

Persistent Poverty in Rural America

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Panel: *The Changing Needs of CDFI Communities. An Examination of the Capital Needs of Economically Distressed Communities Over the Last 25 Years*

Community Development Advisory Board Meeting
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September 23, 2019

Rural poverty has declined over the past 60 years

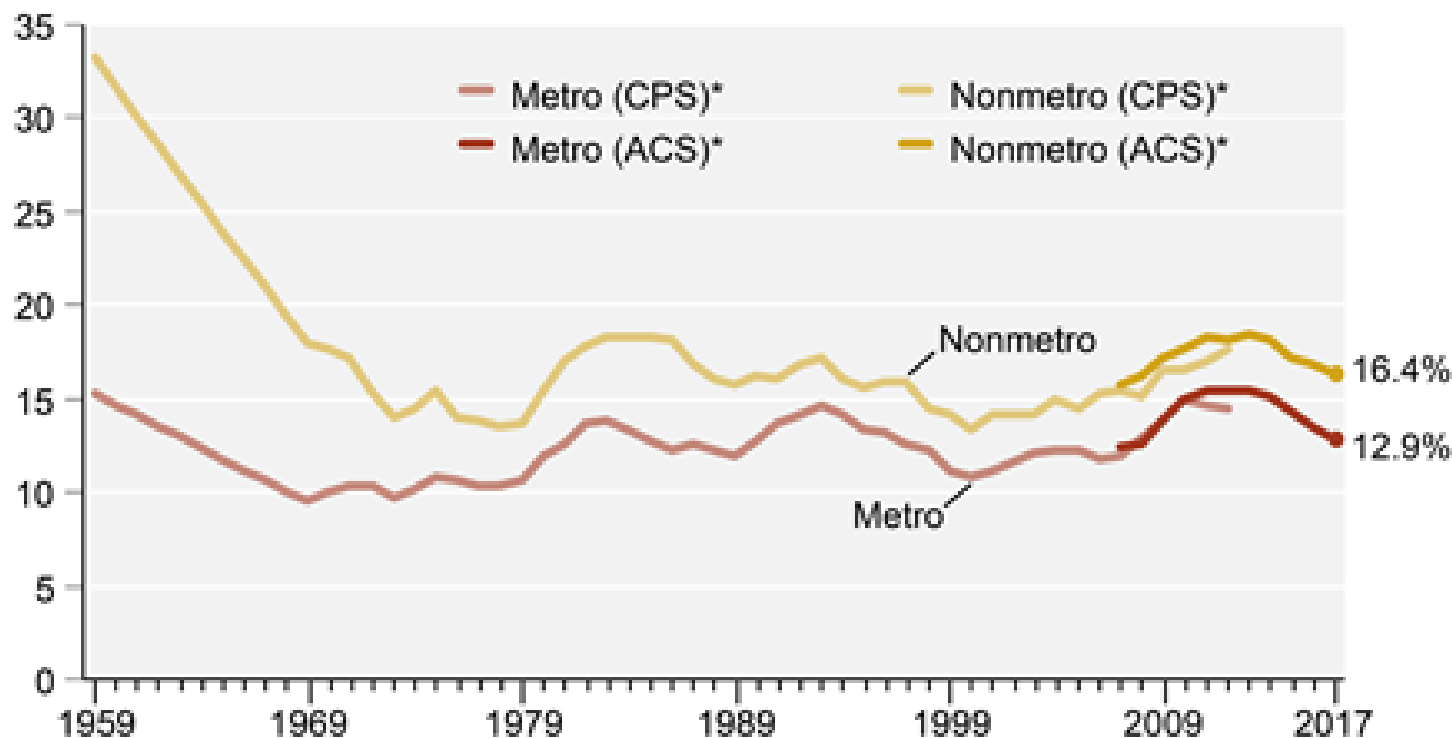
Rural poverty has declined since 1959 more than urban poverty, though **progress since the 1980s has been stagnant**

This **reduction** in poverty is **largely due to an expanding social safety net** (transfers/ tax credits)

And this **expanding social safety net** has been **more effective** in reducing poverty in **rural areas** than in urban areas

Poverty rates by metro/nonmetro residence, 1959-2017

Percent poor



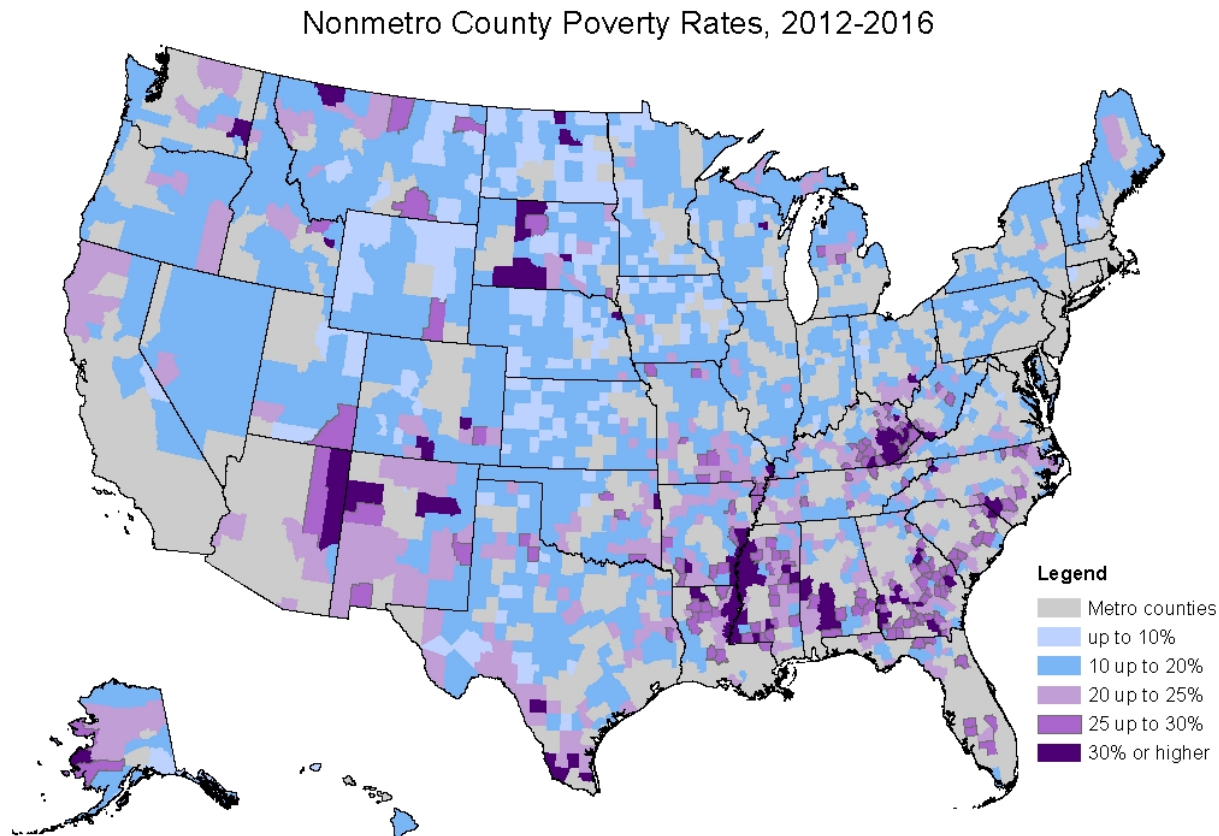
Note: Metro status of some counties changed in 1984, 1994, 2004, and 2014.

Source: USDA, Economic Research Service using data from the U.S. Census Bureau's Current Population Survey (CPS) 1960-2013 and annual American Community Survey (ACS) estimates for 2007-17.

*CPS poverty status is based on family income in prior year and ACS poverty status is based on family income in the past 12 months.

2018

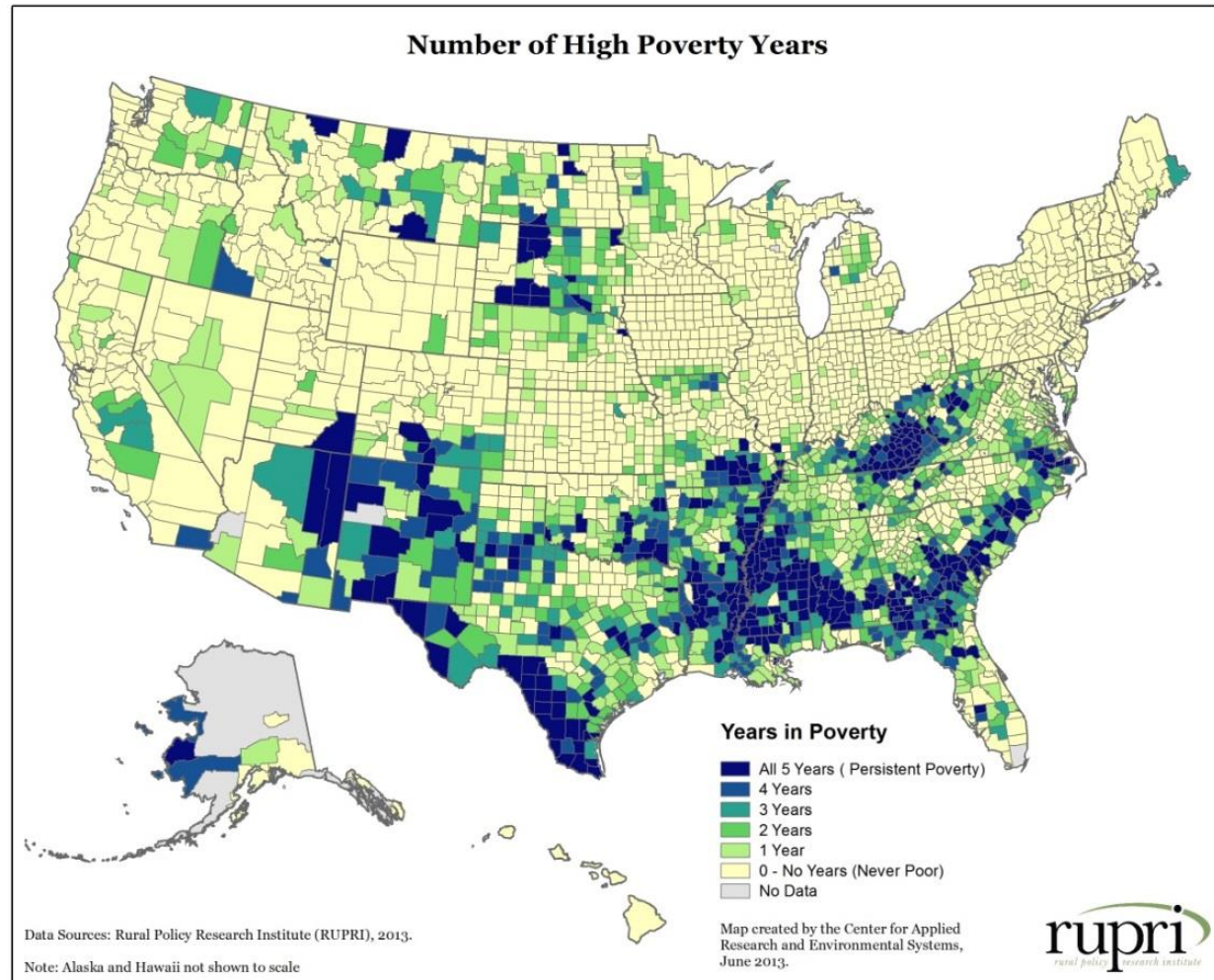
But high poverty has become concentrated in mostly rural counties



Source: USDA, Economic Research Service using U.S. Census Bureau American Community Survey, 2012-2016, and 2013 OMB nonmetro/metro county designations.

Source: Lichter, *The Demography of Rural Poverty Since *The People Left Behind**, 2018

... and this poverty is persistent



Source: K. Miller and B. Weber, “ Persistent Poverty Dynamics: Understanding Poverty Trends over 50 Years” RUPRI, 2014

#1 Persistent poverty counties are “poverty traps”

- where (1) ***imperfections in financial markets*** do not provide sufficient capital to these enterprises for investing in poverty-reducing strategies and/or (2) ***imperfections in insurance markets*** hinder or preclude recovering losses in the event of economic shocks.
- where enterprises (households) do not have **endowments of financial, physical, natural, human, social capital** above the ***threshold levels*** needed to adopt poverty-escaping strategies

Source: Barrett and Swallow. 2003. *Fractal Poverty Traps*. Department of Applied Economics and Management, Cornell University. Working Paper 2003-42.

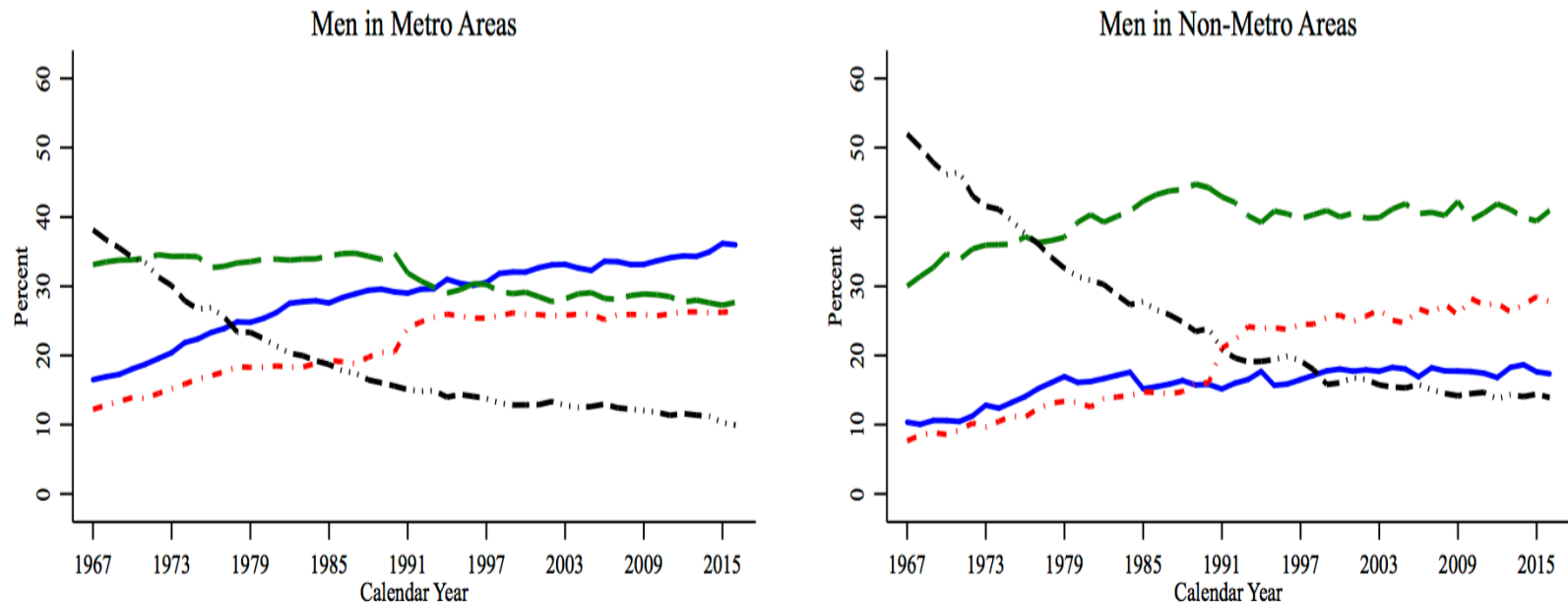
#2: Rural households are increasingly vulnerable to chronic poverty

Particularly in rural areas, households are avoiding the main traditional pathways out of poverty (education, marriage, work), **increasing investment risk in households and businesses:**

- Rural men and women are lagging their urban counterparts in obtaining college **education**
- **Marriage** rates are declining faster for rural families and for those with least education
- **Employment** rates are declining for all, but have plummeted for rural men without a high school degree

Lagging rural educational attainment particularly for men

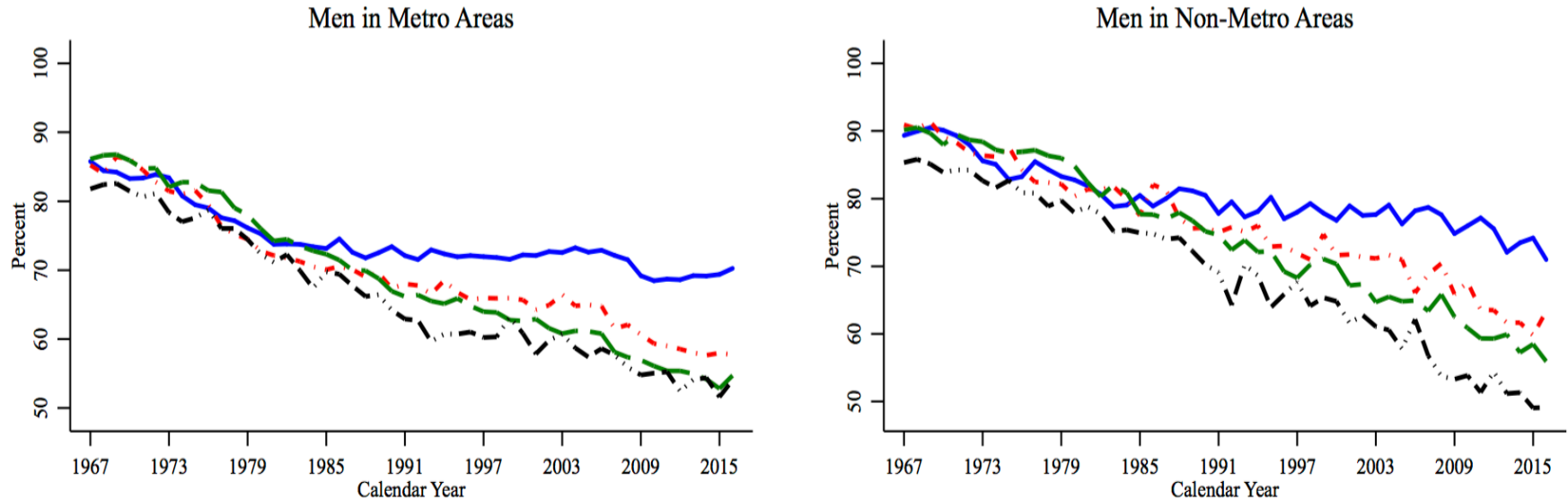
Figure 3. Trends in Education Attainment for Men and Women Ages 25-64 by Metropolitan Status, 1967-2016



Source: James Ziliak, Economic Change and the Social Safety Net: Are Rural Americans Still Behind?, 2018

The retreat from marriage

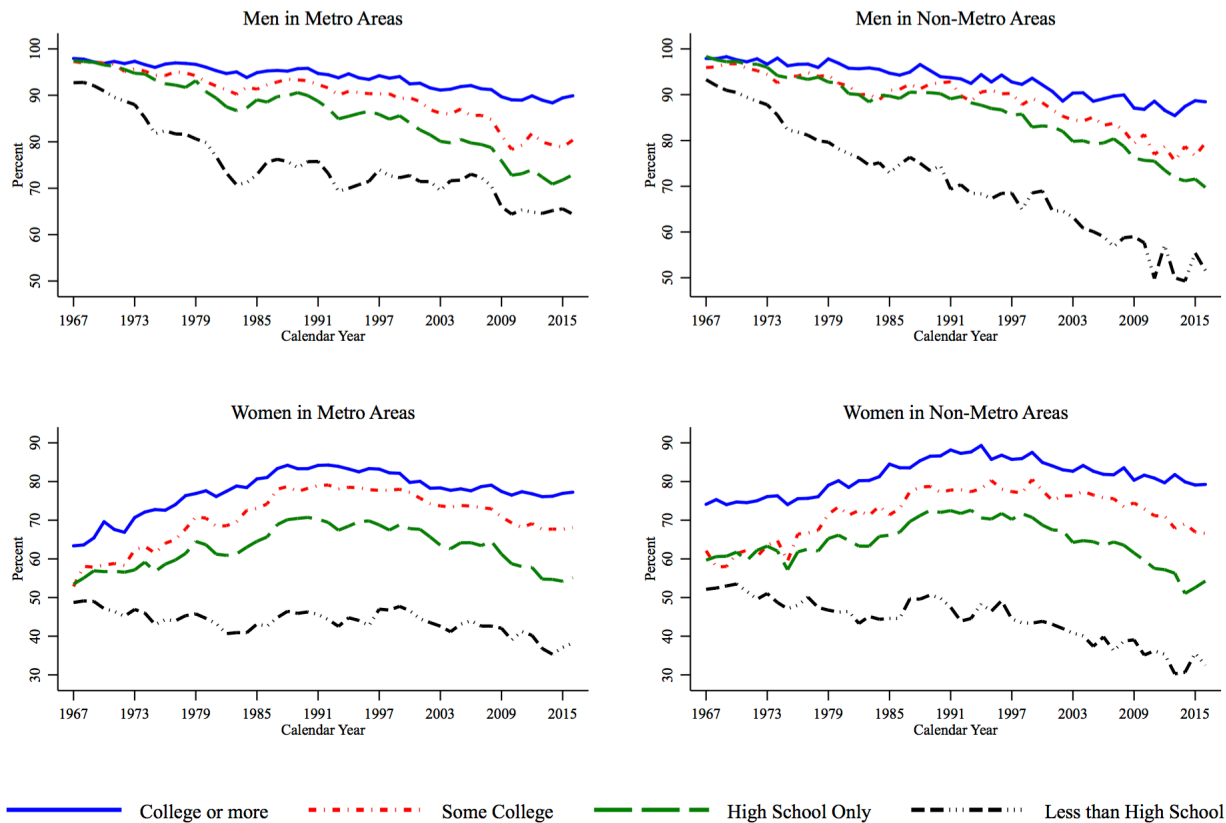
Figure 4. Trends in Marriage Rates of Men and Women Ages 25-64 by Metropolitan Status, 1967-2016



Source: James Ziliak, Economic Change and the Social Safety Net: Are Rural Americans Still Behind?, 2018

The exit from employment

Figure 5. Trends in Employment Rates of Men and Women Ages 25-64 by Metropolitan Status, 1967-2016



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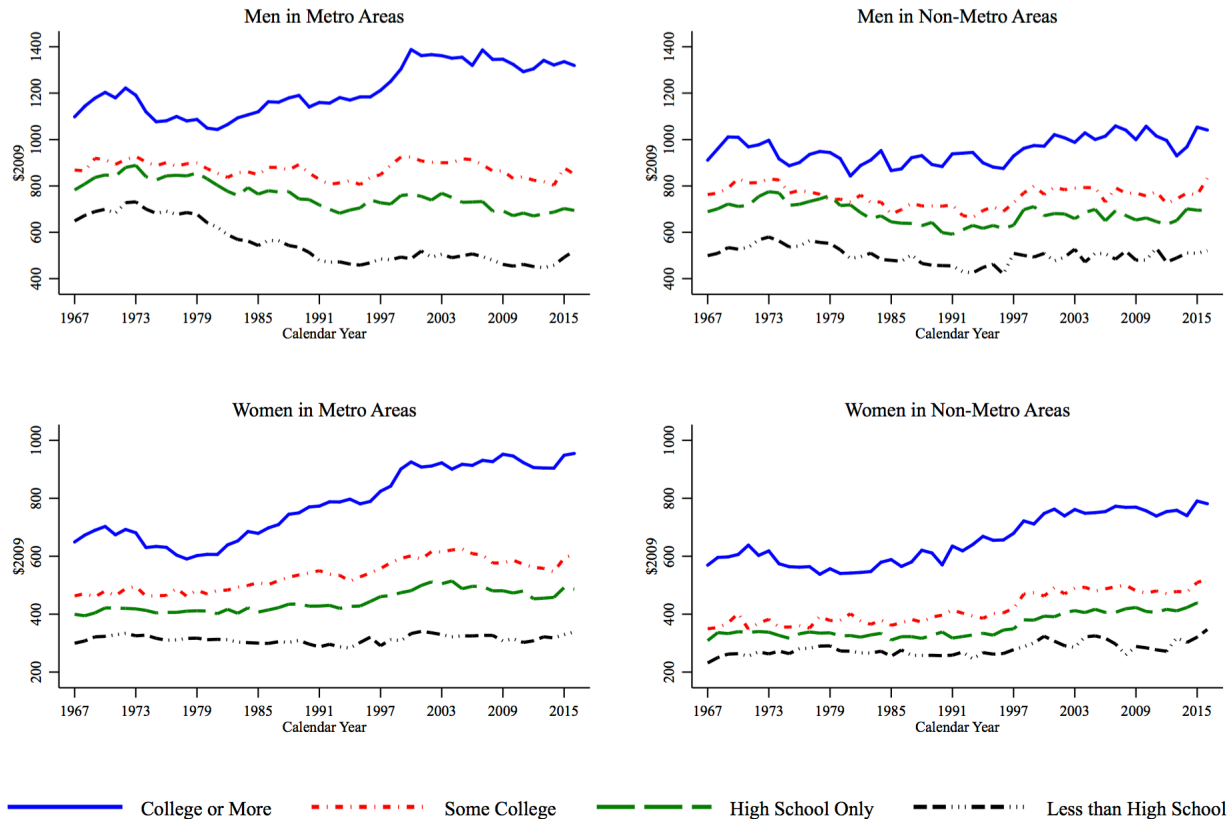
#3: Rural areas have decreasing capacity to escape poverty

And the economic environment that supports local investment and escape from poverty has weakened, especially in rural areas,

- Median **wages** are **lower in rural** places and **stagnating for those without college degrees** (and for rural men with college degrees)
- **Community financial institutions are disappearing**, especially in rural areas.

Rural wage stagnation

Figure 6. Trends in Median Real Weekly Earnings of Workers Ages 25-64 by Metropolitan Status, 1967-2016



Source: James Ziliak, Economic Change and the Social Safety Net: Are Rural Americans Still Behind?, 2018

Rural banks disappearing

- Number of rural traditional financial service establishments peaked in 2007
- Rural community banks -- a stalwart of local business finance -- are rapidly disappearing. Rural banking establishments decreasing by a few hundred a year
- Early evidence suggests that more closings are in low-income and rural areas

Source: Charles M. Tolbert, et al., Rural Financial Sector Restructuring and Persistent Poverty. 2018. presentation at *Rural Poverty Fifty Years After The People Left Behind* research conference.

#4: Place-based strategies are needed to combat persistent poverty

- We need to to **build “comprehensive wealth”** in rural places by **making productivity-enhancing investments in people and places**
- The poverty trap literature emphasizes that:
 - Government institutions and safety nets can play a critical role in “igniting sustainable growth” for poor households, enterprises and regions.
 - **There is a critical role for “sustainable microfinance institutions to increase access to credit”**

Focus on comprehensive wealth creation in rural places

- Ford Foundation's Wealth Creation in Rural Communities Initiative (2011 Conference)
- *Wealthworks* Initiative
 - <http://www.wealthworks.org>
- **Adoption of rural wealth creation as policy goal by USDA**
- **Pender et al. 2014 *Rural Wealth Creation***



Comprehensive Wealth

Comprehensive wealth = multiple forms of capital

1. Financial capital

Cash, deposits, stocks, bonds, futures contracts,
Claims on assets held by others

2. Built capital

Buildings, machines, roads, bridges, parks, dams, transmission
lines,

3. Natural capital

Air, water, soil, forests, animals, minerals, etc.

4. Human capital

Education, health, skills, experience, etc.

5. Social capital

Social organization, networks, trust, markets, etc

6. Intellectual capital

Knowledge, books, patents, music, etc.

7. Political capital

Political networks, and trust and access in these networks, etc.

8. Cultural capital

Local and regional cultural practices, sense of place,

CDFIs can play a critical role in building comprehensive wealth in rural areas

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Role of CDFIs

Through financial and technical assistance CDFIs can create

- Financial capital
- Built capital
- Human capital
- Social capital
- Political capital

This assistance can help enterprises and communities exceed poverty trap thresholds

Some Questions for CDFIs

To support investments that will move households and regions out of poverty, it is important to know

- What are the critical assets that enterprises need to escape chronic poverty?
- What are the thresholds levels of different assets (financial, human, etc.) needed to generate sustainable enterprises of different kinds?
- At what scale must CDFIs operate to be efficient and fully exploit the spillover effects of new investments?



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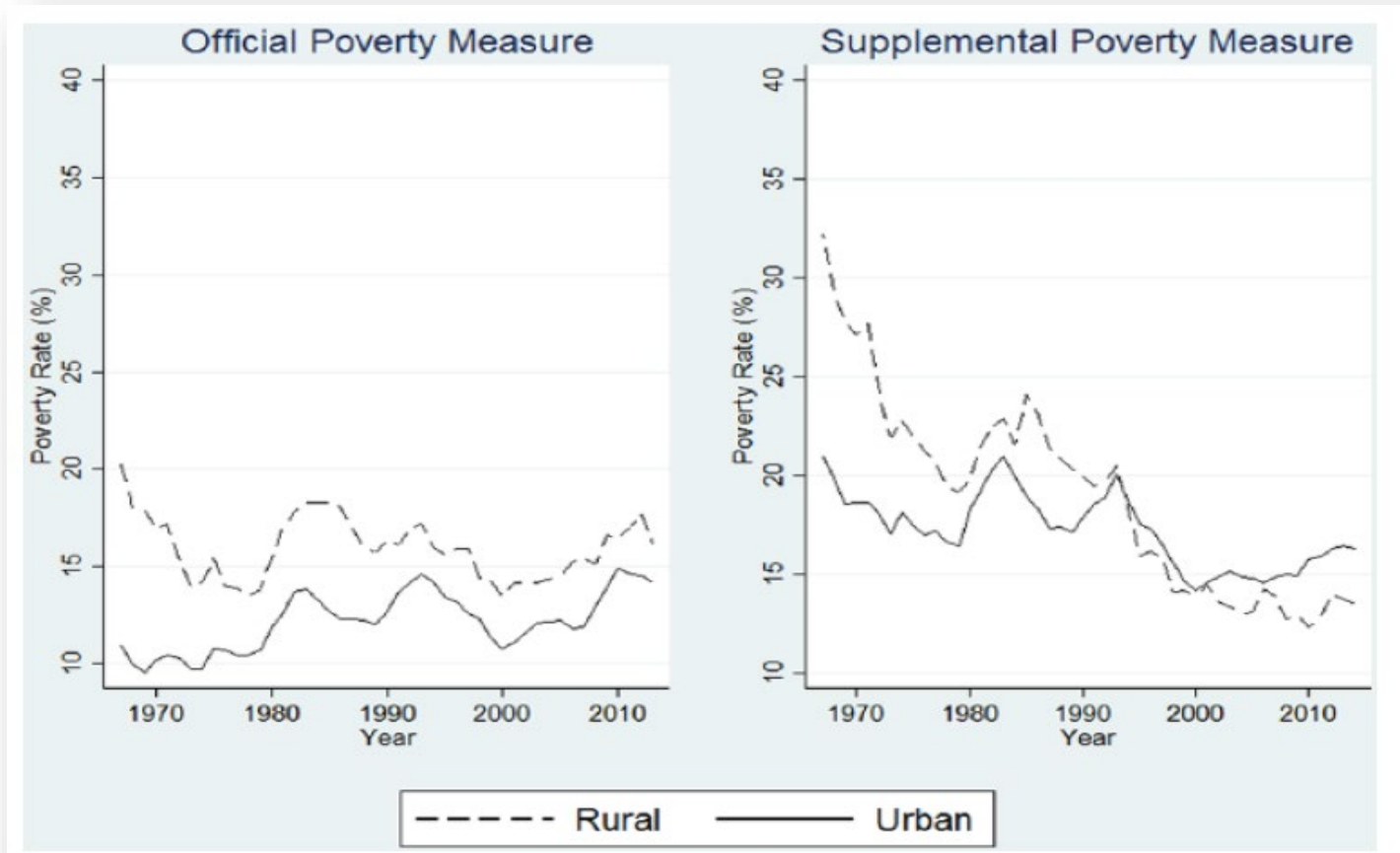


SUPPLEMENTARY SLIDES

For more information

- This presentation drew heavily on material from research conference “Rural Poverty, Fifty Years After *The People Left Behind*” held March 21-22, 2018 in Washington DC
- Powerpoint presentations and copies of the papers and posters from the conference:
<http://www.rupri.org/areas-of-work/poverty-human-services-policy/2018-rural-poverty-conference/>

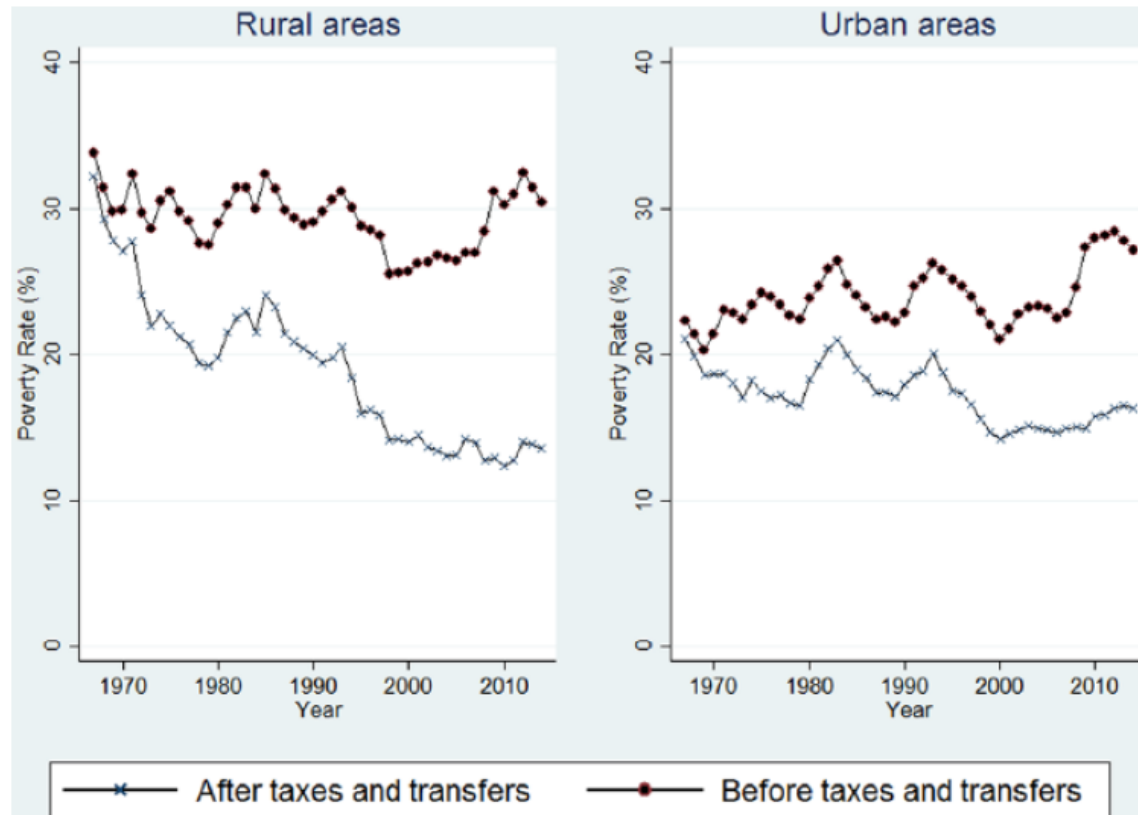
Poverty rate has declined faster in rural areas



Source: Nolan, Waldvogel and Wimer, 2017

The safety net has been more effective in rural areas

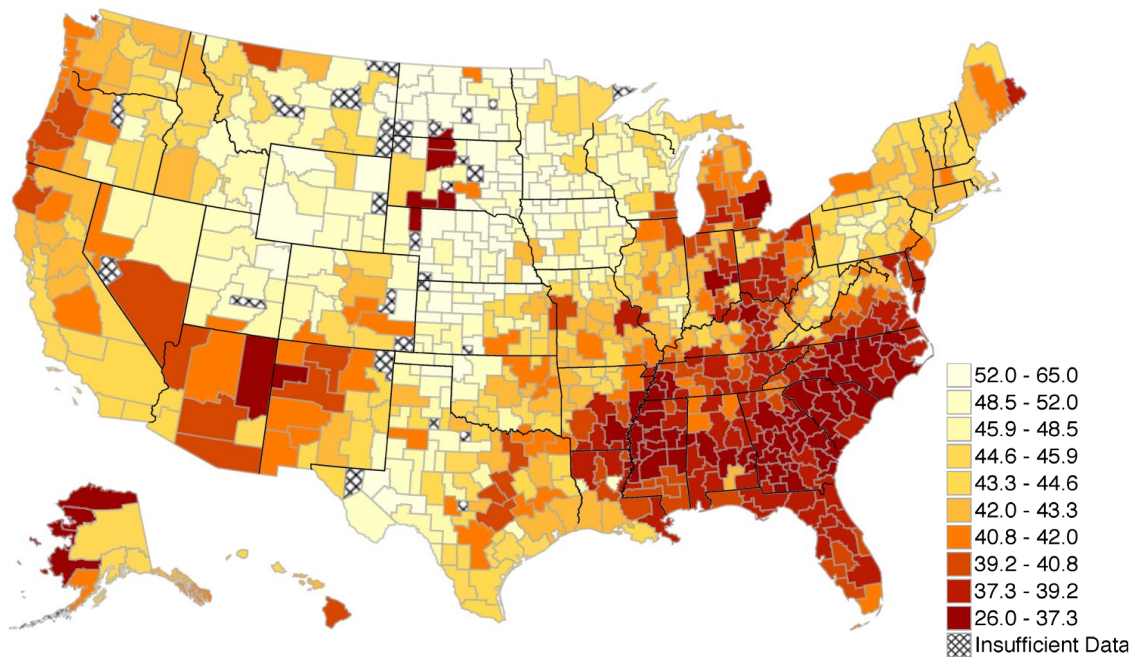
Poverty Rates before and after Taxes and Transfers



Source: Nolan, Waldvogel and Wimer, 2017

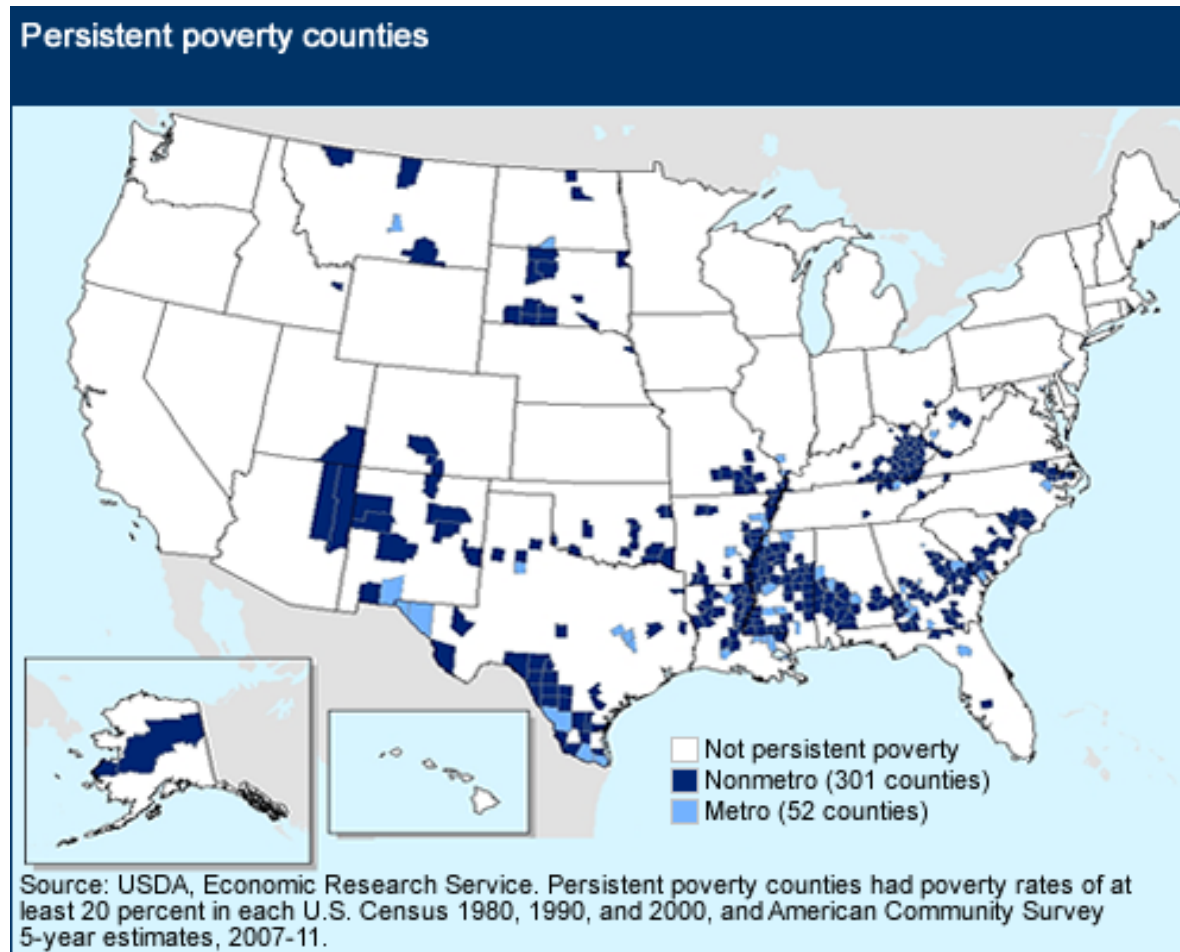
Economic mobility in rural America

Absolute Upward Mobility: Mean Child Percentile Rank for Parents at 25th Percentile (Y_{25})



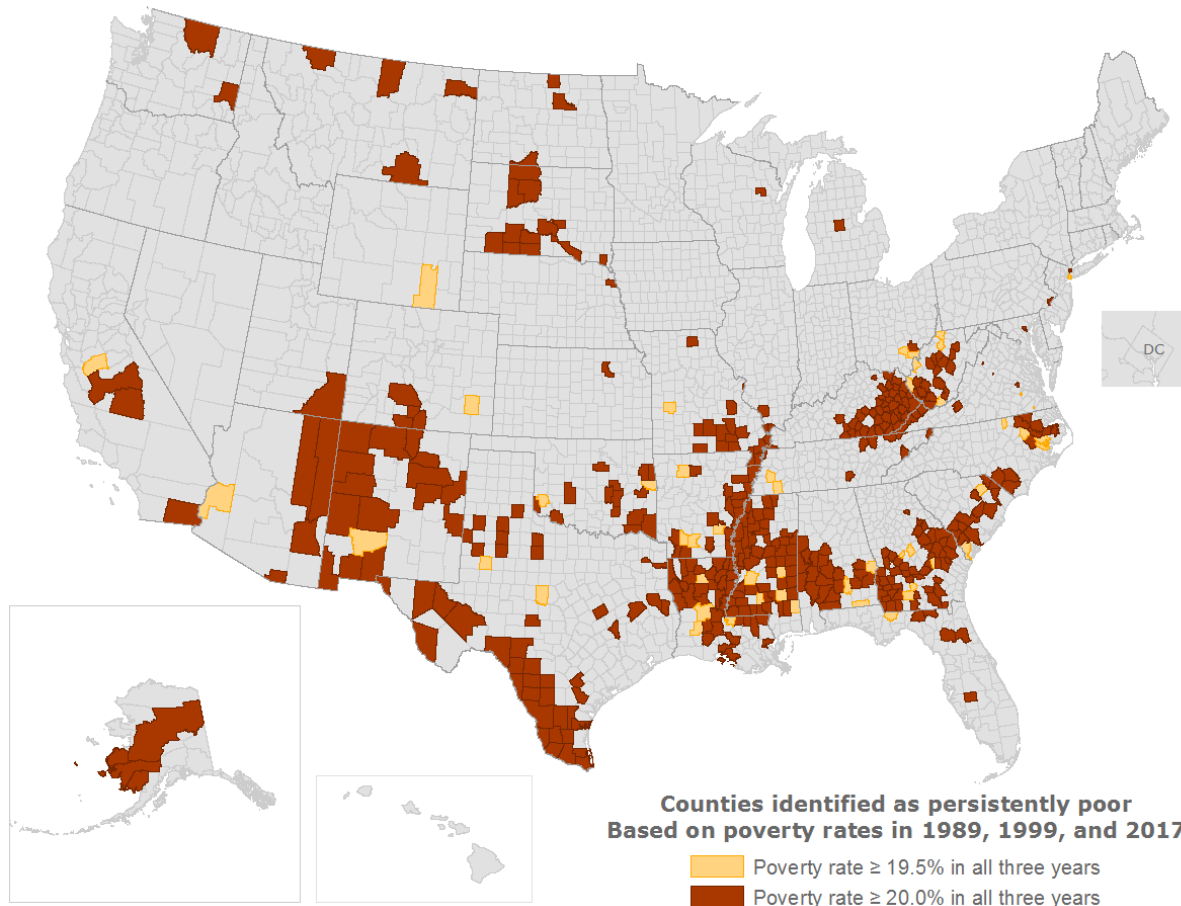
Source: Chetty, Hendren, Kline and Saez, 2014

ERS Persistent poverty (20 percent or more in 1980-2010)



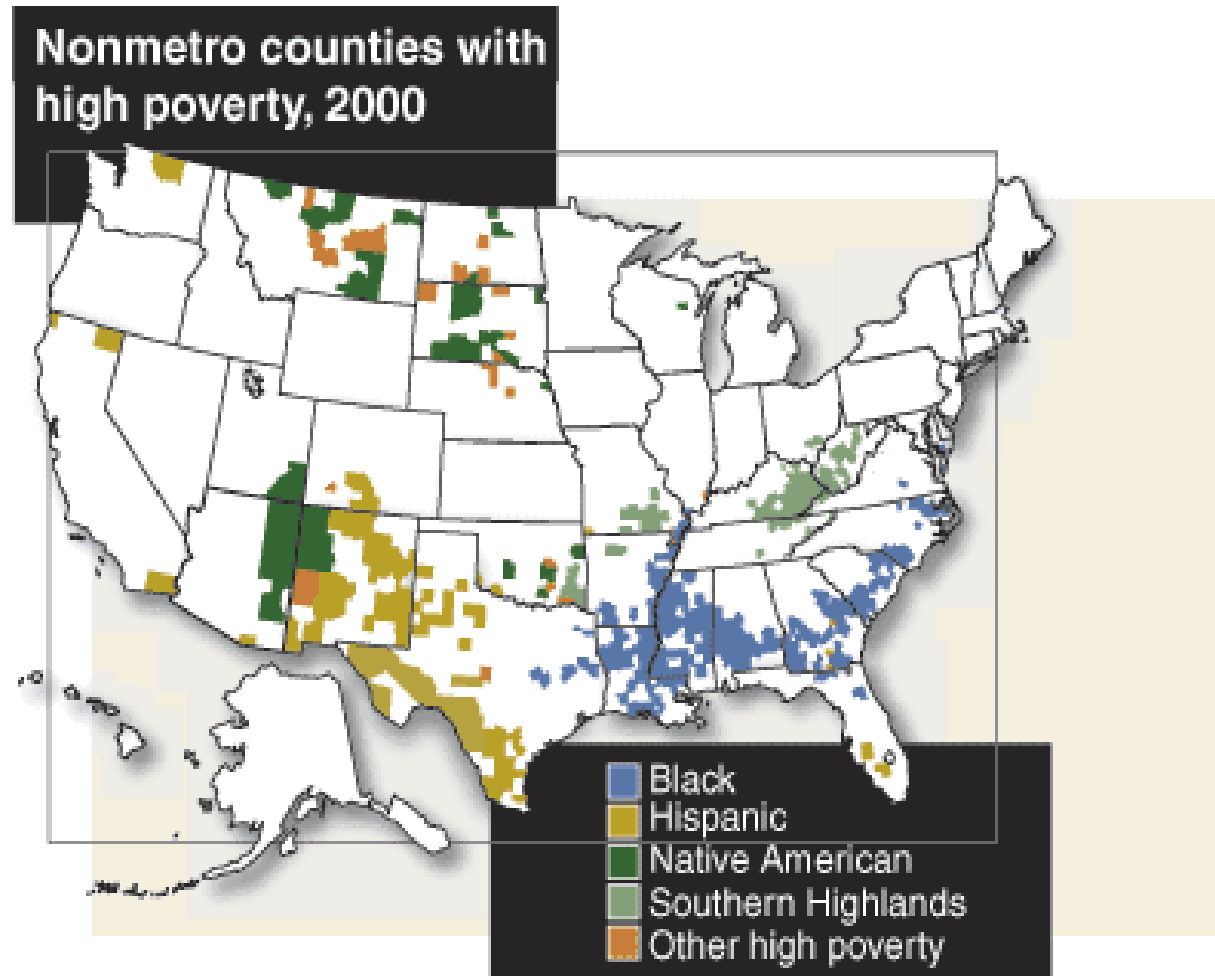
Source: Lichter, *The Demography of Rural Poverty Since The People Left Behind*, 2018

CRS Persistent poverty (20% or higher in 1989-2017)



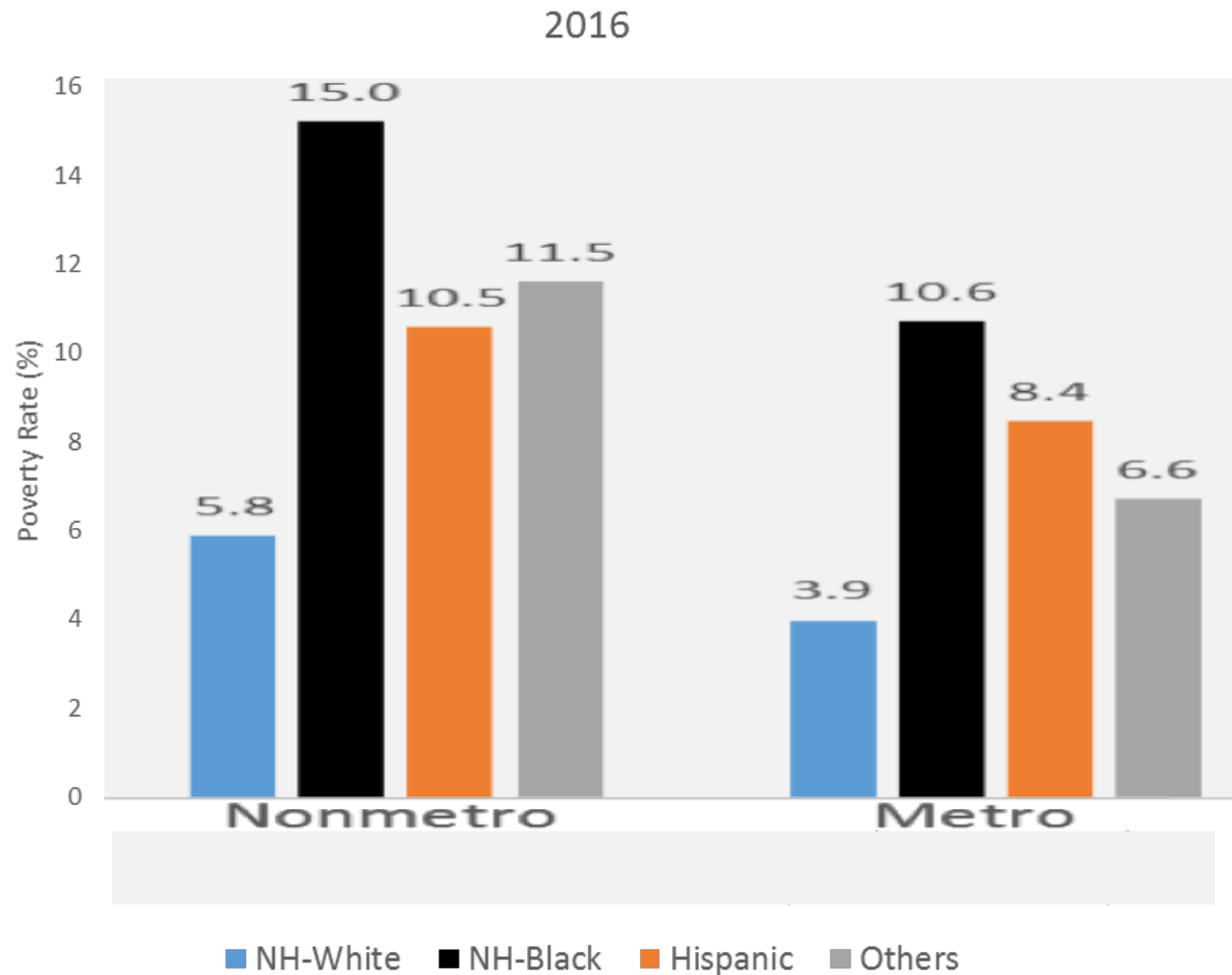
Source: Congressional Research Service (CRS) Report R45100. Created using data from U.S. Census Bureau, 1990 Census, Census 2000, and 2017 Small Area Income and Poverty Estimates.

...segregated by race/ethnicity



Source: U.S. Census Bureau, 2000. High poverty is defined as a poverty rate of 20 percent or more. Map prepared by the Economic Research Service.

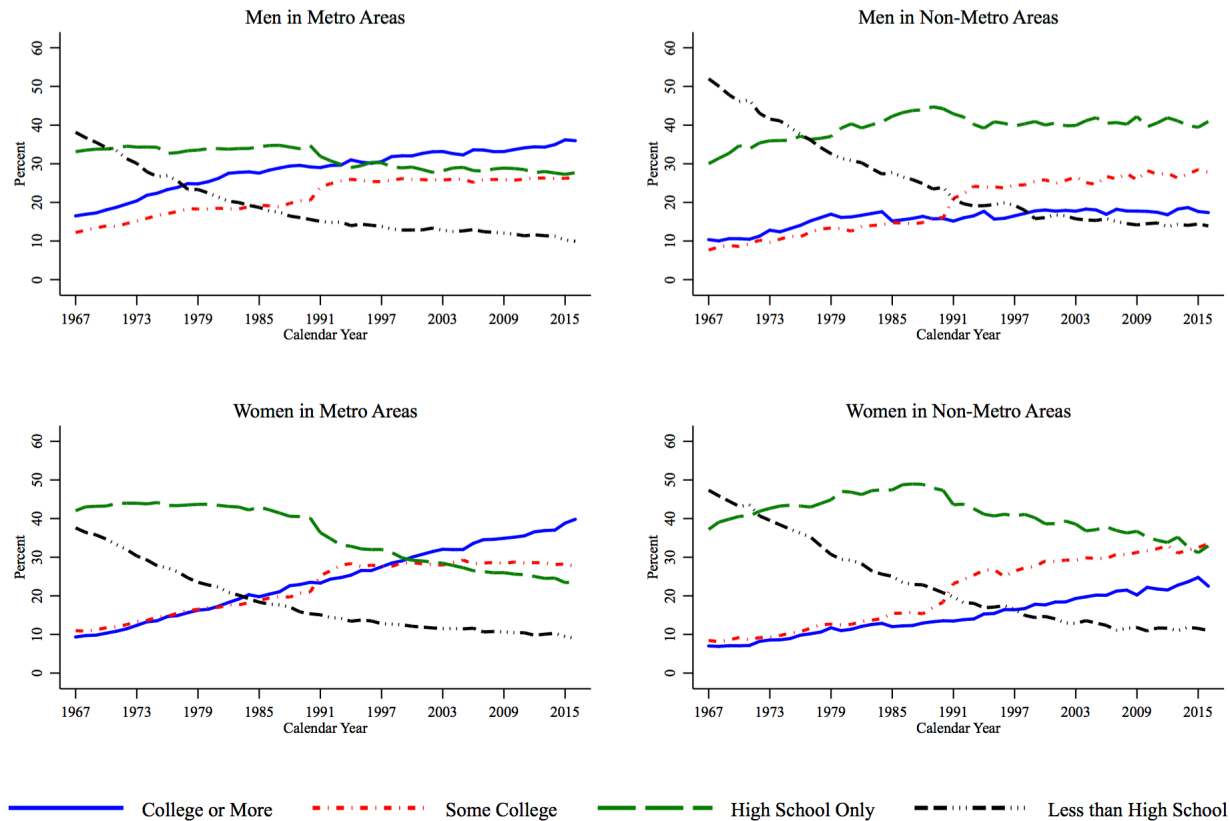
Deep Poverty by Race/ethnicity



Source: Lichter, *The Demography of Rural Poverty Since The People Left Behind*, 2018

Growing urban-rural gap in education

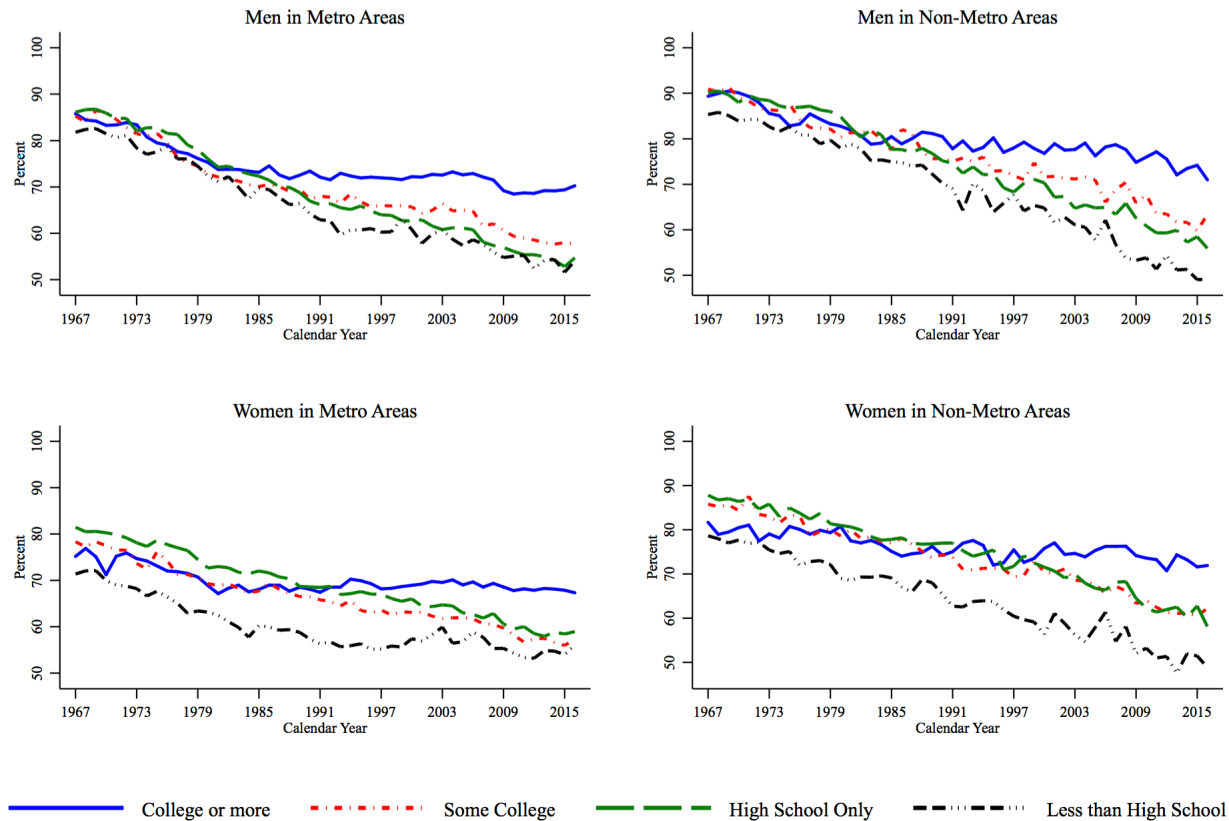
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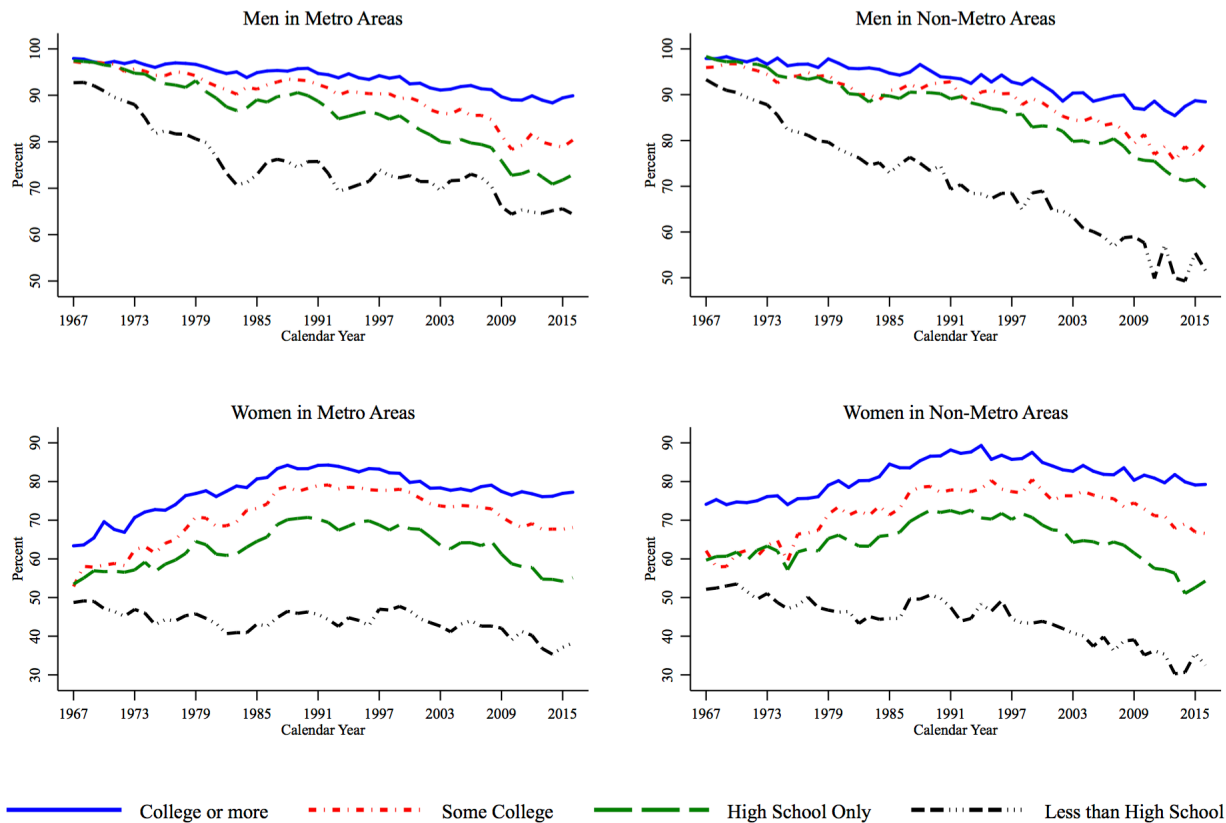
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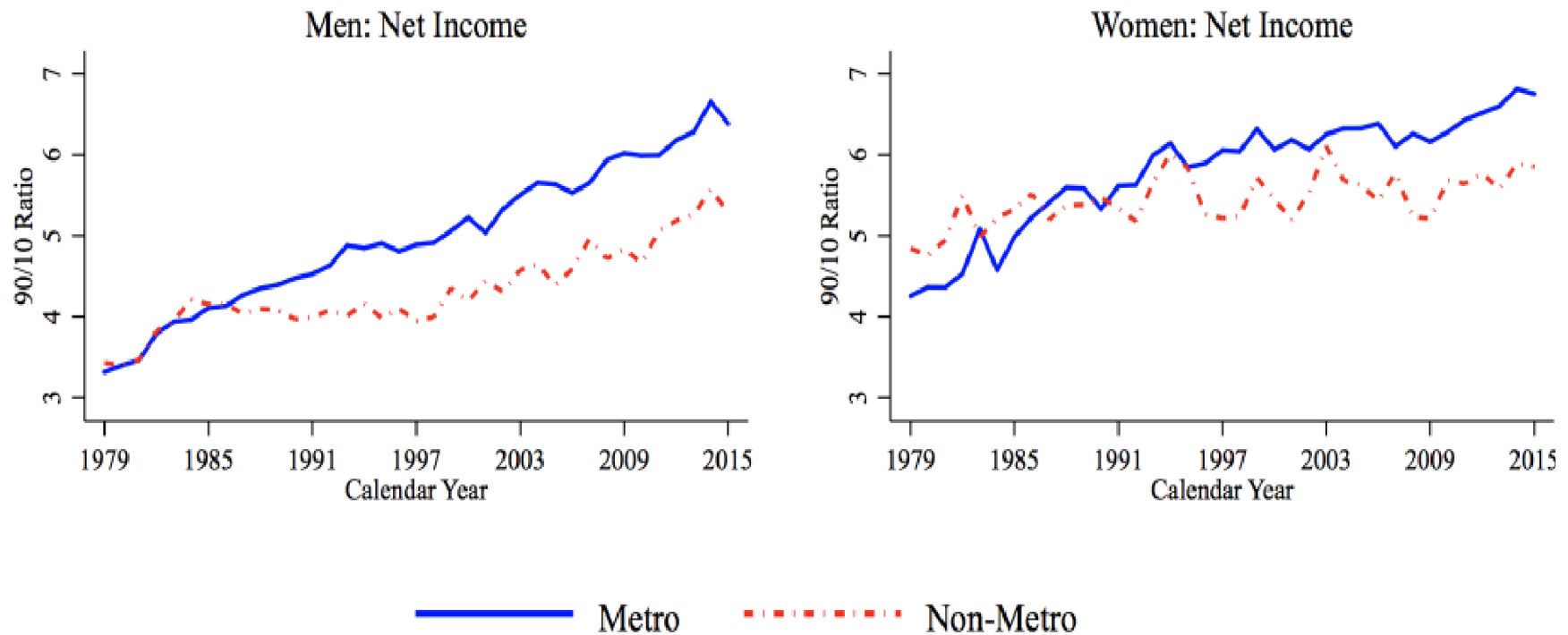
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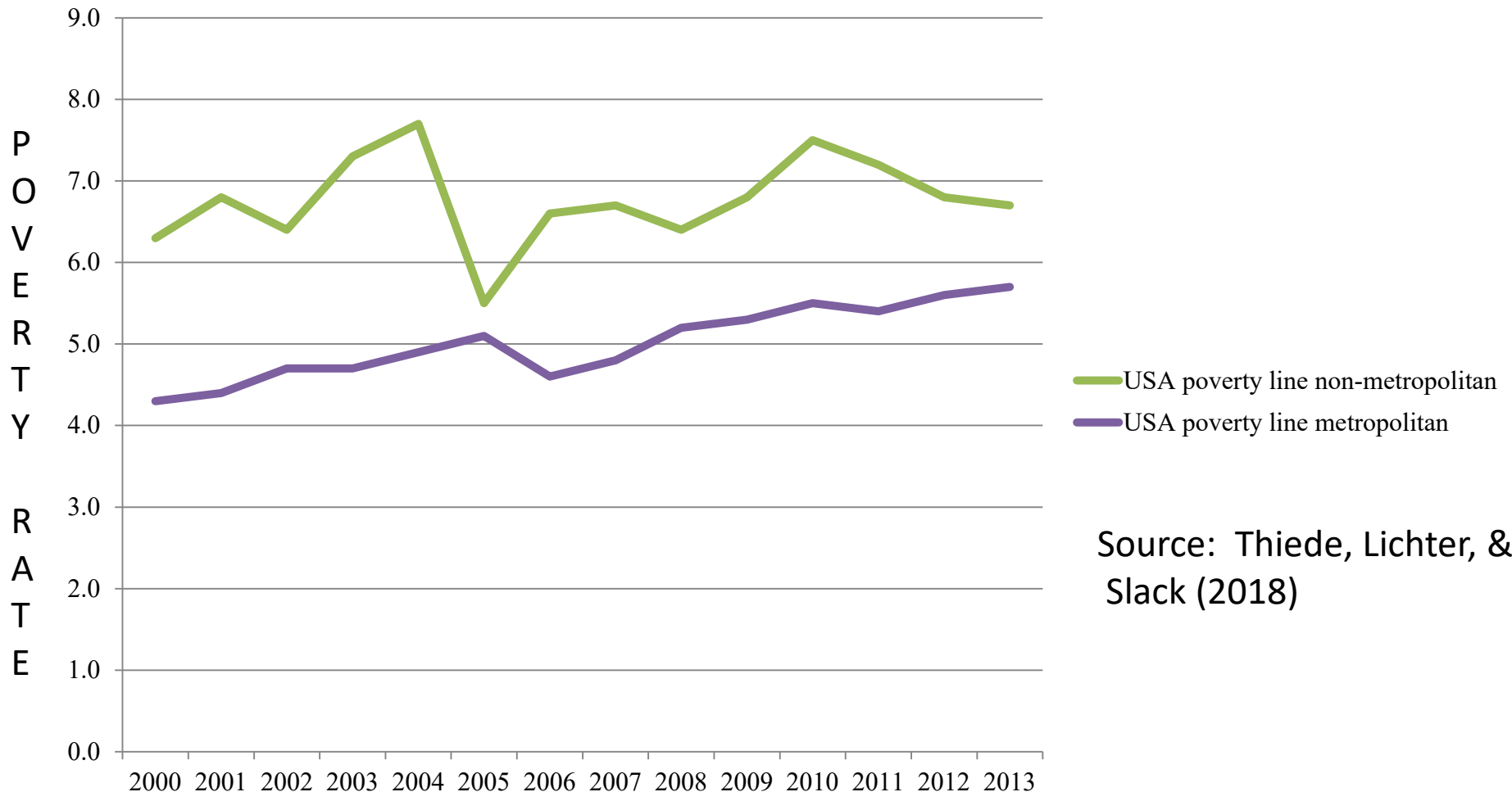
Source: James Ziliak, Economic Change and the Social Safety Net: Are Rural Americans Still Behind?, 2018

Increasing income inequality



Source: James Ziliak, Economic Change and the Social Safety Net: Are Rural Americans Still Behind?, 2018

A higher share of nonmetro workers has historically been poor



Source: Thiede, Lichter, & Slack (2018)

But now a higher share of nonmetro poor are not working

