



**INSTITUTE** *for*  
**RESEARCH** *on*  
**POVERTY**

UNIVERSITY OF WISCONSIN-MADISON

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# **Session 2: Poverty, Income Inequality and the Family**

**Poverty 101 June 12, 2018**

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# Poverty, Income Inequality –Tim 'and the Family'—Marcy

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## 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?

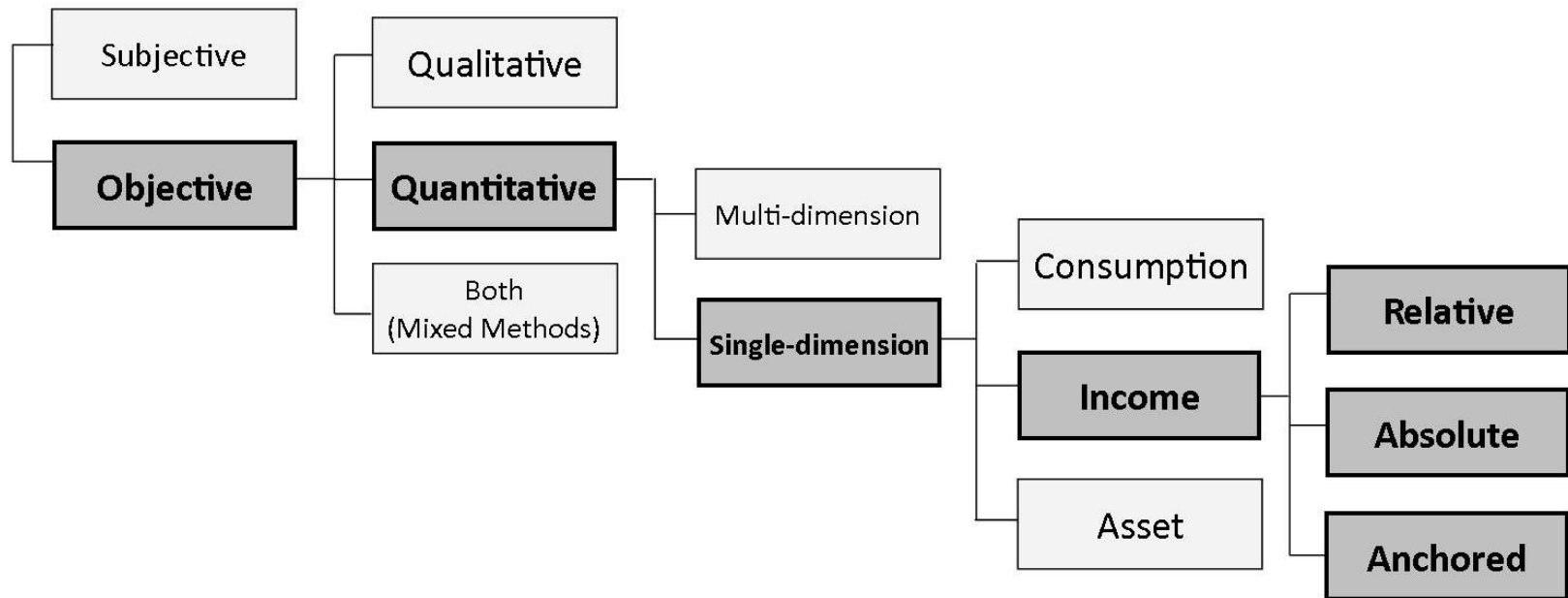
# First some perspective

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- **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

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Source: Smeeding, OUP Handbook of Poverty, 2016—

# Inequality--definitions matter, pay attention to 5 W's and one H

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- **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?

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- 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 ?

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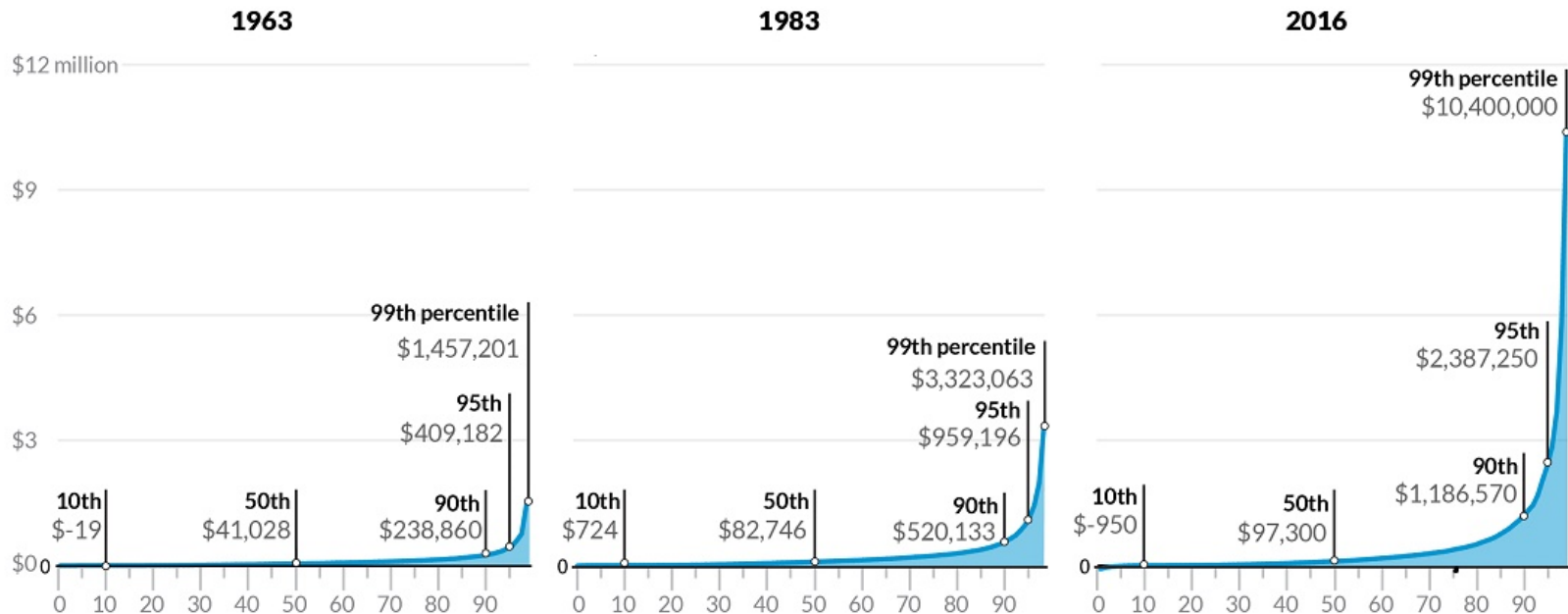
- Haig (1921 ) and Simon (1938) :

$$Y = C + / - \blacktriangle W$$

- 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

Distribution of Family Wealth, 1963–2016



Source: Urban Institute calculations from Survey of Financial Characteristics of Consumers 1962 (December 31), Survey of Changes in Family Finances 1963, and Survey of Consumer Finances 1983–2016.

Note: 2016 dollars.

URBAN INSTITUTE

Source : SCF at <http://apps.urban.org/features/wealth-inequality-charts/>





# Absolute Poverty or Relative Poverty, or *both* (Anchored Poverty) ?

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- **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**

\* Deaton, Angus. 2018. “The U.S. Can No Longer Hide From Its Deep Poverty Problem” January 24, <https://www.nytimes.com/2018/01/24/opinion/poverty-united-states.html> ( note for Angus deep = extreme)

# Philip Alston, UN Special Rapporteur on human rights fact-finding mission to the United States , 6/2018

<http://www.ohchr.org/EN/Issues/Poverty/Pages/SRExtremePovertyIndex.aspx>

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- 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?

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- 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

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- **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?

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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*

\*Rainwater, L., and T. M. Smeeding. 2003. *Poor Kids in a Rich Country*. New York: Russell Sage Foundation and, Gornick, Janet and Timothy M Smeeding. 2018. "Redistributional Policy in Rich Countries: Institutions and Impacts in Nonelderly Households" *Annual Review of Sociology*, Volume 43, online in July

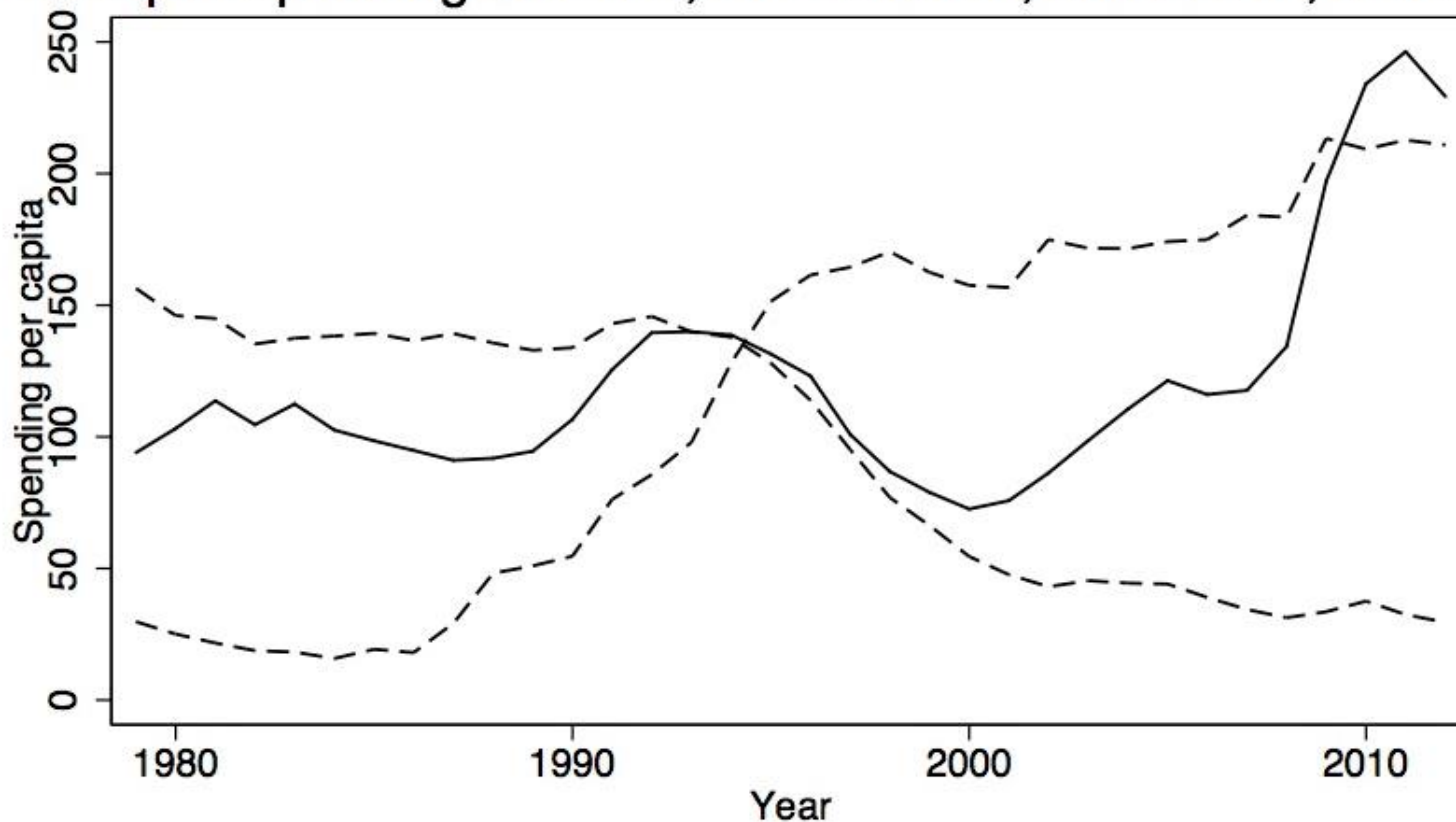
# Beyond the 'what's'– how about the 'why's'?– or, why are people poor?

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- **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\$



— Food Stamp \$ per capita    - - - - AFDC/TANF cash \$ per capita  
- · - · - EITC \$ per capita ( Includes the CTC and ACTC as well as EITC)

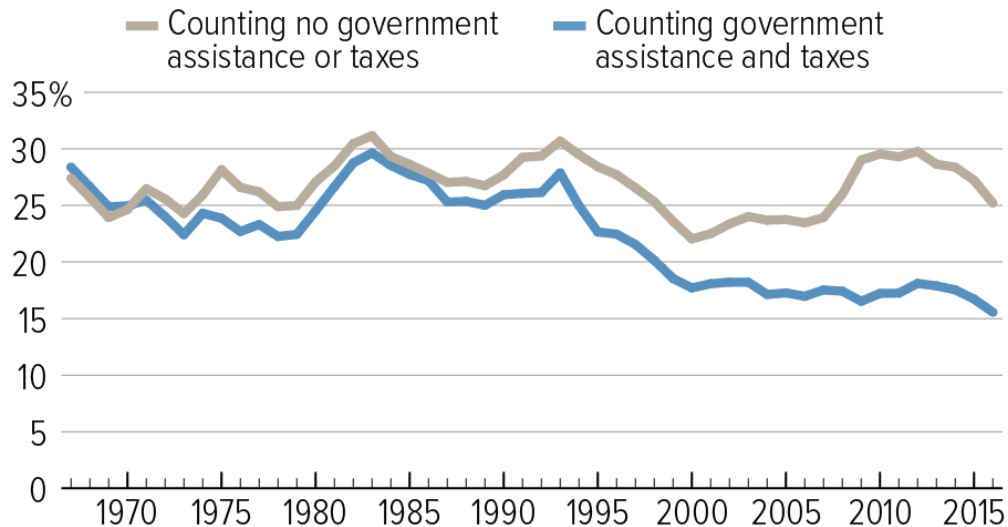


# To be sure we have had some progress , but work alone wont do it

MI  
poverty  
vs.  
SPM  
poverty  
here

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

Poverty rate for children under 18, using Supplemental Poverty Measure



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.

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Source CBPP-October 5, 2017 , at ---

<https://www.cbpp.org/research/poverty-and-inequality/child-poverty-falls-to-record-low-comprehensive-measure-shows>

# Back to the Income Packaging Problem

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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

\* Hardy, Brad, Timothy Smeeding and James Ziliak. 2017. "The Changing Safety Net for Low Income Parents and Their Children: Structural or Cyclical Changes in Income Support Policy?" *Demography*, Issue 1/2018  
<https://www.springerprofessional.de/en/the-changing-safety-net-for-low-income-parents-and-their-children-13444444>

# What else helps the package, more

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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\*

\* Shaefer, H. Luke, Sophie Collier, Greg Duncan. Kathryn Edin. Irv Garfinkel, David Harris, Tim Smee, Ping, Jane Waldfogel, Chris Wimer, and Hiro Yoshikawa. 2018. "Transforming the Child Tax Credit into a Universal Child Allowance for American Children", *Russell Sage Foundation, Journal of the Social Sciences*, February, Vol 4, 2, pp

# Lessons learned and the policy frontier

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- 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

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