The Role of Government Subsidies on Debt Management in Low Income Households

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Alleviating poverty and improving lives of those that live in poverty are universal goals for policymakers (Stiglitz, Sen, & Fitoussi, 2009). During the recent Great Recession U.S. households, especially with low incomes, faced severe financial distress. There are at least 92 federal government assistance programs; costing approximately $799 billion in the 2012 fiscal year (House Budget Committee Report, 2014). Receiving government assistance has been shown to significantly affect family finances (Forry, 2009). Our objective was to explore the benefit of receipt of government assistance; this study aimed at identifying how receiving assistance may impact a households' financial situation. We hypothesized that households receiving government assistance are more likely to meet debt-to-income (DTI) ratio guideline. We used the pooled dataset of 2010 and 2013 Survey of Consumer Finances (SCF) released by Federal Reserve Board and a sample of households below 185% of poverty threshold as released by the 2012 US Census Bureau was analyzed (N=3,350). The dependent variable was a dichotomous variable indicating whether the household meets a recommended guideline for debt-to-income (DTI) ratio (coded as 1 if the DTI is under 40%, 0 if over), accounting for financial security in terms of a heavy financial burden. Our key independent variable was the receipt (dollar amount) of government assistantship including TANF, SNAP (food stamps), and SSI benefits. We found that there was an upward trend in the receipt of government assistantship over the last two decades. Furthermore, the preliminary results from a logit model indicated that the receipt of government assistance was positively related to the likelihood of meeting the DTI guideline. This study will provide important insights for researchers and policymakers in the areas of poverty and household finance.

References

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