

EconoFact Chats: Poverty in the U.S.: Causes, Consequences, and the Role of Policy
Diane Schanzenbach, Northwestern University and the University of Florida
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I'm Michael Klein, executive editor of EconoFact, a nonpartisan, web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein

Poverty rose sharply in the United States in the last year. 1 in 8 Americans, 12.4% of us, lived in poverty in 2022. In 2021, the poverty rate was 7.8%. This is the largest one-year jump in poverty rates on record. Even more strikingly, the rate of child poverty more than doubled from 5.2% in 2021 to 12.4% in 2022. This is not because poor people are not working. The labor market has been robust. But that by itself is not enough to bring people out of poverty. What are the sources of this rise in poverty? What are the human consequences of living poor? What can be done to reduce poverty in the United States? To address these questions, I'm very pleased to welcome back to Econofact Chats, one of this country's foremost experts on poverty and poverty reduction programs, Professor Diane Schanzenbach. This past August, Diane became Associate Provost and the Senior Advisor to the President for Academic Excellence at the University of Florida. She is currently on leave from her position as a professor in the School of Education and Social Policy at Northwestern University in Chicago. Diane, welcome back to Econofact Chats.

Diane Schanzenbach

Thanks, Michael. It's great to be back.

Michael Klein

Diane, what was your reaction to the release of these new poverty numbers? Were you surprised by this unprecedented jump in the poverty rate?

Diane Schanzenbach

Michael, we knew this was coming. We knew that when we saw that unprecedented fall over the last two years, that was really driven by some of the extraordinary things that were done to the social safety net during COVID, that when those supports were ended, we were going to see the poverty numbers come back up. But I have to tell you that actually looking at the numbers and seeing child poverty rise from its all time low of 5.2% to more than doubling to 12.4%, when those numbers came out very recently, just felt like a kick in the gut. It was heartbreaking to think about all of the additional children living in poverty because of the policy choices that we

have made to do away with some of these supports that we'll of course talk about more during the course of the podcast.

Michael Klein

We all know that poverty is terrible, but for those of us fortunate enough to not have lived in poverty, we might not fully understand the breadth of problems facing the poor and how poverty dominates not only their day-to-day lives, but their prospects for the future and especially the prospects for their children's future. Can you speak to this?

Diane Schanzenbach

Michael, I am so proud of the research that's been done in economics over the last 10 to 15 years that has really been able to quantify both the impacts of poverty and then particularly the impacts of poverty alleviation. My own work in this area has studied the impacts of SNAP, formerly known as the food stamp program, and it's traced out when families have more access to resources for food. Children are born healthier. They go on to do better in school. They earn more as they grow up. Other people have come along and done research on other social safety net programs like the Earned Income Tax Credit or Medicaid, and study after study after study finds that when we provide relief from poverty through social benefit programs, there's tons of good that happens in the short term, that when poverty is alleviated, food insecurity goes down, children become healthier and are able to do better in school, etc., and then they get more gains out of those investments that we make in them through schooling, through the healthcare system, etc. So they grow up to be healthier, more economically successful, etc. I like to think about at least part of our safety net spending as an investment in the future. Of course, we shouldn't only do it as an investment in the future. I think there's a great moral reason to do social safety net spending because it's the right thing to do to alleviate poverty and hunger in our neighbors. But as an economist, I would be a fool not to underscore that there's also some social benefit that we all get by making sure that kids are growing up with enough.

Michael Klein

There is, of course, that fiscal argument, but overriding all of this, I think, is the moral argument, and one of the things that's probably important here to note is that there are different poverty rates among different groups, children versus middle-aged people versus the elderly, between men and women, across different ethnic and racial groups. What do the statistics say about that, Diane?

Diane Schanzenbach

In a little bit, I think we'll get into their different measures. Mostly, I think we're going to talk about the supplemental poverty measure, which is the poverty measure that we prefer because it takes into consideration how much it really costs to live, and also takes into consideration not only what your earnings are, but also the benefits that the government gives you. We'll unpack

that a little bit later, but just up front, I want to say, that's what I'm going to rely on is the supplemental poverty measure approach. When we use that, we can see that the elderly and children are more likely to live in poverty than adults. To be sure Black and Latino families, especially Black and Latino children, are more likely to live in poverty than White and Asian families, and White and Asian children. Women are a little bit more likely to live in poverty than men, and some of that is about women being more likely to become elderly because of life expectancy, etc. A lot of the things that you have stereotypically in your head are true. Some of the gaps between Blacks and Whites, and Hispanics and Whites are just frankly staggering. There's more than a 10 percentage point difference in the poverty rates between Black and White children, so this year's numbers, 7% of White children were poor, and 18% of Black children were poor. That is nearly one in five for both Black and Latino children, and that is just a staggering number.

Michael Klein

It really is. So let's go back to what you said, these differences in poverty rates, the official poverty measure and the supplemental poverty measure. That's, I guess, quite important. Can you describe in a little bit more detail what the differences [are] between the two?

Diane Schanzenbach

So the official poverty measure has been with us for a long time and people who, you know, maybe have taken a class in this might remember that in 1960s, Mollie Orshansky from the Social Security Administration was tasked with trying to figure out how many people in the United States were poor. So she based it on how much does it cost to feed a family. So there was such a thing, there still is such a thing called the Thrifty Food Plan, and they took that and multiplied it by three to account for how food was about a third of a family's budget at the time, and we used that as a threshold. Basically, since then, all we've done is adjusted for inflation. Well, you can imagine that there's pros and cons to this measure. A big pro is that, well, it's basically a stable measure over time, and there's a lot of benefit to stability. But the big cons include, well, it doesn't adjust for a lot of the social safety net spending that we do, for example, through SNAP, the Supplemental Nutrition Assistance Program. It also, for example, sets the same poverty threshold in every state, even though there's wildly varying costs of living, let's say, between New York and Alabama, etc. So seeking to improve on these limitations of the official poverty measure, researchers for decades worked on trying to improve the measurement and, of course, I would be remiss not to talk about the leadership of the great work of Rebecca Blank, who left us earlier this year, who was supposed to be our president at Northwestern University and was just a giant in all things poverty policy and poverty alleviation. It was really a pioneer and I saw that when the poverty numbers came out this week, the poverty report was dedicated to her memory and it really was touching, and just underscored how important careful measurement and the work that we do can make a difference.

Michael Klein

Yeah, I saw the obituary for Becky Blank as well and it's really very impressive what she did and very sad that she left us all too early. But when we look at these two different measures of poverty, the official poverty measure and the supplemental poverty measure, do they diverge quite a bit? I guess there's the importance of differences across states, but also over time, do we see a big divergence?

Diane Schanzenbach

Sure. So the supplemental poverty, there's a couple of things. One is how we think about resources and they include the broader measures. The other is how we think about what it means to be poor. Some of it varies over time and space and also it's more anchored to what people actually spend, and that happens in a way that's updated every year in a rolling manner. Normally that's super in the weeds but in a time where we have had such inflation like we've had in these last couple of years, that really matters. And so one thing that's interesting across the two measures is this year the supplemental poverty measure had a larger inflation adjustment than the official poverty measure because just the things that people are buying are more expensive and this reflects that better. So that's a fact just about the differences. Now usually over time, they've tracked each other reasonably well. They sort of move together but it's really in these last couple of years as we've made unprecedented changes to the social safety net in response to COVID that they've really diverged.

Michael Klein

Can you talk a little bit, Diane, about the changes to the safety net that we saw in the period before COVID from earlier, decades earlier even, I guess, and what happened in COVID, and then what happened subsequently most recently to lead to the spike in poverty?

Diane Schanzenbach

Absolutely. We start measuring poverty back in the 1960s...the late 1960s, and of course that was during the war on poverty, and you know one thing to say is that the supplemental poverty measure shows poverty being much higher back in 1967 than the official poverty measure. So that's one place where they really diverged. But as we started expanding the war on poverty, we saw just a sharp decline in poverty rates over about a 10 or 15 year period. The supplemental poverty measure dropped from nearly 20% down to about 14% so a huge reduction in poverty. Over that time period, you remember there was the terrible recession, the double dip recession in the early 80s and so poverty increased then, and then fell with the economic expansion. Poverty, of course, ebbs and flows just like the economy does. Then was creeping up again with that next recession in the early 1990s, and then you may remember that in the mid 1990s, Bill Clinton decided to end welfare as we know it, and both signed a welfare reform that ended universal cash welfare, which generally wasn't enough to lift people out of poverty in the first place, and pushed a lot of our social safety net spending into work conditioned spending. So that was the big

expansion in the earned income tax credit and what we see now is much more of the amount of money that we spend on social safety net programs goes to workers either because it's conditioned on you can only get this if you're working, or it happens that a lot of people who are low income enough to qualify for these for these programs are also working. And so Hilary Hoynes and I had done some work a couple of years ago demonstrating that almost all of the increase in safety net spending over time has gone to workers, and it really has gone overwhelmingly to families above the poverty line.

Michael Klein

What happened with COVID, that was a big expansion in the safety net right?

Diane Schanzenbach

Right well so if you don't mind let me back up a little bit which is to say that you know during the great recession right which was a terrible recession we forget how bad that one was because it's all dwarfed by COVID, we saw that the safety net that was you know really focused on work didn't perform as well as we wish it would and so many of us did a lot of work to try to understand how to make the safety net more responsive to the next economic downturn and I'm just very proud that we had a playbook ready for policymakers during COVID. So then during COVID you know of course you know it was an emergency we had to do a lot of things at once, but I sort of think about them in four big buckets. The first is you know there are a lot of known drawbacks to unemployment insurance. A lot of low-income workers fall through the cracks of unemployment insurance, and the benefit levels are low so Congress made policy changes to fix those. The second big bucket is SNAP benefits and what they did was decide to give everybody the maximum benefit which were pretty large increases for people who are already on SNAP. So that was a big amount of money. The third is remember those economic impact payments that were lump sum across a broad array of families. What we found in our analysis was that that raised a lot of people out of poverty even though it was not targeted to the poor. We spent a lot of money on those economic impact payments but just by virtue of how large they were relative to family income, they lifted a lot of kids out of poverty. And then finally is the child tax credit which I'd love to dive into a little bit more.

Michael Klein

Go ahead.

Diane Schanzenbach

So normally the child tax credit is not fully refundable and so what that means is if you line up children from the poorest child to the highest income child – of course it's not the children's money it's their family's money – but the bottom 20% or so don't get any money from the child tax credit, and the next 13%, so we're up to a the bottom third of kids, don't get the full amount. And given what we know about how large the returns are to money to the lowest income kids,

that doesn't seem like a good way to design a social safety-net policy. Now of course you know the other side would say well it's really important to have incentives for employment, but I would argue that we've got a lot of incentives for employment baked into a lot of other aspects of the social safety net. So during COVID they made that child tax credit fully refundable which means that all the children had access to the full amount, and so that bottom third all saw an increase up to the regular benefit. And then at the same time they raised the amount of the child tax credit from the old amount to a larger amount. And then furthermore, following the science they said let's give even a larger boost to the youngest children for a couple of reasons. One is we think that it's most important to protect them from spates of poverty. And then two, often the parents are at their lowest earning time when the children are young just because of the age earnings profile. And so let's give extra protection there. So all of those things happened together and that is what drove this historic decline in child poverty.

Michael Klein

And then the reversal of this led to the historic increase in the last year, correct?

Diane Schanzenbach

That's exactly right. That's exactly right. You know Michael there are emerging studies coming out of this, and you know you see that food insecurity goes down, and economic hardship goes down. People are able to pay their bills more etc. There's real good that comes from making sure that low income families with children have the resources that they need to get by.

Michael Klein

So since you're speaking about good, let's move from the economic to theological. In the Bible it says 'the poor will always be with you,' and some people take that to mean that we should just accept the fact of poverty. But of course that's a misreading and it's taken out of context. The next sentence in the Bible is 'therefore I command you, you shall open your hand wide to your brother to the needy and to the poor in your land.' So if there is a modern version of this I would say the next sentence should be 'therefore I command you to have a strong and robust social safety net.' As you're saying the safety net plays a very important role in alleviating poverty, correct?

Diane Schanzenbach

That's right. What we see from this drop and then rebound is that poverty in the United States is a policy choice that we're making. And especially in light of some of the other conversations we're having about poverty in this nation right now I want to emphasize that our biggest lever against poverty is the social safety net, and the choices that we make about how to design and implement that.

Michael Klein

Diane earlier you mentioned that with the Great Society programs poverty fell from 20% to 14%. There was a book that was published earlier this year that got a lot of attention. The book is 'Poverty, by America' by the Princeton sociologist Matthew Desmond. And one part of Professor Desmond's book seems to agree with the statement that the poor will always be with us. He argues that poverty in the United States has not improved in 50 years. That doesn't seem to be consistent with what you stated before.

Diane Schanzenbach

I don't think that that portrayal is correct. You know he argues that oh it's you know just goes up and down kind of a gently flowing hills, which I just think is a misread of the data entirely. The first, there was a big drop and what caused that big drop was our introduction of the war on poverty. What caused the next increase was terrible recessions et cetera. I just reread 'Poverty, by America,' which, you know, Matt Desmond is a fantastic writer. He tells a compelling story but I think that he misses the boat on the relative importance of a robust safety net and the importance of supporting a robust safety net, and understanding that and its role in the economy writ large, versus interpersonal choices that people make.

Michael Klein

Is he using the official poverty measure instead of the supplemental poverty measure when he's looking at the data?

Diane Schanzenbach

You know so he argues that it can't be chalked up to how the poor are counted. The different measures spit out the same embarrassing result, and I think that's really about the fact that these two measures track each other from about 1975 to about a couple of years ago. But the piece that you can't miss is the two time periods where we really change the social safety net are where they diverge. And it's that that is going to really make a difference in poverty because it's a policy choice. It's not an interpersonal choice.

Michael Klein

Well you say it's a policy choice. Professor Desmond argues that it's the middle class and the rich in this country who benefit from having the poor stay poor. What do you say to that argument?

Diane Schanzenbach

Again you know it's a compelling book it's very interesting to read. It makes one think about where you shop and how you spend your dollars and who you tip etc. But economists think about interactions like that as having the drop in the bucket problem right? And so even if I decided to radically change all of my consumer behavior and only shop at local organically farmed etc etc outlets it would not move the needle in any meaningful way, and frankly if instead of all of that

effort and money I used a portion of it to volunteer at my local food bank I think there would be greater good coming out of that. So I think he oversells the power of individual choices, and undersells the power of our collective work. Now the second thing I want to say – actually is where I should have started, and this is where we actually even started the whole podcast. What Desmond fundamentally gets wrong is that we do not benefit from poverty. Society is harmed by poverty because of poverty we have less productivity in the country, we have more crime we have more you know need. If we reduced poverty eliminated poverty we would all be better off. I just think he's got it exactly backwards we don't have poverty because it benefits us. We have poverty because we make the wrong policy choices. And if we made better policy choices we would all be better off.

Michael Klein

So that part is very important I think the sort of quantification of it. That where I shop doesn't matter nearly as much as say who I vote for and what through the political process I try to have achieved. And as you mentioned the government's programs is a representation of people's will and it also as we've seen can actually change poverty a lot. Melissa Kearney was on this podcast and she had this example of if we devoted the same resources to alleviating child poverty that we've used to alleviate poverty among the elderly – which was really terrible before social security, we'd reduce the child poverty rate to something like two percent.

Diane Schanzenbach

She is exactly right, this is a policy choice that we're making and it says something about our societal priorities that we have made the choice to reduce elderly poverty, but have not done the same for children.

Michael Klein

Children don't vote, the elderly do, right?

Diane Schanzenbach

But boy, children grow up to be our future workforce to drive future innovation, to make things better. And if we fail to invest in them we fail to realize so many of those gains. Right if you look at some of Raj Chetty's work with many co-authors, about the income distribution and then various outcomes, of course there's life expectancy really varies, and educational outcomes. But then some of the really interesting things he shows is the number of inventors right? Is highly correlated with your childhood income. If we pushed up childhood income reducing poverty, I think the statistics indicate that we would have more innovation. We would have more growth. We are shooting ourselves in the foot, and doing what I think you and I both agree, and probably most of our readers agree...or listeners agree – is just morally wrong.

Michael Klein

Yeah there's both the moral case and the economic case, and Diane thank you very much for speaking with me today about both sides of this– and what's really a scourge in our country and something that hopefully policy will be able to address and reduce poverty, and especially childhood poverty so thank you, Diane, for joining me today.

Diane Schanzenbach

Thanks Michael.

Michael Klein

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