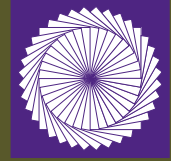


# Fast Focus



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No. 7–2010

*As a service to the State of Wisconsin and in collaboration with federal and nongovernmental entities, researchers at the Institute for Research on Poverty (IRP) have undertaken a new initiative related to the measurement of poverty. The Wisconsin Poverty Project, discussed here in this brief, involves innovative use of data to gain a broader, more complete view of both needs and resources on the state and local levels. The new Wisconsin Poverty Measure was devised to improve understanding of the level of need in a given region and of the efficacy of public programs aimed at reducing economic hardship. Work on the Wisconsin-specific measure is one of several research efforts of university, government, and private agency researchers across the United States to develop alternative poverty estimates at the local, state, and national levels. The U.S. Census Bureau and the Bureau of Labor Statistics are leading federal efforts to develop the new Supplemental Poverty Measure (SPM). To support this work, IRP is developing on its Web site an SPM technical resource to disseminate ongoing research to all researchers interested in this topic. The authors of this brief gratefully acknowledge the work of John Coder of Sentier Research, LLC, who provided the tax simulations for the Wisconsin Poverty Measure and for the 2009 tax provisions, including those under the American Recovery and Reinvestment Act (ARRA). The authors also wish to thank Sheldon Danziger for sharing excellent comments on the original October 2010 brief.*

## December 2010\*

*\*This brief is a revision of Fast Focus No. 7-2010, which was originally issued in October 2010. The first version of the brief contained only two of the provisions of the ARRA (i.e., increased SNAP benefits and expanded tax credits), while this final version presents results for a simulation using four provisions: SNAP benefits, refundable tax credits (EITC and Child Tax Credit), Making Work Pay Credit, and Economic Recovery Payment.*

## The effects of the 2009 ARRA on poverty in Wisconsin

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The 2009 American Recovery and Reinvestment Act (ARRA) contained a number of provisions that bolstered the safety net for poor families with children. These included

expansion of the federal Earned Income Tax Credit (EITC) and the refundable Child Tax Credit, and a 14 percent increase in the value of maximum benefits for the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps) effective on April 1. They also included an expansion of Unemployment Insurance (UI) and related benefits; for instance, COBRA benefits that help families keep employer-provided health insurance while on layoff.<sup>1</sup>

The ARRA as a whole, including its assistance to state governments for retaining public employees, maintaining Medicaid, and beginning new capital projects, has been both praised as a success<sup>2</sup> and derided as a failure.<sup>3</sup> But so far there has been little direct analysis of the income support features of the ARRA.<sup>4</sup>

*Fast Focus is an occasional, electronic-only supplement to Focus on recent poverty research.*

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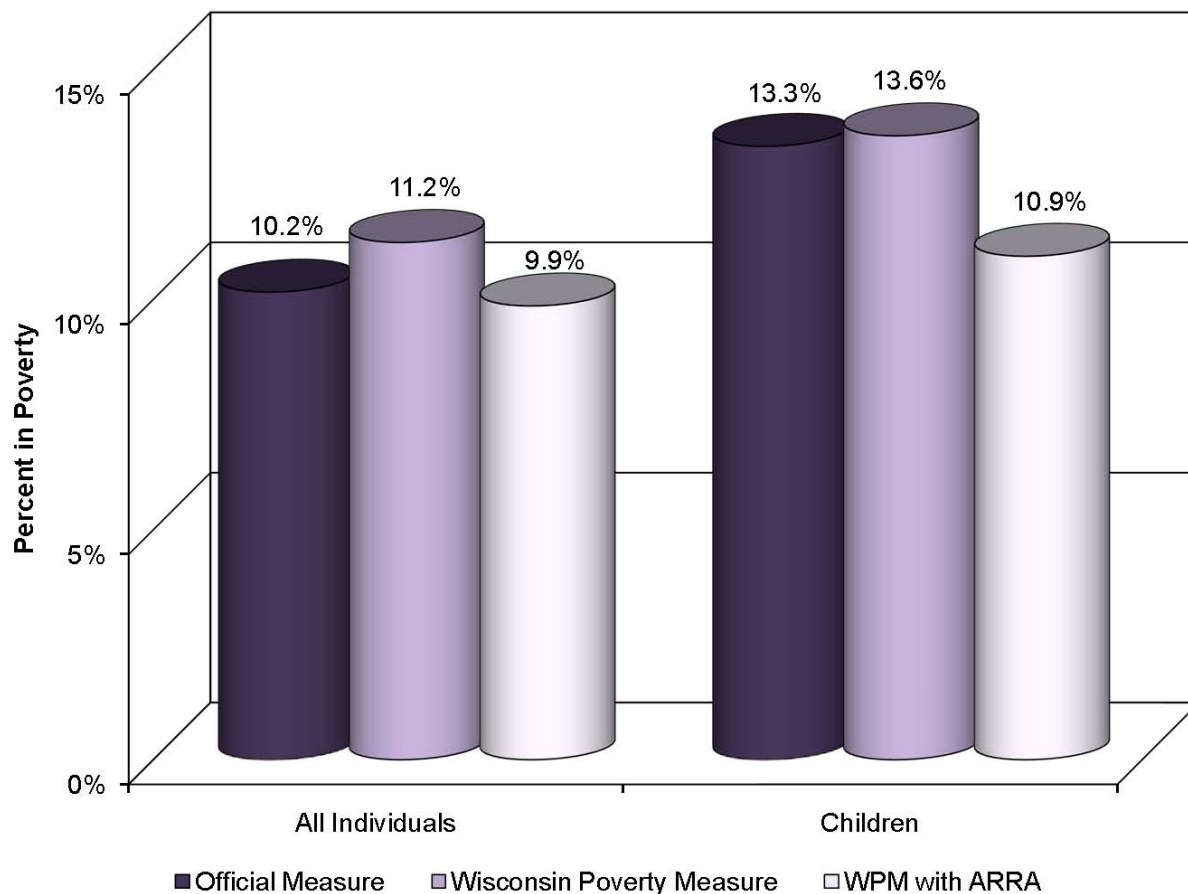


Figure 1. Poverty rates under official and Wisconsin poverty measures, and under the Wisconsin measure with selected ARRA policies simulated.

Source: IRP tabulations of 2008 American Community Survey data augmented with state administrative data, Wisconsin Poverty Measure methodology, and policies under the American Recovery and Reinvestment Act (same for all figures).

A recent Census Bureau publication on national poverty rates suggested how *overall* SNAP, refundable tax credit, and UI benefits helped keep millions of people out of poverty.<sup>5</sup> But these estimates include the combined effects of the original programs *and* the ARRA expansions. Many state income tax systems also enhanced EITC benefits, and many states have seen large expansions in SNAP enrollment. State policymakers are also interested in empirical estimates of the effects of the federal ARRA in conjunction with their own antipoverty programs in their states. Wisconsin is one of those states.

### The Wisconsin Poverty Measure

In Wisconsin, we have built a model to estimate state poverty and the effects of policy changes, such as those in the ARRA, on poverty rates. The official poverty measure captures only pre-tax cash income and omits the effectiveness of many federal and state antipoverty policies such as nutrition assistance (SNAP) and the state and federal EITCs. Researchers at the University of Wisconsin–Madison’s Institute for Research on Poverty created a Wisconsin-specific measure

that more accurately reflects resources and need through a broader, more complete view of poverty in the state. The measure mirrors many of the National Academy of Sciences (NAS) recommendations, as well as the new Supplemental Poverty Measure currently being developed by the Census Bureau.<sup>6</sup>

All poverty measures require two components: a measure of economic need and a comparable and consistent measure of resources, like income, to meet those needs. The Wisconsin measure of resources includes cash income, plus major non-cash benefits: taxes, SNAP (food stamps), public housing, and energy assistance, less work expenses such as child care and transportation. Our threshold (measure of need) is based on the threshold recommended by the NAS, although we make an adjustment for Wisconsin’s lower cost of living relative to the nation. We also make adjustments to need based on differences in cost of housing by type, differences across geographic regions within the state, differences in family size and composition, and differences in expected out-of-pocket medical expenses. These adjustments determine a level of need specific to each poverty unit, which is then compared to the unit’s available resources to determine

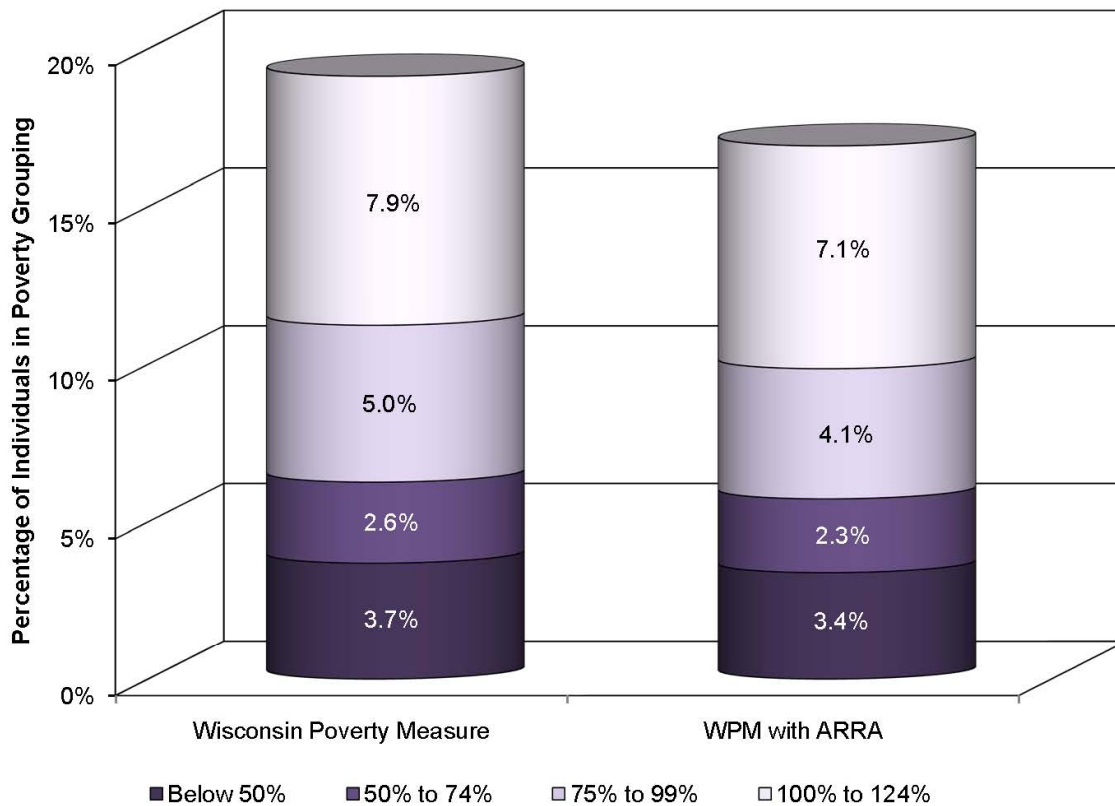


Figure 2. All individuals with income below 50%, 75%, 100%, and 125% of poverty, under the Wisconsin Poverty Measure and under the Wisconsin measure with selected ARRA policies simulated.

poverty status. The base poverty line for a family of four in Wisconsin was therefore \$24,842 in 2008 (before medical out-of-pocket expenses and other adjustments), compared to the national official poverty line of \$21,834.

To assess resources and needs, we used a data extract of the American Community Survey (ACS) for 2008 from the Integrated Public Use Microdata Series (IPUMS), supplemented with administrative data collected in the state of Wisconsin.<sup>7</sup> The ACS collects sufficient data to allow us to report poverty rates for the 10 largest counties in Wisconsin (including six sub-county breakdowns within Milwaukee), as well as for 12 multi-county areas that encompass the rest of the state. Here we report only on the overall effects of benefit programs and the ARRA for Wisconsin. For more on the *Wisconsin Poverty Report*, including the report on poverty in 2008, a methodological paper, and a technical appendix, see the IRP Web site (<http://www.irp.wisc.edu/>).

The improved Wisconsin measure for 2008 finds a somewhat higher overall poverty rate in Wisconsin in 2008, 11.2 percent, rather than 10.2 percent found in the official measure. Poverty rates for children in Wisconsin also are slightly higher under the Wisconsin Poverty Measure, with child poverty rising from 13.3 percent to 13.6 percent (see Figure 1).

Poverty rates would be even higher, by 2.0 percentage points overall, without the financial resources provided by

the existing tax credits, nutrition assistance under SNAP, public housing, and energy assistance in 2008. Much of this reduction in poverty is attributable to refundable income tax credits and SNAP assistance, each of which reduces poverty rates by 0.9 percentage point. By counting these resources available to families, as well as reducing family income by the amount spent on work-related costs and out-of-pocket health care expenses, the new measure provides a more complete picture of who is living in poverty in Wisconsin and how antipoverty policies are affecting those they target. The model for the Wisconsin Poverty Measure will soon be made available to other states and localities seeking to develop their own measures of poverty along the lines of the NAS recommendations.

### Estimated effects of the ARRA in Wisconsin

The ACS microdata for 2009—the year that the ARRA went into effect—have not been released for public use yet. When this information is available, it will allow us to analyze the effects of public programs, taking into account the expansions under the ARRA. We expect that the 2009 benefit package with the ARRA helped reduce poverty even more than the existing 2008 benefit package. But even with expanded public benefits, we still expect poverty to rise in 2009 and 2010 in Wisconsin, because of the depth and breadth of the economic recession and its effect on employment.

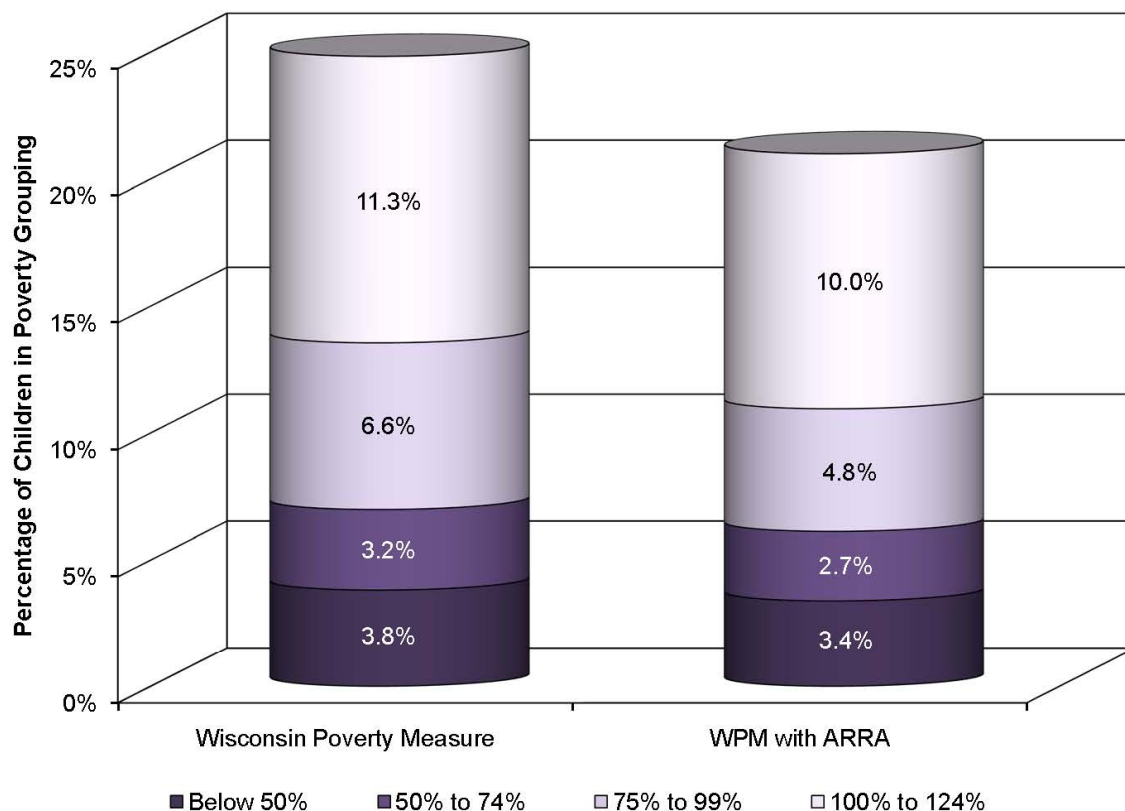


Figure 3. Children with income below 50%, 75%, 100%, and 125% of poverty, under the Wisconsin Poverty Measure and under the Wisconsin measure with selected ARRA policies simulated.

In fact, the first reports from the ACS using poverty rates based on only pre-tax money income and released by the Census Bureau on September 28 suggest that poverty rose nationwide by 1.0 percentage point and in Wisconsin by 2.0 percentage points from 2008 to 2009.<sup>8</sup> Child poverty nationwide rose by 1.7 percentage points to 20.0 percent according to the ACS release, but child poverty in Wisconsin rose by a larger amount—by 3.3 percentage points, albeit from a lower base.<sup>9</sup>

The use of need-based programs also increased in 2009, as the number of people receiving SNAP increased by 23.5 percent nationwide and by 40.2 percent in Wisconsin from December 2008 to December 2009.<sup>10</sup> And the average unemployment rates in the United States and in Wisconsin were both substantially higher in 2009 than in 2008 as the recession’s impact on households expanded. The national unemployment rate rose from 5.8 percent to 9.3 percent; the Wisconsin rate showed an even larger rise, from 4.8 percent to 8.5 percent.<sup>11</sup>

Therefore, we expect poverty to be higher again in 2009 compared to 2008 using the Wisconsin Poverty Measure. But no matter what the overall levels and trends in poverty turn out to be, the answer to the question, “Did the ARRA provisions help reduce poverty?” is yes, and especially among children.

In order to ascertain the effect of the ARRA on poverty in Wisconsin, we estimated poverty in 2008, had the 2009

ARRA refundable tax credit and SNAP provisions been in effect. Specifically, we updated the Wisconsin tax estimates to follow 2009 rules, thereby capturing the ARRA expansions in EITC amounts for families with three or more children and families with married couples, the expanded eligibility of families with earnings below \$12,550 for the refundable portion of the Child Tax Credit, and the Making Work Pay Credit of up to \$400 for heads of households or those who file single tax returns, and up to \$800 for those who file joint tax returns. We also simulated a 14 percent increase in SNAP benefits and the \$250 Economic Recovery Payment for Social Security recipients age 18 years or older. With the exception of the increase in Social Security, we focused mainly on noncash benefits and tax credits in this simulation and did not estimate the effects of the expansions in unemployment benefits.<sup>12</sup>

Our simulation of the ARRA on 2008 ACS data is not the same as the *actual* 2009 effects, which we will estimate when the 2009 data are available.<sup>13</sup> Our SNAP estimates, for example, are conservative, because we simulated a 13.6 percent increase in benefits for families receiving SNAP benefits during the 2008 ACS, before enrollment expanded in response to the recession.<sup>14</sup>

Figure 1 shows the simulated effects of the ARRA on poverty in Wisconsin for 2008. Had the ARRA tax credit expansions and SNAP benefit increases been in effect, their combined impact would have been to reduce poverty in Wisconsin by

1.4 percentage points overall, a reduction on top of the 2.0 percentage point reduction in poverty due to public benefits before the ARRA. The ARRA provisions would have had an even larger effect among families with children, reducing the poverty rate by 2.6 percentage points for children. These reductions in poverty rates would have translated into 75,000 fewer poor persons, including 35,000 fewer poor children than there actually were in Wisconsin in 2008.<sup>15</sup>

Of course, the measure of the ARRA's effectiveness should not be limited to counting the number of people raised above the Wisconsin poverty line (\$24,842 for a family of four in Wisconsin in 2008). Also of interest is how the ARRA increased resources for individuals throughout the low end of the income distribution who are near our Wisconsin Poverty Measure threshold. As shown in Figures 2 (for all households) and 3 (for children only), the ARRA reduced the percentage of individuals with income below 50 percent and 75 percent of the Wisconsin Poverty Measure. While effects varied across groups, the ARRA helped move all those below 75 percent of poverty up in the income distribution and improved their income circumstances—when income is measured comprehensively to include taxes and noncash benefits.

## Conclusion

In this short report we show the usefulness of the Wisconsin Poverty Measure for estimating the effects of policies designed to help low-income families, especially those with children, escape poverty. Counting the full effect of the cash and near cash safety net on poverty is critical to understanding how well we fight poverty in Wisconsin and in the nation as a whole. A better understanding of how these policies support low-income families is of particular importance at this time, as poverty among all persons, and especially among families with children, is increasing. Indeed, almost all who study poverty foresee a higher rate in 2010 than in 2009.<sup>16</sup>

We have shown how the ARRA expansion of the safety net, enacted in February 2009 to simultaneously stimulate the economy and mitigate the effects of the recession on individuals and families, has indeed served to reduce poverty below what it might have been without these actions. Our estimates show that the 2009 ARRA strengthened the already large antipoverty effects of both refundable tax credits and SNAP in Wisconsin, cutting poverty levels by an additional 1.4 percentage points for all families and by 2.6 percentage points for children.

In future years, we will also calculate the impacts of the ARRA on poverty in 2009, 2010, and again in 2011, after the scheduled expiration of the EITC and Child Tax Credit expansions under the ARRA. But unless the ARRA tax credit provisions are extended by Congress and the President to 2011, we expect to see a larger increase in poverty than would otherwise be the case in Wisconsin and nationwide in that year.

The long-term answer to poverty is more jobs, not more benefits alone. But in an era where unemployment is high and jobs are scarce, especially for those with little education or job qualifications, programs like the ARRA help the least able among us to meet their most basic needs and have a little better quality of life, one that we feel they, and especially their children, deserve. ■

<sup>1</sup>G. Burtless, "The 'Great Recession' and Redistribution: Federal Antipoverty Policies," *Fast Focus* 4-2009 (December 2009). Available at <http://www.irp.wisc.edu/publications/fastfocus/pdfs/FF4-2009.pdf>.

<sup>2</sup>A. S. Blinder, and M. Zandi, "How the Great Recession Was Brought to an End." Available at <http://www.economy.com/mark-zandi/documents/End-of-Great-Recession.pdf>; Congressional Budget Office, *Estimated Impact of the ARRA on Employment and Economic Output from January 2010 through March 2010*, May 2010. Available at <http://www.cbo.gov/ftpdocs/115xx/doc11525/05-25-ARRA.pdf>.

<sup>3</sup>A. Reynolds, "Old Theory of Keynesian Stimulus Comes Up Against Hard New Facts," Cato Institute, September 2010. Available at [http://www.cato.org/pub\\_display.php?pub\\_id=12143](http://www.cato.org/pub_display.php?pub_id=12143); A. Kling, "How the Blinder-Zandi Study was Done," The Library of Economics and Liberty, July 28, 2010. Available at [http://econlog.econlib.org/archives/2010/07/how\\_the\\_blinder.html](http://econlog.econlib.org/archives/2010/07/how_the_blinder.html).

<sup>4</sup>For more on the broad outlines of the ARRA and its effects on spending and family incomes from a macro perspective, see G. Burtless "Crisis No More. The Success of Obama's Stimulus Program," *Pathways* (Summer 2010): 24–28. Available at [http://stanford.edu/group/scspi-dev/\\_media/pdf/pathways/summer\\_2010/Burtless.pdf](http://stanford.edu/group/scspi-dev/_media/pdf/pathways/summer_2010/Burtless.pdf).

<sup>5</sup>C. DeNavas-Walt, B. D. Proctor, and J. C. Smith, *Income, Poverty, and Health Insurance Coverage in the United States: 2009*, U.S. Census Bureau, Current Population Reports, P60-238, September 2010, Washington, DC: U.S. Government Printing Office. Available at <http://www.census.gov/prod/2010pubs/p60-238.pdf>.

<sup>6</sup>C. F. Citro, and R. T. Michael, eds., *Measuring Poverty: A New Approach* (Washington, DC: National Academy of Sciences, 1995); J. Iceland, "The CNSTAT Workshop on Experimental Poverty Measures, June 2004," *Focus* 23 No. 3 (2005): 26–30; U.S. Office of Management and Budget Interagency Technical Working Group, "Observations from the Interagency Technical Working Group on Developing a Supplemental Poverty Measure," March 2010. Available at [http://www.census.gov/hhes/www/poverty/SPM\\_TW-GObservations.pdf](http://www.census.gov/hhes/www/poverty/SPM_TW-GObservations.pdf).

<sup>7</sup>S. J. Ruggles, T. Alexander, K. Genadek, R. Goeken, M. B. Schroeder, and M. Sobek, *Integrated Public Use Microdata Series: Version 5.0* [Machine-readable database], Minneapolis: University of Minnesota, 2010. Available at <http://usa.ipums.org/usa>.

<sup>8</sup>A. Bishaw and S. Macartney, "Poverty: 2008 and 2009," American Community Survey Briefs, U.S. Census Bureau, September 2010. Available at <http://www.census.gov/prod/2010pubs/acsbr09-1.pdf>.

<sup>9</sup>Wisconsin Council on Children and Families, *New Census Data: Families Struggle in 2009*, September 2010. Available at [http://www.wccf.org/pdf/poverty\\_2009\\_acs\\_092810pr.pdf](http://www.wccf.org/pdf/poverty_2009_acs_092810pr.pdf).

<sup>10</sup>U.S. Department of Agriculture Food and Nutrition Service, "Program Data: Supplemental Nutrition Program," 2010. Available at <http://www.fns.usda.gov/pd/34SNAPmonthly.htm>; Wisconsin Department of Health Services (WDHS), "FoodShare Wisconsin Program at a Glance," 2010. Available at <http://www.dhs.wisconsin.gov/foodshare/pdf/ata glance/2009/Atag glance200912.pdf>; WDHS, "FoodShare Wisconsin Program at a Glance," 2009. Available at <http://www.dhs.wisconsin.gov/foodshare/pdf/ata glance/2008/Atag glance200812.pdf>.

<sup>11</sup>U.S. Bureau of Labor Statistics, "Household Data. Employment Status of the Civilian Noninstitutional Population, 1940 to Date," 2010. Available at <ftp://ftp.bls.gov/pub/special.requests/lfi/aat1.txt>; U.S. Bureau of Labor

Statistics, "Regional and State Unemployment, 2009 Annual Average Summary," 2010. Available at <http://www.bls.gov/news.release/srgune.nr0.htm>.

<sup>12</sup>Although we would like to model this effect, it would require further refinement of our model, which does not yet distinguish unemployment benefits from Veterans' benefits, child support, alimony, and other regularly received sources of income not listed separately in the ACS data. A recent Congressional Budget Office (CBO) report found that unemployment benefits (including but not limited to the ARRA expansions) reduced the official poverty rate by 0.8 percentage points nationally in 2009. See CBO, *Unemployment Insurance Benefits and Family Income of the Unemployed*, November 2010. Available at <http://www.cbo.gov/ftpdocs/119xx/doc11960/11-17-UnemploymentInsurance.pdf>.

<sup>13</sup>When we have the microdata for 2009 we will compare those to the results in this paper that simulate ARRA's tax and SNAP provisions as well as other federal and state tax provisions on 2008 income. We did not change the poverty line from 2008 to 2009, but consumer prices increased by an average of 1.4 percent in 2008 and in 2009; see Bureau of Labor Statistics, "CPI Detailed Report: Data for February 2010," February 2010. Table 26. Historical Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by commodity and service group and detailed expenditure categories. Available at <http://www.bls.gov/cpi/cpid1002/pdf>.

<sup>14</sup>Our SNAP simulation was a simple 13.6 percent increase in annual SNAP benefits. The actual ARRA provision increased benefits partway through the year, on April 1, and increased the *maximum* benefit by 13.6 percent, resulting in a somewhat higher (roughly 17 percent) increase in average benefits.

<sup>15</sup>We do not simulate any behavioral response, nor have we estimated any within-state effects at this time. We also ignore the effects of the 2009 ARRA extended unemployment compensation provisions including those for maintaining employer-based health insurance. These provisions might have affected out-of-pocket medical expenses by making them higher (due to insurance premiums over and above the ARRA subsidies) or lower (due to the effects of health insurance in reducing out-of-pocket medical costs).

<sup>16</sup>E. Monea, and I. Sawhill, An Update to "Simulating the Effect of the 'Great Recession' on Poverty," September 16, 2010, Brookings Institution. Available at [http://www.brookings.edu/~media/Files/rc/papers/2010/0916\\_poverty\\_monea\\_sawhill/0916\\_poverty\\_monea\\_sawhill.pdf](http://www.brookings.edu/~media/Files/rc/papers/2010/0916_poverty_monea_sawhill/0916_poverty_monea_sawhill.pdf); T. Smeeding, J.P. Thompson, E. Burak, and A. Levanon, "Income, Inequality, and Poverty over the Early Stages of the Great Recession," in *The Great Recession*, eds. D. Grusky, B. Western, and C. Wimer (New York: Russell Sage Foundation, forthcoming).

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