

The Conservative Response to the War on Poverty Discussion -- So Far

Jared Bernstein: 01/13/2014

I'm finding some of the responses by conservative politicians, economists, et al to the War on Poverty discussion to be interesting and revealing.

There's a lot of silliness, and worse, of course. I'd assign the Reagan quip ("we fought a war on poverty and lost") to that category, as well as the misleading \$20 trillion talking point (see this Mike Konczal piece out today on this).

But once they get past the canned stuff, there's some interesting substance. Progressives have largely been pointing out that, in fact, rigorous analysis shows both significant and even lasting progress against poverty, amidst steep remaining challenges. The anti-poverty effectiveness of the programs developed and expanded before and since the War on Poverty is easily seen in figures like the one I reprint below, showing the increased divergence between pre-transfer and post-transfer poverty rates (the figure also shows the increasingly irrelevant official rate, which leaves out a lot of what we've done to reduce poverty). Yet the fact remains that 16 percent remain poor.

Conservatives--again, the ones who at least on occasion visit factville--do not deny the broad accuracy on the trends in the figure. But they question what is it that we've really achieved through all of this social policy? And their answer is that all we've really done is made the poor more comfortable in their poverty. As Sen. Rubio put it, "...our current government programs offer, at best, only a partial solution. They help people deal with poverty, but they do not help them escape it."

Robert Samuelson claims that we haven't done much of anything to "catapult the poor into the economic mainstream." Precisely against President Johnson's warning, we've given the poor a handout, not a hand up.

This critique too fails to stand up to scrutiny. First, the largest expansion of poor support outside of health care has been the Earned Income Tax Credit, a wage subsidy that has been shown to not only reduce poverty significantly (by 10 million in 2012), but is also a strong work incentive. Moreover, research that follows poor children into adulthood finds that benefits like the EITC and even nutritional support have lasting impacts that improve key outcomes--health, high-school completion, employment and earnings--later in life. To view these programs as "handouts" misses the fact that they act more like investments in the lives of many of their recipients.

But is there anything to the conservation critique re "comfort not catapult?" I think there is: we do need to do more to help the economically disadvantaged overcome barriers that prevent them from achieving their potential. And if that's truly where this debate is headed, than that's a positive development. The problem is what should we do?

It is here, with some interesting exceptions, that the debate breaks down in predictable ways that date back to the English Poor Laws of the 16th century. Conservatives focus on the poor themselves and ways policy should incentivize them to make better choices; liberals focus more on the economic context within which opportunities to climb out of poverty either exist or don't.

For example, as Paul Krugman stresses here, many conservatives argue that the biggest problem with the safety net programs is that they have high implicit marginal tax rates. That is, in order to ensure that these benefits go only to those with low incomes, they phase-out when incomes rise.

It sounds like a technical point, but it's actually behind the "comfort" critique--it's the reason Rep. Paul Ryan calls the safety net a "hammock." The theory is that because you lose benefits as your income goes up, your incentive to earn more is severely dampened. So you chill instead of work.

But such theories must be tested. The most exhaustive work on this question of the extent to which the poor respond to high marginal tax rates finds little to support the comfort-in-the-hammock camp. I review that research here, but the punch line is that the anti-poverty impact of the safety net--the distance between those top two lines in the figure below are "...only negligibly affected by work incentives which, in the aggregate, have almost no effect on the pre-transfer rates of poverty in the population as a whole."

The reasons have to do with both the counter-incentives from the EITC, which research finds has large pro-work effects, on net, and the not-too-surprising fact that a lot of people would actually prefer to leave poverty behind though work, even if it means losing some benefits.

Still, if this debate leads conservatives to pull for slower phase-outs of means-tested programs that would be great. The problem--and it's a big one--is that it costs more to do this and that comports badly with their budgets, which sharply cut spending on low-income programs. My first thought the other day when I heard Sen. Rubio talking about how we need more worker training was about Rep Ryan's House budget, which achieves 60 percent of its steep spending cuts from low-income programs, including training budgets.

What else is on the R's anti-poverty agenda?:

--Tax reform: There seem to be two broad ideas here, one of which has a lot of merit. The first is the old supply-side canard about how lower marginal tax rates will boost growth and jobs, etc. This is not a serious proposal.

But after presenting a bit of the ole' supply-side catechism in this piece from a few days ago, former GW Bush administration economist Glenn Hubbard acknowledged that supply-side elixir "...is insufficient for increasing the inclusion of low-wage workers, whose incomes may not benefit fully from economic growth."

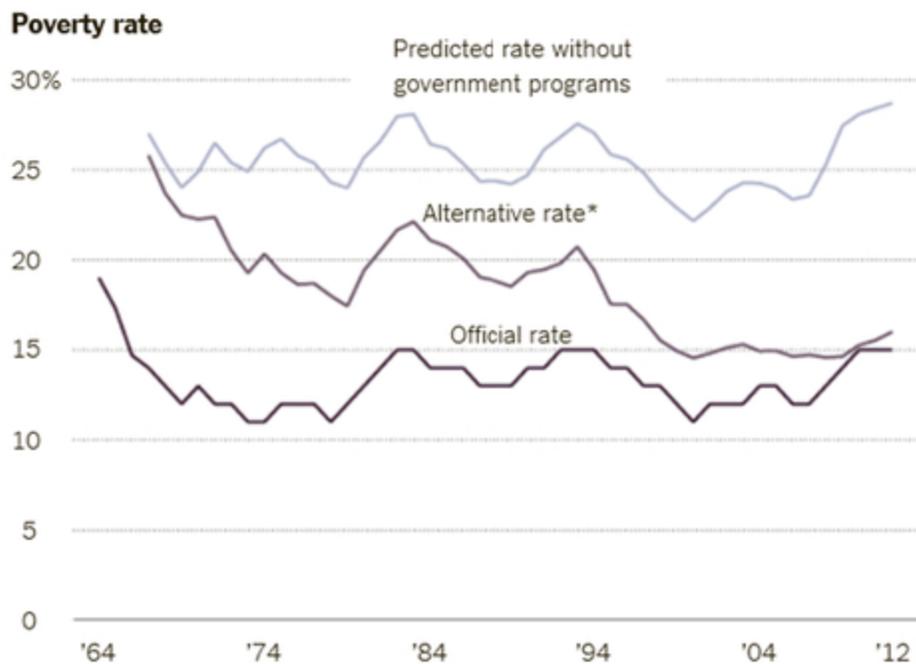
Hubbard goes on to endorse a smart idea that I've heard from numerous others in his camp: expand the Earned Income Credit to adult workers without kids. While the annual credit for working families with kids averages between \$2-3,000, the one for childless adults averages less than \$300.

Now, Hubbard et al want to trade this expansion for the elimination of the minimum wage, so the idea...um...needs a bit of work. But the EITC part is a good reform that would incentivize work and lower poverty.

--Block grants: Just wrap up all the damn poverty programs into one big package and dump 'em all on the states. OK, maybe that's not quite how they'd put it, but this is a pretty sure-fire recipe to surgically extract the critical countercyclical function of the safety net. I explain here, with disapproving reference to Sen. Rubio's float of this idea last week.

--Other stuff: Here's a review of how what some conservatives are thinking about in this space, including standard issue stuff--deregulate (e.g., less professional licensing), subminimum wage, more marriage--and some less standard ideas, including helping those with criminal backgrounds get back into the workforce. Many conservatives also support access to pre-school for disadvantaged kids.

So, nothing exceptionally path-breaking here, but it's a good conversation, and I'm struck by some conservatives' interest in raising the EITC for adult workers without kids. That would be a real advance.



And yes, it's all rhetoric in a climate where little can move forward and budgets--on both sides--often fail to match rhetoric. In fact, a good question for a later post is what the Democrats' agenda for poverty reduction. I see lots of interest from the admin and the Democrats on extended UI, a higher minimum wage, and, in terms of boosting mobility, the president's universal pre-school program. All good ideas--I'd say, a good start; but as you'd expect, I'm looking for "full employment" on the list.

*Alternative rate is based on the Census Bureau's Supplemental Poverty Measure (which includes the effects of government transfers and taxes), Source: "Trends in Poverty With an Anchored Supplemental Poverty Measure" by Christopher Wimer, Liana Fox, Irv Garfinkel, Neeraj Kaushal, Jane Waldfogel, Columbia Population Research Center. See also NYT, from which this figure is drawn.
