

Confronting POVERTY

Prescriptions for Change

EDITED BY

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Confronting Poverty

P R E S C R I P T I O N S F O R C H A N G E

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Confronting Poverty

To Robert J. Lampman
in recognition of his contributions to the intellectual
foundations of the War on Poverty and the establishment
of the Institute for Research on Poverty

Preface

The chapters in this volume were initially presented at a conference held in May 1992 in Madison, Wisconsin, jointly sponsored by 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. Additional support was provided by the Russell Sage Foundation and the Ford Foundation.

Participants in the conference included analysts from the academic community, government agencies, and private foundations. The participants spent three days assessing and debating the achievements, failures, and diverse lessons of government efforts over the past thirty years to reduce poverty in America. The papers were revised in May 1993 to reflect the conference discussion, reviewer comments, and the policy reforms proposed during President Clinton's initial months in office.

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

S.H.D.

G.D.S.

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Introduction

SHELDON H. DANZIGER, GARY D. SANDEFUR,
AND DANIEL H. WEINBERG

In 1964 President Lyndon Johnson declared unconditional war on poverty and committed the American people to a campaign against economic deprivation. Poverty did lessen in the following decade, but by the mid-1970s progress against it had come to a halt. In 1992, 14.5 percent of Americans were poor. Although this proportion was lower than the 19 percent of the population that had been poor when the War on Poverty was declared, it was above the historic low point (11.1 percent) in 1973 and was the highest since 1983, when 15.2 percent of the population had incomes below the poverty line. Further, the number of poor in 1992, 36.9 million, was as high as the 1964 figure, 36.1 million.

Because poverty has remained a national problem, conventional wisdom tends to regard the War on Poverty as a failure. Such a conclusion, however, is somewhat simplistic. Poverty is a complex social problem. It has not been eliminated, but this does not mean that the war against it failed. Poverty continues to exist because the economy and society have changed in many ways that were not envisioned in 1964. These changes have generated more poverty at the same time that the public resolve to fight poverty has waned.

This volume seeks to establish a new conventional wisdom with regard to poverty and antipoverty policy. The contributors were asked to review the research of the past three decades to establish what we know and do not know about the causes of poverty and to formulate an antipoverty agenda for the years ahead. Was the War on Poverty a success or a failure? The consensus that emerges is that there is no single answer to this question. Some programs were very successful; others failed; some were never large enough to make a difference; others were not designed to deal with the unforeseen demographic and economic changes that have occurred since the mid-1960s. Can and should government today place greater emphasis on policies to reduce poverty? To this question the volume pro-

vides a simple and affirmative answer. Even though the contributors differ regarding specific programs and policies, all of the evidence they review points to the need for a renewed antipoverty policy agenda.

Three Decades of Antipoverty Policy

In 1964 no official estimates of the nature or extent of poverty in the United States existed, and poverty was not a focus of government studies or programs. Since the Great Depression of the 1930s, poverty had commanded little academic attention and few legislative initiatives were proposed explicitly to aid the poor. In the 1960s, however, the situation changed dramatically. President John Kennedy, influenced by the poverty he observed while campaigning in West Virginia and by contemporary accounts of the plight of the poor (Harrington, 1962; Macdonald, 1963), directed his Council of Economic Advisers to study the problem. After Kennedy's assassination, Lyndon Johnson accelerated the work of the council and, in his first State of the Union message in January 1964, declared war on poverty. Shortly thereafter he announced a set of companion programs designed to enhance the general welfare and create the "Great Society."

In the next decade, as a result of these initiatives, new social welfare programs were introduced and old programs were expanded; the emphasis of the federal budget shifted from military spending toward social spending. The prevailing view during that period was optimistic. With the maintenance of stable growth and the provision of sufficient resources, government actions could solve the poverty problem. Policymakers assumed that the economy would continue to grow, but they also acknowledged that economic growth could not serve as the sole antipoverty policy: "We cannot and need not wait for the gradual growth of the economy to lift this forgotten fifth of our Nation above the poverty line . . . We know what must be done, and this Nation of abundance can surely afford to do it" (Johnson, 1964, p. 15). This economic optimism was warranted; the economy had grown rapidly during the twenty years since World War II and living standards had increased throughout the income distribution.

Many of the programs that were introduced or expanded during the War on Poverty–Great Society era are still operating, including Medicare and Medicaid, Food Stamps, Head Start, elementary and secondary educational assistance, and manpower development (training) programs such as the Job Corps. As the chapters in this volume demonstrate, these programs have improved the lives and the economic well-being of the low-income population. Nonetheless, the optimism that characterized the mid-1960s soured as the war in Vietnam replaced the War on Poverty in the headlines and helped destroy faith in the government's ability to solve any problem (Aaron, 1978). Increasingly heard were arguments that so-

cial problems could not be solved by “throwing money” at them and that the antipoverty attempts had failed.

By the late 1970s, after oil shocks, slow economic growth, and high inflation rates, a pessimistic view had emerged. It held that government was incapable of dealing with the major issues confronting U.S. society. Although a decade earlier government could do “almost anything,” now it could do “almost nothing.” Proponents of this view argued that social welfare programs had grown too large and had become a drag on economic growth, that work incentives had been eroded for both the poor and the rich, and that the incentive to save had been weakened. These programs should therefore be scaled back or eliminated (Murray, 1984). By 1982 this perspective had become official policy: “With the coming of the Great Society, government began eating away at the underpinnings of the private enterprise system. The big taxers and big spenders in the Congress had started a binge that would slowly change the nature of our society and, even worse, it threatened the character of our people . . . By the time the full weight of Great Society programs was felt, economic progress for America’s poor had come to a tragic halt” (Reagan, 1982, p. 1154). Rather than ask what government could do for the poor, official policy now emphasized what government could not accomplish and the ways in which its involvement could be counterproductive.

In retrospect, the official perspective on antipoverty policy was too optimistic at the outset of the War on Poverty and too pessimistic at the outset of the Reagan administration’s attempts to scale back the social safety net. The experience of the 1980s provided a “pseudo-social experiment” for this hands-off policy. The federal government emphasized policies designed to promote economic growth, and antipoverty policy was not a priority. As a result, even though the 1980s saw a seven-year economic recovery, there was relatively little reduction in poverty. The decade was one of “uneven tides,” as the poor and the middle class hardly benefited from the recovery (Danziger and Gottschalk, 1993). Average living standards increased, but the gaps between the poor and the rich and between the middle class and the rich widened.

At the same time that the economy was generating increasing hardship for the poor and for less-skilled workers, the federal government was also cutting back substantially on its antipoverty and labor market programs. In 1980 federal spending on employment and training programs amounted to \$9.3 billion in constant 1986 dollars. By 1986 spending had fallen to \$3.7 billion, and it remained at roughly this level through the end of the Bush administration (see Chapter 3). In addition, legislated changes in unemployment insurance and welfare reduced the antipoverty effectiveness of the federal safety net. It soon became apparent that holding the line on social spending and waiting for employers to hire the poor was not a viable antipoverty strategy.

The experience of high poverty rates during an economic recovery helped to shape a "new consensus" about the nature and prospects for a renewed anti-poverty effort. By the late 1980s Congress rejected the hands-off policy. The Tax Reform Act of 1986, the Family Support Act of 1988, and the Budget Summit Agreement of 1990 all reflected a bipartisan agreement to reform tax and welfare policies to aid the poor.

This new consensus recognized the diversity of the poor and the need for a multiplicity of strategies to aid them. The poverty problem of the elderly widow, for example, differs from that of the family whose head seeks full-time work but finds only sporadic employment; the poverty of the family head who works full time but at low wages differs from that of the family head who receives welfare and either cannot find a job or does not find it profitable to seek work.

A key aspect of this approach to poverty policy is the consensus that only the poverty of those not expected to work, such as the elderly and the disabled, should be addressed with expanded welfare benefits. This represents a dramatic shift from the consensus of the 1970s that cash welfare benefits should be universally available (for example, President Nixon's Family Assistance Plan and President Carter's Program for Better Jobs and Income).¹ This consensus was embodied in the new emphasis placed on increasing the work effort of welfare recipients in the Family Support Act of 1988 and is also seen in the arguments in several chapters here for an expanded federal emphasis on labor market policies.

In 1991 the National Commission on Children released its report, *Beyond Rhetoric: A New American Agenda for Children and Families*, which endorsed proposals to raise the standard of living of low-income working families, move welfare families from nonwork to work, subsidize child-care costs, increase child support awards and collections, and extend medical coverage. President Bill Clinton, then governor of Arkansas, was a commission member. During his 1992 presidential campaign and in his initial months in office, he advocated renewed policy efforts in these areas. He proposed reforming health care and welfare, expanding Head Start, subsidizing low-wage workers, and expanding access to higher education.

Thus the United States is on the verge of another major shift in thinking about antipoverty policy. This new view is based on the research and policy lessons of the past three decades and can be characterized as reflecting realism, rather than either the optimism that characterized the War on Poverty or the pessimism of the Reagan retrenchment. Rejected are the views that government can do almost anything *and* that government can do almost nothing. The contributors to this volume, reflecting the new view, propose many changes that, if undertaken, would reduce poverty. They realize that these policies would not totally eliminate poverty. They also recognize that there are other proposals that require additional

research, experimentation, and demonstration trials. They are more confident about the ability of policies to raise the incomes of the working poor and to move some welfare families into the labor market, for example, than they are about revitalizing our most poverty-stricken inner-city neighborhoods. The goal of resolving the American paradox of “poverty amid plenty” remains.

Three Decades of Research on Poverty

As changes in antipoverty policy have taken place, there have also been changes in the direction of research on poverty. These changes are manifest in four volumes that have come out of the Institute for Research on Poverty during the past twenty years: *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 this book. Each contains essays that assess existing knowledge about poverty and antipoverty policy and recommend changes in policy.

A review of these volumes reveals the themes and ideas that have been important throughout the past three decades. Contributors to each volume have focused on expenditures on antipoverty programs, trends in the official poverty rate and the impact of income transfers on poverty, and the issue of income inequality. Each volume has analyzed the role of macroeconomic changes and has included evaluations of the special problems of black poverty in the central cities, education and training programs, health care, and employment policies. Each volume has addressed the issues of whether public assistance programs create adverse incentives (for example, reducing work effort or encouraging the formation of single-parent families) and has examined the political issues that constrain antipoverty policies. The particular questions posed in these areas, the empirical results, and the recommended policies have changed considerably since 1964. But the topics continue to attract attention.

Other issues and themes appear in the earlier volumes, but not here. One difference across all four volumes concerns the relative importance of poverty and antipoverty policy in the hierarchy of public policy issues at the time each volume was being prepared. Haveman (1977, p. 18), after reviewing the optimistic post-War on Poverty decade marked by major reductions in the poverty rate, concluded that “the day of income poverty as a major public issue would appear to be past.” Danziger and Weinberg (1986, p. 1), writing after the Reagan retrenchment on social programs, began their introductory chapter with the statement: “Poverty was at the top of the nation’s agenda when the War on Poverty was declared

twenty years ago. Now it is only one of several concerns.” As this volume goes to press, poverty seems to be once again moving back toward the top of the national political agenda.

Other changes in focus in antipoverty research are also reflected in the earlier works. A contribution to the Haveman volume considered community action programs a major part of antipoverty efforts. Neither of the next two volumes pays much attention to such programs. The idea of a guaranteed income or a negative income tax receives serious consideration in the Plotnick-Skidmore and Haveman volumes, but is of little concern in the Danziger-Weinberg or this volume. The legal rights of and legal services for the poor were important topics in the earlier books but are not discussed here. Each of these policies—community action programs, a guaranteed income, and legal services—attempts to increase the power and voice of the poor and/or make it easier for needy individuals to get cash benefits. In the 1980s, more attention was focused on requiring the poor to take greater responsibility through increased work effort and support for their children.

Contributions in this volume are primarily devoted to issues that took center stage after the mid-1980s. Recent studies have emphasized the persistence of poverty and of welfare use for individuals over time and the extent of the intergenerational transmission of both. Although urban poverty has been a long-standing concern, this is the first of the four volumes to contain chapters on the urban underclass and urban policy. The poverty experienced by immigrants, their patterns of receipt of public assistance, and the impact of immigrants on the native-born also appear for the first time. In addition, education—from preschool through college, and including worker training and retraining—as a key to economic success has once again moved to the forefront of public debate.

Although some topics have changed, some have been dropped, and others have been added, the broad questions addressed by research on poverty are similar to the broad questions raised in the mid-1960s. The chapters that follow address the four major questions that have formed the core of research on poverty during the past three decades: What is the extent of poverty? How effective are antipoverty programs? How should we reform and expand antipoverty programs and policies? What are the political constraints within which antipoverty policy must be formulated?

What Is the Extent of Poverty?

Sheldon H. Danziger and Daniel H. Weinberg discuss trends in the level and distribution of family income and a series of alternative measures of poverty. They provide a historical perspective on what has happened to poverty in the United

States since its eradication first became a goal of public policy. They examine trends over time in the official poverty rate and in alternative poverty measures adjusted for deficiencies in the official definition such as the failure to account for the receipt of in-kind income and the payment of taxes. They also examine the severity of poverty, both the proportion of people with incomes below half the official poverty line and the poverty gap—the amount by which a poor family's income falls below its poverty line.

Whatever measures they use, they find that prior to 1973, family income grew rapidly, income inequality declined modestly, and poverty declined dramatically—from 19 percent of the population (official rate) in 1964 to a low of 11.1 percent in 1973. The period between 1973 and 1979 was characterized by stagnation in mean income and modest cyclical changes in poverty. Poverty and inequality then rose rapidly between 1979 and 1983 because of back-to-back recessions and falling average incomes. It is the post-1983 period that Danziger and Weinberg find anomalous. In these years mean income grew rapidly, but so did inequality. As a result, the poverty rate and the severity of poverty remained above their 1973 levels and the gap between the incomes of the poorest and richest families widened to levels not seen since the late 1940s.

Danziger and Weinberg conclude that economic growth still matters. Growth matters less to the trend in poverty now than in the past, however, because of increased income inequality. Looking at trends among various demographic groups, Danziger and Weinberg report that, in any year, non-Hispanic whites have lower poverty rates than blacks, Hispanics, and other minority groups; working-age adults have lower poverty rates than children and the elderly; men have lower poverty rates than women; and married-couple families have lower poverty rates than female-headed families. All of these demographic disparities in poverty have persisted over the past fifty years with one exception. Until 1973 the poverty rate for the elderly was substantially higher than the rate for children, whereas since 1973 it has been lower, and is now substantially lower.

Peter Gottschalk, Sara McLanahan, and Gary D. Sandefur examine the nature of persistent poverty and welfare use within and across generations. They show that most people who are poor at some point in their lives are poor for only a short period of time. Blacks experience longer spells of poverty on average than do whites. Patterns of income mobility and the likelihood of individuals' escaping poverty from one year to the next did not change much between the late 1960s and the late 1980s. The majority of people who use welfare (in particular, Aid to Families with Dependent Children, or AFDC) use it for less than two years in a row. Yet about half of first-time users return to welfare later. Blacks are on welfare longer on average than are whites, and are more likely than whites to return to the welfare rolls after an initial experience with welfare.

Gottschalk, McLanahan, and Sandefur also examine the evidence regarding the causal effect of welfare on poverty, a critical issue in recent public policy debates. They conclude that although welfare has small but measurable adverse effects on work effort, marriage, divorce, and childbearing, these effects are not large enough to lead to an increase in the poverty rate relative to what it would be without welfare. Indeed, the poverty rate would be significantly higher without the cash transfers from welfare programs, and a more generous welfare system would reduce poverty.

Research on the intergenerational transmission of poverty suggests that individuals who grow up in poor families are substantially more likely to experience poverty as adults than those who do not grow up in poor families. Poverty is not a “trap,” however; over half of the people who grow up in the bottom quintile of the income distribution will not be there as adults. Although the evidence also supports the intergenerational correlation of welfare use, it does not yet permit sorting out the extent to which welfare use in one generation *causes* welfare use in the next generation. Gottschalk, McLanahan, and Sandefur also report that growing up in a single-parent family is associated with deleterious life-cycle events such as dropping out of high school and premarital pregnancy, which in turn are associated with poverty and welfare use later as adults.

Indications of the intergenerational transmission of poverty and welfare use raise the specter of a permanent underclass, mired in poverty, behaving in ways that further isolate them from the economic and social mainstream. Ronald B. Mincy examines the concept of the underclass, a term used to describe the combination of poverty and social problems such as violence, drug abuse, joblessness, out-of-wedlock childbearing, and dependence on welfare attributed to some residents of urban slums. He outlines the work of William Julius Wilson, the principal underclass theorist, who constructed a set of hypotheses to explain the emergence of an urban underclass: changing employment opportunities (reduced demand for low-skilled labor), declines in black marriage rates, and selective out-migration (movement of middle-class blacks from the urban ghettos).

Mincy explores the extent to which the Wilson hypotheses have been substantiated and questioned, and he points to other theories, such as one that lays greater stress on the role of race discrimination in marginalizing low-skilled minorities in our society. He concludes that though much controversy remains and measurement of the underclass is exceedingly inexact, the literature on the underclass has been valuable in reestablishing a broader debate about poverty and its causes.

How Effective Are Antipoverty Programs?

Gary Burtless examines historical trends in and economic limits on public spending on the poor. Burtless points out that most programs for the poor are successful

in meeting most of their objectives. He suggests that it is easier to examine the intensity of our effort to help the poor than it is to examine our success, because intensity can be measured by looking at expenditures.

Burtless points to three major eras in public spending on the poor. The 1960–1975 period was marked by the initiation and/or expansion of many programs targeting the poor. It was followed by a period of skepticism about antipoverty programs and retrenchment in social spending. The third and current era began toward the end of the 1980s, with program liberalization that involved the reform and extension of existing programs rather than the initiation of new programs as in the 1960s.

Burtless also poses the question of whether spending money on the poor has adverse effects. He questions whether the effects are very large with reference to the experience of other industrialized countries. In many of these, generous redistribution policies have been compatible with much higher growth in real per capita gross domestic product than has occurred in the United States. He concludes that the choice of redistribution policy rests ultimately on political rather than on purely economic considerations. The United States has chosen modest redistribution and high rates of poverty primarily because of political considerations, particularly the view that government—to the greatest extent possible—should minimize its intervention in the market economy.

Yet the government has increased redistributive payments to individuals since 1960. What, exactly, has been the effect on the poor of this spending? Danziger and Weinberg emphasize several points. First they point out that most income transfers are not targeted on the poor. Social insurance spending represents about three-quarters of the total of \$573 billion spent on transfers in 1990. Only the remaining quarter targets the low-income population. They further point out that since 1960, programs have increasingly provided assistance in forms other than cash—increases in Medicare, Medicaid, housing assistance, and Food Stamps. Within these constraints, in 1990, 37.2 percent of the pretransfer poor (8 percent of all persons) were removed from poverty by cash transfers, and about half of the pretransfer poor were taken out of poverty by cash plus noncash transfers.

Trends in the antipoverty effectiveness of cash income transfers over the 1967–1990 period differ markedly for the elderly and for persons living in families with children headed by a nonelderly male or female. The poverty rate for the elderly is now below average and has declined relative to the rates of nonelderly families with children, primarily because of the increasing antipoverty effectiveness of income transfers. Since 1973, when Social Security benefits were indexed for inflation, cash transfers have continued to remove more than three-quarters of the elderly pretransfer poor from poverty.

Poverty rose primarily for those most affected by adverse economic condi-