

Creating locational Equilibriums: The Potential Role of Publicly Funded Housing as a  
Foundation for Equality of Opportunity for Impoverished Children

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Abstract

Public Housing Projects in the United States have not been built on a large scale since 1981. The idea of building new, government funded, low income housing units is not particularly popular due to the previous historical failures of the projects. However, there is a documented connection between unsafe home environments and decreased movement out of poverty for children. Neighborhoods with a high percentage of poverty have increasing numbers of stress inducing factors, and stress inhibits brain development in young children which leads to a decrease in the executive functionings needed to move out of poverty. These negative outcomes reflect poorly on the availability of equality of opportunity for children who live in these stressful environments. New data from the Movement to Opportunity Experiment shows that moving from public housing projects to low poverty neighborhoods at a young age increases income by 31%, along with other positive benefits. If new rental units for low income residents are built in low poverty neighborhoods, meet the current demand for housing, and are funded for longevity, then they can provide a foundation upon which families and children can build equality of opportunity.

**Introduction: Separate and Unequal**

In 1954, The Supreme Court ruled with *Brown v. Board of Education* that the previously celebrated invention of “separate but equal” was an impossibility and a myth. Today, our society has transferred the fallacy of separate but equal from race to class. The environments in which people who are poor live, their houses, neighborhoods, schools, and even families, are not equal to the environments of wealthy and middle-class citizens. The forces behind this separation could be economically driven urban sprawl, culturally driven self-segregation, or some combination of both (Boustan). However, the end result is rising income segregation and a deterioration of the environments where poor children grow up by no choice of their own (Reardon). This deterioration has a direct impact on equality of opportunity for poor children. A growing body of research suggests that an increased number of stressors in early childhood homes reduces childhood outcomes through abnormal brain development. (Whipple). Put positively, early intervention in stressful environments could help to improve outcomes for children. The main channel through which this increase in outcomes occurs is increased executive functionings. Commonly referred to as “soft skills”, executive functionings include general life skills such as the ability to focus, access memory, multitask, set goals, follow through, find alternate solutions to a problem, delay gratification, and control impulses (Babcock, Shonkoff). If the brain does not develop properly, children lack these skills, and the end result is intergenerational income persistence and a lack of upward mobility out of poverty.

The research is clear; early intervention in the lives of children who live in impoverished households and communities, through a variety of channels that include education, family structure, neighborhoods, and job training, can help improve outcomes for these children. However, across the board, scholars, scientists, and economists who study the intersection of

generational mobility are unsure of the best ways to intervene. James Heckman, who makes arguments for both increased quality and quantity of early education, observes that “dysfunctional families and environments are major sources of social problems,” but believes few people would support large government interventions for fear of paternalism (Heckman, “Inequality”, 164). This statement highlights the moral dilemma of balancing increased government intervention with family sovereignty and freedom of choice. Of the proposed interventions in current literature, increased funding for low income housing along with some level of new construction to meet market demand is a promising tool that has not been sufficiently discussed, most likely due to negative stereotypes and previous failures of public housing projects.

If impoverished environments are driving cyclic poverty and decreased equality of opportunity, then interventions need to be both early and foundational. Using Maslow’s Hierarchy of Needs, I argue that quality low income housing built to a quantity that meets market demand for people with low income is a foundation upon which families can build equality of opportunity through the other channels mentioned above. However, public funding for low income housing cannot look anything like it did in the mid-20<sup>th</sup> century. Continued economic research on the local effects of public housing along with new results from the Movement to Opportunity Experiment suggest that, in order to have positive economic effects and create cycles of growth instead of cycles of decay, government housing policies must encourage income integration, meet the demand of people with very low incomes, and be funded for longevity instead of efficiency.

While I by no means believe that building public housing for the poor will create equality of opportunity and fix the problem of intergenerational income persistence, I do believe that if

the proper changes are made through both private and government interventions, new and existing low income housing units will have positive spillover effects by reducing stress in household environments and leveling the playing field for low income children. Furthermore, meeting the demand for housing in the United States is encouraged by many prominent moral frameworks, and, if done through joint public and private ventures, does not increase the risk of paternalism. Housing for the poor, while not the solution, is a modest step in the right direction of creating a foundation for equality of opportunity for children in low income families. In order to show how equality of opportunity relates to the need for increased funding and construction of low income housing, the first part of this paper explores the connections between an increased concentration of poverty and equal opportunity. The second part reviews the previous failures of public housing along current economic literature to establish the policy recommendations in part three and the responses to objections in part four.

## **Part One: Intergenerational Mobility and Equality of Opportunity**

### **The Connection Between Intergenerational Mobility and Equal Opportunity**

A normal story in the United States is that an abundance of people are poor through no fault of their own due to any number of factors that may be unobservable. Furthermore, their children tend to be poor as well, and income attainment is persistent across generations. In recent years, this story has become both much more feasible and simple. Instead of vague factors that create poverty and random channels through which income attainment is passed to children, new research in neuroscience shows that the emphasis should be on environments, stressors, and brain development. When children grow up in poverty, they are more likely to suffer from a lack

of executive functionings, and these functionings seem to explain trends in intergenerational mobility out of poverty. Intergenerational income mobility is a measurement that compares the relative income distribution of fathers to the distribution of their sons. The comparison allows one to track the earnings of children to see if they made more, less, or the same amount of money as their parents relative to the entire generation.

One of the easiest ways to visually show income mobility is with an earnings mobility matrix. Table 1 shows an earnings mobility matrix copied from Markus Jantti's report on income mobility, "Mobility in the United States in Comparative Perspective". The father's earning quintile is indicated in the left column, and the son's earning quintile is indicated in the first row. Each cell shows the percentage of sons that grew up in a quintile indicated by the row (their father's) and had peak earnings in the quintile indicated by the column (their own) (Jantti, 192). The trends in Table 1 are startling, as we would expect to see something close to 20% in each column if a son's income has no correlation with their father's income. Even though this expectation is present in the middle quintile, the two diagonals suggest that poor children become poor adults as 36% of children remain in the lowest quintile, and only 9.5% make it to the upper 20% of earnings. The opposite trend is even more striking, as 42.2% of children in the top quintile remain there and only 7.9% will have incomes in the bottom quintile as adults.

For the purposes of this paper, intergenerational mobility will be treated as a proxy for potential movement out of poverty. If a high percentage of children who grew up in the 4<sup>th</sup> and 5<sup>th</sup> quintiles have peak earnings in the same quintiles, then potential movement out of poverty is low. This low movement out of poverty could be a reflection of equal opportunity. True equality of opportunity would mean perfect intergenerational mobility. Perfect mobility means that, no matter which income quintile a child was born into, that child has a 20% chance of ending up in

any one of the five quintiles. In other words, the father's income has no effect on the son's income (Jantti, 192). Imperfect income mobility means one of several outcomes are true: children of wealthy parents have a greater than 20% chance of being wealthy, children of poor parents have a greater than 20% chance of being poor, or some combination of both. While this definition of equality of opportunity does not account for people not using the equality of opportunity provided to them, if equality of opportunity were provided, then we would not expect the large amount of intergenerational income persistence. For each quintile, the son is most likely to remain in the same quintile. The middle quintile in this mobility matrix demonstrates an approximation of perfect mobility, and yet movement into the lowest quintile is still the smallest, which further suggests that people in the lowest quintile are not moving up without even looking at the other numbers. Therefore, there is at least an observable connection between intergenerational mobility and equality of opportunity.

The 2007 Economic Mobility Project confirmed the numbers found in Table 1. The study found that only 19% of children born in the *lowest quintile* will have peak earnings in the *middle quintile*, while 40% will stay in the lowest quintile (Dadush, 20). Therefore, a significant majority of children in poor families will not reach an income level anywhere near the middle class, much less the top 20% (Dadush, 21). Since income mobility is well below perfect for the lowest quintiles, poverty spreads from low-income parents to low-income children. Accordingly, since income mobility is higher than the perfect 20% distribution for high income families, then affluence and economic success also spreads from one generation to the next. What is truly concerning is that the separate, compounding effects of poverty and affluence on children are self-reinforcing because they last through generations. According to these statistics, poverty is

cyclical, and a commitment to equal opportunity requires making positive attempts at perfect mobility so that children can move out of poverty.

Perfect mobility is an ideal, but it is not the greatest of ideals. If the American dream is that every child would be economically better off than their parents, then perfect mobility means that, for families in the top quintile, 80% of children will be worse off than their parents. This problem of conflicting ideals is mitigated by the fact that income mobility is measured on a relative scale for each generation. Perfect mobility does not have to be a zero sum game because a rising tide lifts all boats (Chetty, "Impacts"). In a growing economy, it is perfectly feasible for a child to be in exactly the same place as their parents were, and still be economically better off. However, the use of relative scales does not make the measurement useless. The American dream of perpetually increasing prosperity came about at a time when the real wages for a 40-year-old male with a high school diploma doubled from \$8/ hour to \$16/ hour between 1946 and 1978 (Moretti, 25). In the 21<sup>st</sup> century, it is apparent that this growth cannot be sustained indefinitely, as real wages have actually *decreased* since 1978 to about \$14/hour (Moretti, 25). Therefore, these percentages should actually be more concerning, as it means that children in each quintile could in fact be worse off than the previous generation, even if they remain in the same quintile.

Imperfect income mobility is potentially more dangerous than income inequality. While income inequality is unusually high in the United States, "some analysts suggest that high inequality and poverty in any one year are of little public policy concern if rates of mobility are also high" (Jantti, 180). In the aforementioned article, Jantti begins with a simple thought experiment:

Assume that the poverty rate measured in terms of a single year's income is 20 percent in each of two societies. In one, every person has a one-in-five chance of being poor in any given year, but poverty in one year does not foretell being poor in the next year. In the other society, the same individuals are poor every single year. Because the first society has complete mobility, and the second has no mobility, the latter society has a more serious poverty problem. (Jantti, 180)

The defining factor in these societies is that 20% of people are poor. As such, the levels of inequality are unrelated to the problem of cyclical poverty. The fact still remains that if poor people are not able to move out of poverty, then there are equity concerns regardless of the level of inequality in the given society. Because of these equity concerns, intergenerational income mobility is an important facet of poverty studies. It gives policy makers a relative snapshot of every generation to compare to the one before it and can determine whether or not we are providing equality of opportunity.

### **Why A Lack of Movement out of Poverty is a Problem**

The main objection to using intergenerational mobility as a measurement of equality of opportunity was stated above; people who are poor may not be utilizing the opportunities given to them. The implication is that poverty exists in families because of personal choices and a lack of work ethic. This argument is most popular among conservative think tanks and political scientists. It takes into account the real and observable phenomenon that parents who are poor tend to have children who are poor by suggesting that parents pass on a tendency for bad behavior to their children. According to this view of poverty, it is possible to conclude that the numbers in Table 1 do not reflect a lack of equality of opportunity but simply an inability to utilize opportunities that have been sufficiently provided. The parents do not take advantage of

their situation and do not teaching their children responsibility and work ethic. To respond to this objection, one must analyze some of the reasons why poverty exists, and also why poverty is cyclical from a scientific perspective.

Recent research suggests this view of the causes of low intergenerational mobility (e. g. poor choices) may be correct, but it is ultimately incomplete. It is plausible that children of poor families grow up to be poor because of their choices. It is also plausible that parents unwittingly encourage their children to make poor choices. But neither of these stories can be used as a reflection on the availability of equal opportunity because there are still other reasons why people are poor. New research in neuroscience suggests a more complete explanation of why income is persistent across generations. Researchers such as Jack Shonkoff at The Harvard Center on the Developing Child, among other researchers and economists, have found that adverse outcomes are linked to an impoverished environment's effects on a child's developing brain. This decreased brain development and lack of executive skills can lead children to make choices that exacerbate their poverty or not make choices that could bring them out of poverty (Shonkoff). The implication is that potential for lower earnings is inherited, but by environments instead of parenting, and inadvisable choices (such as not planning for the future and giving into instant gratification) are linked to impoverished environments as well.

### **How Stress in Impoverished Environments Creates Unequal Outcomes**

Unsafe environments affect children before they are born. Pregnancy in itself can be stressful for mothers of any income. When this stress is compounded through poverty related factors, which include "food insecurity, substandard housing, violence, and other environmental factors," there are observable, negative effects on the cognitive development of the fetus (Leffman, 578). During pregnancy, the effects include increased risk for multiple short and long

term stress related pathologies that are caused by abnormal fetal brain development (577).

Furthermore, relative to other children, children in poverty also have higher rates of poor health and social outcomes that can be tied to substandard environments (578). These negative outcomes and disadvantages not only begin on the first day of life for poor children, but also “begin to accrue during fetal life due to pre-natal stress” (579).

When discussing how poverty influences the environments in which children grow up and how those environments influence outcomes later in life, it is important to understand what stress is and how it chemically affects the developing brain. Stress as a noun can refer to both a distressing event, and a response to said event. As an adjective, it can refer to feelings of business or a sense of anxiety. Furthermore, there is a difference between stress itself and what social workers refer to as stressors, which are external stimuli that cause psychological responses (579). All of these definitions are important because they are all interconnected. However, this paper and recent research analyzes the effects of stressors on creating stress, which is a biological response that creates the feeling commonly referred to as stress. Distinguishing between biological stress and stressors is important when analyzing “stressful environments”, which are actually environments with an unusually high number of stressors.

The biological process begins with a threat to the stability of physiological systems in the brain known as homeostasis (578). When stressors (such as a dangerous predator or a car slamming on its breaks) appear, the brain automatically primes itself for a fight or flight response by releasing chemicals such as adrenalin (Whipple). The result is an increase in arousal, blood pressure, heart rate, respiratory rate, and physical activity along with a decrease in all other bodily processes not necessary for survival (Leffman, 580). Once the external stressor has been removed, the brain releases cortisol to reign in the physical responses to stress and bring the

body back to homeostasis through a process called allostasis (Leffman, 580). Under normal circumstances, the release of cortisol is a beneficial process, and is what allows people to return to normal driving after slamming on their breaks (Whipple). However, prolonged and constant allostasis triggered by repeated chemical responses to stressors, also known as allostatic load, can cause serious developmental and physiological problems.

Whipple, among others, shows that allostatic load caused by an over-release of cortisol has negative effects early in childhood. Furthermore, the constant stressors that threaten homeostasis to begin with include noise, overcrowding, abuse, and unsafe neighborhoods, and are more likely to appear in impoverished households than households of higher incomes (Whipple). However, when a child lives in a stressful environment, which may be induced by multiple poverty risk factors, the stress hardly ever abates, and the brain releases dangerously high levels of cortisol almost constantly (Whipple). Allostatic load can change the brain makeup of young children by delaying the development of the prefrontal cortex, and leads to both health and behavioral disparities between children who grow up in poverty and children who do not (Whipple). Beth Babcock offers a concise summary of this research when she says that the very areas of the brain that people need to move themselves out of poverty “are the areas of the brain that poverty compromises.” As Shonkoff’s research shows, one of the root causes of capability poverty within children is the connection between allostatic load and delayed development of the prefrontal cortex, which leads to a decrease in executive functionings.

Because these adverse consequences are concentrated on children in poverty, they carry concerns about equity. 48% of children in the United States live in households with an income below twice the official poverty line (Whipple). Furthermore, one in ten children will spend more than half of their childhood in poverty (Magnuson, 168). These children are at increased

risk of lacking the executive skills they would need “to do valuable acts or reach valuable states of being” (Sen, 30). Poverty in an unsafe home works through increased stressors and allostatic load to decrease the chances that a child will be able to move themselves out of poverty. Since children lack capabilities because they live in poor households with high numbers of stress factors, poverty begets poverty. The links from poverty to substandard environments, environments to stressors, and stressors to adverse outcomes show that we do not have equality of opportunity, and that it cannot be manufactured with only programs for the poor. Interventions in early childhood need to go beyond the individual to the home in order to be truly effective.

## **Part 2: The Boons and Busts of Public Housing Projects**

### **The Problem of the Projects and Other Historical Failures**

I, for one, want to believe in positive cycles of growth caused by increasing opportunities for children in poverty. When children in poverty move into the middle class as adults, poverty in neighborhoods decreases, which increases property values and median incomes, which creates better homes in the area, which reduces the probability of stressors in those homes, which increases the skills of the children who grow up in those homes and leads to better job prospects and higher incomes for children when they become adults. Unfortunately, history suggests that the opposite is true for government funded public housing projects. Projects have a reputation of “being a decaying dumping ground for housing some of the poorest families in the US” (Stoloff, ii). Throughout the history of public housing projects, which started with the Housing Act of 1939 and effectively ended with the advent of Section 8 and President Nixon’s freeze on all new construction in 1973, the target population shifted from white, economically slighted and

working-class families to mostly black, abjectly poor families with no other options (Stoloff, 2). Public housing also never achieved its main political goal of improving the living standards of the poor and removing them from dangerous slums (Stoloff, 3). While the projects are not as structurally unstable as slums used to be, they have not brought the promised prosperity for cities that decided to invest in the high density high rises.

The main objection to public housing projects is that it segregates the poor. Even though the projects were not originally designed to be long term, permanent houses for the poor, that is what they eventually became (Stoloff, 3). The Housing Act of 1954 had provisions that encouraged new units to be built with greater density on old slum lands in inner cities (Stoloff, 9). These provisions created a problem of displacement, as the poverty rates in the neighborhoods did not go down with the new buildings since the families who lived in the slums then turned around and lived in the projects (Stoloff, 9). Others note that funding has historically been a waste of money, as some of the projects had to be torn down because they were places of uncontrollable drug use, crime, and intense poverty (“The Pruitt-Igoe Myth”). One of the most infamous demolitions of a public housing project was the Pruitt-Igoe homes in St. Louis, Missouri. The high rise complex of 33 eleven story buildings was first occupied in 1954 and constructed under the Housing Act of 1949. Riddled with crime, segregation, and intense poverty, the buildings were demolished with explosives in the mid-1970s (“The Pruitt-Igoe Myth”). Furthermore, corruption and certain paternalistic practices such as family screening were common in the 1940s and 50s due to a lack of uniform rules and limited oversight of Local Housing Authorities (Stoloff, 3). From this information, one could conclude the housing projects are doomed to fail from the start because they increase poverty rates and create negative cycles of deterioration in neighborhoods.

From an economic perspective, there were measurable negative effects of an increased intensity of public housing on county level economic outcomes in 1970. Increased intensity of public housing construction negatively correlated with local economic outcomes such as median property values, median family incomes, percent of families with low income, and population density (Shester, 980). The effects are robust across all controls for the economic conditions of counties and states, and are strongest in metropolitan areas, with strong effects in rural areas as well (Shester, 980). The most notable results are that a one percentage point increase in the intensity of public housing construction from 1940 to 1970 lead to a 1.6 percent decrease in property values, a 1.6 percent decrease in income, and a 3.6 percent decrease in population density at the county level (Shester, 991). Public housing projects, as they were designed in the 1940s and 50s, failed because they segregated the poor, increased poverty concentration in neighborhoods, did not promote movement out of poverty, increased crime, hurt the economy, and were often a complete waste of money. By 1973, any attempts to put money into already deteriorated buildings was simply too little too late. Whether or not this problem is inherent to the projects themselves is still up for debate.

### **Why The Projects May Not Be Doomed to Fail From the Start**

Despite these observable outcomes, a recent documentary titled *The Pruitt-Igoe Myth* (2011) seeks to dispel the notion that public housing is doomed to fail from the start by analyzing the historical and political context that led up to the colossal failure of the Pruitt-Igoe housing projects in St. Louis, Missouri. The documentary brings to light other factors that could have caused the rapid decline in the quality of the buildings, and also shows that, at least originally, the new apartments had incredible potential for a positive impact on the city. Through interviews with tenants, as well as a historical analysis of the effects of suburbanization, a declining

population, and a failing economy, *The Pruitt-Igoe Myth* casts doubt on any story that paints public housing as a colossal failure, and makes a call for more information and research into the real effects of public housing on communities as well as the reasons for its failure.

Some of this research was performed by Katherine Shester, who, as mentioned earlier, regressed county level economic outcomes with the intensity of public housing construction using the Department of Housing and Urban Development's Consolidated Development Directory and census data from 1940-1970 (Shester, 987). Her results help to narrow down the possible reasons public housing failed and caused these negative outcomes. Her findings, while highly suggestive yet ultimately inconclusive because of the sheer number of unobservable variables, show that public housing did not always have observable negative impacts on local economies. When the decade in which public housing was built is taken into account, the negative outcomes of the simple regression used for the effects in 1970 show that "it is possible that public housing, when relatively new and under original rules and tenant selection, had no negative effects (or possibly positive effects) on local communities" (Shester, 999). When considering separate effects for each decade, housing built in the 1940s had the largest effect on 1970 outcomes, which is consistent with decreasing quality over time (Shester, 1002). The anomaly was that housing built in the 1960s had the second greatest effect as opposed to housing built in the 1950s, or even the small amount of units built in the 1930s (Shester, 1002).

These observations lead to an important, yet qualified conclusion: something happened in the 1960s that led to public housing's infamous collapse in the early 1970s that may not be inherently related to the intensity of construction. Whatever drove these outcomes most likely happened in the 1960s, and fundamentally changed the way public housing projects affected their surrounding communities. Of all of the reasons why the projects could have failed, I find a

theory based on inflation in the 1960s, which is proposed by both Shester and Stoloff, to be the most compelling. The argument is that the trends in public housing tenants combined with the ways in which the projects were funded caused problems when inflation hit in the 1960s. The costs of maintenance rose while the wages of the tenants, the rents that were tied to those wages, and the quality of the new construction all went down. This problem then spiraled out of control as Local Housing Authorities increased rents, decreased maintenance, or both in order to break even (Stoloff, 11). In light of these findings, it is increasingly more likely that public housing is not doomed to fail from the start, but was destroyed by both structural and legal barriers that influenced the decline in the 1960s that led to President Nixon's 1973 freeze on all construction.

### **New Evidence that Neighborhoods Matter**

If there is a positive (or at least not negative) economic future for government funded low income housing, there is good news for what it could look like. New data from the Movement to Opportunity (MTO) experiment collected by Raj Chetty and others finds that neighborhoods matter more than we think for children growing up in poverty. In 2015, he reexamined the Movement to Opportunity Experiment where:

Between 1994 and 1998 in five large U.S. cities. Approximately 4,600 families living in high-poverty public housing projects were randomly assigned to one of three groups: an experimental voucher group that was offered a subsidized housing voucher that came with a requirement to move to a census tract with a poverty rate below 10%, a Section 8 voucher group that was offered a standard housing voucher with no additional contingencies, and a control group that was not offered a voucher (but retained access to public housing). (Chetty, "Effects")

The group that stayed in public housing was labeled as the control group, while the group that received an experimental voucher was labeled the experimental group. Besides reaffirming old findings of increased health for adults who moved, Chetty's found that the incomes of children between the ages of 24 and 28 (before their peak earning years) in the experimental group who moved before the age of 13 are 31% higher than those in the control group (Chetty, "Effects"). Besides increased incomes, moving to a low poverty census tract also had positive effects on college attendance, the quality of college attended, marriage rates, and the presence of fathers at birth (Chetty, "Effects"). He also found that children who moved at earlier ages experienced greater benefits, but only up to 13 years old at the time of random assignment to one of the groups (Chetty, "Effects"). After 13, children experienced negative effects for almost all of the dependent variables tested (Chetty, "Effects"). This phenomenon could be due to the shock of moving and removal from social networks and schools.

The implications of these findings are that it is not public housing itself that affects children, but the neighborhoods where the projects are located. More specifically, the percentage of poverty in a neighborhood appears to have a large influence on child outcomes later in life. The mean poverty rate of the census tracts where the control families lived until their children reached the age of 18 was 41%. In contrast, the mean poverty rate of neighborhoods where the treated families lived was 19% (Chetty, "Effects"). This data is consistent with findings about the connections between poverty and stress. Reduced levels of poverty leads to reduced frequency of stressors, which improves brain development and leads to movement out of poverty. If low income housing was not located in census tracts with high rates of poverty, these positive cyclical effects could be reproduced on a larger scale.

### **Other Suggestions for How to Change Environments**

Chetty's findings support interventions into the environments of poor children to increase their potential for better outcomes later in life, but even he is rightfully skeptical about moving millions of people to new neighborhoods (Chetty, "Effects"). This need for positive intervention has led other economists such as James Heckman to give their own opinions on how to increase equality of opportunity. Heckman outlines the importance of government-funded early education in an article in *The New York Times*:

Everyone knows that education boosts productivity and enlarges opportunities, so it is natural that proposals for reducing inequality emphasize effective education for all. But these proposals are too timid...While education is a great equalizer of opportunity when done right, American policy is going about it all wrong: current programs don't start early enough, nor do they produce the skills that matter most for personal and societal prosperity. (Heckman, "Lifelines")

These skills to which Heckman refers are the same executive skills that Shonkoff analyzes in his research: "Self-control, openness, the ability to engage with others, to plan and to persist—these are the attributes that get people in the door and on the job, and lead to productive lives" (Heckman, "Lifelines"). These skills are developed in early childhood, and they should be fostered in public pre-kindergarten programs for all children as a part of their education.

There are also practical benefits to a better education. The market for jobs that lift a family out of poverty in the United States is moving away from low skilled jobs that require little education to high skilled jobs that require an advanced degree or at least a high school diploma (Babcock). This observation comes on top of the evidence from Heckman's research that better education reduces the effects of childhood poverty and can help break the cycle of intergenerational poverty. The effects of investment in human capital through education are that

fewer children will suffer from a lack of executive skills, fewer children will be affected by their parent's lack of income, fewer children will be limited to low wage jobs, and more children will be able to escape poverty when they grow up.

Furthermore, there is anecdotal evidence that radically changing environments increases a child's potential for movement out of poverty. In an effort to "redefine what it means to fight family poverty", Buckner Children and Family Services, a branch of the Dallas, TX based nonprofit organization Buckner International, has recently moved beyond providing for the immediate physical needs of the poor in the Northeast Texas area by creating Family Hope Centers (Ummel). These centers are designed to provide for the needs of single mothers and their children by using the family strengthening and empowerment model. This model promotes the five protective factors for families and children, which are increased resiliency to unforeseeable crises, social support for emotional needs, concrete support of physical goods and services, knowledge of child development best practices, and attachment to developing children (Ummel).

These factors (which are closely connected to executive functionings) are designed to foster independence for families and healthy development of children. The implications of their use in fighting family poverty at the individual level have been astounding. David Ummel, the Executive Director of Buckner Children and Family Services, stated that he had recently talked with a mother who lived in a Family Hope Center who had, after one year, saved \$3,000 with the tools she had learned, was moving out of the projects, and had helped another family member do the same (Ummel). Also, 95% of the children who have gone through the program since 1997 have gone on to attain some form of post-secondary education (Ummel).

Even though the program is still new, success stories like this one are common. One of the distinctive features of the Family Hope Center is that single mothers with children who

participate must live in the Buckner facilities. As such, families must opt into the program for two years, and can be removed for noncompliance with the rules (Ummel). However, the connection to Chetty's findings is undeniable: when families both move to safe environments and are given the tools they need to raise their children properly, these new environments start to solve upstream issues with brain development and cognitive functionings. New environments with a lower concentration of poverty positively affect young children through increased earnings and educational achievement.

Even with the plethora of research and experiments that trace adult poverty back to the stressful environments in which children grew up, researchers are hesitant to endorse programs that aggressively intervene directly into the lives of families on a large scale because of moral reservations about paternalism and the practical reason that the research does not support moving millions of people (Heckman, "Inequality", 268). Therefore, current arguments for intervention, while important, do not specifically endorse changing environments directly through government housing policies such as Housing Choice Vouchers. Also, while the anecdotal evidence suggests that a complete removal from stressful environments has positive results, neither all-inclusive programs nor all out government provisions for protective factors could ever be done effectively on a large scale.

### **The Current Demand for Low Income Housing**

One of the drawbacks to both omnibus improvements to neighborhoods and families and specific interventions such as increased education is that they do not take into account the demand for both low income housing and rental units in the United States. The most difficult part of the argument for increased funding for low income housing is establishing that there is real demand for new units among people in poverty. While "huge waiting lists show that demand

for both project-based and voucher based aid continues to far outstrip supply,” at first glance, there are market factors and unobservable variables that must be considered any time there is a potential for government intervention to fix a market failure (Currie, 93). Regardless of concerns over numbers, large waiting lists for Housing Choice Vouchers need to be seriously considered given the connection between safe, low poverty environments, positive economic outcomes, and the increased equality of opportunity that comes with income desegregation.

No large scale public housing units have been built by the national government since 1981 (Stolof, 12). Since 2003, the vast majority of federal housing money has gone to tenant-based “Housing Choice Vouchers”, formerly known as Section 8 vouchers (Stoloff, 13). In 1993, “there [were] 1.3 million public housing apartments and about 800,000 families on the waiting lists of the nation's 3,060 local housing authorities” (Atlas, 2). These numbers support President George H. W. Bush’s broader assessment funding for low income housing. In part of a 1990 speech, President Bush expressed concerns about the portions of the National Affordable Housing Act that would relax legislation that gave preference for housing assistance to families with low income:

Although the Federal Government currently serves about 4.3 million low-income families, there are about 4 million additional families, most of them very low income, whose housing needs have not been met. We should not divert assistance from those who need it most. (Peters)

Currently, the numbers for waiting lists are just as alarming as in the 1990s. According to a recent Washington Post Article, the watchdog group for the Department of Housing and Urban Development found that more than 300,000 families who qualify for public housing assistance in

New York City were on waiting lists, while a significant number of families with incomes above the minimum remained in public housing projects (Rein).

While metropolitan areas are notorious for long waiting lists to get into existing public housing projects, rural areas can be equally problematic in different ways. A small but in depth study of five rural areas in the United States in 2001 found that housing availability was low for Section 8 voucher holders, and that the percentage of the housing stock that is for rent in rural areas is well below the national average (Pistilli, 36). Furthermore, waiting lists for Section 8 vouchers varied from one week to 3.5 years (Pistilli, 2). With all of the above information, we can draw two modest conclusions: In metropolitan areas, there is a shortage of affordable housing for people in poverty, and in rural areas, there is a shortage of housing units that can be rented with Housing Choice Vouchers.

The reason why these conclusions are qualified is because the numbers can be misleading. First, neither waiting lists for vouchers nor the smaller waiting lists for public housing units mean that a family is homeless because neither is an entitlement. Waiting lists simply indicate that the family that is on the waiting list qualifies for housing assistance and believes their current situation will be improved by living in a public housing unit or moving with a Housing Choice Voucher. Therefore, while waiting lists are a good proxy for need, they do not show demand. Furthermore, it is possible to be on more than one waiting list at a time. As such we cannot simply add up all of the waiting lists to see how many people need public housing at a given instant.

Despite the pitfalls associated with these numbers, the fact remains that the people in most need of housing assistance are the families with the lowest incomes. While this fact seems intuitive, it is also supported by analysis of housing markets, as there are distinctly different

housing markets for individuals, families of varying incomes, and families who are looking to buy versus families who are looking to rent. In her book, *The Invisible Safety Net*, Janet Currie states that because public housing assistance is essentially a lottery, “the current allocation of resources makes no sense given that it is the poorest people who are most likely to experience housing problems” (Currie, 95). In 2000, the National Low Income Housing Coalition found that the housing market for groups with less than 30% of the area median income was the only market with a shortage of affordable housing (95). There were only 84 units available for every 100 renters (95). Ultimately, there is a significant shortage of affordable units for people in the United States that qualify to move to better environments simply due to the existence of waitlists for public housing. There is also a shortage of units that are available to rent, especially for people with very low incomes and in rural areas. As such, low income housing policy needs to build new units, if only to meet demand and correct this market failure.

### **Part 3: Location, Demand, and Funding**

#### **Correcting For Historical Failures**

As seen through the historical failures of public housing projects discussed in part 2, the government cannot build low income housing randomly and expect it to have positive effects on the nation’s poor. If housing is a foundation upon which families and children in poverty can build equality of opportunity, it must be a strong foundation. In order to create safe environments and communities that lead to positive cycles of reduced poverty and increasing economic outcomes, several changes need to be made. These changes include adjusting where rental units are located, how rents are calculated, and the ways in which the government funds low income

housing units. Most of these changes involve some balance between private markets and government intervention. If the trends that lead to public housing's decline are remedied, government funded housing could create "a potentially virtuous circle of local productivity and environmental amenities" as the poor who thrive in new environments give back to their local economies (Shester, 1985).

### **Step 1: Decrease Poverty Levels in Neighborhoods**

As shown by the MTO experiment, there are negative side effects to building low income housing in census tracts that already have high levels of poverty. Neighborhoods matter, and changing the location of new units is the most important change to be made if government funded housing is going to be successful. If the provisions of previous housing acts that encouraged building new high rises on high poverty slum land continue, it will lead to the same effects as before. Even though Congress removed one-for-one unit replacement laws, there are still programs that seek to refurbish units in high poverty areas instead of building new units in low poverty neighborhoods. The two options for decreasing poverty levels neighborhoods are to encourage middle income families to move into high poverty neighborhoods, or to build new, smaller rental units in areas that have lower rates of poverty. The first option, while an interesting concept, is practically difficult to implement and could be potentially costly. It could also lead to gentrification.

The second option is much more feasible, especially if the government commits to subsidizing the construction of rental units to meet demand. Assuming poor people are willing to move into neighborhoods with low poverty, then the effects of MTO could be replicated without forcing anyone to move. In some municipalities, building rental units is not possible because of zoning restrictions. However, low density experimental units built under new inclusionary

zoning laws that tie the construction of market rate housing to provisions for low income units could increase the viability of building more mixed income rental units in low poverty areas (Boustan, 334). In rural areas, new rental units would also meet the general shortage, further increasing income integration.

## **Step 2: Help the Poorest of the Poor**

Government funding for low income housing must also meet the needs of those who need housing the most. This provision deals with both ethical and moral dilemmas created by the current lottery policy. The most effective way to achieve this goal is to make Housing Choice Vouchers an entitlement. By switching to an entitlement program, while it would be more expensive, homelessness among families could be largely eliminated provided rental demand is met so that these families have places to move with their vouchers (Currie, 108). The most obvious (yet politically impractical) way to increase funding for Housing Choice Vouchers would be to reallocate money from other housing subsidies such as the mortgage interest deduction for homeowners. The federal government currently spends more on housing subsidies through tax cuts for the richest 5 million households than for poorest 20 million households combined (Ludwig).

Other ways to reduce the cost include lowering the payment standard for vouchers. The payment standard is the maximum amount that a family with no income can receive through a Housing Choice Voucher (Currie, 110). While lowering the standard would decrease the number of higher income families eligible for vouchers, (eligibility is determined by how much a family can pay in rent, which is usually set at 30% of their income) it would solve the equity concerns and may not have as large of an effect as expected since the payment standard already exceeds what is provided to the average family by a median of 68% (Currie, 110). No matter how they

are funded, Housing Choice Vouchers are important because of their cost effectiveness and their ability to incentivize movement into new rental units.

### **Step 3: Increase the Lifetime of the Buildings**

Any new government funded rental units need to not only be built to last, but also funded to last. As discussed earlier, inflation in the 1960s negatively impacted public housing units because maintenance for the buildings was tied to rents, which increased as wages decreased. Accordingly, new rental units need to not only be subsidized to increase construction, but also need to be protected against economic downturns. Two ways to insure against a collapse in quality similar to what happened in the Pruitt-Igoe projects are to allow rents to be set at market levels (and not tied to income) and to provide emergency or block funding for maintenance. Block grants to fund new units would allow developers to use discretion on whether to use the money for further rent subsidies, save it for larger projects, or use it for general maintenance. With these provisions, if there is suddenly a decrease in population, inflation, or a local economic downturn, (all of which happened in the case of Pruitt-Igoe) the quality of the common areas in the buildings and the units themselves will not immediately decline into disrepair.

### **Some Needed Private Interventions**

Setting the rent for units to market levels and then covering the difference for families that need further assistance with vouchers is one example of a much needed provision that involves the private market. This provision suggests that private developers would build and own the units instead of the government. As such, the government would be subsidizing the construction of new units instead of owning them. The first benefit of subsidies is that there will be no income ceiling. The subsidies would simply go away if income increases, and families would pay the entire cost on their own instead of being removed from units when 30% of their

income exceeds the cost of rent. Second, subsidies open the door for many other creative policy tools that could be used to achieve desired effects. Namely, subsidies could be increased for rental units built in lower poverty census tracts, or increased if a certain median income is achieved within the building. The choice of location is also key for the success of low income housing. Private markets have the ability to balance locating where there is greatest demand with locating in a place that attracts low income residents.

Furthermore, privately owned buildings can be demolished or abandoned based on the needs of the market with no cost to the government except the subsidies that were already provided. One of the downsides to government owned buildings is that they cannot move. If a county, city, or neighborhood suffers an economic downturn, then the building suffers and feeds into the cyclic decline. In contrast, private developments can more easily respond to changes in the market. If developers decide it is more profitable to abandon a building and move elsewhere, then they can do so. The only downside is the potential loss of homes for families in these units. However, prolonging the use of failing buildings is arguably worse, and a recent study of families in Chicago who were forced to move because projects were demolished shows results that are similar to the MTO experiment (Wolfers). Therefore, forced movement, while not ideal, can have positive effects.

### **Current Promising and Not-So-Promising Programs**

Two programs currently in use that could be used to meet demand for low income housing are the Low Income Housing Tax Credit (LIHTC) and Hope VI. The LIHTC subsidizes businesses who reserve a certain percentage of units for families with low income relative to the median income of the area through tax credits (Currie, 92). It is the most rapidly growing federal housing program, as demand for the credits currently far outstrips what the government is willing

to supply (92). Hope VI is a program that was established in 1992 to revitalize the worst public housing units in the country through physical improvements, management improvements, and social services to address the needs of tenants (Castro). Both programs have their drawbacks, which include the fact that cost benefit analyses consistently find that they are more expensive than vouchers (Currie, 95). However, vouchers do not increase supply of rental units. Both programs would need to be changed to account for the historic failures of publicly funded low income housing mentioned above.

Currie states that “the most compelling argument for a policy like LIHTC [as opposed to a voucher] is that it provides mixed-income developments, which improve the neighborhoods that some poor people live in” (Currie, 100). Since neighborhoods and the percentage of poverty in an area matter, government subsidized private development programs like LIHTC could be the answer to providing low income housing in lower poverty neighborhoods. The promising news for the LIHTC is that it is in fact “meeting and exceeding the performance of the Housing Choice Voucher Program in terms of offering opportunities to live in low-poverty settings” (McClure, 1). However, like any program funded by tax credits, it is subject to fraud (Currie, 92). Also, the huge demand suggests that potential developers are reaping massive rewards, which means that the program may be overfunded (92). On top of these basic concerns, analysis of the LIHTC reveals that there is a high rate of substitution with rental units, and it does not significantly increase the housing supply in any given area (Malpezzi, i). As such, the LIHTC is a program with great promise. However, its efficiency and inability to meet market demand raise doubts about its potential for continued success. Hope VI, while more glamorous than the LIHTC, suffers from a more serious problem. The program is designed to rebuild and revitalize projects

in already impoverished neighborhoods. As noted earlier, this strategy will not improve public housing, and will lead to one of two extremes: further decay or extreme gentrification.

#### **Part 4: Why We Should Support Increased Funding for Low Income Housing**

##### **Low Income Housing, John Rawls, and the Hierarchy of Needs**

The MTO experiment shows that if low income families live in mixed income neighborhoods and buildings, positive cycles of increased wealth and decreased poverty are both possible and greater than expected. Furthermore, because of the lack of supply for rental units and low income housing, if properly located, rental units combined with an increase in Housing Choice Vouchers can create mixed income neighborhoods without forcing families to move through paternalistic policies. However, on top of these practical side effects, there are also logical reasons and moral responsibilities to increase funding for low income housing. New housing units provide for both the physical needs and safety of low income families. Families and children who are homeless or in unsafe environments will be concerned for these immediate needs and therefore cannot focus on movement out of poverty through educational achievement or other channels. Furthermore, we cannot expect these families to take the time to shop for a house in the best possible neighborhood when their immediate needs are not being met. As such, housing is foundational for equality of opportunity, and is required under a Rawlsian view of justice, where provisions that can be agreed upon by ignorant, unbiased, self interested contractors should be provided by society.

In a 1943 paper titled “A Theory of Human Motivation”, Abraham Maslow set forth the theory for what is today commonly known as “Maslow’s Hierarchy of Needs”. His proposition is

that humans are motivated to first procure basic the needs, then work towards more complex needs. The most basic needs are physiological, which include metabolic needs and physical needs such as protection from the elements. While housing obviously falls under physiological needs, it also falls under the next set of needs: safety. Housing in crime ridden neighborhoods, or even housing that endangers one's health, does not promote the safety of its residents. According to Maslow's theory, human beings are preoccupied with securing their safety before they are concerned about their senses of social belonging, self-esteem and self-actualization. These needs are indirectly related to equality of opportunity. Providing adequate housing, therefore, is an important part of the foundation on which equality of opportunity is built. Families cannot be expected to move towards attaining equality of opportunity if they have not provided for their physical needs or immediate safety.

A Rawlsian argument for the creation of justice by unbiased, self-interested contractors not only requires equality of opportunity, but, more basically, requires that we provide the foundation on which that equality is built. This foundation is strongly linked to the hierarchy of needs, and adequate housing is deeply integrated into the bottom two layers of the hierarchy. Behind the Rawlsian veil of ignorance, we might envision a scenario where each layer of the hierarchy is debated by the contractors, and each separate part of each layer is weighed for its relative importance. Housing obviously fits under physiological needs. Because of the link between neighborhoods, quality environments, and potential movement out of poverty, adequate housing in low income neighborhoods should also be strongly considered for its role in providing safety. Quality housing is an important link in the thread that runs from the top to the bottom of the hierarchy, and is therefore required under a Rawlsian view of justice.

### **Support for Positive Interventions Within Other Moral Frameworks**

Even when we commit to a Rawlsian view of justice, the question of who should provide for these needs still remains. When we consider the lack of housing as a market failure, this problem becomes more complicated as usual moral arguments based around liability and blame begin to fall apart. Who, if anyone, is responsible for fixing a market failure that causes harm? The failures of a liability model lead to the idea of political responsibility put forth by Iris Marion Young, a political scientist at the University of Chicago. In an essay which seeks to provide moral reasons why everyone who benefits from sweat shop labor has a responsibility to fix the oppressive system, she creates the idea of political responsibility to overcome the failures of liability models of responsibility when there is no specific person or group to blame. The advantages of political responsibility are that it is inclusive, it seeks to fix structures not people, it looks forward to the future, and there are a wider variety of ways to act to fix broken systems (Young, 388). If homelessness and a lack of adequate housing is a market failure, then increased funding for low income housing can be a powerful solution that is recommended under political responsibility. The market failure is still relevant even if we reject a Rawlsian view of justice because poor people are being wronged, and no one particular person is liable. The idea of political responsibility requires both the pursuit of justice and collective, positive action to fix injustices.

### **Objections to Increased Government Intervention**

I have observed two main objections to the argument to increase government funding for low income housing. The first is that a positive responsibility to create equality of opportunity for children is neither necessary nor required of government. Instead, governments have some negative responsibility to not create barriers if families decide on their own to move to lower poverty neighborhoods. My counter argument goes back to the fact that there is a failure in the

housing market, and housing is a foundational need on which equality of opportunity can then be built through future negative responsibility. Therefore, not only is this positive intervention important to move the market away from the current low output equilibrium, but it is also necessary if further negative interventions are to be successful. I believe solutions that encourage private construction through government subsidies and increase the availability of Housing Choice Vouchers limit positive government involvement (albeit in the name of reduced risk of paternalism) and correct the lack of supply of low income rental units.

Second, some researchers suggest that, because of the enduring consequences of childhood poverty, the answer to increasing equality of opportunity is to simply give families more money through social spending programs like Temporary Assistance for Needy Families (TANF) and the Earned Income Tax Credit (EITC) (See Magnuson and Vatruba-Drazil). The argument is persuasive, and carries the logical thought process that families with more money will be able to purchase better housing in better neighborhoods with better schools. However, this policy recommendation is overly simplistic. Giving more money to the poor does not fix the present and real market failure, especially in rural areas where there is a lack of rental housing in general. Beyond this stipulation, I have nothing against these proposals except a personal preference for structure and varying types of in-kind assistance. Anecdotally, how poor people spend money is unpredictable, and a story where more money leads to better housing, while plausible, is not guaranteed. Providing for social services that allow families to move and investing in new low income housing units is necessary to incentivize families with low income to move to better neighborhoods while still giving them the freedom and empowerment they and their children need to live productive lives.

### **Objections to Moving Poor Families**

For families with low income, the idea of “if you build it, they will come” is a bit of a misnomer. As shown by MTO, not everyone who is given the opportunity to move will take that opportunity. Only 48% of the treatment group moved to a low poverty census tract and 66% of the Section 8 group used their voucher (Chetty, “Effects”, 2). Reasons for moving or not moving are ultimately personal for each family. Despite the economic literature and potential benefits, some families do not want to move. Forcing families to move simply because they have children would be overly paternalistic and morally circumspect. While this problem may seem insurmountable, the success of any program depends on its goals. If the goal is to meet the market demand for housing, then whether or not everyone moves out of projects is of little concern. Those who do move will receive the positive benefits, and those who do not move will not. As long as a significant number of people benefit, then new programs can be deemed successful.

However, there are still concerns about the cost of moving families. If more families are interested in moving, then there will be an increased need for social workers to help them move. In fact, if we want to encourage families with young children to use Housing Choice Vouchers to move into low poverty neighborhoods, then there *should* be an increase in social workers to help them make the best choice. Chetty’s simple yet effective cost benefit analysis of the MTO results effectively puts these concerns to rest. The total counseling costs relative to each family that moved amount to \$3,783. This cost is much lower than the estimated increase in tax revenue of \$22,499 driven by increased earnings for each family that moved during MTO (Chetty, “Effects”, 37). As such, if families are counseled to move to low poverty neighborhoods as they were in MTO, the government will save a significant amount of money.

**Conclusion: Safety First**

There is a direct connection between the quality and safety of a child's environment and a child's potential to move out of poverty. Poverty increases the probability of stressors, which affects brain development in children, which decreases executive functionings and leads to negative economic outcomes and a lack of true equality of opportunity. The solution is early intervention in these impoverished environments, but current suggestions in economic literature do not consider all of the available options. While interventions in schools and improving neighborhoods are important, they do not take into account the way human beings pursue their needs. Families cannot pursue equality of opportunity until their foundational needs of shelter and safety are met. Government subsidized low income housing can meet these foundational needs, thereby creating equality of opportunity for children.

Despite the general "uncertainties that surround the best ways to produce higher-quality outcomes" for children who grow up in poverty, government funding of new rental housing units should be considered (Heckman, "Inequality", 268). The advantage of combining new rental units with an increase in Housing Choice Vouchers is that when implemented correctly, they attack the source of the problem by encouraging families who currently need housing assistance to move to neighborhoods with lower poverty levels. In order to implement public housing policies correctly, historical mistakes must be corrected. Most importantly, new units should be built in lower poverty neighborhoods in such a way that the housing stock increases. Current programs such as the LIHTC and Hope VI fail to accomplish both of these goals. Furthermore, to meet equity concerns, vouchers should be targeted to the families with the lowest incomes and buildings should be protected from economic downturns by setting rents to market levels and providing funding for maintenance costs. With these considerations, there is ample opportunity

for joint public and private ventures into building low income housing that will reduce the potential of paternalism and meet the demand for low income housing.

Increased funding for low income housing adds to all of the current research on neighborhood effects and early intervention. Once families feel safe in housing that meets their physical needs, children will probably be more likely to go to school based on the hierarchy of needs. Parents will be more likely to develop emotional connections with their children, and families as a whole will feel empowered in new environments. Furthermore, new low income units built in low poverty neighborhoods will create positive spillovers in local economies that will then increase the quality of neighborhoods in a positive, circular fashion. Ultimately, we do not know what will happen if we return to building large amounts of low income housing. However, detailed analysis of the effects of public housing as well as historical analyses of why it failed suggest that, contrary to popular belief, government funded low income housing is not doomed to fail from the start. Increased funding for low income housing is a necessary policy tool that needs to be explored to create equality of opportunity for children in poverty. There is a story where public housing creates positive cyclical effects instead of negative outcomes that is waiting to be told. If the American public values equality of opportunity, then we should logically and actively promote more equal environments so that children who grow up in poverty are on a level playing field.

## Appendix

		<b><u>Son's Quintile Group</u></b>				
		First	Second	Third	Fourth	Fifth
<b><u>Father's Quintile Group</u></b>	First	42.2	24.5	15.3	10.2	7.9
	Second	19.4	28.3	20.8	17.4	14
	Third	19.4	18.6	25.6	20.2	16.2
	Fourth	12.5	18.2	19.8	25.2	24.3
	Fifth	9.5	12.2	18.9	23.4	36

Table 1: Income Mobility Matrix copied from Jantti, Table 7.6 on page 192

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### Pledge

- Taylor Reese read the original draft of my paper for typos and grammatical errors.
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I pledge, on my honor, that I have neither given nor received any unacknowledged aid on this paper.

LeGrand Northcutt