The Daily Dish

Growth, Poverty, and the Safety Net

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Eakinomics: Growth, Poverty, and the Safety Net

The New York Times published a nice piece entitled, "Millions of Americans Have Moved Off Assistance. Does Trump Get Credit?" It reminded me that the annual publication of the Bureau of the Census' "Income and Poverty in the United States" used to be a highly publicized event that caused the previous administration and its allies to wring their hands over inequality and to bewail the failings of the United States' reliance on private markets. Suddenly, however, the publication of this report is seemingly not such an important moment. Why?

Recently the poverty rate has declined sharply, from 12.7 percent in 2016, to 12.3 percent in 2017, and to 11.8 percent in 2018. This summer, we will likely find that it was even lower yet in 2019. The improvements in the labor market have allowed millions to leave the social safety-net programs such as Medicaid, Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP, aka Food Stamps), and others. As the *Times* notes, "'The decline in poverty levels since the end of the Great Recession has been the single largest factor in recent SNAP participation declines,' said Dottie Rosenbaum, a researcher at the Center on Budget and Policy Priorities, a liberal research organization in Washington."

This drop has been made possible by the extraordinary recent performance of the labor market. Since the beginning of the Trump Administration, the population has grown at an average annual rate of 0.6 percent, but jobs have grown at a rate of 1.5 percent. Since you need a person to be able to count a new job, where did the people come from?

If the labor force participation rate stayed constant, the labor force would have also grown at a 0.6 percent rate. But it didn't. The participation rate rose at an annual rate of 0.4 percent, allowing the labor force to grow at 1 percent. If the unemployment rate had remained constant, this would have simply translated into a larger pool of unemployed. Instead, job growth averaged 1.5 percent annually because the unemployment rate fell by 1.1 percentage points.

The rising participation rate and declining unemployment rate pulled people from the economic shadows and contributed another 4 million jobs – right in line with the declining use of the social safety net. This is the key point: a declining poverty rate associated with rising employment indicates economic self-sufficiency. That should be the goal – not a declining poverty rate driven by reliance on the social safety net.