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An economic efficiency analysis of deconcentrating poverty populations

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Abstract

This paper presents a comparative static analysis using a conceptual model of the social benefits and costs associated with alternative spatial distributions of the poor. This analysis demonstrates that the necessary and sufficient conditions for justifying deconcentration of the poor on the grounds of increasing net social benefits are much more stringent than is commonly believed, fundamentally involving particular sorts of non-linear relationships between neighborhood poverty rates and the propensity of neighboring individuals to engage in problem behaviors and to earn less. The paper then conducts a meta-analysis of the limited empirical evidence available. The weight of the evidence implies that net social benefits would be improved if neighborhoods with greater than about 15% poverty rates were replaced with (an appropriately larger number) of neighborhoods having less than 15% poverty rates. However, net social benefits would be smaller if neighborhoods with greater than about 40% poverty rates were replaced with (an appropriately larger number) of neighborhoods having between about 15–40% poverty rates.
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1. Introduction

Researchers and policy makers have long harbored concerns over the location of low-income (poor hereafter) households, expressing fears that the concentration of poverty contributed to a variety of social maladies (Jargowsky,

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1997; Wilson, 1987, 1996). More recently, the issues related to the spatial distribution of the poor have been framed more positively. Housing subsidy programs, it has been argued, should be structured to give poor households wider residential options. This enrichment of spatial alternatives would not only serve to improve the well-being of housing subsidy recipients in the short run, but also their families' prospects for economic self-sufficiency in the long run, by enhancing their access to employment and job information networks, better-quality education, and community social norms more supportive of education and employment (Cisneros, 1995; Polikoff, 1994; Rosenbaum, 1995). It is noteworthy that the arguments have almost entirely been framed in terms of reputed benefits gained by poor households that move from high- to lower-poverty neighborhoods, not in terms of the consequences for households residing in the places from which and to which the poor move.

Nevertheless, this set of arguments has been sufficiently persuasive to generate an array of federal legislative and judicial initiatives. These include replacing high-rise public housing complexes with small-scale, scattered-site units, court-ordered dispersal programs for minority populations as a remedy to past discrimination by public housing authorities, and the encouragement of spatial mobility by section 8 housing subsidy recipients through the Moving To Opportunity demonstration and the Regional Opportunity Counseling Program (Burchell et al., 1994; Goering et al., 1995; Hogan, 1996; Ludwig and Stolzberg, 1995; Peterson and Williams, 1996; US Department of HUD, 1996).

This paper analyzes theoretically and empirically whether the current housing policy emphasis on deconcentrating poor populations can be justified on the grounds of economic efficiency, i.e., does society as a whole gain from switching from a more- to a less-concentrated poverty regime, without recourse to claims of distributional equity? It presents a comparative static analysis using a general model of the social benefits and costs associated with alternative spatial distributions of the poor. It then reviews existing evidence to ascertain which functional form and parameters of the model are most appropriate, and draws implications about the efficiency of alternative spatial distributions of the poor. This represents the paper's main contribution: synthesizing and interpreting evidence in an economics-based theoretical framework that leads to housing policy conclusions of great current relevance.

More particularly, a graphic analysis first is provided to demonstrate heuristically, using a wide variety of potential functional forms, how differences in the curvature of the function relating neighborhood poverty rates to individuals' propensities to earn income or engage in problematic behaviors generate different conclusions about the efficiency of deconcentrating the poor. Second, it makes the same argument more formally with a mathematical optimization of a particular class of social benefit and cost functions. Third, it conducts a meta-analysis of empirical work related to the non-linear external effects of neighborhood poverty to see what functional form(s)

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