The (Un)natural Disaster of Early Poverty

As the Winter 2011 issue of *Pathways* showed, poverty affects children very early in their lifecourse. If children are subjected to early and chronic stress, it can "get under the skin" and compromise their adaptive biological systems in ways that then make it difficult for them to do well later in life. But exactly *when* do these early lifecourse effects begin to play out? It's long been argued that the effects of poverty and stress may extend into the womb, but proving causality between conditions in utero and life outcomes has posed a difficult problem for researchers.

A creative new study by Florencia Torche overcomes these difficulties. Her research links maternal stress to a drop in birthweight by exploiting an external, measurable source of stress: a magnitude 7.9 earthquake that hit Chile in 2005. The findings show that exposure to a high-intensity earthquake has a significant negative effect on birthweight, particularly when it occurs in the first trimester of pregnancy. By isolating stress from its common correlates, and by showing that increased intensity of exposure to stress leads to drops in birthweight, Torche's research provides powerful evidence of causality.

This study thus demonstrates another pathway through which disadvantage is passed between generations. It also suggests a potentially low-cost pathway by which such disadvantage can be reduced. If we can't do away with poverty itself, we can at least find a way to help low-income mothers reduce chronic stress, thereby reducing the toll that poverty takes on them and their young children.

Florencia Torche. (Forthcoming). "The Effect of Maternal Stress on Birth Outcomes: Exploiting a Natural Experiment." *Demography*.

Starting Up Job Growth

Small businesses drive job growth. This claim is trotted out by pundits so often that one might forget it's an empirical claim rather than a political slogan. Indeed, because it's an empirical claim, it is useful to test its validity before building all manner of economic policy around it. The testable hypothesis behind the claim is that economies with a larger share of big firms will, all else being equal, be associated with a lower rate of job growth.

Appealing as this idea may be to supporters of small business, new research suggests it's flat-out wrong. John C. Haltiwanger, Ron S. Jarmin, and Javier Miranda use longitudinal Census data on business dynamics to demonstrate that firm age distorts the relationship between firm size and economic growth. It's a classic spurious relationship: When one controls for firm age, the negative association between firm size and net growth disappears. The implication is that, if job growth is the goal, what we need is many *young* firms, not many *small* ones.

Though start-ups account for only 3 percent of total employment, they provide almost 20 percent of newly created jobs. Although many start-ups fail and their employees will lose their jobs, the start-ups that survive tend to grow extremely fast and more than compensate for the number of failures. Popular perception is wrong: It's start-ups—not small businesses—that are the real heroes when it comes to job growth in the United States.

John C. Haltiwanger, Ron S. Jarmin, and Javier Miranda. (2010). "Who Creates Jobs? Small vs. Large vs. Young." *NBER Working Paper* No. 16300.

Segregation of a Crisis

Subprime lending and the foreclosure crisis that followed were a catastrophe for low-income Americans. Because mortgages were securitized and readily sold, a new market for high-risk borrowers opened up, a market quickly exploited by predatory lenders. The standard story about how this happened is an impersonal economic one. We're told that the crisis was a consequence of highly leveraged refinancing, overbuilding, the collapse of home prices, and a poorly regulated mortgage market.

But Jacob S. Rugh and Douglas S. Massey show that, in addition to such economic forces, racial segregation was also an important cause of the crisis. Analyzing a database of foreclosures in 100 U.S. metropolitan areas, they find racial segregation to be a more powerful predictor of foreclosure rates than many market factors cited in previous studies. How does segregation facilitate the sale of subprime loans? It concentrates underserved, less financially sophisticated minority group members in a small number of well-defined neighborhoods and thus makes it easier for brokers to target them when marketing subprime loans. This means that minorities also bore the brunt of the fallout with the waves of foreclosures that followed.

Is there a policy fix? Rugh and Massey argue that there is: The enforcement mechanisms of antidiscrimination policy could be given real "teeth" via systematic and regular audit studies to identify discrimination. For Rugh and Massey, the main conclusion is that, if we really want to reduce the racialized fallout of future financial crises, it's largely a matter of getting serious about taking on housing discrimination.

Jacob S. Rugh and Douglas S. Massey. "Racial Segregation and the American Foreclosure Crisis." *American Sociological Review, 75(5),* 629–651.

Stimulus Foregone

The Earned Income Tax Credit (EITC), which has been expanded in recent decades in our collective attempt to "make work pay," is widely credited with lifting millions of Americans out of poverty. The benefits of EITC are not limited to direct recipients because credits are mainly spent rather than saved and hence go back into the economy. It's important to ask, then, whether much EITC money is going unclaimed, thereby reducing the size of the EITC stimulus, as well as leaving potential recipients poorer than they should be. Are many qualified families leaving their EITC benefits on the table?

The answer, at least in California, appears to be "yes," according to new research by the New America Foundation's Antonio Avalos and Sean Alley. Analyzing tax data from each of California's counties, the authors find that about one in five eligible Californians fail to claim their EITC, with the unclaimed credit equaling on average $1,400 per claim. The authors further estimate that such underclaiming costs the state approximately $1.4 billion in sales and 8,200 new jobs.

While the EITC is often lauded for its antipoverty effects, this research implies that there's room for better implementation. And doing so will have widespread benefits: Indeed, because the EITC has such large multiplier effects, the underclaiming phenomenon not only means that the poor are being poorly served but also that economic growth has been lowered in the aggregate.

Antonio Avalos and Sean Alley. 2010. "Left on the Table: Unclaimed Earned Income Tax Credits Cost California's Economy and Low-Income Residents $1 Billion Annually." Washington, D.C.: New America Foundation.

Out of Sight, Out of Mind?

The takeoff in income inequality in the United States has been so extreme that the current period has increasingly been tagged the "Second Gilded Age." Although there's much research on the causes of the takeoff, we know less about its effects on how we live and experience our everyday lives. Does rising income inequality imply, for example, that we are increasingly unlikely to live and interact in income-homogenous neighborhoods? Are the rich increasingly living together in gated communities and the poor living together in blighted suburbs and urban ghettos?

According to new research by Sean F. Reardon and Kendra Bischoff, the rich are indeed increasingly living together. Using data from the 100 largest metropolitan areas in the United States from 1970 to 2000, the authors find a strong, robust relationship between rising income inequality and rising income segregation. This relationship, though, is driven not by the increasing concentration of poverty but rather by the increasing concentration of the most affluent. In addition, this growing concentration is only found in the largest metropolitan areas, where exurbs and distant suburban rings offer the rich the opportunity to remove themselves spatially from the less well-off and still participate in a high-skill economy. For the affluent, then, commanding an ever-larger share of the nation's income has moved them out of the view of lower-income prying eyes.

Sean F. Reardon and Kendra Bischoff. (In press). "Income Inequality and Income Segregation." ***American Journal of Sociology.***

Getting to Work

The American economy shed millions of jobs during the Great Recession, and new jobs are trickling back at an anemic pace. When a fuller and more forceful recovery eventually happens, an important question will be whether the poor, who are disproportionately found in big urban centers, will have access to the new jobs the recovery creates. Will the poor be able to take advantage of such jobs as they become available?

The answer will depend much on where these jobs are found. According to new research by Adie Tomer, Elizabeth Kneebone, Robert Puentes, and Alan Berube at the Brookings Institution, many residents of big urban centers lack easy access to currently available jobs. According to their analysis of the 371 transit providers in the nation's 100 largest metropolitan areas, fully 70 percent of jobs cannot be reached by the typical metropolitan resident via mass transit in 90 minutes or less. If attention is restricted to jobs that require only low or moderate levels of skill, approximately 75 percent of all jobs are unreachable in 90 minutes.

This spatial mismatch matters because the poor can't easily afford cars or the high costs of fueling and maintaining them. If we're going to run a high-poverty economy in which cars are not available to all, there's good reason to do a better job of making jobs accessible to the carless poor.

Adie Tomer, Elizabeth Kneebone, Robert Puentes, and Alan Berube. 2011. "Missed Opportunity: Transit and Jobs in Metropolitan America." Washington, D.C.: The Brookings Institution.