Social and **E**conomic **E**ducation for **D**evelopment

Thinking About Poverty Policy & Economic Development

Julie N. Zimmerman

Rural and Economic Development Programs, Rural Sociology
University of Kentucky, College of Agriculture

December, 2000

With welfare reform devolving more and more responsibility for programs and policies surrounding families receiving cash assistance, there have also grown discussions surrounding poverty policy and how we address issues of poverty. This publication uses our common image of an econmic ladder to help better identify the dynamics of poverty and how it interrelates with policies.

INTRODUCTION

As part of the larger trend of devolving Federal responsibilities to state and local governments, welfare reform has brought home issues of poverty and raised questions about how to address it as never before. While many have equated welfare policy with poverty policy, more and more people have begun to understand the interrelatedness of 'nonwelfare' issues with issues of poverty.

As a result, policies not traditionally seen as 'poverty policies' can also be seen in their impacts on the abilities of individuals and families to make ends meet. These policies include those such as tax decisions, minimum wage levels, health care, and the ability to develop assets in general.

Policy decisions such as these join more traditional policies surrounding welfare, food, housing, and other forms of assistance in affecting the extent to which individuals and families live in, and leave living in, poverty.

In this brief, we explore one way to think about these various policies and how they relate to working families living in poverty. To do this, we begin by using our common image of a hypothetical economic ladder. This is a mental image and is ***not intended to represent*** all sides or issues related to policies affecting those in poverty. In the end, issues of poverty are very complex and ***cannot be reduced to a single diagram*** and still retain their complexity. Still, a diagram such as this can still be a useful organizing tool or heuristic device, **both** in terms of how it **does help** us to better organize our thoughts as well as for how it **does not** reflect the challenges of poverty and efforts to leave living in poverty.

"THE LADDER DIAGRAM"

Using the image of a hypothetical economic ladder, we can begin to see how different policies can affect those living in poverty and how they interrelate to affect the dynamics of poverty, especially for working families. Since this is a complex picture, let's walk through it one piece at a time.

We first begin with four different platforms. These platforms reflect some of the different economic realities that individuals and families can face.

The first platform is called the safety net. This one includes individuals and families who are not employed or cannot work. Consequently, they must rely on assistance programs such as cash assistance, food stamps, or housing assistance.

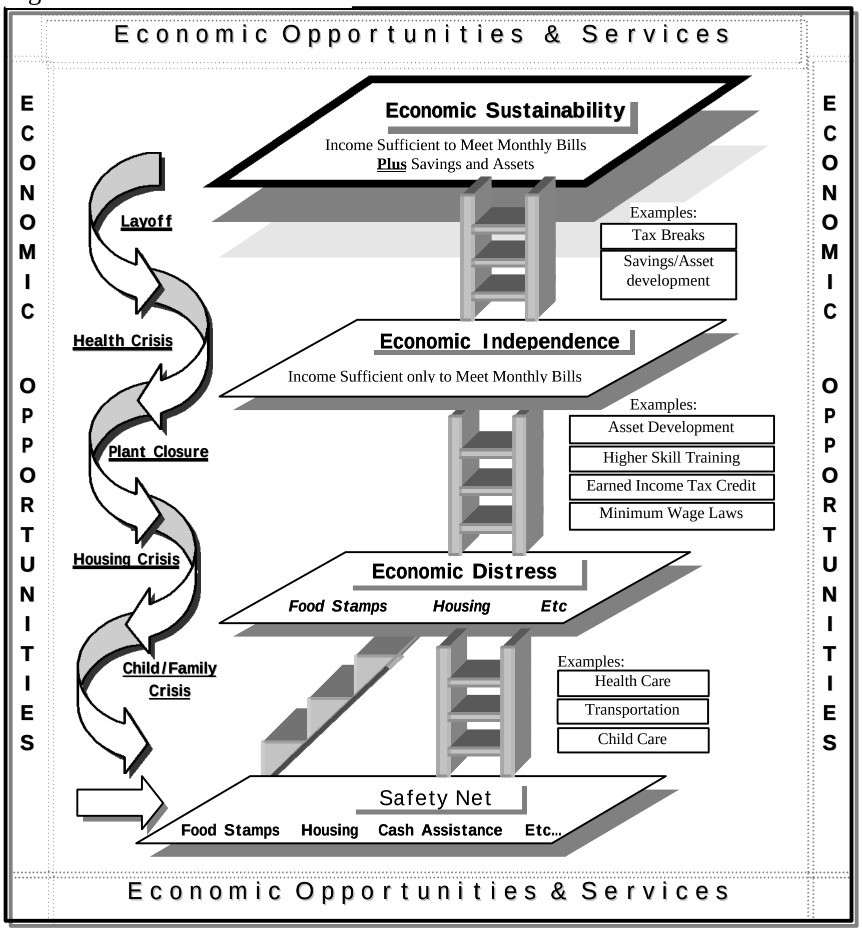
The second platform is called economic distress. Here, individuals and families are employed, but at very low levels, either in terms of hours worked or in terms of wages. Either way, the end result is the same; the household income is so low that they are still eligible for assistance programs *despite being employed.*

The next platform is called economic independence. We use the term 'independence' to reflect that the household has sufficient income to be independent of the means tested assistance programs. Here, individuals and families are employed but the earnings are sufficient only to meet monthly expenses with nothing left over.

The last platform is called economic sustainability. In this case, a household is earning enough to meet monthly bills, but they also have enough left over to have savings and develop assets. Savings and assets are crucial in being able to safely withstand the emergencies that we all face.

Interlinking each of these platforms are a series of ladders. Again, we use the image of a ladder because we often think in terms of being able to 'work out of poverty' by increasing income and earnings. In this, policies can play several different roles: they can help facilitate this movement; they can create barriers, intended and otherwise; or they can help mitigate the constraints that can keep people from being able to move out of poverty.

Figure 1.



In devising poverty policies, the goal is to create a situation which facilitates the ability of indivduals and families to ‘move up’ these hypothetical ladders.

Lets take each of these ladders one at a time and look at some of the types of policies that might be included on each one.

SAFETY NET LADDER

In the case of the platform called the safety net, here we have individuals and families who either are not employed or cannot work. This is the group we most often think of when we think of welfare and welfare reform.

Programs most often relied upon by these households are those mostly designed to alleviate hardship such as cash assistance, food stamps, housing and other basic services.

Welfare reform has been focusing on this group, revising programs and developing new requirements, all with the focus of assisting those individuals and families who can work to be able to move into the labor force.

Some of the types of programs and policies that can help facilitate ladders here are also those that affect the immediate barriers standing between an individual and employment. This can include programs such as access to child care, transportation, substance abuse treatment, domestic violence services, or health care access. Programs and policies which help increase the ability of individuals who had not finished high school could also be appropriate. A common focus here is on moving from no employment some employment, often low skill or unskilled jobs.

ECONOMIC DISTRESS LADDER

Moving from no employment to low skill or unskilled employement also means movement in terms of income. In this case, we are most often speaking of minimum wage employment.

Today, the minimum wage is set at $5.15 and hour. If a parent with two children is working full time at 2,000 hrs a year at minimum wage, they would earn $10,300 a year. Let’s put this figure into perspective by comparing this with the poverty guidelines. These guidelines are one part of the process used in establishing eligibility in many means tested programs.

In 2000, the poverty guidelines for a family of three was set at $14,150 a year. For someone working a full time minimum wage job, this would mean that there is a $3,850 gap between earnings before taxes and just reaching the poverty guidelines.

In other words, for a sole earner in a family of three, they would have to work an additional 748 hours a year at the current minimum wage in order just to meet the poverty guidelines.

Given this, you can see how employment alone does not necessarily mean a household is earning enough to no longer be eligible for assistance.

Also, these figures do not account for taxes. In some states, all income groups are expected to pay income taxes. This would also reduce the take home pay. Still, even if a family lives in a state which does not levy an income tax on the lowest earners, we all still have to pay Social Security and Medicare taxes. This means that the actual gap between the earnings from a minimum wage job and the poverty guidelines is actually greater than we thought.

Given these realities of low wages, we can see why this platform is called economic distress and how the policies needed to facilitate economic ladders would be different from those needed at the level of the safety net.

Instead, policies that help facilitate ladders here would focus on several different aspects; policies that affect how much you earn, policies that affect how much you get to take home, and policies that affect your ability to change to higher paying, higher skilled employment.

Some of the policies that we most often think of that can affect these aspects include minimum wage laws and the earned income tax credit. The first is an example that affects how much we earn and the second increases how much we get to take home from what we earn.

But there are other policies we may not often think of that can affect our ability to move into a different level of employment, which would in turn increase our incomes. These programs can include ways to increase our skill base, or reskilling to new higher technology employment.

But even with this focus, we often forget how gender can be a factor. For example, are we making available to women, training for higher skilled jobs such as skilled manufacturing positions? Or, are we training women for lower paying positions because of our preconceptions about gender appropriate work? And, by doing so are we limiting those most needing to be able to support children from moving up to the next hypothetical platform?

ECONOMIC INDEPENDENCE LADDER

The third platform is called economic independence because in theory the household is earning enough to be independent of assistance programs. However, we need to be careful about using the word independence. Here, the family is able to meet their monthly bills, but they are still in a precarious position.

Because there is nothing left over at the end of the month, there is also nothing available should an emergency occur. So, while in terms of income, there may be enough to meet the family's current bills, there is no way to accrue savings and no way to be able to withstand a family or financial crisis.

As you can see, the situation here is quite different from the last one. Here, policies again could focus on increasing how much an earner is able to take home from their pay, but we can also talk about policies that help facilitate being able to develop assets.

For example, a home is a common form of asset for many families and home ownership can lead to reduced taxes. Policies that help families with savings through medical savings accounts or IRAs can also facilitate the development of assets and move a household from simple independence to the next hypothetical platform.

ECONOMIC SUSTAINABILITY LADDER

While we commonly hear the term economic self sufficiency, less clear is exactly what this word means. Some use it to refer to earning enough to no longer require assistance programs while others refer to earning enough to also have some income left over at the end of the month.

Rather than add to the confusion, we chose the term economic *sustainability*. Afterall, at this point in our hypothetical ladder diagram, what we are talking about is not only being able to make ends meet, but also being able to withstand life's emergencies such as a broken down car, a water heater going on the blink, or a child's broken arm.

THE DOWNWARD SPIRAL

This brings us to what we call the downward spiral. On the left hand side of our diagram is a spiral used to represent how life's events can affect a downward movement on our diagram. Events such as a plant closure or being laid off can impact a household's income status, particularly if there are insufficient savings to help out until another job is found.

Other life events can also conspire to deplete or exhaust a families resources. For example, all families experience health crises at one time or another. These can vary tremendously in terms of their severity, but children do get sick or hurt and car accidents can happen to anyone, not to mention a serious long term illness such as a cancer diagnosis.

Other crises can include things like a housing crises. Imagine what you would do if both your furnace and your water heater decided to break down and needed to be replaced at the same time as your child broke his or her leg? Divorce can also stretch a family's resources or leaving a crisis situation such as family or domestic violence.

In our diagram, we have the spiral reaching all of the platforms, including the one called economic sustainability. We did this because while for some it may take only one crisis to exhaust the family's resources, crises also have a way of coming in bunches. And while a family at the level of economic sustainability may be able to withstand one crisis, several crises combined may simply be too much.

While the spiral reaches all of our hypothetical platforms, we also need to remember that not all downward spirals will lead to the bottom platform.

One or a series of crises may increase the vulnerability of a family without totally devastating it.

There are efforts to recognize the impact of crises on a family. As a result, there are attempts to create programs that would help mitigate a crisis so that a family does not fall completely down before they can receive help. But more often, we forget the kinds of impacts crises can have and how any of us can be affected.

THE STAIRCASE

The spiral is one way to begin capturing the dynamics of poverty and how individuals and families are not just simply 'in poverty' but move in and out over time. Because of this we also need add another aspect to our safety net platform.

While we most often think of those who are not employed as lacking any employment experience, the reality is more complex. Individuals and families from a number of backgrounds can find themselves in this situation through any number of avenues.

Consequently, programs and policies aimed at helping someone who fits our stereotypical image of someone without a high school degree or any work experience, would be inappropriate for a high school graduate who was laid off from their job.

Still, while we may most often think of this example in terms of someone being laid off, it is only one possible senario. Another senario could be that a woman's husband recently passed away. While she has a college degree, she has always stayed home and raised the children. Now, she is faced with being the sole wage earner for the family but her employment skills are out-dated.

To help reflect this in our diagram, instead of a ladder, we have placed a staircase leading upwards from the safety net platform. While in this case we only have the staircase leading to the next platform of economic distress, we also need to remember that the staircase could bypass that platform and lead to economic independence. This may be the case, for example, if the individual already posesses higher training skills and can move directly into a higher paying job, or is only in need of re-training in order to do so.

ECONOMIC OPPORTUNITIES

The last piece of our diagram may be at the same time the least obvious on our drawing but also be the most critical. Here we are talking about economic opportunities and services.

The availability of employment opportunites affect the ability to find a job in the first place. It affects opportunities for finding a higher paying job. And, it affects the ability to advance within a current job.

Here we can also see how economic development policies interplay with poverty policies. For example, are we focusing our efforts on attracting new businesses but that pay low wages? Are we supporting the retention and expansion of our exisiting businesses? Do our housing and recreation policies help make our community one that is attractive to live in? Do our educational institutions connect with the training and education needs in our community?

In other words, without local economic opportunities, all of the training, child care, and other policies and programs become limited in their ability to help facilitate economic ladders.

SUMMARY

While welfare reform has brought home discussions about poverty, it also brings new opportunities for states and localities to integrate the wide range of policies facilitating the building of opportunities for those who live in poverty or are working to leave living in poverty.

This new environment also opens new space for us all to talk about the dynamics of poverty. Today, with a good economy, we often hear on the news how fewer of us are chosing to add to our savings and how our consumer debt has been increasing. Commentators refer to this as no longer working to "keep up the the Jones'," but "keeping up with the Gates'."

While we have a tendency to think of poverty only in terms of welfare, and while we tend to think of poverty policy only in terms of welfare reform, by using the ladder diagram we can begin to better understand how in reality the experience of poverty is much more complex and the policies which can facilitate movement out of poverty are much more varied and interrelated.

This publication is based on part of a presentation originally delivered to the Poverty Commission of the Kentucky State Legislature on April 18th, 1999.

The author also gratefully acknowledges the input of Bob Ho, Director of the Maine Rural Development Council, for his encouragement in developing this idea.

SEED (Social and Economic Education for Development) is a program of the Kentucky Cooperative Extension Service at the University of Kentucky. Faculty draw on the resources of the Social and Natural Resources Information Laboratory and professional contacts at the University of Kentucky, other agencies, and community programs throughout the country. For more information contact your local Cooperative Extension office or Dr. Richard C. Maurer, SEED, 500 Garrigus Building, University of Kentucky, Lexington, KY 40546-0215 or call (859) 257-7582.