



INSTITUTE *for*
RESEARCH *on*
POVERTY

UNIVERSITY OF WISCONSIN-MADISON

Causes of Poverty

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For

Poverty 101

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Research | Training | Policy | Practice

A Difficult Topic

- No comprehensive evidence enabling assignment of responsibility to various causes.
- Lots of studies of individual possible factors.
- Peoples views are mixed up with political values.
- We will discuss the primary factors, using a broad brush.

Causes of Poverty

- Labor market issues
- Education
- Demographic Characteristics: Age and Family Structure
- Race
- Poverty-related Policies
- Cultural Factors

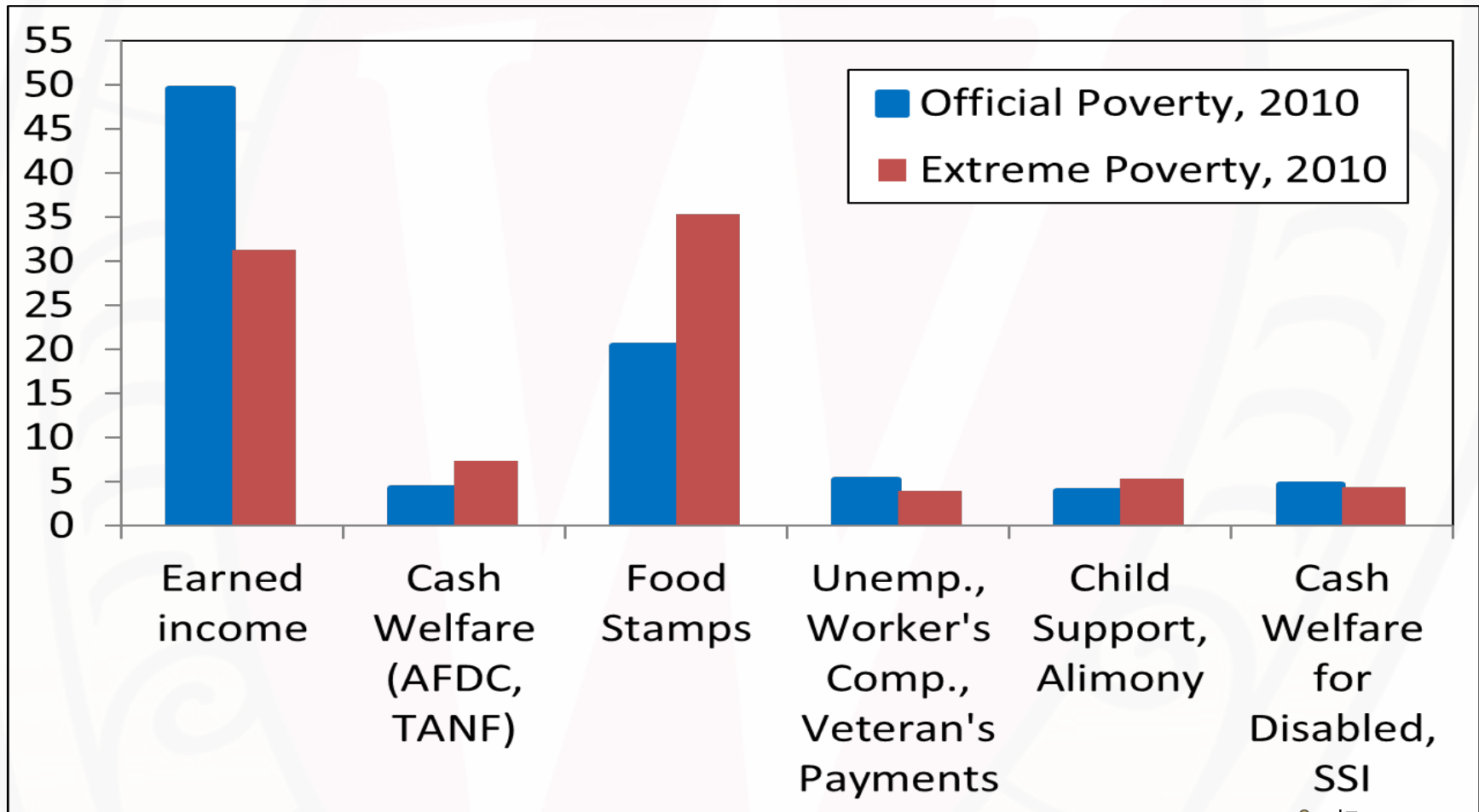
Causes of Poverty

- Labor market issues

Labor Market Opportunities and Poverty

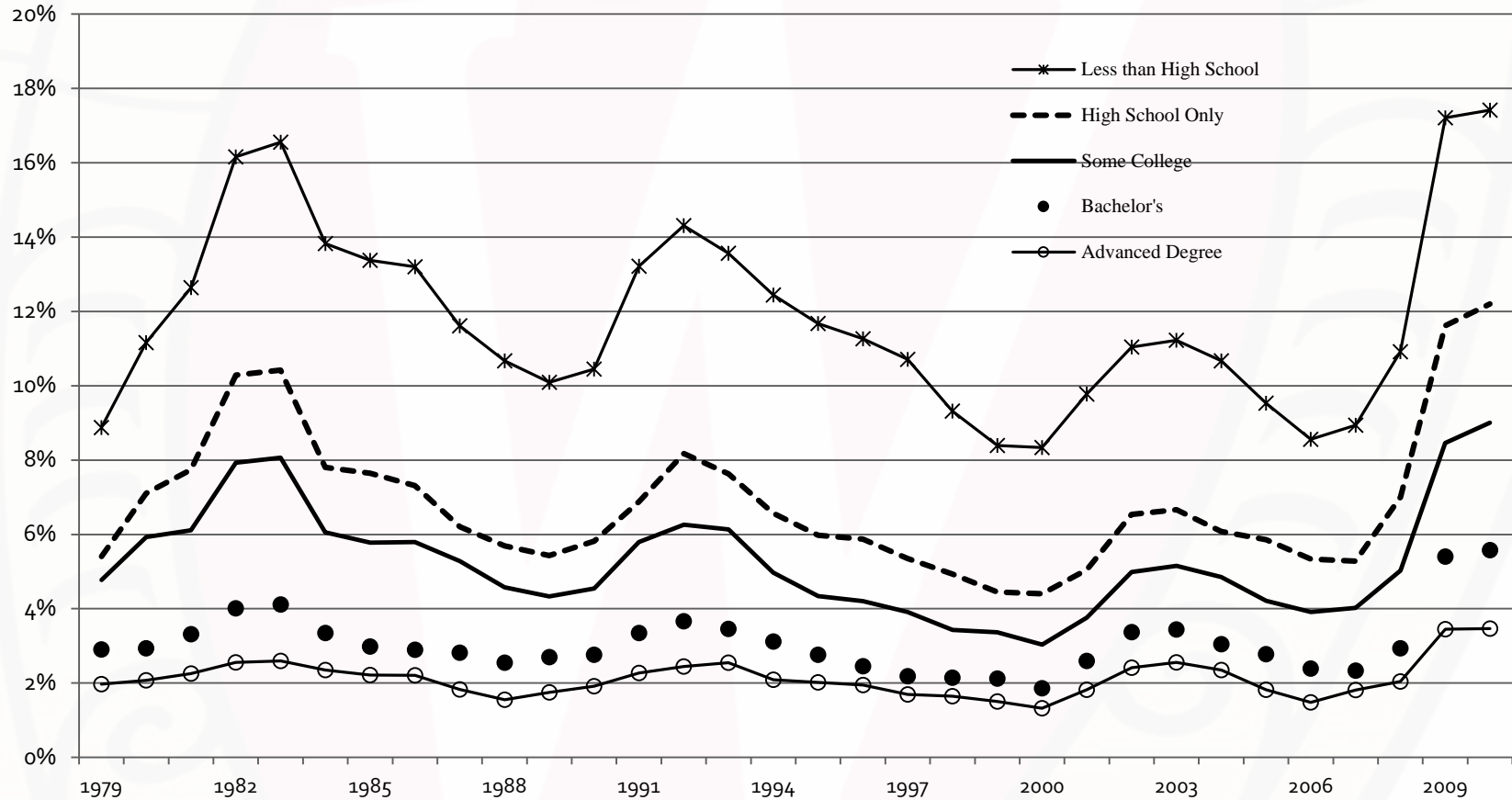
- Most poor families contain workers
- Poverty is very closely tied to the conditions of the labor market
 - Availability of jobs
 - Wages paid at those jobs

Earnings is a large share of income for the poor



Unemployment Rates are much higher for Low-skilled Workers

Unemployment Rate by Educational Attainment



Entry Into Poverty

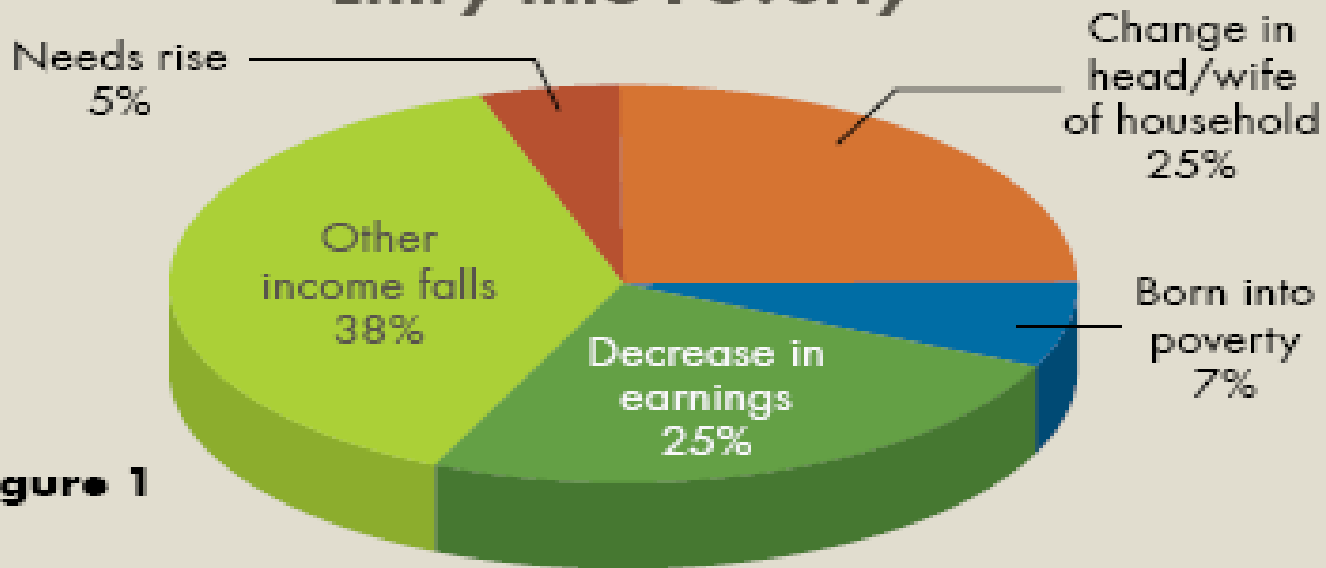


Figure 1

Exit From Poverty

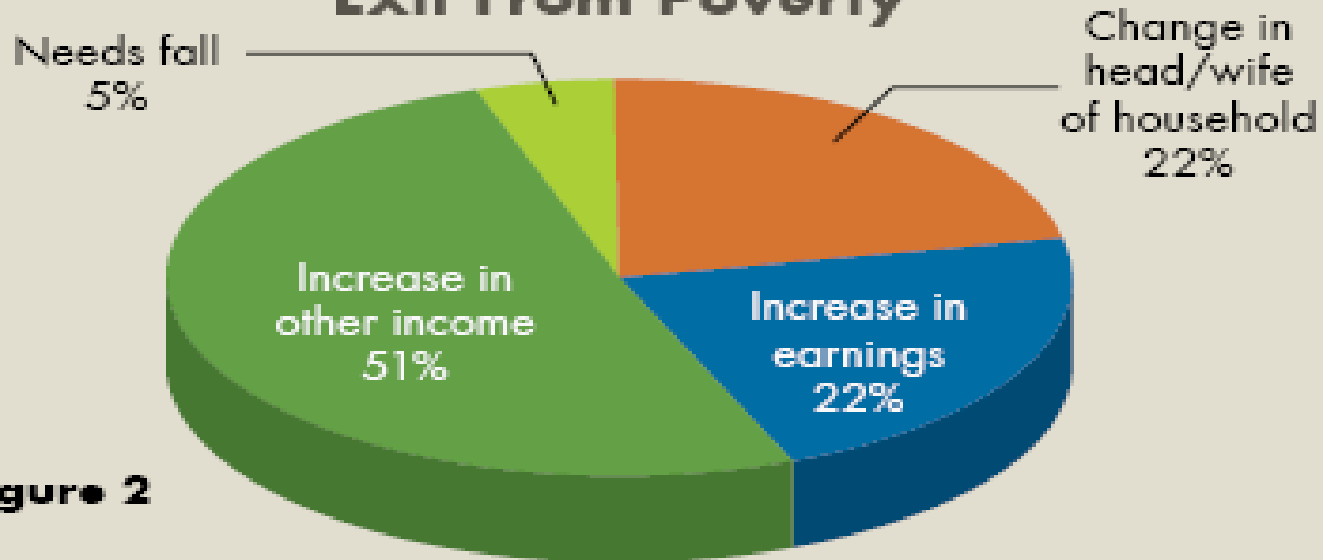
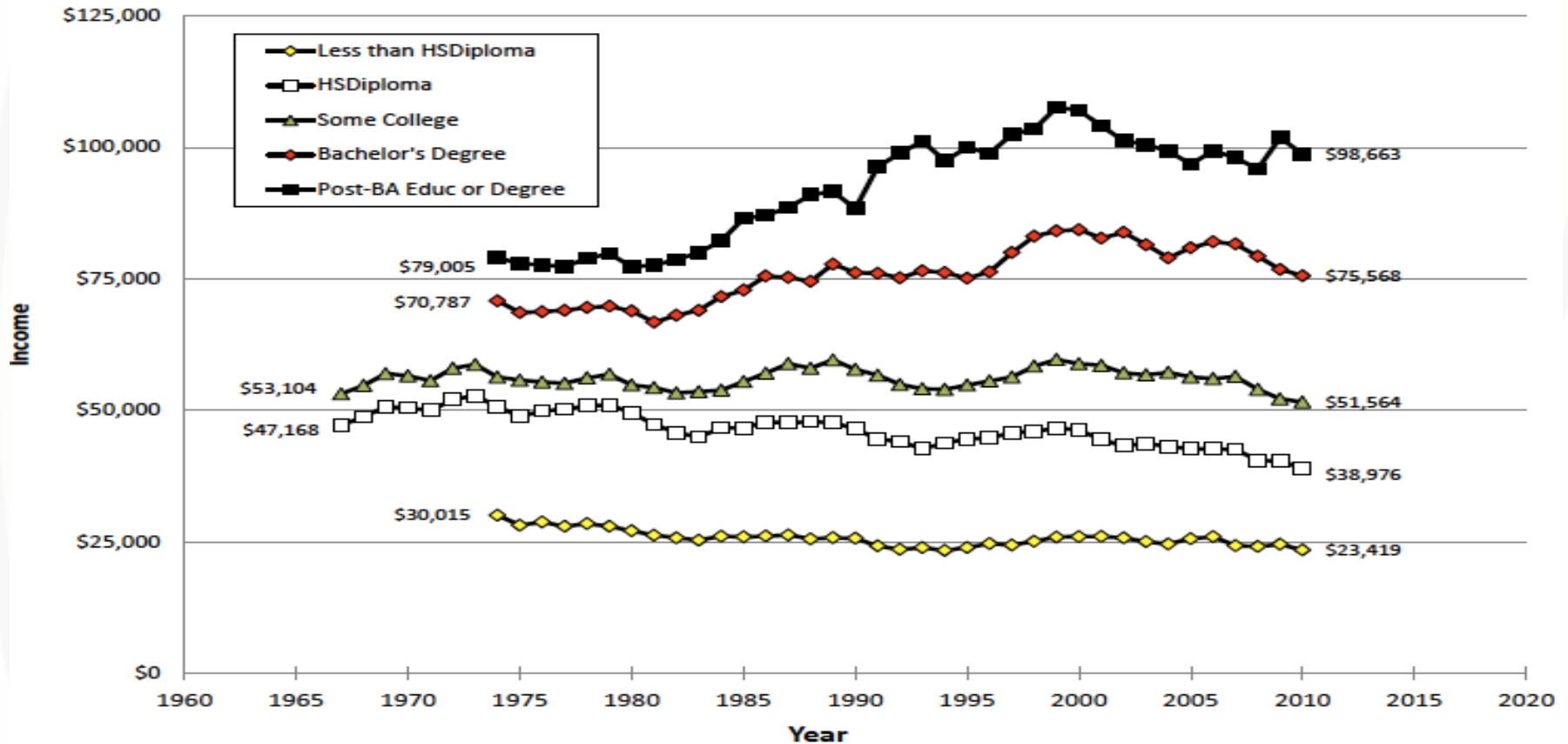


Figure 2

How about Changes in Income/Wages over Time?

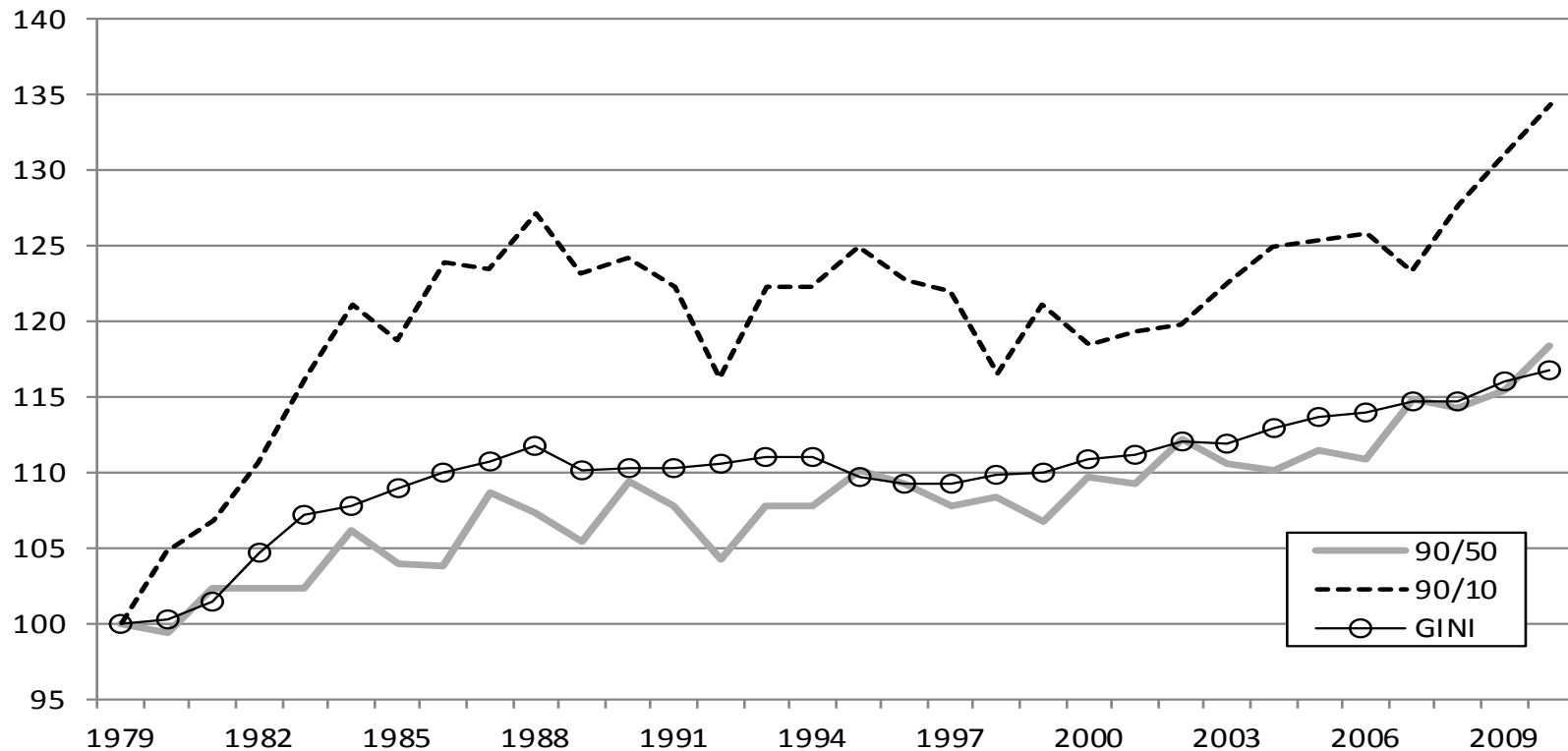
Real Median Earnings by Education

Real Median Household Income by Educational Attainment of Household Head, 1967-2010 (Reported in 2010 \$).



Hourly Wage

Figure 2. Growth in Hourly Wage Inequality (Indexed 1979=100), 90/10, 90/50, and Gini, 1979-2010



Notes: Wage percentile and gini values are adjusted to smooth the 1994 series break.

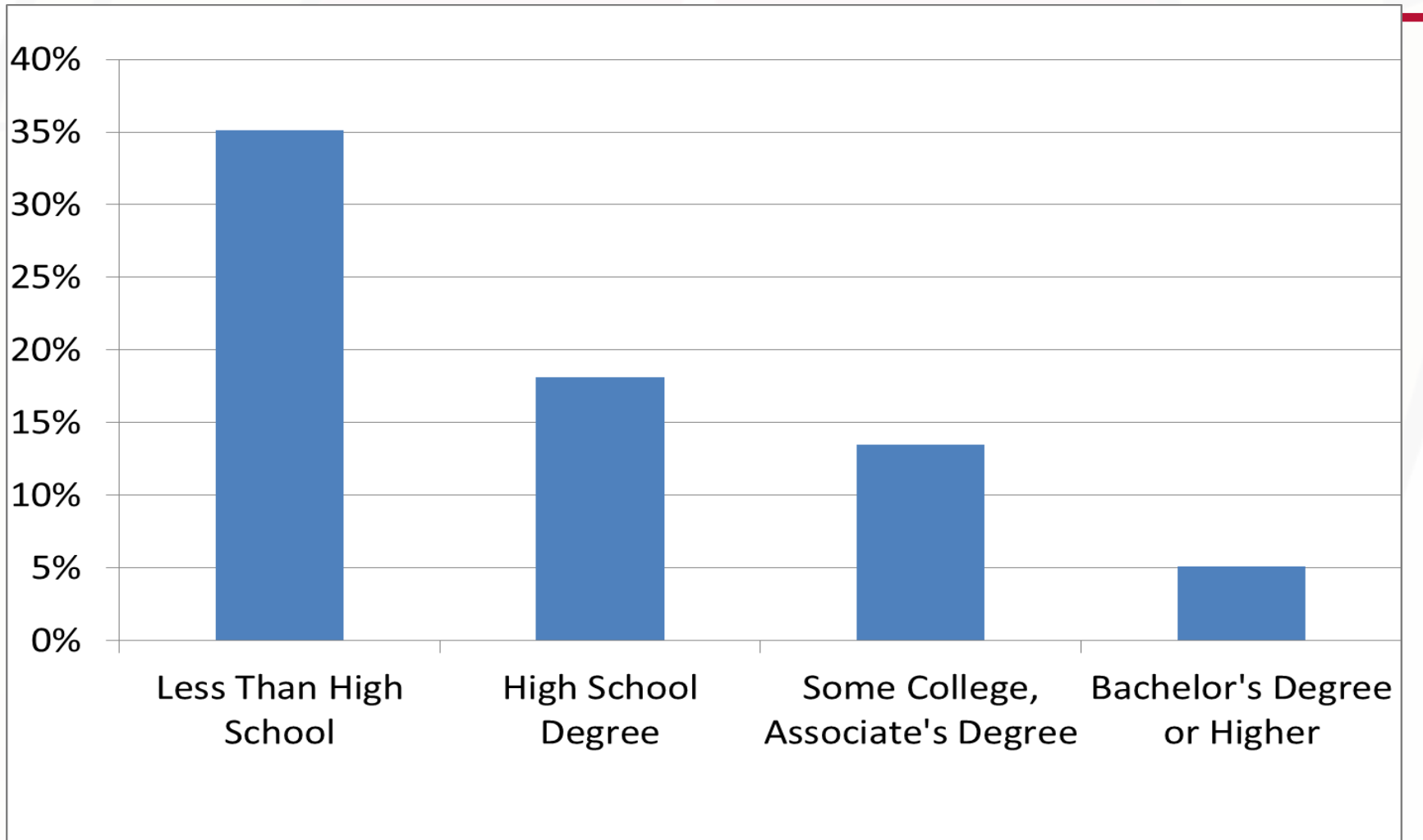
Source: Authors' Analysis of CPS ORG Files (various years), CEPR extracts.

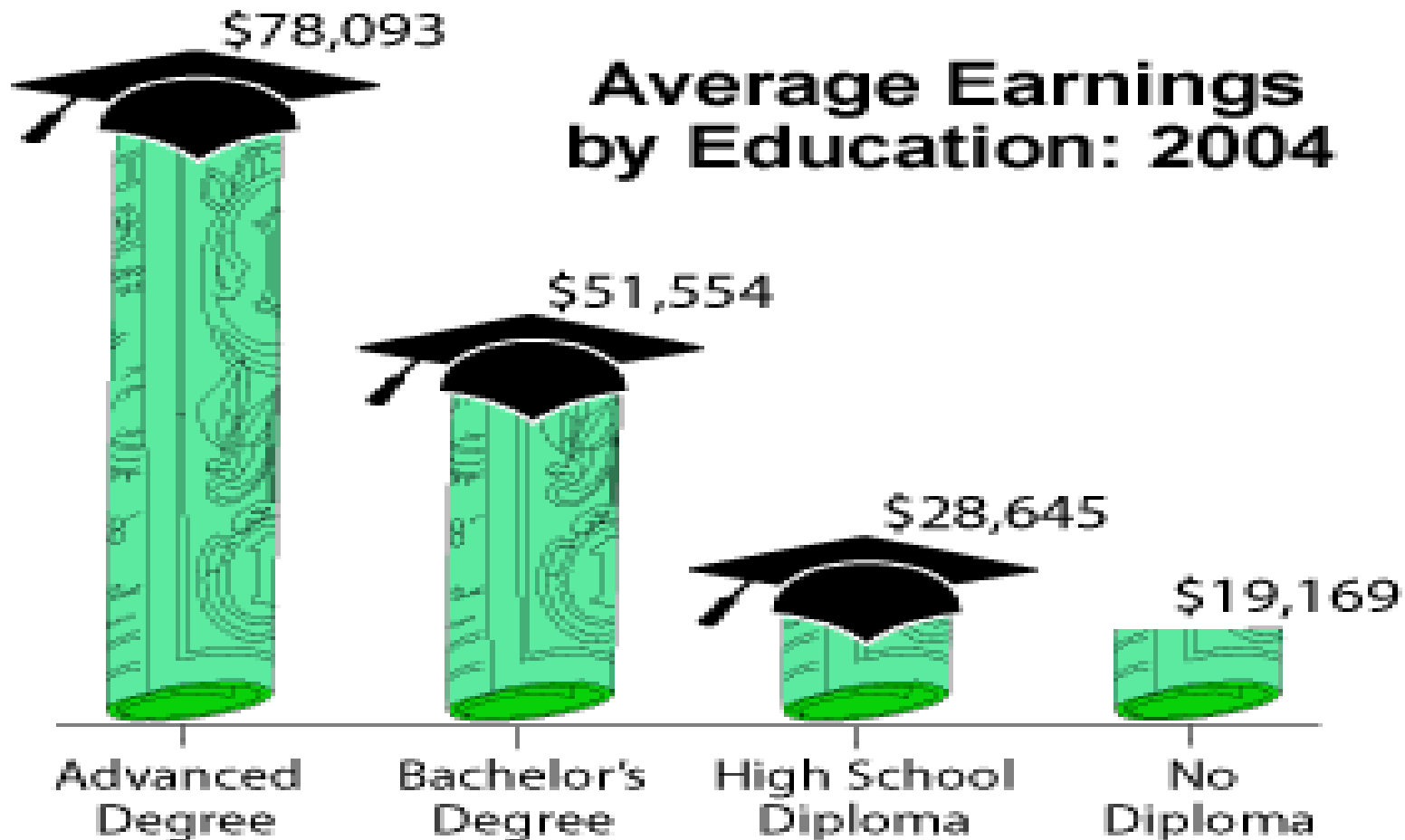
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Education Provides Protection against Poverty

(poverty rates by educational attainment)

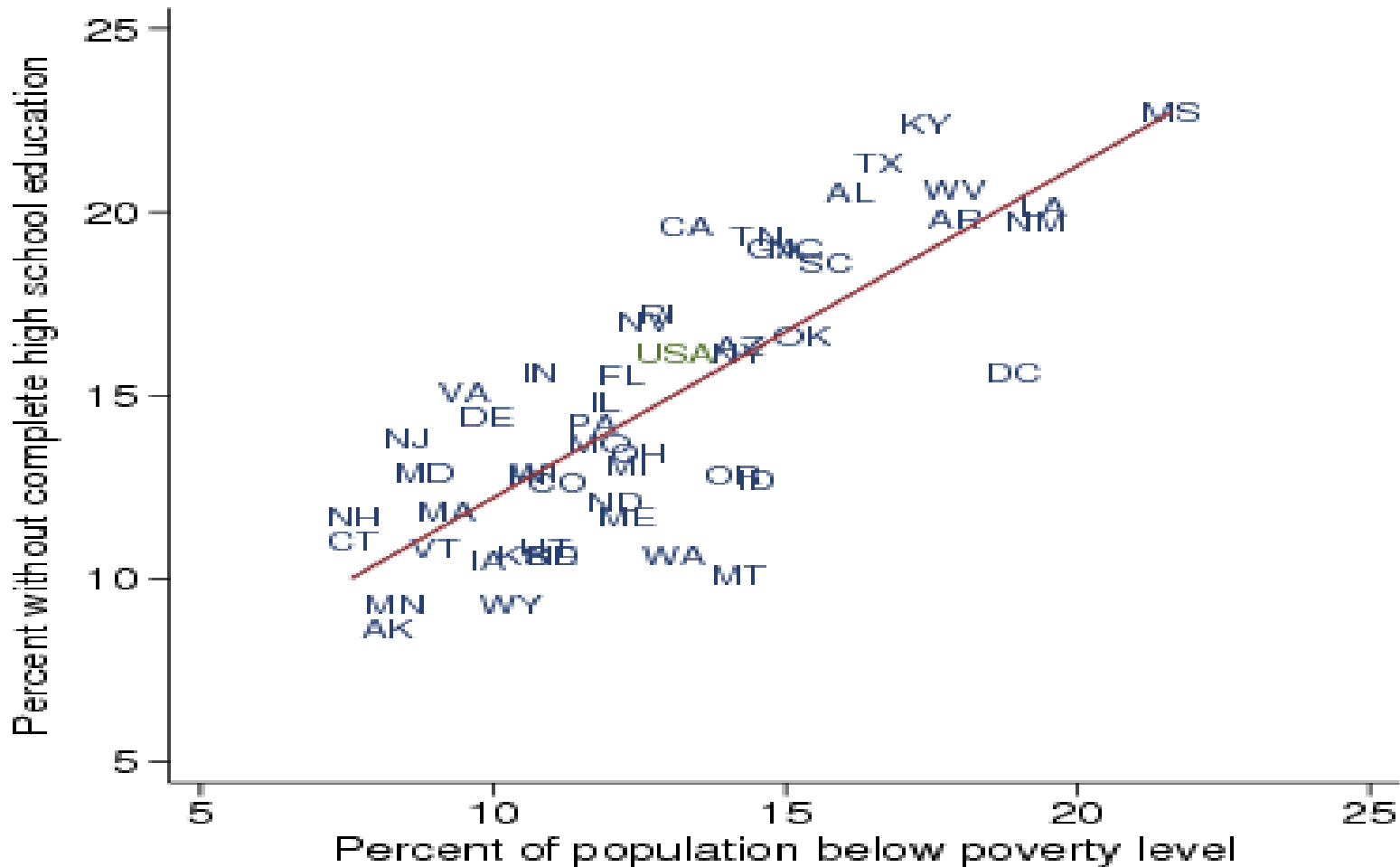




Source: U.S. Census Bureau, Current Population Survey, Educational Attainment in the U.S.: 2005

U S C E N S U S B U R E A U

Fewer 'Low Education' Workers associated with Lower Poverty Rates

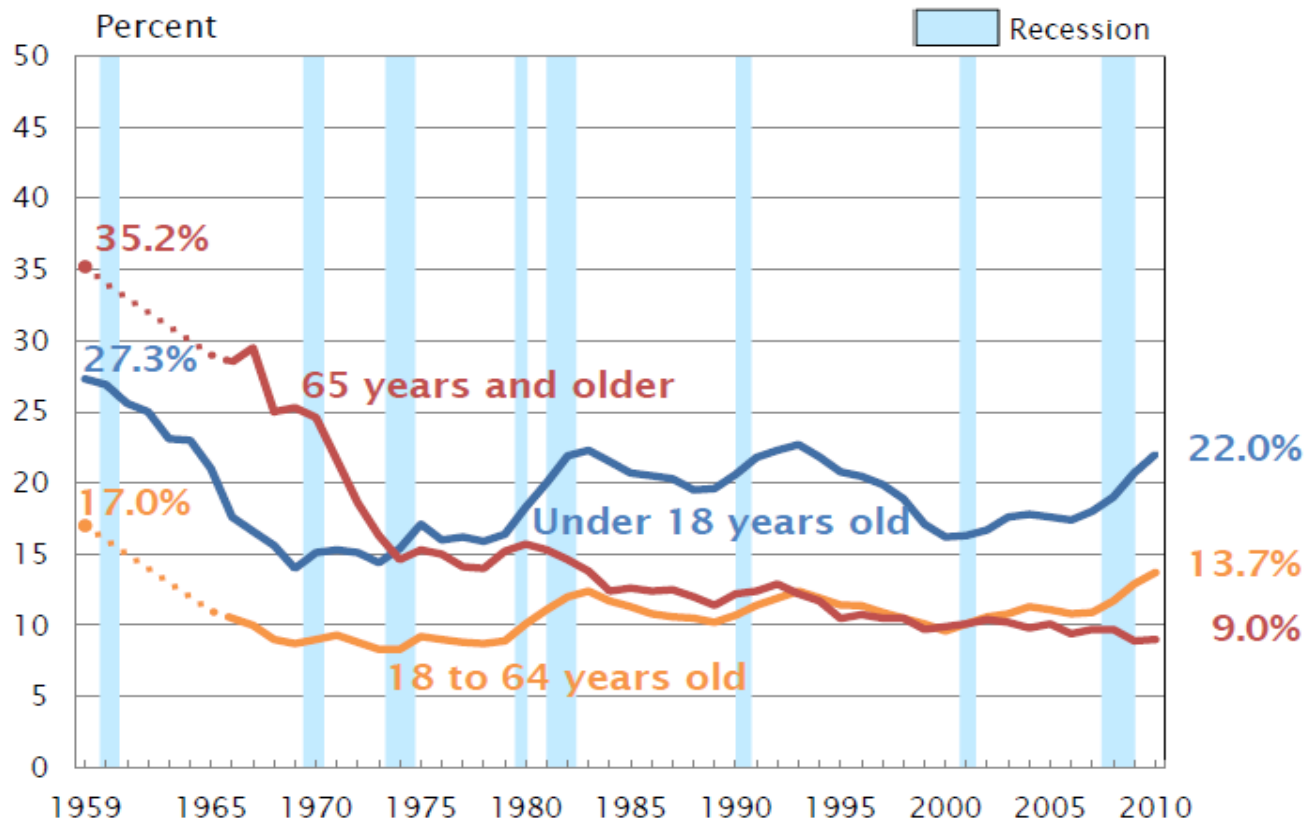


Friedrich Huebler, September 2005, huebler.blogspot.com

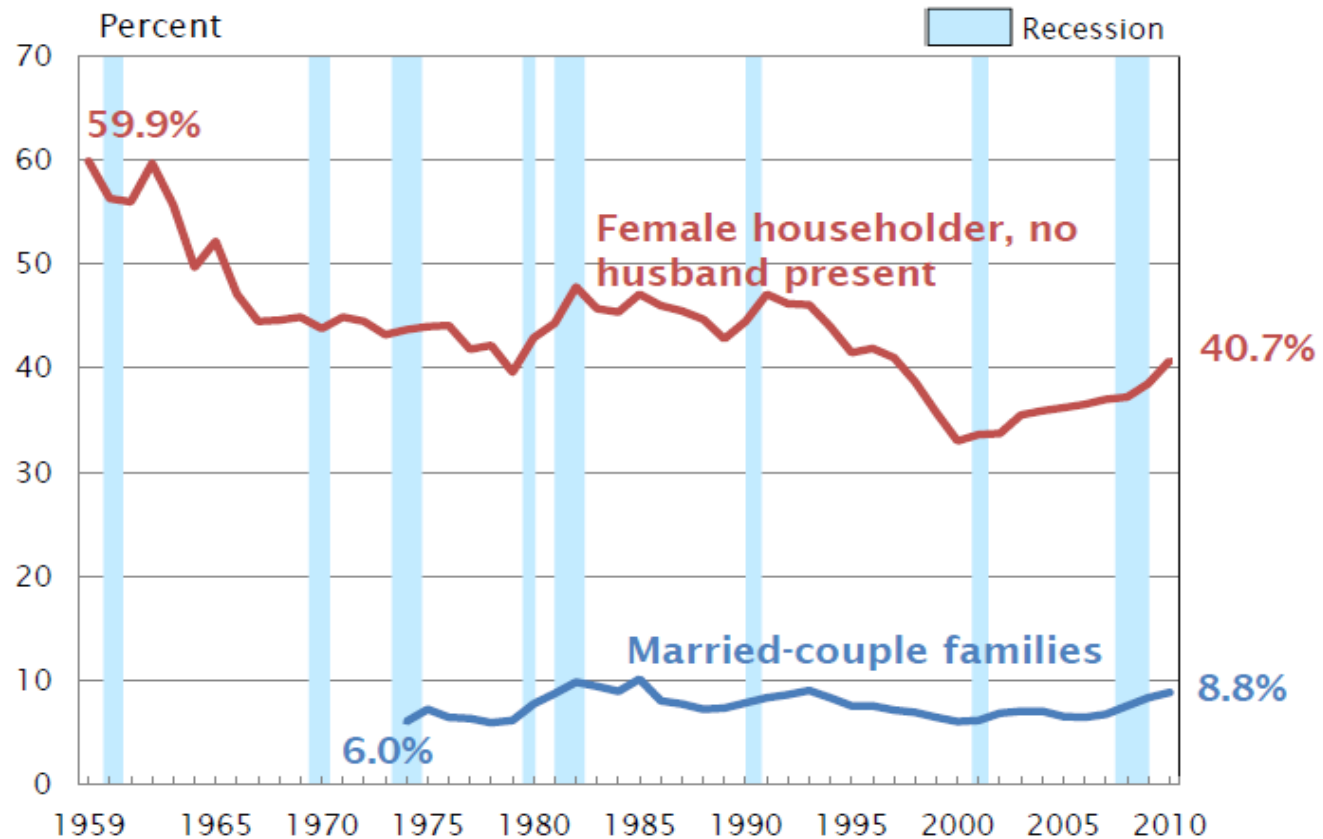
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Poverty Rates by Age: 1959 to 2010



Poverty Rates for Families with Related Children Under 18 by Family Type: 1959 to 2010

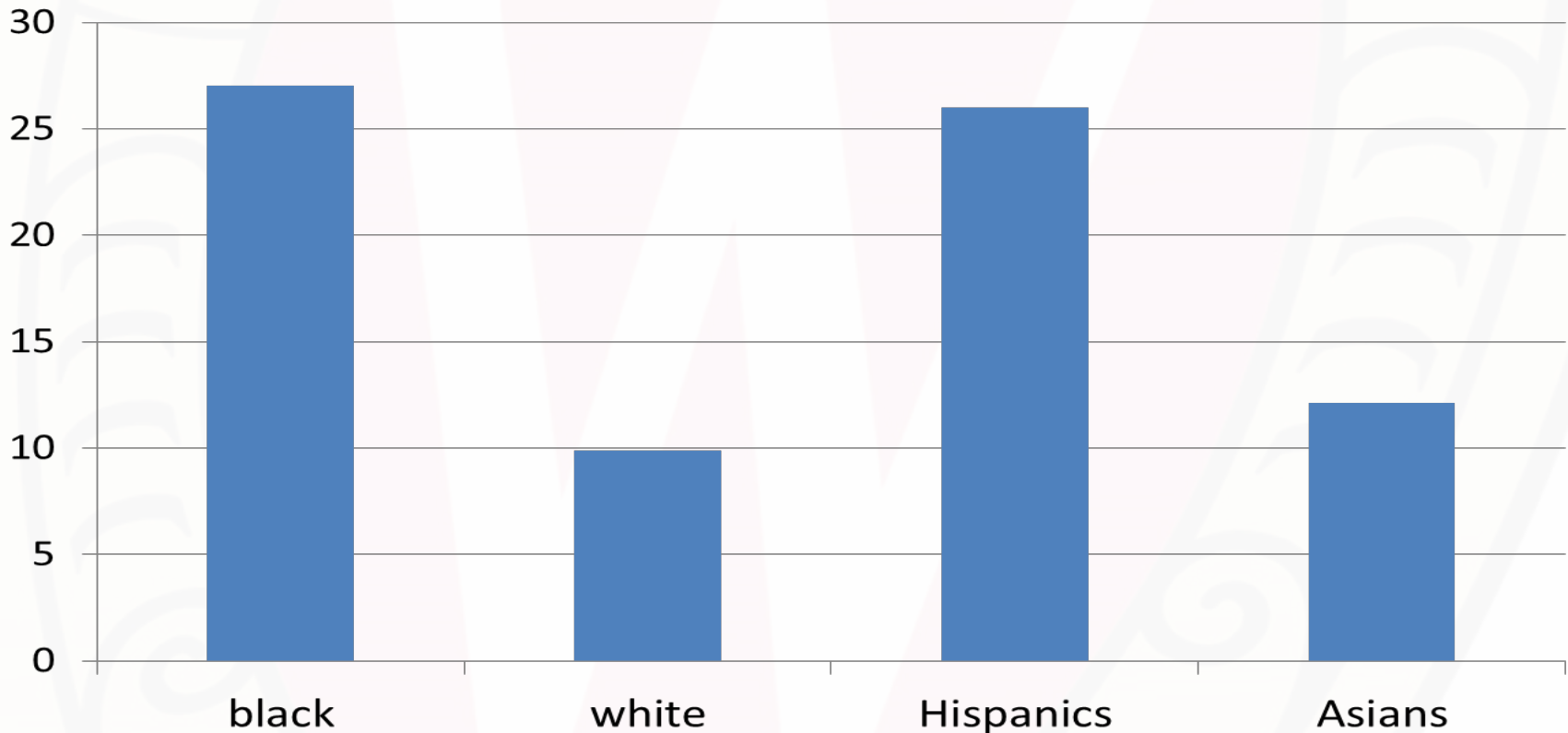


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Large Differences in Racial Poverty Rates

Poverty Rates by Race, 2010



Income levels vary by Race/Ethnic Group

- Overall US **children's poverty rate** = 21%
 - 46% for Blacks
 - 40% for Hispanics
- Not all minorities have low incomes.
 - Asian families have higher incomes than all other ethnic groups. In 2005, median income of Asian families was \$68,957; median income of white families was \$59,124.

Causes of Poverty

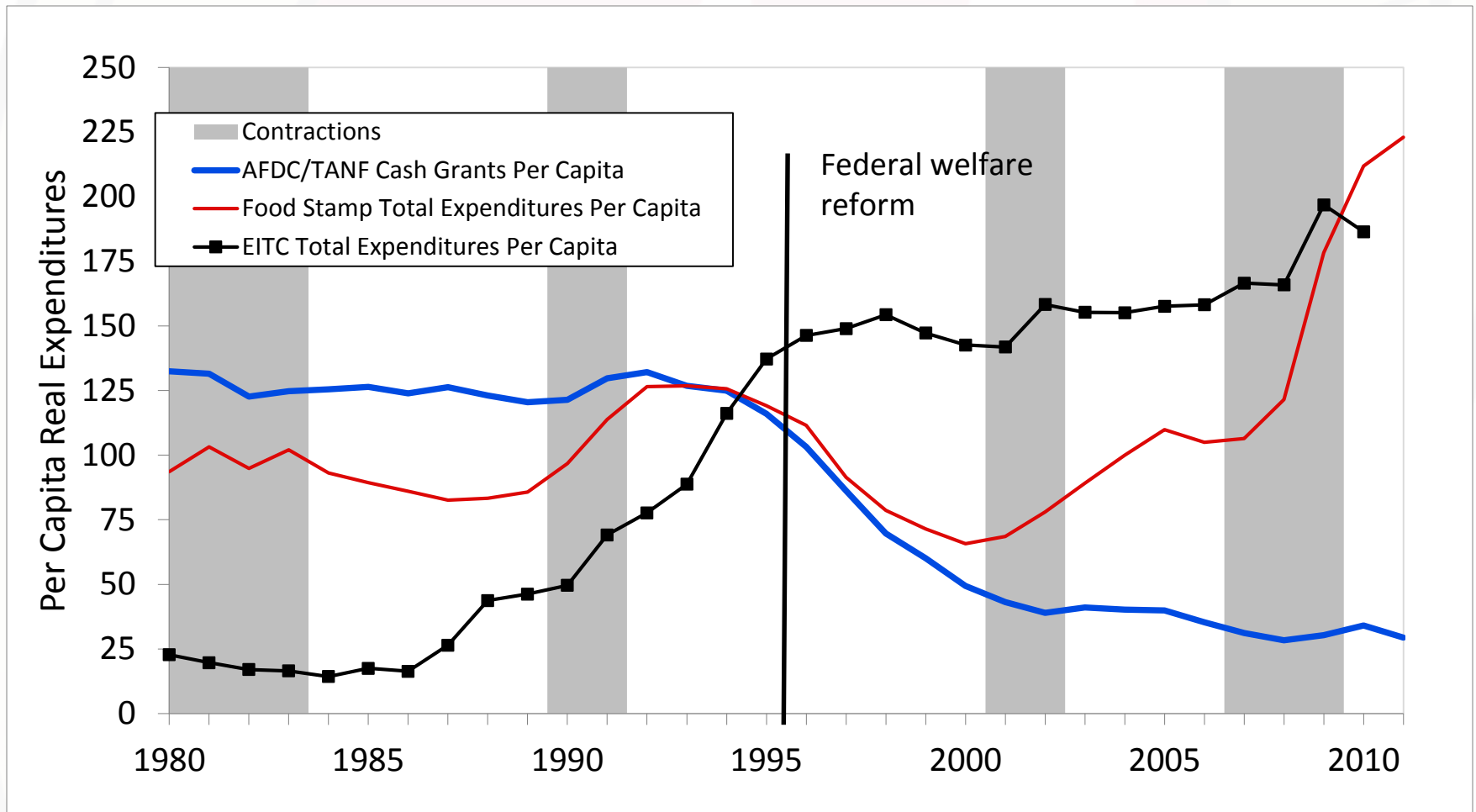
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- Poverty-related Policies

The U.S. Social Safety Net for Families

- **TANF**: cash welfare
- Food Stamps (now SNAP): vouchers for food
- **Earned Income Tax Credit**: tax-subsidy for low earners
- Medicaid: health insurance
- Subsidized housing
- WIC, free or reduced price lunch
- Minimum wages


- Unemployment insurance (not limited to low income families)
- Social Security (not limited to low income families); could be relevant for multi-generation households

Cash and Near Cash Safety Net Spending per Capita, 2009\$



The Earned Income Tax Credit

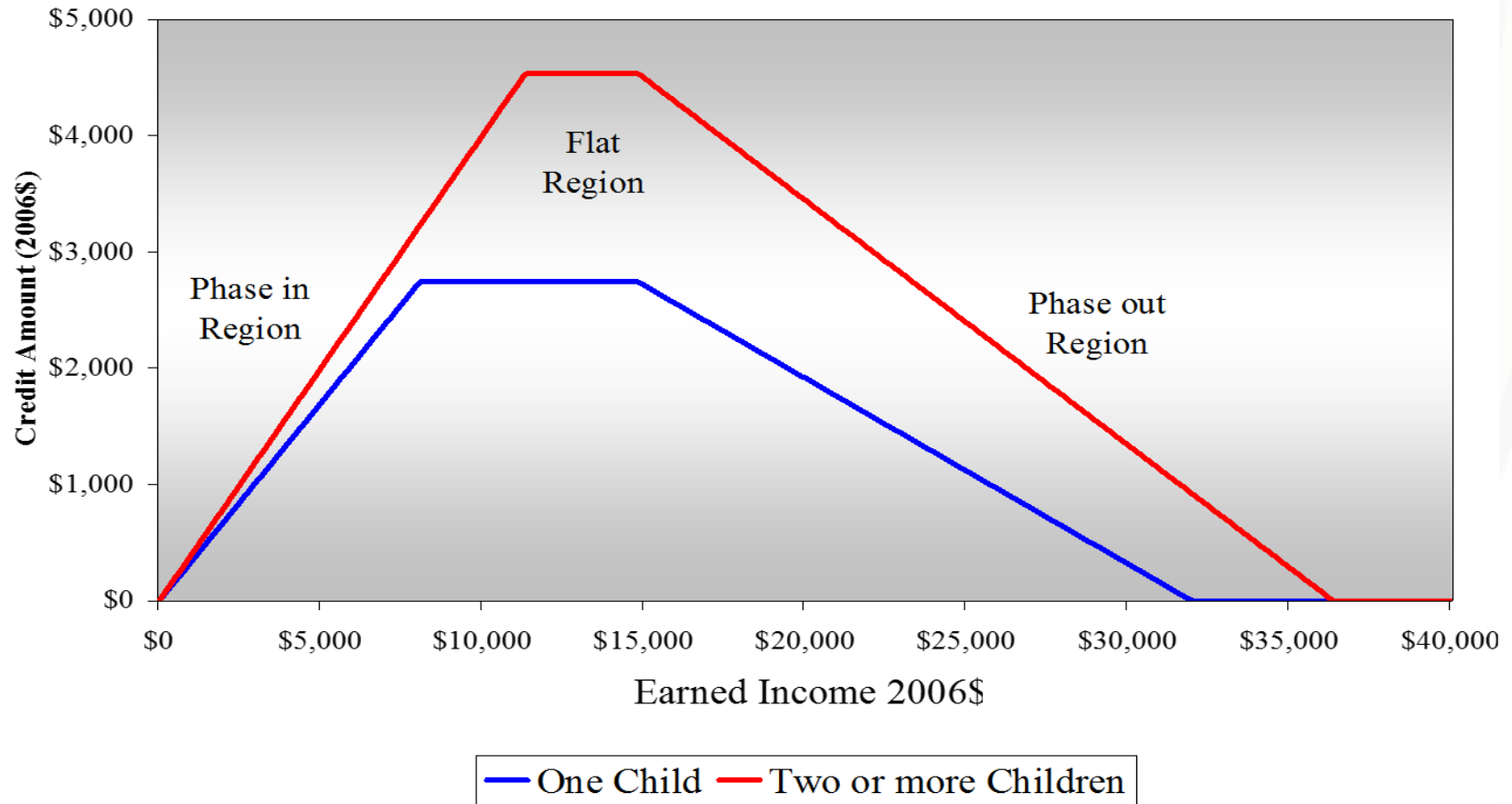
Refundable tax credit for *working*, low-income taxpayers with children (single and married)



Tax credits directly offset taxes; refundable means that a payment is made if taxes are zero

Much smaller credit for childless families
No credit if no family earnings
EITC acts to supplement earnings.

KEY: Maximum EITC credit helps families near poverty threshold while encouraging work



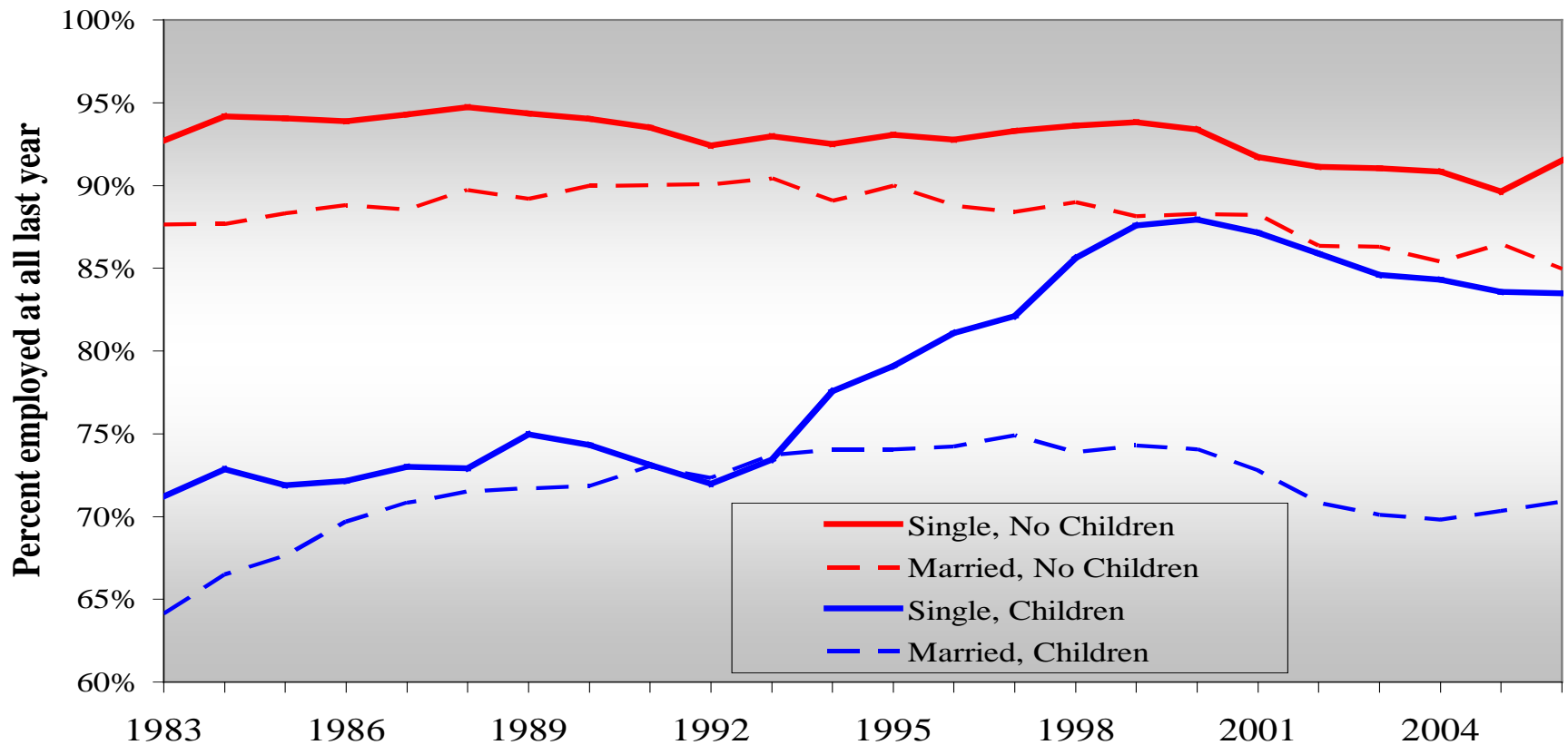
Cash Welfare Programs (TANF)

- Income support (welfare) programs are unlikely to reduce the poverty rate:
 - Benefit levels are so low that the income support is unlikely to increase a household's income from below to above the poverty line.
 - Benefits are targeted on those out of work; thereby discouraging work rather than encouraging it.

[This does not mean the program is not important or useful. Rather that it simply is unlikely to have a large impact on the overall poverty rate. The programs do affect “extreme poverty” however.]

Effect on Female Employment

- We do know that the combination of welfare reform and the expansion of the EITC led to large increases in employment among female-headed families in the late 1990s.
- These increases in employment have the potential to reduce poverty among families headed by a woman.



Beginning in 1992—dramatic increases in employment for single mothers, with little change for other women

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The Cultural Perspective

- A common line of thought in the U.S. is that a person is poor because of personal traits.
- Supposed traits range from personality characteristics, such as laziness, to educational levels. Because of these faults, individual personal failure results in poverty.
- This thought pattern stems from the idea of meritocracy--the view that those who are worthy are rewarded and those who fail to reap rewards must lack self-worth. A meritocratic view is entrenched within U.S. thought.
- A belief that personal failure leads to poverty often appears as resistance to social and economic programs such as welfare; a poor person's lack of prosperity shows a personal failing and should not be rewarded by public benefits.