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## The Poverty in USA: An In-Depth Analysis of the Last Two Decades

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THE POVERTY IN USA:  
AN IN-DEPTH ANALYSIS OF THE LAST TWO DECADES

by

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## ABSTRACT

### THE POVERTY IN USA: AN IN-DEPTH ANALYSIS OF THE LAST TWO DECADES

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Old Dominion University, 2021  
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Poverty is a global problem that affects not only the undeveloped states but also the most developed ones. This research paper will analyze this problem in depth, trying to summarize several definitions, several causes that can lead to an increase in the poverty rate, and policies implemented by the government in order to reduce the total number of poor people. The author analyzed the poverty rate in each state of the United States from 1990 to 2019 using a panel data analysis. She found out that California is the state with the highest value of poor people in the U.S. The independent variables analyzed in this paper are the unemployment rate, personal income, total number of residents, total number of violent crimes, and Gini coefficient.

At the end of our analysis, the author discovered that the total number of poor people is positively affected by population size, the total number of violent crimes, the Gini coefficient, and the unemployment rate (for relatively poor people only). In particular, the Gini coefficient has a standard error high, so it needs further studies. The last chapter will analyze the difference in poverty rate between the U.S. and Italy and possible causes that can explain the differences. The results show that the U.S. had a higher poverty rate than Italy from 1997 to 2019, and the author concludes with some suggestions to encourage further studies about the topic.

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This thesis is dedicated for all those who leave their  
home countries to achieve their goals and discover  
who they really are.

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# CHAPTER 1

## INTRODUCTION

Poverty is a significant problem that all states struggle to reduce as much as they can implementing policies to reduce it, introducing a new form of financial aid, and asking help to experts like psychologists, or economists that can give a different point of view in order to solve this problem. This research paper has the goal to try examining poverty in deep.

In order to examine this phenomenon, first of all, we examined some different definitions of poverty (Chapter 2). Each definition examines a different aspect of poverty, some says that poverty is only the results of families' income, others say that not all poverty can't be considered in the same ways, and consequently, we have to consider different levels of poverty identified by absolute poverty and relative poverty. Also, the Multidimensionally poor, introducing in 2010 by U.N. Development Program and the Oxford Poverty and Human Development Initiative, will be defined and introduced it.

Chapter 3 will examine the correlation between the increase of poverty rate with external factors that can influence the results. These factors are such as unemployment rate, low wages, lack of skills, psychological problems, inferiority complex, laziness, and policy failure.

The fourth step of this research is to examine what governments do to manage this problem and if their policies are effective as fiscal policy, monetary policy, welfare programs, psychological support, minimum wage, etc.

Later we will focus on our model, and we will examine the poverty in the United States from 1990 to 2019. It is interesting to see how different poverty levels are in each state and compare them with their level of income, unemployment, population size, the total number of

violent crimes, and the Gini coefficient. We will find out which factor is more important for the development of poverty.

Finally, we will turn our attention to Europe, particularly to Italy, my country home, and we will examine the difference in poverty between the U.S. and Italy and try to understand why the results are so different.

## **CHAPTER 2**

### **DEFINITION OF POVERTY**

Poverty is a global phenomenon that afflicts all countries of the world, including the richest. It is one of the main problems faced by the government that struggles to manage and reduce the poverty rate during their administration. In 2019, 689 million people lived in extreme poverty, representing about 9.2% of the global population. (Peer, 2021) These are some numbers that World Vision published on its website, which considers both people's income and whether they can satisfy their basic needs.

Usually, poverty is calculated watching the families' income and how much they can purchase to improve their standard of living. According to World Bank, those people who live in extreme poverty spend a maximum of \$1.90 daily (international poverty line), and this causes the inability to purchase nutrient food, the lack of household services like electrical service and clean water, the lack of medical treatment, and the youngest members have to abandon their studies to provide financial support to their families. (Peer, 2021)

When we talk about Extreme poverty, we consider two types of extreme poverty: the absolute one and the relative one. ("Relative vs Absolute Poverty", 2018) Absolute poverty is characterized by those people who cannot afford their essential needs for sustenance, such as food, clothes, a shelter. On the other hand, relative poverty is characterized by those families who are less poor than those absolute poor, but they are considered poorer than the people's standing.

Poor people own an income that is 50% or 60% lower than the median income offered in their country, and they have difficulties affording services related to their houses, such as

internet, TV, house security (Peer, 2021). This kind of poverty can be considered a social exclusion, where people do not have the same tools and chances to upgrade their conditions as proper clothes, internet, a better house, better school etc. (“Relative vs Absolute Poverty”, 2018).

If we consider other variables as the absence of healthcare, low education, and poor living conditions, a new type of poverty is called “multidimensionally poor”. In the book titled “Economic Development”, Todaro and Smith mentioned the Multinational Poverty Index (MPI), explaining the negative consequences of deprivations and how they can influence people’s lives (Todaro & Smith, 2015). The number of people that belong to this new kind of poverty is more than before. In particular, in 2018 about 1.3 billion people are considered poor in developed countries.

The global multidimensional poverty index was created in 2010 by the U.N. Development Program and the Oxford Poverty and Human Development Initiative. It is not limited to income, but it also considers other aspects of everyday life. The indicators considered are usually taken into consideration: “nutrition, child mortality, years of schooling, school attendance, cooking fuel, sanitation, drinking water, electricity, housing, and assets” (Peer, 2021). Multidimensional poverty describes a person who lacks three or more of these indicators. This kind of index is really useful because it helps the government to identify those areas that need more adjustments and more interventions.

The poverty line is not equal to all countries because it considers the prices of goods and services, cost of living, governments, crime rate, unemployment ext. As we have already seen, Peer highlighted the international poverty line, which is equal to \$1.90 per person daily. Also, in countries where the income is lower-middle, like India and the Philippines, the poverty line is equal to \$3.21. In countries where the income is upper-middle, like Brazil and South Africa, the

poverty line equals \$5.48. Finally, in countries where the income is high, the poverty line is \$21.70, more than 11 times the international poverty line, and countries with low income. In the United States, the poverty line equals \$32.96 per person daily, equal to \$12,760 a year for those without children or a spouse. All people that are under the poverty line are not able to bear the cost of basic life.

This approach is a limited approach describing the concept of poverty, and many researchers tried to understand poverty differently, for example, Oscar Lewis. In 1966 he studied the concept in an anthropological way, trying to identify the patterns that can explain the culture of poverty. He focused on the differences between people who live in Puerto Rico and New York. He collected information about employment history, income, expenditure, goods, services used, property, friendship, etc. He was able to identify 70 features that were common to the culture of poverty (Lewis, 1966). Also, he found out four dimensions for the most important features: “the relationship between subculture and the society, the nature of the slum community, the nature of the family, and the attitudes, values and character structure of the individual.” (Lewis, 1966, p. 20).

He discovered that poor people tend to isolate themselves from society, starting to use fewer banks, hospitals, groceries, museums, etc. They suffer fear, discrimination and apathy. That impact usually started in childhood, where children are not psychologically ready to fight changes and improve their life (Lewis, 1966). Consequently, when they grow, they are not willing to increase their responsibility, so they limit their life choices. For example, adults prefer not to get married due to the lack of property and prospects for the future and avoid any extra expenses and legal compliance.

In the same year, Oscar Lewis identified the inability to manage their financial resources and savings as the primary problem between poor people. In particular, poor people tend to spend more than middle-class people because they cannot afford to purchase wholesale goods that would provide cost savings (Lewis, 1966). This statement has been confirmed by BuzzFeed that highlighted some expenses where poor people cannot save costs like parking fees because they cannot afford the cost of parking tickets (LaConte, 2021). Another example is purchasing an old car that will need a lot of maintenance expenses in the future. Finally, the absence of a healthcare plan, that pushes poor people to meet a specialist only when their problem is really urgent, increasing the final costs.

However, as we already mentioned before, many researchers considered the idea of poverty something that goes beyond the numeric approach. According to Ruth, the numbers are not that important to explain the real meaning of poverty (Lister, 2015). Behind all those numbers collected, people with different histories, backgrounds, ethnicity, age, and possible disabilities suffer due to their living conditions. Also, Paul who contributed to the ATD Fourth World collection, affirmed that we have to abandon the shadows of data and understand that poor people are more than simple numbers (“The Roles We Play. Recognizing the Contribution of People in Poverty”, 2014). The word “poverty” should not be used only in a negative way as the Media do, but they should remember that those people deserve to respect their dignity like anybody else. The poor people should not wait for policies that would improve their living conditions, but they should start to fight for their lives and ask for help (Lister, 2015).



## **CHAPTER 3**

### **CAUSES OF POVERTY**

In the previous chapter, we tried to understand and define to the concept of poverty and the culture of poverty. The second step is to understand the origins and the causes of this phenomenon which has always caused suffering to people. If we can identify those important reasons, we will be able to find a way to reduce this phenomenon or even eliminate it in terms of a utopist world.

One of the most well-known reasons is the shortage of income, which does not allow the financial resources to satisfy the basic needs. Schiller, in his book entitled “The economics of poverty and discrimination,” showed the differences in income sources among couples of poor people who lived with an average of \$12,502 per year and couples of nonpoor people who lived with an average income of \$83,323 per year considering data of 2000 (Schiller, 2007). First of all, we can see a significant gap between the two average incomes (\$70,821), which occurs because the author did not include the food stamp and housing assistance in the two values (Schiller, 2007). Nonpoor people’s income comes from 93% of wages and salaries and only 7% from other sources. On the other hand, the poor people gain 84% of their average income from salaries and consequently from their jobs, 7% from cash welfare (excluded food stamps and housing assistance), and 9% from other sources. Furthermore, we can see that poor people depend less on their salaries than nonpoor people. Consequently, the low income is explained by the loss of will work or by excessively low wages.

The competition of the Labor Market determines the differences among the wages. Nowadays, a lot of people are looking for jobs, or they try to improve their lives by finding better working opportunities with higher salaries. For this reason, employers can calculate the right payroll for each employee considering both their job performance evaluation and their contributions in their positions (Sharp et al., 1999).

In the Labor market, there are three types of the labor force: nonparticipants, unemployed, and employed (Schiller, 2007). Nonparticipants are people who are outside the labor market. Usually, they are children, disabled people, or those adults who depend on others' financial sustain. Nonparticipants are more likely to become poor in the future because they have no earnings. The second group comprises those who are looking for a job, but they can still become poor if their job searches do not bring the desired results. The last group includes those who have earnings and a working position that assures them financial stability. For this reason, they are less likely to become poor than the other groups.

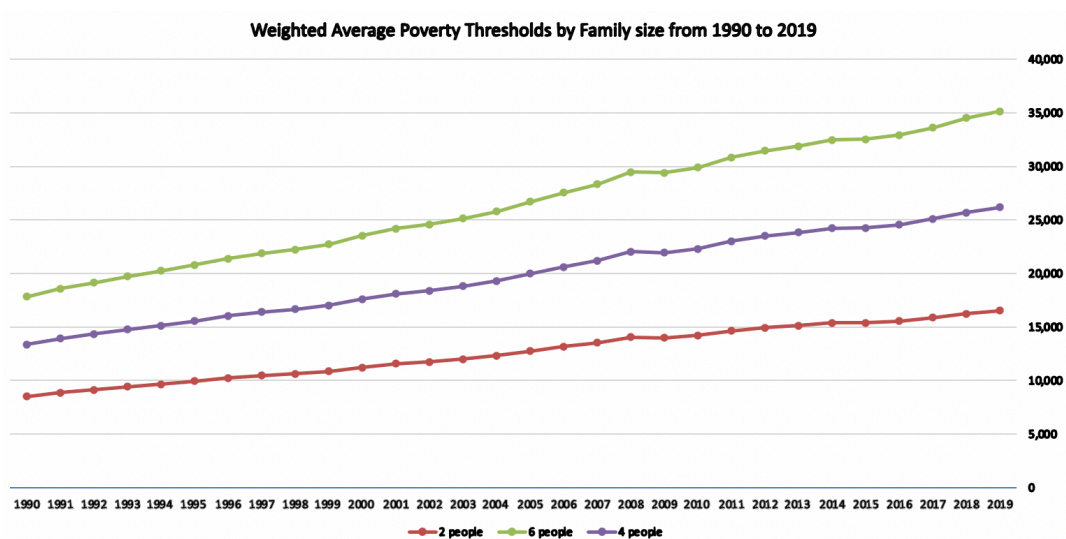
Another cause of poverty is people's age because when people get older, they are not strong enough to continue to work like younger employees. As a result, it is more likely that older workers will become poor in future due to the decrease in earnings, and this status is not easily reversible due to the employee's age (Schiller, 2007).

Another cause of poverty is people's health status. Those people who suffer illnesses or specific medical conditions have to face a lot of medical expenses like medicines, doctor appointments, special treatments, etc. Unfortunately, not everybody has the luxury to have efficient health insurance which covers medical expenditures, or not all expenditures are covered by health insurance. Moreover, people with chronic diseases have fewer chances to find a

proficient working position, and their conditions do not let them have a full-time job or even working.

Usually, poor people have prominent families with many children. Children can help to have an additional income, but at the same time, they limited the ability of parents to work because they need childcare, more services for the home, more space and consequently bigger shelters, more food, but they can't afford the expense to hire people to help them (Schiller, 2007).

*Graph 1: Weighted Average Poverty Thresholds by Family size from 1990 to 2019*



From the graph above, we can see the difference among families of 2 people (parents without children or 1 parent with 1 child), with families of 4 people (parents and 2 children or 1 parent with 3 children) and families of 6 people (parents with 4 children or 1 parent with 5 children). The line/ trend of weighted average poverty thresholds is higher for 6 people families than for the other groups, this shows that having many family members is a problem for low-income

families. People with large families have more difficulties exiting from poverty than smaller families.

Another factor that influences poverty is prejudice and racism. Many employers prefer not to hire poor people because they do not trust them, and they are worried that they can cheat or rob them or are not up to the task. At the same time, poor people avoid job openings because they feel inferior, rejected, discriminated against, or unable to complete tasks.

Consequently, another factor is the lack of skills or low education. Poor families are obliged to leave the schools soon and start to work in order to have the income to help their families. When they are looking for a job, they cannot apply for employment with higher income which required high skills, because they have any, so they are obliged to apply for jobs where the income is low, where they are underpaid, and exploited, and sometimes also in the moonlight in order to provide basic needs to their families. However, sometimes these jobs aren't enough, so they are obliged to work in the crime world to have enough money for their families.

Finally, another factor is the intervention of the government. Some policies have only the goal to collect money for the country without thinking about the impact of these policies on poor people. An example could be the increase of price products that lead to a rise in the poverty rate and/or the creation of another type of poverty.

## CHAPTER 4

### POLICIES

In the previous chapter, we have identified factors that lead to an increase in the poverty rate. Now it is time to talk about how governments are operating to solve this problem. In this chapter, we will discuss some policies that reduce the poverty rate and some failed policies that lead to an increase in poverty. As we have already seen, there are two kinds of poverty, the absolute and the relative, and some policies are more effective to reduce one kind of poverty and increase the other one.

When we think about reducing poverty, we usually think that the best solution is implementing policies that lead to an increase in economic growth and, consequently, of income rate. An increase in economic growth can bring other improvements. For example, there will be more working opportunities available on the market, reducing unemployment, positive adjustments to the compensation and benefits packages offered to employees with salaries increase, more financial resources available for non-monetary benefits, etc.

In particular, the reduction of the unemployment rate can be achieved by adopting various policies like Fiscal Policy and Monetary Policy. The main difference is that the results obtained from Fiscal policy can be visible in the long run, while those obtained from the monetary policy are more likely to be visible in the short run. During a possible recession, there is a reduction of purchases and investments that increase the level of the unemployment rate. Governments have the chance to choose between reducing taxes or increase the investments of the infrastructural project. These two options bring both an increase of AD (Aggregate Demand)

and GDP and reduce supply-side unemployment. On the other hand, the Monetary Policy implements cuts on the interest rate. This phenomenon encourages people to spend and invest more, and consequently, there is an increase in AD and a decrease in the supply side unemployment rate.

Another policy that can reduce the poverty rate in a country is increasing progressive income taxes. In other words, those people with higher income are willing to pay higher taxes than those with lower income. This policy can increase the benefits and decrease relative poverty. However, this policy turns into Regressive taxes, which means that those with average and low income pay a higher income in taxes with respect to rich people because poor people's salaries and purchases are reported. On the other hand, many wealthy people are not scared of Government punishments, and for this reason, they do not report their total amount of earnings related to illegal actions (Todaro & Smith, 2015).

Furthermore, another policy that reduces the poverty rate is the Welfare Program. This reform is able to provide welfare benefits to those with a low income that need different forms of sustainment. Governments as the United States of America, choose to implement expenditure programs that aim to help the individual poor person.

One of the cash welfare programs implemented by the U.S. Government is the TANF (Temporary Assistance for Needy Families). This program has replaced the AFDC (Aid to Families with Dependent Children) in 1996 (Rosen & Gayer, 2014). The main difference between TANF and AFDC is that the first one is a temporary monetary help, instead, the second was indefinite. A low-income family can benefit from TANF for a maximum of 5 years. One of the requirements to benefit from TANF is that low-income families should work.

With AFDC, states have not a fixed amount of finances, but with the TANF, each state receives an amount of money from the Federal Government, and it should finance the welfare program. It can use the money as it wants, give money directly to chosen families, finance job-training programs or finance other programs. States can choose how much and when to reduce the amount of money for each family when they start to have an income adequate to basic needs. The TANF encourages families to work gaining Medicare coverage in order to become independent from the TANF for one year (Schiller, 2007). However, this cash welfare program is not always effective. In particular, low-income families depend on the eligibility to request the cash welfare program, and for this reason, they are more likely to make extreme decisions. A Canadian study reported that this cash welfare program influences single mothers' decision to get married (Lefebvre & Merrigan, 1998). Also, this welfare program encourages mothers and fathers to abandon their families or get divorced to meet the eligibility prerequisites (Schiller, 2007).

Besides the cash welfare program, there is also the in-Kind welfare program that aims to assist poor people in sustaining their basic needs. The main in-kind welfare programs are food stamps, Medicaid, Housing Assistance, and Nutrition program.

- Food Stamps are coupons that can be used only in groceries to purchase food. The amount given for the food stamps depends on the size of the families and their annual income. For example, in 2006, the value of a food stamp for a family of 3 people was \$408 per month (Schiller, 2007). However, the amount reserved for food stamps keeps changing according to the prices of foods on the market.

- Medicaid is a program that provides medical assistance and services to low-income families. The type of assistance varies according to the age of the individual and to the disability status. A family of 3 people receives at least \$3,000 per year for medical assistance.
- Housing assistance are places provided by the Government at cheap rent. Also, people have the chance to purchase a house from the Government with a reduced mortgage.
- Nutrition program is a program dedicated to needy children, and it is composed of two programs. The first one includes free breakfast and lunch at school, while the second program is called Women, Infants, and Children (WIC), which provides food coupons for pregnant women, and babies (Schiller, 2007).

Many Governments decided to implement politics that could improve the level of education to reduce the poverty rate. The United Nations decided to emphasize the importance of education as “its fourth Sustainable Development Goal”.

According to Olivia Giovetti, education influences the poverty rate by three methods:

- Skills and Abilities are improved, and they can assure a future job with a higher income.
- The increase of education level towards the population is able to decrease the inequality between people despite their gender, race, or income status.
- Education can prevent poor people from experience conflicts or other negative events. For example, during the Syrian conflict, many Syrian Refugee children left the country to live in Turkey, where they can have access to education, the Turkish language, and a safer environment (“How Does Educational Affect Poverty? It Can Help End It”, 2020). The knowledge of the Turkish language allows those kids to feel more integrated into the new reality and ask for psychological support to treat their PTSD.



According to Oscar Lewis the only solution to reduce the culture of poverty is through psychiatric method. In countries, like the U.S., poor people should be helped by psychiatrists to deal with their feelings of inferiority, and the lack of their wanting to improve their conditions. As a result, this mental support can slowly integrate poor people in the middle-class. In underdeveloped countries the only solution is the revolution helped by psychiatrist, where they have to redistribute the possessions, organize better the poor people and help them to improve themselves (Lewis, 1966).

Another factor that can encourage reducing the poverty rate is the increase of minimum wage that will let them improve their living conditions. Each country has a different amount of minimum wage offered to employees because it varies from prices and living costs. In Italy, the minimum wage varies according to family size. For example, in 2009, a worker with a family composed of five people can gain a minimum wage of 18,611.775 euro annually which is about \$22,300.52 (Righetti, 2009). On the other, hand in the United States, the minimum wage is instituted by the federal law FLSA which has provided \$7.25/h per employee since 2009. The value of the minimum wage is supposed to increase through the years until reaching \$15 within 2024 (U.S Department of Labor).

Many experts, like Todaro, emphasize that the effective reduction of the poverty rate is caused only by the implementation of policy packages. In particular, Todaro explains the main characteristics of these policy packages are:

- These packages correct distorted prices. This brings an increase of effective production, to move investment on technological research and more working opportunities.
- Assets distribution adjustments in institutional, educational, social, political fields. This will bring an improvement of living conditions in both rural and urban populations.

Income distribution adjustments for people with higher income through taxes and giving more money to poorer people to improve their lives and include them in the workfare program.

- Policies that are able to improve social capital from different perspectives, including health, education, community development, etc.

Some policies fail because they cannot always be implemented, leading to a worsening of the situation. An example could be the Government of Uganda that decides to send funds to schools for each student to buy school supplies, manage their buildings, and organize extra programs. In 1996, two World Bank employees, Ritva Reinikka and Jacob Svensson, decided to investigate how much of these funds reach schools (Banerjee & Duflo, 2011). The employees asked schools how much money they receive and comparing the data of the schools and the data of the Government, and they found out that schools receive only the 13% of the money that the Government sent for the financial aid. After further investigation, they found out that the rest of the money was stolen by the officials of the district. How we can see other factors influence the implementation of policies as the corruption. Poverty creates corruption, and at the same time, corruption creates poverty (Sachs, 2006). According to Sachs, to reduce poverty and avoid corruption, the Government should try to eliminate some of the problems of poor people like “malaria control, food production, safe drinking water, and sanitation.” These are problems that Government can easily manage and monitor.

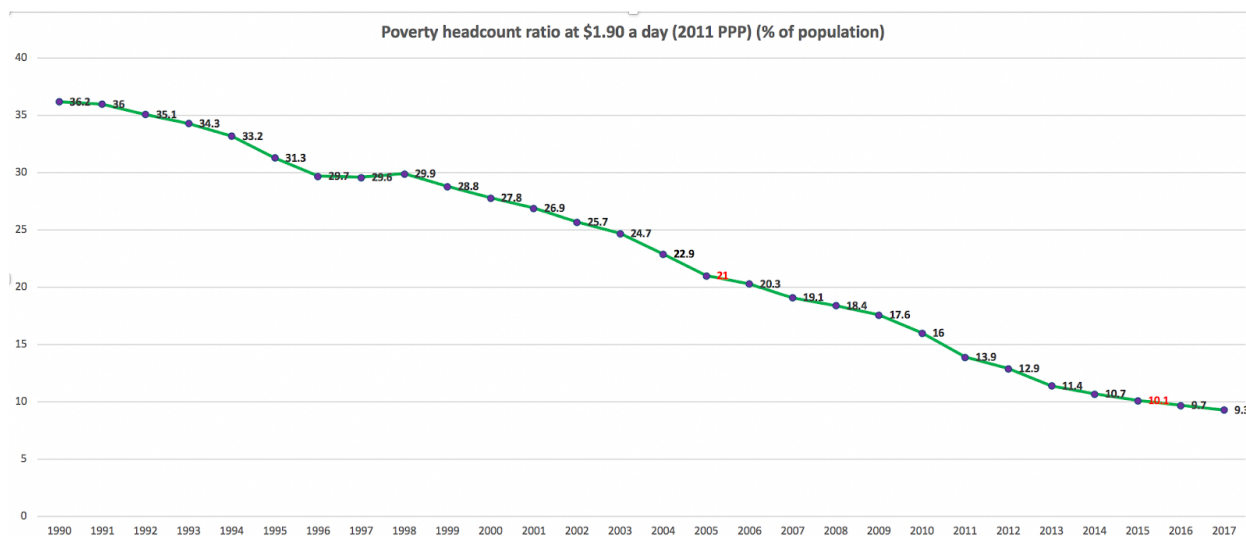
Financial aids don't always lead to corruption and/or to an increase of poverty.

In 2006 Sachs, in his book, identified the reasons for poverty, and according to him, if we make some minor changes, the poverty will disappear in 2025. There are nine steps:

1. Embrace the cause. We need all the leaders and ordinary people to understand the importance of this task and help reduce poverty. In 2005, 21% of the global population

live with a maximum of \$1.90. According to him, if we follow these steps, the number of poor people would halve in 2015 and finally arrive in 2025 with the extinction of poverty. We have the chance to check data for 2015 and see if his prediction was accurate (The World Bank).

*Graph 2: Poverty Headcount Ratio at \$1.90 a day (2011 PPP) (% of Population)*



As we can see from the graph above, in 1990 the percentage of people who live with \$1.90 a day was 36.2, and it continues to decrease. In 2005, the rate of poor people was 21, and in 2015 it decreases to 10.1, so less than half. Consequently, the forecast of Sachs is correct, while the poverty decreases of 10.9 percentage.

2) leaders should implement a plan that meets the goals and the requirements of the

Millennium Development Goals, a plan created by the UN.

3) Poor people should start to raise their voices and talk about their situation and their

discomfort. The G8 cannot help if the poor people have not the courage to fight for their rights.

- 4) The most important countries like the U.S. should be the first to support initiatives, make initiatives work, and implement effective measures to reduce global poverty.
- 5) The IMF and the World Bank should take an active part in the process of reducing poverty and do not play a marginal role.
- 6) the states should give more authority to the United Nations, which have the skills and the power to lead the projects to reduce poverty.
- 7) the world of science should focus on the research of methods, innovative technologies that can help the government to meet the requirements of the Millennium Development Goals.
- 8) Link to the end of extreme poverty is the global sustainability of the ecosystems. Governments should invest more in sustainability because it will be the next problem that they will have to challenge and solve poverty.
- 9) finally, we have to work as an individual in a community, leave the apathy and work to improve the world situation. Each small action can make a difference in a massive fight as the ending of poverty.

## **CHAPTER 5**

### **METHOD AND DATA**

This paper will analyze poverty from two points of view: the total number of poor people below the poverty line and those above the poverty line. I want to find out how serious this problem is, if relatively poor people are more than the absolute ones in the U.S., in this way we can understand which policies are better for each state to decrease this terrific number.

We used the same poverty index that the Federal Interagency Committee used from 1969, and consequently, adjusted in 1981 to incorporate important info about families like their size, members' age, and number of children. Before the adjustment, the index considered only the gender of family members and if the family live in a rural place or not (Bureau of the Census for the Bureau of Labor Statistics, 2020).

I decided to focus my research paper on U.S. states, in this way, we can see if it is true that southern states are poorer than the northern states. I examined the period from 1990 to 2019. The variables that I will consider are:

- below\_poverty: total number of poor people below the poverty line from the website census gov website
- above\_poverty: total number of poor people above the poverty line from the same website above.

As independent variables, I used:

- population: number of residents in each state from 1990 to 2019 in thousands of persons from the FRED website.

- violent crime: number of violent crimes from the federal bureau of investigation. In these values, the Federal Bureau of Investigation includes the bomb victims in Oklahoma in the Alfred P. Murrah Federal Building in 1995, considering them as murder and nonnegligent homicides. At the same time, the Federal Bureau of Investigation does not include the victims of the terroristic attack of September 11 in 2001. We have not data for Mississippi from 1990 to 1994.
- GINI coefficient: I decided to include this index because it measures the distribution of income and measures inequality. As Pranab Kumar Sen wrote in his research in 1985, the Gini coefficient has a vital role if we want to examine poverty (Sen, 2012). It can assume the value from 0 to 1, where 0 represents the absence of inequality and the 1 represents the presence of inequality. Consequently, closer is the number to 0, and better is the situation in this state. Unfortunately, I cannot find the value of 2019, so I decided to leave the same number as the previous year, it should not negatively influence the analysis (Frank, 2021).
- unemployment rate: I include the unemployment rate because it is a principal reason for poverty, as we have already seen in chapter 2.
- personal income: I include per capita personal income for each state from 1990 to 2019 from the website FRED. As we have already seen the income is an important method to measure poverty, and it is also confirmed by Rolf Pendall and Susan Christopherson in their research paper entitled “Losing ground: Income and Poverty in Upstate New York, 1980-2000” (Pendall & Christopherson, 2004)

Table 1: Summary variable description

Variable Name	Unit of Measurement	Data Sources
Population	Number: in Thousands of Persons, not seasonally adjusted	FRED
Violent_crime	Number: not seasonally adjusted	Federal Bureau of Investigation
Above_poverty	Number	United States Census Bureau
Below_poverty	Number	United States Census Bureau
GINI_coefficient	Percentage	Sam Houston State University
Unemployment_rate	Percentage: not seasonally adjusted	FRED
Personal_income	\$: not seasonally adjusted	FRED

I summarize the data description and source of the variables in Table 1. In order to have an overall analysis, I used the panel model, in this way, I can see how the total number of poor people change by state and at the same time by years. We will use the panel model and the fixed effects and equations are the equations below:

$$\text{below\_poverty}_{ij} = \beta_0 + \beta_1 \text{Population}_{ij} + \beta_2 \text{Violent\_crime}_{ij} + \beta_3 \text{GINI\_coeffiecient}_{ij} + \beta_4$$

$$\text{Unemployment\_rate}_{ij} + \beta_5 \text{Personal\_income}_{ij} + \varepsilon_t$$

In the first equation, we consider the variable `below_poverty` as a dependent variable. Consequently, the total number of poor people below the poverty line (absolute poor people) and  $i$  represent years and  $j$  states.

$$\text{below\_poverty}_{ij} = \beta_0 + \beta_1 \text{Population}_{ij} + \beta_2 \text{Violent\_crime}_{ij} + \beta_3 \text{GINI\_coeffiecient}_{ij} + \beta_4 \text{Unemployment\_rate}_{ij} + \beta_5 \text{Personal\_income}_{ij} + \varepsilon_{ij}$$

In the second equation, we consider the variable `above_poverty` as a dependent variable and, consequently, the total number of poor people above the poverty line (relatively poor people).  $i$  represent years and  $j$  states. The prior beliefs related to these variables are:

1. There is not any prior belief regarding the constant,  $\beta_0$
2. If the population increase, the total number of poverty (above and below poverty line) will increase:  $H_a: \beta_1 > 0$
3. If the number of violent crimes increases, the total number of poverty (above and below the poverty line) will increase:  $H_a: \beta_2 > 0$
4. Higher is the number of GINI coefficient and higher is the inequality and consequently higher will be the total number of poor people:  $H_a: \beta_3 > 0$
5. If the number of the unemployment rate increase, also the number of poor people increase:  $H_a: \beta_4 > 0$
6. Higher is the personal income, and less is the number of poor people:  $H_a: \beta_5 < 0$



Table 2: Summary Statistics

```
. xtsum
```

Variable	Mean	Std. Dev.	Min	Max	Observations
year overall	2004.5	8.658271	1990	2019	N = 1530
year between		0	2004.5	2004.5	n = 51
year within		8.658271	1990	2019	T = 30
state_~r overall	.	.	.	.	N = 0
state_~r between		.	.	.	n = 0
state_~r within		.	.	.	T = .
state_~e overall	.	.	.	.	N = 0
state_~e between		.	.	.	n = 0
state_~e within		.	.	.	T = .
popula~n overall	5722351	6439284	453588	3.95e+07	N = 1530
popula~n between		6439529	520931.5	3.53e+07	n = 51
popula~n within		885070.3	-130898.3	1.19e+07	T = 30
violence overall	28748.15	40918.4	415	345624	N = 1525
violence between		39355.98	779.3667	218026.6	n = 51
violence within		12290.27	-35515.42	156345.6	T-bar = 29.902
Above_~y overall	5686.71	6424.313	463	39375	N = 1530
Above_~y between		6429.241	518.1	35391.17	n = 51
Above_~y within		848.9127	-186.2569	11613.74	T = 30
Below_~y overall	754.0634	949.2622	42	6352	N = 1530
Below_~y between		942.3992	54.4	5124.167	n = 51
Below_~y within		172.7055	-390.1033	1981.897	T = 30
GINI_c~t overall	.5869109	.0486939	.2242358	.7199874	N = 1530
GINI_c~t between		.0261063	.5463959	.6529642	n = 51
GINI_c~t within		.0412611	.2341534	.7100169	T = 30
Unempl~e overall	5.476307	1.867258	2.1	13.8	N = 1530
Unempl~e between		1.020274	3.203333	7.493333	n = 51
Unempl~e within		1.570171	1.982974	12.85631	T = 30
person~e overall	34943.8	12289.48	13356	83111	N = 1530
person~e between		5622.638	26011	52609.6	n = 51
person~e within		10955.22	8466.202	65445.2	T = 30
state_~2 overall	26	14.72441	1	51	N = 1530
state_~2 between		14.86607	1	51	n = 51
state_~2 within		0	26	26	T = 30

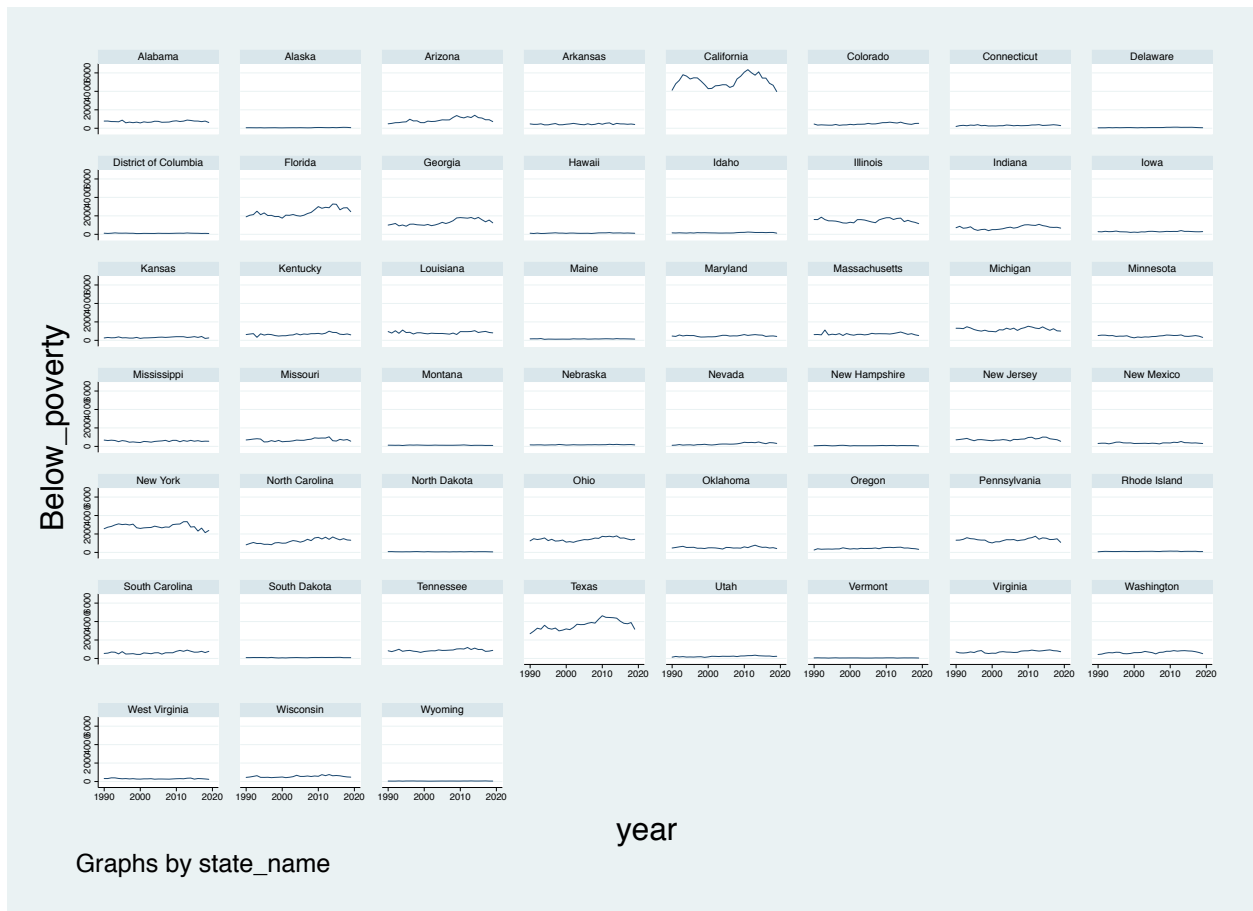
In Table 2, we can see the summary statistics of our variables and consequently means, standard deviation, number of observations, and the minimum and maximum value that each

variable can assume. I created a numeric variable called “state\_name2”, because the variable “state\_name” is a string variable, and the software does not allow me to work with that.

Graph 3: Trend of the variable Above\_poverty by States

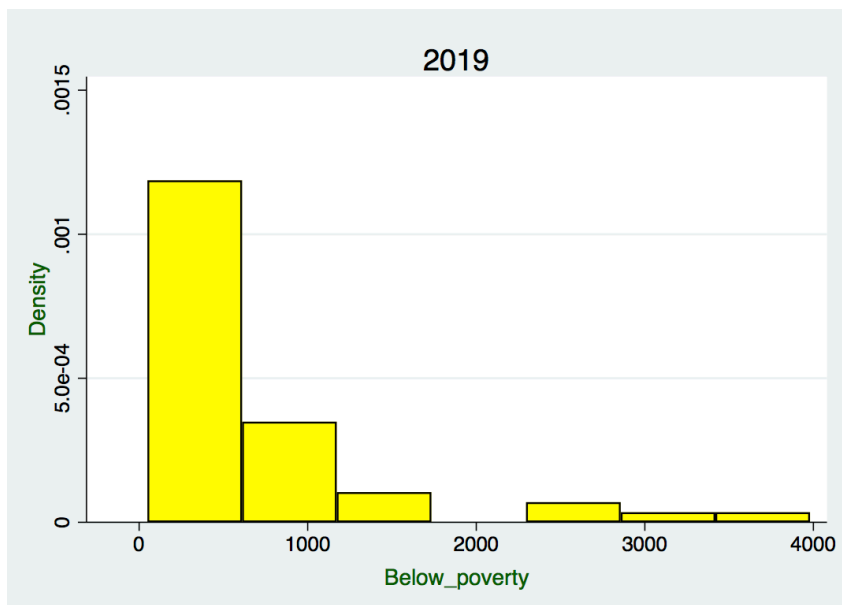


Graph 4: Trend of the variable Above\_poverty by States

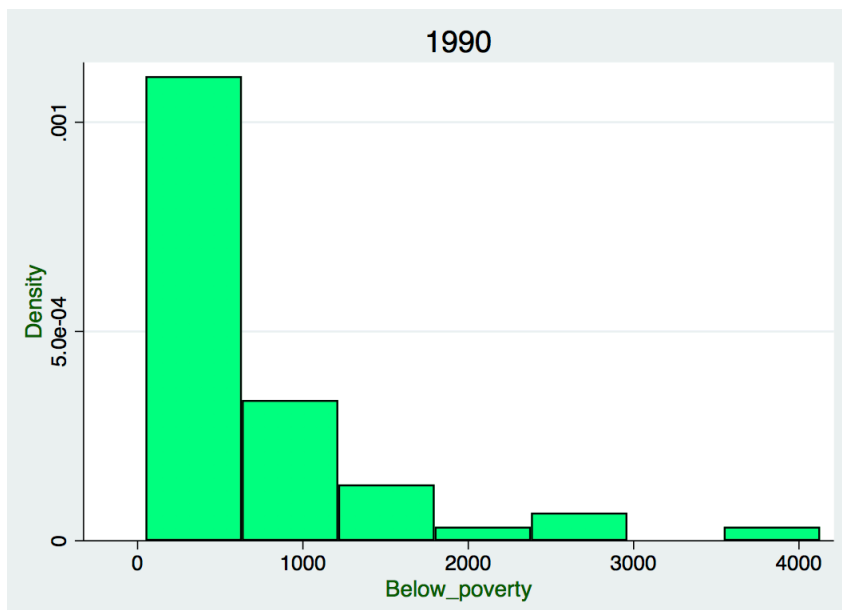


Graph 3 and 4 show how the variables below\_poverty and above\_poverty are spread among years for each year. We can see that for the variable Above\_poverty, the line increases seriously for California, Texas, and Florida. While for Virginia, Washington, Georgia, and North Carolina the line increases slightly. For the variable below\_poverty, we have a volatile trend for California, Florida, Georgia, Illinois, Indiana, Michigan, New York, and Texas.

Graph 5: Density of Below\_poverty in 2019



Graph 6: Density of Below\_poverty in 1990

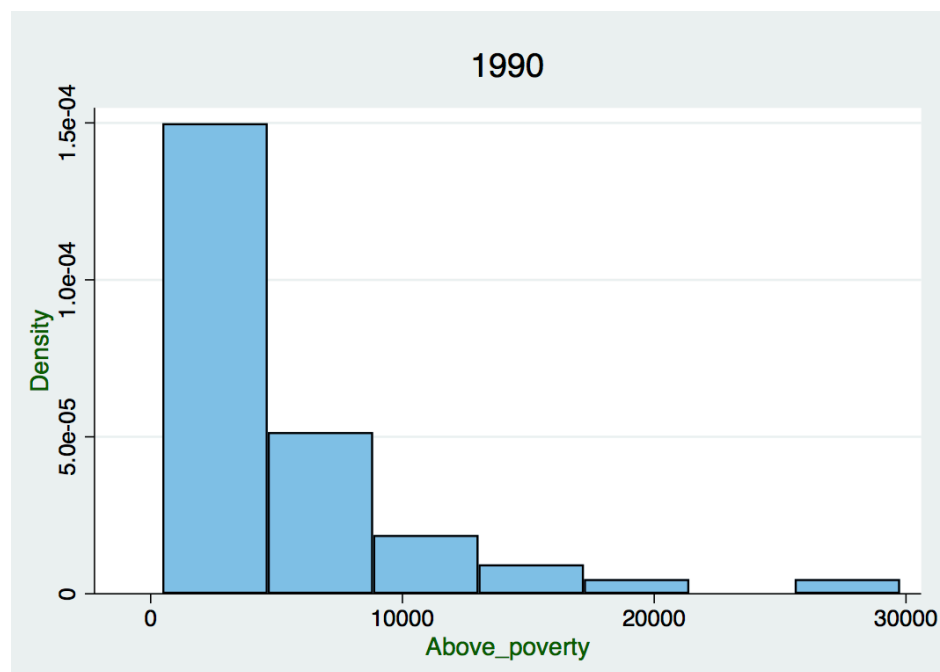


We can see from Graph 5 and 6 the density of the variable “below\_poverty” at the beginning of our research in 1990 and at the end of our research 2019.

As we can see from Graph 5, most states of America have values on the left of our graph, which means that a lot of states have less than 1000 poor people who live below the poverty line. But some states have several poor people between the 3000 and 4000. The state with the higher number of absolutely poor people in 1990 was California, with 4128 poor people. The state with the lowest number of absolutely poor people in 1990 was Delaware, with 48 people.

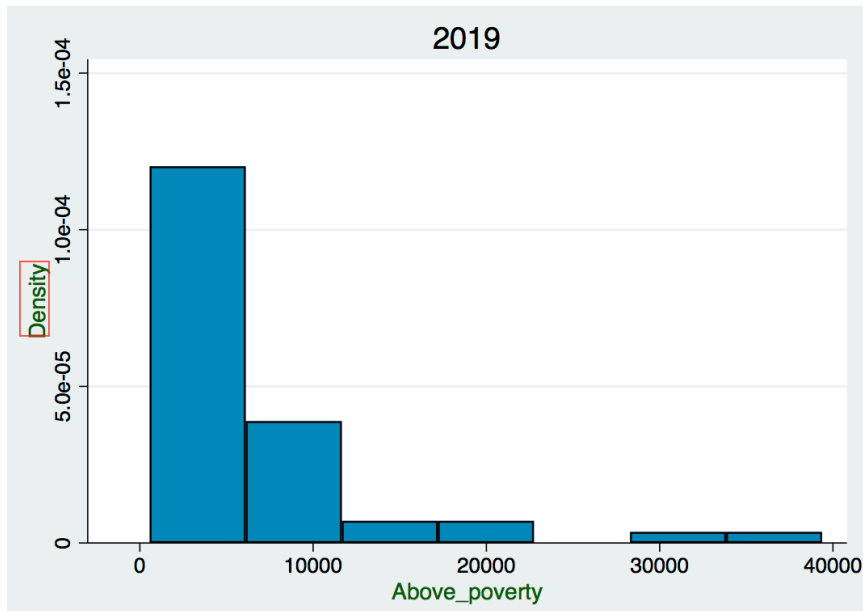
Also, in 2019, California was the state with the greatest number of poor people who live below the poverty line, it has 3980 people. Texas followed it with 3174 people. New Hampshire was the state of the U.S. with the lowest number of absolutely poor people, it has 49 absolute poor people. Graph 6 shows a better improvement of this problem the number of poor people decreases slightly than in 1990. California is the state with the highest number of relatively poor people in 1990, with 29765 people. Delaware is the state with the lowest number of poor people below the poverty line, it has 48 people.

Graph 7: Density of Above\_poverty in 1990



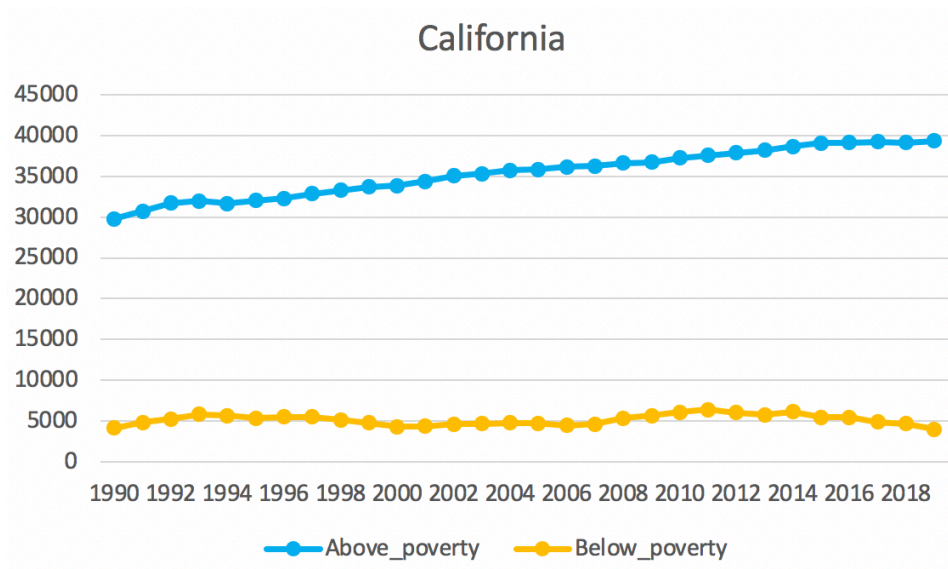
Graph 7 shows the distribution of above\_poverty among states in 1990. We can see the majority of states have a total number of relatively poor people placed below the 1,000 poor people. Wyoming is the state with the lowest number of poor people above the poverty line, and in fact, it has 463 people.

Graph 8: density above\_poverty in 2019



We can see from Graph 7 and 8 that the relative number of poor people increase in 2019. In fact, in 1990, there were no states with a total number of poor people close to 40,000, instead of 2019. The state with the highest number of relatively poor people in 2019 in California, with 39,375. We saw that California was the state with the highest number of poor people, so it could be interesting to see the historical trend of this state.

Graph 9: Historical Trend of California



Graph 9 shows that California has a higher number of relatively poor people than the absolute ones in all the period. We can see that the variable `above_poverty` increases sharply. Instead, the variable `below_poverty` decreases slightly during years. We will see the results of the two regressions, and consequently, we will discover which variable influences more the total number of poor people in the next chapter.

## CHAPTER 6

### RESULTS

In the previous chapter, we talked about the variables and where we downloaded them. We set some hypotheses based on before belief, and we show the two regression. In this chapter, we will talk about the results of the two regressions, and we will explore the hypothesis.

*Figure 1: Results of Regression with Fixed effects for Above\_poverty*

```
. xtreg Above_poverty population violent_crime GINI_coefficient Unemployment_rate personal_
> income, fe
```

```
Fixed-effects (within) regression                Number of obs   =    1,525
Group variable: state_name2                    Number of groups =     51

R-sq:                                           Obs per group:
  within = 0.9865                               min =           25
  between = 1.0000                             avg =           29.9
  overall = 0.9997                             max =           30

F(5,1469) = 21495.04
corr(u_i, Xb) = 0.9255                        Prob > F        =    0.0000
```

Above_poverty	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
population	.0009702	3.91e-06	248.09	0.000	.0009625	.0009778
violent_crime	.0021138	.0002575	8.21	0.000	.0016087	.002619
GINI_coefficient	136.0775	70.18441	1.94	0.053	-1.594873	273.7498
Unemployment_rate	-4.95775	1.663339	-2.98	0.003	-8.220522	-1.694978
personal_income	-.0004251	.000297	-1.43	0.153	-.0010078	.0001576
_cons	36.47836	44.54549	0.82	0.413	-50.90119	123.8579
sigma_u	108.19312					
sigma_e	100.56012					
rho	.5365159	(fraction of variance due to u_i)				

```
F test that all u_i=0: F(50, 1469) = 4.72                Prob > F = 0.0000
```

Figure 1 shows the regression results with fixed effect to eliminate the bias caused by omitted variables, with above\_poverty as a dependent variable. We can see how the other





When the dependent variable is below `_poverty`, as shown in Figure 2, an increase of 1 percentage of the unemployment rate is associated with an increase of 47.08 of the total number of poor people below the poverty line. An increase of 1% of the Gini coefficient is related to an increase of 234.08 of the total number of absolutely poor people, but the standard error is high, so it could not be a true value. The variables: `population` and `personal_income`, as in the case of Figure 9, do not influence too much the dependent variable. Consequently, we can say that they are not essential to determine the poverty rate. An increase of 1 of `violent_crime` is associated with an increase of 0.0023 of total absolute poor people. The differences across panels explain 68.08% of the variance. We can see that all the variables are different than zero; in fact, the F test is equal to  $0 < 0.05$ , consequently, our model is satisfactory. In conclusion, we can examine the prior beliefs of the previous chapter:

- If the population increase, the total number of poverty (above and below the poverty line) will increase: an increase of 1 thousand residents (`population`) is associated with a low increase of poverty rate if we talk about poor people above or below the poverty line. Consequently, we can say that this prior belief was correct.
- Higher is the personal income, and less is the number of poor people: the personal income has a minor positive effect on people who live below the poverty line, but a minor negative impact on people who live above the poverty line. Consequently, the hypothesis is confirmed for people who live above the poverty line and then rejected for people who live below the poverty line.
- If the number of violent crimes increases, the total number of poverty (above and below the poverty line) will increase: an increase in violent crime is associated with an increase of total relative and absolute poor people. Also, this prior belief is confirmed.

- Higher is the number of GINI coefficient and higher is the inequality and consequently higher will be the total number of poor people: the Gini coefficient has a significant positive effect on people who live below and above the poverty line, but it has a high standard error, and consequently, we cannot say if this hypothesis is confirmed or not.
- If the number of the unemployment rate increases, the number of poor people increases: an increase of 1% of the unemployment rate is associated with a decrease of total absolute poor people. On the other hand, it is associated with an increase of total relatively poor people. The hypothesis for the absolute poor people is confirmed; instead of for poor people below the poverty line, the hypothesis is rejected.

In conclusion, some hypotheses were correct and others not. In the next chapter, we will talk about the poverty rate in Italy because it is my home country, and we will analyze the differences between Italy and the United States of America.

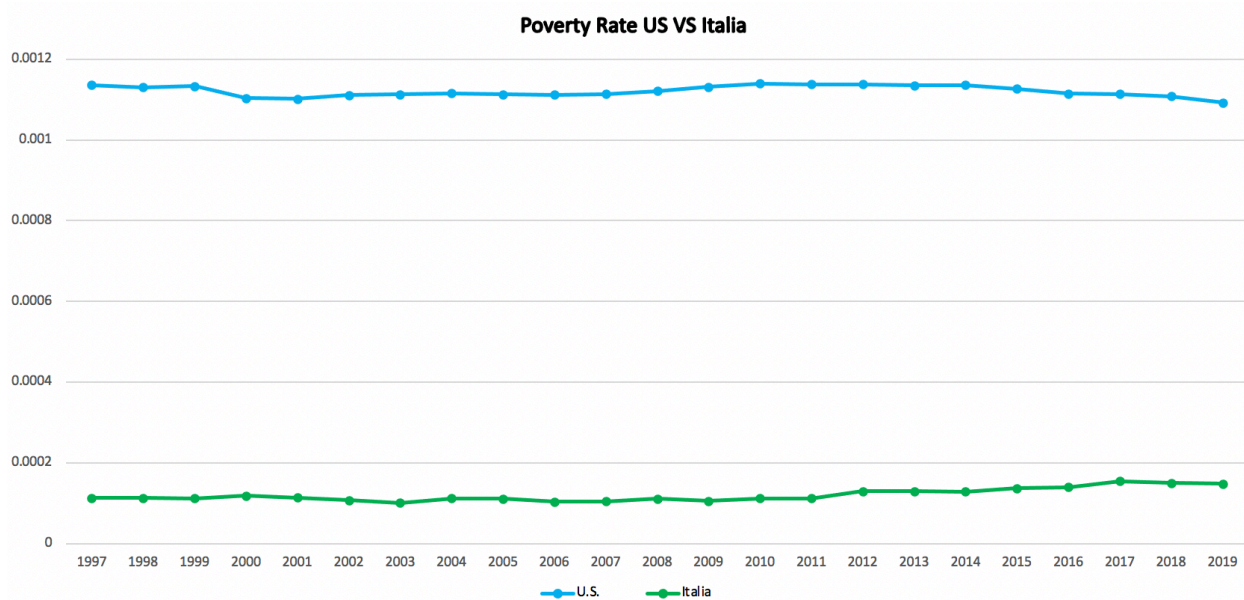
## CHAPTER 7

### POVERTY IN ITALY VS POVERTY IN U.S.

In the previous chapter, we find out the variables that influence more poverty to use this information to implement policy to reduce the poverty rate. In this chapter, we will analyze the situation of Italy, comparing its poverty rate with the one in the U.S.

The population of Italy and the United States of America are different, and the only way to compare the two poverties is to create the variable poverty rate in Italy and one for the U.S. Consequently, I took the total number of poor people for each year, and I divided it by the number of residents in that period. I analyzed the period from 1997 to 2019 because the old data are kept in paper archives in ISTAT buildings in Italy.

*Graph 10: Poverty Rate of U.S. VS Poverty Rate of Italia*



Knowing the history of Italy, I thought that the poverty rate was higher than in the U.S., but the data confirmed the opposite. Graph 10 shows the difference in the poverty rate of the U.S. and Italy during the period. As we can see, the poverty rate in the U.S is at least six times greater than the poverty rate of Italy. This happened because, in Italy, medical assistance is free and guaranteed for each Italian and foreign people to ensure respect for the human rights and dignity of the person. This is protected by article 32 of the Italian Constitution that is the main source of law, and it states that “The Republic safeguards health as a fundamental right of the individual and as a collective interest and guarantees free medical care to the indigent. No one may be obliged to undergo any health treatment except under the provisions of the law. The law may not under any circumstances violate the limits imposed by respect for the human person” (Constitution of the Italian Republic, art. 32, 1946).

Another reason could be the difference between prices between U.S. and Italy. We can see this by analyzing the consumer price index that influences the availability of income of people and the number of poor people. In January 2019, in Italy, the CPI was 102.9 (Statista, 2021), instead of for U.S. was 251.712 (CPI Inflation Calculator, 2021) consequently we can say that costing of living in the U.S. is higher than in Italy.

Another big difference is that Italians are used to save their money more than Americans. The reason for this result is due to the fact that Italians are not sure about what will happen in the future because we have political instability (Italiani.coop, 2018). We are used to seeing governments change their mind daily; they all have different opinions and try to implement various policies.

Finally, another reason is that Italy has higher income taxes than the U.S. In fact, Italy is one of the countries with the highest taxes globally, with more than 40% of GDP required for

taxes, instead of the U.S. only 26% (Committee for a Responsible Federal Budget, 2016). Higher taxes influence the income of citizens and also the attitude of the population to save more for future rises of taxes, and consequently, it also influences the poverty rate.

In conclusion, Thanks to this chapter, we understand that in Italy, the poverty rate is lower than the poverty rate in the United States. Our research showed how the poverty rate in Italy does not reflect its actual condition characterized by backwardness in almost every field, political instability, high-income taxes, illiteracy, inadequate education, and the low chances to find a job. We expected different results related to the United States due to its available resources, a significant number of jobs available, adequate citizens' protection, and promotion of education, medicine, and innovation.

## **CHAPTER 8**

### **CONCLUSION**

In this paper, the author examined the phenomena of poverty in different ways. Initially, she examines several different definitions of poverty done by different researchers. Some authors thought that poverty could only be measured by analyzing income and unemployment rate, other thought that poverty is not only a number, and we have to analyze the psychological factors, families' backgrounds, ethnicity, etc., and other is a mix of the two.

The research continues with the analysis of factors associated with an increase in poverty as age, the labor market, health status, families' size, prejudice, low education, and unsuccessful government intervention.

The author understands that government can do a lot to reduce poverty, and consequently, she examined some policies implemented by governments as policies to reduce unemployment and consequently that will give more chances to find a job to poor and unskilled people. She also examined the progressive income taxes, an important policy that a lot of governments implemented because they thought that this is the solution to the problem. An increase in progressive income taxes cannot solve the problem because the world is not all fun and games, but some dishonest people do not pay the amount that they should and prefer to pay fines. Also, the welfare programs have negative aspects, in fact, they could promote laziness and illegal activities. She also reported nine steps identified by Sachs that can be useful to reduce poverty. But he did not consider the variable COVID-19 that will lead to a reduction of effectiveness of policies against poverty implemented by governments. In fact, in 2021, we will

expect an increase of 150 million poor people who live in extreme poverty (The World bank, 2020).

Moreover, the author analyzed the data from 1990 to 2019 for states of the U.S. She tried to identify which factors influence the total number of poor people below the poverty line and above the poverty line. She chooses population size, the total number of crimes, Gini coefficient, unemployment rate, personal income as independent variables. She found out that California was the state with the highest number of poor people, and it has more relatively poor people than absolute poor people. She found out that some variables have a positive effect on the total number of poor people as population size, personal income (only for people who live below the poverty line), the total number of violent crimes, Gini coefficient (but the standard error is really high, so we are not sure about this value).

Finally, she compared the situation of poverty in Italy and the U.S., and she found out that Italy has a lower poverty rate. We could improve this research by including a variable for education, for healthcare (maybe health expenditure), or if each state is a state based-market or not. “The world is a dangerous place, not because of those who do evil, but because of those who look on and do nothing” as Albert Einstein said, do not be apathetic and do something to change this situation, because everyone can do something to improve the life of someone. Also, remember that helping poor people is not a gesture of charity, but “it is the protection of a fundamental human right, the right to dignity and a decent life” (Nelson Mandela, 2005).



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