The paper by Tim Smeeding contains a wealth of information about poverty and poverty-reducing government programs in the United States and other rich countries. Somewhat to my surprise, it also contains a policy recommendation. It is, to be sure, a fairly well hedged policy recommendation, and one that contains a double negative:
"It is hard to argue that the United States cannot afford to do more the help the poor, particularly those who are working in the labor market." (p. 36)

As stated, I completely agree, if only because the term "afford" has no economic meaning. Of course we can afford it. My son, after being denied a new drum rack, says "Dad, I know you can *afford* it." The question is whether we *should* do more to help the poor. I think Tim believes we should. A clue to why he believes this is offered when he says that "the wisdom of expanding programs…depends on one's values and subjective views about the economic, political, and moral tradeoffs of poverty alleviation." (p. 36)

In my comments I briefly address three reasons why Tim might reach different conclusions about the appropriate level of antipoverty programs than the U.S. policy process has produced. He might have

- Different views of the facts
- Different views of the economic costs of such policies, and therefore the implicit tradeoffs
- Different values

<u>Facts</u>
Most of the paper is about the facts in the United States and in selected European countries and Canada. The bottom-line facts are that the United States has a much higher poverty rate—where here poverty is defined relative to the median income of the country—and spends much less on poverty alleviation than the other countries.

Most of the facts are based on snapshots of income distributions at a point in time. This is of interest, but also of interest is the inequality of a more permanent, or lifetime, measure of income. Tim asserts that countries with smaller measures of economic distance (e.g., income at the 90th percentile vs. income at the 10th percentile) have higher levels of "equal opportunity," (p. 8), but how distance determines opportunity is not at all clear. He acknowledges that mobility is another important aspect of a society, but

lacking any longitudinal data, he must refer to others' work that suggests that intergenerational mobility is lower in the United States than in most other rich countries. Of course, lifetime mobility and intergenerational correlation are different concepts. His data could, though, shed light on mobility by addressing within-age inequality and, by extension, the inequality of lifetime income.

Tim says that poverty is a relative concept. He defends this by asserting that "most" would argue that economic well-being is most crucially a function of the individual's relative position in the distribution of income. This is a critical point that is treated too causally here. I understand that there is evidence that self-reported happiness and life satisfaction appears to depend on one's relative position, but that is not the same as asserting that the primary object of policy should be to reduce inequality rather than increase the absolute level of real income. This distinction is important because, according to Table 1, the real GDP per capita in the United States is nearly 30 percent higher than it is in any of the other seven comparison countries. When poverty is measured relative to the country's average standard of living, the standard for measuring poverty becomes that much higher in richer countries. This is absolutely crucial for how the results are portrayed, as Figures 3 and 5 show starkly. Relative to U.S. median income, income at the 10th percentile is much lower income than in comparable countries. But, these figures also show that the average poor American is roughly as well off as the average poor person in any other nation. Poor American kids are no better or worse off than are poor kids in most other nations. The paper does not establish that the well-being of the American poor is substantially lower because they live in a country where the non-poor are better off. This state of affairs may affect the moral imperative of poverty reduction, but that is different than arguing that the American poor are really worse off because they are surrounded by more affluence.

Tradeoffs

Tim refers to the difference between the inequality before tax and transfers and after tax and transfers as the antipoverty "effect" of government policy. This is correct only in a narrow sense because it ignores the possible impact of policy on pre-tax inequality and on the level of income. Tim dismisses the relevance of this by attacking somewhat of a straw man; he asserts there is no evidence that wide income disparities "may be in the long-run interest of the poor themselves." (p. 32) This could be true at the same time it is true

that high implicit marginal tax rates of redistributional programs may affect the pre-tax incomes of the poor by affecting their incentives to seek work or better themselves in any way.

This is not the place to review the vast literature on the incentive effects of government redistributional policies. But Figure 2 Tim's paper contains some intriguing evidence that is relevant to this issue. It shows that the before-tax-and-transfer poverty rate in the United States is actually below average! To Tim, this is further evidence of the limited antipoverty efforts in the United States: the difference between the pre-policy and after-policy poverty rate is only 6.7 percent in the United States, compared to the overall average differential of 16.3 percent. It could also indicate that more antipoverty efforts exacerbate the pre-policy poverty problem. In the figure below, I have plotted, for the 8 countries Tim studies, the before-tax-and-transfer poverty rate against the difference in the pre- and post-tax-and-transfer poverty rates. There is a clear positive correlation between reduction in poverty and the before-tax-and-transfer poverty rate: the more government policy reduces poverty, the bigger the poverty "problem" is. Of course, this exercise proves nothing, but it does suggest that measuring the effect of poverty programs while ignoring their impact on market outcomes may be missing an important aspect of the story. It is not really an issue of whether disparities in pay and incomes provide "powerful signals," as Tim characterizes the issue on page 32, making it sound like a demonstration effect rather than an effect of high marginal tax rates on incentives for betterment. Although the empirical evidence on the effect of marginal tax rates on behavior is by no means crystal clear, I think it is not correct to be as dismissive as Tim is in this essay. It behooves us as economists to take this issue very seriously.

Values

I began my comments by saying that there are three possible, although not mutually exclusive, reasons that Tim supports more active antipoverty policy in the United States: different views about the facts, different views of the tradeoffs, and different values.

Certainly there is substantial cross-country variation in attitudes toward poverty alleviation. This variation can partly explain the pattern of points shown in my figure. There are (at least) three possible explanations for this pattern of points. One is that high pre-tax-and-transfer poverty rates induce countries to put more resources into alleviating it. This relationship would

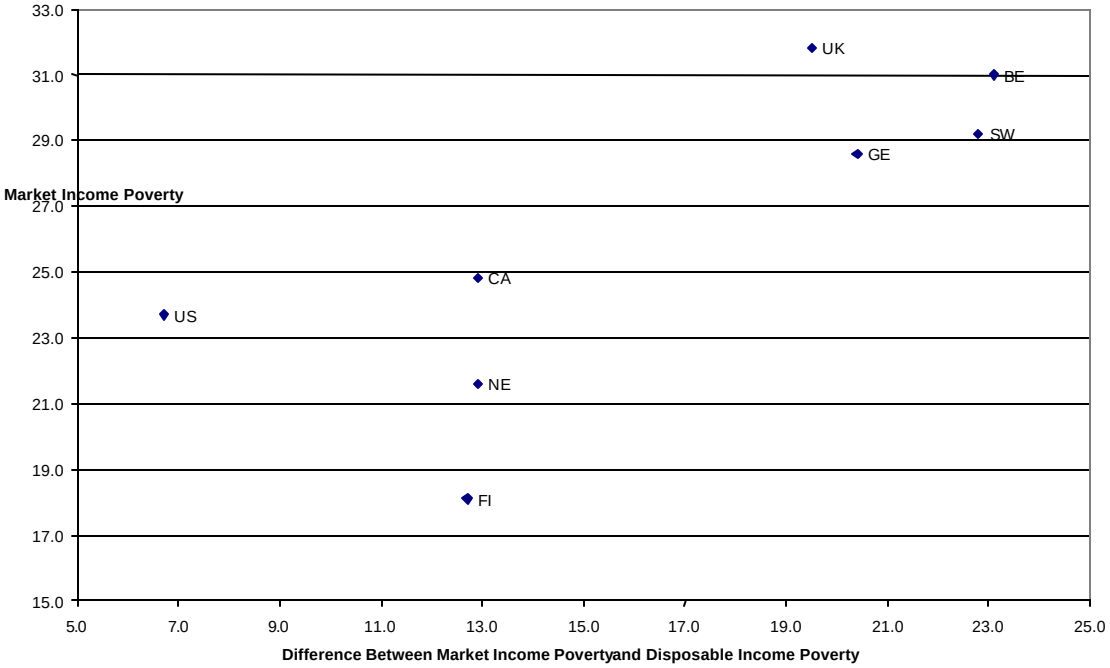
come out of a standard optimal progressivity argument: holding values and the economic costs of redistribution constant, more pre-tax-and-transfer inequality should trigger more redistributional polices. According to this story, in the figure variations in the y-value cause variations of the same sign in the x-value.

A second possible story is that tax-and-transfer programs increase the pre-tax-and-transfer poverty rate, through the disincentives to betterment these programs create. I have alluded to this possibility already. According to this story, it is variations in the x-value that cause variations of the same sign in the y-values.

A third story is that countries differ in their attitude, or values, toward self-reliance and laissez-faire. (In support of this notion, recent work by Alberto Alesina finds that 71 percent of Americans, versus 40 percent of Europeans, think that poor people have a chance to escape poverty if they work hard.) More laissez-faire countries tolerate more inequality in market outcomes, and do less to alleviate it. If that is the dominant effect, then we would see a negatively sloped scatter plot of points in the figure, a relationship that reveals nothing about the causal relationship between redistributional effort and pre-tax-and-transfer inequality.

My point is that the facts by themselves—and in particular the cross-country comparisons of facts--tell us little about the economic relationships that are crucial to designing policy. They are not sufficient statistics for good policy. But they are necessary, and Tim has devoted his career to assembling and analyzing these necessary facts. This paper establishes without a doubt that the United States could do much more to alleviate poverty. Why we have not done so is probably partly due to our values that stress self-reliance and laissez-faire. It may also be partly due to views about the effect of antipoverty programs on the incentive for people to better themselves. The challenge for policy design is how to achieve antipoverty objectives while minimizing the disincentive problems.

Figure 1
The Relationship Between Poverty Alleviation Effort and Market Income Poverty



Source: Based on figure 2 of Smeeding. Market Income Poverty is the percent of persons with market income (pre-tax-and-transfer) less than half of adjusted national disposable median income. Disposable income poverty is the percent of persons with disposable income (post-tax-and-transfer) less than half of adjusted national disposable median income.