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REPORT



# POVERTY AFTER WELFARE REFORM

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## About the Author



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Winship has testified before Congress on poverty, inequality, and joblessness. He holds a B.A. in sociology and urban studies from Northwestern University and a Ph.D in social policy from Harvard University.

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## Executive Summary

This year marks the 20th anniversary of the landmark federal welfare reform that transformed antipoverty policy—changing an open-ended cash benefit, Aid to Families with Dependent Children, to a more limited entitlement, Temporary Assistance for Needy Families. Critics at the time predicted a catastrophe, which never happened. Still, the severity of the Great Recession has revived worries that while welfare reform did benefit many poor families, it left a threadbare safety net in place through which the poorest of the poor have fallen.

This critique of welfare reform received powerful support in a widely cited, increasingly influential book, *\$2.00 a Day: Living on Almost Nothing in America*, by sociologists Kathryn Edin and Luke Shaefer. They argue that millions of children are in families that subsist on less than \$2 a day per person in income; that the number of these children has risen sharply over time; and that welfare reform is to blame. To reform's critics, the solution is to revisit or roll back the 1996 legislation.

The reality of poverty after welfare reform is not that portrayed by critics—including, most recently, Edin and Shaefer. Children—in particular, those in single-mother families—are significantly *less* likely to be poor today than they were before welfare reform. This is because income and poverty trends are poorly conveyed by official statistics and by most analyses of poverty data. Household surveys underestimate the cash income of these families and do not count as income a variety of valuable noncash benefits, including food stamps, housing subsidies, and Medicaid (the receipt and value of which are also underestimated). Meanwhile, the rise in the cost of living tends to be overestimated, pulling up poverty trends over time.

Reliable indicators do show increasing hardship in some years, but they mostly reflect the business cycle rather than a steady rise. To the extent that some less reliable measures of hardship appear to have worsened after 1996, they generally did so among groups of Americans (such as childless households, the elderly, children of married couples, and even married college graduates) who never received cash welfare under the AFDC program.

Specifically, this study, analyzing 2.3 million children over 46 years of data, finds:

- Child poverty *overall* fell between 1996 and 2014, after taking into account refundable tax credits and noncash benefits other than health coverage. After including household heads' live-in romantic partners in the family (i.e., cohabitation) as well, child poverty was lower in 2014 than at any point since at least 1979.

After also using the best available cost-of-living adjustment to update the poverty line and including health benefits as income, child poverty overall was lower by 5 percentage points in 2014 than in 1996 and is now at an all-time low. And after partially adjusting these estimates for the tendency of families to underreport government benefits (a tendency that has been increasing), the child poverty rate in 2012 was just over 5%, compared with nearly 20% as indicated by the official poverty measure.

- Poverty among the children of *single parents* was at an all-time low in 2014 after including refundable tax credits and noncash benefits (other than health coverage) in income and counting household heads' cohabiting partners as family.

After additionally adjusting the poverty line over time to better reflect the cost of living, and valuing health benefits as income, poverty among the children of single mothers fell by nearly 11 percentage points from 1996 to 2014. With the correction for underreporting (partial, because private sources of income remain underreported), the poverty rate among the children of single mothers was below 10% in 2012—lower than the official poverty rate for *all* children has ever been.

With regard to trends in “deep poverty”—defined as having a family income below half the official poverty line—this study finds:

- Deep child poverty was as low in 2014 as it had been since at least 1979 after including refundable tax credits and noncash

benefits (other than health coverage) in income, counting household heads' cohabiting partners as family, and applying the best cost-of-living adjustment to the poverty line. Adding health benefits indicates that deep child poverty was lower by 0.3 percentage points in 2014 than in 1996, and lower than any other year going back to 1979.

The partial correction for underreporting of income from four federal benefit programs leaves deep child poverty higher in 2012 than in 1996 by 0.2 percentage points. The 2012 rate is lower than in either 1994 or 1997, and deep child poverty might have been below the 1996 rate by 2014 (or 2016). Furthermore, earnings are underreported among low-income families, too, and a complete correction would likely make the deep child poverty trend look better.

- The most comprehensive of my deep poverty measures indicates a lower rate in 2014 among the children of single mothers than in 1995 and 1997 and a rate in 2013 that matched the 1996 rate.

After partially correcting the most comprehensive trend for underreporting, deep poverty among the children of single mothers was higher in 2012 by 0.2 percentage points than in 1996 (but lower than in 1997). Correcting for earnings underreporting would, in all likelihood, make the trend look better, and since deep poverty among the children of single mothers apparently was lower in 1995 or 1996 than ever before, it is possible that today's deep poverty rate is the lowest ever.

With regard to "extreme poverty"—defined as living at or under \$2 a day per person—this study finds:

- Extreme child poverty *overall* was the same in 2014 as in 1996—about one-half of 1% of children—once noncash government benefits and refundable tax credits are factored in. After correcting for underreporting of government benefits, in no year did the number of children in extreme poverty exceed one in 400.
- After correcting for underreporting, *practically no children of single mothers* were in extreme poverty in either 1996 or 2012. Fewer than one in 1,500 children of single mothers were in a household getting by on \$2 a day per person for the whole year in 2012. This finding is consistent with other research.

There is little evidence that welfare reform caused an increase in hardship or extreme cash poverty:

- The supposed rise in extreme child poverty based on cash income begins in the 1970s.
- The supposed increases in deep and extreme poverty based on cash income occurred among groups unaffected by welfare reform, such as childless adults, the elderly, children of married parents, and even married college graduates.
- Food problems among female-headed households worsened after 1999, but because they improved from 1995 to 1999, they were no more prevalent in 2014 than in 1995. Further, food problems worsened after the late 1990s among childless households, elderly people living alone, and married-parent households.
- The share of food stamp beneficiaries without any cash income rose not just among single mothers but among groups unaffected by welfare reform. At any rate, underreporting of earnings makes these trends look worse than they are. The most reliable estimates suggest that there was no steady increase in homelessness after welfare reform.

The idea that rolling back welfare reform would help the poor is wholly unjustified by the evidence and could reverse the gains among families with dependent children since 1996.

None of the findings in this study suggests that the 1996 welfare reform was perfect, that welfare policy cannot be improved, or that the levels of deep poverty in the United States are sufficiently low. But policy-makers should reject the increasingly conventional view that extreme poverty has dramatically increased and the view that welfare reform did more harm than good. Improving policy and reducing hardship require that we have a clearheaded view of the challenges we face.



# POVERTY AFTER WELFARE REFORM

## I. Introduction<sup>1</sup>

This year marks the 20th anniversary of the landmark welfare reform that transformed antipoverty policy. The Personal Responsibility and Work Opportunity Reconciliation Act—known by the clumsy acronym PRWORA—was signed by President Bill Clinton on August 22, 1996, a couple of months before the presidential election.

Clinton’s decision to do so divided the party. Two prominent members of his welfare policy team resigned in protest,<sup>2</sup> and Democrats opposed to the Republican-written legislation issued apocalyptic predictions. The late senator Daniel Patrick Moynihan famously surmised that the new five-year time limit on eligibility for federal cash benefits “might put half a million children on the streets of New York in 10 years’ time.” Moynihan went on to lament: “We will wonder where they came from. We will say, ‘Why are these children sleeping on grates? Why are they being picked up in the morning frozen?’ ”<sup>3</sup>

The years following welfare reform turned out to be better than expected for low-income families and unkind to the doomsayers. (Disclosure: I was with the doomsayers.) The official rate of child poverty, which, at 20.5% in 1996, had been falling for three years, fell to 16.2% in 2000, the lowest level since 1978.

However, child poverty began to climb again, with the end of the 1990s economic boom, eventually rising to 22.0% by 2010, almost back to its 1993 peak. Even in the first few years after 1996, a number of studies found that a sizable minority of families leaving the welfare rolls were apparently not working, and several analyses indicated that the poorest single mothers might be worse-off than before reform.<sup>4</sup> With the onset of the Great Recession, organizations like the Center on Budget and Policy Priorities warned that while a rising number of families were receiving unemployment insurance and food stamps, the increase in families getting cash welfare benefits was negligible.<sup>5</sup>

Now an impassioned book by sociologists Kathryn Edin and Luke Shaefer—\$2.00 a Day: *Living on Almost Nothing in America*—claims that welfare reform caused “extreme poverty” to rise to the point where, in 2011, 3 million children were in households getting by on less than \$2 per person per day.<sup>6</sup> Further, Edin and Shaefer claim that their ranks have grown sharply over time, and they pin the blame squarely on welfare reform. Liberals today increasingly argue that PRWORA was a terrible mistake and that it is time to revisit or roll back welfare reform to undo the damage and reduce child poverty.<sup>7</sup>

There is just one problem here: children—particularly those in single-mother families—are significantly *less* likely to be poor today than they were before welfare reform. Income and poverty trends are poorly conveyed by official statistics. Household surveys underestimate the income of poorer families. And analyses purporting to show that extreme poverty has worsened suffer from fatal flaws.

Child poverty, measured properly, declined until the Great Recession and rose only modestly during the worst downturn that the nation had seen in 75 years. Today, child poverty—including among the children of single mothers—is at a historical low. “Deep poverty”<sup>8</sup> among children today is probably no higher than its 1996 level and may be at a 40-year low. And extreme child poverty is so rare that measurement issues preclude the possibility of detecting a reliable trend. Any increase was likely confined to the Great Recession rather than reflecting steadily increasing hardship.

Even to the extent that some measures of hardship appear to have worsened after 1996, they generally grew worse among groups of Americans who never received cash welfare. The most reliable indicators of hardship showing an increase reflect the rise and fall of the business cycle but do not rise steadily. The idea that rolling back welfare reform would help the poor is wholly unjustified by the evidence. Obviously, much depends on the details of future proposals, but the facts do not even imply that extending the lessons of welfare reform to other safety-net programs would be harmful to the very poor.

## II. Child Poverty Fell After Welfare Reform and Remains Historically Low

Understanding why so many people believe welfare reform to have been harmful requires an appreciation for the limits of the most readily available measures of poverty. Of course, there is no single inarguable definition of poverty. What’s important is whether we can reliably

determine whether someone is “poor” by some necessarily arbitrary definition, how many such people there are at any given point in time, and whether their ranks are growing or shrinking.

The official poverty measure used by federal agencies is as good a place to start as any. The Census Bureau defines family income by beginning with all private sources of cash income received by all family members at least 15 years old.<sup>9</sup> Those sources include earnings from a job or self-employment, income from assets (including interest, dividends, rent, and royalties), retirement income, and help from others outside the family (including alimony and child support payments, as well as educational assistance). To this private income is added cash benefits from government programs, be they social insurance entitlements (like unemployment insurance, Social Security, or worker’s compensation) or “means-tested” programs for needy families (such as welfare).

The annual income of a family is compared with a “poverty line” that varies by the number of children, the number of adults, and the age of the family head. These poverty lines date to the early 1960s, with an official set defined in 1969 and extended retroactively to earlier years. The lines were modified slightly in 1981. Otherwise, they have simply been updated every year to take account of the rising cost of living.<sup>10</sup>

All the estimates I cite, unless otherwise noted, come from the Census Bureau’s Current Population Survey (CPS), which is the source of official income, poverty, and unemployment statistics.<sup>11</sup> The CPS does not interview the homeless living on the street or in shelters, or people in institutions (such as jails, prisons, orphanages, nursing homes, and psychiatric hospitals), or on-base households with active-duty military personnel, or Americans living overseas.<sup>12</sup>

All the charts in this paper show a dashed line through 1996 to facilitate an assessment of post-welfare-reform trends. In reality, there is no simple way to date welfare reform’s start. Between 1992 and 1995, 20 states began implementing major reforms under state waivers granted by the Department of Health and Human Services. Furthermore, it took some time for states to implement PRWORA after

it became law, with the last state, California, doing so in January 1998.<sup>13</sup> One report by the Council of Economic Advisers estimated that state waivers were responsible for 15% to 31% of the decline in the share of people receiving cash welfare between 1993 and 1996.<sup>14</sup>

The bolded red line in **Figure 1** shows the trend in the official poverty rate for children between 1969 and 2014. The chart also provides a number of alternative child poverty trends, each of which improves on a single shortcoming of the official measure. The first point to note in **Figure 1** is that by 2014, the official child poverty rate had fallen from its Great Recession peak and was 1 percentage point below the 1996 rate (19.5% versus 20.5%). The trend was also downward, and other evidence suggests that the 2015 rate was lower than in 2014.<sup>15</sup>

### Noncash Benefits

But the true picture is actually better than the official child poverty rate implies. The orange line in **Figure 1** adds noncash benefits from several federal programs to family income, including food stamps (today called the Supplemental Nutrition Assistance Program, or SNAP), federal rental assistance (public housing projects and rental vouchers), school lunches and breakfasts, and energy assistance.<sup>16</sup> These forms of assistance increase the purchasing power of families by allowing them to spend money that would have gone toward food or shelter on other needs.

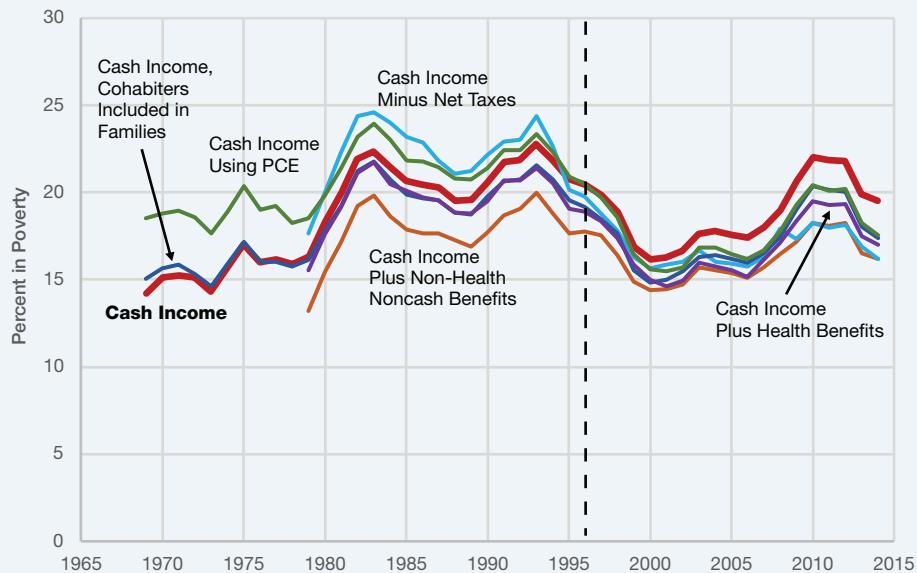
This addition of noncash benefits lowers child poverty by 2.7 percentage points in 1996 and by 3.3 percentage points in 2014. It primarily affects the poverty trend after 2008, largely because of the expansion of SNAP during the Great Recession.<sup>17</sup>

### Health Benefits as Income

If, instead of adding these noncash benefits, employer and federal health benefits are added to cash income, child poverty falls from 18.9% in 1996 to

**FIGURE 1.**

### Child Poverty, Unadjusted and with Various Adjustments



17.0% in 2014 (purple line).<sup>18</sup> Health coverage among poor children has expanded significantly since the mid-1980s. Medicaid coverage was expanded by Congress in every year between 1984 and 1990. The 1996 welfare reform delinked Medicaid from cash welfare and took eligibility away from some legal immigrants, but the creation of the State Children's Health Insurance Program (CHIP) in 1997 provided another expansion of coverage. Medicaid funding was increased temporarily in 2003 and 2009, CHIP was reauthorized in 2009, and the Affordable Care Act further expanded health coverage in 2010.

Employer coverage declined over this period—partly because of the expansion of public benefits, which made it easier for employers to drop coverage—but the decline was smaller than the increase in public coverage, and the share of poor children with health insurance has been rising since at least the late 1990s.<sup>19</sup>

Two common objections to the inclusion of health benefits in income—that health coverage has little value to poor families and that increased third-party spending on health insurance primarily reflects

rising health care costs—lack merit. I discuss these objections in **Appendix 1**. To be conservative, I have valued health benefits at one-quarter of the “market value” assigned to them by the Census Bureau. I did so based on past research—discussed in **Appendix 1**—that has estimated the “cash equivalent value” of health benefits to poor families (how much cash would make a family feel as well-off as they are having health benefits).

### Tax Credits

Rather than adding noncash benefits, the light-blue line in **Figure 1** subtracts taxes from income, including federal and state income taxes, payroll taxes, property taxes, and deductions for public-employee retirement benefits. It also adds federal refundable tax credits to income.<sup>20</sup> The tax burden on the poor has fallen since the Tax Reform Act of 1986 raised the personal exemption and the standard deduction and increased the Earned Income Tax Credit (EITC). The EITC was expanded again in 1990 and 1993, again in 1990 and 1993, fully phased in by 1996. The Child Tax Credit (CTC) was created in 1997 and expanded in 2001. The expansion also created a refundable Additional Child Tax Credit, or ACTC. Stimulus legislation in 2009 expanded the EITC, CTC, and ACTC. It also created a temporary Making Work Pay Tax Credit and special Economic Recovery Payments to Social Security beneficiaries and those receiving veterans’ or railroad retirement payments.

Since 1995, accounting for net taxes has actually made low-income children better-off because many low-income working families receive refunds that exceed their tax liabilities (thanks to refundable tax credits). After taxes, the child poverty rate falls from 19.8% to 16.2% between 1996 and 2014.<sup>21</sup>

### Adjusting for Inflation

The green line in **Figure 1** corrects for the overstatement of inflation when the official poverty lines are adjusted for the cost of living each year. The Census Bureau updates the poverty line each year, using a “price index” called the CPI-U.<sup>22</sup> Its use may be traced to a 1969 rule issued by what was then called the Bureau of the Budget—the precursor to today’s Office of Management and Budget.

Many federal programs rely on the bureaucratic definition of poverty that was established then, with few changes to the definition over the years. But

just as the original definition of income has become out of date as health and other noncash benefits have grown relative to cash income—and just as the failure to take taxes into account makes the original poverty-line definition a worse and worse measure of purchasing power at the bottom—bureaucratic and political reliance on an out-of-date price index makes the purchasing power of an income at the official poverty line rise over time.

The Census Bureau has not used the CPI-U as a cost-of-living adjustment in its income research since the early 1990s, but it is still required to use it to update the poverty line each year. The alternatives to the CPI-U all show slower inflation over time, meaning that updating the poverty line with any of them raises the poverty line less than the CPI-U does. In other words, by raising the bar for escaping poverty year after year, the CPI-U makes the poverty line represent a rising standard of living. The original poverty line, in contrast, was supposed to represent a constant standard of living.

The best price index available is the Personal Consumption Expenditures (PCE) deflator. The Federal Reserve Board relies primarily on the PCE deflator in examining inflation, and the Congressional Budget Office also uses the PCE deflator in its research. There is substantial evidence that even the PCE deflator overstates inflation, but it does so less than the alternatives. **Appendix 2** presents a fuller argument for using the PCE deflator over its alternatives.

Some critics claim that low-income consumers experience higher inflation than the typical consumer, but the limited research that has been conducted on the topic has found either similar inflation rates for poor and nonpoor consumers or slightly lower inflation among the poor. One study, for instance, found that the poverty rate in the early 1990s was lower by 0.2 percentage points when the 1984 poverty lines were adjusted using an inflation index specific to the poor.<sup>23</sup>

The green line in **Figure 1** shows the trend in child poverty when the original cash income definition is used but the poverty lines are adjusted for inflation using the PCE deflator. The new estimates are anchored at the 1996 official poverty thresholds and adjusted backward and forward from that year. Doing so allows for the most straightforward assess-

ment of post-welfare-reform trends.<sup>24</sup> Between 1996 and 2014, the green line falls 2.9 percentage points instead of the 1.0-percentage-point decline using the CPI-U.

### Treating Cohabitors as Families

The official poverty measure includes thresholds for individuals at least 15 years old who are not living with any relatives and for “families.” Families include those in which the household head is a member—which may include the head’s related subfamilies, such as a daughter with her own child—and subfamilies unrelated to the household head. Cohabiting but unmarried couples are not counted as members of the same family.

Cohabitation has increased over time, and because cohabitors share resources, a modern poverty measure would group them together. The failure of the official measure to do so means that as cohabitation becomes more common relative to marriage, poverty rates are increasingly overstated.

For example, in 2015, a single mother with one child needed \$16,338 to be deemed nonpoor. Her boyfriend needed \$12,332, regardless of whether he lived with her. Clearly, if the couple lived together, they would be better-off economically than if they lived in two separate households, paying two separate rents and otherwise being unable to economize. Reflecting this, a married couple with one child needed just \$19,079 in 2015 to escape poverty. It makes little sense to count the same couple with one child as a poor family and a poor single man if together they make over \$28,000 but are unmarried.

The dark-blue line in **Figure 1** shows the child poverty trend after combining the incomes of cohabiters (and their families) if they include the household head.<sup>25</sup> The combined income is then compared with the official poverty thresholds after summing the number of adults and children in the new “family.”<sup>26</sup> Taking cohabiters and their incomes into account lowers the 1996 child poverty rate by 1.3 percentage points and the 2014 rate by 2.1 percentage points, raising the estimated decline in child poverty by 0.8 percentage points.<sup>27</sup>

### Putting It All Together

So far, I have made improvements to the official poverty line in isolation from one another. **Figure**

**2** shows how the trend in child poverty changes as improvements to the official measure are made iteratively. The red and orange lines are the same as in **Figure 1**, showing the official child poverty rate and the shift in poverty when non-health, noncash benefits are added to income.

The third line (light-blue) subtracts net taxes from income (and still adds non-health, noncash benefits). Poverty defined this way falls 3.5 percentage points from 1996 to 2014 (16.7% to 13.2%). Notably, child poverty barely rises between 2000 and 2007, and even the Great Recession increases poverty only modestly. Compare, for example, the bump after 2007 with the 1979–82 increase during the double-dip recession of the early 1980s. Further, child poverty rose 2.7 percentage points during the early 1990s downturn, from 1989 to 1993 but only 1.4 percentage points between 2006 and 2010.

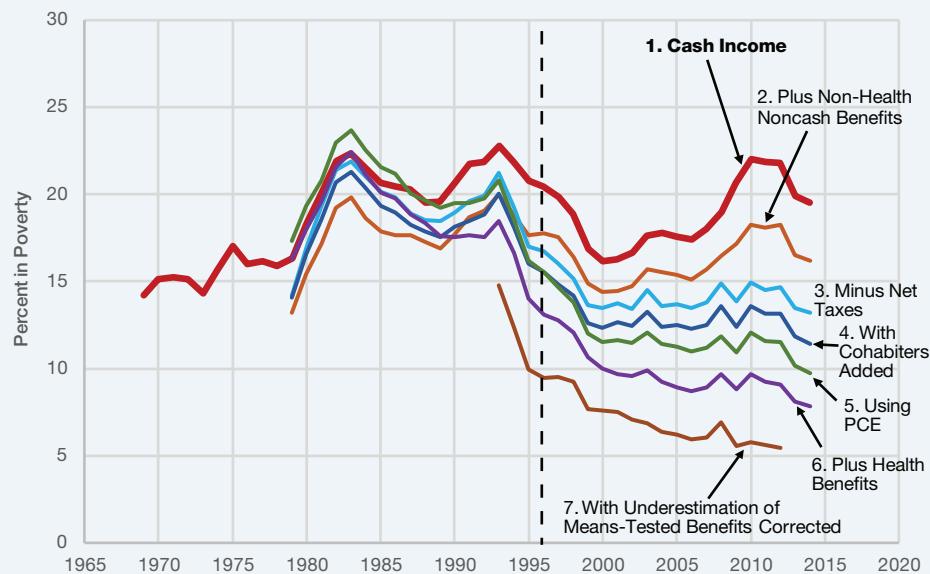
The dark-blue line, labeled “4,” shows the trend after taxes and non-health, noncash transfers are taken into account and cohabiters’ incomes are combined. Doing so lowers child poverty in both 1996 and 2014 and widens the decline in poverty to 4.1 percentage points. By this measure, child poverty was even lower in 2014 than in 2000; that is, it was lower in 2014 than at any point since at least the late 1970s.

The green line, labeled “5,” repeats the fourth line but uses the PCE deflator instead of the CPI-U to adjust for inflation. Because I have anchored the PCE to the 1996 poverty thresholds based on the CPI-U, switching to it leaves the 1996 rate the same as in Line 4. But Line 5 falls from 15.5% in 1996 to 9.7% in 2014—5.8 percentage points. Now the 2007 rate is lower than the 2000 rate, and the 2014 child poverty rate again lies at a historical low point.

Finally, the purple line—Line 6—adds in employer and federal health benefits. Child poverty measured this way falls 5.3 percentage points, from 13.1% to 7.8%. The 2014 rate was again at an all-time low and headed downward. The reader is encouraged to contemplate the magnitude of the longer-run drop in child poverty shown in **Figure 2**, although examining it is beyond the scope of this report.

### Underestimation of Means-Tested Benefits

It is well established that income from government benefits is understated in household surveys and

**FIGURE 2.****Child Poverty, Cumulative Adjustments**

that the problem has grown worse. Similarly, considerable evidence indicates that earnings and other private sources of income are understated in household surveys among low-income families, and the understatement may have worsened over time. I summarize the evidence on survey underreporting of income in **Appendix 3**—a topic of considerable importance in this paper and to which I will repeatedly return.

Briefly, when compared against administrative records, a large minority of recipients of government benefits—or even a majority, for some types of benefits—fails to report receiving any, and the problem has been getting worse for a number of benefit programs. Underreporting of earnings among workers with low reported pay was severe in the early 1990s and worsened over the course of the decade. Little research has been conducted on earnings underreporting since. And as we will see, ethnographic evidence confirms that beneficiaries of government assistance generally conceal earnings and other sources of private income from survey-takers.

Line 7 in **Figure 2** partially corrects for the problem of

underestimated income by using improved CPS-based figures on means-tested benefits.<sup>28</sup> These improved estimates come from the Urban Institute's TRIM3 model. The model determines eligibility for welfare, the Supplemental Security Income (SSI) program, and food stamps and then simulates participation rates so as to match the participation levels indicated in administrative data. It also estimates the value of housing subsidies in a more sophisticated way than does the Census Bureau. Line 7 substitutes the TRIM3 estimates for these income amounts for the original ones in the CPS.<sup>29</sup>

After these improvements, child poverty falls 4.1 points from 1996 to 2012 (compared with 4.0 points in Line 6). While the trend is not much affected by the improvements, the level of child poverty

is lower than shown by Line 6 by almost four points in both 1996 and 2012. The figures suggest that child poverty is probably below 5% today, rather than being close to 20%, according to the official estimates.

**Children of Single Mothers**

**Figures 1 and 2** showed trends for all children, but welfare reform primarily affected children living with single mothers. **Figure 3** shows the trends after iterative improvements to the official poverty measure—but this time, only for the children of single mothers.

Poverty among these children was lower in 2014 than in 1996, even using the official measure, and non-health, noncash benefits further reduce poverty in all years. But both these trends show a rise in poverty after 2002. Once taxes—including tax credits—are taken into account, poverty among the children of single mothers rises 1.9 percentage points from its 2002 low, but combining cohabiters' incomes makes the 2014 rate the lowest on record—9.3 percentage points lower than it was in 1996.<sup>30</sup>

When the PCE deflator is used to adjust for inflation, the post-1996 drop is 12.7 percentage points. Adding

employer and federal health benefits lowers poverty among the children of single mothers even more. The 1996–2014 drop is from 29.0% to 18.1% by this final measure—a decline of 10.9 percentage points.

Finally, Line 7 shows that with the TRIM3-improved estimates of means-tested benefits, poverty among the children of single mothers fell by 8.5 percentage points from 1996 to 2012 (versus 9.6 percentage points in Line 6). The levels of poverty are dramatically lowered—Line 7 is actually lower in 1996 than Line 6 is in 2012. **Figure 3** shows that poverty among the children of single mothers began to decline after 1982 and dropped precipitously during the 1990s.<sup>31</sup> Line 7 suggests that under 10% of the children of single mothers are poor today—lower than the official poverty rate for all children has ever been.

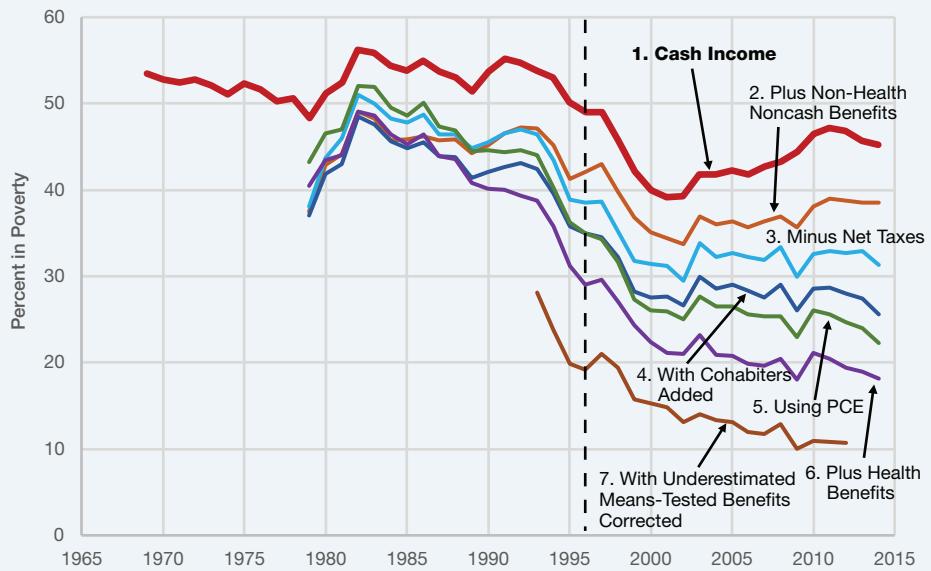
### What Does Other Research Say?

Lest skeptics think that my analyses are idiosyncratic or misleading, other research using different ways of improving on the official poverty measure finds similar results. In **Figure 4**, I compare my comprehensive poverty trend for all children (Line 6 in **Figure 2**) with the child poverty trend found by a group of Columbia University researchers.<sup>32</sup> The Columbia estimates—based primarily on the CPS—differ from mine in a variety of ways. Most notably, they use a different poverty line from the one that I do in their base year, and they adjust it for inflation using a different price index. They also take a different approach to addressing health benefits. But the story that their “anchored supplemental poverty measure” tells is broadly the same as mine, at least through 2010.

The same is true of poverty trends that focus on single mothers or their children. **Figure 5** presents my comprehensive and TRIM3-improved trends, along with three others. One, from Thomas Gabe of the Congressional Research Service, which conducts studies

**FIGURE 3.**

### Child Poverty in Single-Mother Families, Cumulative Adjustments

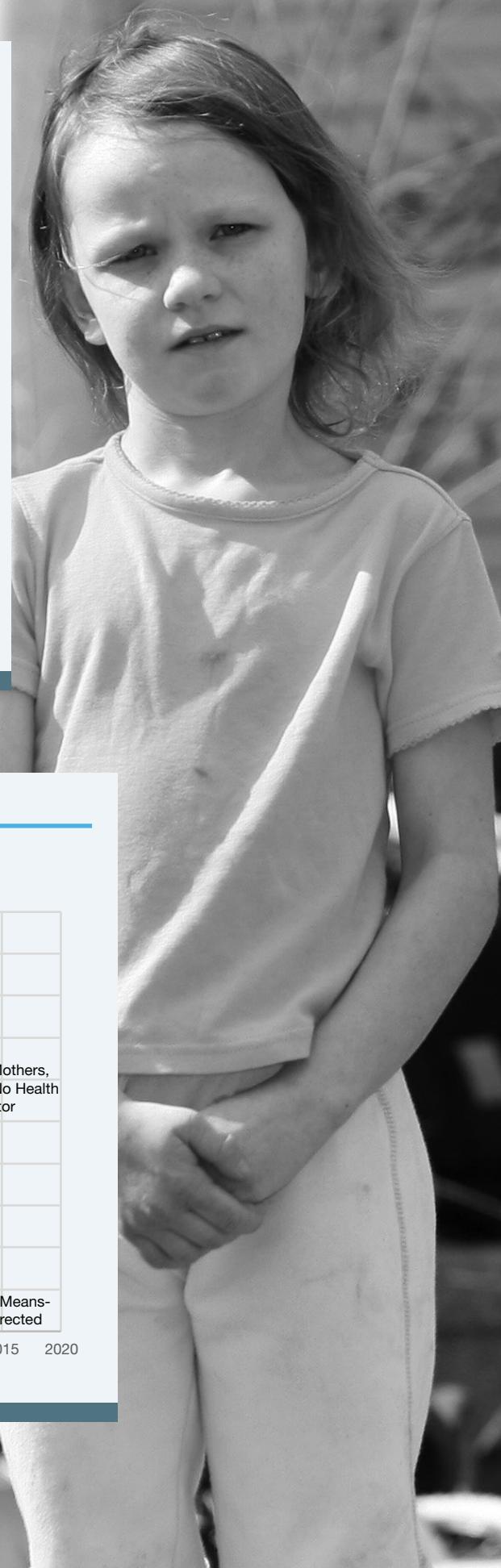
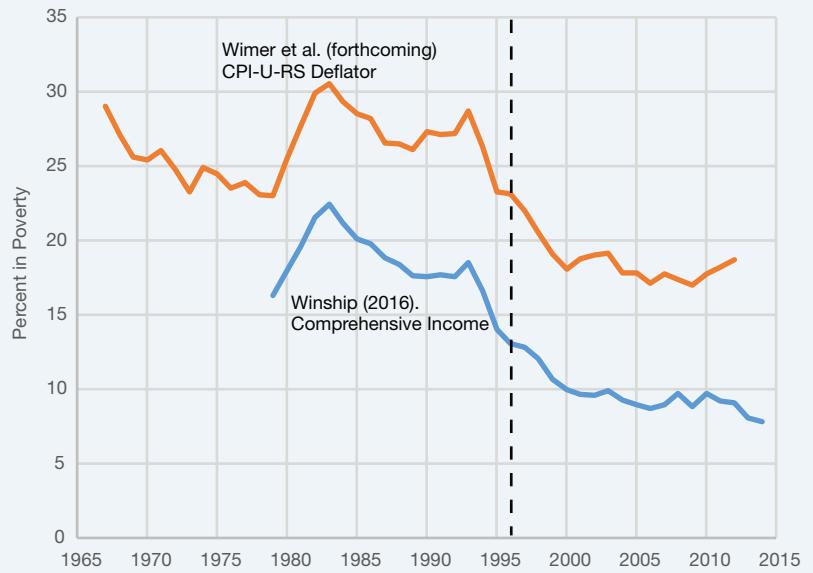


at the request of members of Congress, excludes the value of health benefits and uses the faulty CPI-U.<sup>33</sup> It, too, is based on the Current Population Survey. Gabe finds a trend for single mothers very similar to my trend (based on comprehensive income) for the children of single mothers through 2000. After that, they diverge, with my trend falling while Gabe’s rises slightly.

The Congressional Research Service reports other estimates indicating that poverty rates were lower among single mothers in 2013, before taking any government benefits into account, than they were in 1996, adding in cash benefits. That comports with my results (not shown here) finding that poverty among the children of single mothers was only slightly higher in 2013 (and in 2014) before taking government benefits (or employer health coverage) into account than it was in 1996 with cash benefits added in. The loss of income from welfare benefits was offset by the increase in earnings and other private sources of income; it was not simply that other safety-net income substituted for it.

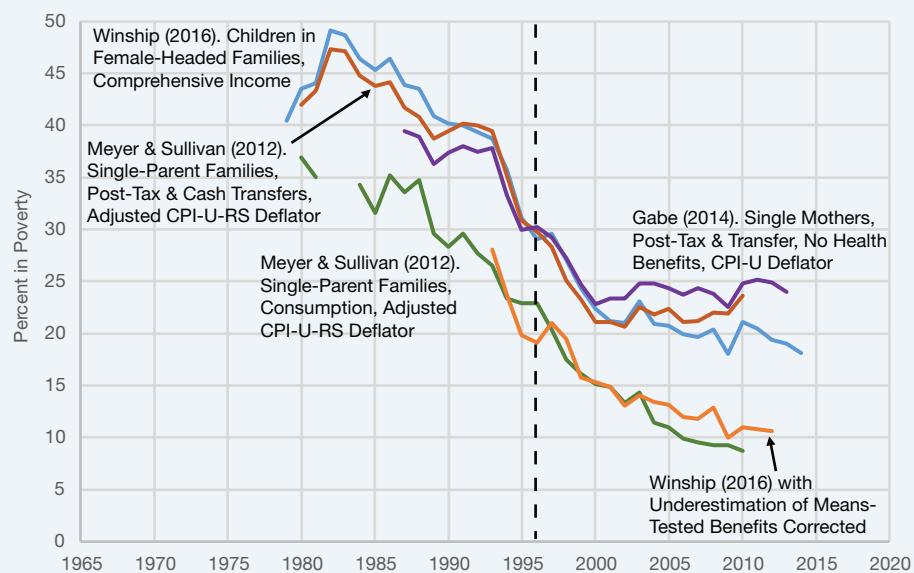
**FIGURE 4.**

### Child Poverty Rates, Post-Tax & -Transfer Income



**FIGURE 5.**

### Poverty Rates, Single-Parent Families & Their Children



## Consumption vs. Income Poverty

Economists Bruce Meyer and James Sullivan have produced poverty estimates for single-parent families using the CPS, also shown in **Figure 5**.<sup>34</sup> Their poverty trend based on income—shown by the orange line—is practically identical with mine through 2003, though it sets the baseline poverty line differently from the way I do, uses a different price adjustment, and does not account for any noncash benefits. But Meyer and Sullivan also estimate a poverty trend based on consumption, using the Bureau of Labor Statistics' Consumer Expenditure Survey (CES).

Consumption is, roughly, the amount that a family spends (excluding investments in health and skills) plus the flow of services from “durable” goods such as homes and cars. The benefits of these durable goods are enjoyed over many years, though expenditures on them occur in a single year. The Meyer-Sullivan consumption poverty trend (shown by the green line in **Figure 5**) falls steadily even after 2000, at a faster rate than my comprehensive measure. However, after correcting for underestimation of means-tested benefit income, my trend tracks the Meyer-Sullivan trend very closely.

Meyer and Sullivan argue that consumption poverty reflects the degree of material hardship better than income poverty does and that the consumption poverty trend is a more accurate depiction of changes in hardship. They have amassed considerable evidence for these positions, a body of research summarized in **Appendix 4**.

Because of the widespread underestimation of income in household surveys and a worsening in underestimation over time, Meyer and Sullivan contend that poverty measures based on income overstate hardship and underestimate the true decline in poverty. For example, family income (after taxes, and including food stamps) at the 20<sup>th</sup> percentile from 1991 to 1998 was very similar in the CPS and the CES for single mothers without a high school diploma, as was the average income for the bottom fifth of these women. But the 20<sup>th</sup> percentile of *expenditures* in the CES was 27% higher than the 20<sup>th</sup> percentile of income

in the same survey, and mean expenditures in the bottom fifth of expenditures were 52% higher than mean income in the bottom fifth of income.<sup>35</sup>

Response rates are higher in the CES than in the CPS, and total spending on the categories of goods and services most important among the poor matches well against external benchmarks. Consumption is also much more closely related to a range of hardship measures than is income in the CES. What is more, the difference between who is deemed poor according to income versus consumption has grown over time.

Data on comprehensive income from the Congressional Budget Office also show strong income growth in the 2000s among poorer households. Households with children in the bottom fifth of the income distribution saw faster annual growth between 2000 and 2010 than in the 1980s or 1990s.<sup>36</sup>

What is interesting about the CBO income estimates is that they mostly reflect data from the Internal Revenue Service. Tax filers in the IRS data are statistically matched to similar tax filers created from the CPS. The only data that come from the CPS are income amounts from most cash and in-kind transfers (and incomes for people deemed to be non-filers). If the private sources of income that come from the tax data are more completely recorded than the same income sources typically reported in household surveys, then it may be that the CBO estimates are tainted by underreporting only in the sources of transfer income.<sup>37</sup>

This possibility highlights the importance of remembering that even the TRIM3-corrected poverty estimates shown in this paper do not correct for any underestimation of earnings or other private sources of income. Correcting for this underreporting—and, in the CES, correction of underestimation of consumption—would show even lower child poverty rates, and perhaps a sharper decline in poverty over time. Regardless, it should be clear that based on conventional thresholds for poverty, children of single mothers are significantly better-off today than when welfare reform was passed.<sup>38</sup>

### III. Deep Poverty Among Children Is Probably No Higher than in 1996, and It May Be at a 40-Year Low

The official poverty lines are below the levels that most Americans believe are necessary to provide a basic standard of living.<sup>39</sup> Nevertheless, a number of researchers have been concerned that the policy reforms of the 1990s may have helped better-off poor families while hurting poorer ones. Thus, many have focused on the trend in “deep poverty,” defined as having income that is less than half a family’s poverty line.

**Figure 6** shows the official measure of deep child poverty as the thick red line. As in **Figure 1**, it then compares that trend with several using a deep poverty measure improved in a single way. While being below half the poverty line is obviously rarer than being *somewhere* under the poverty line, the trend in deep child poverty is similar to that for poverty, according to the official measure. Deep poverty among children fell from 1997 to 2000, and then rose until 2010, before falling again. The deep child poverty rate was lower in 2014 than in 1996, and it has likely declined since. (Note that more children were in deep poverty in 2014, according to the official measure, than were in poverty—deep or not—according to Lines 6 and 7 of **Figure 2**.)

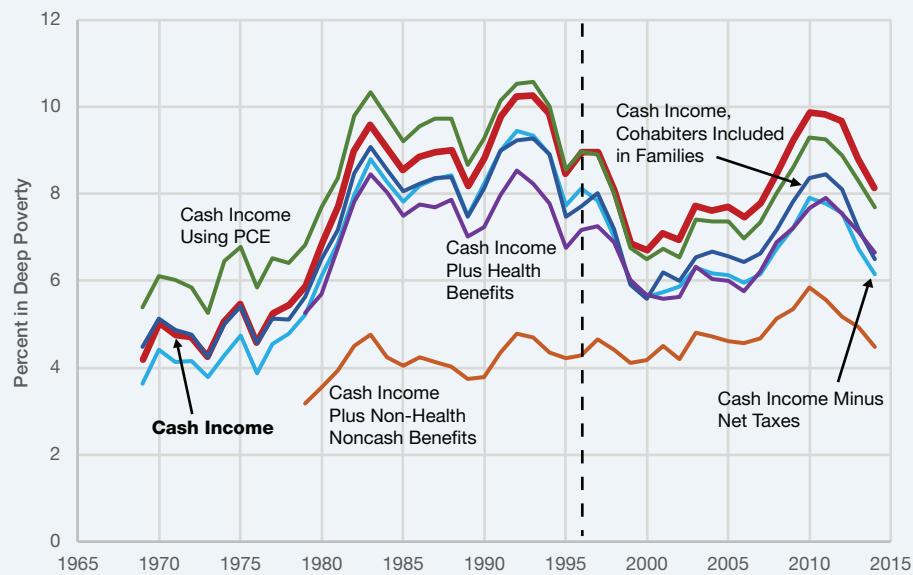
Adding non-health, noncash benefits to income reduces deep child poverty substantially. But because they lowered deep poverty more before welfare reform than after, taking non-health, noncash benefits into account causes deep child poverty to rise from 1996 to 2014.

While tax credits are generally available only to workers, and while earnings among families in deep poverty are less common than higher up the income ladder, tax credits make the post-1996 deep child poverty trend fall by more than the official rate does. Deep poverty among children was 2 percentage points lower in 2014 than in 1996, by this measure.

Deep poverty was lower by 1.2 percentage points in 2014 than in 1996 after adding cohabiters’ income to cash income. It was also lower when the PCE deflator is used instead of the CPI-U to adjust poverty lines for inflation, leading to a 1.3-percentage-point drop in deep poverty. Finally, adding health benefits to cash income produces a drop in deep child poverty of 0.5 percentage points. By five of the six poverty measures, deep poverty among children was lower in 2014 than

FIGURE 6.

#### Deep Child Poverty, Unadjusted and with Various Adjustments



it was in 1996; but by all six measures, it was higher in 2014 than in 2000.

Combining the methodological improvements leads to the conclusion that deep child poverty declined slightly after 1996 and after 2000. In **Figure 7**, deep poverty was slightly higher in 2014 than in 1996 (by 0.4 percentage points) when non-health, noncash benefits and taxes are taken into account (though lower than in 1994 or 1997). Also combining cohabiters' incomes leaves the 2014 rate higher by 0.1 percentage points than in 1996 (but lower than in 1995 or 1997).

The deep child poverty rate trends slightly downward after 1996, however, when the PCE deflator is used, and the 2014 rate is even lower than in 2000.

Adding health benefits to income lowers deep child poverty further and results in a decline of 0.3 percentage points from 1996 to 2014. The 2014 level was at an all-time low.

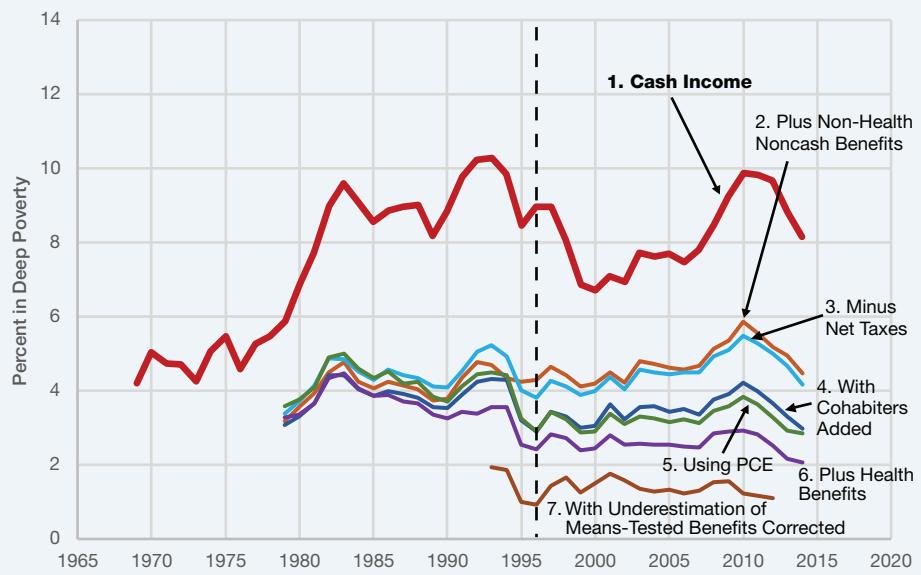
As with child poverty, the Great Recession's impact on deep child poverty was surprisingly mild. By most of the improved measures, the increase in deep child poverty was a bit sharper than the rise during the early 1990s recession, but it was smaller than during the early-1980s recessions (even by the official poverty measure).

### **Underestimation of Income Again**

The conclusion that deep child poverty declined after 1996, however, is called into question by Line 7, at the bottom of **Figure 7**, which corrects for the underestimation of non-health, noncash benefits in the CPS. Line 7 reveals deep child poverty to be even lower than Line 6 suggests, but it lowers the 1996 rate by more than the 2012 rate. As a result, while Line 6 rises by 0.1 percentage points from 1996 to 2012, Line 7 rises by 0.2 percentage points. Still, in Line 6, deep child poverty falls by 0.4 percentage points from 2012 to 2014, so it is entirely possible that Line

**FIGURE 7.**

### **Deep Child Poverty, Cumulative Adjustments**



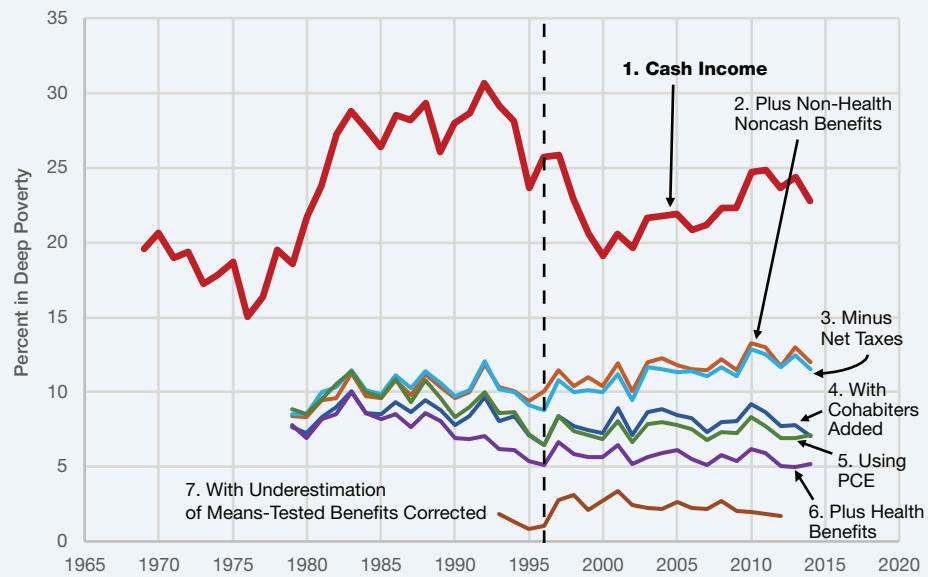
7 would show a 2014 rate lower than the 1996 rate (and that the 2016 rate would be even lower). And even the 2012 rate is lower than in 1994 or 1997.

One other point to remember about Line 7: it only *partially* corrects for underestimation of income. The impact on poverty trends of correcting for under-reporting in some source of income depends not only on how underreporting worsened over time; it also depends on how the share of total income that comes from this source changes. Because means-tested benefits were a bigger share of poor families' income in 1996 than in 2012, correcting for underreporting of these benefits lowers the 1996 deep child poverty rate by more than it does the 2012 rate. That, in turn, converts a slight fall in deep child poverty into a slight rise.

However, since 1996, other types of income have become a *bigger* share of what low-income families receive—in particular, earnings and income from unemployment insurance; the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), and Additional Child Tax Credit (ACTC); and Medicaid.<sup>40</sup> These income sources are also underreported, so

**FIGURE 8.**

### Deep Child Poverty in Single-Mother Families, Cumulative Adjustments



unless reporting of these income sources improved, their greater importance over time would tend to overstate the rise in deep poverty or mask a decline.

It is worth emphasizing a subtle point here, to which we will return: underreporting for some income source does not have to worsen in order to bias poverty trends upward. Imagine a family where earnings are completely unreported—and large enough that, if reported, they would be enough to escape deep poverty. Imagine, too, that welfare income is reported fully and also amounts to over half the poverty line. Now imagine that welfare income disappears over time, so that those earnings eventually become the only income received by the family. The family will, at some point, appear to fall into deep poverty, even though it remains above the deep poverty threshold the whole time, thanks to its (unreported, unchanging) earnings.

If underreporting rates for increasingly important sources of income actually *rose* over time, the bias in the estimates would be that much greater. In fact, underreporting did rise in the CPS for Medicaid, unemployment insurance, and the EITC (the latter

two suggesting a possible rise in earnings underreporting, too).<sup>41</sup> According to one study, the deep-poverty-reducing impact of *reported* unemployment insurance benefits increased a lot after 1996, which suggests that under-reporting of such benefits makes the trend in deep child poverty look worse than it really is.<sup>42</sup>

The importance of underreporting in these other income sources may be seen in estimates of deep poverty from Meyer and Sullivan for the entire population, including children as well as adults. They report that in the CPS, using the official poverty definition, deep poverty was 5.4% in 1996 and 6.7% in 2010. By their preferred income poverty measure, deep poverty still rose from 3.1% to 4.3%. But deep consumption poverty fell from 0.9% to 0.8% (versus an increase from 0.9% to 1.2%, using my corrected measure).<sup>43</sup>

### Children of Single Mothers

**Figure 8** tells only a slightly worse story for the children of single mothers as for all children. Deep child poverty was higher in 2014 than in 1996 once non-health, noncash benefits are added to cash income, and it was higher after also accounting for taxes. Once cohabiters' incomes are combined, the PCE deflator is used, and health benefits are added to income, deep poverty among the children of single mothers in 2014 remains just above the 1996 rate (but below the 1995 and 1997 rates).

Line 7 in **Figure 8**, with the correction for under-reporting of means-tested benefits, shows the deep poverty rate among the children of single mothers to be strikingly low—1.7% in 2012. But it is higher by 0.2 percentage points in 2012 than in 1996 (though lower than in 1997). Given the potential under-reporting problems that remain unaddressed in that line—to say nothing of the imprecision in the under-reporting correction and the valuation of noncash benefits and taxes—concluding that the increase was real is unwarranted.

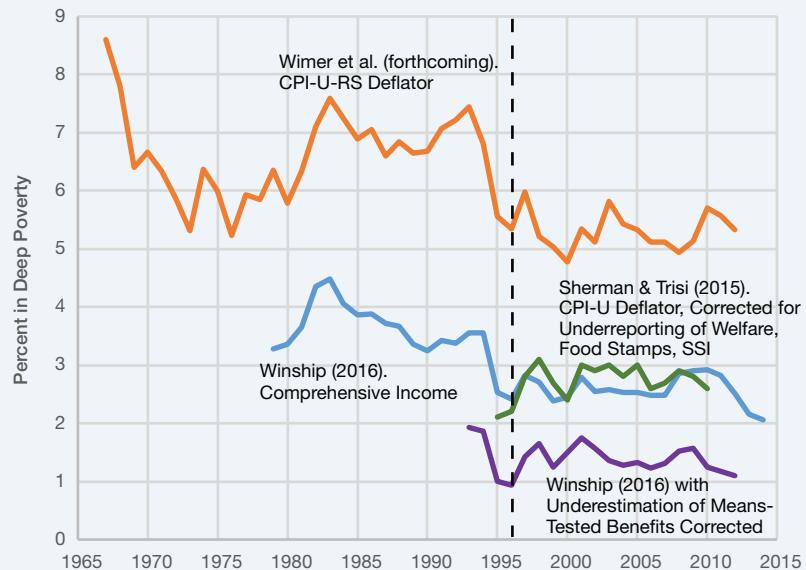
**Comparisons with Other Research**  
 Other researchers have estimated trends in deep child poverty since welfare reform. **Figure 9** displays my comprehensive and TRIM3-corrected estimates against two other sets. The first set of estimates comes from the Columbia University team. Its series shows the same deep child poverty rate in 2012 and 1996, while my comprehensive measure (Line 6 in **Figure 8**) shows an increase of 0.1 percentage points. The Columbia-estimated deep child poverty rate almost surely would be below the 1996 level in 2014, as mine is.<sup>44</sup>

The other set of estimates shown in **Figure 9** comes from Arloc Sherman and Danilo Trisi of the Center on Budget and Policy Priorities (CBPP), who (like the Columbia researchers) also used the CPS but corrected the CPS figures for underreporting of welfare, SSI, and food stamps using the TRIM3 data.<sup>45</sup> These figures indicate that between 1995 and 2010, the share of children below half the poverty line rose from 2.1% to 2.6% (up from 2.2% in 1996). That is comparable with my TRIM3-corrected estimates (Line 7 from **Figure 8**, repeated in the purple line in **Figure 9**), which rise by 0.3 percentage points from 1996 to 2010. The Sherman-Trisi trend would be flatter if they used the PCE deflator instead of the CPI-U, and their levels would be lower if they had corrected housing benefits for underestimation and valued health benefits, as I do.<sup>46</sup>

It is pointless to speculate about whether the TRIM3-corrected trends—mine or Sherman and Trisi’s—would show 2016 deep child poverty trends lower than in 1996. Neither is likely to show much of an increase or decline, especially relative to the pre-1996 levels of deep child poverty and given the large-in-comparison range of estimates from analyses using different income definitions. It is worth repeating the point that the TRIM3-corrected trends do not correct for underestimation of private income or other tax and transfer income beyond welfare, SSI, food stamps, and housing subsidies. As we will see below, underreported earnings among single mothers, in particular, are likely to make deep poverty trends look worse than they are.

**FIGURE 9.**

### Child Deep Poverty Rates, Post-Tax & -Transfer Income



Several studies provide estimates of the trend in deep poverty among single mothers and their children. Sherman and Trisi report that deep poverty among people (of all ages) in unmarried families with children rose from 2.8% in 1995 to 4.6% in 2010 (a 1.8-percentage-point rise, compared with my 1.1 percentage points using the TRIM3-corrected measure).<sup>47</sup>

Yonatan Ben-Shalom, Robert Moffitt, and John Karl Scholz used the Survey of Income and Program Participation (SIPP) to look at deep poverty trends among nonelderly, nondisabled, single-parent families, focusing on monthly income. They used their own underreporting correction but relied on the CPI-U and did not include any health benefits in income. The authors found that the deep poverty rate was 11.8% in early 2004, up from 7.9% in late 1984—an increase of 3.9 percentage points. My comprehensive, uncorrected deep child poverty measure (based on annual income) falls by 2.7 percentage points, but Line 3 in **Figure 8** is more consistent with their methods and rises by 1.4 percentage points over the period. Other results that they report indicate that valuing Medicaid in income would have altered their estimates considerably.<sup>48</sup>

The Columbia researchers found that the share of people in working-age single-parent families who were in deep poverty fell from 12.4% in 1978 to 10.9% in 2008, before rising to 12.0% in 2011.<sup>49</sup> Their 1.5-percentage-point drop from 1978 to 2008 (using another inferior inflation index, the CPI-U-RS) compares with the 2.0-point drop that I find between 1979 and 2008, while their 1.1-percentage-point increase from 2008 to 2011 is larger than my 0.1-point rise.

All attempts to improve real flaws with the official Census Bureau figures involve the introduction of imprecision into the estimates, even as they are improved in broad terms. We ought to be cognizant of this imprecision and of the shortcomings that improvements are intended to rectify, given how small in absolute terms are the changes under debate when we focus on deep poverty. This is doubly true when looking at extreme poverty, as we shall see. The change in deep poverty between 1996 and 2010 was small enough that the ambiguities of the data preclude saying much about it. Nevertheless, my estimates show a decline in deep child poverty after 2010, when the Sherman-Trisi estimates end. There is no reason to think that in 2016, deep poverty among children—and children with single mothers—is higher than it was 20 years ago when welfare reform passed.

## IV. Extreme Poverty Is Extremely Rare—So Rare That a Trend Cannot Be Reliably Detected

Until recently, no one had ever considered trends in the prevalence of hardship worse than deep poverty. Certainly, no one looked at whether any Americans lived under the “\$2-a-day” poverty level conventionally used to describe hardship in developing countries. In part, that was because of the implausibility of the idea that many Americans live in Haitian levels of destitution (particularly noninstitutionalized Americans who have

private residences and thus show up in household surveys). But in addition, the income-measurement problems plaguing surveys have been apparent for some time. In surveys spanning nearly 45 years, poor families have reported expenditures that significantly exceed the incomes that they claim to be living on.

This was apparent in the research conducted by Bruce Meyer and James Sullivan (see **Appendix 3**). Their work built on an important long-term research project led by Christopher Jencks. In the early 1980s, Jencks became the most prominent and articulate critic of the official Census Bureau definitions of income and poverty, identifying most of the issues raised in this report.<sup>50</sup> His dissatisfaction with the official poverty measure led him to examine, first, direct indicators of hardship in a range of surveys. Much of this work was conducted with Susan Mayer, initially his advisee and then a prominent sociologist with a number of publications on the topic, with and without Jencks.<sup>51</sup>

Early in the research, a telephone survey of poor Chicagoans conducted between 1983 and 1985 revealed that 43% of low-income households reported spending more on food, shelter, and medical care than they received in income.<sup>52</sup> This led Jencks and his colleagues to explore further the divergence between income and expenditures. In one line of research, Jencks and Mayer used the CES to look at national estimates.<sup>53</sup> The Jencks-Mayer research demonstrated that even in the early 1970s, the consumption reported by the poorest fifth of families with children exceeded their reported income by 40%.<sup>54</sup> The recurrent finding in this research project was that levels of and trends in material hardship usually looked worse using reported income than reported consumption, health indicators, housing conditions, or ownership of amenities.

A second line of research that grew out of the Chicago study began when a graduate student, Kathryn Edin (also a Jencks advisee), began interviewing single mothers in the Chicago area in an attempt to reconcile the income and spending discrepancies that the project had identified.<sup>55</sup> This research culminated in work with Laura Lein that expanded Edin’s initial Chicago interviews to three other cities.<sup>56</sup>

Edin was interested in solving a mystery: How was it that women dependent on cash welfare—technically, from Aid to Families with Dependent Children, or AFDC—could get by on the low levels of income that their welfare checks provided? AFDC recipients were required to report any additional income to the welfare office. Because significant earnings would trigger a reduction in AFDC benefits, this system provided strong incentives for single mothers to remain dependent on welfare rather than take a job. This, of course, was one of the biggest criticisms of the AFDC program and an important driver of welfare reform.

Edin and Lein ultimately interviewed 214 women reliant on AFDC, all of them living highly insecure lives and struggling to meet their families' needs each month.<sup>57</sup> Outwardly, they had only a little more income in addition to their AFDC check. Some received cash assistance from SSI, and a few received formal child support or worked in a job that they reported to the welfare agency. But together, that came to \$369 per month—\$12 per day.<sup>58</sup> Comparing this amount with the average family size across the group suggests that they were collectively getting by on less than \$4 a day per person.<sup>59</sup>

Except that they weren't. By gaining the trust of these women, Edin determined how they balanced their budgets. In addition to these formal sources of cash income, the women also received food stamps, and many benefited from housing subsidies. They also supplemented these benefits with sources of income that, because they were illegal, went unreported to the welfare office. Most received clandestine assistance from boyfriends and family. Others worked jobs under an alias or off the books.

It turned out that after adding food stamps and unreported income to AFDC benefits, the average monthly income among Edin's interviewees was not \$369 but \$883—140% higher. In the aggregate, they were getting by not on \$4 a day per person, but \$9. And these numbers did not count housing subsidies, received by half the families, which raised their daily income to about \$10 per person.<sup>60</sup> These families were not living well, but they were living on significantly more than their reported income suggested.

In short, Edin's research tended to reinforce the findings from national household surveys on income and expenditures. As Jencks wrote in the foreword

to Edin and Lein's 1997 book, *Making Ends Meet: How Single Mothers Survive Welfare and Low-Wage Work*:

[T]he poor get more of their income from irregular sources, and such income is not well reported. Sometimes the resulting data seem implausible at best. According to the Census Bureau, for example, 1.5 million single mothers had cash incomes below \$5,000 in 1992. These mothers typically had two children. . . . Taking these women's reported income at face value implies that they paid for their rent, utilities, transportation, clothing, laundry, and other expenses from a monthly budget of less than \$420. Almost half appeared to be living on less than \$200 a month.<sup>61</sup>

In rough terms, then, about 3 million children of single mothers were in families supposedly getting by on less than \$5 a day per person in 1992, and nearly 1.5 million were in families getting by on less than \$2.25. But the survey evidence, Jencks explained, was not to be taken at face value:

One way to see whether families really live on such tiny sums is to look at the Labor Department's Consumer Expenditure Survey (CES). According to the CES, families with incomes below \$5,000 in 1992 took in an average of only \$180 a month. Yet these families told the CES that they spent an average of \$1,100 a month. This confirms the common sense belief that families cannot live on air. . . .

*Making Ends Meet* shows that almost all poor single mothers supplement their regular income with some combination of off-the-books employment and money from relatives, lovers, and the fathers of their children. . . .

It shows that all but a handful of single mothers consumed goods and services whose value exceeded the official poverty line. This does not mean they were living well. Edin and Lein found widespread material hardship.<sup>62</sup>

Edin concurred, saying that she had "concluded that she could not get accurate responses from low-income single mothers using survey research methods."<sup>63</sup> Mayer, for her part, declared: "If one is

interested in the living conditions of families, consumption is a better measure than expenditure and expenditure is a better measure than income.”<sup>64</sup>

It is worth repeating: people in surveys who look as though they are living on unthinkably low incomes are seldom living well, but very few are living on unthinkably low incomes. That was true in 1992, it was true in 1996, and it is true in 2016. If the percentage of survey respondents living on what look like unthinkably low incomes rises over time, it is difficult to interpret the increase because very few people really lived on unthinkably low incomes at the beginning or the end of the period.

### How Many Live on \$2 a Day?

Fast-forward to the present. Edin, now a top sociology professor at Johns Hopkins, and H. Luke Shaefer, a professor at the University of Michigan’s School of Social Work, have written *\$2.00 a Day: Living on Almost Nothing in America*, a book that proffers three headline-making claims:<sup>65</sup> first, there are millions of Americans who get by on less than \$2 per day per person in income; second, their ranks have risen alarmingly; and third, the cause of that increase was the passage of welfare-reform legislation in 1996.

The first claim comes from two sources. Edin and Shaefer interviewed 18 families in Chicago, Cleveland, the Mississippi Delta, and Johnson City, Tennessee. The book introduces eight of these families, who are living desperate lives in considerable misery. These families, by the authors’ descriptions, live without stoves or running water, in dilapidated homes with as many as two dozen occupants. Some have bouts of homelessness while others bounce between the homes of family and kin. Health problems—physical and mental—are rampant. Violence often lurks in the background. Children change clothes once a week, go days without eating, and have suicidal thoughts. Most of the adults have worked, but bad luck, bad decisions (their own or their parents’), frayed social networks linking them to unreliable and impoverished friends and family, and low income have combined to send them down into a hole from which escape seems unlikely.

That these families are in deep poverty is undisputable, and any compassionate reader should want public policy to do better by them. *Even in this group*, though, living on \$2 a day per person seems like a rare occurrence. Throughout the



book's vignettes, there are sprinkled references to the "occasional side job," "under-the-table income-generating schemes," church collections, food stamp benefits, disability checks, and housing subsidies. "Most," the authors write, "had at least one household member covered by some form of government-funded health insurance." They receive in-kind assistance from charities that Edin and Shaefer admit are "part of what makes the lives of America's \$2-a-day poor different from those of the desperately poor in developing countries."<sup>66</sup>

From the information that Edin and Shaefer provide about their subjects, at least five of the eight families they describe had more than \$2 a day per person at the time of the interviews, including SNAP benefits but not counting health benefits or any other in-kind help from outside the home. Of the other three, one would exceed this threshold if there were 16 residents living in the household, but because 22 live there, it comes in under the line. The family with the clearest claim to living under \$2 a day per person was a homeless mother and her daughter living in a shelter.

The point is not that these families are living well. The descriptions in the book of their living conditions and moneymaking strategies—including sex work and selling blood plasma—clearly show that is not the case. But precision matters. Edin and Shaefer state: "It would be tragic beyond belief if some segment of Americans lived in conditions comparable to those of the poorest people living in places like Haiti or Zimbabwe. Due to our public spaces, private charities, and in-kind government benefits such as SNAP, this level of destitution is probably extremely rare, if not completely nonexistent here."<sup>67</sup>

That is not the message conveyed by the title of the book or its general tone (or by their subsequent work comparing the American poor with residents of developing countries).<sup>68</sup> The decision to say that these families are living on "\$2 a day" is as much political as empirical. The extent to which the eight families that the authors describe actually live below that threshold seems beside the point; the threshold simply provides the authors with a provocative framing for a book about extremely destitute families.<sup>69</sup>

Of course, at least *some* families really do live on \$2 a day in the United States for at least a short amount

of time. But qualitative research can't tell us how common any findings are or the extent to which they generalize beyond the people interviewed. For that, we need survey research. Without it, we have no idea just how unusual are the eight families that Edin and Shaefer describe, and we have no way of determining whether things have gotten worse at the very bottom over time.

To establish how common \$2-a-day poverty is in the United States, Edin and Shaefer turned to the Survey of Income and Program Participation (SIPP), a Census Bureau survey that has been fielded in a number of years since the 1980s, each time following a different group of households over multiple years. Using the SIPP, they found that 3.2 million children were in households that lived on less than \$60 per person (in terms of January 2011 purchasing power) in at least three months of 2012 (4.1% of all children).<sup>70</sup> Not quite 2% (1.7%, or 1.3 million children) lived at that level in at least seven months, including 4.3% of the children of single mothers.<sup>71</sup> In any given month of 2011, 3.5 million children in 1.6 million households were getting by on \$60 or less per person, and 2.4 million households with children (6.3%) had at least one month in 2011 in which that was true.<sup>72</sup>

But those estimates use an income measure equivalent to the one shown in the red line in the figures above—one that excludes noncash government benefits and ignores tax credits. Shaefer and Edin report that when SNAP benefits are included in income, instead of 3.2 million children in extreme poverty for at least three months in 2012, the number falls by 59%, to 1.3 million, or 1.6% of American children.<sup>73</sup> Similarly, adding SNAP causes the number of 2011 households with children in extreme poverty in a typical month to drop by half, to 857,000 (2.2% of households with children).<sup>74</sup>

If housing subsidies and tax credits are also added to income, the 2011 estimates fall further, to 613,000 and 1.6%. It is possible that some households with less than \$60 in a month are getting by partly on savings while they are temporarily unemployed or waiting for irregular self-employment income, such as awards from contracts. Taking all benefits into account, just 373,000 households with children (1.0%) got by on \$180 or less per person for at least one three-month calendar quarter in 2011.

How seriously should we take these estimates? When presented alongside the vivid description of extreme poverty in *\$2.00 a Day*, the temptation is to take Edin and Shaefer's SIPP figures at face value and to assume that the book's eight families stand in for several million American families with children. That is a mistake that too many social scientists and policy researchers have made in hailing the book's conclusions.<sup>75</sup>

To begin with, federal health benefits are missing from Edin and Shaefer's national estimates. This is not a trivial omission, given the evidence of pervasive and intense health problems that Edin and Shaefer document in *\$2.00 a Day* among the extremely poor, given the value that may reasonably be assigned to health insurance in this group, and given the large percentage of the extremely poor that have such coverage. Shaefer and Edin reported that two-thirds of U.S. households deemed to be in extreme poverty on the basis of their cash income had at least one child receiving "public health insurance."<sup>76</sup>

More important, underreporting of income plagues the SIPP just as it does other surveys. Echoing Edin's earlier work, Edin and Shaefer write in *\$2.00 a Day* that "people may not want to tell a stranger 'from the government' about the intimate details of their finances, especially if they think it could get them in trouble with the law."<sup>77</sup>

Shaefer and Edin's results hint at this potential problem. Mirroring Meyer and Sullivan's conclusion that those in deep poverty are no more likely than other poor families to experience hardships, Shaefer and Edin find that children in extreme poverty for at least three months of 2010 were no more likely to have physical housing problems than other children with household income under 150% of the poverty line and perhaps no more likely to have experienced food insecurity.<sup>78</sup>

The children in extreme poverty were, however, more likely to have experienced a medical hardship and more likely to have moved. But what is striking is that 41% of children in extreme poverty hadn't experienced any of these four hardships (and moving isn't necessarily a hardship). That was not much lower than the 51% for other low-income children (under 150% of the poverty line) who were not deemed to be in extreme poverty, especially considering that these other low-income children were much more likely

to have experienced a hardship than children with higher incomes (72% of whom had none of the four).

It is safe to say that 100% of the eight families profiled in *\$2.00 a Day* experienced one of these hardships in 2010. Indeed, the authors note in one of their academic papers that the families they profiled in the book had most commonly been extremely poor for at least seven months, putting them in roughly the worst-off 35%–40% of children deemed extremely poor in the SIPP.<sup>79</sup>

When Shaefer and Edin looked at the number of households with children in extreme poverty in a typical month of 2011, distinguishing married households from single-female households revealed that more than half the households deemed extremely poor by the most comprehensive income measure they examined were headed by a married couple.<sup>80</sup> This seems counterintuitive if the income estimates are to be taken at face value. The Columbia research team found that among working-age families with children, married families have been about 35%–40% of those in deep poverty since the mid-1990s.<sup>81</sup> They are unlikely to be more concentrated in extreme poverty.

A Brookings Institution analysis also raises concern about Shaefer and Edin's results. Using the SIPP and an income definition that excludes noncash benefits and tax credits, Laurence Chandy and Cory Smith found that in 2012, 4% of households (with and without children) lived on less than \$2 a day per person in a typical month.<sup>82</sup> That is the same as Shaefer and Edin's 4% estimate for households with children in 2011. Taking benefits and taxes into account reduced their estimate to below 3%.

But Chandy and Smith dived further into the evidence. They found that the vast majority of U.S. households living under \$2 a day per person are actually living under \$1.25 a day. Below \$20 a day, American households tend to consume the same amount, regardless of their income. This pattern is in contrast to that for Malawi, a country that they choose to stand in for the developing world, where consumption per day declines with income per day until reported daily income is below \$1 per person.

Chandy and Smith also found that half of extremely poor U.S. households—using the comprehensive

income measure—report no income whatsoever for the entire month. They showed that the number of households in the SIPP declines smoothly as one moves from about \$30 per person per day to \$1 per person per day. But then it spikes at \$0. In fact, \$0 in income is the most common answer when they look at \$1 intervals across the entire income distribution. The share reporting \$0 over four months is not much lower than the share reporting no income over one month. In my own results, I find similar spikes in the share of families reporting no income for an entire *year*. These spikes diminish considerably when noncash benefits are taken into account, but they do not disappear.<sup>83</sup>

At most, one of the eight families profiled in *\$2.00 a Day* could report receiving no income in a month. The other families all had, at the very least, SNAP benefits.

Finally, when Chandy and Smith use the CES, they find that less than 0.1% of households *consume* less than \$2 a day. This result is entirely consistent with the Mayer-Jencks and Meyer-Sullivan research indicating that reported income among the poor is well below their reported expenditures. It is also consistent with a finding by Meyer and Nikolas Mittag that in New York administrative data, only 0.2% of children of lower-income single mothers have no annual earnings, no cash transfers, and no food stamps.<sup>84</sup> Above all, the Chandy-Smith paper is further evidence that \$2-a-day income estimates from household surveys should not be taken at face value.

Indeed, Edin and Shaefer readily admit that even the SIPP has substantial underreporting of income. But, they say, what is important is that it has less than other data sources and that the underreporting does not worsen over time. The latter claim is questionable; but even if true, admitting that their \$2-a-day estimates come from data with underreported income undermines the appropriateness of the title chosen for their book.<sup>85</sup>

**Has Extreme Poverty Become More Prevalent?** The second headline-grabbing claim in *\$2.00 a Day* is that extreme poverty has become more common since 1996. This is obviously not a claim that can be derived from Edin and Shaefer's interviews, none of which were undertaken in 1996. Edin and Lein's in-

terviews (in *Making Ends Meet*) took place between 1989 and 1992. Even then, they were with a different group of women from the *\$2.00 a Day* subjects—selected because they either had earnings or cash welfare benefits, not because they survived on almost nothing.

But even if Edin and Shaefer had conducted interviews in 1996 with families “living on \$2 a day,” they still would have been unable to say anything about whether these families were rarer back then. For that, one needs probabilistically sampled data representative of the entire country—and those data need to validly reflect reality.

What did Edin and Shaefer’s SIPP data show? In one of their papers, they looked at trends between 1996 and 2011.<sup>86</sup> They found, looking at cash income, that the share of households with children living on less than \$60 per person in a typical month rose from 1.7% to 4.3%. Adding SNAP benefits, the increase was much smaller—from 1.3% to 2.2%. And taking into account housing subsidies and tax credits, extreme poverty rose only from 1.1% to 1.6%. Accounting for noncash benefits and tax credits wiped out 80% of the purported increase. Remember, too, that health benefits are not considered here.

In another paper, with Elizabeth Talbert, Edin and Shaefer assessed trends from 1996 to 2012 in the share of children having experienced at least three months of extreme poverty.<sup>87</sup> Using the cash income measure, this percentage rose from 2.2% to 4.1%. However, when the authors added SNAP benefits, 90% of this increase was eliminated, and the rise was only from 1.4% to 1.6%. It is not clear that this change is meaningful (“statistically significant,” meaning sufficiently unlikely to reflect random idiosyncrasies of the sample). Further, the authors chose not to include estimates adding housing benefits and tax credits to income this time. Based on their earlier paper, it seems likely that by this broader measure, extreme poverty would effectively be the same in 1996 and 2012.

I conducted my own analyses using the CPS and defining extreme poverty as having annual household income of less than \$730 per person (365 days, times \$2 per person) in 2015 dollars. I use household income instead of family income for consistency with the Shaefer-Edin research.<sup>88</sup> Shaefer and Edin

argue that the SIPP is a superior survey for analyzing extreme poverty, but this is not at all clear, especially if we are interested in trends. I summarize the evidence on the quality of income data in the SIPP and CPS in **Appendix 5**.

I cannot exactly replicate Shaefer and Edin's estimates because, unlike the SIPP, the CPS estimates only annual income, not monthly or quarterly income. Chandy and Smith, however, do consider how many households are in extreme poverty in the SIPP on the basis of their annual income. Using a comprehensive income measure, they estimate extreme poverty among all households to be 0.8% in 2012. I find 1.4% in the CPS when I mimic their methodological choices.<sup>89</sup> My CPS estimates also are reasonably consistent with the Shaefer-Edin results using the SIPP.<sup>90</sup>

The red line in **Figure 10** presents my baseline estimates for children, which use the official Census Bureau income definition (cash income only). According to these data, the share of children whose annual household income amounted to less than

\$2 a day per person rose from 1.2% in 1996 to 1.7% in 2014.

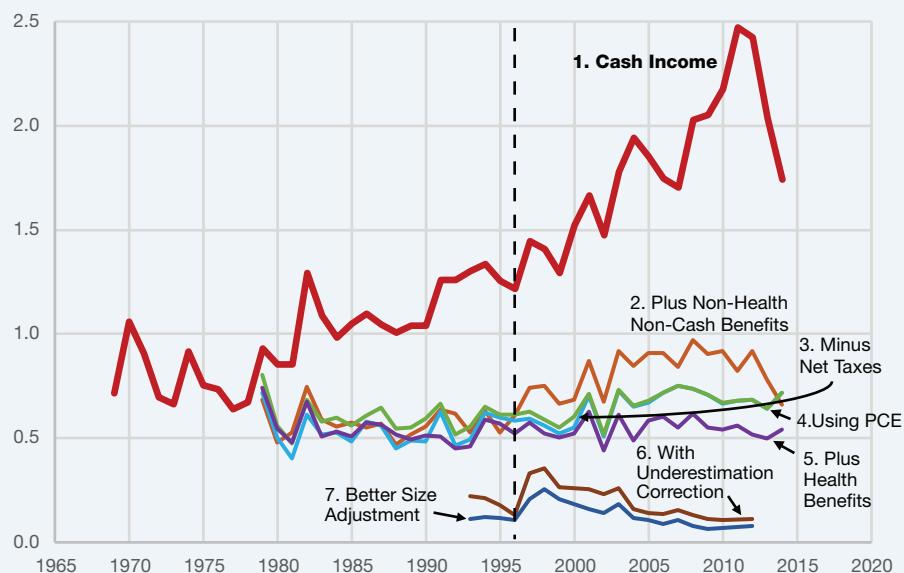
A few points are worth noting about the baseline trend in **Figure 10**. First, it follows a very different trajectory from the official poverty and deep poverty trends considered above. Those trends broadly track the state of the economy, with hardship falling during the 1990s, rising through the 2000s, and then reversing with the recovery. The extreme poverty trend shows some cyclicity, but that is swamped by the rise over time and other ups and downs that are hard to explain by pointing to economic conditions.

Second, the estimates suggest a steep drop in extreme child poverty after 2012, the end point for Shaefer and Edin's most recent analyses and the year in which much of their ethnographic research appears to have been conducted.<sup>91</sup> This is one part of the trend in **Figure 10** that does appear to reflect cyclicity, and it may point to the likelihood that some of what Edin and Shaefer found in their ethnographic research reflected the lingering effects of the Great Recession rather than a welfare-reform-induced secular increase in extreme poverty.

Third, while there may have been an acceleration of the increase after 1996, extreme child poverty began marching upward in the late 1970s. Shaefer and Edin start their trends at 1996, saying that the different survey design implemented in the 1996 SIPP precludes comparisons with the earlier SIPP panels (though that is certainly contestable). As a result, none of their analyses establishes what was happening to extreme poverty before welfare reform. The fact that extreme child poverty supposedly rose well before welfare reforms were initiated at the state and federal levels should inspire skepticism of the estimates (to say nothing of the claim that reform caused the post-1996 increase).

**FIGURE 10.**

### Percent of Children Living in Households with Less than \$2 a Day per Person



## Improvements to the \$2-a-Day Measure

The Shaefer-Edin research found that in the SIPP, most of the rise in extreme poverty disappeared when food stamp benefits were included in income. The orange line in **Figure 10** indicates that in the CPS, the entire post-1996 increase disappears after taking noncash benefits into account.<sup>92</sup> (In fact, food stamps alone eliminate the entire rise in extreme child poverty, not shown.)

Accounting for taxes and tax credits as well as non-health, noncash benefits actually nudges the trend upward slightly, as indicated by Line 3.<sup>93</sup> Since I focus on household income in this section, the issue of cohabitation is irrelevant—household income combines the resources of everyone under the same roof, related or not. Line 4, then, switches from the CPI-U (used by Shaefer and Edin) to the PCE deflator to adjust incomes for the cost of living (and also takes non-health, noncash benefits and taxes into account).<sup>94</sup> In these analyses, the trend after 1996 is fairly insensitive to the price index used.

Line 5 incorporates health benefits—overwhelmingly, Medicaid for this group—on top of the previous improvements to the official Census Bureau income definition. Doing so produces a 2014 extreme child poverty estimate that is the same as in 1996. Indeed, there is little trend to speak of between these two years, with about one-half of 1% of children in extreme poverty throughout the period.

Line 6 uses the TRIM3 model to correct for underestimation of welfare, SSI, food stamps, and housing benefits. Doing so lowers extreme poverty so that it is even rarer than in Line 5. Extreme poverty, by this measure, rises from 1996 to 1998 but falls steadily thereafter. By 2012, the rate—0.1%, or one in 1,000 children—is back to its 1996 level.

Finally, Line 7 makes an adjustment relating to how much is gained when family members share resources. Dividing income by the number of people in a household does not account for the patterns of savings—or “economies of scale”—that accrue to household members by virtue of pooling resources. Two adults living together do not need twice the income of either of them individually. For example, they will not need the combined number of rooms that each had before becoming roommates, so the rent will be cheaper than their combined rent used

to be. The same logic applies to groceries and other household expenses.

Rather than dividing income by the number of household members to determine whether income is above \$2 a day, Line 7 divides income using an “equivalence scale” that better accounts for the needs of households with different numbers of adults and children. I used an adjustment based on the recommendation of an expert panel convened in the mid-1990s.<sup>95</sup> This adjustment lowers extreme child poverty rates even further. By this measure, extreme child poverty ranges between 0.1% and 0.3% over the period and is the same in 1996 and 2012. It is doubtful whether the 1996–98 increase reflects a true worsening, as opposed to measurement issues, but the 1998 peak indicates that one in 400 children was in extreme poverty that year. In data that included more than 36,000 children in 1998, 85 were estimated to be in extreme poverty.

## Children of Single Mothers

**Figure 11** repeats **Figure 10** but for the children of single mothers. Extreme child poverty rates are higher for this group and more volatile (owing to the smaller number of children with single mothers). The trend since 2012 is upward in Lines 2 through 5 rather than downward, potentially because of the volatility. In Line 5, which includes health benefits in income, the 2013 extreme poverty level was only slightly higher than in 1996, but it increased in 2014. The basic trend from 1979 to 2014, however, is flat. In Line 6, which incorporates the TRIM3 corrections, extreme poverty is exceedingly rare, and that is even more true in Line 7, which implements the better household-size adjustment. That measure indicates that extreme poverty among the children of single mothers was essentially nonexistent before 1997 and after the early 2000s. In fact, out of 8,826 children of single mothers in the 1995 CPS data, none had 1994 household income that put them under \$2 a day per person after all the improvements were made to the income measure.

In summary, accounting for non-health, noncash benefits eliminates most or all of the rise in extreme child poverty since 1996. Once health benefits are taken into account, extreme child poverty is essentially flat. And the best measures of extreme poverty indicate that it is practically nonexistent. In 2012, the CPS data indicate that fewer than one in 1,500

children of single mothers was in a household getting by on \$2 a day per person for the whole year. That is consistent with Chandy and Smith's finding that one in 1,000 households consumes less than \$2 a day per person and with Meyer and Mittag's study showing that fewer than one in 500 children of low-income single mothers in New York are in families that have no earnings, cash transfers, or food stamps over the course of a year.<sup>96</sup>

Edin and Shaefer might point to the increase in the share of children whose families have less than \$2 a day per person in *cash* income as a problem apart from the trend in hardship per se. But that supposed increase began in the late 1970s, not around the time of welfare reform. More important, underestimation of income likely makes this trend look worse than it really has been. As we have seen, household surveys—including both the CPS and the SIPP—miss a lot of income at the bottom of the income distribution. When looking at official poverty rates, children with underreported income cause rates to be overstated, but they are likely to be a bigger fraction of all children under some poverty threshold the lower

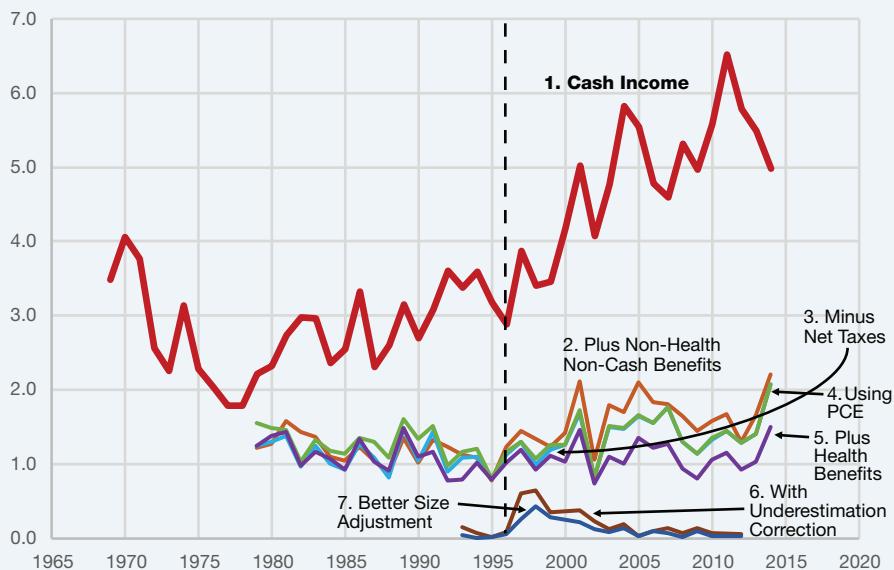
the threshold is set. They will therefore tend to dominate the results to a greater extent as we move from poverty to deep poverty to extreme poverty. If underreporting has worsened, as the evidence suggests, it will manifest itself most obviously in trends for more severe levels of poverty.

Worsening underreporting could be why Meyer and Sullivan found that while reported income in the CPS and CES declined over the 1990s among single mothers in the bottom 5 to 10 percentiles, their consumption in the CES rose.<sup>97</sup> Shaefer and Edin argue that their finding that extreme poverty rose is affected by underreporting only to the extent that it has worsened.<sup>98</sup> But even if each source of income is reported as well as in the past, underreporting can still bias poverty trends.

The fact that most welfare recipients had unreported income before 1996 made little difference in whether they were classified as living under \$2 a day because welfare benefits kept them above that threshold. Today, the counterparts to those women are often not receiving welfare benefits. But they still have irregular income that they fail to mention in survey interviews, and they still have incentives to hide their regularly received income (because of the threat of losing SNAP benefits). That *will* affect whether they add to the ranks of the \$2-a-day poor, even if underreporting of non-welfare income hasn't increased. Welfare no longer pushes people above the threshold by itself, so the unreported income that poor families always received is now the *only* cash that can put them over that line. But it often does, as Edin's pathbreaking research from the 1990s showed. None of the trends in Figures 10 and 11 accounts for underreporting of any private income or of unemployment insurance.

**FIGURE 11.**

### Percent of Children of Female Heads Living in Households with Less than \$2 a Day per Person



## Evidence on Food Problems

One source that we can check the extreme poverty trends against is the Food Security Supplement (FSS) to the CPS, another set of questions administered once a year to participants in the survey. The FSS includes questions about a range of food problems that may have befallen a household. In **Figure 12**, I show trends in several indicators.<sup>99</sup>

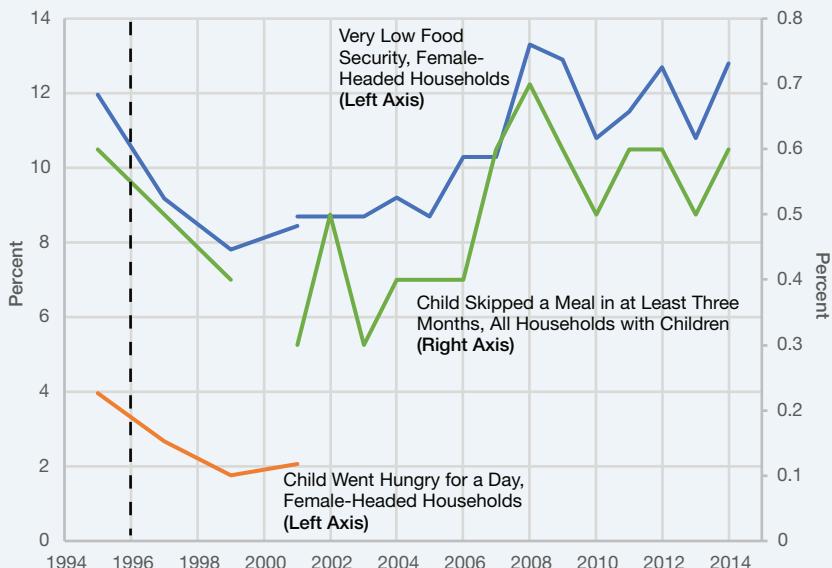
The top line in blue shows the share of households headed by a female head with children that were deemed to have “very low food security” by the U.S. Department of Agriculture.<sup>100</sup> Such food insecurity dropped from 1995 to 1999, rose in 2001, and then rose more dramatically between 2005 and 2008, before leveling off. The post-2008 levels of food insecurity are volatile but roughly the same as in 1995, if somewhat higher than 1996. Only after 2007 does food insecurity clearly exceed its 1996 level.

There is a strong cyclical pattern to the food insecurity trend, the big exception being its failure to become rarer after 2010. In contrast, the extreme poverty rate measures that increase generally rise during the 1990s and early 2000s, often more so than during the Great Recession. While the extreme poverty measures that rise suggest a more or less secular increase, trends in food insecurity—like those for deep poverty—imply that it was primarily the downturn that worsened hardship at the very bottom.

This conclusion is reinforced by trends in the individual food problems that determine a household’s level of food insecurity. The middle line in **Figure 12** in green shows the trend for one of the most severe of those problems—whether a child in the household skipped a meal sometime over the course of a month in three or more months of the year. The line gives the trend for all households with children, since food insecurity on this level is so rare. As the right axis of the chart shows, the share of these households ranged from 0.3% to 0.7% between 1995 and 2014. While noisier, the pattern is basically the same as for the very low food security of female-headed households with children.

FIGURE 12.

## Food Problems, 1995–2014



The bottom line in **Figure 12** in orange, from earlier research that I conducted with Jencks, shows the share of female-headed households with children in which a child went hungry for at least one day during the year.<sup>101</sup> Even for an indicator much rarer than having very low food security, and even among female-headed households, there was a substantial decline in its prevalence during the second half of the 1990s. Overall, the trends in food problems shown in **Figure 12** suggest that the Great Recession worsened hardship, but they contradict the claim of a steady rise in extreme poverty since welfare reform.<sup>102</sup>

The most sensible conclusion to draw from the totality of the evidence is that extreme poverty is rare enough, and the change in its prevalence since 1996 has been small enough, and our measurement problems are severe enough that we have no good way of knowing whether it has become more common. But the evidence on income underreporting and on food problems offers reasons to think that measures of extreme poverty that rise steadily are biased upward.

## Did Welfare Reform Worsen Extreme Poverty?

Edin and Shaefer plainly contend that the supposed rise in extreme poverty was caused by the 1996 welfare reform. The first chapter of their book is titled “Welfare Is Dead,” and the last explicitly blames welfare reform for the tragic stories that the book comprises: “An unintended consequence of abolishing AFDC has been the rise of \$2-a-day poverty among households with children.”<sup>103</sup> Critics of current policy have held the book up as an indictment of welfare reform. Are they correct?

We have already seen that poverty among children—including the children of single mothers—is unambiguously lower today than in 1996. It is probable that deep poverty is no higher. Extreme poverty is so rare that we have no hope of tracking it accurately, but it is not likely to have steadily increased, apart from worsening during the Great Recession.

Further, if welfare reform was the primary driver of an increase in extreme poverty after 1996, we would expect to see less worrisome trends in deep and extreme poverty among groups unaffected or minimally affected by welfare reform. That is not what the CPS shows.

**Figure 13** shows the trend in deep poverty among children in single-mother families again (on the right axis of the chart), using the official definition of income. But this time, I contrast it with the trends among the elderly, among people in childless households, and among married college graduates. Deep poverty was much lower among these other groups (shown on the left axis of the chart). But while children in single-mother families saw a decline in deep poverty from 1996 to 2014, it rose among all three of the other groups, none of whom were affected by welfare reform. Note that since these charts look at cash income, they contradict the narrow Edin-Shaefer claim about welfare reform reducing that specific income source.

Trends in deep poverty (using the official cash-income definition) also look as bad or worse for the children of married parents as they do for the children of single mothers, as shown in **Figure 14**. This is also true of trends in the official poverty rate and trends in monthly poverty from the SIPP (not shown).<sup>104</sup>

This result—an increase in deep poverty for families not affected by welfare reform—shows up in other analyses of deep poverty. Sherman and Trisi show that the deep poverty rate among people not in families with children rose from 3.9% to 4.5% between 1995 and 2010.<sup>105</sup> The study by Ben-Shalom and his colleagues found that the 1984–2004 increase in monthly deep poverty was 2.8 percentage points for childless families and individuals (from 7.3% to 10.1%).<sup>106</sup> Deep poverty also rose modestly among two-parent families, elderly families, and disabled families. The Columbia University research also found a rise in deep poverty between 1998 and 2011 among the elderly, the childless, and married couples.<sup>107</sup>

Extreme poverty also supposedly worsened for a variety of groups. According to the CPS, adults in childless households and elderly people saw steep increases in extreme poverty based on their reported cash incomes, as shown in **Figure 15**. Children of married parents saw a rise dating from the 1980s that accelerated during the Great Recession, before reversing. Even married college graduates supposedly experienced rising extreme poverty, with a 2012 rate that reached an all-time high and a 2014 rate that was no lower than 1996 and higher than every year before it.

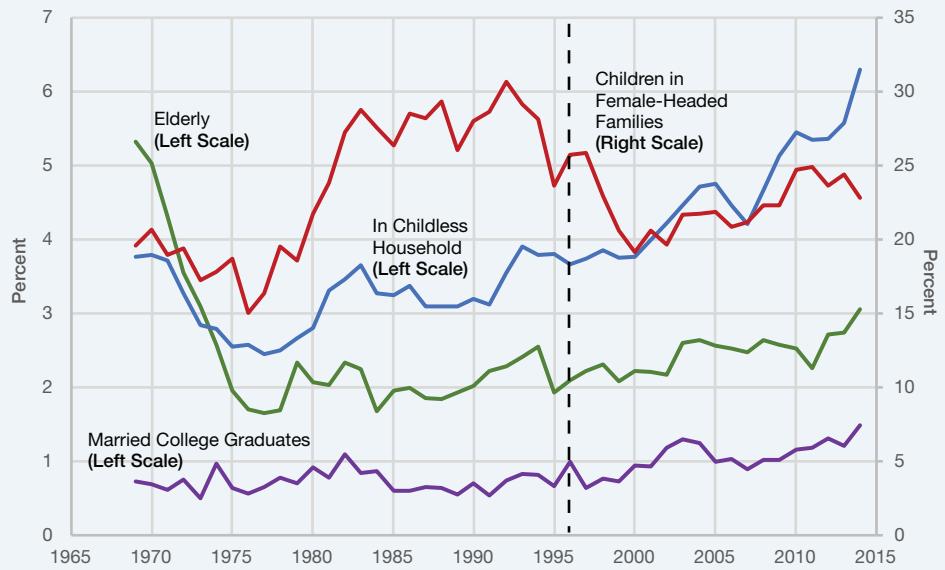
## Evidence on Food Problems Revisited

One argument that Jencks made in the early years of welfare reform was that true hardship was likely to rise among single mothers and their families, even if reported income rose. Sources of typically unreported income would likely go away as more single mothers joined the formal economy, and working ex-welfare recipients would now incur work-related expenses that would make them worse-off, even if their true income did not fall.<sup>108</sup>

In research from over a decade ago, Jencks and I looked at trends in food problems to see whether there was evidence for this prediction.<sup>109</sup> If reported incomes had risen while disposable income had fallen, we expected to see food problems worsening, even though income was not declining. Since the strong economy of the late 1990s potentially would have kept food problems from worsening, we compared the problems of single mothers with those of married parents. We suspected that we might find food problems declining among both groups during

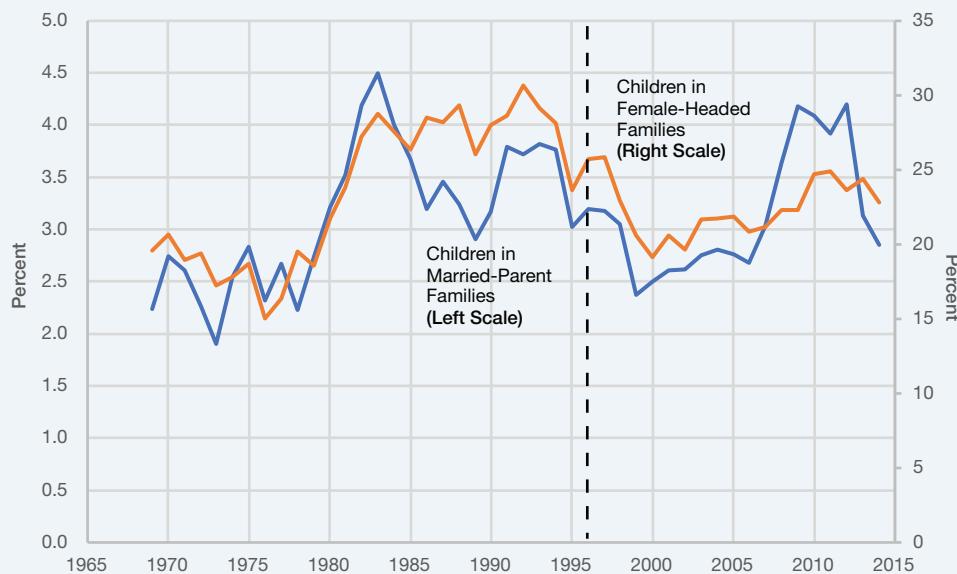
**FIGURE 13.**

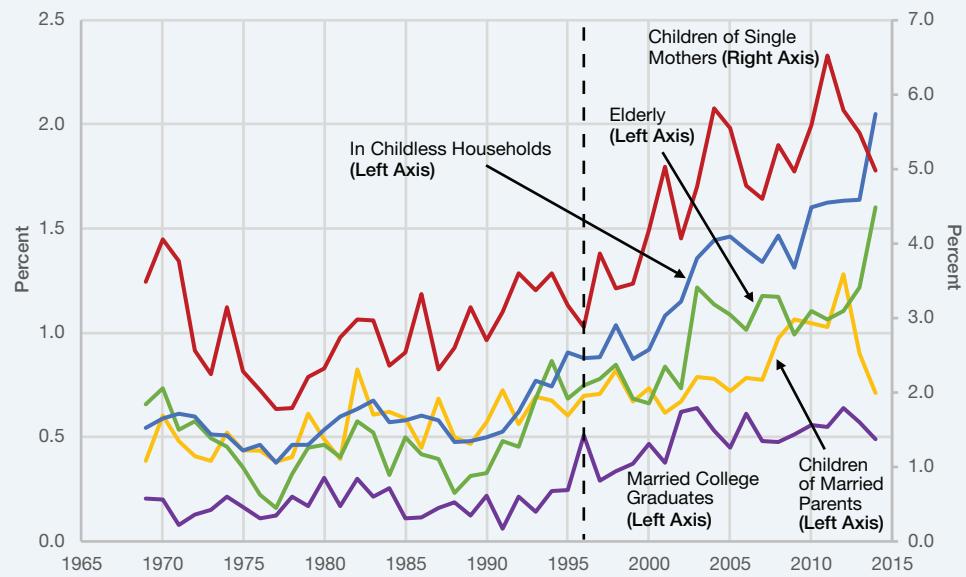
### Trends in Deep Poverty, Population Subgroups (Cash Income)



**FIGURE 14.**

### Trends in Deep Poverty, Families with Children (Cash Income)



**FIGURE 15.****Households with \$2 a Day per Person**

the late 1990s, but more so among married parents, who were mostly unaffected by welfare reform.

At the time, food problems had turned upward in 2001 after having fallen across the surveys from 1995 to 2000. Contrary to our hunch, food problems actually improved more among single mothers and their families than among married parents. However, as **Figure 12**, above, reveals, food problems became more prevalent after our research was conducted.

The line for very low food security is repeated in **Figure 16**. The share of households headed by a female head with children that were deemed to have very low food security rose dramatically between 2005 and 2008, eventually undoing the improvement after 1995. Food problems remained elevated after 2008.

But the likelihood of having very low food security increased for married parents, too, and for the elderly and childless households. For all four groups, the most prominent feature of the trend lines is the sharp rise in food problems in 2008, followed by continued elevated levels. While food problems remain much more common among female-headed house-

holds than married-parent ones, disparities in food problems between the two groups changed little over these two decades, whether in absolute or relative terms. The rate for female-headed households with children was 9.3 percentage points higher than the rate for married-parent households in 1995 and 9.6 percentage points higher in 2014. The female-headed-household rate was 4.6 times the married-parent rate in 1995; but in 2014, it was 4.0 times as high.

**Cashless Food Stamp Families**

This issue of an apparently general worsening of problems also affects an indicator that Shaefer and Edin highlight in defending their extreme poverty estimates.

They note that the share of SNAP households that report no cash income rose sharply between 2000 and 2013.<sup>110</sup> The interpretation of this trend is more ambiguous than they suggest, however.

There is, of course, the old problem of beneficiaries hiding income from administrative personnel. That problem, so central to Edin's earlier work, is dismissed by Shaefer and Edin now, who note: "Families can face stiff legal penalties if they knowingly misrepresent their income to increase their SNAP benefit levels."<sup>111</sup>

Before welfare reform, income concealed from SNAP administrators would not have affected much the number of SNAP families found to have no cash income because so many of them received (cash) welfare benefits, too, which are not concealable. As the share receiving welfare benefits fell, SNAP families without cash welfare but (still) with concealed income would have constituted a growing share of all SNAP families. In other words, it need not even be the case that underreporting worsened for concealed income to produce a rise in SNAP families without reported cash income.

The disappearance of welfare benefits would create the effect all by itself.

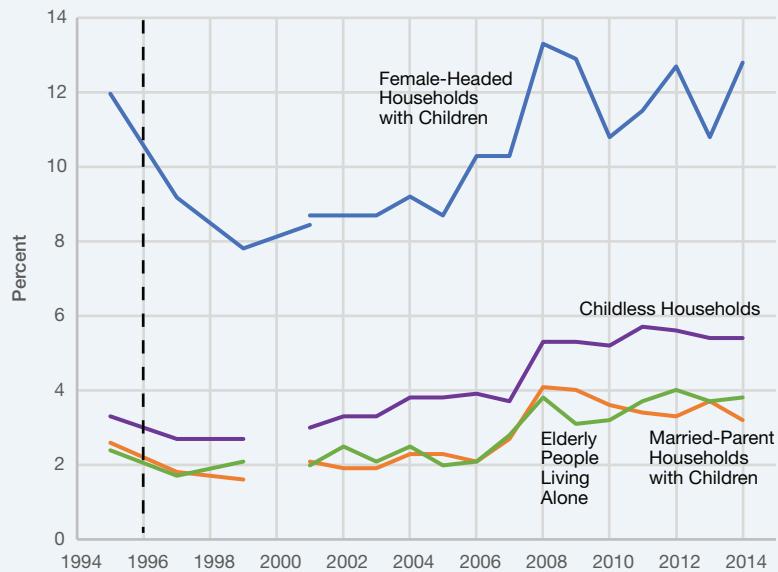
This possibility may seem implausible, given Shaefer and Edin's finding that the number of SNAP households with children with no reported income rose by 311% from 1996 to 2013. But the *number* of SNAP households with children with reported income also rose substantially. The *share* of SNAP households with children that had no other reported income increased, but only by 85%.<sup>112</sup>

But the main problem with Shaefer and Edin using these SNAP data as evidence that welfare reform was behind the rise in extreme poverty that they report is, again, that households without cash income also became a bigger share of SNAP households among groups unaffected by welfare reform. As shown in **Figure 17**, among single-person households (not single-parent households), 20% had no reported income in 1996, versus 31% in 2013. Among households with an elderly person, the increase was from 2% to 7%.

From 1996 to 2000, the trend in SNAP receipt without cash income for households with children rises, while the trends for single-person households and the elderly fall. That could reflect the influence of welfare reform. Alternatively, it could simply be the product of the underreporting dynamics just discussed. However, it is not even clear that this rise was concentrated among the children of single mothers. The share of both single-parent and married-parent SNAP households with no reported income other than SNAP rose between 2001 (the first year that the two are distinguished in annual food stamp reports) and 2009. The absolute gap between the two groups widened over that period, by 2.8 percentage points, but the relative gap did not change, with the ratio of the two rates falling from 1.67 to 1.64.<sup>113</sup> After 2010, however, both absolute and relative gaps widened. The married-parent share dropped notably in 2012, though it rose in 2013.

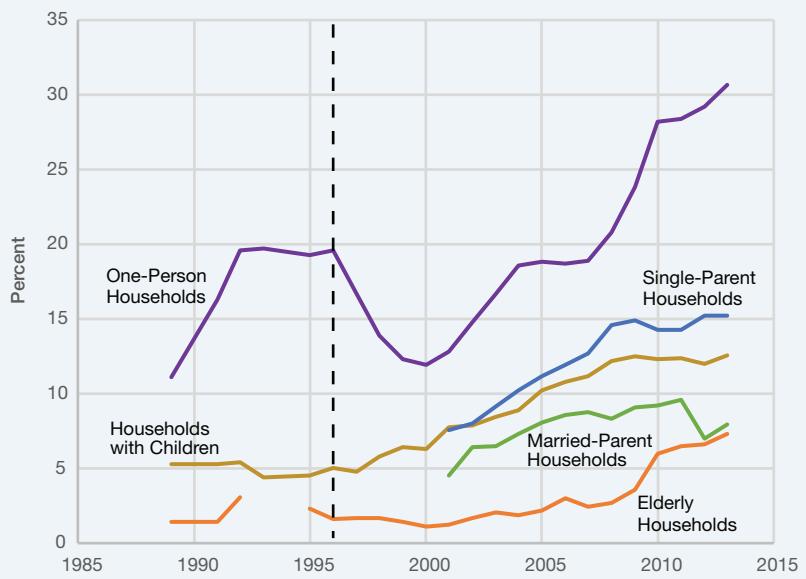
**FIGURE 16.**

### Households with Very Low Food Security



**FIGURE 17.**

### SNAP Households with No Reported Cash Income



Another part of the story is that for some families, other noncash benefits may have increasingly substituted for cash income over time. All these estimates count a SNAP household as having no other income if they only receive noncash benefits. A small 2012 study by the U.S. Department of Agriculture's Food and Nutrition Service (FNS), which administers SNAP, found that 60% of SNAP households without reported income were on Medicaid and roughly 15% received subsidized housing.<sup>114</sup> (These are very similar to the rates of benefit receipt that Shaefer and Edin report for households in extreme poverty in 2011.)<sup>115</sup> Having access to those benefits would reduce the need for cash and make it more likely that in any given month, a SNAP household would be getting by without cash income.

In fact, the FNS research discovered that more than half the “zero-income” SNAP households that they interviewed “reported earning money from informal

work, mostly from providing occasional services to family or friends.”<sup>116</sup> This sounds like “income,” and the finding once again raises the question of how much noise there is in data on trends at the very bottom. Shaefer and Edin admit that “administrative earnings data (e.g., from unemployment insurance records or IRS tax records) are insufficient for capturing informal income among the poor.”<sup>117</sup> So much the worse for SNAP records.

Once again, the issue is not whether there are very poor people in the U.S.—it is whether their ranks have risen. Shaefer and Edin note that underreporting of income is suggestive of hardship—requiring, for instance, work in the underground economy. They also point out that household surveys do not canvas homeless shelters and may miss transient families without permanent homes.<sup>118</sup> These issues are important, but they do not bear on the question of whether things have *worsened*.



## **“Disconnection”**

Shaefer and Edin cite other evidence to argue that welfare reform increased extreme poverty. They point to a research literature that finds that the number of “disconnected” single mothers rose after welfare reform. Research on states that reformed welfare before the federal legislation in 1996 found that in most states, deep poverty rose among families that left the AFDC rolls.<sup>119</sup> Further, research in the initial years after welfare reform passed found that 40% of the families leaving the welfare rolls were not working subsequently.<sup>120</sup>

One problem with “leaver studies” is that they do not consider what happens to “nonjoiners.” Part of the effect of welfare reform was likely to reduce the number of families enrolling in welfare and to thereby make many of them better-off by pushing them toward employment. Significant deep poverty among leavers is not inconsistent with welfare reforms causing an overall decline in deep poverty among single-mother families. Further, as shown in **Figure 8** above, deep poverty rates among single mothers and their children were lower during the pre-TANF (Temporary Assistance for Needy Families) period than the official measure suggested.

What is more, while a 60% rate of employment among welfare leavers sounds low, that was similar to levels that existed prior to welfare reform. According to leading welfare scholar Robert Moffitt, 48% to 65% of welfare leavers from 1984 to 1996 were subsequently employed.<sup>121</sup> So employment rates upon leaving the rolls held steady, even though many more single mothers left the rolls after 1996.

The number of single mothers who, in surveys, report neither working nor receiving welfare has risen over time, too. But here again, it is difficult to assess whether true hardship among this group has risen because of the complications introduced by expansions in noncash benefits, increased work (before or after spells of “disconnectedness”), a rise in under-reporting, and increased cohabitation. These studies also tend to narrow the analyses to “low income” single mothers, such as those below 200% of the official poverty line. The problem with doing that is that as poverty falls, the “disconnectedness” trend for the single mothers remaining in the analyses can look worse than the trend for all single mothers, fewer of whom qualify as “low income.”<sup>122</sup>

On their blog, Edin and Shaefer cite CBPP estimates showing that the ratio of families receiving TANF cash assistance to poor families with children was 0.23 in 2014, down from 0.68 AFDC families per poor family with children in 1996.<sup>123</sup> Along the same lines, Peter Germanis cites figures from the Department of Health and Human Services indicating that 34% of eligible families participated in TANF cash assistance in 2011, compared with a 79% participation rate for AFDC in 1996.<sup>124</sup>

But many additional families receive services funded by TANF without getting cash assistance. In 1996, 71% of the federal and state spending on which TANF block grants were based went toward cash assistance, compared with 43% of TANF spending in 2000.<sup>125</sup> A sizable share of TANF funds are spent on child care; job search, placement, and readiness services; case management oriented toward employment; transportation; and short-term loans.

One study by the U.S. General Accounting Office (GAO) found that in the early 2000s, the number of families receiving cash assistance was over one-third lower than the total number of families served by TANF.<sup>126</sup> Adjusting by this factor the participation rate figures cited by Germanis would put the 2001 rate at 70% rather than 48%—much closer to the 1996 AFDC participation rate of 79%. Adjusting the CBPP ratio of families receiving TANF cash assistance to poor families with children raises it from 0.40 to 0.58 (compared with 0.68 in 1996).

Other families are eligible for TANF but not receiving cash assistance because of the increased availability of other government benefits.<sup>127</sup> Food stamps lifted more children out of deep poverty than did cash welfare even in 1996, but food stamp participation among eligible families rose from 65% to 83% between 1996 and 2011.<sup>128</sup> Families eligible for TANF can get benefits not only from SNAP but from Medicaid, CHIP, Obamacare, child-care assistance, SSI, subsidized housing programs, and cash welfare funded solely by states rather than through federal TANF funds.

Families receiving benefits from some of these programs stand to see those benefits reduced if they enroll in TANF. GAO estimated that in Illinois in 2005, a typical single parent with two children with income from earnings; child support; refundable tax

credits; food stamps; the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); and housing subsidies would have ended up with only an additional \$53 in monthly income by also receiving TANF cash assistance.<sup>129</sup> GAO found that in 2005, four in five TANF-eligible families not participating had earnings or were receiving SSI, and another 13% were receiving SNAP, housing subsidies, or child-care subsidies.

### Homelessness

Edin and Shaefer also cite a rise in homelessness and food-pantry use after welfare reform. “New York City,” they write, “experienced a sharp and sustained rise in the need for family homelessness services when the economy soured in 2001.”<sup>130</sup> The source for this claim also indicated, in Edin and Shaefer’s words, that “[r]eports in some major cities suggest increased demand for family shelter beds starting in the early 2000s.”<sup>131</sup> They note a doubling of the number of homeless children in public schools between the 2004–05 and 2012–13 school years. And they cite a report by the group Feeding America that found the number of people served by food pantries rose from 21.4 million in 1997 to 37 million in 2009, with most of the increase occurring after 2005.

Estimates of the prevalence of homelessness—and especially the trend—are notoriously difficult to produce reliably.<sup>132</sup> The homeless are difficult to find, lacking a stable place to live. Some stay in shelters, though perhaps only in the evening. Others live on the street. Still more live temporarily with friends or family but have no permanent place to stay.

People can slip into and out of homelessness because of changes in opportunities and circumstances, but they can also move between these categories of homelessness. The relative size of each category can change, depending on the weather and the time of the year and on shifts in the strategies used by governments to prevent or reduce homelessness. For example, an increase in shelter beds can induce someone to move from a sister’s couch to a shelter. Focusing on any one of the categories might produce a misleading homelessness trend even with perfect data. And the data are far from perfect—much less reliable than data collected by the Census Bureau.

With this in mind, it is worth highlighting how difficult it is to draw conclusions about homelessness

from the existing evidence. The New York City data that Edin and Shaefer cite go back to 1983.<sup>133</sup> They show a sharp rise in the number of families with children in New York shelters between 1998 and 2003, a smaller drop through 2005, and a steady and sizable increase from 2006 through 2013. (Note that the “evidence” that Edin and Shaefer cite that the early 2000s increase in New York City was common to other “major cities” seems to be this unsourced claim in the report that they reference: “Like many cities across the country, New York experienced an unprecedented increase in family homelessness beginning in the late 1990’s and continuing through 2003.”)<sup>134</sup>

Consistent national data on homelessness begin in 2007, with an annual nationwide survey led by the Department of Housing and Urban Development (HUD).<sup>135</sup> While the New York City data show a 41% increase in homeless families with children in shelters between 2007 and 2013, the national data show an increase of just 7%. The national data include estimates of “unsheltered” homelessness, and when these families with children are added to the sheltered ones, the total falls by 8% between 2007 and 2014. Whether national trends departed from the New York City ones cited by Edin and Shaefer from 1998 to 2003 is unknown.<sup>136</sup> Nor is it clear how reliable the New York City data are relative to the HUD data, the collection of which is a requirement for states and localities to receive funding from a federal anti-homelessness program. At any rate, it is worth noting that in the New York City data between 1994 and 2005 and between 2008 and 2013, the number of homeless single men and single women both rose, though neither by as much as families with children.

These figures all miss people who live temporarily and unstably in others’ homes. The best source of trends for this group is a Department of Education survey of children in schools.<sup>137</sup> Edin and Shaefer cite this survey, which began in the 2004–05 school year. The number of homeless children in public schools—many of them living in others’ homes—doubled by the 2012–13 school year, from 656,000 to 1.3 million.

However, Edin and Shaefer are reporting a trend that is significantly affected by rising participation in the survey by school districts. The share of local

education agencies (LEAs) reporting data on child homelessness to the Department of Education rose from just 65% in 2004–05 to 99% by 2012–13.<sup>138</sup> Since Edin and Shaefer are citing numbers rather than rates, that means that they would find a rising trend even if actual child homelessness had not increased.

I made two adjustments to the data. The first was to crudely assume that the percentage of homeless children in non-reporting local education agencies in each year was the same as the percentage of local education agencies not reporting data. To be clear, I have no justification for this assumption, which assumes that reporting LEAs and non-reporting LEAs are the same size on average. But it is meant to clarify how imprecise these estimates are. Second, I divide my new number of homeless children by the number of children in the U.S. in each year. The resulting increase in child homelessness is 50% rather than 131%.<sup>139</sup> Furthermore, in the adjusted numbers, all the increase happens after 2007, coinciding with the Great Recession.

So we have a situation where homelessness in shelters and on the streets apparently fell after 2007 for families with children (or rose a lot in New York City), while the number of homeless children at school (primarily not living in shelters or on the streets) increased. What are we to make of this evidence? What should we make of the earlier rise in homelessness in New York? For what should welfare reform take the blame? There seems to be little hope of making sense of these data.

Nor can the Feeding America estimates on food-pantry use cited by Edin and Shaefer tell us much. After converting the number of clients served into percentages, the food pantries in the network served 8.6% of Americans in 2005 and 12.1% in 2009 (the trough of the Great Recession).<sup>140</sup> The 1997 estimate cited by Edin and Shaefer is not comparable with these estimates (though it suggests a rise from 1997 to 2005 of just 0.7 percentage points, or 9%), nor are the 2001 and 2013 estimates.

However, the Food Security Supplement includes a question about the use of food pantries. The share of female-headed households with children who reported getting emergency food from a pantry at some point during the year fell from 1995 to 1997, and then

rose through 2004, exceeding the 1995 level. Still, by 2006, going to a food pantry was probably no more likely than it was in 1995.<sup>141</sup> From 2006 to 2009, however, it increased from 9.8% to 13.7%, and it trended slightly upward thereafter. As a comparison against the Feeding America numbers, which found a 40.7% increase in the likelihood of visiting one of the network's pantries between 2005 and 2009, the FSS increase was 30.5%. Food-pantry trends, therefore, appear to primarily reflect the business cycle rather than a steady increase driven by welfare reform.

### Plasma Donation

Finally, Edin and Shaefer cite rising plasma donations as evidence of rising hardship. The number of donations rose by 215% from 2004 to 2014.<sup>142</sup> Because donors can be paid—and because this was a common moneymaking strategy among extremely poor families in their interviews—Edin and Shaefer attribute the increase to rising hardship. However, the existence of plasma donation as a response to hardship does not, by itself, indicate that the rise in donations has been caused by rising hardship. We are back to the issue of trends versus levels.

The evidence suggests that the increase in plasma donation has been demand-driven—brought about by increased need in the plasma-collection industry. A *New York Times* article on the phenomenon provided numerous indications that this was the case, noting that “after several years of rapid expansion, plasma supply seems to have caught up to demand.”<sup>143</sup> The U.S. supplies most of the plasma for other countries, which have shortages because they generally do not pay donors. This has driven industry growth to 8% a year for a couple of decades. The *Times* article also reported that payments recently had begun to be less generous as demand slowed. A supply-driven—hardship-driven—increase would have occurred alongside decreasingly generous payment.

It is clear that hardship among single mothers and their families rose during the Great Recession. It is not at all clear that there was a longer-term rise in hardship after 1996, or that hardship levels during the recession were worse than in 1996 (or 1993, a comparably bad year for poverty). It is unclear whether hardship among single-mother families increased relative to other groups. In sum, the Edin-Shaefer case that welfare reform was a disaster for the poorest of the poor is paper-thin.

## V. Conclusion

Official poverty-rate estimates provide a misleading picture of trends in hardship. They use an incomplete definition of income that fails to account for the primary ways that we have attempted to reduce hardship since Lyndon Johnson declared war on poverty—through expansions of noncash benefits and refundable tax credits. They are also based on an essentially bureaucratic inflation index that represents an increasing standard of living over time. So even as the official rates do worse over time at reflecting the resources available to families, they also make it increasingly difficult for a family's actual resources to lift it out of poverty. Finally, official poverty estimates do a worse job over time at reflecting the extent to which people pool resources by only recognizing attempts to economize through marriage rather than cohabitation.

Using today's official thresholds but improving the measurement of income and inflation, poverty among children and the children of single mothers has never been lower, having risen only modestly during the worst downturn since the Great Depression.

Poverty trends using thresholds significantly lower than the official poverty lines are more and more difficult to discern, the lower the threshold. The lower a family's reported income, the more likely it is to be underestimated because of underreporting or survey flaws. Nevertheless, deep poverty—living below half the official thresholds—is probably no more common today than it was in 1996. In fact, it may be at a 40-year low. Extreme poverty—living at or below \$2 a day—is extremely rare, and probably as rare today as in 1996.

To the extent that some—often inferior or ambiguous—measures of hardship, including measures of very low cash income, appear to have worsened, they generally either begin deteriorating well before welfare reform or also worsen among people unaffected by welfare reform, such as the aged and the childless.

Did the landmark welfare reform of 1996 increase hardship? The answer ultimately depends on what poverty, deep poverty, and extreme poverty rates would be today had the law not been passed (and, perhaps, had federal waivers not been granted beginning in 1992). The question is not whether PRWORA was the single best welfare-reform policy that could have been imagined; policymaking never produces

that result. The question is what would have happened in the absence of the welfare reform that we actually implemented.

This is a very difficult question to answer. If the AFDC program circa 1991 remained with us today, would policymakers have expanded SNAP, Medicaid, and the EITC as much as they actually did? Would they have created the Children's Health Insurance Program, made the Child Tax Credit refundable, or passed Obamacare? Would the antipoverty policy response during the Great Recession have been as strong? To some extent, the nation was more generous in helping low-income families through policies other than cash welfare *because* cash welfare was less generous. Americans were less willing to help low-income single mothers when the welfare system promoted values antithetical to independence, responsibility, and reciprocity.

Absent welfare reform, would single mothers have increased their employment rates and earnings? Would low-income single mothers have increasingly cohabited with boyfriends? Would teen pregnancy have declined and would out-of-wedlock births have stopped rising?

Perhaps we might have passed a less demanding, more accommodating version of welfare reform had President Bill Clinton vetoed PRWORA, won reelection, and persuaded Congress to pass legislation along the lines that he favored. But that might have caused a clear decline in extreme poverty while preventing overall poverty from falling.<sup>144</sup> Even by the most worrisome measures, the number of children

below the poverty line shrank after 1996 by much more than the number below \$2 a day per person grew.

The kind of reforms that Edin and Shaefer, as well as other critics of the 1996 welfare law, call for—such as an increase in publicly subsidized work—might create perverse incentives that would actually cause more families to join the welfare rolls and end up stuck in dead-end, make-work employment rather than gaining new skills in the private sector. Or perhaps they would cause out-of-wedlock childbearing to increase again. These kinds of unanticipated consequences could reverse some of the progress that the nation has made in reducing poverty rates, even as extreme poverty declines.

Perhaps looser welfare policy would lower poverty in any given year but reduce upward mobility out of poverty—either over the course of childhood or once children become adults. More generally, to the extent that we reduce the cost of making poor decisions, more people will tend to make poor decisions. One does not have to believe that this logic demands that we eliminate all safety nets to acknowledge that these sorts of trade-offs are inevitable in designing welfare policy.

Answering these questions is beyond the scope of this paper, but before we can assess whether what happened was better than what would have happened, we have to understand what happened.<sup>145</sup> Edin and Shaefer have provided too negative a view of what happened.

They have also made cash welfare more central in their discussion of extreme poverty than it deserves to be. In 1996, AFDC constituted just 8% of federal spending on means-tested programs and refundable tax credits, compared with 13% for SSI, 10% for tax credits, 31% for nutrition, education, and housing programs, and 46% for health care. By 2013, TANF constituted just 3% of federal spending on these programs—but federal spending was twice what it was in 1996 (*after* taking the rising cost of living into account).<sup>146</sup>

Shaefer and Edin find that even in 1996, married-parent households made up more than half of extremely poor households with children, and the number of extremely poor married-parent households rose by as much as the number of extremely poor female-headed households with children.<sup>147</sup> The Columbia researchers found that even in 2012, one-fifth of families with children in deep poverty had no adults who weren't working.<sup>148</sup> These working and married families would not be better-off if welfare reform had not passed. (Three of Edin and Shaefer's eight families in *\$2.00 a Day* were headed by a married couple.)

None of this is to say that TANF or other aspects of welfare policy cannot be improved or that our levels of deep poverty are sufficiently low. But policymakers should reject the increasingly conventional view that extreme poverty has dramatically increased and the view that welfare reform did more harm than good. Improving policy and reducing hardship require that we have a clearheaded view of our challenges.

## Appendix 1. On the Inclusion of Health Benefits in Income

**A**nalysts who include the value of health benefits in income invariably face two criticisms. One objection asserts that “health insurance is not cash” or that “you can’t eat your health insurance card.” It is reasonable to debate *how much* health benefits are valued by poor people. Some people would rather have cash than the amount it costs the federal government to cover them with Medicaid or CHIP, just as some would rather have cash than food stamps.

But no one can argue with a straight face that federal health benefits lack *any* value. They do free up funds that can be spent on other needs. But beyond freeing up the money that otherwise would be spent on health care, health benefits allow people to consume more health care than they otherwise could. If a parent would choose to use cash for needs that she puts ahead of, say, dental care for her children, the fact that Medicaid allows her children to have dental care translates into real benefits for them.

To see the importance of this issue, consider two recent studies. One, by Benjamin D. Sommers and Donald Oellerich, estimated the additional out-of-pocket medical expenditures that Medicaid beneficiaries’ families would have had in 2010 if not for Medicaid coverage.<sup>149</sup> It found the average amount to be \$495 in family expenditures per beneficiary.<sup>150</sup> However, the study estimated that 60% of Medicaid beneficiaries would have had private health coverage or Medicare in the absence of Medicaid coverage (true even for child beneficiaries). The value of having *any* health coverage—in terms of the medical spending forgone—is presumably higher than \$495.

But that is not what the authors found. When they estimated what the value of Medicaid coverage was relative to having no coverage at all, they found that it reduced medical spending by only \$165. That’s because uninsured people have lower medical expenditures than similar people insured by coverage other than Medicaid. In part, that reflects the fact that the uninsured choose to spend their income on things other than medical expenses. If that were the whole story, we would conclude that Medicaid coverage was worth little to the people who have it.

But that is not the whole story. Part of the reason the insured spend more than the uninsured is because insurance allows them to do so. It is absurd to believe that Medicaid is worth more relative to having some other coverage than it is relative to not having any coverage.<sup>151</sup>

In contrast, the second study, by Gary Burtless and Pavel Svatov, found that among Americans under the age of 65 and in the bottom 10th of the income distribution over the 2001–05 period, health care financed by third-party coverage amounted to 65% of cash income.<sup>152</sup> That was much higher than the 5%–7% figure for the middle fifth of Americans, and even much higher than the 21% figure for the second-poorest 10th of Americans.

Of course, this assistance is concentrated among the sickest people, but health coverage has an insurance value even when it does not subsidize consumption of health care services. There is a psychic benefit to being insured against low-probability but high-cost expenses. Presumably, that is a big reason that advocates have pushed for expanded health coverage for the better part of a century, and that is why the programs have expanded so much over the past 30 years. Medicaid served more people in 2007 than any other safety-net or social-insurance program and about as many children as the total people (of all ages) served by welfare, public housing, and SSI.<sup>153</sup> It is also well targeted to the poorest of the poor, compared with other safety-net programs.<sup>154</sup>

The number of children with Medicaid coverage rose by roughly 175% from 1980 to 2010, after adjusting for the increase in the number of American children.<sup>155</sup> So even if none of the increase in Medicaid spending reflected real value to poor children, health

benefits would reduce poverty simply by virtue of their becoming much more pervasive over time.<sup>156</sup>

To be conservative, I have valued health benefits at one-quarter the “market value” assigned to them by the Census Bureau.<sup>157</sup> For Medicaid and Medicare, the market values are equal to average administrative costs per person within subcategories of beneficiaries. For employer coverage, the market value is essentially the average cost to the employer of providing either individual or family coverage.

The Census Bureau also estimates a “fungible value” for Medicaid and Medicare, which either equals zero if a household’s income isn’t sufficient to meet a minimum standard of living or the market value otherwise. The logic is that households who can’t meet basic needs would rather have cash than health benefits. As noted, this is likely to be true for many families, but it is unlikely that many families place no value on it at all. Assigning 25% of the market value to people is a conservative estimate for families who fully value health benefits (who would “purchase” federal health-care coverage if they could afford it), while it is effectively a weighted average of the market and fungible values for people who are given a fungible value of zero, weighting the fungible value by three times as much as the market value.

Valuing health benefits this way heavily discounts what is essentially an estimate of the amount it would cost if a family had to purchase its coverage from the Center for Medicaid and Medicare Services at the average per-person cost to the government, or if it had to purchase its employer-sponsored coverage from the average insurance company with which employers contract. Many poor families wouldn’t purchase such coverage at that cost if their income rose enough to do so; but presumably, many more of them would purchase the coverage at a 75% discount. Similarly, many of the working poor fortunate enough to have employer-sponsored health benefits would rather have the cash as higher pay, but if they could purchase the health benefits at a 75% discount, the calculus of many workers would shift.<sup>158</sup>

When Tim Smeeding, today a University of Wisconsin economist and poverty expert, conducted the pioneering research to develop a methodology for valuing health benefits as income back in 1982, he

estimated that the average “cash equivalent value” of Medicaid coverage to beneficiaries in 1979—how much cash would make a family feel as well-off as they are having Medicaid benefits—was 44% of the market value. That percentage fell by one-third among the poorest beneficiaries, to about 25%–30% of the market value. A subsequent Census Bureau study estimated the cash-equivalent value of health benefits was 30% of the market value among poor female-headed families in 1987.<sup>159</sup> So a 75% discount is conservative, even by these benchmarks.

Furthermore, the Census Bureau’s average-cost calculation behind the market value of Medicaid and Medicare includes beneficiaries not enrolled all year; and if poorer beneficiaries are more likely to be enrolled all year, the average cost will understate the market value to them. Medicaid benefits are also known to be underreported in household surveys, which has the effect of understating the poverty-reducing impact of benefits. More important, underreporting of Medicaid in the Current Population Survey has worsened over time, so my trend estimates that include health benefits are conservative in the sense that if Medicaid reporting had been stable, the declines in poverty that I show would be greater.<sup>160</sup>

The second meritless criticism, or objection, to counting health benefits as income argues that the increase in health spending should not count as income because it primarily reflects health-care inflation that does not translate into real gains. But the price indexes that are used to adjust poverty thresholds for inflation over time incorporate—at least, to some extent—increases in medical-care prices, and they attempt to do so in proportion to the share of spending that medical care constitutes for the typical consumer. The burden is on critics to explain why overall inflation adjustment fails to capture the pure price increases in health care that do not correspond to improvements in care.

In fact, research suggests that the component of our price indexes reflecting health-care inflation overstates this inflation rather than understates it.<sup>161</sup> And the inflation adjustment that I prefer (discussed in detail in **Appendix 2**) better accounts for health care spending than the conventional one reflected in the purple line in Figure 1 by assessing third-party payments for health care.

## Appendix 2. The Case for Using the PCE Deflator to Adjust Incomes and Poverty Lines for Inflation<sup>162</sup>

“Price indexes” attempt to measure the price of consuming goods and services that yield a constant level of “utility” (satisfaction) over time. If prices go up but the things that we buy get better, we may get more satisfaction from what we buy, despite the price increases. If the things that we buy don’t get any better but prices drop, that, too, is a gain in utility and a fall in the cost of living. In contrast, if prices go up and the things that we buy don’t get better at the same rate, the cost of living will rise.

Adjusting incomes for increases in the cost of living is an undisputed prerequisite for assessing income trends. If median income doubles over several decades but the cost of living doubles correspondingly, there has been no increase in “real” income. In this scenario, \$80,000 would buy the same level of satisfaction that \$40,000 bought years earlier.

Any number of technical issues make price measurement imprecise, and the issues are bigger the longer the period between income comparisons. We must accept that we cannot know the “true” increase in the cost of living. However, within the limits of our ability to measure prices accurately, some indexes capture changes in the cost of living better than others. Quite simply, the most used indexes are inferior to an index created by the Commerce Department’s Bureau of Economic Analysis—the Personal Consumption Expenditures (PCE) deflator. There should be no controversy about this.

For a long time, analysts of income trends relied on the Consumer Price Index for All Urban Consumers (CPI-U) to account for the rising cost of living. But this was a relatively crude measure. It had a number of methodological and computational problems. In particular, its treatment of the cost of homeownership was flawed before 1983. This problem was severe enough that in mid-1989, the Bureau of Labor Statistics (BLS)—the agency in charge of producing the CPI-U—recommended that researchers conducting trend analyses use an alternative index, the CPI-U-X1.<sup>163</sup> This alternative attempted to correct the homeownership flaw all the way back to 1967, and it showed less inflation over time than the CPI-U did.

By the time of the BLS statement, the Congressional Budget Office had already abandoned the CPI-U for the CPI-U-X1.<sup>164</sup> The Census Bureau began using the CPI-U-X1 for income-trend analyses in 1993.<sup>165</sup>

It is worth emphasizing: the major federal agencies analyzing income trends stopped using the CPI-U for that purpose two decades ago. Yet this is the index still in use by the Census Bureau—because policy dictates that it must use it—to adjust poverty lines each year for inflation.

The CPI-U-X1 corrected the housing-cost problem, but other shortcomings remained. Over the last 20 years, a number of improvements have been made to the CPI-U and CPI-U-X1 (which indicate the same inflation from 1983 forward). Perhaps most important, two decades ago, neither the CPI-U nor the CPI-U-X1 accounted for consumer “substitution,” a failure that strongly overstated the rise in the cost of living. Consumers are not helpless when the price of something that they enjoy goes up. While consumers are generally unambiguously worse-off for the price increase, they can partially mitigate the loss in utility by buying more of other things that aren’t growing more expensive. People are less worse-off than they would otherwise be because they can substitute cheaper items for those that have become more expensive.

The CPI-U did not account for such substitution until 1999; and to this day, it does not fully account for the ability of consumers to respond to relative price changes. Since 1999, the CPI-U recognizes that consumers can buy more Red Delicious apples when

Gala apples become more expensive, but it does not recognize that consumers can buy more oranges when apples become pricier.<sup>166</sup>

The Bureau of Labor Statistics created, in 1999, another price index—the “CPI research series using current methods,” or CPI-U-RS—to try to extend backward in time to late 1978 the better treatment of substitution and other improvements made to the CPI-U over the years.<sup>167</sup> To be clear, the CPI-U today does not include retroactive improvements for earlier years. Using the CPI-U means ignoring the existence of a measure—the CPI-U-RS—that tries to take today’s much improved CPI-U and to update the past CPI-U estimates to address acknowledged problems that have since been corrected.

Because it is clearly superior to the CPI-U, the CPI-U-RS is today the most widely used price index by analysts of income trends. Analysts largely followed the lead of the Census Bureau, which began using the CPI-U-RS for research purposes in 2001.<sup>168</sup> Today, income analysts generally use a price index series that relies on the CPI-U-RS going back to December 1978 (it shows the same inflation as the CPI-U from 1999 forward) and the CPI-U-X1 going back to 1967. (Prior to 1967, researchers committed to the CPI series must return to the demonstrably flawed CPI-U.)

The CPI-U-RS is a major improvement on the CPI-U and CPI-U-X1, but it has significant shortcomings that also overstate the increase in the cost of living over time. For one, the CPI-U-RS also fails to account for “upper-level substitution”—the ability of consumers to switch from apples to oranges (or from coffee to tea or from beef to pork) when the relative prices of the two change. Second, prior to December 1978, the CPI-U-RS is like the CPI-U and CPI-U-X1 in not taking any account at all of substitution. Since many income analyses consider trends since 1969, that means that the 1969 to 1978 inflation trend is more biased upward than the post-1978 trend (which is also biased upward).

Since 2002, BLS has put out yet another price index—the Chained Consumer Price Index, or C-CPI-U—that

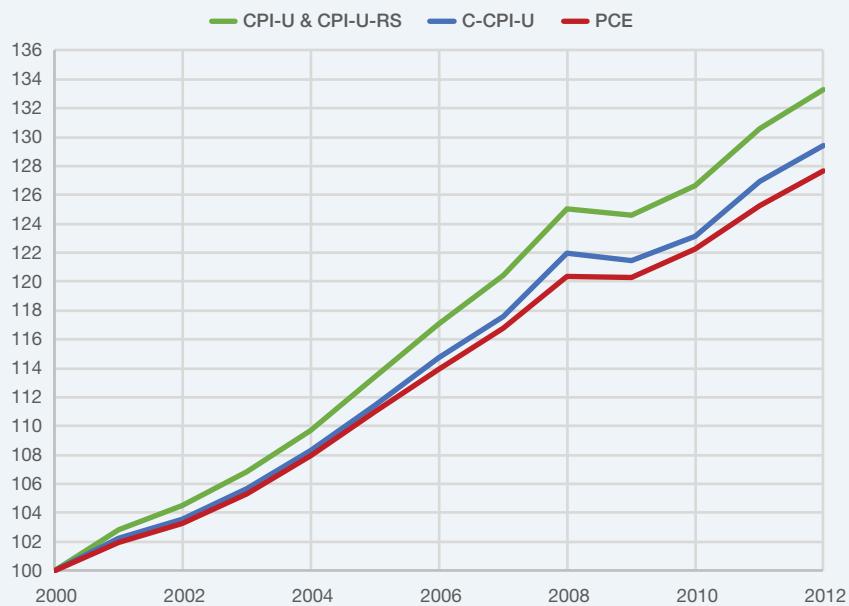
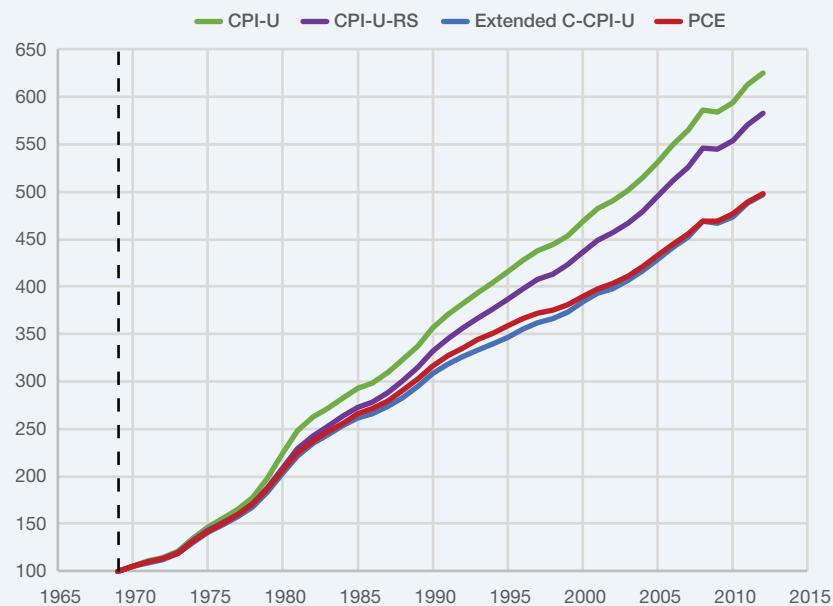
does attempt to fully account for substitution bias.<sup>169</sup> It is not difficult to see that BLS prefers the C-CPI-U to the CPI-U and CPI-U-RS, and any serious scholar of consumer theory would.<sup>170</sup> Substitution bias is a universally acknowledged problem, and the C-CPI-U is the only index that the bureau has that might adequately address it. There are two problems with the C-CPI-U, though. The less important one is that it is produced with a lag. While preliminary estimates are released relatively quickly, the most recent year for which a final index value is available is currently 2012. Far more problematic is the fact that the C-CPI-U is available only back to 2000. That means it cannot be used for income analyses that examine trends beginning before 2000.

Fortunately, an alternative index estimates trends in prices for consumer goods, fully addresses substitution, and goes all the way back to 1929. We have arrived at the PCE deflator, which is the measure of inflation that the Federal Reserve Board prefers to consult and the measure used by the Congressional Budget Office today in its income analyses.<sup>171</sup>

Setting aside the issue of substitution, there are arguments about the extent to which the PCE deflator is or is not conceptually or methodologically more appropriate than the family of CPI measures. The PCE, for instance, is based on purchases made not only by households but by nonprofit organizations. It takes into account third-party payments for health care, and it differs from the CPI indexes in other ways (although it is partly derived from CPI indexes for various categories of goods and services).

These objections are irrelevant. The PCE and the C-CPI-U are very consistent with each other in showing less inflation than the other CPI measures. This is true over the years for which the measures are all available.

It is also true if we estimate C-CPI-U values further back in time. In the chart below, I extend the published final C-CPI-U as follows. For both the C-CPI-U and the CPI-U-RS, for 2000–2012, I compute the annual change in each index. In each year, I compute the ratio of the change in the C-CPI-U to the change

**APPENDIX 2 FIGURE 1.****Rise in the Cost of Living (2000=100)****APPENDIX 2 FIGURE 2.****Rise in the Cost of Living (1969=100)**

in the CPI-U-RS. I average this ratio across 2000–2012 to create an adjustment factor. Finally, I use this adjustment factor, with the annual change in the CPI-U-RS for 1969–2000, to extend the C-CPI-U back to 1969. As the chart shows, this extended C-CPI-U series tracks the PCE very closely:

The chart shows that from 1969 to 2012, the PCE and my extended C-CPI-U series indicate that prices rose by a factor of five, while the CPI-U-RS gives the ratio as 5.5 and the CPI-U as 6.3. These distinctions are important. If nominal income—income prior to taking the rising cost of living into account—rose by a factor of 7.2 over this period (as my own estimates suggest), using the CPI-U to adjust for inflation would give the conclusion that “real” income rose by 16%. Using the PCE or C-CPI-U, we would conclude that real income rose by 45%—nearly three times as much. For comparison, the CPI-U-RS would indicate a 31% increase—substantially lower than the estimate from indexes that fully take substitution into account.

This is not the end of the story because even the PCE deflator is likely to overstate the rise in the cost of living. A thorny problem is the way in which new goods and services are introduced to the “consumption bundle” that is priced out every year. In practice, it can be many years before a new product—such as the cell phone—is included in the consumption bundle. By then, its price has often dropped significantly, meaning that the decline in its cost has been largely missed as its adoption has become more widespread. Another problem is the increasing difficulty of adjusting for “quality” improvements. Think about how much more

value we get from a mobile phone or a personal computer with an Internet connection today than we did 20 years ago. So much of what is available over the Internet is free or very low-cost. How much would someone have had to pay in 1995 for what an iPhone provides today?

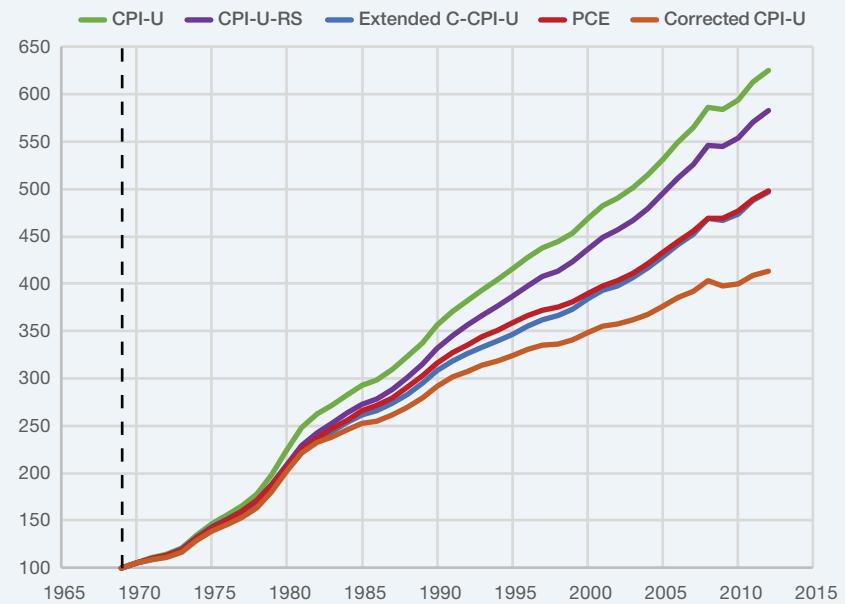
In 1996, a prominent commission—the Advisory Commission to Study the Consumer Price Index (the “Boskin Commission,” named for its chairman, Stanford economist Michael Boskin)—estimated that the CPI-U overstated inflation between 1995 and 1996 by 1.1%, with a potentially larger bias in earlier years.<sup>172</sup> A retrospective in 2006 by economist and former commission member Robert Gordon concluded that the bias was probably a bit higher than the commission guessed—1.2% to 1.3%—because it underestimated the importance of substitution bias, subsequently revealed by the C-CPI-U.<sup>173</sup> And he estimated that the overall bias to the CPI-U still amounted to at least 1.0%, even after the improvements to the index over the subsequent decade.

The chart below repeats the previous one but adds a new inflation trend line. The Corrected CPI-U line adjusts the annual change in the CPI-U downward by 1.0% per year, a conservative adjustment, given Gordon’s conclusions. Prices rise by a factor of 4.2, according to this index—much less than the PCE and C-CPI-U would suggest.

With this rate of inflation, a 7.2-fold increase in nominal income would result in a 75% increase in

APPENDIX 2 FIGURE 3.

### Rise in the Cost of Living (1969=100)



real income rather than the 16% suggested by the official CPI-U. Using the PCE looks like a very conservative choice for a cost-of-living adjustment in this context. Lowering the annual change in the CPI-U by half a percentage point instead of a full point yields basically the same increase in real income as does using the PCE.

The evidence is fairly straightforward: the PCE deflator does not appear to underestimate inflation, and therefore using it to update poverty thresholds should not overstate the decline in poverty over time.<sup>174</sup>

## Appendix 3. Underreporting of Income and Consumption in Household Surveys

**A**running theme of this paper is that poverty estimates from household surveys tend to be overstated because of underreporting of income. Even more important, underreporting has gotten worse over time, which means that poverty trends will look worse than they actually are.

Income may be underestimated in surveys relative to true amounts because survey respondents under-report their true incomes, but it can also be underestimated because of other issues. When people refuse to cooperate with surveyors or cannot be tracked down, the result can be a survey that is biased in that the people who participated are different from those who did not. Survey administrators attempt to remove this bias through the use of survey weights that take account in a crude way the fact that some types of people were more likely to participate than other types. But the weights may not correct the bias very well, as they are based on a few distinguishing characteristics, such as race and geography. If people who participate in surveys are poorer than people who do not, the weighted results produced from the survey may underestimate income levels and overstate poverty. Of course, it is possible that results may be biased in the other direction, so that income levels are overstated.

Another way that income can be underestimated without being underreported is by “item nonresponse.” This problem occurs when someone participates in a survey but refuses to or cannot answer an individual question about an income source. Someone might not know whether a family member received, say, interest income, or may be unable to provide the amount received. In these cases, survey administrators typically “impute” a value for the person by using amounts from other survey participants who resemble the person. Again, this imputation may underestimate income, but it might overestimate it, too.

Finally, the noncash benefit and tax estimates that I use are, for the most part, based on models that estimate amounts from known characteristics of people, families, and households. These models may end up underestimating or overestimating income from these sources.

Income may be overreported by respondents, too. But the evidence discussed in this appendix shows that empirically, whatever the source of the problem, income tends to be underestimated rather than overestimated in household surveys, and the underestimation has been growing over time. Most of the evidence—including that presented in the extreme poverty discussion in the main text—indicates that underreporting is the most important factor. I will use “underreporting” synonymously with “underestimation” in what follows.

### Underreporting of Public Transfer Income

A recent paper by Bruce Meyer and Nikolas Mittag compared CPS estimates of the share of New Yorkers receiving welfare, food stamps, and housing benefits with administrative records. They found that 57% of welfare recipients failed to report receiving benefits in the CPS, one-third of food stamp recipients failed to report receiving them, and 30% of those with housing benefits failed to report receiving them.<sup>175</sup> Those who did report receiving benefits in these programs tended to underreport the value of the benefits. Among those in deep poverty, according to pretax money income, 85% of food stamp benefits were reported but only 34% of welfare benefits and 38% of housing benefits. The missing welfare benefits alone amounted to 29% of reported pretax money income for those in deep poverty, meaning that income was underreported by 22% without taking any other underreporting into account.

In the CPS, welfare and food stamps reduce the poverty rate from 13.7% over the 2008–11 period to 11.8%; but in the administrative data, they reduce it to 10.9%. For single-mother households, the reduction in the CPS is from 37.5% to 32.6%; but in the administrative data, it falls to 29.2%. In the CPS, the share of single-mother households without earnings or welfare was 17%; but in the administrative data, it was only 13%. Taking food stamps into account,

the numbers are 5% and 3%. Also taking housing benefits into account, the estimates are 4% and 2% (though New York has relatively high rates of receipt of housing assistance).

In the CPS, welfare and food stamps reduce the deep poverty rate from 6.0% over 2008–11 to 4.2%; but in the administrative data, they reduce it to 3.6%. For single-mother households, the reduction in the CPS is from 21.4% to 12.6%; but in the administrative data, it falls to 10.4%.

Research has found that underreporting in the CPS is worst for worker's compensation, followed by welfare and food stamps.<sup>176</sup> Another study found underreporting of housing benefits is as severe as it is for welfare benefits.<sup>177</sup> In the Survey of Income and Program Participation (SIPP), underreporting is worst for worker's compensation, followed by unemployment insurance, then welfare, and then food stamps.<sup>178</sup>

In the CPS, underreporting has been getting worse over time for welfare, food stamps, unemployment insurance, worker's compensation, and Medicaid/CHIP. In the SIPP, it has been getting worse for welfare and worker's compensation. Imputation in surveys—assigning values to people who do not participate in the survey or who do not respond to an individual question—is also increasing over time. In the CPS, imputation is worsening for food stamps, SSI, and unemployment insurance; in the SIPP, it is worsening for welfare, food stamps, SSI, and unemployment insurance.<sup>179</sup>

These sources also include citations to earlier papers from other researchers on underreporting of transfers. “Underreporting” of housing benefits in the CPS is also worsening because the methods used by the Census Bureau to update benefit values for inflation every year have the effect of underestimating subsidies increasingly over time.<sup>180</sup>

### **Underreporting of Earnings**

There is a sizable literature on underreporting of earnings, much of it outdated.<sup>181</sup> The number of earners in the CPS is generally 80% of that in administrative data; but in the lowest few percentiles, that fraction falls to 60%.<sup>182</sup> Another study found that earnings in the CPS among year-round, full-time workers during the 1990s were underreported

for workers with reported earnings under \$20,000. Underreporting was higher for those with less than \$10,000 and especially high for those with less than \$5,000. Only 24%–40% of earnings were reported for this poorest group, compared with 57%–77% for workers with at least \$5,000 but less than \$10,000.<sup>183</sup> Studies of the SIPP found that in panels between 1992 and 2001, 11.0%–17.5% of people reporting no earnings actually had earnings in administrative data.<sup>184</sup> And earnings paid under the table are missing in administrative data.

There is also some evidence from the 1990s that underreporting of earnings in the CPS has worsened over time among workers with low reported earnings. Underreporting of wage and salary income among low-earning, full-time, full-year workers worsened between the 1991 and 1997 CPS surveys. Among those who reported earning less than \$5,000, just 40% of wages were reported in the 1991 CPS, and that fell to 35.5% in 1994 and 24% in 1997.<sup>185</sup> The share of people in the SIPP reporting no earnings who had earnings in administrative data rose between the 1992 and 1996 panels, and while it was a bit lower in the 2001 panel than in 1996, it remained above the 1992 figure.<sup>186</sup>

Meyer and Sullivan found that the share of single-mother earners who reported below-minimum-wage pay fell between 1993–95 and 1997–2000, which the authors interpreted as evidence that earnings underreporting had fallen. However, since the number of single-mother earners rose during this period, that result is also consistent with greater underreporting of total earnings among single mothers over time, even if rates of underreporting really did fall.<sup>187</sup>

One hint of worsening earnings underreporting is that underreporting of unemployment insurance has worsened over time about as much as underreporting of food stamps has.<sup>188</sup> Since only workers with a significant commitment to the labor force are eligible for unemployment benefits, and since benefits are tied to earnings, the implication is that earnings are increasingly being underreported. And the rising rate of underreporting of unemployment benefits itself would make poverty trends look worse than they are.

Underreporting is a problem for other sources of market income, too. In the 2001 CPS, just 52% of

self-employment income was reported, 59% of dividends, 70% of retirement and disability benefits (excluding worker's compensation and Social Security), and 73% of interest income.<sup>189</sup> Evidence on trends in underreporting for these types of income is sparse, however.

### **Underreporting of Consumption**

Aggregates for various categories of spending in the Consumer Expenditure Survey match totals in the national accounts well, and the extent to which this is so has not declined over time. Further, the categories on which spending at the bottom is concentrated align well with the national account totals.<sup>190</sup> Survey nonresponse and imputation are substantially less severe in the Consumer Expenditure Survey than in the Current Population Survey.<sup>191</sup> Finally, underreporting of consumption should be less sensitive to policy changes that alter the share of income from transfers or earnings that are received by low-income families.

In addition, income measures that incorporate estimates of noncash benefits and net taxes, such as those above, must rely on the imputation of those sources, and that imputation is necessarily imprecise.

### **Underreporting of Consumption vs. Income**

As reported in the Meyer-Sullivan paper, family income from 1991 to 1998 (including food stamps, after taxes) at the 20<sup>th</sup> percentile—the income of the family poorer than 80% of all families—was very similar in the CPS and the CES for single mothers without a high school diploma, as was the average income for the bottom fifth of these women. But the 20<sup>th</sup> percentile of expenditures in the CES was 27% higher than the 20<sup>th</sup> percentile of income in the same survey, and mean expenditures in the bottom fifth of expenditures was 52% higher than mean income in the bottom fifth of income.<sup>192</sup>

Mean income in the bottom fifth of expenditures was 76% higher than mean income in the bottom fifth of income. Mean expenditures in the bottom fifth of income were nearly three times as high as mean income in the bottom fifth of income. (The 20th percentile of expenditures and consumption were very similar, as was the mean in the bottom fifth of expenditures and the mean in the bottom fifth of consumption.)

In the same study, Meyer and Sullivan report that in the CES, the ratio of expenditures to income was higher among single mothers without a high school diploma than among other single mothers, and it was higher among single mothers than among single childless women and married mothers.<sup>193</sup>

Similar results held in a later study by Meyer and Sullivan that looked further down the income and expenditure distributions.<sup>194</sup> Over the 1993–2003 period, family income at the 5<sup>th</sup> percentile and average income below the 5<sup>th</sup> percentile were very similar in the CPS and CES. However, the 5<sup>th</sup> percentile of the family expenditures distribution was 44% higher than the 5<sup>th</sup> percentile of the CPS income distribution. Average expenditures below the 5<sup>th</sup> percentile were more than three times as high as average income below the 5<sup>th</sup> income percentile. They found comparable results for 1980–92 and for 2004–07. The finding has also been replicated in Canada and Great Britain by other researchers.

Within the CES, mean income in the bottom 5% of expenditures was nearly four times higher than mean income in the bottom 5% of income. Expenditures in the bottom 5% of the income distribution were seven times as high as income, while income was higher than expenditures in the bottom 5% of expenditures only by 60%.

Among single mothers, the 5<sup>th</sup> percentile of expenditures was 114% higher than the 5<sup>th</sup> percentile of CPS income (and 78% higher than the 5<sup>th</sup> percentile of CES income). Average expenditures below the 5<sup>th</sup> percentile were over five times higher than average CPS income (and nearly 2.5 times higher than average CES income). Mean income in the bottom 5% of expenditures was over three times higher than mean income in the bottom 5% of income. Expenditures in the bottom 5% of the income distribution were over six times as high as CES income, while CES income was higher than expenditures in the bottom 5% of expenditures only by 38%.

After-tax income (including food stamps) in the bottom 10th of single-mother families fell between 1993–95 and 1997–2000, in both the CPS and CES, but consumption rose.<sup>195</sup>

The alignment between people who are deemed poor on the basis of their income and on the basis

of their consumption has worsened over time. In the 1980s, 58% of single-parent families who were income-poor in the CES were also consumption-poor, but that fell to 42% in the 1990s and 28% in the 2000s.<sup>196</sup>

Between 1985 and 2010, Meyer and Sullivan report that the income poverty gap in the CPS—the amount that it would take to lift all poor families above the poverty line—increased by \$32 billion, but it rose by just \$23 billion in the Consumer Expenditure Survey. This latter figure is quite close to the growth in underreporting of food stamp benefits in the CPS over the same period (\$26 billion).<sup>197</sup>

Richard Bavier argued that income and consumption suffer from similar measurement error in the CES, noting that income poverty in the CES also falls.<sup>198</sup> However, the decline in expenditure poverty in the CES that he shows is significantly larger than

the decline in income poverty. Most of the decline in income poverty occurs between 2000 and 2001, and it is very likely due to a methodological change to the income questions made in 2001. While Bavier excludes observations with imputations in the CES, he includes them in the CPS, making the comparison inappropriate. Another study by Meyer and Sullivan found that the share of families with \$15,000 or less in pretax income displays the same trend from 2004 to 2010 in both surveys when imputations are included in both.<sup>199</sup>

Finally, Meyer and Sullivan show that in the American Housing Survey, a number of indicators of well-being improved between 1999 and 2009. Homes grew in size relative to household size and in absolute terms, water leaks became rarer, and having air conditioning, a dishwasher, a washing machine, and a clothes dryer all became more common. Car ownership also increased in the CES.<sup>200</sup>

## Appendix 4. Consumption Versus Income in Measuring Poverty and Hardship

Bruce Meyer and James Sullivan have long studied the relative merits of relying on consumption versus income measures in assessing hardship levels and trends in the United States. In one paper, they found that during the 1990s, very low consumption better predicts very low income (posttax, including food stamps) than the reverse in the Consumer Expenditure Survey (CES). On 19 of 19 indicators of hardship in the CES, the bottom 10th of single mothers without a high school diploma looks worse-off, in terms of consumption, than the bottom 10th in terms of income, and the bottom 10th looks worse relative to the top 90% when ranking by consumption than when ranking by income.<sup>201</sup>

In a subsequent paper, Meyer and Sullivan found the same for those 19 indicators for all single-mother families and for families generally, comparing the bottom 5% with the top 95%. They also found that for seven of 10 indicators in the Panel Study of Income Dynamics (PSID), families below the 5th percentile of consumption were worse-off than families below the 5th percentile of income, and consumption better distinguished the bottom 5% from the top 95% than income on seven of 10 indicators.<sup>202</sup>

Children who were consumption-poor in the 2010 CES but not income-poor (according to the official measure) were less likely than children who were income-poor but not consumption-poor to have health insurance, were in families with less-nice cars, were in bigger families but smaller homes, and were less likely to have eight of nine household amenities. (At the same time, they were in families more likely to own a home or a car, and their families had greater financial assets.)<sup>203</sup> Families in deep poverty according to consumption look worse-off on all these indicators than families in deep poverty according to income. In fact, those in deep poverty according to income often look no worse-off—or better-off—than families in poverty but not deep poverty.<sup>204</sup>

From 1993–95 to 2001–03, the after-tax income (including food stamps) of the bottom 10th of single mothers in the CES fell by 16%, while the income of other single mothers rose. However, both income and consumption in the bottom 10th of consumption

rose by about 12.5%. Among single mothers with no high school diploma, on 11 of 12 indicators, hardship declined over the period (and between 1997–99 and 2001–03).<sup>205</sup>

There are also strong conceptual reasons to prefer consumption to income as a measure of hardship. Families can temporarily go into debt or draw down from savings when their income declines, using future or past income to maintain living standards. By the same token, two families with the same income but different asset levels or access to credit should not be considered to have the same living standards. Tangible assets, such as homes or automobiles, provide a flow of value that is not reflected in income. And many income concepts do not include sources of purchasing power such as in-kind transfers or informal earnings that are reflected in consumption measures.<sup>206</sup>

One concern is that low-income families have been able to consume more by going into debt—in which case, the consumption poverty trend would overstate the reduction in hardship. But Meyer and Sullivan report that the median single-parent family whose after-tax income left them in poverty had no non-mortgage, non-vehicle debt during the 1980s, 1990s, or 2000s. The 75<sup>th</sup> percentile of debt—the debt of the family with more indebtedness than 75% of all single-parent families—was also \$0 during the 1990s and 2000s, having fallen from \$315 in the 1980s, and the 85<sup>th</sup> and 90<sup>th</sup> percentiles of debt also fell between the 1980s and 2000s. Among single-parent families

who were income-poor but not consumption-poor, debt levels fell at the 75<sup>th</sup>, 85<sup>th</sup>, and 95<sup>th</sup> percentiles of non-mortgage, non-vehicle debt between the 1980s and 2000s.<sup>207</sup>

Nor was the decline in consumption poverty due to greater spending out of assets. Average financial assets among income-poor single-parent families were very similar in the 1980s, 1990s, and 2000s.

These assets were also quite minimal; at the 85<sup>th</sup> percentile, they totaled less than \$100 in each decade. In the Panel Study of Income Dynamics (another household survey), below the bottom fifth of income, the median single mother without a high school diploma who has greater expenditures than income has no assets and no debts.<sup>208</sup>

## Appendix 5. On the Quality of Income Data from the SIPP and CPS

Schafer and Edin argue that for purposes of estimating levels of and trends in extreme poverty (and poverty in general), the Survey of Income and Program Participation (SIPP) is superior to the Current Population Survey (CPS).<sup>209</sup> Much of their case relies on data-quality comparisons in individual years rather than the quality of change estimates. The latter is more relevant for assessing whether extreme poverty (or poverty generally) has increased.

Consider, first, underreporting. Historically, compared with administrative aggregates, the SIPP has had less underreporting of welfare and food stamps than has the CPS, and the SIPP overreports SSI while CPS underreports it. The SIPP and CPS have had similar underreporting for Social Security disability benefits and worker's compensation. The SIPP has had more underreporting of unemployment insurance.<sup>210</sup>

The 1984 SIPP, compared with CPS estimates from the same time, found more income from most sources, with the exceptions being wage and salary income and interest.<sup>211</sup> Aggregate wage and salary income and interest were also closer to independent benchmarks in the CPS for 1990 than in the SIPP, while aggregate self-employment income was closer in the SIPP.<sup>212</sup> Another study found that the SIPP had worse underreporting than the CPS in 1996 for wages and salaries, interest, dividends, Social Security and railroad retirement income, veteran's payments, unemployment compensation, and federal employee pensions. In fact, the SIPP had worse underreporting for earnings as a whole, asset income as a whole, government transfer income as a whole, pension income as a whole, and total income.<sup>213</sup>

However, in the bottom fifth of the income distribution, the SIPP had higher aggregate income, as well as higher wage and salary, self-employment, and property income, than the CPS between 1993 and 2002.<sup>214</sup> A similar study confirmed that in 2002, the SIPP's deficits relative to the CPS were confined to families above the bottom fifth, with the biggest problems among the richest families.<sup>215</sup> The CPS also did worse than the SIPP in 2009 at capturing the earnings of the bottom fifth, and the American Community Survey outperformed the CPS in both years.<sup>216</sup>

In short, the SIPP does appear to better capture the income of poorer Americans in any given year. The evidence suggests that the CPS has more underreporting of means-tested benefits than the SIPP and more underreporting of self-employment income. The SIPP seems to have more underreporting of wage and salary income and interest, though it has less than the CPS in the bottom fifth of income.

However, the extent to which underreporting rates change in the two surveys is the more important question for assessing poverty trends; and here, it is much less clear that the SIPP should be favored. SIPP underreporting of self-employment income worsened between 1984 and 1990, while it did not in the CPS.<sup>217</sup> Underreporting of self-employment income worsened in both the SIPP and the CPS from 1990 to 1996, and it worsened in the SIPP for interest, too.<sup>218</sup>

Research has shown that 11.0% of people with no earnings in the 1992 SIPP had earnings in Social Security administrative records, and that figure rose to 17.5% in the 1996 SIPP before falling a bit, to 16.7%, in the 2001 SIPP. At the same time, the percentage of people with no earnings in the Social Security records who had earnings in the SIPP fell. In other words, from 1992 to 1996, the SIPP got worse at capturing earners who were in the Social Security data and worse at capturing earners who were not in the Social Security data, and then it stabilized through 2001.<sup>219</sup>

Underreporting of income in the SIPP compared with the CPS also worsened between 1993 and 2002. The "most significant" of these losses, according to the authors of one study, "occurred in the bottom income quintile, where the SIPP has historically performed best relative to the CPS. In 1993, the

SIPP captured 20% more aggregate income from this [quintile] than did the CPS. By 2002, however, the SIPP's advantage had fallen to just 6 percent. . . Only for SSI, welfare and pensions did the SIPP maintain or improve its advantage.”<sup>220</sup>

Poverty, based on annual income, was 2–3 percentage points higher in the CPS than in the SIPP prior to the 1996 SIPP panel, but it was less than 2 percentage points higher in the 1996 panel and only 0.5 percentage points higher in 2001 and 2002. Child poverty rates also converged between 1993 and 2002. The authors speculate that this convergence may be due to improved CPS estimates from introducing computerized administration in the early 1990s, which first affects the income estimate for 1993.<sup>221</sup>

It appears that the SIPP's advantage in terms of capturing earnings at the bottom also diminished between 2002 and 2009.<sup>222</sup>

Underreporting of welfare and worker's compensation worsened by about the same amount in the SIPP and the CPS between 1996 and 2011. SSDI underreporting was stable in both. SSI underreporting declined in both but more in the SIPP. (It is now overreported in the SIPP.) In contrast, food stamp and unemployment insurance underreporting did not worsen in the SIPP, though it did for both in the CPS.<sup>223</sup>

Survey nonresponse—where someone declines entirely to participate in a survey or cannot be located—is a second data-quality issue. When the group of people who agree to participate in a survey differs from the intended group, the sample data must be weighted to account for the difference, and such weighting is always imperfect. Levels of and trends in nonresponse would appear to favor the CPS over the SIPP. Between 1996 and 2008, survey nonresponse in the SIPP rose from 8% to 19%. Survey nonresponse in the basic CPS—the broader survey of which the supplemental income questions are a part—increased from only 7% in 1997 to about 8.5% in 2008.<sup>224</sup>

Another important data-quality issue is the rate at which income questions are left unanswered. When survey participants refuse or fail to answer whether they received a particular form of income or to give the amount they received, and when CPS participants decline to sit through the supplemental income ques-

tions, the Census Bureau imputes income amounts to replace the missing data. The concern is that the methods used end up introducing error into the data.

The CPS used to have more imputation of welfare benefits than the SIPP, but now SIPP imputation exceeds that in the CPS. The CPS and SIPP used to have similar imputation rates for SSI, but now the SIPP has higher rates. The SIPP has higher imputation rates than the CPS for unemployment insurance and worker's compensation. Finally, the SIPP and the CPS have similar imputation rates for food stamps.<sup>225</sup>

People in the SIPP with income were much more likely in 2002 to have at least some of it imputed than people in the CPS. But much of the SIPP imputation was for small amounts. Overall, the two surveys both had about one-third of income imputed, and that was also true for the bottom fifth of family income. The quality of the SIPP imputations is probably better than in the CPS because the SIPP may draw from information from other waves of the panel. In addition, there is some evidence from the American Community Survey that imputation rates are higher during the time the CPS income supplement is fielded than in other months.<sup>226</sup>

As for trends, imputation of welfare has risen in the SIPP but not in the CPS, and imputation rates for SSI and unemployment insurance have risen more in the SIPP than they have in the CPS. Imputation rates for food stamps have increased by about the same amount for both the SIPP and CPS, and imputation rates for worker's compensation have declined slightly in both.<sup>227</sup>

The SIPP data are also vulnerable to other potential problems because the survey is longitudinal, interviewing respondents three times a year. One problem is selective attrition. That is, since interviews are conducted three times a year for multiple years, the concern is that the households that inevitably stop participating (or move) are different in important ways from those that do not. The CPS data are obtained from a single interview each year.

This “attrition bias” appears to be well handled by survey weights in the SIPP, but two other problems appear more consequential.<sup>228</sup> “Time-in-sample bias” occurs when survey participants adapt their later answers based on their experience having been

previously interviewed. In the 1996, 2001, and 2004 SIPP panels, there was a drop of at least 1 percentage point in the poverty rate between the first and second waves of the panel (four months apart). There is a much smaller drop in subsequent waves.

For instance, in the 2004 panel, the poverty rate fell by 1.8 percentage points between the first and second wave but by just 0.3 percentage points between the second and third wave. The authors of this study interpret the results as indicating that people learn to report their income better as a consequence of being interviewed in Wave 1, so that Wave 1 poverty rates are too high. Because of time-in-sample bias, the poverty rate at the start of a new panel is always significantly higher than it was at the end of the previous panel, even when there is only a small period of time between the two. Between 1996 and 2004, time-in-sample bias appears to have increased, which would impart a poverty trend that is biased upward if first-wave data are used.

Another SIPP-specific problem is that the survey represents only a representative cross-section of the civilian noninstitutionalized population at the start of the panel. In Wave 2, some people leave the sample (by dying, becoming institutionalized or non-civilians, or by leaving the country), but people who should join the sample (through birth, returning from an institution, becoming a civilian, or entering the country) are added only if they join a household already in the sample. This same imbalance recurs in each subsequent wave. Over time, the sample remaining is less representative of the population that was represented in Wave 1—not because of attrition but because the sample is not refreshed to add new members. The authors of one study concluded that “the SIPP full panel sample can represent an initial population through time with negligible bias. ... [H]owever, we found reason

to question how well the SIPP could represent the full cross-sectional population over time—something that the SIPP was not designed to do but which users have expected it to do.”<sup>229</sup> Together, the authors concluded that these two issues explain the gap between poverty rates at the end of one panel and the higher poverty rates at the start of the next panel. Reentrants to the SIPP universe are likely to come from higher-poverty groups (the formerly incarcerated, immigrants, etc.), so the poverty trend within a SIPP panel is likely to be biased downward, a pattern reinforced by time-in-sample bias, which produces an initial poverty estimate within each panel that is too high.

In their 2013 paper, Shaefer and Edin use first-wave data for their 1996 extreme poverty estimate but later-wave data for their 2011 one. The expected bias would be for the increase in extreme poverty to be biased downward because the 1996 estimate would be too high and the 2011 one too low. However, in what may be another sign of increasing measurement error in the Edin-Shaefer results, the monthly trend estimates for extreme poverty do not exhibit any sign of the time-in-sample bias that is evident in official poverty trends.<sup>230</sup>

Nor do the Edin-Shaefer trends exhibit any evidence of within-panel downwardly biased trends. The official poverty rate declines a lot in the 1996 SIPP, when economic expansion should have caused it to go down, but the drop in the CPS is not as steep.<sup>231</sup> The poverty rate is flat in the 2001 SIPP, when the worsening economy would cause us to expect upward trends, borne out in the CPS trend. In Shaefer and Edin, however, the extreme poverty rate is up within the 1996 panel and up again within the 2001 panel.

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# Endnotes

- <sup>1</sup> This paper benefited from conversations with and feedback from Christopher Jencks, Arloc Sherman, Donald Schneider, James Sullivan, Ron Haskins, Steve Rose, Robert Doar, Richard Burkhauser, Larry Mead, Doug Besharov, Jason Turner, Cory Smith, Tim Smeeding, Luke Shaefer, James Sherk, Salim Furth, Ramesh Ponnuru, Linda Giannarelli, and Trudi Renwick. They bear no responsibility for any errors or views expressed. I am grateful to have received data from Chris Wimer and Trudi Renwick. Readers interested in the data used to produce my estimates should contact me at scott@scottwinship.com.
- <sup>2</sup> Peter B. Edelman and Mary Jo Bane, both assistant secretaries at the Department of Health and Human Services. Wendell Primus, another senior official, had resigned a month earlier.
- <sup>3</sup> Quoted in Lars-Erik Nelson, "Coming Soon: Kids Sleeping on Hot-Air Grates," *New York Daily News*, Sept. 8, 1995.
- <sup>4</sup> See Richard Bavier, "An Early Look at the Effects of Welfare Reform," unpublished (1999); Sarah Brauner and Pamela Loprest, "Where Are They Now? What States' Studies of People Who Left Welfare Tell Us" (Urban Institute, May 1999), <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/309065-Where-Are-They-Now-What-States-Studies-of-People-Who-Left-Welfare-Tell-Us.PDF>; U.S. General Accounting Office, "Welfare Reform: Information on Former Recipients' Status" (Apr. 1999), <https://aspe.hhs.gov/sites/default/files/pdf/177371/GAO-Welf-Reform-Info-Former-he99048.pdf>; Robert A. Moffitt and Michele Ver Ploeg, eds., *Evaluating Welfare Reform: A Framework and Review of Current Work. Interim Report* (National Academies Press, 1999), <http://www.nap.edu/catalog/9672/evaluating-welfare-reform-a-framework-and-review-of-current-work>; Wendell Primus et al., "The Initial Impacts of Welfare Reform on the Incomes of Single-Mother Families," Center on Budget and Policy Priorities (Aug. 1999), <http://www.cbpp.org/archiveSite/8-22-99wel.pdf>; Julia B. Isaacs and Matthew R. Lyon, "A Cross-State Examination of Families Leaving Welfare: Findings from the ASPE-Funded Leavers Studies," paper presented by ASPE [Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services] at the National Association for Welfare Research and Statistics (NAWRS), Aug. 1, 2000 (revised Nov. 6, 2000), <https://aspe.hhs.gov/legacy-page/aspe-nawrs-presentation-cross-state-examination-families-leaving-welfare-findings-aspe-funded-leavers-studies-149916>; Gregory Acs, Pamela Loprest, and Tracy Roberts, "Final Synthesis Report of Findings from ASPE's 'Leavers' Grant," Urban Institute (Nov. 2001), <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/410809-Final-Synthesis-Report-of-Findings-from-ASPE-S-Leavers-Grants.PDF>.
- <sup>5</sup> Liz Schott, "Why TANF Is Not a Model for Other Safety Net Programs," Center on Budget and Policy Priorities (June 2016), <http://www.cbpp.org/sites/default/files/atoms/files/6-6-16tanf.pdf>.
- <sup>6</sup> Kathryn J. Edin and H. Luke Shaefer, *\$2.00 a Day: Living on Almost Nothing in America* (New York: Houghton Mifflin Harcourt, 2015), p. xvii: "In early 2011, 1.5 million households with roughly 3 million children were surviving on cash incomes of no more than \$2 per person, per day in any given month. That's about one out of every twenty-five families with children in America."
- <sup>7</sup> See, e.g., Jared Bernstein, "America's Poor Are Getting Virtually No Assistance," *The Atlantic*, Sept. 6, 2016, <http://www.theatlantic.com/business/archive/2015/09/welfare-reform-americas-poorest/403960>; Dylan Matthews, "'If the Goal Was to Get Rid of Poverty, We Failed': The Legacy of the 1996 Welfare Reform," *Vox*, June 20, 2016, <http://www.vox.com/2016/6/20/11789988/clintons-welfare-reform>; Nicholas Kristof, "Why I Was Wrong About Welfare Reform," *New York Times*, June 19, 2016, <http://www.nytimes.com/2016/06/19/opinion/sunday/why-i-was-wrong-about-welfare-reform.html>; Annie Lowrey, "It's Time for Welfare Reform Again," *New York*, Feb. 19, 2016, <http://nymag.com/daily/intelligencer/2016/02/bring-welfare-back.html>; Jordan Weissmann, "The Failure of Welfare Reform," *Slate*, June 1, 2016, [http://www.slate.com/articles/news\\_and\\_politics/moneybox/2016/06/how\\_welfare\\_reform\\_failed.html](http://www.slate.com/articles/news_and_politics/moneybox/2016/06/how_welfare_reform_failed.html); Robert Pear, "Welfare Law of '96 Recalls Political Rifts," *New York Times*, May 21, 2016, [http://www.nytimes.com/2016/05/21/us/politics/welfare-arizona-bill-hillary-clinton.html?\\_r=0](http://www.nytimes.com/2016/05/21/us/politics/welfare-arizona-bill-hillary-clinton.html?_r=0); Ryan Cooper, "Will Hillary Clinton Admit That Welfare Reform Was a Failure?" *The Week*, com, Nov. 2, 2015, <http://theweek.com/articles/586183/hillary-clinton-admit-that-welfare-reform-failure>; Bryce Covert, "Why Hillary Has Never Apologized for Welfare Reform," *The Atlantic*, June 14, 2016, <http://www.theatlantic.com/politics/archive/2016/06/welfare-reform-and-the-forging-of-hillary-clintons-political-realism/486449/>; Bryce Covert, "Hillary Clinton: 'We Have to Take a Hard Look' at Welfare Reform," *ThinkProgress*, Apr. 18, 2016, <http://thinkprogress.org/economy/2016/04/18/3770333/hillary-clinton-welfare-reform/>; Lauren Carroll, "Sanders: Welfare Reform More than Doubled 'Extreme Poverty,'" *Politifact*, Mar. 2, 2016, <http://www.politifact.com/truth-o-meter/statements/2016/mar/02/bernie-s/sanders-welfare-reform-more-doubled-extreme-povert>; Alejandra Marchevsky and Jeanne Theoharis, "Why It Matters That Hillary Clinton Championed Welfare Reform," *The Nation*, Mar. 1, 2016, <http://www.thenation.com/article/why-it-matters-that-hillary-clinton-championed-welfare-reform>; Alana Semuels, "The End of Welfare as We Know It," *The Atlantic*, Apr. 1, 2016, <http://www.theatlantic.com/business/archive/2016/04/the-end-of-welfare-as-we-know-it/476322>; Matt Bruenig, "Welfare Reform Was Quite Bad," *Demos*, Policyshop blog, Feb. 12, 2016, <http://www.demos.org/blog/2/12/16/welfare-reform-was-quite-bad>; Clio Chang and Samuel Adler-Bell, "Missing from Bernie's Revolution: Welfare Reform," *The New Republic*, Feb. 1, 2016, <https://newrepublic.com/article/128878/missing-bernies-revolution-welfare-reform>; Michelle Alexander, "Why Hillary Doesn't Deserve the Black Vote," *The Nation*, Feb. 10, 2016, <https://www.thenation.com/article/hillary-clinton-does-not-deserve-black-peoples-votes>; Frances Fox Piven and Fred Block, "Ending Poverty as We Know It," in Liza Featherstone, ed., *False Choices: The Faux Feminism of Hillary Rodham Clinton* (New York: Verso, 2016).
- <sup>8</sup> "Deep poverty" is defined below, p.16.
- <sup>9</sup> As discussed below, "families" include: (1) those in which the household head is a member (which may include related subfamilies of the head, such as a daughter with her own child); (2) subfamilies unrelated to the household head, such as lodgers; and (3) individuals (including foster children) not living with any relatives if they are at least 15 years old. Cohabiting but unmarried couples are not members of the same family. My baseline estimates differ slightly from official ones prior to calendar year 1975, as I include related subfamilies and combine them with the primary family of which they are a part. For estimates prior to that year, the Census Bureau excluded these subfamily members from the official poverty statistics.
- <sup>10</sup> The thresholds originally were derived from research in the mid-1960s and intended to approximate the 1963 cost of purchasing a "food plan" specified by the Department of Agriculture. Individual-level food costs (by age and sex) were grouped into family-level costs for families of different sizes. Those costs were then multiplied by three to arrive at poverty thresholds, reflecting the finding that food costs took up one-third of the income of the average family. A lower multiplier was used for families of two, and the threshold for a single person was set at 80% of the threshold for two-person families. Thresholds for families on farms were set as a percentage of the nonfarm thresholds. This set of thresholds was then simply updated for inflation over time. The different thresholds for male and female heads and for farm and nonfarm families were eliminated in late 1981 and poverty thresholds for large families were added, so that the 1982 Current Population Survey (collecting 1981 income information) was the first to use the new definition. See Gordon M. Fisher, "The Development and History of the Poverty Thresholds," *Social Security Bulletin* 55, no. 4 (1992): 3–14.
- The switch to the new poverty thresholds in 1981 had only a small effect on national poverty rates. One report compared 1980 poverty rates under the old (official for 1980) and new threshold definitions. The poverty rate for all persons was higher by 0.2 percentage points under the new definitions, and the rate for children was higher by 0.1 percentage points. See U.S. Bureau of the Census, "Characteristics of the Population Below the Poverty Level: 1980" (Washington, DC: Government Printing Office, 1982), Table D, <https://www2.census.gov/prod2/popscan/p60-133.pdf>.
- <sup>11</sup> Specifically, I use the Annual Social and Economic Supplement (ASEC) to the CPS, which is administered primarily in March of every year and which asks detailed income questions about the previous calendar year. All references to the "CPS" in this report should be considered references to the ASEC. In the 2014 survey, the Census Bureau began using a new approach to obtaining information about specific sources of income. It asked 5/8 of ASEC respondents the previously used income questions and 3/8 of the respondents the new questions. In the 2015 survey, everyone received the new questions. Because both approaches were used in 2014, it is possible to determine how the new approach affects poverty estimates. In my analyses, the 2013 estimates (from the 2014 survey) are based on the older income questions. The 2014 estimates come from the 2015 survey, but I have adjusted them downward by the difference between the two different 2013 estimates. On the impact of the change in Census Bureau methodology, see

Jessica L. Semega and Edward Welniak, Jr., "The Effects of the Changes to the Current Population Survey Annual Social and Economic Supplement on Estimates of Income," Proceedings of the 2015 Allied Social Science Association (ASSA) Research Conference, <http://www.census.gov/content/dam/Census/library/working-papers/2015/demo/ASSA-Income-CPSASEC-Red.pdf>.

<sup>12</sup> The rise in the incarcerated population (especially among African-American men) is an important caveat to any claim about poverty trends. However, since I focus on children—and the children of single mothers, specifically—it is unclear whether poverty trends would be better or worse, absent rising incarceration rates. Much depends on how high the poverty rates of the incarcerated would have been (probably quite high) but also on how incarceration affected marriage and cohabitation and childbearing. Rising incarceration rates could have reduced childbearing and out-of-wedlock childbearing by removing potential fathers from the dating pool of potential single mothers. If so, the child poverty trend might have looked worse in the absence of rising incarceration. Alternatively, rising incarceration rates may have reduced cohabitation and marriage if imprisoned men would have lived with the mothers of their children. In that case, the child poverty trend might have looked better if not for rising incarceration.

<sup>13</sup> The 20 pre-1996 waiver states included three states in 1992, four in 1993, four in 1994, and nine in 1995. Another eight states began implementing waivers in 1996 prior to the enactment of PRWORA, and two others were approved to do so. When PRWORA passed, most of these states carried over many of their waiver policies. After the enactment of PRWORA, 24 states began implementation by the end of 1996, and another 26 by the end of 1997. See Robert F. Schoeni and Rebecca M. Blank, "What Has Welfare Reform Accomplished? Impacts on Welfare Participation, Employment, Income, Poverty, and Family Structure," NBER Working Paper 7627 (2000), Table A1, <http://www.nber.org/papers/w7627.pdf>; and Council of Economic Advisers, "Technical Report: Explaining the Decline in Welfare Receipt, 1993–1996" (May 1997), [http://clinton4.nara.gov/WH/EOP/CEA/Welfare/Technical\\_Report.html](http://clinton4.nara.gov/WH/EOP/CEA/Welfare/Technical_Report.html). The CEA report indicates that West Virginia was approved for a waiver in 1995, which puts the pre-1996 total at 20 states.

<sup>14</sup> See Council of Economic Advisers, "Explaining the Decline in Welfare Receipt."

<sup>15</sup> For post-2014 trends in median household income, see the chart regularly updated by Sentier Research at <http://www.sentierresearch.com>.

<sup>16</sup> The value of these benefits is available in the Census Bureau data only from calendar year 1979 forward, except that energy assistance is available only starting in calendar year 1981. On their valuation, see U.S. Bureau of the Census, "Measuring the Effect of Benefits and Taxes on Income and Poverty: 1992," Current Population Report P60-186RD (1993), <https://www2.census.gov/prod2/popscan/p60-186rd.pdf>. The value of housing subsidies is a monthly amount, so I multiply by 12. Note that while there is considerable uncertainty in the Census Bureau's estimation of school lunch and housing benefit values, the values for housing used in my analyses are quite conservative. See Paul D. Johnson, Trudi Renwick, and Kathleen Short, "Estimating the Value of Federal Housing Assistance for the Supplemental Poverty Measure," U.S. Bureau of the Census, 2010, [https://www.census.gov/hhes/povmeas/methodology/supplemental/research/SPM\\_HousingAssistance.pdf](https://www.census.gov/hhes/povmeas/methodology/supplemental/research/SPM_HousingAssistance.pdf).

<sup>17</sup> By my analysis, the family income of the median child who was officially poor in 2014 rose \$3,600, or 24%, when non-health, noncash benefits are added. I find that 88% of officially poor children received non-health, noncash benefits (the same as in 1996). For those children, the median increase from non-health, noncash benefits was \$4,373, or 29%.

The major noncash benefits not accounted for in these estimates (apart from the health-insurance coverage discussed below) are from nonwage compensation (such as employer contributions to retirement plans or paid vacation); the Special Supplemental Nutrition Program for Women, Infants, and Children program (better known as WIC); child-care programs; services from Head Start, Title I, and job-training programs; and goods and services from charities, public and private health care providers, and the like. More broadly, one could consider public education generally as a noncash benefit, or provision of other public goods, such as libraries and playgrounds.

In an earlier draft, I valued these benefits by cutting in half the estimates computed by the Census Bureau. One rationale for doing so is that many beneficiaries would prefer receiving a smaller amount of cash to getting some amount of noncash benefits, since cash is more fungible. The ethnographic research in *\$2.00 a Day*, for example, indicates that destitute families sometimes (illegally) sell their SNAP benefits for 50 cents–60 cents on the dollar, though such trafficking is uncommon among SNAP beneficiaries generally. On SNAP trafficking, see Richard Mantovani, Eric Sean Williams, and Jacqueline Pfleiger, "The Extent of Trafficking in the Supplemental Nutrition Assistance Program: 2009–2011," prepared by ICF International for the U.S. Department of Agriculture, Food and Nutrition Service (Aug. 2013), <http://www.fns.usda.gov/sites/default/files/Trafficking2009.pdf>.

However, while valuing these benefits at 50% of the Census Bureau-imputed amount is conservative from the perspective of levels of poverty, it is often not conservative from the perspective of trends in poverty (and especially deep poverty). That is, child poverty usually falls more or rises less when these benefits are valued at 50% than when they are valued at 100% because the change in cash income dominates the change in non-health, noncash benefits more the lower the latter are valued. In other words, the reader who would choose a different valuation should be aware that a less than full valuation will often make child poverty trends (and always make deep child poverty trends) look better than those that I present in this paper.

<sup>18</sup> On the valuation of health benefits, see U.S. Bureau of the Census, "Measuring the Effect of Benefits and Taxes on Income and Poverty." The Census Bureau stopped valuing Medicaid and Medicare benefits beginning with that part of the 2014 survey that incorporates the new income questions. It did so because the Center for Medicaid and Medicare Services stopped providing the necessary inputs, out of data security concerns. Using (1) the spreadsheets available at <https://www.census.gov/programs-surveys/cps/data-detail/fungible-values.html> that illustrate how the Medicaid and Medicare estimates were created in the part of the 2014 survey with the old income questions; (2) the recommendations given on that web page; and (3) advice and estimates from Trudi Renwick of the Census Bureau, I estimated amounts for the families that received the new income questions in 2014 and for all families in the 2015 survey. I used the same resources to correct the Medicaid values in the 2011 through 2013 survey data, which Renwick indicated had coding problems. I thank Renwick for her help, and I will provide further details upon request, including sharing my spreadsheets and code.

The median child who was officially poor in 2014 saw an increase of \$2,102 (16%) in his family income from the addition of health benefits in my analyses. Receipt of health benefits was about as common as receipt of other noncash benefits—87% of poor children had employer- or government-sponsored health benefits. For those children, health benefits raised income by \$2,476 (19%) at the median. Just 76% of poor children received health benefits in 1996.

<sup>19</sup> See Child Trends, "Health Care Coverage: Indicators on Children and Youth" (2014), Figure 1 and Appendix Table 1, [http://www.childtrends.org/wp-content/uploads/2014/07/26\\_Health\\_Care\\_Coverage.pdf](http://www.childtrends.org/wp-content/uploads/2014/07/26_Health_Care_Coverage.pdf); and National Center for Health Statistics, "Health, United States, 2015: With Special Focus on Racial and Ethnic Disparities," Table 104, <http://www.cdc.gov/nchs/data/hus/hus15.pdf>.

<sup>20</sup> Because the Census Bureau only began including the refundable amount of state tax credits after calendar year 2003, I use the before-credit state income-tax variable, which is another conservative decision on my part, given that the nonrefundable amount of state tax credits lowers tax liability and thereby increases income, and given that the growth of refundable state tax credits means that fully including state tax credits would show a larger decline in poverty.

For background on the Census Bureau's estimation of taxes, see its "Measuring the Effect of Benefits and Taxes on Income and Poverty."

<sup>21</sup> In 2014, the median child who was officially poor gained \$2,167 in family income after taking taxes into account, an increase of 20%. For poor children who saw an increase in income after accounting for taxes, refundable tax credits (after taxes paid) raised the median child's income by \$4,854 (28%). That makes tax credits more valuable among the officially poor who get them than either non-health, noncash benefits or health benefits. However, only 61% of poor children see an increase in income after taking taxes into account (up from 54% in 1996). Meanwhile, 14% of children officially poor saw income declines after accounting for taxes (down from 19% in 1996). The median decline for them was \$1,200 (9%).

<sup>22</sup> Prior to 1969, the federal government had no official poverty definition. In that year, the Census Bureau, acting on a memorandum from the Bureau of the Budget, began using the Consumer Price Index (CPI) and updated all prior-year poverty thresholds using it (instead of the increase in the per-capita cost of an "economy food plan" that had been

developed years earlier). In 1978, the CPI-U became distinct from what was renamed the CPI-W. The official thresholds since calendar year 1981 have been updated using the CPI-U, with the 1978 CPI-U as a base. See Fisher, "The Development and History of the Poverty Thresholds."

<sup>23</sup> See Thesia I. Garner, David S. Johnson, and Mary F. Kokoski, "An Experimental Consumer Price Index for the Poor," *Monthly Labor Review* 119, no. 9 (1996): 32–42, <http://www.bls.gov/mlr/1996/09/art5full.pdf>. This paper discusses earlier research that came to the same conclusion. For more recent work that finds that the poor have lower inflation rates than the rich, see Juan Sánchez and Lijun Zhu, "Changes in Income Gaps Might Overstate Changes in Welfare Gaps," *The Regional Economist*, Federal Reserve Bank of St. Louis (July 2015), [https://www.stlouisfed.org/~media/Publications/Regional%20Economist/2015/July/income\\_gap.pdf](https://www.stlouisfed.org/~media/Publications/Regional%20Economist/2015/July/income_gap.pdf). Another recent paper finds similar inflation rates for a variety of demographic groups, including the poor. See Leslie McGranahan and Anna Paulson, "Constructing the Chicago Fed Income Based Economic Index—Consumer Price Index: Inflation Experiences by Demographic Group: 1983–2005," Federal Reserve Bank of Chicago Working Paper WP 2005-20 (Nov. 2006), <https://www.chicagofed.org/~media/publications/working-papers/2005/wp2005-20-pdf.pdf>.

<sup>24</sup> If the series were anchored at 1969, the 1996 PCE-based thresholds would be much lower than those based on the CPI-U because of the lower inflation growth from 1969 to 1996. The trends from 1996 would be comparing two different parts of the income distribution. If the series were anchored at 2014, the lower level of poverty implied by the PCE in 2014 would be obscured because the series based on the PCE and the CPI-U would show the same poverty rate that year (while the PCE poverty rate in 1996 would be higher than the CPI-U poverty rate).

<sup>25</sup> It is only possible to identify all cohabiting couples in the CPS data beginning with the estimate for 2006, though the cohabiters of household heads are identifiable beginning with the 1994 estimate. I define a cohabiter of a single (not married) household head as a single adult (not married and at least 18 years old) of the opposite sex and not related to the head. When multiple adults in a household meet these qualifications, the cohabiter is the one closest in age to the head. I was not comfortable with my ability to distinguish roommates from cohabiters among pairs of adults when neither was a household head. My approach will mistakenly identify some opposite-sex single roommates as cohabiters, and it will fail to identify any same-sex cohabiting couples. I have verified, however, that my estimated cohabitation rates are very close to those using the cohabitation variables in the microdata from 1994 forward and from 2006 forward. What is important for my analyses is whether the error in my measure changes over time. There is little reason to think that it has.

<sup>26</sup> For estimates prior to calendar year 1981, I use poverty thresholds consistent with the estimates from 1981 forward by adjusting them for inflation using the CPI-U (just as the thresholds are adjusted after 1981). The official Census Bureau thresholds vary before 1981 based on the sex of the household head and whether a family lives on a farm (in addition to varying with the number of adults and children in the family and the age of the head—the relevant dimensions from 1981 forward). In this report, I always use the official pre-1981 thresholds for any measure that does not combine cohabiters, and I always use my consistent thresholds before 1981 for any measure that does combine cohabiters.

<sup>27</sup> The median officially poor child sees no change in family income when cohabiters are included in families because few children are affected (15% in 2014, versus 11% in 1996). However, *among those affected*, the median increase in income is substantial (\$24,000 in 2014, or 114%). Among the children of single mothers, 21% were living with a cohabiting household head in 2014 (versus 14% in 1996).

There is one other nonideal feature of the official poverty measure, relating to how much is gained when family members share resources. The different poverty thresholds are intended to reflect the greater needs of families with more adults or children but also the patterns of savings—or "economies of scale"—that accrue to family members by virtue of pooling resources. Two adults living together do not need twice the income of either of them individually. For example, they will not need the combined number of rooms each had before becoming roommates, so the rent will be cheaper than their combined rent used to be. The same logic applies to groceries and other household expenses. Indeed, realizing economies of scale is a primary objective when roommates decide to live together instead of alone.

Separate from the issue of cohabitation, experts have noted that the economies of scale implicit in the official poverty thresholds sometimes make little sense. Depending on the number of adults in a family, adding a second child can be more expensive than adding a first child, for instance, and, conditional on the number of children, adding a second adult to the family (so that there are three) can be more expensive than adding a first adult (so that there are two). See Constance F. Citro and Robert T. Michael, eds., *Measuring Poverty: A New Approach* (Washington, DC: National Academies Press, 1995); and David M. Betson, "Poverty Equivalence Scales: Adjustment for Demographic Differences Across Families," paper presented at the National Research Council Workshop on Experimental Poverty Measures, 2004, <http://www3.nd.edu/~dbetson/research/documents/EquivalenceScales.pdf>.

I experimented with poverty trends that adjusted family incomes to better account for economies of scale. I used a size adjustment based on the recommendation of an expert panel convened in the mid-1990s, which involved: (1) multiplying the number of children in a family by 0.7; (2) adding the number of adults in the family; (3) raising this sum to the power 0.7; and (4) dividing income by this value. (See Citro and Michael, *Measuring Poverty*.) I then created a poverty rate using this new income measure that was anchored to the official 1996 child poverty rate. The anchoring was done by finding the official 1996 child poverty rate (20.5%), setting the 1996 poverty threshold for my new measure at percentile 20.5 of the new income distribution, and adjusting this threshold forward and backward to account for the cost of living using the CPI-U. Anchoring it at the official 1996 rate made it more straightforward to compare the trend with the official poverty trend.

Adjusting in this way had essentially no effect on poverty trends, particularly after 1996, so I omit discussion of them in this report until I discuss extreme poverty trends, where the adjustment does make a difference. The results are available upon request.

I also considered poverty measures that counted the return to home equity as income. The idea behind this income source is that owning a home provides a flow of services (such as shelter) for which one would have to pay a landlord if one were renting. Estimates of this income are available in the CPS beginning with the 1979 calendar year. Again, however, the addition made little difference. These estimates, too, are available on request.

Finally, I did not experiment with income measures that include realized capital gains and losses. Capital gains and losses are unavailable in the CPS data after 2009 (though they are available in the TRIM3 model described below). At any rate, the addition would be unlikely to affect poverty rates.

<sup>28</sup> I will use "underreporting" synonymously with "underestimation" in this paper. See **Appendix 3** for a discussion of the distinction.

<sup>29</sup> The "Transfer Income Model, version 3" (TRIM3) dates to 1973 and has been developed and maintained over the years by the Urban Institute. It is a microsimulation model designed to answer questions about tax and transfer policy reforms. It begins with CPS data and makes various additions and improvements to the data to create a "baseline." Policy simulations may then be run to produce counterfactual results under different policy reforms. The effects of policies are assessed by comparing the counterfactual results with the baseline data.

I use the baseline data on the value of AFDC or TANF benefits, SSI, food stamps, and public and subsidized housing. These benefit amounts are available in TRIM3 beginning in 1993 (using the 1994 CPS). TANF and SSI amounts are available in 2013, but food stamp and housing results are not; therefore I use the TRIM3 estimates only through 2012. Housing benefits are unavailable in 2011, so I skip that year as well. Finally, I was unable to produce 2000 estimates for any of these income sources because I use a different version of the 2001 CPS data than did the Urban Institute (the "bridge file," which includes a larger sample but which also apparently uses different household identifiers from the smaller sample used by the Urban Institute). I find that the median child who was officially poor saw a \$4,152 increase in income from the TRIM3 correction over and above his family's comprehensive but uncorrected income in 2012, a 16% increase. For poor children who saw any increase, the median change was \$5,465 (21%). Fully 81% of poor children had their incomes adjusted upward by the TRIM3 correction. Income was adjusted downward for 11% of poor children. The vast majority of adjustments are related to food stamps, and those adjustments are smaller than the ones for the other sources.

The baseline TRIM3 data also include estimates of the value of Medicaid from 1993 to 2003, Medicare from 1993 to 1999, employer health insurance in 1994, 1995, and 2000, child-care subsidies from the Child Care Development Fund from 2009 to 2012, the Special Supplemental Nutrition Program for Women, Infants, and Children in 2010

and 2012, and energy subsidies in 2012. There are also restricted-use estimates that improve on child-support income and unemployment insurance. Finally, TRIM3 includes its own estimates of federal income and payroll taxes from 1994 to 2012 and state taxes in 2006, 2008, 2011, and 2012. I declined to use any of these estimates. Primarily, that was due to their lack of availability in most years. I experimented with using the federal tax variables instead of those in the CPS data, but I was concerned that combining them with the CPS state tax variables produced inconsistent results.

The TRIM3 data are available via registration at <http://trim3.urban.org/T3Welcome.php>. For an overview, see Sheila Zedlewski and Linda Giannarelli, "TRIM: A Tool for Social Policy Analysis" (Urban Institute, 2015), <https://aspe.hhs.gov/sites/default/files/pdf/205341/TRIM.pdf>. I thank Giannarelli for helping me use the TRIM3 data.

<sup>30</sup> "Single mothers" in my analyses are single whether or not they are cohabiting, so the sample of children does not change when I combine cohabiters.

<sup>31</sup> These estimates for the children of single mothers force me to reject one part of the case I have argued before: that welfare reform reduced poverty. In the past, I used the poverty estimates in a 2013 Columbia Population Research Center Working Paper—now published as Christopher Wimer et al., "Progress on Poverty? New Estimates of Historical Trends Using an Anchored Supplemental Poverty Measure," *Demography*, June 28, 2016, <https://link.springer.com/article/10.1007/s13524-016-0485-7>—to argue that poverty only began to fall among children after 1993, when welfare reform arguably began to affect children. Many of my critics responded that the decline in child poverty after 1993 could well be due to the expansion of the EITC in that year, but Figure 3 weakens that argument in the same way. See Wimer et al., "Progress on Poverty." I thank Chris Wimer for sharing his estimates with me.

<sup>32</sup> Chris Wimer et al., "Progress on Poverty?" I thank Chris Wimer for sharing his estimates with me.

<sup>33</sup> Thomas Gabe, "Welfare, Work, and Poverty Status of Female-Headed Families with Children: 1987–2013," Congressional Research Service Report (Nov. 2014), <https://www.fas.org/sgp/crs/misc/R41917.pdf>.

<sup>34</sup> Bruce D. Meyer and James X. Sullivan, "Winning the War: Poverty from the Great Society to the Great Recession," *Brookings Papers on Economic Activity* (fall 2012): 133–200, [https://www.brookings.edu/wp-content/uploads/2012/09/2012b\\_meyer.pdf](https://www.brookings.edu/wp-content/uploads/2012/09/2012b_meyer.pdf).

<sup>35</sup> Bruce D. Meyer and James X. Sullivan, "Measuring the Well-Being of the Poor Using Income and Consumption," *Journal of Human Resources* 38, Supplement (2003): 1180–1220, [http://harris.uchicago.edu/sites/default/files/JHR\\_vol-38\\_supp\\_Meyer.pdf](http://harris.uchicago.edu/sites/default/files/JHR_vol-38_supp_Meyer.pdf).

<sup>36</sup> See "The Distribution of Household Income and Federal Taxes, 2013," Congressional Budget Office (June 2016), <https://www.cbo.gov/publication/51361>. Estimates in the text come from the "supplemental data" spreadsheet available at <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51361-SupplementalData.xlsx>. The "bottom fifth" here refers to pretax post-transfer size-adjusted household income, but household income growth within this bottom fifth is measured without size adjustment after also taking taxes into account. "Bottom fifth" also refers to the entire household income distribution, not the bottom fifth of households with children specifically. It is not possible using the CBO spreadsheet to identify the bottom fifth of *post-tax and post-transfer income unadjusted for household size* among households with children.

<sup>37</sup> CBO creates its data set by statistically matching tax returns in the IRS data to similar "tax returns" created in the CPS data. This matching introduces error into the CBO estimates—perhaps a considerable amount. However, there is no obvious reason that the matching error would bias trends in the direction of showing too much income growth.

<sup>38</sup> I do not consider variants of the "supplemental poverty measure," or "SPM" in this report. In part, this is because the computation of such measures is difficult, especially prior to 2009, which is the earliest year for which official Census Bureau estimates are available. The Columbia University team has produced the only estimates that extend back further than that year. However, I also agree with researchers who have philosophical objections to various aspects of the SPM—most importantly, the way that its poverty thresholds change with increases in consumption inequality, but also the way it addresses health care needs.

More practically, Bruce D. Meyer and James X. Sullivan ("Identifying the Disadvantaged: Official Poverty, Consumption Poverty, and the New Supplemental Poverty Measure," *Journal of Economic Perspectives* 26, no. 3 [summer 2012]: 111–36, <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.26.3.111>) have raised important criticisms of the SPM's ability to identify families with hardships relative to the official poverty measure. In the 2010 Consumer Expenditure Survey, families that were poor according to the SPM but not by the "official poverty measure" (OPM) had higher consumption, were more likely to have private health insurance, were more likely to own a home and car, had more amenities, and had more assets compared with families categorized as poor by both measures. In contrast, families that were poor according to the OPM but not the SPM were less likely to have private health insurance, had smaller homes, and had lower assets than families poor by both measures.

The "OPM poor" who were not "SPM poor" looked worse-off than the "SPM poor" who were not "OPM poor" on all measures of hardship that the authors examined (and on nearly all for children). This was also true for deep poverty. It is worth noting, too, that the Columbia team's long-term SPM trend closely resembles the trends shown in Figure 4. This is true both for its "anchored SPM" and the version of the SPM that most closely mirrors Census Bureau methods. See Wimer et al., "Progress on Poverty"; and Liana Fox et al., "Waging War on Poverty: Historical Trends in Poverty Using the Supplemental Poverty Measure," NBER Working Paper 19789 (2014), <http://www.nber.org/papers/w19789.pdf>.

I also do not consider trends in a fully relative poverty measure, such as one that defines poverty as having less than half the median income. I view these measures as conflating the concepts of poverty and inequality.

<sup>39</sup> For instance, in nationally representative surveys in 1989, 1992, and 1993, when asked what income they would use as the poverty line for a family consisting of a married couple and two children, the average American gave a threshold that was, respectively, 124%, 110%, and 121% of the official poverty line. When asked the minimum income necessary to "get along in this community," the average threshold given was 173% of the official poverty line in 1989 and 176% in 1992. See Citro and Michael, *Measuring Poverty*, p. 139.

<sup>40</sup> See Gabe, "Welfare, Work, and Poverty Status of Female-Headed Families with Children," Figure 12, for trends in program participation among female-headed families with children with low earnings. For trends in federal spending on different safety-net programs, compare the following reports from the Congressional Research Service: Vee Burke, "Cash and Non-Cash Benefits for Persons with Limited Income: Eligibility Rules, Recipient, and Expenditure Data, FY2000–FY2002," CRS Report RL32233, 2003, Table 3, <http://www.policyarchive.org/handle/10207/1939>; Karen Spar and Gene Falk, "Federal Benefits and Services for People with Low Income: Programs and Spending, FY2008–FY2013," CRS Report R43863, 2015, Table 1, [http://digital.library.unt.edu/ark:/67531/metadc820572/m2/1/high\\_res\\_d/R43863\\_2015Jan15.pdf](http://digital.library.unt.edu/ark:/67531/metadc820572/m2/1/high_res_d/R43863_2015Jan15.pdf).

Using the CRS reports, I find that federal spending on medical benefits (primarily Medicaid) rose by 139% in inflation-adjusted terms between 1996 and 2013. Cash aid (including the EITC, CTC, and ACTC) rose by 55%, and food benefits by 108%. Federal spending on housing benefits fell by 3 %. I use the PCE deflator for these analyses, first putting the 1996 spending amounts into nominal dollars.

<sup>41</sup> Laura Wheaton, "Underreporting of Means-Tested Transfer Programs in the CPS and SIPP," Urban Institute (2008), <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/411613-Underreporting-of-Means-Tested-Transfer-Programs-in-the-CPS-and-SIPP.PDF>; Bruce D. Meyer and Nikolas Mittag, "Using Linked Survey and Administrative Data to Better Measure Income: Implications for Poverty, Program Effectiveness and Holes in the Safety Net," NBER Working Paper No. 21676 (2015), <http://harris.uchicago.edu/sites/default/files/MeyerMittagNBER21676.pdf>; Bruce D. Meyer, Wallace K. C. Mok, and James X. Sullivan, "The Underreporting of Transfers in Household Surveys: Its Nature and Consequences," Working Paper (2015), <http://harris.uchicago.edu/sites/default/files/AggregatesPaper.pdf>.

<sup>42</sup> Arloc Sherman and Danilo Trisi, "Safety Net for Poorest Weakened After Welfare Law but Regained Strength in Great Recession, at Least Temporarily: A Decade After Welfare Overhaul, More Children in Deep Poverty," Center on Budget and Policy Priorities, May 2015, <http://www.cbpp.org/sites/default/files/atoms/files/5-11-15pov.pdf>, Table 4.

On the other hand, the change in reported EITC benefits appears to affect the deep poverty rate much less.

<sup>43</sup> Meyer and Sullivan (2012, "Winning the War"). Online Appendix Table 13.

<sup>44</sup> The same appears true for people in working-age single-parent families. See Liana Fox et al., "Trends in Deep Poverty from 1968 to 2011: The Influence of Family Structure, Employment Patterns, and the Safety Net," *RSF: The Russell Sage Foundation Journal of the Social Sciences* 1, no. 1 (2015): 14–34, <http://www.rsfjournal.org/doi/pdf/10.7758/RSF.2015.1.1.02>, Table 1.

<sup>45</sup> Sherman and Trisi, "Safety Net for Poorest Weakened."

<sup>46</sup> Like a number of other scholars, Sherman and Trisi address health care benefits implicitly, by deducting estimated out-of-pocket medical expenses from income. Having health coverage means that one's out-of-pocket expenses will be lower, so that after deducting them, income will be higher than if a third party were not covering at least some of the cost. However, this approach essentially values health benefits only insofar as they pay for care that a family would have chosen to obtain in the absence of coverage. To the extent that health coverage allows families to afford care that they would not have received, its value is understated by this approach.

<sup>47</sup> Sherman and Trisi, "Safety Net for Poorest Weakened," Figure 5. Similarly, Meyer and Mittag, "Using Linked Survey and Administrative Data," indicate that deep poverty among single-mother households in New York between 2008 and 2011 was 5.5% when CPS data were combined with administrative data on food stamps, cash welfare, and housing benefits. The administrative data essentially correct for underreporting of those three types of benefits.

<sup>48</sup> Yonatan Ben-Shalom, Robert Moffitt, and John Karl Scholz, "An Assessment of the Effectiveness of Antipoverty Programs in the United States," in Philip N. Jefferson, ed., *The Oxford Handbook of the Economics of Poverty* (Oxford: Oxford University Press, 2012). They correct for underreporting in welfare, food stamps, SSDI, SSI, unemployment insurance, housing benefits, and WIC. In supplemental analyses, the authors report that including Medicaid benefits in income would reduce deep poverty from 21% before any transfers or taxes are taken into account, to 15%. That is a bigger impact than any federal program that they examine except Social Security and Medicare. They value Medicaid as being worth the cost of a typical HMO policy.

<sup>49</sup> Fox et al., "Trends in Deep Poverty from 1968 to 2011."

<sup>50</sup> See Christopher Jencks, "The Hidden Prosperity of the 1970s," *The Public Interest* 77 (1984): 37–61, [http://www.nationalaffairs.com/doclib/20060406\\_issue\\_077\\_article\\_3.pdf](http://www.nationalaffairs.com/doclib/20060406_issue_077_article_3.pdf); "How Poor Are the Poor?" *New York Review of Books*, May 9, 1985, <http://www.nybooks.com/articles/1985/05/09/how-poor-are-the-poor>; "The Politics of Income Measurement," in William Alonso and Paul Starr, eds., *The Politics of Numbers* (New York: Russell Sage Foundation, 1987); John L. Palmer, Christopher Jencks, and Timothy Smeeding, "The Uses and Limits of Income Comparisons," in John Logan Palmer, Timothy M. Smeeding, and Barbara Boyle Torrey, eds., *The Vulnerable* (Washington, DC: Urban Institute, 1988).

<sup>51</sup> See Jencks, "Hidden Prosperity"; Fay Cook et al., "Economic Hardship in Chicago: 1983," Northwestern University Center for Urban Affairs and Policy Research, 1984; Jencks, "How Poor Are the Poor?"; Fay Cook et al., "Stability and Change in Economic Hardship: Chicago 1983–1985," Northwestern University Center for Urban Affairs and Policy Research, 1986; Jencks, "The Politics of Income Measurement"; Christopher Jencks and Susan Mayer, "Poverty and Hardship: How We Made Progress While Convincing Ourselves That We Were Losing Ground," Interim Report to the Ford Foundation, May 1987; Christopher Jencks and Barbara Boyle Torrey, "Beyond Income and Poverty," in Palmer, *The Vulnerable*; Susan E. Mayer and Christopher Jencks, "Poverty and the Distribution of Material Hardship," *Journal of Human Resources* 24, no. 1 (1989): 88–114; Susan E. Mayer, "Are There Economic Barriers to Visiting the Doctor?" Harris School Working Paper #92-6 (1992); Susan E. Mayer, "Living Conditions Among the Poor in Four Rich Countries," *Journal of Population Economics* 6 (1993): 266–86; Scott Winship and Christopher Jencks, "How Did the Social Policy Changes of the 1990s Affect Material Hardship Among Single Mothers? Evidence from the CPS Food Security Supplement," KSG Faculty Research Working Paper RWP04-027 (2004), <https://research.hks.harvard.edu/publications/getFile.aspx?id=127>.

<sup>52</sup> See Mayer and Jencks, "Poverty and the Distribution of Material Hardship."

<sup>53</sup> See Susan E. Mayer and Christopher Jencks, "Recent Trends in Economic Inequality in the United States," in Dimitri B. Papadimitriou and Edward N. Wolff, eds., *Poverty and Prosperity in the USA in the Late Twentieth Century* (New York: Palgrave Macmillan, 1993); Susan E. Mayer and Christopher Jencks, "Has Poverty Really Increased Among Children Since 1970?" Northwestern University Center for Urban Affairs and Policy Research (1994); Christopher Jencks and Susan E. Mayer, "Do Official Poverty Rates Provide Useful Information About Trends in Children's Economic Welfare?" Northwestern University Center for Urban Affairs and Policy Research (1996); Susan E. Mayer, "Income, Employment, and the Support of Children," in Robert Hauser, Brett Brown, and William Prosser, eds., *Indicators of Children's Well-Being* (New York: Russell Sage Foundation, 1997); Susan E. Mayer, "Trends in the Economic Well-Being and Life Chances of America's Children," in Jeanne Brooks-Gunn and Greg Duncan, eds., *The Consequences of Growing Up Poor* (New York: Russell Sage Foundation, 1997); Susan E. Mayer, *What Money Can't Buy: Family Income and Children's Life Chances* (Cambridge, MA: Harvard University Press, 1997); Christopher Jencks, Susan E. Mayer, and Joseph Swingle, "Who Has Benefited from Economic Growth in the United States Since 1969? The Case of Children," KSG Faculty Research Paper RWP04-017 (2004).

<sup>54</sup> Mayer and Jencks, "Has Poverty Really Increased Among Children Since 1970?" I was fortunate to play a small role in this project as a research assistant in 1994 and 1995, and I produced the figure cited. Several years later, I, too, would become an advisee and coauthor of Jencks.

<sup>55</sup> Christopher Jencks and Kathryn Edin, "The Real Welfare Problem," *American Prospect* (spring 1990); Christopher Jencks and Kathryn Edin, "Welfare," in Christopher Jencks, *Rethinking Social Policy: Race, Poverty, and the Underclass* (New York: HarperCollins, 1992); Kathryn Edin, "Surviving the Welfare System: How AFDC Recipients Make Ends Meet in Chicago," *Social Problems* 38, no. 4 (1991): 462–74.

<sup>56</sup> Kathryn Edin and Laura Lein, *Making Ends Meet: How Single Mothers Survive Welfare and Low-Wage Work* (New York: Russell Sage Foundation, 1997); Kathryn Edin and Laura Lein, "Work, Welfare, and Single Mothers' Economic Survival Strategies," *American Sociological Review* 62, no. 2 (1997): 253–66.

<sup>57</sup> They also interviewed an additional 165 single mothers who relied primarily on formal employment.

<sup>58</sup> Edin and Lein, *Making Ends Meet*, Table 2.6.

<sup>59</sup> Ibid., Table 2.7.

<sup>60</sup> Comparing families with housing subsidies with those without indicates that the former spent an average of \$168 less per month than the latter (see Table 2.5). Adding this \$168 subsidy to the income of families receiving housing subsidies raises average monthly income for the entire group of 214 families to \$975.

<sup>61</sup> Christopher Jencks, foreword to Edin and Lein, *Making Ends Meet*, p. x.

<sup>62</sup> Ibid., pp. xi, xiv.

<sup>63</sup> Edin and Lein, *Making Ends Meet*, p. 9.

<sup>64</sup> Susan E. Mayer, "Potential Policy-Related Uses of Measures of Consumption Among Low-Income Populations," memo, Oct. 18, 2004, [http://www.npc.umich.edu/research/npc\\_research/consumption/mayer.pdf](http://www.npc.umich.edu/research/npc_research/consumption/mayer.pdf). Consumption differs from expenditures in that some spending is on durable goods that provide a flow of consumption, while other spending goes toward investment instead of consumption or is shared outside the household. Consumption may also be fed by going into debt or drawing down on assets.

<sup>65</sup> Edin and Shaefer, *\$2.00 a Day*.

<sup>66</sup> Ibid., p. 102.

<sup>67</sup> Ibid., p. 127.

<sup>68</sup> H. Luke Shaefer, Pingui Wu, and Kathryn Edin, "Can Poverty In America Be Compared to Conditions in the World's Poorest Countries?" July 21, 2016, <http://static1.squarespace.com/static/551caca4e4b0a26ceeee87c5/t/57948489d1758ec97e7f783b/1469351050367/Shaefer-international-comparisons.pdf>. This paper shows that the most disadvantaged groups and places in the U.S. fare as badly as many developing countries in terms of infant mortality, life expectancy, homicide rates, and incarceration rates. But they are comparing the worst-off Americans not to the worst-off in these countries but to the countries as a whole. Further, they have chosen four indicators that are mutually dependent. Higher infant mortality leads to lower life expectancy, as do higher homicide rates, which, along with high violent crime rates generally, increase the incarceration rate. None of these indicators is a direct measure of material well-being, each having myriad complex causes. Their analysis also conflates inequality and hardship in places, such as when it reports rising inequality in life expectancy in the U.S. without noting that during the period they highlight, life expectancy increased even among the most disadvantaged group in the research they cite.

<sup>69</sup> Indeed, Edin began developing her thoughts about an increase in the extremely poor based on research in Baltimore in 2010, before Shaefer settled on the \$2-a-day threshold that would provide the title for their book. See their blog post at <http://static1.squarespace.com/static/551caca4e4b0a26ceeee87c5/t/56e0d32e356fb03ab7a7b541/1457574703017/Consumption+Blogpost.pdf> and the introduction to *\$2.00 a Day*.

<sup>70</sup> H. Luke Shaefer, Kathryn Edin, and Elizabeth Talbert, "Understanding the Dynamics of \$2-a-Day Poverty in the United States," *RSF: The Russell Sage Foundation Journal of the Social Sciences* 1, no. 1 (2015): 120–38, <http://www.rsfjournal.org/doi/full/10.7758/RSF.2015.1.1.07>. Technically, this is the number living below this threshold who were also in households with income no more than 150% of the poverty line and net worth less than three times the poverty line.

<sup>71</sup> The single-mother figure is from H. Luke Shaefer and Kathryn J. Edin, "What Is the Evidence of Worsening Conditions Among America's Poorest Families with Children?" 2016, <http://static1.squarespace.com/static/551caca4e4b0a26ceeee87c5/t/56d9f10f1bbe030291fedce/1457123600812/Shaefer-Edin-SIPP-WorseningConditions3-2-16.pdf>.

<sup>72</sup> H. Luke Shaefer and Kathryn Edin, "Rising Extreme Poverty in the United States and the Response of Federal Means-Tested Transfer Programs," *Social Service Review* 87, no. 2 (2013): 250–68.

<sup>73</sup> Shaefer, Edin, and Talbert, "Understanding the Dynamics of \$2-a-Day Poverty."

<sup>74</sup> Shaefer and Edin, "Rising Extreme Poverty."

<sup>75</sup> It should be noted that Jencks recently wrote a favorable review of Edin and Shaefer's book, saying that "as I learned from reading *\$2.00 a Day* (and have spent many hours verifying), the poorest of the poor are also worse-off today than they were in 1969." See "Why the Very Poor Have Become Poorer," *New York Review of Books*, June 9, 2016. From the context of the passage, it is clear that "1969" is not "1996" misrendered, although Edin and Shaefer only report estimates back to the latter year. Jencks does display estimates that he produced with assistance from the Columbia University researchers that show that the 2<sup>nd</sup> percentile of households had very similar income in 2012 as in 1969 (and much lower than in 1996).

In fact, Jencks is skeptical in the review that many families really live on \$2 a day per person. He takes care to show that Shaefer and Edin's own estimates indicate a much smaller increase in extreme poverty when more comprehensive definitions of income are used, from 189,000 to 373,000 households with children. Noting that \$500 in income is equivalent to \$16 a day, which is over \$2 a day for a family of three, Jencks writes that a "fundamental problem . . . is that a single mother with two children needs more than \$500 a month to survive." "A more transparent approach," he says, "would, I think, be to adopt a broader measure of economic resources that included the EITC, food stamps, and the rental value of subsidized or owner-occupied housing, and then to set the threshold for extreme poverty at something like half the official poverty line."

Jencks seems to have assumed in his review that this more transparent approach would yield the same conclusion at which Edin and Shaefer arrived. But the 2<sup>nd</sup> percentile of household income is in deeper poverty than half the poverty line. Jencks's Figure 1 indicates that the 10<sup>th</sup> percentile was better-off in 2012 than in 1996, while the 5<sup>th</sup> percentile was slightly worse-off. As shown in my Figure 9, above, the Columbia team's estimates suggest that about 5.5% of children were in deep poverty in both 1996 and 2012, which is consistent with the 2<sup>nd</sup> percentile doing worse over time. More likely, the large apparent income decline at the 2<sup>nd</sup> percentile reflects the same measurement problems that led to Jencks's "doubts about the accuracy" of the bottom 1%'s income.

<sup>76</sup> Shaefer and Edin, "Rising Extreme Poverty," p. 258.

<sup>77</sup> Edin and Shaefer, *\$2.00 a Day*, p. 125.

<sup>78</sup> Shaefer, Edin, and Talbert, "Understanding the Dynamics of \$2-a-Day Poverty." The difference in food insecurity between the two groups was statistically significant at a *p* value of between 0.05 and 0.10. The 4-percentage-point difference, at any rate, was smaller than we should expect, especially given the 15-percentage-point difference between the "other low-income" children (above \$2 a day but under 150% of the poverty line) and higher-income children.

<sup>79</sup> Ibid. "Chronic \$2-a-day poverty" (being so for seven to 12 months) was, they write, "the condition most common in our ethnographic work." Children in chronic poverty in the SIPP were 41% of all children with at least three months of \$2-a-day poverty before taking SNAP into account and 37.5% after.

<sup>80</sup> Shaefer and Edin, "Rising Extreme Poverty." When only cash income was taken into account, 37% were in married-parent households. In their updated figures, 38% were in married-parent households taking only cash income into account; so presumably, children of married parents were half or more of extremely poor children in that paper, too. (Shaefer, Edin, and Talbert, "Understanding the Dynamics of \$2-a-Day Poverty.")

<sup>81</sup> Fox, "Trends in Deep Poverty," Figure 5.

<sup>82</sup> Laurence Chandy and Cory Smith, "How Poor Are America's Poorest? U.S. \$2 a Day Poverty in a Global Context," Brookings Institution Global Views Policy Paper 2014-03, <https://www.brookings.edu/research/how-poor-are-americas-poorest-u-s-2-a-day-poverty-in-a-global-context>.

<sup>83</sup> Chandy and Smith, "How Poor Are America's Poorest?" write that roughly 0.2% of people reported no income in 2012 (including non-health, noncash benefits in income and netting out taxes), or about a quarter of those in deep poverty for the whole year. In the CPS, I find those numbers to be 0.5% of households and 11% of those in deep poverty in 2012, using the same income definition.

<sup>84</sup> Meyer and Mittag, "Using Linked Survey and Administrative Data to Better Measure Income." Furthermore, there is no correction for earnings underreporting in this paper, and many of the families in the paper have housing and health benefits.

<sup>85</sup> On trends in underreporting in the SIPP, see Appendix 5.

Shaefer and Edin, "What Is the Evidence?" conduct a very rough comparison of their estimates with results from Meyer and Mittag's "Linked Survey" paper, finding that their own estimates are broadly consistent with estimates of "disconnection" (having little to no earnings or cash benefits from government programs). But Meyer and Mittag's paper was focused on correcting CPS underreporting of transfer income, leaving non-transfer income (which also is underreported) as in the CPS. Fully corrected data would leave Meyer and Mittag's estimates of disconnection, which were for New York State, correspondingly lower. Shaefer and Edin assume that the true rate of disconnection in *national* administrative data would be between 3.96% and 7.7% for children of single mothers (10% higher than Meyer's low- and high-end estimates for New York). Given this assumption, the 4.3% extreme poverty rate estimate for those children in Edin and Shaefer's SIPP data lies in this range. Of course, their extreme poverty estimate could have been as high as 7.6% and still have passed this test. But the true national rate of disconnection could very well be under 3.96%, which would make their SIPP extreme poverty

estimate too high.

<sup>86</sup> Shaefer and Edin, "Rising Extreme Poverty."

<sup>87</sup> Shaefer, Edin, and Talbert, "Understanding the Dynamics of \$2-a-Day Poverty."

<sup>88</sup> I also drop households with negative incomes, which is consistent with Shaefer and Edin, "Rising Extreme Poverty." Shaefer, Edin, and Talbert, "Understanding the Dynamics of \$2-a-Day Poverty," recode negative incomes to be above \$2 a day per person.

<sup>89</sup> Chandy and Smith, "How Poor Are America's Poorest?" Figure 5. I thank the authors for providing me the precise estimate in personal conversation. For this analysis, I use 2005 dollars for consistency with theirs. The main differences between their analysis and mine involve our tax estimates. Their estimates come from a tax simulator maintained at the National Bureau of Economic Research while mine are taken directly from the CPS microdata. Mine include property taxes and perhaps other smaller taxes that theirs omit. They also include small sources of transportation, food, and clothing assistance in their noncash benefits.

<sup>90</sup> As noted, using an income definition that excludes noncash benefits and tax credits, Shaefer, Edin, and Talbert, "Understanding the Dynamics of \$2-a-Day Poverty," report an increase in extreme poverty among children from 2.2% in 1996 to 4.1% in 2012, those figures being the share of children who were in extreme poverty for three to 12 months of the year. I find a rise in the share of children in extreme poverty based on their *annual* income (excluding noncash benefits and tax credits) from 1.0 to 2.1%. (I use 2011 dollars for this analysis, for consistency with the Edin-Shaefer research. Their 2015 paper, "Understanding the Dynamics of \$2-a-Day Poverty," actually uses January 2011 dollars while their 2013 paper uses 2011 dollars.) My extreme poverty levels are lower than the Edin-Shaefer figures, which are based on a sample confined to households with low annual incomes and low wealth levels. The rise in extreme poverty I find is also smaller in absolute terms (increase in percentage points) than theirs but larger in relative terms (2012 rate as a multiple of the 1996 rate). When SNAP benefits are included in income, Edin and Shaefer find a rise in extreme poverty among children from 1.4% in 1996 to 1.6% in 2012. My estimates rise from 0.7% to 1.0%—about the same absolute increase and a larger relative increase.

In their 2013 paper, "Rising Extreme Poverty," Shaefer and Edin report that the share of nonelderly households with children in extreme poverty based on quarterly income rose from 0.8% to 2.7% from 1996 to 2011. I find an increase for nonelderly households with children using annual income from 1.0 to 2.1%. When non-health, noncash benefits and tax credits are added to income, Edin and Shaefer find an increase from 0.5% to 1.0%, compared with 0.5 to 0.8% in my results.

<sup>91</sup> Edin and Shaefer, *\$2.00 a Day*, introduction.

<sup>92</sup> My estimates include not just food stamps—as in Shaefer, Edin, and Talbert, "Understanding the Dynamics of \$2-a-Day Poverty"—and public housing subsidies in income, included in Shaefer and Edin, "Rising Extreme Poverty," but school lunches and breakfasts and energy assistance.

<sup>93</sup> My estimates account not just for federal income and payroll taxes—as in the Edin-Shaefer research—but state income taxes, taxes for government employee retiree benefits, and property taxes.

<sup>94</sup> Because extreme poverty is defined in terms of 2015 purchasing power (\$2 a day per person in 2015 dollars), rather than anchor the PCE deflator at 1996 as in the preceding sections, I leave it anchored at 2015. Anchoring at 1996 would result in the 2014 estimates in Lines 4 through 7 reflecting the percentage of children living under \$2 a day in terms of 1996 purchasing power while the estimates for Lines 1 through 3 reflect the percentage in terms of 2015 purchasing power. Alternatively, I could have put everything in 1996 purchasing power, but \$2 a day per person in 1996 was a higher bar to clear than \$2 a day per person in 2015.

<sup>95</sup> The adjustment involved: (1) multiplying the number of children in a family by 0.7; (2) adding the number of adults in the family; (3) raising this sum to the power 0.7; and (4) dividing income by this value. See Citro and Michael, *Measuring Poverty*.

<sup>96</sup> Chandy and Smith, "How Poor Are America's Poorest?"; Meyer and Mittag, "Using Linked Survey and Administrative Data to Better Measure Income."

<sup>97</sup> Bruce D. Meyer and James X. Sullivan, "Consumption, Income, and Material Well-Being After Welfare Reform," NBER Working Paper No. 11976 (2006), <http://harris.uchicago.edu/sites/default/files/w11976.pdf>.

<sup>98</sup> "It is important to note that the SIPP reporting rates do not consistently worsen across the study period, at least up to 2005. Thus, falling reporting rates over time cannot explain an increase in the prevalence of extreme poverty." Shaefer and Edin, "What Is the Evidence of Worsening Conditions?" p. 6.

<sup>99</sup> The Food Security Supplement began in 1995. For the "very low food security" and child hunger trends, I show estimates for the April 1995, April 1997, April 1999, and April 2001 supplements, which come from my earlier analyses of the data in Winship and Jencks, "How Did the Social Policy Changes of the 1990s Affect Material Hardship Among Single Mothers?" The FSS surveys were conducted in 1996, 1998, and 2000 as well, but they were administered in late summer and exhibit well-known seasonal differences from the April supplements. I confirmed that my estimates for female-headed households from 1995 to 1999 were almost exactly the same as those in the USDA reports.

The 2001-to-2014 trends are from the annual U.S. Department of Agriculture reports, available at <http://www.ers.usda.gov/topics/food-nutrition-assistance/food-security-in-the-us/readings.aspx>. From December 2001 onward, the Food Security Supplement surveys were conducted in December, so seasonal fluctuations are not an issue. The 1995-to-2001 estimates are not strictly comparable with the 2001-to-2014 estimates, though, as can be seen, the difference between the April and December 2001 estimates is small.

<sup>100</sup> "Very low food security"—in early USDA reports called "food insecurity with hunger"—denotes that a household experienced six out of 10 food problems mentioned in the survey (or eight out of 18 if the household has children).

<sup>101</sup> Winship and Jencks, "How Did the Social Policy Changes of the 1990s Affect Material Hardship Among Single Mothers?"

<sup>102</sup> It should also be noted that it is possible that food problems were no rarer in 2014 than in 1996 but that, say, health problems became less severe. Of course, it is also possible that health problems grew more severe. A full exploration of trends in hardship across multiple domains is beyond the scope of this paper.

<sup>103</sup> Edin and Shaefer, *\$2.00 a Day*, p. 157.

<sup>104</sup> For the official poverty rates, see <http://www2.census.gov/programs-surveys/cps/tables/time-series/historical-poverty-people/hstpov4.xls>. For the average monthly poverty rates, see [https://www.census.gov/hhes/www/poverty/publications/dynamics09\\_12/average.xlsx](https://www.census.gov/hhes/www/poverty/publications/dynamics09_12/average.xlsx); <https://www.census.gov/hhes/www/poverty/publications/dynamics04/table1a.pdf>; <https://www.census.gov/hhes/www/poverty/publications/dynamics04/table1b.xls>; [https://www.census.gov/hhes/www/poverty/publications/dynamics01/PovertyDynamics\\_Table\\_1.pdf](https://www.census.gov/hhes/www/poverty/publications/dynamics01/PovertyDynamics_Table_1.pdf); <https://www.census.gov/hhes/www/poverty/publications/dynamics96/table1.html>; <https://www.census.gov/sipp/p70s/p70-42.pdf>; <https://www.census.gov/hhes/www/poverty/publications/dynamics92/table1.html>; and <https://www.census.gov/hhes/www/poverty/publications/dynamics93/table1.html>.

<sup>105</sup> Sherman and Trisi, "Safety Net for Poorest Weakened," Figure 5. It is possible that welfare reform could have had a small effect if families receiving welfare benefits used to support other household members who now must make do on their own. But this effect is unlikely to be large, particularly given that cohabitation has increased among single mothers, as discussed above.

<sup>106</sup> Ben-Shalom, Moffitt, and Scholz, "An Assessment."

<sup>107</sup> Fox, "Trends in Deep Poverty," Table 1.

<sup>108</sup> Jencks, foreword to Edin and Lein, *Making Ends Meet*.

<sup>109</sup> Winship and Jencks, "How Did the Social Policy Changes of the 1990s Affect Material Hardship Among Single Mothers?"

<sup>110</sup> Shaefer and Edin, "What Is the Evidence of Worsening Conditions?"

<sup>111</sup> Ibid.

<sup>112</sup> See Scott Cody, "Characteristics of Food Stamp Households, Fiscal Year 1996," Mathematica Policy Research, 1998, <https://ia601000.us.archive.org/9/items/Cat31120061x/cat31120061x.pdf>, Table A-3; Kelsey Farson Gray, "Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2013," U.S. Department of Agriculture, Food and Nutrition Service, Report No. SNAP-14-CHAR (2014), Table 3.2, <http://www.fns.usda.gov/sites/default/files/ops/Characteristics2013.pdf>.

Shaefer and Edin, "What Is the Evidence of Worsening Conditions?" actually understate the increase in the number of households with no other reported income because they do not count the "children only" households in 2013. The actual increase is 360% rather than 311%.

Comparing SIPP estimates of SNAP employment to administrative estimates suggests that the latter may miss a substantial amount of earnings. An analysis by the Center on Budget and Policy Priorities found that in the 2004 SIPP panel, 62% of SNAP households with working-age nondisabled adults and children worked in a typical month of SNAP receipt in "the mid-2000s." Two charts later, the report shows that administrative data put this figure at 49%–53%. However, given that SNAP benefits are underreported in the SIPP, it is possible that the survey disproportionately misses SNAP beneficiaries without earnings. See Dottie Rosenbaum, "The Relationship Between SNAP and Work Among Low-Income Households," Center on Budget and Policy Priorities (2013), Figures 1 and 3, <http://www.cbpp.org/research/the-relationship-between-snap-and-work-among-low-income-households>.

<sup>113</sup> The log odds were also the same—0.56 in 2009 and 0.54 in 2001.

<sup>114</sup> See U.S. Department of Agriculture, "The Characteristics and Circumstances of Zero-Income Supplemental Nutrition Assistance Program Households—Volume II (Summary)," 2014, <http://www.fns.usda.gov/sites/default/files/ops/Zeroincome-Vol2-Summary.pdf>.

<sup>115</sup> Shaefer and Edin, "Rising Extreme Poverty," p. 258: "Halfway through 2011, roughly one in five households in extreme poverty used a housing subsidy such as section 8 vouchers or public housing units (comparable to the proportion of all households in poverty). Additionally, about two-thirds of these households had at least one child covered by public health insurance, somewhat less than the same proportion for all households in poverty."

<sup>116</sup> Ibid., p. 2.

<sup>117</sup> Shaefer and Edin, "What Is the Evidence of Worsening Conditions?"

<sup>118</sup> Ibid.

<sup>119</sup> Stephen Freedman et al., "National Evaluation of Welfare-to-Work Strategies," Manpower Demonstration Research Corporation (2000), [http://www.mdrc.org/sites/default/files/full\\_93.pdf](http://www.mdrc.org/sites/default/files/full_93.pdf).

<sup>120</sup> Acs, Loprest, and Roberts, "Final Synthesis Report of Findings from ASPE's 'Leavers' Grants."

<sup>121</sup> Robert A. Moffitt, "From Welfare to Work: What the Evidence Shows," Brookings Institution Welfare Reform and Beyond Policy Brief No. 13 (2002), <http://www.brookings.edu/~media/research/files/papers/2002/1/welfare-moffitt/pb13.pdf>.

<sup>122</sup> See, e.g., Pamela Loprest and Austin Nichols, "Dynamics of Being Disconnected from Work and TANF," Urban Institute (2011), <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/412393-Dynamics-of-Being-Disconnected-from-Work-and-TANF.PDF>. For a review of other studies on disconnectedness, see Pamela Loprest, "Disconnected Families and TANF," Urban Institute, Temporary Assistance for Needy Families Program—Research Synthesis Brief #2 (2011), <http://www.acf.hhs.gov/sites/default/files/opre/disconnected.pdf>.

Meyer, Mok, and Sullivan ("The Underreporting of Transfers in Household Surveys") find that correcting for underreporting of welfare receipt lowers rates of disconnectedness among low-income single mothers. But it also makes the rise in disconnectedness larger rather than smaller, consistent with the Sherman and Trisi research on deep poverty rates. But as with that paper, it does not attempt to correct for underreporting of earnings, and because it is replicating results from another paper, it does not consider receipt of food stamps.

<sup>123</sup> See "Is Welfare Helping Poor Children?" at <http://www.twodollarsaday.com/resources>, accessed July 31, 2016. The analysis that they cite is Ife Floyd, LaDonna Pavetti, and Liz Schott, "TANF Continues to Weaken as a Safety Net," Center on Budget and Policy Priorities (2015), <http://www.cbpp.org/sites/default/files/atoms/files/6-16-15tanf.pdf>.

<sup>124</sup> See Peter Germanis, "TANF Is Broken! It's Time to Reform 'Welfare Reform' (And Treat the Problems, Not Treat Their Symptoms)," p. 22, <http://mlwiseman.com/wp-content/uploads/2013/09/TANF-is-Broken.072515.pdf>. The figures that he cites are in Gilbert Crouse and Annette Waters, "Welfare Indicators and Risk Factors: Thirteenth Report to Congress," U.S. Department of Health and Human Services, Table IND 4a (2014), [https://aspe.hhs.gov/sites/default/files/pdf/76851/rpt\\_indicators.pdf](https://aspe.hhs.gov/sites/default/files/pdf/76851/rpt_indicators.pdf).

<sup>125</sup> Cynthia M. Fagnoni, "Welfare Reform: States Provide TANF-Funded Work Support Services to Many Low-Income Families Who Do Not Receive Cash Assistance," testimony, Committee on Finance, U.S. Senate, Apr. 10, 2002, Figure 1, <http://www.gao.gov/assets/110/109233.pdf>.

<sup>126</sup> Ibid., Figure 2.

<sup>127</sup> U.S. Government Accountability Office, "Temporary Assistance for Needy Families: Fewer Eligible Families Have Received Cash Assistance Since the 1990s, and the Recession's Impact on Caseloads Varies by State," Report to the Chairman, Subcommittee on Income Security and Family Support, Committee on Ways and Means, House of Representatives (Feb. 2010), <http://www.gao.gov/assets/310/301028.pdf>.

<sup>128</sup> On the number of children lifted out of deep poverty by welfare and food stamps, see Sherman and Trisi, "Safety Net for Poorest Weakened After Welfare Law." On SNAP participation rates, see Crouse and Waters, "Welfare Indicators and Risk Factors," Table IND 4b.

<sup>129</sup> Government Accountability Office, "Temporary Assistance to Needy Families," Figure 2.

<sup>130</sup> Edin and Shaefer, \$2.00 a Day, p. 30.

<sup>131</sup> Ibid., p. 126.

<sup>132</sup> Jencks has written one of the best books on the topic. See *The Homeless* (Cambridge, MA: Harvard University Press, 1994).

<sup>133</sup> See <https://www.coalitionforthehomeless.org/wp-content/uploads/2014/04/NYCHomelessShelterPopulation-Worksheet1983-Present3.pdf>.

<sup>134</sup> Nancy Smith et al., "Understanding Family Homelessness in New York City: An In-Depth Study of Families' Experiences Before and After Shelter" (New York: Vera Institute of Justice, 2005), Section III: Struggling to Make Ends Meet, Pre-Shelter Experiences of Homeless Families in New York City," p. 1, <http://cwtfhc.org/wp-content/uploads/2009/06/VeraStudyHomelessness.pdf>.

<sup>135</sup> U.S. Department of Housing and Urban Development, "The 2014 Annual Homeless Assessment Report (AHAR) to Congress, Part 2: Estimates of Homelessness in the United States" (Nov. 2015), <https://www.hudexchange.info/oncpd/assets/File/2014-AHAR-Part-2.pdf>.

- <sup>136</sup> Though it is not comparable with the data from 2007 forward, earlier waves of the HUD data suggest that homelessness fell from 2005 to 2007. See U.S. Department of Housing and Urban Development, "The Second Annual Homeless Assessment Report to Congress," <https://www.hudexchange.info/resources/documents/2ndHomelessAssessmentReport.pdf> (Mar. 2008); and "The Third Annual Homeless Assessment Report to Congress" (July 2008), <https://www.hudexchange.info/resources/documents/3rdHomelessAssessmentReport.pdf>.
- <sup>137</sup> The survey is sponsored by the federal Education for Homeless Children and Youth program, which is served by the National Center for Homeless Education at the University of North Carolina at Greensboro.
- <sup>138</sup> These reporting rates are provided by the National Center for Homeless Education: [http://center.serve.org/nche/downloads/data\\_comp\\_03-06.pdf](http://center.serve.org/nche/downloads/data_comp_03-06.pdf); [http://center.serve.org/nche/downloads/data\\_comp\\_04-07.pdf](http://center.serve.org/nche/downloads/data_comp_04-07.pdf); [http://center.serve.org/nche/downloads/data\\_comp\\_0708-0910.pdf](http://center.serve.org/nche/downloads/data_comp_0708-0910.pdf); <http://center.serve.org/nche/downloads/data-comp-0910-1112.pdf>; and by Child Trends: <http://www.childtrends.org/?indicators=homeless-children-and-youth>.
- <sup>139</sup> Homelessness estimates are taken from the Child Trends website: <http://www.childtrends.org/?indicators=homeless-children-and-youth>. These are divided by intercensal estimates of the population under age 18 from the Census Bureau. For, say, the 2004–05 school year, I average the intercensal estimates for 2004 and 2005. Note that the homelessness estimates are for school-age children while the population estimates are for all children under 18. This will not bias the change unless school-age population growth differed from the overall growth in the child population.
- <sup>140</sup> For the estimates on clients served, see James Mabli et al., "Hunger in America 2010: National Report Prepared for Feeding America" (Princeton, NJ: Mathematica Policy Research, 2010), [https://www.mathematica-mpr.com/-/media/publications/pdfs/nutrition/hunger\\_in\\_america\\_2010.pdf](https://www.mathematica-mpr.com/-/media/publications/pdfs/nutrition/hunger_in_america_2010.pdf). For population estimates, see <https://www.census.gov/popest/data/intercensal/national/nat2010.html> and <https://www.census.gov/popest/data/intercensal/national/files/US-EST90INT-07-1997.csv>.
- <sup>141</sup> My 1995-to-2001 trend is from the analyses conducted with Jencks for Winship and Jencks, "How Did the Social Policy Changes of the 1990s Affect Material Hardship Among Single Mothers?"; the 2001-to-2014 trend is from the annual U.S. Department of Agriculture reports at <http://www.ers.usda.gov/topics/food-nutrition-assistance/food-security-in-the-us/readings.aspx>. Once again, the 1995-to-2001 trend is not comparable with the 2001-to-2014 trend, but I use the gap between the April and December 2001 surveys to roughly determine what a consistent series would look like.
- <sup>142</sup> Estimates from the Plasma Protein Therapeutics Association, [http://www.pptaglobal.org/images/Data/Plasma\\_Collection/U.S.\\_Total\\_Collections\\_2003-2014\\_1.pdf](http://www.pptaglobal.org/images/Data/Plasma_Collection/U.S._Total_Collections_2003-2014_1.pdf).
- <sup>143</sup> Andrew Pollack, "Is Money Tainting the Plasma Supply?" *New York Times*, Dec. 6, 2009, [http://www.nytimes.com/2009/12/06/business/06plasma.html?\\_r=1](http://www.nytimes.com/2009/12/06/business/06plasma.html?_r=1).
- <sup>144</sup> Edin and Shaefer note that the Clinton administration concluded that "only a tiny fraction" of AFDC recipients would be working by the end of the 1990s under the welfare reform it preferred. See \$2.00 a Day, p. 23.
- <sup>145</sup> My own essays arguing that welfare reform reduced poverty include: "How Would Paul Ryan's Opportunity Grants Affect Poverty?" *Forbes*.com, July 28, 2014, <http://www.forbes.com/sites/scottwinship/2014/07/28/how-would-paul-ryans-opportunity-grants-affect-poverty/#2a9eeac242c3>; "Would a Block-Granted Safety Net Mean Less Aid to Families?" *Forbes*.com, July 31, 2014, <http://www.forbes.com/sites/scottwinship/2014/07/31/would-a-block-granted-safety-net-mean-less-aid-to-families/#33ed0c623420>; "Will Welfare Reform Increase Upward Mobility?" *Forbes*.com, Mar. 26, 2015, <http://www.forbes.com/sites/scottwinship/2015/03/26/will-welfare-reform-increase-upward-mobility/#4481e9e07122>; "Conservative Reforms to the Safety Net Will Reduce Poverty," *Forbes*.com, Jan. 8, 2016, <http://www.forbes.com/sites/scottwinship/2016/01/08/conservative-reforms-to-the-safety-net-will-reduce-poverty/#24f3da5c391b>; "Welfare Reform Reduced Poverty and No One Can Contest It," *Forbes*.com, Jan. 11, 2016, <http://www.forbes.com/sites/scottwinship/2016/01/11/welfare-reform-reduced-poverty-and-no-one-can-contest-it/#61740c3f3062>; "Which Safety Net Programs Responded to the Recession?" *Forbes*.com, Jan. 13, 2016, <http://www.forbes.com/sites/scottwinship/2016/01/13/which-safety-net-programs-responded-to-the-recession/#36d3b47c264a>; "Safety-Net Reforms to Protect the Vulnerable and Expand the Middle Class," in *Room to Grow: Conservative Reforms for a Limited Government and a Thriving Middle Class*, (Washington, DC: YG Network, 2014), <http://conservativerform.com/wp-content/uploads/2014/05/Room-To-Grow.pdf>; "Actually, We Won the War on Poverty," *POLITICO Magazine*, Jan. 24, 2014, <http://www.politico.com/magazine/story/2014/01/war-on-poverty-conservatives-102548>; and "Welfare Reform's Success and the War on Immobility," *Liberty Law Forum*, Library of Law and Liberty (May 6, 2016), <http://www.libertylawsite.org/liberty-forum/welfare-reforms-success-and-the-war-on-immobility>.
- <sup>146</sup> Congressional Budget Office, "Temporary Assistance for Needy Families: Spending and Policy Options" (2015), Figure 11, <https://www.cbo.gov/publication/49887>.
- <sup>147</sup> Shaefer and Edin, "Rising Extreme Poverty."
- <sup>148</sup> Fox, "Trends in Deep Poverty."
- <sup>149</sup> Benjamin D. Sommers and Donald Oellerich, "The Poverty-Reducing Effect of Medicaid," *Journal of Health Economics* 32 (June 2013): 816–32, [http://www.ssc.wisc.edu/~gwallace/Papers/Sommers%20and%20Oellerich%20\(2013\).pdf](http://www.ssc.wisc.edu/~gwallace/Papers/Sommers%20and%20Oellerich%20(2013).pdf). I thank Tim Smeeding for pointing me to this study.
- <sup>150</sup> In my analyses, the average person (including adults) with some family income from health benefits saw an increase of \$1,025 when I added family health benefits per person to family income per person. However, this average includes nonpoor families with employer health coverage, as well as retirees with Medicare coverage. Confined to people under 60 and poor by the official poverty line, the average gain from health benefits was \$914 per person, and the median was \$534.
- <sup>151</sup> Another explanation for this pattern is that the uninsured can, in fact, get free medical care from emergency rooms and free clinics. Therefore, health insurance is not as valuable as it would otherwise be. But the existence of those free services also frees up income to be spent on other needs, and it should thus be counted as "income" to the families that use them.
- This raises the issue of whether the failure to value free and uncompensated medical care as income in my analyses at the same time that I value health coverage through Medicaid, Medicare, and employer-sponsored coverage creates a biased trend in my poverty measures that include health coverage as income. It is difficult to say because it is not obvious how valuable such free care was in the past or how widely available it was. Presumably, it was significantly less valuable on the whole than Medicaid and Medicaid and CHIP expansions were, or else there would be little reason to have government-sponsored health coverage. The purchasing power and covered benefits from Medicaid and CHIP exceed what was ever available from free care. Further, some people continue to benefit from free care today. Essentially all hospitals, for instance, must provide emergency care to anyone seeking it.
- <sup>152</sup> Gary Burtless and Pavel Svatov, "Health Care, Health Insurance, and the Distribution of American Incomes," *Forum for Health Economics & Policy* 13, no. 1 (2010).
- <sup>153</sup> Ben-Shalom, Moffitt, and Scholz (2012); USDA Food and Nutrition Service table at <http://www.fns.usda.gov/sites/default/files/pd/34SNAPmonthly.pdf> (as of July 8, 2016); U.S. Health and Human Services, Administration on Children and Families table at <http://archive.acf.hhs.gov/programs/dfa/character/FY2007/tab01.htm> (last updated Sept. 29, 2008).
- <sup>154</sup> Robert A. Moffitt and John Karl Scholz, "Trends in the Level and Distribution of Income Support," in Jeffrey R. Brown, ed., *Tax Policy and the Economy* 24, *NBER Book Series Tax Policy and the Economy* (Chicago: University of Chicago Press, 2010).
- <sup>155</sup> I divided the number of children served by Medicaid by the total number of children in 1980 and 2010 and took the ratio of these percentages. The number of children served is from Table 1 of Medicaid and CHIP Payment and Access Commission, "MACStats: Medicaid and CHIP Data Book" (2015), <https://www.macpac.gov/wp-content/uploads/2015/12/MACStats-Medicaid-and-CHIP-Data-Book-December-2015.pdf>. The number of American children is from "Historical Poverty Tables," U.S. Bureau of the Census (2015), Table 3, <http://www2.census.gov/programs-surveys/cps/tables/time-series/historical-poverty-people/hstpov3.xls>. Note that the Medicaid figures exclude CHIP

beneficiaries, including in CHIP-funded expansions of Medicaid.

<sup>156</sup>Indeed, the 175% increase in child Medicaid coverage may be compared with the rise in inflation-adjusted federal Medicaid expenditures per child covered over the same period, which grew by only about 110%. To estimate this figure, I started with Urban Institute figures on federal Medicaid and CHIP spending on children, from Heather Hahn et al., "Kids' Share 2014: Report on Federal Expenditures on Children Through 2013" (2014), <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/413215-Kids-Share--Report-on-Federal-Expenditures-on-Children-Through-.PDF>. I confirmed that their estimates were adjusted for inflation using the CPI-U-RS by comparing the nominal spending figures in the 1960 federal budget with the amounts in the Urban Institute report. I then adjusted the figures to nominal dollars and readjusted them using the medical-care component of the CPI-U to 2010 dollars. Next, I adjusted the 1980 estimate downward to reflect the difference between the overall CPI-U and the (better) overall CPI-U-RS. Finally, I divided these figures by the number of children covered by Medicaid (see the previous endnote). The resulting increase in federal spending per covered child is an overstatement in that children covered by CHIP (including the CHIP-funded expansion of Medicaid) are excluded from the 2010 estimate, which makes spending too high relative to beneficiaries in 2010. (CHIP did not exist in 1980.) The increase is an understatement to the extent that my adjusted medical-care CPI-U still overstates health care inflation, as it likely does.

<sup>157</sup>The median child who was officially poor in 2014 saw an increase of \$2,102 (16%) in his family income from the addition of health benefits in my analyses. Receipt of health benefits was about as common as receipt of other noncash benefits—87% of poor children had employer- or government-sponsored health benefits. For those children, health benefits raised income by \$2,476 (19%) at the median. Just 76% of poor children received health benefits in 1996.

<sup>158</sup>Indeed, it would be more expensive than the "market value" to purchase their coverage out of cash, because employers are able to negotiate lower prices because of their purchasing-power leverage. And sicker employees are subsidized by their healthier coworkers. Employer-sponsored health care among workers generally—though perhaps not among the working poor specifically—is popular relative to wage and salary compensation. In an October 2004 survey by the Kaiser Family Foundation, 52% of workers with coverage said that they preferred more comprehensive benefits over higher wages, versus 36% who said that they would rather have higher wages. And 76% of workers with employer coverage said that they would prefer to keep their current plan and pay a higher premium than switch to a worse plan and pay their current premium. Further, 55% of workers with employer coverage said that they prefer to get coverage through their employer than buy it on their own, versus just 7% who would rather receive cash to buy it on their own (37% were indifferent). Majorities of 71% to 81% said that purchasing their own coverage would involve difficulties of various sorts (including affordability problems) relative to having their employer do it. See <https://kaiserfamilyfoundation.files.wordpress.com/2013/01/2003-health-insurance-survey-toplines.pdf>.

<sup>159</sup>See Timothy M. Smeeding, "Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty," U.S. Bureau of the Census, Technical Paper No. 50 (1982), Table 12, <ftp://ftp.census.gov/prod2/popscan/TP-50.pdf>; John McNeil and Enrique Lamas, "Estimates of Poverty Including the Value of Noncash Benefits: 1987," U.S. Bureau of the Census, Technical Paper 58 (1988), Table E, <https://www2.census.gov/prod2/popscan/tp-58.pdf>.

<sup>160</sup>Wheaton, Underreporting of Means-Tested Transfer Programs."

<sup>161</sup>Ana Aizcorbe et al., "Alternative Price Indexes for Medical Care: Evidence from the MEPS Survey" (2011), [https://www.bea.gov/papers/pdf/MEPS\\_Draft\\_012011.pdf](https://www.bea.gov/papers/pdf/MEPS_Draft_012011.pdf).

<sup>162</sup>This appendix is a lightly revised version of my previous essay "Debunking Disagreement Over Cost-of-Living Adjustment," Forbes.com, June 15, 2015, <http://www.forbes.com/sites/scottwinship/2015/06/15/debunking-disagreement-over-cost-of-living-adjustment/#37b4927470fc>.

<sup>163</sup>U.S. Bureau of the Census, "Money Income and Poverty Status of Families and Persons in the United States: 1983 (Advance Data from the March 1984 Current Population Survey)," Current Population Reports, Series P-60, No. 145 (1984), Appendix D, [https://books.google.com/books?id=ngKDYaE\\_6b8C&pg=RA2-PA99&dq=%22bureau+of+labor+statistics%22+statement+use++%22cpi-u-x1%22&hl=en&sa=X&ved=0CC0Q6AEwA2oVChMI\\_4-ZiMqGxgIV5kOMCh1rgBf#v=onepage&q=%22bureau%20of%20labor%20statistics%22%20statement%20use%20%20%22cpi-u-x1%22&f=false](https://books.google.com/books?id=ngKDYaE_6b8C&pg=RA2-PA99&dq=%22bureau+of+labor+statistics%22+statement+use++%22cpi-u-x1%22&hl=en&sa=X&ved=0CC0Q6AEwA2oVChMI_4-ZiMqGxgIV5kOMCh1rgBf#v=onepage&q=%22bureau%20of%20labor%20statistics%22%20statement%20use%20%20%22cpi-u-x1%22&f=false).

<sup>164</sup>Congressional Budget Office, "Trends in Family Income: 1970–1986" (1988), [http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/104xx/doc10408/1988\\_02\\_trendsinfamilyincome.pdf](http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/104xx/doc10408/1988_02_trendsinfamilyincome.pdf).

<sup>165</sup>U.S. Bureau of the Census, "Measuring the Effect of Benefits and Taxes on Income and Poverty: 1992."

<sup>166</sup>Kenneth J. Stewart and Stephen B. Reed, "CPI Research Series Using Current Methods, 1978–98," *Monthly Labor Review* 122, no. 6 (1999): 29–38, <http://www.bls.gov/opub/mlr/1999/06/cpimlr.pdf>.

<sup>167</sup>Ibid.

<sup>168</sup>Carmen DeNavas-Walt, Robert W. Cleveland, and Marc I. Roemer, "Money Income in the United States: 2000," Current Population Reports P60-213 (2001), <https://www.census.gov/prod/2001pubs/p60-213.pdf>.

<sup>169</sup>Robert Cage, John Greenlees, and Patrick Jackman, "Introducing the Chained Consumer Price Index," Bureau of Labor Statistics (2003), [http://www.bls.gov/cpi/super\\_paris.pdf](http://www.bls.gov/cpi/super_paris.pdf).

<sup>170</sup>See <http://www.bls.gov/cpi/cpisupqa.htm>.

<sup>171</sup>See [http://www.federalreserve.gov/faqs/economy\\_14419.htm](http://www.federalreserve.gov/faqs/economy_14419.htm); and Congressional Budget Office, "The Distribution of Household Income and Federal Taxes, 2013."

<sup>172</sup>Advisory Commission To Study the Consumer Price Index, "Toward a More Accurate Measure of the Cost of Living." Final Report to the Senate Finance Committee (1996), <https://www.ssa.gov/history/reports/boskinrpt.html>.

<sup>173</sup>Robert J. Gordon, "The Boskin Commission Report: A Retrospective One Decade Later," NBER Working Paper 12311 (2006), <http://www.nber.org/papers/w12311.pdf>.

<sup>174</sup>It is of interest to consider why the CPI-U-RS rather than the PCE deflator is the most popular price index.

In large measure, the reason is that analysts have tended to take their cues from the Census Bureau, which uses the CPI-U-RS for its income trend figures. Very few researchers—even within academia—have expertise in the methodologies of price adjustment (I do not, either), so they trust in the decisions of the Census Bureau. I suspect that the Census Bureau uses the CPI-U-RS rather than the PCE deflator partly out of inertia and wanting to stay somewhat consistent with past publications and practices. There may also be internal political considerations, as the Census Bureau and Bureau of Labor Statistics often collaborate, and the latter has been in charge of developing the CPI family of indexes.

But the Census Bureau still could use the CPI-U-RS for its historical poverty analyses, rather than the CPI-U, and it could use the C-CPI-U for analyses of more recent income and poverty trends or as a substitute for the CPI-U-RS from 2000 through the present. It already accepts disjunctions in its CPI-U-RS/CPI-U-X1/CPI-U series extending from before 1967 to the present. Or the BLS could build a C-CPI-U-RS research series to attempt to extend the C-CPI-U back in time. More simply, it could just issue a statement that the PCE is the best price deflator available for long-term trend analyses of income.

There is also the reality that many parties in Washington and many outside parties interested in influencing Washington have biases in favor of analyses that convey gloomier news. Advocates and politicians on the left want to promote agendas that involve redistribution and more government intervention into markets. Politicians on the right, meanwhile, must tend to middle-class anxieties (and most of these policymakers mistakenly believe, along with other Americans, that our problems are worse than they appear). Policymakers from both parties have an interest in painting a dour picture of the economy when their opponents are in power.

Meanwhile, academic and policy researchers on the left often believe that economic problems are relatively severe, and so results that reinforce the view that we have calamitous problems help generate support for their preferred policies. Researchers across the ideological spectrum—and their institutions and funders—want to attract

attention, which creates a bias in favor of more dramatic results. And journalists are largely left-leaning,\* making them predisposed to believe gloomy economic news, eager to help people in need through their writing, and disproportionately likely to have relationships with left-leaning researchers producing work that corresponds with their views. Even moderate and conservative journalists face pressures to find and report on dramatic results: if it bleeds, it leads. Finally, the spread of overly gloomy results to policymakers, consumers of news, and citizens tends to give people the impression that things are worse than they are, reinforcing many of the dynamics that incentivize gloomy news in the first place. People are generally more pessimistic and negative in polling that asks about the economic problems of others than they are when asked about their own economic situation. See Scott Winship, "Do Americans Think Their Kids Will Do Better? (Response to Kevin, Real Long)" (2010), <http://www.scottwinship.com/1/post/2010/08/do-americans-think-their-kids-will-do-better-response-to-kevin-real-long.html>.

\*Among both social-science faculty and journalists, self-identified liberals outnumber conservatives by roughly four to one. The Pew Research Center for the People and the Press found in 1995, 2004, and 2007 surveys of both national and local journalists that self-identified liberals strongly outnumbered conservatives. See John F. Zipp and Rudy Fenwick, "Is the Academy a Liberal Hegemony? The Political Orientations and Educational Values of Professors," *Public Opinion Quarterly* 70, no. 3 (2006): 304–26. In 2007, among national journalists, 32% declared themselves "very liberal" or "liberal," compared with 8% who declared themselves "very conservative" or "conservative." In 1995, the figures were 22% and 5%; see <http://www.stateofthemedia.org/files/2011/02/Journalists-topline.pdf>. In contrast, nationally representative surveys of American adults and voters consistently find self-identified conservatives outnumbering liberals by a factor of two to one. For instance, averaging across all the surveys in which it asked about ideology in 2012 in its daily tracking poll, Gallup found that 38% of Americans identify as conservative, compared with 23% identifying as liberal; see <http://www.gallup.com/poll/160196/alabama-north-dakota-wyoming-conservative-states.aspx>.

<sup>175</sup> See Meyer and Mittag, "Using Linked Survey and Administrative Data to Better Measure Income"; see also Bruce D. Meyer and James X. Sullivan, "Reporting Bias in Studies of the Food Stamp Program," Harris School Working Paper #08.01 (2008), [http://harris.uchicago.edu/sites/default/files/working-papers/wp\\_08\\_01.pdf](http://harris.uchicago.edu/sites/default/files/working-papers/wp_08_01.pdf).

<sup>176</sup> See Meyer, Mok, and Sullivan, "The Underreporting of Transfers in Household Surveys."

<sup>177</sup> See Meyer and Mittag, "Using Linked Survey and Administrative Data to Better Measure Income."

<sup>178</sup> Meyer, Mok, and Sullivan, "The Underreporting of Transfers in Household Surveys."

<sup>179</sup> See *ibid.*; and Wheaton, "Underreporting of Means-Tested Transfer Programs."

<sup>180</sup> See Kathleen Short et al., "Experimental Poverty Measures: 1990–1997" (Washington, DC: U.S. Census Bureau, 1999), <https://www.census.gov/prod/99pubs/p60-205.pdf>.

<sup>181</sup> On underreporting of earnings, see Christopher R. Bollinger et al., "Trouble in the Tails? Earnings Non-Response and Response Bias Across the Distribution," Working Paper, University of Kentucky (2015); Charles Hokayem et al., "The Role of CPS Nonresponse in the Measurement of Poverty," *Journal of the American Statistical Association* 110, no. 511 (2015): 935–45; Joan Turek et al., "How Good Are ASEC Earnings Data? A Comparison to SSA Detailed Earning Records," paper presented at the Federal Committee on Statistical Methodology (FCSM) (2012), [https://fcsm.sites.usa.gov/files/2014/05/Turek\\_2012FCSM\\_IX-C.pdf](https://fcsm.sites.usa.gov/files/2014/05/Turek_2012FCSM_IX-C.pdf); Marc Roemer, "Using Administrative Earnings Records to Assess Wage Data Quality in the March Current Population Survey and the Survey of Income and Program Participation," U.S. Census Bureau LEHD Technical Paper TP-2002-22 (2002), <ftp://ftp2.census.gov/ces/tp/tp-2002-22.pdf>; Julian Cristia and Jonathan Schwabish, "Measurement Error in the SIPP: Evidence from Matched Administrative Records," Congressional Budget Office, Working Paper 2007-03, Table 2 (2007), [https://www.cbo.gov/sites/default/files/110th-congress-2007-2008/workingpaper/2007-03\\_0.pdf](https://www.cbo.gov/sites/default/files/110th-congress-2007-2008/workingpaper/2007-03_0.pdf); Nancy Bates and Roberto Pedace, "Reported Earnings in the Survey of Income and Program Participation: Building an Instrument to Target Those Likely to Misreport," *Proceedings of the American Statistical Association*, Section on Survey Research Methods (2000), pp. 959–64; Roberto Pedace and Nancy Bates, "Using Administrative Records to Assess Earnings Reporting Error in the Survey of Income and Program Participation," *Journal of Economic and Social Measurement* 26, nos. 3–4 (2000): 173–92; Benjamin Bridges, Linda Del Bene, and Michael V. Leonisio, "Evaluating the Accuracy of 1993 SIPP Earnings Through the Use of Matched Social Security Administrative Data," *2002 Proceedings of the American Statistical Association*, Survey Research Methods Section (2003): 306–11; John Bound and Alan B. Krueger, "The Extent of Measurement Error in Longitudinal Earnings Data: Do Two Wrongs Make a Right?" *Journal of Labor Economics* 9, no. 1 (1991): 1–24.

<sup>182</sup> See Bollinger, "Trouble in the Tails?"

<sup>183</sup> See Roemer, "Using Administrative Earnings Records to Assess Wage Data Quality."

<sup>184</sup> See Cristia and Schwabish, "Measurement Error in the SIPP."

<sup>185</sup> Roemer, "Using Administrative Earnings Records to Assess Wage Data Quality," Table 5. Estimates are net of the amount underreported by people with under \$5,000 in the Social Security data but higher CPS earnings.

<sup>186</sup> Cristia and Schwabish, "Measurement Error in the SIPP."

<sup>187</sup> Meyer and Sullivan, "Consumption, Income, and Material Well-Being After Welfare Reform."

<sup>188</sup> Meyer, Mok, and Sullivan, "The Underreporting of Transfers in Household Surveys." Note that food stamp benefits are imputed in the CPS, so "underreporting" means that the total imputed in the CPS falls short of administrative totals, potentially because of the imputation modeling but also because of survey nonresponse and underreporting of benefits in the CPS.

<sup>189</sup> See John Ruser, Adrienne Pilot, and Charles Nelson, "Alternative Measures of Household Income: BEA Personal Income, CPS Money Income, and Beyond" (2004), <https://www.bea.gov/about/pdf/AlternativemeasuresHHincomeFESAC121404.pdf>.

<sup>190</sup> See Adam Bee, Bruce D. Meyer, and James X. Sullivan, "Micro and Macro Validation of the Consumer Expenditure Survey," in C. Carroll, T. Crossley, and J. Sabelhaus, eds., *Improving the Measurement of Consumer Expenditures* (Chicago: University of Chicago Press, 2015); Adam Bee, Bruce D. Meyer, and James X. Sullivan, "The Validity of Consumption Data: Are the Consumer Expenditure Interview and Diary Surveys Informative?" NBER Working Paper No. 18308 (2012), <http://harris.uchicago.edu/sites/default/files/BeeMeyerSullivanNBERwp18308.pdf>.

<sup>191</sup> Meyer and Sullivan, "Measuring the Well-Being of the Poor."

<sup>192</sup> *Ibid.*

<sup>193</sup> *Ibid.*

<sup>194</sup> Bruce D. Meyer and James X. Sullivan, "Viewpoint: Further Results on Measuring the Well-Being of the Poor Using Income and Consumption," *Canadian Journal of Economics* 44, no. 1 (Feb. 2011) 52–87.

<sup>195</sup> *Ibid.*

<sup>196</sup> See Meyer and Sullivan, "Winning the War," online Appendix Table 11.

<sup>197</sup> *Ibid.*

<sup>198</sup> See Richard Bavier, "Recent Trends in U.S. Income and Expenditure Poverty," *Journal of Policy Analysis and Management* 33, no. 3 (May 2014): 700–718.

<sup>199</sup> See Bee, Meyer, and Sullivan, "The Validity of Consumption Data," Appendix Table 8. I thank Jim Sullivan for sharing these insights regarding the Bavier paper.

<sup>200</sup> See Bruce D. Meyer and James X. Sullivan, "The Material Well-Being of the Poor and the Middle Class Since 1980," AEI Working Paper #2011-04 (Oct. 2011), <https://www.aei.org/wp-content/uploads/2011/10/Material-Well-Being-Poor-Middle-Class.pdf>.

<sup>201</sup> See Meyer and Sullivan, "Measuring the Well-Being of the Poor."

<sup>202</sup> Ibid.

<sup>203</sup> See Meyer and Sullivan, "Identifying the Disadvantaged," online Appendix Table 6a, [https://assets.aeaweb.org/assets/production/articles-attachments/jep/app/2603\\_Meyer\\_Sullivan\\_app.pdf](https://assets.aeaweb.org/assets/production/articles-attachments/jep/app/2603_Meyer_Sullivan_app.pdf).

<sup>204</sup> Ibid., Table 1 and online Appendix Table 10.

<sup>205</sup> See Bruce D. Meyer and James X. Sullivan, "Changes in the Consumption, Income, and Well-Being of Single Mother Headed Families," *American Economic Review* 98, no. 5 (2008): 2221–41.

<sup>206</sup> See Meyer and Sullivan, "Measuring the Well-Being of the Poor."

<sup>207</sup> See Meyer and Sullivan, "Winning the War."

<sup>208</sup> See Meyer and Sullivan, "Measuring the Well-Being of the Poor."

<sup>209</sup> Shaefer and Edin, "What Is the Evidence of Worsening Conditions?"

<sup>210</sup> See Meyer, Mok, and Sullivan, "The Underreporting of Transfers in Household Surveys."

<sup>211</sup> See John Coder and Lydia Scoon-Rogers, "Evaluating the Quality of Income Data Collected in the Annual Supplement to the March Current Population Survey and the Survey of Income and Program Participation," U.S. Bureau of the Census (July 1996), <https://www.census.gov/sipp/working-papers/2015.pdf>.

<sup>212</sup> See U.S. Bureau of the Census, "SIPP Quality Profile 1998," SIPP Working Paper 230 (1998), <https://www.census.gov/sipp/working-papers/2015.pdf>.

<sup>213</sup> See Marc I. Roemer, "Assessing the Quality of the March Current Population Survey and the Survey of Income and Program Participation Income Estimates, 1990–1996," Census Bureau (2000), <https://www.census.gov/content/dam/Census/library/working-papers/2000/demo/assess1.pdf>.

<sup>214</sup> See John L. Czajka, James Mabli, and Scott Cody, "Sample Loss and Survey Bias in Estimates of Social Security Beneficiaries: A Tale of Two Surveys," Mathematica Policy Research (2008), <https://www.mathematica-mpr.com/-/media/publications/pdfs/samplelosssurvey.pdf>.

<sup>215</sup> See John L. Czajka and Gabrielle Denmead, "Income Data for Policy Analysis: A Comparative Assessment of Eight Surveys," Final Report to the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services (2008), <https://www.mathematica-mpr.com/our-publications-and-findings/publications/income-data-for-policy-analysis-a-comparative-assessment-of-eight-surveys>.

<sup>216</sup> See John L. Czajka and Gabrielle Denmead, "Income Measurement for the 21st Century: Updating the Current Population Survey," Final Report to the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services (2012). It appears that a big problem for the CPS is capturing the earnings of workers who change jobs during the year.

<sup>217</sup> Coder and Scoon-Rogers, "Evaluating the Quality of Income Data."

<sup>218</sup> Czajka, Mabli, and Cody, "Sample Loss and Survey Bias."

<sup>219</sup> See Cristia and Schwabish (2007, Table 2); Pedace and Bates, "Using Administrative Records to Assess Earnings Reporting Error"; and Bridges, "Evaluating the Accuracy of 1993 SIPP Earnings."

<sup>220</sup> Czajka, Mabli, and Cody, "Sample Loss and Survey Bias," p. 204.

<sup>221</sup> Ibid.

<sup>222</sup> Cf. Czajka and Denmead, "Income Data for Policy Analysis," Table IV.18 with Czajka and Denmead, "Income Measurement for the 21st Century," Table IV.5.

<sup>223</sup> See Meyer, Mok, and Sullivan, "The Underreporting of Transfers in Household Surveys."

<sup>224</sup> See C. Adam Bee, Graton M. R. Gathright, and Bruce D. Meyer, "Bias from Unit Non-Response in the Measurement of Income in Household Surveys," Working Paper (2015), <http://harris.uchicago.edu/sites/default/files/JSM2015%20BGM%20Unit%20Non-Response%20in%20CPS.pdf>.

<sup>225</sup> See Meyer, Mok, and Sullivan, "The Underreporting of Transfers in Household Surveys."

<sup>226</sup> See Czajka and Denmead, "Income Data for Policy Analysis."

<sup>227</sup> See Meyer, Mok, and Sullivan, "The Underreporting of Transfers in Household Surveys."

<sup>228</sup> See Czajka, Mabli, and Cody, "Sample Loss and Survey Bias."

<sup>229</sup> Ibid., p. 173.

<sup>230</sup> Cf. Figure V.2 of Czajka, Mabli, and Cody ("Sample Loss and Survey Bias")—where poverty rates initially drop in the 1996 and 2001 panels—with Figure 2 of Shaefer and Edin, "Rising Extreme Poverty." The pattern is not obvious to detect because "month" in the former chart means a calendar month that can include families in two waves, while in the latter it refers to the last of four consecutive "Reference Month 4" calendar months within a single wave, across which families are pooled.

<sup>231</sup> Czajka, Mabli, and Cody, "Sample Loss and Survey Bias," Figure VI.2.



# REPORT 19

## Abstract

This month marks the 20th anniversary of the landmark federal welfare reform that transformed antipoverty policy—changing an open-ended cash benefit, Aid to Families with Dependent Children, to a more limited entitlement, Temporary Assistance for Needy Families. Critics at the time predicted a catastrophe. That never happened; instead, the reform helped move many single mothers off the dole and into the workforce. Still, the severity of the Great Recession has revived concerns that while welfare reform did benefit many poor families, it left a threadbare safety net in place through which the poorest of the poor have fallen.

## Key Findings

- 1.** Children—in particular, those in single-mother families—are significantly less likely to be poor today than they were before welfare reform: child poverty overall fell between 1996 and 2014. This is the case because of household earnings, lower taxes, several refundable tax credits, food stamps and other noncash benefits.
- 2.** “Deep poverty”—defined as having a family income below half the official poverty line—was probably as low in 2014 as it had been since at least 1979.
- 3.** Practically no children of single mothers were living on \$2 a day in either 1996 or 2012 (the latest year for which we have reliable statistics), once the receipt of all government benefits are factored in. In 2012, fewer than one in 1,500 children of single mothers were living in what is called “extreme poverty.” This finding is consistent with other research.
- 4.** Official poverty statistics can create a misleading impression that hardship has increased, and that this increase has been due to welfare reform. Government statistics underestimate the income of poorer families, exclude entirely the receipt of valuable benefits, and overstate inflation. The most reliable indicators showing some increase in hardship after 1996 reflect the rise and fall of the business cycle but do not rise steadily—and generally grew worse among groups of Americans who never received cash welfare. The idea that rolling back the 1996 welfare reform would help the poor is wholly unjustified by the evidence.