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Deep poverty in the United States

Rising income inequality and concentration of wealth at the top of the U.S. income distribution receive substantial attention in public discourse, but concern is growing about those at the very bottom, the highly disadvantaged.[1] Focus on this group emerged in research on welfare leavers following welfare reform and its associated policy changes. Despite evidence that the changes resulted in increased employment and earnings, particularly among single-mother families, this research identified a subset of families, known as the "disconnected," who were neither receiving cash welfare nor working.[2] The literature on the safety net's antipoverty effectiveness has also increasingly focused on "deep poverty," defined by the Census Bureau as income below 50 percent of the poverty threshold. In addition, recent popular attention has turned to a smaller subset of disadvantaged persons termed to be in "extreme poverty" who may subsist on no more than $2 per person, per day in cash income, a World Bank metric of global poverty.[3] There is considerable disagreement as to how deep or extreme poverty should be measured.[4] Nonetheless, most researchers agree that a non-negligible portion of the U.S. population lives on very little cash income. This brief explores the literature on estimates and trends of severe economic disadvantage in the United States and the effectiveness of the safety net in alleviating it. It explores the prevalence and demographics of deep poverty and how they have changed over time; correlates of deep poverty, including earned income and family structure; and how well the safety net has prevented and alleviated severe disadvantage. The brief ends with outstanding research questions in the areas of measurement, work, and policy.

Estimates and trends of severe economic disadvantage

Severe deprivation is recognized as economic hardship that is acute, compounded across dimensions, and often lasts a lifetime or even passes from one generation to the next.[5] Families headed by a single parent, children of incarcerated parents, formerly incarcerated men, families of color, and immigrants are especially vulnerable to severe economic deprivation. Estimates of the extremely disadvantaged population are influenced by conceptual and methodological decisions such as what is counted as income, the extent to which income data are accurate, and whether a definition is based on income or material hardship. The effects of these differences are revealed by comparing official deep poverty estimates, generated using the definition of family unit, income, and household need devised in the 1960s, with those of the Supplemental Poverty Measure (SPM), first officially released by the Census Bureau in 2010, which compensates for the official measure's well-recognized shortcomings.

Strikingly, the official rate of deep poverty among children in 2016 was 8.2 percent[6] but the SPM estimate, which reflects a modern set of expenses and includes as income public benefits that are excluded from the official measure, was almost halved, at 4.4 percent, reflecting the safety net's emphasis on aiding families with children (particularly via in-kind and tax transfers).[7] Thus the more comprehensive SPM measure shows the effectiveness of the safety net that the official method misses—an essential revelation for policy discussions. Among the elderly, there were similarly dramatic differences in deep poverty rates between the two measures (3.3 percent of elderly using official estimates and 5.2 percent using the SPM in 2016), but in this case the SPM rate was higher, due to the measure's inclusion of out-of-pocket medical expenses for this population, which the official estimate does not take into consideration.

Moreover, in addition to these differences, a study that adjusted for underreporting of benefits, a significant phenomenon for which researchers try to account, cut SPM deep poverty rates among children by roughly half, from 5.5 to 2.6 percent in 2010.[8] Estimates of an even more disadvantaged subset, those in extreme poverty, found 4.1 percent of children were living in extreme poverty for at least three months in 2012 using data from the Survey of Income and Program Participation; but this rate dropped to 1.6 percent when the value of Supplemental Nutrition Assistance Program (SNAP) benefits are included, suggesting that SNAP benefits are an essential component of the safety net for this vulnerable population.[9] Roughly two-thirds of individuals experiencing extreme poverty did so episodically, for three to six months over the year, rather than continuously.

What is associated with falling into deep poverty?

Children under age 5 are overrepresented among the deep poor, and although deep poverty is often associated with disengagement from the workforce, more than two-thirds of children in extreme poverty live in a family in which a member had worked for at least a month in the past year.[10] This suggests that instability in employment and problems with hours or wages, as well as temporary and short-term employment spells, rather than total disconnection from the labor market, are driving factors for entry into deep poverty for most families (although long-term unemployment is also a significant factor). The employment struggles for many of the deep poor may reflect a range of challenges, such as being unable to work due to illness or disability (an estimated 20 percent of the deep poor in 2012), drug and alcohol use/dependence, or lack of transportation.[11] However, employment challenges are not the only factors influencing the existence of a worker in a household; changes in family structure, due to parental incarceration or relationship dissolution, are also relevant. For example, one study of extreme poverty found that single mothers head more than half

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(54 percent) of these households, compared to 42 percent of other low-income households, and less than 15 percent of higher-income families.[12] Both incarceration and relationship dissolution have increased markedly since the 1960s, heightening the risk of families falling into deep or extreme poverty. In addition, given that nearly four in ten of those who experience deep poverty are working-age adults without dependent children, more research is needed to understand the predictors for the entire population.[13] Knowing the risk factors will suggest promising policy approaches to prevent entry into deep poverty.

Does the safety net prevent and reduce deep poverty?

Welfare reform and associated policy changes are central to the discussion of how effectively the U.S. social safety net alleviates deep poverty, in both the short- and longer-term. These policy changes represented a reallocation of support from nonworking to working households and from cash to in-kind benefits. Welfare reform replaced the Aid to Families with Dependent Children (AFDC) cash entitlement program with the Temporary Assistance for Needy Families (TANF) program, which conditioned cash assistance on work and provided in-kind assistance in support of employment, such as training, childcare, and transportation assistance. Numerous studies have examined TANF and related reforms. Employment rates among single mothers increased dramatically following implementation, but studies also found increases in households with no apparent income from either employment or cash welfare.[14] Examination of the safety net's influence on deep poverty in the context of labor market cycles, especially studies of TANF's responsiveness during the Great Recession, show that TANF was not highly responsive to the economic downturn—the block grant funding being the most significant driver—and that deep poverty has become more cyclical than in the past.[15] Further, a host of studies examining broader trends in deep poverty, beyond the population that previously participated in AFDC, suggest that the post-reform safety net offsets deep poverty far less than did government programs in the AFDC era, which is consistent with the dramatic decline in welfare caseloads.[16] Significant expansions of the Earned Income Tax Credit and subsidized childcare that coincided with welfare reform direct support toward those with greater labor force involvement.[17]

However, as noted above and as illustrated in Figure 1, assessments of the effectiveness of the safety net's influence on deep poverty vary significantly depending on which benefits are counted and how underreporting of income and program participation is addressed.[18] For example, although the role of cash transfers in alleviating deep poverty has declined, SNAP now plays a critical role in offsetting severe hardship in vulnerable families. As an illustration, in 2011, SNAP reduced the depth and severity of poverty by 15.1 and 19.0 percent, respectively; but these impacts more than double after adjusting for underreporting—which is particularly salient with SNAP—resulting in a 40.7 percent cut in poverty depth and a 54.4 percent reduction in severity.[19] SNAP has also been shown to slow growth in extreme poverty. From 1996 through 2011, researchers documented a 153 percent increase in the share of households with children in extreme poverty based on cash income, but an increase of less than half that, 69 percent, when SNAP is accounted for, and the increase drops to 45 percent when tax credits and housing subsidies are counted, suggesting that the safety net significantly reduces extreme poverty.[20]

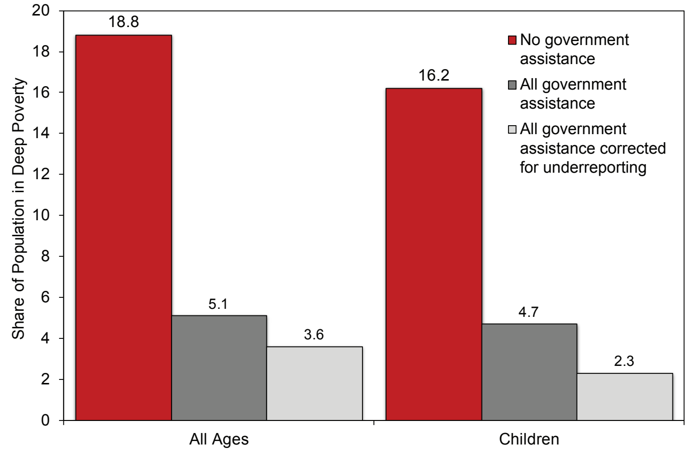

Figure 1. Share of population in deep poverty sharply reduced by safety net in 2012.

Source: Center on Budget and Policy Priorities analysis of 2012 Census Bureau data from the March Current Population Survey, SPM public use file; corrections for underreported benefits from HHS/Urban Institute TRIM model.

Potential research questions

The research summarized above suggests questions in three broad areas to better inform policy aimed at preventing and reducing deep poverty.

Measurement—Questions include: How meaningful are measures of deep and extreme poverty, and how do they compare to other measures of material hardship, such as severe food insecurity, as well broader consumption measures? What insights do different types of data offer in comparing these approaches to measuring deep poverty? How can how deep poverty affects people, especially children, be better understood?

Work—Questions include: How does the low-end labor market shape the experience of deep poverty? To what extent do different labor market factors, such as wage levels, temporary employment, variable hours, and being out of the labor market affect deep poverty?

Policy—Questions include: Are policy responses to deep poverty that conform with the work-based approach to public support possible? Why are eligible families not enrolling in TANF? Can TANF be made more flexible to help in short-term periods of need? Does TANF emergency funding prevent falling into deep poverty? Can the child support enforcement system be reformed to help lift low-skilled men out of deep poverty? Can policies for populations at risk of deep poverty prevent its occurrence?■

For a list of the sources used for this brief and further reading, visit www.irp.wisc.edu/publications/fastfocus.htm.

The Institute for Research on Poverty (IRP) at the University of Wisconsin–Madison is a center for interdisciplinary research into the causes and consequences of poverty and inequality and the effectiveness of policies and programs designed to address them. As the National Poverty Research Center sponsored by the U.S. Department of Health and Human Services, IRP integrates research, training, and dissemination activities to effectively build and apply research evidence on key policy questions and develop a broad and diverse cadre of researchers addressing poverty and low-income populations.

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