

Poverty and the Safety Net After the Great Recession

Deep Issues of the 2012 Elections:
Equality, Liberty and Democracy,
Cornell University

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- In 2010, more than 1 in 5 children lived in poverty and 15.1 percent of all persons were poor.
- Government spending on anti-poverty programs includes \$30 b. on TANF, \$51 b. on the EITC, and \$50 b. on Food Stamps.
- In this talk, I discuss what we know about the causes of poverty and its consequences for children and families.

Outline

- How do we define poverty?
- Facts: Poverty in the U.S.
- Impacts of poverty on children and families
- The causes of poverty and how government policies can help

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What is the Official Poverty Measure?

- A family is poor if their family income is less than the federal poverty threshold
 - Poverty lines vary by family size and are adjusted for changes in prices each year
 - Based on the cost of food in the 1960s (mult by 3)
- Poverty is a *family* concept—all persons in the same family have the same poverty status

Poverty Thresholds by Family Type, 2010	
1 parent, 1 child	\$15,030
1 parent, 2 children	\$17,568
2 parents, 2 children	\$22,113

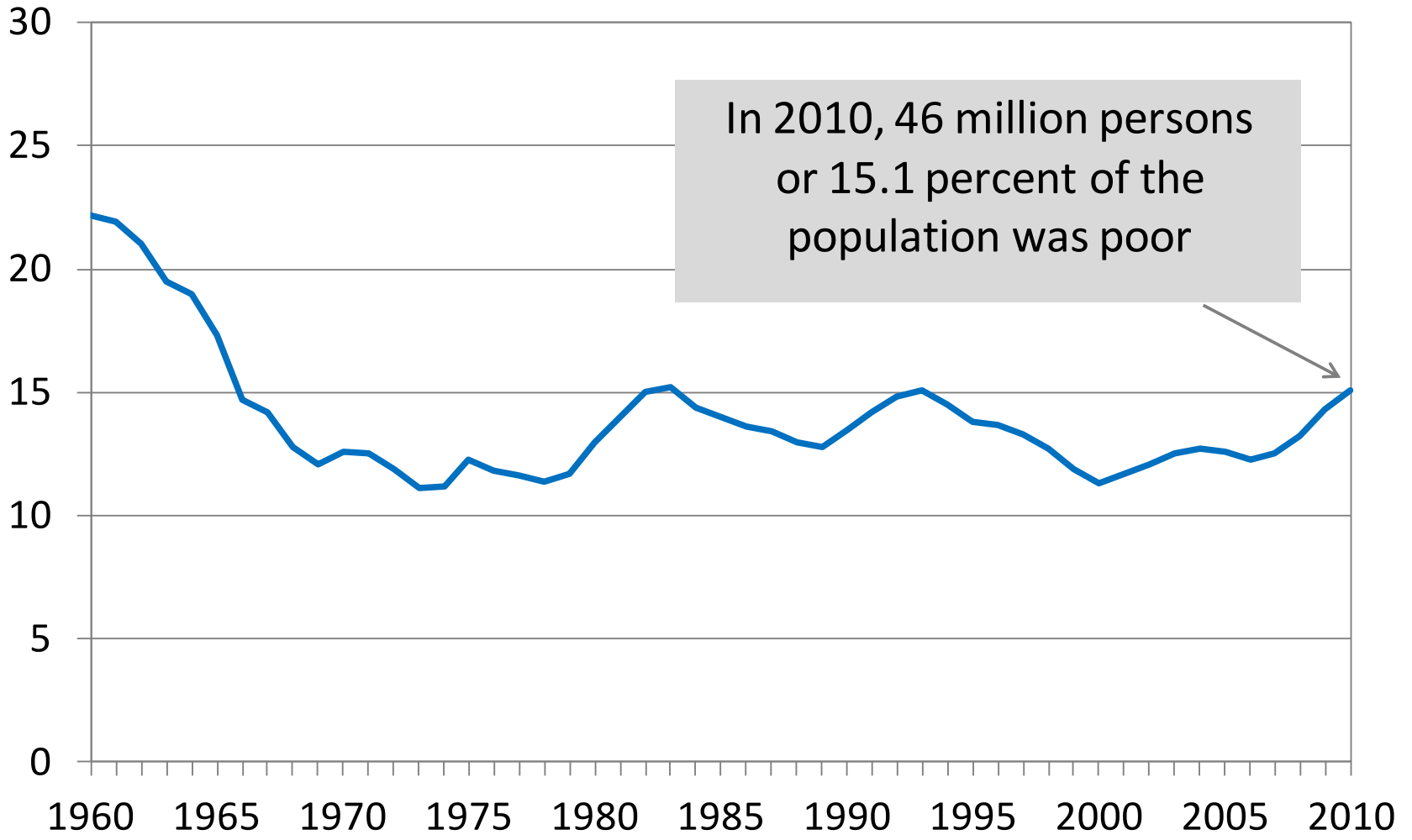
By comparison, 2010 median family income was \$49,400.

Concerns about official poverty measure

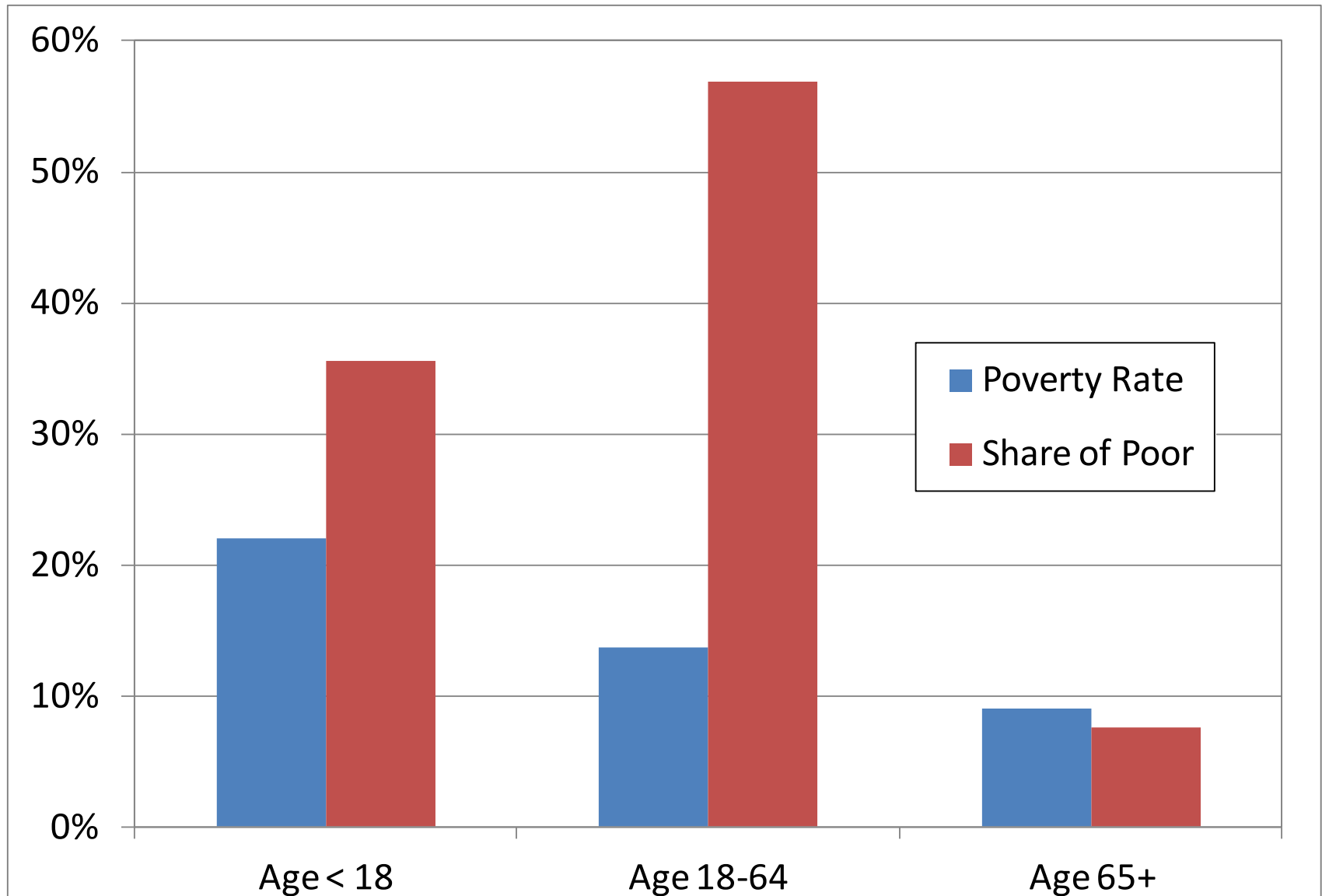
- Income measure is pre-tax family income; includes only cash income
 - Does not include Food Stamps (SNAP) or Earned Income Tax Credit
 - Not adjusted for work-related expenses
- Not adjusted for regional variation in costs of living (e.g., housing)
- Definition of poverty has not changed since measure developed in early 1960s
- Recent Supplemental Poverty Measure released by Census; addresses these concerns

- How do we define poverty?
- **Facts: Poverty in the U.S.**
- Impacts of poverty on children and families
- The causes of poverty and how government policies can help

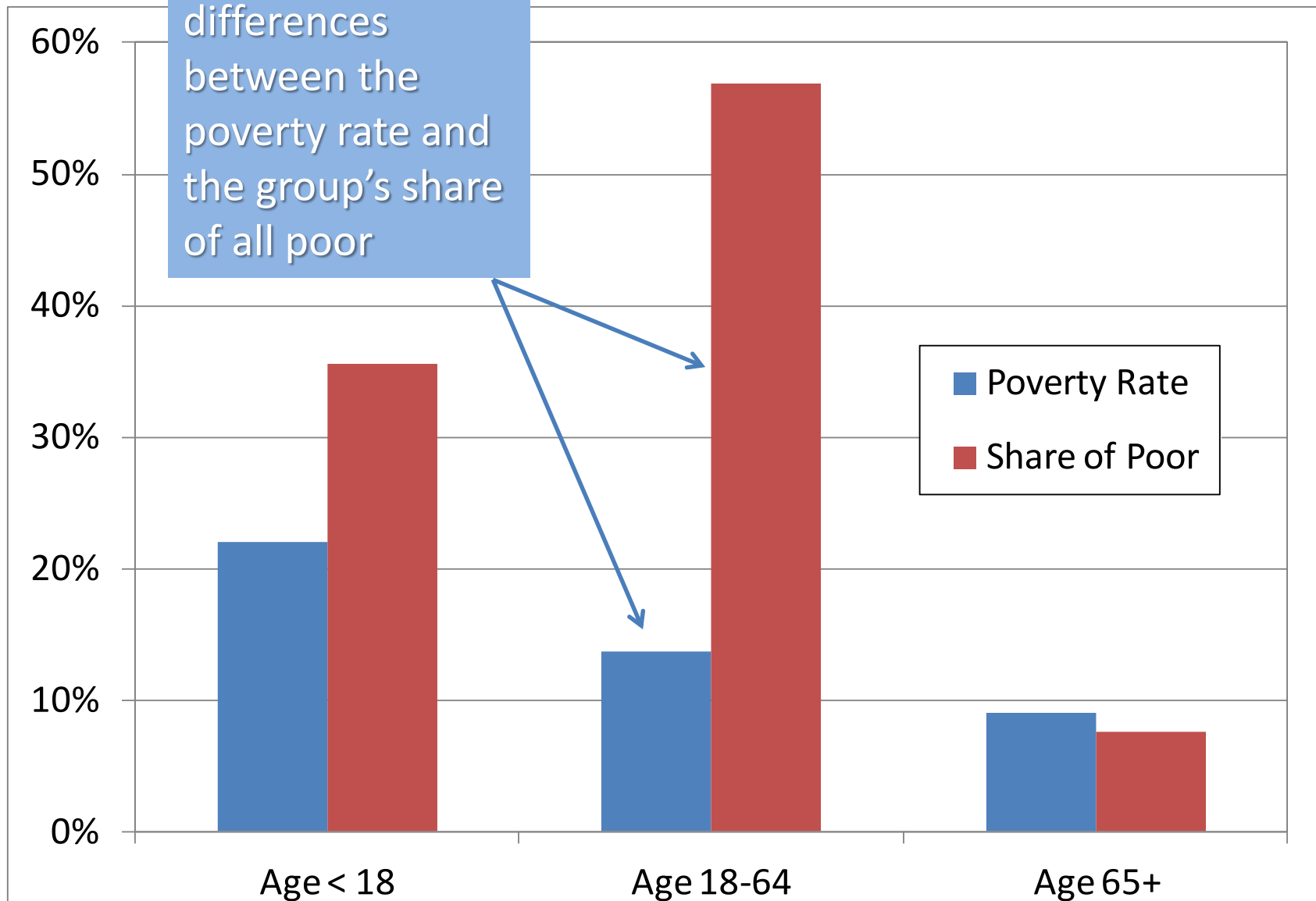
Poverty Rate, All Persons



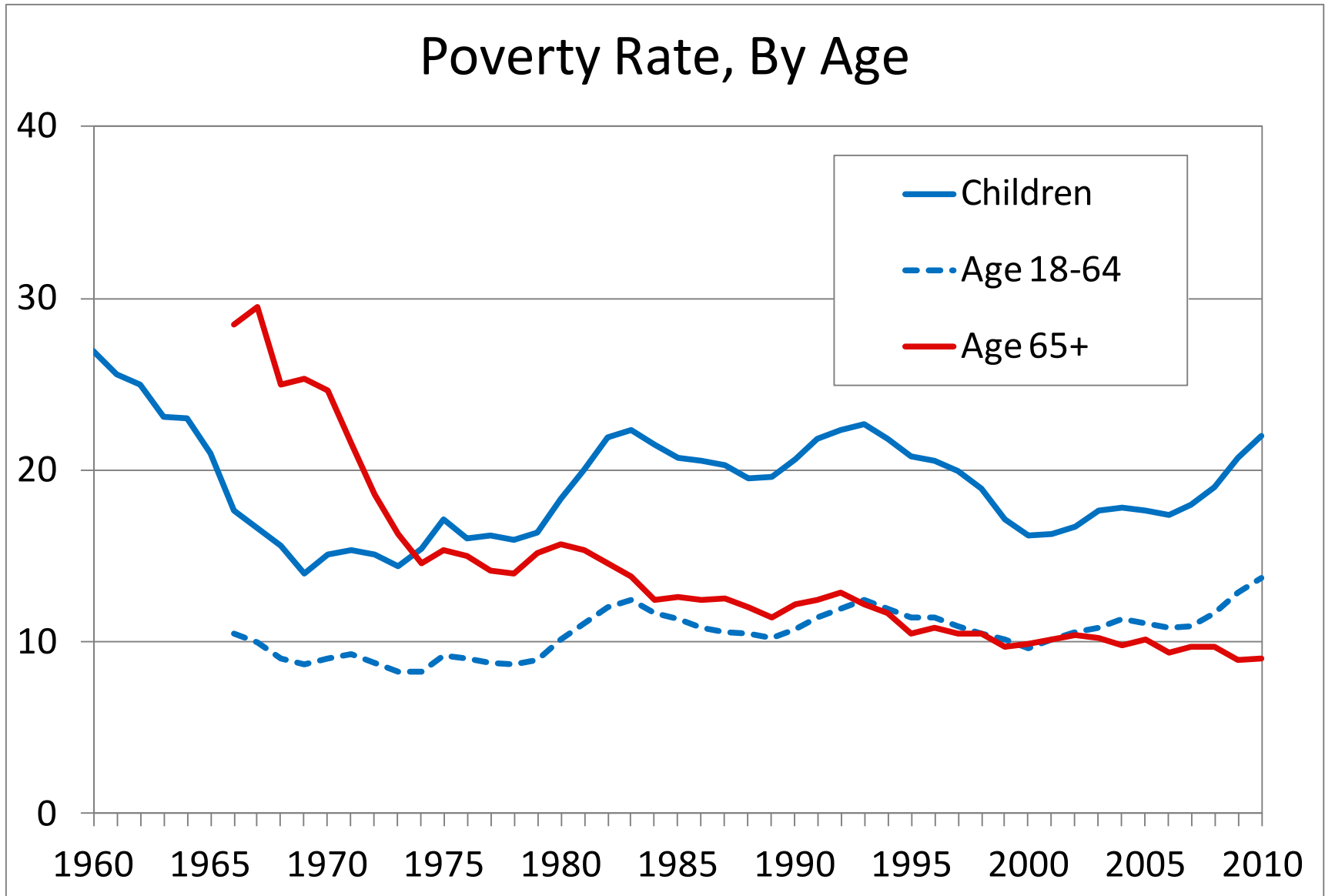
Children have the highest poverty rates



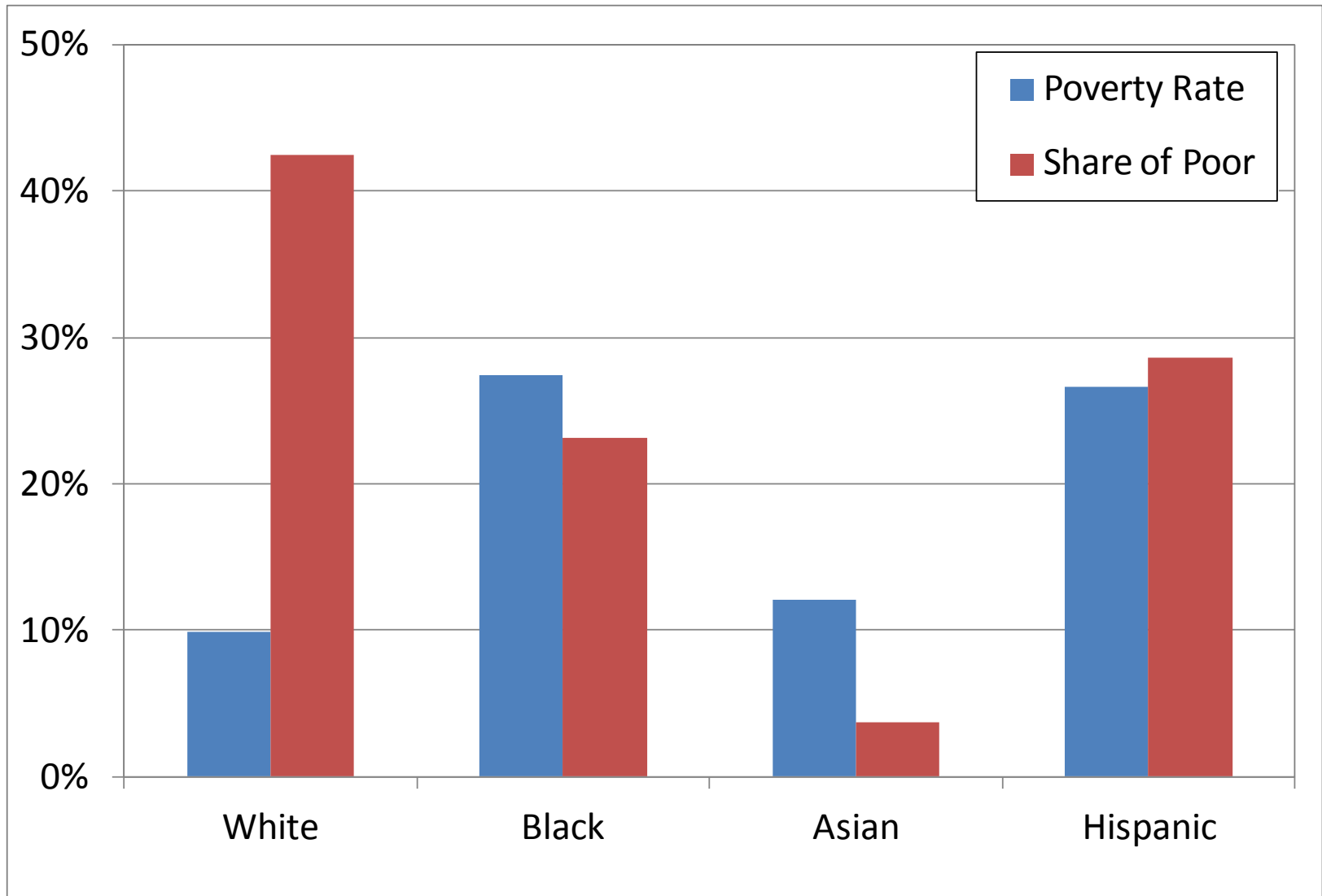
Note the differences between the poverty rate and the group's share of all poor



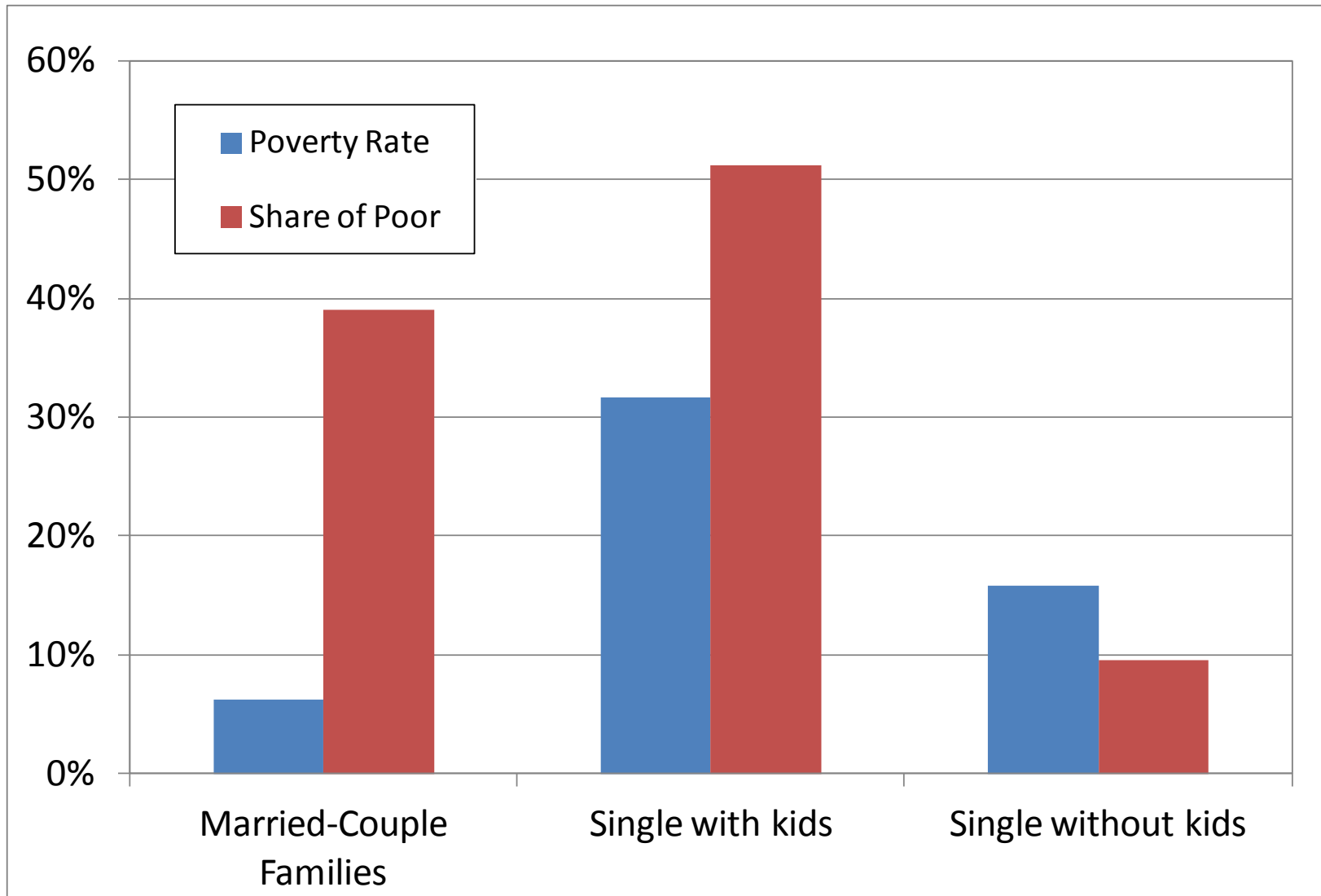
U.S. “success” in improving poverty varies by age



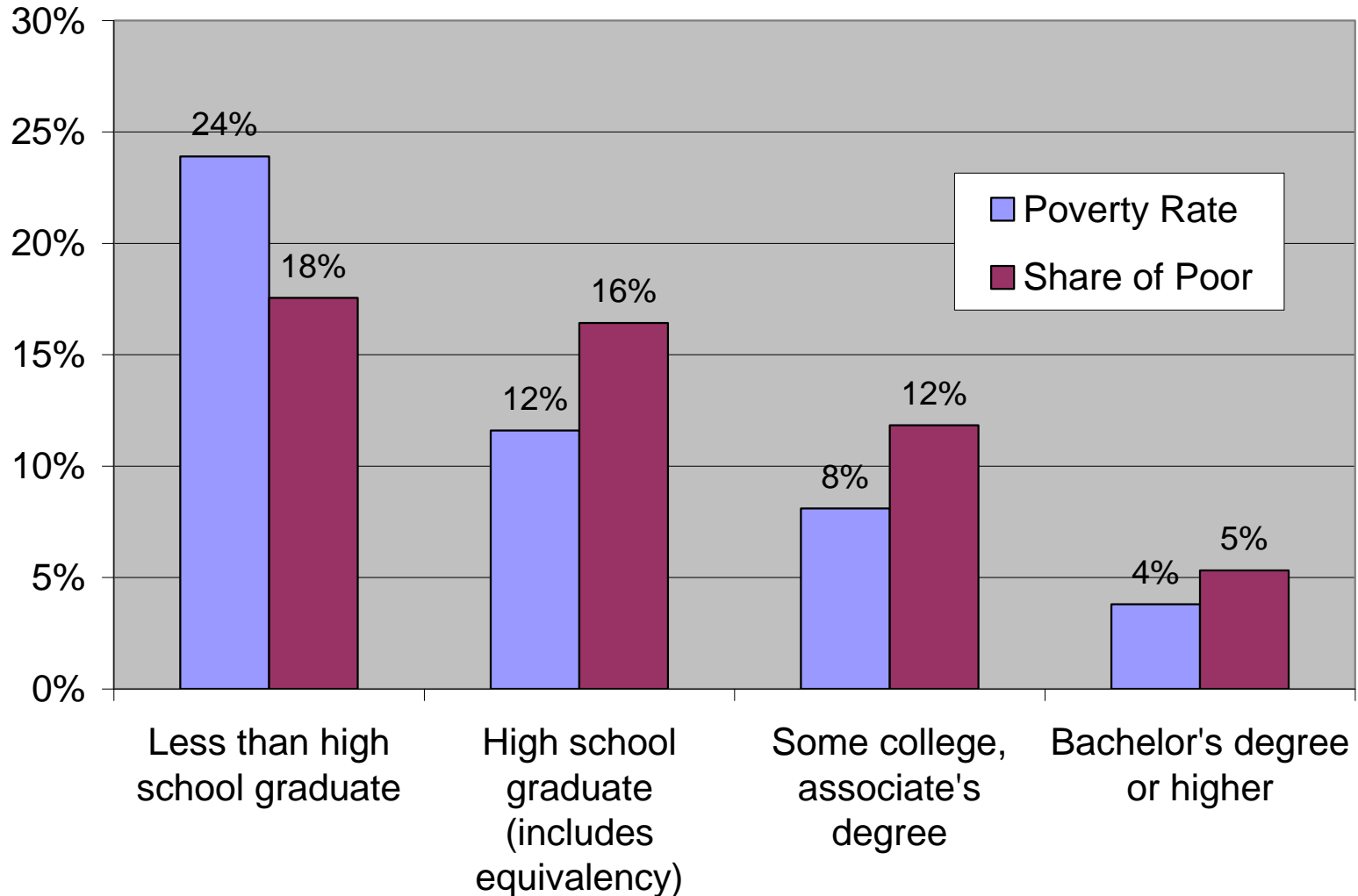
Latinos and African Americans have high poverty rates



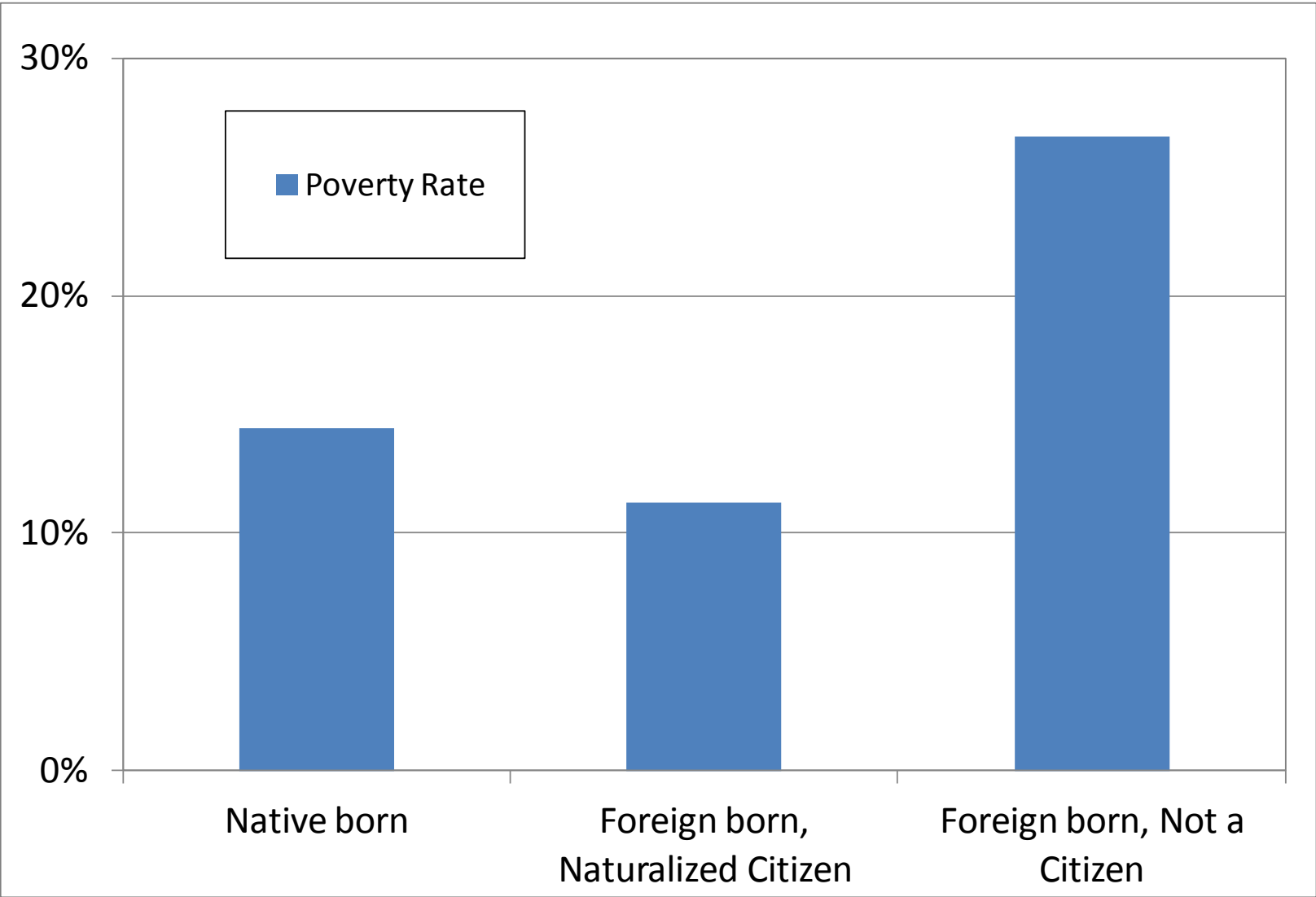
Female headed households have high poverty rates



Poverty dramatically declines with education



Non-citizens have higher poverty rates



- How do we define poverty?
- Facts: Poverty in the U.S.
- Impacts of poverty on children and families
- The causes of poverty and how government policies can help

- Poverty is measured and watched by virtually all developed countries.
- It is an important indicator of economic well-being
- In the U.S., poverty is associated with many adverse outcomes

Children who grow up poor are more likely to

- Not attend preschool
- Perform worse in school
- Drop out of high school, have lower educational attainment
- (Girls) Have a teen birth
- (Boys) Be incarcerated
- Live in poverty as adults
- Receive government assistance as adults
- Have connection to the child welfare system
- Have worse health and shorter life expectancy

The challenge for social science research is in identifying:

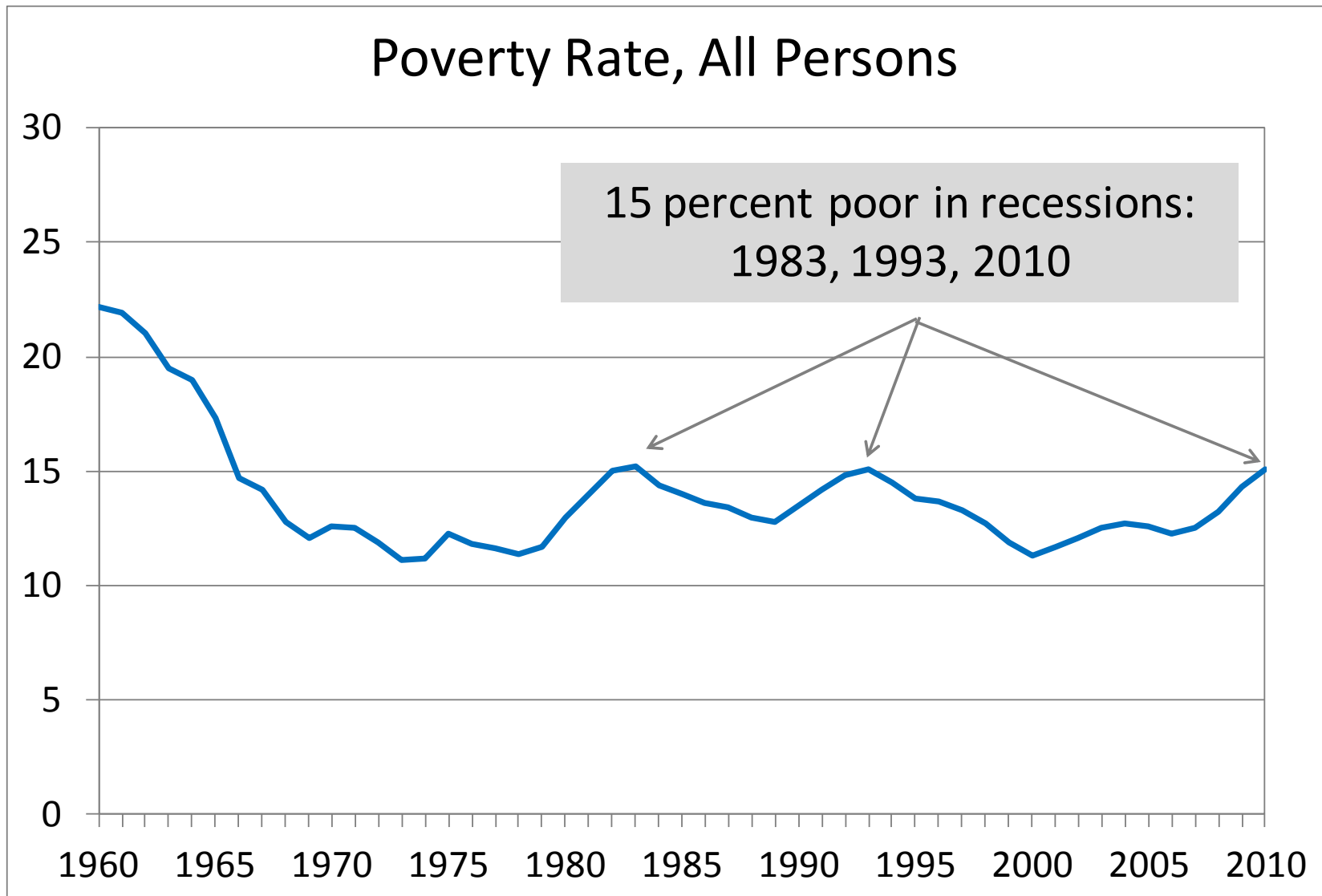
1. The role played by poverty in these correlations.
2. What policies can improve outcomes.

- How do we define poverty?
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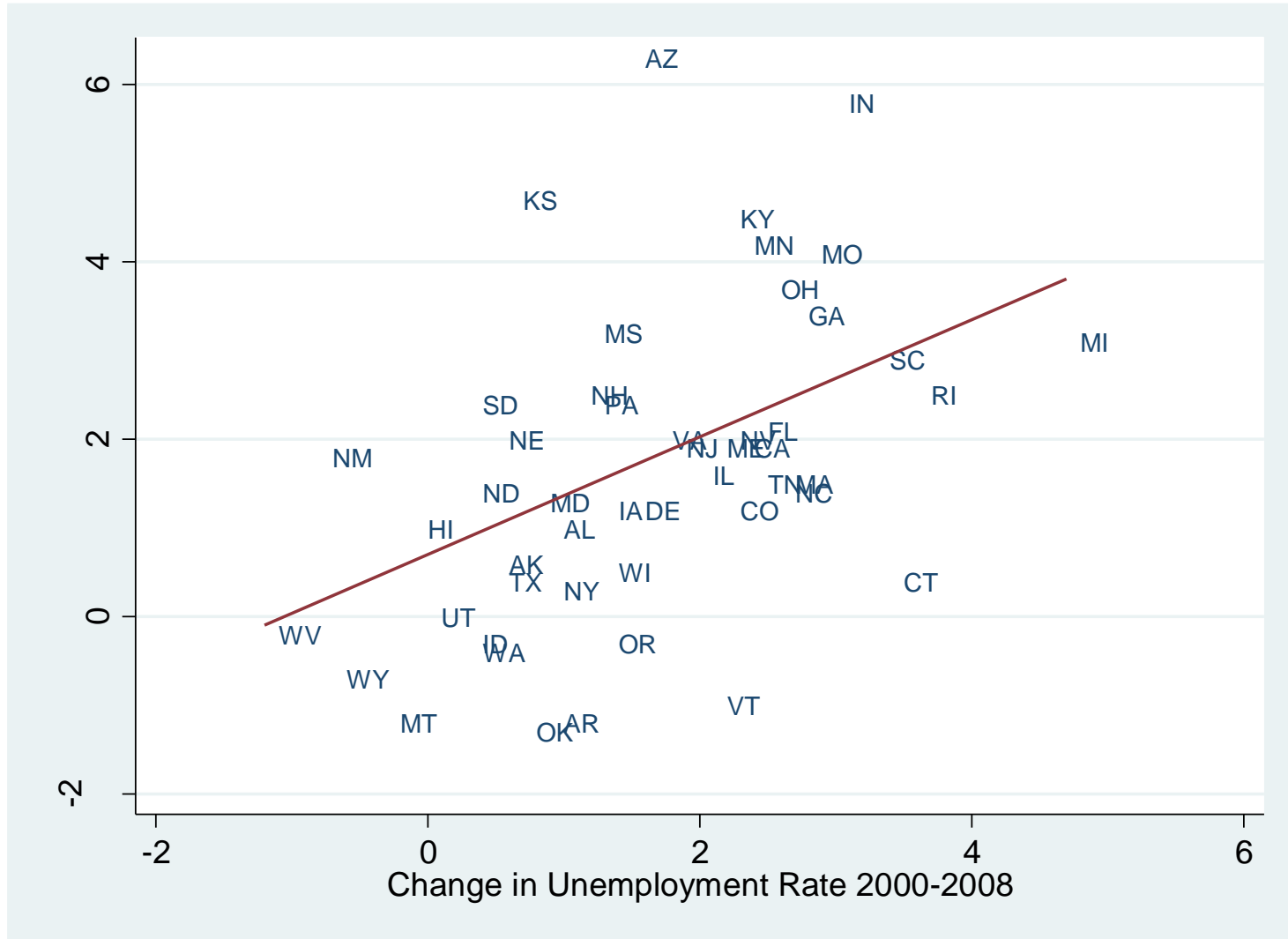
(1) The Labor Market

- Most poor families contain workers
- Poverty is very closely tied to the conditions of the labor market
 - Availability of jobs
 - Wages paid at those jobs

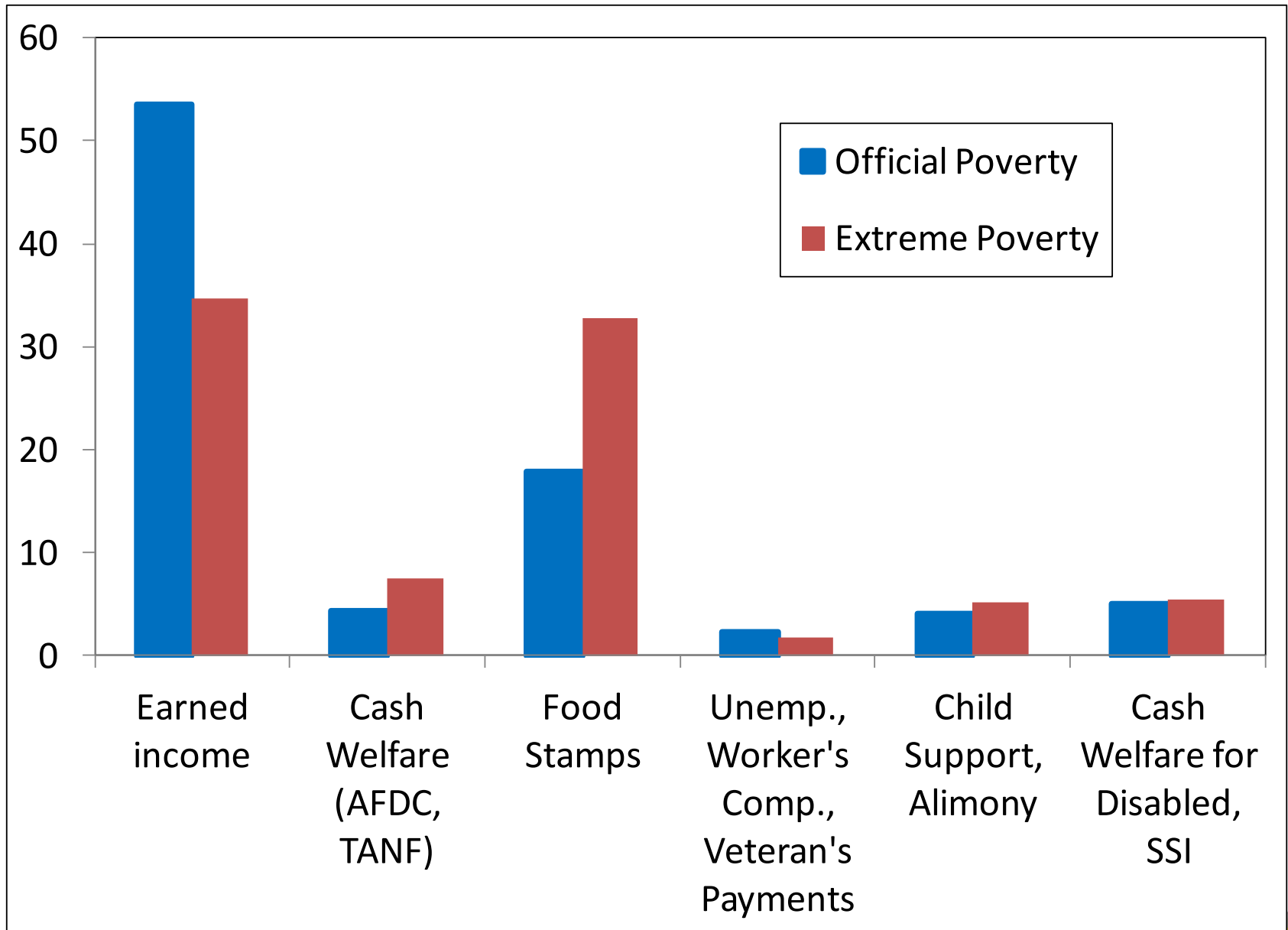
Poverty varies with job availability



Poverty *increased* more in states that experienced larger *increases* in unemployment



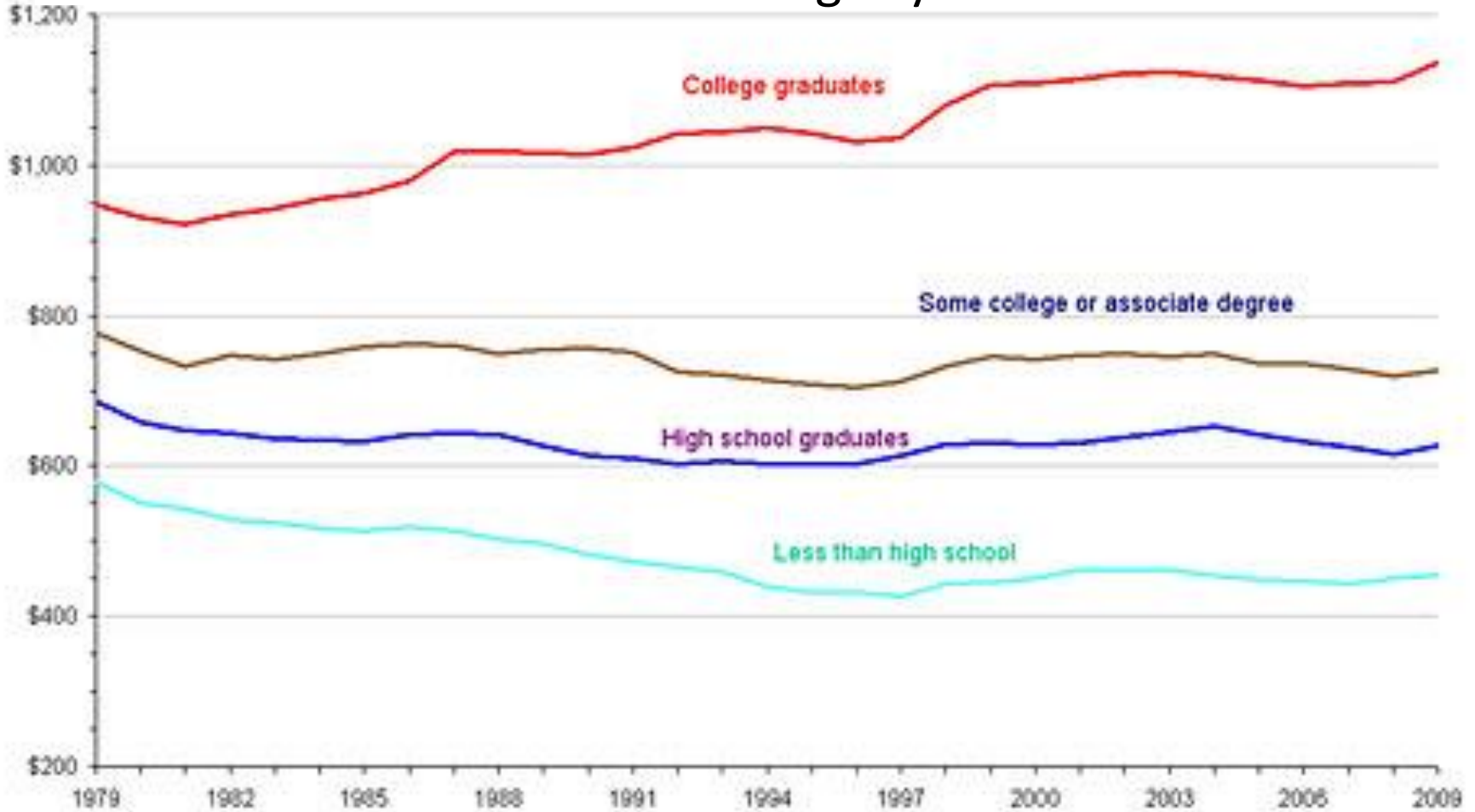
Earnings is a large share of income for the poor



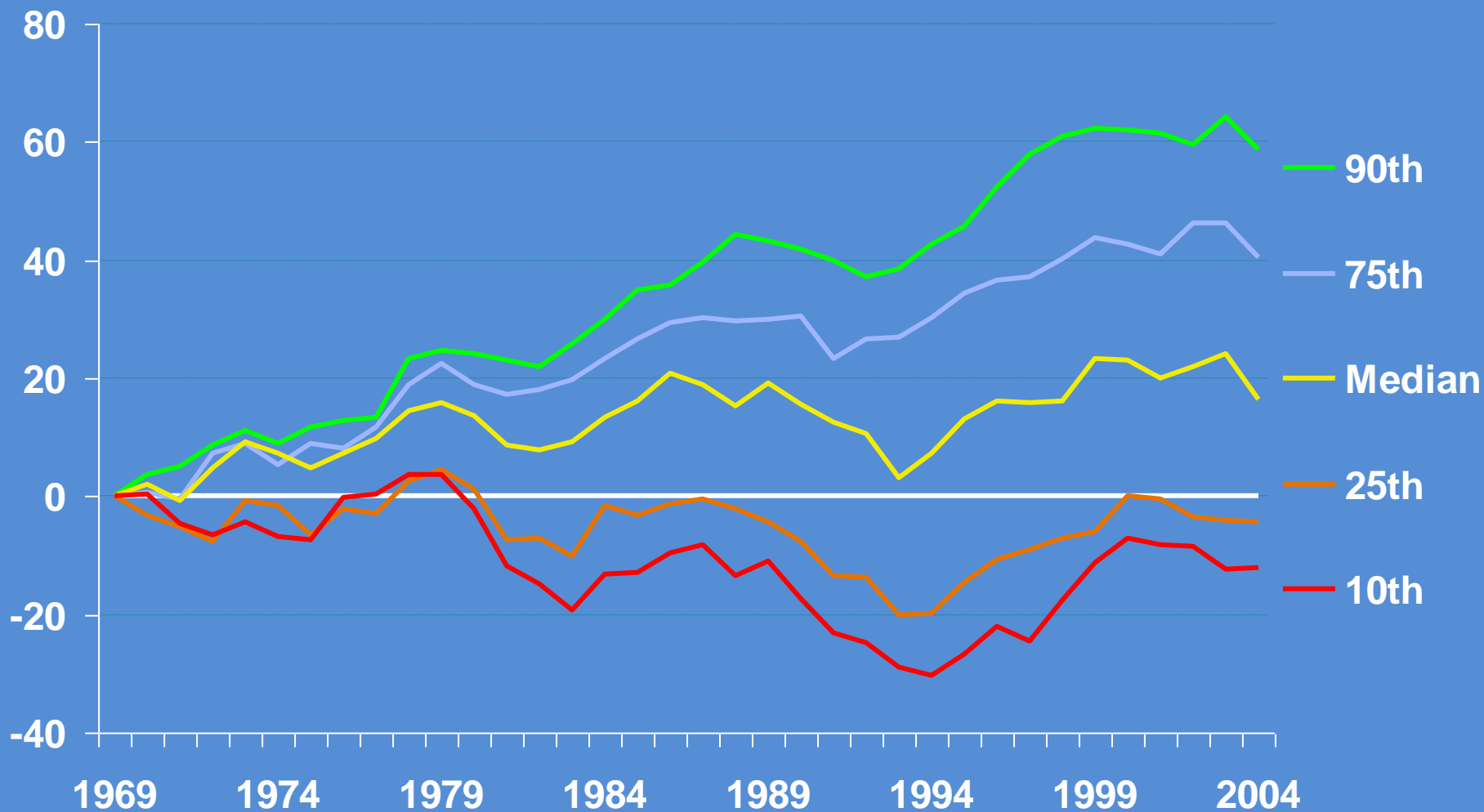
- Importance of wages paid at those jobs
 - Wages and earnings for less skilled workers is a key determinant of poverty
- What has happened to earnings for less skilled workers?

Wages for lower education groups have been falling

Real Median Earnings by Education

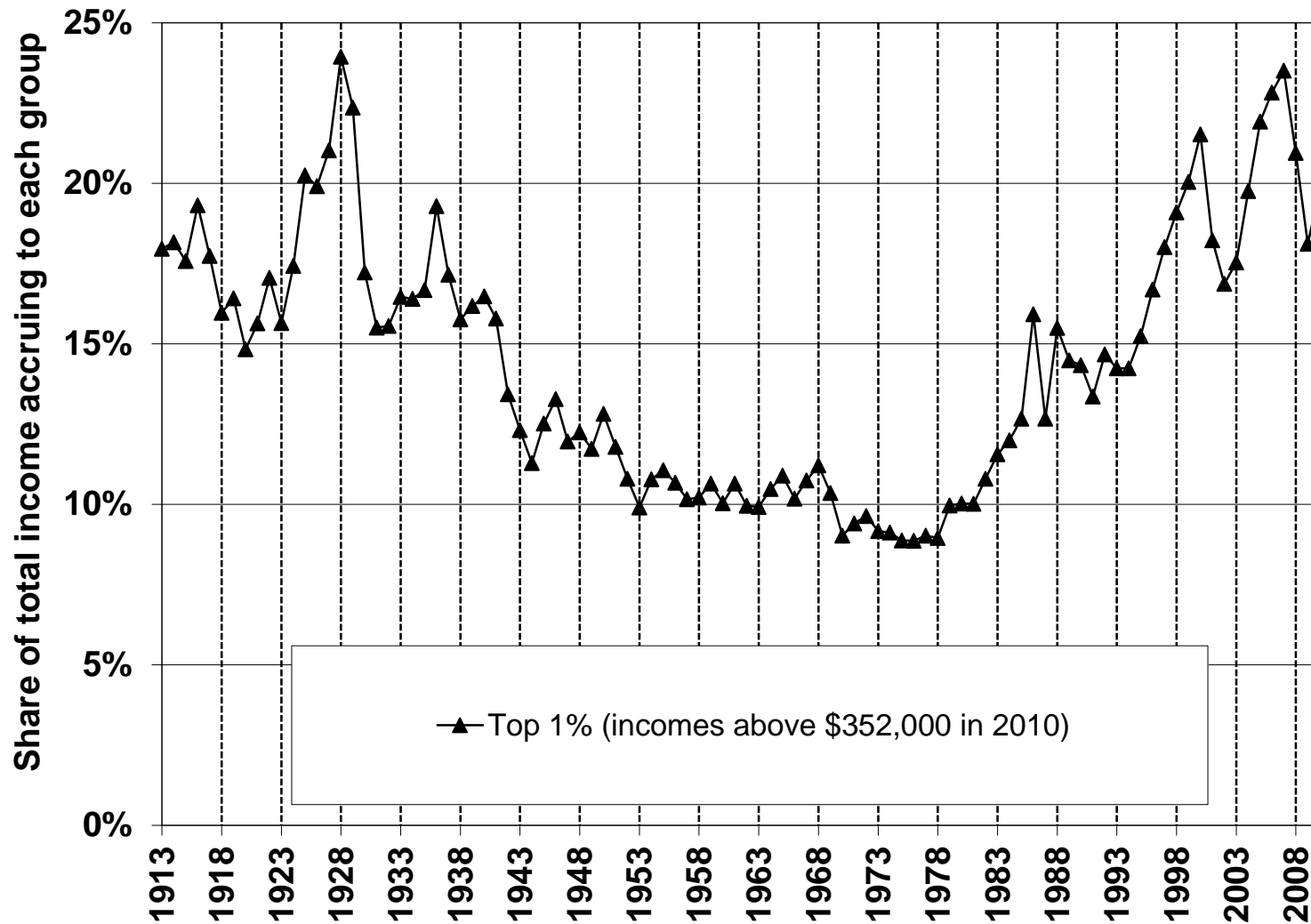


No growth in family income at the bottom of the distribution (and significant growth at the top)



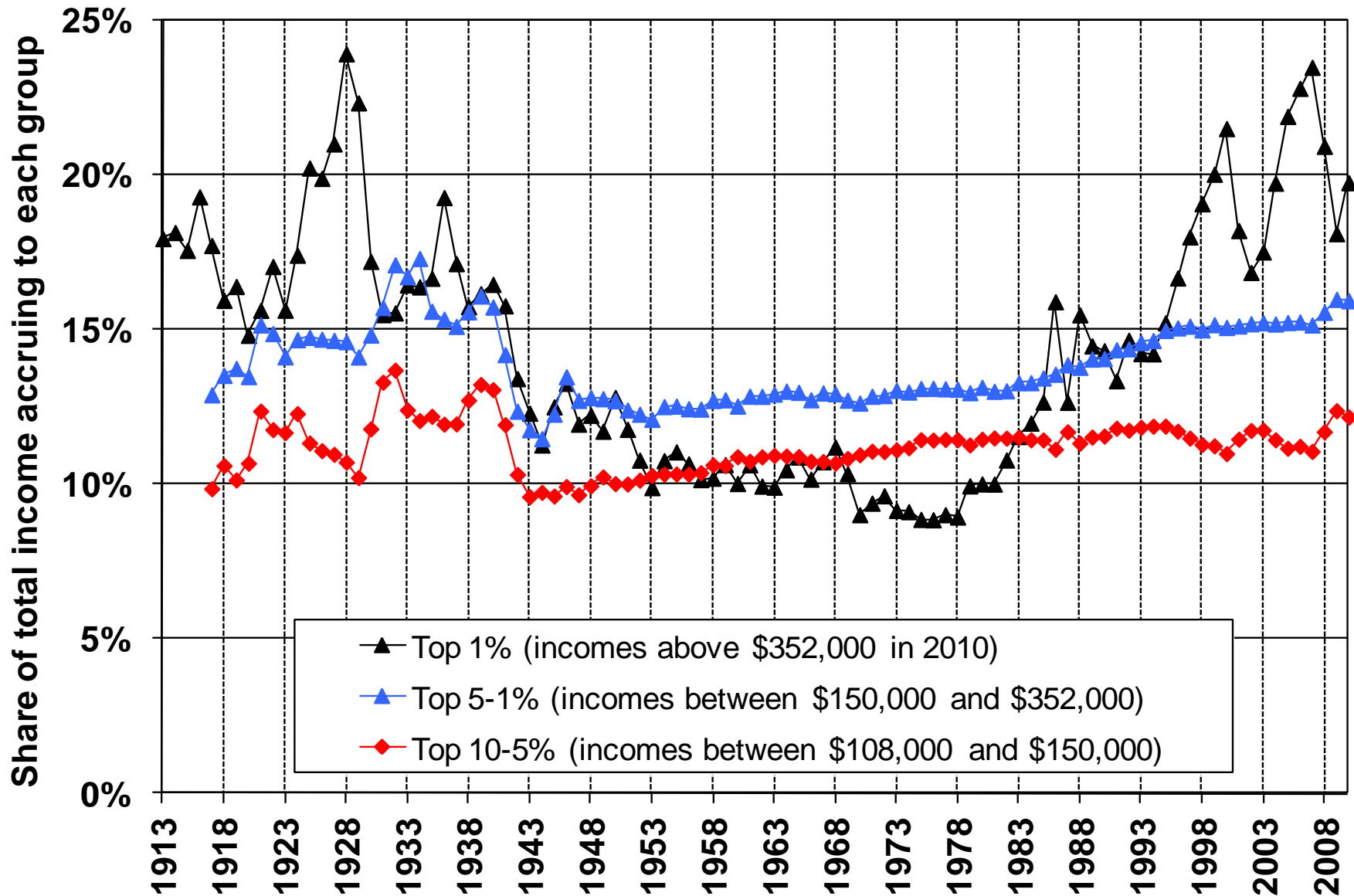
How does this relate to the current attention to the 99% (and the 1%)?

The top 1%: Share of total US income



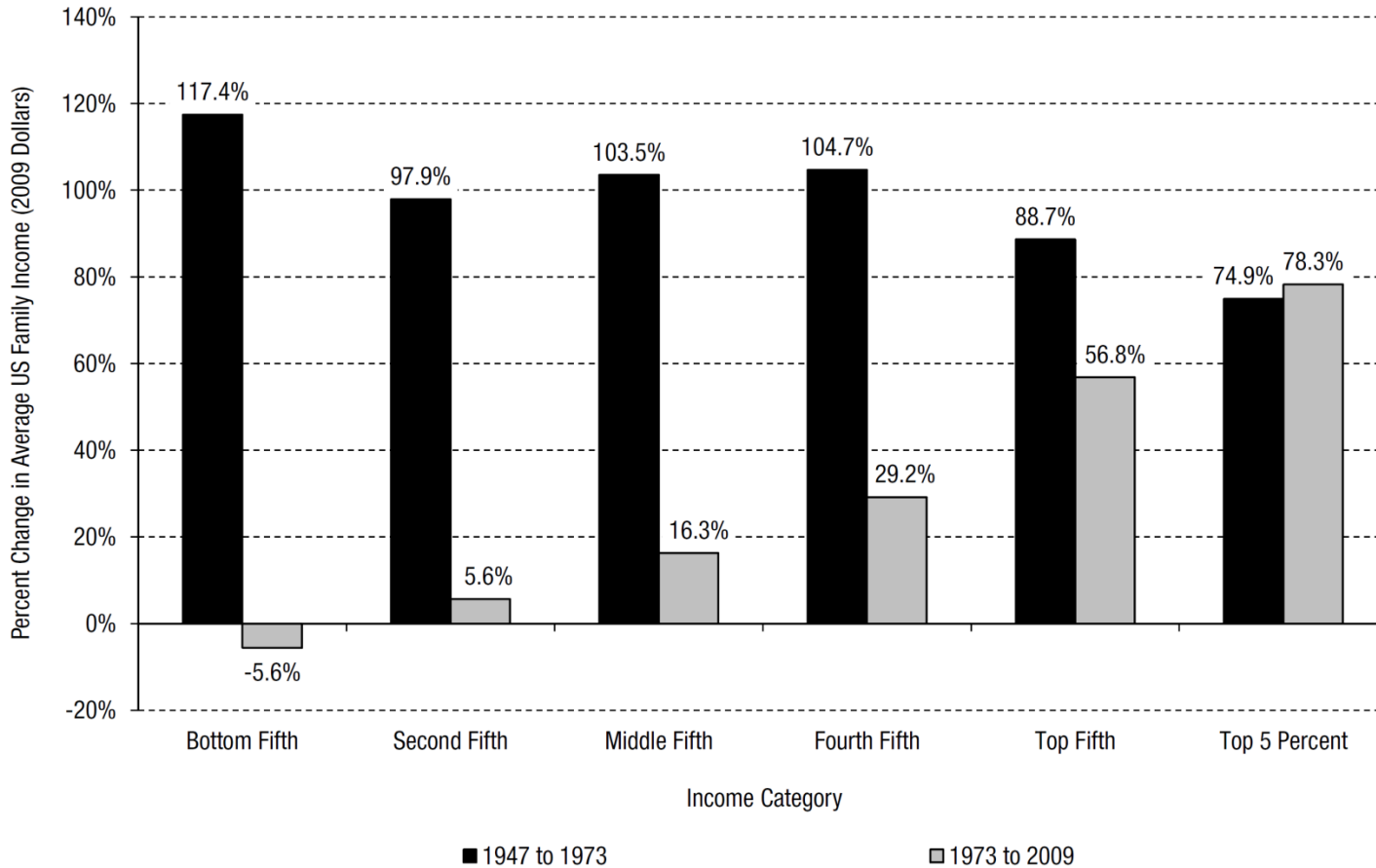
Source: Emmanuel Saez, UC Berkeley

Share of total income to top decile



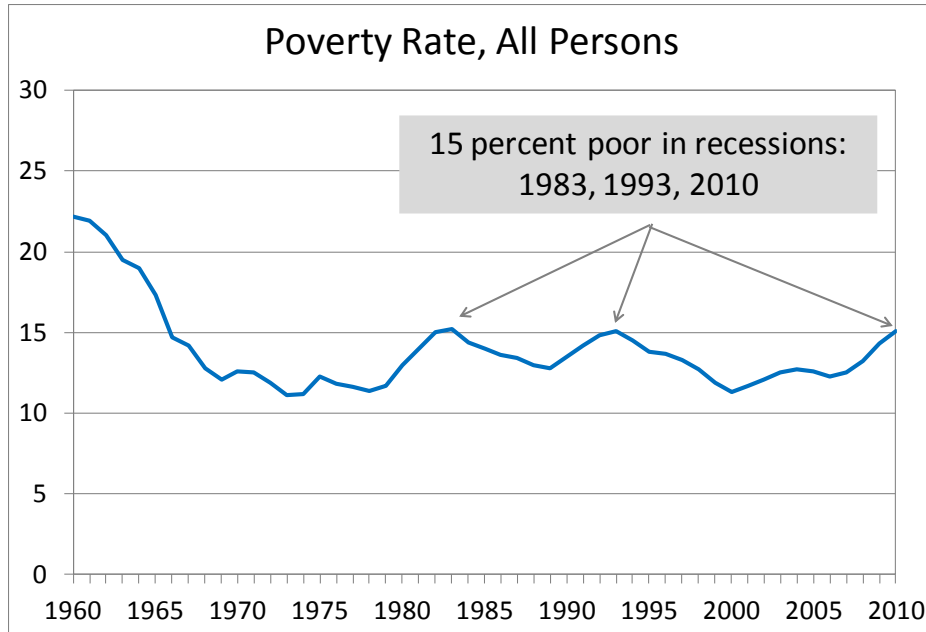
Source: Emmanuel Saez, UC Berkeley

Broadly Shared Prosperity Ended in the Early 1970s, and a Generation of Widening Inequality Began



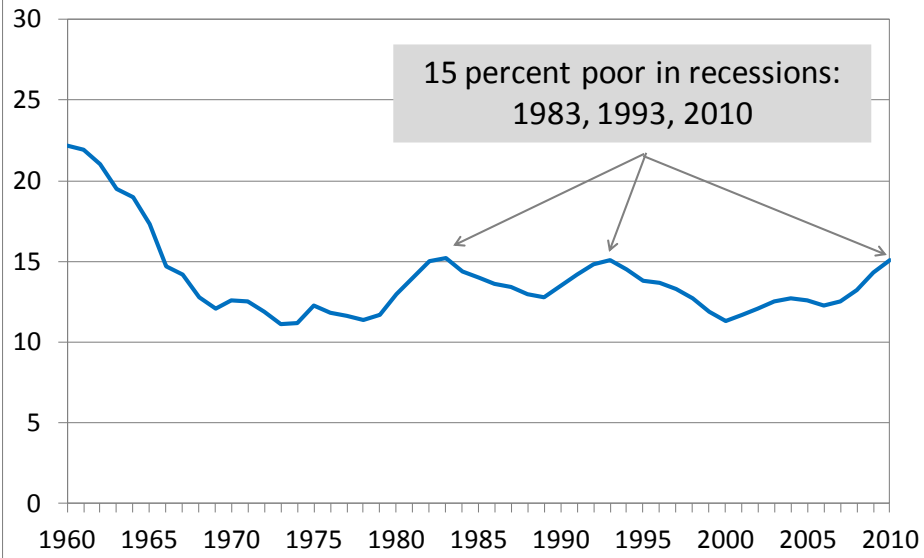
(2) Economic Growth (?)

Poverty persists despite economic growth

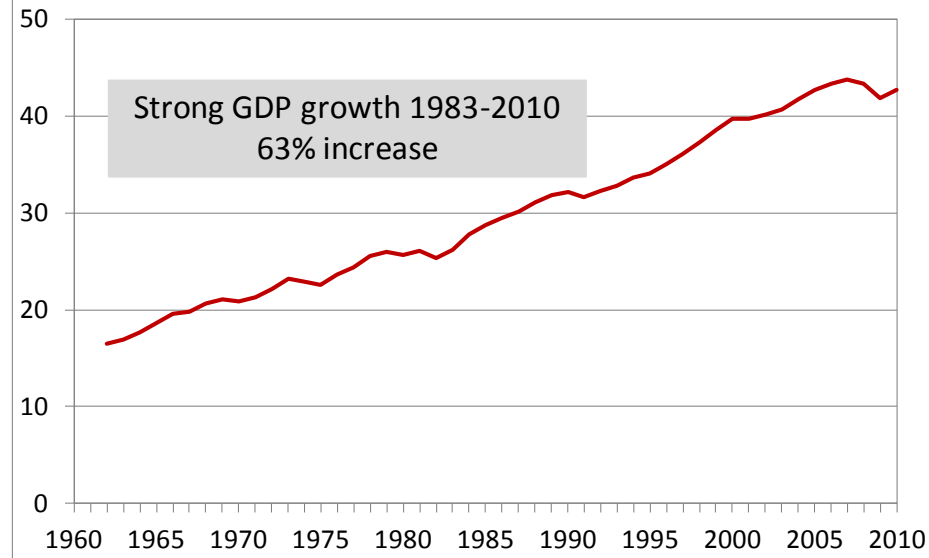


Poverty persists despite economic growth

Poverty Rate, All Persons



GDP per capita (thousands of 2005 \$)



- These figures show that economic growth does not necessarily translate into reductions in poverty

Government policies that reduce poverty
or don't

(and why)

The U.S. Social Safety Net for Families

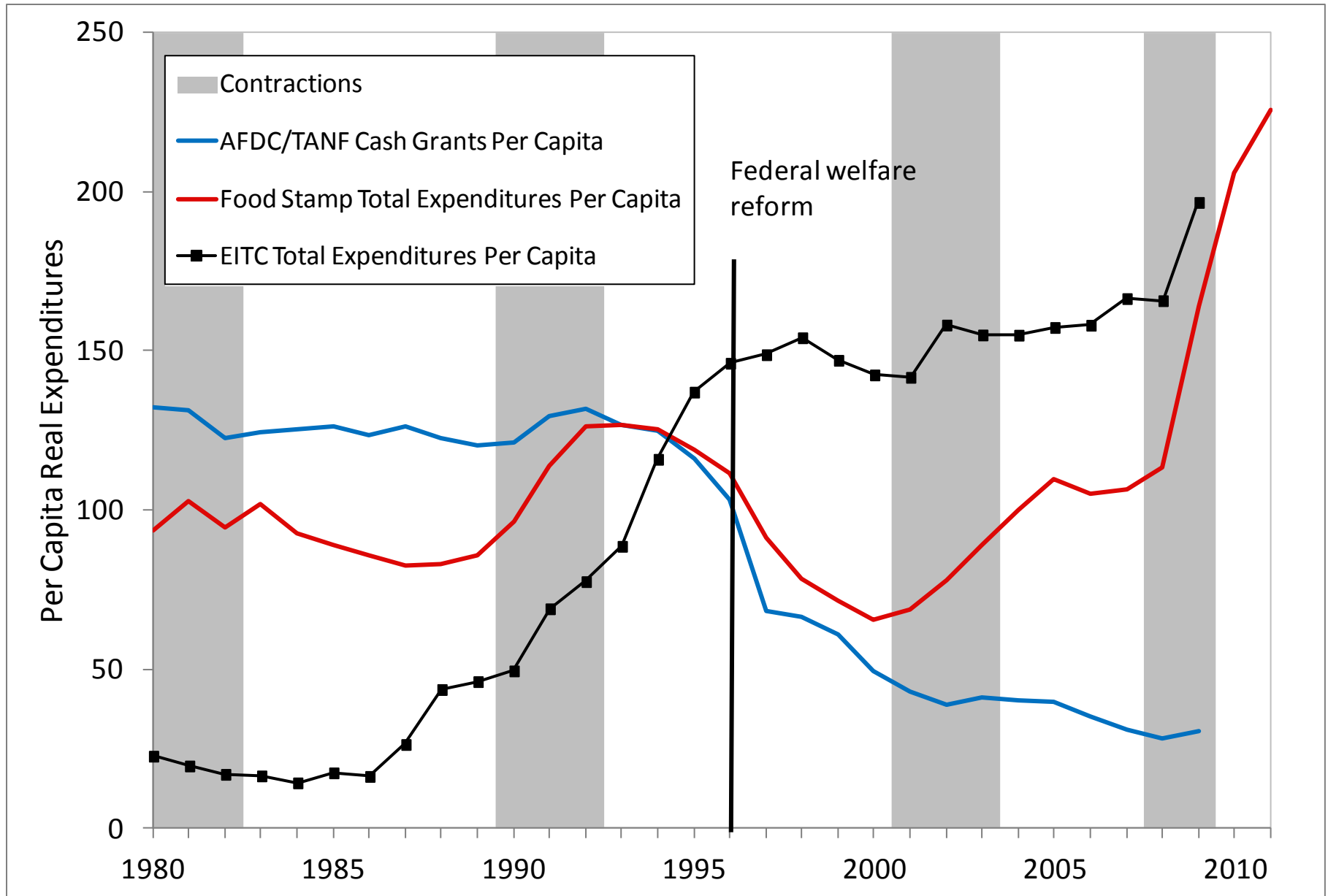
- TANF: cash welfare
- Food Stamps (now SNAP): vouchers for food
- Earned Income Tax Credit: tax-subsidy for low earners
- Medicaid: health insurance
- Subsidized housing
- WIC, free or reduced price lunch

- Unemployment insurance (not limited to low income families)

Recent changes in the U.S. Safety Net

- The U.S. safety net for low income families has dramatically changed:
 - More assistance through the federal taxes (the Earned Income Tax Credit)
 - More assistance through in-kind support (Food stamps, Medicaid/SCHIP)
 - Less assistance through traditional cash welfare
- Much of my research focuses on estimating the effects of the safety net on low income families.

Cash and Near Cash Safety Net Spending per Capita, 2009\$



Government policies can help

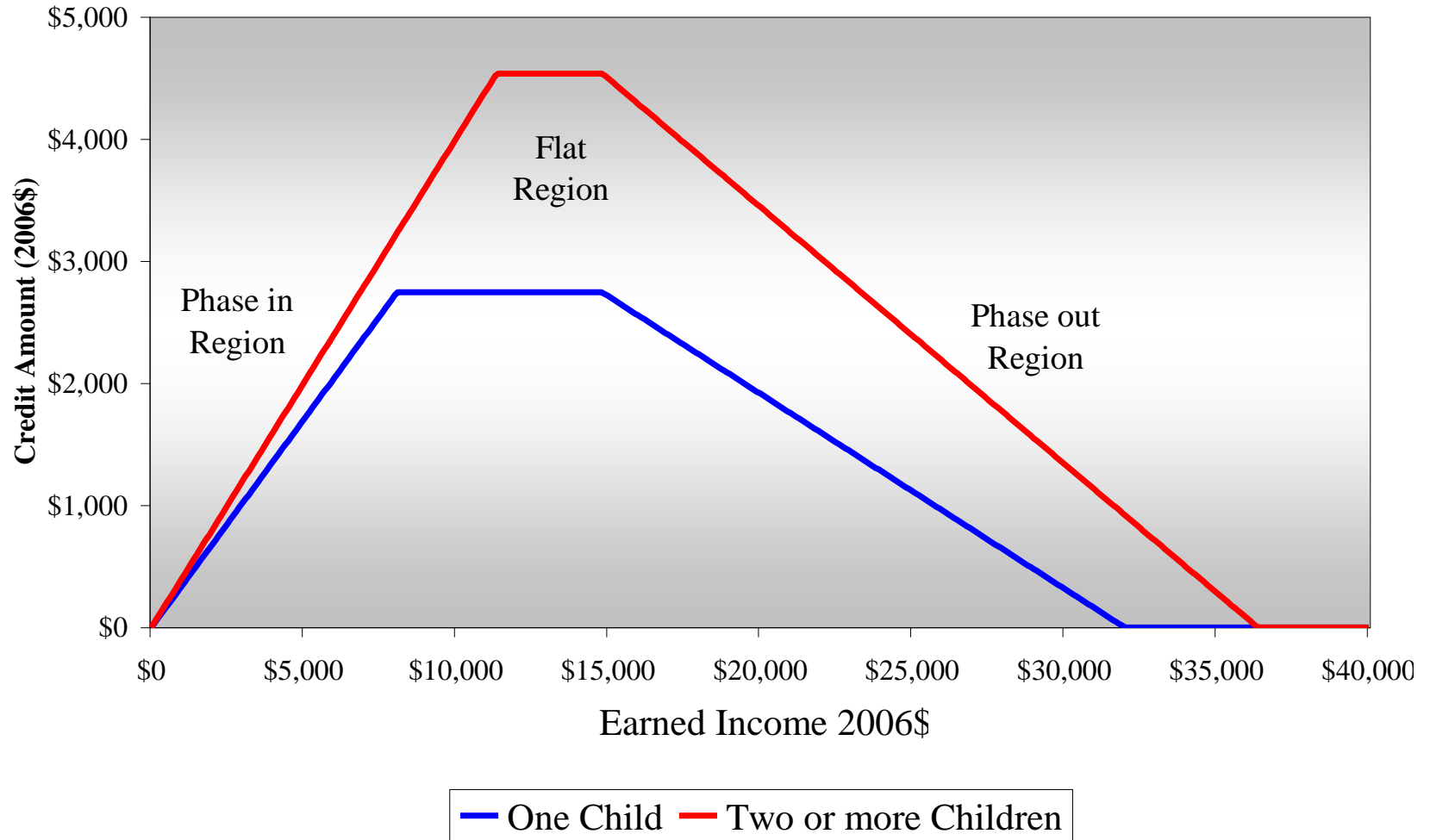
- Case Study: Contrast two policies aimed at reducing poverty
- The success story: Earned Income Tax Credit
- The contrasting program: Welfare

- The key explanation → EITC targets those in-work and welfare targets those out-of-work

The Earned Income Tax Credit

- Refundable tax credit for *working*, low-income taxpayers with children (single and married)
- [Much smaller credit for childless]
- No credit if no family earnings
- EITC acts to supplement earnings.
- Maximum credit for 2010:
 - \$3050 for one-child families
 - \$5036 for families with two or more children

KEY: Maximum EITC credit helps families near poverty threshold!

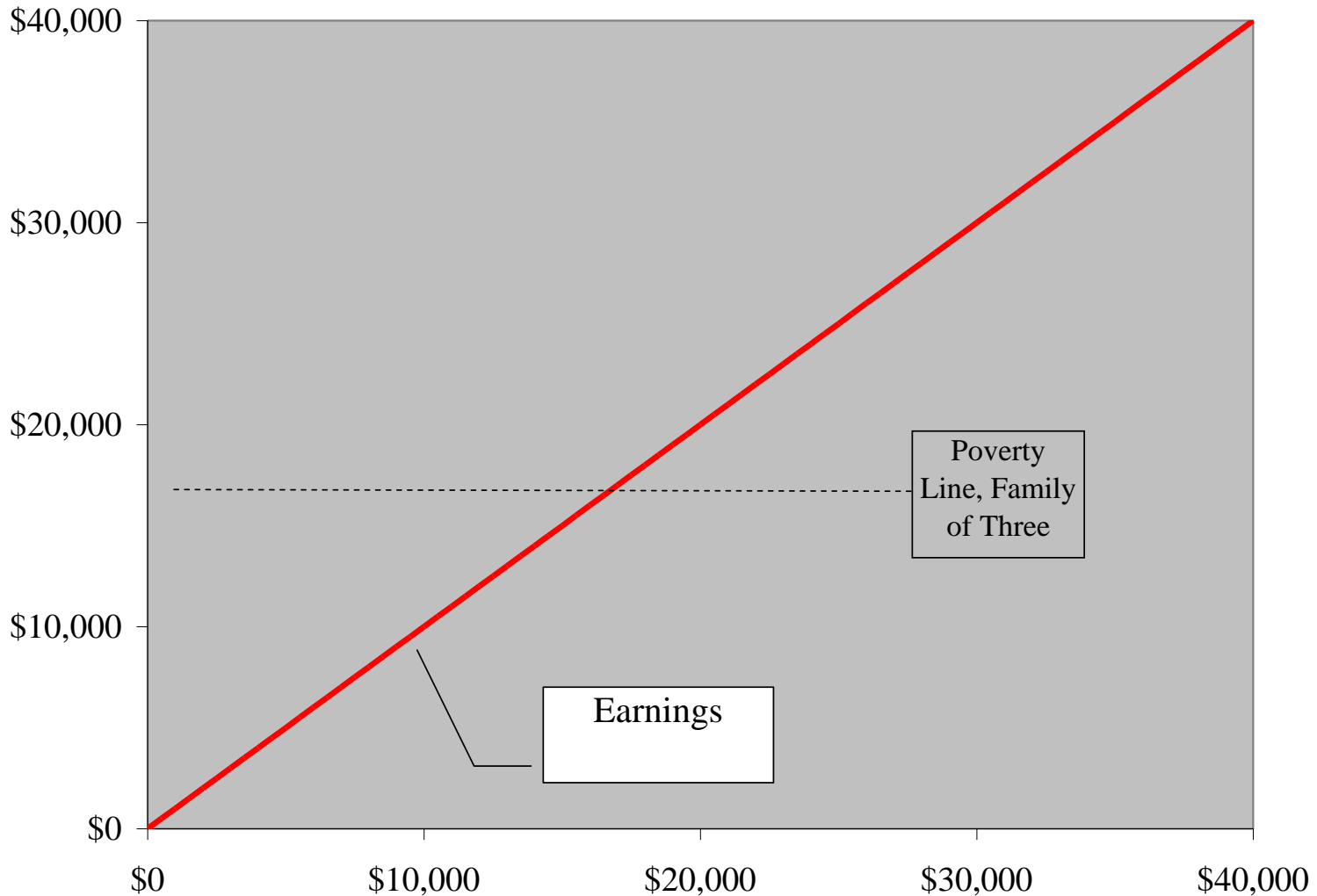


How the EITC reduces poverty

1. Key design feature of EITC (and what distinguishes it from traditional income support programs) is that eligibility requires earned income.
 - The EITC transfers income to low income families with children WHILE encouraging work.
2. The generosity of the EITC increased substantially with tax reforms in 1986, 1990, and 1993.

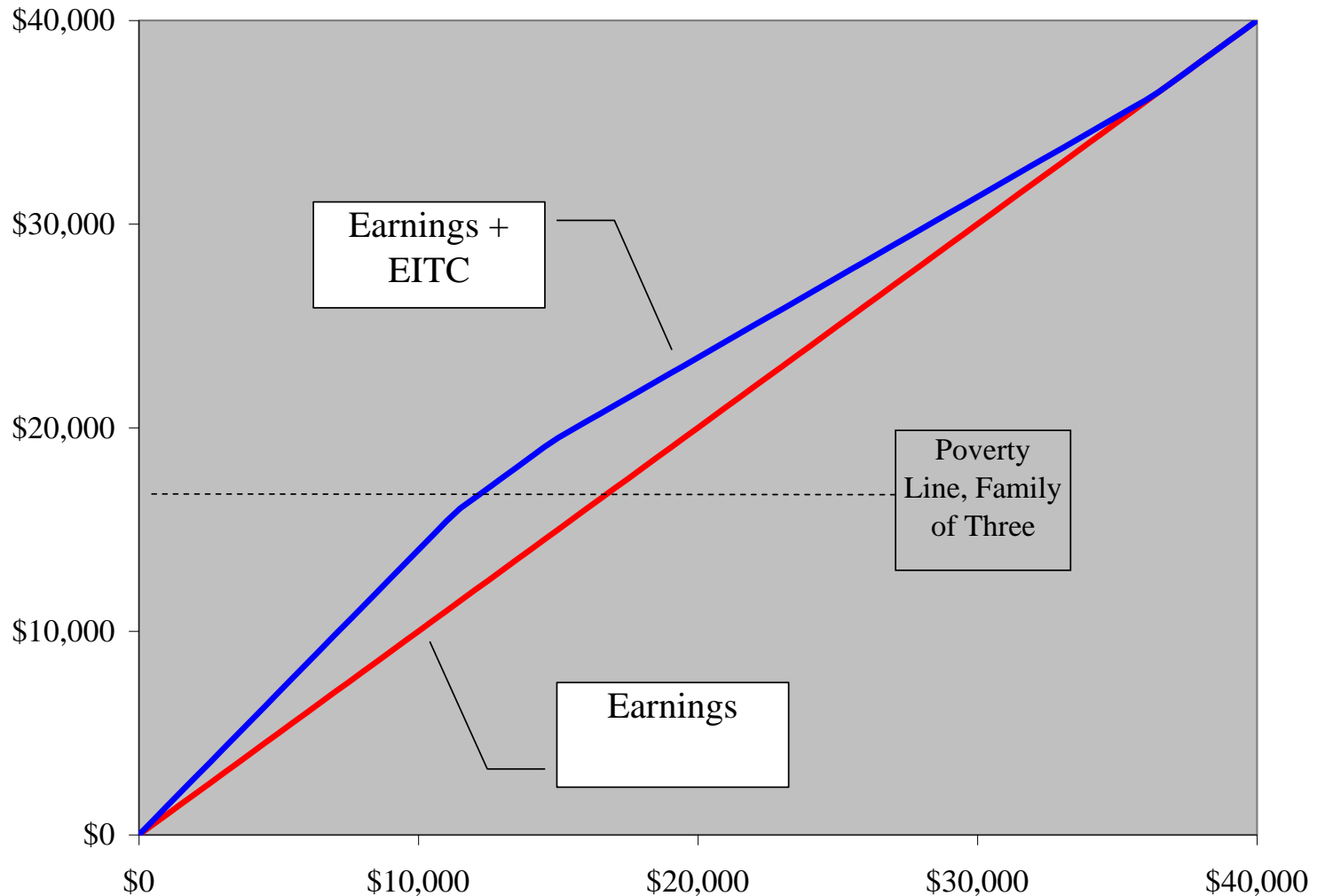
Illustrating how EITC encourages work and reduces poverty

Family after-tax and transfer income



Family earnings

Illustrating how EITC encourages work and reduces poverty



- So, the EITC has the potential to increase incomes and reduce poverty through two channels:
 - The EITC represents an increase in income for the family
 - The EITC provides incentives to enter work, and thus increase earnings which increases family income.

Out-of-work cash assistance: welfare programs

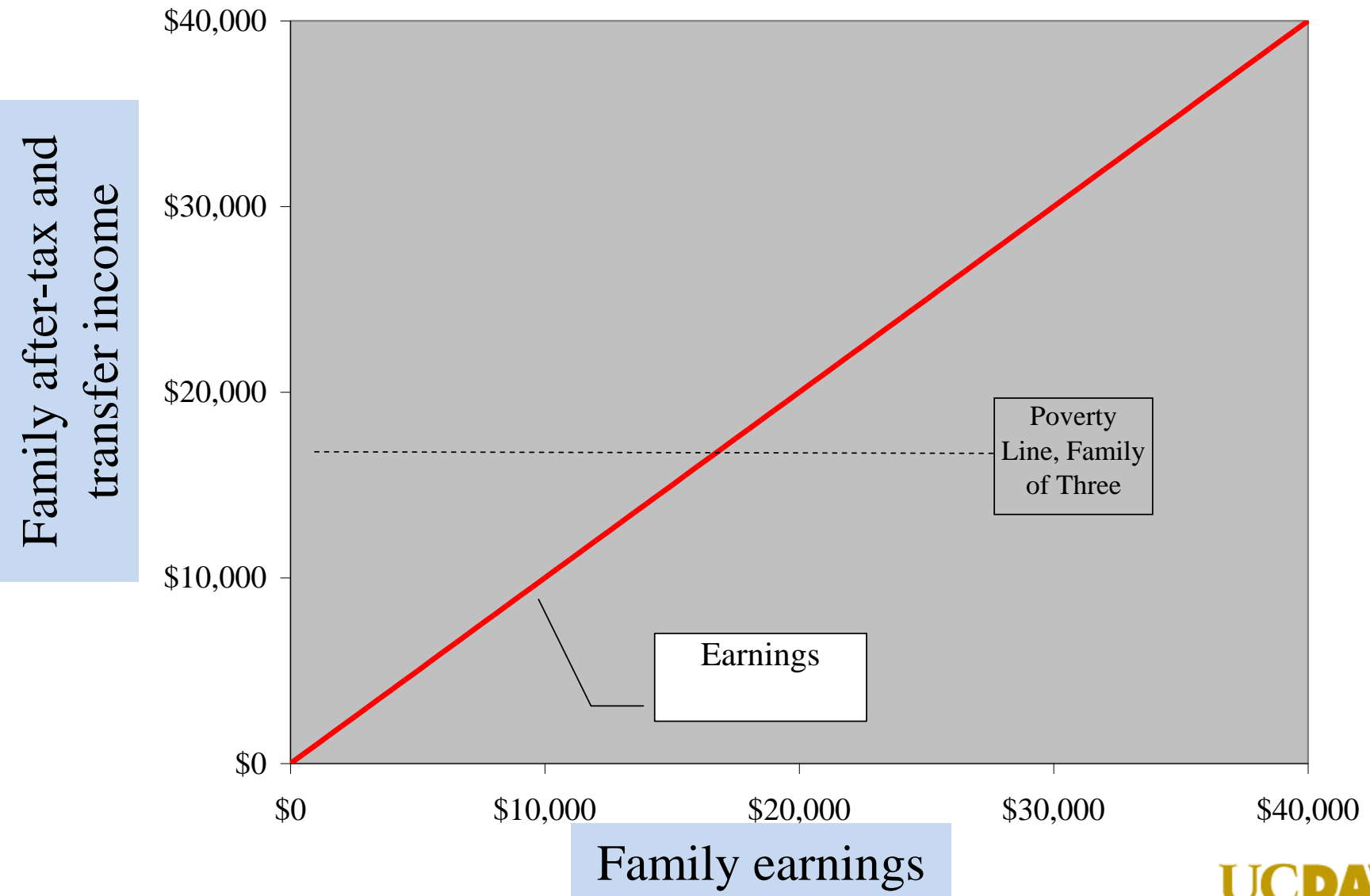
Cash Welfare Programs (TANF)

Income support (welfare) programs are unlikely to affect poverty rates for two reasons:

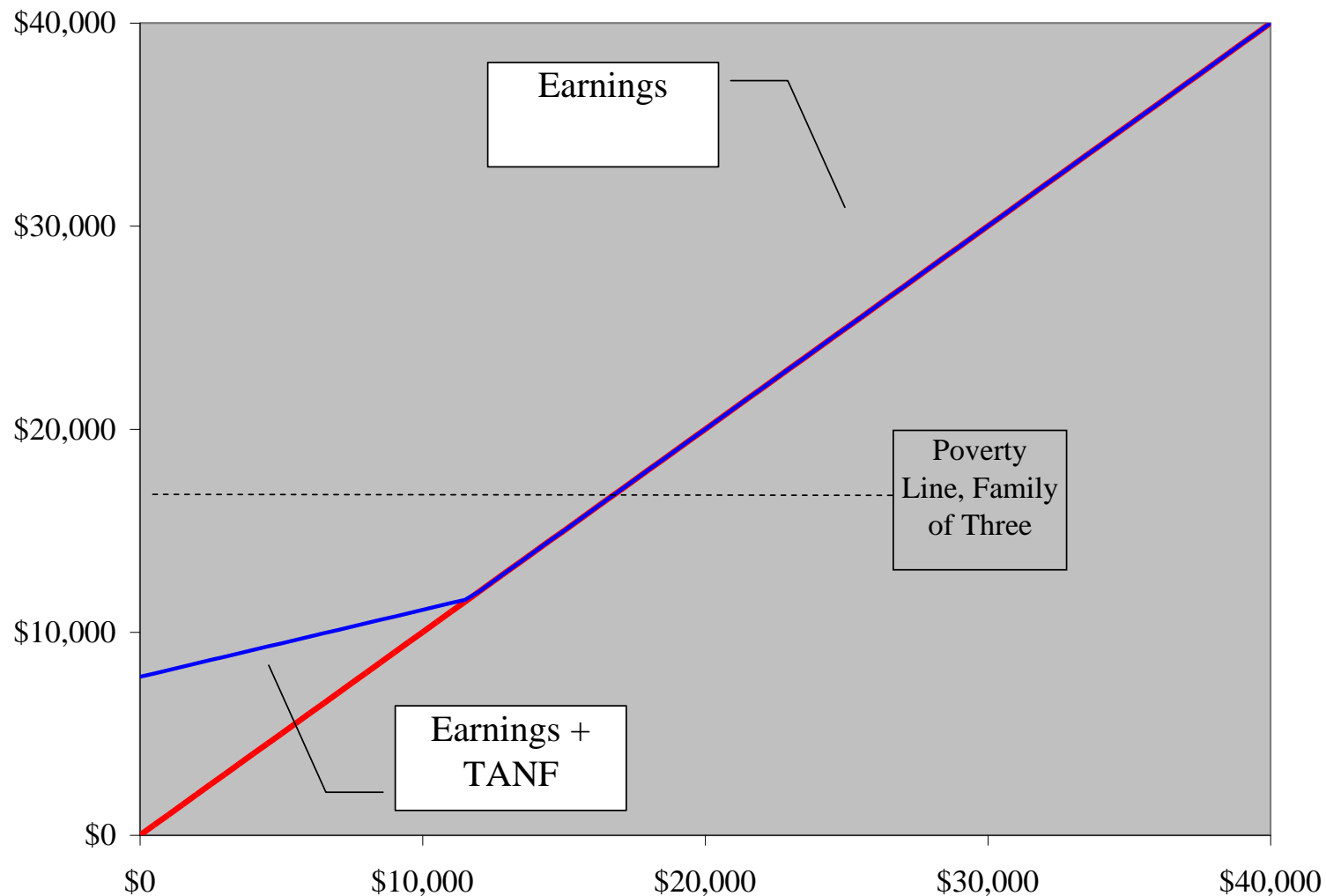
1. Benefit levels are low, unlikely to increase a household's income over the poverty line.
2. Benefits are targeted on those out of work; thereby discouraging work rather than encouraging it.

[This does not mean the program is not important or useful. Rather that it simply should not affect poverty rates. Should affect “extreme poverty.”]

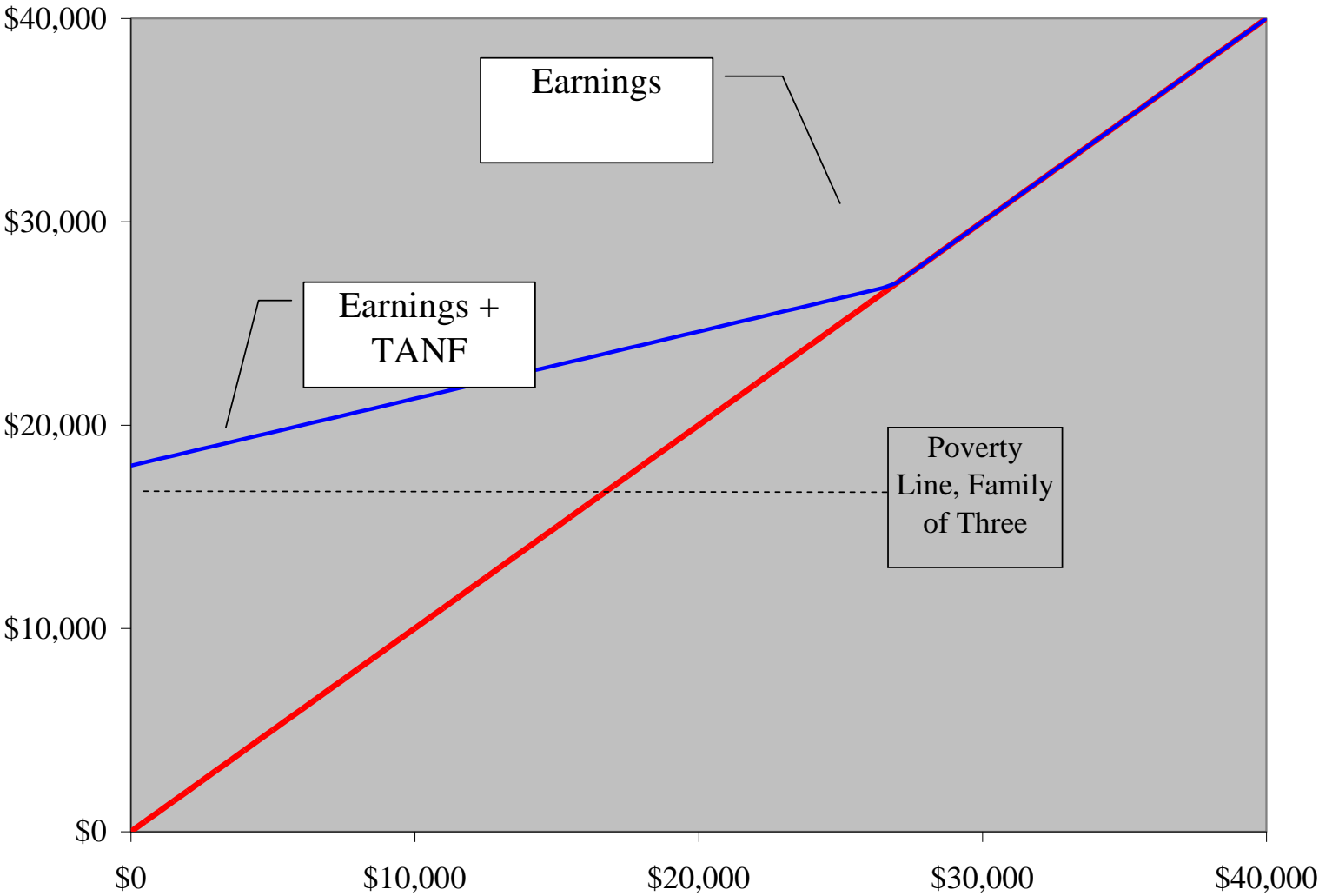
Illustrating why TANF is unlikely to affect poverty



Illustrating why TANF is unlikely to affect poverty

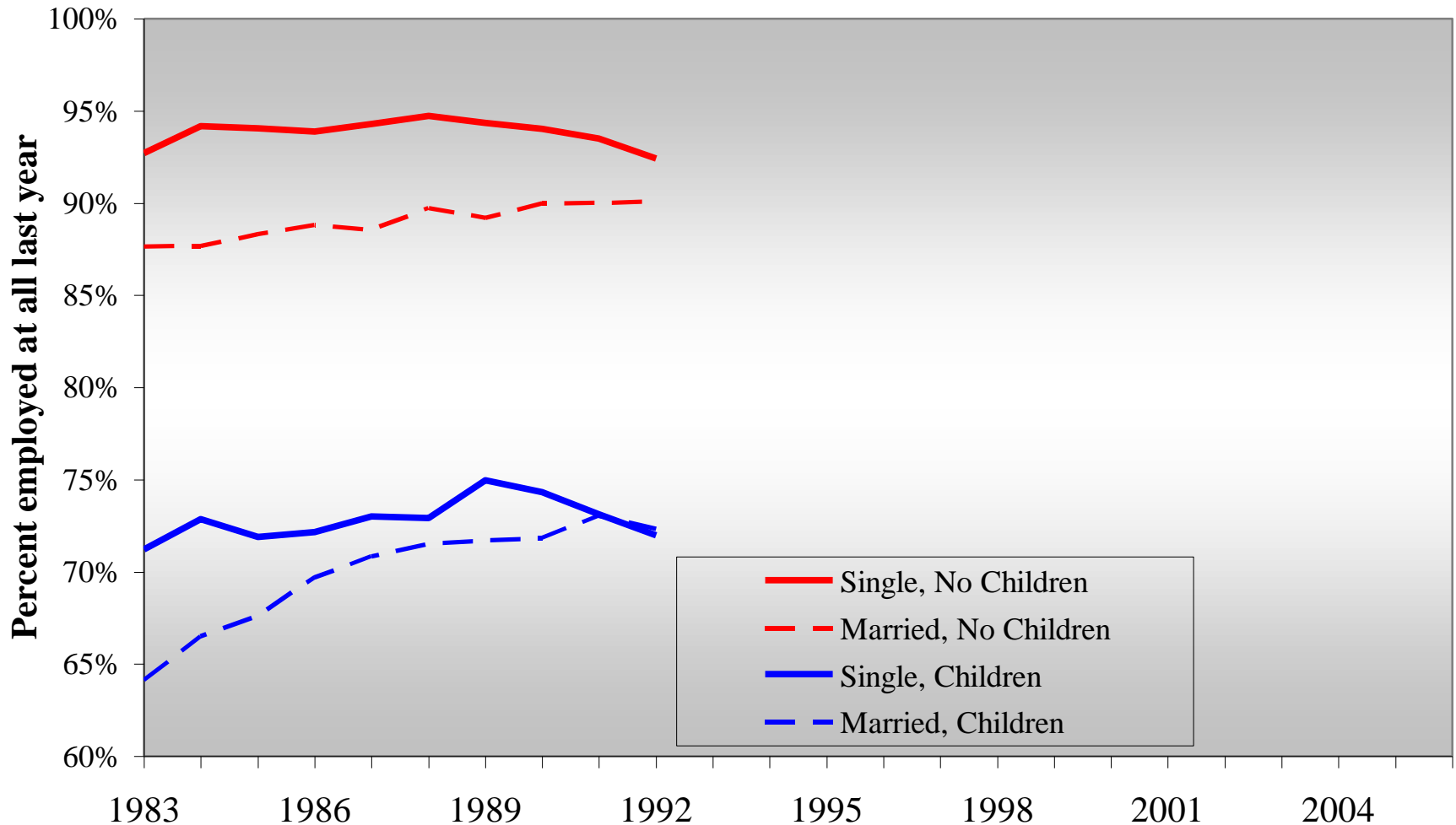


One *could* use TANF to reduce poverty, but funding would have to be about four times the current funding

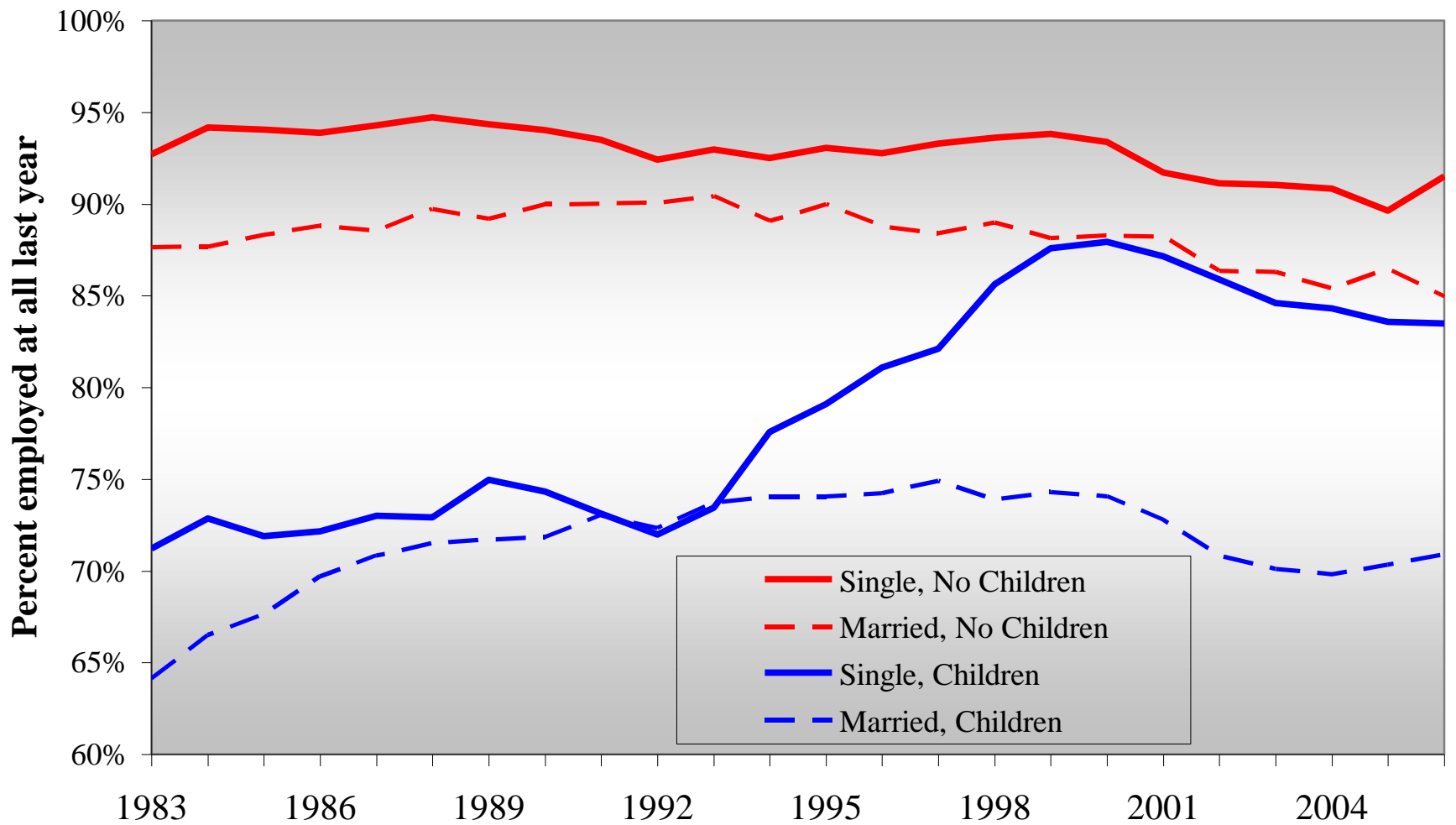


- What we do know, however, is that the combination of welfare reform and the expansion of the EITC led to large increases in employment among female-headed families in the late 1990s.
- These increases in employment have the potential to reduce poverty.

Percent of Women Working (by Marital Status and Children)

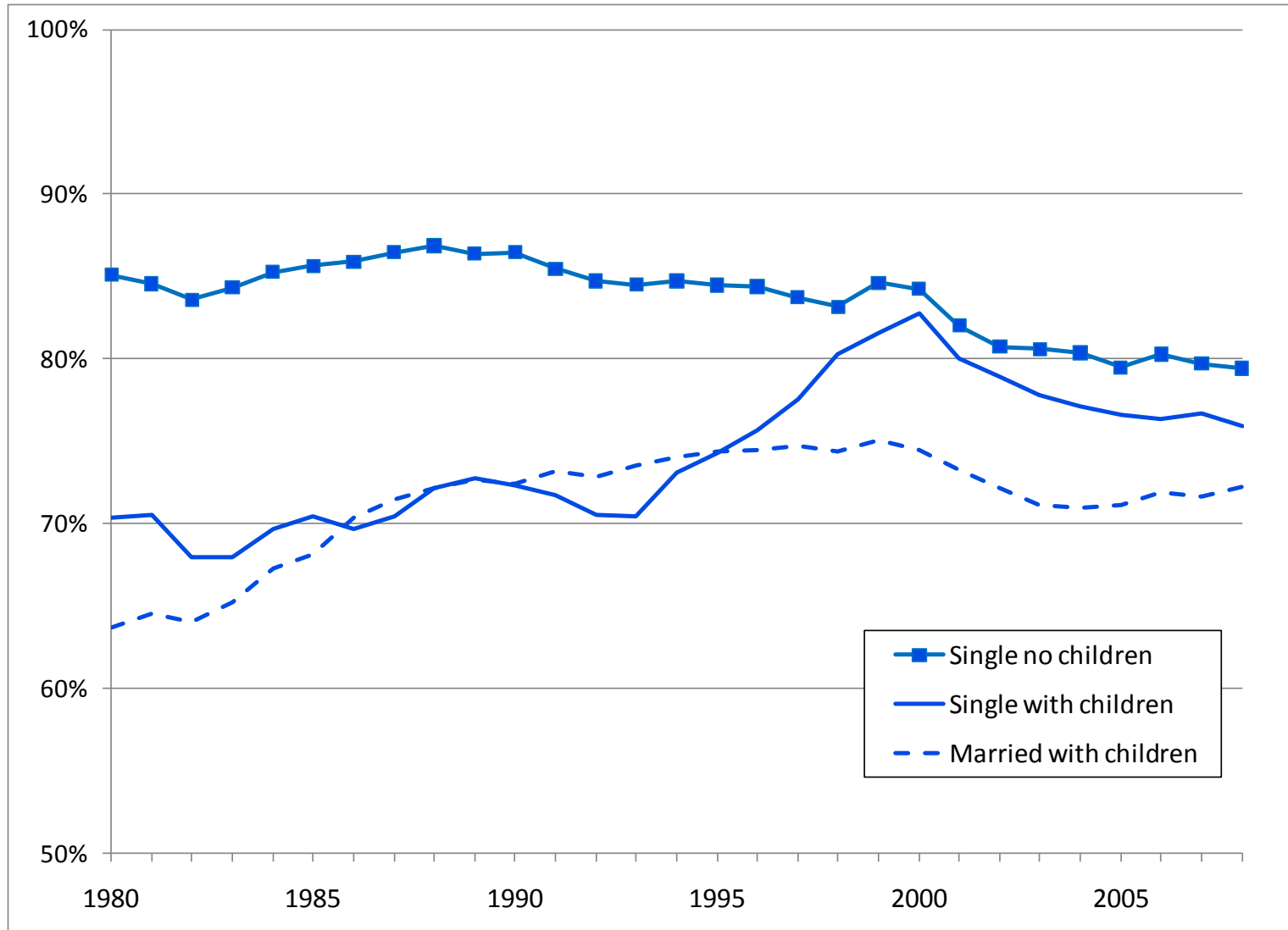


On the eve of welfare reform and EITC increases, much attention is given to the low employment rates of single mothers.



Beginning in 1992—dramatic increases in employment for single mothers, with little change for other women

Employment rates for the single moms have fallen since their peak in 2000 but are still historically high



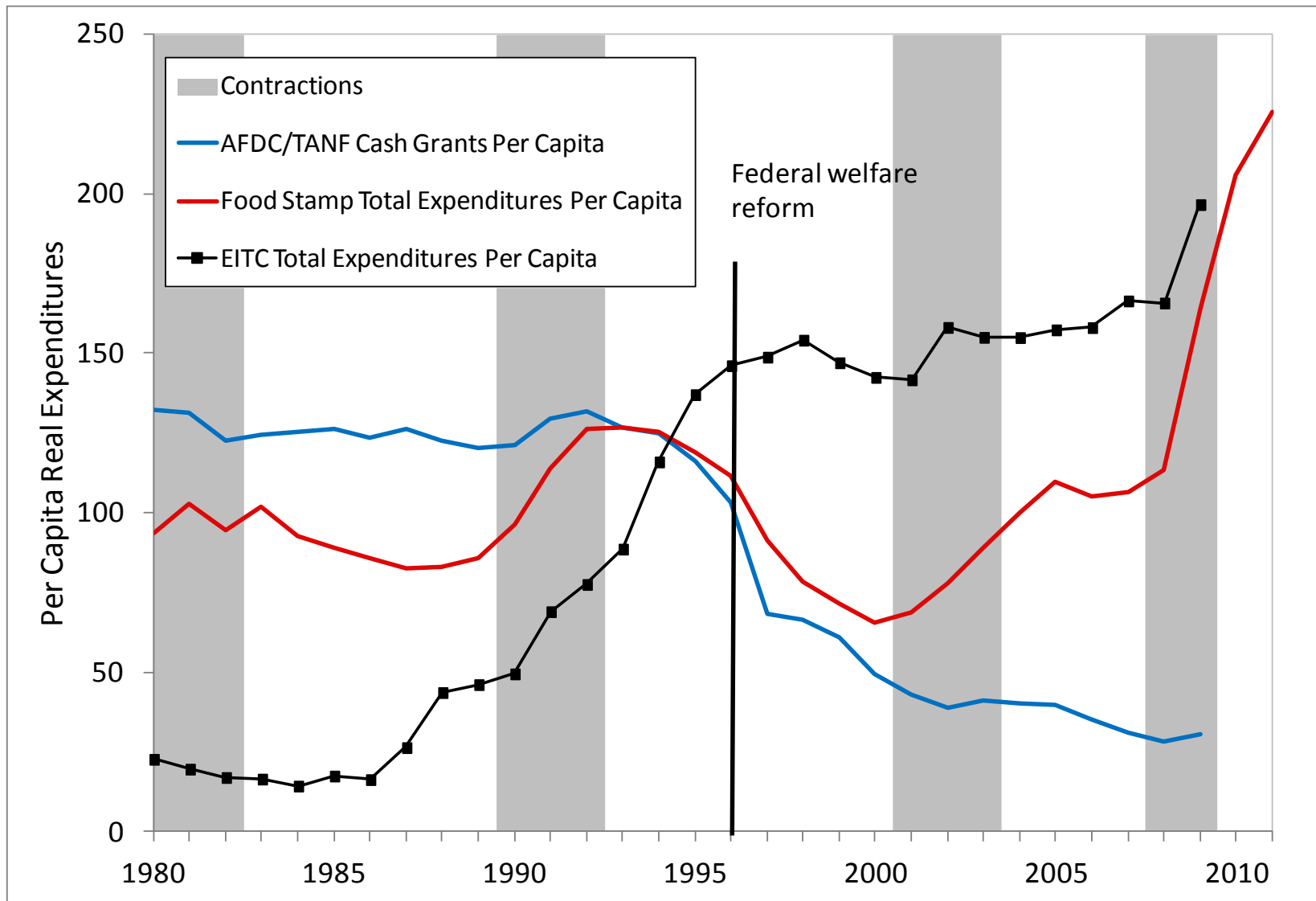
More on what the government policies can do

Food Stamps (SNAP) has become the fundamental safety net program

- Eligibility universal
- Reaches working poor and nonworking poor
- Program has been VERY responsive in the current recession

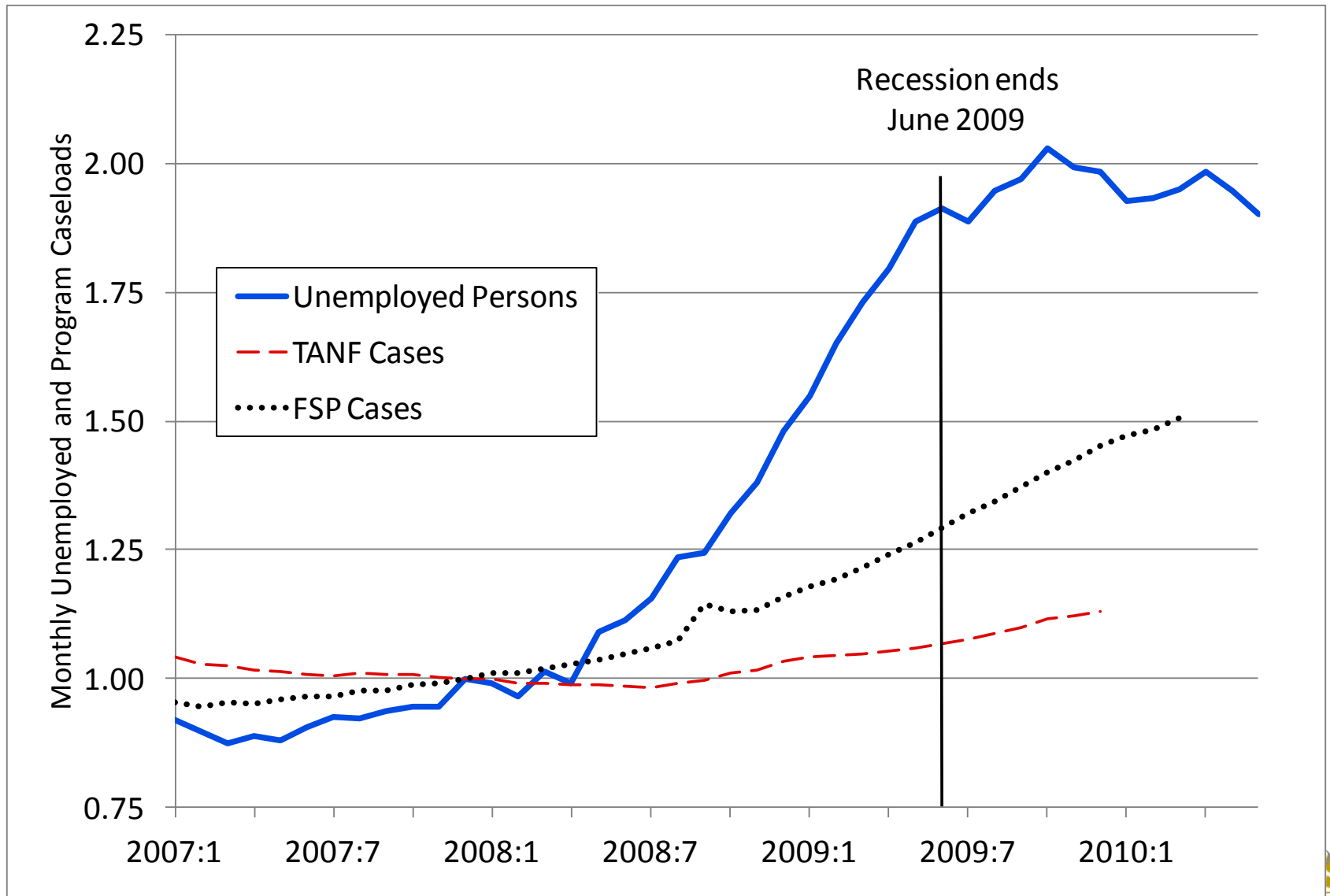
Food Stamps and TANF in the Great Recession

Which is acting as the safety net?



Food Stamps and TANF in the Great Recession

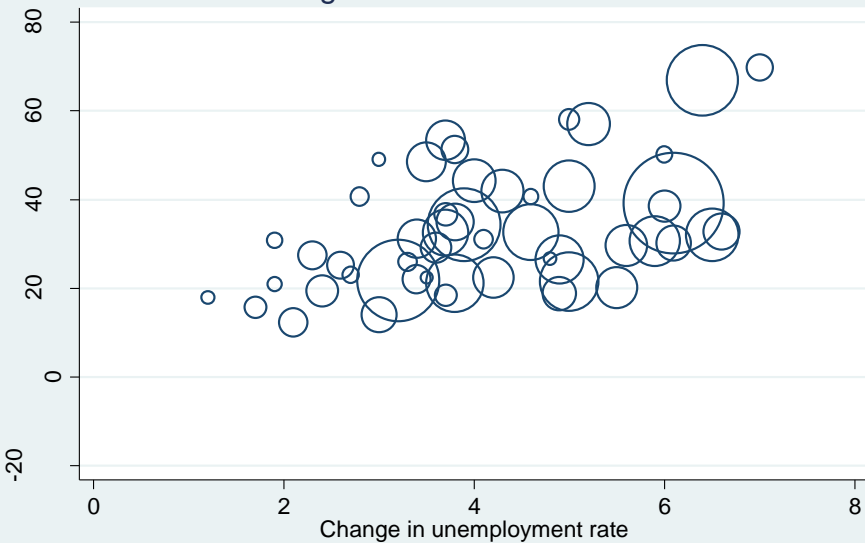
Which is acting as the safety net?



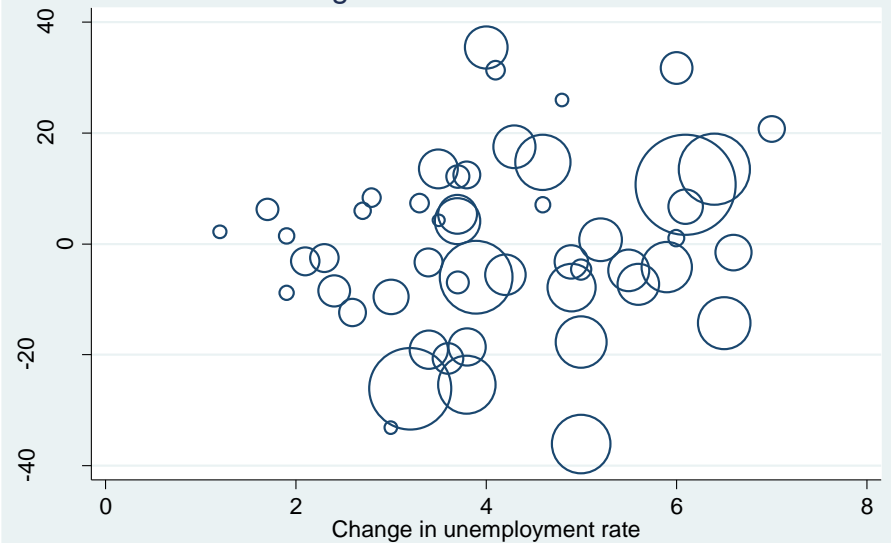
Food Stamps and TANF in the Great Recession

Which is acting as the safety net?

Food Stamps and Unemployment Rate
Change between 2007 and 2009



Cash Welfare (TANF) and Unemployment Rate
Change between 2007 and 2009



- So the U.S. safety net can reduce poverty.
- How are we doing?
- But ...

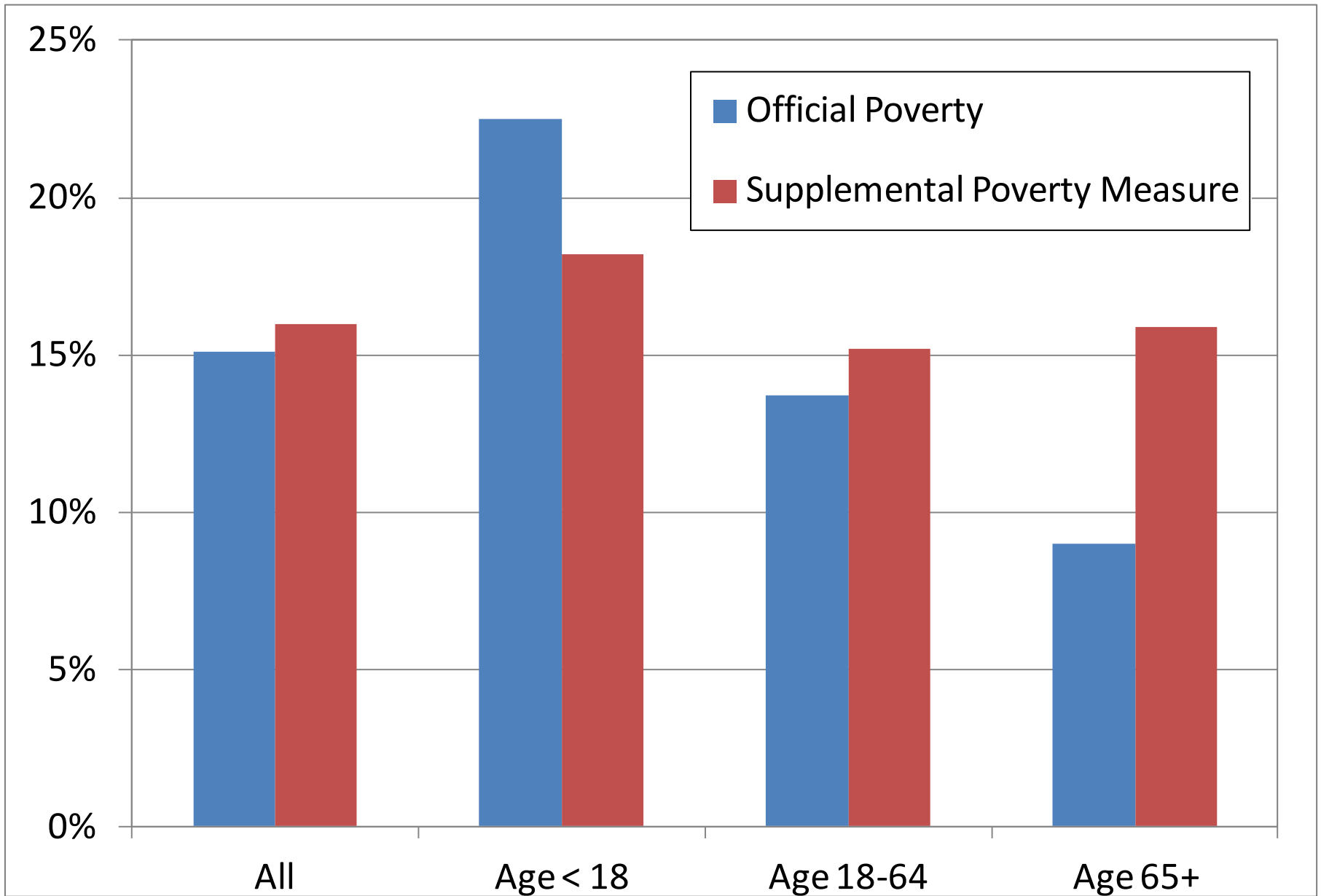
... The success of the EITC and SNAP is not measured by official poverty statistics

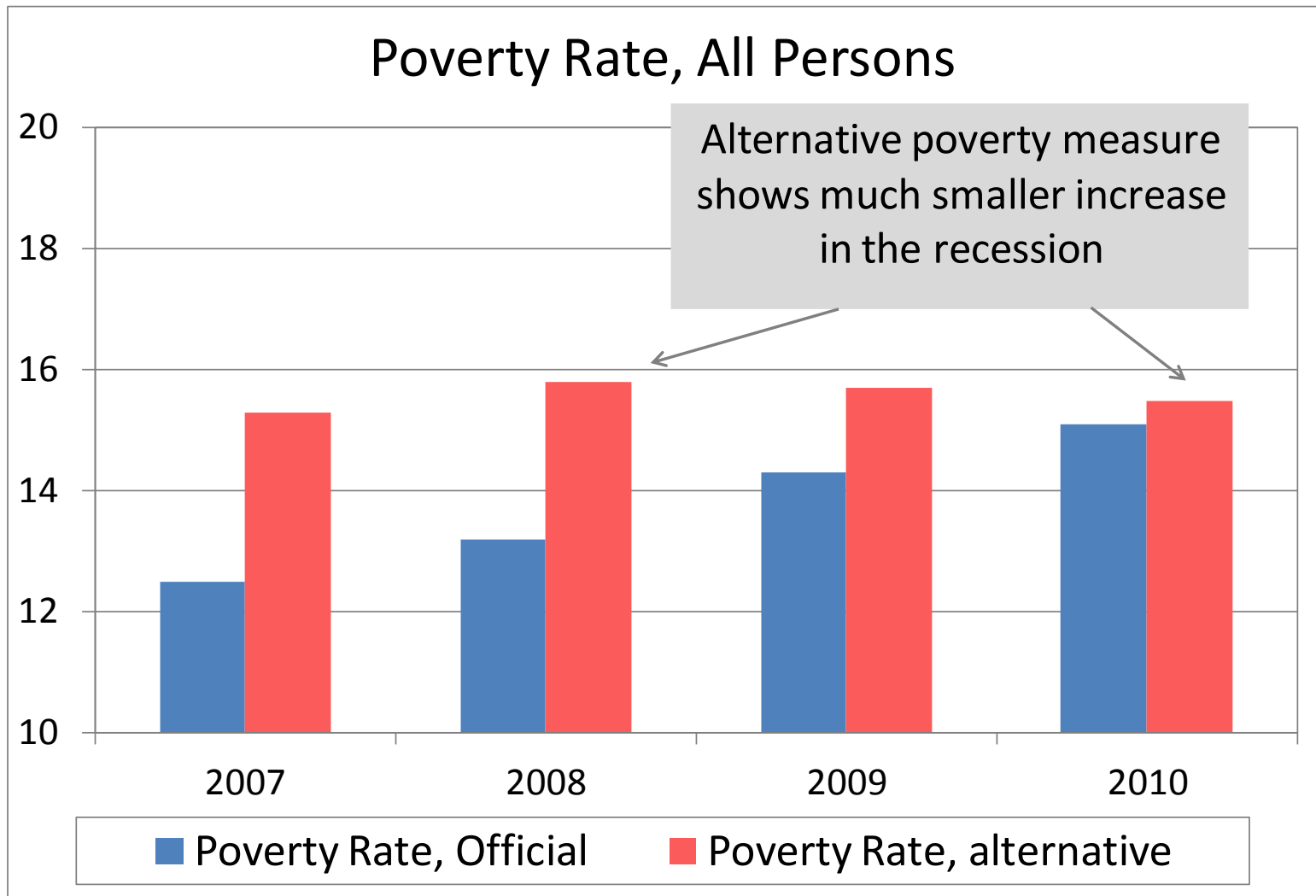
- Remember our definition of poverty?
- Poverty is based on PRE-TAX family income
- EITC operates through the tax system
- Poverty is based on CASH family income
- SNAP is “in kind” benefit

Therefore neither SNAP nor the EITC figures in to the official poverty statistics.

Supplemental Poverty Measure

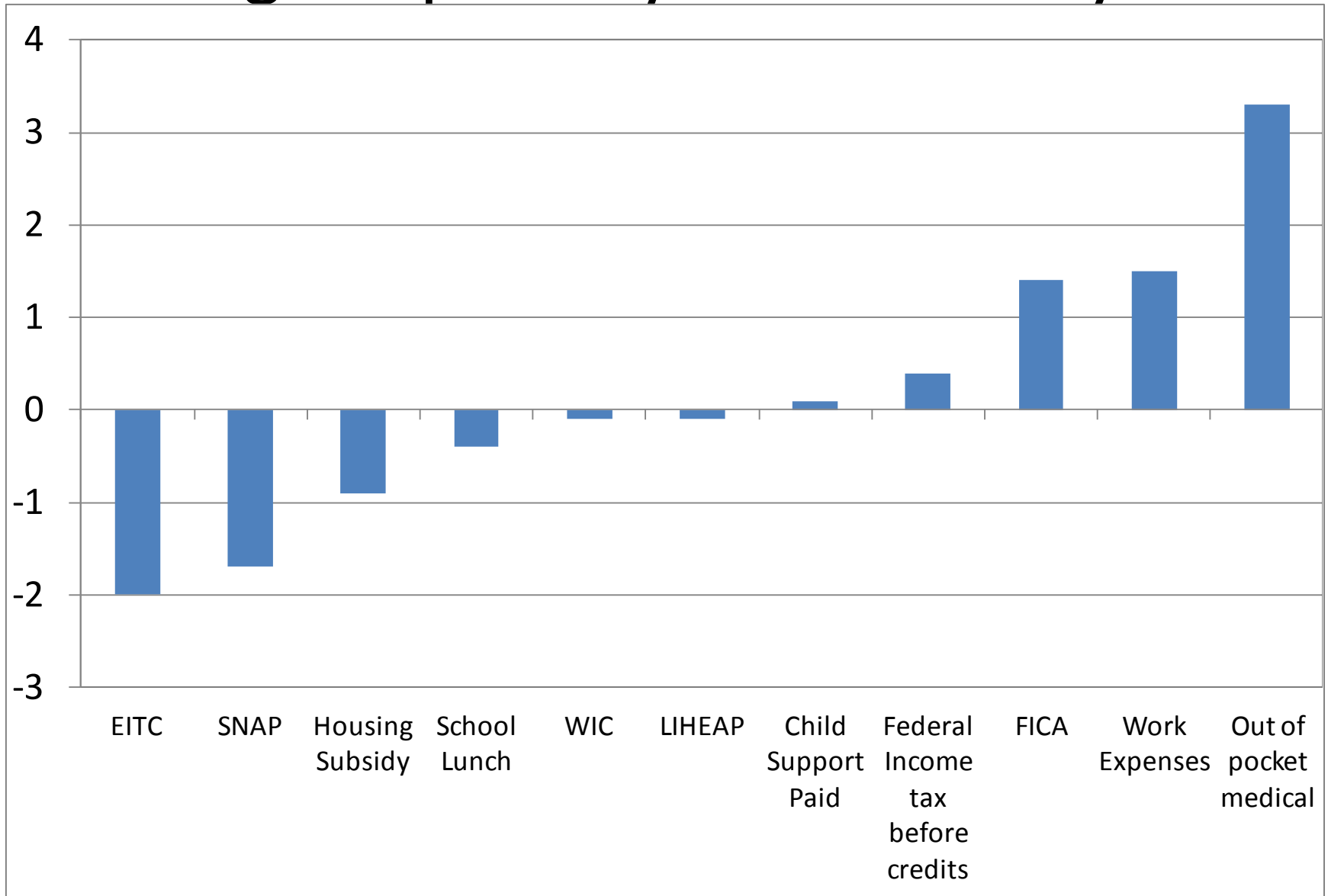
- In November 2011, the U.S. Census released an alternative measure.
- Uses post-tax family income including in-kind government benefits
- Also accounts for out of pocket medical expenses and adds geographic dimension to poverty thresholds.



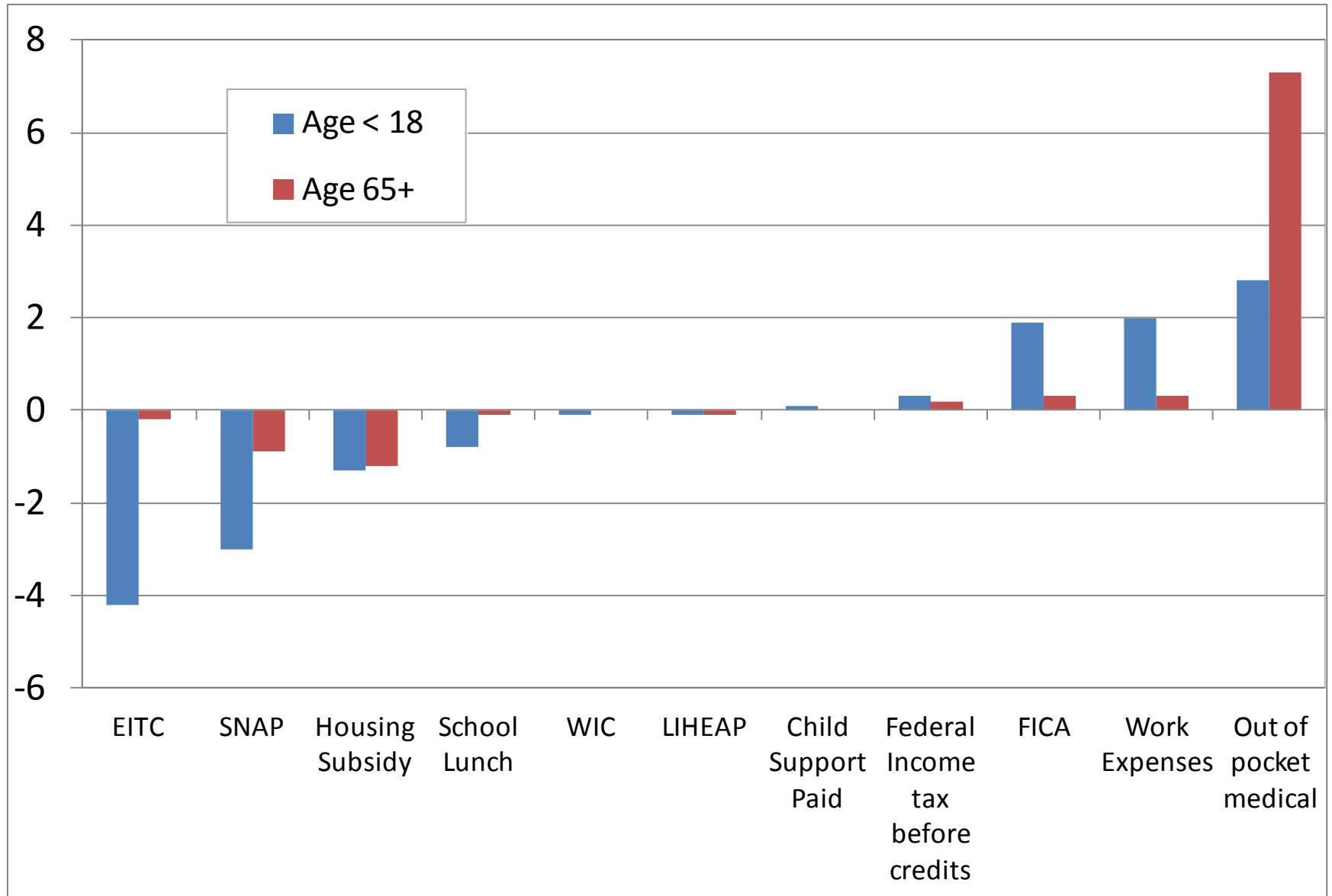


- Alternative census poverty measure shows much smaller increase in poverty during the U.S. recession.
- The safety net can make a difference!

Change in poverty due to safety net



Big differences for children and aged



Concluding remarks

- Reducing poverty takes a commitment of resources
- Improve opportunities
 - Invest in education from early childhood through access to college
- Encourage work and supplement income:
 - Further expansions of the EITC ; continued support of SNAP
 - Provide the necessary supports for the mothers and families (child care)