Are Wealthier States More Successful Than Poorer States?:
The Impact of Income Packaging on States’ Child Poverty Rates

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INTRODUCTION
In 2011, the U.S. Census Bureau reported a child poverty rate of 20%, one of the highest among all the industrialized nations. Does the high poverty rate stem from an inadequate income packaging system for our workers? Are the complex demographics of the U.S. to blame? Or is the country’s shrinking public and private sector in light of the recent economic downturns partly at fault? I explore the impact of different components of income packaging upon child poverty rates by comparing poverty rates using both pre- and post-tax-and-transfer incomes across all states. By studying states that exhibit the greatest reduction in their child poverty rates I can focus on identifying the assistance programs and income transfer policies that may be a high probability factor in these quantifiable discrepancies. Analyzing the impacts of the major tax policies and transfer programs may allow an assessment of any differences in child wellbeing in wealthier vs. poorer states. Are the existing tax and transfer policies adequate in reducing large differences in pre-market income among states? Are wealthier states more successful in lifting children out of poverty than poorer states? I use both percentage reduction and percentage-point reduction in the population of children in poverty to compare relative and absolute success rates for states. I find that the current structure of the federal income tax and FICA tax, in addition to some transfers such as SNAP and school lunches, are not sufficiently addressing the problems faced by poorer states.

DATA & DEFINITIONS
For this analysis we drew a variety of data from the March 2011 Supplement of the Census Population Survey using data Ferret, such as:

- **Market Income for families**: Also known as pre-tax-and-transfer income. I obtained this by summing components of income received before any taxes and transfers.
- **Earned Income Tax Credit (EITC)** – Refundable tax credit that lowers the federal and state tax liability of low-income working taxpayers.
- **Supplement Nutrition Assistance Program (SNAP)** – Formally known as food stamps. The amount received depends upon the size, income and expenses of the household.
- **Poverty Threshold**—An person is in poverty if his/her family income (or individual income if no family) is below a certain threshold that varies upon family size and number of children.
- **Medical-Out-of-Pocket Expenses (MOOP)** - Non-reimbursable expenses paid by patient which include any medical benefits that one's health plan does not cover.

REFERENCES

SUMMARY & CONCLUSION
- Rich states do not seem to perform any better than poorer states in percentage reduction of their child poverty rate.
- Because the FICA Tax is regressive, poor states are being hit harder by it than richer states.
- The Federal Income Tax is supposed to be progressive. Yet, the percentage-point change in poverty rate from the tax is nearly the same in rich states as in poor states.
- The high increase in poverty rate from MOOP may imply that poorer states require more affordable and accessible health and insurance programs.

FUTURE RESEARCH
As we go forward we can begin addressing other sources impacting the poverty rate,
- Were the industrial structures of certain states hit harder than others?
- Since the EITC can only be distributed to people who are working, states suffering from high unemployment may receive much less government aid. We can assess the impact of the labor market by dividing high and low unemployment states and redo this study.
- Are the huge differences in pre-market income across states attributable to different sizes of state labor markets?
- We can run a regression of pre-fisc child poverty rate on industrial structure, single-parent families, and other potential factors to assess their impacts;
- Are states with large public sectors being hit harder with taxes? Should the government be expanding or shrinking the public sector?
- How will President Obama's recent healthcare reform affect future child poverty rates?

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