University of Wisconsin–Madison
Institute for Research on Poverty

Focus

Volume 19

Number 3

Summer–Fall 1998

ISSN: 0195–5705

The current stress on work as a route out of poverty has led us to emphasize research in this area as the substantive topic of this and the next few issues of Focus. *Many aspects of the labor market are foreshadowed in the first article: the supply of and the demand for labor, the nature of the job market in which these factors operate, and the macroeconomic, demographic, and social forces that bear upon individuals and organizations. Other articles in this* Focus *look at the larger patterns of the income distribution. By reviewing U.S. patterns of inequality, mobility, and poverty over this century and in comparison with other industrialized nations, they offer a historical and comparative perspective on the labor market questions that we hope to address in greater detail in subsequent issues.*

—Barbara Wolfe, Director, IRP

Can the labor market absorb three million welfare recipients?

Gary Burtless

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The employment rate of public aid recipients has historically been very low. Yet under the federal welfare law passed in 1996, each state must ensure that a rising percentage of its adult aid recipients is engaged in approved work.[1] The head of each family on welfare is required to work within two years after assistance payments begin. Work-hour requirements are stringent, and states will face increasingly harsh penalties for failing to meet them. The law stipulates that the great majority of families may receive benefits for no longer than five years, and permits states to impose even shorter time limits. Over two dozen have already done so.

Subsidized and community-service jobs may be available for some who leave the welfare rolls, but it is likely that the great majority will need to find unsubsidized jobs in the private labor market. Will that market be able to meet this need? What kinds of jobs are former recipients likely to find?

Two views of the job market

Labor market analysts do not agree on how welfare reform will affect the job market. In part, their differences reflect divergent views of the labor market. One group of analysts holds that wage and employment levels are largely determined by standard supply and demand factors, another subscribes to what can be called the "queuing" model of unemployment.[2]

The supply-and-demand model posits that the wage and employment levels for a particular occupation in a local labor market are determined by the abundance of qualified workers in that market and by local employer demand. If available workers are abundant relative to employer demand, wages will be low. If qualified workers are relatively scarce, wages will be higher and possibly rising, especially if demand is increasing. Occupations requiring little in the way of education, specialized skills, or aptitudes can be filled by a much larger percentage of the local work force, and wages in those occupations will be commensurately low.

In such a market, temporary unemployment is inevitable. People enter or reenter the labor market or switch jobs, and struggling employers lay off workers. Unemployed workers can expect to be quickly reemployed at the wage prevailing in their occupation, however, unless "imperfections," such as, for example, a legal minimum wage or union-negotiated wage settlements, boost wages above the level at which employers find it profitable to hire.

According to the "queuing" model, limits on overall demand or, again, imperfections that are inherent in capitalist labor markets prevent employers from offering enough jobs to all workers willing to hold them. This job shortage produces a queue of job seekers for each vacancy. Unemployed workers in the queue will be ranked by employers according to characteristics such as job skills and experience, educational attainment, race or ethnicity, sex, and personal qualities such as reliability. Workers with the most desirable traits will be first hired, and those with less desirable traits will be the last hired and the first to be let go if employers must scale back their operations.

Predicting the consequences of reform

Welfare reform will unquestionably boost the supply of unskilled or semiskilled job seekers willing to hold a job at any given wage level. The conventional supply-and-demand theory predicts that the increased supply of less-skilled workers will depress the market-clearing wage. This, in turn, will persuade employers to add jobs because unskilled workers can be hired more cheaply. This model offers no exact forecast of how many more workers will hold jobs, but it does predict that *involuntary* unemployment at the new labor market equilibrium will be about the same as it was before, unless, again, the legal minimum wage or other imperfections get in the way. The queuing model predicts little increase in the availability of jobs but, instead, a lengthening queue of job seekers as former welfare recipients join the line. Some will be hired, displacing workers already in the line, but most recipients have little education, few skills, and scant job experience and will be unlikely to land jobs. Many are members of racial or ethnic groups that face discrimination by employers, and they will find themselves at the tail end of the queue. The ultimate effect of reform will be to increase the ranks of the unemployed and to inflict hardship on recipients deprived of public aid.

The relevance of the two models depends crucially on the time frame of the analysis. In the short run, employers may have neither the willingness nor the flexibility to commit to new product lines or production methods until they are certain wages will remain low and the supply of unskilled workers secure. As welfare workers take jobs, then, the number of job vacancies is likely to shrink and the number of unemployed workers to rise. The queuing model offers a plausible description of how labor markets may operate in the very short run.

In the long run—over a period, say, of several years—employers have many opportunities to reconfigure their production methods to take advantage of a more abundant and cheaper unskilled labor force. This has, indeed, happened over the last two decades in the United States. Many of the fastest growing low-wage jobs, such as home health care aide or lawn service technician, would make little economic sense if the relative wage received by unskilled workers were as high in 1998 as it was in 1968. Thus the relevance of the supply-and-demand model increases.

In the long run, also, mobility becomes more important. Among Americans aged 20–29, the most mobile group, one-third changed their residence, 12 percent moved across county boundaries, and 5 percent moved across state lines between March 1995 and March 1996.[3] Even businesses may move—witness the shift over many decades of certain kinds of manufacturing to the rural south, with its lower wage rates and large pool of unskilled and semiskilled workers.

The job qualifications of welfare recipients

Most adults who receive Temporary Assistance for Needy Families (TANF) are young mothers with limited schooling and very low scores on standardized tests of ability and achievement. In 1994, 40 percent of mothers then receiving welfare had failed to complete high school, whereas 85 percent of American women aged 25 to 34 had a high school diploma. Only 15 percent reported one or more years of college, whereas slightly more than half of 25–34-year-old women had attended college for at least one year. Among 25-year-old women on Aid to Families with Dependent Children (AFDC) in

Table 1
Job Growth in Selected Occupations Requiring Only Short-Term On-the-Job Training

Occupation	1996 Employment (000s)	% Change 1996–2006	Avg. Annual Job Openings 1996–2006 (000s): Due to growth and total replacement needs[a]	Avg. Annual Job Openings 1996–2006 (000s): Due to growth and net employment needs[b]
Cashiers	3,146	16.8	1,265	190
Retail salespersons	4,072	10.0	1,272	170
Truck drivers	2,719	14.9	482	78
Home health aides	495	76.5	180	44
Teacher aides & educ. assistants	981	37.7	296	50
Nursing aides, orderlies, & attendants	1,312	25.4	340	51
Receptionists and information clerks	1,074	29.7	336	52
Child care workers	830	36.1	322	39
Helpers, laborers, material movers	1,737	15.8	598	86
Food counter and related workers	1,720	14.1	841	125
Food preparation workers	1,253	18.7	559	87

Source: Bureau of Labor Statistics, unpublished data from 1996–2006 occupational employment projections.

[a]Gross annual average job openings stemming from projected employment change from 1996 to 2006 and from the replacement of workers who leave their jobs to work in another occupation or for other reasons, retire, or die.

[b]Annual average job openings stemming from projected employment change from 1996 to 2006 and net replacement of workers who leave their jobs to work in another occupation or for other reasons, retire, or die. Net replacements are less than total replacements because a measure of entrants is subtracted from the number leaving the occupation.

the mid-1980s, almost 75 percent had aptitude test scores that placed them in the bottom 25 percent of all test takers.[4]

The poor preparation of welfare recipients is reflected in their actual job experience. Most have at least some employment experience, and some, no doubt, work more than they report.[5] But in welfare-to-work experiments in Alameda and Los Angeles counties, California, only 17–24 percent of the long-term AFDC recipients enrolled in the program reported any work experience in the two years before their entry into the program.[6] Nor do other experiments offer great encouragement. Among women participating in four welfare-to-work experiments conducted during the 1980s, the employment rate five years after enrollment in a work or training program averaged just 38 percent.[7]

The circumstances are now different. Working-age adults who receive cash assistance from TANF will be forced, under new state programs, to search for work, enroll in training programs, or accept workfare jobs. On the basis of welfare caseload totals in 1994, I would guess that as many as 3.3 million adults on the rolls at that time would have been affected by the tough work rules in the 1996 legislation if those rules had been fully in effect in 1994.[8]

The job prospects of welfare recipients

Three million new job seekers are a large mouthful for the labor market to swallow. For purposes of comparison, in 1994 3.3 million adults represented about 2.6 percent of the average number of labor force participants, 42 percent of the unemployed, and 92 percent of the number of unemployed women. Data from the Survey of Income and Program Participation suggest that in 1994 12 percent of mothers receiving welfare were unemployed (that is, jobless and seeking work) and 74 percent were out of the labor force (jobless and not seeking work).[9] If all of the out-of-the-labor-force mothers had been forced to look for work in 1994, the overall unemployment rate would have jumped from 6.1 to 8.4 percent.

Three kinds of evidence throw light on whether the labor market can accommodate so large and sudden an inflow: Bureau of Labor Statistics (BLS) estimates of occupational and job growth over the next decade; employers' answers to surveys on the jobs likely to be available and the qualifications necessary to obtain them; and historical evidence regarding the experience of job seekers after the supply of labor has increased.

BLS occupational forecasts

The most recent BLS projections of future growth in industrial and occupational employment cover the period 1996–2006. Occupations are classified by the educational and skill requirements needed for entry. Those occupations most suited to workers with limited qualifications require, in general, no formal schooling beyond high school and less than a month of on-the-job instruction and experience. In 1996, almost 54 million people worked in these low-skill occupations, which accounted for 40 percent of total U.S. employment.[10]

More than half of the occupations with the largest projected job growth between 1996 and 2006 require only short-term training (see Table 1). The BLS projects that net employment in low-skill occupations will rise by 7.2

million, a gain of 13.5 percent. The 11 occupations listed in Table 1 are projected to offer 6.5 million job openings each year, although fewer than 1 million will represent net additions to the stock of jobs. The share of these jobs that welfare recipients and former recipients will obtain depends critically on how their qualifications stack up against the qualifications of their competitors—teenagers, poorly educated immigrants, and less educated childless adults.

Employer surveys

There is a great deal of evidence, though its significance is debated, that the number of job openings falls far short of the number of unemployed U.S. workers at every stage of the business cycle, even at periods of peak employer demand. A minority of workers, especially the unskilled, often remain jobless for long periods. In May 1998, for example, over 800,000 workers reported that they had been unemployed for six months or longer, in spite of an economic expansion that had lasted seven years and a national unemployment rate of just 4.3 percent.[11]

Some of the most discouraging forecasts come from employers' own estimates of the skills they need in their workers. Employer surveys suggest that very few jobs, even those open to workers without a high school diploma, can be filled by applicants who lack general skills such as the ability to read and write or to interact respectfully with customers. One study that compares employers' skill requirements and geographic locations with job seekers' skills and residential locations concludes that 9–17 percent of actual and potential job seekers will have serious problems finding jobs in the short run. This is especially so in metropolitan areas with large concentrations of unskilled workers, such as Los Angeles or Detroit. Among former welfare recipients, up to 20 percent of whites and 40 percent of Hispanics and African-Americans will have severe difficulty finding a willing employer.[12] These estimates are derived from surveys conducted before Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act in 1996. When most state welfare reforms are fully effective and the percentage of welfare recipients seeking work increases, the job-finding woes of recipients and ex-recipients would presumably worsen, at least in the short run.

Historical experience

If the short-run job prospects of welfare recipients seem discouraging, historical evidence about the long-term job-creating capacity of the U.S. labor market is more reassuring. Over the long run, the market has absorbed huge numbers of extra workers without a significant rise in joblessness. From 1964 to 1989, the U.S. labor force grew by 50.4 million persons—slightly more than 2 million a year—as the baby boom generation reached adulthood, record numbers of women began seeking employment, and the rate of immigration increased fivefold. Over the same period, the number of Americans holding jobs climbed by a little more than 1.9 million workers a year. In other words, about 95 percent of new job seekers in this period managed to land jobs. To be sure, unemployment did climb sharply in the 1970s and early 1980s. But most of the rise in joblessness was due to business cycles, not to the rapid rate of labor force growth.

This record demonstrates that the supply-and-demand theory is relevant, at least in the long run. U.S. employers changed their product lines and production methods to exploit the abundance of new kinds of workers entering the labor market. Restaurant meals were prepared and served by high school students or dropouts rather than by experienced cooks and waiters. Gardening and domestic cleaning were performed by unskilled and semiskilled workers rather than by homeowners themselves. In the end, the overwhelming majority of the new job seekers, whatever their skills, found jobs. But the abundance of young and less experienced workers contributed to serious declines in the wages being offered.

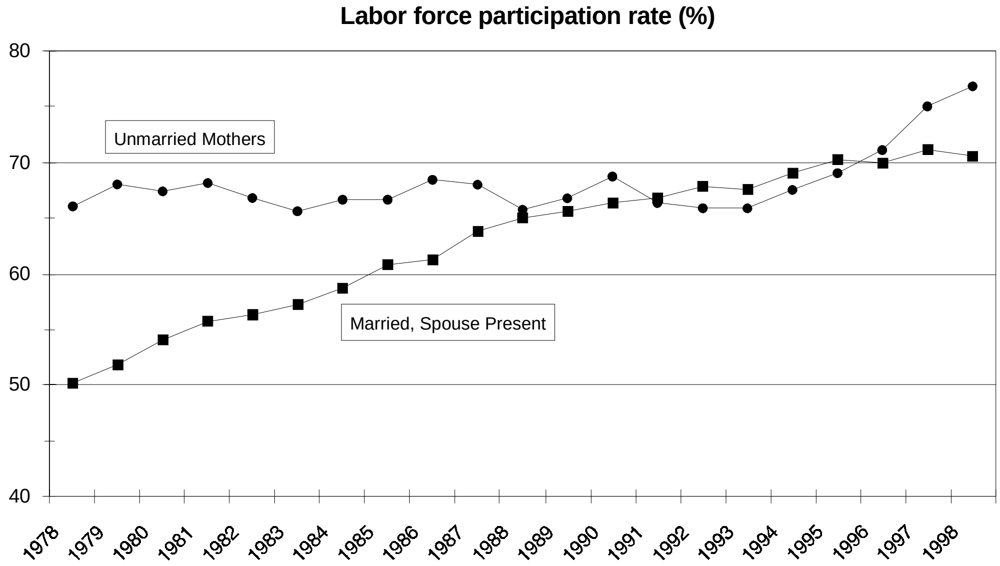
Recent experience

The sharp decline in the welfare rolls from their 1994 peak is at least partly due to state-level reforms that began before the Personal Responsibility and Work Opportunity Act. The increased generosity, after 1993, of the Earned Income Tax Credit supplements for low-wage mothers with two or more children has also played a role. From 1994 to 1998, the number of AFDC or TANF cases fell by 36 percent. There was at the same time an unprecedented jump in labor force participation and employment among divorced, separated, and never-married mothers, the group most likely to receive welfare benefits.

From the late 1970s through 1993, the labor force participation rate rose fairly steadily among married mothers living with husbands, while that of divorced, separated, and never-married mothers remained relatively constant. Starting in 1994, however, the rate for unmarried and separated mothers began to rise, increasing by 11 percentage points (17 percent) in just five years. The increase among married mothers living with their husbands was far smaller—just 3 percentage points (or 4.5 percent). (See Figure 1, panel 1.)

The labor force participation rate is essentially a measure of the proportion of the population holding a job or looking for one. The increase in the percentage of divorced, separated, and never-married women actually holding a job is even more impressive. Between 1993 and 1998 this rate increased 11.5 percentage points (or 19 percent). In the previous 14 years, it rose just 2.2 percentage points (see Figure 1, panel 2).

It is illuminating to compare the amount of caseload reduction with the increase in the number of unmarried mothers who are in the labor force and employed. From 1994 to March 1998 the number of AFDC or TANF cases



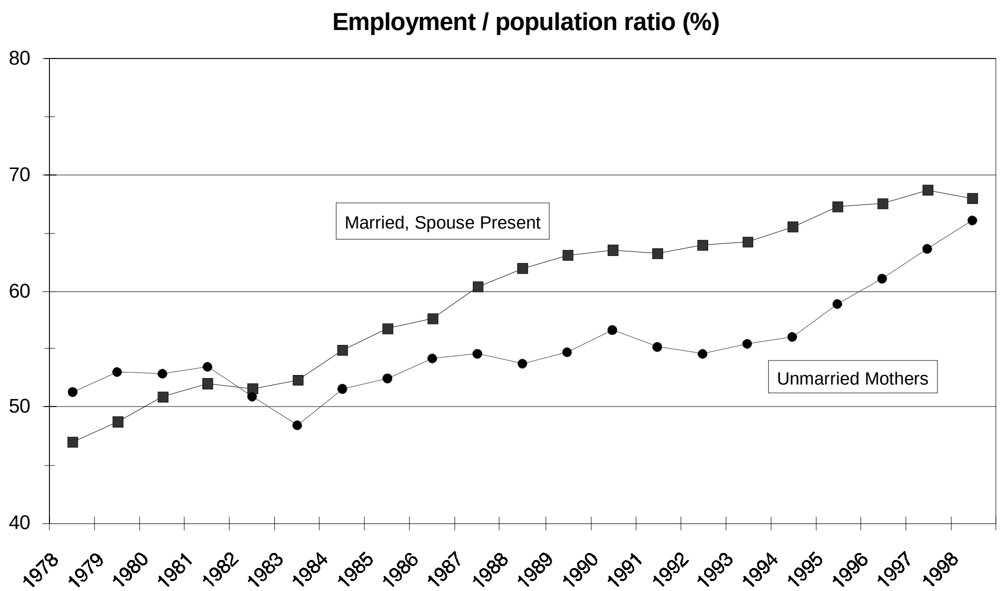


Figure 1. Labor force participation rate and employment/population ratio of married and unmarried mothers, 1978–1998.

Note: Mothers included in tabulations are at least 16 years old and live with their own children under age 18. "Unmarried" mothers are divorced, separated, and never married; widows are excluded from the tabulations.

Source: Author's tabulations of unpublished U.S. Bureau of Labor Statistics data.

fell approximately 1.8 million, or 36 percent. Over roughly the same period, the number of separated, divorced, and never-married mothers in the labor force increased 880,000 and the number actually holding jobs increased 975,000. If welfare reform has so far pushed nearly a million additional unmarried mothers to seek jobs, these numbers suggest the American job market has been able to absorb them.

Where do the jobs come from?

Job opportunities for less qualified workers can be found in low-wage retailing, cleaning services, agriculture, manual labor, home health care, and informal child care. In many urban labor markets, jobless workers with few qualifications obtain short-term work through temporary help agencies. Pay is uncertain and irregular, but temporary work assignments can sometimes lead to permanent employment.

None of these job opportunities offers bright promise of fat paychecks or steady advancement. Many bring a large risk of layoff or recurring unemployment. Of the 11 occupations in Table 1, only teacher aides and educational assistants face a below-average risk of unemployment. Six carry a high risk of unemployment, and the other four a very high risk. In ten of the occupations, a high percentage of employees works on a part-time schedule.

The actual employment experiences of former welfare recipients in Milwaukee, Wisconsin, tend to confirm the impression that welfare recipients can find jobs, but those jobs will carry high unemployment risk and offer lousy pay. Over 25,000 single parents receiving AFDC in December 1995 were required to participate in Wisconsin's new state welfare initiative. At some point between January 1996 and March 1997, over 18,000 of them earned wages covered by Unemployment Insurance. In other words, 72 percent of recipients managed to find at least one job. But despite the high job-finding rate, many recipients and ex-recipients experienced spells of joblessness. One-third of the parents who entered employment in the first quarter of 1996, for example, had no recorded earnings in the first quarter of 1997, and about one-quarter of the remaining parents earned less than $500 in the same quarter.

Turnover in Milwaukee was high. The 18,000 welfare recipients who found jobs after December 1995 held a total of more than 42,000 jobs—about 2.3 jobs per working recipient—in a 15-month period. Over half of these jobs were obtained from temporary help agencies (30 percent of all jobs) or in retail trade (23 percent of jobs). Only about 60 percent of workers who entered a job in one quarter of 1996 were still employed in the same job one quarter later. Wisconsin welfare recipients certainly found jobs. Few landed good ones, however, and most found jobs that ended quickly.[13]

Conclusion

The recent job-finding success of welfare recipients in Wisconsin and elsewhere suggests that when employer demand is high and unemployment is low the great majority of recipients who diligently seek work will eventually find it. But because of the nature of the jobs they find, and the poor preparation they bring to those jobs, unskilled single parents will usually find jobs that pay low wages and do not last long. State and federal reform has certainly boosted the fraction of time that single mothers devote to paid work and increased the percentage of their income derived from work. These achievements are likely to endure, even when employer demand slackens and overall unemployment rises. Whether the reform has increased poor families' net incomes is far less certain. ■

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[1]This article is a summary of a longer report prepared in May 1998 for "The Low-Wage Labor Market: Challenges and Opportunities for Economic Self-Sufficiency," a research project of the Urban Institute and the U.S. Department of Health and Human Services. The views are those of the author and not of the sponsoring organizations.

[2]The first view is represented in R. Blank, "Outlook for the U.S. Labor Market and Prospects for Low-Wage Entry Jobs," and G. Burtless, "Employment Prospects of Welfare Recipients," both in *The Work Alternative: Welfare Reform and the Realities of the Job Market*, ed. D. Nightingale and R. Haveman (Washington, DC: Urban Institute Press, 1995). The queuing model is the basis for analysis in H. Holzer, *What Employers Want: Job Prospects for Less Educated Workers* (New York: Russell Sage, 1996).

[3]U.S. Department of Commerce, Bureau of the Census, *Geographical Mobility: March 1995 to March 1996*, Series P20-497, November 1997.

[4]In 1993, 47.5 percent of all women receiving AFDC were aged between 25 and 34 (U.S. Department of Commerce, Bureau of the Census, *Mothers Who Receive AFDC Payments*, Statistical Brief 95-2, March 1995. See Burtless, "Employment Prospects," p. 77.

[5]See L. Pavetti, "Who Is Affected by Time Limits?" in *Welfare Reform: An Analysis of the Issues,* ed. I. Sawhill (Washington, DC: Urban Institute Press, 1995), p. 33; R. Maynard, "Subsidized Employment and Non-Labor-Market Alternatives for Welfare Recipients," in Nightingale and Haveman, ed., *The Work Alternative,* p. 112.

[6]J. Riccio, D. Friedlander, and S. Freedman, *GAIN: Benefits, Costs, and Three-Year Impacts of a Welfare-to-Work Program* (New York: Manpower Development Research Corporation, 1994), p.18. Most of the women had received AFDC continuously for at least three years at the time they entered the program.

[7]Among the control group, it was 36 percent. See D. Friedlander and G. Burtless, *Five Years After: The Long-Term Effects of Welfare-to-Work Programs* (New York: Russell Sage, 1995).

[8]I base this estimate on the size of the welfare caseload in 1994, when 5.046 million families received AFDC. Of these, 4.178 million contained at least one adult member and 0.321 million contained two adult members. Assume that 20 percent of these would be exempted from the new work requirements by a physical or mental incapacity or some other barrier to employment, and we are left with potentially 3.34 million entering the job market. U.S. House of Representatives, Ways and Means Committee, *1996 Green Book* (Washington, DC: U.S. Government Printing Office, 1996), p. 479.

[9]G. Burtless, "The Employment Experiences and Potential Earnings of Welfare Recipients," in *Welfare Reform 1996–2000: Is There a Safety Net?* ed. R. Morris and J. Hansan (Westport, CT: Greenwood, forthcoming).

[10]G. Silvestri, "Occupational Employment Projections to 2006," *Monthly Labor Review* (November 1997): 58–83, esp. p. 81.

[11]U.S. Bureau of Labor Statistics, "The Employment Situation: May 1998," June 5, 1998.

[12]H. Holzer and S. Danziger, "Are Jobs Available for Disadvantaged Workers in Urban Areas?" IRP Discussion Paper 1157-98, University of Wisconsin–Madison, 1998.

[13]The Wisconsin study was conducted by John Pawasarat and is reported in *Employment and Earnings of Milwaukee County Single Parent AFDC Families: Establishing Benchmarks for Measuring Employment Outcomes under "W-2,"* and *The Employer Perspective: Jobs Held by the Milwaukee County Single Parent Population, January 1996–March 1997*, both published by the Employment and Training Institute, University of Wisconsin–Milwaukee, 1997. Another study, just completed, is M. Cancian, R. Haveman, T. Kaplan, and B. Wolfe, "Post-Exit Earnings and Benefit Receipt among Those Who Left AFDC in Wisconsin," Institute for Research on Poverty, University of Wisconsin–Madison.

Inequality and poverty in the United States: The twentieth-century record

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For two decades now, the economic position of the working poor in the United States has stagnated or declined, while financial wealth has increasingly—and visibly—become concentrated in the 1 percent of Americans at the top of the income ladder. These trends have received an extraordinary amount of attention, much of it highly critical, for equality and fairness tend to be as closely linked in our thinking as growth and progress are.

A natural corollary is to assume that a society in which inequality is increasing is also a society in which poverty is on the increase. But, in fact, inequality and poverty are not necessarily linked concepts, as Figure 1 exemplifies. Income growth also affects the level of poverty. If income grows, but inequality—the distribution of income—does not change, then the amount of poverty, the area of the curve to the left of the poverty line, will actually decline.[1] In a hundred-year perspective, we suggest, this is basically what has happened in the United States: there has been no clear general trend in inequality, or in the *distribution* of economic well-being, but the *average level* of well-being has risen and poverty has declined. In the more recent past, however, growth has been slow while inequality has increased and poverty has also increased.

Yet even if there is no clear trend in inequality in this century, much has happened to cause it to fluctuate. Wars, economic growth, business cycles, technological advances, demographic changes, international trade, and changes in public policy have altered the shape of the income distribution. These same forces, though with different relative importance, are also the main drivers of the long-run decline in poverty and the fluctuations around this trend.

It is, therefore, a matter of more than academic interest to ask what the record of this century shows, to place in perspective the recent rise of inequality, and to suggest what forces have influenced, and may continue to influence, the economic well-being of Americans. As a start, we should note that the present income trends in the United States are not unprecedented. Where inequality at least is concerned, the United States may be replaying the statistical record of almost a century ago, when social reformers first studied the well-being of the working poor and Progressives mounted their campaign against the disproportionate power of "monopolists"—the newly rich industrialists and financiers.

The historical analysis of both inequality and poverty is complicated by the lack of long, strictly comparable time series for both social indicators. In this discussion, we put our best foot forward, so to speak, beginning with the years since World War II. The past 30 years have been intensively studied. For the two preceding decades, the raw data are much harder to work with, although we do have some series from 1947 to the present. We discuss the years before World War II thereafter. For those decades we must rely on a hodgepodge of indicators, most of them short-term or incomplete.

In so brief an article, we must necessarily paint with a very broad brush, first highlighting the most important changes and briefly summarizing supporting evidence, and then suggesting possible explanations.[2]

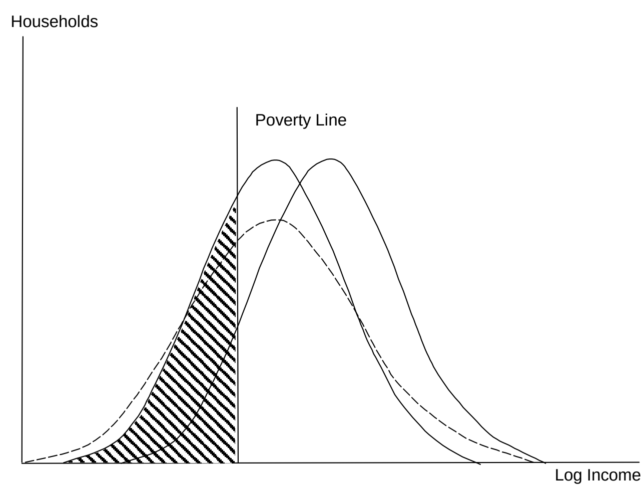

Figure 1. Income growth reduces poverty if inequality is unchanged (solid lines); an increase in inequality raises poverty if income is unchanged (dashed line).

The record of income inequality

A perspective that encompasses the entire twentieth century suggests that inequality in the United States was greater in the first three decades than it has been in any period since. Sometime in the 1930s it began to decline, and the decline continued through the 1960s. From the 1970s through the mid 1990s, it steadily increased to levels not seen since World War II ended. There is still no sign that inequality has peaked, but equally there is not yet a consensus on what its increase portends.

Inequality since 1947

From the end of World War II until around 1967, inequality was stable or declining. After 1967, and especially after 1979, it reversed direction and began to rise. This pattern is demonstrable in several different inequality measures. For example, when economist Lynn Karoly examined total family income adjusted for family size (family income divided by the official poverty line), she found that, among individuals, inequality began increasing in 1967; among families, the increase began in 1977. For both families and individuals, inequality continued to rise at least to 1995.[3] Earnings inequality also increased, but differently for men and women. Among working men, inequality mostly increased from 1963 to 1994; among working women, it fell until 1980, then began to rise.

Twenty years ago, the conventional economic wisdom held that inequality declines in good times and rises in bad. But in the 1980s and 1990s, though inequality rose during recessions, it failed to fall during recoveries. In terms of household income from 1968 to 1996, it is as if we altered the 1968 income distribution by transferring $4,885 (in 1996 dollars) from each household below the median to each household above it.

Inequality from 1900 to 1946

Although income data are sparse, especially before a national income tax was introduced in 1913, they do tell a consistent story. From the turn of the century until World War I, inequality was higher than it now is. The war had a brief equalizing effect, but in about 1920 inequality began to rise again, reaching the pre–World War I level by 1929.

After 1929, inequality fell substantially, but when exactly this occurred is debatable and depends partly on the data we use.[4] Measures computed from income tax returns place the beginning of the trend in 1929, the year of the great crash, but tax data reflect change only at relatively high income levels. When we estimate a measure of inequality that accounts for unemployment, which more strongly affects lower- and middle-income families, the century's peak of inequality occurs in the mid 1930s—also the peak of the Great Depression. The newer estimate is, we believe, more consistent with what we have learned from post-World War II data about the forces that drive inequality.

Whatever the precise timing, much—maybe most—of the decline in inequality appears to have taken place during World War II.

How do we explain the record of income inequality?

No single factor has governed the evolution of inequality, nor is it possible confidently to assign causality. Instead, we seek to identify correlations between the movement of inequality and of other economic and social variables.

Income is primarily composed of earnings and transfers. We turn first to earnings, considering labor supply and labor demand effects separately, although in reality they respond to each other over time. Four basic social and economic factors have changed earnings inequality by differentially shifting labor supply and labor demand for skilled versus unskilled workers. *Demographic* and *technological* changes have acted throughout the century. *International trade* has mattered only during the past twenty years. *Wars* have acted even more briefly, though perhaps with lasting effect, on the income distribution.

Labor supply

A major component of the rise in earnings inequality since 1967 has been the growth in the wage differential between skilled and unskilled workers. One estimate finds that between 1969 and 1995 this differential increased by a "startling 49 percent," over two-thirds of it due to the decline in real wages among low-paid unskilled workers.[5] The wage differential was driven in part by rapid labor force growth, which increased, by definition, the relative supply of less experienced, and therefore presumably less skilled, workers, whatever their education level. Immigration has been a major suspect in the wage decline, but empirical studies suggest that its impact on wages accounts for at most a quarter of the rise in inequality during the 1980s, and probably much less.[6]

Another factor extensively studied in the context of inequality is the "college premium," the earnings differential between the college-educated and those workers with only a high school education. Changes in the college premium are correlated with changes in the relative supply of college graduates. The baby boomers began to enter the labor force in 1967, and between 1971 and 1979 the numbers of college-educated men and women increased much more than the numbers of those with only a high school education. The increase was accompanied by a sharp decline in the college premium—from 22 to 13 percent for young men, and from 40 to 21 percent for young women. During the 1980s the trend reversed; the

> The question whether the inequality of income is increasing or decreasing in modern communities is one of the most important questions in economics. . . . To determine whether, under modern conditions, inequality tends to increase or decrease, involves the enumeration of a large number of distinct and conflicting tendencies and the weighing and balancing of them one against the other.
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> *English economist Hugh Dalton, in 1920, quoted in* Uneven Tides*, p. 5 (see note 3)*

college premium climbed again, reaching 53 percent overall by 1993.

The 1950s and early 1960s also saw a rapid increase in the supply of college graduates. By analogy with the later period, this might have been expected to reduce inequality, yet it did not. The answer may lie in the steady increase of labor force participation among women in the postwar years. Because of gender discrimination and their limited labor force experience, most of these women were competing for relatively poorly paid jobs. By further depressing already low wages, the entry of women worked against the leveling effect of the increase in college graduates.

The labor supply factors we have just considered account for only part of the recent rise in inequality. Perhaps one-half to two-thirds of that rise is due to increased inequality *within* groups defined by age, education, and experience (these last two are very often used as proxies for skill). Explanations for increasing within-group inequality have centered on changes in labor demand.

Labor demand

In recent years, demand for skilled labor has increased more rapidly than demand for unskilled labor. At the same time, the economy has seen shifts in output from manufactured goods to services and within manufacturing itself. Because wage differentials among workers are higher in services than in manufacturing, the shift to service jobs has increased inequality. At the same time, liberalized international trade opened U.S. markets to goods manufactured abroad, which has hurt the relative wages of less skilled workers in some sectors of manufacturing. Young workers with only a high school education bore the brunt of the decline in manufacturing jobs: the real wages of young high school graduates fell 14 percent between 1979 and 1987, those of older high school graduates by only 2 percent.[7]

Overall, estimates suggest that changes in labor demand arising from the changed composition of output may account for 20–30 percent of the rise in the college premium and 15 percent of the rise in within-group earnings inequality over the past two decades or so. Compounding compositional change is technological change, which is biased toward skilled labor and is more rapid in some sectors than in others. The industries in which the college premium has expanded the most and that use college graduates intensively have tended to be those with the newest technologies.

Somewhat different factors affected labor demand in the first half of the century. The volume of U.S. international trade was then too small significantly to affect trends in labor supply or demand. Between 1900 and 1930, the demand for agricultural workers (unskilled labor) declined while the demand in the industrial sector (skilled labor) increased. During these three decades, technological change had a strong labor-saving bias, further reducing the demand for unskilled workers. Agricultural income fell further with the agricultural depression of the 1920s.

From 1930 to the early 1950s, however, the difference in sectoral growth rates diminished. In the agricultural sector, productivity grew very rapidly and demand for labor declined as technological changes penetrated more deeply into agricultural practices. But average wages in the agricultural sector nevertheless rose, because the great outflow of labor from agriculture to industry had reduced the size of the rural labor force.

Both world wars substantially increased the demand for labor, especially unskilled labor, as industrial production moved into high gear and the military forces began to expand. Rising demand lowered unemployment, raised wages at the lower end of the wage scale, and decreased inequality. The decline in inequality wrought by World War I was transient, but World War II had a lasting impact on the wage structure. In large part this was because the need for unskilled labor did not abate when the war ended, but was sustained by demand for U.S. goods, especially in a Europe rebuilding under the Marshall Plan. Thus the wage gap between skilled and unskilled workers, and hence inequality, continued to diminish throughout the 1940s. The pattern of labor demand generated during World War II and the postwar boom remained essentially stable during the 1950s and 1960s, the period when inequality was also at its lowest and most stable.

We have depicted supply and demand factors as the principal drivers of relative wages, but it is at least plausible to posit a role for labor unions. A major consequence of labor unions is to reduce wage dispersion and earnings inequality, the principal determinants of income inequality. The pattern of union growth and decline during the twentieth century closely matches, in inverse fashion, the pattern of income inequality.[8]

Demographic change and household income

Some demographic changes have altered the distribution of household income rather than that of earnings or wage

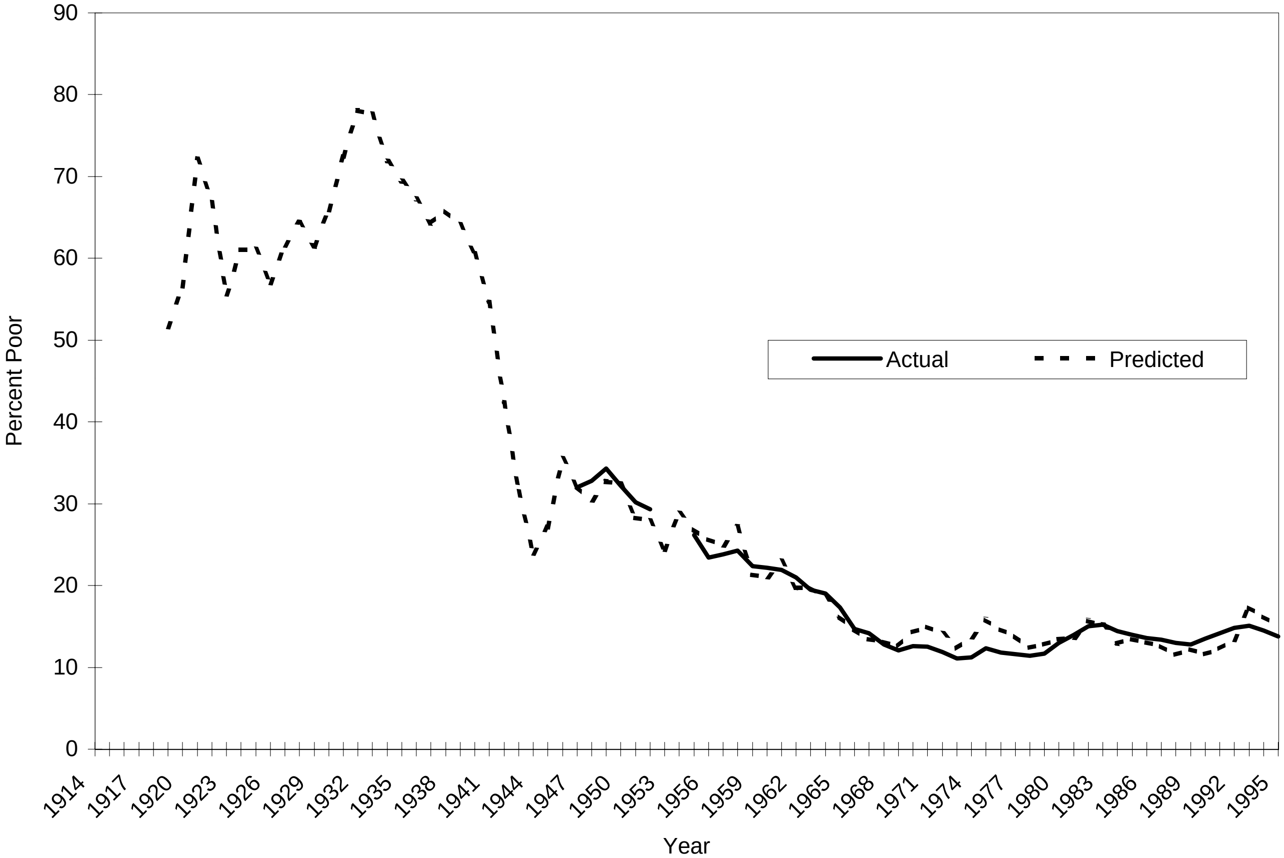

Figure 2. Actual and predicted poverty rates among persons, 1914–1995.

rates. Here we consider three: (1) the increased proportion of single-parent families, (2) the changed age structure of families, and (3) assortative mating.

1. Between 1940 and 1970 the proportion of families with a single adult householder was fairly stable, but thereafter it rapidly increased. The rise in the number of single-parent families was sharper yet. The great majority of single-parent families are mother-only families. Where there was formerly one household living on one (or perhaps two) incomes, there are now two households, a man living alone on his income and a woman and her children living on her (generally lower) income. In such a circumstance, virtually any measure of inequality will rise.

2. Fertility patterns and greater longevity have increased the proportions of families with young and old householders. Further, as real incomes rose, so did the proportion of elderly people choosing to live apart from their children. Even if the relationship between age and earnings were unchanged, these two developments would result in a less equal distribution of income.

3. One aspect of assortative mating is that men with higher earnings tend to marry women who also have relatively high earnings potential and who are, today, more likely to work. Potentially, then, the gains in women's earnings have gone mostly to high-income families, increasing income inequality. But the implications for inequality are not so clear as they might seem, because the interaction between husbands' and wives' earnings is complicated and is also affected by the changing inequality of men's and women's earnings. Declining inequality in the distribution of wives' earnings means that recent changes in wives' earnings reduce family income inequality by most measures.[9]

The record of poverty

If the record of inequality is mixed and variable, the rate of poverty in the United States has, over the course of the century, shown a clear, relatively persistent downward trend, most rapid in periods of rapid economic growth. Interruptions in that decline have almost invariably occurred during recessions. The strength of these trends is clear in Figure 2, which shows actual and predicted poverty rates among persons from 1914 to 1995, based on the official U.S. poverty measure developed in the 1960s. Poverty rates that were within the range of 60–70 percent in the early years of the century dropped rapidly to below 30 percent amid the booming economy generated by

World War II, and continued to fall to a historic low of 11 percent in 1973. Since then, rates have ranged in the area of 11–15 percent.

Applying the current official poverty line to an earlier era is problematic. It seems unreasonable to assert that 70 percent of Americans were poor at the turn of the century and equally unreasonable to argue that poverty has disappeared because very few families of five are subsisting on an annual post-transfer income of less than $5,000 (the value in 1990 dollars of Robert Hunter's 1904 poverty line for an urban family of five).[10] Yet even admitting that poverty is, in practice, a relative notion, the reduction in U.S. poverty is not merely a statistical artifact generated by applying an absolute measure over an inappropriately long interval. When Eugene Smolensky compared different periods using contemporary judgments on the income needed for a "minimally decent" standard of living, he concluded that, from the turn of the century until the Depression, the proportion of the population considered poor hovered around one-third; between mid-Depression and 1960, the proportion fell to about one-fifth.[11] Even if the current official measure underestimates poverty, as many analysts believe, the 1996 poverty rate of 13.7 percent marks how great a distance has been traveled in reducing poverty since 1900.

What explains the behavior of poverty rates?

Figure 1 shows that the fundamental determinants of the rate of absolute poverty are the level of mean income and the extent of income inequality. When economic growth shifts the entire income distribution to the right, poverty will fall if income inequality does not change. And if mean income is constant, decreases in inequality will also cause poverty to fall. The same factors that drive inequality trends also explain poverty trends. But as we noted earlier, their relative importance is different.

One key factor is the level of unemployment, because its strong, positive relationship to the level of inequality accounts for part of the cyclical variation in poverty.

Demographic attributes such as age, living arrangements, and the sex of the householder are also powerful proximate determinants of the incidence of poverty because of their effect on earnings and family size. These demographic characteristics influence poverty indirectly as well, because they determine the size of payments from many public transfer programs (the impact of public policy is discussed below).

To the extent that war and international trade affect the composition of output and relative factor prices, they have much less effect on poverty than on inequality. So, too, do other factors affecting the composition of outputs among the various sectors of the economy. The simple reason is that today relatively few full-time, year-round workers are classified as poor in any industry or region. This was not true in the first half of this century.

In a study of the period after World War II, Sheldon Danziger and Peter Gottschalk took explicit account of how changes in inequality affect changes in poverty. From 1949 to 1969, they believe, economic changes (including the change in income inequality) brought about a decline in poverty of 26.9 percentage points. At this time, growth in mean income was far and away the most important factor in reducing poverty. From 1973 to 1991, the effect of growth was only slight (2.1 percentage points) and it was fully offset by the rise in inequality. The responsiveness of poverty to economic growth (the "trickle down" effect) has clearly declined. For instance, a 1 percent rise in real GNP was associated with a 2.5 percent decline in the poverty rate in the 1960s, but with only a 1.7 percent decline during the 1983–89 expansion. And despite modest economic growth, the rate of poverty in 1979, before government transfers, was 19.5 percent; in 1989, it was 20.1 percent; and in 1996, after five years of economic expansion, it was 21.6 percent.[12]

The primary cause of this high poverty rate appears to have been the same suspect as for inequality: declining real wages in the bottom two deciles of the income distribution. Demographic change also persistently increased poverty throughout the postwar years. Most involved were trends that had begun as far back as World War II—increasing proportions of households that tend to be poorer than average, such as one-person, elderly, and single-mother households. Rebecca Blank estimates, however, that these demographic shifts raised the poverty rate by only 0.9 of a percentage point from 1963 to 1969, 1.4 points from 1969 to 1979, and 0.5 of a percentage point from 1979 to 1989.[13]

The effect of public policy on income inequality and poverty

Has public policy complemented or counteracted the effects of market forces on changes in inequality and poverty?

We could not possibly consider all the influences of government policy—regulation, countercyclical fiscal policy, trade policy, and infrastructure investments—on the distribution of market incomes. We can, however, offer a general accounting of the consequences that follow rather directly from the taxes and expenditures of all U.S. governments: the effect of the fisc, including transfers to individuals and to firms. We consider the effects upon income inequality that arose from historical changes in the relative importance of government spending and the relative size of different sectors of government and of the private sector. Where poverty is concerned, we consider only cash or near-cash transfers and direct federal taxes.

Changes in the fisc and antipoverty policy since World War II

Where the fisc is concerned, the years after World War II are basically all of a piece until 1981. Government grew at all levels relative to the private sector, and the federal government grew relative to state and local governments. Expenditures grew more rapidly than revenues, and so public debt grew. Cash and in-kind transfer programs grew relative to government purchases of goods and services, including defense expenditures (except in periods of actual conflict). Social insurance transfers, primarily to the elderly (social security and Medicare), grew most rapidly of all, and there were some periods when need-based transfers also expanded rapidly.

The contribution of government policy to poverty reduction in those years does not turn on any major changes in the structure of the fisc but lies in the details of the evolution of tax and transfer policies—the major cash and in-kind programs, other closely related welfare programs, and changes in taxation of the income of low-wage workers. The growth of the social safety net for the elderly and the disabled and for needy children in single-parent families—from the Social Security Act of 1935 through the major federal programs of the war on poverty and after—has been often enough rehearsed elsewhere.[14] But the attention paid to the programs of the war on poverty, especially those begun under the Office of Economic Opportunity, has sometimes obscured the fact that these programs never accounted for more than a tiny share of government social welfare expenditures. Far more consequential, though quieter, growth occurred in cash and noncash income support programs such as OASDI, Supplemental Security Income, the Earned Income Tax Credit, Food Stamps, and Medicare and Medicaid.

Substantial though it has been, this growth has varied with the political climate. For instance, the annual real growth rate of federal social spending averaged 7.9 percent during the administrations of Presidents Kennedy and Johnson, and 9.7 percent during those of Nixon and Ford. Under the Carter administration, the rate was less than 4 percent, and under the first Reagan administration (1981–85), direct retrenchments in federal social spending occurred: such spending rose only by 1.5 percent.

Policy decisions during the Bush administration and in President Clinton's first term eased these cuts, but these were also the years in which increasing dissatisfaction with the welfare system culminated in the 1996 federal legislation that ended entitlement to cash welfare and imposed time limits on welfare receipt. Putting welfare recipients to work has become the central focus of welfare policy. Whether this represents a true sea change in our approach to poverty will not become clear until each state has crafted its required response and those responses confront a recession.

Impact of the fisc on inequality

Since World War II. Despite substantial changes in the level and composition of government spending, the fisc has produced no detectable *trend* in inequality in the entire period since World War II. It has, however, affected the *level* of inequality—reducing it by 17 percent in 1950 and 24 percent in 1970, according to one estimate.[15] A priori, there is little reason to suspect significant change since 1970. The progressivity of the income tax structure, the most important policy in reducing inequality until about 1970, has been gradually eroded, but this has been offset by the rapid growth in transfer benefits, particularly to the elderly.[16]

Before World War II. If the net effect of the fisc has been to reduce inequality by 15–25 percent each year since World War II, the question naturally arises as to when and how market-generated inequality and post-fisc inequality began to diverge. Our best guess is that it occurred during World War II. The size of the wedge between the two is determined by (1) the size of government relative to the private sector, (2) the distribution of expenditure benefits, and (3) the distribution of tax burdens. In the 1920s, the ratio of government expenditure to GNP doubled to around 12 percent, driven by growth in education expenditures at state and local levels. This ratio rose to 20 percent during the 1930s, with increased spending on agriculture, welfare, and relief programs. And last, the progressive federal income tax became much more significant during World War II.

Impact of public policy on poverty

Since World War II. Public policy in these years has generally reinforced the effects of macroeconomic trends. The prosperity of the later 1940s and 1950s, which so sharply reduced poverty, was reinforced by the growth of the social security program—for example, from 1950 to 1960 the average social security benefit rose from 57 to 81 percent of the poverty line. Between 1965 and 1978, rising market incomes lowered the poverty rate by 2.8 percentage points. At the same time, increased welfare coverage and higher cash benefit levels reduced it by another 3 points.

Over the 1980s, the decline in real wages among low-wage workers was compounded by the decline in AFDC benefits and stricter eligibility rules for a number of social welfare programs. In 1979, government transfers and direct taxes pulled 48 percent of those who were poor before transfers over the poverty line. By 1989, poverty before transfers had increased, and government social welfare spending pulled only 40 percent of the poor over the poverty line. By 1995, after a period of economic recovery, the figure once again hovered near 47 percent.

The Inequality Paradox: Growth of Income Disparity

Edited by James A. Auerbach and Richard S. Belous

The Inequality Paradox is based on papers presented at an April 1997 conference of the National Policy Association on the growth of income inequality. The authors examine three main factors involved in the increase in income disparity: labor market forces, such as technological change, globalization, and the decline of unions; a growing disparity in the composition of households, including the rise of single-parent and dual-earner families; and policy changes, including macroeconomic policies.

James A. Auerbach is Senior Vice President and Richard S. Belous is Vice President and Chief Economist of the National Policy Association, an independent, private, nonprofit, and nonpolitical organization, founded during the Great Depression, that carries on research and policy formulation in the public interest.

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***The Inequality Paradox* was published in 1998 by The National Policy Association, 1424 16th St NW, Suite 700, Washington, DC 20036 (tel. 202-884-7623; fax 202-797-5516; e-mail npal@npal.org; World Wide Web site <http://www.npal.org>). 262 pages; price $19.95 paper.**

Before World War II. In 1929, direct transfers to persons from all levels of government equaled a mere 1 percent of GNP. Four-fifths of that consisted of veterans' benefits and pensions to civil servants. By 1940 these transfers had risen to only 3.2 percent of GNP, though the share going to direct relief had grown from about 5 percent of the total to over one-third. Neither before nor during the Great Depression did government transfers have much effect on the poverty rate; the amounts involved were negligible in 1929 and before, and were still quite small in 1940.

Concluding thoughts

In 1978, Henry Aaron perhaps too memorably summarized the stylized facts about U.S. income inequality as they were then perceived: "Following changes in the income distribution is like watching the grass grow."[17] And if the income distribution remained stable, and the economy continued to grow, then, following the accepted model (see Figure 1), poverty should continue to fall in predictable though diminishing amounts, even if recessions briefly interrupted or reversed the decline.

Nevertheless, as inequality began to rise during the 1980s, through bad and good economic times, many analysts decided that the relationship among growth, the income distribution, and poverty had somehow been ruptured. Inequality has, indeed, increased 17 percent in the 30 years since its 1968 low. But if we lengthen our perspective another 20 years or so, to 1945, it has not increased at all. It is too soon to say whether the 30-year record of increasing inequality or the 50-year record of no trend is likely to predominate in the future. If there is no long-run trend in inequality, the relationship between growth in mean income and the decline in poverty postulated in Figure 1 must also generally hold true.

There is a darker prospect. In the first three decades of this century, inequality in the United States was very much higher than it has ever been since World War II. So too was poverty. If those levels of inequality were to be reached again, poverty might well become far more pervasive than it has been since World War II, eventually undoing the decline in poverty and inequality that has been hailed as one of the great social revolutions of our time. ■

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[1]In general, we understand the "poverty rate" as the proportion of the population with incomes below a particular level fixed in real terms, the poverty line or poverty threshold. "Income" is typically before-tax cash receipts including cash transfers but excluding capital gains.

[2]This article summarizes a more extended discussion of the evidence on inequality and poverty. See R. Plotnick, E. Smolensky, E. Evenhouse, and S. Reilly, "Inequality, Poverty, and the Fisc in Twentieth-Century America," *Journal of Post Keynesian Economics* 21, no.1 (Fall 1998): 51–76. Material from this article appears by permission.

[3]L. Karoly, "The Trend in Inequality among Families, Individuals, and Workers in the United States: A Twenty-Five Year Perspective," in *Uneven Tides: Rising Inequality in America*, ed. S. Danziger and P.

Gottschalk (New York: Russell Sage, 1993); P. Gottschalk, "Inequality, Income Growth, and Mobility: The Basic Facts," *Journal of Economic Perspectives* 11, no. 2 (1997): 21–40.

[4]The most comprehensive survey of inequality for this period is that provided by J. Williamson and P. Lindert, *American Inequality: A Macroeconomic History* (New York: Academic Press, 1980).

[5]R. Topel, "Factor Proportions and Relative Wages: The Supply-Side Determinants of Wage Inequality," *Journal of Economic Perspectives* 11, no. 2 (1997): 55–74.

[6]R. Friedberg and J. Hunt, "The Impact of Immigration on Host Country Wages, Employment and Growth," *Journal of Economic Perspectives* 9, no. 2 (1995): 23–44.

[7]F. Levy and R. Murnane, "U.S. Earnings Levels and Earnings Inequality: A Review of Recent Trends and Proposed Explanations," *Journal of Economic Literature* 30 (1992):1333–81.

[8]R. Freeman, "How Much Has De-Unionization Contributed to the Rise in Male Earnings Inequality?" in *Uneven Tides*, ed. Danziger and Gottschalk.

[9]M. Cancian and D. Reed, "Assessing the Effects of Wives' Earnings on Family Income Inequality," *Review of Economics and Statistics* 80, no. 1 (February 1998): 73–79.

[10]On the historical measurement of poverty in the United States, see Gordon Fisher, "Setting American Standards of Poverty: A Look Back," *Focus* 19, no. 2 (Spring 1998): 47–52.

[11]E. Smolensky, "The Past and Present Poor," in *The Concept of Poverty* (Washington, D.C.: Chamber of Commerce of the United States, 1965).

[12]U.S. Bureau of the Census, *Poverty in the United States: 1996*. Current Population Reports, P-60, no. 177 (Washington, D.C.: U.S. Government Printing Office, 1997). S. Danziger and P. Gottschalk, *America Unequal* (New York: Russell Sage, 1995), p. 102.

[13]R. Blank, "Why Were Poverty Rates So High in the 1980s?" in *Poverty and Prosperity in the USA in the Late Twentieth Century*, ed. D. Papadimitriou and E. Wolff (New York: St Martin's Press, 1993).

[14]A useful general summary is G. Burtless, "Public Spending on the Poor: Historical Trends and Economic Limits," in *Confronting Poverty: Prescriptions for Change,* ed. S. Danziger, G. Sandefur, and D. Weinberg (Cambridge, MA: Harvard University Press, 1994), pp. 51–84.

[15]M. Reynolds and E. Smolensky, *Public Expenditures, Taxes, and the Distribution of Income: The United States, 1950, 1961, 1970* (New York: Academic Press, 1977). There have been no subsequent empirical studies of the distributional impact of the fisc.

[16]The dramatic changes in the composition of the fisc that took place during the Reagan administration appear to have had only modest redistributive effects. Because government expenditure is more equally distributed than private expenditure, the large Reagan budget deficits worked to reduce inequality. Thus the vast expansion in military spending and the continuing increases in social security programs, including Medicare, were forces that tended to equalize the regressive effects of changes in the income tax and social security, the virtual demise of progressive estate and corporate profits taxes, and increases in state and local revenues, mostly through user fees.

[17]H. Aaron, *Politics and the Professors: The Great Society in Perspective* (Washington, DC: Brookings Institution, 1978), p. 17.

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

Institute for Research on Poverty
1180 Observatory Drive
3412 Social Science Building
University of Wisconsin
Madison, Wisconsin 53706
(608) 262-6358
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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 Jan Blakeslee.

Cross-national income inequality: How great is it and what can we learn from it?

Timothy M. Smeeding and Peter Gottschalk

Timothy M. Smeeding is Professor of Economics and Director of the Center for Policy Research at the Maxwell School, Syracuse University, and an IRP associate. Peter Gottschalk is Professor of Economics, Boston College, and an IRP affiliate.

In the last three decades, the United States has seen large increases in economic inequality. In this it is not unique; many developed countries have experienced at least modest increases in the inequality of market income. As economies and labor markets become more international and these countries wrestle with the social and economic consequences of an aging population, increased market work by women, and marital dissolution, public interest has come to focus on how successfully different social polities are coping with inequality and joblessness.

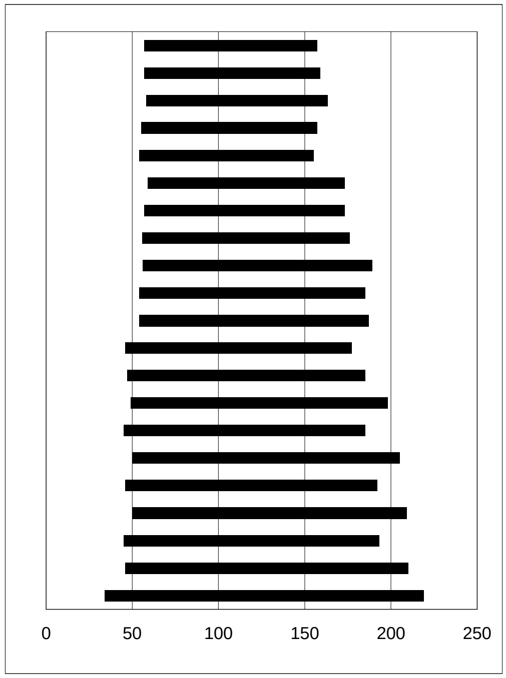
This heightened interest has led to greater efforts to assemble comparable cross-national measures of economic inequality—not an easy task, for the data that exist are not uniform in nature or purpose. Some national surveys are designed to collect income data, some to collect expenditure data. Some are longitudinal household panel surveys, others cross-sectional labor force surveys. For some countries, most data are derived from income tax or administrative records. Despite the difficulties, projects such as the Luxembourg Income Study (LIS) and the International Social Survey Program (ISSP) are bearing fruit in a richer body of comparative economic studies. It is now possible to provide a more complete picture of cross-national differences at many points in the income distribution, instead of merely providing snapshot comparisons of the "average" or "typical" family in different countries. Researchers have not only been able to address the factual question of whether inequality has grown in other countries but also to start to probe more deeply into causes—the influences of different trade or labor market policies, of industrial structures, or of unionization, for instance.

This article compares recent economic inequality in industrialized nations, largely those belonging to the Organization for Economic Cooperation and Development (OECD).[1] We find that the United States has the highest overall level of inequality of any OECD nation in the mid-1990s (Figure 1). We also find that the increases in the dispersion of total household income in the United States have been large, but are similar to those experienced elsewhere between 1979 and 1995 (Figure 2).

First, some clarifications of our approach. Our analysis concentrates on income inequality among households and does not directly address the issue of individual earnings inequality. Granted that earnings are generally the largest part of income, nevertheless these are very different phenomena. Earnings refers to persons, income to households. Income pools the earnings of household members, taxes, transfers, pensions, and capital income, each of which is liable to make the distribution of household income very different from the distribution of individual or household earnings.

We measure *disposable money income*. For most families, the primary income source is *market income*, which includes earned income from wages, salaries, and self-employment and other cash income from private sources—from property, from pensions, from alimony or child support. To reach disposable income, governments add public transfer payments (retirement, family allowances, unemployment compensation, welfare benefits) and deduct income tax and social security contributions from market income. Our definition of income is hardly comprehensive, typically excluding much of capital gains, imputed rents, home production, and in-kind income. We take no account of indirect taxes or of the benefits from public spending on such social goods as health care, education, or most housing subsidies.[2] We measure income on an annual basis. This may be too long an accounting period for families that are severely credit constrained, too short for those that can smooth consumption over multiple years—but almost all the available surveys report income for the calendar year.

The answer to the question "distribution among whom?" is "among individuals." Some surveys focus on the individual as the unit of analysis, some on the household as the unit of income sharing. The most common unit of analysis is the household, defined as all persons sharing the same housing unit, regardless of any familial relationship.[3] We therefore estimate individual disposable income by aggregating the income of all household members and using an equivalence scale to arrive at individual equivalent income.[4]



	P10 (Low)	P90 (High)	P90/P10 (Decile Ratio)	Gini Coefficient[2]
Finland 1991	57	157	2.75	0.223
Sweden 1992	57	159	2.78	0.229
Belgium 1992	58	163	2.79	0.230
Norway 1995	55	157	2.85	0.242
Denmark 1992	54	155	2.86	0.239
Luxembourg 1994	59	173	2.93	0.235
The Netherlands 1991	57	173	3.05	0.249
Italy 1991	56	176	3.14	0.255
Taiwan 1995	56	189	3.38	0.277
Switzerland 1982	54	185	3.43	0.311
New Zealand 1987/1988	54	187	3.46	NA
Germany 1994	46	177	3.84	0.300
Canada 1994	47	185	3.93	0.287
Spain 1990	49	198	4.04	0.306
France 1989	45	185	4.11	0.324
Israel 1992	50	205	4.12	0.305
Japan 1992	46	192	4.17	0.315
Ireland 1987	50	209	4.18	0.328
Australia 1989	45	193	4.30	0.308
United Kingdom 1995	46	210	4.56	0.346
United States 1994	34	219	6.44	0.368
Average[1]	52	181	3.53	0.279

Figure 1. Decile ratios and Gini coefficients for adjusted disposable income.

Source: Authors' calculations using the Luxembourg Income Study database; Japanese data courtesy of T. Isikawa, Japan Ministry of Welfare, November 1996; New Zealand data come from A. Atkinson, L. Rainwater, and T. Smeeding, *Income Inequality in the OECD Countries: Evidence from the Luxembourg Income Study* (Paris: OECD, 1995), Chapter 4.

Note: Adjusted disposable income includes all forms of cash income net of direct tax using the household as the unit of aggregation and adjusting for household size differences using a square root equivalence scale. Numbers given are the percentage of the median in each nation and Gini coefficient.

[1]Simple average, excluding the United States.

[2]Gini coefficients are based on incomes which are bottom coded at 1 percent of disposable income and top coded at 10 times the median disposable income.

Relative differences in inequality across nations: Levels and trends

A large body of research has documented comparative levels of inequality among nations and also the substantial increases in inequality in the United States, beginning in the 1970s (see Plotnick and others, "Inequality and Poverty in the United States," this issue). How do other industrialized nations measure up?

Figure 1 compares the distribution of disposable income in 21 nations for various years around 1990. Within each country we focus on the relative differences between those at the bottom and those at the top of the income distribution. To do so we first measure, in each country, the ratio of the income of a household at the 10th percentile (P10 in Figure 1) and a household at the 90th percentile (P90) to median income. This gives us some indication of how far below or above the middle of the distribution the poor and the rich are located on the continuum of income. Second, we measure the ratio between the incomes of those at the 90th and 10th percentiles (the "decile ratio"). This gives us the size of the gap between the richest and the poorest in each country.

These measures—measures of social distance, if one will—are easy to understand but focus on only a few points in the distribution of income. An alternative measure of inequality across the entire distribution is the Gini coefficient, much used by economists in studies of inequality.[5] We include this number also in Figure 1.

Figure 1 shows us that the United States is indeed an outlier. A low-income American at the 10th percentile in 1994 had an income that is only 34 percent of median income, whereas a high-income American in the 90th percentile had an income that is 219 percent of the median. The income of the high-income American is over six times the income of the low-income American, even after we have adjusted for taxes, transfers, and family size (the decile ratio is 6.44). In contrast, across the other countries in Figure 1 (excluding the United States), the income of the poor averages 52 percent of the income of middle-income persons; that of high-income persons av-

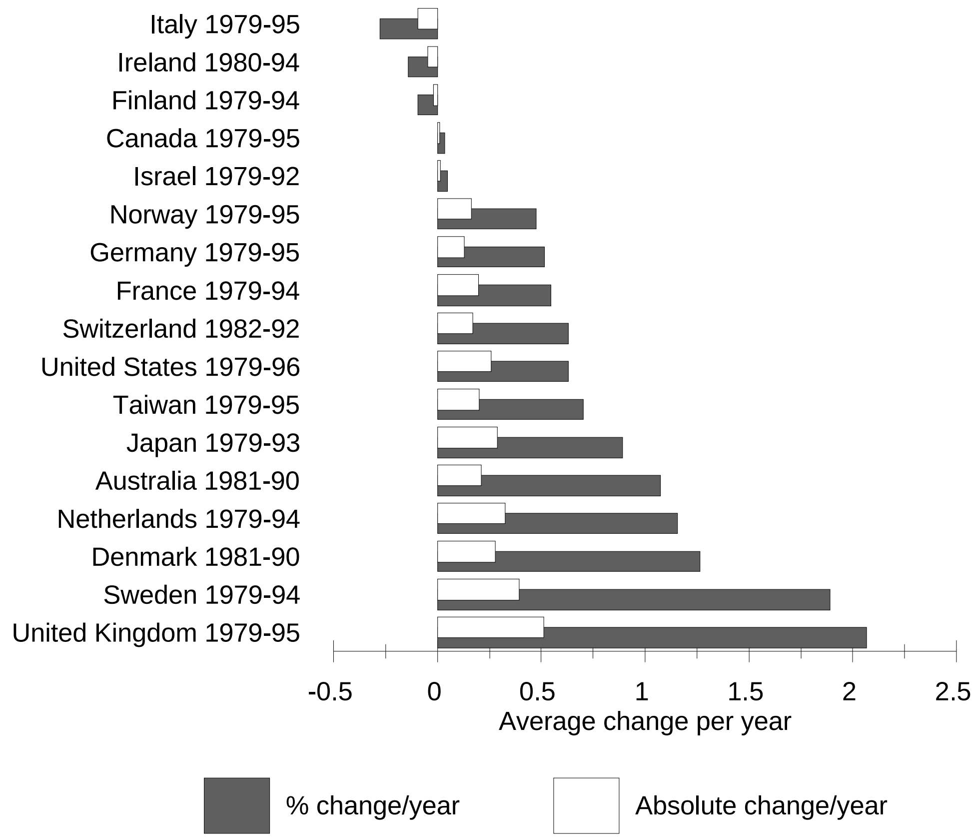


Figure 2. Trends in disposable income inequality, 1979–1995, as measured by the change in the Gini coefficient.

Source: P. Gottschalk and T. Smeeding, "Empirical Evidence on Income Inequality in Industrialized Countries," in *The Handbook of Income Distribution*, ed. A. Atkinson and F. Bourgignon (Amsterdam: North Holland Press, forthcoming).

Note: Average percentage change per year equals the percentage change in the Gini coefficient over the time frame indicated divided by the number of years in the interval. Average absolute change per year equals the absolute change in the Gini coefficient over the interval multiplied by 100 and divided by the number of years in the interval.

erages 181 percent of the median income. The average rich person has only 3.5 times the income of the average poor person.

The countries in Figure 1 fall into clusters. Inequality is least in Northern Europe (the Scandinavian countries, Belgium, the Netherlands), where the income of those at the 10th percentile is 56 percent of the median. Central and Southern Europe come next (Italy, Switzerland, Germany, Spain, France). The United Kingdom has the highest level of inequality, outside the United States. In some countries, for example, Israel, Ireland, and the United Kingdom, the incomes of the richest, those at the 90th percentile, are all more than 200 percent of median income—not so very different from the United States. The United States differs, above all, in the relative disadvantage of its poorest residents.

Absolute differences in income inequality across nations

It is often argued that the higher the average standard of living in a particular nation, the better off are its citizens. By this argument, the U.S. resident is, "on average," better off than residents of the United Kingdom or Finland, because U.S. real GDP per capita in 1996 was $28,600, compared to $20,400 in the United Kingdom and $19,000 in Finland.[6] Does the higher average U.S. standard of living extend to all levels of the income distribution? We examined this question by converting the incomes of a set of rich nations (from Figure 1) into real 1991 U.S. dollars, using a standard measure of purchasing power parity (PPP). We then recomputed low, median, and high incomes in these countries as a fraction of the U.S. median ("real incomes"). Because conversion of real income across countries is sensitive to the PPP index used and to other factors, these comparisons should be taken as rough indicators.

Low-income people, whose incomes, as we noted above, average 52 percent of median income in their own countries, have real incomes only 44 percent of the U.S. median. When compared against median U.S. income, for example, the median German, whose disposable income is only 77 percent as high, would appear to enjoy a lower standard of living than the median American. But the real incomes of Germans at the 10th percentile are on average 13 percent higher than the incomes of Americans at the 10th percentile. Low-income Swedes are even better off, with incomes 24 percent higher than low-income Americans. Only in Great Britain were the living standards of low-income families, by this measure, lower than those of U.S. families.

These real income measures are admittedly crude. They should be seen as measures of net spendable income rather than of total consumption, which would also include goods and services such as health care or child care that are provided at different prices and under different financing schemes in different nations. To the extent that low-income citizens elsewhere need to spend less out of pocket for such goods as health care than do low-income Americans, the latter are at an even greater real income disadvantage.

The claim that "the United States enjoys the world's highest living standard" must be evaluated alongside the equally valid claim that the United States enjoys the greatest level of real income inequality among the countries we study. And the social costs of low absolute incomes may be quite high, especially for families with children. From other research, we know that young children living in households with incomes at 75 percent of the official U.S. poverty line—that is, households at roughly the 10th percentile in the income distribution—are at severe risk of poor health, subsequent poor educational performance, and diminished achievement.[7]

Trends in inequality

Do the differences in economic inequality among the OECD countries in the early 1990s reflect convergence to a common level of inequality, or are countries that are already more unequal, such as the United States, the United Kingdom, and Australia, becoming even less equal? To answer this question, we first compare relatively short-term trends in inequality, from 1979 onward, then examine longer-term trends, from the 1950s and 1960s, for a few countries.

Figure 2 shows changes in disposable income inequality after 1979, as measured by the change in the Gini coefficient. It is hard to read any consistent relation between the trend in the 1980s and 1990s and the level of inequality at the beginning of the period. Inequality increased by more than 1 percent per year in five nations over this period—the United Kingdom, Sweden, Denmark, the Netherlands, and Australia—and from 0.5–1 percent per year in seven countries, including the United States. In four other nations the change was approximately zero; in Italy, inequality declined modestly. The largest percentage changes took place in two different countries, the United Kingdom and Sweden. In the United Kingdom, between 1978 and 1991, the Gini coefficient rose by more than 30 percent—more than double the decline that the country had experienced from 1949 to 1976. It has remained roughly constant since 1991. In Sweden, all the increases came after 1989. In the middle-range countries, patterns of change also differ. In the United States, the largest increases in inequality occurred in the 1980s and early 1990s, peaking in 1994. In Japan and Taiwan, the largest changes were in the late 1980s; in France, Germany, and Norway inequality did not increase until the early to mid-1990s.

A wide spectrum of countries is exhibiting greater secular increases in inequality, but it is not yet clear how far this will spread. Most OECD nations are still experiencing high unemployment and rising earnings inequality. In some countries, employment policy, tax and transfer policy, and other factors such as increased work by married women have muted the effects of these market influences on the distribution of disposable income. In the countries which exhibited the largest rise in inequality (i.e., the United States and the United Kingdom), these increases may have reached a plateau.

The evidence for the longer term is sketchy. Few nations have data series which go back before the 1960s. The two nations with the longest pattern of reasonably comparable data on inequality are the United States (1947–96) and the United Kingdom (1949–94). In both these countries, income and wage inequality were much higher in the early part of the century than in the 1960s or 1970s. In the United States, by the early 1980s inequality had reached levels not seen since 1948; it rose further before flattening out in 1994 through 1996. The pattern for the United Kingdom is remarkably similar: inequality in 1985 stood at the same level as in 1949; it continued to rise but then flattened out in 1994–96. These figures strongly suggest that the 1950s and 1960s in the United States and the late 1970s in the United Kingdom were times of unmatched equality in the period since World War II. Not fully explained are the economic, demographic, institutional, and policy forces that produced these patterns. But the United States and the United Kingdom are not alone: the scanty evidence for other nations, mostly from the later 1960s and the 1970s, suggests that in almost all the other countries studied inequality declined throughout the 1970s and started increasing in the 1980s and 1990s. Thus the increases in inequality apparent today are offsetting gains made during the 1960s and 1970s.

Why is the United States so different?

Our understanding of levels and trends in income is necessarily incomplete because of the complex interactions among market, demographic, institutional, and policy forces and behavioral change by individuals, families, and households. We know, for example, that families take account of all sources of income available to them in deciding how much each family member will work and in structuring living arrangements. And governments respond to changing levels of market income with very different kinds of macroeconomic and redistribution policies. Germany, Italy, and the Scandinavian countries, for example, have fairly centralized wage-setting institutions, and a high proportion of their workforce is covered by collective bargaining. At the other extreme, unionization rates have declined in the United States and the United Kingdom, and wage bargaining has become less centralized in many OECD countries.

We have noted that the United States stands out in the relative position of those at the bottom of the distribution. This reflects relatively low wages at the bottom of the distribution in the United States compared to other developed nations. But it also reflects the relative weakness of the income support system for families with children and for the low-income elderly in the United States. In the Scandinavian countries, where social expenditures are the highest among OECD nations, expenditures on social programs for the nonelderly alone were 13–14 percent of GDP in 1990–91, compared to about 4 percent in the United States.[8] In fact, the ratio of those at the 10th percentile to those at the median (P10/P50) is strongly correlated with both low wages and social expenditures.[9]

How much of the U.S. position is attributable to each factor we are not in a position to determine. It is clear that differences in the wage distribution must have a strong effect on family income inequality, for earnings make up about 70 percent of all household income. Whereas wage inequality is clearly mitigated by government transfer policy, the original wage inequality may itself partially reflect the generosity of the social welfare system. Explanations of these trends in inequality and their periodicity must be high on any research agenda. ■

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[1]The research that we summarize here is reported more fully in the following articles: P. Gottschalk and T. Smeeding, "Cross-National Comparisons of Earnings and Income Inequality," *Journal of Economic Literature* 35 (June 1997): 633–87, and "Empirical Evidence on Income Inequality in Industrialized Countries," in *Handbook of Income Distribution*, ed. A. Atkinson and F. Bourgignon (Amsterdam: North Holland Press, forthcoming, and currently available on the LIS web site, <http://lissy.ceps.lu/index.htm>, as Working Paper no. 154); T. Smeeding, "U.S. Income Inequality in a Cross-National Perspective: Why Are We So Different?" in *The Inequality Paradox: Growth of Income Disparity*, ed. J. Auerbach and R. Belous (Washington: National Policy Association, 1998; see box, p. 13).

[2]In general, countries which spend more for cash benefits also tend to spend more for noncash benefits, so that the distribution of housing, education, and health care benefits reinforces differences in income distribution for at least some western European nations. This is not necessarily so, however, for other countries or other methods of accounting.

[3]Some countries use more restrictive definitions. Sweden, for example, uses the nuclear family as the accounting unit.

[4]We use the square root of family size to obtain equivalent income.

[5]The Gini coefficient uses a scale from 0, perfect equality, to 1, perfect inequality. Thus in Figure 1 Finland, with a Gini coefficient of 0.223, has the least inequality and the United States, with a Gini coefficient of 0.368, has the highest level of inequality.

[6]Central Intelligence Agency, *World Factbook*, 1997 (estimated 1996 values).

[7]G. Duncan, W. Yeung, J. Brooks-Gunn, and J. R. Smith, "How Much Does Childhood Poverty Affect the Life Chances of Children?" *American Sociological Review* 63, no.3 (June 1998): 406–23.

[8]Though here too the United States is not alone. In Italy and Japan, such expenditures constituted less than 4 percent of GDP (Gottschalk and Smeeding, "Cross-National Comparisons," p. 672, Chart 2).

[9]Smeeding, "U.S. Income Inequality in a Cross-National Perspective," Charts 4, 5.

Luxembourg Income Study
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For more information about the workshop, please contact LIS administrative assistants Caroline de Tombeur, LIS at CEPS/INSTEAD, B.P. 48, L-4501 Differdange, Luxembourg
(email: caroline@lissy.ceps.lu)
or Kati Foley, 426 Eggers Hall, Syracuse University, Syracuse, NY 13244-1020, USA
(email: lisaa@maxwell.syr.edu).

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Family income mobility: How much is there and has it changed?

Peter Gottschalk and Sheldon Danziger

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Average family income in the United States is substantially higher than in other industrialized countries, yet its poverty rate is one of the highest, ranging from 13 to 15 percent in the 1980s and 1990s. Among the causes of this stubbornly high rate of poverty, a major, though controversial, suspect is rising income inequality. Almost all analysts agree that inequality in the United States has increased since the 1970s. Not all, however, think it is a matter for concern, particularly if it has been accompanied by increased income mobility. This view resonates strongly with the traditional perspective of America as a land of economic opportunity and upward mobility, but it deserves careful examination.[1]

Two factors are central to the debate over the significance of rising inequality: the extent of mobility in any given year and changes in the rate of mobility over time. First, annual income measures may overstate the *level* of inequality if low income in one year is offset by high income in another year. Income averaged over several years may instead give a truer picture of the extent of inequality. Second, the *trend* in inequality may be overstated if growth in inequality over the past two decades has been accompanied by growing mobility. Thus, if there is more mobility in the United States than in other industrial economies, then the perception, based on annual income, that U.S. inequality is more extreme than in other advanced economies may be false.

Mobility and inequality

Mobility and inequality are closely related but distinct concepts, just as poverty and inequality are (see this *Focus*, p. 7). *Inequality* measures the dispersion of earnings or of income in any year. *Mobility* measures how individuals or families move within the income distribution over time. If mobility is high, then a family with a low income in one year is likely to have higher income in a subsequent year. Equally, a family with a high income may not maintain its advantaged position. The greater the extent of income mobility, the greater the likelihood that families will move within the income distribution over time.

We can compare income inequality and mobility to the situation of a group of families staying in a hotel with rooms that vary widely in quality. Some rooms are luxurious, others are spartan. Hotel guests, therefore, have very *unequal* accommodations. The *extent of inequality* at a point in time is analogous to the varying quality of the rooms in which guests sleep on any particular night.

Economic mobility is akin to movement between rooms. If every guest stays in the same room every night, there is no mobility. Hotels with large variations in room quality—great inequality—may have high or low mobility. The two are conceptually distinct.

If guests are moved randomly from room to room each night, then those in the best rooms one night may find themselves in worse rooms the next. Inequality in the distribution of rooms each night is high. But if we measure inequality over a longer period, then it will be lower, because good rooms some nights will be offset by bad rooms other nights. Over time, mobility partially offsets the extent of inequality.

The absolute well-being of the hotel guests may be affected by three distinct changes that can occur: furniture in all rooms can be improved (growth); existing furniture can be redistributed among rooms (changes in inequality); and people can be reshuffled among rooms (mobility). If we consider people who are living in the worst rooms to be poor, there are three ways by which they may escape poverty: growth (all rooms gain better furniture); decreases in inequality (some furniture is moved from better rooms to worse rooms); and mobility (poor people move to better rooms).

What if the better rooms are improved, while the worst become shabbier and there is no change in the extent of mobility? Then inequality (the gap between the best and the worst), measured over many nights, will also increase, whether mobility is low or high. But if more people move, more frequently, then inequality will diminish again. Thus the only way for mobility to offset increased inequality is for the extent of mobility also to increase. It is *the change* in mobility—whether it is rising or falling—that is relevant to discussions about increasing inequality. The *level* of mobility does not matter in this context—a distinction often neglected by those who

Table 1
Relative Mobility in the Short Term, 1990–1991

1990 Quintiles	1991 Quintiles of Family Income-to-Needs 1st Quintile	2nd Quintile	3rd Quintile	4th Quintile	5th Quintile	Total
1st Quintile	75.1	19.5	3.3	1.4	0.7	100.0
2nd Quintile	18.0	57.0	20.5	3.3	1.2	100.0
3rd Quintile	4.0	17.0	57.9	19.1	1.9	100.0
4th Quintile	1.9	5.2	15.6	60.4	17.0	100.0
5th Quintile	1.0	1.4	2.9	15.6	79.2	100.0
Total	100.0	100.0	100.0	100.0	100.0	

Source: Computations by the authors, using data from the Panel Study of Income Dynamics.

Note: The sample includes 12,242 persons who had valid income observations in 1990 and 1991 and who were between the ages of 22 and 62. Percentages represent the probability that an individual from quintile *n* in 1990 will be in the indicated quintile in 1991. Percentages have been rounded; data have been weighted.

believe mobility is sufficient reason to ignore rising income inequality.

Measuring mobility

We focus on family income because the family best approximates the group that shares income among its members. But it is difficult to follow families over time because their structure changes so greatly. Children move out, people separate, divorce, die, or join with others to form new families. So we follow persons, not families, but we place individuals in the income distribution on the basis of their family's total income, adjusted for family size. To understand the necessity for using family income instead of personal income, consider the teenage boy in an affluent family who has a part-time job at a low wage. According to his own income, he would be in the lowest income stratum. It is likely that 16 years later he will be a college-educated 30-something in a higher income stratum. This income change, however, tells us nothing about the mobility of the poor because poverty is measured based on total family income.

To adjust for family size we divide total family income by the poverty line (which increases with family size) for the family in which an individual lives each year. This is the family's "income-to-needs" ratio. For example, a young man may live alone one year, but be living with a spouse or partner in the following year. To calculate his income-to-needs ratio in the first year, we divide his income by the poverty line for a single person. For the second year, we combine his income with that of his partner and divide by the poverty line for a two-person family.

The accounting period we choose is as important in measuring mobility as it is in measuring inequality (see p. 15). We use two different accounting periods to show how sensitive our results are to change in this parameter. Our shortest period is a year, but we also measure inequality and mobility over three-year spans to eliminate the effects of short-term fluctuations in income.

"Mobility" is sometimes used loosely in the media or in policy discussions to refer to changes in the level of *absolute* income. But statements such as "prosperity brings upward mobility (a rising tide lifts all boats)" are almost invariably about changes in average income—economic growth. They tell us nothing about whether the poor became richer or the rich became poor—in other words, nothing about mobility. The analyses reported in this article emphasize relative mobility, which changes only when persons change their relative position in the income distribution.[2]

To measure relative mobility, we classify persons in each year in quintiles based on their families' income-to-needs ratios. By definition, 20 percent of the population is placed in each quintile in each year. Every person who moves out of a quintile must, therefore, be matched by someone moving into that quintile. We create "transition matrices," which tabulate the proportion of persons who, for example, were in quintile 1 in 1990, according to the quintile in which they appear in 1991 (see Table 1). Because we are interested in both levels and trends in mobility, we analyze data from the Panel Study of Income Dynamics, which offers the longest continuous set of observations on a nationally representative sample of families, beginning in 1968. Our endpoint is 1991, and our sample consists of all persons aged 22 to 62 for whom we have valid income-to-needs ratios at the beginning and end of the period being analyzed.[3]

Table 1 shows the extent of short-term family income mobility between 1990 and 1991. About three-quarters of those who were in the first (lowest) quintile in 1990 remained in the lowest quintile in 1991. Of those who moved, some 80 percent were in the second quintile. In sum, 94.6 percent of those who were in the first quintile in 1990 were still in the first or second quintile in 1991. Nor was there much mobility at the top of the distribution—nearly 80 percent of those who in 1990 were in the fifth (highest) quintile were still there in 1991. About 60 percent of those who in 1990 were in one of the three middle quintiles, where opportunities for mobility are

Table 2
Relative Mobility in the Long Term, 1968–1991

1968 Quintiles	1991 Quintiles of Family Income-to-Needs 1st Quintile	2nd Quintile	3rd Quintile	4th Quintile	5th Quintile	Total
1st Quintile	46.9	25.1	17.7	9.0	1.3	100.0
2nd Quintile	24.2	24.8	22.3	19.1	9.7	100.0
3rd Quintile	10.8	20.5	20.5	27.0	21.2	100.0
4th Quintile	10.4	16.4	27.0	20.4	25.9	100.0
5th Quintile	7.5	13.0	13.7	24.2	41.6	100.0
Total		100.0	100.0	100.0	100.0	100.0

Source: Computations by the authors, using data from the Panel Study of Income Dynamics.

Note: The sample includes 1,909 persons who had valid income observations in both 1968 and 1991 and who were between the ages of 22 and 39 in 1968. Percentages represent the probability that an individual from quintile *n* in 1968 will be in the indicated quintile in 1991. Percentages have been rounded; data have been weighted.

larger (one can move up or down), were still in the same quintile in 1991; less than 8 percent moved up or down more than one quintile.

When we classified individuals according to their demographic attributes, we found significant differences in prospects for mobility. One-year mobility out of the lowest quintile was greater for whites than nonwhites (29.7 versus 14.4 percent) and for college graduates than for those without a college degree (41.8 versus 23.7 percent). It was especially low for welfare recipients: only 7.5 percent left the lowest quintile. Whites and those with a college education were also *less* likely to move down from the highest quintile than were nonwhites and those who did not go to college.

Two years is, after all, not much time for people's economic status to change. We therefore examined the probability that a subset of individuals aged 22–39 in 1968 might change income quintiles between 1968 and 1991, when they were between the ages of 45 and 62 (Table 2). We found that, indeed, there is greater relative mobility over the long run. Only 46.9 percent of those in the first (lowest) quintile in 1968 were still there in 1991. But nearly half of those who had moved up had made it only to the second quintile, and a minuscule 1.3 percent of those who began in the first quintile had made it all the way to the top 23 years later.

Is the mobility glass half full or half empty? Of those who started in the lowest quintile in 1968, 72 percent were still at or near the bottom almost a quarter-century later. This represents substantial immobility. But about a quarter of those who began in the bottom quintile in 1968 had moved up at least two quintiles over the same period—thus many low-income persons do not remain consistently at the bottom of the distribution.

We lengthened the accounting period, classifying people into quintiles on the basis of their average income over three years (1968–70 and 1989–91) rather than for a single year, to reduce the effects of transitory income fluctuations. We found it made only a small difference, though mobility was somewhat lower, as one would expect. For example, the proportion remaining in the lowest quintile increased from 46.9 percent to 53.8 percent. We also again examined demographic attributes (using three-year average income). Nonwhite individuals were substantially more likely than whites to stay in the bottom quintile (28 percent moved out over the 23 years, versus 53.6 percent of whites). Among those with less than a college education, only 45.5 percent had left the lowest quintile. Among welfare recipients, nearly 80 percent remained in the lowest quintile.

Is mobility in the United States high or low? One way to tell is by comparison with mobility in other industrialized countries. At an extreme when it comes to inequality (see pp. 15–19), the United States is no outlier where income mobility is concerned. Whether one uses a one-year or a multiyear accounting period, mobility rates in the United States resemble those of countries as different as France, Italy, and the Scandinavian countries. The less-regulated, more decentralized U.S. labor market is not associated with greater economic mobility, either in earnings or in family income. The more extensive systems of social protection in the European countries have yielded lower poverty and greater family income equality, but not at the cost of lower mobility. Thus, because countries differ little in their extent of mobility, the rankings of countries in terms of equality remain similar if one were to use a multiyear accounting period.[4]

Has income mobility increased in the United States?

We noted earlier that only *increases* in mobility would offset increased income inequality. We therefore analyzed the trend in family income mobility to see if its extent had changed. We first estimated the probability, for every year between 1968 and 1991, that a person would remain in the same quintile in adjacent years. We found that 62.7 percent of all persons were in the same

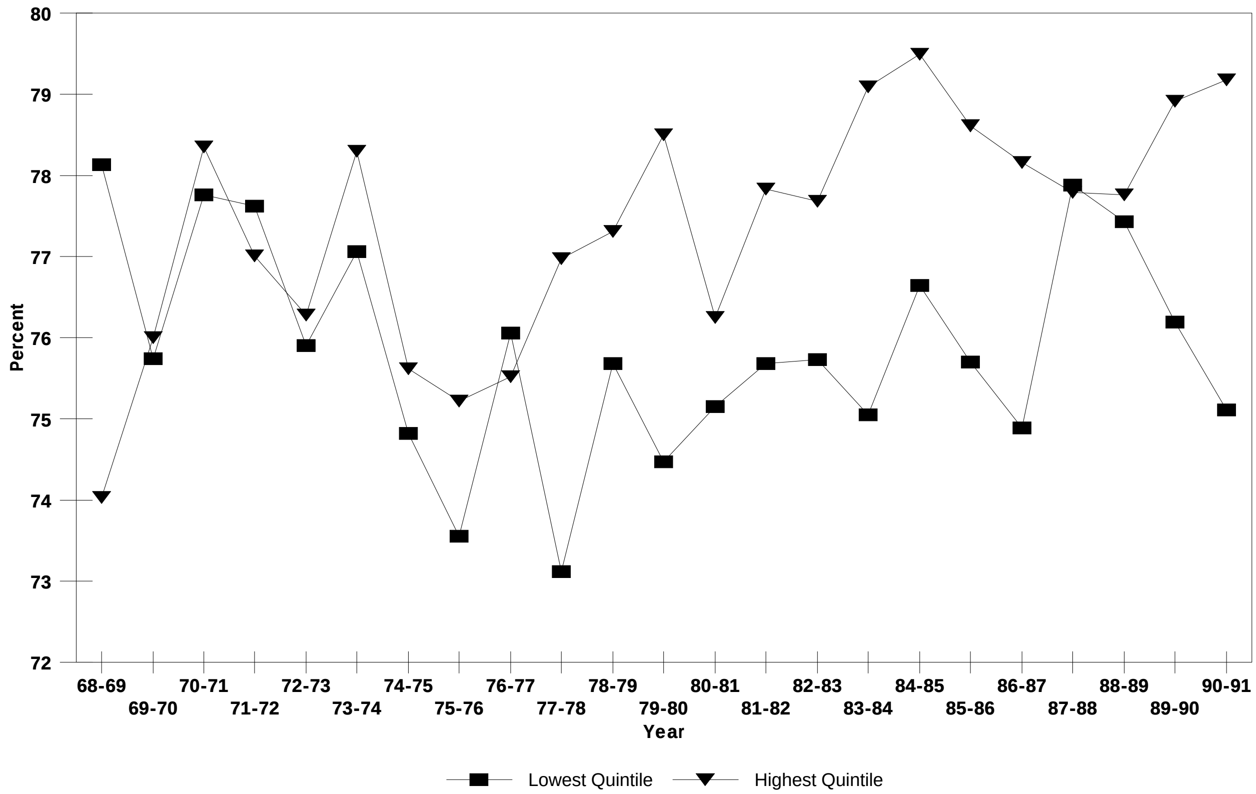

Figure 1. Percentage of persons in the lowest and highest quintiles in each pair of years: 1968–69 to 1990–91.

Note: Data from the Panel Study of Income Dynamics.

quintile in 1968 and 1969. This annual probability that people would stay where they began declined to about 60.5 percent between 1974 and 1975. It then rose steadily throughout the 1980s, reaching a high of 65.9 percent between 1990 and 1991. Far from increasing, mobility was actually declining during the years that income inequality was rising.

These calculations did not distinguish between those falling out of the top quintile and those rising from the bottom quintile. Because U.S. social policies aim to increase the income mobility of poor people, we separately plotted the probability of moving out of the lowest and highest quintiles (Figure 1). The 1970s saw moderate increases in movement out of both quintiles, but this pattern soon reversed. By 1990, the probability that a person in the lowest quintile would still be there a year later was above 75 percent, and the probability that those in the highest quintile would remain there in the following year was almost 80 percent. There is just no evidence that short-term mobility has increased. Nor did the trends alter when we used a three-year accounting period to capture longer-term mobility.

All our calculations point to the same conclusion: even though there is substantial income mobility in the United States, the extent of mobility did not increase from 1968 to 1991. The income gaps between those at the top and those at the bottom have widened and remain at least as persistent as they were in the late 1970s. The hope that mobility is sufficiently large or growing sufficiently fast to offset the rise in inequality is not supported by the evidence. ■

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[1]This article is based upon the chapter, "Family Income Mobility—How Much Is There, and Has It Changed?" in *The Inequality Paradox: Growth of Income Disparity*, ed. J. Auerbach and R. Belous (Washington, DC: National Policy Association, 1998). The material, including figures, is used by permission of the publishers. For further information about *The Inequality Paradox*, see p. 13.

[2]In the longer chapter we also consider absolute mobility (not discussed here).

[3]We exclude those under 22 so as not to include intergenerational mobility effects, as children leave home to set up their own families, and we exclude those over 62 since the elderly may have lower income but higher consumption as they draw down assets on entering retirement.

[4]For evidence on cross-national differences, see R. Aaberge, A. Björklund, M. Jäntti, and others, "Income Inequality and Income Mobility in the Scandinavian Countries Compared to the United States," University of Stockholm Discussion Paper, January 1996; R. Burkhauser, D. Holtz-Eakin, and S. Rhody, "Mobility and Inequality in the 1980s: A Cross-National Comparison of the United States and Germany," in *The Distribution of Welfare and Household Production: International Perspectives*, ed. S. Jenkins, A. Kapteyn, and B. van Praag (New York: Cambridge University Press, 1996); Organization for Economic Cooperation and Development, "Earnings Inequality, Low-Paid Employment and Earnings Mobility," *Employment Outlook* (July 1996): 59–108; G. Duncan, B. Gustafson, R. Hauser, and others, "Poverty Dynamics in Eight Countries," *Journal of Population Economics* 6, no. 3 (1993): 215–34.

Fathers under fire: The revolution in child support enforcement

Irwin Garfinkel, Sara McLanahan, Daniel Meyer, and Judith Seltzer

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Responding to the increase in divorce and out-of-wedlock childbearing, and the resulting impact on public expenditures, poverty, and child welfare, policymakers over the last quarter-century have passed a series of laws aimed at forcing fathers who do not live with their children to provide more economic support for them. In the mid-1970s, the federal government established the Office of Child Support Enforcement and directed states to do likewise. Twice in the 1980s Congress passed major legislation requiring states to strengthen paternity establishment, to create legislative guidelines for setting child support orders, and to withhold child support payments from fathers' wages. This process continued into the 1990s: child support enforcement was a major component of the new welfare legislation, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. Coupled with the decline in the value of welfare benefits that occurred over the same period, the child support legislation may be seen as an attempt to privatize the cost of children and to shift some of the burden from the state and from mothers onto the shoulders of fathers.

Nonresident fathers, as a consequence, face a very different, more invasive world than before. A man who denies fathering a child outside marriage can be required to take a blood or genetic test to establish paternity. The amount of child support that all fathers must pay is increasingly determined by government regulations. Wages are garnisheed. Fathers who fail to pay may have their income tax refunds and property seized and their driver's, professional, and trade licenses revoked, and can no longer receive food stamps. The ultimate sanction for nonpayment continues to be jail time. It is no exaggeration, therefore, to say that nonresident fathers are now under fire.

When it comes to family matters, however, federal authority is relatively weak. Federal officials must rely on incentives and moral persuasion to move states in the direction they would have them go. States vary greatly in their political will and their capacity (both financial and managerial) to enforce child support obligations. Equally important, states have a strong incentive to treat different groups of fathers differently. On the one hand, collecting support from low-income fathers is much harder than collecting from middle-income fathers, so the child support agency's performance will look better if it focuses on middle-income fathers. On the other hand, pursuing the fathers of children on welfare is likely to reduce welfare costs, which is politically popular, whereas pursuing middle- and upper-income fathers has no such financial benefits and is less acceptable to many voters. Indeed, fathers with financial resources are well organized and have been waging strong campaigns in state legislatures throughout the country to protect their rights and lower their financial obligations.

Although the uneven application of child support enforcement is understandable, even predictable, it still is a matter of concern. Bringing low-income fathers into the formal child support system could be a healthy development. But we should ask whether the child support obligations being imposed on poor men are disproportionate to their incomes, and whether harsher enforcement tools are being used against them than against upper- and middle-income fathers.

Unfortunately, although we know a great deal about single mothers and their children, we know comparatively little about nonresident fathers, especially those at the bottom of the income distribution. In part, our ignorance is due to the fact that we are dealing with a relatively new phenomenon and we lack good data on these men—an issue we discuss later in this article. In part, our ignorance may be due to the fact that we, as a society, care more about the status of children, whom we see as having little control over their lives, than adults, whom we view as, by and large, "getting what they deserve."

Beyond this basic ignorance, attention to the effects of child support enforcement on the fathers themselves has been minimal. Until recently, researchers have made little attempt to understand fathers in a broader perspective. What are fathers' capabilities and responsibilities?

Fathers under Fire: The Revolution in Child Support Enforcement

Edited by Irwin Garfinkel, Sara S. McLanahan, Daniel R. Meyer, and Judith A. Seltzer

Part I. What are the policies and who are the fathers?

Part II. How does child support enforcement affect fathers?

Part III. Should we do more to help fathers?

Fathers under Fire will be published in November 1998. For further information or to order:
Russell Sage Foundation, 112 E 64th St., New York, NY 10021-7383 (tel. 212-750-6038; fax 212-371-4761; e-mail pubs@rsage.org)

How do they react to stricter enforcement? What are their needs and concerns? Existing research on fathers' ability to pay has often been oversimplified and misinterpreted. Because nonresident fathers as a whole can afford to pay substantially more child support than they currently pay, for example, it does not mean that the fathers of children on welfare can afford to pay substantially more.

The need for a better understanding of nonresident fathers goes beyond intellectual curiosity. The knowledge gaps must be filled if social scientists and policymakers are to understand the effect of two decades of policy changes, to estimate the likely effectiveness of new changes on the horizon, and to devise new measures that work. What are the lives of the full spectrum of nonresident fathers like? How much income do they have? With whom do they live? How does their situation compare to that of resident fathers? To that of single mothers and children? How do those fathers who fail to pay child support differ from fathers who pay? What percentage of these men are potentially dangerous or undesirable fathers? Despite more than twenty years of intensifying legislation, child support collections, on average, have not shown much improvement. The lack of attention to the fathers, coupled with the disappointing child support record to date, suggests that it is time—indeed, past time—to reappraise child support enforcement policy by examining its impact on nonresident fathers.

In 1995, the authors of this article commissioned a group of social scientists and legal scholars to undertake such a reappraisal.[1] The conference that ensued in September of that year was built around three overarching questions. First, are the new child support policies consistent with the capacities and circumstances of nonresident fathers? Second, do child support policies have adverse unintended effects on the fathers? Finally, should policy be reoriented to do more to assist nonresident fathers? The papers and the conference discussions have been gathered into a book, *Fathers under Fire: The Revolution in Child Support Enforcement*, to be published in fall 1998 by the Russell Sage Foundation.

In this article, we outline some of the empirical findings and normative issues related to the first two questions we have posed above and briefly discuss the research that will be necessary to address them.

Are policy developments compatible with fathers' capabilities?

Do the policy developments of the last 25 years make sense, in light of what we know about nonresident fathers? The answer is both yes and no. Stronger child support enforcement as a general policy makes sense. Harsher treatment of low-income fathers, however, is perverse and could be dangerous.

The issue of payment is central. Nonresident fathers pay about $15 billion in child support. According to the values embodied in current state child support guidelines, they should be paying $45 to $50 billion.

Piecing together the evidence on this underrepresented group from several different surveys, researchers found that nonresident fathers have less education and lower income than fathers who live with their children. The mean personal income for all nonresident fathers ranges from about $26,900 to $33,400 (in 1995 $) compared to $40,700 for resident fathers.

Although nonresident fathers have less income than resident fathers, they have roughly the same standard of living, even after taking into account child support payments and the number of people in the home. Both groups of fathers are substantially better off than resident mothers and their children, more than 70 percent of whom are poor or near-poor.

Critics of strict child support enforcement claim that heavy financial obligations to children from a previous relationship may transfer money out of second or stepfamily households. But only a third of nonresident fathers are supporting new families that include children. Stronger enforcement of child support obligations is, therefore, unlikely to "rob Peter to pay Paul"— impoverish children in a second family to help children in the first family.[2] Stronger child support payments from nonresident fathers would reduce the economic insecurity of many children and might reduce public costs.

Nonresident fathers who do not pay child support are worse off than fathers who meet their obligations. A large minority of them have very low incomes; indeed, 20 percent of all nonresident fathers are estimated to earn less than $6,000.[3] The cost of collecting child support from very low income fathers is likely to be as great as (or greater than) the total amount of dollars collected. Expecting these men to reimburse past welfare payments made by federal and state governments to their children, over and above their child support obligations established by state guidelines, is a recipe for failure. These men simply cannot pay these debts, and no child support agency can make them do so. Inevitably, child support arrearages will accumulate, men will periodically end up in jail, and hostility and resentment will build toward mothers and children as well as government authority.[4] We believe there are good reasons for insisting that even very poor fathers pay some child support, but enforcement of unrealistic and onerous obligations among these men is not likely to save money and could do a lot more harm than good.

Does enforcement have adverse unintended effects?

Most of the effects potentially associated with stronger child support enforcement fall into the area of behavioral responses. Will the more rigorous enforcement of this obligation reduce the employment and work effort of nonresident fathers? Will it affect marriage, remarriage, and the rate of nonmarital childbearing? Will it increase nonresident fathers' involvement with their children, and what will the consequences be?

If stronger enforcement had the unintended effect of reducing fathers' work effort or forcing them into the underground economy, everyone would be worse off, including the father's first family, his subsequent or current family, and the government, which would collect less in taxes. The evidence that we have, though drawn from a small sample of nonresident fathers, suggests that these fears are overdrawn: child support payments appear to have no particular effect upon fathers' work behavior.[5] But the evidence on work in the underground economy is especially weak.

Is strict enforcement likely to limit nonresident fathers' ability to remarry and father additional children? The answer appears to be that effective enforcement reduces the likelihood of remarriage, especially for low-income men. Once fathers remarry, child support enforcement is unlikely to prevent them from having children in subsequent marriages. The research presented here and elsewhere suggests that stronger child support enforcement does reduce nonmarital births.[6]

Stricter child support enforcement could conceivably have both good and bad effects on father-child relations and on the relations between nonresident fathers and the mothers of their children. By increasing nonresident fathers' financial investments in children, stricter enforcement may increase their incentive to spend time with their children and to participate in decisions about their children's lives. A father paying support is likely to want to ensure that the support money is spent on the children. But more rigorous child support enforcement will bring more fathers into the system, including those who have dropped out to avoid conflict with their children's mother. Some conflict between parents who have been unable or unwilling to maintain a marriage or a household is perhaps likely as stricter enforcement takes hold. The effects may be different depending on whether the parents were ever married. More aggressive attempts to establish paternity for children born outside of marriage may lead to greater numbers of nonresident fathers needing help in gaining access to their children.

The evidence now available suggests that fathers who pay support do indeed have more influence in childrearing decisions, and may see their children more frequently than fathers who do not pay support. The vast majority of separating and divorcing parents do not report major problems with visitation or access. But the evidence also suggests that stricter enforcement of child support obligations is likely to increase children's exposure to serious and possibly harmful disagreements between parents. For most fathers, child support payments have no effect on conflict, but when payments increase beyond $2,000 a year, the incidence of more serious conflict rises.[7]

Will stricter enforcement lead to an increase in domestic violence or in violence directed against the children? Only a small percentage of nonresident fathers have serious alcohol or drug problems. But these problems appear to be more common among nonresident fathers than among resident fathers, and especially among men who do not pay child support. Tougher child support enforcement is, therefore, likely to bring more troubled fathers in contact with their children and the children's mother.[8]

Some of the evidence in this area comes from studies of programs designed to improve nonresident parents' access to their children.[9] Families who participated in these programs had much higher rates of serious conflict and allegations of domestic violence and substance abuse than parents in the general population. Nonresident and resident parents both were equally likely to report visitation problems—disagreements about scheduling, arguments erupting when children were picked up or dropped off, and problems caused by new relationships. High percentages of both nonresident and resident parents were also concerned about their child's safety in the other parent's home, but resident parents were more likely to report these concerns.

The more serious the problems between the parents, the less effect the programs seem to have had. The majority of parents in the most troubled families did not report improvements in the relationship. Among participating families in general, fathers' time with their children increased. But, at best, there was only a small improvement in compliance with child support orders.

The evidence so far suggests that more rigorous enforcement may have a larger effect on the behavior of low-income fathers than on fathers with more economic resources. This pattern is consistent with the more difficult experiences low-income fathers have in the child support system. It also reflects the higher percentage of these fathers who have children out of wedlock and who are therefore more subject to increased efforts to establish legal paternity than are higher-income fathers.

Clearly the indirect effects, whether benign or harmful, of child support enforcement on fathers' behaviors could turn out to be very important. The behavioral findings reinforce the cautions we raised earlier about overzealous enforcement among poor fathers and fathers of children on welfare. Overburdening these men and using their payments solely to reduce welfare costs are two strategies that are likely to increase negative behavioral responses without increasing children's economic security.

A research agenda

We have described the portrait of nonresident fathers that emerges in *Fathers under Fire* as a "patchwork." To draw a truly accurate portrait, we must do a better job of including these men in national and state surveys, and of persuading those who are in such surveys to acknowledge their paternity status. Accurate information on unwed fathers is particularly important, since they are the fastest growing part of the population of nonresident fathers.

We need to gather more information from the mothers, including information on the fathers' education, occupation, work history, and marital histories. We should ask mothers more questions about their exposure to domestic violence, distinguishing between experiences with their own fathers (or father figures), the fathers of their children, and other sexual partners.

We also need to follow fathers over time. Many of the factors that determine fathers' ability to pay child support are likely to change as fathers grow older. For example, fathers' ability to pay increases with age.[10] Such longitudinal data are very expensive to gather, and attrition is always a problem. This is especially true in studies that attempt to follow fathers after the breakup of a marriage or union, when residential mobility is very high.[11]

Finally, couple data are essential if we want to understand the relationship between parents who live apart. Mothers can provide reasonably accurate information on child support payments and visitation, but they cannot report on the father-child relationship or on many other aspects of nonresident fathers' lives. Similarly, fathers cannot provide good information on mothers' attitudes and expectations or on mother-child relationships. Even information about the couple's relationship is likely to be biased if obtained from only one party.

We see the analyses in *Fathers under Fire* as a first step toward assessing the effects of stronger child support enforcement on fathers' behavior. Various demonstrations are under way and being formally evaluated, such as Parents' Fair Share, and fatherhood initiatives are springing up throughout the country with different emphases and different clienteles.[12] New and better data on fathers can inform these initiatives by highlighting the areas where fathers need the most help. Parent education programs and mediation for divorcing couples have gained widespread support, and their effectiveness and costs need to be described and carefully evaluated. Conflict resolution among low-income parents is a particularly important topic for future research, given that the new welfare legislation pushes unmarried parents toward more contact and greater interdependence.

Everyone agrees that raising healthy and secure children is an essential public goal. Disagreements occur on how to achieve this goal. We believe that child support policy is one mechanism for improving children's lives. Although we have tried to approach the policy issues primarily from the nonresident father's point of view, it is obvious that child support policy must also take account of the interests of children, resident mothers, and society as a whole. Similarly, just as child support policy should not be shaped by only one set of interests, it must be considered in light of broader social policies affecting families and children.

Child support policy reflects the extent to which the support of children is a private rather than a public responsibility. Some people take the position that child support enforcement is unnecessary because the costs of childrearing are a public responsibility. Others argue that the support of children is purely a private responsibility. We believe that there is a public and private responsibility to support children. The judgments required in balancing the competing interests of family members, the public, and the state are difficult, as normative approaches demonstrate.[13] Social scientists cannot answer the question of whether we should do more for nonresident fathers. They can, however, provide information to policymakers and citizens on whether a policy is effective and how benefits and costs are distributed across different groups—fathers, mothers, children, and taxpayers. ■

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[1]Funding was provided by the Annie E. Casey Foundation, the Ford Foundation, and the Russell Sage Foundation.

[2]Chapter 3, "The Effect of Child Support on the Economic Status of Nonresident Fathers" (Meyer).

[3]Chapter 2, "A Patchwork Portrait of Nonresident Fathers" (Garfinkel, McLanahan, and Hanson).

[4]Chapter 9, "Low-Income Parents and the Parents' Fair Share Program" (Johnson and Doolittle).

[5]Chapter 4, "Does Child Support Enforcement Policy Affect Male Labor Supply?" (Freeman and Waldfogel). These findings are similar to those of M. Klawitter, "Child Support Awards and the Earnings of Divorced Noncustodial Fathers," *Social Service Review* 68 (1994): 351–68.

[6]Chapter 5, "Child Support and Fathers' Remarriage and Fertility" (Bloom, Conrad, and Miller). The evidence, however, is drawn from small samples. Chapter 7, "The Effects of Stronger Child Support Enforcement on Nonmarital Fertility" (Case). Case's results have been replicated by other studies. See, for example, I. Garfinkel, D. Gaylin, S. McLanahan, and C. Huang, "Will Child Support Enforcement Reduce Nonmarital Childbearing?" unpublished paper, 1998; R. Plotnick, I. Garfinkel, D. Gaylin, S. McLanahan, and I. Ku, "Can Child Support Enforcement Reduce Teenage Premarital Childbearing?" Paper presented at the Population Association Meetings, March 1998.

[7]Chapter 6, "Will Child Support Enforcement Increase Father-Child Contact and Parental Conflict after Separation?" (Seltzer, McLanahan, Hanson).

[8]Chapter 2 (Garfinkel, McLanahan, and Hanson).

[9]Chapter 8, "Programs to Increase Fathers' Access to Their Children" (Pearson and Thoennes).

[10]E. Phillips and I. Garfinkel, "Income Growth among Nonresident Fathers: Evidence from Wisconsin," *Demography* 30, no. 2 (May 1993): 227–41; R. Lerman and T. Ooms, eds., *Young Unwed Fathers: Changing Roles and Emerging Policies* (Philadelphia: Temple University Press, 1993); D. Meyer, "Supporting Children Born outside of Marriage: Do Child Support Awards Keep Pace with Changes in Fathers' Incomes?" *Social Science Quarterly* 76, no. 3 (September 1995): 577–93.

[11]The 1979 cohort of the National Longitudinal Survey of Youth (NLSY) has done a very good job of keeping track of nonresident fathers, and the new NLSY–1997 cohort will provide an excellent opportunity for following men who are coming of age in the late 1990s and early 2000s.

[12]Chapter 9 (Johnson and Doolittle).

[13]Chapter 10, "How Should We Think about Child Support Obligations?" (Minow).

What welfare recipients and the fathers of their children are saying about welfare reform

Amid the debates about the 1996 welfare reform bill, the Personal Responsibility and Work Opportunity Reconciliation Act, and its aftermath, the voices of the people most affected—welfare recipients and the fathers of their children—have rarely been heard. As part of the planning for a large project, "Welfare Reform and Children: A Three-City Study," researchers conducted focus-group interviews in three cities, Baltimore, Boston, and Chicago, between November 1996 and November 1997. Their report of these meetings, "What Welfare Recipients and the Fathers of Their Children Are Saying about Welfare Reform," appeared in June 1998.[1] Here we provide a sampling of what participants had to say about important features of the new welfare regimes, and how their lives might be affected. (The study itself will begin in January 1999.)

Each of the 15 focus groups was composed of about 12 participants; 11 were all female, and 4 all male. Seven focus groups consisted of African Americans, 6 of Hispanics, 1 of whites, and 1 was a mixed white and African-American group. Participants ranged in age from 21 to 36. Groups met for two hours in community centers and service organizations in poor or working-class neighborhoods with moderate to high levels of welfare participation.

Researchers asked the participants what they had heard about the changes in welfare, what they thought the effects of these changes might be, and what messages they would give to lawmakers about the changes. Most group members evidenced a broad understanding of the new requirements, though many were vague on details. On balance, the predominant tone of the focus groups was one of cautious optimism—perhaps surprisingly so, given that welfare recipients face the threat of time limits and sanctions. Although many participants were concerned that they would not be able to move into the work world, they seemed willing to try if government agencies would provide them with what they viewed as necessary assistance.

On time limits

African-American man with custody of his child, Baltimore:

After 60 months you're cut off, you cannot get it anymore in your life. I don't care if you got kids, I don't care if you ain't got a place to live, none of that, you cannot get social service [the term used for welfare in Baltimore] anymore.

African-American man, Boston: Two years is long enough for you to get moving and go to some kind of school. That is plenty of time for you to go out and look for a job if you get up and look just about every day. I think two years is plenty of time.

African-American woman, Boston: Don't just put a two-year limit on every person because everyone's situation is entirely different. Because if a person has been on it for seven years, two years isn't going to make a difference, but that person who is motivated and wants to do something, if they do have that six-month-old child, two years is not going to be enough time. I think they should evaluate each person's personal situation.

On work requirements

Hispanic woman, Boston: I think it is a good change. But it depends on the mother's situation. If it is a mother who has a handicapped child, they should not make her go to work. But if it is a mother without any problems, they should offer day care services that they have, and yes, indeed, they should demand it.

African-American woman, Chicago: My child, I'm not going to leave my child. Not no four-year-old. Worrying about if somebody is doing something to him and if he going to tell me or if they scared him so much where he can't, you know.

Time limits, work requirements, and gender relations: Two conversations

Hispanic men in Boston:

A: I don't agree with child support or with welfare or any of that because this is what the woman says to you, "Well, if you want, get out, because there is welfare." For those reasons.

B: So it takes away your manhood, if she is getting welfare?

A: She says, "It supports me." She feels bigger, more powerful, yes. Because of this, I wish it didn't exist, "I'm going to welfare and it supports my children and I am going to get child support, so there!"

African-American women in Chicago:

Moderator: But what about the partners in your life, how is that [women being cut off the welfare rolls] going to affect them?

A: Oh, Lord.

B: Argument every day. . . . He don't feel he got to get up and go to work, and he got to support everything. So, all the money that comes into the house, he is bringing in and he got to pay the bills and buy food. . . . It's going to be to a point where he's going to be so stressed out about doing it and you and him is going to stay into it every day and it's always going to be something. . . .

A. I ain't going to be sitting around waiting for no man to issue me out no money. Like I said, I don't feel comfortable . . . with anybody watching my kids. So, he ain't going to be the only one working, you know, I'm going to do something. Where I'm going to work at they going to have a nursery or something because I got to have my own money.

B: Especially when you're so used to doing stuff yourself and then everything get cut off and then that really make him think you need him. . . . That gives him control and power over you because he be like, well, I don't know how you going to get such and such. ■

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[1]For the full report, see the project's web site at <http://www.jhu. edu/~welfare/>. The main study will comprise longitudinal household-based surveys of parents and children and ethnographic field studies of a smaller number of families in the same neighborhoods, along with intensive observation through videotaped parent-child interactions, observations at child care centers, time-diary studies, and interviews with fathers or father figures. Principal investigators for the project are Ronald Angel, University of Texas; Linda Burton, Pennsylvania State University; P. Lindsay Chase-Lansdale, University of Chicago; Andrew Cherlin, Johns Hopkins University; Robert Moffitt, Johns Hopkins University; and William Julius Wilson, Harvard University. The study is supported by the Boston Foundation, the Annie E. Casey Foundation, the Edna McConnell Clark Foundation, the Lloyd A. Fry Foundation, the Joyce Foundation, the W. W. Kellogg Foundation, and the Woods Fund of Chicago, and by grants from the National Institute of Child Health and Human Development. For further information, send an e-mail message to welfare@jhu.edu or contact Prof. Andrew Cherlin at the Department of Sociology, Johns Hopkins University, Baltimore, MD 21218.

Joint Center for Poverty Research: Grants and Positions Available

Small Grants

The Joint Center for Poverty Research seeks research proposals for small grants in the area of **domestic poverty and policy** for the 1999–2000 academic year.

Funded by the Department of Health and Human Services
This program is intended to support junior or untenured researchers who have completed the Ph.D. degree. Preference will be given to researchers using new approaches and innovative methods. The maximum amount of the award is $20,000; no fewer than five small grants will be awarded.

Funded by the U.S. Census Bureau for research using SIPP data
Awards will be restricted to researchers using the Survey of Income and Program Participation (SIPP). The maximum amount of the award is $20,000; no fewer than five small grants will be awarded.

Apply by December 15, 1998. Researchers who receive awards will be expected to present their research at a Washington, DC, conference in May 2000.

Visiting Scholar positions

The Joint Center for Poverty Research seeks applicants for two one-year research positions for the 1999–2000 academic year. One position each is available at Northwestern University and at the University of Chicago. Applicants should be untenured or junior researchers who have completed the Ph.D. degree. **Apply by December 1, 1998.**

Detailed information and instructions regarding these awards can be found on the JCPR web site at <http://www.jcpr.org/> or via e-mail at povcen@nwu.edu. The JCPR is funded by the Office of the Assistant Secretary for Planning and Evaluation of the U.S. Department of Health and Human Services.

Irving B. Harris Fellowship in Child Development and Public Policy

The Irving B. Harris Graduate School of Public Policy Studies at the University of Chicago is seeking candidates for a one-year A.M. program providing expertise in childhood development and skill in policy research and analysis. Full tuition and $10,000 stipend awarded, no research requirements. Fellowship period is one academic year, beginning September 1999. Applicants must hold a graduate degree in early childhood development or related field. **Apply by January 15, 1999.** Contact Ellen Cohen, Director of Admission, (773) 834-2576, or via e-mail, eb-cohen@uchicago.edu. For more information, visit the School's web site at <www.HarrisSchool.uchicago.edu>.

A three-year survey of Milwaukee families and the Wisconsin Works welfare program

If the state of Wisconsin is at the leading edge of welfare reform in the United States, then the city of Milwaukee, where over 50 percent of Wisconsin welfare recipients live, will be well to the fore, with interesting and important lessons to offer. With funding from The Joyce Foundation of Chicago and the Office of the Assistant Secretary for Planning and Evaluation, Department of Health and Human Services, the Institute for Research on Poverty (IRP) will study the effects of Wisconsin Works (W-2) on participating families in Milwaukee. The study is under the direction of IRP affiliates Irving Piliavin and Mark E. Courtney.

Because W-2 is one of the most ambitious and detailed welfare reform programs yet to be undertaken, its effects in Milwaukee are a subject of intense interest nationally to federal, state, and local policymakers and administrators, as well as to the social policy research community. Wisconsin officials have expressed their desire for objective, reliable, and timely data that will enable them to assess different parts of the W-2 program and to refine and adapt them accordingly. The project has been approved for state participation by the Wisconsin Works Management and Evaluation Project, the state's umbrella organization for W-2 evaluation efforts.

Under the new state welfare programs, low-income families will no longer be indefinitely entitled to financial assistance. They will face serious time limits and work expectations. Will these programs successfully engage welfare recipients in the labor force, with material and emotional benefits for all family members? Or will they adversely affect the stability and well-being of some families, and especially of their children? At this point, we have virtually no systematic information about the effects of welfare reforms and the new welfare programs on participating families; all we know is that participation in the welfare system is drastically decreasing nationwide, and particularly in Wisconsin. Further, we know little about the families that have left the welfare system—a population hard to track.

The new project will seek to extend our understanding by surveying families that come into contact with agencies responsible for implementing W-2 in Milwaukee. (For administrative purposes, the city has been divided into six districts, in which program operations have been contracted to five different nongovernmental agencies.) In each district that is studied, 200 families will be randomly selected, drawn from those who have contact with the W-2 agency, including families that apply to participate in W-2 (whether they are adjudged eligible or ineligible by the agency), those that apply but decide not to participate, and those that are immediately diverted by the agency to private-sector employment. The families will be asked to complete two interviews, one face-to face interview at the time they first agree to participate in the survey and another 12 months later that will explore their work experience and family well-being.

Irving Piliavin brings to the project considerable experience in longitudinal survey research, including two studies of homeless adults, a very difficult population to follow over time. Mark Courtney has particular expertise in child welfare issues. Both have written extensively on public assistance and welfare reform issues and are currently collaborating on studies of former foster youth in Wisconsin and of W-2 participants in Dane County, Wisconsin. ■

Welfare Reform: Information on Research and Policy

Two World Wide Web sites offer comprehensive, current information about state and federal welfare initiatives and the monitoring and evaluation projects that are in progress or in planning.

The Welfare Information Network (WIN) is a foundation-funded project to help states and communities obtain the information, policy analysis, and technical assistance they need to develop and implement welfare reforms that will reduce dependency and promote the well-being of children and families. The WIN web site, at <http://www.welfareinfo.org>, provides detailed information on the wide range of issues staff are tracking, access to their publications, and lists of other sources of information on welfare reform implementation. (e-mail: welfinfo@welfareinfo.org; tel. 202-628-5790.)

The Research Forum on Children, Families, and the New Federalism is an initiative of the National Center for Children in Poverty in the School of Public Health at Columbia University. It encourages collaborative research and informed policy on welfare reform and child well-being. The Research Forum's web site, at <http://www.researchforum.org>, features an on-line database with up-to-date summaries of welfare research projects. (e-mail: info@researchforum.org; tel. 212-304-7132.)

The Americanization of British welfare: A case study of policy transfer

Robert Walker

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On May 1, 1997, the new British Labour party swept into government with a vast majority on a platform that apparently owed much to the social policy views of the Clinton administration.[1] Not since 1945 had welfare been a key issue in a British election campaign. In that year, the Labour Party had taken power with a promise to reshape the United Kingdom as a welfare state along socialist principles. But by 1997 both the ideology and the terminology had changed. The Labour leadership was now using the term "welfare" in the narrow U.S. sense of means-tested benefits, contrasting it with work, lauded as the antidote to a growing "underclass."[2]

In the subsequent months, major reforms were implemented and more announced. Yet by July 1998 most of the key politicians who had been entrusted to "think the unthinkable" and to implement reform had either been sacked or had resigned. Negative briefings and counter-briefings in the aftermath of these departures revealed profound tensions within the administration over the new directions in social welfare policy.

It is premature to conclude either that welfare reform in the United Kingdom is dead, or that the Americanization of British welfare is over. It is, however, instructive to assess how far the reforms have already progressed, and to reflect on whether the current impasse is because U.S. welfare policies do not travel well.

With these two objectives in mind, I first outline New Labour's political perspectives, drawing attention to the similarities and differences between policy agendas in Britain and the United States. I then describe the main reforms and the political failings that may have short-circuited them, reflecting on the reasons that ministers in Tony Blair's government lost their posts so early in the process of welfare reform.

Anglo-American welfare

The British and U.S. welfare regimes have much in common.[3] Whereas the welfare states of continental Europe emphasize the goals of social cohesion and social solidarity, the residual systems in Britain and the United States focus on the relief of poverty. Rather than universal, earnings-related social insurance schemes, the Anglo-Saxon model relies more heavily on means-testing. The European social democratic model, in which the social partners—government, employers, and trade unions—play an active role together in the management of labor market and welfare policies, is likewise spurned in both Britain and the United States in favor of market solutions and a minimalist role for government.

It is not surprising, therefore, that British politicians—even Labour ones—should look to the United States when in search of new policy ideas.

Defining differences

There are nonetheless profound differences between the two countries. Perhaps most significant, beyond simple size and wealth, is that Britain is a unitary rather than a federal state. Almost all social policies are national in coverage. Job placement services, social assistance, and social security benefits are delivered by local offices of national agencies. Local government provides social work and educational services but does so within a tight regulatory framework.

Britain boasts a National Health Service that is largely free at the point of use. Health costs are not a major item in the lives of low-income families. Likewise, a universal, non-means-tested Child Benefit lessens the risk of poverty that is attributable to the presence of children and reduces the work disincentives faced by large families. Social assistance is universally available, not categorical as it is in the United States. It provides a safety net to almost every low-income person who is not working—17 percent of the population. Means-tested assistance is also available for low-paid workers provided they have children and, in pilot areas, even for people who do not.

Most recipients of "welfare" in Britain are the retired, living on government-provided pensions (Figure 1). Unemployed people are the next largest group and considerably outnumber single parents (called "lone parents" in Britain).

Public-sector housing, though declining in importance in Britain, still comprises 22 percent of the housing stock, and other forms of social housing account for another 4 percent. A means-tested Housing Benefit covers some or all of the rent of almost anyone whose income is below a given level, whether or not the person is working. Gener-

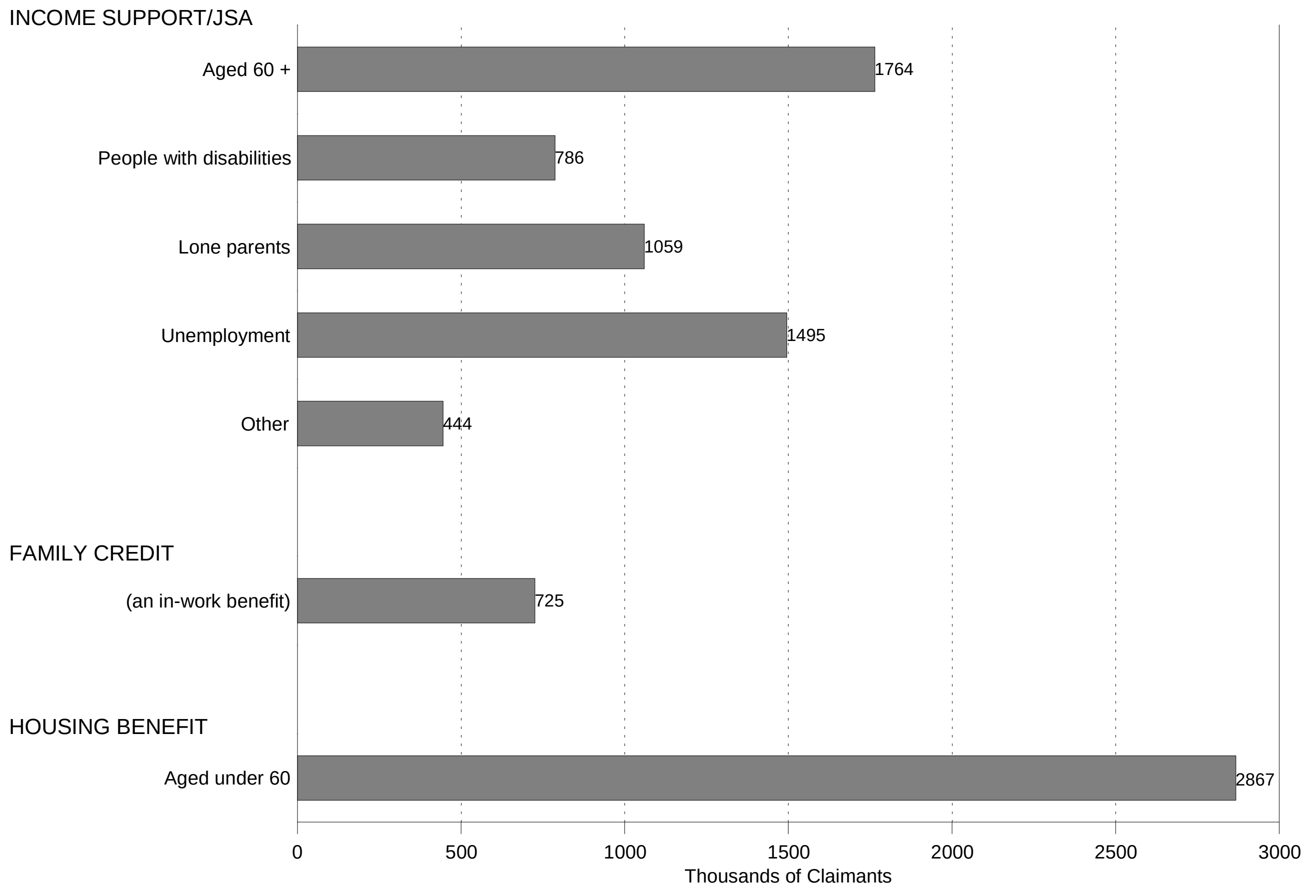


Figure 1. Welfare recipients in Great Britain, 1996.

Source: Social Security Statistics (London: Stationery Office, 1997).

ally available also are means-tested rebates for local property taxes.

Finally, race is almost entirely absent from British debates on welfare, although disproportionate numbers of unemployed and lone parent claimants are from ethnic minorities.

Political algebra

The regrouping and restructuring of the British Labour Party after its unexpected defeat in the 1992 general election involved not only changes to the party constitution and organization but also a new approach to policy and policy making that was much influenced by U.S. Democrats.

Labour strategists polled extensively to understand the concerns of target voters.[4] They concluded that these voters did not trust Labour to run the economy and feared that Labour would increase taxes. But the electorate did not reject public expenditure per se. While valuing money in their pockets, voters also valued quality services, especially health and education.

The election-winning strategy that Labour devised involved a cast-iron commitment not to raise income taxes, rigid control of public expenditures—interpreted, when Labour entered office, to mean sticking to the previous Conservative government's expenditure plans—and a pledge to improve health and education. In the longer term, the funding to improve education and health would be made available by moving people from welfare into work through compulsory training and work experience. In the short term, the investment in welfare-to-work programs was to be funded from a politically popular one-time tax on the so-called "excessive" profits of the recently privatized utilities.

Economic analysis

Labour strategists were aware that successive Conservative governments had failed to stem the growth of state spending on social security and social assistance. Moreover, poverty was high by historical standards and showed no sign of decreasing significantly.[5]

Part of this conundrum could be explained by the increase in "worklessness." This problem was not confined to the formally unemployed, but was apparent in people of working age who were economically inactive: lone parents, people with disabilities, "early" retirees, and the partners of the unemployed, who had also become increasingly marginalized from the labor market.

An associated concern was the increasing polarization between working and nonworking families. Employment rates were rising among women with working partners, especially in families with young children, whereas non-working women were increasingly partners of workless men. The proportion of working-aged families with no member working doubled, to 18 percent, between 1979 and 1997. The number of lone parents more than doubled, to 1.7 million, in the twenty years to 1996, and the proportion working fell from around 48 to 40 percent.[6]

Faced with this analysis, the new Labour Chancellor of the Exchequer, Gordon Brown, concluded that "the priority must . . . be to help those without work into work."[7] Apart from welfare-to-work measures, the full strategy entailed a "framework for macroeconomic stability and growth," a "flexible and adaptable labour market," "investment in training and skills," and measures "to make work pay," including a minimum wage and changes to the tax and benefit system—notably the introduction of a working families tax credit—to promote work incentives.[8]

The acceptance of the flexible labor market and, by implication, low wages, combined with proactive measures to encourage workers to accept them, positions New Labour closer to the Clinton administration than to social democrats in Continental Europe.

American values

But it is the language and ideology that underlines just how far New Labour is from European social democratic traditions. Blair's speeches, and the writings of his close colleagues, resonate with a potpourri of U.S. influences: Charles Murray, Lawrence Mead, Amitai Etzioni, David Ellwood, Clinton himself, and even, in the ubiquitous use of the term "New Deal," Franklin Roosevelt.[9]

The welfare state, according to Blair, is "encouraging dependency, lowering self-esteem and denying opportunity and responsibility in almost equal measure. . . .The more demands that are put upon it, the essentially passive nature of too much provision—especially benefits—is revealed."[10] Blair's colleague Frank Field, a Labour MP and social security specialist briefly in charge of welfare policy, agreed: "Hard work is penalised by the loss of entitlement. Incentives reinforce welfare dependency. Honesty is punished by loss of income. It is in this sense that welfare is the enemy within. Its rules actively undermine the moral fibre of our characters. In so doing it eats into the public domain and so erodes the wider moral order of society."[11]

Like Margaret Thatcher and John Major before him, Blair seems to accept that welfare has become a problem rather than a solution, destroying the work ethic and other family values. Unlike the Conservatives, Blair promised wholesale rather than piecemeal reform, based on enlightened self-interest that would itself lead to moral regeneration—an agenda forged from a heady mix of U.S. social liberalism and communitarianism, combined with British Christian Socialism. Chancellor Brown's economic analysis is broadly consistent with Blair's ideology but does not derive from it.[12]

The reforms

Labour entered power with some firm proposals to reform welfare and a longer list of aspirations. The manifesto included a pledge to "get 250,000 under-25-year-olds off benefit and into work," proposed "action on long term unemployment," a "positive policy" to help lone parents into work, "a sensibly set national minimum wage," and "choice in pension provision." It also offered an examination of "the interaction of the tax and benefits systems so that they can be streamlined and modernised, so as to fulfil our objectives of promoting work incentives, reducing poverty and welfare dependency, and strengthening community and family life."[13]

The firm proposals were brought together on July 2, 1997, in Chancellor Brown's first budget, described as a "welfare-to-work budget." They included New Deals for unemployed young people and the long-term unemployed that relied on compulsion, voluntary schemes for lone parents, a review to examine "the advantages" of introducing a U.S.-style tax credit, and a Low Pay Commission to advise on the level of a minimum wage.

New Deals for the unemployed

The New Deals for the unemployed, the tax credit, and the minimum wage were all pushed forward by the Chancellor of the Exchequer, uniquely, for Britain, turning the Treasury into a proactive agent of social policy. Transatlantic influences were to the fore in these proposals.

The New Deal for Young People aged 18–24 closely mirrors U.S. experience. Civil servants, cabinet ministers, and members of Parliament all made trips to Wisconsin, considered a bellwether state for welfare reform. There was also much airing of the conclusion from the GAIN program implemented in Riverside County, California, that the best return comes from getting people into jobs rather than investing heavily in human capital resources. However, U.S. ideas were inevitably grafted on to British institutions, typically established under previous Conservative governments.[14] In 1996, for example, the newly introduced Jobseeker's Allowance had combined unemployment insurance and means-testing into one scheme, halved to six months the period during which insurance-based benefits could be paid, and made benefit receipt conditional on signing and abiding by a Jobseeker's Agreement setting out the action to be taken to secure work.

Under the New Deal, young people enter a "gateway" of intensive help after six months unemployment (Table 1). This lasts a maximum of four months after which, if the Jobseeker's Allowance is still being claimed, young people must choose one of a set of options. These range from education to subsidized private-sector employment; compliance is enforced by the threat of benefit sanction. Much is made of intensive support from "personal advisors" and, as in U.S. welfare-to-work programs, of "delivery through partnerships." The state Employment Service is responsible for coordination at the local level with employers, local authorities, voluntary groups, and the state-funded Training and Enterprise Councils and Careers Service involved in provision. In ten areas, the private sector has been contracted to deliver the New Deal, both to explore its capacity to do so and "to generate further interest in New Deal in the commercial sector."[15]

The New Deal is not activated for older jobseekers, who outnumber the under-25s by almost three to one, until they have been unemployed for two years. They can then be compelled to take a subsidized job or given access to education and training.

It is too early to establish the effectiveness of the New Deal. Twelve pathfinder pilot programs for young people were established in January 1998 and the scheme went national in April 1998, eleven months after the election. The rapid implementation of major changes was exceedingly risky, given the need to achieve early success in order to avoid triggering the spiral of cynicism and disbelief that had bedeviled earlier welfare-to-work and training schemes. Indeed, some critics argue that compulsion is only fair if the quality of the options on offer can be guaranteed, whereas others go further and suggest that compulsion itself reduces their quality.[16] The priority given to young people—the result of resource constraints, U.S. evidence of a link between joblessness and crime, and concern that youth unemployment damages later labor market performance—has also been questioned.[17] The vast majority of unemployed people have to wait two years before remedial intervention, with none of the early targeting based on the characteristics of the unemployed that accompanies unemployment insurance in the United States.

Working Families Tax Credit

Britain and the United States have both adopted strategies of supplementing the incomes of low-paid workers to boost work incentives and alleviate poverty among workers. Britain achieved this through means-tested, work-linked benefits, most notably the Family Credit paid to working lone parents and couples with dependent children; the United States did so through the Earned Income Tax Credit. From before the election, it was apparent that Chancellor Brown and his advisers were committed to changing to the U.S. model, not least because they felt that it was politically easier to increase expenditure on social programs by reducing the taxes paid by low-income families than by raising the level of benefits paid to them.

This change in direction drew considerable opposition from both inside and outside government.[18] Opponents argued that the British Family Credit paid money every two weeks, when needed, rather than at the end of the financial year, and was effective in relieving child poverty by paying the benefit directly to the person financially responsible for care of the child (typically the mother). The Chancellor faced technical problems too. In Britain, income taxes are paid by individuals and do not entail a household assessment. Moreover, most people do not have to file annual tax returns as they do in the United States—taxes are simply deducted from paychecks in accordance with preestablished tax tables. Taxes are also cumulative.

The Chancellor and his advisers nevertheless prevailed in this matter. The Working Families Tax Credit, to be implemented in October 1999, is considerably more generous than the Family Credit that it replaces, but is a tax credit in name only (Figure 2).[19] A person's maximum credit is determined according to family size and withdrawn when net income (before payment of the credit) exceeds £90 per week, at a rate of 55p for every £1 earned (Table 2).[20] The credit will be administered by Inland Revenue (the British equivalent of the Internal Revenue Service), and recipients can choose whether it is paid in the wage packet to the worker or directly to the person responsible for child care. Payment is not automatic, but requires potential recipients to complete an application. Renewals are required every six months and there is no end-of-year reconciliation with a person's total tax bill.

Promoted as a way of increasing work incentives (it reduces the combined marginal tax and benefit withdrawal rate for 500,000 families[21]), the Working Families Tax Credit has been welcomed for its generosity but criticized for switching resources from the mother's to the father's pocket.[22]

Minimum wage

The minimum wage was given impetus by Chancellor Brown, but Labour's case for a minimum was also succinctly presented by Tony Blair:

> A minimum wage is essential as a matter of common decency. But it is essential for economic reasons too. A minimum wage is essential to make work pay. Bring in a minimum wage and it is worth people working, they are helped off welfare and into work. . . . The minimum wage is good economics. Just look at the

Table 1
The New Deal Programs

Target Group	Duration of Worklessness	Funding £ million	Compulsion	Content	Remuneration	Subsidy to Employer[a]	Implementation
Young people aged 18-24	More than 6 months	2,620	Yes	*Gateway*: Intensive help, advice, and guidance *Options*: Subsidized employment Voluntary work Environmental Task Force Self-employment Full-time education/training *Follow-through:* Renewed intensive help	 Rate for job Wage or £15.83/wk grant Wage or £15.83/wk grant Wage or £15.83/wk grant	£60/ wk for 6 months Training contribution of £750	Pathfinder areas: January 1998 Nationwide: April 1998 All options to include accredited training of 1 day/wk
Long-term unemployed aged 24+	More than 2 yr	450	Yes[b]	*Gateway:* As above *Options:* Subsidized employment Full-time education/training *Follow-through:* As above	 Rate for job	£75/ wk for 6 months	June 1998
Partners of the unemployed	Duration of partner's unemployment	60	Yes	Likely to be similar to New Deals for young people and long-term unemployed above			April 1999
Lone parents	No restriction by duration[c]	190	No	Advice Access to programs Follow-up			Pilots: July 1997 Nationwide: October 1998
People with disabilities	28 wk in receipt of benefits on grounds of incapacity	200	No	Test schemes			September/October 1998

Note: In September 1998, UK£1 = US$1.66.

[a]Participants who do not receive a wage continue to receive an allowance equal to the Jobseeker's Allowance. Travel grants may be made.

[b]Compulsion is less explicit than for young people 18–24 but benefit sanctions apply if the person is deemed to be in breach of a jobseeker's direction.

[c]Originally limited to lone parents with school-aged children. The 1998 budget added £25 million to meet the cost of helping lone parents with children under 5.

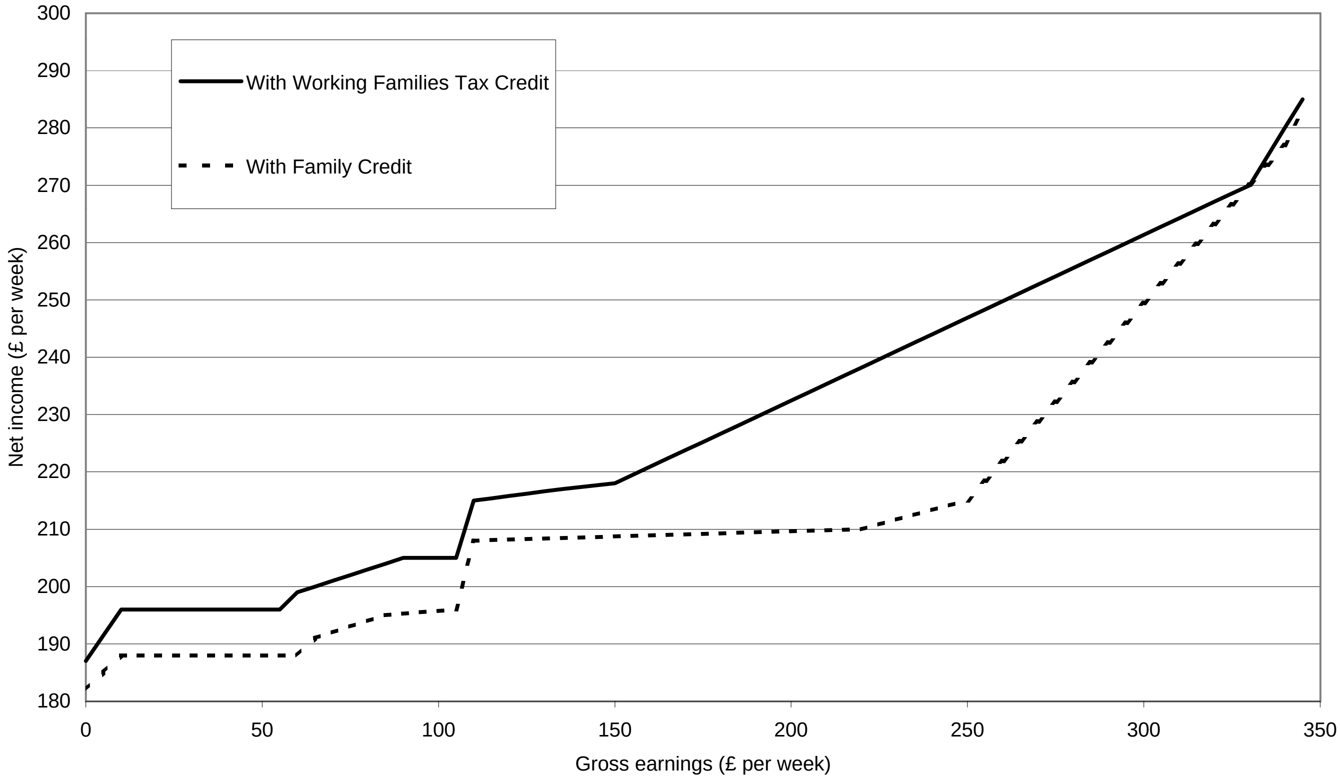


Figure 2. Net income, after taxes and benefits, of a one-earner couple with two children aged under 11.

Source: Social Security Statistics (London: Stationery Office, 1997).

> United States. A minimum wage, recently raised, and the highest rate of job creation in the industrialised world.[23]

The government accepted the recommendation of the Low Pay Commission, published on June 18, 1998, for a minimum wage of £3.60 an hour to be introduced in April 1999. For 18–21-year-olds, it proposed a "development rate" of £3.00 rather than the £3.20 suggested by the Commission.

Most commentators accepted that there would be minimal negative employment effects from a minimum wage pitched at this level—midway between the "around £3" indicated by the Confederation of British Industry and the "above £4" proposed by the Trades Union Congress. But, equally, the impact of the National Minimum Wage may be mainly symbolic, although it is predicted to affect 2 million, or 9 percent of employees. Three-quarters of the beneficiaries will be women, more than half of whom work part time, and many of whom are second earners in nonpoor families. For low-income families, higher wages will be offset against the lower Working Families Tax Credit, reducing public expenditure but not increasing family incomes. The Working Families Tax Credit carries the major burden of maintaining work incentives and relieving poverty among those working.

Implementing the New Deal, designing a workable tax credit, and setting a minimum wage were the major successes in welfare reform of Labour's first year in government. But the metamorphosis of Labour's vaguer aspirations into policies created much difficulty and political embarrassment.

The failings

Labour's failures were mostly sins of omission rather than commission. An exception was the policy on lone parents, closely identified with Harriet Harman, who, as Secretary of State for Social Security, was the senior social security minister.[24]

Lone parents

Although the policy on lone parents contributed to Harman's downfall, she achieved much in this area that was positive. Within weeks of the election, a voluntary New Deal was implemented in eight areas for lone parents with school-aged children on Income Support (social assistance). It offered advice on work opportunities, training, child care, and work-linked benefits. By the July 1997 budget, the government had decided that it would extend this New Deal to lone parents of pre-school-aged children when the program went nationwide in October 1998. Moreover, for the first time in Britain, the provision of child care was recognized to be part of the economic infrastructure. A framework document in May 1998 proposed a three-pronged strategy: increased provision of care, higher standards, and a Childcare Tax Credit.[25]

Problems arose because Labour chose to implement Conservative proposals to abolish the One Parent Benefit, an addition to the universal Child Benefit.[26] This was done in the context of Chancellor Brown's promise to operate within the previous government's expenditure plans. However, it generated an unprecedented revolt by government supporters that Harman found difficult to assuage, given the evidence of high levels of poverty among lone parents. It also triggered suspicion that the New Deal for Lone Parents would be made compulsory, revealing that the level of ambivalence as to whether lone parents should primarily be homemakers or workers is still much more acute in Britain than in the United States.

Table 2
The Structure of the Working Families Tax Credit

		£ per week
Basic tax credit (one payable per family)		48.80
Tax credits for each child aged		
0-11		14.85
11-16		20.45
16-18		25.40
Tax credit for people working more than 30 hours/week		10.80
Taper[a]		55%
Example: a one-earner couple earning £220 a week, with two children aged under 11		
Gross earnings		220.00
Less national insurance		15.60
And gross income tax		25.91
Net earnings[b]	(1)	178.49
WFTC	(2)	40.63
which consists of:		
Basic tax credit =		48.80
2 child tax credits =		29.70
30-hour tax credit =		10.80
less 55% of excess of (1) over prescribed withdrawal threshold of £90		48.67
Child Benefit	(3)	23.25
Total income (1+2+3)		242.37
Meaning that the tax liability =		-14.72

Source: U.K. Budget, 1998, background papers.

Note: Amounts are in UK£ per week, 1998-99 prices. In September 1998, UK£1 = US$1.66.

[a]"Taper" is the amount of the credit withdrawn as a percentage of every additional £1 of net income in excess of the threshold.

[b]Any additional income will also serve to reduce the level of the tax credit.

Ironically, a substantial rise in the basic Child Benefit announced in the March 1998 budget replaced much of the income lost by lone parents, although it did not restore the differentials designed to reflect the additional costs of lone parenthood. However, by then the damage was done to the credibility of the social security ministers.

The Consultative Green Paper

If getting the unemployed back to work was Labour's clarion cry, reform also had to tackle the burgeoning cost of disability benefits and the prospect of massively increased inequality among old age pensioners as a result of the decreasing real value of the state pension.[27] These issues were potentially as explosive as the lone parent policy.

To crack these and other problems, Tony Blair appointed Frank Field as Minister for Welfare Reform. A long-awaited and much-heralded policy document on welfare (in British parlance, a consultative Green Paper) finally appeared in March 1998.[28] Following the backbench revolt over lone parents, Tony Blair took a dominant personal interest in its preparation. However, the Green Paper provided answers to the problems neither of disability benefits nor of old age pensions. Indeed, it amounted to little more than an elaboration of eight principles (see the box on p. 39).

The difficulties encountered by Labour with respect to disability benefits paid to people of working age paralleled those relating to lone parents. On the one hand, Labour announced welcome benefit changes to remove certain structural barriers to work and a "New Deal for Disabled People," comprising a series of pilots to find ways of helping people retain or reforge contact with the labor market. But to meet the additional cost of disability, Labour also carried forward Conservative proposals to tighten the incapacity criteria for the long-term sick and to conduct a review of people receiving benefits. This generated much public criticism. The disability lobby is vociferous, and disability benefits in Britain are assessed by medical practitioners. The public tends to view the involvement of physicians as legitimating claims for benefits, and the sick are generally not seen as a part of a culture of dependency in need of moral regeneration.[29]

The Green Paper also revealed that Labour thinking—at least, public thinking—on pension reform had hardly changed since the election, during which they had proposed "stakeholder pensions," to be provided by new partnerships between financial service companies, employers and employees, for low-income persons who could not afford an occupational or private pension. In this, the influence of Field may be discerned. Field believes that benefit systems can corrupt; he was strongly opposed to the additional means-testing inherent in the Working Families Tax Credit, with its potential for increasing fraud.[30] This view, often espoused by Blair himself, is not always compatible with the economics of Chancellor of the Exchequer Brown, and economics has often prevailed. In the matter of tax credits, Field had not been able to stop the Treasury from getting its way; however, his own Department of Social Security had primary responsibility for pension policy and presumably should have had greater influence over its content.

Before becoming a cabinet minister, Field had argued that social insurance should be recast in the form of a National Insurance Corporation run by stakeholders (employees, employers, and government) that would provide fully funded, basic subsistence pensions for all. Contributions for the unemployed and those outside the labor market would be paid by the state, thus removing the need for means-testing. Second pensions, provided by pension companies, national savings, or mutual aid organizations, would be compulsory. The set-up costs of such a scheme were likely to be prodigious. As part of its pensions review, moreover, the Department of Social Security had established an independent Pension Provision Group to look at levels of pension provision and assess future trends (it was not charged with making recommendations). The group did not publish its analysis until July 1998.[31]

In the event, the government's only significant announcement on pensions was made by the Chancellor of the Exchequer on July 14, 1998, only 13 days before Harman and Field lost their jobs. This was the introduction of a minimum income guarantee for existing pensioners—an extension of means-testing.

The answers

So why did the social security ministers lose their jobs? Almost certainly it was not because they implemented American-style policies. Welfare to work has been accepted as a policy strategy, albeit with some reservations about targeting and the possible perverse effects of compulsion.[32] On the other hand, Labour has got into difficulties when promoting U.S. ideologies rather than policies. The British public does not seem to accept that it is lone parenthood rather than poverty that disadvantages children, nor that welfare recipients are trapped by indolence rather than force of circumstance. Hence, Blair's use of the term "underclass" has been replaced by the European term "social exclusion." And despite the moral overtones encapsulated in the U.S.-like rhetoric of "contracts," "self-help," and "rights and responsibilities," the thesis that underpins British welfare-to-work programs is that "the majority of the unemployed are only too eager to escape social exclusion and benefit dependency but face a number of structural barriers in doing so."[33] The end of welfare as we know it is not in sight.

Principles of Welfare Reform in New Labour's Britain

The new welfare state should help and encourage people of working age to work where they are capable of doing so.

The public and private sectors should work in partnership to ensure that, wherever possible, people are insured against foreseeable risks and make provision for their retirement.

The new welfare state should provide public services of high quality to the whole community, as well as cash benefits.

Those who are disabled should get the support they need to lead a fulfilling life with dignity.

The system should support families and children, as well as tackling the scourge of child poverty.

There should be specific action to attack social exclusion and help those in poverty.

The system should encourage openness and honesty and the gateways to benefit should be clear and enforceable.

The system of delivering modern welfare should be flexible, efficient and easy for people to use.

Source: *New Ambitions for Our Country: A New Contract for Welfare* (London: Stationery Office, Cm 3805, 1998), p. 2.

Ministers went primarily because they lacked authority.[34] The Chancellor of the Exchequer, Brown, broke precedent and actively engaged in making social policy; he was able to do so through the authority of office and personality. Dealing with policies that involved more than one department, he also had the authority to adjudicate between, and exploit disagreements among, departmental ministers. The junior social security minister, Frank Field, who had been given strategic responsibility for welfare reform, lacked executive authority, although he was ideologically close to Blair. His superior, Harriet Harman, lacked a role.[35]

With paralysis in the Department of Social Security, Blair's own authority came under threat when he was repeatedly asked: "When is your Minister for Welfare Reform going to reform welfare?" Harman was sacked. Field was offered an unwanted position outside Social Security and resigned.

The future of welfare reform is now in the hands of Alistair Darling, appointed Secretary of State for Social Security on July 27, 1998. Before this promotion, Darling was Financial Secretary at the Treasury, number two to Chancellor of the Exchequer Brown. There is currently no Minister for Welfare Reform. ■

[1]Specifically, these views were associated with the Democratic Leadership Council, a group of moderate Democratic politicians and policymakers of whom Bill Clinton was an early and prominent member.

[2]The Labour Party's 1997 Manifesto promised "We will get the unemployed from welfare to work . . . stop the growth of an underclass in Britain." *New Labour: Because Britain Deserves Better* (London: Labour Party, 1997), pp. 18–19. The concept of the "underclass" is heavily contested within the academic community in Britain.

[3]G. Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Cambridge: Polity, 1990).

[4]P. Anderson and N. Mann, *Safety First: The Making of New Labour* (London: Granta, 1997).

[5]Poverty, measured as the proportion of people with equivalized income below 40 percent of the average, was lowest in 1977, being around 3 percent. It is running at over four times that level today. See R. Walker, "Routes in and out of Poverty over the Life Course," in *Policies for Families: Work, Poverty and Resources*, ed. R. Bayley, A. Condy, and C. Roberts (London: Family Policy Studies Centre, 1995).

[6]On workless families, see H. M. Treasury, *The Working Families Tax Credit and Work Incentives, The Modernisation of Britain's Tax and Benefit System, Number Three* (London: The Public Enquiry Unit, H. M. Treasury, 1998). On lone parents, see Department of Social Security, *Welfare Reform Focus File 7, Children and Families* (London: Department of Social Security, 1997).

[7]H. M. Treasury, *The Working Families Tax Credit*, p. 6.

[8]H. M. Treasury, *Employment Opportunity in a Changing Labour Market, The Modernisation of Britain's Tax and Benefit System, Number One* (London: The Public Enquiry Unit, H. M. Treasury, 1997).

[9]For a detailed discussion of the intellectual influences upon New Labour, see A. Deacon, "Should We Worry about the Character of the Poor?" The Beckley Lecture, Blackpool, June 1996, and also "Moralism and Modernity: The Paradox of New Labour Thinking on Welfare," *Benefits* 12: 2–6.

[10]T. Blair, "The 21st Century Welfare State," speech to the Social Policy and Economic Performance Conference, Amsterdam, January 24, 1997.

[11]F. Field, *Reforming Welfare* (London: Social Market Foundation, 1997), p. 20.

[12]A. Deacon, "The Green Paper on Welfare Reform: A Case for Enlightened Self Interest?" University of Leeds, mimeo, 1998.

[13]Labour Party, *New Labour* (quotation, p. 13).

[14]H. Trickey and R. Walker, "Working for Work in the UK," paper presented at the seminar on Welfare to Work in Europe, London, June 11–12, 1998, Working Paper 332, Centre for Research in Social Policy, Loughborough University.

[15]There were originally four employment options; self-employment was added later. The Training and Enterprise Councils are subcontracted to provide training in local areas and have representatives from local authorities, employers' organizations, chambers of commerce, and trade unions. See Department of Education and Employment, *New Deal: Delivery through Partnerships–National Design Workshops* (London: DEE, 1997) and press release no. 157/98.

[16]A. Deacon, "Benefit Sanctions for the Jobless: Tough Love or Rough Treatment?" *Employment Policy Institute Economic Report* 11, no. 7 (1997); A. Grimes, "Would Workfare Work? An Alternative Approach for the UK," in *Choice in Welfare*, ed. A. Deacon (London: IEA, 1997).

[17]On crime, background papers to the 1997 budget cite only R. Freeman, "Why Do So Many Young American Men Commit Crimes and What Might We Do about It?" *Journal of Economic Perspectives* 10, no. 1 (Winter 1996): 25–42; see H. M. Treasury, *Employment Opportunity in a Changing Labour Market*, p. 12.

[18]R. Walker and M. Wiseman, "The Possibility of a British Earned Income Tax Credit," *Fiscal Studies* 18, no. 4 (1997): 401–25.

[19]The additional cost of the Working Families Tax Credit is almost £1.5 billion (in 1996/7 Family Credit cost just over £2 billion). It will raise the incomes of 400,000 families, increasing the number of beneficiaries by about a third to 1.01 million. There is also to be a new Childcare Tax Credit and a Disabled Person's Tax Credit for working families with children.

[20]In September 1998, UK£1 = US$1.66.

[21]Although the total number of families facing an effective marginal tax benefit reduction rate of 70 percent or more is reduced from 740,000 to 260,000, the total number of individuals paying in excess of 60 percent rises from 760,000 to 1.01 million because of the more generous system. See H. M. Treasury, *The Working Families Tax Credit*.

[22]Ruth Lister, "New Labour, New Welfare: Setting the Scene," paper presented to the West Midlands Low Pay Unit Conference, Birmingham, April 1998.

[23]Tony Blair, speech given at the Vauxhall Recreation Centre, Luton, January 28, 1998.

[24]In Britain the term "social security" is used to embrace means-tested welfare and social insurance. The Department of Social Security is responsible for the administration of both.

[25]Department of Social Security, *National Childcare Strategy: A Framework and Consultation Document* (London: DSS, 1998).

[26]The One Parent Benefit was £6.05 per week, compared to the Child Benefit payment of £11.05. Labour also ended a special addition of £4.95 per week for lone parent families receiving the income support safety net.

[27]The main incapacity benefit is paid to 1.75 million, three times the number in 1979. It now accounts for almost 10 percent of total social security expenditures.

[28]This was the document *New Ambitions for Our Country: A New Contract for Welfare* (London: The Stationery Office, Cm 3805, 1998). The entire document is posted on the World Wide Web site of the Department of Social Security (http://www.dss.gov.uk/index.htm)

[29]Bruce Stafford, *National Insurance and the Contributory Principle* (London, DSS, 1998).

[30]A close associate of Field, Alan Deacon, wrote in his response to the Green Paper: "Social insurance is the foundation of any strategy to 'make work pay.' The perverse incentives generated by means-tested benefits are well documented, especially in respect of the polarisation between 'work rich' and 'work poor' households." Field may well have also argued for extending unemployment insurance, as he did in his book *How to Pay for the Future: Building a Stakeholders' Welfare* (London: Institute of Community Studies, 1996). However, Gordon Brown's opposition even to restoring insurance entitlement to one year led to the removal of the shadow social security secretary when the Labour Party was in opposition (Anderson and Mann, *Safety First*).

[31]Pension Provision Group, *We All Need Pensions - The Prospects for Pension Provision* (London: Stationery Office, 1998).

[32]An open letter from 150 academics to the new Secretary of Social Security criticized the Green Paper for its emphasis on supply-side solutions, the one-sided nature of the "welfare contract," the inadequacy of benefit levels, the reliance on means-testing, and the failure to take account of Britain's multiethnic society. *The Guardian*, July 29, 1998.

[33]Trickey and Walker, "Working for Work in the UK," pp. 16–17.

[34]Lawrence Mead made this point in personal correspondence.

[35]Field stressed lack of executive authority in his resignation speech to the House of Commons. However, Blair's official spokesman said of Field that "he generates lots of thinking on reform, but the government has to produce policy" (*Sunday Times*, August 2, 1998, p.1). Harriet Harman was also Minister for Women and her achievements in this area, including the National Childcare Strategy, have attracted favorable comment.

The Dutch Background

Since the end of World War II the Dutch welfare state has been of the "cradle-to-grave" variety. The full panoply of benefit programs was available—retirement, disability, unemployment, workers' compensation, a generous children's allowance, and substantial support for health care (though not a national health service). Provision for early retirement existed, though the disability program primarily played that role: a health problem of almost any kind was sufficient to secure disability benefits. By the 1980s about 1 million people were receiving disability benefits, as against a work force of about 5 million. Retirement benefits were very high, replacing about 90 percent of the prior wage, and the eligibility criteria for the disability program were very lenient. Unemployment benefits also replaced about 85 or 90 percent of the prior wage, and could be received for up to a year or more. The base welfare system provided benefits at about 70 percent of median income to individuals who lost their unemployment or other benefits and could not work. Similarly, students were given substantial support for going to school, and there was no tuition.

Starting in about the late 1980s, this system was perceived to be untenable, and a variety of measures designed to "retrench" were put into effect. The generosity of benefits edged down, but not by an enormous amount: 90 percent replacement rates became 75 percent replacement rates, for example. The two most important changes were a restriction on the ease with which benefits could be received—a tightening of eligibility criteria—and a "privatization" of the system, so that employers now have to worry about their own liability if they lay off workers or send them into the disability programs.

Will Wisconsin Works (W-2) fit into the Dutch "poldermodel"?

Dick Vink

Dick Vink is Manager of the Department of Social Services of the city of Helmond, the Netherlands. Given the increased interest in implementation of welfare programs, IRP thought that a view from the front lines would provide a useful perspective.

During the summer of 1997 and the following winter, three delegations of social service and employment service managers from the Netherlands visited Wisconsin. This was the first occasion on which Dutch social policymakers participated in direct discussions of the concepts underlying Wisconsin Works (W-2). A November 1997 symposium on the future of the welfare state, organized by the Hudson Institute, made an especial impression on the participants. The exchange of ideas in which the Dutch delegates took part during those visits and their continuing contacts thereafter with the University of Wisconsin–Madison and the Institute for Research on Poverty have motivated them to bring those concepts into the current debate about the further reform of social security and labor market policy in the Netherlands.

This article aims to provide insight into recent economic developments in the Netherlands, the effects of these developments on social policy, and the role that a program like Wisconsin Works can play in further improving the Dutch welfare system.[1]

The "poldermodel"—a model of cooperation

In Europe, the present Dutch model of economic and social reform is widely known as the "poldermodel" —a term that refers to the culture of the low-lying lands behind the dykes (the polder), in which cooperation between all parties is absolutely necessary to keep the water out. One clear manifestation of this cultural trait is the Dutch consensus in favor of "work above income." This consensus found expression in the 1982 agreement of Wassenaar, in which then prime minister Ruud Lubbers, employer organizations, and trade unions agreed upon a long-term policy of moderate wages in return for more jobs.[2]

In the years that followed this agreement, the wage policy was combined with measures that moderated the pressure on employers and workers of taxes and contributions earmarked for social benefits. These measures effectively resulted in lower labor costs for employers and higher net incomes for workers, leading to increased consumer demand in the internal market and a more competitive position abroad. In 1998, the International Institute for Management Development (based in Switzerland) listed the four most competitive nations in the world as, in order, the United States, Singapore, Hong Kong, and the Netherlands. Currently, labor costs for comparable industrial production are about 30 percent less in the Netherlands than in neighboring Germany.

Table 1
Population and Work Force (aged 15–64) in the Netherlands (in 000s)

		In the Work Force[b]								
				Unemployed[d]			Not in the	Unemployment Rate (%)		
Year	Population[a]	Total	Employed[c]	Total	Men	Women	Work Force	Total	Men	Women
1992	10,349	6,296	5,885	411	186	225	4,053	6.5	4.7	9.7
1993	10,420	6,406	5,925	481	228	253	4,014	7.5	5.7	10.5
1994	10,473	6,466	5,920	547	266	280	4,007	8.5	6.6	11.4
1995	10,498	6,596	6,063	533	253	281	3,902	8.1	6.2	11.1
1996	10,529	6,681	6,187	494	223	271	3,848	7.4	5.4	10.5
1997	10,563	6,838	6,400	438	192	246	3,725	6.4	4.6	9.1

Source: Netherlands Department of Economic Affairs, Central Bureau of Statistics, Survey of the Work Force, February 1998.

Note: Data in the work force survey come from telephone interviews with 10,000 randomly selected individuals. They are not completely accurate but give a good impression of dominant trends.

[a]Total population aged 15–64.
[b]Available work force, minus housewives, students (those not in the work force).
[c]Those having a job for at least 12 hours per week.
[d]Without a job or working less than 12 hours a week and *actively seeking* a job of at least 12 hours per week.

After the 1994 elections, a coalition of social democrats, liberals, and neoliberals combined to form a government for the next four years. This government, the so-called "purple cabinet" (from the mixture of the traditional red of the socialist party and the blue of the liberal party), took as its motto: "Work, work, and work again!" The "purple cabinet" based its goal of higher employment on the moderate wage policy already in place and on reductions in social costs. It made strong efforts to increase labor market participation by stimulating the creation of more part-time jobs, by legal changes to permit greater labor market flexibility, and by providing more free child care.

Is the "poldermodel" a success?

The integrated new Dutch economic policy has proven successful. Consensus and cooperation at the strategic level between employers, employees, and government were essential to this success. Privatization of the public transport and telecommunications systems and of the administration of social security, among other things, introduced greater competition and, in most cases, increased effectiveness and efficiency into formerly monopolistic operations. The Dutch Gross National Product grew by 3.6 percent in 1997, according to the Central Bureau of Statistics (CBS). This growth rate, one of the highest in Europe, reflects a strong and consistent pattern of improvement over the last four years.

Economic growth has had a strong effect on the labor market, allaying fears of "jobless growth" (see Table 1). Especially striking is the growth in employment—an increase of more than 213,000 jobs during 1997, versus 124,000 jobs during 1996. From 1994 to 1997, the workforce grew from 5.9 million to over 6.4 million. In 1997 alone, the number of unemployed dropped by 56,000. After the crisis of the early nineties, the unemployment rate once again began rather strongly to decline, especially in 1997. (See Figure 1, panel 1, and Table 1.) Women made better use of the strong labor market than men did; in 1997 the total of women working at least 12 hours a week grew by 135,000, the number of working men by only 79,000 (see Table 2). More people are working on a permanent basis, and the number of people working on flexible contracts continues to grow. Table 3 shows that 75 percent of the growth in employment has been in permanent jobs. About 30 percent of those employed under flexible contracts work for one of the hundred or so temporary employment agencies in the Netherlands. Besides the Public Employment Service, the temporary agencies, with 2,000 sites countrywide, play a major and growing role in meeting labor market demand.

With economic growth at 4.3 percent in the first three months of 1998, economic trends in the Netherlands appear very positive. The Central Bureau of Planning predicts that 3 percent economic growth for the next four years will lead to another 450,000 new part-time jobs.

Table 2
Employed Work Force, Men and Women Aged 15–64 (in 000s)

			Labor Force Participation Rate[a] (%)		
Year	Men	Women	Total	Men	Women
1987	3,536	1,721	52.4	69.7	34.7
1990	3,686	1,958	55.2	71.1	38.8
1995	3,814	2,249	57.8	71.6	43.5
1996	3,872	2,315	58.8	72.4	44.6
1997	3,951	2,450	60.6	73.8	47.0

Source: Netherlands Department of Economic Affairs, Central Bureau of Statistics, Survey of the Work Force, February 1998.

[a]As a percentage of the total population aged 15–64.

Another important indicator, the number of new businesses established, is also positive; the CBS reports that 8,800 new businesses were set up in the first quarter of 1998—1,100 more than in the first quarter of 1997. Unemployment is expected to drop to 5 percent.

Most other countries in Europe can only dream of the Dutch economic figures, and international publications often speak of the "Dutch miracle." But there is also a dark side to the "purple cabinet" successes. First, the growth of employment has had a limited positive effect on long-term unemployment. The new jobs have mainly been taken by newcomers to the labor market—women, immigrants, and new graduates. Second, there are still about one million people without jobs (the so-called nonutilized workforce), including those who do not work or work less than 12 hours a week, but who want paid employment of at least 12 hours per week.[3]

Social security in the Netherlands

Part of the explanation for the success of the "poldermodel" lies in the reforms to the social security system—pensions, disability and sickness benefits, unemployment benefits, etc. The main elements of this reform are based on the "purple" paradigm—individual responsibility. One consequence of the reforms is higher financial risk for individual citizens if unemployment, illness, disability, and death occur and higher risk also for employers if employees become ill or disabled.

Not only is the philosophy of social security in the Netherlands changing; so too is its administration. Public administration has given way to privatization. Five private organizations now administer social insurance for the unemployed and disabled. From 1999 on, administration will be contracted out through public tender to a restricted group of bidders. Under certain conditions, other parties will be allowed into the market. A number of major insurance companies have shown great interest in this prospect (currently each of the five administering organizations has a strategic alliance with an insurance company). These companies would like to offer employers full-service, "cradle-to-grave" packages. Then employers will try to bind employees to them, especially in the tight labor market, with these packages of employee benefits.

There are two problems with this development. The first is selection by the insurance companies. The assumption is that these companies will reduce their risk by not accepting high-risk employees, those with addictions or physical or psychological problems. The second is the issue of privacy. Will the insurance companies use private information for other purposes? Those agencies that have responsibility for privacy issues are watching developments in this area very critically. New legislation and adequate auditing are needed to deal with this.

Table 3
The State of the Employed Work Force Aged 15–64 (in 000s)

	Employed			
Year	Total	Permanent Contract[a]	Flexcontract[b]	Self-Employed
1992	5,258	4,859	399	627
1995	5,357	4,880	477	706
1996	5,459	4,920	538	728
1997	5,644	5,077	566	757

Source: Netherlands Department of Economic Affairs, Central Bureau of Statistics, Survey of the Work Force, February 1998.

[a]A contract for an unlimited period of at least 1 year.
[b]A contract for a period shorter than a year or a flexible number of hours per week.

Besides privatization of social insurance, there is also a strong trend toward decentralizing welfare, which has been a shared responsibility of the local authorities and the national Department of Social Affairs and Employment. Over the years, the local (municipal) authorities have taken on greater responsibility and higher financial risks. Unemployment mostly affects the larger Dutch cities, and the goal is to stimulate the cities themselves to work on local solutions to the problem.

In recent years, much attention has been directed to welfare-to-work policies designed to motivate people to work rather than receive social benefits. For example, about 100,000 additional subsidized jobs were created for long-term recipients of welfare and unemployment insurance. The government is also setting up Centers for Work and Income. Legislation prescribes that about 200 such centers be in operation on January 1, 2001. These centers will function as front offices for those seeking unemployment insurance or welfare. Their primary goal is to confront applicants with work first. Their second goal is "one-stop shopping," to provide one intake process for all clients. The centers will be managed cooperatively by the Public Employment Service, several social insurance organizations, and the municipalities. Because the program lacks a single stakeholder and the partners have to deal with competing institutional interests, it is an open question whether it can be successfully implemented.

In spite of all these measures, there has been scant success in reducing the welfare caseload. Figure 1, panel 1, shows that the decline in unemployment has had only a small effect on the volume of welfare. After four years of "purple cabinet" policy, much has been accomplished, but much remains to be done.

What can we learn from W-2?

The remarkable reduction in Wisconsin's welfare caseload over the past few years parallels the decline in

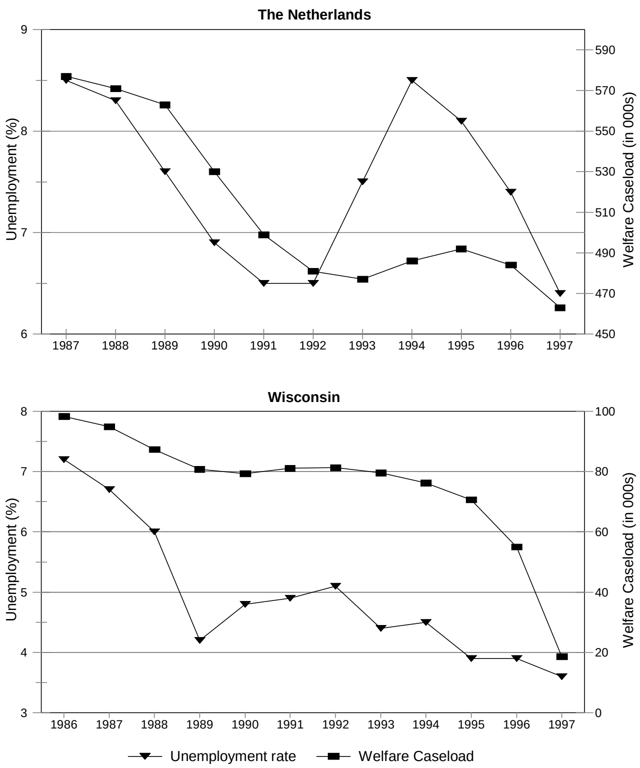


Figure 1. Panel 1, unemployment rate and average annual welfare caseload (no. of recipients aged 18–65 years) in the Netherlands, 1987–1997. Panel 2, unemployment rate and average monthly AFDC/TANF caseload in Wisconsin, 1986–1997.

Source: Netherlands Ministry of Social Affairs and Employment, 1997; Wisconsin Department of Workforce Development, Department of Economic Support, Bureau of Welfare Initiatives, Research and Statistics Section.

the state's unemployment (see Figure 1, panel 2).[4] Clearly these caseload reductions cannot be attributed exclusively to W-2, which began in September 1997.[5] Previous waiver-based experiments such as Self-Sufficiency First and Pay for Performance seem to mark the beginning of this success, and the Earned Income Tax Credit may be important as well.[6]

We learned two things from the Wisconsin approach. First is the need for a careful empirical analysis of the existing situation. Second, the analysis should lead to a consistent underlying concept or set of beliefs about what is wrong and how to fix it. In the context of Wisconsin, as Jay Hein, of the Hudson Institute, pointed out, the delivery of services before W-2 was clearly perceived to be hampered by two separate service-delivery tracks (income support and labor-market services), which led to management by process rather than outcome, lack of accountability and diffusion of responsibility, difficulties in coordination, and bureaucratic behavior arising from institutional interests.

The answer from the developers of W-2 was that the dual service-delivery system must be replaced by an administrative structure in which one organization was wholly responsible and accountable. This new structure, combined with changes in the budgeting system and the ability to contract out services, should create a more effective system. The conceptual solution applied in W-2—a single system—is certainly worth examining in the Dutch setting.

Before turning to the various elements of W-2, I should note the importance of the political context in which it was introduced. Wisconsin Works would not have come about had it not been for the initiatives of Governor Tommy Thompson, his long tenure in the governorship, and his ability to craft bipartisan consensus in the legislature on this new direction in social policy.

What elements of W-2 are applicable in the Netherlands?

It is unrealistic to think that the ideas embodied in W-2 could be imported in their entirety into the Dutch situation. But it is a challenging thought to consider using elements from W-2 in reshaping the "status-focused" Dutch welfare system toward a work-oriented system in which "everyone can do something."

From this perspective, let me inventory some features of W-2 that seem particularly important to us.

Self-sufficiency. The self-sufficiency ladder seems to be crucial for the success of W-2. To think in terms of the "right rung" for every client, from W-2 Transition through Community Service Jobs and Trial (subsidized) Jobs to unsubsidized employment is a valuable and concrete approach. From the Dutch perspective, the proactive way the instruments are used is really an eye-opener.

Pay for performance. The concept of W-2 as a work-only program and the way in which a more self-sufficient rung on the ladder is rewarded stand in strong contrast to the Dutch welfare system. In the Netherlands, the benefit level for a two-parent family, for example, is equal to the minimum wage. Subsidized jobs for long-term welfare recipients pay 110–120 percent of the minimum wage. Moreover, not every available job has to be accepted by the recipient. In the Dutch view, people are entitled to welfare or unemployment benefits until they can find a job that is more or less suited to their situation—their educational level or their family and personal circumstances. Under pressure of the increasing demand for labor this permissive attitude is changing into one closer to the idea that "You only make promotion at work" (as Jerry Miller, former Michigan Social Service Commissioner, put it). So "pay for performance" is an interesting principle that can become acceptable in the Dutch context, but to do so we will have to "end welfare as we know it."

Time limits. The idea of leaving families without support because a certain time-frame has been exceeded is very controversial. It touches the heart of the Dutch (and European) welfare system and is unacceptable to many people. So too is the exclusion of certain groups, like immigrants and single men, from the American welfare system. In the Netherlands it is unthinkable that two-parent families or even individuals who are not parents could not claim support if they meet eligibility requirements. And I suggest we should keep it that way.

The job center. The idea of one organization as totally responsible for work and income support seems well implemented in the primary functions of the job center. The role of the JobNet—a computerized, statewide network that serves employers and job seekers—is vital in this process. The "customer-oriented" approach in the job centers appears efficient and makes a strong impression on a visitor.

Privatization. Federal funding to the states, in the form of block grants for cash assistance and labor-market activities, appears to have laid the foundation for the privatization of administration. The approach taken in W-2, to capitalize expected costs over a given period and to make contracts with operating organizations that contain financial incentives for efficient management, is a very interesting one to us. The same emphasis on privatization and decentralization is also to be found in recent developments in the Netherlands, as I noted earlier.

The job access loan. We see this as a valuable and efficient problem-solving instrument, permitting individuals to find their way back into the labor market with small loans rather than obliging them to embark on an extensive all-or-nothing benefits process.

Child care. In the Netherlands as well, these facilities are an important instrument in enabling people to go to work. But they must be of good quality and financially accessible. Note that in the Netherlands mothers of very young children are exempted from work until the children reach the age of five.

Medicaid. We see this as another condition of self-sufficiency. The intent, under W-2, to expand eligibility for Medicaid among working people is a great step forward. In the Netherlands, health insurance is universal and compulsory.

Work pays! It is obvious that this principle is very important to a successful labor market policy. The "poverty trap" is still a real problem in the Netherlands, as Figure 1 shows. The Earned Income Tax Credit, in one form or another, will find its way to Europe—probably to Great Britain first.

Profit out of welfare. Successful administration should be rewarded. Inherent in the discussion of privatization and outsourcing in the Netherlands is the idea that it should be possible to make a profit in this field—at least to some extent.

Information technology. The goal of developing one integrated information system for all purposes is important for planning and control. Wisconsin has committed large resources to this effort.

Culture. Last, but not least, is the cultural component in W-2. We view its orientation toward "customer service" ("What do you need?") and its strong results-oriented approach as fundamental to a better welfare policy. The Dutch can learn something from this!

As we look over the various elements of W-2, judging them by their applicability to the Dutch situation, two important questions come up. The first is, "What happens to people whose benefits have ended? Are they all at work, or have they moved out of the state?" Research on the overall outcome of W-2 is surely worthwhile.

The second question we ask is, "Why cannot other groups be brought into the W-2 program—especially people who are part of a potentially high-risk group, like unemployed single males?"

W-2 in the Netherlands today

On August 3, 1998, a new Dutch government was installed. As a result of parliamentary elections on May 6, a second "purple government" coalition has been formed. With the (economic) wind in its sails, Purple II is continuing along the road followed for the last four years. During the election campaign and thereafter, there was much discussion over the future of the Dutch welfare system, and the principles embodied in the new U.S. welfare regimes such as W-2 attracted much attention.

In the agreement drafted by the coalition partners for the coming years, the paragraph about work, social security, and income makes interesting reading and has undoubtedly been affected by ideas taken from W-2. The integration into one budget of welfare and funds to bring welfare recipients back into the labor market is a direct translation of the W-2 concept. So too is the higher degree of budget risk and accountability imposed upon the municipalities. Taken together, these may well be the beginning of a further transformation of the dual system (welfare and employment) into a single system in which there is one responsible agency.

Another example of lessons learned from W-2 is the introduction of incentives to reduce welfare caseloads by placing recipients in jobs. In the future it may be possible for the administering agencies to make a profit from successful policies in this area—and be able to keep part of it. New legislation will also make it possible for municipalities to outsource the administration of welfare,

A Dutch experiment in welfare to work

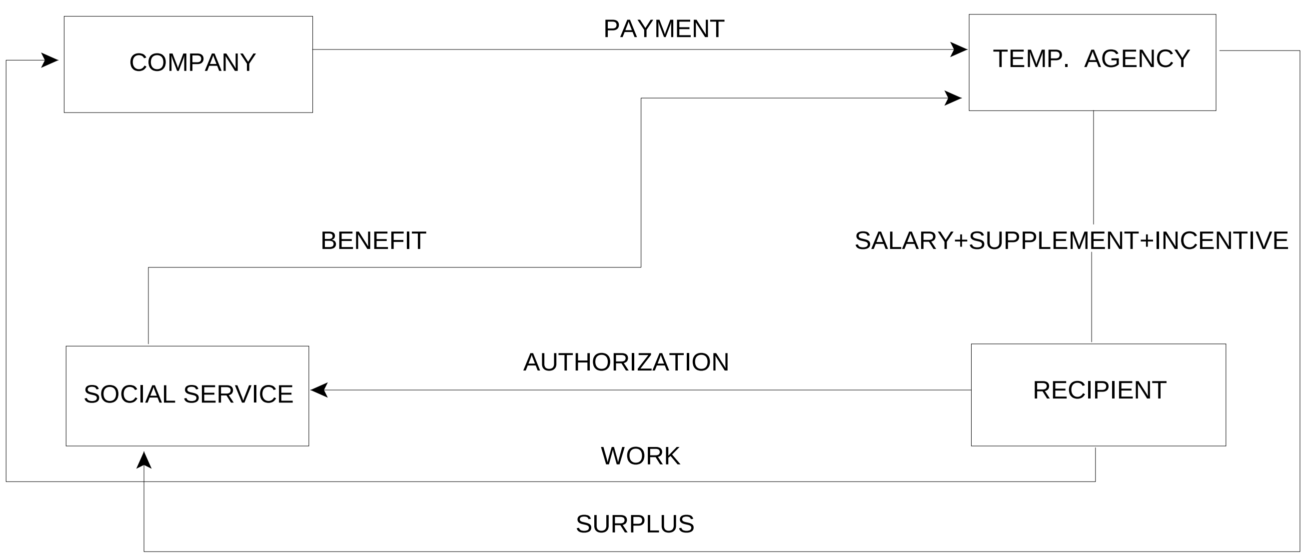
About a year ago, the city of Helmond started an experiment called the Guaranteed Income, containing elements such as pay for performance, outsourcing, and incentives.

When we asked recipients what hindered them from accepting (part-time) jobs, they mentioned three reasons: no financial benefit (benefits are reduced 100 percent against earnings), the administrative bother of dealing with the social service agency, and inadequate child care.

Using a customer-service orientation as a trigger for action, Helmond developed an experimental program in cooperation with the local office of a temporary employment agency, Randstad Uitzendbureau. In this small-scale experiment, the recipient signs a voluntary contract with Randstad and the city's Social Service. The Social Service pays the monthly benefit to Randstad, which employs the recipient for several hours a week and pays a weekly wage. At the end of the month, Randstad supplements the weekly wage up to the level of the regular welfare benefit, plus an incentive of 2 Dutch guilders for each hour worked, to a maximum of 300 guilders a month. [Ed. note: At the beginning of September 1998, 2 Dutch guilders = approximately US$1]

Randstad is financed by the benefit plus the hourly payments from the companies that hire recipients. Randstad returns the surplus to the Social Service each quarter, and also provides a synopsis of each recipient's transactions. The figure below offers a schematic view of the process. If a recipient works so many hours that welfare benefits can be ended, and if this continues for more than six months, the recipient receives an incentive payment equal to one month's benefits.

This concept has been implemented in other cities. The first evaluation of the Helmond experiment, after 10 months of operation, was positive. The project is being continued and refined.



with due regard to the public interest and to privacy issues. The 200 Dutch Centers for Work and Income will be the equivalent of the Wisconsin job centers, serving as a new front office for social services, for the public employment service, and for the organizations that administer social insurance in the event of unemployment or disability.

But the social policy agreement reached by the Purple II coalition partners contains no answer to the question of the "stakeholder" agency for the Centers for Work and Income. The question in my mind is whether Purple II has lost its way in the privatization—decentralization—deregulation triangle. A recentralization of welfare policy that put the involvement of the cities at stake would be undesirable. Resolving this issue in the Dutch tradition of consensus will require much discussion.

In August 1998 the city of Amsterdam announced that it would start an experiment based on the W-2 concept in January 1999. The experiment involves cooperation among the Social Service, the Public Employment Service, and two local organizations that place welfare recipients in subsidized jobs. These organizations will form one administrative agency in the Bijlmer, a section of the city with high unemployment. This agency will receive a single budget both for welfare benefits and for moving recipients into the labor market. It will be held

Key Provisions of Wisconsin Works (W-2)

Level of W-2	Basic Income Package	Time Required of Recipients	Program Time Limits
Unsubsidized employment	Market wage + Food Stamps + EITC	40 hrs/wk standard	None
Trial Job (W-2 pays maximum of $300/month to the employer)	At least minimum wage + Food Stamps + EITC	40 hrs/wk standard 3-month extension; total 24 months	Per job: 3 months with an option for one
Community Service Job (CSJ)	$673 per month + Food Stamps (no EITC)	30 hrs/wk standard;and up to 10 hrs/wk in education and training	Per job: 6 months with an option for one 3-month extension; total: 24 months
W-2 Transition	$628 per month + Food Stamps (no EITC)	28 hrs/wk work activities standard; and up to 12 hrs/wk in education and training	24-month limit, but extensions permitted on a case-by-case basis

Source: *Focus* 18, no. 3 (special issue 1996): 2. W-2 participants are also entitled to subsidized child care, with different copayment levels.

accountable, but will also be allowed to keep part of the savings if the number of recipients is reduced. At the beginning, 1,000 welfare families will participate. The city of Rotterdam has announced a similar experiment. In the box on p. 46, I describe a similar project that is under way in the city of Helmond.

Conclusion

The concept of Wisconsin Works has, in my view, proven its value, not just as implemented in Wisconsin but as an example of innovative social policy in general. In countries like Great Britain, Australia, New Zealand, and the Netherlands, the W-2 mindset has directly influenced newly introduced welfare solutions.[7] Questions and criticisms remain. And it is clear that W-2 does not have to be adopted as whole. Elements of the program can be integrated into feasible national and regional solutions.

The December 1997 cover of TIME Magazine asked, "Can Europeans build a middle road between uncaring capitalism and the costly welfare state?" We see W-2 as offering an interesting source of ideas and inspiration for this middle road. ■

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[1]The author is grateful to Robert Haveman of the University of Wisconsin–Madison for his succinct introduction to the Dutch welfare system on p. 41.

[2]The present prime minister, Wim Kok, was at that time chairman of the federation of Dutch trade unions, FNV, the largest union organization.

[3]I do not, at this point, take into consideration how many of these people might actually be physically and mentally able to find and hold a job, and how many are seriously looking for one.

[4]From 81,000 in 1991–92 to a total AFDC and W-2 caseload, in December 1997, of 18,655; by March 1998, when W-2 was fully implemented, the cash assistance caseload had fallen to 12,843 cases.

[5][Ed. note: W-2 is described in *Focus* 18, no. 3 (spring 1997): 2. Its features are briefly noted here in the table above.]

[6][Ed. note: The federal Earned Income Tax Credit (EITC) was enacted in 1975. Beginning in the mid 1980s it was expanded and is a central component of the federal government's "make work pay" strategies. Wisconsin is one of nine states that "piggyback" a state EITC on the federal EITC. The state credit is a refundable credit that was set in its present form in 1993 and varies according to family size.]

[7][Ed. note: See the article by Robert Walker in this issue, pp. 32–40, "The Americanization of British Welfare: A Case Study of Policy Transfer."]

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Gleason, P. and Cain, G. "Earnings of Black and White Youth and Their Relation to Poverty." 1997. 30 pp. DP 1138-97.

Continued on page 49

New faculty affiliates of IRP

Judi Bartfeld is Assistant Professor in the Department of Consumer Science and a Specialist in Cooperative Extension at the University of Wisconsin–Madison. Her research interests involve economic support to single-parent families, with a particular focus on child support policy. Her current research projects include:

1. Studies of divorce, child support, and economic well-being that focus on economic outcomes for divorced women and men; the role of children in contributing to different outcomes between women and men; and the possibilities and limitations of child support as a means of reducing inequality and increasing custodial families' economic well-being.

2. Studies of child support and welfare reform. In collaboration with other researchers at IRP, Bartfeld is involved in a longitudinal evaluation of the child support component of Wisconsin Works (W2). Her research focuses on the impact of the new child support policies on paternity establishment and on child support orders and payments.

3. Outcomes of welfare reform in Wisconsin. Bartfeld is working with county Extension agents to develop strategies to track the economic outcomes of low-income families affected by changes in welfare policies in Wisconsin.

Marianne N. Bloch is Professor in the Department of Curriculum and Instruction, with a joint appointment in the Department of Child and Family Studies, at the University of Wisconsin–Madison. Her research has focused on historical and cross-cultural issues related to early childhood education and child care in the United States, Africa, and eastern and central Europe. Her interests include studies of women, work, child care, and child care policy. Her latest research focuses on the implications of welfare reform in Wisconsin for families, children, and child care.

Tanya Brito is Assistant Professor of Law at the University of Wisconsin–Madison. Her research interests are in the areas of family law (particularly issues relating to children), law and society, and poverty law.

Marino Bruce is Assistant Professor of Sociology at the University of Wisconsin–Madison. His research interests lie in the areas of youth and violence, criminology, and race and inequality. His current projects focus on the ways in which race, gender, and class interact to influence adolescent behavior. How, for example, do race and class factors and the social environment enter into the way adolescent boys establish their masculinity? Is gender framed differently in different communities?

Professor Bruce is also developing two collaborative projects. One will explore the implications of race and class stratification for violence in schools, in particular looking at differential allotment and use of school resources across communities. The other will examine how race, gender, and class stratification relate to the rehabilitation of prison inmates.

Howard Chernick is Professor of Economics at Hunter College, New York. His research interests are devoted primarily to the distributional effects of taxes and expenditures. Recent research, done jointly with IRP affiliate Andrew Reschovsky, uses panel data on income and gasoline consumption from the Panel Study of Income Dynamics to study the long-run incidence of consumption taxes. Another project develops political-economic models to explain the wide differences across U.S. states in the progressivity of their tax systems, and to examine the relationship between progressivity and economic performance.

Professor Chernick is also studying the fiscal effects of intergovernmental transfers for the needy. He recently completed a comprehensive review of the literature on the fiscal effects of block grants and matching grants for welfare, "Fiscal Effects of Block Grants for the Needy: An Interpretation of the Evidence," forthcoming in the journal *Intergovernmental Tax and Public Finance.*

Professors Chernick and Reschovsky are also reestimating the various welfare expenditure models to try to narrow the range of uncertainty on the effect of matching grants, and improve our understanding of the fiscal interactions between Food Stamps, AFDC, Medicaid, and the Earned Income Tax Credit. It is hoped that this work will provide a kind of fiscal "baseline" for the evaluation of the TANF block grants.

Discussion Papers, continued from page 48

Haveman, R., Wolfe, B., Wilson, K., and Peterson, E. "Do Teens Make Rational Choices? The Case of Teen Nonmarital Childbearing." 1997. 37 pp. DP 1137-97.

Yelowitz, A. "Public Policy and Health Care Choices of the Elderly: Evidence from the Medicare Buy-in Program." 1997. 47 pp. DP 1136-97.

Gruber, J. and Yelowitz, A. "Public Health Insurance and Private Savings." 1997. 46 pp. DP 1135-97.

Reynolds, A. and Wolfe, B. "Special Education and School Achievement: An Explanatory Analysis." 1997. 34 pp. DP 1134-97.

Brown, P., Melli, M., and Cancian, M. "Physical Custody in Wisconsin Divorce Cases, 1980–1992." 1997. 52 pp. DP 1133-97.

Baldwin, R. and Cain, G. "Shifts in U.S. Relative Wages: The Role of Trade, Technology, and Factor Endowments." 1997. 71 pp. DP 1132-97.

David B. Grusky is Professor of Sociology at Stanford University, Honorary Fellow in the Department of Sociology at the University of Wisconsin–Madison, and coeditor, with Marta Tienda, of the Social Inequality monograph series published by Stanford University Press. His research interests include the study of long-term trends in the social mobility, life chances, and assortative mating of men and women. He is currently exploiting new archival sources to map trends for women, comparing them with comparable data for men. His research examines such issues as the determinants of cross-national variability in sex segregation and the extent to which countries differ in their segregation profiles. He is also developing new techniques for modeling occupational segregation and geographic mobility. In another project, he is reexamining the conceptual basis for the now-fashionable claim that social classes are gradually decomposing with the transition to advanced industrialism.

Robinson Hollister is Joseph Wharton Professor of Economics at Swarthmore College. His research interests lie in the areas of evaluation methodology, employment and training programs, and labor market policy. Among his current projects are an evaluation of the Delta Initiative, which seeks to improve employment and incomes in the Delta area covering parts of Mississippi, Arkansas, and Louisiana along the Mississippi River. The Initiative has two major components: the Enterprise Corporation of the Delta, an economic loan fund focused on small manufacturing, and the Work Force Alliances, community organizing to create collaboratives and to improve the work force in a given geographic area. Professor Hollister is also participating in the evaluation of the New Hope project, Milwaukee, WI, with particular attention to the design of the benefit structure for the earnings supplement.

Steven Malpezzi is Associate Professor of Real Estate and Urban Land Economics in the School of Business at the University of Wisconsin–Madison. In addition to his association with the Institute for Research on Poverty, he is an associate member of the Department of Urban and Regional Planning, a member of the Development Studies faculty, and an active member of UW's interdisciplinary faculty group on World Affairs and the Global Economy. He has recently been named a Wangard Faculty Scholar.

Professor Malpezzi's primary research interests are in housing, real estate, and urban development. About half his research agenda in these areas is domestic, and half international. Recent poverty-related research includes the development of new place-to-place housing price indexes, and their use in developing improved measures of poverty. He is also studying the links between poverty rates, the distribution of income, and population deconcentration in U.S. metropolitan areas. In the international area, he is undertaking a WAGE-sponsored research project on "Economic Growth, Development and Urbanization."

Derek Neal is Associate Professor of Economics at the University of Wisconsin-Madison. His recent research focuses on the causes and consequences of skill deficits among minority youth. His work demonstrates that black and Hispanic students in large cities are the group that benefits most from access to private schooling because their public school options are often poor. His work on racial inequality in wages and earnings shows that large black-white differences in basic skills contribute greatly to the observed black-white wage gap. However, he also finds that large gaps in employment rates exist between less educated blacks and whites that cannot be explained by standard measures of basic skills.

Lincoln Quillian is Assistant Professor of Sociology at the University of Wisconsin–Madison. His research interests are in urban poverty, social stratification, and race and ethnic relations. His current work examines (1) the role of migration in the growth in high-poverty neighborhoods in the U.S. since 1970 and (2) historical trends in the number of low-income neighborhoods in U.S. urban areas since 1950 and reasons for these trends.

Stephanie Robert is Assistant Professor of Social Work at the University of Wisconsin–Madison. Her general area of research is social determinants of health. She is particularly interested in how socioeconomic status affects health across the life course. Her most recent research focuses on the impact of community socioeconomic context on the health, mortality, and well-being of community residents. She is also interested in health and long-term care programs and policies, particularly regarding how access to and quality of care may differ for people with different income levels.

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