



INSTITUTE *for*  
RESEARCH *on*  
POVERTY

UNIVERSITY OF WISCONSIN-MADISON

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# Causes of Poverty

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For  
Teaching Poverty 101  
June, 2013

# A Difficult Topic

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- No comprehensive evidence enabling assignment of responsibility to various causes.
- Lots of studies of individual possible factors.
- Peoples views are mixed up with political values.
- We will discuss the primary factors, using a broad brush.

# Causes of Poverty

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- Labor market issues
- Education
- Demographic Characteristics: Age and Family Structure
- Race
- Poverty-related Policies
- Cultural Factors

# Causes of Poverty

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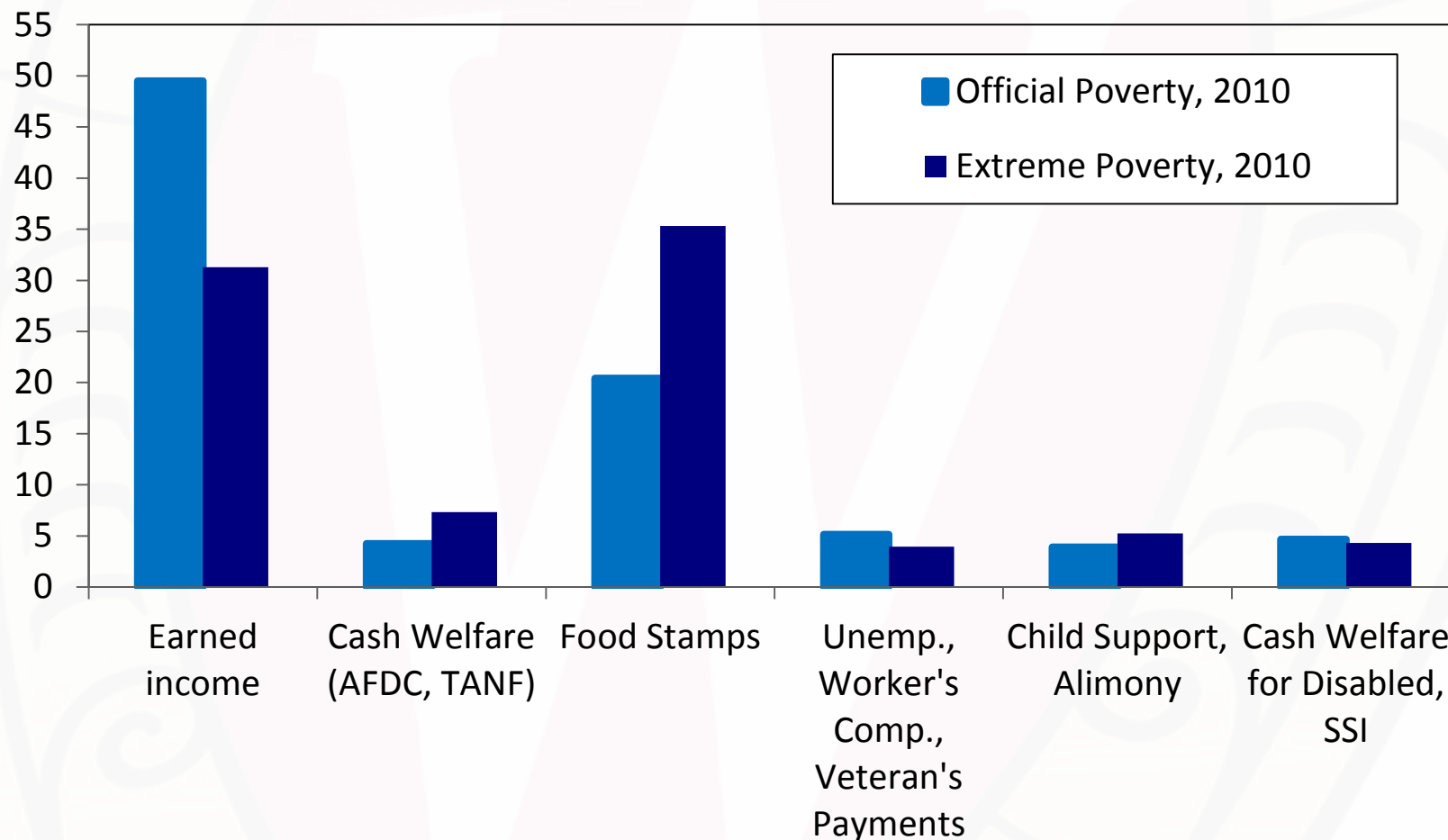
- Labor market issues

# Labor Market Opportunities and Poverty

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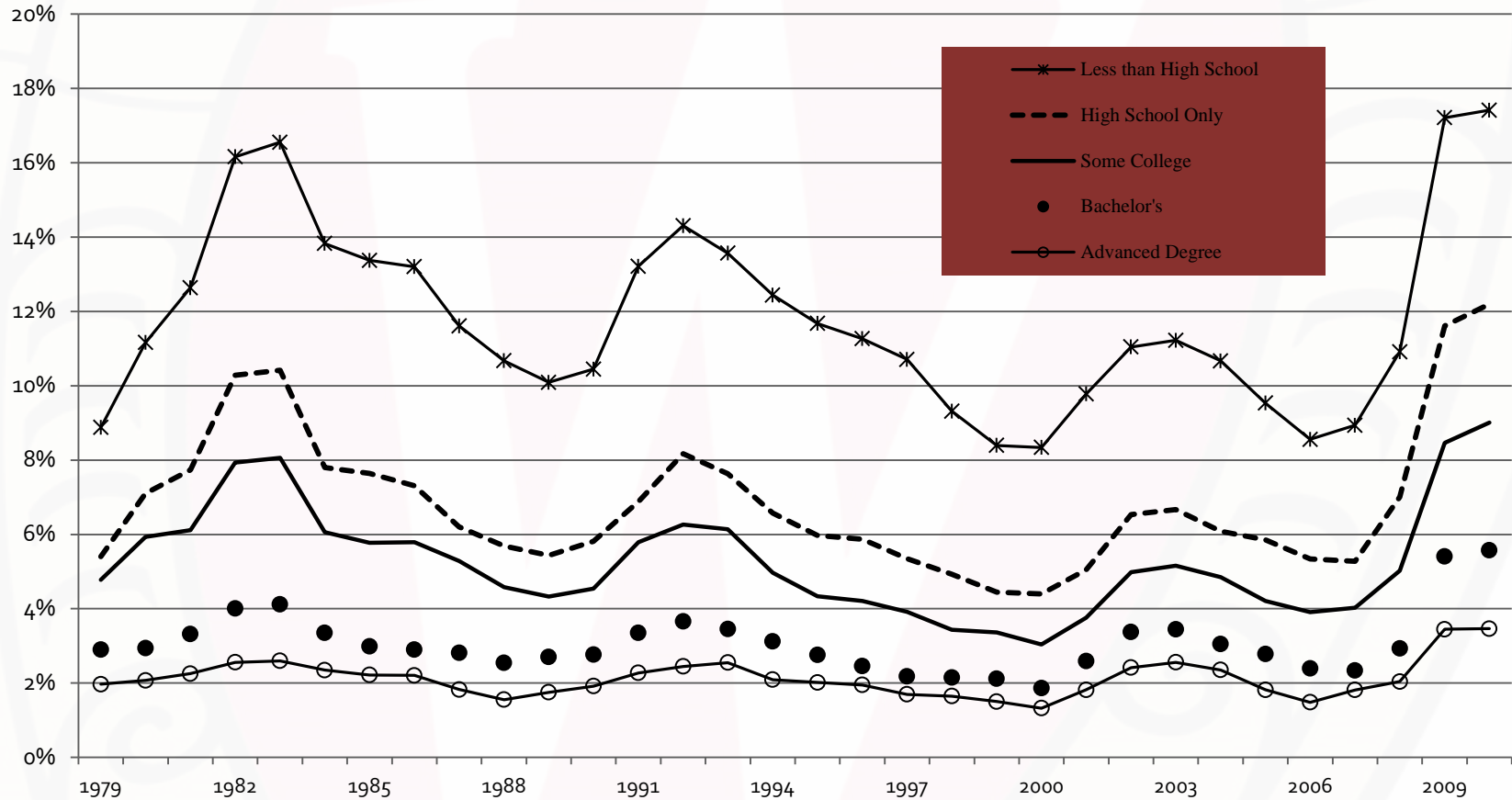
- Most poor families contain workers
- Poverty is very closely tied to the conditions of the labor market
  - Availability of jobs
  - Wages paid at those jobs

# Earnings is a large share of income for the poor



# Unemployment Rates are much higher for Low-skilled Workers

## Unemployment Rate by Educational Attainment (1979 to 2010)



Source: Authors' Analysis of CPS ORG Files (various years), CEPR extracts.

## Entry Into Poverty

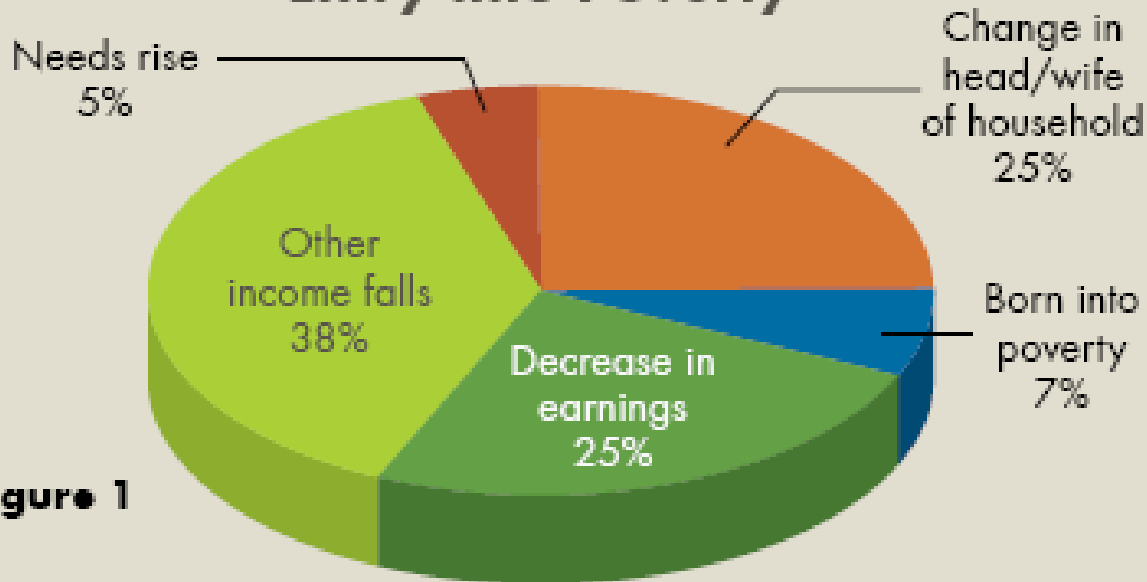


Figure 1

## Exit From Poverty

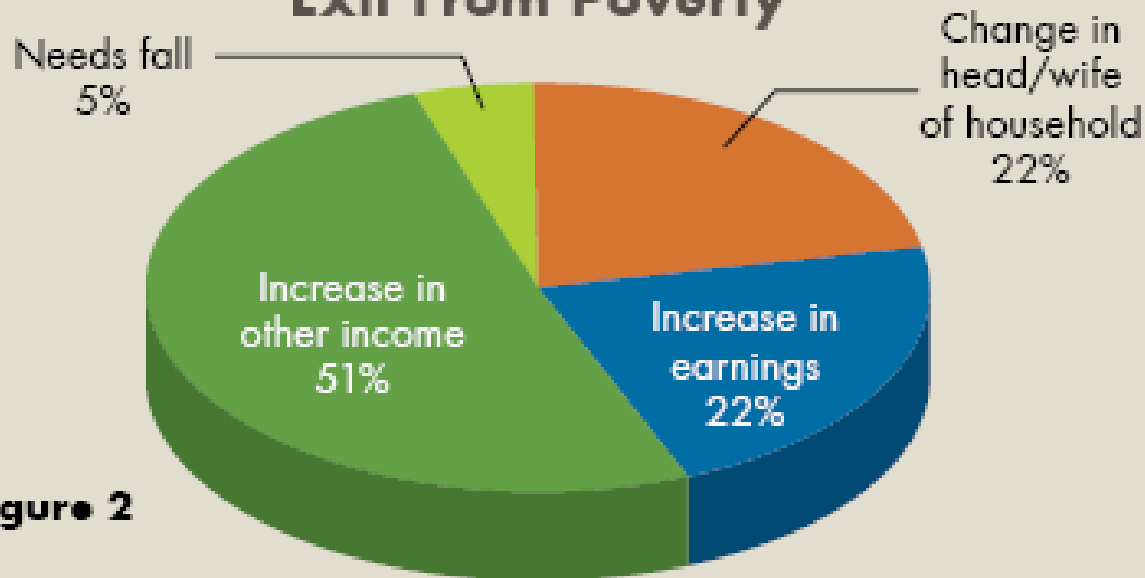
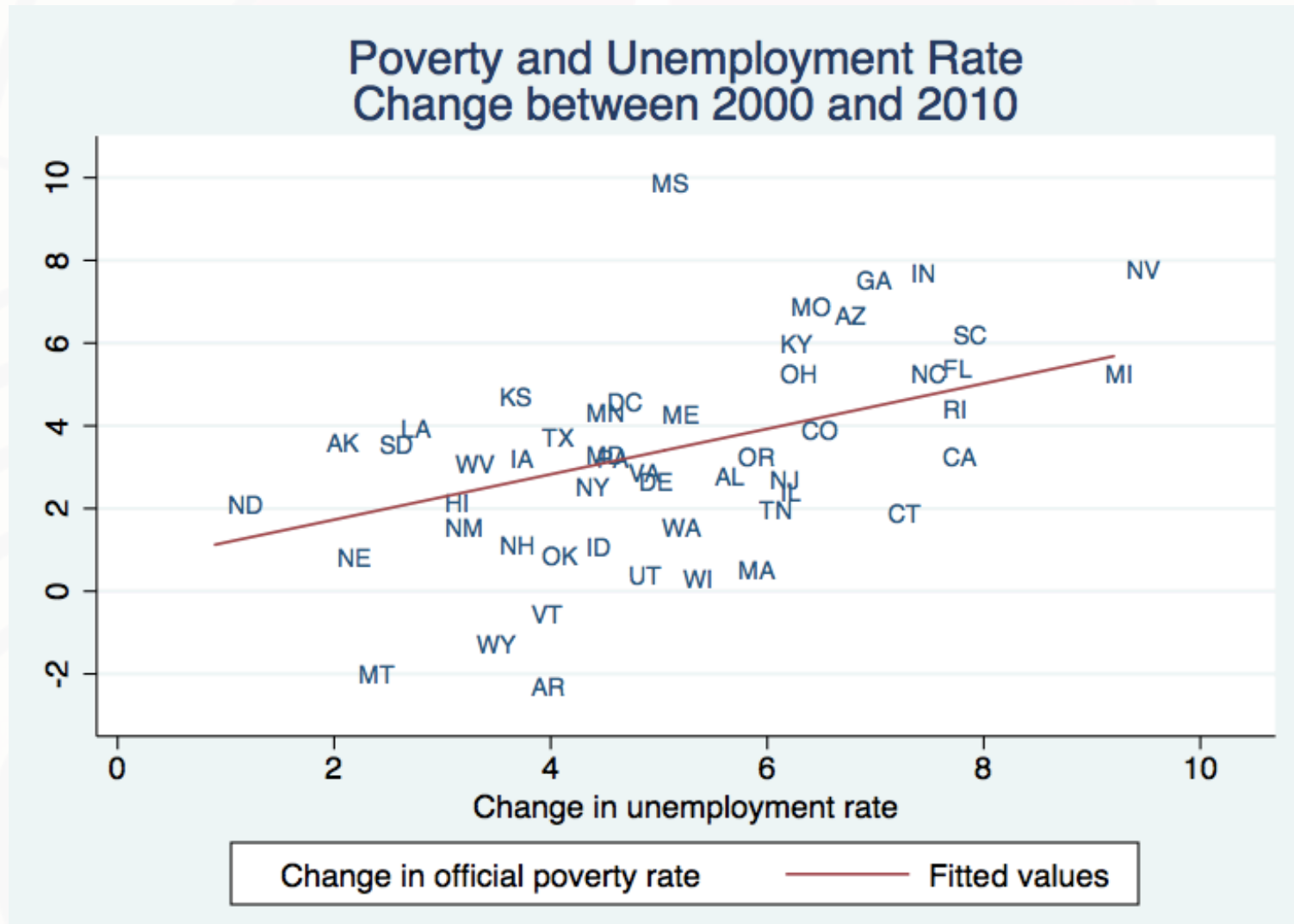


Figure 2

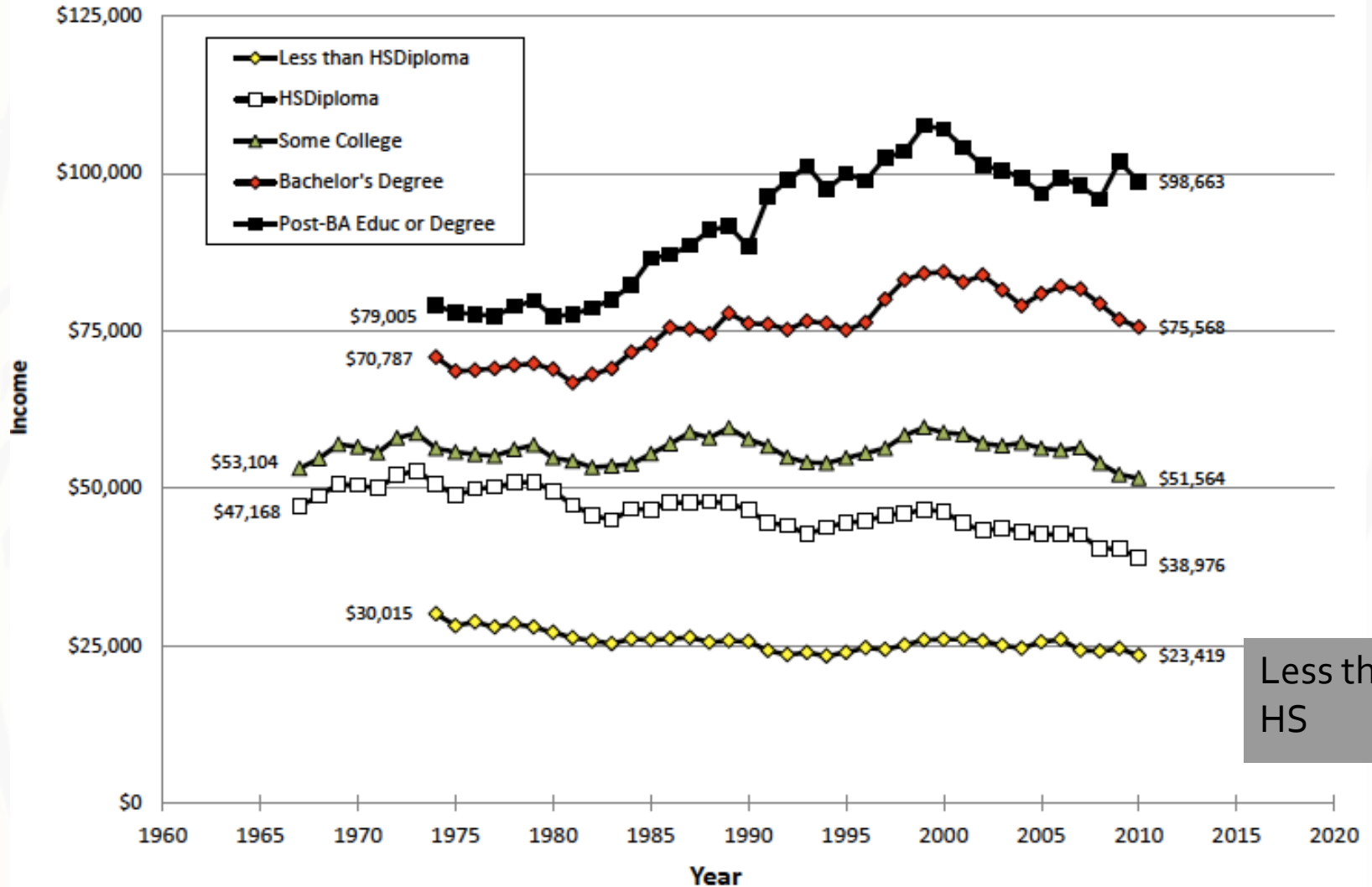


# Poverty *increased* more in states that experienced larger *increases* in unemployment



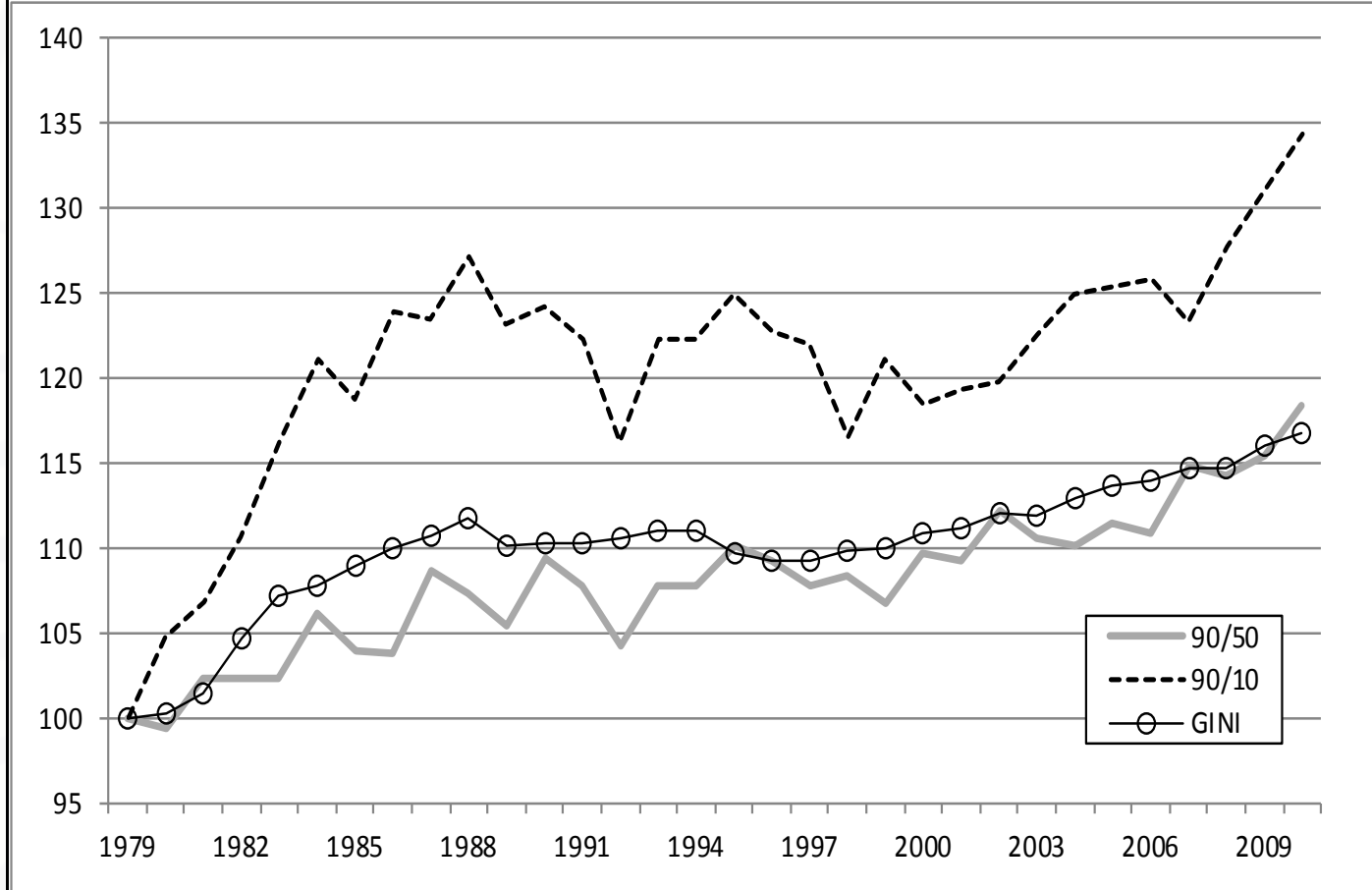
# How about Changes in Income/Wages over Time?

**Real Median Household Income by Educational Attainment of Household Head, 1967-2010** (Reported in 2010 \$).



Less than HS

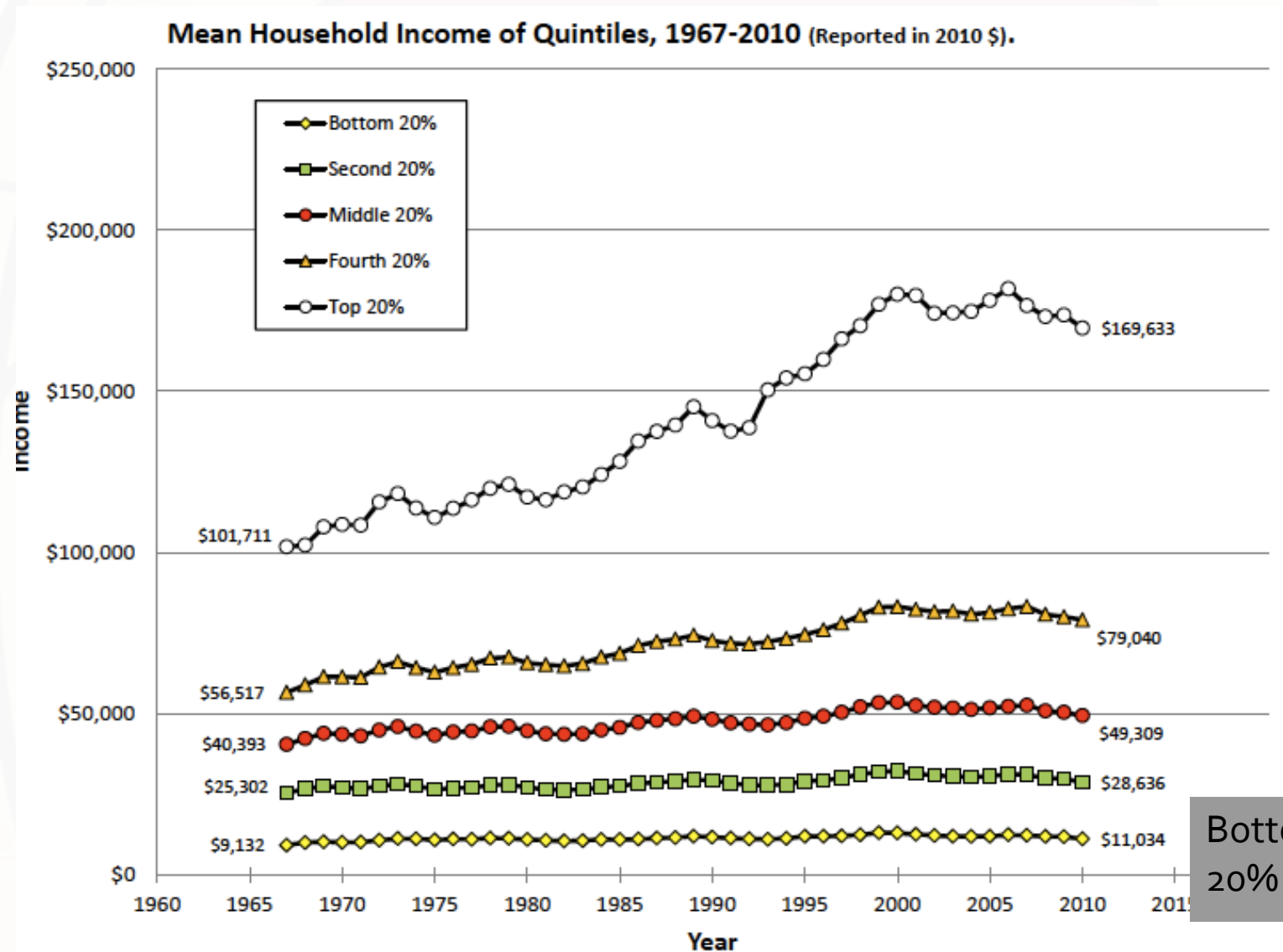
**Figure 2. Growth in Hourly Wage Inequality (Indexed 1979=100), 90/10, 90/50, and Gini, 1979-2010**



Notes: Wage percentile and gini values are adjusted to smooth the 1994 series break.

Source: Authors' Analysis of CPS ORG Files (various years), CEPR extracts.

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



Bottom  
20%

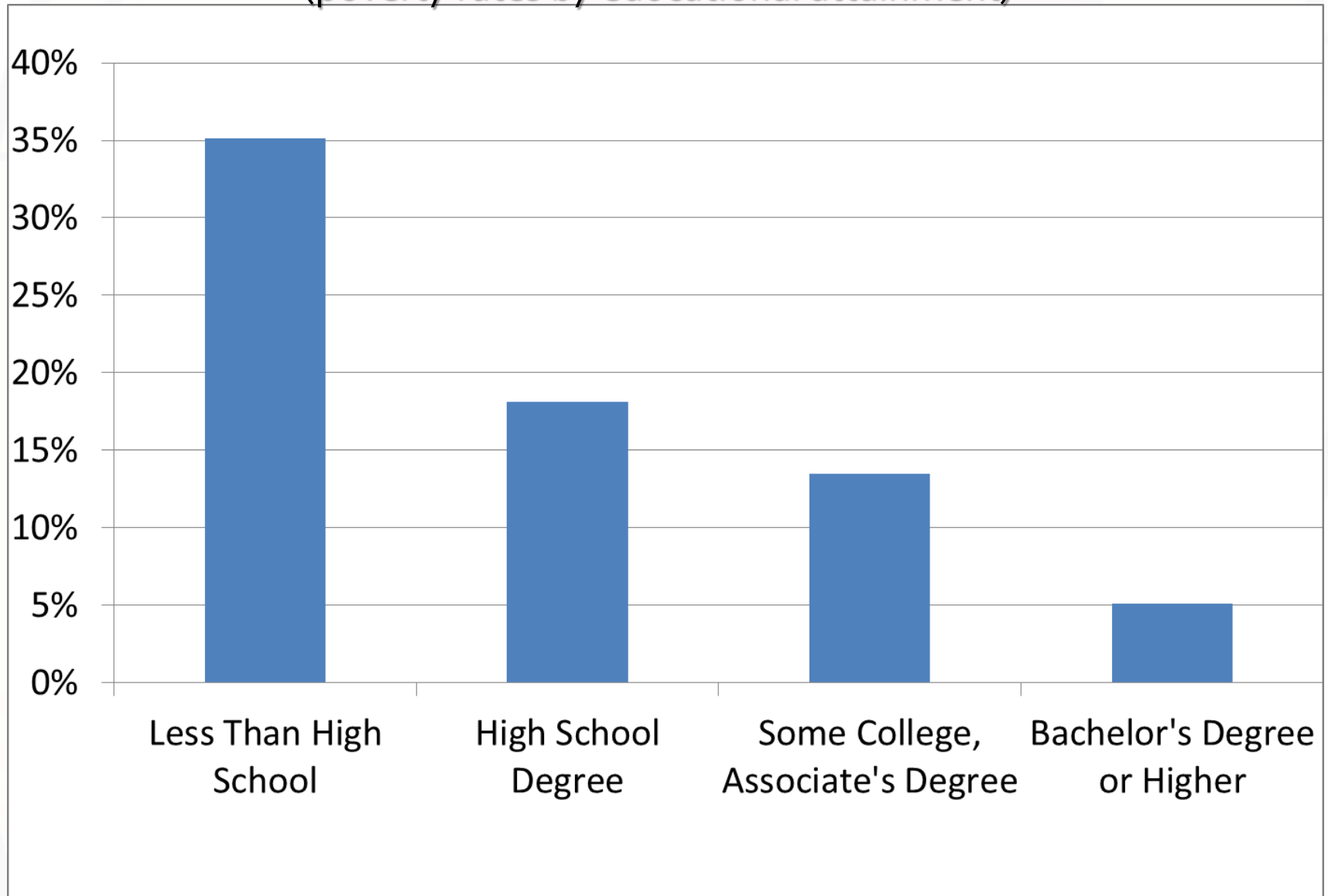
# Causes of Poverty

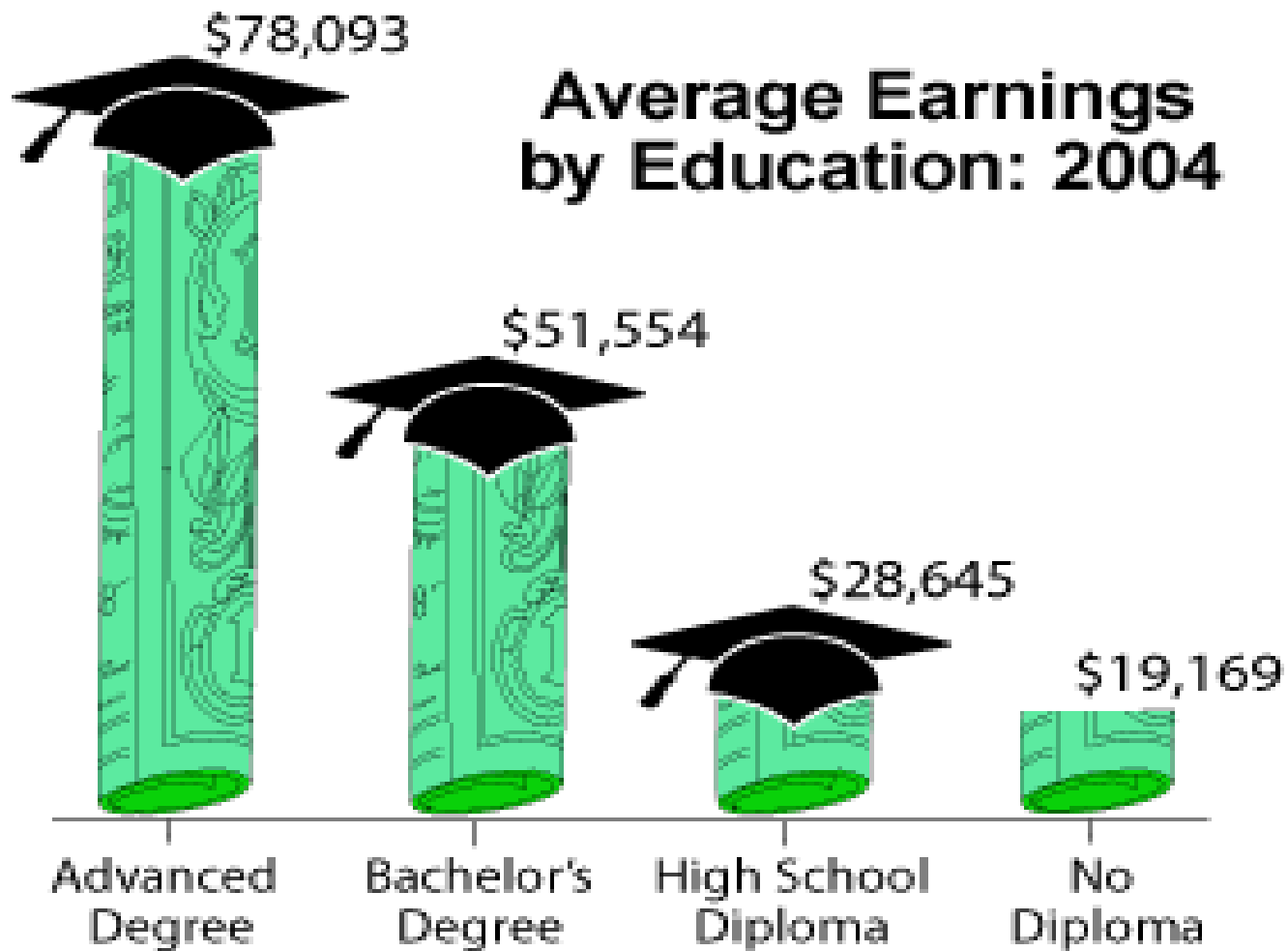
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- Labor market issues
- Education

# Education Provides Protection against Poverty

(poverty rates by educational attainment)

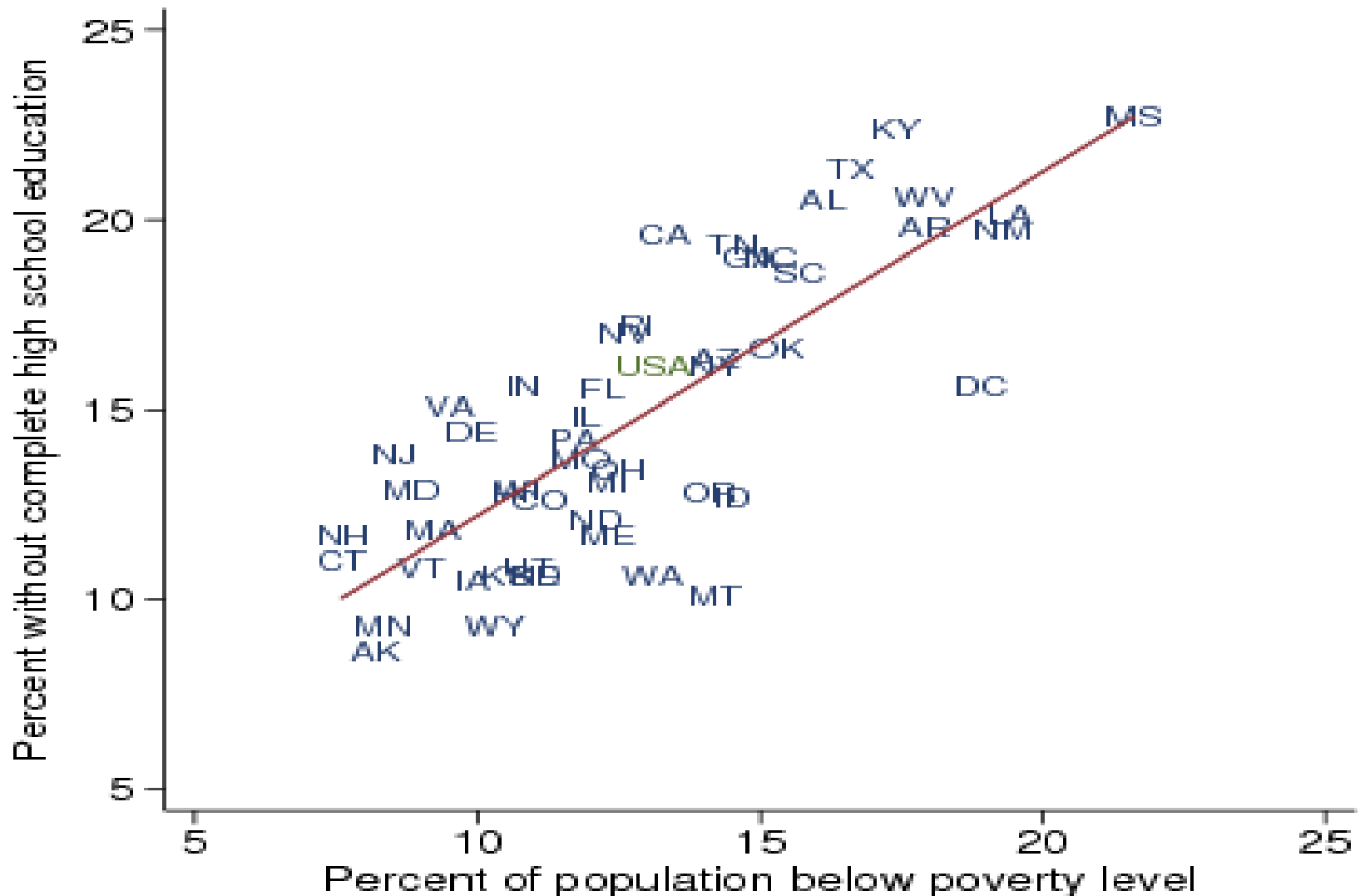




Source: U.S. Census Bureau, Current Population Survey, Educational Attainment in the U.S.: 2005

U S C E N S U S B U R E A U

# Fewer 'Low Education' Workers associated with Lower Poverty Rates



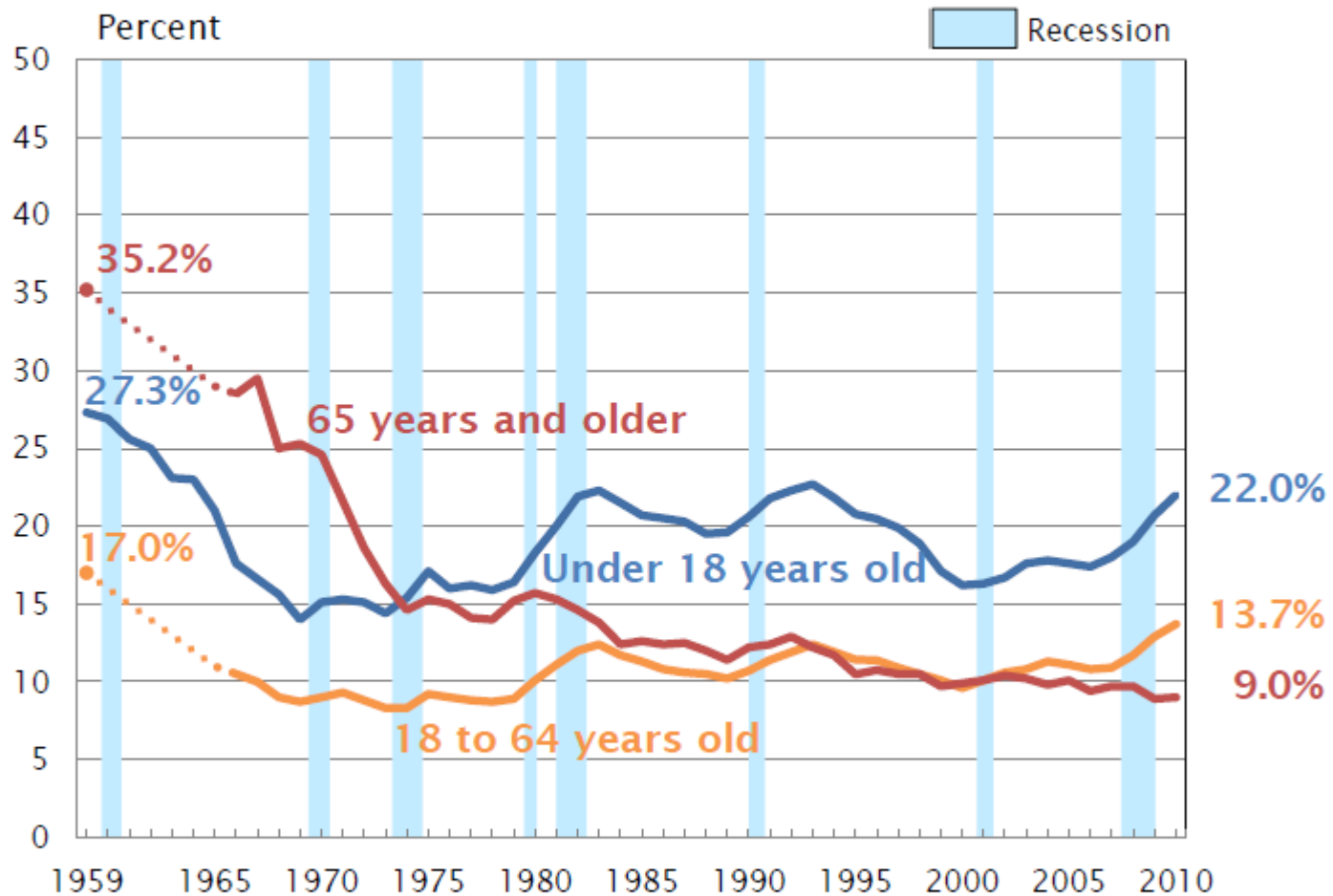


# Causes of Poverty

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- Education
- Demographic Characteristics: Age and Family Structure

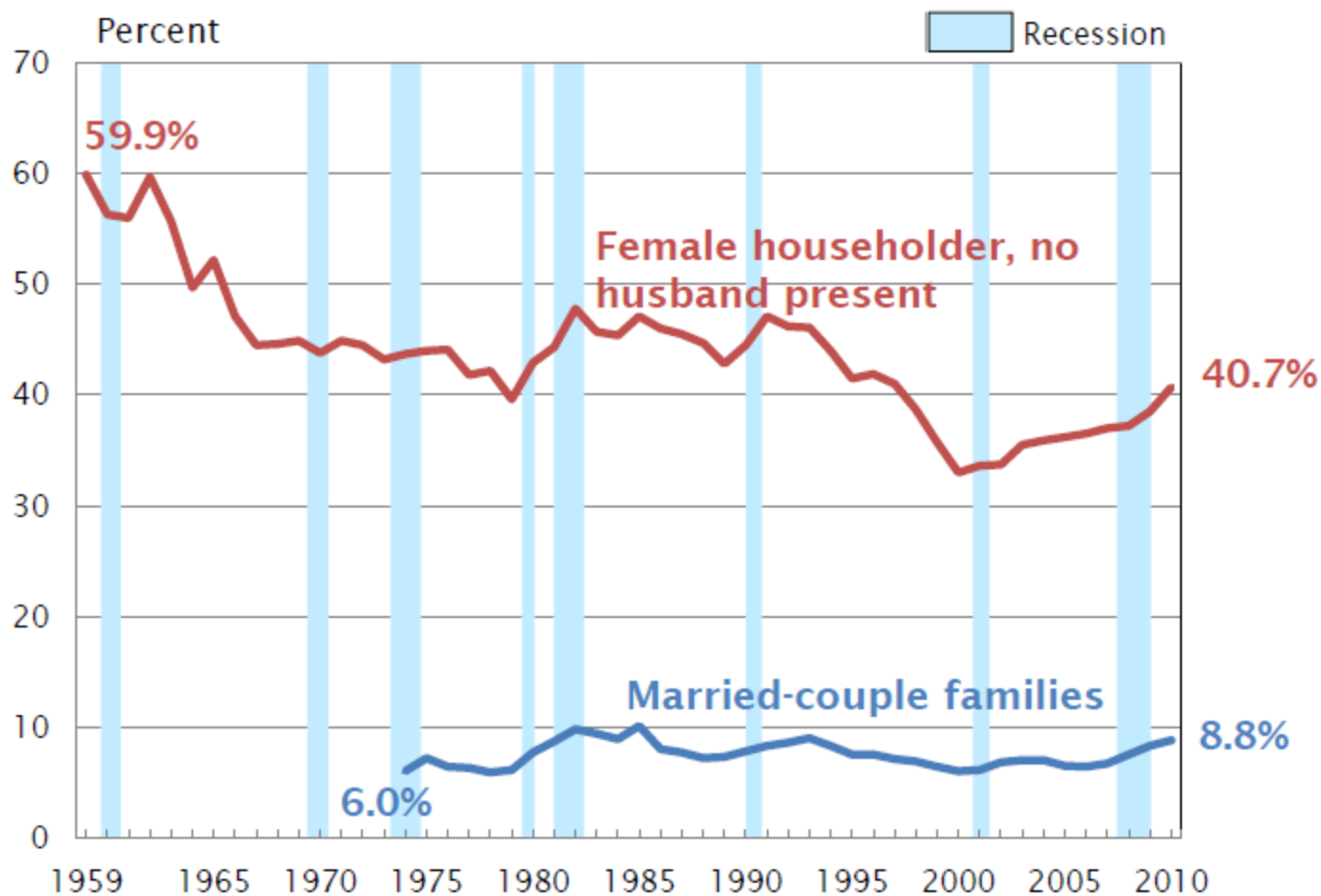
# Poverty Rates by Age: 1959 to 2010



Note: Data from 1960 to 1965 available only for people under 18 years old.

Source: U.S. Census Bureau, Current Population Survey, 1960 to 2011 Annual Social and Economic Supplements.

# Poverty Rates for Families with Related Children Under 18 by Family Type: 1959 to 2010



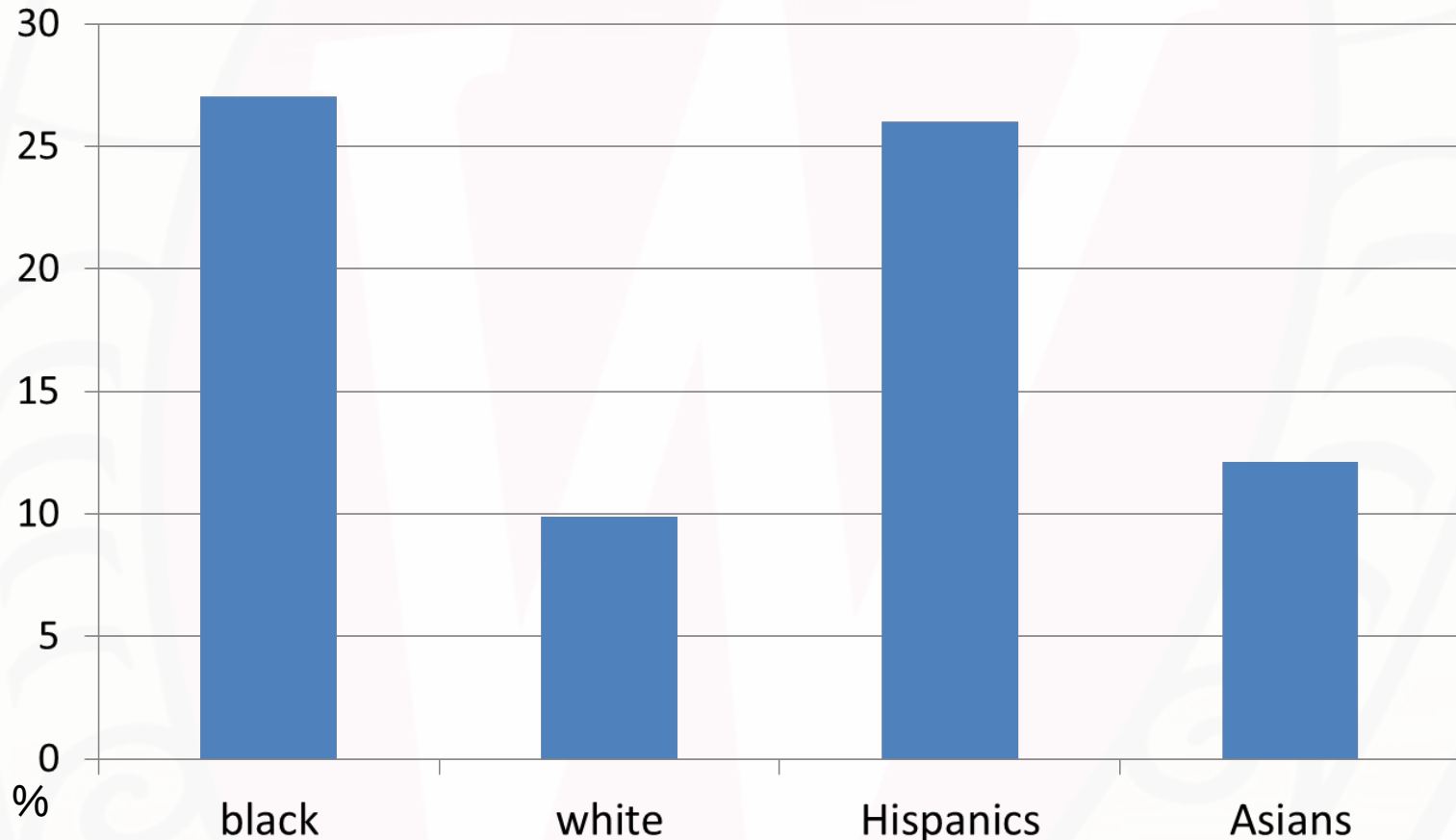
# Causes of Poverty

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# Large Differences in Racial Poverty Rates

Poverty Rates by Race, 2010



Source: U.S. Census Bureau Current Population Survey, Annual Social and Economic Supplement

# Income levels vary by Race/Ethnic Group

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- Overall US **children's poverty rate** = 21%
  - 46% for Blacks
  - 40% for Hispanics
- Not all minorities have low incomes.
  - Asian families have higher incomes than all other ethnic groups. In 2005, median income of Asian families was \$68,957; median income of white families was \$59,124.

# Racial Discrimination in Wages

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- Issue: To what extent are differences in wages by race due to economic factors (skills, experience) relative to discrimination?
- Difficult to parse out
  - Discrimination is a residual, after controlling for other factors
  - How do you identify and measure the many things other than race that are relevant to labor market performance?
- Using large data sets researchers attempt to control for as many of these relevant factors as possible, attributing remaining wage differences to economic discrimination.
- Estimates are very imprecise—range is from very small to about 25% of the wage gap attributed to employer wage discrimination.
- However, much of lower black and Hispanic wages is due to lower school attainment and skills.
- Question: Is the distribution of these factors also related to discriminatory behavior—but at earlier levels?

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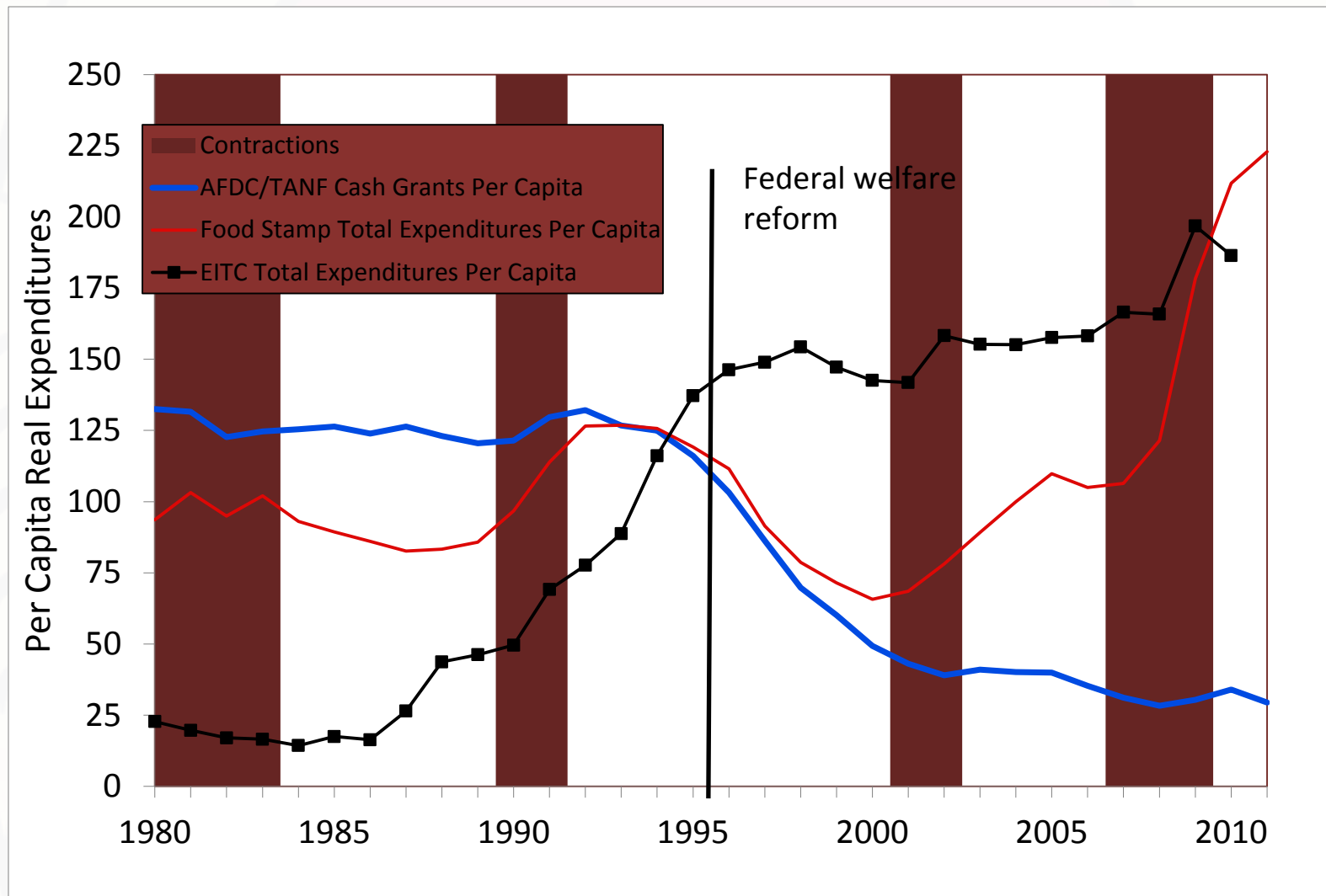


# The U.S. Social Safety Net for Families

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- **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
- Minimum wages
- Unemployment insurance (not limited to low income families)
- Social Security (not limited to low income families); could be relevant for multi-generation households

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



# Government policies can help

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- Case Study: Contrast two policies aimed at reducing poverty
  - *The success story*: Earned Income Tax Credit
  - *The contrasting program*: Welfare/TANF
- The key distinction →
  - EITC targets those in-work
  - Welfare/TANF targets those out-of-work

# How the EITC reduces poverty

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1. Key design feature of EITC (and what distinguishes it from traditional income support programs) is that eligibility requires work and earnings.
  - As a result, the EITC supplements the income of low income families with children WHILE encouraging work.
2. The generosity of the EITC increased substantially with tax reforms in 1986, 1990, and 1993.
3. Based on the Supplemental Poverty Measure, the EITC lowered the poverty rate by about 2.5 percentage points in 2011. The EITC lowered the child poverty rate by about 5.5 percentage points.

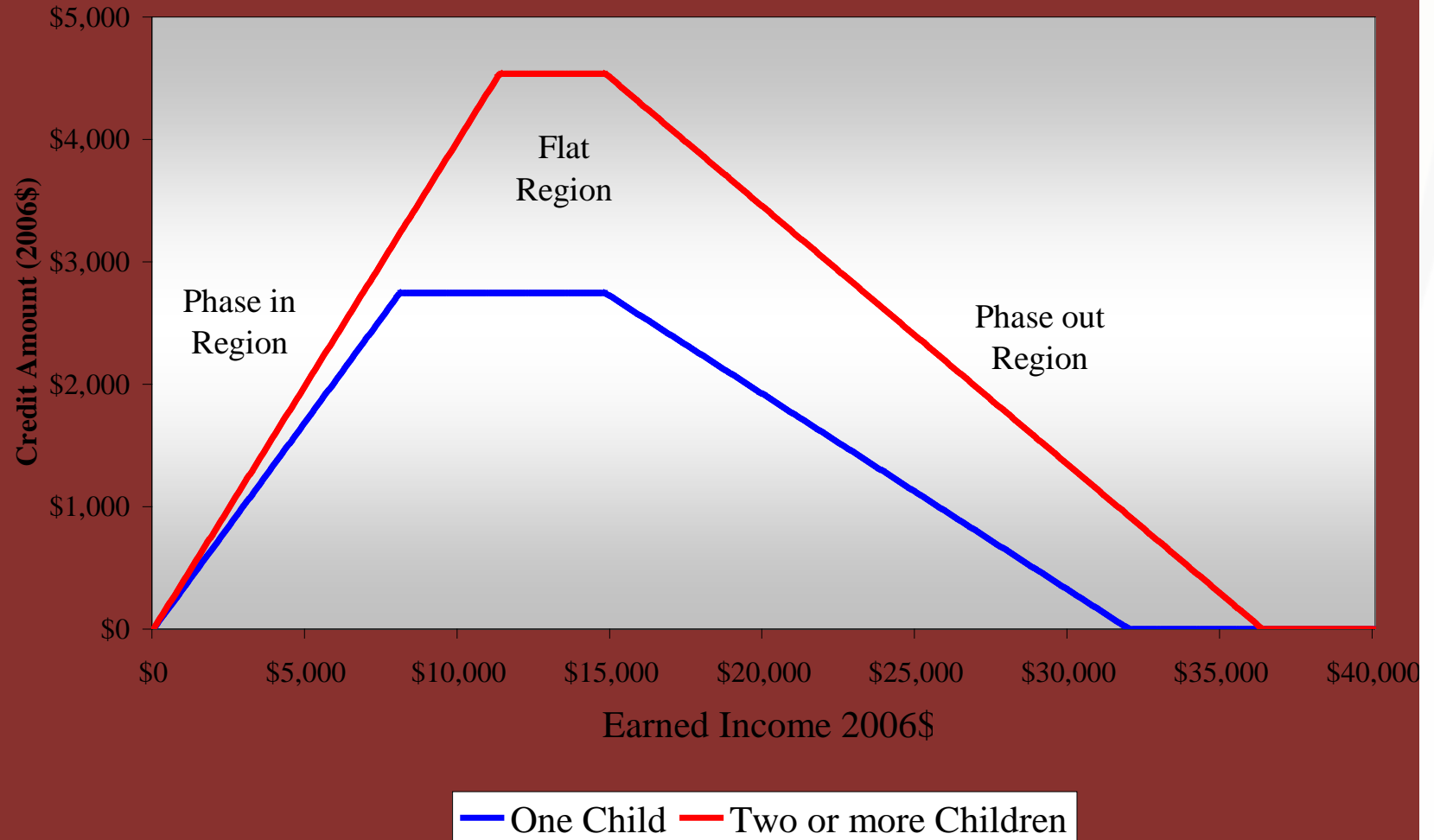
# The Earned Income Tax Credit

- **Refundable tax credit for *working*, low-income taxpayers with children (single and married)**

Tax credits directly offset taxes; refundable means that a payment is made if taxes are zero

- Much smaller credit for childless families
- No credit if no family earnings
- EITC acts to supplement earnings.

# KEY: Maximum EITC credit helps families near poverty threshold while encouraging work



# Cash Welfare Programs (TANF)

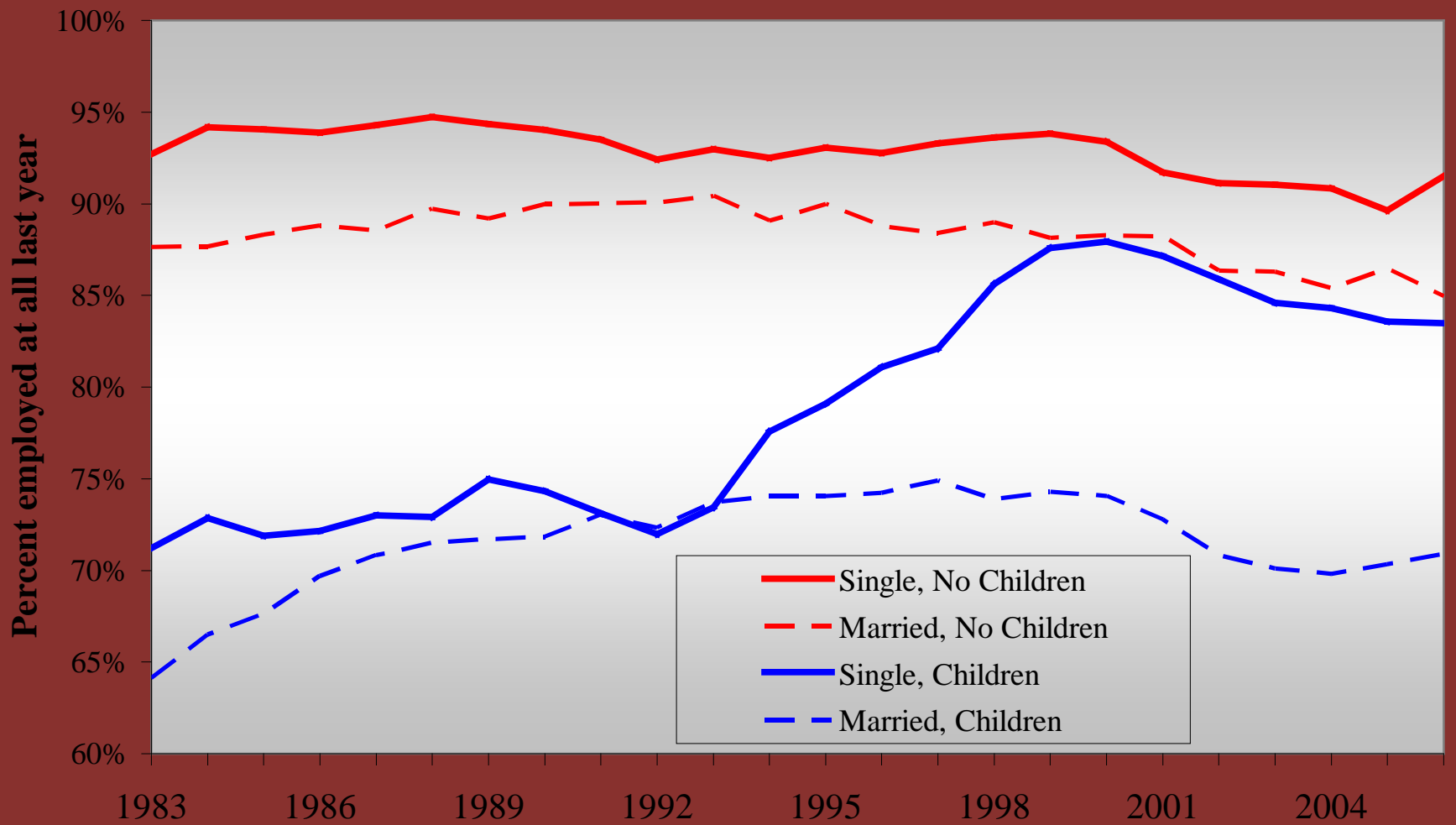
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- Income support (welfare) programs are unlikely to reduce the poverty rate:
  - Benefit levels are so low that the income support is unlikely to increase a household's income from below to above the poverty line.
  - Benefits are targeted on those 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 is unlikely to have a large impact on the overall poverty rate. The programs do affect “extreme poverty” however.]

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- We do know 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 among families headed by a woman.





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

But, the success of the EITC and SNAP is not captured 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

Neither SNAP nor the EITC figure into the official poverty statistics.

Both of the programs would figure into the the Supplemental Poverty Measure.

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# The Cultural Perspective

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- A common line of thought in the U.S. is that a person is poor because of personal traits.
- Supposed traits range from personality characteristics, such as laziness, to educational levels. Because of these faults, individual personal failure results in poverty.
- This thought pattern stems from the idea of meritocracy-- the view that those who are worthy are rewarded and those who fail to reap rewards must lack self-worth. A meritocratic view is entrenched within U.S. thought.
- A belief that personal failure leads to poverty often appears as resistance to social and economic programs such as welfare; a poor person's lack of prosperity shows a personal failing and should not be rewarded by public benefits.

# Some References

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