting of our findings, the relationships we document provide interesting suggestive evidence about the likely long-term effects of alternative antipoverty policies.

Study Approach

We study the long-term effects of antipoverty policies on neighborhoods, which we define as census tracts. Census tracts are a reasonable measurement for neighborhoods, as the U.S. Census Bureau intentionally draws them to conform as closely as possible to commonly known neighborhood boundaries while keeping the population fixed for each tract between approximately 4,000 and 5,000. While there have been significant

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The most compelling findings are that the EITC yields long-term benefits in reducing poverty and public assistance, whereas there is essentially no evidence that more generous welfare does so.

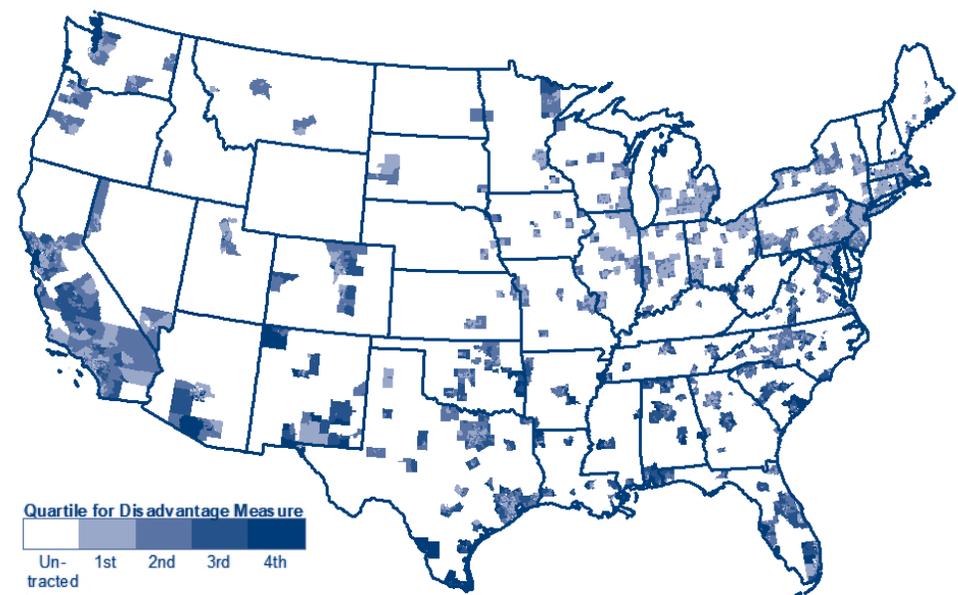
neighborhood and demographic changes since 1970, the beginning of the period we look at, we can consistently control for both using the Neighborhood Change Database (NCDB), which tracks the characteristics of neighborhoods over time, holding the geographic boundaries fixed. The NCDB has key census variables from the 1970, 1980, 1990, 2000, and 2010 Censuses and the 2006–2010 American Community Survey (ACS).

We link to each tract several time-varying policy characteristics of the parent state: the prevailing maximum welfare benefit for a family with two children, the prevailing minimum wage (higher of state or federal minimum), and the combined state and federal EITC benefit. As we are especially interested in disadvantaged neighborhoods, we focus on neighborhoods that were in the top quarter for the share living in poverty in 1970. Figure 1 shows a map of these neighborhoods. (In the paper, we also measure disadvantaged neighborhoods in other ways, including the shares that are African American, that are headed by a single mother, and that had a high school diploma or less education.)

We examine four policy-relevant outcomes: average household earnings, employment rate, share in poverty, and share on public assistance. Either directly or indirectly, policymakers hoping to lift individuals, households, or entire neighborhoods out of poverty hope to see progress across any of those metrics. In each case, we compare the effects of welfare, minimum wage, and EITC policies on the more disadvantaged neighborhoods—where they should have more bite—to other neighborhoods, controlling for several other factors that could affect the long-term outcomes, including local economic conditions, industrial composition, and other fixed characteristics of the neighborhood (such as its proximity to the central business district and job opportunities).

More specifically, we allow the outcomes to be affected not just by the contemporaneous benefits policies, but by the benefits policies from 10 years earlier. Almost all current research focuses on immediate or short-run effects, but the long-term effects might be quite different after individuals, neighborhoods, and businesses adjust to the change. Including the 10-year lag and the contemporaneous value allows us to examine whether short-run effects diverge from long-term effects, and what this means for the virtues of each antipoverty policy.

Figure 1 1970 Share in Poverty in 2010 Census Tracts



SOURCE: Authors' calculations from the Neighborhood Change Database.

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Key Findings and Implications

In our view, the most compelling findings are that the EITC yields long-term benefits in reducing poverty and public assistance, whereas there is essentially no evidence that more generous welfare does so. Rather, some evidence suggests that more generous welfare amounts or time limits may increase poverty and reliance on public assistance.

We find conflicting evidence on whether minimum wages lead to long-term declines in poverty and the share of families on public assistance. Over the entire time period, we find that higher minimum wages have relatively little impact on neighborhood poverty or public assistance rates. If we focus on the period from the 1980s onward, however, we find that higher minimum wages may cause long-term increases in poverty and the share on public assistance. Thus, in whatever ways recent wage hikes have been different from past experiences, they seem to yield outcomes opposite of what was intended.

Our evidence on how antipoverty policies change economic outcomes in disadvantaged neighborhoods gives policymakers levers to think about how to encourage upward mobility for children as well, as many other studies (notably famous work by Raj Chetty and Nathaniel Hendren) have found that the neighborhoods in which poor children grow up have profound effects on their adult outcomes. In terms of specific policy links, one consistent finding is that neighborhoods with larger fractions of single parents are associated with poorer future outcomes for children (Chetty et al. 2014). This suggests that the long-term benefits of the EITC in reducing poverty could extend to the next generation, which other studies have found as well when studying individual families (Bastian and Micheltmore 2018).

While our approach does not exhaust all potential public policies that affect employment, earnings, poverty, and public assistance, it improves on other studies by considering several policies simultaneously. We caution that because we do not measure how these policies might directly interact with each other, policymakers should interpret our results modestly, as indicative that there are important differences between short-term and long-term effects, and that in the case of minimum wages, the experiences of the 1970s may be a poor barometer of their benefits today.

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