University of Wisconsin–Madison
Institute for Research on Poverty

Focus

Volume 11

Number 2

Summer 1988

ISSN: 0195-5705

Federal support for child care: Current policies and a proposed new system

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Introduction

Child care is rapidly becoming one of the most important social issues of the 1980s. There are now over 25 million women in the United States with children under the age of 13 and more than three-fifths of them (close to 15 million) are in the labor force.[2] Because the child care needs of the population are so diverse, the problem of ensuring access to affordable, adequate child care for the more than 25 million children of working mothers represents a significant national challenge.

This article examines alternative mechanisms for financing child care at the federal level and discusses the economic implications of government interventions now in use. Currently, a wide variety of government programs supply or subsidize child care, but there is no coordinated policy. This fragmented system has led to inefficiencies in the distribution of child care benefits. Furthermore, although government subsidies for child care have recently increased, most of the benefits have gone to middle- and upper-income families. This represents a growing inequity in the distribution of child care benefits.

Recent trends in federal spending for child care

A large number of federal programs provide some form of child care assistance, but it is difficult to obtain precise figures on direct expenditures for child care because many of the programs do not separately identify the child care component. One of the consequences of this fragmented system is that benefits often overlap, creating perverse incentives for families.

At least 22 separate federal programs currently provide some form of child care assistance. These programs are listed in Table 1, along with the authorizing legislation (arranged chronologically) and a brief description of the form of child care assistance.[3] The programs vary considerably in the types of services provided, the form and intent of the federal financial assistance, the eligible population, and the child care standards required for assistance. For only a few of the programs have expenditures specifically for child care been identified.

Although federal child care assistance comes in a variety of forms, it can be categorized as either supply subsidies or demand subsidies. Examples of supply subsidies are the Head Start program, direct subsidization of child care facilities under the Title XX Social Services Block Grant Program, and the Child Care Food Program. Examples of demand subsidies are voucher programs under Title XX, the Child and Dependent Care Tax Credit, Dependent Care Assistance Programs (commonly referred to as Flexible Spending Accounts), and the work-expense disregard in the Aid to Families with Dependent Children and the Food Stamp programs.

Some programs offer a mixture of supply and demand subsidies. For example, a Title XX program in Florida enables families to choose the child care provider, and the state then reimburses the facility directly.[4] This approach exemplifies the increasing trend under Title XX to expand consumer choice by placing greater reliance on demand-type subsidies. In fact, most child care funds are now being distributed in the form of demand subsidies, consistent with the emphasis on "privatization" by the Reagan administration. However, the demand subsidies vary considerably in the degree to which they restrict consumer choice. In some cases, families must use specific types of licensed child care facilities in order to qualify for benefits; in other cases, considerable consumer choice is allowed. For example, in-home care is not generally subsidized under Title XX, but is partially reimbursed under the child care tax credit. Hence, blanket categorization of demand subsidies as expanding consumer choice relative to supply subsidies can be misleading.

Table 2 presents estimates (based on a variety of sources) of changes in federal spending under the ten largest programs during the 1977–86 decade. In 1977 the largest source of federal funding for child care was the Title XX program, which represented close to 40 percent of the total. By 1986, however, Title XX accounted for only about 7 percent of total spending. There are two reasons for this dramatic change. First, the Omnibus Budget Reconciliation Act of 1981 (OBRA) amended Title XX to create the Social Services Block Grant, eliminating the separately funded Title XX social services program. Total Title XX funds were cut by about 20 percent, and states were given considerable flexibility in allocating program expenditures. As a consequence, Title XX spending for child care declined by more than one-half (close to three-fourths in constant dollars)

FOCUS is a Newsletter put out four times a year by the

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Focus is free of charge, although contributions to the U.W. Foundation-IRP Fund sent to the above address in support of *Focus* are encouraged.

Edited by E. Uhr.

Table 1

Selected Federal Programs Providing Child Care Assistance, 1987

Program	Authorizing Legislation	Type of Assistance
1. Child Welfare Services	Title V, Social Security Act of 1935 (Title IV-B since 1967)	Child care services
2. Child Care Food Program	Section 17, National School Lunch Act of 1946	Food for licensed child care facilities
3. Child Welfare Research and Demonstration Projects	Title V, Social Security Act Amendments of 1960 (Title IV-B since 1967)	Funds for research and demonstration projects in field of child care
4. Aid to Families with Dependent Children	Title IV-A, Social Security Act Amendments of 1962	Work-expense benefit for child care
5. Child Welfare Training	Title V, Social Security Act Amendments of 1962 (Title IV-B since 1967)	Funds for training child care workers
6. Food Stamps	Food Stamp Acts of 1964, 1977	Work-expense benefit for child care
7. Area Economic and Human Resource Development Program (formerly Jobs and Private Investment Program)	Appalachian Regional Development Act of 1965	Child care services
8. Head Start	Economic Opportunity Act Amendments of 1966	Child care services
9. Special Milk Program	Section 3, Child Nutrition Act of 1966	Milk for licensed child care facilities
10. Work Incentive Program	Title IV-C, Social Security Act Amendments of 1967	Child care services
11. Child Care as a Business Expense	Section 162, Internal Revenue Code, 1973	Tax deductions for child care services provided by businesses
12. Title XX (Social Services Block Grant)	Title XX-A, Social Security Act Amendments of 1974 (Block Grant since 1981)	Child care services
13. Community Development Block Grant	Title I, Housing and Community Development Act of 1974	Child care services
14. Child and Dependent Care Tax Credit	Section 21, Internal Revenue Code, 1976	Tax benefits for child care
15. Indian Child Welfare Act	Title II, Indian Child Welfare Act of 1978	Child care services
16. Dependent Care Assistance Programs	Section 129, Internal Revenue Code, 1981	Tax benefits for child care
17. Accelerated Cost Recovery System	Section 168, Internal Revenue Code, added by Economic Recovery Tax Act of 1981	Business-provided child care center eligible for accelerated depreciation
18. Community Services Block Grant	Omnibus Budget Reconciliation Act of 1981; Human Services Reauthorization Act of 1986	Child care services
19. Dislocated Workers Program	Title III, Job Training Partnership Act of 1982	Child care services
20. Job Training Partnership Act	Title II-A, Job Training Partnership Act of 1982	Child care services, child care training
21. Child Development Associate Scholarship Program	Human Services Reauthorization Act of 1986	Scholarships to candidates for child development associate credential
22. Dependent Care Planning and Development	Human Services Reauthorization Act of 1986	Child care services

Source: Adapted from Sharon Stephan and Susan Schillmoeller, "Child Day Care: Selected Federal Programs," Paper 87-303 EPW, Congressional Research Service, Library of Congress, April 7, 1987.

Table 2

Federal Spending for Child Care, 1977-1986

Program	Administering Agency	Federal Spending (millions of current dollars)			
		1977	1980	1984	1986
Title XX (Social Services Block Grant)	Department of Health and Human Services	$809[a]	$600[b,c]	$535[c]	$387[c]
Head Start	Department of Health and Human Services	448[a]	735[b]	996[b]	1,040[c]
Area Economic and Human Resource Development Program	Appalachian Regional Commission	9[a]	11[c]	1[d]	0[d]
Child Care Food Program	Department of Agriculture	120[a]	217[b]	357[d]	484[d]
Job Training Partnership Act	Department of Labor	—	—	30[e]	30[e]
Aid to Families with Dependent Children (work-expense disregard)	Department of Health and Human Services	84[a]	60[b]	35[b]	35[c]
Work Incentive Program (WIN)	Department of Health and Human Services	57[a]	115[b]	—	—
Food Stamps (work-expense disregard)	Department of Agriculture	35[e]	35[e]	35[e]	50[e]
Tax Exclusion for Employer-Provided Child Care	Internal Revenue Service	—	—	40[b]	110[e,d]
Subtotal (1986 dollars)		1,562 (2,826)	1,773 (2,360)	2,028 (2,141)	2,136 (2,136)
Child and Dependent Care Tax Credit	Internal Revenue Service	521[f]	956[f]	2,649[f]	3,410[e]
Total (1986 dollars)		2,083 (3,769)	2,729 (3,632)	4,677 (4,937)	5,546 (5,546)

Note: Data are for the fiscal year except for child care tax credit, which is measured over the calendar year. Minor programs listed in Table 1, for which data are not available, have been excluded.

[a]U.S. Congress, Congressional Budget Office, *Childcare and Preschool: Options for Federal Support,* Background Paper, September 1978, Table 9.

[b]Private communication from William Prosser, Department of Health and Human Services.

[c]Alfred J. Kahn and Sheila B. Kamerman, *Child Care: Facing the Hard Choices* (Dover, Mass.: Auburn House, 1987), Table 1.8.

[d]Sharon Stephan and Susan Schillmoeller, "Child Day Care: Selected Federal Programs." Paper 87-303 EPW, Congressional Research Service, Library of Congress, April 7, 1987.

[e]Based on quality control data from the Food and Nutrition Service, courtesy of Julie Isaacs, Congressional Budget Office.

[f]U.S. Department of the Treasury, Internal Revenue Service, *Individual Income Tax Returns* (Washington, D.C.: GPO, 1977, 1980, 1984).

from 1977 to 1986. Second, over the same period, the child care tax credit expanded greatly, increasing by a factor of almost 7 from 1977 to 1986 (a factor of just over 3 1/2 in constant dollars). This expansion was the result of liberalized provisions and increased use by eligible families. By 1986, the tax credit had become the dominant form of government subsidization of child care, representing over 60 percent of all federal spending for child care, up from 25 percent in 1977.

As Table 2 indicates, spending has increased significantly in only four programs. These are Head Start (which was generally insulated from the 1981 budget cuts but only provides half-day care in most instances), the Child Care Food Program (which was initially cut but later expanded), employer subsidies, and the child care tax credit. These four programs currently account for more than 90 percent of all federal spending for child care. Excluding the tax credit, federal spending for child care declined by almost 25 percent in constant dollars from 1977 to 1986. Because most of the child care benefits accruing to low-income families are from programs other than the tax credit, there has been a decided shift in the distribution of federal child care benefits. The Congressional Budget Office estimated that in 1977, 60 percent of all non-tax-related benefits for child care but less than 1 percent of the tax-related benefits accrued to low-income families.[5] Hence, although federal spending for child care has risen by almost 50 percent since 1977, virtually all of the increased benefits have gone to middle- and upper-income families.

Table 3

Use of the Child Care Tax Credit 1976–1986

Year	Maximum Credit Available—Two or More Children: Poor[d]	Maximum Credit Available—Two or More Children: Nonpoor[e]	Number Claiming Credit (thousands)	Percentage of Total Returns Claiming Credit[a]	Number Claiming Credit as a Percentage of Families with Working Mothers[b]	Total Amount of Credit ($ millions)	Average Credit per Family	Average Credit as a Percentage of Average Tax Liability[c]
1976	$1,541	$1,541	2,660	3.9%	18.2%	$ 883	$332	7.7%
1977	1,447	1,447	2,875	4.2	18.9	943	328	7.2
1978	1,345	1,345	3,431	4.7	21.5	1,100	321	6.8
1979	1,208	1,208	3,833	5.2	23.3	1,198	313	7.0
1980	1,065	1,065	4,231	5.6	24.5	1,273	301	6.7
1981	964	964	4,578	5.8	25.6	1,384	302	6.7
1982	1,636	1,091	5,004	6.3	27.9	1,706	341	8.4
1983	1,585	1,057	6,367	7.9	35.2	2,258	355	9.3
1984	1,520	1,013	7,546	8.9	40.4	2,796	371	9.7
1985	1,468	978	8,445	9.8	44.3	3,132	371	9.5
1986	1,440	960	n.a.	n.a.	n.a.	3,410[f]	n.a.	n.a.

Sources: U.S. Department of the Treasury, Internal Revenue Service, *Individual Income Tax Returns* (Washington, D.C.: GPO, 1976–1985); U.S. Department of Labor, Bureau of Labor Statistics, *Handbook of Labor Statistics*, Bulletin 2217 (Washington, D.C.: GPO, 1985).

Notes: n.a. = Not available. All dollars are 1986 dollars, adjusted by using the Consumer Price Index.

[a]Denominator is number of returns with positive tax liability before credit.

[b]Working mothers in one- and two-parent families with children under the age of 18.

[c]Average tax liability measured before credits.

[d]Those eligible for maximum credit (20 percent until 1982, 30 percent thereafter).

[e]Those eligible for minimum credit (20 percent).

[f]Estimated; see Alfred J. Kahn and Sheila B. Kamerman, *Child Care: Facing the Hard Choices* (Dover, Mass.: Auburn House, 1987, Table 1.8).

The increased spending for child care under the child care tax credit has been the result of more extensive use of the credit by the working population rather than greater subsidies per family. Table 3 shows how changes in the tax credit have increased its use since its inception in 1976. First, in 1982, the tax credit was increased to 30 percent of child care expenses for low-income families and was reduced gradually on a sliding scale to 20 percent for families with incomes above $28,000. Prior to this the credit was a flat 20 percent for all families. Second, also in 1982, the maximum amount of child care expenses to which the credit could be applied was increased from $2,000 to $2,400 for one child and from $4,000 to $4,800 for two or more children. Third, and perhaps most important, in 1983 the credit was added to the short income tax form (1040A), which extended coverage to more low-income families.

As Table 3 indicates, the 1982 changes had only a minor effect on utilization of the credit, although they did significantly increase the average credit per family (from $302 in 1981 to $341 the following year; 1986 dollars). The changes were not enough, however, to make up for the inflation that had occurred since the late 1970s. As the first two columns indicate, even though the credit was increased from 20 percent to 30 percent for low-income families, the maximum *real* benefit for this group was only 6 percent higher in 1982 than it was in 1976 ($1,636 in 1982 versus $1,541 in 1976). For middle- and upper-income families, the maximum real benefit fell by 29 percent (from $1,541 to $1,091), despite the increase in qualifying expenses. Hence, although the average credit per family in 1982 was 13 percent higher than in 1981, it was only 3 percent higher than in 1976. The addition of the credit to the short form in 1983 significantly increased the number of taxpayers using the credit but had little effect on the size of the average credit.

Overall, then, from 1976 to 1985 child care subsidies through the child care tax credit increased by 350 percent in constant dollars. This increase came about primarily because of more extensive use by eligible families. I estimate that the percentage of families with working mothers using the credit increased from 18.2 percent in 1976 to 44.3 percent in 1985.[6] In contrast, the average real credit per family increased by only about 12 percent from 1976 to 1985.

Interactions among programs

The diverse and fragmented child care system in the United States has created significant overlaps and interactions among programs that can lead to perverse decision making on the part of families. Gordon Lewis examined the effects of some of these interactions in Pennsylvania before and after OBRA.[7] In his analysis, the choices faced by families involved private day care (the expenses for which were eligible for subsidization under AFDC, food stamps, and the child care tax credit) and public day care (funded under Title XX). The interactions arose because federal tax withholdings were deducted from earned income in determining the AFDC grant, Title XX payments were based on family income, and the AFDC grant had to be included in income used to calculate the food stamp benefit. Generally, Lewis found that the interactions among the programs made it financially desirable to utilize publicly funded child care facilities at some income levels and privately funded child care facilities at other income levels. Hence, if income were to change over time, families might be induced to change child care arrangements in order to maximize their subsidy from the government. If stability of child care arrangements is important to a child's overall emotional well-being, then such a system of overlapping benefits is socially undesirable.

More recent tax legislation has created additional complications and inequities in the distribution of federal child care benefits. These pertain to use of the tax system to provide employee benefits in the form of Flexible Spending Accounts (FSAs) and provisions of the Tax Reform Act of 1986. An FSA is a reservoir of funds upon which employees can draw to pay for certain expenses, including child care.[8] FSAs are almost always funded through salary-reduction plans rather than through employer contributions, because salary-reduction plans are costless to employers (but not to taxpayers). Because the funds accumulated in FSAs escape taxation (both federal income and social security taxes), families receive a subsidy from the federal government equal to the taxes saved as a result of the voluntary salary reduction. In fact, employers are also subsidized because they do not pay social security or federal unemployment insurance taxes on the reduced salary amount.[9] Although it is estimated that only about 800 firms provided child care benefits in the form of FSAs in 1985,[10] the number has been increasing rapidly. Since there are more than 5 million business concerns in the United States, and more than 44,000 have 100 employees or more, this form of child care benefit can expand enormously.

Currently, the maximum in child care expenses that can be applied to FSAs is $5,000 per year. If the family is in the 15 percent tax bracket and applies for and spends the total allotted amount, the family will receive a child care subsidy of $750 (excluding savings in social security taxes). If the family is in the 28 percent tax bracket, it will receive a subsidy of $1,400. Hence, unlike the child care tax credit, which is progressive (higher percentage subsidies to lower-income families), FSAs are regressive (higher percentage subsidies to higher-income families). The regressivity of FSAs is even more pronounced because most low-income families do not currently work for firms providing such benefits.

An additional complication is created by the fact that employees qualifying for an FSA can also use the child care tax credit. For example, an employee in the 28 percent tax bracket who incurs $7,000 in child care expenses for two children can apply the maximum ($5,000) to the FSA and the remainder qualifies for child care tax credit. Hence, all of the employee's child care expenses are eligible for a subsidy, even though the expenses incurred exceed the allowable amounts under each program. Excluding savings in social security taxes, the subsidy will amount to $1,800 ($1,400 from the FSA and $400 from the tax credit), which is about 26 percent of total child care expenses. If the employee is in the 15 percent tax bracket (and has income above $28,000), it would be better to apply the first $4,800 to the tax credit (because the subsidy rate is higher) and the remainder to the FSA. This employee will receive a subsidy of $1,290 ($960 from the tax credit and $330 from the FSA), which is about 18 percent of total child care expenses.

The Tax Reform Act of 1986 has added further regressivity to the system of tax-related child care benefits. Currently, the child care tax credit is nonrefundable, which means that it is limited to the amount of the individual's tax liability.[11] The 1986 Tax Reform Act reduced taxes for most low-income families. Ironically, many of them will lose part of their child care subsidy as a consequence. The tax credit loss is greatest for families with incomes between $10,000 and $16,000.[12] For these families the subsidy is now about 30 percent lower on average than it was before the Tax Reform Act. The entire loss in the tax credit is concentrated among families with incomes below $16,000—the bottom three deciles of the income distribution. I estimate that the Tax Reform Act will eliminate roughly $164 million in child care subsidies for the poorest 30 percent of families.

The above examples illustrate how a fragmented system of overlapping child care subsidies can create inefficiencies, inequities, and perverse incentives. From a public policy standpoint, it appears to make more sense to develop a system in which the benefits complement one another, rather than interact in a way that leads to a situation (such as regressivity) that may be inconsistent with overall national objectives. In the remainder of this article I discuss some of the alternatives currently being debated in Congress and offer some recommendations on how the current system can be improved.

Alternatives being debated in Congress

In 1987, more than 70 bills related to child care were introduced into Congress.[13] Many call for increased spending under existing programs while others create new programs. The bills cover virtually every aspect of financing, from tax credits to service delivery. In the tax area, for example, bills were introduced to make the child care tax credit refundable, to make it more progressive, and to phase it out at high incomes to help finance a system of child care vouchers. There are bills to expand employer subsidies by establishing a tax credit for employer-sponsored child care and requiring cafeteria plans[14] to provide a child care option.

In the service delivery area, numerous bills deal with the child care problems of special groups: Several bills call for subsidized child care for welfare recipients participating in new or existing work/training programs; others request child care funds for residents in public housing, disadvantaged youth, participants in English literacy programs, dislocated workers, college students from disadvantaged backgrounds, unemployed individuals, students in health care education programs, and persons receiving foster-parent training. Other bills call for restoring cuts in Title XX funding, increasing funds under Head Start and food programs for children in day care, and financing demonstrations to develop model child care systems within the public school system. Other bills provide funds for improving state licensing and regulatory systems, and several call for the establishment of a federal agency to coordinate national child care policy. There is even a bill to establish a national lottery to assist in financing child care under the Title XX program. The most comprehensive bill currently before Congress, the Act for Better Child Care Services (HR 3660, S 1885), calls for $2.5 billion per year to fund a broad range of child care services. This bill is supported by more than 100 national activist groups (members of a coalition known as the Alliance for Better Child Care) and has close to 200 cosponsors in both houses of Congress.

With few exceptions, virtually all of the proposed legislation would require additional federal spending.[15] This poses a problem during an era of large federal deficits. Few members of Congress are likely to find a constituency supportive of new initiatives that would lead to an expansion in federal spending. Nevertheless, it should be pointed out that in comparison to other social programs, current expenditures on child care are extremely modest. In 1986, federal child care expenditures of $5.5 billion represented under 4 percent of total federal spending on education, training, employment, social services, and income security (excluding spending on Medicare, other health programs, and Social Security). Thus, it would appear there is some justification for reorienting national priorities to increase the federal commitment to child care.

Change of Institute Directors

Charles F. Manski was appointed Director of the Institute for Research on Poverty on July 1, 1988. An economist, Manski received his Ph.D. from MIT in 1973. He taught at Carnegie-Mellon University and at the Hebrew University of Jerusalem before coming to the University of Wisconsin in 1983. His policy research has concentrated on education, crime, and transportation. His methodological work has focused on the econometric analysis of individual behavior. He is coauthor of *College Choice in America* (with David Wise), co-editor of *Structural Analysis of Discrete Data* (with Daniel McFadden), and author of the forthcoming *Analog Estimation Methods in Econometrics.* He has served on the Committee on Law Enforcement and the Administration of Justice of the National Academy of Sciences and on the Economics Advisory Panel of the National Science Foundation. A Fellow of the Econometric Society, he is currently coeditor of the Econometric Society Monograph Series, associate editor of the *Journal of Economic Perspectives,* associate editor of *Econometrica,* and a member of the advisory board of the *Journal of Human Resources.*

Manski succeeds Sheldon Danziger, who completed a five-year term as IRP director. Danziger has joined the faculty of the University of Michigan, where he is Professor of Social Work and Public Policy and Faculty Associate of the Population Studies Center. He continues as an Institute research affiliate.

A suggested two-tiered system of federal support

Much (but not all) of the proposed legislation represents patchwork reform that would perpetuate the inefficiences and inequities of the existing system. Instead, I outline a two-tiered system of federal support that would lead to greater efficiency and equity in the distribution of child care benefits. Although my proposal would increase federal spending, I suggest how this additional cost could be partially offset by reductions elsewhere in child care spending.

The first tier of my proposed system would provide child care benefits for all working families with children. In my view, the most efficient way to provide these benefits is through the existing child care tax credit. Because the tax credit currently provides benefits in an inequitable way, it must be adjusted. One adjustment that would contribute toward greater equity is to make the credit refundable and more progressive. If large federal deficits require financing an expansion of the tax credit, I would recommend repealing the provision of the Internal Revenue Service Code Section 129 that makes child care a tax-free benefit to employees (through the FSAs), and I would recommend phasing out the tax credit at very high incomes. The reason for eliminating the tax advantages for FSAs is not because they are undesirable, but because, as described above, they overlap in an inefficient manner with the tax credit and add to the regressive treatment of low-income families under the current system. Employers would still have the option of offering FSAs, but they would have to be financed by employer contributions and would be taxable benefits to employees. In this sense, such child care benefits would be equivalent to higher wages.

Ideally, an initial refundable tax credit of about 80 percent, gradually reduced to zero at very high incomes, would seem to be a politically feasible goal.[16] To maintain the current tax advantages created by the combined tax credit and FSAs, I recommend increasing eligible expenses under the tax credit to $3,600 for one child and $7,200 for two or more children. Empirical evidence suggests that this general form of "demand" subsidy would have beneficial impacts on society.[17] In particular, it would generate substantial increases in labor force participation among low-income families and would increase the quality of care purchased. Increased labor force participation by low-income families would provide the work experience necessary to escape poverty through future earnings growth.

One criticism of the tax credit as a means of subsidizing child care for low-income families is that families would not benefit from the credit until they filed their tax returns, and thus they might be unable to meet monthly (or even weekly) child care expenses.[18] This problem could be partially avoided by using the existing withholding system to meet monthly child care needs. Families paying positive federal income taxes could have their withholding reduced in order to have enough disposable income to pay monthly child care expenses. For families not paying any regular federal income taxes, monthly child care expenses could be partially met by reducing social security taxes withheld (including the employer's portion). Social security taxes are paid on every dollar earned up to the taxable maximum. Currently, the combined employer-employee contribution rate is 15.02 percent. Reducing the social security withholding tax for low-income families by an amount not to exceed the combined employer-employee contribution rate would lessen (but perhaps not eliminate) the need to develop a system of refunding child care credits on a less than annual basis. When tax returns are filed at the end of the year, reconciliations can be made. If the family elects to receive the credit at the end of the year, the same mechanism can be used to distribute benefits that is currently being used for the earned income tax credit, which is also refundable. A family able to balance its child care account with the government would receive full credit for its appropriate social security contributions.

If it is not feasible to use the withholding system to meet monthly child care needs, then consideration might be given to a system of direct vendor payments on a monthly basis. Under such a system, licensed child care facilities would periodically bill the government for a portion of child care expenses incurred by the family. Such a "co-payment" system could be patterned after the reimbursement system used by the Medicare and Medicaid programs. If this proves infeasible as well, consideration might be given to a system of child care vouchers, distributed monthly and patterned after the Food Stamp program. In any event, when families file their tax returns at the end of the year, the appropriate amount of the refundable credit would be calculated and reconciliations would be made.

Another criticism of the tax credit is that most low-income families cannot afford to purchase child care in the open market (i.e., from child care centers or licensed homes providing family day care). Instead, they tend to rely upon in-home babysitters or out-of-home arrangements that are usually unlicensed (and hence illegal) and pay less than minimum wages to caretakers who do not declare their income for tax purposes.[19] A refundable credit at the rate of 80 percent for very low-income families would induce some of them to seek higher-quality (licensed) arrangements, and many caretakers might also then seek licenses and declare their incomes for tax purposes. This would indirectly lead to an increase in federal (and state) tax revenues.

The second tier of my proposed system would act as a "safety net" to provide benefits to chronically disadvantaged families who are either unable to take advantage of tax-based benefits or who cannot find decent-quality care at low cost. In particular, "supply"-oriented subsidies, such as financing the establishment of licensed centers within public housing projects or in other areas with a high incidence of poverty, should be instituted on a large scale. Poor families should receive the services of these facilities at little or no cost. Again, empirical evidence suggests that supply subsidies of this type can induce a considerable degree of economic self-sufficiency among low-income families.[20]

A system of publicly funded child care centers could be financed entirely by the federal government or possibly through matching grants to the states, with the federal government providing the bulk of the matching funds. A system of matching grants would be desirable if it induced additional state funding of the centers. Evidence on the effects of matching formulas on state funding of social programs is controversial. One careful study concludes that federal matching at the margin can have a modestly positive effect on the overall amount of benefits provided by states.[21]

In addition to such a two-tiered system of child care support, it would also seem appropriate to centralize the coordination of national child care policies within a federal agency, probably the Department of Health and Human Services (perhaps within the recently created Family Support Administration). The functions of such an agency would be to monitor child care spending and to enforce regulations governing the quality of the child care services being provided. All child care eligible to be subsidized under the two-tiered system would have to meet minimum federal standards, which individual states could upgrade at their discretion.

Conclusions

The current system of federal support for child care in the United States consists of a series of overlapping programs that tend to create inefficiencies and inequities in the distribution of child care benefits. Despite the large number of programs in existence, overall federal assistance for child care, which totaled approximately $5.5 billion in 1986, is quite modest compared to federal spending in other social policy areas. Most child care assistance comes from the child care tax credit and other tax-based methods (primarily flexible spending accounts), which have been increasing in recent years. Tax-based methods of financing child care are generally regressive in nature, benefiting almost exclusively middle- and upper-income families. Direct subsidies for child care, which have been traditionally used to benefit lower-income families, are currently in a state of decline.

In order to achieve efficiency and equity in our nation's child care policies, modifications to the current system are sorely needed. A general two-tiered system of support would go a long way toward meeting our national child care goals. This two-tiered system would be centered on a refundable tax credit considerably more progressive than the current tax credit. A "safety net" of publicly funded child care centers would be established to help meet the child care needs of special groups, principally chronically disadvantaged families. These child care centers would adhere to minimum federal standards regarding quality and would be located in areas, such as public housing projects, accessible to low-income families. To ensure an efficient and equitable distribution of federal child care benefits, a federal coordinating agency should be established within the Department of Health and Human Services. ■

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[1]The ideas presented in this paper are my own and do not necessarily represent the opinions or positions of the Child Care Action Campaign or of the Institute for Research on Poverty. I wish to acknowledge the support and encouragement of Barbara Reisman, Executive Director of the Child Care Action Campaign, and other members of that organization. During the course of preparing this article, I have had several helpful discussions with Sheldon Danziger, Irwin Garfinkel, William Prosser, and many of the participants at the Wingspread conference. Nadine Berg and Marsha Runningen, legislative assistants to Representative William Lehman of Florida, and Sharon Stephan of the Congressional Research Service generously provided me with up-to-date information on the legislation related to child care currently being debated in Congress. I am responsible for all errors.

[2]Howard Hayghe, "Rise in Mothers' Labor Force Activity Includes Those with Infants," *Monthly Labor Review*, February 1986, pp. 43–45.

[3]The table and discussion of it are adapted from Sharon Stephan and Susan Schillmoeller, "Child Day Care: Selected Federal Programs," Paper 87-303 EPW, Congressional Research Service, Library of Congress, April 7, 1987.

[4]Alfred J. Kahn and Sheila B. Kamerman, *Child Care: Facing the Hard Choices* (Dover, Mass.: Auburn House, 1987), p. 98.

[5]U.S. Congress, Congressional Budget Office, *Childcare and Preschool: Options for Federal Support*, Background Paper, September 1978.

[6]These percentages are calculated using data from two sources: the number of working mothers is from U.S. Department of Labor, Bureau of Labor Statistics, *Handbook of Labor Statistics*, Bulletin 2217 (1985) and the number of families using the credit is from U.S. Department of the Treasury, Internal Revenue Service, *Individual Income Tax Returns* (Washington, D.C.: GPO, 1976–1985).

[7]Lewis, "The Day Care Tangle: Unexpected Outcomes When Programs Interact," *Journal of Policy Analysis and Management*, 2 (4), 1983, 531–547.

[8]For a description of FSAs, see Dana Friedman, "Corporate Financial Assistance for Child Care," Research Bulletin No. 177, The Conference Board, New York, 1985; and Sandra L. Burud, Pamela R. Aschbacher, and Jacquelyn McCroskey, *Employer Supported Child Care: Investing in Human Resources* (Boston, Mass.: Auburn House, 1984).

[9]Friedman, "Corporate Financial Assistance."

[10]Steven D. Lydenberg, "Child Care Update: Business Takes First Real Steps," Newsletter, Council on Economic Priorities, CEP Publication N86-11, New York, November 1986.

[11]As pointed out in U.S. Congress, Congressional Budget Office, *Reducing Poverty among Children* (Washington, D.C.: GPO, 1985), the child care tax credit is applied before the refundable earned income tax credit (EITC). Therefore, the child care tax credit is not limited by the EITC.

[12]See Robins, "Federal Financing of Child Care: Alternative Approaches and Economic Implications," paper presented at a conference sponsored by the Child Care Action Campaign at Wingspread, Racine, Wis., January 1988.

[13]These bills are described in Robins, "Federal Financing of Child Care."

[14]A cafeteria plan is a "menu" of taxable and nontaxable benefits provided by employers to give employees greater flexibility in choosing alternative forms of compensation. FSAs may be one of these benefits. Because of the increasing diversity of the work force, cafeteria plans are growing in popularity. For an excellent discussion of cafeteria plans, see Friedman, "Corporate Financial Assistance."

[15]One notable exception is a $300 million bill (HR 1572) introduced by Representative Nancy Johnson of Connecticut to create a system of vouchers for child care. Johnson's bill calls for phasing out the child care tax credit at higher income levels (over $70,000). Phasing out the tax credit at higher income levels (above $65,000) has also been proposed to help finance the Family Welfare Reform Act (HR 1720) introduced by Representative Harold Ford of Tennessee.

[16]Three bills introduced in 1987 (HR 2456 by Representative Olympia Snowe of Maine, HR 2577 by Representative Patricia Schroeder of Colorado, and S 1309 by Senator Alan Cranston of California) would make the child care tax credit refundable and more progressive, increasing the subsidy rate to 50 percent for low-income families.

[17]See, for example, David M. Blau and Philip K. Robins, "Child-Care Costs and Family Labor Supply," *Review of Economics and Statistics*, forthcoming.

[18]U.S. Congress, Congressional Budget Office, *Reducing Poverty among Children.*

[19]U.S. Commission on Civil Rights, *Child Care and Equal Opportunity for Women*, Clearinghouse Publication No. 67 (Washington, D.C.: U.S. GPO, June 1981).

[20]See, for example, Robins, "Child Care and Convenience: The Effects of Labor Market Entry Costs on Economic Self-Sufficiency among Public Housing Residents," *Social Science Quarterly*, 69 (March 1988), 122–136.

[21]Larry L. Orr, "Income Transfers as a Public Good: An Application to AFDC," *American Economic Review*, 66 (June 1976), 359–371. For a different view, see Robert Moffitt, "The Effects of Grants-in-Aid on State and Local Expenditures: The Case of AFDC," *Journal of Public Economics*, 23 (April 1984), 279–305; available as IRP Reprint no. 493.

The changed face of poverty: A call for new policies

by Robert H. Haveman

An Institute affiliate and former director, Robert H. Haveman is John Bascom Professor of Economics and Director of the La Follette Institute of Public Affairs at the University of Wisconsin–Madison. This essay is based on the Daniel Saks Memorial Lecture, delivered at Vanderbilt University on March 28, 1988, and is drawn from the author's forthcoming book, *Starting Even: An Equal Opportunity Program to Combat the Nation's New Poverty* (New York: Simon and Schuster, Fall 1988).

Despite a massive increase in public spending designed to reduce poverty and to bring the nation's citizens together economically, the incidence of poverty today is only slightly lower than when the War on Poverty was announced in 1964 and inequality is, if anything, greater. This disappointing performance is due in part to the altered face of poverty in the United States. Some traditionally poor groups have made rapid economic gains over the past quarter century, but other groups have fallen behind and now populate the lowest levels of the income distribution. Because of the nature of these changes in poverty and inequality, the nation's income redistribution system has lost much of its power.

Expanding that system without changing its structure will accomplish little more in terms of reducing poverty and inequality at reasonable cost. Moreover, the structure of the system contains incentives for inefficient and growth-inhibiting behavior—for reductions in work effort, independence, and initiative, for reductions in savings and investment, for problematic changes in family size and structure. In short, if we wish simultaneously to reduce poverty and promote efficiency, new ways must be sought. A new strategy must correct the inefficiencies fostered by current arrangements and must aim not at equalizing outcomes but at equalizing opportunities.

Growth of the system of income redistribution

Consider, first, the nature of the nation's income redistribution system, and in particular, its postwar growth (Table 1). In 1965, just before the rash of Great Society legislation began, less than 30 percent of a then much smaller federal government budget was allocated to programs that supported incomes and helped people buy essentials. At that time, however, the federal government acted in response to issues of poverty, discrimination, and ultimately to riots in the streets. In addition to such social assistance programs as Head Start, Community Action, Upward Bound, and Job Corps, social security retirement and disability benefits were expanded and Medicaid and Medicare were enacted. In the years from 1965 to 1985, federal spending on income transfers increased more than tenfold; programs designed to help people buy essentials increased about thirtyfold. These programs were America's main growth industry during this period. By 1980, the nation's income redistribution system had grown to over half the federal budget.

Inevitably, this massive growth in redistributive spending reduced poverty and inequality. Although it is difficult to measure the effects of these policies precisely, one set of indicators permits comparison of the level of poverty or inequality *without* these programs in place to their levels *with* them. In 1965, for example, the small redistribution system that existed increased the share of income captured by the bottom quintile by about 170 percent—from 1.4 percent to 3.8 percent.[1] By 1985, however, the system had increased the income share of the bottom quintile by 350 percent—from 1.3 percent to over 6 percent. Similarly, these programs reduced the incidence of poverty by 18 percent in 1960, but by nearly 40 percent in 1985.[2]

Clearly, the government's income redistribution system has been a powerful instrument for reducing inequality and poverty over the last twenty-five years. It has been the nation's key weapon in bringing us together economically, in countering the disequalizing effects of the market. But note its structure and focus: it transfers income to the poor and other target groups and helps people buy essentials; it attacks inequalities of outcome, not inequalities of opportunities.

At the same time that these equalizing measures were at work, other forces—demographic, labor market, economic—were countervailing these efforts. Over the period 1965–85, the distribution of market-generated incomes, which reflects what people are able to do for themselves, became increasingly unequal. Earnings gaps grew on a number of dimensions—by occupation, by industry, by region. A series of new inequalities had sprung up. As a result, poverty today is not markedly lower than its level twenty years ago, in spite of government's efforts, and meanwhile the degree of final income inequality in our society has increased.

Table 1

Federal Government Expenditures, 1950–1985, by Category
(billions of current dollars; percentage of column totals in parentheses)

	1950	1960	1965	1970	1980	1985
Social Program Expenditures						
Cash Income Support	11.4 (27)	24.9	31.2 (26)	51.4	216.8	331.5 (35)
Income security	4.1	7.4	9.5	15.6	86.5	128.2
Social security	.8	11.6	17.5	30.3	118.6	188.6
Veterans benefits	6.5	5.9	4.2	5.5	11.7	14.7
Helping People Buy Essentials	2.8 (7)	3.4	4.3 (4)	21.8	96.3	133.7 (14)
Health services	2.0	2.3	2.1	12.0	56.6	102.3
Education, training, and social services	.4	.4	2.2	9.6	34.1	30.4
Housing	.4	.7	—	.2	5.6	1.0
Traditional Programs						
Direct Subsidies to Producers	2.5 (6)	4.6	6.8 (6)	8.5	19.2	39.3 (4)
Agricultural subsidies	1.9	2.3	3.6	4.6	7.4	24.8
Water, air and ground transportation	.6	2.3	3.2	3.9	11.8	14.5
Defense, Space, Foreign Affairs	18.5 (43)	52.0	62.1 (52)	91.1	153.9	279.3 (29)
National defense	13.7	48.1	50.6	81.7	134.0	252.7
International affairs	4.6	3.0	5.3	4.3	12.7	16.2
Science, space, and technology	.2	.9	6.2	5.1	7.2	10.4
Investments in Physical Environment	1.8 (4)	2.1	3.2 (3)	4.3	24.1	19.1 (2)
Energy	.3	.5	.7	1.0	10.2	5.7
Natural resources and environment	1.5	1.6	2.5	3.4	13.9	13.4
Revenue Sharing	—	.2	.2 (—)	.2	8.6	6.4 (—)
Other Programs	2.6 (6)	4.9	7.8 (6)	12.4	39.6	40.2 (4)
Net Interest	4.8 (10)	6.9	8.6 (7)	14.4	52.5	129.4 (14)
Financial Allowances	−1.8	−4.8	−5.9	−8.6	−19.9	−32.8
TOTAL	42.6	94.2	118.1	195.6	591.1	946.1

Sources: Tabulations by the author from U.S. Office of Management and Budget, *Budget of the United States Government*, relevant years; *Statistical Abstract of the United States*, relevant years; U.S. Office of Management and Budget, *Historical Tables: Budget of the United States Government* (Washington, D.C.: GPO, 1987).

Accomplishments and failures of redistribution policy

Although there are many ways of characterizing what has happened to offset the government's efforts at redistribution, a glance at the patterns of winners and losers over the last quarter century is revealing. In 1965, three groups were recognized as vulnerable, high-poverty groups—blacks, the aged, and women. Policy measures were designed to enable these groups to enter the mainstream of American life. Antipoverty programs, expanded social security benefits, and affirmative action regulations are but the most visible of these efforts, and they had an impact.

Whereas the incidence of poverty among the elderly in 1967 was more than twice that of the nonaged, by 1985 it had fallen below that of the rest of the population. The key to their gains is the steady and rapid increase in social security benefits over the past twenty years. As a group, today's elderly enjoy a level of well-being that is at least equal to that of nonelderly citizens.[3] Theirs is a true success story.

Although blacks still earn less than whites in comparable positions, the gap between the two races has narrowed considerably. Like that of the elderly, though not to the same extent, this too is a success story. Among full-time workers, in 1960 black men earned about 31 percent as much as whites; by 1985, their share had increased to 73 percent.[4] Similarly, for two-parent families, black incomes increased from 64 percent to 78 percent of white two-parent incomes.[5] The racial gap in education has narrowed at least as much as has the income gap.

Women form the third group in the triad of "old" inequalities. Even though there are far more female workers now than a quarter century ago, the wage rates of women relative to those of men have not increased markedly. Hence, whereas women's earnings are expanding as a share of the economy's income, the gain has come through more work, not more pay. Although not as much has been achieved as was hoped, this too has constituted progress.

Reductions in these inequalities are the nation's success stories. Through increased work, earnings, and retirement benefits, the elderly, blacks, and women have drifted out of the bottom of the income distribution. Unfortunately, the progress we have made there has been accompanied by the emergence of a set of new inequalities, caused by new forces. These failures center on youths (primarily minority youths); those living in single-parent families; and single, minority-member, elderly people.

Consider, first, the deteriorated economic position of youth. Regardless of their education, young people in the 1980s are earning less relative to older workers (aged 45–54) than they did twenty-five years ago.[6] For youths (aged 18–24) without a high school degree, that ratio deteriorated from 61 percent to 54 percent over the period. Among both blacks and whites the youth unemployment rate has increased radically: for black men aged 16–24, an unemployment rate of 13.4 percent in 1960 had grown to 28.6 percent by 1986. Increasingly, and for a complex set of reasons, this younger group of working-aged citizens has drifted toward the bottom of the nation's income distribution.

The eroding economic situation of minority youths is eclipsed by that of mother-only families. Whereas the per capita income of white mother-only families was nearly two-thirds that of two-parent families in 1960, by 1985 it had fallen to 57 percent.[7] Among blacks the decrease was from 61 percent to 48 percent. The deterioration in the status of these families has accompanied a radical increase in their number. In 1967, only about 10 percent of all families were headed by a single mother; by 1984 the figure was over 21 percent. In 1986 over half of all black families were headed by a woman.[8]

This situation is reflected in the rising relative poverty rate for children. At the beginning of the War on Poverty, the incidence of poverty among children was not much above that of the rest of the population. Since then there has been a steady and inexorable rise in children's poverty rates; at present, children are about 50 percent more likely to be living in poverty than the rest of the population. In 1986 over 12 million children were counted as poor, compared to about 10 million at the end of the 1960s.[9] Nearly 40 percent of the nation's poor are children.[10]

The final component among those "left behind," surprisingly enough, consists of a very special group of the elderly—those living alone, especially minority members. While one of the biggest successes attributed to the nation's redistribution system is the lifting of the aged from the bottom of the income distribution, not all of the elderly are its beneficiaries. Some have fallen through the cracks in the social security floor—in particular, single nonworkers, workers with low or intermittent earnings, widows of low-earning men, those divorced from beneficiaries. At present, for example, one quarter of all aged widows are living in poverty. While the per capita income of white elderly couples is $10,000, that for black widows is $4,200.[11]

These developments demonstrate that as a nation we are concerned with poverty and inequality and have taken steps to reduce them. Important groups who were out of the economic mainstream have been brought in. The elderly and blacks, especially those living as couples or in two-parent families, represent the successes of the past two decades. Progress, however, has been far less than complete. Even as we continue to improve the lot of those previously at less advantage, a set of new inequalities—groups of people who have become separated from the mainstream—has grown up around us. They represent some of society's most vulnerable citizens—minority youth, children, single mothers, and the elderly living alone. In most of these cases, economic inequalities have roots in inequalities of opportunity. The focus of the nation's current redistribution system on outcomes rather than opportunities is not likely to meet the task of dealing with new inequalities, and it risks a loss of efficiency by its influence on macroeconomic factors: labor supply, savings and investment, the capital market, family structure, and migration. A new way of doing the nation's business is in order.

Where do we stand today? In spite of attacks on it over the past decade, a massive redistribution system is in place, as witnessed by an expenditure of over $600 billion in 1987. That system offers income support together with some job training programs to traditionally poor groups. For many it sets an income floor; for a few it opens opportunities. At the same time that this system has raised some groups from poverty and into the mainstream, new groups have dropped to the bottom, taking their place. These groups need new opportunities; an income floor is not enough.

Our social policy strategy needs a redirection—a return, in fact, to its original vision. Such opportunities can be provided. And at the same time the adverse side effects of the current approach in the form of labor supply disincentives, savings disincentives, and incentives for changes in family structure and location can be reduced. Reduction can reverse the tendency for some to substitute dependence on public transfers for individual initiative and independence.

Restructuring the redistribution system

I would like to sketch a program for fundamentally restructuring the nation's redistribution system—for returning it to its original vision of a hand up and not a handout. It is a program designed to provide new and expanded access to opportunity and to increase the productivity, efficiency, and independence of the population. It is a strategy to promote equality with opportunity.

It consists of scaling back social security retirement benefits for high earners and, to a small extent, in-kind assistance for food stamps and public housing, some public subsidies for higher education and student loans, and some traditional welfare programs. These reductions would free budgetary resources to support a set of new policies: personal capital accounts for youths, which could be used to purchase education, training, and health care; an employment subsidy program focused on workers with low education, training, and job prospects; and a child support system to assist children in single-parent families. In addition, the mélange of cash benefit programs would be replaced with a unified and universal system integrated with the recently reformed personal income tax. Finally, there would be incentives for individuals to save during their working years so as to increase their own contribution toward retirement. As a corollary, the federal government would accept responsibility for guaranteeing a social minimum for every citizen.

Consider the five main components of this new approach to reducing the nation's inequality:

1. A universal demogrant, integrated with the personal income tax. This program, a refundable tax credit, is the base of the new strategy. It provides a guaranteed income to all families of, say, one-half to two-thirds of the poverty line. It is akin to the existing earned income tax credit, but would provide support even in the absence of earnings. The amount of support—the tax credit—would depend on the size and composition of a household (or tax) unit, and would vary according to income from other sources. It sets a minimum income floor under all families; it will not eliminate poverty, but it will reduce the hardship of those in the lowest fifth of the income distribution.

2. A standard benefit retirement program, along with tax-favored annuities. Benefit levels in social security retirement programs would be reduced for workers who have high earnings during their working years, but a standard, poverty-line benefit is guaranteed for all. The system becomes more like an insurance system, with financing less closely tied to earnings. The federal government would also sponsor an information program to help families plan for their financial future and would provide tax-related incentives for individuals privately to purchase insurance or annuities yielding benefits in retirement years.

3. A universal child support system. To provide greater assistance for children living in one-parent families, a universal child support system would be substituted for the current system of court-determined awards and Aid to Families with Dependent Children. The system would provide income support to all children living with one parent. Benefits are paid on the basis of a fixed national schedule; they are financed by additional withholdings from the income of absent parents, plus residual public spending. Absent parents are thereby assigned responsibility for the support of their children.

4. An employment subsidy for disadvantaged workers. To reduce the cost to employers of hiring labor relative to capital, especially low-skilled labor relative to high-skilled labor, a two-pronged employment subsidy would be introduced. The first prong is modeled on the New Jobs Tax Credit program of 1978–80, the second on an employee-based wage subsidy focused on disadvantaged workers. The subsidy would offset constraints on labor demand resulting from market rigidities and increase the employment of less-skilled workers. Business costs and prices would tend to fall while output would tend to increase.

5. A universal personal capital account for youths. Upon turning 18, each person would receive a personal capital account of, say, $20,000 provided by the government. The account would be interest earning and could be drawn upon for approved purchases of education and training as well as for health care services.

The purpose of redirection

Although ambitious, a program of this nature is also feasible. I estimate that it could be accomplished with an increase in federal spending of no more than 1 to 2 percent. Several important goals would be achieved by such redirection:

- The "new inequalities" would be reduced. The child support system, the employment subsidies, and the youth capital account are directed toward these problems.
- A more even starting line would be created for the nation's children, young people, and single mothers.
- A minimum safety net would be placed under all of the nation's citizens.
- A clear message would be sent that people are responsible and accountable for the decisions they make.
- The labor market would be made more flexible and efficient through relaxation of the many constraints that now impede it.
- The disincentives which now plague the existing redistribution system would be replaced with inducements which foster work, independence, and initiative.

It is, of course, unclear whether the nation is prepared to deal with the problems of inequality that I have highlighted here—the large numbers of low-income and dependent individuals, youths without jobs or futures, and the increasing numbers of poor single mothers and children. There is, nevertheless, increasing evidence that policymakers recognize that the focus of the 1980s on increased economic growth and productivity has, through neglect, exacerbated these social ills. It has left us with particular populations at risk and fundamental and growing inequalities of opportunity.

The fact that a simple expansion of our current strategy carries with it serious efficiency costs indicates the need for a new way of conducting the nation's business. A new program to achieve equality with efficiency is within reach and can serve as the basis for the inevitable swing in emphasis of political concern. The single lesson of this journey, I believe, is that two central objectives of our society—less poverty and inequality, more efficiency—are reconcilable. By focusing on opportunities rather than outcomes, and by attending to both incentives and accountability, government policy can support the operation of a more productive and less unequal society and economy. But regardless of the nation's interest in proceeding down this path, it is important that we confront the facts of our successes and our failures and assess the options that we have open to us. ■

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[1]The data on the income share of the bottom quintile are from *Starting Even*, Table 5.2, and are calculated from data in the U.S. Census Bureau, *Current Population Reports*, Series P-60, no. 68 and subsequent poverty reports. The statistics taken from the book are, unless otherwise noted, derived from special tabulations of census data (decennial censuses and the Current Population Survey) carried out by the author.

[2]Ibid., Table 5.3, adapted from Christine Ross, Sheldon Danziger, and Eugene Smolensky, "The Level and Trend of Poverty in the United States, 1939–1979," *Demography*, 24 (November 1987), 587–600 (also available as IRP Reprint no. 571); and Sheldon Danziger, Robert Haveman, and Robert Plotnick, "Antipoverty Policy: Effects on the Poor and the Nonpoor," in Danziger and Daniel H. Weinberg, eds., *Fighting Poverty: What Works and What Doesn't* (Cambridge, Mass.: Harvard University Press, 1986).

[3]See "The Relative Economic Status of the Aged," *Focus* 6:2 (Spring 1983).

[4]*Starting Even*, Appendix Tables 1 and 2. The Appendix was written by Ross Finnie.

[5]Ibid., Appendix Table 8.

[6]The data on trends among youth are taken from *Starting Even*, Chapter 3.

[7]The data on trends among mother-only families are also from *Starting Even*, Chapter 3.

[8]U.S. House of Representatives, Committee on Ways and Means, *Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means* (Washington, D.C.: GPO, 1988), p. 630.

[9]Ibid., p. 713.

[10]Ibid., p. 717.

[11]*Starting Even*, Chapter 3. Supplemental Security Income (SSI), a federal welfare program to aid the elderly poor, provides some income support, but only about 60 percent of the eligible elderly participate, and in many cases the benefits do not boost them over the poverty line.

The status of children in Wisconsin

The state of Wisconsin has just released *The Status of Children in Wisconsin: Recent Trends in Family Resources and Child Well-Being*, authored by two IRP researchers, Sandra K. Danziger and Michael R. Sosin, as well as John F. Longres, University of Wisconsin–Madison.

The document reports on some general trends in the status of children, youth, and their families in Wisconsin. It examines economic and demographic characteristics, household composition and family life, and the well-being of children. Its express purpose is to assess needs of children and families as can be inferred from population data rather than from patterns of use of services and programs.

Danziger, Longres, and Sosin find that the children of Wisconsin seem to be facing potentially troubling trends. These involve increasing family turbulence, increasing demands for early independence, increasing hours of work, and multiple social pressures. Although the typical child still demonstrates a high level of educational achievement and relatively good health, the growth in such problems as teenage pregnancy, gonorrhea, and violent crime attests to the fact that a proportion of the population is not faring as well as the rest. And stability of performance on some measures for the average child represents a departure from the consistent and continuous improvements of the past.

The study shows enormous differentials among children. There is evidence of growing economic inequality and of uneven access to the resources that may promote adequate socialization and maturation. Those who are in single-parent families, who are poor, or who are members of minority groups appear to be particularly vulnerable. Therefore, while the majority of children so far seem to be facing the pressures of change with equanimity, children who have fewer personal, family, and community resources appear to show disquieting rates of deterioration in well-being.

The Status of Children in Wisconsin may be obtained free of charge from the Wisconsin Department of Health and Social Services, Division of Community Services, Communications Unit, P.O. Box 7850, Madison, WI 53707.

Minorities and poverty

A forthcoming Institute volume provides the most comprehensive assessment to date of the relative status of minority groups in the United States. Advancing beyond the black-white comparisons that have dominated the literature of the past, it compares the economic well-being of American Indians and specific Hispanic groups as well as of blacks and whites and evaluates the shifts that have occurred in their situation over the past quarter century.

Building on an Institute-sponsored conference on minorities and poverty which was held in November 1986 (a special issue of *Focus*, Vol. 10, No. 2, Summer 1987, summarized its proceedings), the chapters in this volume examine the changing economic status and family makeup of the various minority groups, assess the antipoverty effectiveness of public transfers, compare educational differences, and analyze the problems of the homeless, the jobless, and families in poverty. The difficult question of whether social programs should treat different groups uniformly or give them special consideration is addressed, and the past and possible future course of social policy toward minorities is discussed.

Almost twenty-five years ago Congress passed and President Johnson signed the Civil Rights Act, which would, it was hoped, counter the effects of disadvantage and discrimination and improve the lot of American minorities. In their Epilogue, the volume editors review events since that time and find mixed results. Opportunities have indeed been opened for some members of minority groups: the number of black and Hispanic elected officials has dramatically increased, and a black middle class is thriving. On the other hand, some members within the different groups have fallen even further behind: the circumstances of Puerto Ricans have worsened, as have those of American Indians on reservations. Conditions in central cities have deteriorated, and minority members are disproportionately represented among their residents.

In the 1960s policymakers had strong faith in the ability of economic growth to win the fight against poverty. But the prosperity of that decade was followed by stagnation and inflation in the 1970s and recessions in the early 1980s. Noting that "the struggle against poverty is far from over," Sandefur and Tienda emphasize "that the greatest challenges for policy to reduce poverty lie ahead" (p. 266).

The editors review policy developments since the 1960s. Several issues that were of particular interest a quarter century ago continue to dominate discussions today. One concerns the low labor force participation and high unemployment rates among minorities, documented by Charles Hirschman (Chapter 3). In contrast with the earlier consensus, however, the forces that result in high unemployment have now become the subject of debate. Disagreement exists over whether it is a lack of jobs or a preference for the rewards of an underground economy that account for the low work effort of black and Hispanic men in central cities. Although policy attention continues to focus on the problems of the inner city, Sandefur and Tienda caution that the condition of the minority poor in other areas must not be neglected—Indians on reservations, blacks in the rural South, Hispanics in the Southwest.

The circumstances of minority children remain a subject of concern. The volume demonstrates that increasingly large proportions of them are growing up with inadequate housing, clothing, health care, and educational opportunities. As adults they will scarcely be in a position to compete in modern society. The editors urge that policies to aid such children be placed high on the agenda.

New issues have emerged in recent years. William Julius Wilson (in Chapter 9) and Lawrence Mead (Chapter 10) argue different sides of the question of the obligations and responsibilities of the poor. Is the worsening situation of inner-city residents a result of their social isolation and the disappearance of jobs paying a decent wage, as Wilson suggests, or is the major impediment to improvement the failure of welfare programs to require work in return for assistance, as Mead asserts?

Contents: *Divided Opportunities*

Another new policy issue concerns the role of local, state, and federal governments in designing and administering social welfare policy. Whereas antipoverty policy in the 1960s tended to centralize such efforts, support has grown from the mid-1970s onward for state and local control over welfare programs.

Finally, the issue of homelessness has recently been forced on public consciousness. Peter Rossi (Chapter 4) documents its extent among minority groups and the need to devise policies to combat it.

Sandefur and Tienda close their Epilogue with comments on the way in which research on minorities has altered since the 1960s. The creation of new data sets, both cross-sectional and longitudinal, means that we now have more information on, and consequently pay more research attention to, Hispanic groups, Asian groups, and American Indians in addition to blacks. This more comprehensive view enhances our understanding of the shared and the distinctive elements in the experience of various minorities.

The material assembled in this volume "brings the reader to the social science frontier," in the words of Sheldon Danziger, outgoing Institute director, in his Foreword to the book. Only by continuing along the avenues it has laid out can we succeed in gaining the information required to inform social policy and improve the status of minority citizens who are at a disadvantage in U.S. society. ■

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Policy at the state level

The locus of innovative policymaking appears to be shifting. No longer can states expect the federal government to provide solutions to their problems. Reductions or slowed growth in federal spending and a lack of new programs at the federal level since 1981 mean that once again states have the opportunities and responsibilities to control—to some extent—their own destinies.

Wisconsin is among those states which have risen to the challenges of this new federalism. With one foot in the rustbelt and the other in the lagging farm economy, Wisconsin faces many problems shared by other states. *State Policy Choices: The Wisconsin Experience* deals with the decisions that have been made and those that must be made on the state level to address many of these problems: to balance expenditures and revenues; to cope with continued slow growth; to expand economic development; to distribute resources to the needy, minorities, and children; to contain medical costs; to reduce the financial stress on farmers; and to effectively exploit available natural resources.

The book was produced under the auspices of the Robert M. La Follette Institute of Public Affairs of the University of Wisconsin-Madison. The chapters are written by experts in a variety of fields, most of whom are affiliated with the university. They compare Wisconsin's policy choices with those of other states, assess the effectiveness of what has been done, and in many instances propose innovative solutions to common dilemmas.

In some respects Wisconsin can serve as a model for other states. The budget process, the first step in making policy, has evolved into a highly effective procedure, and the state, which was one of the pioneers in designing the income tax, in 1985 produced a tax reform that received high marks for simplicity, a broad base, equity, and economic efficiency.

The poor in Wisconsin fare better than they do in most other—richer—states. But although government programs have been very successful in moving the elderly out of poverty, they have been less successful in helping single mothers with children. Policy recommendations for this group include incentives for poor women to combine work with welfare; increased support services for women who participate in job training programs; and a child support assurance system.

The child support system, described in previous issues of *Focus*,[1] assures that children will receive financial contributions from their absent parents or, failing that, from the state. The system—now being employed on a demonstration basis—is expected both to reduce welfare costs and to improve the lives of poor children living with one parent.

With the exception of those in homes maintained by single mothers, Wisconsin children are holding their own in such areas as school performance and completion and youth employment, though the increase in pregnancies among teenagers is alarming here as elsewhere.

Wisconsin's Indians, having been buffeted by a hundred years of policy reversals, Supreme Court decisions, federal legislation, and varying amounts of tribal government activism, are the subject of specific scrutiny. They are much more likely to be poor than the state's white population. Because a substantial proportion of poor Indian households in the state consist of single mothers and their children, programs to aid this group will also improve the circumstances of Indians. But policies are also needed to retain Indian youth in the school system, to train them for jobs, and to provide them with health care and job opportunities.

For some problems, arising as they do from change on a national or international scale, the state is limited to making the best use of the resources at its disposal. This is the case for economic growth.

Contents: *State Policy Choices*

Wisconsin was one of twenty states engaging in strategic planning in the early 1980s to strengthen their economic base. The Wisconsin Strategic Development Commission produced many recommendations, including reducing the taxes most onerous to business and making greater use of the university system to transfer technology to business and to develop basic products. But the effort lacked coherence and vision. A proposal is therefore made to target development policy to mature manufacturing industries, to small firms—which generate most of the new jobs—to new industries such as biotechnology, which already has a foothold in the state, and to vulnerable geographical areas. Careful planning will reduce the probability that the state's resources for economic development will be dissipated.

No silver bullet is provided, either, for the problems facing farmers. Wisconsin has a higher percentage of family farms than the nation as a whole, and they are threatened by economies of scale which render them comparatively inefficient. Dairy farmers are jeopardized as well by cuts in dairy price supports. And the movement toward fewer and larger farms is going to have repercussions in rural communities, where costs of services to remaining residents will go up or the services will deteriorate.

Wisconsin agriculture will have to continue to change to conform with changes in technology, changing tastes in food and fiber, and shifts in agricultural policy. Suggestions to improve the position of Wisconsin agriculture include monitoring conditions in other states to ascertain that Wisconsin farmers are not penalized by state actions, such as heavy property taxes; providing support to projects to develop new products and markets; aggressively seeking federal legislation that will permit the state to exploit its natural advantages; and enhancing support of applied research, technology, and management practices to enable small farmers to compete with larger operations.

Efforts to increase economic development are bound to conflict with some environmental policies. And yet the environment is also of economic importance to the state, both to attract tourists and to enhance the well-being of its citizens. Policies are recommended in this area to replace adversarial posturing with a willingness to achieve continued economic development consistent with a safe and healthy environment. Some resources, such as forestry, mining, and tourism, are underutilized and offer the possibility for increased income and employment in the state. ■

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[1]See, for example, "The Evolution of Child Support Policy," *Focus* 11:1 (Spring 1988); and "Child Support Assurance System: An Update," *Focus* 10:3 (Fall 1987).

The role of the nonprofit sector

When public officials make cuts in programs to help the needy, they generally expect the nonprofit sector and volunteer labor partly to offset them. President Reagan made such an appeal when he came into office, and the latest work-welfare demonstrations draw on nonprofit organizations to supply the jobs welfare participants are expected to perform in return for their welfare benefits. But can nonprofits fill the gap? Crucial though the nonprofit sector appears to be in providing aid to the poor, the aged, the disabled, the sick, and others in society with special needs, little is known about its workings and how it fits in with the two other parts of the economy: government and the private—or proprietary—sector. A new book by Institute affiliate Burton A. Weisbrod, *The Nonprofit Economy* (Cambridge, Mass.: Harvard University Press, 1988), makes it possible to assess how this part of the economy works, what it accomplishes, and what its appropriate role should be. The material that follows is taken from Weisbrod's book.

Nonprofits defined

Contrary to their name, nonprofit organizations can be and often are highly profitable. They are restricted not in how much income they can generate, but rather in how it is distributed. Profit cannot be paid out to owners or anyone else associated with the organization: it must be devoted to the tax-exempt purpose of the organization. It is the profit motive, therefore, not the profit itself, that is restricted, if not eliminated. And in "exchange" for this restriction, the organization is exempted from the corporate income tax and receives a number of subsidies and advantages.

The tax law defines nonprofits as "organizations for charitable or mutual benefit purposes." Weisbrod distinguishes three types: private, collective, and trust. Those in the first group, private or mutual benefit organizations, are self-serving. Though they do not reap a profit for themselves, they may be instruments for generating profits for their constituents: private firms or members. Among them are trade associations, country clubs, labor unions, farmer cooperatives, and chambers of commerce.

So-called collective nonprofits provide benefits to individuals and groups outside of the organization. They operate in the public interest, whether the focus of their activities is medical research, museums, wildlife sanctuaries, environmental protection, or aid to the homeless. Many of the services provided by this group overlap with the activities of government agencies.

"Trust" organizations, the third group of nonprofits, provide goods and services in competition with the private sector, but by eliminating the profit motive they become more trustworthy. The items they produce are those whose quality it is difficult for a consumer to judge. Blood banks, nursing homes, day care centers, and hospitals belong in this category.

In addition to their exemption from the corporate income tax, collective and trust nonprofits receive further special treatment. Contributions to them may be deductible from personal income for tax purposes (among taxpayers who itemize their deductions). They may be entitled to reduced postal rates.[1] They often need not pay their employees the minimum wage or provide coverage for social security and unemployment compensation. Patent laws, copyright laws, and bankruptcy laws favor them. In many states they receive subsidized interest rates on borrowing (tax-exempt industrial development bonds are often issued for nonprofit hospitals and educational facilities). They often pay reduced sales taxes on their purchases and are excused from property taxes.[2]

The collective and trust nonprofits face certain constraints. The proportion of their resources they can spend on lobbying is limited. Organizations that engage in activities unrelated to their principal tax-exempt purposes cannot offer tax deductibility to donors who contribute money for these

The Nonprofit Economy

by

Burton A. Weisbrod

Harvard University Press, 1988
79 Garden Street
Cambridge, MA 02138

$22.95

ancillary purposes. Collective and trust nonprofits cannot commit acts that are illegal (they cannot engage in civil disobedience) or are contrary to public policy.

In practice, the distinctions between types of nonprofit organizations and what they can legally do is not easy to make, and a great number of permutations exist. Nonprofits exist alone and in combination with both for-profit and government agencies. A for-profit organization may establish a nonprofit subsidiary; a nonprofit may establish a for-profit subsidiary. They may operate a joint venture. Such combinations are capable of enhancing the profit of the proprietary partner in a number of ways. They therefore require careful watching. Although they generate virtually no tax revenue, nonprofits are a major expense for the IRS staff, which handles more than 50,000 annual applications for tax-exempt status, deals with the complex Constitutional issues that are often raised, such as whether a tax-deductible school can discriminate against blacks, and determines what activities of nonprofits are taxable as unrelated business income. Nonprofits add to the complexity of an already highly complex mixed society. Why then have them?

The need for nonprofits

The need for nonprofit organizations Weisbrod sees as growing out of the limitations of the other two sectors. The main strength of private enterprise is thought to be its efficiency in meeting consumer demands at minimum cost, but it does not respond to any wants or needs that are not accompanied by a money demand. This means that consumers unable to pay will not have their demands satisfied through the private market. And those who are poorly informed—who cannot detect differences in the quality of services, for example—will not find the private market supplying higher quality when lower quality can be sold at the same price.

To some extent the public sector—government—can correct the failures of the private market. Government can finance, mandate, or otherwise encourage the provision of goods and services that are unprofitable to the private sector. By taxing it can discourage, and by legislation prohibit, the private sector from carrying out activities that, though profitable to the few, are detrimental to the many—pollution, false advertising, violations of trust.

The government, however, faces limitations in monitoring private industry. Although it is easy enough to crack down on an advertiser who guarantees his product will grow hair in a week, it is much more difficult to measure whether a nursing home provides the solicitous care that relatives of helpless patients hope they are purchasing. And the more difficult it is to gauge whether an organization is supplying what consumers want, the more expensive and unsatisfactory monitoring becomes. It is easier, then, for government simply to control what the company does with its profits, on the assumption that without a profit motive, there will be little or no incentive to cut corners at the expense of poorly informed consumers.

Government has a second drawback. Because it relies on the political process, it responds to the needs of the majority. Although the majority may see the need for national defense, public health, medical research, and zoos, they may not see the need for as much of these collective goods as some people would like to supply. Nonprofit organizations are the means by which citizens who want more of some collective good or service—whether concert halls or shelters for the homeless—can supply that need.

Nonprofits, then, are outlets for altruism and furnish trustworthy alternatives to profit-oriented provision of services and goods that are difficult to measure. Do they work? Their detractors complain that they differ from private operations only in that they are less efficient. A few empirical studies by Weisbrod and others, however, suggest that this is not the case. A study comparing nonprofit and proprietary nursing homes, facilities for the handicapped, and psychiatric institutions, for example, revealed that families of patients are more likely to be satisfied with the care their relatives receive in nonprofit institutions over the long term; proprietary nursing homes use more sedatives to control their patients than do nonprofits; and nonprofits use waiting lists rather than higher prices to ration access.[3] Administrators of nonprofit organizations also tend to have different goals from administrators of proprietary firms.[4]

The size of the nonprofit sector

Making use of the limited data available, Weisbrod estimates that there are nearly one million nonprofit organizations in the United States. About 40 percent of the total offer tax-deductibility (they are in the collective or trust category), and this group is growing at the fastest rate. The number of nonprofits nearly tripled between 1967 and 1984, and the revenues of nonprofits grew from $115 billion in 1975 to $314 billion in 1983.

Individual nonprofits tend to be small, and nonprofits altogether own only 1.8 percent of the nation's assets. Compared to the private sector, this is a small amount, but it is 50 percent of the assets of the federal government and 15 percent of the assets owned by all levels of government in the country.

Because nonprofits are typically labor-intensive, they are far more important as employers of labor than as contributors to national output. According to Weisbrod's estimates, the nonprofit sector accounts for employment of from 7.9 million to 10.3 million workers. In 1976 this equaled 12 percent of the nation's full-time labor force of 74.4 million. Many of these employees are concentrated in the health services and education.

In addition to paid workers, unpaid volunteers supply billions of hours of time annually. It is estimated that in 1985 there were 6.7 million (full-time equivalent) volunteers in the labor force. Of these, 5.3 million were working in the nonprofit sector.

Financing nonprofits

The government gets its revenues from taxes, and private enterprise exists by selling goods and services and by selling shares in the capital market. Where do nonprofits get their funds? The answer depends on the individual organization. Mutual-interest nonprofits generally charge dues and sell goods and services to their constituents. Those who provide trust and collective goods and services may also charge dues and make sales, but they depend heavily on contributions, gifts, and grants. They are financed to some extent by all taxpayers when individual taxpayers make tax-deductible contributions. Government also contributes directly, especially to health service organizations.

A growing number of nonprofits operate businesses. They compete with for-profit firms, the government, or both. Nursery schools operated by local churches and other nonprofit agencies compete with profit-oriented schools. Nonprofit hospitals compete with for-profit investor-owned hospital chains. Museums sell reproductions, jewelry, and gifts. College bookstores sell course materials. The Girl Scouts sell cookies.

From the point of view of competing private businesses, these incursions of the nonprofit sector into sales are unfair competition. Private research firms claim that they support through their taxes universities that can undercut them. Travel bureaus operated by universities, sales of hearing aids and artificial limbs by hospitals, and many other attempts by nonprofits to enter the marketplace have come under attack. Resentment of the proprietaries who bid against nonprofits for government contracts was so great that in 1983 the regulations were changed so that the costs of taxes were added to the low bid of any tax-exempt firm to give those required to pay taxes an equal chance.

Volunteer labor is another enormous source of revenue for nonprofits. The number of full-time-equivalent volunteers has grown faster than the number of paid employees in the sector and is now equal to 70 percent of the paid employees. The value of donated time is estimated to be 50 percent greater than the total contributions to all nonprofit organizations from all sources in 1980.

Nonprofits and public policy

Weisbrod's principal purpose in describing what is known about the nonprofit sector is to show the complexity and interdependencies of all sectors of the economy. Decisions seemingly unrelated to nonprofits have unintended and therefore unanticipated effects on them, and further repercussions on the entire economy. When the tax code is simplified, for example, and the number of persons itemizing deductions is reduced, contributions to nonprofits go down. Lowering the maximum marginal tax rate also reduces contributions, since the higher one's marginal rate, the greater a bargain a contribution is. Cutbacks in grants from the federal government to nonprofits in the early 1980s has led to the expansion of nonprofits into new activities that have increased competition with the proprietary sector. Volunteer labor is affected by the availability of paid jobs, median income, government activities, and many other factors.

Having examined what nonprofits should do and the extent to which these goals are accomplished, Weisbrod offers proposals to insulate them from pressures to deviate from the social role they are expected to play and to help move the economy to a better balance of responsibilities among private enterprise, government, and the nonprofit sector.

His recommendations include the following:

- Nonprofits should be encouraged in activities that have a significant collective-good character.
- Greater restrictions should be placed on their "unrelated business activities."
- Tax deductibility should be replaced with tax credits for contributions to approved nonprofits.
- Special postal subsidies for nonprofits should be replaced by broader, less restrictive subsidies that encourage fund-raising activities without distorting the means of carrying them out.
- The IRS should be replaced as the principal regulator of the nonprofit sector. The considerable size of the nonprofit economy, its heterogeneity, growth, and expansion into competition with both government and private enterprise require the establishment of a new agency of government to regulate it.
- A comprehensive statistical program should be developed to provide data about the nonprofit sector. ■

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[1]Fund-raising by means of third-class subsidized mail for nonprofits generated 11 billion mail solicitations in 1985.

[2]This last exemption is frequently the source of hostility between large nonprofit institutions, such as universities, and the communities in which they are located. Local governments are obligated to provide police, fire protection, and other services to these organizations and receive no taxes in return.

[3]Weisbrod, *The Nonprofit Economy,* pp. 144–159 and Appendix F. The analysis of the use of sedatives was based on results of a study by Bonnie Svarstad and Chester A. Bond, "The Use of Hypnotics in Proprietary and Church-Related Nursing Homes," School of Pharmacy, University of Wisconsin–Madison, October 1984.

[4]See, for example, James R. Rawls, Robert A. Ullrich, and Oscar T. Nelson, Jr., "A Comparison of Managers Entering or Reentering the Profit and Nonprofit Sectors," *Academy of Management Journal,* 18 (September 1975), 616–623; and Weisbrod, Joel F. Handler, and Neil K. Komesar, *Public Interest Law* (Berkeley: University of California Press, 1978).

Small grants: Round VII awards

The following studies have been awarded funding for the period from July 1988 through June 1989:

The Impact of Disability Insurance on Work Force Attachment and Family Income: The Historical Record

The post-World War II period in the United States has witnessed a dramatic growth in both the availability and the generosity of income maintenance for the disabled. This project will use historical information to examine the effect of increased availability of disability benefits on the labor force attachment of men aged 45 to 64 and on the financial well-being of the disabled and nondisabled. Data sources will include the National Health Interview Surveys dating back to 1957, Social Security Administration surveys of the disabled in 1966, 1972, and 1978, and the censuses of 1970 and 1980. The research will enhance our understanding of the economic and social costs and benefits of income support targeted on the disabled. Principal investigator: John Bound, University of Michigan.

The Role of Child Care Costs in Women's Labor Market Decisions

Some young mothers have to choose between three options: participating in the labor market and using market child care; staying home to provide their own child care; or providing home care for other people's children while tending their own children. This study will use the Survey of Income and Program Participation to obtain information on how such child care choices are made. The results of the project should contribute to the assessment of proposed programs to fund child care and their impact on the labor market decisions of women. Principal investigator: Rachel Connelly, Bowdoin College.

AFDC Eligibility and Recipiency, and the Returns to Education among Young Women

Recent proposals to reform Aid to Families with Dependent Children seek to promote economic self-sufficiency. Some proposals are based on the belief that self-sufficiency can be achieved by requiring high school completion as a condition of benefit recipiency. Little, however, is actually known about the effect of schooling on welfare recipiency. This study will econometrically model the processes determining AFDC eligibility, AFDC recipiency, and labor market activity to estimate the returns to education among a sample of young women participating in the National Longitudinal Survey of Youth. Principal investigator: Timothy Maloney, Bowdoin College.

Measuring Intergenerational Income Mobility

The degree to which income status is transmitted from one generation to the next has long interested social scientists and others concerned with social policy. In the research proposed here, longitudinal data on parents and children participating in the Panel Study of Income Dynamics will be used to estimate intergenerational income mobility. The results should prove more reliable than those of earlier attempts, which have been marred by the use of unrepresentative samples and by measurement error. Principal investigator: Gary Solon, University of Michigan.

Poverty, Living Arrangements, and Residential Mobility of Elderly Persons

Although poverty among the elderly is no longer as prevalent as it was twenty years ago, 13 percent of all persons aged 65 and over remain poor. This study will use data from the Survey of Income and Program Participation to address several research questions: How are income and poverty status related to the living arrangements of elderly persons? How does poverty status change as older people move in with other relatives or live alone after the death of a spouse? What are the effects of poor health and disability on the living arrangements of the elderly, and how do such effects vary with income? Principal investigator: Alden Speare, Jr., Brown University.

Determinants of Child Support Outcomes

Analyzing data from the fifth follow-up to the National Longitudinal Study of the High School Class of 1972, this project will examine the effect of the following factors on the likelihood that divorced mothers will receive a child support order and subsequent payments: the economic needs of mothers and children; the resources available to women; the ability and motivation of fathers in providing support; and the legal environment. The project attempts to provide a more complete picture of causal patterns than is available in the literature. Principal investigator: Jay D. Teachman, Old Dominion University.

Urban Poverty and Church Charity in Colonial Boston

This case study will examine the role of church charity during the colonial period in an attempt to understand the origins of modern American philanthropy. The research will make use of previously unanalyzed and detailed church records providing a view into the world of the poor in colonial Boston. Principal investigator: Peter R. Virgadamo, University of Southern California.

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