



Chapter 13: Economic Challenges
Section 3

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ECONOMICS

PEARSON

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Objectives

1. **Define** who is poor, according to government standards.
2. **Describe** the causes of poverty.
3. **Analyze** the distribution of income in the United States.
4. **Summarize** government policies intended to combat poverty.



Key Terms

- **poverty threshold:** the income level below which income is insufficient to support a family or household
- **poverty rate:** the percentage of people who live in households with income below the official poverty threshold
- **income distribution:** the way in which a nation's total income is distributed among its population
- **food stamp program:** government program that helps low-income recipients buy food



Key Terms, cont.

- **Lorenz curve:** the curve that illustrates income distribution
- **enterprise zone:** area where businesses can locate free of certain state, local, and federal taxes and restrictions
- **block grants:** federal funds given to the states in lump sums
- **workfare:** a program requiring work in exchange for temporary government assistance



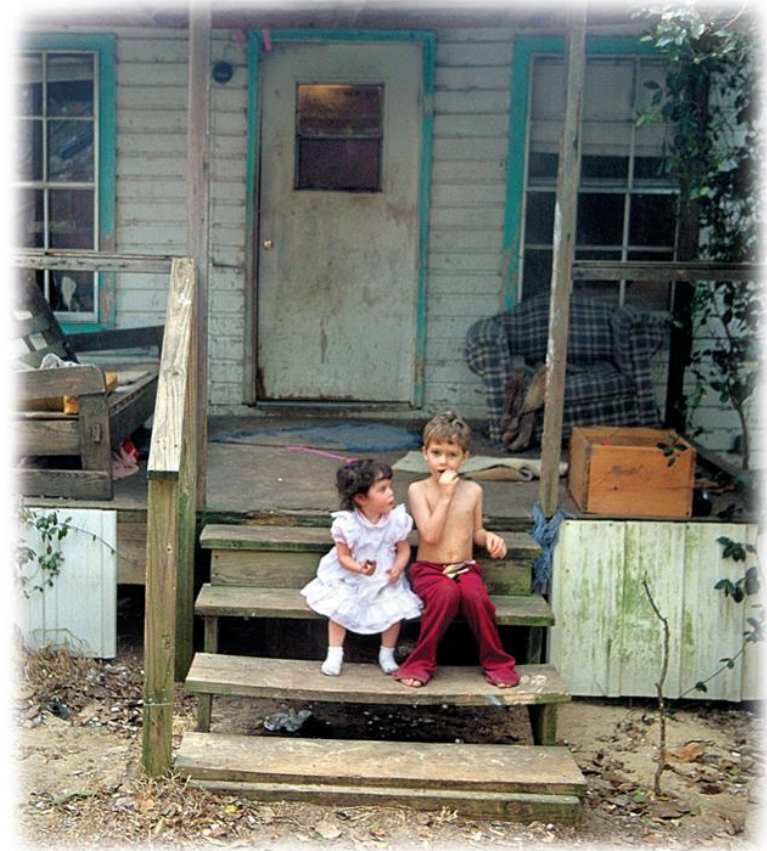
Introduction

- What factors affect the poverty rate?
 - Race and ethnic origin
 - Type of family
 - Age
 - Residence
 - Education
 - Growth of low-skill service jobs



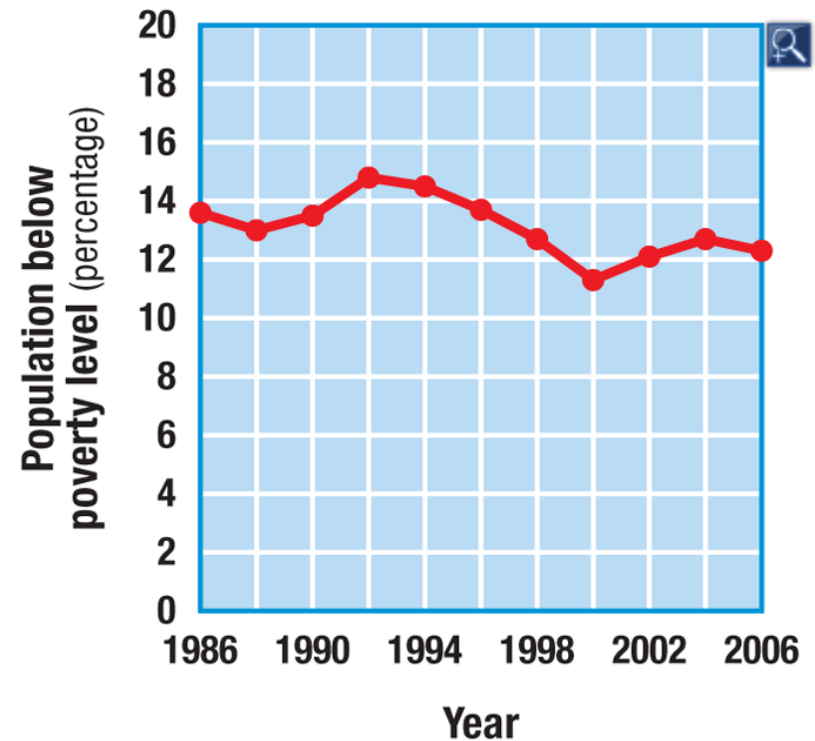
The Poverty Threshold

- According to the government, a poor family is one whose total income is less than the amount required to satisfy the family's minimum needs.
 - The Census Bureau determines the poverty threshold required to meet those minimum needs. The poverty threshold often varies with the size of the family.
 - If a family's total income is below the poverty threshold, everyone in the family is counted as poor.



The Poverty Rate

- The poverty rate is the percentage of people who live in households with incomes below the official poverty threshold.
 - In 2006, 12% of the population equaled 36.5 million.
 - What happened to the poverty rate from 1994 to 2000?



SOURCE: U.S. Census Bureau



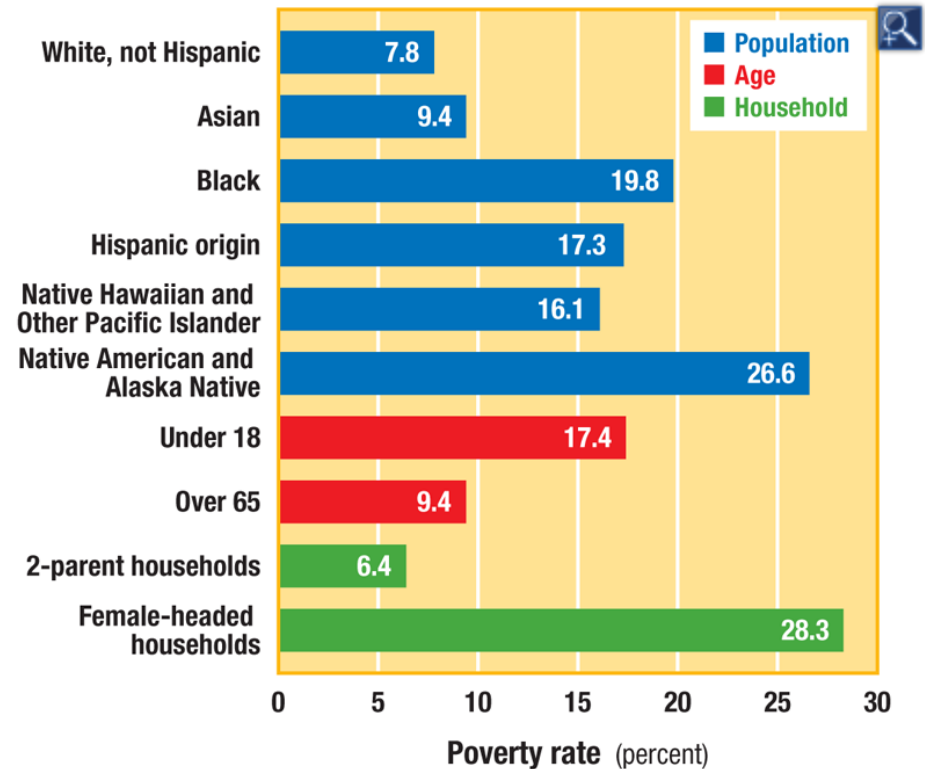
The Poverty Rate, cont.

- Poverty rates differ sharply by group, according to several indicators:
 - Race and ethnic origin—the poverty rate among minorities is higher than among whites
 - Type of family—single mother families have a greater poverty rate
 - Age—children are the largest age group living in poverty
 - Residence—inner cities have double the poverty rate of those who live outside the inner city



Poverty Rates by Group

- Households headed by women, African Americans, Hispanics, and Native Americans are more likely than other groups to have incomes below the poverty threshold.
 - Which population group has the highest poverty rate?



SOURCE: U.S. Census Bureau



Causes of Poverty

- The failure to earn adequate income is often the result of unemployment. However, more than half of poor households have someone who works at least part-time, and one in five have a full-time, year-round worker.
 - For these “working poor,” the problem is usually low wages or a limited work schedule.
- Shifts in the family structure, from a two-parent family to a single-parent family, tend to lead to an increase in the amount of families living in poverty.



Causes of Poverty, cont.

- People who live in the inner city earn less than people living outside the inner city.
- White workers generally earn higher salaries than minority workers, and men generally earn more than women.
 - Inequality results from differences in hours worked, education, work experience, and discrimination.



Causes of Poverty, cont.

- The growth of globalization has led to a decrease in high-paying manufacturing jobs forcing many less-educated people to work in low-skill service jobs where wages are low.
- Lack of education also leads to poverty.
 - Checkpoint: What are three causes of poverty?



Income Distribution

- To fully understand poverty in this country, you also need to understand income distribution.
 - The table (below left) shows family income ranked by category. When plotted on a Lorenz curve (below right), these data show the distribution of income in the United States.

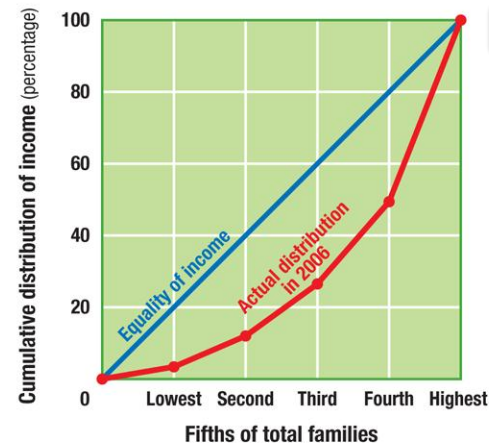
Action Graph online

Percent of Total Income, 2006

| Quintile | Percent of income for quintile | Cumulative: Percent of income for this and lower quintiles |
|---------------|--------------------------------|--|
| Lowest fifth | 3.4% | 3.4% |
| Second fifth | 8.6% | 12.0% |
| Third fifth | 14.5% | 26.5% |
| Fourth fifth | 22.9% | 49.4% |
| Highest fifth | 50.5% | 100.0% |

Note: Because of rounding, totals may be greater than or less than 100 percent.
SOURCE: U.S. Census Bureau

Lorenz Curve



Income Distribution, cont.

- As you can see from the chart and graph on the previous slide, the wealthiest fifth of American households earned more income than the bottom four fifths combined.
- Factors that lead to this income gap include:
 - Differences in skills and education
 - Inheritances
 - Field of work
- In the last two decades, the distribution of income has become less equal.



Antipoverty Policies

- The government spends billions of dollars on programs designed to reduce poverty.
 - Critics of such programs argue that the programs themselves harm the very people they are intended to help. Such criticisms have led to new policies.
 - Earned Income Tax Credit (EITC) —a refundable tax credit that low-income families with children receive when they fill out their federal income tax return. EITC offsets the impact of the Social Security payroll tax on low-income families.
 - In 2005, the EITC lifted more than four million people above the poverty line.



Antipoverty Policies, cont.

- Enterprise zones—benefit businesses by lowering their costs and help local people by making it easier for them to find work.
- In recent decades, federal and state governments have designed job training programs to help workers who lack the skills to earn an adequate income.
 - The government has established a minimum wage as well.
- The government also has programs to help poor people obtain affordable housing.



Welfare Reform

- Checkpoint: What was the goal of TANF?
 - The welfare-reform plan of 1996 established Temporary Assistance for Needy Families (TANF), which provides block grants to the states to help move poor adults from welfare dependence to employment.
 - It was hoped that this reform would reduce poverty by providing poor Americans with labor skills and access to steady, adequate income.



Review

- Now that you have learned about the factors that affect the poverty rate, go back and answer the Chapter Essential Question.
 - How much can we reduce unemployment, inflation, and poverty?

