Hurricane Katrina and its aftermath created a renewed awareness of the unique isolation and vulnerability of people who live in communities where poverty concentrates and persists. The Federal Reserve’s Community Affairs staff partnered with the Brookings Institution to re-examine our understanding of concentrated poverty – defined as areas where at least 40 percent of the population lives below the poverty line.

The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S. identifies 16 communities in big, medium, and small cities, rural communities, and tribal lands, all of which share the characteristic of high concentrations of poverty. The study provides a quantitative basis for comparing these communities’ rates and trends of poverty, income, demographics, education, labor market, housing, and access to credit. In addition to comparing the case study areas to each other, each case study highlights the important regional context in which these pockets of high-poverty exist.

The Enduring Challenge of Concentrated Poverty in America went well beyond the statistics and quantitative analysis. The case studies tapped the unique capacity of the Federal Reserve’s Community Affairs staff to add the texture and nuance that can only come from more qualitative perceptions and descriptions of socio-economic issues.

The case studies are thematically organized around four questions about concentrated poverty:

- What challenges does living in an environment of concentrated poverty pose for these communities and the families that live there?
- What factors contribute to the development and persistence of poverty?
- What is the capacity of local organizations to address issues of concentrated poverty?
- What strategies are public and private sectors employing to ameliorate its effects?
The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S.

In 2006, the Community Affairs Offices of the Federal Reserve System partnered with the Brookings Institution to examine the issue of concentrated poverty. The resulting report, The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S., profiles 16 high-poverty communities from across the country, including immigrant gateway, Native American, urban, and rural communities. Through these case studies, the report contributes to our understanding of the dynamics of poor people living in poor communities, and the policies that will be needed to bring both into the economic mainstream. See www.frbsf.org/cpreport/index.html.

The Milwaukee case study neighborhood consists of 11 contiguous census tracts adjacent to downtown Milwaukee, all of which have a poverty rate of at least 40 percent. The case study area includes all or parts of neighborhoods known locally as: Sherman Park, Metcalfe Park, Uptown, Washington Park, Walnut Hill, Midtown, Martin Drive, and Cold Spring Park. Although the data collection and analysis focused on the 11 census tracts, the qualitative analysis – the narrative of the case study – is really about a much larger area of northwest Milwaukee.

Challenges of Concentrated Poverty for Communities and Families

There are common themes that run through all of the case studies and that echo the plentiful, extant literature on the subject. For example, human capital development in the form of education for children, training and retraining adults displaced by economic upheaval, and basic financial literacy for everyone was noted in each community.

Unemployment, underemployment, and wage disparities are also significant factors contributing to the concentration and persistence of poverty. Unemployment and labor force participation statistics are often the primary measure of a community’s economic performance.

Wage disparities provide a more nuanced and troubling challenge. Nathan Marwell’s article, “Wage Disparities and Industry Segregation: A Look at Black-White Income Inequality from 1950-2000,” beginning on page 9, points out on a national level, “It is

Figure 1: Human Capital

<table>
<thead>
<tr>
<th></th>
<th>Northwest Milwaukee</th>
<th>Milwaukee MSA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Adults without high school diploma, 2000</td>
<td>46.4</td>
<td>15.5</td>
</tr>
<tr>
<td>% Adults with a college degree, 2000</td>
<td>7.2</td>
<td>27.0</td>
</tr>
<tr>
<td>% Students proficient in reading, 2005</td>
<td>52.9</td>
<td>78.7</td>
</tr>
<tr>
<td>% Students proficient in math</td>
<td>37.1</td>
<td>67.0</td>
</tr>
<tr>
<td><strong>Labor Market</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment rate, 2000</td>
<td>22.0</td>
<td>5.2</td>
</tr>
<tr>
<td>% Adults in the labor force</td>
<td>55.7</td>
<td>68.1</td>
</tr>
</tbody>
</table>

This article expands on the case study, “Milwaukee, Wisconsin: The Northwest Neighborhood,” from the monograph, The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S. The purpose of the article is to illustrate how people, place, poor economic conditions, and policy interact to create communities that perpetuate poverty.
impossible to eradicate income inequality when wage inequality exists in every major industry.” Indeed, this observation supports the findings of a 1998 analysis by the Center on Wisconsin Strategy that, “The average difference in median hourly wages between workers in the same occupational category in the [case study] area versus those in Milwaukee County is $3.36 per hour.” Since the case study area is almost 80 percent African American, many assume that the growing wage gap is attributable to racial inequality and discrimination in the labor market.

Recent research by economist Christopher Wheeler for the Federal Reserve Bank of St. Louis concludes that, even as the unemployment rate in metropolitan areas decreased, the concentration of unemployed persons grew dramatically.1 In a separate study, Wheeler analyzed wage gaps along several different categories of wage earners. In this study, Wheeler found that, while some of the growth in wage inequality can be explained by differences between different categories of wage earners (i.e., Black vs. White wage earners; or wage earners with a high school diploma vs. those with a bachelor’s degree), a larger portion of the growth in wage inequality is explained by the growth (or decline) in wages between the highest wage earners and the lower wage earners within each demographic category.2

More attention and analysis is needed to fully understand how employment, unemployment, underemployment, and wage disparities interact, especially in high-poverty communities.

Finally, housing issues arise in all of the case study communities, albeit for different reasons. Unlike cities that have more highly concentrated public housing or more significant affordability challenges, housing policy in Milwaukee seems to emerge more often as an adjunct to other issues:

- Families that have to move frequently disrupt continuity at school.
- Health care providers can treat allergies and asthma, but they cannot cure or effectively manage those conditions in the face of environmental challenges at home (i.e., mold, lead paint, second hand smoke).
- High-cost mortgage loans constrain and frustrate home ownership aspirations for those families living in high-poverty and segregated neighborhoods.

There are many more challenges that are associated with living in high-poverty communities that are common to each of the case study communities (crime, health, transportation, neighborhood amenities).

There are, however, significant differences in the local histories, economic contexts, and leadership capacities in each community yielding divergent priorities in addressing the issues. This leads to the conclusion that indeed there are no magic bullets for addressing issues of concentrated poverty.

Finally, it is worth noting here that, based on this descriptive analysis, place matters. The socioeconomic conditions in very poor neighborhoods are associated with more limited opportunities for residents and appear to become self-perpetuating.

Figure 2: Significant Demographic Changes

<table>
<thead>
<tr>
<th></th>
<th>Northwest</th>
<th>Milwaukee (MSA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty Rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poverty rate 1970</td>
<td>18.0</td>
<td>7.9</td>
</tr>
<tr>
<td>Poverty rate 2000</td>
<td>48.0</td>
<td>10.6</td>
</tr>
<tr>
<td>Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median household income</td>
<td>$19,356</td>
<td>$45,982</td>
</tr>
<tr>
<td>Demographics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population, 2000</td>
<td>23,294</td>
<td>1,500,741</td>
</tr>
<tr>
<td>Racial/ethnic composition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% White</td>
<td>5.6</td>
<td>74.4</td>
</tr>
<tr>
<td>% Hispanic/Latino</td>
<td>3.5</td>
<td>6.3</td>
</tr>
<tr>
<td>% Black/African American</td>
<td>78.8</td>
<td>15.5</td>
</tr>
<tr>
<td>% Residents under age 18</td>
<td>47.3</td>
<td>26.4</td>
</tr>
<tr>
<td>% Single-parent households</td>
<td>52.7</td>
<td>9.8</td>
</tr>
<tr>
<td>% Foreign born, 2000</td>
<td>7.1</td>
<td>5.4</td>
</tr>
<tr>
<td>% Population in same house as five years ago</td>
<td>42.5</td>
<td>49.1</td>
</tr>
<tr>
<td>Access to Credit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Credit files that are thin, 2004</td>
<td>50.8</td>
<td>23.0</td>
</tr>
<tr>
<td>% Credit files with high credit scores</td>
<td>17.1</td>
<td>58.5</td>
</tr>
<tr>
<td>% Mortgage originations that are high cost, 2005</td>
<td>62.7</td>
<td>25.9</td>
</tr>
<tr>
<td>Mortgage denial rate, 2005</td>
<td>26.4</td>
<td>15.9</td>
</tr>
</tbody>
</table>

Families that have to move frequently disrupt continuity at school.
Health care providers can treat allergies and asthma, but they cannot cure or effectively manage those conditions in the face of environmental challenges at home (i.e., mold, lead paint, second hand smoke).
High-cost mortgage loans constrain and frustrate home ownership aspirations for those families living in high-poverty and segregated neighborhoods.

There are many more challenges that are associated with living in high-poverty communities that are common to each of the case study communities (crime, health, transportation, neighborhood amenities).
Factors that Contribute to the Development and Persistence of Concentrated Poverty

While there are many factors that are associated with the development and persistence of concentrated poverty, The Enduring Challenge of Concentrated Poverty in America highlights and illustrates four.

History Matters

History matters because poverty concentrates over time. High levels of poverty in these communities are the product of long-term, complex, economic and social dynamics, and deliberate actions in both the public and private sectors. While standard economic theory suggests that the lower prices of housing and labor would eventually attract new investment and employment opportunities, the poverty rates in these case study areas worsened or stagnated between 1990 and 2000 despite the prevailing economic growth and prosperity and declining national poverty rates.

Like many of its peer cities in the Midwest and Northeast, Milwaukee was hit hard by the forces of deindustrialization and the loss of manufacturing jobs (see Figure 3). The case study neighborhood is at the heart of what was once a booming center of many different industries. As those industries declined and disappeared, historical patterns of racial segregation in the housing market evolved into the geography of poverty in Milwaukee.

Demographic Changes

Demographic changes are key drivers in the concentration and persistence of poverty. The out-migration of middle-income families left pockets of lower-income and predominantly minority households. And nowhere is the growth of children in single-parent families more pronounced than communities where high concentrations of poverty persist.

As the chart shows, rapidly increasing poverty rates, lower median incomes, a very young population with a high concentration of single-parent households, and a high concentration of high cost (subprime) loans are among the demographic trends in Milwaukee that have contributed to the concentration and persistence of poverty.

Isolation

Finally, pervasive isolation underlies all of the case study communities – not just the physical disconnection of being on the "wrong side of the tracks." Isolation in these communities is characterized by social, racial, linguistic, and economic separateness from the surrounding community and larger economy.

Employment and wage disparities illustrate the point, as discussed above.
Milwaukee’s case study is home to the headquarters of Harley-Davidson and the former headquarters of Miller Brewing. It is also in the shadow of downtown Milwaukee’s office towers and high-rise condominium complexes. It is immediately adjacent to Marquette University and the resurgent employment center known as the Menomonee Valley.

The old “Beer Line” railroad tracks that used to serve a thriving manufacturing center has now become a symbol of not only the “wrong side of the tracks” physical isolation, it is also a symbol of a much more compelling and challenging detachment from the economic, social, and political mainstream of greater Milwaukee.

### Challenges of “Being Poor in a Poor Neighborhood”

Isolation acts to promote and perpetuate the challenges of being “poor in a poor neighborhood.” Those challenges include human capital – the combination of schools and skills; social capital – “personal relationships that aid in achieving goals”; and the lack of mainstream investment. Clearly, Milwaukee shares the plight of overcoming the challenges – both real and perceived – of higher costs, limited buying power, crime and safety, illicit economic activity, and a younger and less educated population, that dampen investment in some communities.

In most of the case studies, nonprofit/advocate efforts to address the complex and interrelated barriers these communities face are hindered by the new and evolving nature of the problems; changing populations; and the struggle to retain talent, especially young people. And even when government, private and nonprofit stakeholders try to pull together, these efforts are often thwarted by a shortage of genuine expertise, governance issues, and the lack of trust engendered by some of these efforts. High-profile failures influence public thinking more than lower-profile successes.

Community development efforts in Milwaukee have been stymied by this interaction of capacity, governance, and trust issues:

> “[Mayor John] Norquist sought to use more block grants to offset deficits in the city budget or the employee pension fund. According to the Milwaukee Journal Sentinel, the proposal in 2002 would increase the city’s share of the federal block grant allocation from 40 to 57 percent. In that year, federal CDBG revenue was $22 million. The paper quoted block grant director Mike Soika saying that these changes reflected the city’s objective of ‘redefining its relationship’ with community organizations. The city, he stated, ‘will fund fewer groups, reduce duplication, and focus on value and outcomes’ in the future.” According to the 2004 block grant funding guide, the city had increased its share of block grants to 55 percent of the $21 million federal entitlement. Neighborhood organizations and their allies vocally opposed these measures, but resigned themselves to the shifting community development landscape.”

### Addressing Concentrated Poverty in Milwaukee

Every community has its own approach to stabilizing and revitalizing communities. Generally, these approaches fall somewhere along a spectrum: at one end, are place-based initiatives that focus on improving the physical environment of the community; and, at the other end, people-based initiatives focusing on expanding opportunities for individuals and families. The limited scope of place-based programs does little to affect the impact of broader macroeconomic forces. They are sometimes criticized for clustering projects like affordable housing, further concentrating underserved populations. People-based programs struggle to achieve the scale and reach to serve the large populations they intend to serve.

The strategies that are emerging more recently borrow from both ends of that spectrum in an effort to not simply improve communities, but transform them by “fundamentally altering the socioeconomic mix of distressed areas to create communities that are attractive to a broader range of households.”
In Milwaukee, the Zilber Initiative aims to engage residents of targeted communities in transformational initiatives. Loosely based on the New Communities' Programs in Chicago, the goal is to have residents and stakeholders of targeted neighborhoods develop and implement comprehensive neighborhood transformation through plans that are developed by the residents of each of those neighborhoods. Development and implementation of these plans are fully supported through a multi-year commitment of $50 million from the Zilber Family Foundation, and a broader array of the city's leadership through a select group of advisors from the civic and corporate leadership of the city.

Theoretically, one of the ways that individuals can address a lack of employment opportunity is to become an entrepreneur – self-employment. However, less than 5 percent of the households in the study area reported self-employment income as compared with 12 percent of households in the state. The study area lost business establishments during a decade of national prosperity. Figure 4 shows that the study area lost 7.5 percent of its businesses while the number of businesses in outlying counties increased by 15 percent. Milwaukee's inner city might well benefit from a sustained effort to encourage entrepreneurship, especially efforts to support growing minority-owned firms that have a greater propensity to hire minority workers.

Progress Through Business, a national nonprofit, and the City of Milwaukee created the Milwaukee Urban Entrepreneur Partnership (UEP) to support and encourage entrepreneurship in the city. The fragmented business assistance system in Milwaukee was seen as an impediment to entrepreneurial development. The UEP weaves together the elements of a comprehensive business assistance program for early-stage growth-oriented businesses to help create a culture of entrepreneurship. It is also designed to leverage minority-owned businesses’ propensity to hire minority workers by growing minority-owned businesses to scale. The UEP works with senior-level executives at large corporations and institutions to identify joint ventures, spinouts and divestitures, strategic partnerships, and other opportunities for the corporation to enter into a market-driven venture with a minority entrepreneur.

Leadership and Partnership: Two Ships Passing in the Night?

As discussed above, "Neighborhood organizations and their allies vocally opposed these measures, but resigned themselves to the shifting community development landscape." A once strong and innovative coalition of financial institutions, housing counseling groups, and the city, crumbled under the weight of affordable housing projects that defaulted, bankrupting some of Milwaukee's strongest nonprofits and splintering the coalition. Then, New Opportunities for Homeownership in Milwaukee (NOHIM) disbanded after 12 years of addressing home mortgage lending issues in Milwaukee. NOHIM was originally created to address the racial disparity in loan denial rates in Milwaukee, which has consistently had one of the highest levels of disparity among mortgage applicants nationwide. NOHIM, a coalition of financial institutions and home buyer counseling agencies, made $263 million in loans to 4,653 applicants over 12 years, 80 percent of which went to ethnic minorities.

Milwaukee generally, and NOHIM specifically, illustrate the point made above that, a lack of trust "attaches to many of these efforts because high-
profile failures influence public thinking more than the lower-profile successes that occur only with sustained efforts over time. The general atmosphere of mistrust in which NOHIM decided to disband overshadows the fact that, while NOHIM existed, low-income and minority households in Milwaukee’s “target area” gained greater access to home mortgage and home equity products. Indeed, although we cannot demonstrate a cause-effect relationship, as NOHIM disappeared, high-cost (subprime) lending surged, and now, “Metropolitan Milwaukee has some of the greatest racial disparities in subprime lending in the U.S.”

More recently, Milwaukee Mayor Tom Barrett convened the Milwaukee Foreclosure Partnership Initiative (MFPI), a coalition of government officials, housing counseling agencies, community development groups, financial institutions, and philanthropic organizations. MFPI's immediate goal is to access the resources available through the U.S. Department of Housing and Urban Development's (HUD) Neighborhood Stabilization Program (NSP), and address the foreclosure crisis in Milwaukee. MFPI succeeded in obtaining $9.2 million in NSP funds from HUD. However, recent interviews conducted by the author with MFPI participants reveal that this coalition must remain vigilant to guard against a cause-effect relationship, as NOHIM disappeared, high-cost (subprime) lending surged, and now, “Metropolitan Milwaukee has some of the greatest racial disparities in subprime lending in the U.S.”

Progress Through Business (Progress), a national nonprofit organization affiliated with the University of Wisconsin's Center on Business and Poverty, works with large corporations to help them engage in local development efforts through their business operations. Three legs of the Progress stool are called BusinessLINC, EmployeeLINC, and GreenLINC. “LINC” stands for learning, investment, networking, and collaboration.

BusinessLINC is an example of creating social capital through network effects. The BusinessLINC coalitions were created to bring CEOs directly into addressing the issue of greater inclusion of minority-owned businesses in corporate supply chains. The initiatives don't tell the CEOs how to do it; they ask the CEOs to do exactly what they do for the companies they lead: survey the environment for opportunities and marshal the resources to seize those opportunities specifically in the communities in which they maintain business operations and facilities. EmployeeLINC and GreenLINC ask the same of the CEO as it applies to human resources (especially for a company's low-income employees), and as it applies to the development and maintenance of the company's physical plant.

Some relatively new initiatives in Milwaukee that benefit from corporate engagement and commitment and show a great deal of promise include the Zilber Initiative, which is led by a board of advisors comprised of high-profile civic and corporate leaders, and the Milwaukee 7’s Regional Workforce Alliance and the Milwaukee 7 Water Council.

The Regional Workforce Alliance, with support from the U.S. Department of Labor's Workforce Innovation in Regional Economic Development (WIRED) initiative, is leveraging both the new resources of the WIRED program and the existing workforce development programs in the region. However, in order to be transformative, its stated philosophy is that, “Innovation and transformation most often happen at the intersections between organizations and thus single, stand-alone projects are not eligible for funding.”

One target industry for the Regional Workforce Alliance approach to producing the right amount of talent with the right skills when and where needed, is the water technology. Milwaukee has positioned itself as a global leader in development of fresh water technologies. As a relatively new industry developing emerging technology, the water industry will need a deep and growing pool of talent to feed the anticipated growth of the industry, even if the specific skill sets necessary are still evolving.

The Challenges of Effective Collaboration

All of the initiatives highlighted in this report, including the Milwaukee Foreclosure Partnership, the Zilber Initiative, the Milwaukee 7’s Water Council and Regional Workforce Alliance, Progress Through Business, and many others, will face the dual challenges of looking “over the horizon” for opportunities, while focusing strategically on the near-term needs of the community.
In order to succeed, these initiatives must begin with the end in mind. What, specifically, are you trying to accomplish? How will you measure success? What will you measure? How will you measure it? And, finally, how will partners hold each other accountable and remain partners?

One example of an organization that has addressed the dual challenges of vision and strategic focus is Chicago United. Chicago United was created in the aftermath of the 1968 riots in Chicago. It is the only organization that is dedicated exclusively to addressing race in business through hiring, promotion, board development, and minority supplier initiatives.

Chicago United's Five Forward® Initiative is a compelling commitment by dozens of Fortune 1000 companies to establish new relationships with five minority-owned suppliers and professional service providers and to track the benefits of those relationships — over five years — for the company, the supplier, and the communities where the suppliers and companies are located. However, the program has a single measure of success: how much has revenue increased at the participating minority-owned firms? Everyone in the program understands and agrees that the growth of the minority-owned companies — specifically their revenue growth, is the only basis on which the other benefits (increased employment opportunities, wealth creation, and economic development) can be achieved.

There is an elegance to the single measure that seems to be generating an increased level of engagement and commitment from the highest levels of the participating Five Forward® firms. Not every initiative can focus on just one measure of success, but the Five Forward® initiative does demonstrate that well-defined goals and accountability can help leaders marshal the resources to efficiently and effectively address challenging issues.

**Conclusion**

_The Enduring Challenge of Concentrated Poverty in America_ describes a number of challenges that high-poverty communities in the United States face across a range of geographic, economic, and demographic environments. It also concludes that there are no “silver bullets” or policies that could be adopted at the national level that would fully address the multiple issues that concentrate and isolate individuals and families in these pockets of poverty.

Milwaukee's Northwest Side provides an excellent case study of both the similarities and the uniqueness of high-poverty neighborhoods. In order for Milwaukee to address its unique set of issues that promote and perpetuate concentrated poverty, Milwaukee will need to address its need of the development of leadership capacity and social capital necessary to address the core issues. That will require patience and trust.
Notes


5 Metropolitan Milwaukee Fair Housing Council. City of Milwaukee Analysis of Impediments to Fair Housing, August, 2005.

6 Quillian, Lincoln, and Rozlyn Redd. “Broadly meaning the personal relationships that aid in achieving goals, social capital is not a single explanation or variable, but rather points toward a variety of explanations of how informal human social relationships are important for human behavior...We find the evidence especially compelling linking racial inequality and certain types of social capital disadvantage resulting from disadvantaged neighborhoods.” *Can Social Capital Explain Persistent Racial Poverty Gaps?* National Poverty Center Working Paper #06-12, 2006. Also available at www.npc.umich.edu/publications/workingpaper06/paper12/working_paper06-12.pdf.


