Policies Designed to Reduce Poverty

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Introduction

Poverty is still a significant problem in the United States. By the official poverty measure, poverty declined in the 1960s, but remained relatively flat over the subsequent decades, bouncing around between 10% and 15% depending on where you were in the business cycle. This statistic, however, is misleading because it does not take into account in-kind benefits like the Supplemental Nutrition Assistance Program (SNAP) and housing vouchers, along with tax benefits like the Earned Income Tax Credit (EITC) and Child Tax Credit. Based on a new statistic, the Supplemental Poverty Measure, poverty was higher in the late 1960s compared to the official poverty measure, but declined substantially over several decades from 26.0% in 1967 to 14.4% in 2017. No matter which statistic you prefer, both still indicate that around 10% to 15% of Americans have trouble meeting their basic needs with the resources they have available.(1)

Another way to compare how the lowest income people are doing in the US is to look at where they fall on the global income distribution. World Bank economist Branko Milanovic has been constructing graphs analyzing income inequality across the world, and as part of this effort, he has produced graphs showing the income distribution of each country based on where they fall within the global distribution of income. In the US, for example, people close to the middle of the income distribution have incomes higher than 92% of people in the world, whereas people with the lowest incomes have incomes greater than about 60% of the world. By comparison, in Denmark, the lowest income people have incomes greater than about 82% of the world population, and the lowest income people in Germany have incomes higher than about 77% of the world population. Clearly then, the poor in the US are not doing badly when compared to the poorest in developing countries around the world, but at the same time other advanced countries show we could be doing a much better job lifting up their incomes.(2)

This policy memo lays out a set of proposals to try and reduce poverty in the United States. The strategies to do this fall into three categories. First, the goal is to try and reward work by expanding the minimum wage and EITC. Second, the goal is to increase the generosity of in-kind benefits like SNAP and housing vouchers while eliminating tax deductions to pay for them. Then third, the goal is to experiment with equal cash payments to every individual in the US using novel windfall sources of revenue, like money printing and carbon taxes, to pay for them.

First Strategy: Reward Work

The first key strategy to reducing poverty is to make sure work is properly rewarded, and one important way to do this would be to increase the minimum wage to $15 nationwide. The minimum wage was last increased to $7.25 in 2009, however, since then a combination of new academic research, powerful policy advocacy campaigns by Bernie Sanders, and a very tight labor market prior to the pandemic has changed our understanding of what constitutes a fair wage for everyone.(3) Many states like California and New York are far along in their effort to increase the minimum age to $15 an hour and have had little trouble as a result.(4) Raising the minimum wage to $15 an hour would even bring in more revenue for the federal government (perhaps $25 billion a year) since low wage workers would be receiving fewer public benefits and get less back in tax credits through the EITC.(5)

The next way to reduce poverty would take this new revenue generated by a higher minimum wage and use it to expand the EITC for childless workers. The EITC is a refundable tax credit designed to reward work by offering a more generous tax credit for those who earn more on their job. The credit is much more generous for workers who have children, where the tax credit provides a $400 benefit for every $1,000 earned by a worker with two children up to about $14,500 and then this starts to phase out once married couples earn more than about $25,000 and phases out completely once incomes for a married couple reach $52,000. This means a family with two children would get a maximum credit of about $5,800. By comparison, low wage workers with no children get only $77 for each $1,000 earned up to about $6,900 and this credit phases out completely for married couples once incomes reach around $21,000. The maximum possible credit for workers without children is only $529, or more than 10 times less than what a worker with two children might get.(6)

Expanding the EITC to provide more benefits to workers without children would be another important way to reward work. While President Obama was still in office, both Obama and Republican Speaker of the House Paul Ryan offered similar proposals to expand the EITC for childless workers, doubling the matching rate up to $153 per $1,000 in earnings in order to fully offset the payroll taxes they are required to pay. This proposal would likely cost less than $6 billion a year to enact, and given how much money raising the minimum wage will bring in, this bipartisan proposal could be made even more generous.(7) I would recommend providing a $200 tax credit for every $1,000 in earnings up to about $10,000. This would increase the maximum benefit to about $2,000 and could start phasing out once incomes reach about $15,000 and be completely phased out once incomes reach about $25,000. This would make the new maximum benefit about 4 times larger and do a lot to reduce poverty among childless workers, while encouraging them to work more at the same time. Overall, this would likely cost about the same amount as the money brought in from the $15 minimum wage, and when you combine the two proposals together would greatly improve the lives of people working at low wage jobs.(8)

Second Strategy: Expanding In-Kind Benefits

The second key strategy to reducing poverty is to make the public in-kind benefit programs like housing vouchers and SNAP (formerly food stamps) more generous. The biggest hole in our social safety net is the systematic underfunding of section 8 housing vouchers. Section 8 is a public benefit program run by the Department of Housing and Urban Development (HUD) that ensures people who get a voucher do not spend more than 30% of their income on rent. If people have no income, then the housing voucher pays almost their entire rent, but if a family makes $20,000 a year, then they will be expected to contribute $6,000 a year (or $500 a month) and the government will cover the rest. Unfortunately, not everyone who wants a voucher can get one. Right now, the federal government funds a specific number of vouchers, and once those vouchers run out (and there are often very long waiting lists to get one), then you do not get any benefits at all, even if you are low income and would benefit greatly from the program. Currently, the federal government provides vouchers for about 25% of those who would qualify, however I would propose to fully fund the voucher program so that 100% of the people who qualify would get a housing voucher. Since the government currently spends about $25 billion on housing vouchers, this would likely cost an additional $75 billion a year, but if we did this, then the new benefits would provide a great deal of additional help to the millions of people who have difficulty affording rent but currently do not get a voucher.(9)

Another way to expand in-kind benefits would be to provide more SNAP benefits to those earning higher incomes. One problem with the current SNAP program is that it limits the people who can get benefits to those making less than 130% of poverty (or about $28,000 for a family of three). If a low income family suddenly has their head of household get a job, then this new income might push them just above the income limit, even though the job does not pay enough to make it easy for them to afford food. Recent research by the Federal Reserve Bank of Boston shows that kids from families making just enough to disqualify them from benefits do substantially worse than those who do not see a reduction in SNAP benefits, indicating that expanding benefits to families with higher incomes would make their lives better off. I would propose lowering the phase out rate for SNAP benefits from 30% to 25% and increasing the income cutoff from 130% to 160% of poverty. This way families will likely get some food subsidies even when one of their parents gets an entry level job and make it even more beneficial for those parents to return to work. This proposal would likely cost around $25 billion a year.(10)

In order to pay for these new expanded in-kind benefit programs, the US could eliminate some of the remaining deductions in the federal tax code. The 2017 Trump tax cuts nearly doubled the standard deduction and greatly reduced the number of people itemizing their deductions to about 12% of all taxpayers as a result. This development makes it politically much easier to enact the policy changes that reduce tax subsidies to high income people while also simplifying the tax code. One additional benefit to making these changes is that it can also raise a fair amount of money that can be spent on other programs. The proposed expansion of housing vouchers would cost about $75 billion and the proposed expansion of SNAP benefits would cost about $25 billion, bringing the total to about $100 billion a year. According to the Joint Committee on Taxation, eliminating the deduction for home mortgage interest would raise about $30 billion, while eliminating the deduction for state and local taxes would raise about $25 billion in revenue. Add in about $10 billion you could raise from eliminating the deduction for medical expenses, and the remaining $35 billion could be generated from reducing the generosity of the deduction for charitable contributions. If the deduction were eliminated entirely, this would raise about $50 billion a year, but perhaps a smaller tax credit matching 20% of extremely large contributions could be created to limit any decline in contributions to charitable organizations. Ultimately, though the expanded in-kind benefit programs could be entirely paid for by eliminating deductions for the 12% of the population with the highest incomes.(11)

Third Strategy: Experimenting with Equal Cash Payments

The third key strategy would supplement the proposals already offered by providing an equal cash payment to each person in the US that would get funded with new and dedicated revenue sources. In other papers (Sly 2016, 2020a), I suggest that the Federal Reserve might need to print a lot of money and have the government hand it out to people when interest rates are stuck near zero. Earlier this year, the stimulus package designed to limit the economic impact of the pandemic distributed $1,200 checks to each adult below a certain income limit at the very same time the Federal Reserve was buying a lot of bonds with printed money.(12) If interest rates remain near zero long after the pandemic is over, then the Federal Reserve might need to keep printing money for a long time as well, and the government might need to run large budget deficits in order to properly stimulate the economy. In my paper on economic policy during the pandemic (Sly 2020a), I also suggest it might make sense to give the Federal Reserve direct control over when to offer equal payments to each person in the country (perhaps worth $100 per person per month) in order to speed up the policy making process and insulate the decision from political pressures.

The intention was to take this new windfall source of revenue, printed money, and distribute it in the fairest way possible, handing it out equally to each person, but this also means the poor would get some money and this would help them get through difficult times by giving them more money to spend. In the US, there is a lot of political resistance to giving cash directly to poor people (though voters are generally less resistant to providing in-kind benefits), so one way to get around this problem is to give cash to everybody else at the same time in order to make it more difficult to explicitly exclude poor people when you do. The cost of this idea would vary depending on how much stimulus the economy needed, but it could go up to about $400 billion a year if the monthly stimulus payments lasted a whole year or about 2% of GDP.(13)

Another way to help the poor through difficult times would be to create a $25 per ton carbon tax and then use the revenue to distribute equal cash payments to every person in the country. The primary purpose behind this proposal would be to help the environment by reducing the amount CO2 sent into the atmosphere, but this would be another case where good policy creates a new and novel windfall source of revenue. A $25 per ton carbon tax would raise about $100 billion a year (and would raise gasoline taxes by about 23 cents per gallon), and could pay for a $25 per person per month cash payment for everyone in the country. Again, the fairest way to distribute the proceeds from this tax would be to pass it out equally to each person in the country, but this would also provide some cash to poor families, which would not only offset the direct impact of the carbon tax for these families, it would provide them with a little extra money as well.(14)

Conclusion

Taken together then, these policy proposals could potentially have a tremendous impact on poverty in the United States. When you add them all up together, these policies could provide low income families with around $350 billion in new resources,(15) and this does not include the policies described in other policy memos designed to reduce income inequality (Sly 2020b). Calculating the exact number of people likely to be lifted from poverty as a result is beyond the scope of this paper, but tens of millions of families are likely to get thousands of dollars in benefits, which could go a long way to making life easier for them.

Politically, some of these ideas, like the $15 minimum wage, are quite popular, and others, like the expansion of the childless EITC, have bipartisan support. Expanding housing vouchers and SNAP benefits might be more controversial since it benefits a relatively small percentage of the population and would raise taxes on the top 10% at the same time. Perhaps these reforms could be done in bits and pieces so that the tax increases are raised gradually and not felt all at once. Other ideas depend on getting the new and novel sources of revenue enacted, which depends less on their impact on poverty and more on the potential benefits they might bring to managing the business cycle or reducing pollution. As a whole, this policy memo perhaps provides us with a starting point to begin talking about how best to reduce poverty by providing some practical realistic options for doing exactly that.

End Notes

#1 – These statistics come from a report by the Center on Budget and Policy Priorities (Stone et al 2020).

#2 – The graphs mentioned in the text come from two World Bank working papers (Milanovic 2011, 2012) as reported in the Washington Post (Matthews 2013).

#3 – In 2007, Congress enacted a law that increased the minimum wage in three steps from $5.15 an hour to $7.25 an hour with the last increase taking effect on July 24th, 2009. In 2010, an influential paper (Dube et al 2010) showed no effect on employment due to increases in the minimum wage by looking at counties that bordered the state increasing their minimum wage. In both of his presidential campaigns in 2016 and 2020, Senator Bernie Sanders strongly promoted a national $15 minimum wage. In 2019, about two-thirds of the public supported raising the minimum wage to $15 an hour nationwide (Davis and Hartig 2019).

#4 – California, New York, Massachusetts, New Jersey, Illinois, Connecticut, and Maryland, along with the District of Columbia have passed laws raising their minimum wage to $15 in the future. In 2020, California's minimum wage was $13 an hour for large employers and $12 an hour for small businesses. In 2020, the minimum wage in New York state rose to $11.80 an hour and was already up to $15 an hour in New York City.

#5 – The Economic Policy Institute (Cooper 2019) estimates that raising the minimum wage to $15 an hour would directly raise pay for about 28 million workers, and indirectly raise pay for an additional 12 million workers, once companies need to compete in order to keep them. A full time worker would see an increase in incomes of about $3,900, which includes about 24 million workers who are either directly and indirectly affected. This means wages would go up by a total of $94 billion for full time workers and if part time workers saw their incomes increase by half that, then wages would go up by an additional

$31 billion for a total wage increase around $125 billion. If federal benefits for housing vouchers, SNAP, or the EITC went down by 20 cents for every additional dollar earned on average, then the US government would save about $25 billion in revenue if the minimum wage went up to $15 an hour and low wage workers would receive a net benefit worth about $100 billion.

#6 – In 2019, the EITC for married couples with two children phased in at a 40% rate when incomes rose between $0 and $14,570, at which point it reached a maximum of $5,828 (CBPP 2019). The EITC stayed at this maximum until incomes reached $24,820 at which point it phased down at a rate of 21.06% and completely phased out when incomes reached $52,493. The EITC for childless married couples phased in at a rate of 7.65% until incomes reached $6,920, at which point the credit was worth $529, or about 11 times less than the credit for families with two kids. The EITC for childless married couples started to phase out at a rate of 7.65% when incomes reached $14,450 and was completely phased out once incomes rose to $21,370.

#7 – The Center on Budget and Policy Priorities reports (Marr et al 2016) that the plans proposed by Obama and Speaker Ryan to expand the childless EITC would increase benefits for about 13 million workers, and the maximum credit would go up by approximately $500 from $528 now, up to approximately $1,000 under their proposal. If each worker got a full $500 benefit then the cost would reach about $6.5 billion a year, but some workers in the phase in and phase out range will get some fraction of that, making the total cost likely less than $6 billion a year.

#8 – The EITC expansions for childless workers proposed by Obama and Speaker Ryan would each raise the maximum benefit by about $500 and likely cost less than $6 billion a year (see end note #7). My proposal raises the maximum benefit by about $1,500, about three times the increase in their proposal, but would also expand the number of people getting the benefit, making the total cost perhaps four to five times that of the smaller expansion. If the EITC expansion proposed by Obama and Speaker Ryan cost between $5 to $6 billion, then the total cost of my proposal would likely be around $25 billion.

#9 – For an overview of the section 8 housing voucher program see the summary by the Center on Budget and Policy Priorities (CBPP 2017). The Congressional Budget Office estimates that about 20 million households qualify for federal rental assistance but only about a quarter actually receive it due to funding limitations. In fiscal year 2019, the housing voucher program received about $22.6 billion in appropriations, which I rounded up to about $25 billion, and if only quarter who qualify for benefits receive them, then the total cost of fully funding the housing voucher system is about $75 billion.

#10 – A recent paper released by the Boston Federal Reserve Bank (Ettinger de Cuba 2017) shows how families that saw their SNAP benefits reduced or lost entirely because of higher earnings experience negative health impacts compared to families that did not see a decline in SNAP benefits. In fiscal year 2018, the government spent about $61 billion on SNAP benefits. Raising the income cap from 130% to 160% of poverty would increase the number of people eligible by at least 25% and increase benefits for all families with some income as well. In order to get a total cost around $25 billion a year, I estimated that the total cost of SNAP benefits would rise about 40%, a percentage higher than 25% but not too much higher.

#11 – In order to understand how I estimated the cost of my proposals to expand funding for housing vouchers and SNAP benefits see end notes #9 and #10. The cost estimates for eliminating the mortgage interest deduction, the state and local tax deduction, the deduction for medical expenses, and the deduction for charitable contributions all come from the Joint Committee on Taxation.

#12 – The CARES act provided stimulus checks of $1,200 for each adult as long as their income was below $75,000 for single people or $150,000 for adults, at which point it started to phase out. The legislation also provided $500 for each child under the age of 17. On March 15th, 2020 the Federal Reserve announced it would be buying $500 billion in Treasury bonds and $200 billion in mortgage backed securities over the coming months. On March 23rd, 2020 the Federal Reserve made this commitment open ended and bought nearly $2 trillion in bonds by the end of the month. The Federal Reserve issued guidance that indicated they would buy $80 billion a month in Treasuries and $40 billion a month in mortgage backed securities going forward. (Cheng et al 2020).

#13 – If the Federal Reserve provided a $100 a month to each person in the US, this would add up to $1,200 per person, which given there is about 328 million people in the US, creates a total of $394 billion a year, or about 2% of GDP.

#14 – The Joint Committee on Taxation and the Congressional Budget Office estimates that a $25 per ton carbon tax that began in 2017 and went up by 2 percentage points a year faster than inflation would raise about $1 trillion over 10 years or about $100 billion a year. If this were distributed equally to the 328 million people in the US, this would amount to about $300 per person per year or about $25 per person per month. If the dividend were passed out equally to each person in the US, about 70% of the population would get more in dividend payments than they pay in higher taxes.

#15 – In this policy memo, the increase in the minimum wage would raise incomes by about $125 billion (see end note #5), but $25 billion of that would be offset in lower benefits for a net benefit of $100 billion. The EITC expansion for childless workers would increase after tax incomes by about $25 billion (see end note #8). Fully funding the housing voucher program would provide about $75 billion in benefits (see end note #9), while the increase in SNAP spending would provide about $25 billion (see end note #10). The cash payments funded by printing money would provide about $400 billion (see end note #13) and the cash payments funded by the carbon tax would provide about $100 billion (see end note #14). If about 25% this combined $500 billion in cash payments went to low income families, that would mean about $125 billion went to households below or close to the poverty line. The sum of all these programs adds up to $350 billion ($100 billion due to $15 minimum wage, $25 for the EITC expansion, $75 billion from more housing vouchers, $25 billion for SNAP, $125 billion in cash payments).

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