# 6    U.S. Poverty

## PURPOSE

The purpose in writing this chapter is to introduce the student to the problem of poverty in the United States. It is the second of the text chapters focused specifically on equity. Many students think of poverty in the abstract: they have stereotypical images of poor people, but they never think of themselves or fellow students as being poor. It is my hope that students will realize that poverty affects a broad array of people and that many of their stereotypes about poverty will break down.

## LEARNING OBJECTIVES

The learning objectives for this chapter are:

1. to help students understand the concepts of relative poverty, income distribution, money income, income transfers, and in-kind transfers.

2. to encourage students to think about income distribution in the United States, how it has changed over time, and how it compares with other countries.

3. to help students understand the concept of absolute poverty, the official definition of poverty, and the concept of the poverty line.

4. to help students realize that poor people are poor despite any government assistance they receive and that being poor does not mean that they will necessarily receive any government assistance.

5. to encourage students to think about life at the poverty line, in terms of how much income is received and how this income is spent.

6. to enable students to understand how the poverty rate in the United States has changed over time, who the poor are in the United States, and what groups of people are more likely to be poor.

7. to encourage students to think about the "feminization of poverty."

8. to help students to think about the causes and solutions to poverty and about its complexity.

9. to assist students in understanding the recent changes in the welfare system.

10. to encourage students to think about whether they are economic liberals or conservatives in terms of poverty issues.

## LECTURE SUGGESTIONS

- There are many aspects of poverty that surprise students when they first begin to study this issue. You may wish to emphasize some of these:
  - income distribution: some students are surprised to learn that the U.S. income distribution has become less equal from 1981 to 2016 and that it is least equal in the United States compared to the other Western industrialized countries.
  - taxes and in-kind transfers: before giving it careful thought, students are inclined to think that changes in these have affected poverty and income distribution statistics; but due to the way money income is

calculated in the statistics, these do not have a direct effect (though taxes certainly have indirect effects, ultimately altering poverty and income distribution; and loss of housing or nutrition assistance will certainly affect people's well-being).

- assistance: students and even many faculty are surprised to learn that people who are classified as poor have income below the poverty line despite any government cash assistance they receive; also, being poor does not necessarily make them eligible for government assistance.

- poverty rates: students are surprised to learn that most poor people are white, a large share are children, and most poor people do not meet their stereotypical images.

- overcoming poverty: students are often surprised to see how complex the problem of poverty is and how simple solutions, as in "why don't they just . . . ," seldom work.

- I have found that many students have "seen a person buy steaks with food stamps" or "know someone who had additional children in order to receive higher benefits." I like to challenge students to avoid conclusions based on anecdotal evidence.

- I have also found that students are not particularly interested in the concept of the negative income tax, with no wonder why: it has not experienced a serious political discussion in their lifetimes. They *are* interested in the earned income tax credit, however, especially as many of them are now or are approaching an age when they may become eligible.

- Students have a very hard time understanding how it is that most poor people are white, yet the poverty rate among white people is relatively low. Use an example with simple numbers to explain this.

- Lastly, students today tend to be pretty conservative and pretty simplistic about the issue of poverty. Many of them work in addition to being students. They work hard and are careful with their money. They don't understand why poor people cannot do the same. Once again, they need to understand that poverty is complex. It is one thing to be a hard-working, single, and able-bodied young person; it is another thing to be poor, uneducated, single with children, without transportation, and experiencing any number of other difficulties.

## ADDITIONAL DISCUSSION AND ACTION QUESTIONS

Some of the following additional discussion questions may be helpful in preparing lectures:

1. Ask students to imagine that they live in a family of four. (Perhaps they do.) Ask whether the 2016 poverty line of $24,563 would be adequate to meet their family's needs.

2. What are some of the problems that low-income people face as they try to pull themselves out of poverty? What are some of the solutions?

3. (*From the appendix*) Construct a Lorenz curve based on the following income distribution. What is the meaning of the 45° line? When comparing two Lorenz curves, how can we tell at a glance which curve represents the more unequal distribution?

| Fraction of Total Families | Percent of Total Money Income Received |
|:---:|:---:|
| Poorest Fifth | 5% |
| Second Fifth | 10% |
| Third Fifth | 15% |
| Fourth Fifth | 20% |
| Richest Fifth | 50% |

## SOME ANSWERS AND COMMENTS ON THE TEXT
## DISCUSSION AND ACTION QUESTIONS

1. Greater inequality may create incentives, although too much inequality may actually stifle them. Also, low-income people have constrained opportunities to become skilled and educated, reducing their potential productivity. Greater equality might be achieved through more progressive taxes and improved educational and training opportunities and other programs for the poor.

2. Student answers will vary, but should show more positive economic analysis than normative analysis.

3. Student answers will vary. Data seem to indicate that pregnancy rates are decreasing.

4. Student activity. There are age and income restrictions on eligibility. They cannot be claimed by their parents as dependents

5. Some argue it is better for children to have their parent in the work force, while others believe that it is better to have a parent stay home with their children. There is the question of quality, expense, and availability of childcare, and the fact that high-income parents may freely decide whether or not to remain at home to care for the children whereas some would deny this choice to low-income families. There is a concern that under TANF, many children are not being adequately cared for while their mothers work.

6. Students (and others) often think that state and local governments are "closer" to the people, and therefore better understand their issues. However, state and local governments have less access to funding and may not be able to adapt sound proposals. Furthermore, state and local funding rely on income and property values, which may be quite low in the states that have the greatest need for poverty programs. Benefit levels may vary across states, which many will perceive as inequity. People may also move from one state to the next to receive higher benefits.

7. This is probably the crux of the issue between economic liberals and conservatives. Most likely, both will continue to be important. Private charity would be inadequate.

8. Student activity

9. Student activity

10. Student activity

11. Student activity

12. Student activity

13. Student activity

*(Appendix 6–2)*

1. The official definition of poverty may understate the extent of poverty because it is calculated before taxes and may overstate it because in-kind transfers are excluded. The entire concept of the poverty line is probably flawed due to changes in relative prices of food and other purchases over time.

## SUGGESTED TEST QUESTIONS

*Multiple-Choice Questions*

1. The 2016 poverty rate is approximately:
   a. 3%.
   **b. 13%.**
   c. 28%.
   d. 45%.

2.  From 1960 to 1980, poverty rates in the United States:

    a.  increased dramatically.
    **b. decreased dramatically.**
    c.  increased greatly and then returned to the 1960 poverty rate.
    d.  remained remarkably constant.

3.  From 1981 to 2016, income distribution in the United States has:

    **a. become less equal.**
    b.  become more equal.
    c.  remained remarkably stable.
    d.  this information is not discussed in the text.

4.  Most of the poor in the United States are:

    **a. white.**
    b.  African American.
    c.  Hispanic.
    d.  Asian American.

5.  The age group with the highest poverty rate is people:

    **a. under age 18.**
    b.  age 18–64
    c.  age 65 and over.
    d.  We do not have data to assess this.

6.  "Money income":

    a.  is calculated before payment of taxes.
    b.  includes income transfers.
    c.  excludes in-kind transfers.
    **d. All of the above**

7.  The 2016 poverty line for a family of four is about:

    a.  $47,000.
    b.  $37,000.
    **c. $25,000.**
    d.  $7,000.

8.  Public education is an example of:

    a.  an "investment in human capital."
    b.  a "universal entitlement."
    c.  a program that improves people's productivity.
    **d. All of the above**

9.  1996 legislation resulted in:

    a.  an expansion of the AFDC program.
    b.  an expansion of assistance for legal immigrants.
    **c. the creation of Temporary Assistance for Needy Families (TANF).**
    d.  All of the above

10. An example of a negative income tax is the:

    a.  AFDC program.
    b.  food stamp program.
    **c. earned income tax credit.**
    d.  property tax.

11. In 2016, the richest fifth of the U.S. population received what percent of total money income?

    a. under 20%
    b. about 30%
    c. about 40%
    **d. over 50%**

12. Which of the following groups of people has a poverty rate above the national average?

    **a. African Americans**
    b. Asian Americans
    c. people age 65 and older
    d. All of the above

13. Businesses produce lower output levels and employment drops during an economic:

    **a. recession.**
    b. expansion.
    c. recovery.
    d. peak.

14. An investment in human capital can:

    a. improve the productivity of a worker.
    b. improve the income of a poor person.
    c. reduce poverty rates.
    **d. All of the above**

15. Which of the following is a public assistance program (as opposed to a social insurance program)?

    a. Supplemental Nutrition Assistance Program (SNAP)
    b. Medicaid
    c. the earned income tax credit
    **d. All of the above**

16. Which of the following is a general federal guideline for state TANF programs?

    a. States must contribute matching money to their welfare program.
    b. Adults must take a job within two years of beginning welfare.
    c. Assistance generally cannot be provided to someone for over five years in his or her lifetime.
    **d. All of the above**

17. Which of the following *has not* been a factor contributing to poverty?

    **a. shift toward the manufacturing sector and away from the service sector**
    b. recession
    c. low labor productivity
    d. personal factors such as unreliable transportation

18. The TANF program:

    a. expanded food stamps for legal immigrants.
    b. extended the AFDC program.
    **c. created a new welfare program based on work.**
    d. brought forth major changes in the Social Security program.

19. In response to the recession of 2008–2009, the Obama administration:

    **a. proposed a recovery package that included subsidies for TANF and other welfare programs.**
    b. favored reducing welfare expenditures in order to balance the federal budget.
    c. took no action on the level of welfare spending.
    d. sought to cut taxes in order to help low-income people, but did not favor increased welfare expenditures.

20. The benefits of economic growth eventually reach everybody, according to:
    a. the author of the text.
    b. the economic studies in the text.
    **c. trickle-down philosophy.**
    d. the philosophy of all economists.

21. Which race or ethnicity has the highest poverty rate?
    **a. African American**
    b. Asian American
    c. Non-Hispanic white
    d. Hispanic

22. Which of the following is most similar to a negative income tax?
    a. food stamps
    b. housing assistance
    **c. the earned income tax credit**
    d. a policy to reduce housing discrimination

23. Which of the following is a social insurance program (as opposed to a public assistance program)?
    a. food stamps (SNAP)
    b. Medicaid
    c. earned income tax credit
    **d. Medicare**

## True-and-False Questions

1. The poorest fifth of the U.S. population receives less than 4% of total money income in the U.S. **(T)**

2. The U.S. poverty rate in the U.S. is now higher than it was in the year 2000. **(T)**

3. The 1960 U.S. poverty rate was over 20%. **(T)**

4. The number of poor people in each group of the population as a share of the number of poor in the nation is called the composition of poverty. **(T)**

5. Teenage pregnancy is one of the reasons suggested in the text for the "feminization of poverty." **(T)**

6. Medicare is the public medical program for low-income people. **(F)**

7. Recession generally leads to higher poverty rates. **(T)**

8. The lower-wage service sector in the U.S. has recently grown at the expense of the higher-wage manufacturing sector. **(T)**

9. An "investment in human capital" is any spending that improves the productivity of people. **(T)**

10. The earned income tax credit includes a work incentive. **(T)**

11. Universal entitlements are generally available to all who are eligible, regardless of income. **(T)**

12. One of the reasons the AFDC program was popular is that it included strong work incentives. **(F)**

13. A block grant is an amount of money given by the federal government to state governments to meet a broad category of need. **(T)**

14. Social insurance refers to any government program funded by payroll taxes of employers, employees, or both and is targeted to aid certain eligible groups of people. **(T)**

15. TANF assistance is guaranteed for the lifetime of the recipient. **(F)**

16. Welfare reform under the TANF program emphasizes work requirements. **(T)**

17. Relative poverty is measured by the poverty line. **(F)**

18. Social security is a social insurance. **(T)**

19. Medicaid is a social insurance. **(F)**

20. Income distribution in the U.S. has become more equal than in 1981. **(F)**

21. The United States has the most equal income distribution of all Western industrialized nations. **(F)**

22. The Earned Income Tax Credit (EITC) has been an effective antipoverty program for working families in the United States. **(T)**

23. Conservatives tend to prefer direct federal government involvement in poverty programs over state and local governments. **(F)**

24. The richest 5th of the population receives over 50 percent of total money income. **(T)**

25. Close to 13 percent of the U.S. population was living below the poverty line in 2016. **(T)**

26. People who live in suburbs have lower poverty rates than those who live in central cities or rural areas. **(T)**

27. Surprisingly, the poverty rate among females is lower than the poverty rate among males. **(F)**

28. If we look only at households headed by a single person, the poverty rate of male-headed households is about the same as the poverty rate of female-headed households. **(F)**

29. Temporary Assistance for Needy Families (TANF) is a social insurance program as opposed to a public assistance program. **(F)**

30. One outcome of the 2017 Republican tax bill is that there may be greater support for cuts in the budgets for poverty programs. **(T)**

## *Short-Answer Questions*

### *(Appendix 6–1)*

1. Consider the following Lorenz curves for two hypothetical countries. In which country (1 or 2) is the income distribution most equal? (**Country 1**)
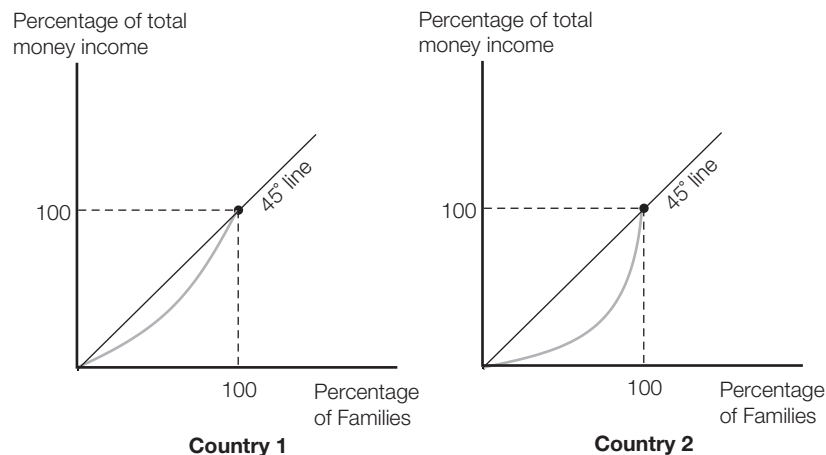
2.   Construct a Lorenz curve based on the following income distribution. What is the meaning of the 45° line? (**each percentage of the population receives the same percentage of income**)

| Fraction of Total Families | Percent of Total Money Income Received |
|---|---|
| Poorest Fifth | 5% |
| Second Fifth | 10% |
| Third Fifth | 20% |
| Fourth Fifth | 25% |
| Richest Fifth | 40% |
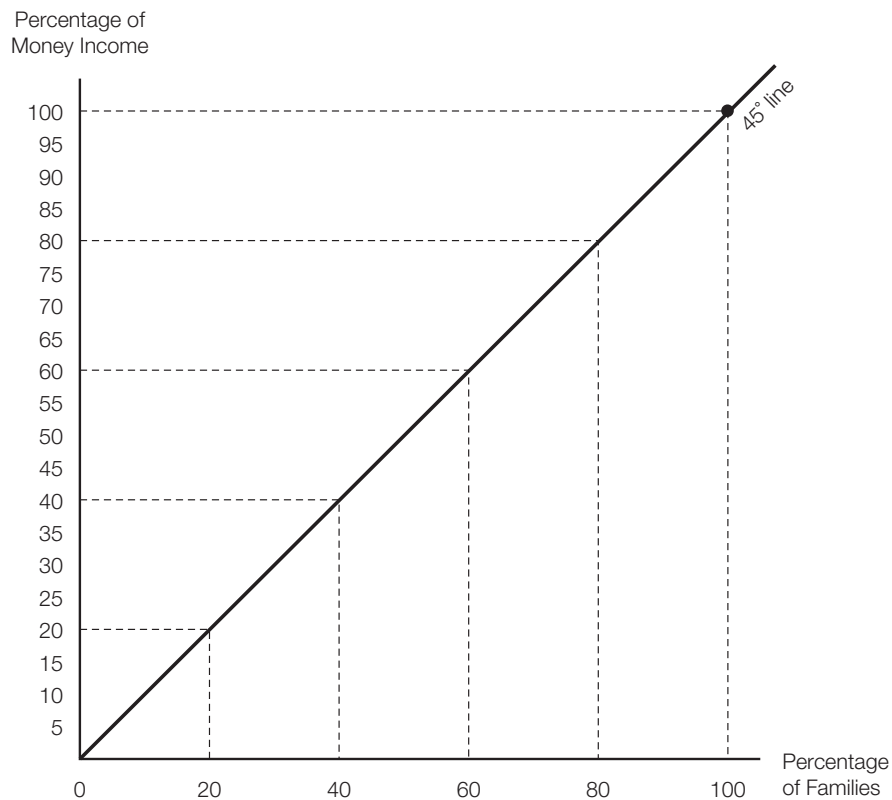


### Critical Thinking Question

Our current welfare program (TANF) is a program that emphasizes work. What, if any, problems exist if (1) our nation is in a recession and jobs are scarce or (2) people are not able to take available jobs due to mental or physical disability, lack of training and education, or unavailability of reliable childcare and transportation?

## INTERNET RESOURCES

**http://www.census.gov**
(The website for the U.S. Census Bureau, Department of Commerce, contains data on poverty rates and income distribution, as well as poverty thresholds and a wealth of other statistical information.)

**http://www.cbpp.org**
(This website of the fairly liberal Center on Budget and Policy Priorities publishes studies involving poverty and government poverty programs. You can request e-mail updates on new studies as they are published.)

**http://www.dwd.state.wi.us**
(This Wisconsin website provides detailed information on Wisconsin's W-2 program. Wisconsin was widely considered a leader in work-based welfare when the TANF programs were first being developed.)

**http://www.cdc.gov**
(You can find information on teenage and single-mother pregnancies on this website of the U.S. Center for Disease Control.)

**http://www.worldbank.org**
(You can use this website to search for comparative data on income distribution, poverty rates, life expectancies, and much more for the different countries of the world.)