
Based on consumption gains, poverty in America has fallen

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Have liberal efforts to reduce poverty worked or failed? Are Americans richer than inequality hawks maintain? A new paper shows that poverty in the U.S. has declined over the past half-century if you measure wealth by consumption levels, not income levels.

The belief that efforts to reduce poverty in the United States have flopped over the last half century isn't justified, according to a new research paper by Bruce Meyer of the University of Chicago and James Sullivan of Notre Dame.

According to their article, "Winning the War: Poverty from the Great Society to the Great Recession (NBER Working Paper No. 18718)," the poverty rate declined by 26.4 percentage points between 1960 and 2010, with 8.5 percentage points of that decline occurring since 1980. They arrived at that conclusion by moving from "traditional income-based measures of poverty to a consumption-based measure and adjusting for bias in price indexes."

Figuring out who has benefitted from economic growth or redistributive policies and who would benefit from additional targeted policies depends critically on whether one examines consumption or income, the authors said. The consumption-based poverty results suggest much greater improvement for single parent families and the aged than do the income-based poverty measures. However, overall changes in consumption- and income-based measures are more similar for married two-parent families.

Despite repeated claims of a failed war on poverty," Meyer and Sullivan write, "our results show that the combination of targeted economic policies and policies that support growth has had a significant impact on poverty...There have been noticeable improvements in the last decade, though they are not as big as the improvements in some prior decades... We may not have won the war on poverty, but we are certainly winning."

The researchers considered vehicle ownership, housing, and other expenditures, using data from the Annual Social and Economic Supplement to the Current Population Survey and the Consumer Expenditure Survey. They also factor in inflation, changes in tax and transfer policies and demographics.

They conclude that tax changes, particularly expansions of the earned income tax credit, have noticeably reduced poverty. Increases in Social Security have played a large role since 1960. Other transfers have not been as important, at least in the past three decades. Rising educational attainment also helps explain some of the decline in poverty.

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