

## CONCEPT: POLICIES TO REDUCE POVERTY

- The government has created several programs and policies to help people in poverty
  - Minimum Wage Laws
  - **Welfare** – government programs that supplement the incomes of people in need
  - Negative Income Tax – poor families receive subsidies rather than pay taxes
    - Earned Income Tax Credit works like a negative income tax in the United States

### EXAMPLE: Negative income taxes

| Taxes owed = (1/4 of income) - \$10,000 |                              |
|---|------------------------------|
| Poor family earns \$12,000              | "Rich" family earns \$60,000 |
| Taxes owed =                            | Taxes owed =                 |

- In-kind Transfers
  - Charities provide food, clothing, and toys during Christmas season
  - **Food stamps** are government \_\_\_\_\_ to buy food at grocery stores
  - Free healthcare available through Medicaid
- The use of anti-poverty programs causes issues with the **incentive to work**
  - Since benefits are lost as more income is earned, it could be **more costly** for a poor family to work.
    - Suppose a program guarantees every family an income of \$20,000. Anyone who would earn less than \$20,000 would be better off not working and receiving the government money.
  - Issue with Obamacare → as poor families earn more money, they no longer receive cheap healthcare.
    - The extra money they earn must be spent on the increased healthcare costs
    - Thus, there is no increase to the standard of living, even though income increased.