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The Urban-rural Divide in the Persistence of Poverty

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A lot of work has been done to analyze the differences in the level and determinants of income poverty across the US landscape. An extensive evidence suggests that, the prevalence of poverty is significantly higher in rural than in urban areas. According to a recent report of the U.S. Census Bureau, in 2016 the official poverty rate outside metropolitan areas was 15.8 percent against 12.2 in metropolitan areas.

The urban-rural divide in poverty rates is typically attributed to differences in person-specific and place-specific characteristics. On average, rural areas tend to have disproportionately large population shares of female-headed families, low-educated people and other economically disadvantaged population sub-groups, which are prone to poverty. The areas also differ in terms of local conditions (natural environment, economic structure, public and community institutions, social and cultural norms), which predetermine individual opportunities for employment and income growth as well as serve as a buffer for macroeconomic shocks.

Albeit differences in static poverty between urban and rural areas are widely studied in the literature, little has been done to explore how the portrait of poverty would look like if poverty were analyzed from the dynamic perspective. Would we find more poverty persistence in rural than in urban areas, or the other way around? Most of the available studies analyze the persistence of poverty at the county level. A county is considered persistently poor if it experiences high poverty rates (typically 20 percent or more) over several consecutive time periods such as, for example, years or decades. The evidence suggests that persistent poverty counties are predominantly rural, with 95 percent being located in nonmetropolitan areas (Weber et al., 2005).

The county-level studies, however, do not provide any insight on the dynamics of poverty at the individual level. In particular, it remains unclear whether it is the same people who stay poor year after year, or some people escape poverty while others fall into it over time. The importance of studying poverty dynamics at the individual level has been highlighted in early works on poverty. The distinction between those who are persistently poor and those who become poor for only a short period is important because the amount of time people spend in poverty predetermines their living standards and influences their chances of exiting poverty. Previous studies have shown, for example, that the longer someone stays poor, the lower are the chances of exiting poverty (Bane and Ellwood, 1986; Stevens, 1999). Apart from the duration of poverty, it is also vital to know which individual and family characteristics are associated with long

episodes of poverty and whether the importance of these characteristics differs between urban and rural areas. This knowledge is also important because different policy measures might be needed for those who are short-term and long-term poor, as well as for people of different age, gender, race etc.

This paper aims to fill in the highlighted gap in the literature by analyzing the differences between urban and rural areas in the dynamics of poverty at the individual level. In the first step, we explore whether the amount of time individuals spend poor differs depending on the area they live in, and which individual and family characteristics predetermine for how long people remain below (above) the poverty line in each area. As a next step, we investigate which factors underlie the difference between urban and rural areas in the persistence of poverty – differences in the demographic characteristics of the poor (the person-specific characteristics) or returns to them (the place-specific effects). To perform this analysis, we take advantage of monthly panel data coming from the Survey of Income and Program Participation (the SIPP).

To the best of our knowledge, this study is the first to use micro-level data to examine the dynamics of poverty at the individual level. The closest to ours is the study of Ulimwengu and Craybill (2004), who, using data from the Natural Longitudinal Study of Youth, define and analyze the composition of two categories of the poor – those who have been poor for ten years and more (persistently poor) and those who have been poor for one to nine years (transitory poor). They find that the number of years spent in poverty by persistently poor is slightly higher in rural than in urban areas whereas it is the other way around for the transitory poor. They also document gender and racial variation in the composition of persistently and transitory poor across metro and non-metro areas. In particular, they find that females are more likely to be persistently and transitory poor in metro than in non-metro areas. Similar evidence applies to blacks whereas whites are more represented among the transitory poor in rural areas.

We extend the work of Ulimwengu and Craybill (2004) in three ways. First, we focus on monthly rather than on annual data, which allows capturing even short-term episodes of poverty. These short periods of poverty often remain unobserved in annual data due to income smoothing, which takes place over the year. Second, we analyze differences in the persistence of poverty in a multivariate regression setting, which allows us to examine whether individuals with certain personal and family characteristics face different chances of exiting (re-entering) poverty depending on the type of area they live in. Finally, using decomposition techniques we are able to partition the overall difference in the persistence of poverty between urban and rural areas into the portion attributable to person-specific characteristics and the portion attributable to place-specific effects.