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Institute for Research on Poverty

Discussion Papers

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Abstract

Analysis of Census Bureau data from 1939 forward shows that although both children and the elderly have experienced substantial and similar reductions in poverty over the last 45 years, in the past 15 years the gains of the elderly have far outpaced those of children. This more recent trend may better foreshadow the future.

Changes in mean earnings and in public transfers account for the recently diverging paths of well-being among the two age groups. The well-being of children is more dependent on current real earnings of prime-aged persons than is that of the elderly, and declines in the rate of earnings growth in the recent period have therefore more strongly affected the incidence of poverty among children. Child poverty also rose because of the increased propensity of children to live in single-parent families. Indexation of social security benefits and establishment of the Supplemental Security Income program in 1972 have secured the incomes of many elderly persons, but transfers to families with children began to fall in 1973. Declining real transfers and declining real earnings combined to produce an unprecedented rise in poverty among children starting in 1979.

Even though the elderly have fared better than children on average, poverty remains high by historical standards for particular subgroups of the population: elderly white widows, all minority elderly and minority children, and white children in single-parent families.

The political and economic indications are that poverty among these subgroups will remain high in the foreseeable future and that poverty rates among the elderly in general will decline, but more slowly than in

the past 15 years. To remedy this situation requires a refocused antipoverty effort in which the significance of age is small. This paper's policy recommendations are to raise the welfare benefits of the poor elderly, increase the taxes of the nonpoor, both elderly and nonelderly, and increase tax credits on behalf of poor children.

The Declining Significance of Age in the United States: Trends in the Well-Being of Children and the Elderly since 1939

INTRODUCTION

In the past several years, academics, policymakers and the media have widely discussed the declining impoverishment of the elderly and the growing poverty among children. The facts concerning poverty as officially measured are as follows:

- --the poverty rate for all elderly persons has fallen substantially since 1939, but particularly since 1969;
- --the poverty rate for all children fell rapidly between 1939 and 1969, but has risen substantially since 1969;
- --beginning in 1974, the poverty rate among children exceeded that among the elderly.

This paper places these facts in historical perspective by extending the official series on poverty rates back to 1939 in the same way that the series has been brought forward by the Census Bureau since 1959. We find the decades of the forties and seventies to be decisive. The elderly have indeed improved their position faster than have children since 1969. However, children made more rapid progress than did the elderly between 1939 and 1949 and between 1959 and 1969. Between 1949 and 1959, the rate of poverty decline was similar for the two groups.

A popular interpretation of the period since 1969 is that government policy has benefited the elderly relative to the young. The longer historical perspective poses a challenge to this interpretation. While government policy is primarily responsible for the recent decline in poverty among the elderly, the disappointing trend in the earnings of the parents of children, not reductions in government benefits, is primarily responsible for rising poverty among children. Poverty among children also rose because of the increase in the percentage of all children living in single-parent families and the very high poverty rate of these families.

This paper is organized as follows. First we describe our data. We then review long-run trends in poverty for all the elderly and all children. We then turn to the record for subgroups of children and the elderly. Next we show that trends in poverty are indicative of, but not precisely the same as, trends in mean income for particular population groups. Finally we turn to the future and implications for policy.

MEASURES OF POVERTY

An important measure of economic well-being is the incidence of poverty. For all years since 1959 we have a detailed record of the proportion of the total population in poverty according to the official measure, which is fixed in real terms. We also have a description through time of changes in the relative importance of the major socioeconomic correlates of poverty--age, race or ethnicity, sex of the household head, family size, educational achievement of the household head, etc.

The recent release of public use sample tapes for the 1940 and 1950 Censuses permits us to extend the historical record concerning the incidence of poverty and the changing role of various socioeconomic correlates. It is in the latter area that the largest gain can be made, since the previously published Current Population Survey (CPS) data have made possible some rough estimates of the aggregate incidence of poverty over the 1947-59 period (e.g., Fisher, 1985).

Our measure of poverty is the set of official poverty lines. They vary by the age and sex of the household head, by farm-nonfarm residence, and by family size. We extended the 1959 Census lines back to 1939 and 1949 via the Consumer Price Index (CPI).[1] We thus extend the record of official poverty back in time in the same manner and for about the same length of time as the official measure has been extended forward.

A poverty line that reflects only price changes and not changes in real incomes yields what strikes many as an implausibly high incidence of poverty in 1939 (see Smith, 1986). In fact, this poverty line for a family of four is about 9 percent higher than mean household income in 1939, while it is only 41 percent of the 1979 mean. If our 1939 and 1949 lines are considered too high, then, by analogy, the current official poverty lines must be too low.[2] Yet this case is rarely made. We simply reiterate the fact here that we have extended the poverty line via the Consumer Price Index back by 20 years from 1959 to 1939, while the Office of Management and Budget has extended the official line forward since 1959 for more than 20 years. The years 1939 to the present seem to us an era with enough commonality so that poverty lines fixed in real terms have some intuitive meaning.

In the 1940 Census, only earned income (wages and salaries) is reported.[3] Thus the data presented here for 1939 are not directly comparable to the data for later years. Nonetheless, the poverty rate of children relative to that of the elderly in each year, as shown below, provides a measure of the trend in relative well-being of the two groups that is less influenced by different income concepts than is the trend in the absolute value of the poverty rates.

Beginning in 1950 and continuing through the 1980 Census, households were asked about all sources of cash income.[4] Total cash income, commonly referred to as Census money income or posttransfer income, provides the income measure for the official poverty series.[5] We measure poverty by comparing the total resources of all persons in a household unit to the appropriate poverty line. Our definition of household includes the Census Bureau's concepts of families and unrelated individuals. Only those household members related to the head are included as members of an income-sharing unit.[6] Related persons living in the same dwelling are thus assumed to pool their income.

The income of elderly persons and their probability of living alone are positively correlated. If, over time, the elderly increasingly live apart from their adult children because the incomes of the elderly are rising, then, paradoxically, the data will show greater poverty rates for the elderly, if the poverty line is above the income level at which a substantial number of elderly choose to live alone.

How important this shift in living arrangements has been historically is not known.[7] To the extent that it matters, it probably leads to an underestimate of the improvement of the well-being of the elderly relative to that of children over the past two decades.

We measure poverty for all persons classified by their own age, race, and sex in 1939, 1959, 1969 and 1979. In 1949, we classify persons by the characteristics of their household head. Thus, while the 1939 poverty rates differ from those of the other years, the 1949 classification of persons differs. This is because in 1950, the Census Bureau collected income information from a 20 percent sample of persons, rather than from a sample of households. Unfortunately, the respondents in this 20 percent subsample were not asked about the incomes of other members of the household unless the respondent was the household head. For example, if the wife was the person sampled, we know only her own income, while if the husband was sampled, we know both his own and the household's total income. Because poverty is defined by household income, we can include only household heads and unrelated individuals in our analysis.

Consider, for example, a 70-year-old woman married to a 75-year-old man, in a family where the husband was the person sampled. In 1949, she will be counted in the tables that follow as a person living in a household headed by an elderly man. In the other Census years, she will be counted as an elderly woman. Thus, for 1949, only persons living in households headed by an elderly woman without a husband present are counted in the tables that follow as elderly women. Children are classified on a consistent basis in each of the Censuses.

In sum, this paper provides measures of poverty that correspond as closely as possible to the officially published poverty statistics. However, there are differences over time in the measures presented here as well as differences between these measures and those based on the Current Population Survey (CPS).

TRENDS IN POVERTY

The well-being of children and the well-being of the elderly depend on different sources of income. Historically, the well-being of children has depended overwhelmingly on access to the current earnings of prime-age workers, while that of the elderly has depended primarily on the level of social security benefits and hence the long-term trend in earnings. There is no necessary connection between the rate of growth of wages and social security benefits in the short run, and hence the well-being of the elderly and the young can diverge.

This divergence is illustrated in Table 1, which presents poverty rates for children and the elderly, by decade since 1939, in the first five columns, and the poverty rate of each group relative to that of men aged 65-69 in the second five. Although, as mentioned above, the 1939 rates are biased upward because they are based only on earned income, it is clear that poverty rates for children declined relative to rates for either elderly men or women between 1939 and 1969. The incidence of poverty among children actually rose after 1969. As we shall see, this pattern primarily reflects the path of mean earnings of prime-age men over time. Periods of rapidly rising real social security benefits are what cause the periodic steep declines in the incidence of poverty among the elderly.

Table 1 and Figures 1 and 2 together illustrate that the relationship between the economic well-being of the aged and the young is extremely sensitive to the choice of the date at which the initial comparison is made. Beginning such comparisons with 1966, when the CPS continuous series begins (as in Figure 2), highlights the rapid relative progress of

Table 1

Poverty Rates for Children and the Elderly: 1939-1979

	% of Persons Poor					Poverty Rate Relative to Rate of Men Aged 65-69				
	1939[a]	1949[b]	1959	1969	1979	1939[a]	1949[b]	1959	1969	1979
Age Group	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Children										
<4	79.4	45.0	26.2	15.9	18.2	1.08	1.00	1.04	0.91	2.33
5-9	80.5	48.2	26.4	16.1	16.6	1.09	1.08	1.05	0.93	2.13
10-14	78.6	50.7	25.5	14.9	16.5	1.07	1.13	1.02	0.86	2.12
All, <15	79.5	47.6	26.1	15.6	17.1	1.08	1.06	1.04	0.89	2.19
Men										
65-69	73.6	44.8	25.1	17.4	7.8	1.00	1.00	1.00	1.00	1.00
70-74	78.2	58.1	33.8	20.4	10.8	1.06	1.30	1.35	1.17	1.38
75-79	85.4	62.7	42.1	23.5	14.5	1.16	1.40	1.68	1.35	1.86
80-84	83.6	67.4	44.7	30.9	12.5	1.14	1.50	1.78	1.78	1.60
85+	83.2	68.7	47.1	36.7	14.5	1.13	1.53	1.88	2.11	1.86
All, >64	78.0	55.3	33.2	22.2	10.6	1.06	1.23	1.32	1.28	1.53
Women										
65-69	75.5	65.5	32.6	26.4	15.7	1.03	1.46	1.30	1.52	1.88
70-74	79.3	69.5	40.4	31.1	17.6	1.08	1.55	1.61	1.79	2.26
75-79	78.6	71.4	44.1	35.2	19.9	1.07	1.59	1.76	2.02	2.55
80-84	78.3	71.2	46.6	37.8	19.1	1.06	1.59	1.86	2.17	2.45
85+	80.4	74.7	39.3	35.4	27.0	1.09	1.67	1.57	2.03	3.46
All, >64	77.5	69.4	38.6	32.1	18.0	1.05	1.55	1.53	1.84	2.44
All Persons	68.1	39.8	22.1	14.4	13.1	0.93	0.89	0.88	0.83	1.68

Source: Computations by authors from Decennial Census computer tapes.

[a]For 1939, based on household earnings; for other years, on household cash income from all sources. The 1939 rates are biased upward because self-employment income was not counted as earnings.

[b]Because the 1950 Census sample frame differs from that of the other Censuses, the poverty rates for 1949 are for persons classified by the age of the household head, and not for persons classified by their own age. The treatment of children, however, is consistent across all Censuses. See text and footnote 7.

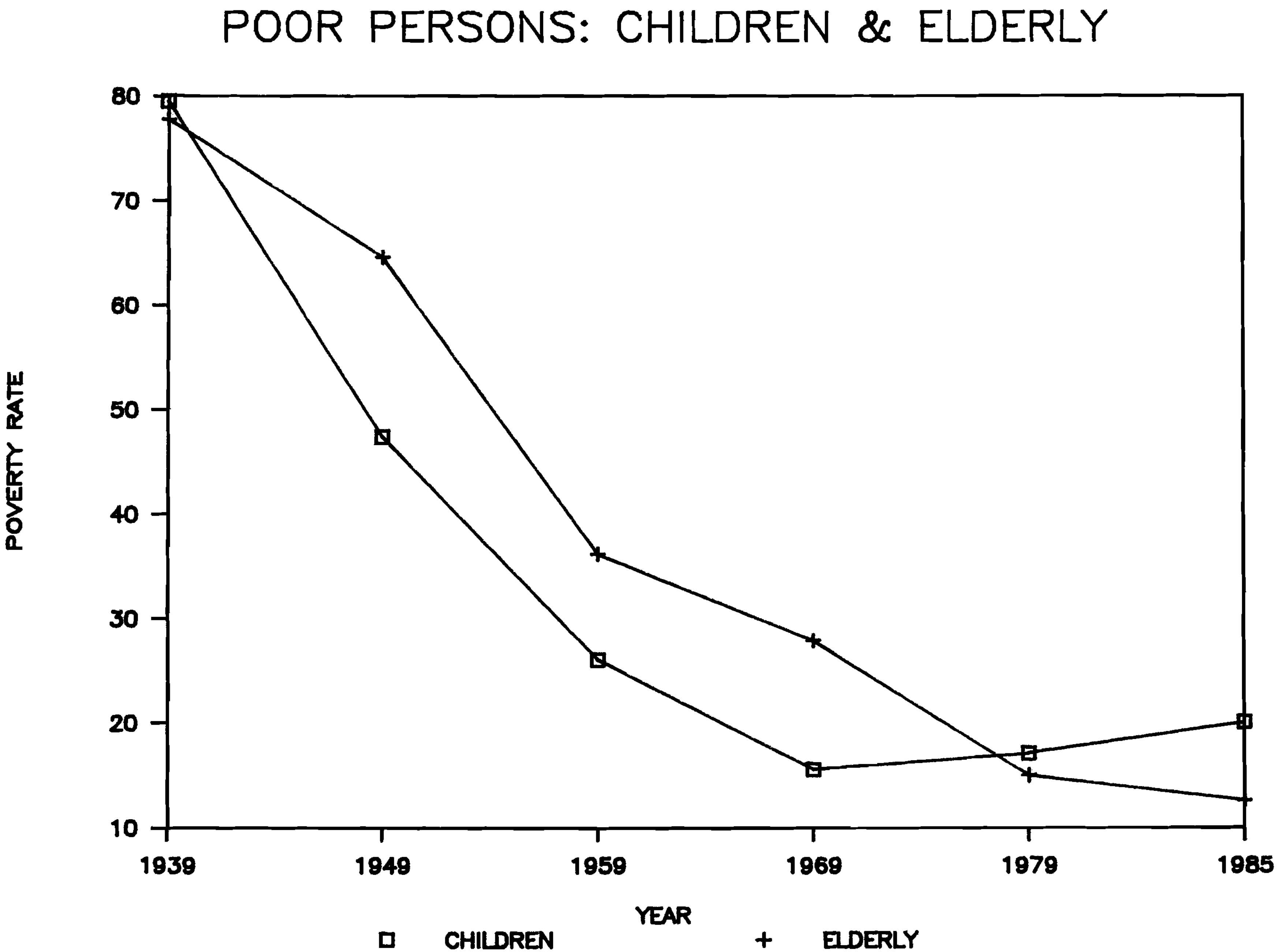
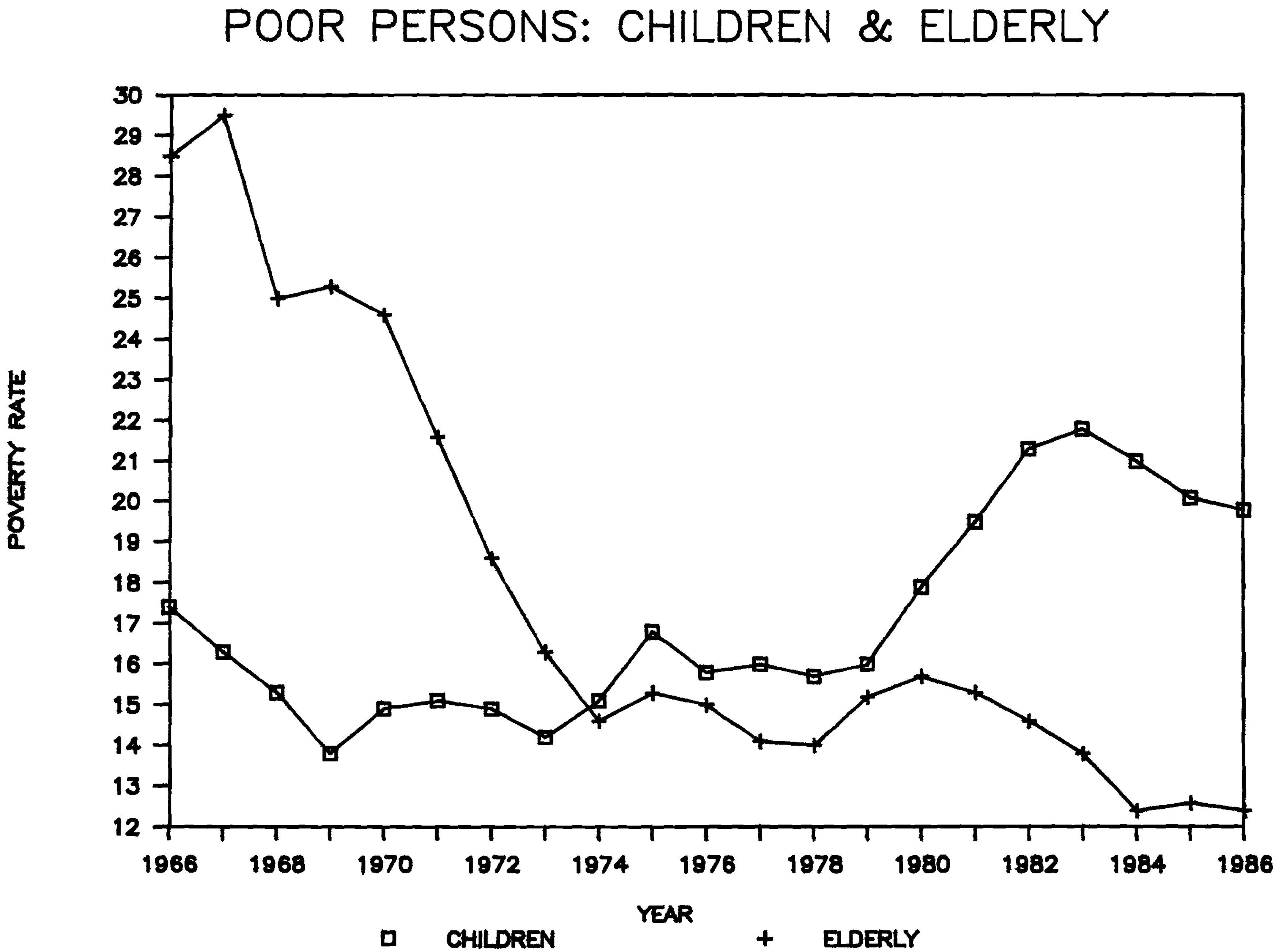

POOR PERSONS: CHILDREN & ELDERLY
POVERTY RATE
80
70
60
50
40
30
20
10
1939
1949
1959
1969
1979
1985
YEAR
CHILDREN
ELDERLY

FIGURE 1



POOR PERSONS: CHILDREN & ELDERLY
POVERTY RATE
30
29
28
27
26
25
24
23
22
21
20
19
18
17
16
15
14
13
12
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
YEAR
CHILDREN
ELDERLY

FIGURE 2

the elderly, who eventually overcome the substantial advantage originally held by the young (Radner, 1986). On the other hand, tracing the record from 1939 (as in Figure 1 and Table 1) emphasizes that although the time path of progress of the two groups was quite different, they both have experienced substantial and similar gains over the last four decades. Only by concentrating on the recent past does the story become one of great gains by the elderly as compared to the growing impoverishment of children (Preston, 1984). In fact, the greatest divergence occurs after 1979 (see Figure 2). In the long view this divergence is a brief anomaly. However, it has occurred, and because the anomaly lies in the most recent period this trend, rather than the history of the entire postwar period, may better foreshadow the future.

Further detail for age and sex subgroups, reported in Table 1, indicates differences both over time and among groups. The declines in poverty between 1939 and 1969 were smaller for the elderly than for children. For example, children were slightly more likely to be poor than men between the ages of 65 and 69 in 1939, 1949, and 1959, but slightly less likely in 1969.

But over the entire forty-year period the differences in poverty rates among the aged groups widened. Both children and elderly men aged 65-69 gained relative to elderly men over 70 years of age and to elderly women. The ratios in column 6 for men over age 70 ranged only from 1.06 to 1.16 in 1939, but those in column 10 ranged from 1.38 to 1.86 in 1979. The ratios for all elderly women rose from 1.05 in 1939 to 2.44 in 1979.

The gains between 1969 and 1979 of elderly men and women of all ages relative to children are apparent in columns 9 and 10. Poverty rose somewhat for children, but dramatically declined for the elderly. While children were less likely to be poor than men aged 65-69 in 1969, they were more than twice as likely to be poor by 1979. And while children were less likely to be poor than men older than 70 in every year prior to 1979, they were more likely than these men to be poor in 1979. Even in 1979, however, poverty rates for children were quite similar to those of elderly women below the age of 85. As we discuss below, the time path of earnings relative to social security benefits played a key role in explaining these trends.

But why did the position of elderly women relative to elderly men deteriorate so much over the period? In 1939 there was little divergence by sex; by 1979, the rates for elderly women in any age group were from 1.5 to 2.0 times those of men of the same age. Higher incidences of poverty for elderly women are not surprising, but that the trend is so adverse needs to be explained. Part of the explanation is due to the increased longevity of elderly women relative to elderly men. As a result, in 1979 a much greater percentage of elderly women were widows than in 1939. And, widows always had poverty rates that were higher than those of elderly wives.

The other part of the explanation is policy-related, but quite mechanical. Social security benefits for a widow fall by one-third when a husband dies, whereas the poverty line for a single elderly person is 20 percent below that for an elderly couple. As a result of the differences in these two implicit equivalence scales, a husband's death can trigger a "mechanical" increase in measured poverty. We refer to it as mechanical because it results from two explicit, but inconsistent, policy decisions. Measured poverty would not increase if either social security benefits used the poverty-line equivalence scale--that is, fell by only 20 percent percent at the death of a spouse--or if the poverty line for a single person were one-third below that for a couple. That two different equivalence scales are in use by policymakers side by side, however, suggests that the economic problem faced by widows is not simply a mechanical failure. Indeed, we could not find in the literature a discussion of whether these equivalence scales should be the same or whether each one is appropriate for the purpose it serves.

We recomputed poverty rates by adjusting the poverty-line difference so that it was as large as the social security benefit difference in 1985. Poverty rates for elderly white widows fell to 14.1 from 21.4 percent; for elderly black widows, they fell to 35.7 from 45.4 percent. Scaling the incidence of poverty by these amounts for elderly women as reported for 1979 in Table 1 would eliminate much of the difference in poverty rates among elderly men and women at ages below 85.

Changes in poverty, especially among children, reflect changes in demographic characteristics as well as changes in the economic circumstances of each demographic group. The data in Table 2 on the composition of the population and the composition of the poor detail the rapid demographic as well as economic changes over this period. Between 1939 and 1959 the share of children in the population increased from 25.13 to 31.61 percent, while their share among the poor increased from 29.28 to 36.79 percent. During this period the much higher than average poverty rates of children living in single-parent (mostly female-headed) families began to emerge as a major issue. In 1959, children in two-parent families comprised about 29 percent of both all persons and all

Table 2

The Composition of the Population and the Poor, 1939–1979

	1939[a]		1949[b]		1959		1969		1979	
	All Persons (1)	Poor Persons (2)	All Persons (3)	Poor Persons (4)	All Persons (5)	Poor Persons (6)	All Persons (7)	Poor Persons (8)	All Persons (9)	Poor Persons (10)
Children, <14	25.13%	29.28%	28.27%	33.80%	31.61%	36.79%	28.83%	31.37%	23.18%	30.38%
Living with two parents	22.64	25.99	25.86	29.23	29.16	29.58	25.28	18.87	18.88	14.75
Living with single parent	2.49	3.29	2.41	4.57	2.45	7.21	3.55	12.50	4.30	15.63
Adults, 15–64	68.12	63.04	62.95	53.21	59.65	50.09	62.26	51.34	66.10	57.30
Elderly, >64	6.74	7.68	8.79	13.00	8.74	14.12	8.91	17.30	10.72	12.33
Men	3.29	3.76	6.53	9.06	3.92	5.82	3.76	5.81	4.31	3.51
Women	3.45	3.92	2.26	3.94	4.82	8.30	5.15	11.49	6.41	8.82
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Computations by authors from Decennial Census computer taxes.

Note: Totals may not add to 100.00 due to rounding.

[a]For 1939, earnings poverty; for other years, income poverty. See note a, Table 1.

[b]The 1949 classification is not consistent with those of the other Census years. The largest difference is in the classification of elderly wives. See note b, Table 1.

poor persons, while children in single-parent families were about three times their share of the poor relative to their share of all persons (7.21 versus 2.45 percent). By 1969, children in two-parent families for the first time had a poverty rate that was below average--10.7 percent versus 14.4 percent for all persons (data not shown). They composed a smaller part of the population (25.28 percent) than in any earlier year but an even smaller percentage of the poor (18.87 percent). Even today (as discussed below), children in two-parent families have a poverty rate lower than that of all persons.

The declining relative well-being of children, then, is exacerbated by the post-1959 increase in the share of children living in single-parent families and their very high poverty rates. For example, in 1939 the poverty rate of children in single-parent families, 90.0 percent, was about one-third higher than the 68.1 percent rate for all persons. In 1949, they were almost twice as likely to be poor as the average person; and in 1959, almost three times as likely. By 1979, their rate of 47.4 percent was more than three and one-half times the aggregate rate of 13.1 percent. In 1979, despite their small numbers in the population (4.30 percent), poor children in single-parent families composed a larger share of all poor persons (15.63 percent) than either poor children in two-parent families (14.75 percent) or poor elderly persons (12.33 percent).

Disaggregation by race and ethnic groups also shows divergent patterns of change. Table 3 compares the experiences of children and the elderly classified by race and Hispanic origin. The average experience, dominated by data for whites, is not representative of the minority experience. Between 1939 and 1969, white children gained relative to elderly white men as well as relative to black and Hispanic children,

Table 3

Poverty Rates for Children and the Elderly, by Race or Ethnicity, and Sex: 1939-1979

	% of Persons Poor					Poverty Rate Relative to Rate of White Men Aged 65 and Over				
	1939[a] (1)	1949[b] (2)	1959 (3)	1969 (4)	1979 (5)	1939[a] (6)	1949[b] (7)	1959 (8)	1969 (9)	1979 (10)
Children, <15										
White	76.6	41.2	18.8	10.4	11.7	1.00	0.78	0.62	0.52	1.36
Black	97.5	87.0	63.3	41.1	36.1	1.27	1.65	2.10	2.04	4.20
Hispanic	96.2	73.0	53.3	33.3	28.3	1.26	1.38	1.77	1.66	3.29
All children	79.5	47.6	26.1	15.6	17.1	1.04	0.90	0.87	0.78	1.99
Elderly Men, >64										
White	76.6	52.8	30.1	20.1	8.6	1.00	1.00	1.00	1.00	1.00
Black	95.3	86.4	65.2	43.7	26.5	1.24	1.64	2.17	2.17	3.08
Hispanic	*	*	*	*	*	*	*	*	*	*
All elderly men	78.0	55.3	33.2	22.2	10.6	1.02	1.05	1.10	1.10	1.23
Elderly Women, >64										
White	76.2	67.3	36.4	30.4	15.8	0.99	1.27	1.21	1.51	1.84
Black	94.6	92.3	64.9	50.0	35.3	1.23	1.75	2.16	2.49	4.10
Hispanic	*	*	*	*	*	*	*	*	*	*
All elderly women	77.5	69.4	38.6	32.1	18.0	1.01	1.31	1.28	1.60	2.09
All elderly persons	77.8	59.0	36.2	27.9	15.0	1.01	1.12	1.20	1.39	1.74

Source: Computations by authors from Decennial Census computer tapes.

*Less than 200 observations in sample; included in the total.

[a]See note a, Table 1.

[b]See note b, Table 1.

elderly black men and all elderly women. And, black and Hispanic children, black elderly men, and black and white elderly women had smaller declines in poverty than elderly white men during virtually each subperiod. Thus, the post-1969 trend of rising poverty among children largely reflects the fact that poverty among elderly white men declined more than it did for any other group, while among white children it rose for the first time.

How have these patterns changed since 1979? We will not have data from the 1990 decennial census for six or seven years, but we have similar data for the year 1985 from the March 1986 Current Population Survey. While these data are not directly comparable to the decennial census data, they are sufficiently similiar to indicate that the pattern of poverty rates across subgroups of the population has not much changed since the last census. Between 1979 and 1985, the difference between the poverty rates for children and the elderly, as reported in the CPS, increased from less than one to more than seven percentage points. In 1985, these rates were 20.1 and 12.6 percent, respectively.

Table 4 shows that in 1985 there continues to be great diversity across groups defined by the age, race or ethnicity, and sex of the household head.[8] For example, children living in two-parent families are less likely to be poor (11.35 percent) than persons living in households headed by elderly women (23.13 percent) or nonelderly women (26.78 percent), or persons living in households headed by black or Hispanic elderly men (19.57 percent).

The poverty rate for all children is high in large part because the rate for children living in single-parent families is extraordinarily

Table 4

Poverty Rates for Children and the Elderly, by Race or Ethnicity and Sex of Household Head: 1985[a]

	% of Persons Poor:		
	White Non-Hispanic (1)	Blacks and Hispanics (2)	All (3)
All Persons	9.85%	28.24%	13.98%
Children, <18[b]			
Living with two parents	8.32	21.84	11.35
Living with single parent	35.70	64.34	49.90
Persons living in households where heads are:[c]			
Men, 18-64 years	6.20	15.22	7.88
Women, 18-64 years	20.18	40.19	26.78
Men, >64	5.64	19.57	7.36
Women, >64	20.28	39.17	23.13

Source: Computations by authors from March 1986 Current Population Survey computer tapes.

[a]In 1985, there were 236.59 million persons, 33.06 were poor according to the official poverty definition.

[b]Census data in previous tables are for children less than 15 years of age.

[c]These data, like those from the 1950 Census, are for persons classified by the age of the household head and not for persons classified by their own age.

high, 49.90 percent. The poverty rate for all elderly persons is low primarily because the rate for persons living in households headed by elderly white men is low, 5.64 percent.

Female headship has obviously become an important contributor to child poverty, especially since 1969. However, the rise in child poverty during the 1970s and 1980s was primarily due to the impact of poor economic performance on parents' incomes. A demographic standardization shows that if children's living arrangements were the same in 1985 as they were in 1969--that is, if 12 instead of 24 percent of all children lived in single-parent families--but if the poverty rates for children in single- and two- parent families were at the 1985 levels shown in Table 4, then the child poverty rate in 1985 would have been 16.1 instead of 20.1 percent. A similar standardization, also based on 1969 living arrangements, shows that if the poverty rate for all children had declined between 1969 and 1985 at the same rate as between 1959 and 1969, then the 1985 rate would have been 6.3 percent.

The actual child poverty rate in 1985, 20.1 percent, was 13.8 percentage points higher than this standardized rate. About one-third of the difference was due to the increased propensity of children to live in single-parent families, while about two-thirds was due to the failure of poverty rates to decline at their pre-1969 rates.

Race and ethnicity contribute significantly to the poverty of children, but they also contribute to the poverty of the elderly. The combination of female headship and race and ethnicity is extremely potent--almost two-thirds of children living in households headed by black and Hispanic women are poor. In 1985, these children were about five times as likely to be poor as the average person. For all black and Hispanic subgroups of the population, except persons living in households headed by men between the ages of 18 and 64, the incidence of poverty equals or exceeds the national poverty rate of 20 percent that led President Johnson to declare war on poverty more than twenty years ago.

Before closing this section, a caveat should be repeated. Poverty rates have been defined on the basis of cash income (although for 1939, our measure includes only earnings). Income in kind is omitted in every year, although it is obviously of some significance throughout the period. In the early years, it is an important omitted component of the income of particular low-income groups—farm proprietors, farm laborers, domestics, and some service workers. Whether children or the elderly are more likely to be affected by this lack of data is problematic.

In recent years, in-kind income has been an important component of transfer benefits, especially in the form of medical benefits to the elderly. Such benefits have come to rival in scope the large in-kind transfers to children through public education. The significance of these trends will arise in other papers in this volume. The issue that in-kind income raises for this paper concerns its effect on relative trends in the poverty rates of the young and the old.

The Census Bureau has evaluated the impact of the food, housing and medical programs on the incidence of poverty, under a variety of assumptions, for each year since 1979 (U.S. Department of Commerce, 1986). These programs benefit both children and the elderly, but their antipoverty effect is greater for the elderly. This is so even if we exclude the benefits from medical care, the relevance of which are hotly contested. Excluding medical care, in-kind benefits for food and housing in 1985 removed about 12 percent of poor children from poverty and about 15 percent of poor elderly persons. Since these transfers were virtually nonexistent in 1939, their omission from decennial census data implies that we have somewhat understated the recent relative gains of the elderly.

TRENDS IN AVERAGE EARNINGS AND TRANSFERS

Trends in mean earnings affect the incidence of poverty among children and the elderly in two quite different ways. First, changes in the mean income of a group are often associated with much larger percentage changes in the same direction in the incidence of poverty. That is, cyclical decreases in average income are usually associated with increases in inequality which further raise poverty rates. Second, changes in earnings affect poverty differently for children and the elderly. For example, if nominal earnings are rising but real earnings are falling, as they did during much of the 1970s, the incidence of poverty rises, because the poverty lines are indexed to prices. Because poor children are more dependent upon real earnings, especially if they are in intact families, than are the elderly, large swings in the rate of growth of earnings such as the United States has experienced, especially recently, more strongly affect the incidence of poverty and well-being of children than of the elderly. The elderly are less affected because there is no necessary connection between benefit levels under Old Age and Survivors Insurance (OASI) and wage income in the short run. Thus the well-being of children relative to the elderly depends not only on rates of growth of earnings but also on rates of growth of earnings relative to rates of growth of OASI benefits.

We now turn to the role of the relationship of trends in earnings relative to transfers, and of transfers to the elderly relative to transfers to children, as the proximate causes of these observed trends. Table 5 shows, in the first three columns, real median wages and salaries for all men (assumed to be representative of the income of parents, and hence of children in two-parent households), the percentage of elderly men who have retired, and real average annual social security benefits for a retired worker and his wife. The last three columns show the ratio of social security benefits to median male earnings, to the poverty line for an elderly couple, and to mean welfare benefits for a three-person family.

Social security benefits and the percentage of elderly men retired changed very little between 1940 and 1950. However, real median earnings increased by over 50 percent. As a result, benefits increased from 50 to 57 percent of the poverty line for two elderly adults, but declined from 45 to 33 percent of median male earnings.[9] Between 1950 and 1960, real social security benefits increased by about 40 percent and real earnings by about 25 percent. Social security benefits increased to 37 percent of earnings and 81 percent of the poverty line, which is constant in real terms for the entire period. Between 1960 and 1970, benefits and earnings each increased by about 20 percent. Benefits grew rapidly again between 1970 and 1980—by about 35 percent--while real earnings declined by 7 percent. As a result, in 1980 the average benefit for a worker and wife was 1.3 times the poverty line and 55 percent of median earnings.

Table 5

Earnings, and Social Security Benefits, 1940-1980
(constant 1980 dollars)

Year	Median Wage and Salary Earnings of Male Workers[a] (1)	Percentage of Retired Men Age 65+[b] (2)	Mean Annual Social Security Benefit, Worker and Wife[c] (3)	Ratio of Mean Social Security Benefit to: Male Median Earnings[d] (4)	Poverty Line[e] (5)	Mean AFDC Benefits for 3-Person Family[f] (6)
1940	$5,494	58.2%	$2,492	.45	.50	1.40
1950	8,667	58.6	2,845	.33	.57	1.47
1960	10,782	69.5	4,026	.37	.81	1.62
1970	13,100	75.2	4,882	.37	.99	1.43
1980	12,128	80.1	6,632	.55	1.34	1.90

[a]U.S. Department of Health and Human Services, Social Security Administration, Social Security Bulletin, Annual Statistical Supplement, 1983, Table 22, p. 80. Computed for wage and salary workers only. Includes workers of all ages, and those working part-time or part-year.

[b]U.S. Department of Commerce, Bureau of the Census, Historical Statistics, Colonial Times to the Present (1976), Series D, pp. 29-41.

[c]Social Security Bulletin, Annual Statistical Supplement, 1983, Table 78, p. 153. Mean computed for social security recipients only.

[d]Computed as column 3 ÷ column 1.

[e]The poverty line for an elderly couple is about $4950 in 1980 dollars for each year.

[f]Social Security Bulletin, Annual Statistical Supplement, 1983. Mean monthly amount per recipient times 3.

Thus from 1940 to 1970 earnings growth was more rapid than social security growth, and children benefited more than the elderly. In the decade of the 1970s, growth in social security benefits quickened at the same time that earnings fell. As a result, elderly poverty fell while child poverty increased. The beginning and ending decades are the ones that diverge the most for children and the elderly. Forecasts for the future depend on the weight given to one or the other of these decades.

If it can be assumed that the poverty line specifies a minimum annual retirement income for the elderly, mean social security benefits can be viewed as having changed from a retirement supplement paying half of the minimum in 1940 to a minimum guaranteed income by 1970 and something well beyond the minimum by 1980. If one were to value in cash the benefits the elderly have received from Medicare since 1965, the gains of the elderly relative to both the poverty line and median male earnings would be even greater. Similarly, their relative well-being would increase if we valued the increased leisure associated with increased retirement.

The social security system is on a pay-as-you-go basis. As a result, the trend in real earnings in column 1 of Table 5 is overstated because we have not subtracted the growing payroll tax required to finance the increased real social security benefits.[10] And, because tax rates were so much lower in the earlier than the later years, the unprecedented rise in social security benefits relative to earnings since 1970 can be viewed as a direct transfer from workers and their children to the retired. For example, Burkhauser and Warlick (1981) show that, on average, less than 30 percent of social security benefits in 1972 could be viewed as a return to the individual's total (employer plus employee) social security tax contributions.

Column 6 of Table 5 shows that social security benefits rose relative to cash benefits for children in recent years. Benefits from the transfer program most important to children, Aid to Families with Dependent Children (AFDC) were always lower than social security payments, but they grew at a similar rate up to 1970. Benefits for a retired couple were typically about 40 percent greater than AFDC benefits for a three-person family over the 30-year period. However, while social security benefits increased in real terms during the 1970s, AFDC benefits were stagnant. By 1980, the typical retired couple received almost twice the benefits of a three-person family.

Because the Census has only limited information on cash income maintenance transfers, we used the March Current Population Survey data tapes to provide more detailed evidence of these transfer differences. The first two rows of Table 6 show that pretransfer-poor families with children (i.e., those who would have been poor had their only incomes been from market sources) receive a disproportionately small and declining share of all transfers—they were about 26 percent of all pretransfer-poor households in both 1967 and 1984, but their share of cash transfers declined from 19.8 to 16.8 percent.

The bottom rows of Table 6 show that pretransfer-poor families with children received much smaller amounts of transfers than households headed by a person over 65 years of age. The average transfer to the elderly poor increased over the entire period. Transfers to families with children increased substantially between 1967 and 1973, but then declined. Thus, in 1984, when the poverty line for a family of four was \$10,609, the typical pretransfer-poor family with children received only about \$3000. This contrasts to the situation of the elderly, for whom

Table 6

Poverty and Transfer Receipt, 1967-1984

	1967	1973	1979	1984
Pretransfer-poor families with children as a percentage of all pretransfer poor households	26.2%	25.3%	24.5%	26.8%
Percentage of all cash transfers to pretransfer-poor households received by pretransfer-poor families with children	19.8	22.5	17.9	16.8
Average cash transfer received by the pretransfer poor (1984 dollars):				
Two-parent families with children	$1832	$4024	$3776	$2946
Female-headed families with children	3908	5217	4056	3276
Households headed by elderly persons	4756	6484	6926	7322

Source: Computations by the authors of data from the March Current Population Surveys.

Note: Pretransfer-poor households are those whose cash incomes, excluding government transfers, fall below the poverty line.

the poverty line for a couple was $6282, and the average transfer was $7322. In the recent period, declining real transfers and declining real earnings together with increasing female headship combined to produce the unprecedented rise in child poverty beginning in 1969, but accelerating after 1979 (see Figure 2).

IMPLICATIONS TO BE DRAWN FROM RECENT POLICIES

For most of our history there has been a dependent population of young and old whose standard of living was virtually determined by the income of the working population with whom they resided. That remains true today only for children in intact families. It is no longer true for the many children in single-parent families dependent on child support and AFDC and it is certainly past history for the elderly.

The Social Security Act ruptured the connection between current living standards and the income of the family in which the elderly resided as a subfamily. A political link remained and benefits were frequently raised by legislative mandates which tapped trust fund surpluses in prosperous times. Finally, however, indexing, as it was intended to do, ended the connection altogether.

The well-being of children in two-parent families largely depends on rates of growth of income of the heads of the household in which they reside, but this would no longer be true for the elderly even if they still lived with their children. This leads to an observation and a question. First, the observation. To describe the past and to forecast the future of living standards for children and for the elderly involve different independent variables. The children's equation needs real income and living arrangements. Forecasting the distribution of economic well-being for children also needs a variable such as cohort size to predict the income distribution of the working population (Easterlin, 1986). For the period since 1972 real benefits for the elderly have remained constant. In contrast to the situation of children, we need to estimate a relationship for the elderly only if we intend to forecast politically motivated changes in benefit levels.

The question is: How does one evaluate the decision to separate the well-being of the elderly from the current earnings of their children, while leaving the well-being of their grandchildren dependent upon those same income earners and their current earnings? To answer this question requires that we look back at the policy changes that shaped the transfer system over the last two decades.

The floor for minimum consumption of the elderly is now set by the Supplemental Security Income program (SSI) plus food stamps. All children are eligible only for food stamps, so that the fundamental difference, at least in the basic safety net, is SSI. Enactment of SSI in October 1972 resulted from the long and futile effort by the Nixon administration to pass the Family Assistance Plan (FAP). Introduced in Congress in 1969, FAP was initially a negative income tax with a low guarantee and a low tax rate but universal in its coverage of families with children. The legislation was later expanded to include the elderly, blind, and disabled as well. Although FAP passed the House twice, it never succeeded in the Senate. Only that part of the legislation aiding the elderly, blind, and disabled--SSI--was enacted. If FAP had been enacted, children would now have the same income floor as the elderly.

As things stand, however, the income floor for children in one-parent families is Aid to Families with Dependent Children. For two-parent families, in the 24 states that have it, the floor is Aid to Families with Dependent Children with Unemployed Parents. Otherwise the floor is composed of food stamps and General Assistance, a county-administered program that varies widely within states and even more widely across states.

That the income floors of the elderly and of children differ, then, and differ substantially, is a deliberate policy choice. According to the major study of the effort to enact FAP (Burke and Burke, 1974), the Senate's objection was that it extended welfare to able-bodied men expected to work. That is, parents of children in poverty were presumed to reduce their work effort if the income of their children rose. However, adult children of elderly poor parents were not expected to reduce their work effort if the income of their parents were to rise. The rationale for these different expectations, we would suppose, is that working-age parents have access to the transfers to their dependent children, but that they would not have access to transfers to their dependent parents. On economic grounds, the distinction makes sense only if children are dependents, and dependents can be exploited, while parents are not dependents and hence cannot be exploited. It is an ugly view of twentieth-century family life, but it could be right. We need to know more than we do about intergenerational transfers to know if there is substance to this view. What little we know casts considerable doubt on it, however.

Marilyn Moon (1977) examined intrafamily transfers between young and old as they could be inferred from the patterns of living arrangements in extended families. She concluded that "Aged couples or individuals who reside in larger extended family groups fall at the extremes of the income distribution. The income levels of their younger relatives tend to fall at the opposite extremes. Consequently,...[intra-family transfers] exhibit a strong equalizing effect" (p. 111). In other words, extended families of adult children and parents continue to exist, and they live together to help each other out. That is, they share resources. Sharing must mean that the labor market decisions of prime-age men are affected by transfers to parents. Yet, at least for the foreseeable future, policy will be made on the presumption that labor supply will be seriously affected by cash transfers to children, which may be inadequate, while benefits to the elderly, fixed in real terms, are adequate but do not affect labor supply.

It is possible to get a very rough estimate of the cost to poor children of rejecting FAP but accepting SSI. In 1986 the SSI benefit level for a couple without other income was $504 per month; or, including food stamps, somewhat more than 80 percent of the poverty line. For that same year, the Congressional Budget Office (U.S. Congress, 1985) estimated the effect on the incidence of poverty, on the poverty gap, and on the federal budget of establishing a national minimum for AFDC plus food stamps at 65 percent of the poverty lines. Under this simulated plan, the guarantee would be raised for 2.2 million families (60 percent of existing AFDC families) an average of $73 per month, and 190,000 families would be added to the rolls. The cost to the federal government of the plan would have been about $3.5 billion, or 40 percent of federal AFDC benefit payments, but less than 2 percent of social security benefits.

These data suggest how small a program the nation's largest cash welfare program for children really is. Nevertheless, raising benefit levels to 65 percent of the poverty lines from the current levels of around 40 percent would significantly affect the incidence of poverty and the poverty gap. "About 80 percent of new and increased benefits would go to families below the poverty level, which would cause the poverty gap--as measured by official poverty statistics--to decline by about $2.7 billion. Roughly 0.1 million families would be moved above the poverty level, about 5 percent the poor families affected" (p. 37). Moving the guarantee up to the SSI level would not be as target efficient as going from 40 to 65 percent of the poverty level, but another 1 percentage point would undoubtedly be taken out of poverty.

In addition to higher benefits, had FAP passed, coverage would have been extended to intact families with children. No estimate has been made of the impact of such a change. It would be considerably more expensive than the current program, but with the guarantee level set at 80 percent of the poverty line, it would have a substantial impact both on the incidence of poverty and the poverty gap, particularly for poor children in male-headed households.

The CBO estimates were conducted for legislation introduced into the Congress as viable bills. They have not attracted sufficient support, however, to move them out of committee, and they are unlikely to become law. Amid the current passion for workfare, their labor supply disincentive effects would be sufficient to kill them, even in a time of budgetary surplus.

In 1987, then, with unemployment rates expected to remain above 6 percent for the rest of the decade, poverty among children will remain high even if the economy continues to grow without recession and even if the percentage of children living in single-parent families could be reduced. One must also recognize that since social security benefits will no longer grow faster than inflation, the best forecast for poverty rates among the elderly is that they will decline slowly. Newer retirees will have higher lifetime earnings and hence higher social security benefits. Newer retirees are also more likely to have private pensions than existing retirees, but only about one third of retirees currently have them, and only about one half of current workers are covered by them. While most of the benefits of tax-deferred Individual Retirement Accounts (IRAs) and private pensions will accrue to the well-off, some people who might have been strapped in retirement--for example, the lower-middle-income worker, the group that Smeeding (1984) calls "tweeners"--will also be aided. They are now too wealthy to qualify for Medicaid, but not wealthy enough to buy Medigap insurance; they are economically insecure and vulnerable to unexpected health problems. They are not, however, poor.

IMPLICATIONS FOR FUTURE POLICIES

Our recommendations for aiding the poor, in an era in which the significance of age has declined, would avoid expansion of welfare programs but involve increased income-testing through the income tax. That is, funds can be raised through higher taxes on the nonneedy elderly and nonneedy nonelderly and spent on higher tax credits for poor children.

Such changes can aid poor children and avoid hurting the poor elderly. For example, a policy of across-the-board cuts in social security would hurt the poor elderly, while a policy of across-the-board benefits to children, such as children's allowances, would aid the nonneedy. We would also strengthen policies targeted on the poor elderly by, for example, attempting to raise the SSI participation rate or changing the program so that it serves a greater percentage of the elderly poor.

Public policy has recently shifted in the direction of taking back some of the special tax provisions that disproportionately aid the nonneedy elderly. These include the repeal of the double personal exemption and the taxation of one-half of social security benefits for those filing joint returns with income above $30,000 or single returns with income above $25,000. A further move would be to tax the implicit subsidy in Medicare in the same way that we are taxing social security as well as to tax the subsidy due to the tax-free status of employer-provided health insurance for the nonelderly.

The Tax Reform Act of 1986 has made an important step in the direction of aiding poor children by removing most of their families from the rolls through the expansion of and indexation to the cost of living of the earned income tax credit, the standard deduction, and the personal exemption. One could move further in the direction of using the income tax to aid poor children by making the child care tax credit refundable or by turning the $2000 personal exemption into a refundable credit of $560 (its value to taxpayers in the 28 percent bracket). It is now worth only $300 to taxpayers in the 15 percent bracket and nothing to some poor families whose tax liabilities have been eliminated, but who still have unused personal exemptions.

Both of these changes can help restore the relative position of the children of the working poor and near poor, who have been hurt the most by the recent retrenchment in government benefits and the erosion of real family incomes in the period since 1973. The Tax Reform Act of 1986 corrects the harm done them by tax changes over the last decade, but not the harm done by market and transfer system changes.

We conclude that poverty remains high by historical standards for many subgroups--elderly white widows, all minority elderly and children, and white children living in single-parent families. These subgroups in 1985 constituted about 16 percent of all persons but about 37 percent of all poor persons. Taken as a group, their poverty rate was almost 33 percent. Given current public social insurance and welfare policies and private pension policies, poverty among these groups will fall very little over the next decade, even if the economy continues to grow without recession. To further reduce the incidence of poverty requires a redirected antipoverty effort, one in which age has little significance. If the resources devoted to such an effort are effectively targeted on those in need, then children will gain disproportionately. But if the policy merely shifts from a bias in favor of the elderly to a bias toward children, then the poor--both children and the elderly--will gain disproportionately little. Targeting benefits on the elderly may have proceeded for too long, but has yielded the greatest success that policy has had in reducing poverty. An alternative group as target efficient as the elderly and a policy as politically acceptable as raising social security benefits will be hard to find.

Notes

[1]For example, in 1939, the poverty lines for an elderly couple and a family of four were $841 and $1408, respectively; in 1979, they were $4392 and $7355. A detailed description of the process by which the poverty lines were extended back in time is available from the authors. Also, see Ross, Danziger, and Smolensky (1987).

[2]We also analyzed a relative poverty threshold set at 44 percent of the median income for every year (this measure was first used by Plotnick and Skidmore, 1975). The relative poverty rate is much more stable over the 40-year period. These results are available from the authors.

Smith (1986) adopts a definition that is a hybrid of the official measure and a relative measure. His poverty threshold increases by one-half percent for every one percent growth in real median income. He finds that poverty declined from 34 percent of persons in 1940 to 11 percent in 1980.

[3]The Census does contain an indicator which denotes whether or not the household received $50 or more in other income. We found that adding $50 to total income for households with this indicator did not significantly change the 1939 poverty rate, so we do not use it. To obtain a consistent series for the 40-year period, we have computed an earnings poverty series based only on wages and salaries, but those data are not reported in this paper. See Ross, Danziger, and Smolensky (1987).

[4]The decennial Census has never collected information on in-kind transfers received and taxes paid, although both affect a household's command of resources. Inclusion of in-kind transfers would lower poverty rates in each year; inclusion of taxes would raise them. These biases

increase over time. However, if their effects were to be included, they would be small until 1969. For a discussion of their effects in a recent year, see Smeeding (1984).

[5]The difference between earnings poverty and posttransfer poverty in any year is accounted for by income from self-employment, interest, dividends, rent, government income transfer programs, private pensions, and from other miscellaneous sources. Because of data limitations, income from government programs cannot be distinguished from other sources of income until the 1960 Census. For this reason, we do not focus on the antipoverty effects of government programs in this paper.

[6]Unrelated individuals aged 15 and over and secondary families are counted as separate units. For example, two unrelated individuals living in a single dwelling unit are assumed not to share income and each is counted as a separate one-person household. They would also be counted as separate one-person households if they shared a dwelling unit with another family. Subfamilies, by definition, are related to the household head and are thus included as part of the primary family's income-sharing unit.

[7]Danziger et al. (1984) found that in 1973, classifying all persons by their own age instead of the age of their household head slightly increased the relative economic status of the elderly. In that year, 13.1 percent of all elderly persons lived in households headed by the nonelderly; 2.7 percent of the nonelderly lived in households headed by the elderly. Holden (1987) found that in 1950 about 24 percent of women over 60 lived in a household where the head was a relative other than a husband, whereas only 10 percent were in this category in 1980.

In this paper, the data we used from the 1950 Census and the March 1986 Current Population Survey (discussed below) classify persons by the age of their household head. All of the other Census data classify by the age of persons. Computational costs prevent us from testing the sensitivity to this classification of the poverty rates shown in these years. However, this evidence suggests that classification by age of head probably leads to a slight understatement of elderly poverty rates in 1949 when a greater percentage of the elderly lived with the nonelderly and a slight overstatement in 1985 when a smaller percentage lived with the nonelderly. If anything, these differences only reinforce our major theme.

[8]Like the 1949 Census data, the CPS data reported in Table 4 classify persons by the age of their household head. In addition, children are defined as persons under 18, not under 15.

[9]Note that earnings are for all male wage and salary workers, including those of all ages working part-time and part-year.

[10]The employee and the employer each pay half of the payroll tax. The employee shares were 1.0, 1.5, 3.0, 4.8, and 6.13 percent of annual earned income in 1940, 1950, 1960, 1970 and 1980, respectively.

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