



October 2016 podcast transcript

Featuring [Steven Durlauf](#), William F. Vilas Research Professor, Kenneth J. Arrow Professor of Economics, University of Wisconsin—Madison

Hosted by Dave Chancellor

Chancellor Hello and thanks for joining us for the October 2016 episode of the Poverty Research and Policy Podcast from the Institute for Research on Poverty at the University of Wisconsin Madison. I'm Dave Chancellor.

This episode features Steven Durlauf, an economist at the University of Wisconsin and a longtime IRP affiliate. He's also co-directs the Human Capital and Economic Opportunity Working Group at the University of Chicago.

IRP, as the original U.S. poverty research center was founded in 1966 and marks its 50th anniversary in 2016. So, when I sat down with Professor Durlauf, I asked him to help us think about how poverty and poverty research has changed over that time period and where he thinks future research might stand to make the biggest difference in the lives of the poor.

Durlauf It's useful to think about how poverty has qualitatively changed. Not in terms of its direct harms, but rather in terms of the mechanisms that underlie its breadth and its persistence. What I believe is true about contemporary poverty and is being reflected in contemporary research and will expand, is that poverty is a much harder phenomena to combat in 2016 than in 1966. Now the reason I say that is that many of the factors underlying poverty such as levels of racial discrimination, the absence of functioning civil rights laws collectively defined. Those, there have been dramatic successes with respect to them. Second, is documented — actually very well exposted by Christopher Jencks in a *New York Review of Books* article a couple years ago looks at the post-transfer poverty rates in the United States in the last half century. They have very dramatically declined. Third, I think that on many dimensions, one can identify egalitarian enhancing policies, which have facilitated upward mobility for many disadvantaged people. So with that as the background, and not to — let me be clear, this is not about blaming the poor or saying that the government no longer has a role. It's merely an argument that in understanding poverty, one in the 21st century so to speak needs to think somewhat differently.

Chancellor Durlauf says that, in terms of how we think about poverty in the 21st century, we need to think about how U.S. inequality and the passing of poverty from one generation to the next is driven by a sort of what he calls segregation, but perhaps not in the way we traditionally think of the term.

Durlauf And what I mean by that is individuals, at least in the sort of metaphor that I would work with, have memberships in different groups. And these groups have causal influences or mechanisms that deeply affect them. Now the link with the psychological literature would be the easiest example of a group and that would be parents. And the extent to which, and that would be Christine Schwartz at UW-Madison Sociology has worked on this for example, assortative mating by socioeconomic background or, more important, education. That in and of itself would become a mechanism that would decrease the rate of social mobility. Now, certainly no one wants to interfere with marriage markets but at least the observation one starts with

Durlauf, continued is to recognize that the way that people sort themselves even at the most primitive group level, which is marriages, will have consequences for thinking about poverty and disadvantage.

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Chancellor Durlauf says that this idea of memberships is especially important when considering the neighborhoods that people live in.

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Durlauf Empirical evidence is becoming increasingly compelling on the mechanism that maps the characteristics of a community in which somebody grows up into development and long term socioeconomic outcomes. But that means by implication, is the extent to which communities are segregated by race or segregated by income, that that will become a mechanism by which persistent inequality emerges because the contemporary inequality which leads to greater segregation of individuals then means that children have more disparate backgrounds, or disparate exposures to neighborhoods than they would otherwise and that then becomes a vicious circle.

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Chancellor And while neighborhoods are closely linked to the K-12 education that children will have access to, Durlauf also see this type of segregation having important ramifications at the postsecondary level.

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Durlauf And there I would emphasize that that the heterogeneity in college quality is clearly first order in the extent to which one has socioeconomic background leading to segregation by type of college, or to be blunt, ability. However defined, by college, that's going to create, again, disparate experiences and hence disparate longer term outcomes.

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Chancellor Professor Durlauf also suspects that shifts in the workplace, especially those connected to technological change, may have important implications for the way that groups with different skills become isolated from one another.

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Durlauf So let me at least give you a metaphor, and again, I want to make clear that this is speculative. If we think about the Ford Motor Company as a paradigmatic American company, in 1966, then, what one might say is that one of its interesting features is that one had workers of different skill levels, different occupational types, all interacting to produce a product. And so again, there's a coupling so to speak, of different types of workers. But in the 21st century, Microsoft is a very different creature. And, an interpretation of the effect of globalization, technological change, all of these aspects of labor markets is that one sees that what David Autor calls the hollowing out of certain occupations. But, the way that I would think of it is that you have increasing isolation of highly skilled workers, who are very well compensated, from the rest of the population. That's not sociology as much as standard economics of comparative advantage but it is nevertheless another dimension of along which it's the segregation of individuals into trajectories that aren't coupled in some way that I believe is essential in understanding contemporary inequality.

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Chancellor Now, when it comes to research related to poverty and inequality in this context, Durlauf says that much of it falls into two different categories, or strands.

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Durlauf In organizing that I might say that much of this research is developing a richer psychological framework for understanding poverty and disadvantage and another strand which is the area that I personally work in, has to do with social determinants. So, to play this out a bit, there's increasing evidence of the importance of early childhood investment on long run socioeconomic outcomes. And so the work by Nobel Laureate James Heckman, who I work with, though not on this —that body of research which has expanded throughout the social sciences, is documenting essentially how both standard cognitive measures of skill as well as socioemotional skills are deeply influenced by the experiences of children. One can correlate those facts with observations such as the massive gap in exposure to words that opens up between children in disadvantaged homes versus others by the age of three. Or one can look at calculations that focus on the abilities of families to invest in their children creating a nurturing environment, not just through financial types of investment, but in terms of time.

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Chancellor Durlauf says, in thinking about policy interventions designed to combat poverty and inequality, he sees

Chancellor, continued these early childhood investments as particularly promising because they have the potential of being very beneficial relative to their cost.

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Durlauf There's very high bang for the buck in properly constructed early childhood interventions. Now, it's easy for me to say "properly constructed." What that phrase means is there's been no end of early childhood interventions and if one were to just graph the efficacy or some measure of the efficacy, you would get a lot of different results. I believe the right metaphor is 'finding the right vaccine' so, in other words, the fact that some of early childhood interventions haven't been efficacious isn't necessarily suggestive that they are not in general. And so the really the two points I would put there are that, number one, from the vaccine perspective, it does matter what the composition and intensity of the program is. Second, many of the negative results on these programs have to do with measurements of IQ or something like that. And that's not really the thing we're talking about. We're talking about thriving, flourishing lives. And it's that focus on the outcomes, where one has much more compelling evidence that early childhood programs work.

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Chancellor Although Professor Durlauf believes that early childhood investment may be the clearest example of cost effective public policy informed by research, he notes that research related to the psychological aspects of poverty, such as that by Sendhil Mullainathan and his colleagues, can also have important implications for informing future policy.

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Durlauf Having to navigate life with the stresses of disadvantage delimits the capacity for decision making of the type that would allow one to make economic progress. Now it's a much less developed area in terms of what one can say with certainty, but again that's suggestive that a vision of individuals and their psychological development and their psychological capacities is, I think, essential in understanding disadvantage.

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Chancellor Thanks to Steven Durlauf for talking with us. Check out his website if you would like to learn more about his research on these topics.

You can catch our new episodes of the Poverty Research and Policy podcast by subscribing on iTunes or Stitcher. You can also listen to our past episodes on the IRP website.

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