UNDERSTANDING POVERTY

EDITED BY

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To Eugene Smolensky,

Colleague, mentor, friend, former director of the Institute for Research on Poverty, and a major contributor to poverty research

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Preface

The chapters in this volume were initially presented at a conference held in May 2000 in Madison, Wisconsin. The Institute for Research on Poverty at the University of Wisconsin-Madison and the Office of the Assistant Secretary for Planning and Evaluation in the U.S. Department of Health and Human Services jointly sponsored the conference. The Russell Sage Foundation, the Charles Stewart Mott Foundation, the Annie E. Casey Foundation, and the Ford Foundation provided additional funding.

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Any views expressed in this book are those of the chapter authors and should not be construed as representing the official position or policy of any sponsoring institution, agency, or foundation.

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Introduction: The Evolution of Poverty and Antipoverty Policy

SHELDON H. DANZIGER AND ROBERT H. HAVEMAN

In the 1960s, the United States experienced a long period of sustained economic growth, rising real wages, and low unemployment. Although the fruits of this prosperity were widely visible in the period between the Korean and Vietnam Wars, a combination of academic writings and magazine articles focused attention on those who were not benefiting from economic growth. President Kennedy, concerned with the extent of the poverty he had seen during the 1960 campaign, asked his economic advisers to prepare proposals to address the problem. President Johnson would later endorse these proposals and declare the War on Poverty in his 1964 State of the Union address. Within a few years, numerous pieces of legislation were drafted and enacted into law. They dramatically transformed the federal budget and the scope of the nation's social welfare policies. Many new programs were introduced (for example, Medicare, Medicaid, Head Start), and benefit levels were increased in many others (Social Security, Aid to Families with Dependent Children).

Now, as the new millennium begins, the nation has again experienced a period of sustained prosperity. However, unlike the mid-1960s, the topics now occupying center stage include reducing taxes on large estates, granting income tax relief, especially to high-income taxpayers, enforcing work requirements for welfare recipients, and ensuring that retirement and medical benefits for the older population are maintained. Public and presidential concern for the nation's poverty problem has been minimal for years, despite the long-standing labor market problems of less-skilled workers and the dramatic increase in income and wealth inequalities of the last quarter-century.

This volume focuses on the extent of poverty in the United States at the end of the twentieth century. The authors look backward over the past four decades and tell us how the poor have fared in the market economy and what government programs and policies have and have not accomplished. They help us understand how a variety of economic, demographic, and public policy changes have affected the trend in poverty for all persons and selected demographic groups. Most important, they offer suggestions for changes in programs and policies that would reduce poverty and income inequality if the nation were willing to spend the resources to undertake them.

The Evolution of Social Science Thinking About Poverty

Since the mid-1960s, our understanding of the complex problems of poverty and inequality in the United States has changed substantially. This evolution reflects the research on the causes and consequences of poverty and the changes in the level and composition of poverty in response to economic changes, demographic changes, and public policy changes.

The 1960s

During this decade, Americans seemed convinced that government could combine scientific thinking and additional public resources to solve pressing national problems. The announcement of the War on Poverty made income poverty one of those problems. Income poverty was officially defined and measured, the best minds were gathered to develop proposals to address it, and a legislative agenda was prepared. Many social scientists contributed to the development and implementation of antipoverty programs. Psychologists contributed much of the thinking behind the Head Start program, sociologists and political scientists contributed to the Community Action Program, and economists formulated proposals to reform income maintenance programs to raise the incomes of the poor.

In a paper delivered at the 1964 meeting of the American Economic Association, Robert Lampman presented the poverty problem as multi-causal, deriving from some combination of events external to individuals (such as illness or disability, family dissolution, the death of the family breadwinner, unemployment), social barriers in the form of discrimination based on caste, class, or custom (racial and gender discrimination, employer hiring procedures, union rules), and limited ability to earn (for example, a lack of the skills needed for the labor market). According to this point of view, external events were a major culprit, and among them unemployment was chief. As a result, improved macroeconomic performance was the primary instrument. If cyclical unemployment could be abolished, poverty would be reduced and economic gains would be widely distributed. A second major problem was inadequate education, training, and labor force skills. An array of programs designed to increase human capital and reduce discrimination were to be put in place to ensure that the disadvantaged would not be left behind.

Those who were not expected to participate in the labor market and those who remained poor in a growing economy would need access to government assistance even in good economic times. To aid them, the President's Commission on Income Maintenance Programs in 1969 recommended "a universal income supplement program to be administered by the federal government." Shortly thereafter, President Nixon proposed the Family Assistance Plan (FAP), a low-guarantee negative income tax.

The 1970s

In the early 1970s, academics and some federal agencies and policymakers continued to propose variations of a universal, comprehensive income transfer system as a replacement for the many separate welfare programs. The 1972 election campaign highlighted Democratic candidate George McGovern's proposed $1,000-per-person "demogrant" as a replacement for existing welfare programs. McGovern and his plan were roundly rejected, and Nixon's FAP failed in the Senate (having passed the House twice) because it was too conservative for liberals and too liberal for conservatives.

Senator Russell Long of Louisiana opposed income guarantees for all of the poor. He argued that public support should be given only to low-income *workers*. His proposal, the Earned Income Tax Credit (EITC), was adopted in 1973, and has enjoyed bipartisan support over the past quarter-century. By the late 1990s, EITC funding exceeded funding for cash welfare.

The idea of a minimum income guarantee was resurrected by President Carter in his 1977 Program for Better Jobs and Income (PBJI). While PBJI, like FAP, provided a universal income guarantee, it also made cash assistance dependent on work, guaranteeing a minimum-wage public-service job for poor welfare recipients who were able-bodied and expected to work.

Like FAP, it was not enacted by Congress. With the defeat of PBJI, federal discussion of a minimum income guarantee for the able-bodied poor ended.

The idea of a guaranteed income for all of the poor in the form of food stamps did take hold. By the end of the 1970s, the food stamp program—a small effort to stabilize and support farm prices in 1970—had grown to assist all low-income families regardless of their work or marital status. Congress also created the Supplemental Security Income (SSI) program, which provides a minimum annual income for the elderly, blind, and disabled poor. The coverage, benefits, and total spending on health care for the poor also expanded rapidly after the adoption of Medicaid in the mid-1960s.

The 1980s

By the late 1970s, the optimistic belief that government could solve most social problems had turned to the pessimistic attitude that "nothing works." Despite the increase in public spending, poverty rates for the nonelderly did not fall after the early 1970s, in large part because of adverse macroeconomic conditions—two oil price shocks, multiple recessions, and widespread industrial restructuring. Critiques of public redistribution and other social policy interventions took center stage after the election of President Reagan. His administration set out to cut back the scope of social programs, arguing that the social policies enacted in the 1960s and 1970s had undermined the functioning of the nation's basic institutions and, by encouraging permissiveness, nonwork, and welfare dependence, had led to marital breakup, nonmarital childbearing, and the erosion of individual initiative. Spending on employment programs was cut dramatically, and the Comprehensive Employment and Training Act (CETA), enacted in 1973 to provide public-service jobs and on-the-job training to disadvantaged workers, was replaced with a much smaller job training and job search assistance program, the Job Training Partnership Act (JTPA).

The Reagan administration set in motion a major change in welfare policy that would eventually radically alter the Aid to Families with Dependent Children (AFDC) program. In 1981 it proposed a program of mandated work for able-bodied welfare recipients. Although this was not legislated, the law that did pass encouraged states to establish work requirement programs and signaled new work expectations for single mothers with children. The generally positive experiences with these programs in many states in the mid-1980s influenced the Family Support Act of 1988 and culminated with the 1996 welfare reform bill. Other major changes in antipoverty policies in the 1980s included further expansion of the Earned Income Tax Credit and the Family Support Act of 1998. The latter required all states to implement welfare-to-work programs and offer a range of support services to increase the work effort of welfare recipients.

The Reagan philosophy was that tax cuts and spending cuts would increase the rate of economic growth, and that the poor would ultimately benefit through the increased employment and earnings that would follow such growth. However, a deep recession in the early 1980s increased poverty, and the subsequent economic growth did not "trickle down." Although the economy expanded for many years in the 1980s, the wage rates of low- and medium-skilled male workers did not. On the other hand, the earnings of those in the upper part of the income distribution grew rapidly.

The 1990s

As a presidential candidate, Bill Clinton emphasized the extent of poverty and economic hardship and promised that he "would make work pay" and "end welfare as we know it." In 1993 he delivered on the first part of the promise by promoting a large expansion of the Earned Income Tax Credit. Although his own welfare plan was set aside after Republicans took control of Congress in the 1994 elections, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) ended welfare as we knew it by ending the entitlement to cash assistance, setting a time limit for the receipt of benefits, and mandating work.

Thus, by the end of the century, antipoverty policies had achieved one vision of the planners of the War on Poverty: a substantial set of income supports were in place for working poor families with children, regardless of where they lived or their marital status. As a result, a single mother with two children who worked full-time year-round at the minimum wage would receive an EITC that was about 40 percent of her earnings, bringing her gross income to just about the poverty line. She would also be eligible for increased child care subsidies, and her children would have greater access to subsidized medical care than in the past.

However, the vision of universal support for the nonworking poor had been rejected many times. Whereas President Nixon had proposed expanding cash assistance to all of the poor, under President Clinton PRWORA set strict limits on welfare receipt. As a result, cash support for the nonworking poor was less available and less generous in 2001 than it had been in 1969.

Trends in Poverty Since the War on Poverty

The declaration of the War on Poverty came during a long period of postwar economic growth, when both productivity and wages were rising. In its aftermath, much progress was quickly achieved—the official poverty rate for all persons fell from 17.3 percent in 1965 to 11.1 percent in 1973. The elderly poverty rate fell even more rapidly, from about 30 percent to 15 percent over the same period.

Since 1973, however, the official poverty rate for all persons has always exceeded 11 percent. Although the elderly poverty rate continued falling through the 1970s, the children's rate and that for prime-age adults drifted up over the period. In the early 1980s, the most severe recession since the 1930s raised the overall poverty rate to about 15 percent and the child poverty rate to more than 20 percent. Although the recovery of the 1980s was a long one, the real wages of low- and medium-skilled males continued the erosion that had begun in the mid-1970s, and inequality rose because only incomes at the top of the distribution increased. The poverty rate fell slowly, but it remained above 13 percent for the rest of the 1980s. The children's poverty rate remained stalled at over 20 percent until the mid-1990s.

During the recession of the early 1990s, the overall poverty rate rose, approaching 15 percent in 1993. By the mid-1990s, the elderly poverty rate had fallen to about 10 percent, below that of working-age people. During the prolonged expansion of the 1990s, the overall poverty rate declined, reaching 11.3 percent in 2000, the last year for which data are available, and the children's poverty rate fell to 16.2 percent. These declines were the first noticeable successes against poverty since the gains of the early 1970s.

Social and Economic Trends Since the War on Poverty

Trends in labor market outcomes, family structure, the diversity of the population, and government policies have affected trends in poverty over the past forty years. Here we introduce some of the major issues that are discussed in the chapters in this volume.

Growing Earnings Inequality and the Changing Nature of Work

Beginning in the early 1970s—and accelerating after 1980—inequality in male wage rates and earnings increased substantially. Changes in production technologies, the globalization of labor markets, the movement of jobs from central cities to suburbs, and other changes in the labor market made it harder for the less-skilled to earn their way out of poverty. The wage gap between workers with more and less education and skills increased, as did the gap between younger and older workers. Earnings for workers with few skills and little education deteriorated: from the early 1970s until the mid-1990s, the inflation-adjusted hourly wage rate for a man with only a high school degree fell by about 35 percent. In addition, there was a decline in labor force participation and an increase in joblessness, especially among African American men.

Increased "Atomization" of Households

Over the past forty years, living alone and in a family arrangement other than the two-parent family with children have become increasingly common; the growth of mother-only families with children has been a prominent aspect of this change. Apart from the effects of such change on people's well-being, this trend has a statistical effect that increases the overall poverty rate. Because the official family poverty line varies by family size and reflects economies of scale in living arrangements, it takes more income to support the same set of people if they live in two households than if they live in one. The atomization of households, then, is another factor that contributes to the failure of poverty to fall below the level of the early 1970s.

Increased Immigration and Population Diversity

The demographic composition of the population has also changed dramatically, primarily because of the rapid growth of the foreign-born population. Since 1970, the United States has admitted twenty million immigrants; in addition, several million more illegal immigrants have entered the country. On average, recent immigrants have less education and fewer skills than the native population and earlier immigrants, and a high proportion of them are officially poor. This trend has also contributed to slow progress against poverty since the early 1970s.

Shifts in Antipoverty Policies

As discussed earlier, periodic changes in our understanding of the causes and consequences of poverty led to public policy changes that also affected the official poverty trend. The rapid decrease in the poverty rate during the 1960s and early 1970s resulted from a series of policy changes that greatly increased the value of Social Security retirement benefits, access to cash income support for single parents, and aid to the poorest elderly through the passage of the SSI program. Social Security disability benefits were introduced in the 1950s, and both benefits and coverage from this source also expanded in the aftermath of the War on Poverty.

Although cash assistance for nonworking single mothers has actually eroded since the 1970s, spending on food stamps and Medicaid has continued to grow. However, because they provide in-kind, but not cash, benefits, they do not affect the official poverty rate. The substitution of in-kind for cash benefits to low-income families may not adversely affect their overall well-being, but this policy twist has contributed to the stickiness of the official poverty rate.

Analyzing the Causes and Extent of Poverty and the Nature of Antipoverty Policies

Trends in poverty and antipoverty policies, and the associated changes in thinking about the poverty problem, have been analyzed in four previous volumes that have been sponsored by the Institute for Research on Poverty over the past quarter-century: *Progress Against Poverty: A Review of the 1964–1974 Decade* by Robert Plotnick and Felicity Skidmore (1975); *A Decade of Federal Antipoverty Programs: Achievements, Failures, and Lessons,* edited by Robert H. Haveman (1977); *Fighting Poverty: What Works and What Doesn't,* edited by Sheldon H. Danziger and Daniel H. Weinberg (1986); and *Confronting Poverty: Prescriptions for Change,* edited by Sheldon H. Danziger, Gary Sandefur, and Daniel H. Weinberg (1994).

Each volume in this series presents detailed assessments of trends in poverty and the evolution of antipoverty policies based on the research that existed when they were written, and each contains suggestions for reforming antipoverty policies. Each addresses a common set of topics, including analyses of trends in the official poverty rate and the impact of income transfers on poverty, documentation of changes in the level and composition of ex-