

# Effective Anti-poverty Programs in the U.S

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# Roadmap of talk

- Poverty: Definitions
- Poverty: Facts
- Government policies that reduce poverty (and why)
- Government policies that do not reduce poverty (and why)
- What else we know about poverty

This discussion will emphasize poverty among *nonelderly* persons in the U.S. with particular attention to families with children.

Why? U.S. child poverty rates are high and anti-poverty programs for families with children are an area with significant policy attention.

# (1) Poverty Measurement

# How poverty is measured in the U.S.

- **A person is poor if their family income is less than the poverty line (or threshold)**
- Poverty lines vary by family size and are adjusted for changes in prices each year
- Poverty is a *family concept*—all persons in the same family have the same poverty rate
- Income measure is pre-tax family income; only cash government assistance is included in income
- This is an *absolute* measure of poverty (compared to a *relative* measure of poverty used by many other countries). More on this later.
- Definition of poverty has not changed since measure developed in early 1960s

# Selected Poverty Thresholds, 2007

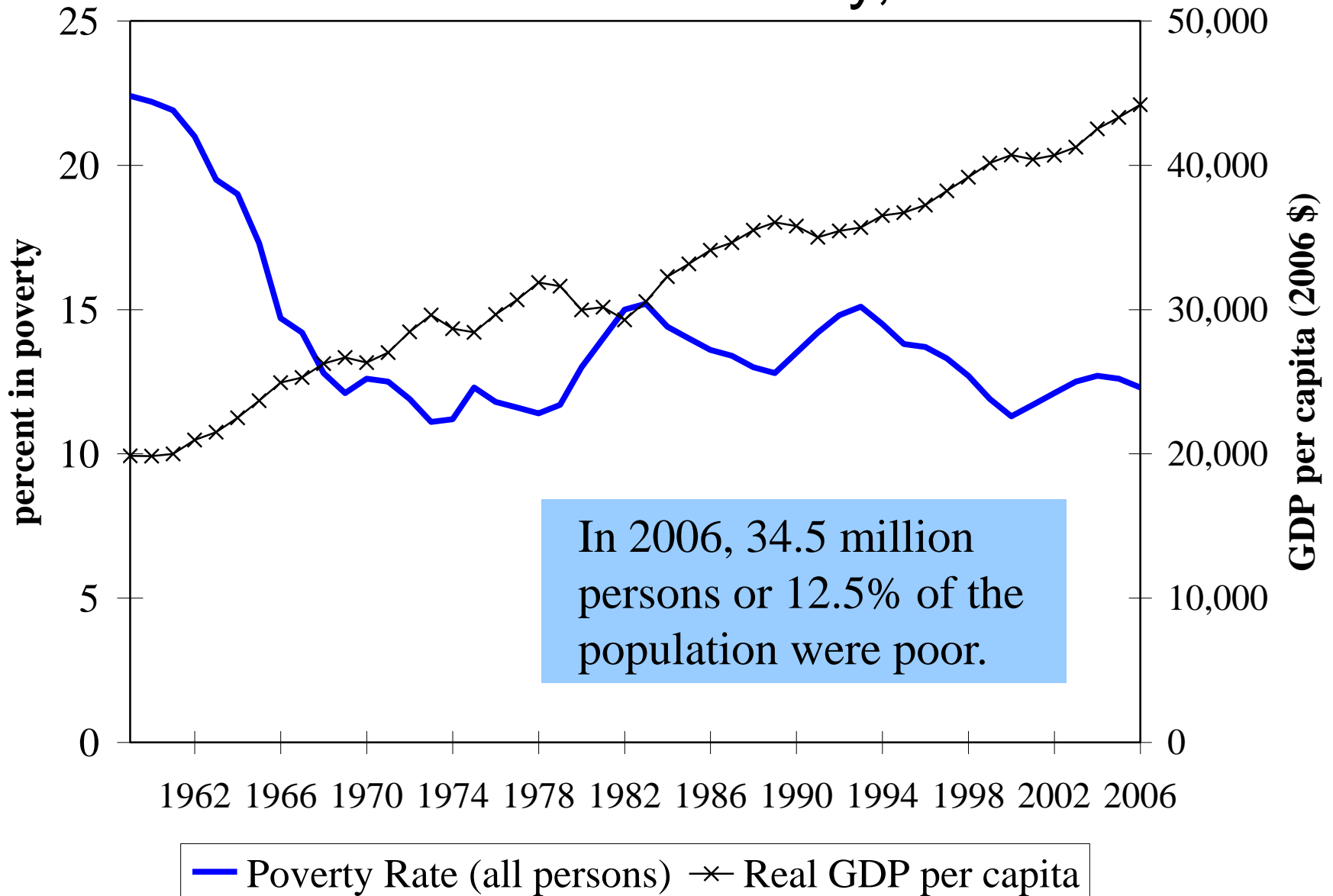
Household size	Poverty Threshold
1	\$10,787
2	\$14,291
3	\$16,705
4	\$21,100

*Source: U.S. Bureau of the Census*

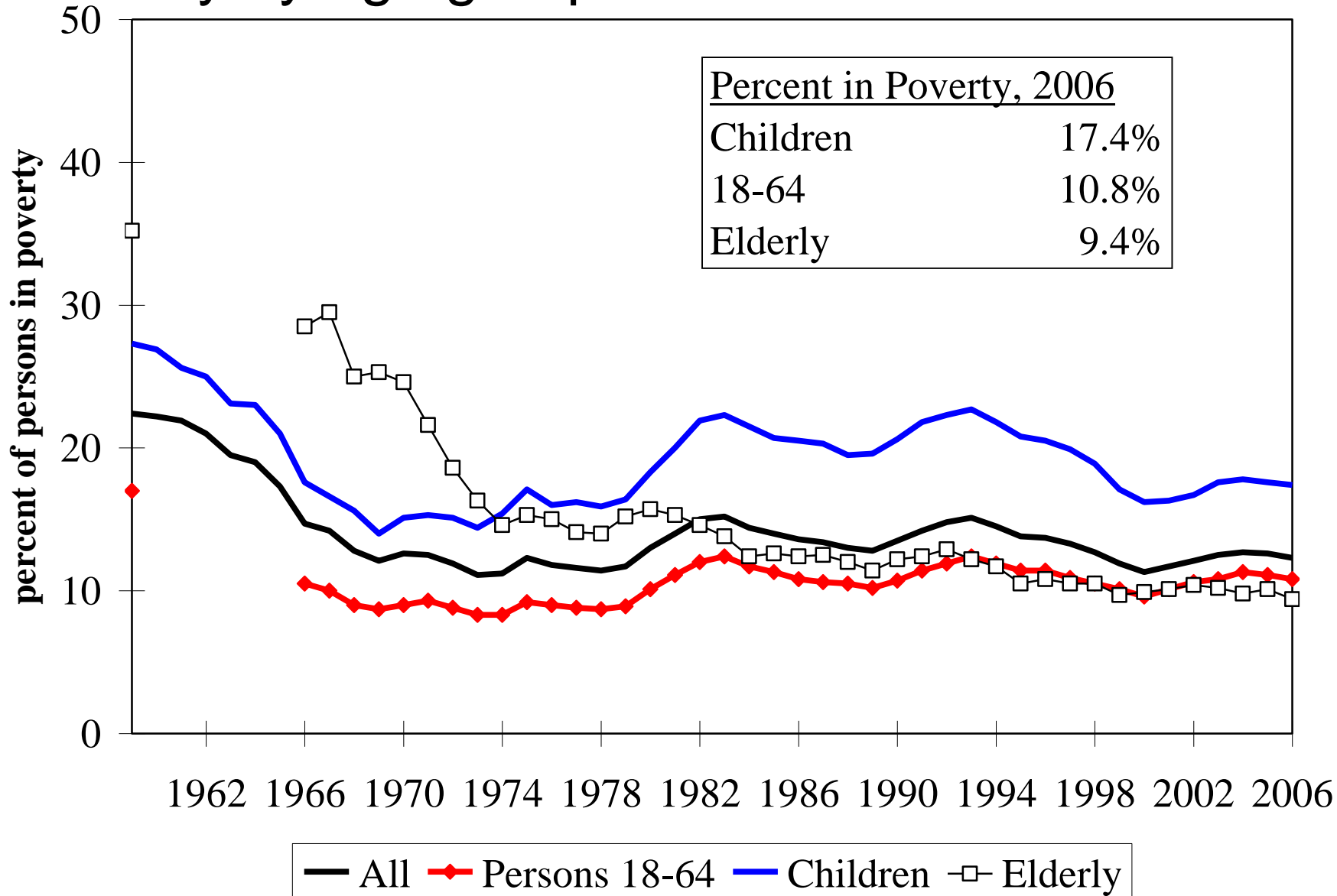
For comparison, 2006 median family income was \$48,201 for all households and \$31,818 among female headed households .

## (2) Poverty Facts

# Percent of Persons in Poverty, 1959-2006

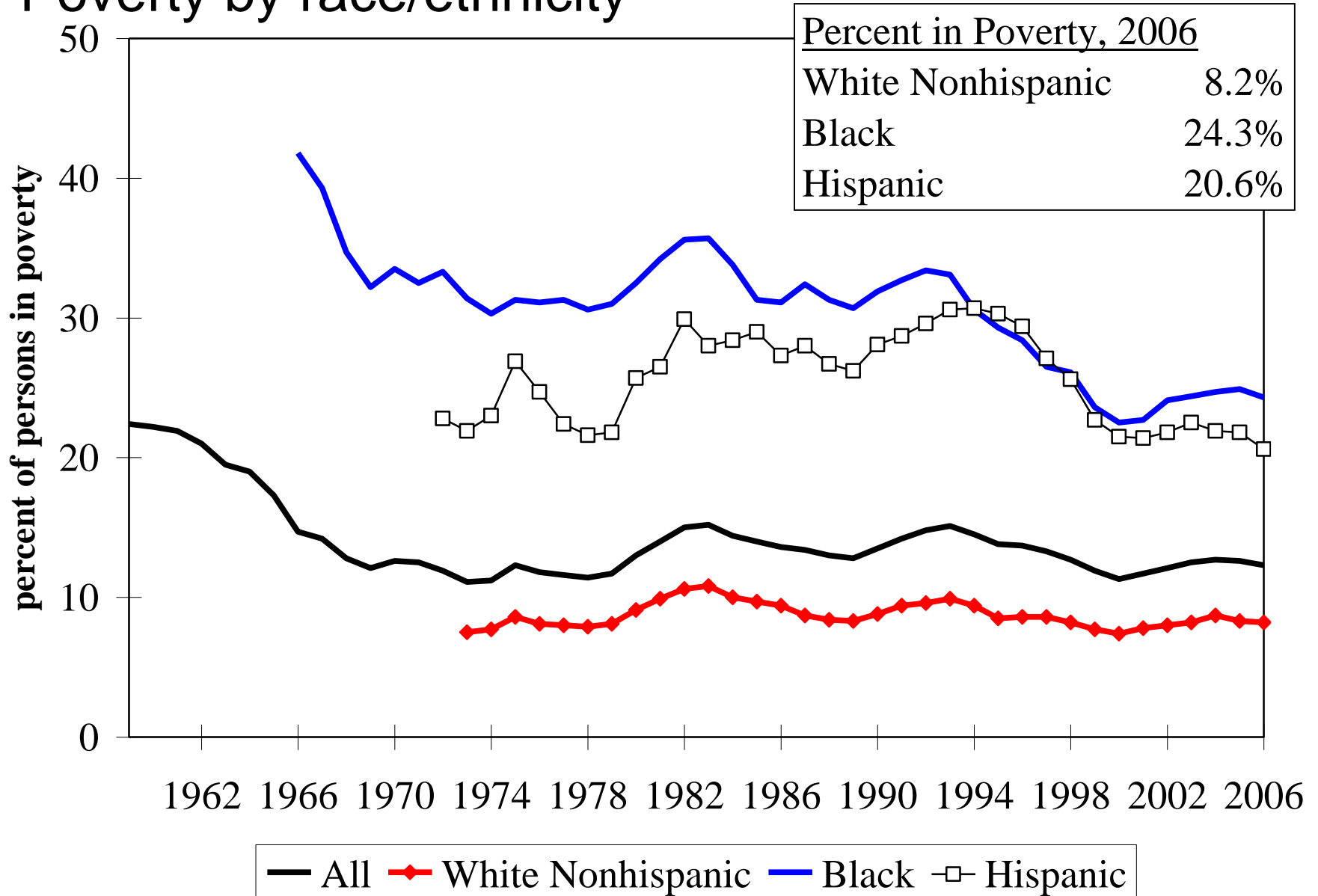


# Poverty by age group





# Poverty by race/ethnicity



# International comparisons of poverty

- The U.S. poverty measure is an absolute measure. Most other countries use a relative poverty measure.
- [Why? Because in many other developed countries absolute poverty is expected to be very low/zero because of higher spending on redistribution programs.]
- Common relative poverty measure: individual is poor if their household income is below 50% of median household income.

# Relative poverty rate by type of family, 1999-2000

	All families	Families with Children	Elderly Families
United States	17.0	18.8	28.4
Ireland	16.5	15.0	48.3
Italy	12.7	15.4	14.4
United Kingdom	12.4	13.2	23.9
Canada	11.4	13.2	6.3
Germany	8.3	7.6	11.2
Belguim	8.0	6.0	17.2
Austria	7.7	6.4	17.4
Netherlands	7.3	9.0	2.0
Sweden	6.5	3.8	8.3
Finland	5.4	2.9	10.1
<i>Overall Average</i>	<i>10.3</i>	<i>10.1</i>	<i>17.0</i>

Source: Smeeding (2006), Luxembourg Income Study.

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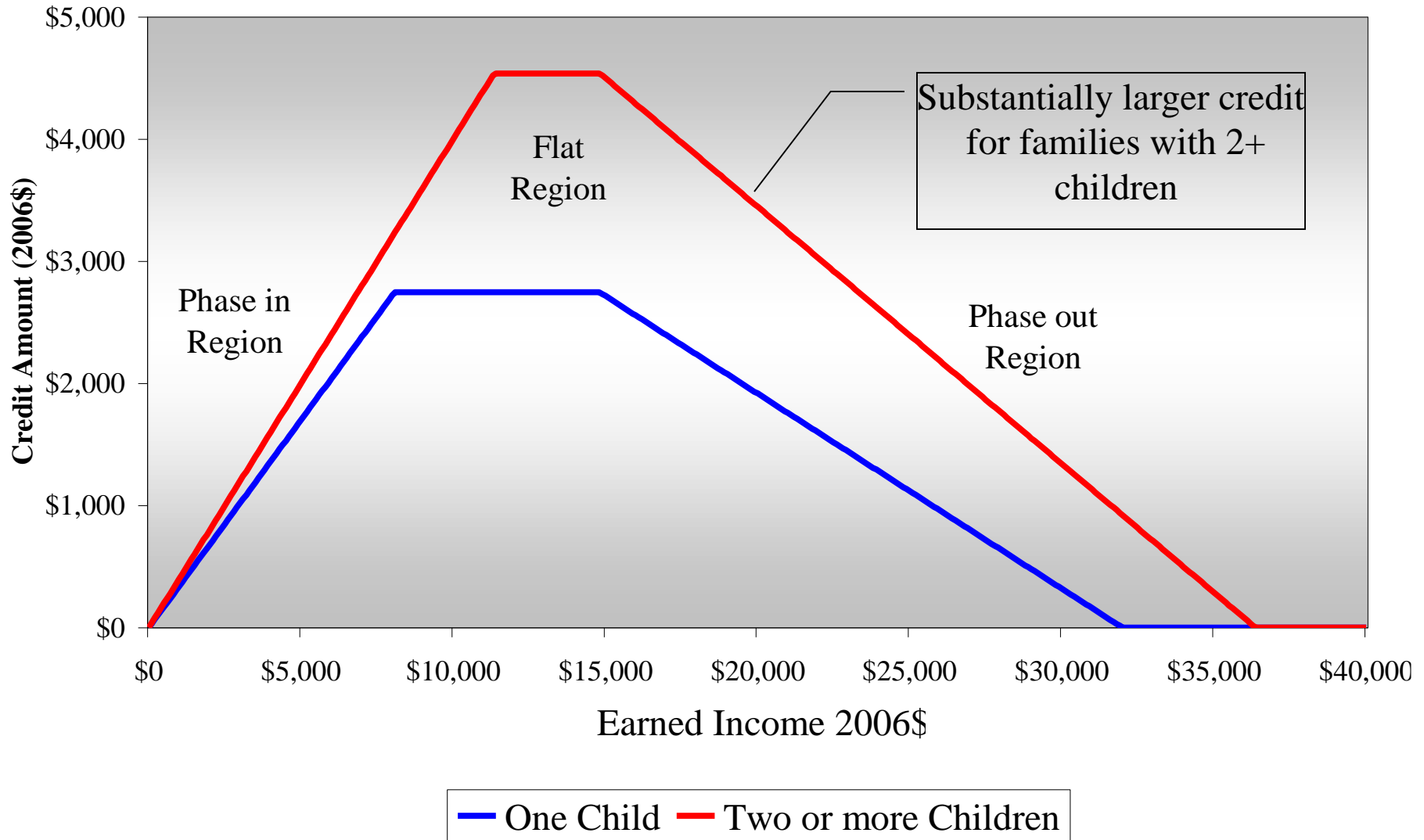
(3) Government policies that reduce poverty

(and why)

# The Earned Income Tax Credit

- Refundable tax credit for *working*, low-income tax filers with children (much smaller credit for childless)
- Introduced in 1975; expanded in 1986, 1990, 1993.
- Total cost of the EITC is \$35 billion compared to \$24 billion for TANF and \$33 billion for food stamps.
- The value of the credit varies with earned income and number of children—with larger credit amounts for families with children (and especially 2+ children).
  - The average credit in 2006 was \$1,806 (\$2,693 for taxpayers with two or more children).
- Credit available to single parent and two parent families.

# EITC Benefit Structure, Single mothers in 2007

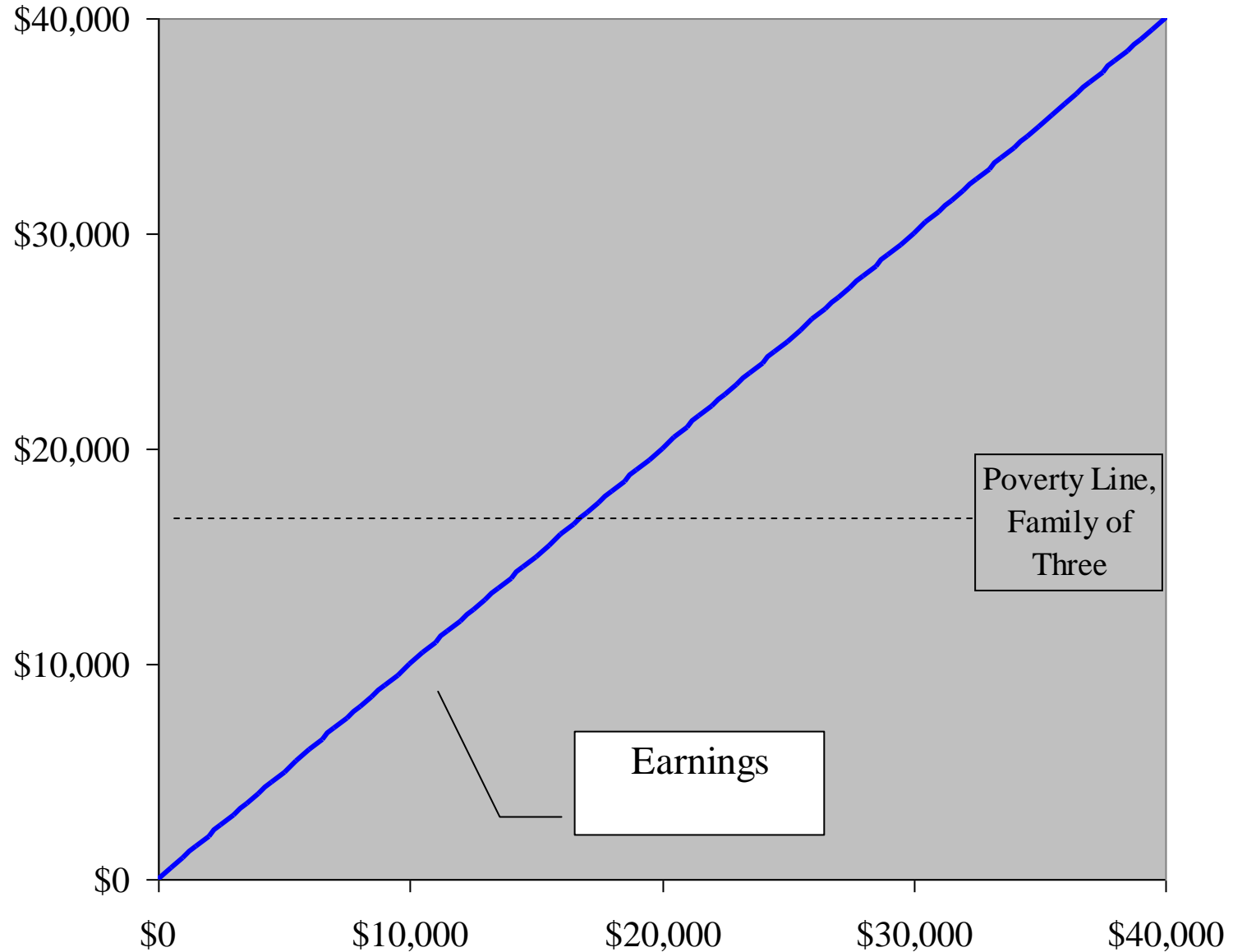


# How the EITC reduces poverty

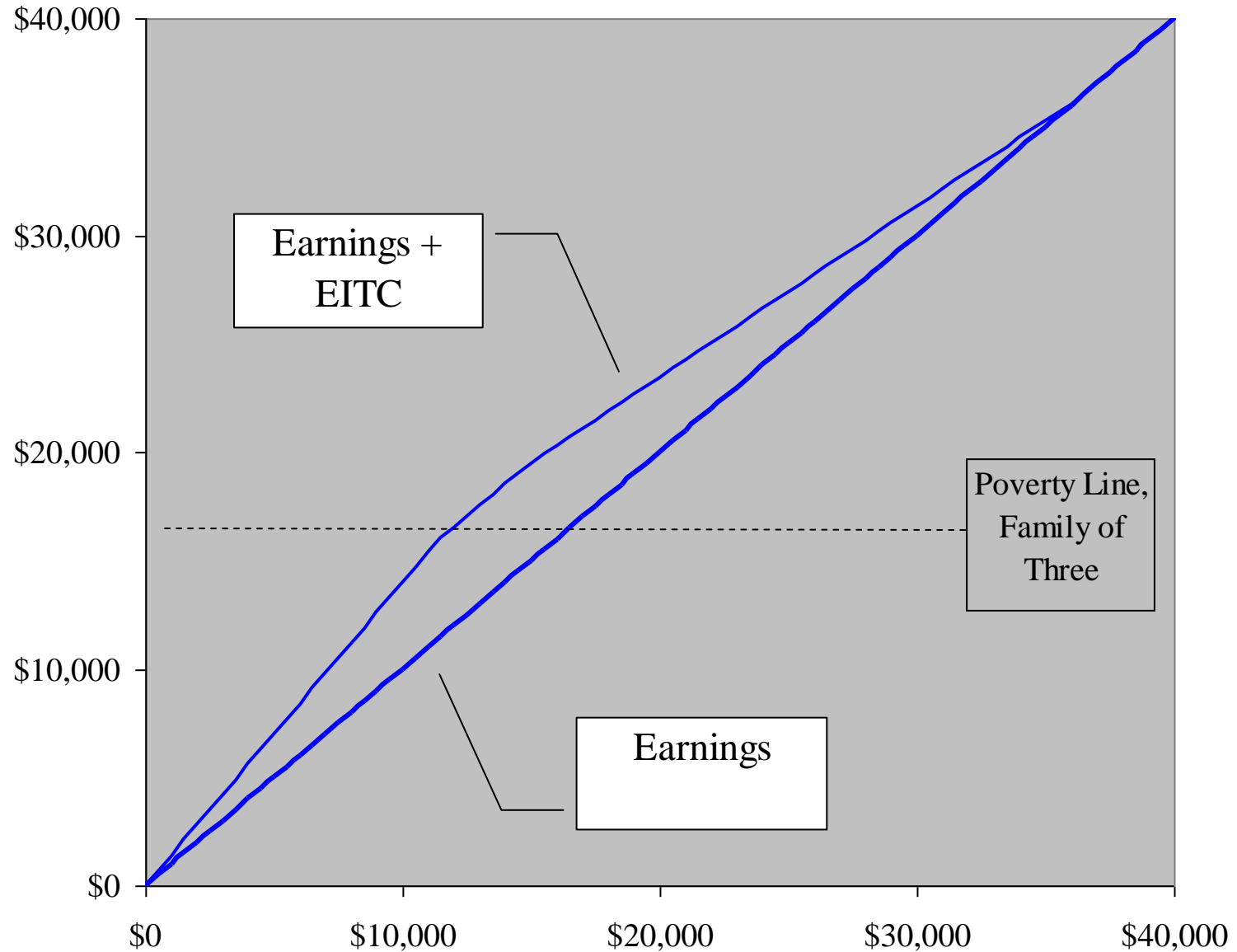
1. Key design feature of EITC (and what distinguishes it from traditional income support programs) is that eligibility requires earned income.
  - The EITC transfers income to low income families with children WHILE encouraging work.
  - [At least it encourages *entry* into the labor market. The fact that the program is eventually “phased out” acts as a new tax for EITC recipients, and in so doing, discourages work. This has not been found to be important in practice.]
2. The generosity of the EITC has increased substantially with tax reforms in 1986, 1990, and 1993.



# Illustrating how EITC encourages work and reduces poverty

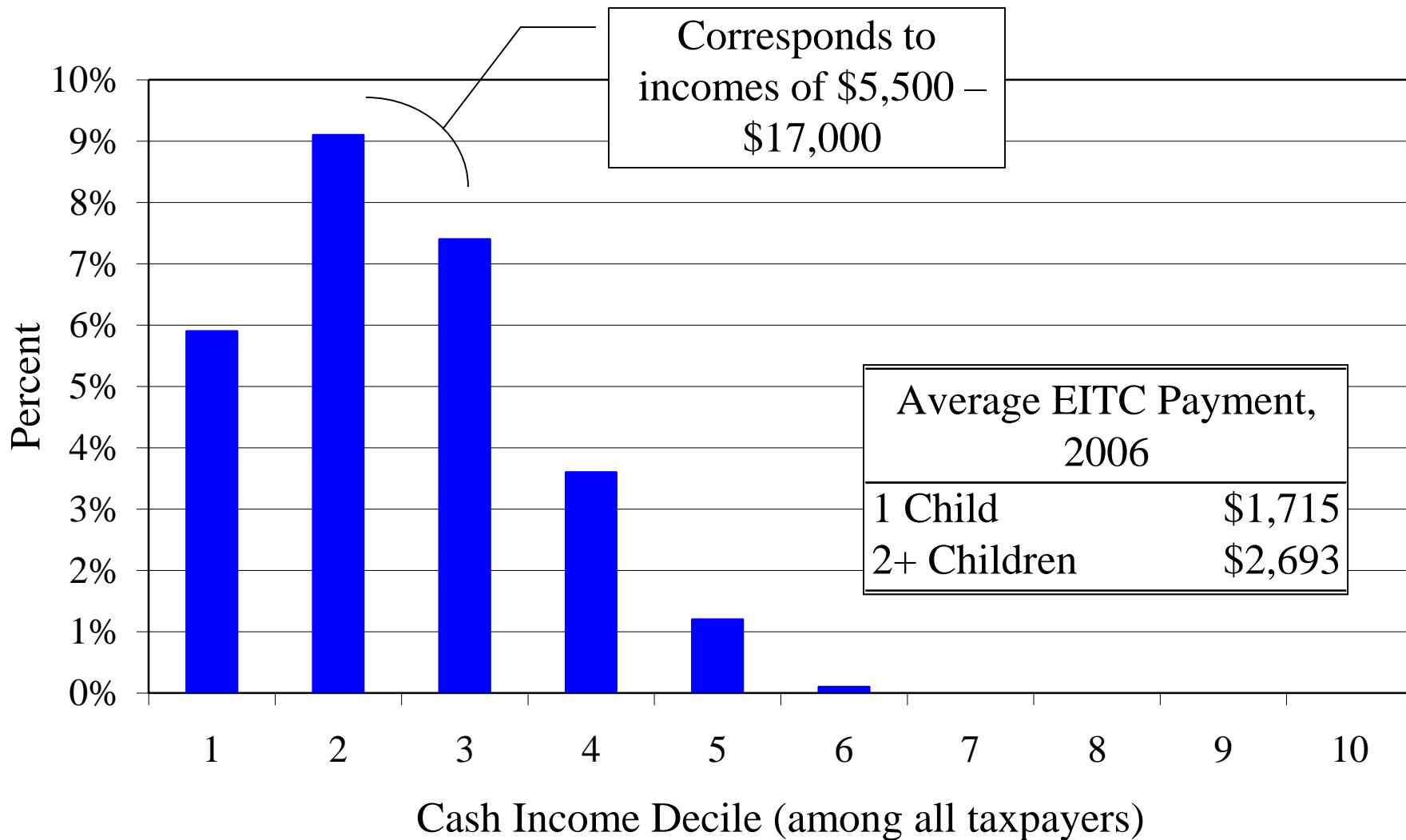


# Illustrating how EITC encourages work and reduces poverty

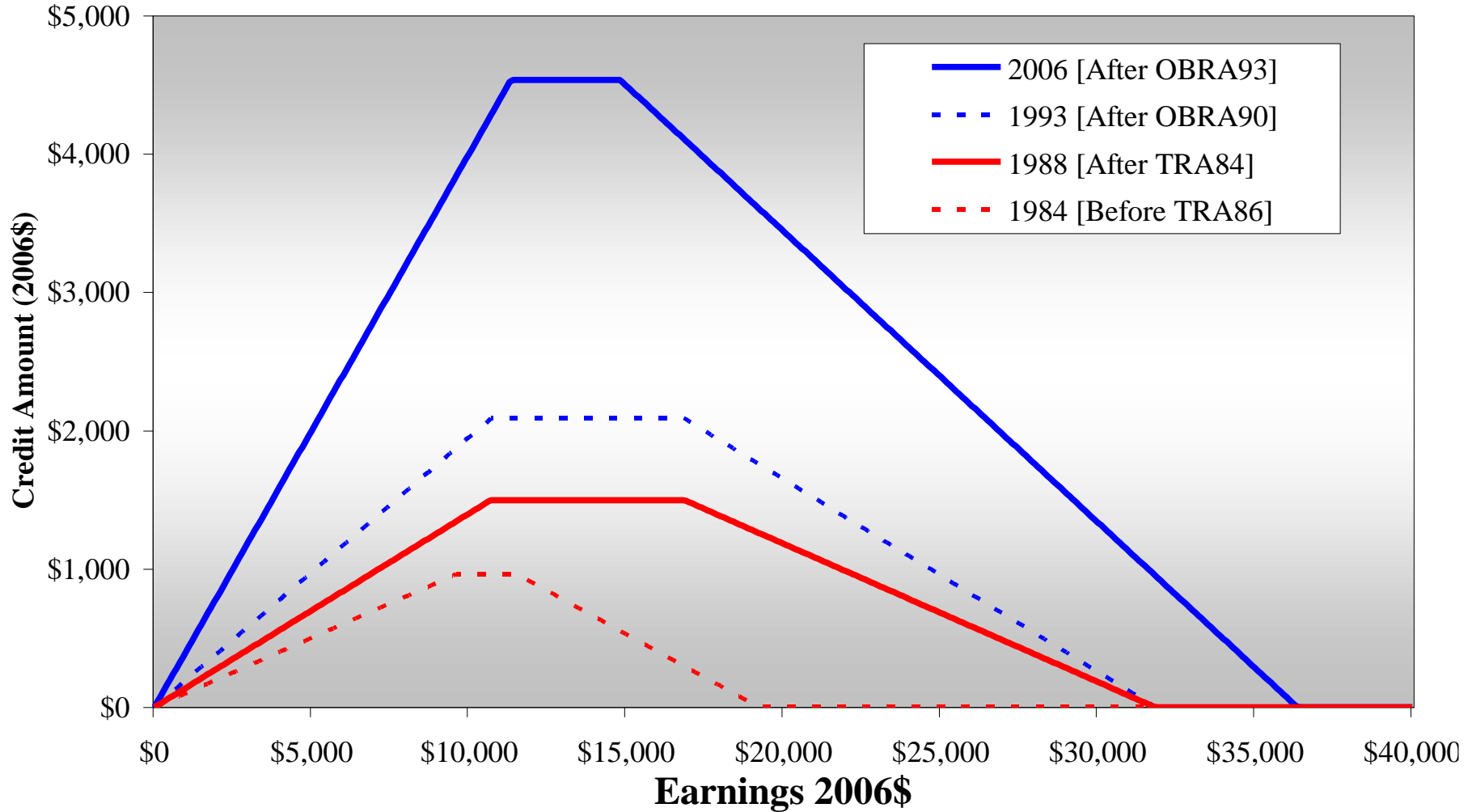


# EITC payments as percent of cash income by income decile

*Tabulations of all taxfilers in 2006*

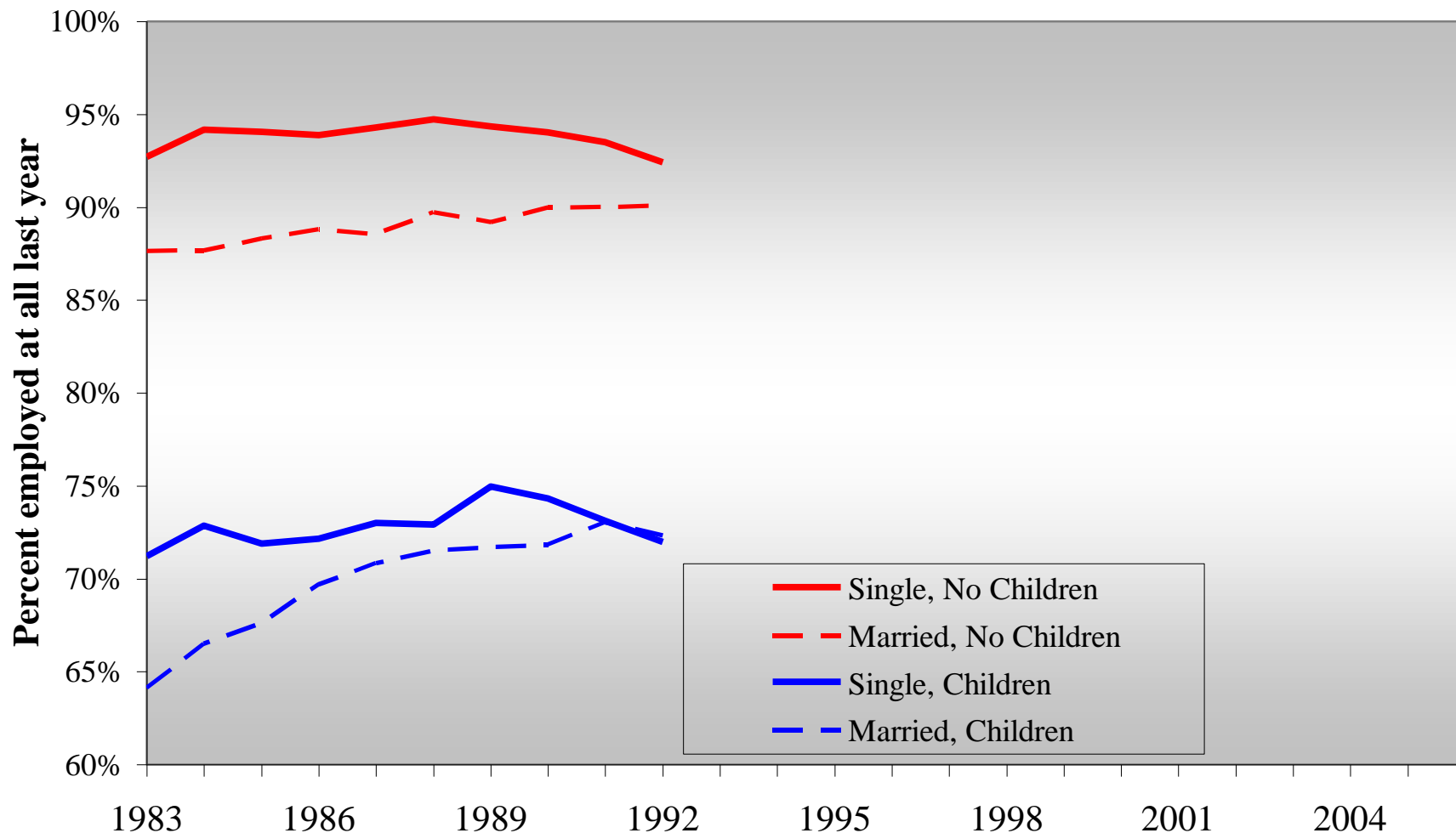


# Real EITC Benefits Increasing over Time (2+ children)



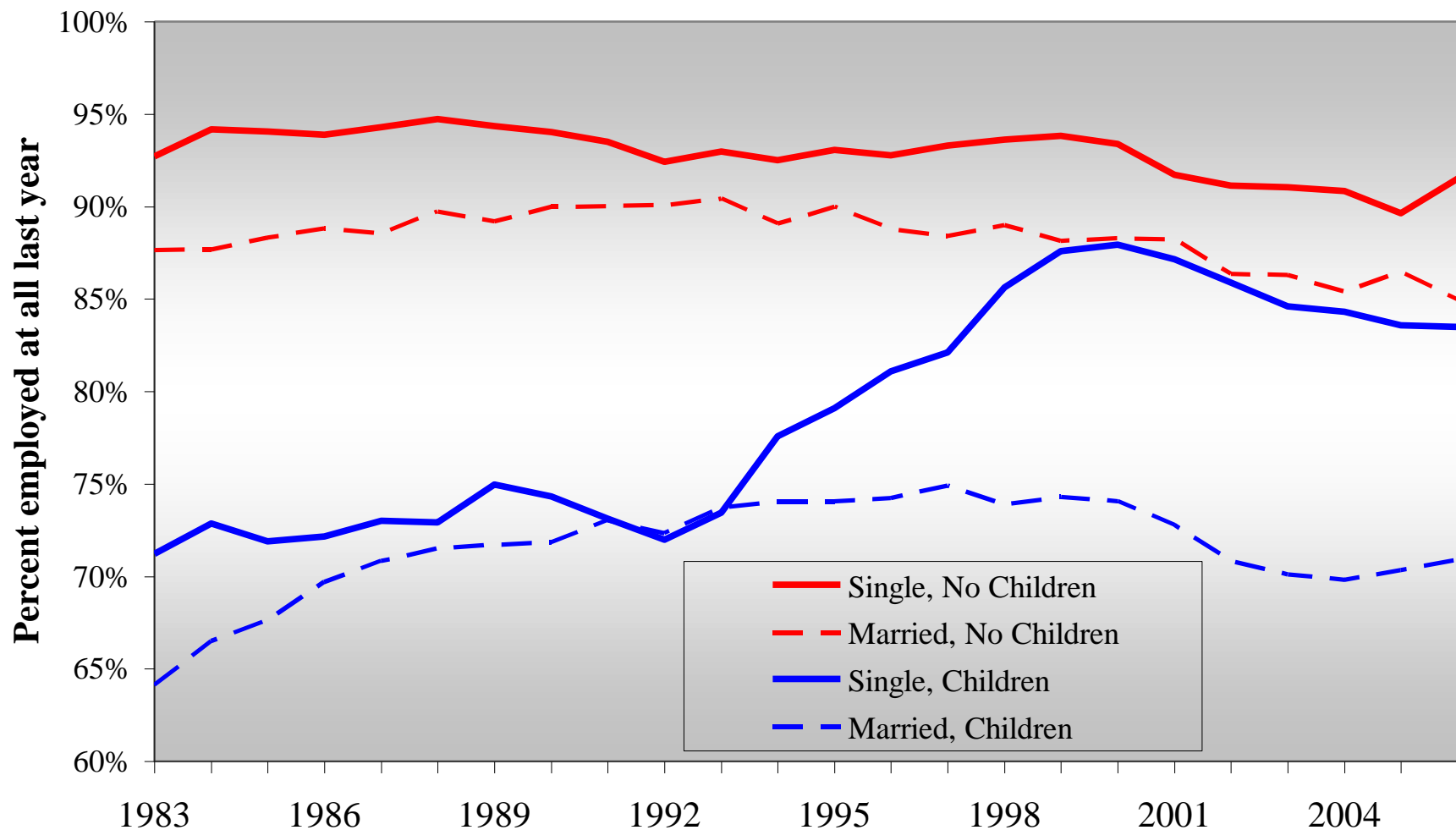
- So, the EITC has the potential to increase incomes and reduce poverty through two channels:
  - The EITC represents an increase in income for the family
  - The EITC provides incentives to enter work, and thus increase earnings which increases family income.
- Many studies have documented that indeed the EITC is a key factor in contributing to the observed increases in employment rates of single mothers with children.
- As an illustration ...

# Percent of Women Working (by Marital Status and Children)



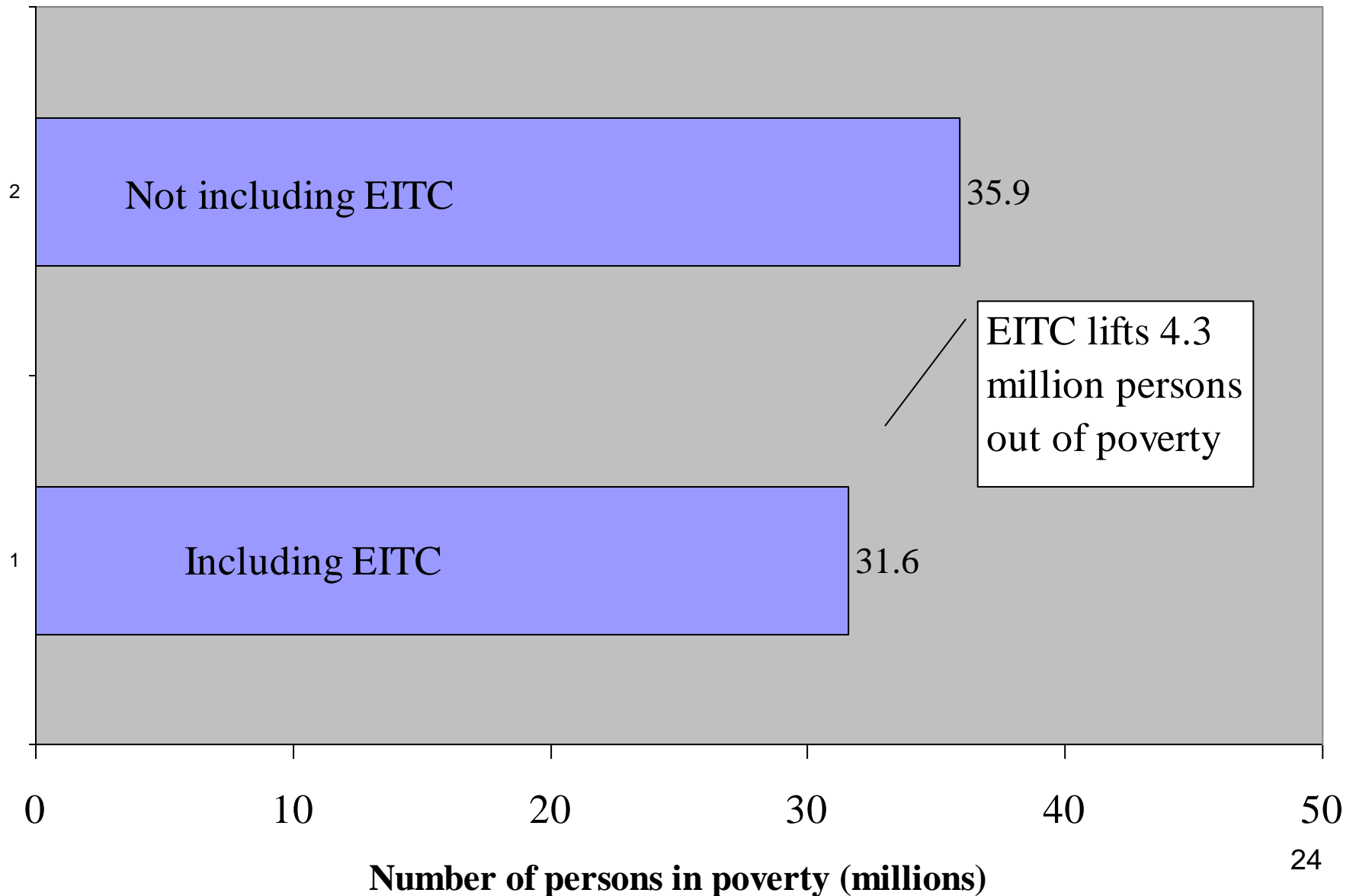
On the eve of these policy changes, much attention is given to low employment rates of single mothers.

# Percent of Women Working (by Marital Status and Children)



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

# Census estimates of poverty reduction due to EITC, 2003





(4) Government policies that do not reduce  
poverty

(and why)

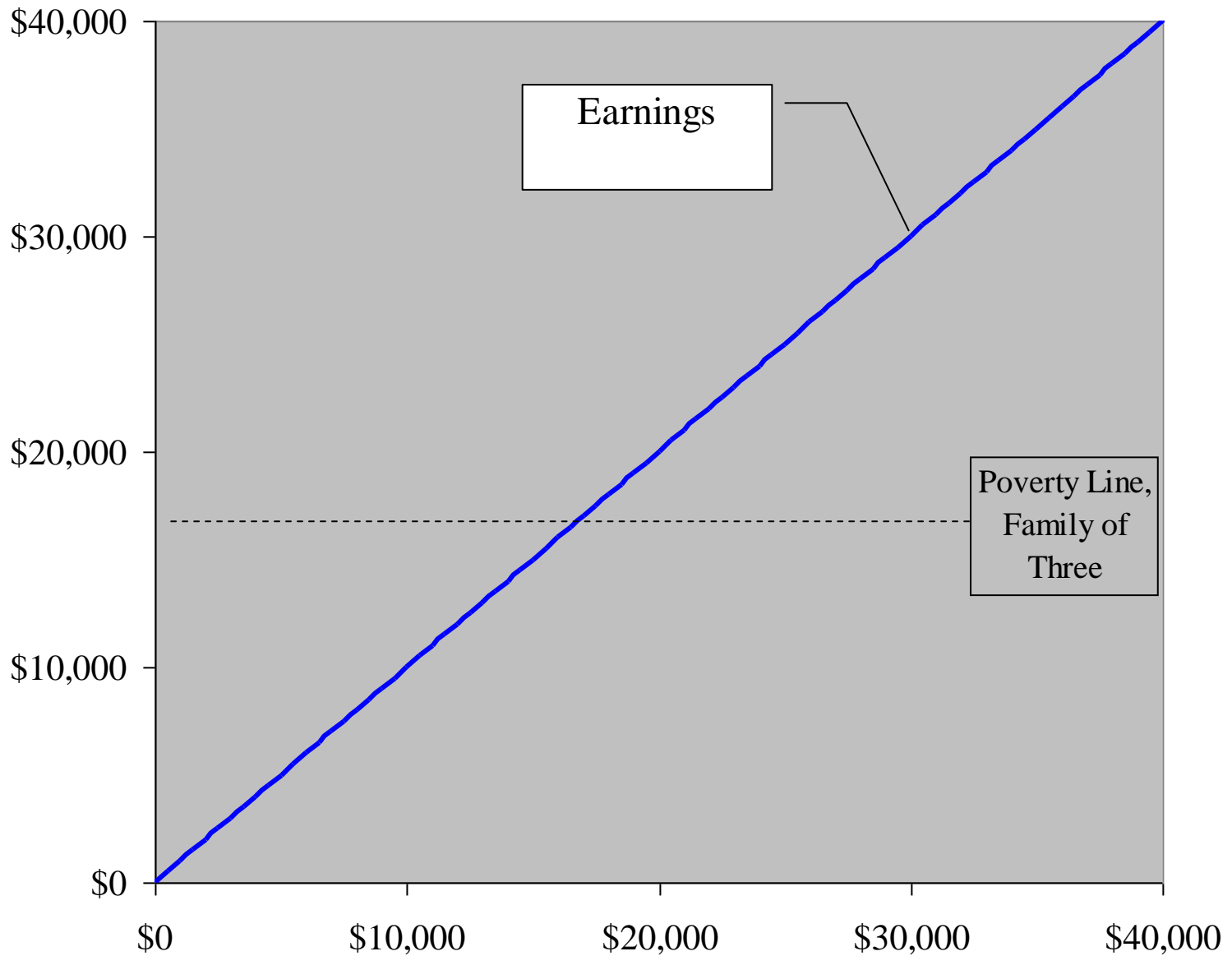
# Cash Welfare Programs (TANF)

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

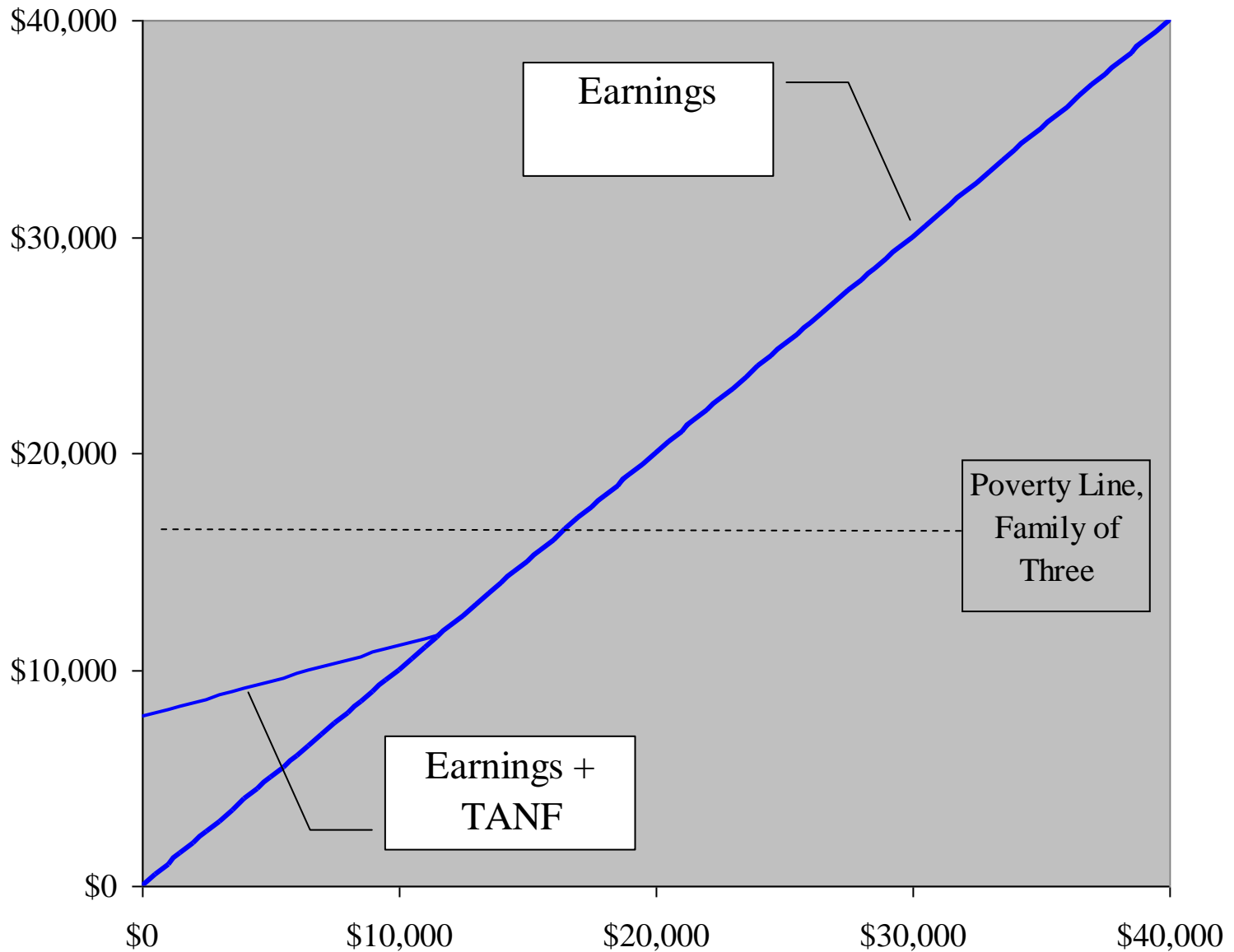
1. Benefit levels are very low, unlikely to increase a household's income over the poverty line.
2. Benefits are targeted on those out of work; thereby discouraging work rather than encouraging it.

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

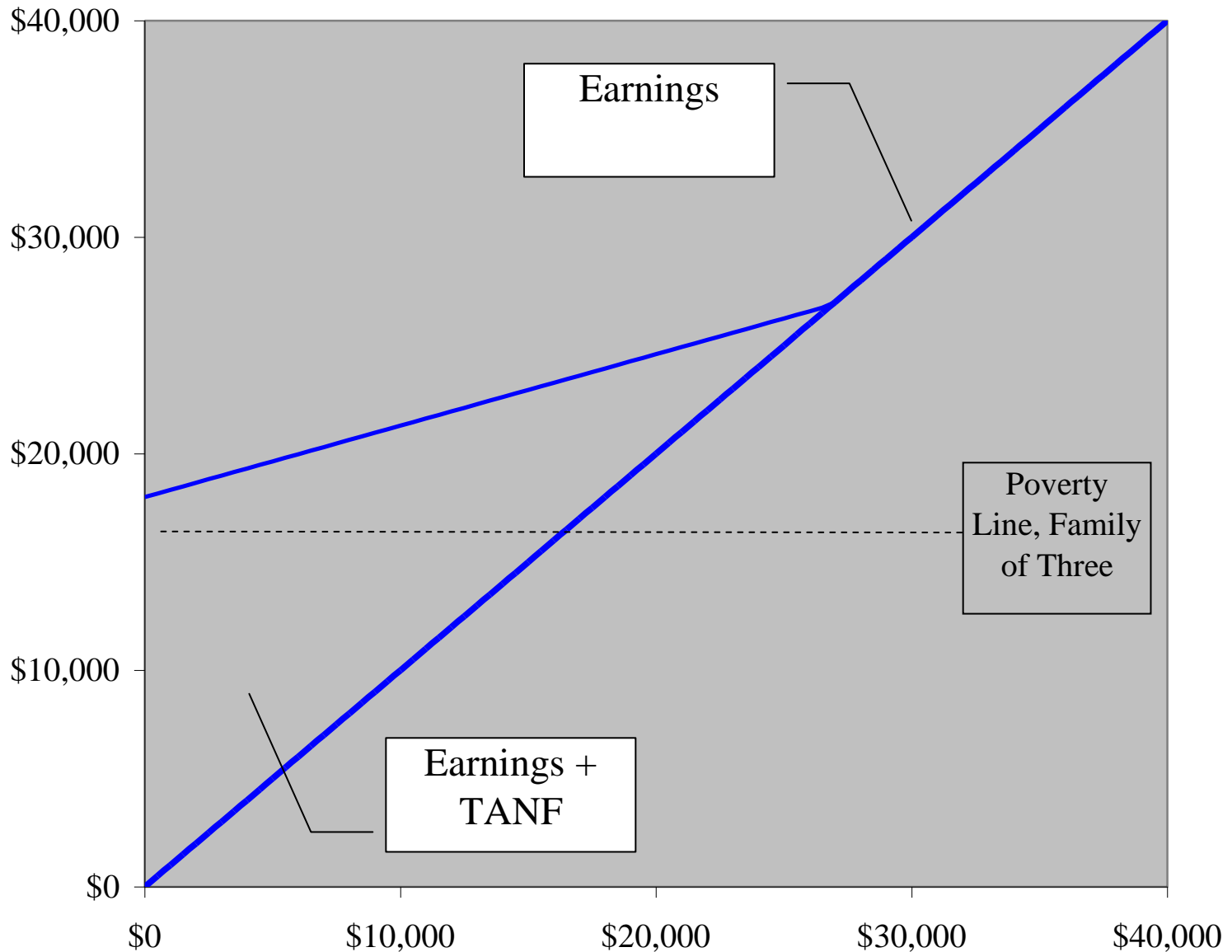
# Illustrating why TANF will not reduce poverty



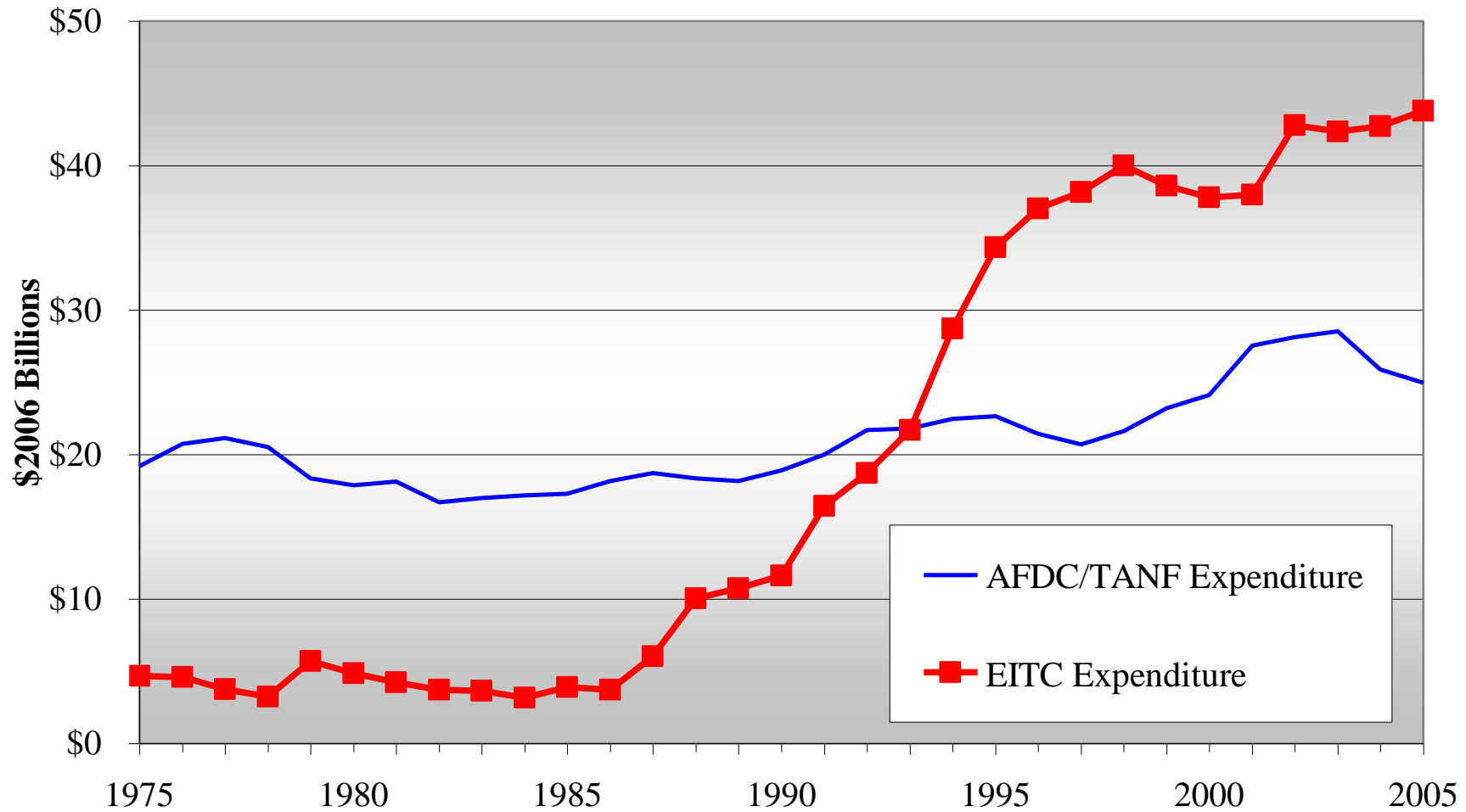
# Illustrating why TANF will not reduce poverty



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



# Expansion of EITC and Contraction of Welfare has Radically Changed the Landscape for Low Income Families with Children



## Other things you should know about poverty

- U.S. *official* poverty statistics are defined using *pre-tax cash* income. So the EITC does not affect *official* poverty. Neither do the many *non-cash* assistance programs (food stamps, housing subsidies)
- Minimum wages are not very important.
- The strength of the low skill labor market more generally matters a lot. The late 1990s expansion raised earnings at the bottom of the skill distribution which led to decreases in poverty.<sup>5</sup>
- Increases in Social Security benefits are the main factor explaining the historical reduction in poverty rates among the elderly.
- Changes in immigration are not a major contributor.