Long-run decline in US poverty continued in recent years despite pandemic, new report shows

December 20 2023, by Kathryn Desai and Tracy DeStazio

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Poverty has fallen by 27 percentage points since 1980, according to new research from the University of Notre Dame, the University of Chicago

and Baylor University. This change is in sharp contrast with official U.S. Census Bureau numbers indicating that poverty has fallen a mere 1.5 percentage points in that time.

Using consumption poverty instead of income poverty as their measurement tool, the researchers found that poverty rates declined steadily between 2020 and 2022, a period when income-based poverty fluctuated noticeably.

These findings were recently released in the Annual Report on U.S. Consumption Poverty: 2022, co-authored by James Sullivan, professor of economics and director of the Wilson Sheehan Lab for Economic Opportunities (LEO) at the University of Notre Dame; Bruce Meyer, the McCormick Foundation Professor at the University of Chicago Harris School of Public Policy; and Jeehoon Han, assistant professor of economics at Baylor University.

Using data from the U.S. Bureau of Labor Statistics' Consumer Expenditure Survey and the U.S. Census Bureau's Current Population Survey, the researchers challenge common misconceptions created by the official government poverty data. According to the researchers, consumption, which measures what families are able to purchase in terms of food, housing, transportation and other goods and services, offers a better indicator of economic well-being than income, which can fluctuate for reasons unrelated to well-being.

Between 1980 and 2022, consumption poverty fell from 33.8% to 6.0%, even though the official poverty rate indicated a drop by only 1.5 percentage points over that same period.

The researchers identified three key factors contributing to the disparity between consumption and official poverty metrics: flawed adjustments to the federal poverty line to account for inflation, reliance on a narrow

definition of income, and biased measures of family resources.

"Our poverty estimates, based on how much people consume, are a much stronger indicator of well-being for the most vulnerable than those based on income," Sullivan explained. "Government surveys miss many income sources that are important to those struggling to make ends meet, and income varies for many reasons that are unrelated to well-being."

The researchers' report further disputes the notion of a sharp decline in poverty in 2021 followed by a substantial rise in 2022. Consumption poverty patterns did not exhibit such fluctuations. Instead, consumption poverty declined steadily during recent years while income poverty fluctuated dramatically, the co-authors noted, reiterating that the patterns for income poverty overstate changes in economic well-being.

"Annual income will not reflect the standard of living of individuals who smooth consumption by drawing upon savings or by borrowing," the researchers said. "This distinction is particularly relevant when income is fluctuating significantly, as was the case for families with few resources during the pandemic due to sharp changes in employment and sporadic cash transfers."

"There is evidence that families saved more in 2021 in response to the third round of the temporary stimulus payments and the expanded child tax credit," Sullivan explained, "which resulted in a more stable pattern in consumption poverty."

In addition, while many pundits have argued that the 2021 fall and 2022 rise in income poverty is largely due to the child tax credit, the researchers' findings show that other factors explain much of this pattern.

"While the child tax credit played an important role, the primary reason

income poverty was sharply lower in 2021 than in the preceding and following year was because of the economic impact payments (or stimulus payments) paid out in 2021," Sullivan said.

Using their [consumption](link)-based measures, the co-authors found that over the past six decades poverty in America was reduced not only through tax rate cuts and tax credits, but by the expansion of other anti-poverty programs as well. Increases in Social Security benefits have helped, as has the impact on earnings due to greater educational attainment. Overall [economic growth](link) in the country has also played an important role in the sharp decline in [poverty](link), the researchers concluded.

Provided by University of Notre Dame

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