Poverty and welfare

Three panelists spoke on the topic of poverty and welfare. Greg Acs gave an overview of how to measure progress in the fight against poverty, highlighting recent advances in measurement practices. Colleen Heflin presented findings from a study on family instability and the risk of material hardship, concluding that transitions in material hardship are more common than changes in poverty status. Marci Ybarra discussed findings and policy implications from an examination of work-exempt TANF participants done with Jennifer Noyes, suggesting that it may be worth considering ways to target services towards specific needs. This set of articles summarizes their presentations.

Measuring progress in the fight against poverty

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> *"The most important lesson from the War on Poverty is that government programs and policies can lift people from poverty; indeed they have for the past 50 years."*
>
> —Economic Report of the President 2014

> *"Today, the poverty rate is stuck at 15 percent—the highest in a generation. And the trends are not encouraging. Federal programs are not only failing to address the problem. They are also in some significant respects making it worse."*
>
> *—The War on Poverty 50 Years Later, House Budget Committee Report 2014*

The War on Poverty was declared 50 years ago, and as the quotes above indicate, opinion in Washington is divided on how successful that fight has been. In order to objectively measure progress against poverty, it is necessary to: (1) define what we mean by poverty; (2) agree on how we are going to measure it; and (3) consider what would have happened if the existing policies had not been in place.

The poverty line

What do we mean when we talk about people being in poverty? Do we mean people whose resources are so constrained that their very lives are in danger? Or, do we want to set a threshold above which no concern is warranted? In fact, it is not possible to have a single measure that does both of these things, so attempting to identify one "poverty line" risks muddying the conversation. There are also issues of timing; poverty is conventionally measured over a one-year period, but income can fluctuate greatly during that period, and even a short-term period of significant need could have a serious negative effect on the person or family experiencing it. This would indicate the need for some shorter-term measures. However, we also need some measure of long-term, chronic poverty. Finally, we need to consider whether the poverty line is an absolute or relative standard. That is, is the poverty line a set standard that is consistent over time, or does the relative position of the line change as our society gets richer or poorer?

In the United States, we have an official poverty measure, which is an absolute standard, calculated as three times what it cost to feed a family a nutritionally adequate diet in the 1960s, adjusted for inflation and family size. At the time the measure was created, families spent about one-third of their budget on food. This measure does not adequately measure the changing needs of families over time; what we consider to be a nutritionally adequate diet has changed, and the share of the family budget spent on food has changed. In recent years, researchers at the Census Bureau and elsewhere have worked hard to develop a more useful measure of poverty, the Supplemental Poverty Measure. Table 1 shows a side-by-side comparison of the official poverty measure and the Supplemental Poverty Measure. This new measure is essentially set at the 33rd percentile of what people spend on food, clothing, shelter, and utilities, with adjustments for family size and composition. This leaves us with two different and competing standards of need. The official poverty measure has the advantages of being consistently available over a long period of time, and being easy to measure and explain. While the Supplemental Poverty Measure is harder to calculate, it does address many of the weaknesses of the official poverty measure.

The poverty rate

The poverty line, however it is measured, is a needs standard; to come up with a poverty rate, it is necessary to measure resources. For the official poverty measure, the measure of resources is quite straightforward; pre-tax, post-transfer cash income. This does not, however, necessarily completely capture all of the resources that a given family has available to meet their needs. The Supplemental Poverty Measure instead uses post-tax, post-transfer cash income. That is, what a family pays in taxes is subtracted; while tax credits important to low-income families, such as the Earned Income Tax Credit (EITC), are added. The Supplemental Poverty Measure also includes as resources near-cash in-kind benefits such as the

Table 1
Poverty Measure Concepts: Official Poverty Measure and Supplemental Poverty Measure

	Official Poverty Measure	Supplemental Poverty Measure
Measurement Units	Families and unrelated individuals	All related individuals who live at same address, incl. any coresident unrelated children who are cared for by the family (such as foster children) and any co-habitors and their children
Poverty Threshold	Three times the cost of a minimum food diet in 1963	The 33rd percentile of expenditures on food, clothing, shelter, and utilities (FCSU) of consumer units with exactly two children multiplied by 1.2 to add 20% for all other necessary expenses
Threshold Adjustments	Vary by family size, composition, and age of householder	Vary by housing status: owners with mortgages, owners without mortgages, and renters. Geographic adjustments for differences in housing costs (using ACS) and a three-parameter equivalence scale for family size and composition
Updating Thresholds	Consumer Price Index: All items	Five-year moving average of expenditures on FCSU
Resource Measure	Gross before-tax cash income	Sum of cash income, plus in-kind benefits that families can use to meet their FCSU needs, minus taxes (or plus tax credits), minus work expenses, minus out-of-pocket medical expenses (reported)

Source: D. S. Johnson and T. M. Smeeding, "A Consumer's Guide to Interpreting Various U.S. Poverty Measures," *Fast Focus* No. 14-2012, based on K. Short, "The Research Supplemental Poverty Measure: 2011," Current Population Reports, P60-244, November 2012, U.S. Census Bureau.

Note: "Family" as defined by the Census Bureau is "a group of two people or more related by birth, marriage, or adoption and residing together; all such people (including related subfamily members) are considered as members of one family." http://www.census.gov/cps/about/cpsdef.html

Supplemental Nutrition Assistance Program (SNAP) and housing assistance, and subtracts non-discretionary costs such as medical, child care, and work expenses.

What do these two different measures say about the 50-year trend in poverty? Figure 1 shows both measures over the period.[1] The lower line shows the official poverty measure. While there is some cyclical variation, there is no consistent progress between 1967 and 2012. The upper line shows the Supplemental Poverty Measure as measured in 2012, then adjusted backwards over time using the Consumer Price Index. This measure, in contrast to the official poverty measure, shows some significant progress; a 38 percent drop in poverty between 1967 and 2012.

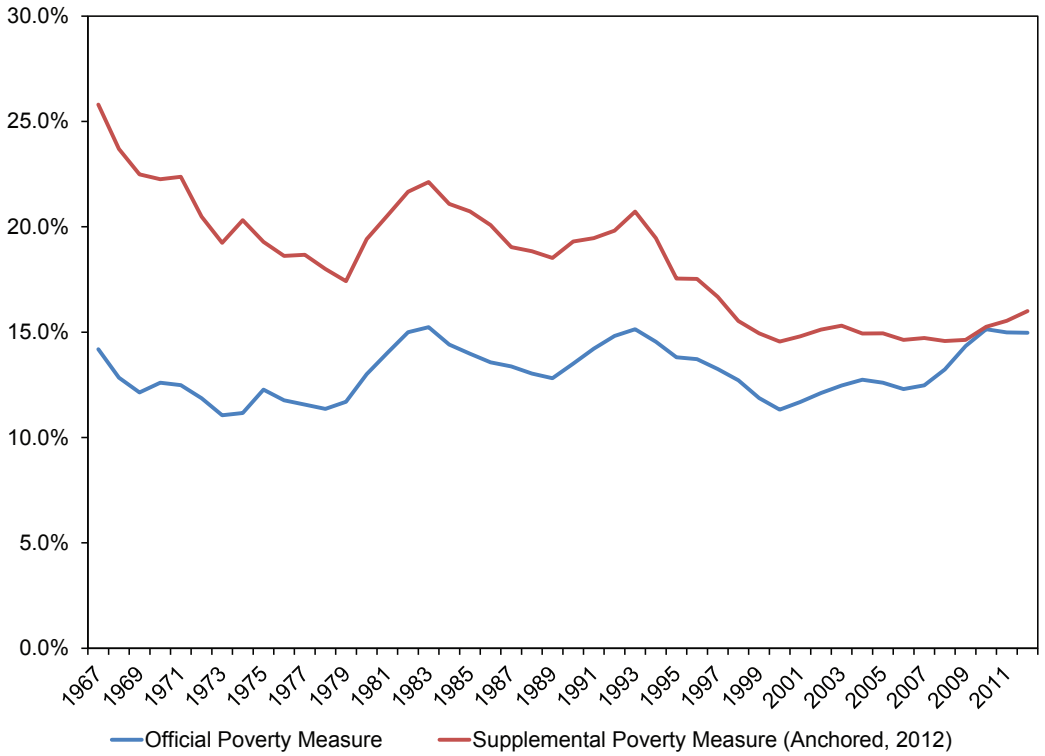

Figure 1. Official and anchored Supplemental Poverty Measure rates, 1967–2012.

Source: C. Wimer, L. Fox, I. Garfinkel, N. Kaushal, and J. Waldfogel, "Trends in Poverty with an Anchored Supplemental Poverty Measure," IRP Discussion Paper No. 1416-13, Institute for Research on Poverty: Madison, WI, December 2013.

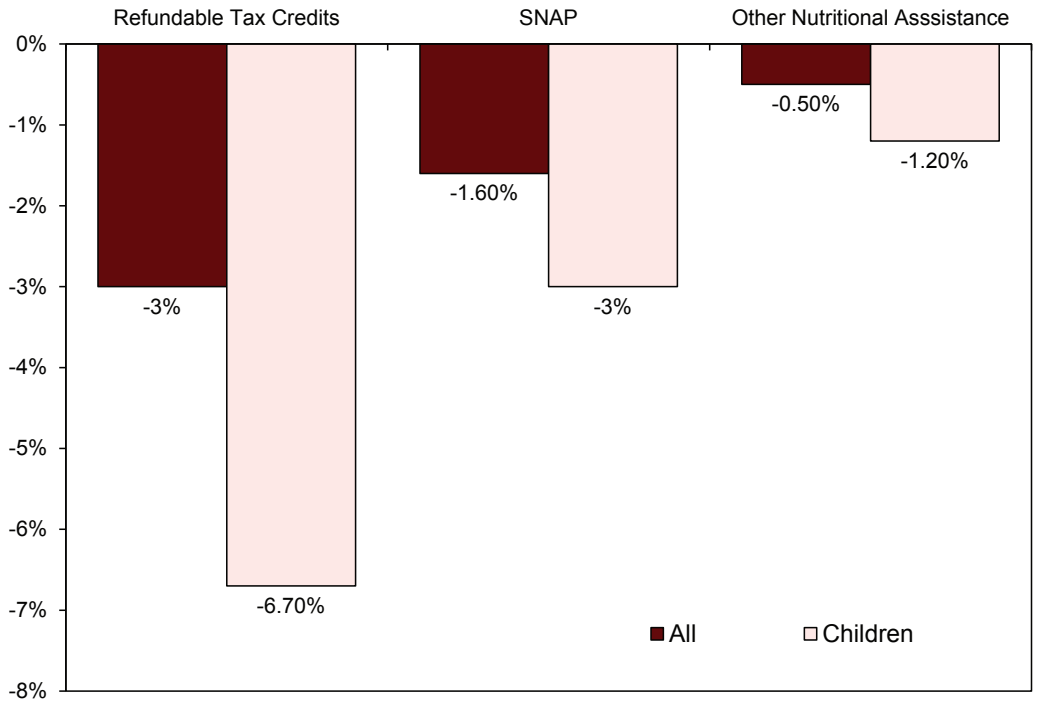

Figure 2. Percentage effect of select resources on the Supplemental Poverty Measure rates in 2012.

Source: Author's computations from the Census Bureau as reported in "The War on Poverty 50 Years Later: A Progress Report," in the *2014 Economic Report of the President*, Chapter 6. http://www.whitehouse.gov/sites/default/files/docs/erp_2014_chapter_6.pdf

Figure 2 shows that the reason for the substantial measurement difference is how resources are counted. The bars show how much lower the official poverty measure would have been had a particular resource been counted. So, for example, refundable tax credits such as the EITC and the Child Tax Credit have lifted many families out of poverty; overall poverty would have been about 3 percentage points higher without these credits, while child poverty would have been over 6 percentage points higher. SNAP and other nutritional assistance programs such as the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and school lunch have also played a role in helping to lift families out of poverty.

What would have happened in the absence of antipoverty programs?

The drop in measured poverty due to counting additional resources is, of course, a mechanical effect, but these programs also have behavioral effects. The second clause of the House Budget Committee quote shown at the beginning of the article suggests that in addition to failing to address the problem of poverty, federal programs had in fact made it worse. Since these antipoverty programs may have changed people's decisions about things like going to work and family formation, simply adding their cash value means potentially missing part of the story. We must also consider what would have happened in the absence of these programs, and whether they do, as the House Budget Committee charged, change behavior in ways that exacerbate poverty.

The Earned Income Tax Credit (EITC)

Although the EITC is designed to encourage work, some critics have suggested possible countering negative effects, since the credit begins to phase out around the poverty line and thus may discourage some work. There is also a concern that the credit induces some workers to accept jobs at a lower wage than they otherwise would have, thus depressing wages in the low-wage job market. In fact, research has shown that the positive effects of the EITC far outweigh any negative side-effects of the credit.[2] Since the EITC has the net effect of encouraging work (and thus raising earnings above what they would have been in the absence of the credit) in addition to the actual value of the EITC, we are likely understating the antipoverty effect of the EITC by simply considering the simple addition of the credit amount to an individual's or family's resources.

Aid to Families with Dependent Children (AFDC) and Temporary Assistance for Needy Families (TANF)

Welfare reform in 1996 transformed "welfare as we know it," from an entitlement program (Aid to Families with Dependent Children, or AFDC) with limited work requirements to a time-limited program designed to prepare participants for employment, the funding for which is provided in block grants to states (Temporary Assistance for Needy Families, or TANF). Welfare is now a relatively small program with limited antipoverty effects. To the extent that AFDC did function in the past as a work disincentive program, that was addressed by welfare reform in 1996. Although this program

may have contributed to the rise in single parenthood, many estimates suggest that this effect was likely small.[3]

SNAP, housing assistance, and Medicaid

Many studies have been done on the work-disincentive effects of SNAP, housing assistance, and Medicaid, with estimates ranging from an earnings reduction of zero, to 20 cents on the dollar.[4] While there may indeed be some work disincentive effects, they appear to be small in comparison to the positive antipoverty effects of these programs.

Conclusions

By expecting one measure to comprehensively capture the concept of poverty, we are asking far too much of a single number. As researchers study and describe poverty, it is necessary to use a much more nuanced set of measures. So, for example, we need not only an overall poverty rate, however that might be measured, but also an assessment of how many are in deep poverty, and how many are near-poor. We also need some time dimensions to indicate how many people are in these states of poverty persistently. On the resource side, even if we cannot easily place a value on certain types of resources and assistance (such as health insurance and health quality), we should not ignore those resources that are easy to value. For example, tax credits and SNAP benefits are very similar to cash and therefore easy to factor into any poverty calculation.

Counterfactuals also matter in discussing the value of a program; even a flat poverty rate could be an indicator of a very successful program, if poverty would have been much higher without the program. For example, though poverty did rise during the Great Recession, how high would it have been in the absence of safety net programs?■

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[1]The Census Bureau has released Supplemental Poverty Measure (SPM) poverty estimates for 2010 through 2012. The SPM data from 1967 to 2009 used in the figure were calculated by Wimer and colleagues (see C. Wimer, L. Fox, I. Garfinkel, N. Kaushal, and J. Waldfogel, "Trends in Poverty with an Anchored Supplemental Poverty Measure," IRP Discussion Paper No. 1416–13, December 2013); official SPM poverty rates were introduced in 2011 and are currently available only for 2010, 2011, and 2012.

[2]N. Eissa and H. W. Hoynes, "Behavioral Responses to Taxes: Lessons from the EITC and Labor Supply," NBER Working Paper No. 11729, National Bureau of Economic Research, 2005; B. D. Meyer and D. T. Rosenbaum, "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers," *Quarterly Journal of Economics* 116, No. 3 (2001): 1063–1114.

[3]R. Moffitt, "The Effect of Welfare on Marriage and Fertility," in *Welfare, the Family, and Reproductive Behavior*, ed. R. Moffitt (Washington, DC: National Academy Press, 1998), pp. 50–97.

[4]For SNAP, see H. W. Hoynes and D. W. Schanzenbach, "Work incentives and the Food Stamp Program," *Journal of Public Economics* 96, No. 1 (2012): 151–162; for housing, see B. A. Jacob and J. Ludwig, "The Effects of Housing Assistance on Labor Supply: Evidence from a Voucher Lottery," *American Economic Review* 102, No. 1 (2012): 272–304; and for Medicaid, see K. Baicker et al., "The Oregon Experiment—Effects of Medicaid on Clinical Outcomes," *The New England Journal of Medicine* 368 (2013): 1713–1722.