Coping with the Great Recession: Disparate Impacts on Economic Well-Being and Mobility in Poor Neighborhoods

The nation's loss of over 6.4 million jobs between 2007 and late 2009 coincided with a 12 percent drop in home values and a dramatic increase in foreclosures (Lerman and Kingsley, 2010). Low-income neighborhoods (LIN) are most likely to suffer disproportionately from recessions because of the uneven incidence of job loss, as residents in LIN have lower education and skills, less work experience, and less stable jobs than people in middle-income neighborhoods.

In a normal economic downturn, homeowners living in LIN, especially those with low mortgage payments, might be expected to weather the downturn and limit the experience of economic hardship by drawing on home equity and by paying lower housing costs. If they did lose their jobs, they might be able to sell their home and withdraw equity. However, the dramatic declines in home values accompanied the Great Recession have wiped out large amounts of equity and left many grappling with how to keep up payments on their homes. Many have lost all their equity; some have experienced foreclosure. These families may have sacrificed other basics in order to remain in their homes or find other outlets. In addition, foreclosures may also have devastating impact on neighborhoods where they live, which were vulnerable before the recession.

The recent recession could also affect the flow in and out of poor neighborhoods. The spatial mismatch between increasing job opportunities in suburban areas and majority minority residents living in poor urban neighborhoods has been linked to many social problems such as crime, fatherless, limited employment opportunities or institutional resources (Wilson, 1996). During the Great Recession, residents in these poor neighborhoods may have felt trapped because they did not want to abandon their homes after the sharp fall in home values. Many may have wanted to wait out the downturn, thereby limiting their geographic mobility as well as their chances of remaining employed and achieving upward economic mobility. In addition, families who can no longer afford rents in better neighborhoods may have been forced to move into poorer neighborhoods. On the other hand, large declines in home prices might create new opportunities in neighborhoods with concentrated poverty. Houses have become more affordable and might be attracting some moderate-income families to purchase houses in these areas, potentially reducing the concentration of poverty and improving some neighborhoods.

This paper proposes to examine the disparate impact of the Great Recession on economic well-being and mobility of families in poor neighborhoods by answering the following three questions:

1) To what extent have poor neighborhoods suffered more serious losses in economic welfare, including larger increases in poverty rates and more downward economic mobility, than middle-income neighborhoods? The answer is not obvious because the decline in home values may have hit families in middle-income neighborhoods harder as a result of their higher homeownership rates. In addition, income transfers may have taken up more of the slack in LIN than in middle-income neighborhoods. On the other hand, job losses were probably much higher in poor neighborhoods.

2) To what extent have the impacts of the housing crisis on families in LIN varied by their initial housing status? Although homeowners are often able to shield their families from economic hardship arising out of economic shocks, most homeowners have suffered such large home equity loss that they may be unable to do so in this recession. Subsidized renters may have faced more job losses but their loss in income may have been partly offset by higher subsidies that are built into the income-conditioned formula for subsidized housing.

3) How has the recent housing crisis and unemployment crisis affected geographic mobility and economic mobility in LIN and neighborhoods with concentrated poverty? To what extent has mobility and employment varied with the size of the decline in area home values? In particular, did homeowners in those poor areas become less geographically mobile and less able to sustain employment in areas that experienced the highest drop in home values? Renting is said to offer more locational flexibility and perhaps more access to jobs than owning a dwelling. Many believe that geographic immobility has increased most among homeowners who are under water on their mortgages (where the value of the home is less than the remaining principal on the mortgage). Alternatively, homeowners far under water might have less reason to remain in their dwellings since most can walk away without having to pay off their debt in full.

This paper will use the latest Panel Study of Income Dynamics (PSID) with its unique geographical identifier to answer these research questions. This study will provide a better understanding of the impact of the Great Recession on neighborhood poverty as well as the impact on geographic and economic mobility among families living in poor neighborhoods.

II. Background and Contribution

Most existing studies on economic mobility focus on individuals, families and workplaces. A recent Pew study finds that neighborhoods and communities are also crucial to the processes to economic mobility. Growing up in a neighborhood with high poverty rate increases the risk of experiencing downward economic mobility and explains a large portion of the black-white downward mobility gap (Sharkey 2009). The recent foreclosure and unemployment crisis have a damaging impact that disproportionately affects low-income neighborhoods. Although a number of recent studies document the impact of the recession on individuals and families (*Gonzalez-Barrera and Dockterman, 2009; Bowdler, Quercia and Smith, 2010; Hurd and Rohwedder 2010; Kochhar, Pilkauskas, Currie and Garfinkel, 2010),* less is known on disparate impact on communities and neighborhoods (Carr and Mulcahy, 2010).

Past studies using historical data mostly find falling home prices reduce household geographic mobility (Quigley, 1987; Stein, 1995; Genesove and Mayer, 1997, 2001; Chan, 2001; Engelhardt, 2003). With the wide dispersion in unemployment rates across the country, many are concerned that the weak housing market further increases structural unemployment by preventing homeowners who have negative equity from moving to better job markets (Batini et al., 2010; Fletcher, 2010). Recent studies using data that cover the beginning of the recent recession yield varying results. Ferreira, Gyourko and Tracy (2011) find that underwater homeowners are less mobile, while Schulhofer-Wohl (2010) produces estimates showing that homeowners with negative equity are slightly more likely to move. A lack of consensus is also evident in studies of the link between geographic mobility and income. While some research on migration finds that geographic mobility exerts positive impacts on earnings (Raphael and Riker, 1999), results from the Moving to Opportunity Demonstration (MTO) indicate that moving to a better neighborhood has no effects on employment or earnings (Orr et al., 2003). Whether decline in home prices brings new home buying opportunities in LIN is not clear either. Recent preliminary work at the Urban Institute implies that blacks are less likely to enter the home buying (asset-accumulation is an important component of mobility) population, even after adjusting for income (Steuerle and Hendey, 2011).

Our study adds to the knowledge about these phenomena in several ways. Building on existing studies on how neighborhoods relates to economic mobility, our study uses the latest data to examine the special challenges that the recent recession brings for LIN and neighborhoods with concentrated poverty. It also offers new findings on the extent to which different types of families in poor neighborhoods experience loss in economic and social welfare as well as downward economic mobility. It considers variations in outcomes by housing status. Finally, this study extends research on the link between changing home values and geographic mobility and the implications for economic mobility, especially in poor neighborhoods.

III. Data

The primary data source for this paper is the Panel Study of Income Dynamics (PSID) 2007-2009. The PSID is a nationally representative longitudinal study that follows the same families over time since 1968, with about 9,000 families in 2009. One particularly useful feature of the PSID for this study is the geocoded data that contain a restricted identifier of the census tract in which sample members have lived in each year of the survey. The geocoded data in PSID will be used to identify LIN and neighborhoods with concentrated poverty.

In addition to the PSID data, Neighborhood Change Data Base (NCDB) will be used to identify the poverty rate, unemployment rate as well as other statistics at the census tract level in 2000. NSF Foreclosure Need Data[1] will be used to measure foreclosure risks in 2009 by census tract. The Bureau of Labor Statistics (BLS) data will provide statistics on the unemployment rate at the county level. Detailed data on the change in employment by county will come from the Census Bureau's Longitudinal Employer-Household Dynamics (LEHD) program.

IV. Analysis

The first part of the paper will be a descriptive analysis on whether poor neighborhoods have experienced the most serious welfare losses during the recession. We will compare neighborhoods with different initial poverty levels along four dimensions of welfare loss: income loss, experience of economic hardship, family breakup, and wealth loss. Income loss will be captured by job loss, relative and absolute economic mobility.[2] Experience of economic hardship will be measured by receipt of food stamps, housing cost burden, foreclosure risk, and whether behind in housing payment. Family breakup will include parental separation and divorce. Wealth loss will be measured by loss of homeownership, reduction in home equity and net worth.

The second part will focus on the differential impacts of the housing crisis on families in LIN by housing status. In particular, the study will analyze whether larger declines in home

[1] The data can be found at: http://www.huduser.org/nspgis/nsp_map_by_state.html

[2] Relative economic mobility will be measured by ranking family income and dividing into equally sized fifths or quintiles and examine movement from one quintile to another. Absolute mobility will be measured by earnings gains or losses of more than 25 percent over the two-year period.

prices and in jobs affect families in LIN differentially among homeowners, unsubsidized renters, and subsidized renters. Changes in economic hardship, family breakup, and job loss will be examined among LIN with high, medium, and low reductions in area home prices and across families who own their homes, rent without a subsidy, or rent with a subsidy. With declines in housing prices varying across geographic areas, the relative impacts by housing subgroup is likely to vary. Areas with more severe declines in home prices would be expected to be associated with larger impacts on homeowners than on renters. Whether the scale of area job losses exert differential impacts is less clear.

The third part of this paper will extend the analysis of impacts of job losses and declines in home prices to geographic and economic mobility. As noted above, declines in home prices might well exert larger impacts on homeowners, while job losses by themselves are more likely to affect the geographic and economic mobility of renters. In part, these expectations depend on whether changes in home prices pass through to changes in rents. If so, renters may be more likely to respond to home price reductions by displaying less geographic mobility. But, most aggregate statistics indicate that rents have not declined at all during the large decline in home prices.

Geographic and economic mobility will be examined through flows into and out of LIN and neighborhoods with concentrated poverty, as well as changes in homeownership (both from rent to own, and from own to rent) among those who have moved. Declines in home prices may bring new opportunities in these neighborhoods, as houses become more affordable and attract people into the neighborhood. New homeowners are likely to have higher education and higher income, potentially reducing the concentration of poverty and yielding long-term benefits for people in these neighborhoods. We will describe the mobility/immobility patterns among LIN and neighborhoods with concentrated poverty.

V. Summary and Policy Implications

The findings from this research will help answer key questions relevant to policies for dealing with the economic shocks that have hit neighborhoods with high poverty rates. Of particular interest is whether the Great Recession's impacts on well-being, economic mobility, and geographic mobility have varied by housing status. This issue is highly relevant to public policy, especially because of the increasing controversy over promoting homeownership after the collapse of home prices in many parts of the country. It is clear that many homeowners have suffered large losses during the Great Recession. What is less clear is whether families in low-income neighborhoods would have experienced more or fewer problems in the absence of homeownership. Those in subsidized rental housing may have coped best with the recession since income losses associated with losing a job are partly offset by lower rent burdens. Given the devastating losses in home equity and high levels of foreclosures, some have argued for increasing the emphasis on rental housing. On the other hand, the dramatic improvements in the affordability of owner-occupied dwellings suggests now is the wrong time to abandon homeownership for low-income families. This research will inform this and related policy debates by documenting the facts about how economic downturns generate disparate impacts across neighborhoods and by the housing status of families in low-income neighborhoods. The results are likely to show the need for a nuanced set of policies that take account of the disparate impacts of the Great Recession.