University of Wisconsin-Madison

# IRP Discussion Papers

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ANTIPOVERTY POLICIES AND CHILD POVERTY

DP #884-89

Institute for Research on Poverty
Discussion paper no. 884-89

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June 1988
Revised June 1989

This research was supported in part by funds provided by the Graduate School Research Committee, University of Wisconsin-Madison, and the Russell Sage Foundation. Computational support was provided by a grant from the U.S. Department of Health and Human Services to the Institute for Research on Poverty. Any opinions expressed are solely those of the author and should not be construed as representing the opinions or policy of the sponsoring institutions. An earlier version was presented at a Symposium on Advances in Research for Social Work Practice, State University of New York at Buffalo. The author is Professor of Social Work and Public Policy, University of Michigan, and Research Affiliate, Institute for Research on Poverty, University of Wisconsin-Madison.

**Abstract**

This paper reviews changes in the federal government's approach to antipoverty policy, analyzes the trend in child poverty and the antipoverty impacts of current income maintenance programs, and proposes some additional antipoverty policies.

No single program or policy can meet the needs of the diverse poverty population. There is now greater variation in economic status among children and among the elderly--for example when they are classified by sex and race--than there is between age groups. Although poverty among the elderly as a group has decreased and poverty has risen among children, many children are much better off than are some of the elderly. And poverty in the mid-1980s remains very high for many demographic groups.

While recently enacted programs such as the Family Support Act of 1988 and the Tax Reform Act of 1986 have brought some relief to children in poor families, much remains to be done. Replacing the personal exemption for children in the federal income tax with a refundable children's credit and making the Dependent Care Credit refundable would provide additional assistance. Child support reform is also needed to aid children in single-parent families.

## Antipoverty Policies and Child Poverty

### INTRODUCTION

The planners of the War on Poverty and Great Society programs assumed that active government policies implemented in a full-employment, growing economy would virtually eliminate income poverty, as officially measured, by 1980. According to Lampman (1971)

> While income poverty is a relative matter, I do not think we should engage in frequent changes of the poverty lines, other than to adjust for price changes. As I see it, the elimination of income poverty is usefully thought of as a one-time operation in pursuit of a goal unique to this generation. That goal should be achieved before 1980, at which time the next generation will have set new economic and social goals, perhaps including a new distributional goal for themselves (p. 53).

And poverty did decline, from 19.0 percent of all persons in 1964 to 11.1 percent in 1973, as both social spending and the economy boomed. The decade 1970-1979 was a period of continued growth in social welfare spending, as these planners intended, but a period of unexpectedly disappointing economic performance. Productivity and economic growth slowed, family income stagnated, and prices and unemployment rose. Given these conditions, the fact that poverty was virtually constant for most of the 1970s can be viewed as an indication that antipoverty policies were successful in offsetting economic adversity (Danziger and Gottschalk, 1985a).

The official perspective of the early 1980s, evident in the federal budgetary retrenchment in social spending, however, was quite different. Antipoverty programs themselves were blamed for the failure of poverty to fall during the 1970s as it had during the 1950s and 1960s (Murray, 1984). According to President Reagan:

> 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. (Remarks before the National Black Republican Council, September 15, 1982)

> In 1964, the famous War on Poverty was declared. And a funny thing happened. Poverty, as measured by dependency, stopped shrinking and then actually began to grow worse. I guess you could say, "Poverty won the War." Poverty won, in part, because instead of helping the poor, government programs ruptured the bonds holding poor families together. (Radio address, February 15, 1986)

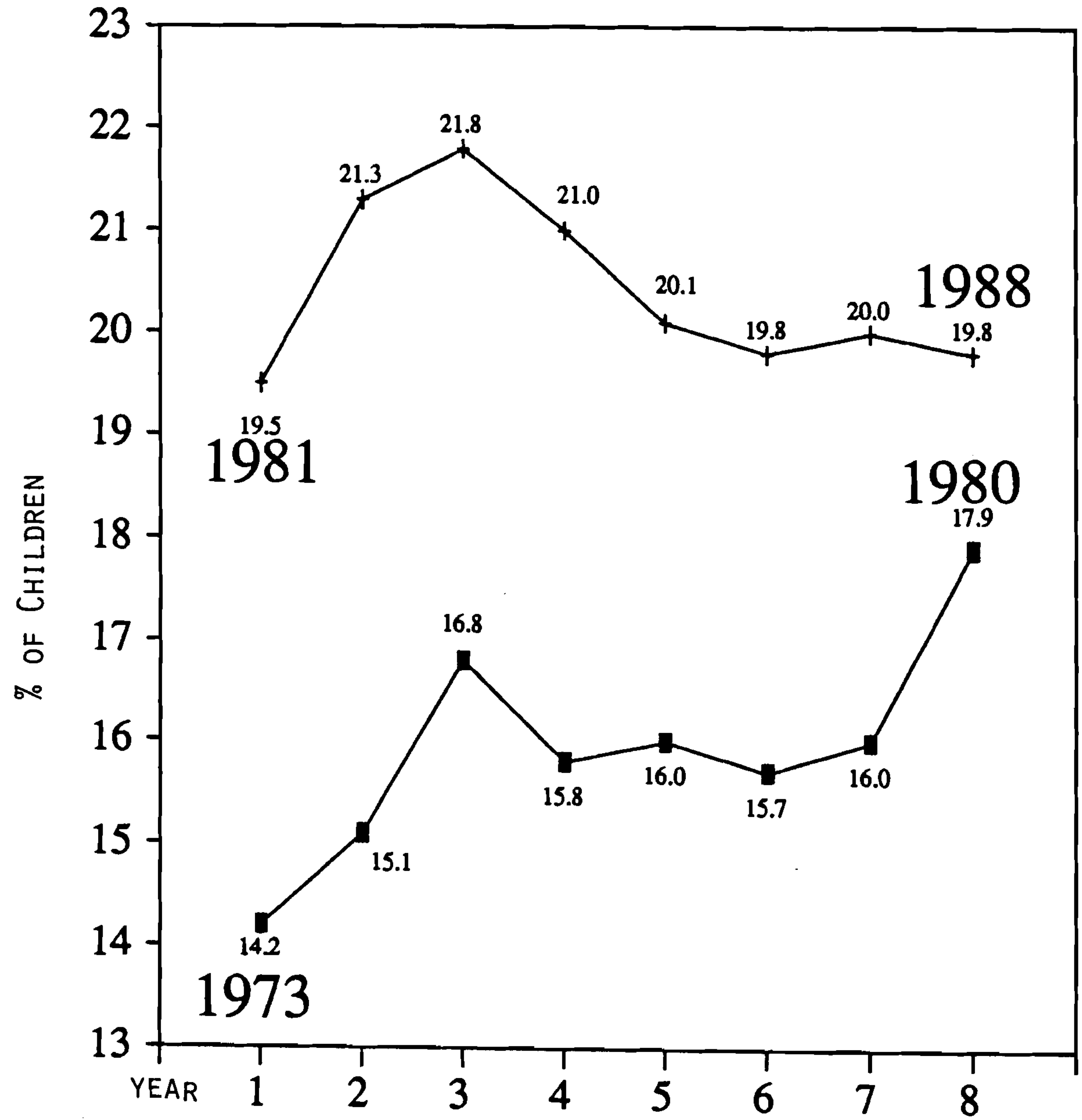
The "Reagan Experiment" assumed that if government avoided active interventions in a wide range of domestic policy areas, productivity and economic growth could be increased, and prices, unemployment, and poverty could be reduced. According to Irving Kristol (1984), "The administration's social policy cannot be understood apart from its economic policy--which is a policy of growth not redistribution."

The evidence from the "Reagan Experiment" is now in. Poverty has fallen somewhat each year since 1983, a year marked by the highest unemployment rate since the Great Depression and the highest poverty rate, 15.2 percent, since the late 1960s. But, at about 13 percent in 1988, poverty remains well above the rate of 1979, the last business-cycle peak. This modest decline occurred during an unusually long economic recovery, but one characterized by relatively constant social spending.

This recent experience demonstrates that economic growth on its own cannot significantly reduce child poverty in the United States. Figure 1 shows the child poverty rate for the eight pre-Reagan years, 1973 through 1980, on the lower line and the eight years of the Reagan

FIGURE 1

CHILD POVERTY RATE




- REAGAN YEARS, 1981-1988, 20.41% AVG.
- PRE-REAGAN YEARS, 1973-1980, 15.94% AVG.

Sources: 1973-1987: U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 161, Money Income and Poverty Status in the United States: 1987 (Washington, D.C.: GPO, 1988), Table 16.
1988: author's estimate.

administration, 1981 through 1988 on the upper line. Child poverty rose from 14.2 to 17.9 percent between 1973 and 1980, averaging 15.94 percent. The rate increased dramatically to 21.8 percent in 1983, and has fallen somewhat during the ongoing recovery to an estimated 19.8 percent for 1988. The Reagan-era average, 20.41 percent, is 4.47 percentage points higher than that of the prior eight years.

One way to contrast the experience of these two eight-year periods is to translate the difference in the average child poverty rate into child years of poverty. There are currently about 63 million children in the United States. The difference between the pre-Reagan period and the Reagan period in the total number of child years of poverty is then about 23 million--the 4.57 percentage point per year difference in the rate times 63 million gives you the number of additional poor children in an average year. Multiply this by 8 to get the additional years of child poverty for the eight-year period.

What does the Reagan experiment tell us about the ability of a growing economy to reduce child poverty when little attention is devoted to antipoverty policy? Figure 1 does show that poverty fell by 2 percentage points--from 21.8 to 19.8--between 1983 and 1988. If the current recovery were to somehow continue until 1998, and if child poverty kept falling at this same rate of 2 percentage points every five years, then the child poverty rate in 1998 would be 15.8 percent--what it was in 1976!

A more formal projection of the poverty rate for all persons, based on time-series regressions in which the official poverty rate for all persons is modeled as a function of Congressional Budget Office forecasts of unemployment rates and economic growth suggests that even if the current economic recovery continues until the end of the decade, poverty for all persons will decline from 13.5 percent in 1987, but only to the levels of the late 1970s, about 12 percent (see Danziger and Gottschalk, 1985b, for a discussion of the regression model).

The economic and policy history of the past two decades demonstrates that if poverty is to be "virtually eliminated" before the turn of the century, we must launch a comprehensive antipoverty effort that builds on what we have learned about who remains poor and about which policies have worked and which have not. There are some signs in academic and policy discussions that a "new consensus" (Novak et al., 1987) on the nature of poverty and the means for reducing it has emerged. Most analysts and policymakers now avoid the simple statements that characterized the antipoverty policy debates of the late 1960s and early 1970s. Those debates typically viewed the poor either, on the one hand, as victims of their own inadequacies, often mired in a culture of poverty, or, on the other, as victims of societal deficiencies such as inadequate schooling, lack of labor market opportunities, and discrimination. Now there is an appreciation of the diversity of the poverty population--an awareness that the polar views of individual inadequacies and societal inequities each apply to only a small portion of the poverty population. The poverty problem of the elderly widow 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.

According to this new consensus, which emerged in the late 1980s, only the poverty of those <u>not</u> expected to work, such as the elderly and the disabled, should be addressed with expanded welfare benefits (see, for example, Ellwood, 1987). This represents a dramatic shift from the consensus of the 1970s that cash welfare benefits should be universally available (e.g., President Nixon's Family Assistance Plan and President Carter's Program for Better Jobs and Income). Although it is agreed that cash welfare should not be extended to the working poor, numerous nonwelfare options to aid them have been proposed, but not legislated. These include proposals to expand the Earned Income Tax Credit, make the Dependent Care Tax Credit refundable, and raise the minimum wage, among other policy options. What is clear is that no single program or policy can meet the needs of the diverse poverty population. In addition, a major legacy of the Reagan era--the large federal budget deficit--imposes considerable fiscal restraint even if specific programs receive wide support.

Poverty rates today, as officially measured, for minority children, white children living in single-parent families, minority elderly persons, and elderly white widows all exceed 20 percent. Because poor children are less likely to receive adequate nutrition and health care, less likely to complete high school, and more likely to have children out-of-wedlock, child poverty has negative consequences for the next generation as well as for today's children. The 12.4 million children who were poor in 1987 comprised 40 percent of the official poverty population. Thus, although they are only one of the groups at high risk of poverty, they are the largest. The remainder of this paper emphasizes their situation and policies that might reduce their numbers.

**WHO RECEIVES AID AND WHO REMAINS POOR?**

In the past several years, much attention has been focused on the declining poverty rates of the elderly and the growing poverty among children. Poverty among the elderly declined dramatically from 35.2 percent in 1959, a level well above the national rate (22.4 percent), to 12.2 percent in 1987, a level slightly below the national rate (13.5 percent). This decline is in large part due to changes in income transfer programs resulting from the War on Poverty-Great Society period. Most of the increased federal social spending over the past twenty-five years is accounted for by the expansion and indexation of social security benefits and the introduction and expansion of Medicare, Medicaid, and the Supplemental Security Income program, all of which provide benefits disproportionately to the elderly. Ellwood and Summers (1986) show that spending on welfare, housing, food stamps, and Medicaid for those who are neither aged nor disabled made up only 11.9 percent of total social welfare expenditures in 1980, a figure dwarfed by the 66.0 percent share of spending on social security, Medicare, and other programs for the elderly. As a result, despite economic fluctuations, the poverty rate for the elderly has trended downward.

Children, on the other hand, live in households that received much less in the way of government transfers and were most affected by the lagging wages, rising prices, and high unemployment rates of the late 1970s and early 1980s. While spending on the elderly increased throughout the period, spending on children has declined in recent years. Welfare receipt among poor children increased rapidly after the declaration of the War on Poverty. Less than 15 percent of poor children in 1960 received welfare benefits. This increased to about 20 percent in 1965, about 50 percent in 1969, peaked at over 80 percent in 1973, and fell to about 50 percent in the mid-1980s (U.S. House of Representatives, 1985, p. 212).

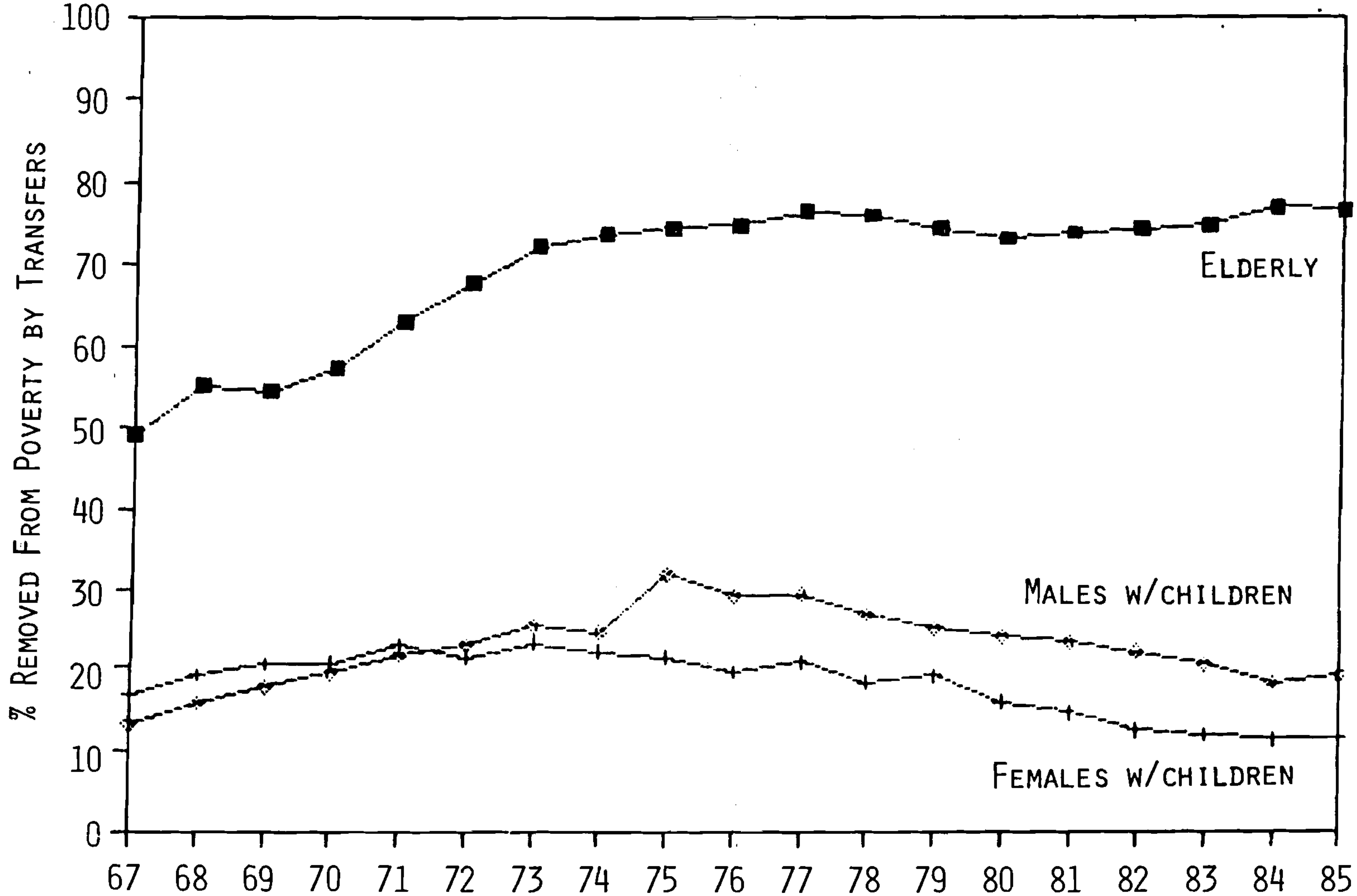
Because of economic and government program changes, a smaller percentage of poor children are now removed from poverty by government benefits. Economic changes increased the number of poor children, and program changes left fewer eligible to receive benefits. The first round of program changes resulted from legislative inaction--state governments allowed benefits (particularly those for Aid to Families with Dependent Children) to be eroded by the high inflation rates of the 1970s. The second round resulted from rule changes and budget cuts implemented in the early years of the Reagan administration that made it more difficult for the unemployed to receive unemployment insurance and more difficult for welfare recipients to receive benefits if they worked.

Figure 2 presents the antipoverty impacts of government cash transfers, defined as the percentage of pretransfer poor persons (i.e., those who would have been poor if they had not received transfers) who were removed from poverty through the receipt of transfers (see Danziger, 1989). Cash transfers include social security, unemployment insurance, Aid to Families with Dependent Children, etc., but not noncash transfers such as food stamps or Medicare.

The antipoverty effect of transfers for elderly persons was much greater in every year and rose over the 1967-1985 period. In any recent year, almost all of the elderly poor received cash transfers, while

FIGURE 2

ANTIPOVERTY EFFECTS OF CASH TRANSFERS
1965-1985




Source: Danziger (1989).

about a third of the nonelderly poor received none. In addition, per capita transfers to the elderly from social security were much larger than those to the nonelderly, particularly from welfare programs. In 1985, 54.3 percent of the elderly would have been poor in the absence of cash transfers; 12.7 percent were poor after their receipt. This represents an antipoverty impact of 76.6 percent.

The antipoverty effects for persons living in families headed by nonaged males and nonaged females with children were much smaller than those for the elderly and were smaller in 1985 than they were in 1975. The antipoverty impact in 1985, for example, was 19.0 percent for nonelderly persons in male-headed families, and only 11.4 percent for those living in female-headed families.

In part, because of these very diverse trends in poverty and social spending for children and the elderly, popular discussions often derive misleading policy implications. The most common (misleading) conclusion is that government policy has aided the elderly to the detriment of the young, so that spending on the elderly should be reduced and these funds should be used to increase spending on children. An examination of the historical record and of the diversity of children and the elderly reveals that this conclusion is misguided (see Smolensky, Danziger, and Gottschalk, 1988). There is now greater variation in economic status among children and among the elderly--for example, when they are classified by sex and race--than there is between the age groups. Many children are much better off than are some of the elderly. As a result, it is unwise to replace one incorrect stylized fact--that the elderly are needy--with another--that children are needy.

Consider this example. It makes little sense to shift spending away from the elderly and toward children if it means eliminating cost-of-living increases in the Supplemental Security Income (SSI) program, which aids the elderly poor, and raising the maximum dependent care tax credit for families with two working spouses, which aids mostly nonpoor children. However, I consider it appropriate to count as taxable income the federal subsidy to Part B of Medicare (the supplementary medical insurance portion), as this would tax only the well-to-do elderly, and to use the revenues thus raised to expand the earned income tax credit, which aids only working-poor and near-poor families with children.

Poverty in the mid-1980s remains very high for many demographic groups. To remedy this situation requires a refocused antipoverty effort, one in which the significance of age is small. If the resources devoted to such an antipoverty effort are appropriately targeted on all of those in need, then children will gain disproportionately and those among the elderly who remain at risk for poverty--widows and members of minority groups--will not be harmed.

## THE SPECIAL CASE OF CHILDREN IN POVERTY

Table 1 shows the trend in poverty between 1949 and 1985 for all children and for children classified by family type. (Note that children living in father-only families and those whose parents are not classified as white non-Hispanic, black non-Hispanic, or Hispanic are included only in the top row). These poverty trends reflect changes in demographic characteristics as well as changes in government programs

**Table 1**

The Trend in Poverty among Children by Family Type

| | 1949 | 1959 | 1969 | 1979 | 1985 |
|---|---|---|---|---|---|
| All children | 47.6% | 26.1% | 15.6% | 17.1% | 19.7% |
| In white, non-Hispanic families | 41.2 | 18.8 | 10.4 | 11.7 | 12.5 |
| Husband-wife families | 39.3 | 16.9 | 7.7 | 7.8 | 7.9 |
| Female-headed families | 73.1 | 57.7 | 44.0 | 41.3 | 38.2 |
| In black, non-Hispanic families | 87.0 | 63.3 | 41.1 | 36.1 | 41.3 |
| Husband-wife families | 85.7 | 57.9 | 29.0 | 19.7 | 16.0 |
| Female-headed families | 93.4 | 84.4 | 67.9 | 61.2 | 64.3 |
| In Hispanic families | 73.0 | 53.3 | 33.3 | 28.3 | 37.3 |
| Husband-wife families | 71.6 | 51.3 | 28.8 | 22.5 | 25.2 |
| Female-headed families | 92.4 | 74.3 | 64.3 | 62.0 | 68.7 |

Source: Computations by author from the computer tapes of the 1950, 1960, 1970, and 1980 Censuses of Population and from the 1986 March Current Population Survey.

Note: For 1949-1979, children 0-14 years of age; for 1985, children 0-18.

and economic circumstances.

Table 1 documents that there are very large differences in poverty rates when children are classified by the race and sex of the heads of their families. In 1985, less than 8 percent of white non-Hispanic children living in husband-wife families were poor, a rate substantially lower than that of all persons or all elderly persons. The highest poverty rates were those for children living in female-headed families. In fact, the rate for white non-Hispanic children living in female-headed families, 38.2 percent, was more than twice that for black non-Hispanic children living in husband-wife families, 16.0 percent.

While such a disaggregation is helpful in describing the facts, it is not sufficient to identify the causal factors that determine these trends. One is left with facts that are consistent with at least several divergent interpretations. Consider the well-documented fact that the stability in the poverty rate for all black children in recent years obscures declines in poverty for children living in each family type. Table 1 shows that in both 1969 and 1985, the poverty rate for black children was about 41 percent. But the poverty rate for black children living in husband-wife families declined from 29 to 16 percent and the rate for those in female-headed families declined from about 68 to 64 percent. Thus, the stability in the rate for all black children is due to the increased percentage of children living in female-headed families. Adverse demographic change appears to have offset positive economic change.

But with only these facts, one is at a loss as to the appropriate policy response. The increased percentage of children living in mother-only families, for example, might have been due to adverse economic conditions that reduced the ability of black males to support their children. In this case, the disaggregated trends mask a selectivity problem--because of external economic dislocations, jobless males either abandon their children or do not marry in the first place. To account for this selective response to economic conditions, one should adjust upward the later-year poverty rates for children living in husband-wife families to correct for the missing two-parent families. Then stability in the child poverty rate would be the correct interpretation and the policy response should focus on economic factors and the reduction of male joblessness (Wilson, 1987). If sufficient jobs were not available in the private sector or provided by the public sector, then redistributive policies to increase family incomes would be required.

On the other hand, some analysts subscribe to an alternative view that attributes the rise in children living in mother-only families to moral and behavioral deficiencies, and male irresponsibility. Jobs are available, according to proponents of this view, but "the jobless are shielded from a need to urgently seek work by government benefits, or by the earnings of other family members" (Mead, 1988, pp. 51-52). The decline in child poverty among black children in two-parent families attests to the decline in discrimination in labor markets and shows that if parents would stay married and stay in the labor force, then the poverty problem would continue to abate as it did in the 1949-1969 period. Under this scenario, the recent rise in child poverty is attributed not to economic problems but to attitudinal and family problems. The remedy requires moral suasion, a reduction in the availability of welfare, and the enforcement of work and child support obligations (Novak et al., 1987).

Of course, while no one believes that either of these polar views provides a complete explanation for the observed trends in child poverty and living arrangements, some less extreme variation of each could account for some part of the observed changes in poverty. Unfortunately, no one has yet modeled the determinants of child poverty and living arrangements in such a way as to decompose the trends into a set of demographic, economic, and policy factors. This is because it is clear that there are complex interrelationships among work behavior, welfare recipiency, marriage, and fertility decisions.

Given the caveat that we can describe the situation of children in poverty even though we do not yet have a complete understanding of its causes, Table 2 classifies all children into one of four mutually exclusive and exhaustive categories, based on the family's poverty status and receipt of government transfers. Row 1 includes children who were not poor based on their parents' market incomes. Wide disparities exist--84 percent of white non-Hispanic children, 53 percent of black non-Hispanic children, and 58 percent of Hispanic children were not pretransfer poor. Row 2 includes the small percentage of children who were pretransfer poor but received enough in government transfers (cash transfers plus food stamps plus energy assistance) so that they escaped poverty. The children in row 3 are served by government assistance programs but do not receive enough in benefits to take them out of poverty. Those in row 4 were poor but received no transfers at all--they fell through all safety net programs. The sum of rows 3 and 4--12.51 percent of white non-Hispanics, 41.29 percent of black

**Table 2**

The Distribution of Children by Poverty Status
and Receipt of Transfers, 1985

| Percentage of Children: | White Non-Hispanic | Black Non-Hispanic | Hispanic | All Children[a] |
|---|---|---|---|---|
| 1. Not pretransfer poor[b] | 84.01% | 52.57% | 57.82% | 76.28% |
| Pretransfer Poor[b]: | | | | |
| 2. Taken out of poverty by transfers[c] | 3.48 | 6.14 | 4.86 | 4.04 |
| 3. Received transfers, but not enough to escape poverty | 8.19 | 35.49 | 24.94 | 14.26 |
| 4. Received no transfers | 4.32 | 5.80 | 12.37 | 5.42 |
| Number of children (millions) | 45.38 | 9.62 | 6.63 | 61.64 |

Source: Computations from March 1986 Current Population Survey computer tape.

[a]About 3.4 percent of all children (2.17 million) live in households where the head is neither white nor black nor Hispanic. They are excluded from this table.

[b]Pretransfer income is determined by subtracting government cash transfers from a family's money income.

[c]Transfers include cash, social insurance (e.g., social security, unemployment insurance), cash welfare (e.g., Aid to Families with Dependent Children, general assistance) and food stamps and energy assistance.

non-Hispanics, and 37.31 percent of Hispanics--represent children who remain poor under current programs and are the target group for expanded antipoverty policies.

The data in Table 3 reveal more detail on the economic status of these groups of children. Consider first those who were not pretransfer poor (column 1). The heads of those families worked substantial amounts (averaging more than 45 weeks per year for each racial-ethnic group) and relied on transfers only to a small extent. The parents most like this group are those who were pretransfer poor but received no transfers (column 4). They worked substantial amounts (34 weeks or more) but fell through all safety nets. Moreover their poverty gaps were very large--ranging from $4263 for blacks to $5390 for whites. Many of these parents would remain poor even if they worked the full year. Because they earned about $150 per week on average (data not shown), an additional 15 weeks of work per year would cut the existing poverty gap by at most half.

Now consider children living in pretransfer poor families who received transfers (columns 2 and 3). Those who escaped poverty (column 2) lived in families where the head worked about 20 weeks and most received <u>both</u> welfare and nonwelfare transfers. Transfers totaled about $8000 or more. Those who remained poor (column 3) lived in families where the head worked somewhat fewer weeks and tended to receive chiefly welfare transfers; these transfers ranged from $4500 to $6000 for the three racial-ethnic groups. Heads of these families--especially among blacks--worked the least of any of the groups shown in the first four columns. Because both labor force attachment and welfare benefits were low, they remained poor despite almost universal welfare recipiency.

**Table 3**

Poverty and Income Transfer Receipt among Children, 1985

| | | Pretransfer Poor | | | |
|---|---|---|---|---|---|
| Children[a] | Not Pretransfer Poor (1) | But Not Posttransfer Poor (Taken Out by Transfers) (2) | Received Transfers, But Not Enough to Escape Poverty (3) | Received No Transfers (4) | All Children by Category (5) |
| White non-Hispanic | | | | | |
| Weeks worked by head | 48.04 | 19.59 | 17.08 | 34.38 | 43.92 |
| Mean transfers | $650 | $7880 | $4459 | $0 | $1218 |
| Mean poverty gap[b] | $0 | $0 | $3488 | $5390 | $519 |
| % receiving welfare[c] | 4.61 | 53.83 | 88.27 | 0 | 12.97 |
| % receiving nonwelfare transfers | 14.41 | 74.88 | 29.70 | 0 | 17.14 |
| Black non-Hispanic | | | | | |
| Weeks worked by head | 45.14 | 19.67 | 9.90 | 33.94 | 30.42 |
| Mean transfers | $1027 | $8257 | $5616 | $0 | $3040 |
| Mean poverty gap[b] | $0 | $0 | $4589 | $4263 | $1876 |
| % receiving welfare[c] | 13.67 | 80.31 | 94.87 | 0 | 45.79 |
| % receiving nonwelfare transfers | 17.70 | 56.60 | 23.45 | 0 | 21.11 |
| Hispanic | | | | | |
| Weeks worked by head | 46.61 | 18.56 | 13.41 | 38.32 | 35.94 |
| Mean transfers | $722 | $8715 | $5975 | $0 | $2331 |
| Mean poverty gap[b] | $0 | $0 | $4226 | $4373 | $1595 |
| % receiving welfare[c] | 8.56 | 74.27 | 92.53 | 0 | 31.64 |
| % receiving nonwelfare transfers | 16.08 | 55.44 | 23.41 | 0 | 17.83 |
| All children | | | | | |
| % of all pretransfer poor children | 0.00 | 17.03 | 60.12 | 22.85 | 100.00 |

Source: See Table 2.

[a]Children living in households where the head is neither white nor black nor Hispanic are excluded from the table.

[b]The poverty gap is the dollar amount needed to bring a poor family up to the poverty line.

[c]Includes food stamps, energy assistance, AFDC, SSI, and general assistance.

Data by sex of family head are not shown in Table 3. However, as Figure 1 revealed, children living in female-headed families were much more likely to be left in poverty than those in male-headed families.

To sum up, the current system of welfare and nonwelfare transfers provides some aid to more than three-quarters of all pretransfer poor children (last row of Table 3, sum of columns 2 and 3). But it took only about 2.5 million of them--17.03 percent--out of poverty. Another 8.79 million received some aid (60.12 percent of the pretransfer poor), while 3.34 million (22.85 percent of the pretransfer poor) received nothing. The families who remained poor had incomes about $3500-$5000 below the poverty line, indicating that no single program or antipoverty policy reform under current discussion is likely to significantly reduce their numbers.

## FIGHTING POVERTY IN THE 1990S

For most white children, poverty lasts only a few years. But many minority children spend their entire childhood in poverty (Ellwood, 1987). They live in segregated neighborhoods, isolated from mainstream institutions, in families that lack the income necessary to provide them with sufficient nutrition and health care, and they attend urban schools that offer few opportunities to learn and to escape from poverty. To significantly reduce child poverty, we must launch a comprehensive antipoverty effort that addresses the many social problems that have been neglected in recent years. One set of policies would attack the causes of poverty by improving the housing stock, upgrading urban schools, vigorously enforcing antidiscrimination laws in housing and employment, and restricting drug and gang activities. Another set, more amenable to federal spending and quick action, would raise the living standard of today's poor children by reforming child support laws, supplementing low incomes through the federal income tax, expanding employment and training opportunities, and providing medical insurance for the uninsured. Due to space limitations, I restrict my discussion to a subset of policy options targeted on those among the poor who are either expected to work or currently work, but remain poor.

The mid-1980s have been characterized by state experimentation with incremental welfare reform programs. For example, Employment and Training (ET) Choices in Massachusetts, Greater Avenues for Independence (GAIN) in California, Realizing Economic Achievement (REACH) in New Jersey, and the Family Independence Program (FIP) in the state of Washington have provided increased training, employment, and social services to long-term, nonworking welfare recipients. In September 1988 Congress passed the Family Support Act, crafted by Senator Daniel Patrick Moynihan, which builds on the experiences of these and other states. This bill embodies the new consensus in that it redirects welfare policy for the nonworking poor. It neither sets a national minimum welfare benefit nor raises benefits. Rather, it extends the AFDC program for unemployed two-parent families but adds a requirement that at least one of the parents engage in community service in return for benefits. The Act and the state programs now in operation target long-term welfare recipients of working age who have no disabilities but who do not work under the current system (the parents of those children listed in column 3 of Table 3). Their (implicit) goal is to turn a welfare check into a paycheck--even if, at first, the total amount of the check is unchanged. Once recipients are at work, it is hoped that they can leave welfare through a combination of increased child support and access to transitional child care, health care, and employment and training services.

Most current work-welfare programs merely replace welfare benefits with an equivalent amount of earnings and limit the number of work opportunities in order to hold down total program costs. Typically, they set the hours to be worked by dividing the welfare benefit by the minimum wage. By allowing recipients to work full time instead and by increasing the number of recipients who participate, they would enhance opportunities for recipients to escape poverty as well as welfare dependency.

If these programs, as currently structured, succeed in transforming nonworking, poor welfare recipients into the working poor, then they represent a necessary first component of a renewed antipoverty agenda. But such an effort must also address the diverse needs of the millions of poor and near-poor families who receive little or no welfare.

I now turn to some other antipoverty reforms targeted on poor families with children that avoid the expansion of welfare for the able-bodied. (Lerman, 1988, discusses a similar range of proposals.) While these reforms could easily cost tens of billions of dollars, they do not involve a simple expansion of existing programs. Rather, as described by Isabel Sawhill (1988), such a set of proposals is built on the assumptions that parents must take greater responsibility for their children--through increased work by mothers heading single-parent families and through increased child support by the absent fathers--and that the public sector must offer more employment and education opportunities so that the poor from whom we have come to expect greater responsibility will have the means to transform their efforts into higher incomes.

My proposals could be financed in part through higher taxes on the nonpoor. Tax policy has recently shifted in this direction, for example, by eliminating some of the special federal income tax provisions that disproportionately aided the nonneedy elderly. These included the repeal of the double personal exemption for the elderly and the taxation of one-half of social security benefits (employer share) for those with higher incomes. A further move would be to tax employer-provided health insurance and the implicit subsidy in Medicare in the same way that social security is being taxed. While Congress has shown no inclination to eliminate these tax expenditures, they could be modified. For example, according to congressional estimates, the deductibility of employer contributions for medical insurance premiums will amount to about $32 billion per year by 1990 (U.S. House of Representatives, 1988, p. 596). A modest reduction in this tax expenditure could raise about $10 billion per year.

The Tax Reform Act of 1986 has made an important step in the direction of aiding poor children. It has removed most of their families from the federal income tax rolls by expanding and indexing to the cost of living, the earned income tax credit (EITC), the standard deduction, and the personal exemption. The amounts involved are substantially larger than those provided in any recent welfare reform proposal. For example, the number of families receiving the EITC will increase from about 6.3 to 13.8 million between 1986 and 1990, and the amount of the credit will grow from about $2.0 to $7.5 billion per year (U.S. House of Representatives, 1988, p. 611). Nonetheless, these changes will only partially offset the declining transfer benefits and stagnant family incomes that have characterized the period since 1973.

While federal taxation of the poor has been reduced, most states continue to tax the poor. For example, according to Gold (1987), only in 10 of the 40 states with a broad-based personal income tax would a family of four at the poverty line be exempt from taxation. Chernick and Reschovsky (1989) show that the poor pay a substantial amount of other state and local taxes in New York and Massachusetts, two of the ten states in which the poor have no state income tax liability. State tax relief for the poor is an important priority.

I also advocate several additional federal income tax reforms. I would replace the $2000 personal exemption with a per capita refundable credit of $560. Because the credit is worth this amount to taxpayers in the 28 percent bracket, most taxpayers would not be affected by the shift away from an exemption. This credit is equivalent to an exemption of about $3700 for taxpayers in the lowest (15 percent) tax bracket. But because of refundability, it would greatly aid poor and near-poor taxpayers. It would also help offset much of the social security tax burden of the working poor. A refundable per capita credit better targets forgone revenue on those with lower incomes than would a raise in the personal exemption that resulted in the same amount of revenue being forgone. A less costly version would begin by replacing the personal exemption for children with a refundable credit. The refundable tax credit would then function like the children's allowances provided in many western European countries. Such a scaled-back proposal would still involve a reduction in revenue of about $10 billion per year.

President Bush has proposed an income-tax-based supplement for the working poor that is less costly than a refundable tax credit for children but is consistent with the approach I advocate. While he refers to his plan as "child care assistance," it is unrelated to a family's spending on child care services. Rather, it is an expanded earned income tax credit for families with children under the age of four. Like the EITC, the credit equals 14 percent of wages up to $7143, where it reaches the proposed $1000 maximum. It then remains at $1000 until wages reach $8000, after which the credit is reduced by 20 cents for each additional dollar earned, so that it phases out at $13,000. Budgetary constraints restrict the Bush plan to families with children under the age of four and up to this income range. In its current form, the plan would reduce tax revenue by about $2 billion per year. The

President envisions raising the phase-out range to between $15,000 and $20,000 by 1994. A further expansion to include all children, not only those under four, would greatly enhance the antipoverty impact of this proposal.

A second tax reform on behalf of poor children would make the dependent care tax credit refundable. The current nonrefundable credit allows working single parents and couples, when both spouses work, to partially offset work-related child care costs. Only a very small percentage of poor families make use of the nonrefundable credit, which currently provides tax relief totaling about $4 billion. On the other hand, higher-income taxpayers receive credits of up to $960 if they have more than one child and if they spend at least $4800 on care.

The credit begins at 30 percent of expenses for families with incomes below $10,000. Consider the case of a single mother of one child who works part time, earns $5.00 per hour for 1500 hours per year, and spends $1.50 per hour, or $2250, to keep her child in day care while she works. If this is her only income, she will not have a positive income tax liability (indeed, the earned income tax credit will offset a portion of her social security taxes). Her potential dependent care credit--$675, or 30 percent of $2250--is thus of no value to her because it is not refundable. Refunding this credit would not only raise her net income, it would also make welfare recipiency less attractive. In early 1989, Senators Bob Packwood and Moynihan introduced the Expanded Child Care Opportunities Act (ECCO), which would both raise the maximum subsidy rate from 30 to 40 percent and make the credit refundable. Its cost is estimated at about $2.6 billion per year.

Another antipoverty strategy, the Wisconsin Child Support Assurance System (Garfinkel, 1988) or the system proposed by Lerman (1988) would target all children in single-parent families and would reduce both poverty and welfare dependency through increased parental support. Uniform child support awards would be financed by a percentage-of-income tax on the absent parent. If this amount is less than a fixed minimum level because the absent parent's income is too low, the support payment would be supplemented up to the minimum by government funds. Because of the increased payments from absent fathers and because the system has greater work incentives for custodial mothers than does welfare, Garfinkel estimates that such a system could be implemented with little additional government funds.

These tax-based and child support reforms together with welfare reforms for employable welfare recipients have their greatest impacts on those able to work. After these reforms have been implemented, one might consider a long-standing goal of the last two decades of welfare reform--providing a national minimum welfare benefit.

Various combinations of these and other current policy proposals, such as an increased minimum wage, extensions of medical care coverage to uninsured workers, a variety of education and training program reforms, expansion of housing assistance, and revitalized enforcement of antidiscrimination statutes, can all contribute to a renewed antipoverty effort. Again, there has been movement in some of these areas. For example, Congress has amended the Medicaid program so that some poor children are now covered even if their parents are not eligible for or do not participate in the AFDC program.

The poor have benefited relatively little from the current economic recovery because of inattention to their plight. We seem to have moved beyond the Reagan era's "benign" or "not-so-benign" neglect. It is to be hoped that the steps taken thus far will be the first of many.

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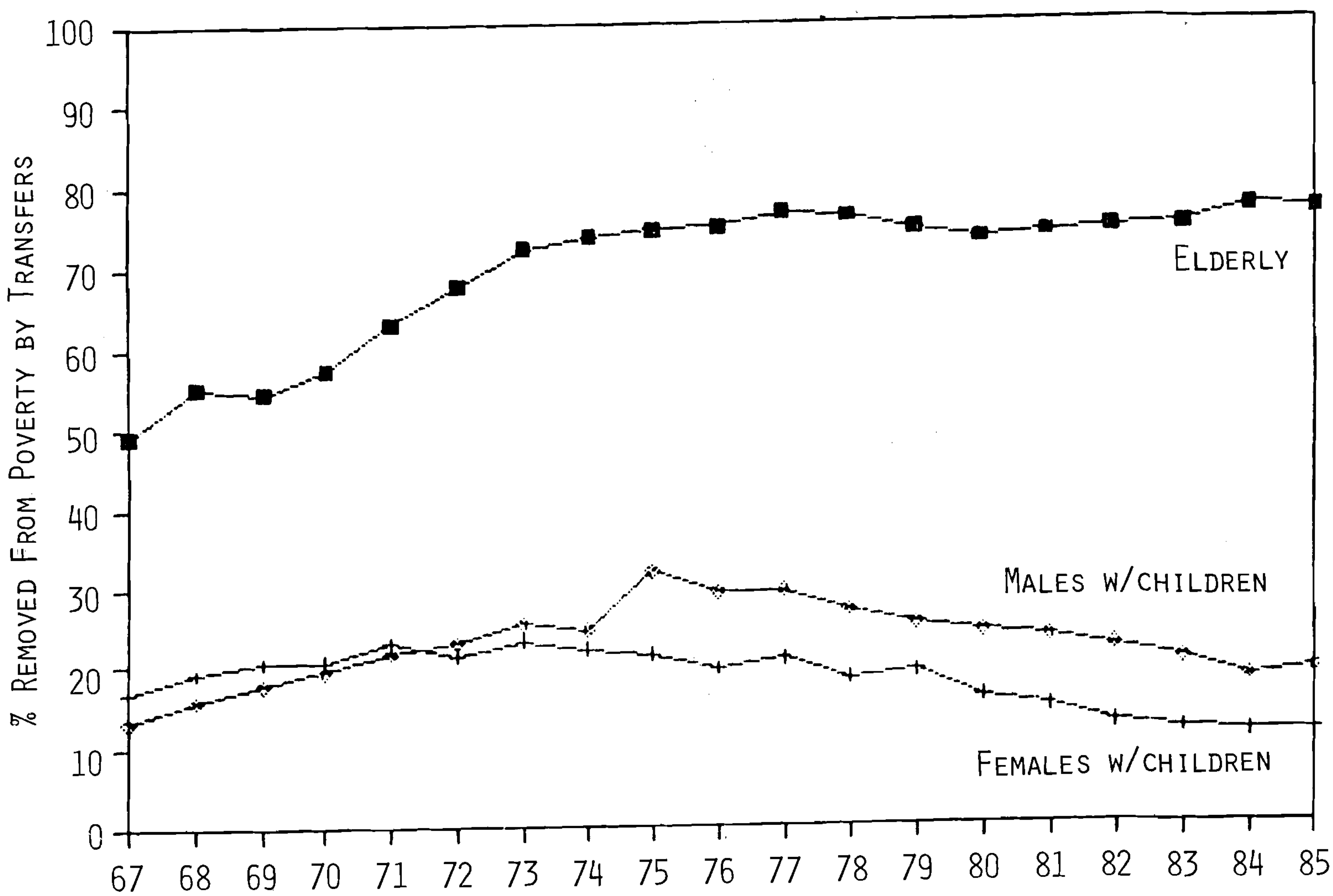
FIGURE 2

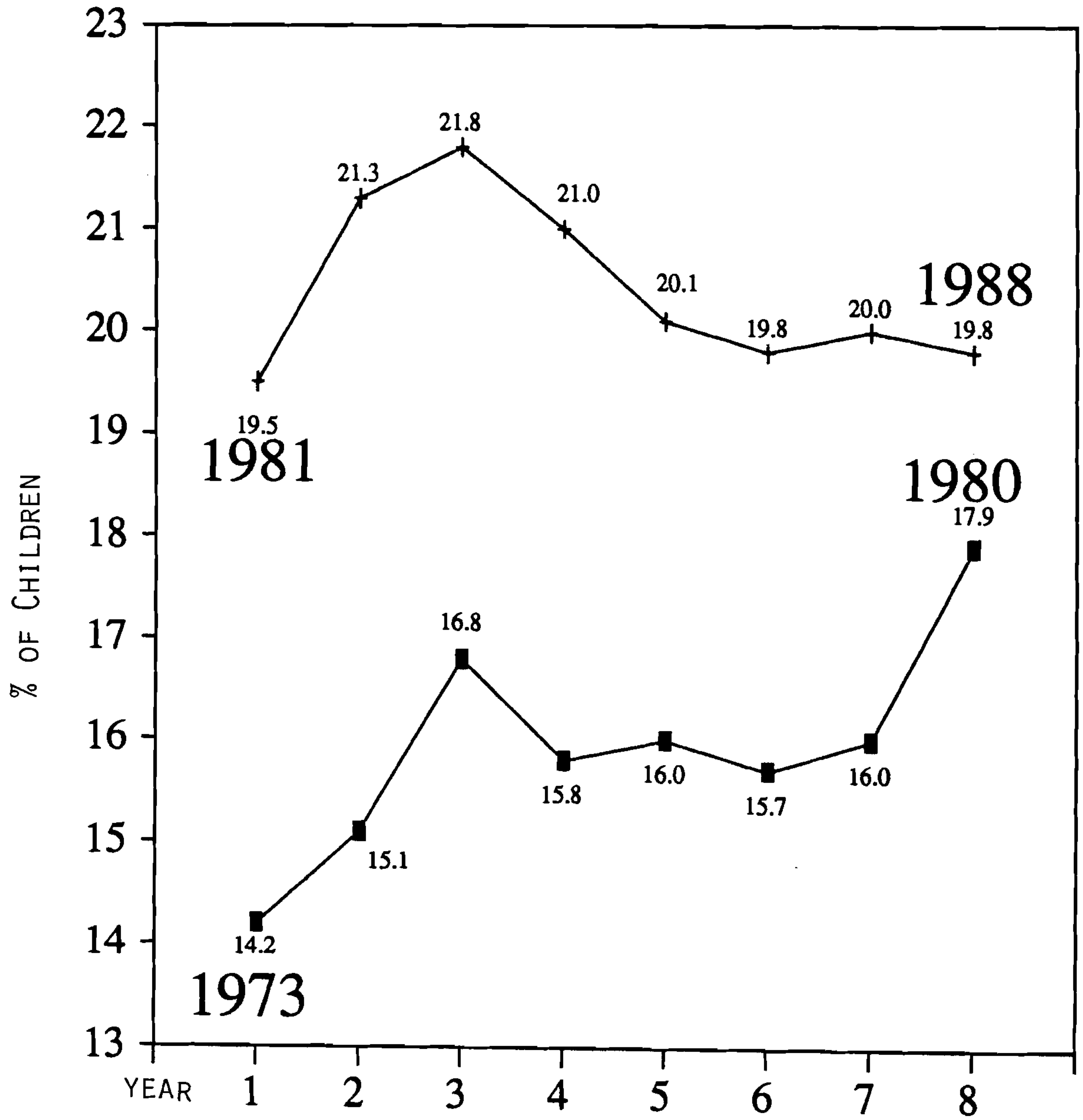
ANTIPOVERTY EFFECTS OF CASH TRANSFERS
1965-1985




Source: Danziger (1989).

FIGURE 1

CHILD POVERTY RATE




- REAGAN YEARS, 1981-1988, 20.41% AVG.
- PRE-REAGAN YEARS, 1973-1980, 15.94% AVG.

Sources: 1973-1987: U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 161, Money Income and Poverty Status in the United States: 1987 (Washington, D.C.: GPO, 1988), Table 16.
1988: author's estimate.