POVERTY AND WELFARE

CHAPTER OBJECTIVES

When you complete this chapter you will understand how poverty is measured, who is poor in the US, how the percentage of the population that is poor has changed through the last 40 years, and you will be aware of some of the significant problems with the federal government’s official poverty rate. You will learn about the myriad programs that exist for the poor, note that most of them grant the recipient goods and services rather than money, and understand the government’s reasons for doing this. You will know the incentives and disincentives in the welfare state, and you will know the welfare reform issues that we currently face.

INTRODUCTION

Welfare and the reforming of welfare have been political issues from the time when the first “relief” bills were passed by Congress in the 1930's. In more recent times, President William Clinton vowed to “end welfare as we know it,” and in 1996 a compromise was reached between his administration and the Republican majority in Congress. Shortly thereafter the welfare rolls were significantly cut and welfare programs in general were significantly changed. Even so, there are myriad programs that provide assistance to people in need and we will review them here. Some of these
programs read like an alphabet soup, e.g. AFDC, TANF, and WIC; others have catchy names, like Head Start and Medicaid; still others have more straightforward names like Food Stamps and the School Lunch and Breakfast program. Each program is designed to help poor people in specific ways. Some give them cash; others provide goods or services at little or no cost.

We will first lay out what constitutes a state of “poverty.” We will then describe the people who meet the criteria we have presented. We will present and discuss some of the modern history of poverty, and we will discuss why the measure of poverty we have outlined might not be adequate to the task of ascertaining who needs assistance and who does not. We will then move to describing the programs that are available to the poor. We will divide the programs into those that provide cash and those that provide goods and services. We will discuss why we make such a division. Lastly, we will discuss in general terms, the incentives and disincentives endemic to welfare programs, and we will show why it is so difficult to solve the problems of those who live in poverty.

MEASURING POVERTY

What does being “poor” really mean? Are you poor only if you are on the verge of starvation? This absolutist position would suggest that poverty in the US is almost entirely gone. As we will see later in our discussion, one of the most significant health problems of America’s poor is that they are obese rather than starving. On the other hand, there is the position that poverty is a relative concept. We note that someone who has the living standard of a median income Somalian is in poverty in the U.S. but not in Somalia, and an American today with an average income has a living standard that 100 years from now will likely be considered unacceptably poor. To see this point note that the poor of today live in larger homes than all but the very richest Americans did in 1900.
The Poverty Line

Surveys have established reasonably well that low income families-of-four spend roughly a third of their income on food. Defining the poverty line as that level of annual income sufficient to provide a family with a minimally adequate standard of living, we created the first poverty line by multiplying the cost of a minimally sufficient diet by 3; the reciprocal of one-third. In successive years, the amount has been raised by the amount of increase in the Consumer Price Index. For other family sizes, a similar process takes place where the reciprocal of the fraction of income spent on food by low income people of that family size is multiplied by the cost of the minimally sufficient diet. In 1999 these numbers were $8,501 for one person, $10,869 for two people, $13,290 for three people and $17,029 for four people. The poverty rate is the percentage of people in households whose incomes were under the poverty line. In 1999 the poverty rate in the U.S. stood at 11.8%.

Another important measure of poverty is the poverty gap, a representation of the total amount of money that would have to be transferred to households below the poverty line in order for them to get out of poverty. The poverty gap in the U.S. was $62 billion as of 1999.

Who’s Poor?

Poverty Line: that level of income sufficient to provide a family with a minimally adequate standard of living

Poverty Rate: the percentage of people in households whose incomes were under the poverty line

Poverty Gap: the total amount of money that would have to be transferred to households below the poverty line in order for them to get out of poverty
Table 1 displays indicators of who is poor and compares that to their general portion of the population. Many people think that most poor people are African-American. While many academics are quick to dispel that myth, they often perpetuate another with a counter assertion that most poor people are white. Neither is true if you separate European-Americans from Hispanic-Americans. Table 1 shows disproportionate numbers of blacks and Hispanics are in poverty and that they, together with American Indians, Asians, and Pacific Islanders, comprise a majority of the Americans living below the poverty line. It is obvious that there is a significant degree of racial and ethnic distinction in U.S. rates of poverty.

The data indicate that women are more likely to be in poverty than men; and, if we define “families” as not including single adults, then of families in poverty, half are in female-headed households while half are families of married couples. Given that female-headed households with children make up only 14.0% of the general population, poverty is clearly a women’s issue.

It is also true that children under 18 make up 37.5 percent of those that are poor, though they only comprise 24.9 percent of the general population. This is a poverty rate among children of 16.9%. Whether this indicates that the poor have more children or that raising children can itself lead families into poverty can be debated. Clearly, the picture of poverty is this: minorities, women, and children are poor in numbers vastly out of proportion to their numbers in the general population.

Another key indicator of poverty is education, or more properly, the lack of it. Those with a bachelor’s degree, experience poverty at one-twelfth the rate as high school dropouts. Simply completing high school cuts chances of being in poverty by almost two-thirds, and simply attending college reduces the chance of being in poverty from nearly ten percent to under seven percent.
Completing college reduces the rate even further. Only one in fifty households headed by a college graduate is in poverty.
<table>
<thead>
<tr>
<th></th>
<th>General Population in millions</th>
<th>Percentage of the General Population</th>
<th>Percent of those in poverty</th>
<th>Poverty Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>White, Non-Hispanic</td>
<td>193.2</td>
<td>70.7%</td>
<td>46.1%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>32.6</td>
<td>11.9%</td>
<td>23.1%</td>
<td>22.8%</td>
</tr>
<tr>
<td>Black non Hispanic</td>
<td>35.4</td>
<td>13.0%</td>
<td>25.9%</td>
<td>23.6%</td>
</tr>
<tr>
<td>Other Race</td>
<td>10.9</td>
<td>4.0%</td>
<td>3.6%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Male</td>
<td>133.6</td>
<td>48.9%</td>
<td>42.8%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Female</td>
<td>139.8</td>
<td>51.1%</td>
<td>57.2%</td>
<td>13.2%</td>
</tr>
<tr>
<td>Under 18</td>
<td>68.0</td>
<td>24.9%</td>
<td>37.5%</td>
<td>16.9%</td>
</tr>
<tr>
<td>18 to 24</td>
<td>25.0</td>
<td>9.1%</td>
<td>14.3%</td>
<td>17.3%</td>
</tr>
<tr>
<td>24-64</td>
<td>137.5</td>
<td>50.3%</td>
<td>38.4%</td>
<td>8.7%</td>
</tr>
<tr>
<td>65 and over</td>
<td>33.9</td>
<td>12.4%</td>
<td>9.8%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Female Headed Household no husband present</td>
<td>38.2</td>
<td>14.0%</td>
<td>36.0%</td>
<td>27.8%</td>
</tr>
<tr>
<td>High School Dropout*</td>
<td>29.6</td>
<td>17.2%</td>
<td>42.6%</td>
<td>24.1%</td>
</tr>
<tr>
<td>High School Graduate (no college)*</td>
<td>58.2</td>
<td>33.8%</td>
<td>34.2%</td>
<td>9.9%</td>
</tr>
<tr>
<td>College (without a degree)*</td>
<td>42.5</td>
<td>24.7%</td>
<td>17.9%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Bachelors degree or greater*</td>
<td>41.8</td>
<td>24.3%</td>
<td>5.4%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

* 1998 data; percentages are of adults 25 and older and of families in poverty headed by someone 25 and older

Poverty Through History

Figure 1 indicates that, although the number of people in poverty is roughly the same as it was in 1959, the poverty rate has fallen dramatically. As we will discuss later, the poverty rate shown fails to account for the many government benefits. This means that the reduction in the poverty rate since 1959 can be attributed to an economic strengthening for those whose incomes are at the bottom of the economic scale.

Though the general trend in poverty is down, a couple of things need to be noted. The poverty rate has remained largely unchanged since the middle 1960's when the “war on poverty” actually began. From that time to the present it has neither fallen below 11% nor gone above 15%. The systemic reduction, as a matter of fact, occurred between 1959 and 1969, before the enactment of many of the anti-poverty programs. Noting that the darkened bands in Figure 1 indicate recessions, it can been seen that the poverty rate has increased during recessions and lessened during periods of growth. Democratic Presidents Kennedy and Johnson get much of the credit for the pre-1969 reduction in the poverty rate. However, this was as a result more of a strong economy’s providing excellent economic opportunities than anything these administrations did for the poor. The bulk of the pre-1969 decline took place prior to 1965 when these programs first began to become law. Since 1969 Democrats and Republicans have nearly identical records with respect to poverty. Generally speaking, the poverty rate is a reflection of the health of the overall economy.
Figure 1 Poverty Since 1959
Bars indicate recessions

Problems With Our Measure of Poverty

There is a whole host of reasons why using three-times-the-cost-of-a-minimally-sufficient-diet as a measure of poverty is inadequate to the task of measuring who is poor. First, it does not distinguish among families that are intact with one income earner and families that are either not intact or for other reasons have day-care costs. Since nearly 40% of families living in poverty are headed by single women with children under 18, this is potentially a significant problem. Since the “one-third” fraction that was used in the original poverty measure came from a survey conducted when there were fewer such female-
headed households, the poverty line could be understated by all or part of the cost of day-care. Since
day-care costs can be between $3,000 and $5,000 per year per child under 12, this is a substantial area
of mismeasurement.

On the other hand, though the aforementioned indicates that poverty is understated, there are
problems with the measure that indicate that poverty may be over-stated. Robert Rector of the
conservative Heritage Foundation repeatedly updates statistics that purport to show that poverty is not a
problem in the US.\(^{34}\) He uses government surveys and published statistical documents to show that
41% of households considered poor own their homes, 66% have air conditioning, 70% own a car, 27%
own two or more cars, and 74% own a VCR. He notes that the square footage of living space of
America’s poor is greater than the square footage of the average Western European, and the diet of the
average poor American equals or exceeds the recommended daily allowances of important nutrients. As
a matter of fact, one of the singular features of the poor in the U.S. is their rate of obesity. This implies
that few of the poor are actually starving.

Specifically on the point of wealth, nearly a million poor families own homes worth more than
$150,000. There are hundreds of thousands of people in the U.S. who have little income but who are
worth hundreds of thousands of dollars. Some are even millionaires. Admittedly, it is a small number of
people like this who are rich, but called poor. However, it is important to note that the poverty line only
measures people’s income relative to a fixed standard that ignores measures of wealth.

Another shortcoming of the formula that is used to determine the poverty line is that it only

\(^{34}\)A recent version is available at

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includes income that is in cash. Thus, programs that the poor take advantage of that are not cash-driven are incorrectly and absurdly omitted as if they have no value. For instance, the $200 in food stamps that a family might get a month is not counted and, if they get a significantly subsidized rental apartment and free medical care, these are also not counted. Depending on the study you believe, this failure to include income that is in forms other than cash overstates poverty by between two and four percentage points.

As we saw in both Chapter 7 and in the issue chapter on the CPI, the consumer price index that is used to update the poverty line each year has many shortcomings of its own. Best estimates are that it has overstated the cost of living by at least a full percentage point a year. Since the increase in the poverty line is generated using this flawed measure, it is likely that the poverty line has long been overstated relative to its real value in the 1960's. Figure 2 indicates that although the lower line, the adjusted version, tracks the upper line throughout the 1960's the spread is significant enough that if you take the 1959 poverty line as the base upon which to build the adjusted poverty line you see that instead of being $17,029 in 1999 it should have been $11,742.
Besides the possible overstating of poverty that we have seen up to this point, there are additional problems with this measure that result in mislabeling some people as poor and others as not poor. As we mentioned specifically in the previous paragraph, the general CPI is used to adjust the poverty line. Because the CPI is a general indicator of the prices of many goods, it does not necessarily reflect the goods that are bought by people living in poverty. To the degree that poor people buy things that have increased in price more than the overall CPI, the “true” poverty line probably would fall between the two shown in Figure 2.

The way costs of living vary from area to area leads to yet another source of mismeasurement of the numbers of people who live in poverty, and it is a source about which there is uncertainty of the direction of the bias. Because it is much more expensive to live in San Francisco, California, than in Appleton, Wisconsin, for example, families of four in San Francisco with incomes that are a single dollar over the poverty line figure of $17,209 are significantly worse off than families of four in Appleton with
incomes one dollar under the poverty line. In this way the poverty rate underestimates both urban poverty and poverty on the coasts. It overestimates the incidence of poverty in rural areas, small cities, in the southern states, and in the Midwest.

There is a final reason to doubt official poverty numbers, and that is a missing $2 trillion. In Chapter 7, when we talked about national income accounting, we briefly explained the sources of the numbers that make up the Gross Domestic Product. It turns out that data used by the Census Bureau add up to substantially less, $2 trillion less, than the source numbers for personal income used in GDP calculations. While much of the missing $2 trillion is the in-kind transfers mentioned above, this certainly does not account for all of it. It is clearly true that most of that probably goes to the nonpoor. Some of it must also be in the hands of the poor so there are clearly some who are labeled poor who are not.

**PROGRAMS FOR THE POOR**

**In-kind vs In-Cash**

The programs available to the poor are many and complicated. Rather than being one consistent program across the country the programs are better understood as varying from state to state. Further these programs are best understood as being divided between cash payments and provisions of goods and services in forms other than cash. Economists refer to these latter types of subsidies as **in-kind**.

Table 2 describes the different programs, the functions, and populations they serve, as well as the restrictions they place on who is eligible to receive them.
<table>
<thead>
<tr>
<th>Program</th>
<th>Function</th>
<th>Cash or In-Kind/ Annual Federal+ State Cost</th>
<th>Population Served</th>
<th>Eligibility requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>TANF Temporary Aid to Needy Families</td>
<td>Provide a cash income to the poor. This is the welfare check.</td>
<td>Cash $27B</td>
<td>Poor parents and their children under 18.</td>
<td>Though this varies from state to state, the following generalizations can be made: 1) you have to have children; 2) you can not have much wealth (usually less than $5,000 net) including house and car; 3) you can only remain on the program for 24 consecutive months</td>
</tr>
<tr>
<td>WIC Women, Infants and Children</td>
<td>Provide food formula, and diapers.</td>
<td>In-Kind $4B</td>
<td>Pregnant women and new mothers</td>
<td>Low wealth and income. Cut offs depend on the state.</td>
</tr>
<tr>
<td>Food Stamps</td>
<td>Provide vouchers that can only be spent on food.</td>
<td>In-Kind $28B</td>
<td>All poor</td>
<td>Low wealth and income. Cut offs depend on the state. You can only remain on the program for 24 consecutive months</td>
</tr>
<tr>
<td>Medicaid</td>
<td>Provide health care services</td>
<td>In-Kind $180B</td>
<td>All poor</td>
<td>Low wealth and income. Cut offs depend on the state.</td>
</tr>
<tr>
<td>Section-8 or Housing Authority Apartment</td>
<td>Provide reduced rent or low cost housing</td>
<td>In-Kind $27B</td>
<td>All poor</td>
<td>Low wealth and income. Cut offs depend on the state.</td>
</tr>
</tbody>
</table>
Table 2 (continued)
Programs for the Poor
and their Characteristics

<table>
<thead>
<tr>
<th>Program</th>
<th>Function</th>
<th>Cash or In-Kind/</th>
<th>Population Served</th>
<th>Eligibility requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Annual Federal+ State Cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Head Start</td>
<td>Day-Care/Pre-school</td>
<td>In-kind $4B</td>
<td>Poor with children under 5</td>
<td>First come first served for anyone below 1.25 poverty line</td>
</tr>
<tr>
<td>School Lunch</td>
<td>Provide Lunch and Breakfast</td>
<td>In-Kind $6B</td>
<td>Poor with school age children</td>
<td>Anyone below 1.25 poverty line</td>
</tr>
<tr>
<td>Supplemental Security</td>
<td>Cash assistance to “deserving poor”</td>
<td>Cash $27B</td>
<td>Disabled and widow(er)s and orphans</td>
<td>Someone must be disabled or must have died.</td>
</tr>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EITC</td>
<td>Negative Tax; boost low pay to workers</td>
<td>Cash $20B</td>
<td>Working Poor</td>
<td>Based on family size. Phases in at incomes up to $9700 then phases out for incomes between $12,700 and $30,000. Family of four maximum now around $4,000</td>
</tr>
</tbody>
</table>

Why Spend $340 Billion on a $62 Billion Problem

Given the information above on the extent of poverty and the dollar costs of poverty programs, the following should strike you: If the poverty gap is $62 billion, why do the various levels of government spend more than three times that on poverty programs? The answer is twofold: 1) there are people above the poverty line in need that we choose to help, 2) poverty programs must be terribly inefficient if it genuinely takes $340 billion to cure an $62 billion problem.

Table 2, above, shows that billions more are spent on goods and services than are spent in cash
benefits. Including some minor programs not mentioned in Table 2, cash benefits total around $90 billion, whereas in-kind benefits total $230 billion. Clearly the government spends far more money on programs where it has control over what recipients do. For instance, we think the poor do not have enough to eat, adequate medical services, adequate housing, and so on. Instead of providing them with enough money to pay for these things, the government provides them with what it thinks they need.

If there is a family whose members enjoy good health, it is conceivable they would rather have more money spent on food and less on medical care. They cannot make that substitution. People who live in poverty are denied the ability to make basic decisions when they are given specific goods and services rather than money. In many studies of the poor, it is clear that they value cash more than the goods they are provided. Some food stamp recipients show exactly how little they value food stamps and WIC vouchers by selling them on the black market for 50 cents on the dollar. Why haven’t programs been designed so that people in need receive cash and are then encouraged to make their own decisions on how to spend it?

There are several reasons, but three are obvious. First, through their elected officials, voters have made it clear they do not trust the judgement of the people that receive government benefits concerning what goods they buy. Many believe that if the poor could make good decisions they would not be poor to begin with. Second, people are more concerned with the welfare of needy children than with the welfare of adults. If you look at the programs with this in mind, you will see that nearly all of them require the presence of a child for an adult to be eligible.

If we want to guarantee services for children, it makes more sense to give access to such services to the adult, rather than cash. This minimizes the likelihood that the money will be diverted by
adults away from the targeted children. Lastly, some welfare benefits seem designed more to provide
those who tender them with a feeling of magnanimity than to benefit the poor. If it is our own happiness
we are maximizing and if our happiness is enhanced by the knowledge that we provided the poor with
enough to survive, it may be even more important to us that we ensure that the poor are consuming what
we think is good for them rather than what they want.

**INCENTIVES, DISINCENTIVES, MYTHS AND TRUTHS**

While no one has ever intended this to be the case, many of the programs designed to help the
poor are blamed for ensuring that people who live in poverty and who receive benefits have no incentive
to become self sufficient. The existence of welfare is accused of giving people a reason not to work. It is
blamed for encouraging young women both to get pregnant and to carry the pregnancy to term. Welfare
is accused of encouraging recipients to have more children so that their WIC will be extended and their
food stamps and TANF payments increased. The structure of TANF’s predecessor, AFDC, was
blamed for breaking up poor families by giving them the incentive to have the father leave. Together,
these problems created the concern that welfare was becoming a way of life and that people were
getting used to it.

While from a theoretical perspective, each of the preceding arguments has merit, the evidence
from economic studies is not as one-sided. First, there are several counter-claims. Birth rates among
teenagers climbed steadily from the sixties through the early nineties and leveled off when the states and
then the federal government instituted welfare reforms designed to curb benefits. The truth is that the real
dollar value of benefits per recipient is lower today than it was in the late 1960's. Thus, if poor teenagers
were really considering the value of welfare in making decisions about having children, then teen
pregnancy rates would have fallen from the mid-70's on as the real value of the benefits fell. It is more likely that the culture and teen sex drives had more to do with teen pregnancies than the prospect of receiving welfare checks.

Second, while it was and still is true that the more children you have, the more benefits you get, there is no systematic evidence that people who were on welfare had more children because they were on welfare. If welfare mothers were only concerned for themselves and the benefits they could get, it would make sense that they would have children so they would be eligible for more benefits. What had to have been evident to them, however, is that the increase in benefits does not cover any more than the increased cost of raising an additional child. Unless we want to claim that the poor do not care about their children, there is little likelihood that rational women would get pregnant and do the work of raising an additional child in order to keep a few extra dollars a month. They could make more money with less effort if they cleaned houses on the side.

Third, while it is quite true that families on welfare are far more likely to have absent fathers, it is hard to say whether the father’s leaving was caused by the need to be welfare-eligible or the family became welfare-eligible because the father left. In order to accept the argument that welfare caused a rash of absent fathers you must hold the cynical belief that a well-meaning father would abandon his children so they could receive benefits. Although, this might have been the case prior to 1996, today, after welfare reform, the abandonment would have to be complete. A mother now has to name and state the last known location of absent fathers to get benefits. Clearly, whether the need to apply for welfare leads to the break-up of families that would have stayed together is debatable. The reason that some welfare programs are contingent on a parent’s being absent stems from the conviction that if there are
two able-bodied adults in a household, one of them should be working. Either the problem of absent fathers is a coincidence or it is the price society is paying for building welfare requirements around a view that families with both parents present should not be eligible for assistance unless one is disabled.

Fourth, under AFDC, that is, prior to the welfare reforms of 1996, welfare dependency had been growing at an alarming rate. Twenty-five percent of recipients had been receiving benefits from the program for ten years or more at the same time that the percentage of families that had been on welfare for very short periods of time was falling. In addition, daughters of recipients were tending to become recipients themselves. These circumstances and others like them led Congress and the President to agree to change welfare programs so they incorporated limits on the length of time people could receive benefits and requirements that recipients become gainfully employed.

**WELFARE REFORM**

**Is There a Solution?**

To be successful, a social safety net must meet three goals. First, the program that is designed can not be so expensive that the taxpaying public will not sustain it. Second, the program must have an incentive built in that makes beneficiaries want to leave it. Third, the program must provide enough of a level of basic necessities that recipients have a socially acceptable standard of living. The problem facing policy analysts in the United States has always been that these goals can not be satisfied simultaneously.

Any program must have a phase-out level of income. If the phase out is too quick, meaning that for every dollar you earn you lose significant welfare benefits, the disincentive to work will be too profound. The AFDC program reduced benefits by nearly a dollar for every dollar the recipient earned. This nearly 100% take-back rate meant that, unless you could earn at least twice the minimum wage in a
job, as a single parent with two small children requiring day-care, you were far better off on welfare than working.

If the phase-out is too slow, then too many people will be getting welfare benefits and not enough will be paying taxes. Though this is possible, it violates the first goal, that of having a program that does not cost too much money. On the other hand, the phase out could be slow and of low cost to taxpayers. The problem would then be that there would not be enough money for recipients to survive on.

The implicit choice made by policy makers prior to the reforms of welfare that were instituted in 1996 was to give up on providing incentives to leave the program. The increase in long-term dependency on the program can, at least in part, be blamed on this decision. The near 100% take back rate on AFDC left people with no earned income better off than people making $10,000 a year. The result was that only those recipients who could invest in an education could ultimately afford to leave the program.

Welfare As We Now Know It

In the 1996 reforms, the problem of welfare dependency was tackled by simply ordering people to leave welfare. The institution of time limits was an acknowledgment of the concern that dependency was wrong and that monetary incentives for relinquishing benefits were too expensive. Instead of providing people with incentives to leave the program, they are now told how long their benefits will keep coming. States are given block grants of money (TANF) that they are supposed to use to aid their poor. Instead of having to give it away in cash benefits, as they did under AFDC, they can now spend it on job training, child-care, or tax breaks for businesses that are willing to hire welfare recipients. States
must set time limits of 24 months or less and they must establish work requirements for some programs. Supplemental Security Income rules for disability have changed such that some people who were once eligible for full benefits are now eligible for only partial benefits.

By 1999, welfare case loads had fallen to their lowest point in three decades. Though it is difficult to tell how much of this was due to the robust economy of the 1990's, it is clear that the reforms that were instituted have had some effect. Economists are concerned whether the time-limits, work requirements, and other changes will be able to withstand the next recession. Only time will tell.

CHAPTER SUMMARY

You now understand how it is that poverty is measured, who is poor in the U.S., how the percentage of the population that is poor has changed through the last 40 years, and you are able to describe some of the significant problems with the official poverty rate. You understand the myriad programs that exist for the poor, note that most of the programs grant the recipients goods and services rather than money, and you understand why it is that government does this. Lastly, you are aware of the incentives and disincentives in the welfare state, and you know the welfare reform issues that we currently face.

<table>
<thead>
<tr>
<th>KEY TERMS</th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Poverty Line</td>
<td>Poverty Gap</td>
<td></td>
</tr>
<tr>
<td>Poverty rate</td>
<td>In-kind</td>
<td></td>
</tr>
</tbody>
</table>
Quiz Yourself

We spend ____ on in-kind transfers and ____ on in-cash transfers to help the poor per year.

a) $230 billion, $62 billion
b) $62 billion, $230 billion
c) $100 billion, $100 billion
d) $40 billion, $310 billion

The Poverty Line goes up as the size of the household increases. A doubling of the family size

a) more than doubles the poverty line.
b) exactly doubles the poverty line.
c) less than doubles the poverty line.

The Poverty Rate has hovered between ____ and ____ since 1969.

a) 5-10%
b) 11-15%
c) 16-20%
d) 20-25%

The majority of the poor are

a) white, non-Hispanic.
b) black, non-Hispanic.
c) Hispanic.
d) no one group makes up the majority.

Which of the following is true about poor populations?

a) There are more poor whites than poor blacks.
b) The poor are disproportionately black and Hispanic.
c) The poor are more likely to be children than the elderly.
d) All of the above.

Which of the following programs are in-cash?

a) AFDC/TANF
b) EITC
c) WIC
d) Medicaid
e) a) and b)

Think About This
If we trusted the poor enough to give cash rather than in-kind transfers we could raise every family out of poverty for a third of the money we actually spend. What would the consequences be of a policy that
simply paid cash to everyone in poverty an amount that would raise them out of poverty?

Talk About This
Are economic incentives important to the poor? Do the poor rationally respond to policies like the EITC that encourage work? Are the poor “like everyone else but without the money” or is there something very different about the poor that causes them to be poor?

For More Insight See
*Journal of Economic Perspectives* Summer 1998 Vol 12 No 3 various articles by Edward N. Wolff; Peter Gottschalk; Nicole M. Fortin and Thomas Lemieux; Dale W. Jorgenson; and Robert K. Triest