Session 2: Poverty, Income Inequality and the Family
Poverty 101  June 12, 2018

Tim Smeeding
Professor of Public Affairs and Economics
3 Big questions:

1. How to think about poverty and income inequality?

2. How do these concepts relate and differ?

3. What is the relationship between income inequality, the welfare state and poverty?
First some perspective

• How do we measure poverty & inequality?
• What part of inequality and what type of inequality is important and why?
• Limit of 20 minutes (discussion open) means:
  -- all domestic issues, no cross-national, no world poverty or inequality, no elephant’s nose
  -- omit mobility: absolute and relative; intra-generational and inter-generational
Concepts and measures of poverty: usual choices are in bold

Source: Smeeding, OUP Handbook of Poverty, 2016—
Inequality--definitions matter, pay attention to 5 W’s and one H

• **Who**—are we covering: “all” or “working age” population; “families with kids only”?  
• **What** –are we measuring: Y, C, W ,E , and then shares or levels?  
• **Where** –is it: one nation, one state, one city?  
• **When** –year, start & end for trend, same result with longer/shorter trend?  
• **Why** –are we interested?, not same as why do we see what we see when we make the choices above?  
• **How** —do we measure it--the sum of choices above!

1. How to think about poverty and (income) inequality?

• Being ‘poor in a rich country’ implies that relative and absolute poverty are both important

• Identification of causes and remedies: the implications for policy issues are important

• How are poverty and inequality linked across time, space/place, generations?

• Connections: income (Y), wealth/net worth (W) and consumption (C)
So what connects the two flows, $Y$ and $C$?

- Haig (1921) and Simon (1938):
  \[ Y = C +/-' W \]

- In other words: if $Y > C$, $W$ rises by saving or loaning/giving/transferring to others; if $Y < C$ then $W$ falls by dissaving or borrowing/receiving from others.

- Even with this identity $W$ is important as a source of $C$ (one can consume from $W$) as well as a source of $Y$ ($Y$ includes interest, rent, dividends - flow value of $W$).

- BUT, $W$ itself, the stock is also important and a remainder from the flow equation above.
The distribution of family WEALTH is growing far more unequal


Note: 2016 dollars.

Source: SCF at http://apps.urban.org/features/wealth-inequality-charts/
Absolute Poverty or Relative Poverty, or both (Anchored Poverty) ?

- **Absolute notions**—for a short period, yes—but ignores economic change over time, and is fixed except for prices (‘food x 3’ from 1955 is too old!!)

- **Relative notions**—change fully with overall incomes, up and down. Most international comparisons are ‘fully’ relative (50% median in OECD; 60% median in EU); USA “Supplemental Poverty Measure” is ‘semi-relative’ (moves with consumption of low income units)

- **Anchored poverty**—take a relative/absolute measure say this year (or base year) and price it back (or up) for n years to assess change in absolute well being of poor over that period
Shades of poverty – within the bottom end (SPM line for $4 - $25,000)

- **Extreme poverty** -- $2 or $4 or $6 per person, per day – “world bank” method /US too*
- **Deep poverty** – half/50% the poverty line ($12,500)
- **Poverty** — 100% poverty ($25,000 or $25k)
- **Near poverty** – 125 or 150% poverty ( $31.25k- $37.5k)
- **Modest incomes:** - below 200% poverty ($50k)

- 53 percent of US children living at less than twice the “SPM” poverty line

• Americans now live shorter and sicker lives than citizens of other rich democracies;
• Tropical diseases that flourish in conditions of poverty are on the rise (e.g. ring worm);
• The US incarceration rate is the highest in the world;
• A new set of “aggressively regressive” policies: new work requirements for welfare recipients, cuts of up to a third in the food stamp program, triple the base rent for federally subsidized housing.
2. How do these concepts relate and differ?

- What aspect of inequality are you interested in?
  - “Top end” – top 1, 5, 10, 20 percent?
  - “Middle class” – level or share and real growth or not (‘squeezed middle’)?
  - “Bottom end” - lots of choices:
    -- income share of low 40 percent (‘inclusive growth’, “shared prosperity”)?
    -- consumption and asset poor at bottom ($2 a day)
    -- social exclusion/inclusion – roles of place and culture
- Think about economic distance and what money buys for kids and private vs. public resources
Poverty measurement suggests a set of vulnerable groups who need help

- Quantitative poverty, compare resources vs. needs:
  - resources: income or consumption or wealth/asset poverty
  - needs: absolute, relative and/or ‘anchored’ poverty line
  - adjust for need that varies by unit size—equivalence scales
  - federal, state, or local comparisons may differ by base

- A few key “at risk” groups emerge:
  - "the vulnerable"—old vs. young and generational differences
  - family—child living status (family structure & poor children)
  - young mothers with babies, no earnings & unstable lives
  - young minority men: undereducated, scarred by prison and underemployed if employed at all
  - citizen children of undocumented immigrants
3. Income inequality, the welfare state and poverty?

The family income package* as a nice way to think about factors that help avoid poverty

1. **Own efforts** – market income poverty; earnings (pre-distribution policies)

2. **Family efforts** – private transfers within & across generations (child support policy)

3. **Role of the state** — redistribution via taxes and benefits

Beyond the ‘what’s’– how about the ‘why’s’?– or, why are people poor?

• Economic change (anchored line especially useful)
  -- distribution of income growth/decline (is it ‘pro-poor’?)

• Demographic change (more a long run issue)
  -- immigrant poverty, complex family poverty (Marcy)

• Policy effects and self-sufficiency
  -- cash benefits (universal benefits & targeted benefits)
  -- near cash benefits, cost of key services like child care, housing, education and health care,

• Ask ‘why’ and ‘how’ is poverty changing?

• Compare ‘why’ theories: choices, structural barriers or cultural differences?
How Major Programs to Help the Poor the Have Changed

Per capita spending on EITC, AFDC/TANF, and SNAP, real 2015$
To be sure we have had some progress, but work alone won't do it.

**Child Poverty Has Fallen to Record Low, Once Government Aid Is Counted**

Poverty rate for children under 18, using Supplemental Poverty Measure

<table>
<thead>
<tr>
<th>Year</th>
<th>Counting no government assistance or taxes</th>
<th>Counting government assistance and taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>35%</td>
<td>25%</td>
</tr>
<tr>
<td>1975</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>1980</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td>1985</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>1990</td>
<td>15%</td>
<td>5%</td>
</tr>
<tr>
<td>1995</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>2000</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>

Note: Calculations use Supplemental Poverty Measure (SPM) and 2012 SPM poverty line adjusted for inflation.

Source: CBPP analysis of Columbia University Population Research Center and U.S. Census Bureau data.
Back to the Income Packaging Problem

We have turned the welfare poor into the working poor; now what is needed (besides luck and coordination) to escape poverty?

1. **Child support** - (coming only slowly, but ‘pass through’ seems to work, IF absent dad has job)

2. **Work and tax policy** - the EITC and other tax credits (CTC, ACTC), minimum wage policy

3. **SNAP**, some large numbers still because wages are low*, but average benefit is still just $401 a month, or less than $5000 a year

---

What else helps the package, more

4. **Public housing** - less responsive and adds 25 percent or more to already high marginal tax rates

5. **Child care** - who, when, where, how much (may be biggest issue for work for single parents)?

6. **Overcoming work barriers** (e.g., ‘Way to Work’ for car effects; better access for disabled/mentally ill)

7. Also **promote savings / credit access** to reduce effects of income instability when employment fails

8. Consider a **universal monthly child allowance**, a floor for kids at say $167-$200 per month per child*

Lessons learned and the policy frontier

• US has made some progress thanks to near cash benefits and work related benefits

• What to do next for working poor and kids to do better than now? (not take the benefits that work provides away, but to add a floor)

• What to do next for the remainder who cannot really work enough not to be poor?

• Helping formerly incarcerated men back into productive work

• Should we have a child allowance?
Thanks ask question anytime

- Smeeding@wisc.edu
- Homepage: http://www.lafollette.wisc.edu/faculty-staff/faculty/timothy-smeeding
- Course: https://www.lafollette.wisc.edu/degree-programs/courses/pa-888-comparative-and-national-social-policy