Causes of Poverty

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Poverty 101
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A Difficult Topic

- 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

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

• Labor market issues
Labor Market Opportunities and Poverty

- 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

- Less than High School
- High School Only
- Some College
- Bachelor's
- Advanced Degree
How about Changes in Income/Wages over Time?

Real Median Earnings by Education


- Less than HSDiploma
- HSDiploma
- Some College
- Bachelor's Degree
- Post-BA Educ or Degree

Year
- 1960
- 1965
- 1970
- 1975
- 1980
- 1985
- 1990
- 1995
- 2000
- 2005
- 2010
- 2015
- 2020

Income
- $125,000
- $100,000
- $75,000
- $75,000
- $50,000
- $50,000
- $25,000
- $25,000

$79,005
$70,787
$53,104
$47,168
$30,015
$23,419
$88,663
$75,568
$51,564
$38,976
$23,419
Hourly Wage

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.
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Education Provides Protection against Poverty
(poverty rates by educational attainment)
Average Earnings by Education: 2004

- Advanced Degree: $78,093
- Bachelor's Degree: $51,554
- High School Diploma: $28,645
- No Diploma: $19,169

Fewer ‘Low Education’ Workers associated with Lower Poverty Rates
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Poverty Rates by Age: 1959 to 2010

Note: Data from 1960 to 1965 available only for people under 18 years old.
Poverty Rates for Families with Related Children Under 18 by Family Type: 1959 to 2010

- **Female householder, no husband present**
  - 1959: 59.9%
  - 2010: 40.7%

- **Married-couple families**
  - 1959: 6.0%
  - 2010: 8.8%

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Large Differences in Racial Poverty Rates

Poverty Rates by Race, 2010

black
white
Hispanics
Asians
Income levels vary by Race/Ethnic Group

- 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.
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• Poverty-related Policies
The U.S. Social Safety Net for Families

- 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$
The Earned Income Tax Credit

Refundable tax credit for \textit{working}, low-income taxpayers with children (single and married)

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)

• 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.]
Effect on Female Employment

• 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
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• Cultural Factors
The Cultural Perspective

- 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.