



## Extreme Poverty after Welfare Reform

July 2017 podcast episode transcript

Featuring Scott Winship

Hosted by Dave Chancellor

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Chancellor Hello, you're listening to the July 2017 episode of the Poverty Research and Policy Podcast from the Institute for Research on Poverty at the University of Wisconsin Madison. I'm Dave Chancellor.

In February, Scott Winship, who was a Visiting Fellow at the Foundation for Research on Equal Opportunity at the time, spoke at the Institute for Research on Poverty about the question of whether welfare reform increased the number of people in America living on \$2 a day or less. The talk was based on a report he wrote for the Manhattan Institute responding to Kathryn Edin and Luke Shaefer's 2015 book, *\$2.00 a Day: Living on Almost Nothing in America*, which they presented at IRP in late 2015. In the book, Edin and Shaefer argue that dire poverty, marked by incomes of \$2 a day or less per person, affects a significant number of households with kids in the United States — and that the number of those households has increased since the welfare reform of the mid-1990s. But Winship says that his view of the evidence shows a different picture.

Winship There was a working paper that first came out a few years ago in which they made their first claim that there are a lot of Americans, a lot of kids getting by on less than \$2 a day, that that number had gone up quite a bit since 1996 and it was because of welfare reform and the first time I saw the paper, I had a gut reaction that 'we don't have Haitian levels of poverty' in the United States. We're not Zimbabwe and so I was just very skeptical from the start. Not that we don't have some very poor people in the country, but that it was as many as they were saying and that it's gotten worse, and that welfare reform led to it, so I was interested in tackling each of those questions.

Chancellor I asked Winship to explain a bit more about \$2-a-day poverty — and the parts of Edin and Shaefer's findings that he objects to.

Winship Edin and Shaefer chose a \$2 a day per person poverty line, largely because when development economists and other researchers study poverty in developing countries, that's a standard poverty line that's used. So, I think it was a good hook for the book. They interviewed in depth about 8 families from around the country who were clearly living just awful lives. You can't help but read the book and just be crushed. And then they combined that with some survey research where they actually tried to identify people in the survey, nationally representative, that were living on \$2 a day or less per person. And so they merged these stories about these eight families with national data and it's really the national data that I had objections to.

Chancellor Although Edin and Shaefer readily acknowledge that their measure doesn't include a number of public programs that are targeted at low-income Americans — especially the Supplemental Nutrition Assistance Program, or SNAP — Winship says that not counting the value of these programs misses a big part of the resource picture for these households. And this, combined with other measurement considerations, results in an overstatement of the number of people living on \$2 a day.

Winship They're just looking at cash income. It turns out that since 1996, the main ways that we've tried to reduce poverty and hardship have involved policies that don't get counted as income by their definition. It involves things like Food Stamps, which is now called the SNAP program, housing subsidies, the Earned Income Tax Credit which is kind of a tax time bonus for working poor families. These are the programs that have expanded. Healthcare, Medicaid. And so if we don't count any of these programs that were meant to help the poor and which expanded so much, then what you're really going to catch looking at trends in cash poverty is the fact that this one cash program that was welfare has dramatically been reduced. So, in my work, I try to show that if you incorporate these other programs, income from these other programs, if you take people who are living together but not married and you combine their incomes which are not combined in the official numbers. If you measure changes in the costs of living in a better way. When you do all of these things, it looks much more like a flat trend over time and the levels of people of living on \$2 a day shrink to fewer than one half of one percent.

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Chancellor Winship says that the increase that Edin and Shaefer find in \$2 a day poverty after welfare reform likely has to do with underreporting of earnings and safety net benefits.

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Winship It's been pretty well known for a couple of decades and one of the major works in the literature is a book by Kathy Edin, actually, from 1997 called *Making Ends Meet* where she went out and interviewed women who were receiving welfare benefits or they were low-wage workers. And she started out by asking them about their formal sources of income in the same way that they would get asked by somebody who was administering a survey. And the responses she got came out to about, on average, \$4-a-day per person that these families said they were getting by on. But then she continued spending time with them and eventually won their trust and they slowly revealed that they had other sources of income. Well first of all they had other benefits like food stamps and housing subsidies, but most of them also had either earnings that they were getting under the table, financial help that they were getting from family members or from boyfriends. Some were doing illegal things like selling drugs, but nobody actually was living on \$4 a day per person. It turns out that when you took all of that into account, the average single mother in her study was getting by on about \$10 a day per person. And that's not a lot of money by anybody's definition, but it does show that reports of as low as \$4 a day or \$2 a day probably are just unlikely. There's another body of literature that compares survey data to administrative data, so tax records from the IRS or earnings records from the Social Security Administration. And you can look at the same people in both datasets and discover how much of their earnings or income they reported in surveys. And it turns out that, especially for low income people, earnings are pretty badly underreported. Public transfers like welfare, food stamps, SSI, which goes to disabled kids are all pretty badly underreported. And that's been well known for quite a while and so I try to show in the paper, if you partly correct for some of these problems, you find much lower levels of \$2 a day poverty.

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Chancellor Winship says he doesn't really have a good way to prove this story of underreporting, but he says there's another way to look at this.

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Winship What I do do in the paper is I show that, if you want to believe those numbers, then it turns out the rise in \$2 a day poverty started in the 1970s. So obviously welfare reform in 1996 or the early 1990s can't be blamed for the increase in 1970s and 1980s. And I also show that if you believe in the \$2 a day cash poverty numbers, then that kind of poverty rose among groups that were completely unaffected by welfare reform, so groups like elderly people, childless households, the children of married couples, married college graduates, if you believe the data, experienced an increase in \$2 a day poverty over this period. So I argue that even if you believe those trends are real, which I think is really suspect, arguing that welfare reform was behind the rise for single parents but leaves a huge question as to why these other groups were also experiencing rising \$2-a-day poverty.

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Chancellor Winship says that a major challenge of studying trends in households with very low-income has to do with what counts as evidence, because fairly small adjustments in the way that resources and other things are calculated can lead to very large differences in the results.

Winship Between all of these noncash benefits and tax credits measuring inflation, these are all very, very technical decisions and it's certainly the case that we don't do any of these things exactly the right way because they're all very complicated. Things like adjusting for underreporting of benefits, I have some trends in the paper that attempt to do that using some data from the Urban Institute. But it's all contestable in terms of how well approximated all of these things are by the data. To a lesser extent, I think, it's contestable which of these adjustments should be made. So, it's certainly going to be the case there's, I think, always going to be room for disagreement among people who believe differently, that, for instance, when people have health insurance that that health insurance should be valued as income. That sort of ends up being one of the big debates. And, in the paper, I do the best I can to defend the choices I made. I have an appendix devoted to the inflation adjustment that I do, which is riveting. I have an appendix devoted to valuing health care benefits. But in the end, I think people have a hard time being persuaded that what they would prefer might not be way to go.

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Chancellor As Winship alludes to, these questions about the legacy of welfare reform aren't just technical but have important policy implications, so I asked him what he sees as being at stake here.

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Winship Yeah, so there's talk of further reforms to the safety net in Washington. I think conservatives would like to extend what they take to be the lessons of welfare reform and expand work requirements and time limits to other programs like food stamps or housing benefits. Liberals, I think for their part are very nervous that changes to those programs would leave big holes in the safety net and so they're pushing very hard against those sorts of reforms. What they would like to see, I think is more money devoted to helping welfare recipients develop more work skills and find employment, more money for child care and things like that. So, this book really came out at the start of some of these arguments that liberals and conservatives were having over welfare reform and was remarkably influential and ultimately that's why I decided to, instead of writing about some other things I could have written about, I focus on this particular topic because I just feel like if we're going to have a debate about the future of the safety net it has to be informed by the best evidence and reliable evidence, and I think unfortunately the evidence in the book is flawed enough that I think it would result in bad policy if we made policy based on it.

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Chancellor Winship says he hopes to see more experimentation with the kinds of things that he believes were effective for the welfare reform of 1996.

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Winship We have pretty weak work requirements in the food stamp program, we have just about no work requirements in our housing benefits program. Rather than immediately jump into a reform that would make everybody subject to those work requirements and time limits, we should experiment at the state level just like we did in the early 1990s with cash welfare. And we may learn that it's a terrible idea. But, we could also learn that people are better off because of these decisions which is what I believe ultimately happened because of welfare reform. So I'd like to see us do some experimentation there. That said it's really important that we exempt a lot of people from work requirements and time limits. There are people who just have profound challenges to their ability to work, whether that's health problems. I don't think we want to send parents of newborns right into the workforce necessarily. And the other thing we need to do is to support work among low-wage workers with the earned income tax credit, and potentially expanding that to more people. But in the end, I think if we just choose not to do any experimentation then we're basically choosing not to create more knowledge about how to help poor people.

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Chancellor Thanks to Scott Winship for taking the time to talk to us. If you would like to learn more about his work on this issue, you can read his full report, called "Poverty After Welfare Reform" on the Manhattan Institute website. This podcast was supported as part of a grant from the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation but its contents don't necessarily represent the views or positions of ASPE or IRP. To catch new episodes of the Poverty Research and Policy Podcast, you can subscribe on iTunes, Stitcher, or your favorite podcast app. You can also find all of our past episodes on the Institute for Research on Poverty website. Thanks for listening.

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