2 U.S. Poverty and Inequality

- The state of Minnesota has found itself in the enviable position of having a $7.7 billion surplus this year, and the governor and wide swaths across the state want to spend a small portion of it on free school breakfasts and lunches for all Minnesota school children. There are detractors, of course: those whose contempt for the poor extends to food-shaming children in front of their peers amid the current program for poor kids.

PURPOSE

The purpose of this chapter is to introduce students to the problems of poverty and inequality in the United States. This is the first of the chapters focused on inequity, and it addresses the first of two foundational pillars underlying our economy. (The other is racism.) Many students think of poverty in the abstract: they have stereotypical images of poor people, but they never think of themselves or fellow students as being poor. It may be that COVID-19 has opened the eyes of students to a great deal of suffering from the virus and a damaged economy. Students' own families might be suffering. In reality, poverty can impact anyone, and it often occurs as a result of normal life events like divorce, the death of a spouse, an illness, the loss of a job — and in this case, a pandemic. Poverty and inequality seem especially egregious in a rich country like the United States.

WHAT'S NEW?

1. The impact of the coronavirus pandemic on poverty and inequality is new. As with other destructive events, those who are most vulnerable suffer the most, and an inadequate safety net becomes even far more insufficient. We see the impact of COVID-19 in higher poverty rates and greater inequality. Increased inequality also stems from the 2017 tax bill, structural changes in our economy, and a long-term trend toward increasing inequality in large part due to changes in our tax system over time.

2. The emphasis placed on inequality as a structural foundation of our economy is also new. The text has always addressed poverty and inequality, but current circumstances, attitudes, and controversies have brought these topics to the forefront. These include attitudes of white supremacy, stereotypes of "welfare queens" and welfare fraud, contempt for the poor, and political divisiveness.

3. "Women's Rage" is a new phenomenon (or at least a phenomenon newly in the open), as women (especially working mothers) react to the heightened expectations of them amid the pandemic in parallel with society's aversion to providing greater social benefits to meet their needs. For example, women are often the ones expected to care for their children when they are ill or when their childcare providers shut down or their children attend school virtually from home. Yet they are considered lazy if they do not also work in a paying job and disorganized if they cannot balance all of these responsibilities. Ironically, they are also considered selfish if they continue in their careers despite the needs of their children.

4. The efforts by President Joe Biden and most of the Democrats to provide universal paid maternity and sick leave, childcare subsidies, and continued Child Tax Credits were met with strong opposition by Republicans and a few Democrats. It is nevertheless remarkable that the president *sought* a vastly broader safety net, expanded universal entitlements, and increased investments in human capital.

5. There is greater attention to two interventions that have been quite successful in reducing poverty amid the early phase of the coronavirus pandemic: the Child Tax Credit (CTC) and the Universal Basic Income (UBI). The size of the CTC was increased, it was made refundable, and checks were mailed to recipients monthly rather than yearly. The UBI has also received renewed attention, with multiple cities using experimental programs and finding that the UBI can be extremely effective in reducing poverty. Personally, I had once opposed it but am now in favor.

6. There is greater emphasis in this edition on structural unemployment as a source of poverty, especially since former President Trump built his base upon those who are structurally unemployed. Trump policies of trade restrictions, resurrection of the coal industry, opposition to immigration, and other policy measures generally opposed by economists are discussed, as well as the more appropriate policy responses recommended by economists.

TEACHING SUGGESTIONS

➢ *Student Interest*

- One feature of the text is the attempt to involve students in using their new knowledge and insights to make this a better world. Suggested activities are generally in the sections *To the Student* and the *Discussion and Action Questions*, both at the end of each chapter.

- In the case of poverty and the associated problem of hunger, the *To the Student* section in Chapter 2 encourages students to join organizations such as Bread for the World, a citizens' lobby on domestic and world hunger–related legislation. You and your students should be aware that while this is a progressive Christian organization, the intent is *not* to promote Christianity but rather to make students aware of their political influence. The organization provides excellent educational material and policy advice on the issues.

➢ *Controversy*

- As this manual goes to press, President Biden's Build Back Better legislation (the human infrastructure bill) does not have enough votes to pass in Congress. This means the Child Tax Credit (among other benefits) will come to an end, even though the Child Tax Credit was found to be highly cost-effective in reducing child poverty. Students may want to discuss this, along with other aspects of Build Back Better. Perhaps they will want to be involved by encouraging their legislators to support this important tax credit.

- I have heard students report they have seen someone "buy steaks with food stamps" or know someone who "had additional children to receive higher welfare benefits." I like to challenge students to avoid conclusions based on anecdotal evidence.

- Some students today are pretty conservative, and many of them work in addition to being students. They work hard and are careful with their money. They don't understand why poor people cannot do the same. They need to understand that it is one thing to be a hardworking, single, and able-bodied young person; it is another thing to be poor, poorly educated, single with children, without transportation, and experiencing any number of other difficulties.

- This early chapter in the text allows for students to utilize the framework of the economic left (liberal) and the economic right (conservative) in an interesting context of poverty programs. You should be able to get a good discussion going as students become aware of where they themselves stand on issues they may have never thought about before.

> *Economic Theory and Models*

- Economic theory is discussed in terms of the effects of economic growth versus trickle down, but there are no graphs in this chapter (except for the Lorenz curves used and explained in Appendix 2–1).

> *Data and Terminology*

- While this trend is not new, students may be surprised to learn that teen pregnancy rates have been decreasing over time. They may have insights as to why this is the case.

- Students will be interested in the poverty line for a family of four and how much money that means for food and other expenses of the family. Life at the poverty line is frugal at best.

- Our data depend on precise terminology. For example, many people say "wealthy" when they mean "rich," or "earnings" when they mean "income." Stress the distinctions, especially for the titles and captions of data tables.

- You will likely need to reinforce for your students the meaning of the term "refundable" in the context of certain tax credits. This conversation will also reinforce student understanding that tax returns must be filed before someone can receive the benefits of these refundable tax credits.

> *Fundamentals*

- Some students are surprised to learn that the U.S. income distribution has become less and less equal due to the policies of conservative presidents from 1981 to 2020, and that the United States has the greatest inequality among all Western industrialized countries. Oddly enough, students who are too young to have been alive during the presidential administration of Ronald Reagan nevertheless seem to revere him. They should be told of his extensive cuts to social programs for the poor, extensive tax cuts for the rich, his deregulation of workplace safety and environmental protection, and his promotion of a somewhat insidious supply-side policy.

- Changes in the tax code under Republican presidents Ronald Reagan, George W. Bush, and Donald Trump greatly contributed to rising inequality in U.S. income distribution.

- Students and even many instructors are surprised to learn that people who are classified as poor are poor *despite* any government cash assistance they receive and that being poor does not necessarily make them eligible for government assistance. It is disturbing that so many Americans harbor contempt for the poor and are satisfied with an income distribution that creates child poverty and poor standards of living.

- Explain to students that 1) wealth is distributed far more unequally than income, and 2) it takes wealth to build wealth.

- Racism is an issue in this chapter insofar as people of color have much higher poverty rates than white people. Students are also surprised to learn that most poor people are white, but simultaneously, white people have a lower poverty rate than other racial and ethnic groups. Clarify this distinction, as students may not intuitively understand it.

CLASSROOM EXERCISES

1. (*Appendix 2–1*) Consider the following Lorenz curves for two hypothetical countries. In which country (1 or 2) is the income distribution most equal? [Country 1: We can tell by the greater proximity of the Lorenz curve to the 45-degree line, or more technically, the smaller area between the Lorenz Curve and the 45-degree line.]

Country 1   **Country 2**
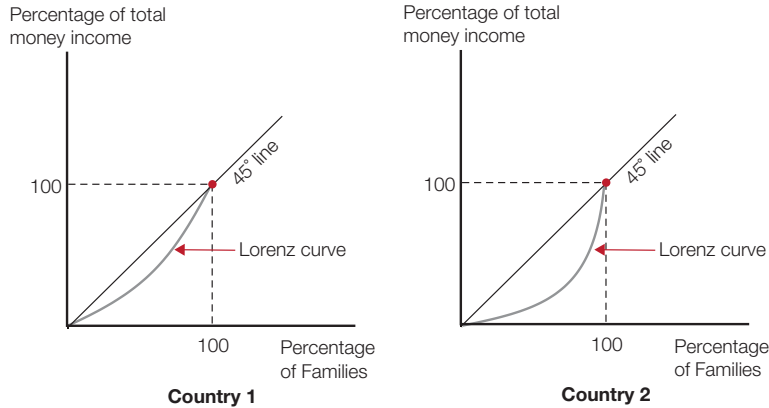
2. (*Appendix 2–1*) Construct a Lorenz curve based on the following income distribution. What is the meaning of the 45-degree line? [The 45-degree line connects all points in the graph where the percent of money income is equal to the percent of families.]

Fraction of Total Families	Percent of Total Money Income Received
Poorest Fifth	5%
Second Fifth	10%
Third Fifth	20%
Fourth Fifth	25%
Richest Fifth	40%
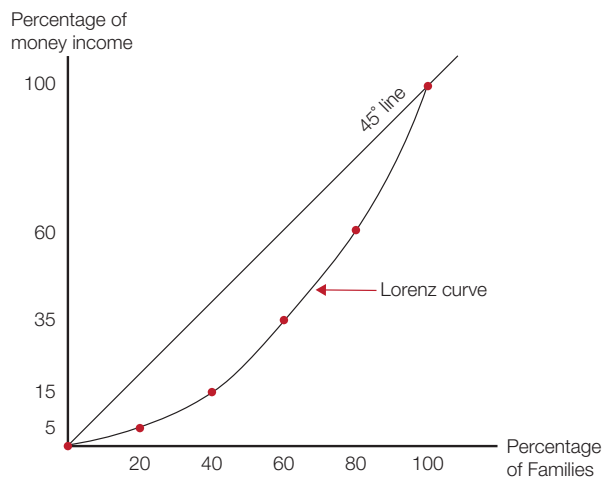
SAMPLE TEST QUESTIONS

Multiple Choice Questions

1. The 2020 poverty rate is approximately:

    a. 3%.
    b. 11%.
    c. 28%.
    d. 45%.

2. A situation in which people are poor in comparison to other people is:

    a. relative poverty.
    b. absolute poverty.
    c. dismal poverty.
    d. remedial poverty.

3. Since 1960, poverty rates in the United States:

    a. increased dramatically.
    b. decreased dramatically.
    c. increased greatly and then returned to the 1960 poverty rate.
    d. remained remarkably constant.

4. From 1981 to 2020, income distribution in the United States has:

    a. become less equal.
    b. become more equal.
    c. remained remarkably stable.
    d. this is not discussed in the text.

5. Most of the poor in the United States are:

    a. white.
    b. African American.
    c. Hispanic.
    d. Asian American.

6. The age group with the highest poverty rate is people:

    a. under age 18.
    b. age 18–64.
    c. age 65 and over.
    d. We do not have data to assess this.

7. "Money income":

    a. is calculated before payment of taxes.
    b. includes income transfers.
    c. excludes in-kind transfers.
    d. all of the above

8. The 2020 poverty line for a family of four is about:

    a. $47,500.
    b. $37,000.
    c. $26,500.
    d. $7,000.

9. The poverty rate is the highest for:

    a. whites.
    b. African Americans.
    c. Asian Americans.
    d. Hispanics.

10. Public education is an example of:

    a. an "investment in human capital."
    b. a "universal entitlement."
    c. a program that improves people's productivity.
    d. all of the above

11. Our current welfare program is called:

    a. Aid to Families with Dependent Children (AFDC).
    b. Help to Stand on Your Feet (HSYF).
    c. Temporary Assistance for Needy Families (TANF).
    d. Financial Aid for the Needy (FAN)

12. Which of the following groups of people has a poverty rate above the national average?

    a. African Americans
    b. Asian Americans
    c. age 65 and older
    d. all of the above

13. Businesses produce lower output levels and employment drops during an economic:

    a. recession.
    b. expansion.
    c. recovery.
    d. peak.

14. Which of the following is a public assistance program (as opposed to a social insurance program)?

    a. Supplemental Nutrition Assistance Program (SNAP)
    b. Medicaid
    c. The Earned Income Tax Credit
    d. All of the above

15. Which of the following is a general federal guideline for state TANF programs?

    a. States must contribute matching money to their welfare program.
    b. Adults must take a job within two years of beginning welfare.
    c. Assistance generally cannot be provided to someone for over five years in his or her lifetime.
    d. All of the above.

16. Welfare programs have been controversial due to:

    a. possible work disincentives.

    b. possible disincentives for family stability.

    c. possible long-term dependency.

    d. all of the above

17. The benefits of economic growth eventually reach everybody, according to:

    a. the author of the text.

    b. the economic studies in the text.

    c. trickle-down philosophy.

    d. the philosophy of all economists.

18. Which of the following is a social insurance program (as opposed to a public assistance program)?

    a. food stamps (SNAP)

    b. Medicaid

    c. Earned Income Tax Credit

    d. Medicare

19. Liberals (the economic left) tend to:

    a. support a federal government response to poverty.

    b. support a relatively large government response to poverty.

    c. favor a direct approach to addressing poverty rather than trickle-down philosophy.

    d. all of the above

20. Which of the following is not listed in the text as a cause of poverty?

    a. recession and a poor economy

    b. low labor productivity

    c. structural changes in our economy

    d. All of the above are causes of poverty.

True / False Questions

1. People classified as poor are poor despite any income transfers they might receive from the government. **(T)**

2. The concept of "money income" refers to earnings from working only. **(F)**

3. The poorest fifth of the U.S. population received about 12% of total money income in 2020. **(F)**

4. The richest fifth of the U.S. population received over half of total money income in 2020. **(T)**

5. The 2020 U.S. poverty rate is over 11%. **(T)**

6. The 1960 U.S. poverty rate was over 20%. **(T)**

7. Poverty rates are higher in central cities and the rural sector than in the suburbs. **(T)**

8. Poverty rates for families with a single parent are remarkably similar regardless of whether the family head is male or female. **(F)**

9. Teenage pregnancy is one of the reasons suggested in the text for the "feminization of poverty." **(T)**

10. Structural changes in our economy include technological advance and a shift away from manufacturing and toward the service sector. **(T)**

11. The teenage pregnancy rate has skyrocketed over the past 20 years. **(F)**

12. Macroeconomic policies can serve to reduce poverty, but microeconomic policies cannot provide much benefit. **(F)**

13. Social insurance programs are targeted to low-income people. **(F)**

14. Medicare is the government medical program for low-income people. **(F)**

15. The lower-wage service sector in the United States has recently grown at the expense of the higher-wage manufacturing sector. **(T)**

16. An "investment in human capital" is spending that improves the productivity of people. **(T)**

17. Universal entitlements are generally available to all who are eligible, regardless of income. **(T)**

18. One of the reasons the AFDC program was popular among the public was that it included strong work incentives. **(F)**

19. A block grant is an amount of money given by the federal government to state governments to meet a broad category of need. **(T)**

20. TANF assistance is guaranteed for the lifetime of the recipient. **(F)**

21. Welfare reform under the TANF program emphasizes work requirements. **(T)**

22. Relative poverty is measured by the poverty line. **(F)**

23. Social security is a social insurance. **(T)**

24. Medicaid is a social insurance. **(F)**

25. Income distribution in the United States has become more equal since 1981. **(F)**

26. The United States has the most equal income distribution of all the Western industrialized nations. **(F)**

27. Our welfare programs represent slightly over half of the federal budget. **(F)**

28. Former President Donald Trump drastically reduced government spending on programs serving the nation's poor. **(T)**

29. The 2021 American Rescue Plan was a poverty-fighting initiative that put the most cash assistance into the hands of low-income families since the 1930s New Deal. **(T)**

30. Trickle-down philosophy was a viewpoint held by Ronald Reagan and Donald Trump. **(T)**

31. Conservatives generally prefer direct federal government involvement in poverty programs rather than state and local governments and private charities. **(F)**

32. Most economists believe that poverty is quite straightforward and can be fairly easily addressed by government. **(F)**

33. Surprisingly, the poverty rate among females is lower than the poverty rate among males. **(F)**

34. Temporary Assistance for Needy Families (TANF) is a social insurance program as opposed to a public assistance program. **(F)**

35. One outcome of the 2017 Republican tax bill is that it gives Republicans greater "justification" in reducing budget cuts for poverty programs. **(T)**

Critical Thinking Questions

1. Our current welfare program (TANF) emphasizes work. What problems exist if 1) our nation is in a recession and jobs are scarce, or 2) people are not able to take available jobs due to mental or physical disability, lack of training and education, or unavailability of reliable childcare and transportation?

2. (*Appendix 2–2*) Is the poverty line an adequate measure of U.S. poverty rates? Why or why not?