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Understanding poverty: Progress and problems

This issue of Focus is largely devoted to the papers delivered at a national conference held in Madison, Wisconsin, in May 2000, designed to take a comprehensive look at the progress made since the nation declared war on poverty in 1964. The essay that follows is by two of the conference organizers.

Sheldon H. Danziger and Robert H. Haveman

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In the mid-1960s, America experienced a long period of sustained economic growth, rising real wages, and low unemployment. The fruits of prosperity were widely visible in the period between the Korean and Vietnam wars. Academic and popular writings drew attention to those who were not benefitting from that prosperity and evoked a strong public and political response. Within a few years, new legislative and administrative initiatives, linked under the rubric of the "War on Poverty," dramatically transformed the federal budget and the scope of the nation's social welfare policies.

As we write in early 2001, the nation has again experienced a period of sustained prosperity. But the initiatives occupying center stage are very different from those of the 1960s; they encompass reductions in inheritance taxes, broad-based income tax relief, maintenance of social insurance and medical benefits for an aging population, and new obligations upon welfare recipients. Anti-

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Edited by Jan Blakeslee.

poverty policy at the end of the century had achieved one vision of the planners of the War on Poverty—a substantial set of income supports was in place for the working poor, regardless of where they lived or their marital status. However, the vision of universal support for the nonworking poor had been strongly rejected—cash support for the welfare poor was less extensive and less generous than it had been in 1969. Even though income and wealth inequality were higher than they had been a quarter-century before and poverty was no lower, there was little discussion among policymakers or the public about a government strategy to reduce these disparities.

American understanding of the complex problems of poverty and inequality has changed substantially over the past quarter-century. These changes have reflected both the evolution of research on poverty and the directions in which the level and composition of poverty have changed. These trends, and the associated changes in thinking, are mirrored in four volumes sponsored by the Institute for Research on Poverty: *Progress Against Poverty* (1975), *A Decade of Federal Antipoverty Programs* (1977), *Fighting Poverty* (1986), and *Confronting Poverty* (1994).[1]

Each of the volumes reflected particular concerns from its time. Community action programs, a guaranteed income, and legal services all constituted important topics of poverty research and policy in the late 1960s and early 1970s. All represented attempts to increase the power and voice of the poor and/or make it easier for needy individuals to maintain their incomes. By the mid-1980s, however, both poverty researchers and policymakers endorsed reforms that required the poor to take greater responsibility for their own well-being through increased work effort and support for their children.

All volumes addressed questions that have persisted across the decades, sometimes in different forms, and that remain of scholarly interest: Do public assistance programs create adverse incentives regarding work effort, marriage, or childbearing? How do demographic changes affect the poverty rates of specific groups, or the overall composition of the nation's poor population? Do antipoverty policies effectively reduce income poverty? What are the political constraints on the development of effective antipoverty policies?

The papers presented at the May 2000 conference reassess many of these issues. Their reappraisal is a sober one, reflected in the title of the conference itself, which seeks, not to *fight* poverty, nor to *confront* it, but to *understand* it. The optimism of an earlier decade, in which one could argue that "the day of income poverty as a major public issue would appear to be past," finds little expression here.[2] Looking back over the past four decades, the authors tell us how the poor have fared in the market economy and what government programs and policies have accomplished and failed to accomplish. They assess the progress we have made in our understanding of the poverty problem. They draw the policy implications of this improved level of understanding, and present their judgments regarding the issues for further research. They help us understand how a variety of economic, demographic, and public policy changes have affected poverty. Most important, they offer suggestions for changes in programs and policies that would reduce poverty and income inequality.

This issue of *Focus* draws upon these papers and presents some of the main themes that emerged in conference discussions. Of necessity, some subjects discussed at the conference are omitted or underrepresented.[3] Nor do the *Focus* articles concern themselves with questions of future policy. But taken together, we believe, they tell a coherent story about poverty and the forces shaping it in the United States.

The first three articles here review important trends in poverty, income inequality, and mobility over the last four decades, the evolution of income support policy,

Understanding Poverty

Sheldon H. Danziger and Robert H. Haveman, editors

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Understanding Poverty (tentative title) containing revised papers from the poverty conference will be jointly published by Harvard University Press and the Russell Sage Foundation.

and the persistence of poverty and its transmission from parents to the next generation.

The articles that follow deepen our understanding of what has occurred. Five articles address the determinants of poverty (changes in family structure and the labor market), then three areas of policy interventions that are intimately linked to the poverty problem—health, education, and welfare policies.

Two articles discuss how various "group" factors contribute to poverty and affect antipoverty policies. Whereas the other articles emphasize an individual's attributes, behaviors, and labor market and family income outcomes, these papers emphasize processes that operate through their effects on groups, neighborhoods, and communities.

Finally, three conference discussants offer their reflections on key issues affecting future research and point to some synergies. How should we conceptualize poverty, and how best to explore its intersection with race? How can we capture the effects of poverty and other forms of disadvantage on children? What might the communications revolution represented by the Internet mean for minorities and the poor? ■

[1]*Progress Against Poverty: A Review of the 1964–1974 Decade*, by Robert Plotnick and Felicity Skidmore (New York: Academic Press, 1975); *A Decade of Federal Antipoverty Programs: Achievements, Failures, and Lessons*, ed. Robert H. Haveman (New York: Academic Press, 1977); *Fighting Poverty: What Works and What Doesn't*, ed. Sheldon H. Danziger and Daniel H. Weinberg (Cambridge, MA: Harvard University Press, 1986); *Confronting Poverty: Prescriptions for Change*, ed Sheldon H. Danziger, Gary Sandefur, and Daniel H. Weinberg (Cambridge, MA: Harvard University Press, 1994).

[2]Quotation from Haveman, ed., *A Decade of Federal Antipoverty Programs*, p. 18.

[3]There is, for example, no discussion here about poverty among immigrants, nor any discussion of U.S. poverty in a comparative international perspective A special issue of *Focus* on immigrants, the labor market, and the welfare system appeared as volume 18, no. 2 (Fall/Winter 1996–97). International comparative perspectives will be discussed in the next issue of *Focus*, volume 21, no. 3.

The level, trend, and composition of poverty

Official statistics suggest that the poor have become more numerous and their poverty more intense since the 1970s. But this conclusion depends on the way we measure changes in consumer prices, how we account for in-kind income and refundable tax credits, and whether we adopt a new measure of poverty.[1]

Gary Burtless and Timothy M. Smeeding

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Measuring poverty

Measuring poverty in rich nations involves comparing some index of household well-being or economic resources with household needs. When command over economic resources falls short of needs, a household (or person or family) is classified as poor.

From a practical standpoint, measures of resources must be based on regularly available data of reasonable quality, and they must document the level and trend in poverty across a wide range of subpopulations. That aside, there is clearly no single way to measure such a multidimensional concept as poverty, which reflects many forms of deprivation, both economic and social.[2]

Particularly in nations like the United States where there is heavy reliance on the market to provide such essential services as health care, postsecondary education, and child care, money income is a crucial resource. The official measure of American poverty is defined in terms of personal or family income. Persons and families with incomes below a set of official poverty thresholds are classified as poor; those with incomes above official poverty thresholds are classified as nonpoor. Under this conception of poverty, a poor person is one whose income places him or her below a level of minimally adequate resources.

The U.S. Bureau of the Census has tracked and published statistics on the distribution of cash income under a standard income definition since shortly after World War II, even before there was a widely accepted definition of American poverty. The Bureau's principal measure of income includes before-tax cash income from all sources except gains or losses on the sale of property. This definition includes gross wages and salaries, net income from the operation of a farm, business, or partnership, pensions, interest, dividends, and government transfer payments that are distributed in the form of cash, including social security and public assistance benefits. This measure of resources is not comprehensive, as it ignores, among other things, all sources of noncash income, including food stamps, housing subsidies, and government- and employer-provided health insurance, and it does not account for taxes paid.

Because of these flaws in the official measure of resources, in this article we make use of three different measures of resources in determining whether individuals, families, or households are poor. We use (1) the Census Bureau's official income definition; (2) a definition that adjusts for taxes and near-cash income such as the value of food stamps, and (3) a definition that also includes an estimate of out-of-pocket medical spending. The last two measures are closely linked to recommendations for improving the official poverty measure that were made in 1995 by a National Research Council (NRC) panel on poverty statistics and that have been widely discussed.[3]

The percentage of people or families who are poor cannot be calculated using income alone. To determine who is poor, income must be compared with some kind of poverty standard reflecting a family's needs. Such poverty standards may be absolute or relative. Absolute standards (or thresholds) are defined in terms of a fixed level of purchasing power sufficient to buy a bundle of basic necessities. Relative standards, in contrast, are defined in terms of the typical income or consumption level in the wider society. The purchasing power of a relative standard will change over time as society-wide income or consumption levels change.

The poverty thresholds annually calculated by the Census Bureau are, essentially, absolute: they provide estimates of the incomes necessary for persons or families in different circumstances to purchase a minimally adequate level of consumption.[4] The most important circumstance affecting income needs is family size—larger families need higher incomes than smaller ones. In 1998, for example, the weighted-average poverty threshold for a typical single person (referred to as an "unrelated individual" by the Census Bureau) was $8,316. The poverty threshold for a family with four members was $16,660, almost exactly twice that for one person.

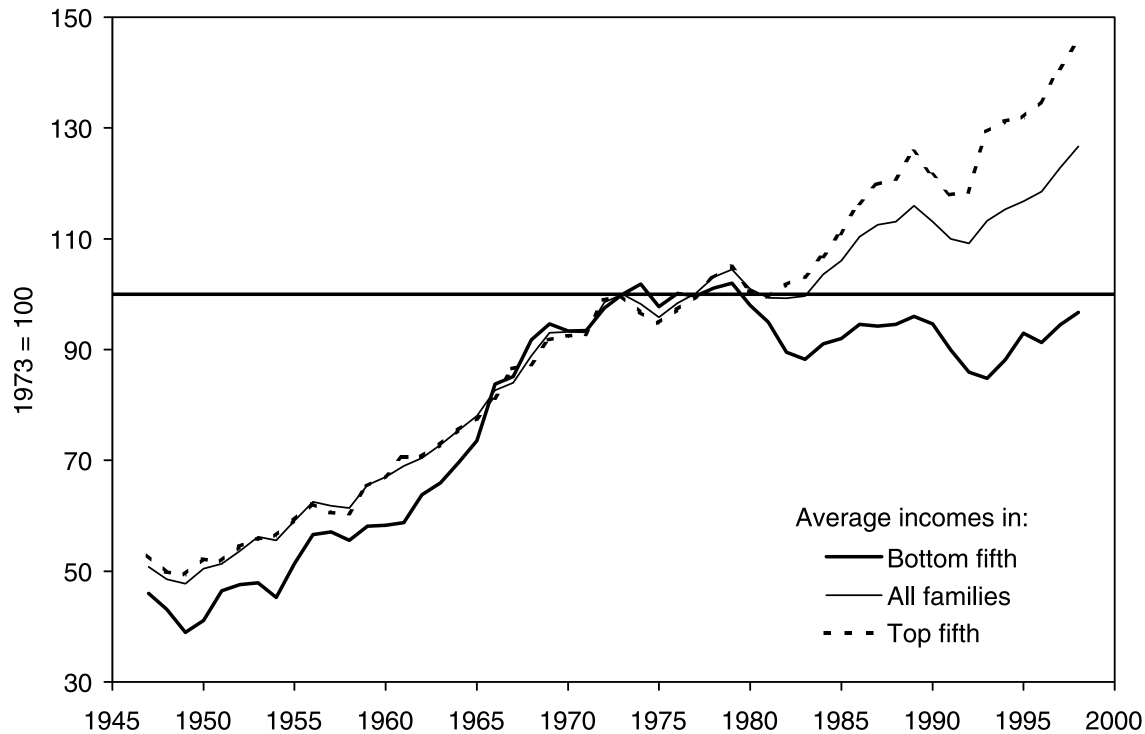

Figure 1. Trend in real average family income, 1947–1998. Average income for these three groups in 1973 is normalized to 100. Thus a value of 50 for the top quintile in the 1940s indicates a real income that was half its value in 1973.

Source: U.S. Census Bureau, Historical Income Tables—Families.

Measuring inequality

Whereas poverty tells us about the absolute well-being of those at the bottom of the income distribution, inequality tells us how those at the bottom are faring relative to the rest of the population. A common way to measure inequality is to calculate the percentage of total income received by families in different parts of the income distribution.

The Census Bureau, for example, calculates the income rank of every family, ranks families from lowest to highest, and then divides families into five equal-sized groups. In 1998, the one-fifth of families with the lowest incomes received 4.2 percent of total income. Families in the highest one-fifth received 47.3 percent of all income. If incomes were distributed equally across the five groups, each fifth of the distribution would receive exactly 20 percent of aggregate income.[5]

Figure 1 shows the trend in real family income after 1947, both average cash income and average cash incomes received by families in the top and bottom fifths of the annual income distribution. From World War II until the mid-1970s, the relative position of all families—those at the bottom, top, and middle of the income ladder—improved more or less in tandem. From 1970, the average incomes of high-income families have grown substantially, except for 1987–93, when all incomes shifted down. In contrast, the average incomes of the bottom group fell until 1993, and are only now climbing back to the 1970s level.

The trends in poverty

The prevalence of poverty in the United States, according to the three measures of income defined earlier, is tracked in Figure 2. As measured by the official U.S. government poverty rate (the thick line in Figure 2), poverty fell steeply in the decade after 1959, reached an all-time low in 1973, and then increased in the early 1980s and early 1990s.

The sharp increases in poverty in 1979–83 and in 1989–93 were connected to the recessions that occurred in those years, but the magnitude of the increase was a surprise to most economists. More surprising still was the failure of the poverty rate to fall back to the level reached in the 1970s, even after prolonged economic expansions in the 1980s and 1990s. The recessions of the 1980s and 1990s were accompanied or soon followed by large increases in income inequality. Even when average incomes rose in the economic expansions of these decades, the share of income received by low-income households stagnated or declined. In the 20 years after 1978, poverty

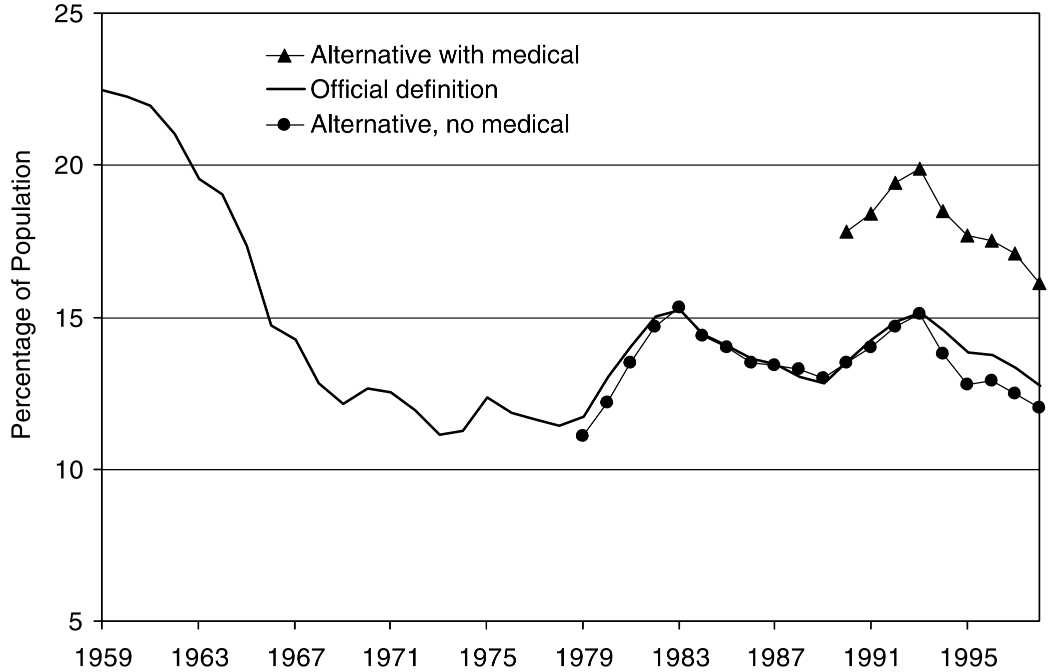

Figure 2. The poverty rate under alternative definitions of poverty, 1959–1998.

Option 1 = alternative, no medical; option 2 = alternative with medical.

Source: U.S. Census Bureau and authors' tabulations of 1980–1999 March CPS files.

climbed from 11.4 percent to 12.7 percent of the population, according to the official measure.

Part of this apparent increase may be an artifact of the measurement methods used by the Census Bureau. In particular, poverty rates are sensitive to the price index used when the official thresholds are updated to reflect changes in the cost of living. Most economists believe that the index used—the Consumer Price Index for All Urban Consumers—overstated increases in consumer prices in many of the years after 1959. If the reformed index now used by the Bureau of Labor Statistics to measure price change had been used in the past, the poverty thresholds would have increased more slowly. The number of Americans with incomes below the poverty line would then have been smaller, and the real income trends in Figure 1 would have been more favorable after 1973.

Setting aside the accuracy of the index to which it is linked, the official definition of income poverty has a number of serious deficiencies. As we noted earlier, it is based on a definition of income that ignores all noncash government transfers, even though many noncash transfers help pay for basic necessities, such as food, shelter, and medical care. The official income measure makes no allowance for income and payroll taxes, which reduce household resources available to pay for necessities. Because the impact of the tax system is ignored, income for some low-income working families with children may be seriously understated; these families are eligible for tax credits, such as the Earned Income Tax Credit (EITC), that can significantly boost the family's access to economic resources.

The official definition also makes no distinction between sources of income that are costly to earn, such as income from wages, and those that have little or no direct cost to the recipient, such as pensions and dividends. In calculating the income produced by a job, the official definition ignores the significant costs associated with getting to work and paying for child care when all adults in a household are employed.

If we use a broader definition of income, following the recommendations of the 1995 NRC panel to include near-cash benefits and refundable tax credits, the poverty rate in 1997 drops from 13.3 percent (under the official definition) to 11.1 percent, using the official poverty thresholds. If at the same time we subtract an estimate of work-related expenses from countable income, measured income declines and the poverty rate increases again slightly.[6] (This is option 1 in Figure 2.)

The NRC panel's most controversial recommendation was to subtract out-of-pocket spending on medical care from household income. Because such spending is often burdensome, this procedure substantially increases the number of poor, especially the elderly and disabled. The Census Bureau estimates that subtracting medical spending from the official definition of countable income would have increased the 1997 poverty rate from 13.3 percent to 16.3 percent.[7] (This is option 2 in Figure 2.)

Table 1
Sources of Net Income among People Who Are Poor under Alternative Poverty Line and Two Income Concepts, 1998[a]

Income Concept or Component of Net Income	Market-Income Poor (1)	Poor after Taxes, Transfers, Work and Medical Expenses[b] (2)
Market income	35	48
Taxes (except EITC)	-3	-5
Social insurance	50	16
Means-tested transfers (including EITC)	22	20
Out-of-pocket medical spending	-18	-25
Total income of poor, ignoring medical spending	104	78
Total income of poor, subtracting medical spending	86	53
People below poverty threshold (millions)	*57.6*	*43.6*
% of population in each category	*21.3%*	*16.1%*

Source: Authors' tabulations of March 1999 CPS files.

[a]Each element of income is measured as a percentage of the poverty threshold (set at 100 percent) for people who are poor according to that concept.

[b]The poverty thresholds are derived from the Census Bureau's estimates of the food, clothing, and shelter consumption patterns of the median reference family, updated to 1998 using the CPI-U and the 3-parameter equivalence scale described by Short and colleagues, *Experimental Poverty Measures, 1990–1997*.

The income-to-poverty-line ratio

Assuming, for the present, that the U.S. poverty thresholds accurately measure the different consumption requirements associated with different family sizes and compositions, the thresholds offer a convenient benchmark for assessing a family's income. Each family's income can be divided by its poverty threshold to determine how far its income falls short of or exceeds minimum consumption requirements (this ratio is known as the income-to-poverty-line ratio). Families with an income that is one-half the threshold must see their incomes double in order to pay for a minimum consumption basket. Families with incomes more than three times the poverty threshold can comfortably pay for their minimum consumption needs and still have money left over to buy other goods and services.

The median income-to-poverty-line ratio in 1998 was 3.09. For a family containing three members, this was equivalent to an annual income of about $40,200.

The poverty gap

In 1998, 7.2 million families and 8.5 million unrelated individuals (in all, about 34.5 million people, or 12.7 percent of the population) had pretax cash incomes below the official poverty thresholds.[8] The average family or individual in this group had an income that was only 54 percent of the poverty threshold. This family would need $5,350 in extra annual income to reach the poverty line. In the aggregate, then, about $83.8 billion—or 1 percent of Gross Domestic Product (GDP)—would be needed to eliminate cash poverty in the United States, if all of it could be accurately directed ("targeted") toward only those with incomes below the poverty line.[9] The difference between poor families' actual incomes and the incomes needed for all of them to reach the poverty line is usually called the "poverty gap." Under all three definitions of poverty, the poverty gap is roughly 1 percent of GDP.

The sources of income of the poor

Table 1 sheds light on the income sources of the poor. We examine two groups of people who are poor under very different definitions of income.

The first group consists of those who are poor if only their *before-tax market incomes* are counted in determining their poverty status. This group of people is often referred to as the "pretax and pretransfer poor." Market incomes include pretax wages, salaries, self-employment income, pensions (except social security), interest, dividends, and capital gains and losses. (Note that this is not the same as the official Census definition of income, because it does not include transfer income.) This group comprises 21.3 percent of the American population.

The second group consists of those who are poor after taxes and some work expenses are subtracted, transfers added, and an estimate of their out-of-pocket medical expenses is also subtracted from market income. This group comprises about 16 percent of the population.

Each element of income is measured as a percentage of the person's poverty threshold. The poverty thresholds that we use in Table 1 as a measure of poverty for these two groups are not the official thresholds, but are a set of alternative poverty thresholds developed in part by the Census Bureau on the basis of recommendations by the NRC panel. We use these alternative thresholds because we believe they offer a more defensible measure of deprivation than the official thresholds.

Not surprisingly, the average market income of poor households who are poor because their market incomes are below the poverty line (those in column 1) is very low. This group includes the elderly, who have little or no earned income, as well as families with children and single people with very low earnings. Social insurance payments, which are primarily targeted to the elderly, and means-tested transfers, which are primarily targeted to families with children, are important income sources for these families and individuals. Market income averages barely one-third of a poverty-line income, whereas social insurance payments average 50 percent and means-tested transfers 22 percent of the poverty threshold among people with market incomes below that threshold.

The population reflected in column 2 consists of those who are poor after taxes and transfers. Since social insurance payments are large enough to remove many elderly families from poverty, the composition of the populations reflected by columns 1 and 2 is quite different. The population reflected in column 2 will have far fewer elderly persons than the population reflected in column 1. It will have more working poor families, as a consequence of including the effects of medical expenses on available resources.

The compositional differences in the populations show up clearly in the table. Average social insurance payments constitute a much smaller fraction of family budgets of the after-tax and -transfer poor than they do for the market-income poor, primarily because there are far fewer elderly in this group. With more working-poor families, market incomes average roughly half the poverty line. Means-tested transfers are about the same as for the market-income poor.

Resources for the poor come primarily from a few sources. Regardless of how poverty is defined, the poor rely on earnings, social insurance, and means-tested transfers. The evolution, magnitude, and antipoverty effectiveness of these programs are the topic of the following article by John Karl Scholz and Kara Levine.

Conclusion

The healthy economy of the late 1990s helped push down the poverty rate under all three definitions we have considered here. The nation's experience since 1979 suggests, however, that a healthy economy by itself will never reduce the American poverty rate to levels prevailing in northwestern Europe. To achieve a much lower poverty rate without major overhaul of public policy, the United States would need to experience a dramatic—and unlikely—reduction in wage inequality or a sharp reversal in the family composition trends that have prevailed over the past four decades. Changes in public policy that assure good health insurance, provide better incomes to the indigent elderly and disabled, and supplement the earned incomes of working-but-poor breadwinners represent the best hope for achieving large poverty reductions in the near term. ■

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[1]This article draws upon Gary Burtless and Timothy Smeeding, "The Level, Trend, and Composition of Poverty," presented at the IRP conference, Understanding Poverty in America: Progress and Problems, on May 22–24, 2000, in Madison, WI. The revised conference papers will be jointly published by Harvard University Press and the Russell Sage Foundation in a volume tentatively titled *Understanding Poverty: Progress and Prospects*.

[2]Of course, there are other important kinds of resources, such as social capital, noncash benefits, primary education, and access to basic health care, all of which add to human capabilities (see J. Coleman, "Social Capital in the Creation of Human Capital," *American Journal of Sociology* 94 [1988]: S95–S120). These resources may be available more or less equally to all people in some societies, regardless of their money incomes. Other factors aside from the absence of money can reduce well-being by limiting capabilities for full participation in society, including racial discrimination, neighborhood violence, low-quality public schools, and job instability. We do not examine these limiting forces or investigate related topics, such as social exclusion.

[3]Research related to measuring poverty and the revision of the official poverty measure is the subject of *Focus* 19, no. 2 (Spring 1998). The NRC panel also suggested using poverty thresholds based on proportions of a median family's consumption of food, clothing, and shelter, with a "little bit more" for other expenses, in place of the existing official thresholds.

[4]The income thresholds in the official measure of poverty, which was established in the 1960s, are based upon a multiple of the Department of Agriculture's basic food consumption estimates (the "Economy Food Plan" developed in the 1950s).

[5]There is, of course, no fixed relationship between inequality and poverty. Under the right circumstances, even a rise in inequality can be associated with an improvement in living standards at the bottom, if overall income growth is strong enough. Conversely, the share of income going to the bottom fifth of families might jump, but if average incomes in the population at large are shrinking, the real incomes of those at the bottom could still fall.

[6]K. Short, T. Garner, D. Johnson, and P. Doyle, *Experimental Poverty Measures, 1990–1997*, Report P60-205 (Washington, DC: U.S. Census Bureau, 1999), pp. 9–10.

[7]Short and others, *Experimental Poverty Measures, 1990–1997*, p. 11.

[8]Another 48.9 million, or 18.0 percent, had pretax cash incomes between one and two times the poverty thresholds.

[9]As the article in this *Focus* by Scholz and Levine shows, no existing transfer program achieves any such level of accuracy in targeting benefits only to the poor.

The evolution of income support policy in recent decades

The aggregate effect of the tax and transfer system on the poverty gap appears almost unchanged between 1979 and 1997. There have been changes in the antipoverty policy mix and changes in the composition of the poor, but there has been very little change in antipoverty spending over the last 30 years; little change in the apparent antipoverty effectiveness of that spending; and little diminution of the poverty problem.[1]

John Karl Scholz and Kara Levine

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U.S. policies for mitigating the unemployment and low earnings that are a concomitant of the market economy have developed against a volatile background of variable economic performance, shifting attitudes toward poverty and welfare, and major changes in the population of the poor. Partly as a consequence, U.S. income support policy is a patchwork of programs with different eligibility standards and benefit formulas. Consistently since 1979, these policies have reduced by about half the high U.S. rates of pretax and pretransfer poverty.[2] The apparent consistency of their effect on poverty rates, however, masks significant changes in policies and programs. And because of the ad hoc development of income transfer policy, it may appear very different to a family in one set of circumstances than it does to a family in another.

Antipoverty programs fall into two main groups, "social insurance" and "means-tested transfers." In this article we briefly categorize the programs and compare their relative effectiveness in reducing poverty.

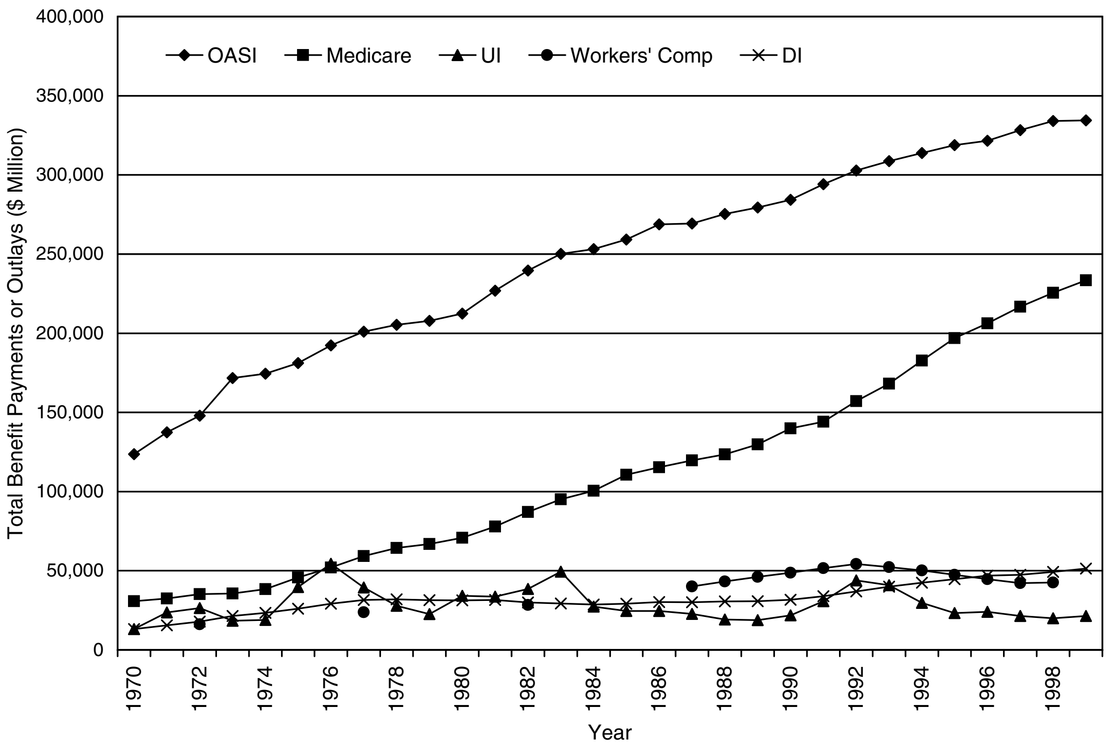

Figure 1. Total benefit payments of the main social insurance programs, 1970–99 (in constant 1999 dollars).

Sources: OASI: < http://www.ssa.gov/OACT/STATS/table4a5.html >; total annual benefits paid from OASI Trust Fund (all types of benefits). Medicare: *Green Book*, 1998, Table 2.1; total Medicare outlays. Unemployment Insurance (UI): U.S. Budget Historical Tables, Table 8.5. Workers' Compensation: < http://www.nasi.org/WorkComp/1997-98Data/wc97-98rpt.htm > and < http://www.nasi.org/WorkComp/1994-95Data/wc94rpt.htm >, cash plus medical benefits. Disability Insurance (DI): < http://www.ssa.gov/OACT/STATS/table4a6.html >.

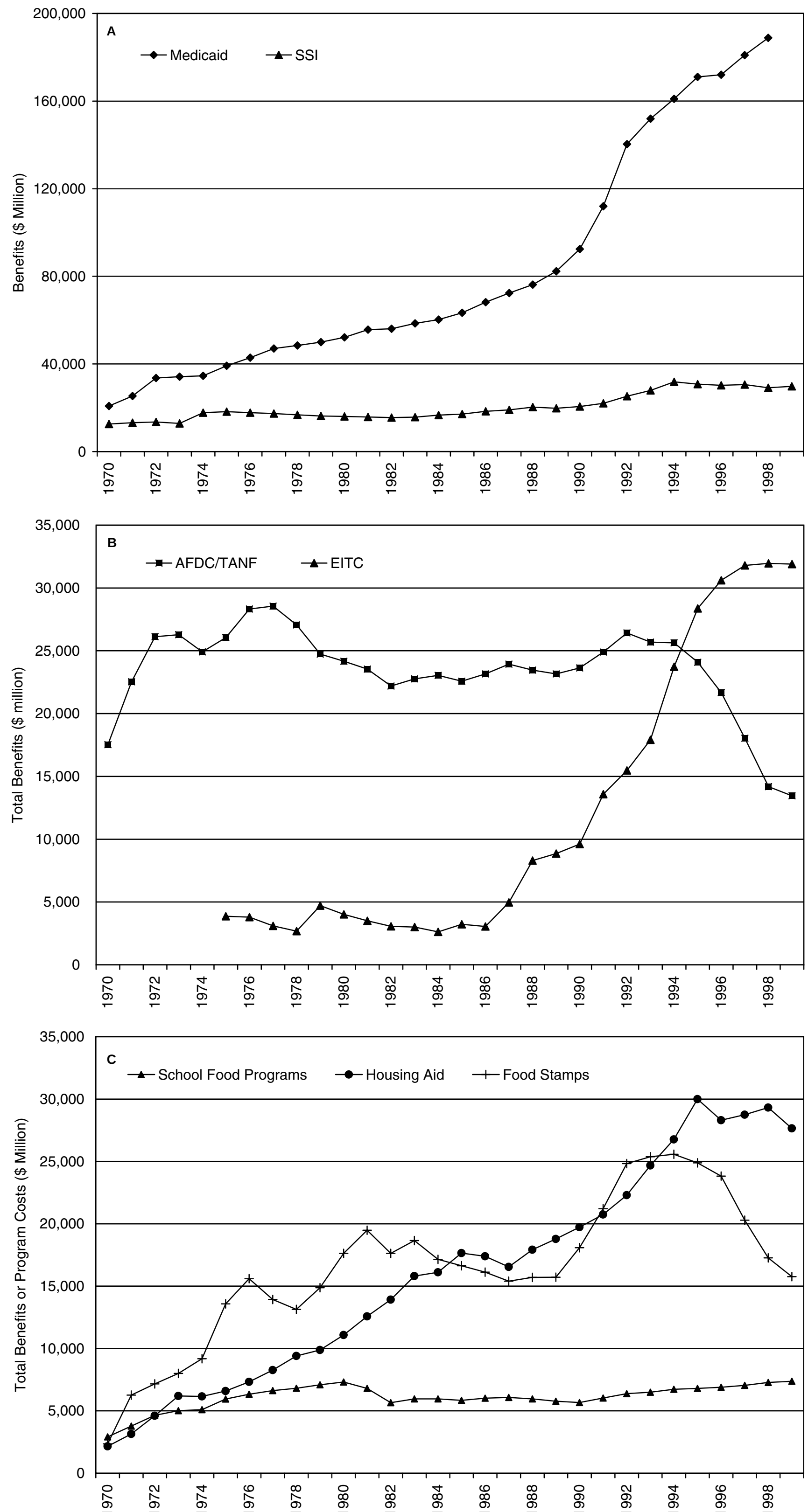

Figure 2. Total benefit payments of the largest means-tested programs, 1970–99 (in constant 1999 dollars). A. Health care and the disabled; B. Cash transfers for able-bodied families; C. In-kind programs.

Sources: Medicaid, *Green Book*, 1998, Table 15.13; SSI: *Green Book*, 1998, Table 3.24; AFDC/TANF: 1970-96, *Green Book*, Table 7.4; 1997 and 1998: <http://aspe.hhs.gov/hsp/indicators00/T_A_3.pdf> (Cash and Work-Based Activities only); 1999: <http://www.acf.dhhs.gov/programs/ofs/data/q499/table-f.htm>; school food programs: <http://www.fns.usda.gov/pd/cncosts.htm>; housing aid: U.S. Budget Historical Tables, Table 8.7; Food Stamps: <http://www.fns.usda.gov/pd/fssummar.htm>; EITC: V. J. Hotz and J. K. Scholz, "The Earned Income Tax Credit," NBER Conference on Means-Tested Transfers, 2000, forthcoming, ed. R. Moffitt, University of Chicago Press.

Social insurance programs

Social insurance programs have two distinguishing characteristics. They are universal, in that all individuals or their employers make contributions to finance the programs and all people can receive benefits when specific eligibility requirements are met. They have dedicated funding mechanisms; at least in an accounting sense, social insurance taxes are remitted to trust funds from which benefits are paid.

The major social insurance programs in the United States are social security, Medicare, unemployment insurance, workers' compensation, and disability insurance. Figure 1 shows trends in payments since 1970.

Social security (Old Age and Survivors Insurance, OASI) was established in 1935 to meet the needs of older workers leaving the workforce with incomes too small for them to be self-supporting. By far the largest social insurance program, it doubled in size between 1973 and 1999, for several reasons: the number of retired workers covered under the program has increased steadily, the taxable wage base and real earnings have grown, and legislated benefits have frequently exceeded the cost of living.

Over half of social security benefits go to families whose pretax and pretransfer incomes identify them as poor. In 1998 average benefits (including survivors' benefits) were about $9,600. Because the poverty threshold for the elderly in 1998 was $7,818 for a single person and $9,862 for a couple, the program has had a major effect in reducing poverty among the elderly.[3]

The next largest program, *Medicare*, which began in 1967, covers almost all people over 65 and most people under 65 who are receiving social security disability benefits. Real Medicare outlays increased more than sixfold from 1970 to 1999, and real expenditures per enrolled person almost threefold. In 1998, per capita expenditure was $5,810.

Over half of all Medicare benefits go to families whose pretransfer incomes are below the poverty line. It is, however, more difficult to determine the effectiveness of Medicare in ameliorating poverty than it is with social security, because Medicare provides an in-kind benefit (medical care) and insurance, rather than cash.

In recent years, the elderly have typically received between 85 and 90 percent of all payments for both social security and Medicare. Three smaller programs, unemployment insurance, workers' compensation, and disability insurance, target prime-age workers.

Unemployment insurance (UI), a time-limited program which allows families to smooth consumption when a worker becomes involuntarily unemployed, has relatively minor antipoverty effects. Perhaps only one-third of job separations for less-skilled men and fewer than 16 percent for less-skilled women meet the eligibility requirements for this program. Even fewer women who previously received welfare have qualified.[4] The size of the UI program will clearly vary with the state of the economy; total payments in 1998 were about $20 billion, compared to nearly $44 billion in 1992, a recession year.

Workers' compensation and *disability insurance* (DI), are dwarfed by social security, but are nonetheless large programs—in 1998, workers' compensation payments were $42.6 billion, and in 1999 DI payments were over $50 billion. Benefit levels under workers' compensation vary widely and little is known about their antipoverty effects. DI rules are stringent, and fewer than 50 percent of all applications are granted.

The magnitude and the steady growth of social insurance programs are hardly surprising. Their benefits are predicated upon events that are salient for most Americans—retirement, unemployment, or a disability or work-related injury. They are universal for all contributors—benefits are not asset- or income-tested—and all have dedicated financing mechanisms. It has been argued that social security reduces national saving and hastens retirement, and that UI alters the intensity with which the unemployed search for jobs, but there is little evidence that social insurance programs encourage people not to marry, have children out of wedlock, or spend long periods of time out of the labor market. They are thus in harmony with societal norms of personal responsibility. Social security and Medicare, furthermore, lessen the burden of intergenerational caregiving between grown children and their parents.

Means-tested transfers

In contrast to social insurance programs, means-tested programs have explicit antipoverty goals. They are directed toward ("targeted upon") the nonelderly poor or upon those who are otherwise disadvantaged. They all have income and asset tests (hence "means-tested"). Some are entitlements—meaning that all who satisfy eligibility requirements receive benefits, regardless of the total cost. Taken together, means-tested programs cost less than the social insurance programs and have had vastly different rates of growth over the past 30 years (see Figure 2).

Health care and the disabled

Medicaid, the largest means-tested transfer program, funds medical assistance to low-income elderly, blind, and disabled individuals, to members of poor families with children under age 18, and to some pregnant women and other children.[5] More than 70 percent of all Medicaid recipients had incomes below the poverty line in 1997; fewer than 10 percent were 65 or older in 1995. Since the late 1980s, Congress has several times expanded eligibility for the program; its cost doubled in the 1990s. Assessment of the antipoverty effectiveness of Medicaid faces the same difficulties that arise with valuing Medicare: it is difficult to assign a value to a benefit that a person may not use.

The other important means-tested, health-related program is *Supplemental Security Income* (SSI), a federally administered cash transfer program for elderly, blind, and disabled individuals (the last group makes up nearly 80 percent of all recipients). Until 1990 SSI grew very slowly, but between 1990 and 1994 program costs rose 55 percent, making SSI one of the nation's fastest growing entitlement programs. Three groups accounted for nearly 90 percent of this growth: adults with mental impairments, children, and noncitizens.[6] Since 1995 SSI has shrunk in real terms, as efforts have been made to reduce the growth rate of recipiency among children and immigrants. (See Figure 2A.)

Cash transfers to able-bodied families

Aid to Families with Dependent Children (AFDC), the central safety net for poor families from 1936 to 1996, was replaced in 1996 by *Temporary Assistance for Needy Families* (TANF).[7] AFDC was a means-tested entitlement program: all applicants whose income and assets were below state-stipulated levels could receive benefits; matching funds were provided by the federal government. TANF, in contrast, is a set of block grants to states with few restrictions. States are required to spend at least 75 percent of their "historic" level of AFDC spending, a five-year limit is imposed on the receipt of federally supported assistance, and states have to meet certain targets in moving portions of their TANF recipients into work activities.

Since 1993, welfare caseloads have fallen precipitously. In December 1999 only 2.4 million families were receiving TANF, compared to 5 million receiving AFDC in 1993. There are a variety of explanations, including AFDC/TANF changes that began before the 1996 law was passed, the longest economic expansion in U.S. history, sharp increases in work-linked programs such as the Earned Income Tax Credit (EITC), or combinations of these and other factors. The sharp reduction in welfare spending (see Figure 2B) has been roughly proportional to the decline in caseloads.

The *EITC*, a refundable tax credit that began in 1975, encourages low-skilled workers to enter the labor market, since payments are linked to earnings. Whereas real spending on AFDC/TANF fell over the last decade, spending for the EITC has risen sharply (Figure 2B). In 1999, 19.5 million taxpayers benefitted, and federal spending on the program exceeded spending on TANF and food stamps combined by several billion dollars.

In-kind transfers

The safety net for the poor includes a set of in-kind benefits. The largest programs are food stamps, housing assistance, Head Start, and two nutrition programs: school nutrition programs and the special supplemental program for women, infants, and children (WIC).

The country's single almost-universal entitlement program for people with low income and assets is *food stamps*. The program grew substantially, though not steadily, during its first two decades; the pattern of growth, retrenchment, and more growth largely reflected changing legislative policy. After 1994, real food stamp expenditures fell 38.3 percent, a decline far steeper than the declines in overall poverty rates or in child poverty. Between 1994 and 1997, the fraction of children living in poverty-level families receiving food stamps fell from 94 to 84 percent, suggesting that there are new holes in the safety net. (See Figure 2C.)

Unlike food stamps, *housing assistance* has never been an entitlement. Eligibility is based on family characteristics and income, and space is allotted on a first-come, first-served basis, although preference is given to families that are homeless, living in substandard housing, involuntarily displaced, or paying more than 50 percent of their incomes in rent. Waiting lists are common. Since 1982, the bulk of the aid has come in the form of subsidies to enable households to rent units in the existing private housing stock. Housing assistance peaked at about $30 billion in 1995; since then it has fallen slightly (see Figure 2C).

The other four programs are all considerably smaller; they have slightly increased over the last decade. There are three nutritional programs—the *school breakfast* and *school lunch* programs, and *WIC*. The school programs are entitlement programs, with a total expenditure of about $7.4 billion in 1999. WIC, which is not an entitlement, provides food assistance, nutrition risk screening, and other nutrition-linked services to low-income pregnant women and to low-income women and their children up to age 5. It served 7.3 million women and children in 1999, at a cost of nearly $4 billion. *Head Start*, which is not an entitlement, provides a range of services to children under 5 and their families. Its goals are to improve the social competence, learning skills, and nutritional status of low-income children so that they can begin school on an equal basis with more advantaged peers. About 850,000 children were enrolled in 1999, at a total cost of $4.7 billion.

Child care and child support

Several federal programs, most created since 1988, provide child care subsidies for low-income parents; they are part of the general trend toward work-based assistance rather than welfare. Spending on these programs

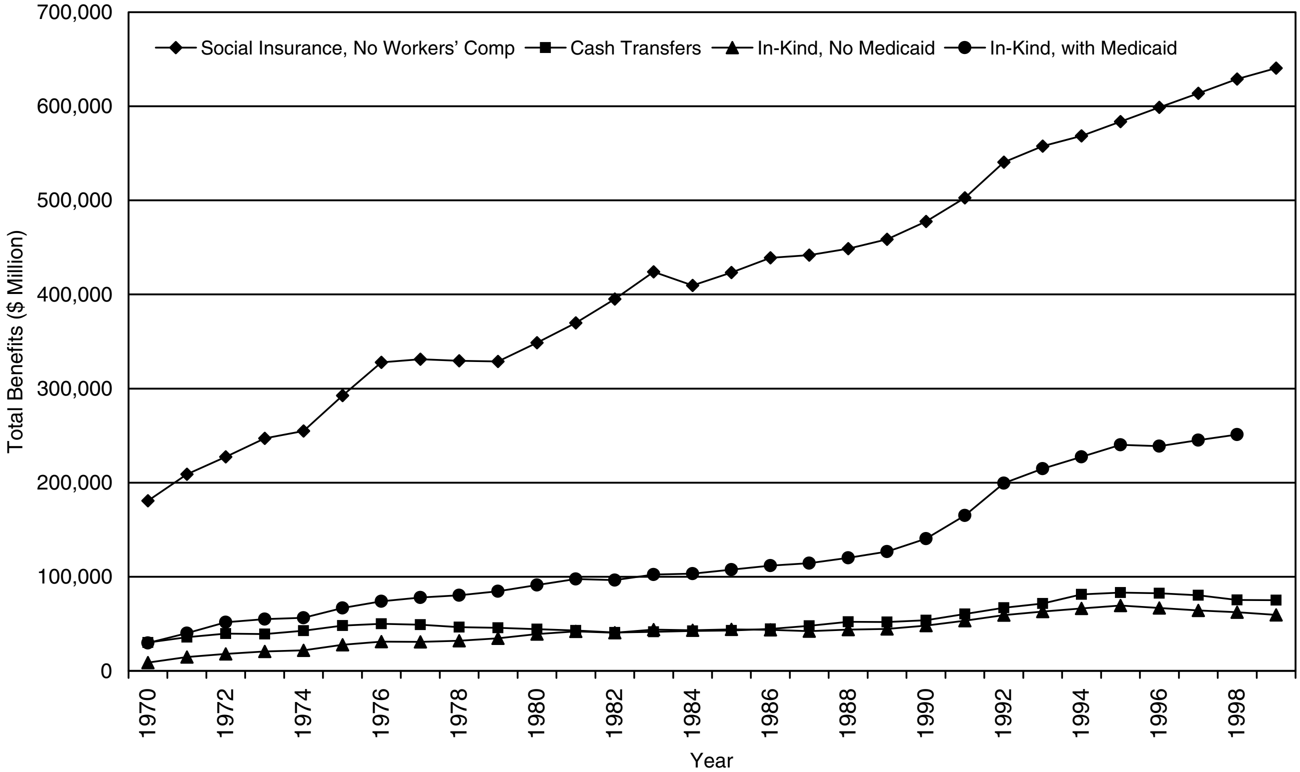

Figure 3. Total social insurance, cash, and in-kind means-tested transfers (in constant 1999 dollars).

Source: Figures 1 and 2, summarized data; WIC data: < http://www.fns.usda.gov/pd/wisummary.htm >; Head Start data: < http://www2.acf.dhhs.gov/programs/hsb/research/99_hsfs.htm >.

has increased in the last few years, but the number of children receiving services has remained essentially unchanged at about 1.4 million, and the antipoverty effects of the programs are unknown.

The Child Support Enforcement and Paternity Establishment Program (CSE) began in 1975 to aid custodial parents in collecting child support from noncustodial parents. Part of the impetus for the program was to replace public welfare benefits with parental support, but all custodial parents, not just poor parents, are now entitled to assistance. In 1996, federal welfare reform legislation consolidated federal child support funds into TANF block grants, imposed more stringent requirements on the performance of state-run CSE programs, and established a national integrated, automated network to improve the ability of states to locate noncustodial parents. Collections and costs have risen substantially, but the percentage of custodial parents receiving support (37.4 percent in 1995) and the average size of the payment have remained fairly constant. Child support appears to have small antipoverty effects, though these may be growing.

The effects of antipoverty policy

Both social insurance and means-tested programs increased in the 1990s at an annual rate of about 4 to 4.5 percent, significantly faster than they grew in the 1980s (Figure 3). The expansion of social insurance has been driven by rapid increases in the cost of social security and Medicare, that of means-tested programs by the EITC and housing programs.

How has this wide and growing array of programs affected poverty? And which programs have been more effective? One way to approach this important but complex issue is to examine the degree to which particular programs have affected the poverty gap, defined as the sum of the differences between market income and the poverty line for all families with incomes below the poverty line. Such an analysis has been undertaken at intervals by Daniel Weinberg, using primarily the Survey of Income and Program Participation.[8] Our work updates his, and like his does not take into account behavioral responses to different programs. In the absence of social security, for example, some elderly people would continue to work in the paid labor market, thus reducing pretax and pretransfer poverty. Our calculations, therefore, provide an upper bound on the magnitude of the poverty gap and the antipoverty effectiveness of different programs.

We emphasize four questions:

- How large is the poverty gap, and how has it changed since 1979?

Table 1
The Antipoverty Effectiveness of the Tax and Transfer System for Families of Different Types, April 1997

	Elderly Families	Nonelderly Families		
		Single-Parent	Two-Parent	Childless
Number of Families (in millions)	21.9	11.3	26.0	52.1
Poverty Gap (in millions)	$6,275	$4,308	$2,638	$6,389
Total Transfers (in millions)	$35,616	$6,894	$5,603	$10,930
To pretransfer poor	53.2%	76.6%	49.1%	51.8%
Used to alleviate poverty	17.5%	49.2%	29.3%	26.9%
Poverty Gap Filled	99.1%	78.8%	62.2%	45.9%
Poor, after Taxes and Transfers	1.0%	17.5%	6.5%	13.8%

Source: Authors' calculations from the 1997 Survey of Income and Program Participation (waves 4 and 5).

- How effective are current programs in filling the poverty gap?
- How has the antipoverty effectiveness of the tax and transfer system changed over time?
- What are the differential effects of public policies on different demographic groups—the elderly, one- and two-parent families, and families without children?

The poverty gap

Because most programs determine eligibility on a monthly basis, we measure the poverty gap for a single month. In our calculations, we set aside the income tax (except for the EITC), because low-income families pay very little or none. But we do reduce earnings by 7.65 percent to account for the employee's share of the payroll tax.

Valuing noncash benefits is challenging. We value food stamps at cost to the government, Medicaid at about the cost of a typical HMO policy, and Medicare at about 2.5 times the average cost of a fee-for-service plan.[9] We use Fair Market Rent data from the Department of Housing and Urban Development to estimate the value of in-kind housing benefits.

Counting "unrelated individuals" as one-person families, we estimate that in April 1997, 29 percent of families had pretax and pretransfer incomes below the poverty line, and that the total pretax and pretransfer poverty gap was $19.6 billion. Weinberg's poverty gaps for 1979 and 1984 are strikingly similar: $19.7 billion and $19 billion, respectively, when adjustments are made for the larger number of families in 1997.[10] This result is consistent with the stubborn persistence of poverty rates that we and other authors have documented.

Filling the poverty gap

In April 1997, all social insurance and means-tested benefits amounted to $59 billion, or an average of just over $1,000 to each recipient family. Of the total amount, 55 percent went to families with pretransfer incomes below the poverty line.[11] Only about a quarter of the total amount went toward alleviating poverty, as we have earlier defined it, filling 72 percent of the poverty gap.

Because they are universal, the major social insurance programs—social security (including DI), Medicare, UI, and workers' compensation—are not well targeted. Roughly half of recipients have incomes below the poverty line, and only about a third of total benefits go toward closing the poverty gap. But the programs are so huge that they have a large effect on poverty rates.

Among the larger means-tested programs (those over $1 billion), which are by definition the most tightly targeted toward the poor, more than 78 percent of benefits contributed directly toward reducing the poverty gap.

The antipoverty effectiveness of the tax and transfer system

When we compare our results for 1997 with those of Weinberg for 1979 and 1984, we find extraordinary stability in the antipoverty effects of the tax and transfer system, despite the variability in programs and costs that emerges clearly in Figure 2. In each of these years, transfers fill just over 70 percent of the poverty gap.[12] This stability reflects both stagnant real incomes and stable trends in antipoverty spending. But if society's goal is the elimination of income poverty, the lack of progress is unsettling.

The differential effects of public policies

Table 1 highlights gaps in the safety net by focusing on four types of families: the elderly, and nonelderly single-parent, two-parent, and childless families. Transfers to the elderly (primarily social security payments) are both well targeted and virtually eliminate the poverty gap. Transfers are also are effectively targeted to *poor* single-parent families, who receive three-quarters of all benefits that go to single-parent families. Nevertheless, the after-transfer poverty rate of this group remains very high, 17.5 percent.

Poor two-parent families and younger childless families receive less than half of all benefits to these groups. For two-parent families this is less of an issue—the overall poverty rate of this group is low. But poverty remains high among younger childless families, who have few sources of public assistance other than food stamps, unless some family member is disabled.

The future of income support policy

Between 1971 and 1998, total spending on all cash and in-kind transfers (excluding social insurance and Medicaid) ranged between 1.3 and 1.9 percent of the Gross Domestic Product. What explains this stability, in the face of persistent and high poverty rates?

Public indifference is not a good explanation for the persistence of poverty. When asked, the majority of Americans consistently state that we are spending too little on assisting the poor. More important, we think, are two other reasons. First is the widespread perception that we do not know what works. There exists considerable frustration over well-intentioned policies that, in the public view, worsened the problems they sought to solve. A second reason is the fiscal policy climate over the last three decades. It has been, bluntly, a mess. The 1970s were characterized by "stagflation," the simultaneous problems of high unemployment and inflation. In the 1980s and much of the 1990s, economic policy was dominated by enormous, seemingly perpetual budget deficits.

Now, both factors have changed. The June 2000 budget estimates forecast a 10-year, $1.2-trillion surplus. There is also a large and growing body of evidence that work-based strategies like the EITC and some welfare-to-work state programs, such as the Minnesota Family Investment Program and the Canadian Self-Sufficiency Project, can have positive effects on labor market participation, although they are no panacea for poverty. We believe that such programs should be aggressively expanded and evaluated.

At the same time, the safety net now provides less than it has for decades to families with children in which the adults, for one reason or another, are unable to work. TANF has a five-year time limit, and food stamp participation has plummeted. Consequences are not yet widely visible, because few families have reached their time limit and the economy remains strong. States have largely been ceded the responsibility of caring for the country's most disadvantaged citizens; they must also be given the resources to do so. So far, TANF block grants appear to have been adequate, but it is imperative that they remain so during periods of weaker economic performance.

Merely reshuffling funding is not enough. In a time of unprecedented prosperity, the failure to make new investments will result in large numbers of children growing up in households unable to afford adequate food, shelter, and activities that can enrich their lives. The consequences could be dire: an erosion of social cohesion, a waste of the human capital of a large portion of the citizenry, and the moral discomfort of condoning poverty amid affluence. ■

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[1]This article draws upon John Karl Scholz and Kara Levine, "The Evolution of Income Support Policy in Recent Decades," presented at the IRP conference, Understanding Poverty in America: Progress and Problems, on May 22–24, 2000, in Madison, WI. The revised conference papers will be jointly published by Harvard University Press and the Russell Sage Foundation in a volume tentatively titled *Understanding Poverty: Progress and Prospects*.

[2]See the article by Gary Burtless and Timothy M. Smeeding, "The Level, Trend, and Composition of Poverty," in this *Focus.*

[3]On a lifetime basis, recent research suggests, social security may do less to redistribute resources from high- to low-income households than the targeting of benefits in a single year would suggest. See, for example, J. Coronado, D. Fullerton, and T. Glass, "The Progressivity of Social Security," Working Paper 7520, National Bureau of Economic Research, 2000.

[4]C. Gustafson and P. Levine, "Less Skilled Workers, Welfare Reform, and the Unemployment Insurance System," Working Paper 6489, National Bureau of Economic Research, 1998.

[5]The program is discussed in more detail in the article by John Mullahy and Barbara Wolfe, "Health Policies for the Nonelderly Poor," in this *Focus.*

[6]A major contributor to growth was the Zebley decision, a Supreme Court case that revised the childhood mental health eligibility criterion to be consistent with the criterion applied to adults.

[7]The programs are discussed in greater detail in an article in this *Focus* by Pavetti.

[8]D. Weinberg, "Filling the Poverty Gap: Multiple Transfer Program Participation," *Journal of Human Resources* 20 (1985): 64–89; "Filling the 'Poverty Gap': 1979–84," *Journal of Human Resources* 22 (1987): 563–73; "Poverty Dynamics and the Poverty Gap, 1984–86," *Journal of Human Resources* 26 (1991): 535–44.

[9]On Medicaid, see J. Gruber, "Medicaid," Working Paper 7829, National Bureau of Economic Research, 2000; data for Medicare come from the Kaiser Foundation, 1999 Annual Employer Health Benefits Survey, on the World Wide Web at http://www.kff.org/content/1999/1538/ . Results are quite insensitive to price assumptions.

[10]For 1986, the outlier year, the poverty gap was $16.9 billion.

[11]If a family has a poverty gap of $1, and the program provides them with $1,000 in benefits, only $1 of benefits would be counted as reducing the poverty gap.

[12]Weinberg does not value in-kind benefits in 1986.

Mobility, persistence, and the intergenerational determinants of children's success

Long-term childhood poverty would be less worrying if we believed that childhood economic disadvantages had small effects on children's futures. But the new evidence suggests that 16–25 percent of the variation in children's long-run permanent incomes is due to the transmission of economic inequality from parents to children.[1]

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Of all industrialized nations, the United States has the highest level of income inequality.[2] But most U.S. residents are less concerned about whether people have equal incomes than whether they have equal opportunity to improve their economic status ("mobility"). Mobility is viewed as a race in which many contestants compete on an equal basis. As long as the contest is fair, any resulting inequality is seen as the price of living in an open and mobile society.

Is U.S. society as open and fair as people generally believe? One way to assess this is to measure mobility within and across generations, and to see who succeeds and who does not. To do so, researchers must use longitudinal data that track income trajectories and poverty status for the same individuals and families over long periods of time, instead of providing snapshots at a point in time, as, for example, the U.S. Census does. In this article I report some recent evidence on the persistence of poverty, the extent of intra- and intergenerational mobility, and the role of childhood poverty in shaping children's future economic attainments.

The persistence of poverty

The extent and the causes of long-term poverty are controversial. Some analysts argue that most poverty is transitory, and that few individuals experience long-term distress. Poverty simply reflects short-term adjustment problems or life-cycle changes—a period between jobs, or following a family breakup, or after a young adult leaves home.

Others maintain that some individuals are stuck in poverty over years, perhaps over generations, though they do not agree on the reasons. One set of arguments blames poor labor market opportunities, segregation and discrimination, inadequate and underfunded schools, and lack of community resources in disadvantaged neighborhoods. Others emphasize work and marriage disincentives in the welfare system, increasing numbers of female-headed families, the growth of teen pregnancy and illegitimacy, deviant subcultures, and the personal deficiencies of the poor.

Whatever the reasons for poverty, the size and composition of the population of the long-run poor are matters of concern. Persistently poor individuals consume disproportionately large percentages of the dollars spent on public assistance and antipoverty programs. If persistent poverty is indeed very unequally distributed across demographic groups, U.S. norms of fairness and meritocracy are violated. And if growing up poor has serious negative consequences for children's development and future economic prospects, then U.S. society may be less open than is commonly believed.

How long do individuals stay poor?

Poverty is clearly a widespread risk. In her research using a longitudinal survey, the Panel Study of Income Dynamics (PSID), Rebecca Blank found that over the years 1979–91, one in three Americans experienced at least one year in poverty.[3] But long-term poverty is rarer; only 4.9 percent of the population were poor in 10 or more years, and just 1.5 percent in all 13 years.

Long-term poverty was not equally shared. African Americans, high school dropouts, individuals with health problems, and women and children living in single-mother families were disproportionately likely to be poor. Race differences in the risk of long-term poverty were especially striking. Fewer than 1 in 50 whites were poor for 10 or more years from 1979 to 1991, but 1 in 6 African Americans were.

Changes in employment and family structure were both important precursors of movement into and out of poverty, but economic changes were the more important. About half of all spells of poverty began or ended when the earnings of the family head or the spouse fell or increased. Changes in family structure (for example, divorce or remarriage) accounted for about a third of moves into or out of poverty.

How long do children remain poor?

Greg Duncan and colleagues, also using data from the PSID, tracked the economic circumstances of a represen-

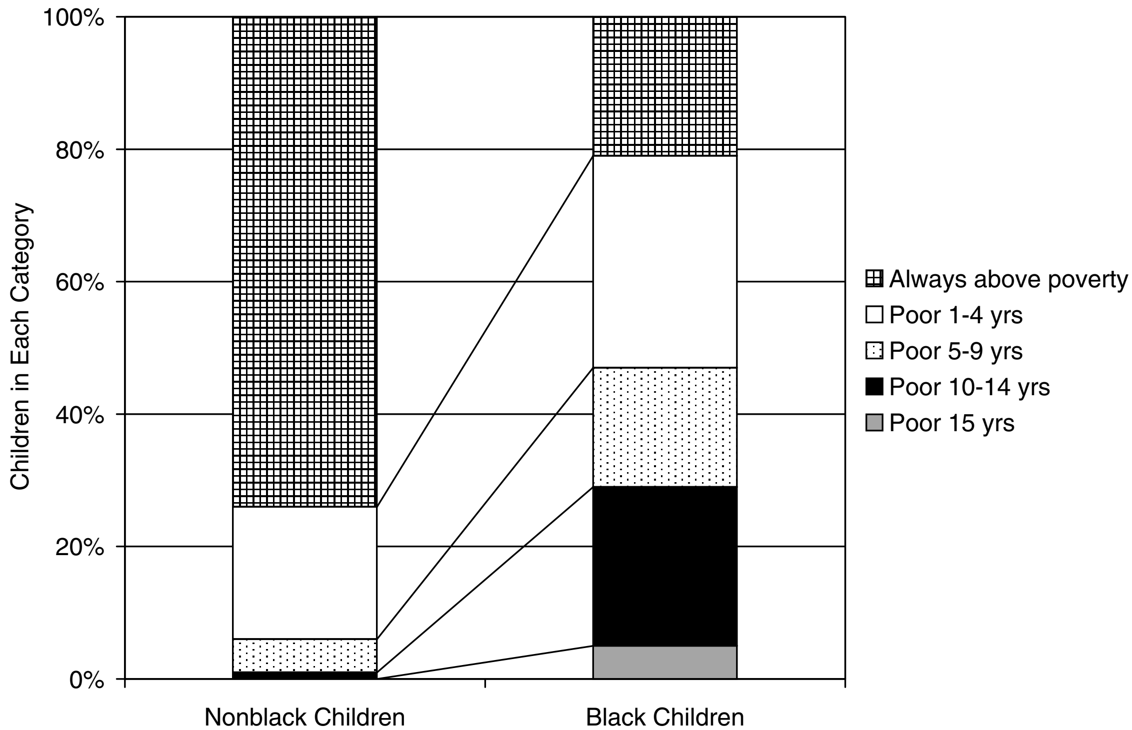

Figure 1. Long-term poverty among children who were under age 4 in 1968.

Source: G. Duncan, "The Economic Environment of Childhood," in *Children in Poverty: Child Development and Public Policy*, ed. A. Huston (New York: Cambridge University Press, 1991). Data from the Panel Study of Income Dynamics.

tative sample of children for 15 years from 1968.[4] Poverty was widespread, as it was among adults (one child in three spent at least a year in poverty), but most children were only temporarily poor. For a small minority of children—5 percent of all children in the study, and 15 percent of those children who ever became poor—childhood poverty lasted 10 years or more, and it was also very severe. The average family income of children living in persistent poverty was only about half the income that would be needed to bring that child's family above the poverty line.

Racial differences are even more striking among children in long-term poverty than annual poverty rates suggest (Figure 1). Nearly 30 percent of African-American children were poor in 10 or more years, and they constituted almost 90 percent of long-term-poor children. Other children who had much higher than average durations in poverty included those who lived with a single parent throughout their childhood, those who lived in the South, and those with a disabled parent.

Much evidence suggests that family structure is not the primary source of childhood poverty, even for African-American children, who are more apt to live in single-parent families than other children.[5] Changes in the employment and earnings of adults were at least as important as—often more important than—changes in family structure. And poverty spells lasted longer during economic declines, especially for children living in male-headed households.

Do poor children remain poor as adults?

As American views of an open and mobile society would predict, most poor children do not grow up to be poor adults. Only one in four who were consistently poor below age 17 can still be considered poor at ages 25–27.[6] But poor African-American children were less likely to escape poverty than poor white children—one in three was still poor at ages 25–27, compared to one in 12 poor white children. Indeed, African Americans who were *not* poor as children were over twice as likely to be poor at ages 25–27 than were *poor* white children.

Is long-term childhood poverty becoming more common?

Annual poverty rates for children, as measured by the Census Bureau, were dramatically higher in the 1980s than earlier; in 1983, the poverty rate for children under 18 was 22.3 percent, whereas in 1972 it had been less than 15 percent. Nevertheless, because of offsetting economic and demographic trends, the rate of long-term childhood poverty did not increase between the late 1960s and the mid-1980s. Economic inequality, the number of single-parent families, and the percentage of younger parents had all increased and should have resulted in more persistent poverty for children, but these increases were offset by decreases in family size and rising levels of education among parents.[7]

Did the situation improve in the prosperous 1990s? The annual child poverty rate dropped below 20 percent in 1998, for the first time since 1980, but it was still higher than rates prevailing in the early 1970s. The greater availability of jobs for the low-skilled, the greater numbers of single mothers holding jobs, and policies such as the Earned Income Tax Credit (EITC) certainly raised net incomes for some poor families. But the incomes of the poorest single mothers and their children have worsened since welfare reform was implemented, largely because losses in means-tested benefits have exceeded gains in earnings.[8] These declines may prove to have increased long-term childhood poverty, though it is too soon to tell.

Income mobility

The long-term poor constitute barely 5 percent of the U.S. population, but among the other 95 percent, the extent of mobility remains an important question.

Relative income mobility is measured by tracking the same individuals' incomes over time and estimating the extent to which their relative positions change. Analysts typically divide people into five equal groups (quintiles) on the basis of income, and then measure the proportions that move between quintiles over a given period, for example, from year to year. Or they examine the extent of mobility out of the bottom quintile—how many are moving upward, how many are stuck at the bottom?

How much intragenerational mobility is there?

Analysts generally agree that relative income mobility is considerable, and that it is higher over longer periods.[9] Over a two-year period, anywhere from 25 to 40 percent of people (depending on the study) move from one income quintile to another; over periods of up to 25 years, as many as 60 percent of people may switch quintiles.

But more than half of adults aged 22–39 who were in the bottom income quintile in 1968–70 were still there in 1989–91, and the picture was worse for nonwhites and single mothers receiving welfare: 72 percent of nonwhites, 78 percent of welfare recipients, but only 46 percent of whites who started out in the bottom quintile were still there over 20 years later.[10]

Income gaps widened between the rich and the poor, the old and the young, the highly educated and the poorly educated during the 1980s and early 1990s. Long-run income inequality would not necessarily increase if greater income mobility offset these increases in annual inequality. But income mobility did not change during the 1970s and 1980s; thus long-run inequality must also have grown.[11]

Table 1
Outcomes for Young Adults, by Childhood Poverty Status

Outcomes	Childhood Poverty Status: Poor	Nonpoor
Schooling Outcomes		
Mean years of schooling	12.0	13.4
Did not complete high school	29.7%	9.0%
Fertility Outcomes (women only)		
Had a teen birth	39.0%	18.7%
Had an unwed birth	24.6%	9.4%
Labor Market Outcomes at Ages 25–27 (men only)		
Mean hours worked/year	1,744	2,100
Mean hourly wage	$8.51	$12.14
Mean annual earnings	$15,188	$25,246
Mean weeks idle between ages 25–27[a]	11.8	4.7
Income Outcomes at Ages 25–27		
Mean family income	$21,541	$36,003
Mean family income/needs[b]	2.0	3.7
Poor[c]	24.1%	3.8%

Source: Author's calculations from the PSID.

Note: The sample consists of all respondents in the 1968–1993 Panel Study of Income Dynamics (PSID) who were observed as children between ages 15 and 17 and as adults between ages 25 and 27. All means are weighted. An individual is defined as poor as a child if the ratio of his or her family to the Census poverty line, averaged over all years observed as a child, is less than 1. Depending on the respondent's age in 1968, there are 3 to 17 years of data on childhood family income.

[a]A man is defined as idle if he is not working and is not a full-time student.

[b]Needs is the Census Bureau's poverty threshold.

[c]A respondent is defined as poor if his or her income-to-needs ratio between ages 25 and 27 is less than 1.

To what extent is income inequality transmitted across generations?

Until recently, analysts contended that parental income had small effects on children's economic futures—that there was considerable mobility across generations and little evidence of a vicious cycle of poverty. Typically, analysts argued, less than 4 percent of inequality in men's incomes was linked to the incomes of their fathers.[12]

This consensus changed as longitudinal data allowed researchers to estimate more precisely the correlations between the long-run economic status of fathers and sons. And the size of the effect appears to grow as the sons age: fathers' economic status accounts for about 25 percent of the economic status of sons in their mid-20s, but about 50 percent of the status of sons in their late 30s.

Fathers' income appears to have an equally strong link to the economic status of their adult daughters. There is, however, some evidence to suggest that these associations began to weaken in the 1980s and 1990s, as intergenerational income and occupational mobility increased.[13]

Does growing up poor affect children's futures?

There is no doubt that being poor as a child has large and serious effects on many aspects of the lives of young adults (see Table 1). Poor children are more than three times as likely to have dropped out of high school. Poor girls are more than twice as likely to have had a teen birth. Poor boys work fewer hours, have lower annual earnings, and spend more weeks idle in their mid-20s than do nonpoor boys. Poor children have higher poverty rates and lower incomes in their mid-20s than do nonpoor children.

These statistics do not, however, tell us how much child poverty *itself* actually affects children's developmental and economic outcomes. Poor and nonpoor families differ in many ways. Poor families are more likely to be headed by one parent than by two, and poor parents tend to be younger, less educated, less healthy, less likely to be employed, more likely to earn less, and more likely to receive welfare than nonpoor parents. These differences, not income alone, could be leading to undesirable outcomes for poor children.[14]

Nor can studies that estimate the associations between child poverty and child outcomes tell us *why* and *how* poverty affects children's development. Do poor children suffer developmental delays because of poor physical environments and poor nutrition, because of poor parenting practices and lack of a stimulating home environment, or because poverty and poor neighborhoods put parents under considerable stress? As is the case with persistent poverty, there have been many different and sometimes contradictory explanations, but new longitudinal research offers a few clues.

Part of the association between parental poverty and children's economic outcomes clearly comes from the effect on school achievement. Poor children receive less schooling and do more poorly on measures of attainment than do nonpoor children. These differences are strongly linked to the ability of nonpoor parents to provide richer and more stimulating home environments than poor parents can.

Low income is also, though not always, associated with greater health risks arising from higher rates of low birth weight, greater exposure to environmental hazards in poor neighborhoods, and poorer health and mental health among parents. But evidence on the extent to which health risks may affect adult attainments is still inconclusive.[15]

Genetic explanations for intergenerational inequality—stressing the influence of nature rather than nurture—have attracted wide public attention.[16] The conclusion that genes matter more than nongenetic family background has, however, been strongly criticized because it rests on controversial assumptions and dubious evidence.[17]

Does money itself matter? Analysts disagree. Susan Mayer, for example, contends that parental income is mostly a signal of other attributes that we cannot so easily measure. Parents who are in poor health or who possess low expectations, few talents, or little motivation are less likely to succeed economically and to raise successful children.[18] Thus she concludes that estimates of the effects of income alone are likely too high because they do not take such unmeasured family characteristics into account. Unfortunately, as Mayer points out, even the new, improved studies are only able to incorporate a limited list of family background factors. Longitudinal data bases such as the PSID and the National Longitudinal Study of Youth do not provide good measures of the kinds of material hardships one would wish to include—food insufficiency, evictions and homelessness, utility cutoffs, failure to receive necessary medical care, neighborhood crime rates, and school quality.

Policies for the long-term poor

"Only" 5 percent of adults and children in the United States are chronically poor—but that amounts to millions of people. And the chronically poor are not a representative cross-section: being born to African-American or single mothers dramatically increases children's chances of being poor throughout their childhoods. Children born to African-American parents can expect very different economic trajectories than children born to white parents. Clearly, U.S. society may be less open than we would wish.

Tax and transfer policies that deliver economic resources to poor families provide immediate economic relief, and may well lead to small improvements in a number of poor children's future attainments. But Mayer's research suggests that raising the incomes of poor children is unlikely dramatically to improve their future prospects.

More important, we still do not understand why growing up poor hurts children. The research discussed in this article has shown that poverty has stronger effects than family structure on children's test scores, schooling attainment, and economic outcomes, but that family composition has greater effects on behavioral and psychological problems. Both are quite likely correlated with unmeasured parental attributes that directly affect children's future well-being.

The appropriate policies for dealing with long-term childhood poverty and persistent economic inequality will depend on which view is correct. If lack of resources and low skills inhibit the chance of escaping poverty, then policies that deliver resources to poor families and raise the education and skills of poor children are appropriate. If social isolation in poor neighborhoods is a factor, both economic and social service strategies will be necessary to link people with jobs and provide them with the educational and social skills to stay employed. If parental disadvantages or failings cause family poverty and lead to poor outcomes for children, then the policy solution is less obvious. We need to identify those disadvantages and then target policies toward reducing them or, at the least, toward reducing their impact upon children. ■

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[1]This article draws upon Mary Corcoran, "Mobility, Persistence, and the Intergenerational Determinants of Children's Success," presented at the IRP conference, Understanding Poverty in America: Progress and Problems, on May 22–24, 2000, in Madison, WI. The revised conference papers will be jointly published by Harvard University Press and the Russell Sage Foundation in a volume tentatively titled *Understanding Poverty: Progress and Prospects*.

[2]T. Smeeding and P. Gottschalk, "Cross-National Income Inequality: How Great Is It and What Can We Learn from It?" *Focus* 19, no. 3 (Summer-Fall 1998): 15–19.

[3]R. Blank, *It Takes a Nation: A New Agenda for Fighting Poverty* (Princeton, NJ: Princeton University Press, 1997). There are no statistics on the extent of long-term poverty among Latino or immigrant groups. Annual poverty rates are extremely high for both.

[4]G. Duncan, "The Economic Environment of Childhood," in *Children in Poverty: Child Development and Public Policy*, ed. A. Huston (New York: Cambridge University Press, 1991). Pp. 23–50.

[5]M. Corcoran and A. Chaudry, "The Dynamics of Childhood Poverty," *The Future of Children* 7, no. 2 (1997): 40–45; A. Stevens, "Measuring the Persistence of Poverty over Multiple Spells," unpublished Ph.D. dissertation, Department of Economics, University of Michigan, Ann Arbor, 1995.

[6]Author's estimates from the PSID. I consider an individual to be poor as a child if the average family income between 1968, when the PSID began, and the year the child turned 17 places the family below the poverty line. Poor adults are those for whom average income during ages 25–27 is below the poverty line.

[7]On these issues see also M. Cancian and D. Reed, "Changes in Family Structure: Implications for Poverty and Related Policy," in this *Focus*; G. Duncan and W. Rodgers, "Longitudinal Aspects of Childhood Poverty," *Journal of Marriage and the Family* 50 (1988): 538–50.

[8]W. Primus, K. Rawlings, K. Larin, and K. Porter, *The Initial Impacts of Welfare Reform on the Incomes of Single-Mother Families*, Center on Budget and Policy Priorities, Washington, DC, 1999.

[9]See, for example, S. Danziger and P. Gottschalk, "Family Income Mobility—How Much Is There, and Has It Changed?" in *The Inequality Paradox: Growth and Disparity*, ed. J. Auerbach and R. Belous (Washington, DC: National Policy Association, 1998); D. McMurrer and I. Sawhill, *Getting Ahead: Economic and Social Mobility in America* (Washington, DC: Urban Institute, 1998).

[10]Danziger and Gottschalk, "Family Income Mobility."

[11]Danziger and Gottschalk, "Family Income Mobility."

[12]G. Solon, "Intergenerational Mobility in the Labor Market," *Handbook of Labor Economics*, Volume 3A, ed. O. Ashenfelter and D. Card (Amsterdam: North-Holland, 1999).

[13]J. Patterson, *America's Struggle against Poverty, 1900–1985* (Cambridge, MA: Harvard University Press, 1986); Solon, "Intergenerational Mobility"; S. Mayer and L. Lopoo, "Has the Intergenerational Transmission of Economic Status Changed?" unpublished ms., University of Chicago, 2000.

[14]J. Brooks-Gunn and G. Duncan, "The Effects of Poverty on Children," *The Future of Children* 7 (1997): 55–71.

[15]Brooks-Gunn and Duncan, "The Effects of Poverty on Children."

[16]R. Herrnstein and G. Murray, *The Bell Curve: Intelligence and Class Structure in American Life* (New York: Free Press, 1994).

[17]A. Goldberger, "Heritability," *Economica* 46 (1979): 327–347.

[18]S. Mayer, *What Money Can't Buy: The Effect of Parental Income on Children's Outcomes* (Cambridge, MA: Harvard University Press, 1997).

Changes in family structure: Implications for poverty and related policy

From 1969 to 1998, the overall poverty rate grew, although by less than one percentage point. Yet the poverty rate within almost every family type declined.[1]

Maria Cancian and Deborah Reed

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Major income support policies in the United States are explicitly tied to family structure—the prototypical example is Aid to Families with Dependent Children (AFDC), which was largely limited to single-parent families. But marriage, childbearing, family living arrangements, and work patterns have changed, and so too have public perceptions of gender roles, parental responsibility, and the family. Income support policy embodies these profound shifts. For example, the 1996 welfare reforms that replaced AFDC with Temporary Aid for Needy Families reflect growing acceptance that mothers should work, even mothers with very young children.

In this article we examine the changes in family structure over the last 30 years. We document the decline in marriage and rise in divorce, and examine the trends behind the increasing proportion of children born outside of marriage. The growth in cohabitation among unmarried couples is an important part of the story, as is the changing relationship between women's labor force participation and their marital and maternal status. We briefly examine how these changes have affected poverty and poverty policy in the United States.

Marriage, divorce, and cohabitation

In 1970, 42 percent of families included an employed father, a homemaker mother, and children; now, only 16 percent of families fit this general model, and half of all children will spend some portion of their childhood living with only one parent.[2]

These changes in family composition reflect changes in the proportion of individuals who marry, in the stability of those marriages, and in the probability of remarriage for those who divorce. In 1970, almost 80 percent of women aged 25–29 were married, and about the same proportion was married at ages 40–44. By 1999 only 50 percent were married at ages 25–29, and only about two-thirds were married at ages 40–44.

Divorce is the prime actor here, although the steep rise in divorce that took place in the 1970s has abated. In 1999, about 12 percent of ever-married women aged 30–34 were divorced, about the same share as in 1980 but twice the share in 1970. Among women aged 40–44, 18 percent were divorced in 1999, and 10 percent of women had never married, twice as many as in the 1970s. Cohabitation had become more common among all groups, especially at younger ages; it too has played a role in the decline of marriage. By our estimates roughly half of one percent of women were cohabiting in the early 1970s. By 1999, this grew to about 10 percent for women in their twenties and 5 percent for women in their late thirties and early forties.[3]

These averages obscure substantial variation among racial and ethnic groups. For example, 72 percent of white women aged 40–44 were married in 1999, but only 44 percent of African-American women. The groups with the lowest proportion of married women—African Americans and American Indians—also saw the steepest recent declines in marriage rates.

Childbearing

Because single women, especially single mothers, are more likely to be poor than their married counterparts, declining marriage rates and rising divorce are likely to increase the incidence of poverty. But during these decades fertility declined substantially among American families (Figure 1). In 1970, the average woman aged 30–34 had 2.5 children; in 1999, she had 1.5.

All other things being equal, women are more likely to be poor the more children they have, both because larger families need larger income to avoid poverty and because greater parenting responsibilities are likely to restrict women's ability to earn wage income. So the decline in fertility works to reduce the incidence of poverty.

Other changes over these years, however, countered the effect of smaller families. Between 1960 and 1999 births to single women rose from about 5 percent to nearly one-third of all births (Figure 1). In the 1960s and 1970s this

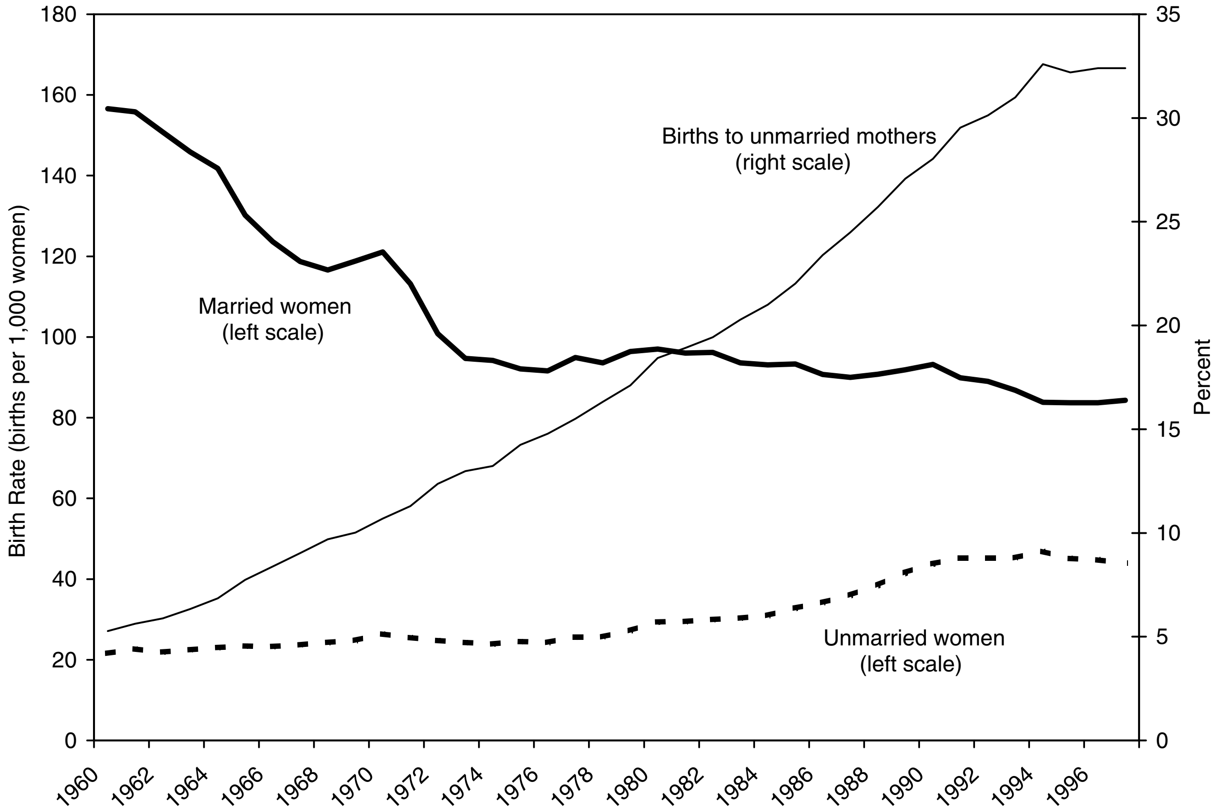

Figure 1. Fertility, by marital status, 1960–97 (left scale); percentage of all births that are to unmarried women (right scale).

Source: 1960–93 from U.S. Department of Health and Human Services, *Report to Congress on Out-of-Wedlock Childbearing*, Washington, DC, 1995. <http://www.cdc.gov/nchs/data/wedlock.pdf>; thereafter, *National Vital Statistics Report* 47, no. 18, April 1999. <http://www.cdc.gov/nchs/data/nvs47_18.pdf>.

increase was caused primarily by sharp declines in fertility among married women. In the past two decades, birthrates among married women have largely stabilized, but rates have continued to increase among unmarried women; at the same time, there were more unmarried women at risk of a nonmarital birth.

Unmarried childbearing varies substantially by race and ethnicity. It is lowest among Asians (16 percent), followed by whites (26 percent), Hispanics (41 percent), American Indians (60 percent), and African Americans (69 percent).[4] Trends in marital birthrates are similarly variable. For example, between 1970 and 1993 the birthrate among married women fell by about 27 percent for whites and 43 percent for African Americans. But between 1970 and 1998 the birthrate among single women *increased* by 80 percent for whites and *fell* by 23 percent for African Americans. Thus for African Americans, the increase in nonmarital births is because marriage rates and marital fertility are declining, not because of an increase in the likelihood that an unmarried African-American woman has a baby.

Regardless of the causes, the rising share of births to single mothers and changes in mothers' marital status will contribute to their economic vulnerability and that of their children. But though contemporary women are less likely to have a husband on whom to rely for support, they are also less likely to have large families to support.

Family living arrangements

In 1972, 86 percent of children lived in a married-couple family; in 1999, only 71 percent did.[5] Of the remainder, most lived with a single mother, though by 1999 the number of children living with a single father had risen (Figure 2). White children and Asian and Pacific Islander children were most likely to be living in married-couple families, African-American children least likely. American Indians had a relatively high rate of single-father households (about 9 percent).

When children live with an unmarried parent, they may still live with more than one adult, and increasingly they do. In Figure 3 we show living arrangements of single mothers. The proportion living alone has declined substantially, mostly because more of them are cohabiting. Only African-American single mothers are more likely to be living alone now than they were ten years ago.[6]

The increasing tendency of single parents to live with an unmarried partner or related adult is likely to have consequences for the economic and social resources available

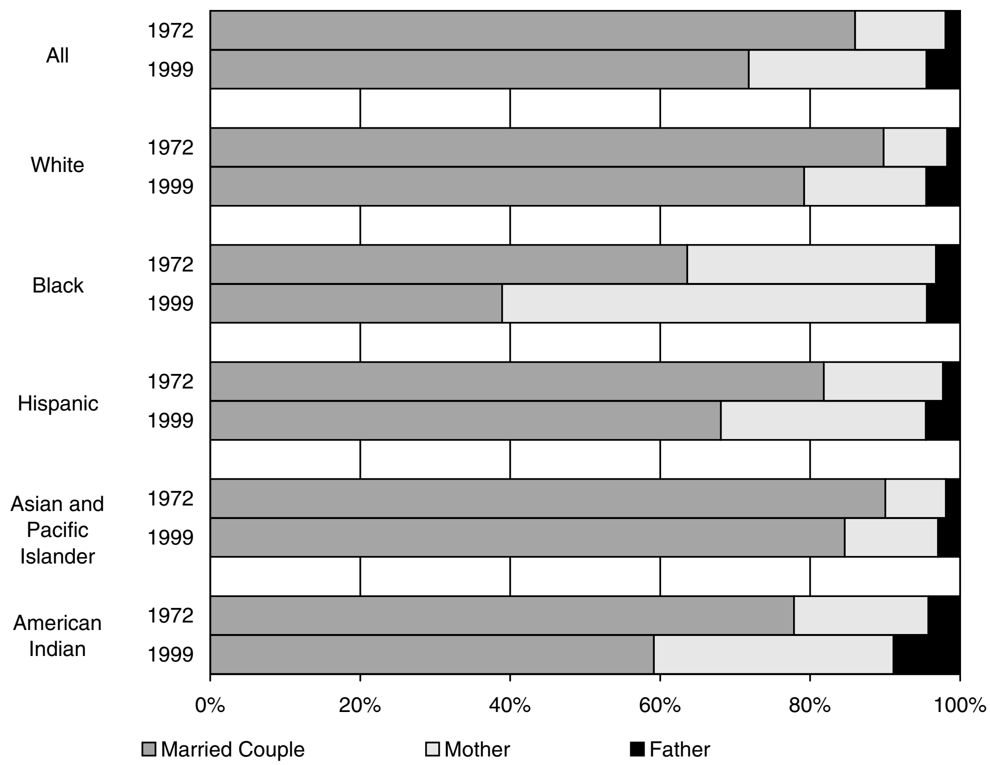

Figure 2. Living arrangements of children in families, 1972 and 1999.

Source: Authors' calculations from the Current Population Survey, 1971 and 1972 combined, and 1998 and 1999 combined.

to those parents and their children. Ideally, the presence of more adults, for example, grandparents, in the household will increase the financial and social resources available to vulnerable families by providing additional income or services such as child care. But sometimes their presence increases family stress and the responsibilities of single parents. An elderly parent may require care. Other adults in the house may present a risk that increases the need to supervise children.

The varied nature of household and family relationships in the late 1990s makes it difficult to accurately measure resources and needs. In determining poverty status, for example, official poverty statistics include the income and needs of "related adults" only; they ignore the income and needs of "unrelated" cohabitants. The assumption in the poverty statistics that parents and their biological children share resources to maximize family well-being is itself a simplification.[7] Yet if an unrelated cohabitant is, in practice, part of the same economic unit, the household's needs or resources—or both—may be greater.

Employment

Although the growing proportion of women and children living in female-headed households has increased the risk of poverty, more women work in the paid labor market than ever before, and gender gaps in labor market outcomes have declined. In 1970, labor force participation rates ranged between 50 and 60 percent across the different age groups of women aged 25–54. By 1999, however, the rates had increased to close to 80 percent for these age groups.

Employment rates increased in almost every period for almost all groups of women (Figure 4). The increase was more pronounced for married than for single women, and most dramatic for married women with children under 6. (Single women, not surprisingly, always had a higher employment rate.) For single mothers of very young children, the greatest rise in employment was concentrated in the mid-1990s, coinciding with more restrictive welfare policies that have reduced the availability of cash assistance.

There are substantial differences in employment patterns among racial and ethnic groups. In 1999, for example, employment rates for single mothers of young children were 79, 75, and 59 percent for whites, African Americans, and Hispanics, respectively; the white and Hispanic single mothers, indeed, were more likely to work than their married counterparts. Single African-American mothers of young children worked less than their married counterparts, but saw the largest *increase* in employment from 1990 to 1999—22 percentage points.[8]

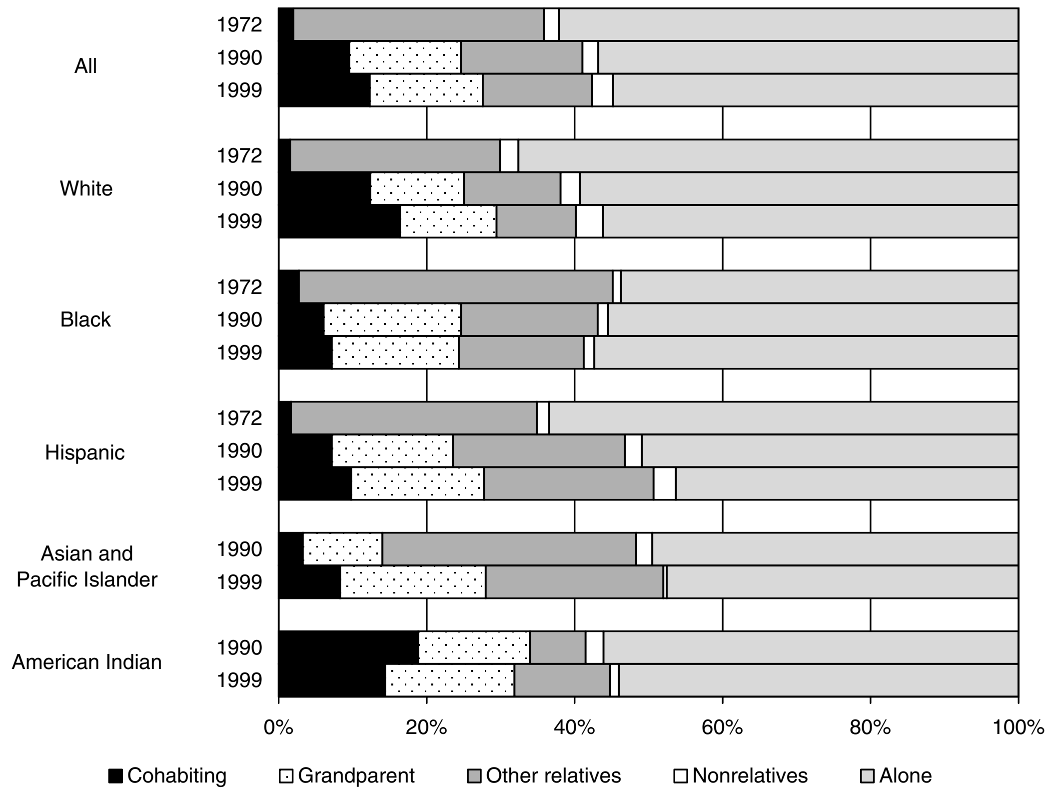

Figure 3. Living arrangements of single mothers, 1972, 1990, and 1999. Grandparents are not separately identifiable in the earliest year, and sample sizes are too small for Asians/Pacific Islanders and American Indians to be reliable.

Source: Authors' calculations from the Current Population Survey, 1971 and 1972 combined, 1989 and 1990 combined, 1998 and 1999 combined.

Some implications for poverty and policy

In 1998, families headed by single women raising children had the highest poverty rate, close to 39 percent by our measure.[9] The poverty rate for single individuals without children was around 15 percent. Married couples had the lowest rates, about 2.5 percent for those with no children and 6.5 percent for those with children. The same pattern of high rates for single mothers and low rates for married couples had prevailed in 1969. The overall rate was still a percentage point higher in 1998 than in 1969, though it was lower than in the recession years of the early eighties and nineties.

An important factor in the growth of the overall poverty rate was the shift away from married-couple families toward single-parent families with higher poverty rates. This shift reflects complex interrelated trends. Fewer people are marrying, people are marrying later in life, and those who are married are more likely to divorce. Married couples are having fewer children; birth rates have risen for unmarried white women. For all these reasons, a larger share of families are headed by single mothers. Because single-mother families are more than five times as likely to be poor as married-couple families, the change in family structure has increased poverty. But this increase has been mitigated by growth in the paid work and earnings of women.

The increase in cohabitation is also important in understanding the effect of changing family structure on poverty. It may substantially explain the delay in entry into marriage; moreover, estimates suggest that almost half of recent births to unmarried women are to cohabiting couples.[10] If cohabiting adults were treated as families in the official statistics, the poverty rate would, we estimate, have been about one percentage point lower in 1998 and there would have been almost no growth in poverty since 1969.[11]

But the impact of the various countervailing forces is limited. If increased employment has made women less economically vulnerable, it has presumably come at the cost of (unpaid) time spent supporting their families and communities.[12] And the standard measure of income poverty ignores the nondiscretionary personal costs of employment, such as transportation and child care, and thus overstates the poverty-reducing effects of employment. Cohabiting relationships introduce a further complication, not least because they are less stable than marriages.[13] Much remains to be learned about the level and stability of economic support within cohabiting families and the implications for children's well-being.

Much of the recent policy debate has focused on changes in family structure and women's employment. State and

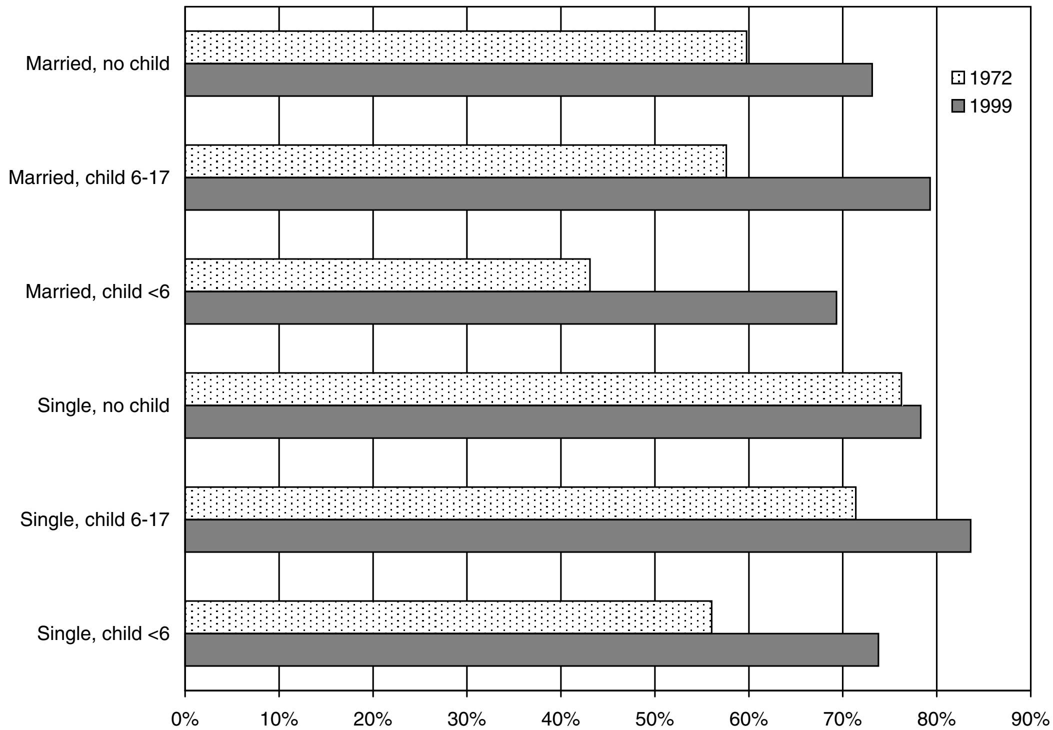

Figure 4. Employment rates of women aged 18–64, by marital status and motherhood, 1972 and 1999.

Source: Authors' calculations from the Current Population Survey, 1971 and 1972 combined, 1998 and 1999 combined.

federal changes in welfare and related programs in the 1990s included provisions responding to greater instability in family structure and increasing both the incentives and the obligations for single mothers to work for pay. Greater resources were devoted to enforcing child support obligations on nonresident parents and formally establishing paternity for fathers of children born outside marriage. Time limits were imposed on welfare receipt, work exemptions for mothers of very young children were eliminated or curtailed, and child care subsidies were introduced or increased.

Especially because these policy changes occurred during an exceptionally long economic expansion, it is very difficult to determine how large a role they have played in the declines in welfare participation that have been so widely reported. It is potentially even more difficult to assess the long-run effects of the new system on family structure and employment patterns and its ability to protect the well-being of vulnerable families. Such an assessment requires that we examine the characteristics of women's employment and opportunities for advancement, the quality of child care and the ability of single parents to both work for pay and raise their children, and the system's ability to respond to periods of unemployment, whether it is caused by changes in the economy or by personal circumstances. ■

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[1]This article draws upon Maria Cancian and Deborah Reed, "Changes in Family Structure: Implications for Poverty and Related Policy," presented at the IRP conference, Understanding Poverty in America: Progress and Problems, on May 22–24, 2000, in Madison, WI. The revised conference papers will be jointly published by Harvard University Press and the Russell Sage Foundation in a volume tentatively titled *Understanding Poverty: Progress and Prospects*.

[2]L. Bumpass and R. Raley, "Redefining Single-Parent Families: Cohabitation and Changing Family Reality," *Demography* 32 (1995): 97–109.

[3]Measures of cohabitation are difficult. Until recently few surveys asked respondents about nonmarital partners; moreover, social stigma and the lack of formal legal status make self-reporting by nonmarital partners more difficult to interpret.

[4]These birth statistics are for 1997, from U.S. Department of Health and Human Services, *Health, United States, 1999* (Washington, DC: DHHS, 1999).

[5]Married-couple families may include only one biological, step-, or adoptive parent.

[6]Living arrangements for single fathers are quite different. In 1999 only 39 percent lived alone, 30 percent cohabited, and 25 percent lived with another relative. Ethnic and racial differences were also large: 45 percent of white fathers, 35 percent of African-American fathers, and only 24 percent of Hispanic fathers lived alone.

[7]T. Bergstrom, "A Survey of Theories of the Family," in *Handbook of Population and Family Economics*, ed. M. Rosenzweig and O. Stark (Amsterdam: Elsevier, 1997), pp. 21–79.

[8]The CPS sample size is not large enough to provide accurate measurements of employment among Asians/Pacific Islanders and American Indians.

[9]Our measures differ slightly from those in the official poverty rate because we focus on families headed by persons aged 18 to 64.

[10]L. Bumpass, J. Sweet, and A. Cherlin, “The Role of Cohabitation in Declining Rates of Marriage,” *Journal of Marriage and the Family* 53 (1991): 913–27; L. Bumpass and H.-H. Lu, “Trends in Cohabitation and Implications for Children’s Family Context in the United States,” *Population Studies* 54, no. 1 (2000): 29–41. Early evidence from the Fragile Families study of children born to low-income, primarily unmarried mothers also suggests that there are high levels of cohabitation among these parents of newborns and that fathers are emotionally and financially involved. See I. Garfinkel and S. McLanahan, “Fragile Families and Child Well-Being,” *Focus* 21, no. 1 (2000), 9–11.

[11]Our estimates of the potential sizes of these various countervailing forces appear in Section IV of the chapter. See also the article by Burtless and Smeeding in this *Focus* for poverty statistics.

[12]M. Waring, *Counting for Nothing: What Men Value and What Women Are Worth* (Toronto: University of Toronto Press, 1999).

[13]Bumpass and Lu, “Trends in Cohabitation.”

The rising tide lifts...?

How much can the labor market reduce poverty in the "new economy" of the 21st century? Will the rising tide of economic progress win the war on poverty in the foreseeable future? Or is something more needed to improve living standards at the bottom of the distribution?[1]

Richard Freeman

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The belief that sustained economic growth can cure most economic ills is fundamental to the American view of how the market economy works. Americans have generally looked more favorably on policies designed to produce equality of opportunity in the job market than on policies to assure citizens a safety net through government action. Over the 20th century, the rising tide of economic progress did indeed raise living standards—in the year 2000, the real wages of American workers were about five times their value in 1900.[2]

The traditional view that a growing economy benefits all citizens, including the poor, did not fare well in the 1980s. From the mid 1970s through the 1980s, real domestic gross product grew by 20 percent per capita, yet the official poverty rate for all families rose from 9.2 percent in 1979 to 10.3 percent in 1989. By 1993, it was 12.3 percent, above the rate that had prevailed from 1966 through 1983. At the same time, policymakers were arguing that any effort to lower the rate of unemployment below a "natural" level of 6 percent would generate accelerating inflation. Because unemployment is concentrated among the low-skilled, a 6 percent average rate implied double-digit unemployment for the lowest skilled and lowest paid, a conclusion that appeared to doom them to a life of stagnant wages and continued poverty.

The stellar performance of the U.S. economy in the late 1990s challenged this gloomy reading. Unemployment hovered around 4 percent in 2000; among the low-skilled, it fell to levels last seen in the 1960s. Welfare caseloads dropped precipitously in many states under the joint influence of a tight job market and welfare reform. Increases in the minimum wage were implemented without any apparent reduction in job growth. Poverty rates once again shrank. It began to seem as if the 1980s were an exception to the rule linking poverty and growth. If the job market were to remain healthy and strong, could the United States, after all, win the war on poverty by going with the flow of economic growth?

The conflict between the pessimism of the 1980s and the current euphoria motivates this article. I argue that full employment will further reduce poverty in the next decade, but that the reduction will be less than is needed to eliminate poverty. First, even if full employment continues, a residual group of the poor faces major limitations on whether and how much they can work, because of disability or illness in the family, age, or low skills. And if there is a return to the 6 percent unemployment rates considered "natural" in the 1980s, poverty will increase substantially, because the scaling down of the U.S. welfare system will leave many job losers with only modest access to assistance.[3]

Economic growth, business cycles, and poverty

Macroeconomic performance, good or bad, does not well predict the magnitude of changes in poverty. Taken together, the three decades from 1970 to 2000 give a depressing picture of the ability of economic growth to reduce poverty: gross domestic product (GDP) per capita rose by 73 percent, while the rate of poverty among families barely fell, from 9.7 percent in 1969 to 9.3 percent in 1999. Figure 1, which records changes in the unemployment and poverty rates during periods of recession and recovery, offers equally little evidence of consistent quantitative linkage between the two: changes in unemployment are sometimes associated with large changes in poverty in the same direction and sometimes with small changes. Clearly, other factors intervene between aggregate economic performance and the proportion of families or individuals that fall below the poverty line.

Four main factors might explain these divergent patterns: demographic change, governmental policies, the shape of the income distribution, and labor market factors.

Demographic change

The growth of families headed by single women, who have poverty rates 3–4 times the rates of all other family types, is widely, but perhaps mistakenly, blamed for raising the U.S. poverty rate independently of economic growth. Sheldon Danziger and Peter Gottschalk argue that the decline in poverty from 1949 to 1969 was due entirely to economic changes and that the demographic changes that increased the poverty rate were not sufficient to offset economic factors. For the years from 1973

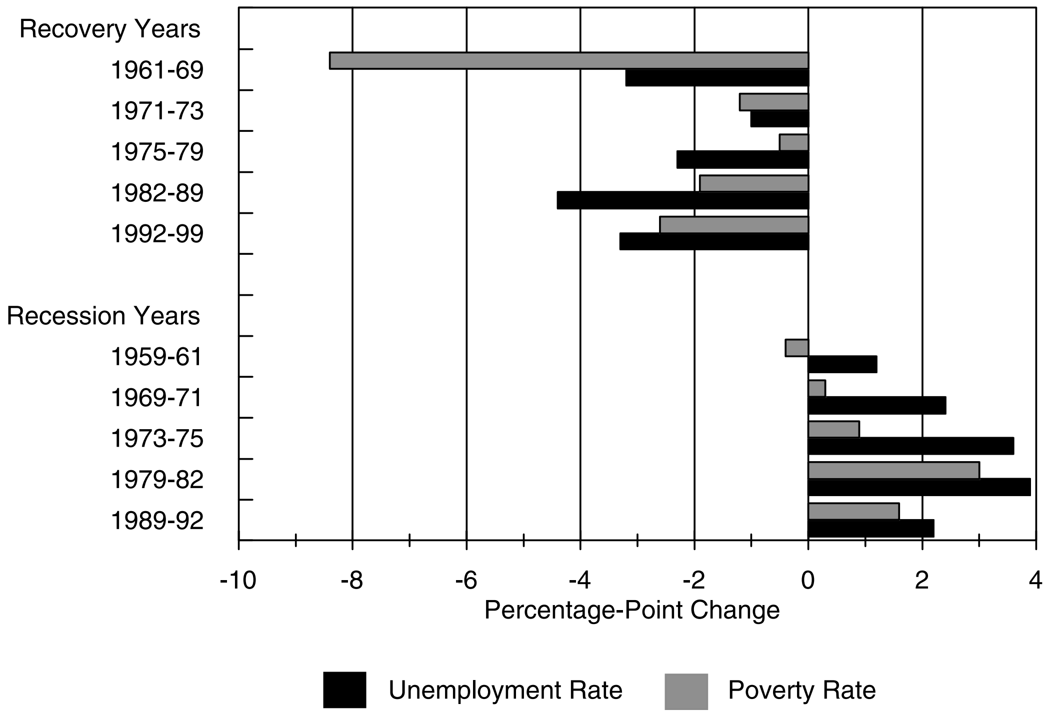

Figure 1. Cyclical swings and the family poverty rate, 1959–1999.

Source: For poverty, the U.S. Census Bureau, *Poverty in the United States*, Current Population Reports, Series P-60-210, September 2000. For unemployment, the U.S. Council of Economic Advisers, *Economic Report of the President* (Washington, DC: GPO, 2000), Table B-33.

to 1991, they find, the rise in poverty was again due mostly to economic circumstances, above all, sluggish growth in mean adjusted income.[4] The rise of single-parent families in this period, for example, was largely offset by the increasing educational attainment of family heads, which improved job opportunities and income.

Other changes in family composition could, however, affect the relationship between growth and poverty. As the U.S. population ages, there has been a compositional shift from the young, whose poverty status depends greatly on the aggregate economy, to older persons whose poverty status does not depend upon the labor market. But the timing of this change does not support a view that population aging has affected the link between growth and poverty. Baby boomers first entered the job market in large numbers in the 1970s; this large increase in the working population should have strengthened the effect of growth or unemployment on poverty, but in fact the relationship weakened (Figure 1). And in the economic boom of the 1990s, poverty fell more among those out of the labor market—the elderly and those below age 18—than among the working population aged 18–64 (see, later, Table 2).

Government policies

Government policies can affect the poverty rate by direct transfers of money (the Earned Income Tax Credit) or goods and services (food stamps, subsidized housing), by intervening in wage determination in the labor market (minimum wage), by regulating hiring and promotion policies of firms (affirmative action), by regulating workplaces (occupational health and safety), and in diverse other ways.

The variable relationship between economic growth and poverty shown in Figure 1 is broadly consistent with the timing of the federal government's efforts to reduce policy. The 1960s were the heyday of the War on Poverty, whereas succeeding decades saw fewer government initiatives, though spending on some antipoverty programs did expand. But the United States has never developed a European-style welfare state, and government spending on assistance has never been large enough to raise families above the poverty line. Once again, the explanation is insufficient. Something more is needed to explain the changing relationship between growth and poverty over time, and to assess the validity of the "rising tide" analogy.

The shape of the income distribution

The distribution of incomes around the average value of income can be graphed as a roughly bell-shaped curve, with most families clustering around the average and many fewer families at either end. If income grows, the entire income distribution and the average value of income will shift rightward. But the poverty line does not shift, because the U.S. measure of poverty is an absolute and not a relative measure. Thus fewer people should end up below the poverty line. But in the United States after 1970, the decline in the poverty rates did not keep step with the growth of the economy. Moreover, the relation between growth and poverty was stronger in some decades than in others (Figure 1). The distributional analysis suggests a possible explanation—rising inequality in the labor market. If inequality rises, the shape of the income distribution will change so that more people fall toward the two extremes. Given an absolute measure of poverty, more people will end up below the poverty line. This directs our attention to the final factor listed earlier—the labor market and, specifically, the earnings of low-paid workers.

Labor market forces: Real wages and rising inequality

Approximately three-quarters of family income in the United States comes from the labor market, and even families in the lowest fifth of the income distribution rely more upon labor income than on any other source.

Two developments in the labor market explain the bulk of the failure of economic growth in the 1970s and 1980s to reduce poverty substantially. First is a striking breakdown in the relationship between economic growth and real wages. Overall, despite recessionary periods, the economy grew from 1960 on. In the1960s, the real average hourly wages of nonsupervisory workers in the private sector increased by 19.3 percent; poverty fell substantially. In the 1970s, earnings rose by 2.4 percent and poverty barely dropped. In the 1980s, wages fell by 6.5 percent and poverty increased. Finally, in the 1990s, real wages grew by 2.9 percent and poverty fell modestly. Second is the rise in inequality in earnings. In the 1980s, if not earlier, wage inequality increased massively. The real earnings of low-wage workers fell, while those of higher-paid workers rose or remained more or less constant.[5]

My statistical analyses of data on poverty in the nation and across states over time show that these two factors—the level of real wages and inequality, together with the level of unemployment—explain the bulk of variation in poverty in the United States. Regardless of how we measure poverty or the distribution of income, three economic variables—real wages, inequality, and unemployment—have sizable and significant impacts of poverty. In calculations that focus on changes in poverty within states, a 1-percentage-point fall in unemployment reduces the poverty rate among individuals by about 0.4 percentage points, a 1 percent change in median earnings reduces poverty by 0.16 percentage points, and an increase in inequality (measured by the ratio of median income to income in the lowest quintile) of the same magnitude raises poverty by 0.26 percentage points.

Because the unemployment rate is unlikely to drop much below the 4 percent rate attained in early 2000, the effect of the labor market on poverty over time depends critically on how real wages and inequality change. My estimates suggest that if real wages rose by 2 percent in a year, poverty would fall by about 0.3 percentage points. Three full years of solid wage gains would thus be needed to lower the poverty rate by 1 percentage point.

The impact of work experience

It is joblessness per se, rather than unemployment, that is most likely to contribute to poverty. People who lack work because they are disabled and out of the labor force have the same zero earnings as the unemployed, though some may have access to benefits that the long-term unemployed do not.

Current Population Survey data for 1999 show that, regardless of gender, ethnicity, or age, there is a very great difference in the poverty rates of persons who work full time, year round, and those who do not. Just 2.6 percent of all Americans over age 16 who worked full time, all year, were in poverty; of those who worked part time or part year, 13.1 percent were poor, and among those who did not work at all 19.9 percent were poor. Blacks and Hispanics who worked full time, year round, had higher poverty rates than whites at all levels of work experience, but also showed steep declines in poverty as experience rose. The poverty rate for blacks who worked full time, full year, for example, was 25.3 percentage points less than the rate for blacks with no work experience.

Poverty in the booming 1990s

At the turn of the 21st century, unemployment in the United States was at its lowest point ever— 4–5 percent without inflation, a circumstance viewed as impossible as late as 1996. If the labor market is important in determining poverty, then this great boom should have reduced poverty, particularly for groups with initially high rates.

The preceding analyses suggest that economic growth reduces poverty in a boom not only when employment rises but when the real wages of lower-paid and less-skilled workers also increase. Did the prosperity of the 1990s benefit these workers or did it largely benefit the well-to-do, as in the 1980s?

Table 1 suggests that lower-paid and less-skilled workers did benefit. Among all the low-earning groups I consider, hourly and weekly earnings rose, although not to their 1970s levels. These gains arrested but did not reverse the long-term rise in earnings inequality. But as long as inequality did not rise, the fruits of economic expansion were once again rather more equally distributed among the working population.

Table 1
Increase in Real Wages for Selected Groups, 1996–99

Median Hourly Earnings of Workers at 10th decile	10.2%
Hourly Earnings of Workers in Low-Paying Industries	
Retail trade	7.0
Services	6.8
Median Weekly Earnings of Full-Time Workers in Low-Paying Occupations	
Information clerks	7.2
Food preparation and service	5.2
Handlers, cleaners, laborers	3.3
Median Hourly Earnings of Full-Time Workers, by Ethnicity and Gender	
White	6.8
Black	8.1
Hispanic	6.9
All Males	6.0
Aged 16–24	9.2
All Females	6.8
Aged 16–24	7.1

Source: Wages by decile, J. Bernstein and L. Mishel, "Wages Gain Ground," Issue Brief 129, Economic Policy Institute, Washington, DC, February 1999, tables 1 and 3, updated; wages in low-paying industries and occupations, U.S. Department of Labor, *Employment and Earnings*, Jan. 2000 and Jan. 1997; median hourly earnings of full-time workers, 1996, from *Statistical Abstract*, 1997; 1999, from U.S. Department of Labor, *Employment and Earnings*, Jan. 2000. Consumer Price Deflator, <ftp.bls.gov/pub/special.requests/cpi/cpiai.txt >.

The effect on poverty is clear from Table 2, which records rates of poverty in 1992, when the economy was at rock bottom, and in 1999, the latest full year of the boom. Poverty drops substantially for all groups, especially for those with exceptionally high poverty rates. Most striking are the declines in poverty among single-mother families. But equally clearly, when economic growth produces "genuine" full employment so that real wages as well as employment rates increase, poverty will be substantially reduced.

How far can the rising tide go?

In 1999 the rate of poverty for persons was still in double digits, and despite the improved circumstances of single mothers, over a third of female-headed households were still in poverty. What are the prospects for reducing poverty among these residual poor?

The characteristics of those still in poverty suggest that these prospects may not be great (Table 3). Age, disability, low education, and immigrant status are all relatively common difficulties among this group.[6] All told, close to 60 percent of the adults in families poor in 1999 were unlikely to be able to benefit much from the labor market. Even if we consider only those aged 18–64, about half of poor adults are subject to problems that limit the benefits they could derive from full employment.

Table 2
Poverty Reduction in the 1990s Boom

	1992	1999	Change
Poverty of Persons	14.8%	11.8%	-3.0
All			
White	11.9	9.8	-2.1
Black	33.4	23.6	-9.8
Hispanic	29.6	22.8	-8.6
Age			
<18	22.3	16.9	-5.4
18–64	11.9	10.0	-1.9
65+	12.9	9.7	-3.2
Poverty of Families			
All	11.9	9.3	-2.6
With children <18	18.0	13.8	-4.2
Married	8.3	6.3	-2.0
Single female parent	47.1	35.7	-11.4
Black	31.1	21.9	-9.2
With children < 18	39.12	8.9	-10.2
Married	15.4	8.6	-6.4
Single female parent	57.4	46.1	-11.3
Hispanic	26.7	20.2	-6.5
With children < 18	32.9	25.0	-7.9
Married	22.9	16.8	-6.1
Single female parent	57.7	46.6	-11.1

Source: U.S. Census Bureau, Historical Poverty Tables, Table 4.

Equally important is the depth of this poverty. The average income deficit for poor families (the amount needed to raise the family out of poverty) was $6,687 in 1999. Increases in family income of even $1,000 would move just 9.2 percent of families currently in poverty above the poverty line, a reduction of about 1 percentage point—not negligible, but still leaving many families in poverty.

Full employment: Necessary but not sufficient

The evidence of reduced poverty during the economic expansion of the 1990s is encouraging, calling into doubt the gloom generated by the poverty statistics of the 1980s. Wages and employment both have risen among the poverty-prone.

But the United States cannot rely exclusively or even primarily on economic growth to end poverty. The shape of the income distribution and the characteristics of the residual poor suggest that the effect of full employment on poverty will weaken. Social policy, public or private, will be needed to bring their living standards above any measured rate of poverty. For some, income transfers may be the solution. For others, including many of the homeless, addicted, or mentally ill, more than simple cash transfers will be needed.

Table 3
Characteristics of Persons 16 and Over in Poverty, 1999

All Poor Aged 16 and Over	
Worked in 1999	42.1%
Did Not Work in 1999	57.9%
Disabled	23.9%
Retired	26.9%
Family difficulties	23.4%
Disabled	21.0%
Over Age 64	15.0%
Little Education	
8 years schooling	17.5%
9–11 years schooling	26.7%
Immigrant	24.9%
Has at Least One "Risk Factor" (disabled, over 64, 8 years schooling, or immigrant)	53.2%
Poor Nonstudents, Aged 16–64	
Worked During Survey Week	44.5%
Unemployed During Survey Week	8.1%
Out of Labor Force	47.4%
Disabled	14.8%
Retired	6.1%
Worked During 1999	42.9%
Weeks worked during year	35.9
Hours worked per week	36.0
Average hourly earnings	$8.31

Source: Tabulated from U.S. Census Bureau, Current Population Reports, March 2000, person files.

Moreover, the experience of the 1990s cautions us that unemployment rates of 4–5 percent may be required to overpower the forces of inequality and improve the condition of low-wage workers. Anything short of those rates, which were once viewed as unsustainable, risks returning the United States to the condition of the 1980s—economic growth without reductions in poverty. If the rising tide can raise many boats, the ebb tide of recession can sink them. ■

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[1]This article draws upon Richard Freeman, "The Rising Tide Lifts . . . Economic Growth and Poverty," presented at the IRP conference, Understanding Poverty in America: Progress and Problems, on May 22–24, 2000, in Madison, WI. The revised conference papers will be jointly published by Harvard University Press and the Russell Sage Foundation in a volume tentatively titled *Understanding Poverty: Progress and Prospects*.

[2]On the issue of economic growth and unemployment, see R. Haveman and J. Schwabish, "Economic Growth and Poverty: A Return to Normalcy?" *Focus* 20, no. 2 (Spring 1999): 1–7. On the historical record of poverty in the United States, see R. Plotnick, E. Smolensky, E. Evenhouse, and S. Reilly, "Inequality and Poverty in the United States: The Twentieth-Century Record," *Focus* 19, no. 3 (Summer/Fall 1998):7–14.

[3]See the article by Pavetti, in this *Focus*.

[4]S. Danziger and P. Gottschalk, *America Unequal* (New York and Cambridge, MA: Russell Sage Foundation and Harvard University Press, 1995).

[5]Plotnick and others, "Inequality and Poverty." See also the article by Burtless and Smeeding, in this *Focus*.

[6]New immigrants, largely from less developed Latin American and Caribbean countries, and with limited job skills, are likely to rise in the U.S. earnings distribution as they assimilate. But they are also likely to be replaced at the bottom by new immigrants, maintaining a constant in-flow of people who fall below the U.S. poverty line.

Health policies for the nonelderly poor

The most troublesome aspect of the current U.S. health care system is the very large and increasing number of persons without health insurance. Forty-one million citizens have no health insurance coverage at any point in time, including nearly a third of those with family income below the poverty line. These numbers and the percentage of the population without coverage have been increasing since 1995 even as the economy performed at very high levels.[1]

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Health in the United States is very strongly correlated with income. Poor people are less healthy than those who are better off, whether our benchmark is mortality, the numbers with acute or chronic diseases and impairments, or people's own assessment of their health (Figure 1). In this article, we explore the relationship between health and poverty and examine some of the difficulties facing low-income Americans in gaining access to health care.

Health and the poverty population

Compared to those who are not poor, the health of the poor is more exposed to risk, whether unintentional (lead paint poisoning) or voluntary (use of tobacco). When poor people become sick, they have less access to health care and the quality of the care that they do obtain appears to be inferior.[2] One major indicator of the link between income and poverty is a significantly greater premature mortality from many causes among the poor, as Figure 2 shows. Being poor *and* living in poorer neighborhoods appear to be associated with generally worse health and earlier death.[3]

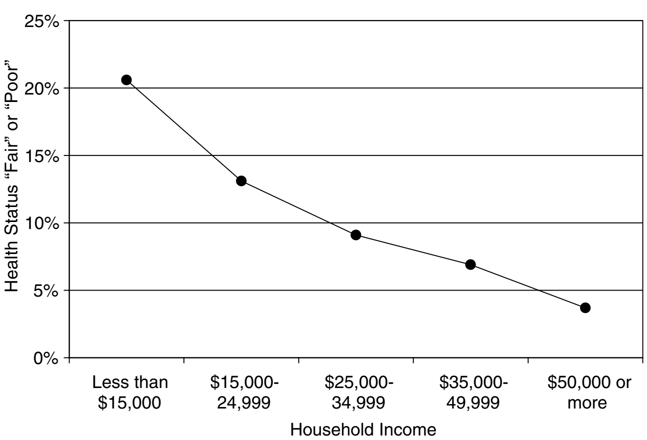

Figure 1. Relationship between household income and "fair" or "poor" health status.

Source: U.S. Department of Health and Human Services, *Health, United States, 1998* (Washington, DC: DHHS,1998), Table 61.

In the prosperous decade of the 1990s, those who were not poor became healthier; disconcertingly, the poor and the near-poor saw little or no improvement in their health.[4] Children's health provides telling evidence of this growing inequality. The health of nonpoor children has improved considerably over the past few decades, that of poor children hardly at all. One salient example is lead poisoning. Lead, often present in lead-laden paint and dust in older houses, puts children at risk of impaired intelligence, learning disabilities, hyperactivity, and other behavioral problems. In 1988–91, 16 percent of young children in low-income families—but only 4 percent in higher-income families—had levels of lead in the blood high enough to do damage. A report based on survey data from 1988 through 1994 found that over 8 percent of children on Medicaid still had high lead levels—this after two or more decades of effort to reduce lead poisoning.[5]

There is also a clear correlation between mental health and poverty. Those on the lowest rungs of the socioeconomic ladder are 2.5 times more likely to suffer from mental disorders than those in the highest socioeconomic group. Children in families characterized by multigenerational poverty manifest a high rate of mental illness.[6]

Other risk factors, such as homelessness or minority status, compound the effect of poverty. The poorest of the poor—homeless adults—are mostly uninsured and disproportionately in poor health.[7] One-quarter to a third have severe mental illness, about half have a history of alcohol abuse, and about a third of drug abuse. Homelessness itself can lead to malnutrition and exposure to infectious disease. Being homeless hinders treatment for illness: continuing contact with medical providers and adherence to complex treatment regimes is very difficult for homeless people, and living in shelters and on the streets is hardly conducive to recuperation.

African Americans, who are disproportionately poor, are also disproportionately subject to high blood pressure, coronary heart disease, diabetes and its complications, and sudden infant death syndrome. The higher rate of

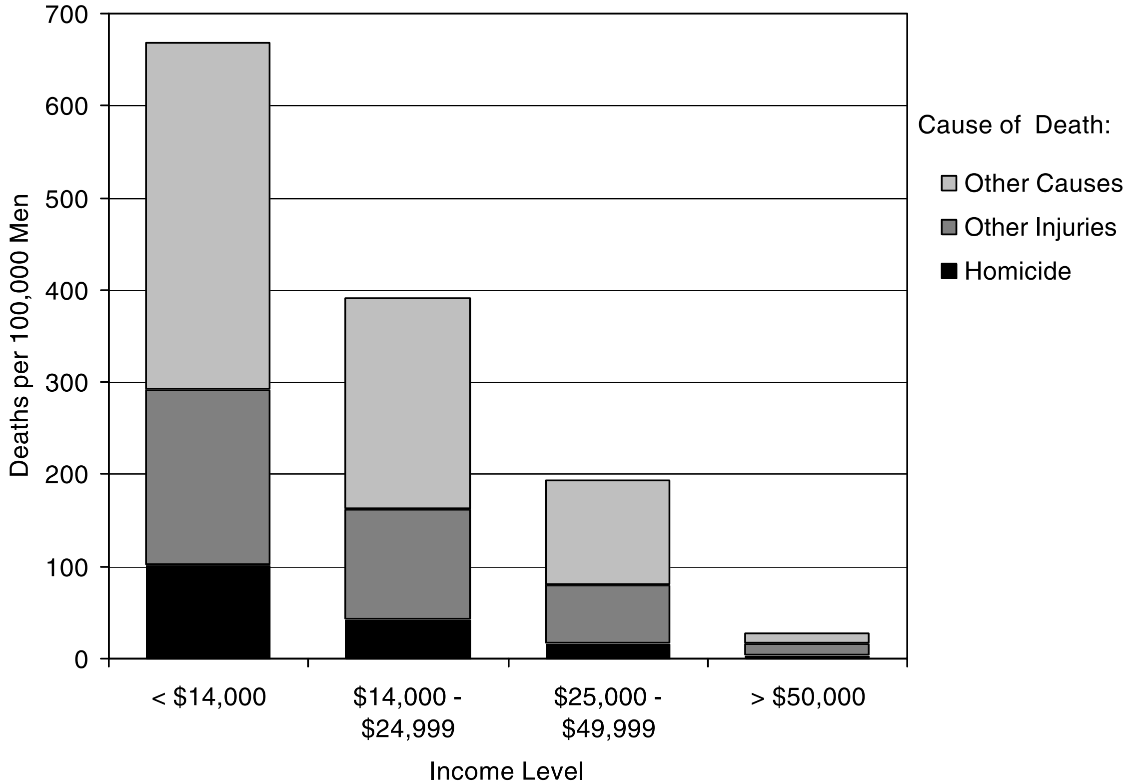

Figure 2. Causes of death among men aged 18–44, by income.

Source: J. Ludwig and others, "Socioeconomic Inequality and Race Differences in Homicides, Other Injuries, and Other Mortality Causes," unpublished ms., Georgetown University, 2000.

teen out-of-wedlock births among African Americans and Hispanics increases the risk of infant mortality and low birth weight, and may produce a continuing relationship between poverty and poor health.[8]

A major difficulty in understanding the relationship between health and poverty is determining what is cause and what is effect. For example, poor health may cause poverty by restricting the hours one can work and the kind of work one can do and by requiring costly medical care and services. But poverty may affect health by limiting one's ability to buy health insurance and to pay the direct and indirect costs of medical care. Poverty results in substandard housing or poor living conditions that may lead to ill health. But it is also possible that other, unobserved factors may drive both poverty and ill health: individuals who give little heed to the future may invest relatively little in education or other components of human capital *and* act in ways that put their health at risk.

The health care market

Whatever the causes, the poor have a greater need of medical care than other groups. Yet in the United States, they very often find no ready access to care that they can afford. Some of the reasons for this lie in the flawed nature of the "market" for health care, which involves problems of both demand and supply. On the demand side, consumers tend to be poorly informed and uncertain about the health care they need. The uncertain nature of the need for health care and its potential high cost leads them to seek insurance coverage against the risk of illness. But once protected against the real costs of health care, and finding it difficult to judge its quality, consumers tend to demand more care than if they were paying the full cost. Overprovision of health care services is one result. On the supply side, the entry of suppliers into the health care market is strictly limited, for example through licensing. Moreover, health care providers stand to profit from the advice they give, so that prescribing more care than is optimal can lead to greater profits, without imposing a direct cost on the (insured) patient.

These and other failures in the health care market have led to many public policies and interventions. Perhaps the most important is the subsidization of private health insurance purchases through the tax system. In addition, two groups in the population receive health care coverage directly through the public sector: those over 65 and some severely disabled people are covered through the Medicare program, and a limited set of those with very low incomes, including pregnant women and children, are covered through Medicaid.

The multiple market failures of the health care sector have also led to regulation of and subsidies to providers—regulatory oversight of the market for pharmaceuticals and medical devices, for instance, and subsidies for education, for research, and for the building of hospitals.

In spite of many different forms of intervention, the system is full of holes. Higher payments for the privately than for the publicly insured give providers a financial reason to favor high-income areas or privately insured patients. And the structure of subsidies for coverage leaves many poor and near-poor people with no or very small subsidies and no coverage.

Who pays for health care?

In 1998, 17.4 percent of the cost of medical care in the United States was financed directly by consumers, about a third by private health insurance, and 45.5 percent by direct public spending (including 19 percent through Medicare and 14.8 percent through Medicaid). About 10 percent of the nominal private share in fact comes in the form of federal and state tax subsidies toward the purchase of insurance.[9]

Private insurance coverage

About three-quarters of the population are covered by private plans, two-thirds of them through plans offered by employers. The tax system encourages this arrangement, because the contribution of employers to health insurance is not counted as part of an employee's taxable income. The value of this subsidy is not small ($86.4 billion in 2000, according to the U.S. Treasury). Because employer contributions represent a percentage of earnings, the subsidy is not evenly distributed, and it is worth much less to low-wage workers than to high-wage workers. Despite the subsidies, moreover, the cost of health care plans to businesses is high and growing, and more of it is being passed on to employees.[10]

Employment-based coverage of low-wage workers. Among the employed, low-wage workers are much less likely to be offered private health insurance through their employers than are high-wage workers.[11] The reason lies largely in the interactions between the costs of employer-provided health insurance and the tax subsidy of employer contributions. Employers who offer health insurance to employees do so by reducing cash compensation. They thus may not be able to shift all of the cost of health insurance to low-wage workers, especially those at or near the minimum wage. They may simply drop the health insurance plan or may offer insurance at so high a price that the employee declines coverage. With the possible exception of the last two years of a very tight labor market, since the late 1970s there has been a steady drop in the proportion of private-sector workers with employer-sponsored coverage, especially among the lowest-paid workers, whose coverage rates dropped by nearly 25 percent between 1987 and 1996.[12]

Public programs

Medicaid is the main public program providing health care coverage to low-income people. A joint federal-state program, it covers nearly 11 percent of the population. In 1997, 36 million low-income persons were enrolled, including slightly more than 18 percent of all children and about 60 percent of poor children. Total Medicaid expenditures were $160 billion.[13]

Medicaid does not cover the majority of poor and near-poor adults and children, although eligibility has been steadily expanded in the last decade or so. Moreover, since the 1996 welfare reforms decoupled eligibility for Medicaid from welfare receipt, the number actually enrolled has been declining. Medicaid now requires a separate application, and access is tied to state eligibility levels from before 1996. The cutoff for eligibility is typically below the earnings from full-time, minimum-wage jobs. Former welfare recipients entering the workforce may thus lose public medical insurance for their children without being able to acquire private insurance.[14]

Access to Medicaid is not particularly straightforward. First, eligibility can differ within families, so that an infant in a family may be eligible while older children are not. Second, Medicaid is all or nothing. Most low-income persons are either eligible or they are not. If their income rises by one dollar, they may lose all eligibility. Third, eligibility requirements and coverage vary from state to state. A poor single mother whose income is 75 percent of the poverty line may receive no coverage in one state, full coverage with few constraints in a second state, and limited coverage and difficulty finding a provider in a third state.

Problems of access continue even for those enrolled. Because of low reimbursement rates, providers in some states refuse Medicaid patients. Urban areas with heavy concentrations of poor people and rural areas in general have difficulty attracting physicians.[15] Hospital consolidations and shortages of other medical personnel compound these difficulties. Medicaid recipients may find their coverage limited to specific providers or health maintenance organizations that may not have clinics easily accessible to public transport or open when adults are not working. There may be long delays for an appointment, or long waits at the time of the appointment.

In essence, the current medical welfare system, incorporating Medicaid, general assistance, other public service delivery programs, and charity care, functions as a substitute for private health insurance. Consumers face an "either-or" choice: either rely completely on public medical programs or rely completely on privately purchased insurance and care. There are relatively weak incentives for

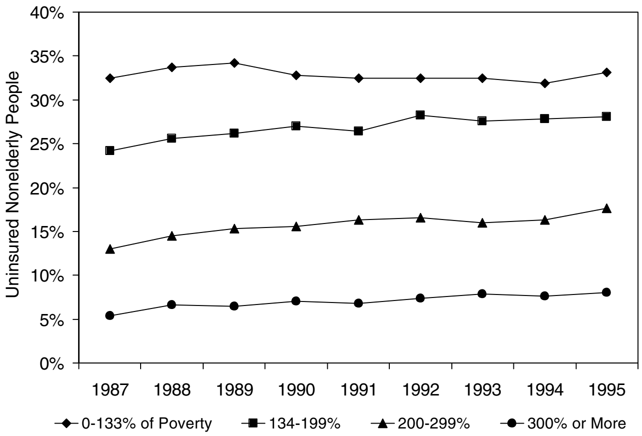

Figure 3. Uninsured nonelderly people, by poverty level, 1987–95.

Source: Kaiser Commission on Medicaid and the Uninsured, *Uninsured in America: Chartbook*, June 1998.

low-income consumers to contribute partially toward the cost of their coverage, and for many, the additional benefit from private health insurance is less than its cost, given the existence of the public system. Thus the availability of the public system is an incentive to employees not to accept more expensive employer-offered insurance and an incentive to employers not to offer it. The size of this effect (known as "crowd-out") is unclear, but most estimates suggest that some of those people newly covered under public programs had or could have private, employer-based coverage.

Who does not have health insurance?

In 1998, 16.3 percent of the entire U.S. population had no health insurance, public or private. For poor people, the problem was more severe: about a third of all poor, and between 40 and 50 percent of poor adults aged 18–44, had no health insurance for the entire year. Ethnic and racial minorities were twice or three times as likely to be uninsured as were non-Hispanic whites. Perhaps another 20 million people had too little health insurance to protect them from the financial burdens of a major illness.[16]

Among those with poverty-level or near-poverty incomes, the percentage with private or public insurance was stagnant or falling from the mid-1980s until 1998 (Figure 3). For many among the poor, being uninsured is not a transient but a long-term phenomenon. Over the three years 1993–96, 9.3 percent of the poor and 10 percent of the near-poor were without health insurance, compared to less than 1 percent of those with incomes four or more times the poverty line.[17]

How much does health insurance matter?

The amount and quality of health care that people use is influenced by many factors other than insurance. Income directly constrains choices about whether to seek care, the expense and time involved in getting to providers, and neighborhood environmental risks. Income also plays a critical indirect role, for example, in the extent of people's knowledge of appropriate medical care, of preventive measures, and of risk factors such as diet, exercise, smoking, and alcohol use. We should not expect that providing insurance will equalize the use of medical care or health status itself across all income groups. But would insurance coverage for all low-income persons influence their health and their use of medical care?

Certainly the *absence* of insurance has serious effects, especially when compounded by poverty. Table 1 shows the proportion of children who had no contact with a physician over a 12-month period. The poorer the child, the greater the probability that he or she will not see a doctor. For every income group, insured children are much more likely to see a doctor than uninsured children. But the difference between the insured and uninsured children is greater among the poor than among the other

Table 1
Physician Contacts of Children under 6 Years of Age, by Poverty and Insurance Status

	No physician contact in the past 12 months	
Characteristic	1993–94	1995–96
All Children[a]	8.3%	9.2%
Poverty Status[b]		
Poor	10.6	11.6
Near Poor	9.9	10.7
Nonpoor	5.0	6.2
Poverty Status and Health Insurance Status[b,c]		
Poor		
Insured	7.9	9.3
Uninsured	21.7	22.1
Near Poor		
Insured	8.6	8.9
Uninsured	13.7	18.4
Nonpoor		
Insured	4.8	5.5
Uninsured	8.7	15.2

Source: U.S. Department of Health and Human Services, *Health, United States, 1999* (Washington, DC: DHHS, 1999).

Note: Average annual number of contacts, 1993–94 and 1995–96.

[a]Includes those of unknown poverty and health insurance status.

[b]Poverty status is based on family income and family size using Census Bureau poverty thresholds. Poor persons are defined as below the official Census Bureau poverty threshold. Near-poor persons have incomes between 100 and 200 percent of poverty threshold. Nonpoor persons have incomes of 200 percent or more of the poverty threshold.

[c]Health insurance categories are mutually exclusive. Persons who reported more than one type of health insurance coverage were classified to a single type of coverage according to the following hierarchy: Medicaid, private, other. "Other" health insurance includes Medicare or military coverage.

groups. The increase, between 1993–94 and 1995–96, in the proportion of uninsured near-poor and nonpoor children who had no physician contact suggests greater difficulty in obtaining care, perhaps due to the increase in managed care.

The poor receive less preventive medical care. Poor children aged 19–35 months are less likely to be vaccinated for measles than nonpoor children (86 versus 92 percent).[18] In 1994, only 44 percent of low-income women over 40 had had a mammogram in the last two years, compared to 65 percent of nonpoor women. Epidemiological studies found that uninsured patients had a 25 percent higher risk of mortality than the privately insured.[19]

The reasons for some of these problems are complex, and do not rest only with insurance but also with impediments arising from work schedules and household difficulties; some are certainly due to cultural and language impediments, others to forms of provider discrimination.[20] But in general, the poor and uninsured are less likely to have a regular source of care, more likely to use emergency rooms to treat illnesses that are not life-threatening, more likely to be admitted to hospital for treatment of conditions such as asthma, hypertension, or diabetes that could have received outpatient treatment at an earlier point.[21] There is evidence that uninsured persons with serious illnesses see doctors only half as often as the insured. In addition to delayed and forgone medical care, lack of coverage leads to financial insecurity for families, inequitable community burdens, and increased costs for businesses as the cost of caring for the uninsured is shifted to the insured.

More positively, the expansion of Medicaid insurance has reduced infant mortality rates, especially among African Americans.[22] Access to health care information and services, mostly conveyed in clinical settings, is likely to be an important determinant of individual health—for example, reducing smoking and problem drinking, encouraging regular exercise and proper diet, providing prenatal information and care, or simple screening for hypertension.[23]

For some years now, the relationship between poverty and health has been the focus of policymakers. The federal Department of Health and Human Services recently stated two central goals for the nation. The first—increasing the quality and years of healthy life— applies to all citizens. The second—eliminating health disparities—speaks directly to the problem we have described here: the effect of poverty on health status and on access to health care.[24] ■

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[1]This article draws upon John Mullahy and Barbara L. Wolfe, "Health Policies for the Nonelderly Poor," presented at the IRP conference, Understanding Poverty in America: Progress and Problems, on May 22–24, 2000, in Madison, WI. The revised conference papers will be jointly published by Harvard University Press and the Russell Sage Foundation in a volume tentatively titled *Understanding Poverty: Progress and Prospects*. Health insurance coverage data from the Census Bureau have for the last few years consistently shown 40 million or more uninsured. See, e.g., J. Campbell, *Health Insurance Coverage: 1998,* Current Population Report P60-208, U.S. Census Bureau, Washington, DC, October 1999.

[2]We define "access" as including ability to pay for care, availability of providers (supply of care), and knowledge of when to seek care.

[3]See, e.g., S. Robert, "Socioeconomic Position and Health: The Independent Contribution of Community Socioeconomic Context," *Annual Review of Sociology* 25 (1999): 489–516; J. Ludwig and others, "Socioeconomic Inequality and Race Differences in Homicides, Other Injuries, and Other Mortality Causes," unpublished ms., Georgetown University, 2000; K. Short and M. Shea, *Beyond Poverty, Extended Measures of Well-Being: 1992,* Current Population Report P70-50RV, U.S. Census Bureau, Washington, DC, November 1995. Early results from the Moving to Opportunity study, in which low-income families in impoverished central-city neighborhoods were given the opportunity to move to better-off communities, tend to confirm the influence of neighborhood poverty on violence; see L. Katz, J. Kling, and J. Liebman, "Moving to Opportunity in Boston: Early Impacts of a Housing Mobility Program," unpublished ms., Department of Economics, Harvard University, Cambridge, MA. Race and ethnicity, nevertheless, have a more important link to life expectancy than income, and individual socioeconomic status is far more important than neighborhood circumstance.

[4]U.S. Department of Health and Human Services, *Health, United States, 2000* (Washington, DC: DHHS, 2000), Table 58.

[5]U.S. Department of Health and Human Services, *Trends in the Well-Being of America's Children and Youth* (Washington, DC: DHHS, 1998); General Accounting Office, *Lead Poisoning: Federal Health Care Programs Are Not Effectively Reaching At-Risk Children,* GAO/HHES 99-18, Washington, DC, 1999. The Centers for Disease Control and Prevention sets 10 micrograms of lead per deciliter as the level at which children become subject to damage from lead poisoning.

Dental health conveys a similar picture. In 1996, untreated tooth decay was three times as common among poor children aged 2–5 (28.8 percent) as among children who were not poor (9.7 percent). Similar studies in 1971–74 had found rates of 30.7 and 17.5 percent, respectively. U.S. Department of Health and Human Services, *Health, United States, 1999* (Washington, DC: DHHS, 1999), Table 72.

[6]U.S. Surgeon General, *Mental Health: A Report of the Surgeon General* (Washington, DC: DHHS, 1999).

[7]Task Force on Homelessness and Severe Mental Illness, *Outcasts on Main Street* (Washington, DC: U.S. Public Health Service, 1992; National Coalition for the Homeless and the National Health Care for the Homeless Council, *Life and Death on the Streets: Health Care Reform and Homelessness*, Washington, DC, 1993; P. Koegel, M. Burnam, and J. Baumohl, "The Causes of Homelessness," in *Homelessness in America*, ed. J. Baumohl (New York: Oryx Press, 1996).

[8]B. Wolfe and M. Perozek, "Teen Children's Health and Health Care Use," in *Kids Having Kids: Economic Costs and Social Consequences of Teen Pregnancy*, ed. R. Maynard (Washington, DC: Urban Institute Press, 1997), pp. 181–203); B. Wolfe and S. Hill, "The Health, Earnings Capacity and Poverty of Single-Mother Families," in *Poverty and Prosperity in America at the Close of the Twentieth Century*, ed. E. Wolff and D. Papadimitriou (New York and London: Macmillan, 1993) and "The Effect of Health on the Work Effort of Single Mothers," *Journal of Human Resources* 30, no. 1 (1995): 42–62.

[9]The private share includes both amounts directly paid and insurance paid. See K. Levit, C. Cowan, H. Lazenby, A. Sensenig, P. McDonnell, and others, "Health Spending in 1998: Signals of Change," *Health Affairs* 19, no. 1 (January/February 2000): 124–32.

[10]From 1988 through 1996, real average employee contributions for health benefits increased by 14.2 percent annually for employee-only coverage and by 8 percent for family coverage. AFL-CIO, *Paying More and Losing Ground: How Employer Cost-Shifting Is Eroding Coverage for Working Families* (Washington, DC, 1998: AFL-CIO, based on KPMG Peat Marwick and HIAA data).

[11]In 1998 only 17.4 percent of persons with incomes below the poverty line had employer-sponsored coverage, and 30 percent of part-time, full-year workers lacked insurance, compared to only 15 percent of those working full time, full year. R. Bennefield, *Who Loses Coverage and for How Long?* Report P70-64, U.S. Census Bureau, Washington, DC, August 1998.

[12]E. O'Brien and J. Feder, *Employment-Based Health Insurance Coverage and Its Decline: The Growing Plight of Low-Wage Workers*, report prepared for the Kaiser Commission on Medicaid and the Uninsured, May1999; H. Farber and H. Levy, "Recent Trends in Employer-Sponsored Health Insurance Coverage: Are Bad Jobs Getting Worse?" *Journal of Health Economics* 19, no. 1 (1998): 93–120.

[13]U.S. Department of Health and Human Services, *Health, United States, 1999*. The Children's Health Insurance Program, enacted in 1997, is designed to help states expand insurance coverage to children whose families earn too much to qualify for Medicaid yet not enough to afford private insurance. In January 2000, about 2 million children were enrolled. There exist a variety of other smaller and specially targeted programs and subsidies, including block grants for maternal and child heath services, community health centers, migrant health centers, and the Indian Health Service.

In the same year, 38.8 million were enrolled in some part of Medicare, the largest public health insurance program not limited to low-income people, and expenditures reached $213 billion. U.S. Department of Health and Human Services, *Health, United States, 1999*. The vast majority of Medicare enrollees are over 65, and the program is not discussed in this article.

[14]M. Ellwood and C. Irvin, *Welfare Leavers and Medicaid Dynamics: Five States in 1995* (Cambridge, MA: Mathematica Policy Research, Inc., 2000).

[15]M. Rivo and D. Kindig, "A Report Card on the Physician Work Force in the United States," *New England Journal of Medicine* 334 (1996): 892–96.

[16]Campbell, *Health Insurance Coverage: 1998*. "Inadequate coverage" is defined as coverage that leaves a person at risk of spending more than 10 percent of income on medical care in the event of a major illness.

[17]Bennefield, *Who Loses Coverage?*

[18]The most vulnerable of children, the homeless, have particularly severe problems with health and access to health care. One study of children in emergency shelters in the state of Washington found that about a third had no health insurance and over half no regular health care provider. Not surprisingly, these children were much less likely to be immunized against measles or to have had a tuberculosis skin test. D. Miller and E. Lin, "Children in Sheltered Homeless Families: Reported Health Status and Use of Health Services," *Pediatrics* 81 (May 1998): 668–73.

[19]See, e.g., A. Bindman, K. Grumbach, D. Osmond, M. Komaromy, K. Vranizan K, and others, "Preventable Hospitalizations and Access to Health Care," *Journal of the American Medical Association* 274, no. 4 (1995): 305–11; P. Franks, C. Clancy, and M. Gold, "Health Insurance and Mortality: Evidence from a National Cohort." *Journal of the American Medical Association* 270, no. 6 (1993): 737–41; Pepper Commission, A *Call for Action. U.S. Bipartisan Commission on Comprehensive Health Care, Final Report* (Washington, DC: U.S. Government Printing Office, 1990).

[20]For example, a patient's race has been found to be an independent predictor of how chest pain is managed (i.e., whether or not the patient is referred for cardiac catheterization). K. Schulman, J. Berlin, W. Harless, J. Kerner, S. Sistrunk, and others, "The Effect of Race and Sex on Physicians' Recommendations for Cardiac Catheterization," *New England Journal of Medicine* 340, no. 8 (1999): 618–26.

[21]See, e.g., D. Wood, R. Hayward, C. Corey, H. Freeman, and M. Shapiro, "Access to Medical Care for Children and Adolescents in the United States," *Pediatrics* 86, no. 5 (1990): 666–73.

[22]J. Currie and J. Gruber, "Health Insurance Eligibility, Utilization of Medical Care, and Child Health," *Quarterly Journal of Economics* 445 (1996): 431–66.

[23]J. Hebel, P. Nowicki, and M. Sexton, "The Effect of an Antismoking Intervention during Pregnancy: An Assessment of Interaction with Maternal Characteristics," *American Journal of Epidemiology* 122 (1985): 135–48; M. Fleming, M. Mundt, M. French, L. Manwell, E. Stauffacher, and others, "Benefit-Cost Analysis of Brief Physician Advice with Problem Drinkers in Primary Care Settings," *Medical Care* 38 (2000): 7–18.

[24]U.S. Department of Health and Human Services, *Healthy People 2100* (Washington, DC: DHHS, 2000).

Investing in the future: Reducing poverty through human capital investments

To alleviate poverty, is the best approach a hand up or a handout? If the former, how should spending be allocated among children who have many years to reap the rewards, and among adults in need of remedial education and job training?[1]

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Since the1960s, education and training programs, generally called "human capital" programs, have been an important strategy for alleviating poverty. Public programs specifically designed to increase the educational achievement of poor children and to raise the skills and labor market prospects of adults at the bottom of the economic ladder can be considered public investments, in the same sense that public education is an investment. Thus, instead of reducing poverty today, these programs make investments today in the expectation of alleviating poverty in the future.

The interest in these programs derives from the evidence that low levels of investment by family and society in the education and development of disadvantaged children translate into poorer economic outcomes when those children grow up—reduced employment and lower wages for young adult men, higher rates of early and out-of-wedlock childbearing for young women, and lower household income. This "investment gap" and the disparities in economic well-being that follow may be troubling, but would more equal investments lead to more equal outcomes? In this article I briefly review the most common human capital investment strategies at different stages in the life cycle, and suggest some of the issues that confront researchers and policymakers. Can government programs that make such investments improve the circumstances of the most disadvantaged people? Which strategies have proven to be effective? What trade-offs exist, and do the results justify the costs?[2]

Investing in preschool children

Our understanding that the early years of life are crucial for future cognitive and emotional functioning, reinforced by new research in neurobiological development, underlies the continuing strong interest in early childhood intervention programs. These programs aim to promote cognitive and social development, emotional self-regulation, and, usually, good health and nutrition among preschool children, especially those at risk of developmental delays.

The programs offer, in varying combinations, services such as parenting classes, home visiting, and center-based educational daycare.[3] The largest and best known is Head Start. Many other programs have been implemented on a small scale for a limited time, often with experimental designs that randomly assigned participants to treatment and control groups. Among the best known are the High Scope/Perry Preschool project in Michigan (1962–67), the Carolina Abecedarian Project (1972–85), the Infant Health and Development Program (1985–88), the Elmira Prenatal/Early Infancy Project (1978–82), and the relatively large-scale Chicago Child Parent Centers (CPC), a publicly funded, school-based preschool and follow-on program that began in 1967.[4]

These programs incorporate a wide range of strategies. They use different eligibility criteria, for example, family income or socioeconomic status, health, or cognitive development. Some intervene before or soon after a child's birth, others begin in later infancy or early childhood. Services may focus on the child, the parent (typically the mother), or both.

Because these programs tend to be local in reach and small in size, the validity of the evidence they offer has been questioned. Not all programs show comparable gains. But several comprehensive reviews suggest the following broad conclusions:

1. *Cognitive gains.* Many of the intervention programs produced short-term cognitive benefits that faded once the participants reached school age. An exception is the Abecedarian program, a very high quality, intensive intervention.

2. *Educational gains.* Though IQ gains may attenuate, there are often lasting educational effects. Participants are significantly less likely to be placed in special education classes or to be retained in grade, and more likely to complete high school.

3. *Economic gains.* Long-term follow-up shows that educational gains can translate into better jobs and higher

incomes in young adulthood; the clearest example of this is among participants in the Perry Preschool Project.

4. *Delinquency.* There is evidence that rates of crime and delinquency and contact with the criminal justice system are reduced during adolescence and young adulthood.

5. *Family formation.* More limited evidence suggests that, compared with controls, programs can lower rates of teenage pregnancy and allow participants to better plan and space the births of any children.[5]

That is, mostly, good news. It is less clear that early intervention programs change developmental trajectories. Although many participating children show significant and lasting improvements, a gap often persists between their achievement levels and those of more advantaged peers. These programs clearly do not compensate for all the disadvantages facing the children.

Several features appear to differentiate the successful from the unsuccessful programs. Successful programs include earlier and more sustained intervention and an intensive set of services delivered by highly trained professionals following a rigorously developed curriculum. In addition, the Chicago CPC and the Abecedarian program results show that it is possible to enhance or at least sustain the effects of early intervention by continuing involvement beyond the preschool years.[6] But the CPC results in particular suggest a "threshold" effect: educational gains remain relatively flat until children have been in the program for 5 or 6 years. If that is so, less intensive and shorter programs may have no effect at all.

Some successful programs, although they have high levels of staff and services, have also proved to be quite cost effective—notably the services for high-risk single mothers in the Elmira program, the Perry Preschool Program, and the Chicago CPC program.[7] Interventions seem to work best for those at the highest risk—in the Elmira study, for example, the net individual and social benefits for the lower-risk, better-functioning group of mothers were much lower than those for the high-risk group.

Investing in school-age children and youth

Controversies over the quality and curricula of U.S. schools, particularly in low-income areas, have drawn intense public and political attention and many proposals for improvement.[8] Do additional investments in school quality improve educational outcomes, especially for disadvantaged children? Analysts disagree on how much has actually been spent and on the effects of the investments; indeed, the evidence is very mixed.[9] Simply increasing per-pupil expenditures does not appear to be the answer. Rather, it is how resources are spent—for lowering class size, raising teachers' salaries, or improving their training—and for which groups of students—younger versus older, minority or disadvantaged versus the more affluent—that determine whether greater school spending produces better returns.

Two popular reform initiatives, directed primarily at elementary school children, are reductions in class size, and school choice—allowing parents wider latitude in choosing schools for their children.

Class size

One random-assignment experimental evaluation, Project STAR in Tennessee (1985–1989), consistently showed that children who spent kindergarten through third grade in smaller classes of about 13–17 students scored significantly higher on standardized tests than similar children placed in regular-size classes. Results were especially impressive for African-American students, for students in inner-city schools, and for children receiving free lunches.[10]

The strong findings from the Tennessee experiment and other studies support the view that school resources are likely to be especially important for minority and disadvantaged students. The effects of class size, in particular, seem to be greatest when the reductions take place in earlier grades and continue for several years.

School choice

The disparities in quality often apparent in inner-city schools have suggested another approach to improving educational outcomes—allowing parents to choose from a wider array of schools. Supporters of school choice argue that poorly performing schools would be forced to improve if they had to compete for students. A corollary argument is that parents should receive publicly funded vouchers so that their children could attend private schools or public schools in other districts. This argument is increasingly popular, despite strong opposition from those who argue that choice programs would further drain resources and motivated students from public schools. There is simply not enough evidence to judge what the consequences might be, either for children who transfer to new schools or for those who remain in the public school system. And the future of voucher programs in particular remains uncertain, for they have been frequently and successfully challenged in the courts.[11]

Programs for older students

Strategies for improving school attainment among older students have targeted low-achieving children and youth themselves rather than the schools they attend. Areas of particular concern are high school dropout, especially among Hispanic youth, and the transition to stable employment, which takes longer for high school dropouts and the most disadvantaged minority youth.[12]

Dropout prevention. Myriad programs and services, many of them with private-sector funding, are designed to keep youth in school and raise their achievement. Most have not been formally evaluated and there is very little evidence about their effectiveness. One program that has been carefully studied is the Quantum Opportunity Program, which offered learning, development, and service opportunities, along with modest cash and scholarship incentives, to minority youth in families receiving welfare and living in poor neighborhoods. The program improved high school graduation and college attendance rates and diminished delinquency among participants; it is being replicated elsewhere.[13]

School-to-work transition programs. Such programs include traditional vocational education, cooperative education (schooling combined with part-time work), career academies, technical preparation, and apprenticeships. Few of these programs have been systematically evaluated, and there is little evidence regarding their effectiveness.[14]

Youth employment and training programs

These programs, many of them in place since the 1960s, seek to improve employment for young people who are already disconnected from the educational system and the labor market. Among them are Job Corps (1964–), and federal programs that evolved following the 1973 Comprehensive Employment and Training Act (CETA) and the 1982 Job Training Partnership Act (JTPA). There are also a few small-scale demonstration projects. Unlike the school-to-work programs discussed earlier, these targeted "second-chance" programs have been extensively evaluated.[15]

The evaluations largely agree that these programs, particularly the less intensive ones like JTPA, have failed substantially to improve employment or earnings for participants and that the costs to individuals and especially to society as a whole have mostly outweighed the benefits. Somewhat exempted from this bleak assessment is the more intensive Job Corps program. Participants appear to be doing significantly better than nonparticipants in a number of areas: they are more than twice as likely to have earned a GED and are earning about $1,000 more a year than nonparticipants.[16]

Why are these programs ineffective? Several reasons have been suggested:

- Unless labor markets are tight, employers may be more reluctant to hire young people, especially those without a diploma.
- Those features of youth culture that reject school, discipline, and strong labor force attachment also militate against these programs. And unsupportive family environments may be a negative influence.
- The programs themselves may not be tailored to meet the more complex needs of adolescents, compared to adults.[17]

Investing in adults

A sizable fraction of young adults enter the labor market with insufficient schooling or skills to provide them and their families a standard of living above the poverty line. These deficits follow them throughout their labor market careers unless remedied, for example, by public education and training programs. Disadvantaged adults targeted by such programs fall into two main groups: those voluntarily seeking employment services and welfare recipients.[18]

The history of these programs is one of consolidation and devolution, under CETA, under JTPA, and under the 1998 Workforce Investment Act, which gives vouchers to disadvantaged workers to purchase training and went into effect in mid-2000. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 reoriented the welfare programs of many states and localities toward "work first"—efforts at job placement and retention come first, and formal classroom or on-the-job training are offered only if the welfare recipient fails to find a job.[19]

Serious efforts to evaluate adult education and training programs, including those known as "welfare-to-work," date back to the 1970s. Recent reviews agree that adult training programs appear to be most effective for women and show small or nonexistent benefits for men, but this conclusion rests on a basis of variable and inconsistent research. Welfare-to-work programs show greater promise of raising earnings and more consistent results for different subgroups than do other education and training programs.[20]

Voluntary employment and training programs

Most government training programs represent only a small investment in human capital acquisition, costing less than a year of school and requiring far fewer hours of training. Even at best, they raise earnings by about $1,000–$2,000 a year.[21] Given that welfare payments also usually decline as earnings increase, these earnings gains are not enough to raise family income above the poverty line.

Welfare-to-work programs

There appears to be greater uniformity in the employment and economic effects of these programs, especially those implemented under the Job Opportunities and Basic Skills (JOBS) program.[22] Most of them increased earnings and reduced welfare overall during the years that participants were followed, but there was no effect on combined income from work, welfare, and food stamps.

Moreover, the earnings of the most disadvantaged groups, such as long-term welfare recipients, increased about as much as the earnings of the less disadvantaged, and the earnings gap between the two groups did not close.

Even within programs, results have been quite variable across sites. In the California program Greater Avenues for Independence (GAIN), for example, the Riverside office, one of six sites studied, produced dramatically better results than any other site. During the debates over welfare reform, the relative success of the Riverside program's rather rigorous "work-first" approach was often cited by those advocating the welfare-to-work philosophy.

For both job training and welfare-to work programs, the longer-term benefits are more difficult to ascertain. In most cases, training programs appear to be effective in increasing earnings by raising employment rates rather than wages; this suggests that the long-term benefits may be smaller. Indeed, there is some evidence from longer-term follow-up with welfare-to-work participants that earnings gains tend to fade over time. And when the modest benefits of job training and welfare-to-work programs are compared with the costs, most programs do not appear to be a very worthwhile investment. Of all the programs studied, only the Riverside GAIN and a Los Angeles program based upon it, Jobs-First GAIN, show positive benefits for both program participants and society as a whole.[23]

Human capital investment strategies: Research and policy issues

Although human capital investment strategies differ depending upon the ages of the population for which they are intended, several common issues confront researchers and policymakers who wish to make sound decisions about public programs. They include:

1. Program targeting

When those individuals or institutions that can benefit most from a particular strategy are properly identified, and resources are directed to them, programs will obviously generate better returns. For children and adolescents, for example, school reforms or school-to-work programs may target schools in disadvantaged communities, whereas dropout prevention and job training may target specific populations of youth who are at risk.

But targeting carries with it the possibility that the disadvantaged children, youth, and adults who participate may be stigmatized and isolated. At-risk children and youth may benefit more from participating in programs with peers who are not so threatened, and who can provide role models and positive reinforcement for improved performance. Programs that are more universally applicable are often more solidly supported by the public than those limited to small subgroups of disadvantaged people. And often existing research is simply insufficient to define and identify the population that should be targeted by a particular program.

2. Choosing optimal program design

We only imperfectly understand how best to design programs to serve many disadvantaged subgroups—the poor versus the near-poor, children or adults with disabilities, immigrant children and adults. Too often, evaluations have made little effort to understand *why* the program works or fails, in whole or in part. There is clear need for more research that seeks to identify the optimal mix, intensity, and timing of services for particular populations. And if there is value in integrating investment strategies across the life course, for instance from preschool to school years, we also need to learn more about how best to integrate across programs and service providers.

3. Implementing model programs on a larger scale

Many of the most promising investment strategies have been implemented only on a small scale or in single sites, in some cases by private or nonprofit organizations promoting them as models for public-sector implementation. It is always a question whether public agencies can replicate on a large scale the results of small experiments. But program effects might even be larger, because of "social multipliers" that amplify behavioral changes beyond those observed for participants in the model program.[24]

4. The implications of welfare reform

Many of the programs I review here were implemented in a very different policy environment, before the 1996 welfare reform legislation dramatically altered many aspects of the social safety net. The new emphasis on work, self-sufficiency, and the temporary nature of public assistance may reduce the money and time that low-income parents can invest in their young children. Such an outcome would place even greater importance on the types of public investment I have discussed. The new social services environment may also alter the effectiveness of programs that were often designed to be integrated with income support and service delivery programs that have now been superseded. To be most effective, for example, some early childhood intervention programs may need to incorporate new services or program features to compensate for the changes in the social safety net. If they do so, the relationship between the costs and benefits of the program, among other things, may alter.

Is there an optimal investment strategy to reduce poverty?

At first glance, it might appear that early childhood intervention programs offer the best investment. These programs return roughly $3 or $4 for each dollar invested, whereas job training programs for adults typically fail even to return the original investment.[25] But any new resources must be effectively deployed by drawing on proven models and preserving the intensity of program services. This may mean serving smaller population groups than is ideal, and hoping to broaden coverage as resources allow. Variations in program models should be rigorously evaluated. At a minimum, most proven models would benefit from process evaluations that assess the fidelity of the program as implemented to the program as designed.

But there are arguments in favor of continuing public human capital investment programs for the least advantaged throughout the life course. First, not all persons at risk can be identified early. The individual, family, and community factors that threaten well-being are not static. Adolescents veer off course, families break apart, employment slumps. If programs are available only for narrow windows of opportunity, individuals and families may find no resources to turn to when they are most in need.

Second, the needs of the most disadvantaged are so great that they require long-term human capital investment. If there is no sustained investment in poor-quality elementary schools, for instance, the gains from early intervention programs like Head Start erode. In a rapidly evolving global economy, low-income and disadvantaged workers in particular may need access to publicly provided education and training.

Third, a continuum of human capital investment opportunities may develop synergies that generate an even greater cumulative impact. Investments in early childhood education may allow children to take better advantage of education during the school years and reduce the need for remedial programs in elementary school. Simultaneous two-generation investment strategies that promote economic self-sufficiency among parents and offer services for their children may produce effects larger than those yet measured.[26]

If these arguments are valid, the optimal investment strategy through the life course will involve a continuum of services, potentially integrated over time to serve the needs of children, youth, and adults who continue to face disadvantages that place them at risk of low economic attainment. Among the approaches that have most merit, based on rigorous evaluation and favorable cost-benefit assessment, are:

- High-quality, intensive, center-based early childhood programs that promote cognitive and social development and behavioral competence, and transitional services that continue into the early grades.
- Home visiting services to young, high-risk, first-time mothers, beginning in the prenatal period and continuing through the first few years of the child's life.
- Reduced class sizes in the early grades for schools serving disadvantaged children.
- Residential Job Corps programs for school dropouts.
- Employment-focused welfare-to-work programs for single mothers.

Most likely, effective poverty reduction strategies will need to rely on traditional income transfers and other direct assistance programs also. Human capital programs are no panacea. But the menu of programs above offers a starting point for a life course investment strategy.

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[1]This article draws upon Lynn Karoly, "Investing in the Future: Reducing Poverty through Human Capital Investments," presented at the IRP conference, Understanding Poverty in America: Progress and Problems, on May 22–24, 2000, in Madison, WI. The revised conference papers will be jointly published by Harvard University Press and the Russell Sage Foundation in a volume tentatively titled *Understanding Poverty: Progress and Prospects*.

[2]My emphasis is on human capital investment strategies in the form of intervention programs that may be publicly provided, but many other factors not discussed here contribute to eventual adult attainment—investments by parents, kin, and communities, environmental factors, genetic endowments, and children's own choices as they grow up. See R. Haveman and B. Wolfe, *Succeeding Generations: On the Effects of Investments in Children* (New York: Russell Sage Foundation, 1994).

[3]On child care programs more generally, see D. Vandell and B. Wolfe, *Child Care Quality: Does It Matter and Does It Need to Be Improved?* IRP Special Report 78, University of Wisconsin–Madison, 2000.

[4]These and other early childhood intervention programs were the primary topic of *Focus* 19, no. 1 (Summer-Fall 1997).

[5]See, for example, S. Barnett, "Long-Term Effects of Early Childhood Programs on Cognitive and School Outcomes," *The Future of the Children* 5 (1995): 25–50; J. Currie, "Early Childhood Intervention Programs: What Do We Know?" *Journal of Economic Perspectives* (forthcoming, 2000); L. Karoly, P. Greenwood, S. Everingham, J. Hoube, M. Kilburn, and others, *Investing in Our Children: What We Know and Don't Know about the Costs and Benefits of Early Childhood Interventions*, MR-898, RAND, Santa Monica, CA, 1998.

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[7]Karoly and others, *Investing in Our Children;* Reynolds, *Success in Early Intervention*.

[8]For discussion of the very active and broad school reform movement, see, for instance, D. Grissmer, A. Flanagan, J. Kawata, and

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[9]Grissmer and others, *Improving Student Achievement*; D. Card and A. Krueger, "School Resources and Student Outcomes: An Overview of the Literature and New Evidence from North and South Carolina," *Journal of Economic Perspectives* 10, no. 4 (1996): 31–50; E. Hanushek, S. Rivkin, and L. Taylor, "Aggregation and the Estimated Effects of School Resources," *Review of Economics and Statistics* 78, no. 4 (1996): 611–27; E. Hanushek, "School Resources and Student Performance" in *Does Money Matter? The Effect of School Resources on Student Achievement and Adult Success*, ed. G. Burtless (Washington, DC: Brookings Institution, 1996).

[10]A. Krueger, "Experimental Estimates of Education Production Functions," *Quarterly Journal of Economics* 114, no. 2 (1999): 497–532.

[11]The first publicly funded school choice program began in 1990 in Milwaukee, Wisconsin; see C. Rouse, "Private School Vouchers and Student Achievement: An Evaluation of the Milwaukee Parental Choice Program," Working Paper No. 5964, National Bureau of Economic Research, 1997; J. Wilgoren, "Judge Says Cleveland Vouchers Violate Church-State Separation," *New York Times*, December 21, 1999, and "School Vouchers Are Ruled Unconstitutional in Florida," *New York Times*, March 15, 2000.

[12]J. Klerman and L. Karoly, *The Transition to Stable Employment: The Experience of U.S. Youth in Their Early Labor Market Career*, MR-564, RAND, Santa Monica, CA, 1995; U.S. Census Bureau, *School Enrollment—Social and Economic Characteristics of Students,* P20-521, Washington, DC, 1998.

[13]A. Hahn, T. Leavitt, and P. Aaro, *Evaluation of the Quantum Opportunities Program (QOP): Did the Program Work? A Report on the Postsecondary Outcomes and Cost-Effectiveness of the QOP Program (1989–1993)*, Brandeis University, Waltham, MA, 1994.

[14]D. Donahoe and M. Tienda, "The Transition from School to Work: Is There a Crisis? What Can Be Done?" in *Securing the Future: Investing in Children from Birth to College*, ed. S. Danziger and J. Waldfogel (New York: Russell Sage Foundation, 2000), pp. 231–63.

[15]W. Grubb, *Learning to Work: The Case for Reintegrating Job Training and Education* (New York: Russell Sage Foundation, 1996).

[16]P. Schochet, J. Burghardt, and S. Glazerman, *National Job Corps Study: The Short-Term Impacts of Job Corps on Participants' Employment and Related Outcomes* (Princeton, NJ: Mathematica Policy Research, 2000).

[17]Grubb, *Learning to Work.*

[18]In 1995 there were over 160 federally funded employment and training programs, but here I consider only the major ones. See L. Pavetti, "How Much More Can Welfare Mothers Work?" *Focus* 20, no. 2 (1999): 16–19, and H. Pouncy, "Moving the Disconnected into the Mainstream: Innovative Workforce Development Programs," paper presented at the Ford Foundation Conference on Investing in Children, Columbia University, October 1998; General Accounting Office, *Multiple Employment Training Programs: Major Overhaul Needed to Create a More Efficient, Customer-Driven System*, Washington, DC, 1995.

[19]See L. Pavetti, "Welfare Policy in Transition," in this *Focus.*

[20]Grubb, *Learning to Work*; R. LaLonde, "The Promise of Public-Sector-Sponsored Training Programs," *Journal of Economic Perspectives* 9, no. 2 (1995): 149–68; C. Michalopoulos, C. Schwartz, and D. Adams-Ciardullo, *National Evaluation of Welfare-to-Work Strategies: What Works Best for Whom, Impacts of 20 Welfare-to-Work Programs by Subgroup (Executive Summary)* (New York: Manpower Demonstration Research Corporation, 2000).

[21]LaLonde, "Promise of Public Sector-Sponsored Training Programs."

[22]Michalopoulos, Schwartz, and Adams-Ciardullo, *National Evaluation of Welfare-to-Work Strategies.*

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Welfare policy in transition: Redefining the social contract for poor citizen families with children

The Personal Responsibility Act significantly altered the safety net. A system that once provided ongoing income maintenance to poor families with children now serves a dual purpose: providing cash assistance and helping families make the transition from welfare to work.[1]

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The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 represented a decisive break with the existing structure of welfare. In perhaps its most radical change, the act ended individual entitlement to benefits, leaving it to states to decide when and under what conditions to provide benefits. It also eliminated Aid to Families with Dependent Children (AFDC) and its ancillary welfare-to-work training program, Job Opportunities and Basic Skills (JOBS). Citizens who had been entitled to receive income support through AFDC for as long as they met the eligibility criteria now had to apply for assistance through a state- or locally designed program, Temporary Assistance for Needy Families (TANF), in which eligibility was linked to compliance with programs designed to foster employment.

After passage of the act, states were free to develop entirely new approaches to providing assistance to poor families with children. In this article, I outline the central features of the new, work-based federal policy and administrative environment, and discuss state policy responses to their new freedom. We will see that the legacy of AFDC and JOBS is still potent.

The federal policy framework

The federal policy framework for TANF established explicit work participation requirements and penalties for noncompliance, time limits, a narrow definition of "assistance," and continued eligibility for other safety net programs such as Medicaid and Food Stamps.

TANF work requirements

In contrast to JOBS, which emphasized placement in long-term education and training, the Personal Responsibility Act imposed explicit and steadily increasing work expectations upon both states and welfare recipients. States must require that TANF recipients work after they have received no more than 24 months of assistance. Unsubsidized or subsidized private- and public-sector employment, on-the-job training, and brief periods of job search and job readiness assistance all count as "work." States that fail to meet federal work participation rates may incur substantial and increasing financial penalties, equal to a minimum of 5 percent of their block grant.

All families must participate in work and work-related activities except for those families that have a child under 12 months, if the state chooses to exempt them. If families refuse to participate, states must impose penalties that include at least a partial reduction in benefits and restrictions on eligibility for the Food Stamp Program. States may also deny Medicaid benefits to adults in noncompliant families, though not to children. Thus if a state were to exercise the most stringent sanctions in its power, a family in which the head of the household did not comply with work requirements could lose all its public benefits except Medicaid coverage for the children.

Time limits

Families on assistance may receive TANF funds for no more than five years, although states can exempt up to 20 percent of the caseload from the federal time limit on ground of "hardship" (this is left to the state to define). Families will begin reaching this limit in 2001 at the earliest (although states can impose a shorter time limit and some have chosen to do so). States are, however, free to use TANF funds to provide "supportive services" to families beyond that time, if these services are not intended to help families meet their basic needs. And states can use their own funds to provide assistance to families that have reached the five-year limit. By setting a narrow definition of "assistance," the Department of Health and Human Services has made it easier for states to use TANF funds to provide services and supplemental income support to working families.[2]

Continued eligibility for other safety-net programs

The Personal Responsibility Act was not intended to restrict the access of poor citizen families to other programs in the safety net, especially Food Stamps and Medicaid (although legal noncitizen immigrants and single able-bodied adults were excluded).[3] The majority of AFDC recipients participated in the Food Stamp Program, over which states had and continue to have little discretionary power. Food Stamp eligibility rules for citizen families with children did not change in 1996, and there was thus little concern that families might be denied food stamps because AFDC had been eliminated. This, as we shall later see, proved not to be the case.

States do, however, have considerable discretionary power over Medicaid. Before the Personal Responsibility and Work Opportunity Reconciliation Act, AFDC was, for adults, almost the only real pathway to Medicaid benefits because recipients were categorically eligible. While ending AFDC, the act stipulated that families would continue to be eligible for Medicaid if they met the standards that had been in place under state AFDC plans in July 1996. This provision "delinked" eligibility for Medicaid from eligibility for TANF benefits.

States could elect to change Medicaid eligibility by lowering or increasing income standards, subject to certain restrictions, or by adopting income and resource methodologies less restrictive than those used in July 1996. The last option allowed them to extend Medicaid coverage to working poor families who would not usually have qualified under the AFDC criteria.

Increased emphasis on child support enforcement

The Personal Responsibility Act broadly altered the design and structure of the child support enforcement system. New obligations were imposed on states, which must establish child support enforcement programs that meet federal guidelines, and on TANF recipients, who must assign their child support rights to the states and cooperate with all efforts to collect support.

A new administrative framework

The 1996 legislation greatly reduced the role of the federal government in designing and regulating the provision of assistance. States were given considerable liberty to develop new programs. A more flexible, but fixed, funding stream (a block grant) replaced federal/state cost-sharing that rose and fell with actual expenditures. States were, however, required to maintain their share of spending at 75–80 percent of their current levels; this is known as the maintenance-of-effort requirement (MOE).

Because block grants were set by complex formulas based on state welfare caseloads between 1992 and 1995, states that experienced significant caseload declines after those years are in the unusual position of having far more money available per family than they have traditionally spent, with fewer constraints on how they might spend it. They can use TANF and MOE funds to fill shortfalls in affordable housing or health insurance coverage, and do not need to establish uniform eligibility criteria for each program. They can, for example, direct employment-related services to families with incomes below the poverty line, while directing services for youth at risk to a much broader pool of young people.[4] They can use TANF money for diversionary programs that offer applicants for welfare other alternatives, such as short-term loans.

State policy choices

During the early stages of TANF, states mostly shifted to a short-term, work-oriented assistance system. Key state policy choices have centered on how to restructure cash assistance, mandate work, impose time limits on the receipt of assistance, and support families in their transition to employment. As these programs become more established and states become more comfortable with the considerable flexibility they have been given, the focus of their efforts is likely to broaden, making it more difficult to compare programs within a consistent framework.

Maintaining cash assistance payments

Despite fears to the contrary, nearly all states have maintained a cash benefit structure and benefit levels for nonworking families that are comparable to those in place before 1996. The majority of states (33) have affirmed that cash assistance will be provided to all families eligible under their state policies. Seventeen states have language explicitly stating that there is no entitlement to cash assistance.[5]

The most common change has been to extend eligibility to more working families. Wisconsin is the only state that counts all family earnings in considering eligibility for assistance. In most other states, the amount of earned income that is not taken into account ("disregarded") in calculating benefits is more generous than it was under AFDC.

Why have states not used their new flexibility to reduce benefits? First, the concern that states would do so reflected an income maintenance system rather than a work-based system. Instead of lowering benefits, states made welfare receipt less attractive by imposing new conditions for eligibility. Second, the caseload declines have left states with more than enough money to maintain the current benefit levels, to provide benefits to all who meet eligibility criteria, and to extend benefits to working families. Last, states have implemented their TANF programs during a period of unprecedented economic growth. They have not yet had to decide how to provide benefits in a time when more people are applying for benefits and fewer families are able to meet work requirements.

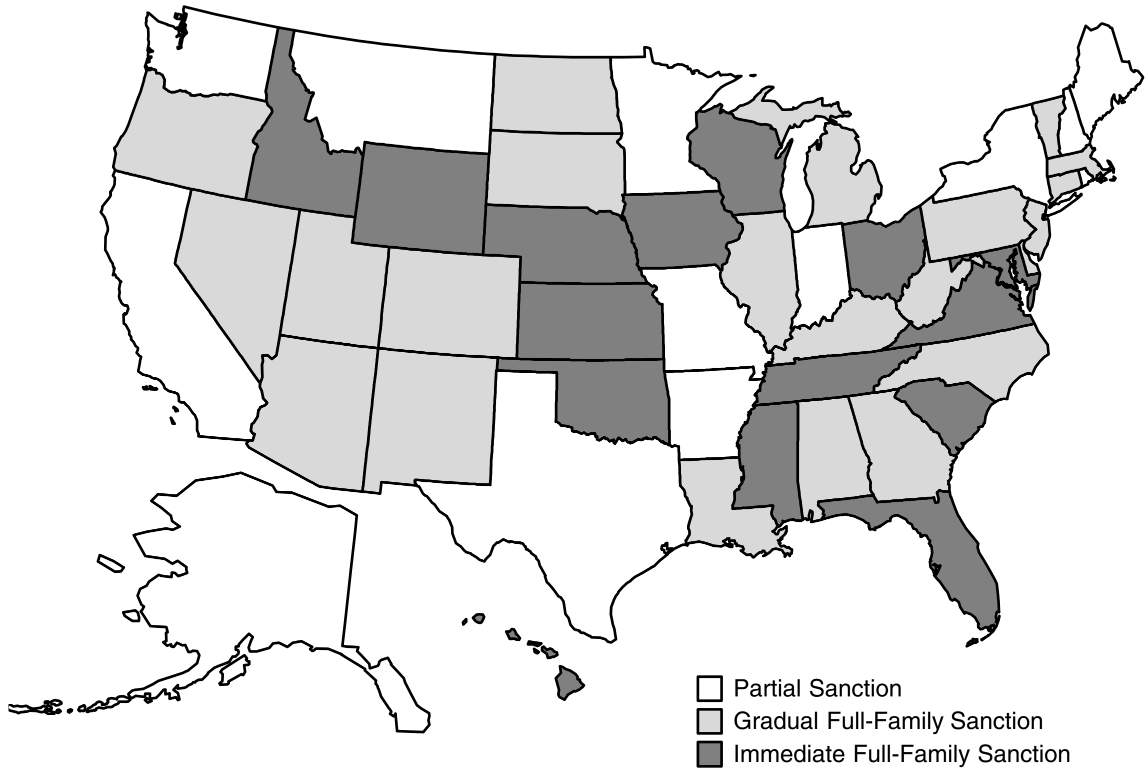

Figure 1. Sanctions policies for noncompliance with work requirements.

Source: Data from State Policy Documentation Project.

Mandating "work first"

Although the Personal Responsibility Act gave states some flexibility to place recipients in vocational training programs, most have shifted almost entirely to a work-first approach built on the belief that any job is a good job. Most programs are geared toward helping recipients look for jobs for which they are currently qualified.[6]

In most states, recipients must look for work long before the end of the two-year period specified in federal law. Twenty-one states now require applicants for assistance to participate in a job search or other work-related activity as a condition of eligibility. In most other states, participation is expected soon after an application is approved.[7]

Even though work-first programs share a common philosophy and goals, they vary substantially in design and structure. In some, recipients are expected to look for work on their own and are provided with no real assistance. In others, recipients receive classroom instruction on job search—how to locate and apply for available jobs, write a résumé, and interview. Some states include life skills classes or short-term training, usually lasting no more than six weeks.

The strong economy and programs that emphasize immediate employment have resulted in large caseload reductions. These have made it possible for many states to meet their federal work participation requirements primarily through credits received for these reductions, rather than through placing recipients in jobs. Nevertheless, in fiscal year (FY) 1998 nearly three-quarters of participating families were employed in unsubsidized jobs.[8] Nationwide, few TANF recipients in any state participated in subsidized employment, on-the-job training, job skills training, or education related to employment, though in some states larger numbers held community service jobs or participated in job search or vocational training.

More stringent sanctions than required by federal law

Because almost all recipients are now expected to work, states have established more stringent enforcement policies than existed under AFDC, to demonstrate to recipients that there are consequences for not following program rules.

Thirty-seven states have chosen to implement "full-family" sanctions that make the entire family ineligible for cash assistance if family members do not comply with work and other requirements intended to reinforce personal responsibility. Six states still use the sanctions in place under JOBS, and even the ten states without full-family sanctions have increased the financial penalties for noncompliance, for example, by providing assistance to sanctioned families only in the form of voucher payments to vendors. (See Figure 1.) In seven states, a welfare recipient who continually or repeatedly fails to comply with the rules may be barred for life from receiving cash assistance.

Nineteen states have chosen to eliminate Food Stamp benefits if the family head does not comply with work requirements, and 12 states render noncompliant adults ineligible for Medicaid benefits.[9]

The evidence on how sanctions are being implemented suggests that many families have lost benefits, although states vary. The few studies that have looked at sanction rates find that between 26 and 45 percent of families subject to work requirements have been sanctioned.[10] But because the largest states have not implemented full-family sanctions, more than half of all TANF recipients are not subject to them.

A range of approaches to time limits

State choices in setting time limits have been extremely varied. As with sanctions policies, the states with the largest caseloads have less restrictive time limits. California, New York, Texas, and Michigan, for example, account for 45 percent of the national assistance caseload, but they either have no time limit (Michigan) or reduce but do not terminate benefits when the time limit is reached.

State rules governing time limits are, however, only part of the story, for states may also invoke extensions and exceptions to limits. Connecticut, for example, grants six-month extensions to families who make good-faith efforts to find employment but have incomes below the welfare benefit when they reach the time limit. The most common exemptions are for families with a disabled member.

Increased emphasis on work supports

The emphasis on supporting employment is most apparent in vastly increased state budgets for child care subsidies. In the first two quarters of FY 1999 states spent $248 million of federal TANF funds and $578 million of their own funds on child care. Even so, in some states the increase in spending has not kept pace with demand.[11]

Transportation has been another significant barrier to employment for poor people. Indeed, under JOBS, recipients who did not have access to transportation were generally exempted from participation. States can now use TANF and MOE funds to address systemic, not merely individual, transportation issues, and a number of innovative programs have emerged.[12] Kentucky, for instance, guarantees transportation to welfare recipients through a statewide network of regional providers, each of whom contracts with the state to furnish transportation to all TANF recipients in the area.

Creating a new infrastructure to support welfare reform

Given new flexibility to shape their welfare programs, states could choose to stay with the existing structure, turn over responsibility for welfare to another agency, or create a new agency. They could develop policies at the state level that would be administered locally, or could allow local governments to develop their own policies. States and counties could, if they chose, contract with private or not-for-profit agencies to operate all or part of their TANF programs.

Regardless whether a state created an entirely new infrastructure or maintained its existing one, all welfare offices had to make employment an integral part of their assistance programs. Doing so has meant sending an entirely new message to workers and clients alike. AFDC's message was that the agency would support families as long as they were eligible. TANF's message is that the agency is there to help families gain a foothold in the labor market so that they can eventually make it on their own. Successful negotiation of this transition involves major changes in the "culture" of welfare agencies and in the perspectives and roles of their officials.[13]

Developing new administrative arrangements

State AFDC programs were operated either through a state policy and administrative framework or through a state-supervised, county-administered system. Regardless of the framework, all local areas within a state operated under the same policies. With the greater flexibility and local discretion of TANF, the distinction between the two systems is becoming blurred. Local offices in state-administered systems such as Oregon and Indiana now have substantial local autonomy to develop programs.

Broadly speaking, states have adopted one of four different arrangements to implement the new emphasis on employment. Under the most common structure, the welfare office acts as the sole administrative agency. In a modified version it shares administrative responsibility with an agency from the workforce development system. In some states, responsibility is shared between the welfare office and a newly created, community-based entity. Some states have merged the welfare and workforce development systems in one agency that is responsible both for determining eligibility and for managing the caseload (this has generally been a redefined workforce development agency).

Within these new organizational structures, some states, like Oregon and Michigan, have redefined staff responsibilities to create a new worker who is responsible for all aspects of eligibility determination and case management for recipients (now often called "customers"). Others, like Virginia, have increased the number of staff devoted to employment issues but have maintained separate workers to determine eligibility and handle employment-related tasks. Still other offices (St. Paul, Minnesota, and San Diego) determine eligibility but have transferred case management to private-sector vendors.[14]

Regardless of the administrative structure, most local TANF agencies work with intermediaries to help clients find employment. These public or private brokers between the welfare system and employers recruit, train, and place recipients, and may provide services to help them retain the job. A study of communities in ten states found that well-established nonprofit organizations accounted for 67 percent of intermediaries overall, and 74 percent in urban areas. For-profit organizations accounted for only 15 percent of the organizations, but because of their size served 45 percent of all TANF clients that were served by intermediaries.[15]

Adjusting to new financial arrangements

The change from open-ended entitlement funding to a fixed block grant has so far had little effect on individuals' entitlement to benefits, because states have so much more money per recipient than before. Indeed, 46 states have more money than they would have had under AFDC. And even though most states have reduced the state share of welfare expenditures to the 75–80 percent MOE required by federal law, 21 states were spending more per recipient in 1998 than they were before TANF.[16]

Wary of creating new programs that might not be sustainable over the long term, and uncertain how much flexibility they really have, states have been slow to spend block grant funds on services for TANF or other poor families. At the end of 1999, 32 states had not spent all of their allocations.[17] In Wyoming, 58 percent was still unspent, in Hawaii and Wisconsin, only 2–3 percent remained. But most states have met or exceeded their MOE requirements, largely by spending state dollars first.

Preliminary evidence suggests that states are spending their funds differently—less goes to cash assistance, more to child care and child development programs. In Wisconsin, for example, spending on cash assistance declined by 77 percent while spending on children's programs rose by 168 percent. Nationally, however, only 37 percent of the savings on cash assistance went toward increased spending for children.[18]

Evaluating the consequences of welfare reform

Under AFDC, a state's benefit level was generally used as a measure of its commitment to poor families. Now that state TANF programs vary so greatly, evaluating their responsiveness to the needs of vulnerable families has become much more complicated. Regardless of how one defines a strong safety net, any effort to categorize state efforts should examine the extent to which they (1) use earned income disregards or other financial incentives to reward work; (2) fund and promote other work supports such as child care and Medicaid or food stamps; (3) rely on enforcement to promote work; (4) encourage participation in activities that prepare people for work, such as education and training, or treatment for mental health problems and for alcohol and other drug addictions; (5) provide cash assistance to nonworking families.

Comparing policies along so many different dimensions is a complex endeavor, and our information on the outcomes associated with any of the different state "policy bundles" is still quite limited. But some preliminary findings about the impact of the welfare changes on families are beginning to emerge.

How citizens are faring under welfare reform

The findings from early studies are complex. Welfare reform has helped some families to gain a foothold in the labor market and raise their standard of living, even if only by a small margin. Some families no longer receiving assistance are not working and report little or no income; not much else is known about them.

Increased employment, but at low wages

Early studies of people leaving welfare show that between one-half and three-quarters of parents are employed shortly after leaving the rolls. Former recipients typically work more than 30 hours a week during the weeks in which they are employed. Average hourly wages for those working range from $5.67 to $8.42, and average reported annual earnings range from $8,000 to $15,144, leaving many families below the poverty line.[19] A recent study by Robert Schoeni and Rebecca Blank found that changes in employment were mostly driven by the economy, not by TANF. Family income increased primarily because other family members increased their employment enough to offset the loss of cash assistance.[20]

For some families, less welfare and increasing poverty

Rates of unemployment are especially high—from 20 to 50 percent—among families that have left welfare because they were sanctioned. There is limited information on how these families are making ends meet and whether their disconnection from the labor market is temporary or permanent.[21]

Between 1995 and 1997, the poorest 20 percent of single mothers experienced a significant decline in their average disposable incomes, largely due to substantial decreases in income from means-tested programs and small decreases in earnings. Moreover, the poverty gap among children (the amount necessary to raise the incomes of those below poverty to the poverty level), which had declined by 17 percent from 1993 to 1995, remained relatively stagnant between 1995 and 1998, primarily because children who remained poor became poorer.[22]

Modest reductions in child poverty from child support collections

Rates of child support collections remain low, but child support does seem to make a substantial difference for some families. Among poor children, child support accounts for 26 percent of family income among those families that receive it. Among the 13 states surveyed in the National Survey of America's Families, an Urban Institute study, child support lifts about half a million children out of poverty, reducing the poverty gap by $2.5 billion (8 percent).[23]

Declining participation in the Food Stamp and Medicaid programs

The number of persons receiving Food Stamp benefits fell by 27 percent from FY 1996 to the first half of FY 1999. As with the decline in cash assistance caseloads, there is much interstate variation—declines range from 48 percent in Vermont to 5 percent in Nebraska. And for the first time in almost a decade, Medicaid enrollment for children and their parents began to fall in 1996; it has fallen steadily ever since.[24]

There are no definitive studies of the reasons for these declines, but they appear to be linked, at least in part, to the implementation of welfare reform. Diversion programs that discourage families from applying for assistance, stringent work requirements, sanctions, and time limits are all likely to play a part.[25]

Information on state policies is steadily accumulating; over 50 studies of people leaving welfare have been completed or are under way. From the wide menu of policies and programs now on the table, we may hope soon to determine those that seem to offer the most hope for improving the lives of poor people with children. ■

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[1]This article draws upon LaDonna Pavetti, "Welfare Policy in Transition: Redefining the Social Contract for Poor Citizen Families with Children and for Immigrants," presented at the IRP conference, Understanding Poverty in America: Progress and Problems, on May 22–24, 2000, in Madison, WI. The revised conference papers will be jointly published by Harvard University Press and the Russell Sage Foundation in a volume tentatively titled *Understanding Poverty: Progress and Prospects*.

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Housing discrimination and residential segregation as causes of poverty

It is well known that poor people have a hard time finding decent, affordable housing. What is not so well known is that the operation of the housing market helps to push people into poverty and to keep them there. Discrimination in housing markets, both past and present, magnifies these forces for blacks and Hispanics.[1]

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The residential concentration of poverty is high and is increasing in the United States. In 1998, the poverty rate was 18.5 percent in central cities, but only 8.7 percent in suburbs. In 1970, 12.4 percent of poor people lived in high-poverty areas—census tracts in which at least 40 percent of residents were poor; in 1990, 17.9 percent did so.[2]

Housing and poverty

Housing markets contribute to poverty through at least five channels: high rent burdens, housing health risks, lack of access to housing wealth, neighborhood effects, and spatial mismatch.

High rent burdens

A household's rent burden is defined as its rent (or equivalent costs of ownership), plus the cost of utilities, as a share of income. A high rent burden limits a poor household's ability to invest in health care, education, and job-related expenses such as child care.

According to the U.S. Census Bureau's American Housing Survey, almost three-quarters of poor households pay more than 30 percent of their income in rent and utilities. Over half (almost 9 million households) spend more than 50 percent of their income for housing, compared to only 7.1 percent of nonpoor households. And affordable housing is available to fewer and fewer poor households: for every 100 households with income at or below the poverty line, there are, on average, only 36 available housing units with rents that are no more than 30 percent of income.[3]

The true magnitude of the housing problem is masked by a major flaw in the way poverty is measured. The official measure of poverty does not take into account differences in the price of housing between urban areas or between neighborhoods. And although many scholars believe that the poverty lines should reflect geographic variation in the cost of housing, the information to construct an accurate index is simply not available.[4] It seems likely that an adjustment for housing costs would significantly boost the poverty rate and the extent of concentrated poverty in large cities, where more people are spending exorbitant percentages of their income on housing.

Poor housing quality and health risks

Poor families disproportionately live in decrepit or too-small housing: 13.7 percent, versus 5.8 percent of nonpoor families, live in houses with moderate or severe physical problems, and 7 percent, versus 2 percent of the nonpoor, in overcrowded conditions (more than one person per room).[5]

Poor families are also disproportionately exposed to health risks in their housing. Two risks in particular, the presence of lead paint and insect pests, can have severe health consequences. Lead paint, when ingested by young children, can cause severe brain damage and lowered intelligence. It was outlawed in 1978, but was widely used in housing before then and remains on the walls of many apartments that are over 20 years old. The 1997 American Housing Survey reported that poor households were twice as likely as nonpoor households to live in housing with broken plaster and peeling internal paint (5 percent versus 2.5 percent). Between 1988 and 1994, about 12 percent of poor children showed elevated blood lead levels, compared to only 2 percent of children in high-income families.[6]

Asthma is the most common chronic disease of childhood and the most common cause of hospitalization among American children. It is also two to three times more likely to occur among children in poor families than among other children and to lead to hospitalization when it does occur. One New York City study reported that the rate of hospitalization for asthma in some of the poorest neighborhoods was 228 per 10,000 children, compared to zero in the richest neighborhoods. Asthma attacks are strongly associated with some of the classic indicators of poor housing quality: the presence of cockroaches, dust and dust mites, mold and mildew. There is no direct measure of the extent to which poor households are disproportionately exposed to factors contributing to asthma, but they are twice as likely to live with signs of rats and mice in the home as are nonpoor households (13.1 percent versus 7 percent).[7]

Lack of access to housing wealth

Home ownership is the most common method of obtaining wealth; home equity represents over one-third of total household nonpension wealth in the United States.[8] Equity in a home can buffer families against income fluctuations arising from job loss or illness; it is "insurance" against falling into poverty.

Home ownership also may have nonfinancial consequences that help protect home owners and their children from poverty. Parents with a large financial stake in their neighborhoods have a relatively strong incentive to monitor the behavior of their children.

There is evidence of such effects. Especially among low-income households, the children of home owners are significantly less likely than those of renters to drop out of school or have children of their own while still teenagers, controlling for observable characteristics. After trying to account for the fact that home owners may differ from renters in ways that we cannot observe, one study found that the probability that a high school student in a low-income family will stay in school is 19 percentage points higher if the parents own rather than rent their home.[9] Given the importance of high school graduation for later earnings, home ownership in itself may lessen the risk of poverty in the next generation.

Poor people are less likely to be home owners.[10] Low assets, low incomes, and spotty credit records pose large barriers to purchase, although people can draw upon family resources and government insured mortgages with minimal requirements for a down payment, and 38 percent of borrowers with incomes below 80 percent of their area's median income received Federal Housing Authority loans.[11]

Neighborhood effects

Growing up in a high-poverty neighborhood appears to have deleterious effects on educational attainment and employment and to increase the risk of teenage pregnancy and criminal activity, but there is no consensus either on the size of these effects or on the mechanisms that link them to poverty. It is much clearer that *concentrated* poverty lowers school performance for all children in a classroom or school, not merely the poor children.[12] Again, the mechanisms are unclear, but it is likely that schools with high concentrations of poor children must spend more time dealing with the problems that children bring from home and will receive less reinforcement at home of lessons learned in school.

Spatial mismatch

When low-skill jobs move to a new location, housing markets may adjust by providing nearby housing for low-income workers. But when such jobs move to the suburbs of major metropolitan areas, housing markets may not be able to adjust fully. Established suburban neighborhoods may have such high levels of amenities that low-income households cannot compete for entry into them, even if they are willing to double up. Zoning restrictions and building codes may make it impossible to build low-income or multiple-family housing—and indeed, may be used by high-income neighborhoods for precisely that purpose. The high cost of searching for jobs far from where one lives, even if information about them is available, means that poor families may be stuck in central cities with poor access to low-skill jobs.[13]

Housing discrimination, segregation, and poverty

Since 1974, the poverty rate for blacks has been at least 17 percentage points above the rate for whites, and the poverty rate for Hispanics at least 14 percentage points above the white rate. Housing markets play a significant role in maintaining these poverty differentials.

The legacy of past discrimination

Even if there were no more discrimination in housing and mortgage markets (and this is not the case, as I discuss later), the legacy of past discrimination would continue to affect housing market outcomes, and hence poverty. Income disparities, wealth disparities, and residential segregation all contribute to the relatively high poverty rates for minorities.

Income disparities continue to be large. In 1998, median household income was $42,439 for non-Hispanic whites, $28,330 for Hispanics, and $25,351 for blacks. Wealth disparities are even greater. Over 60 percent of black households and over half of Hispanic households, but only a quarter of white households, have zero or negative net financial assets. The median wealth of black households in 1994 was $37,457, compared to a median wealth of $177,952 for all other households. Blacks are therefore far more likely than whites to face down-payment constraints in buying a house and the effect of those constraints is greater for them than it is for whites. Over a quarter of white renter households who became owners between 1991 and 1995 received part or all of their down payment from their extended families, but almost 9 of 10 black home buyers came up with the entire down payment themselves.[14]

Residential segregation, though by some measures declining, remains high, especially for blacks.[15] Segregation interacts with the already high poverty rates of blacks and Hispanics to magnify concentrated poverty and hence to magnify the disadvantages facing *all* residents of areas of concentrated poverty. It also affects employment. Because segregation results in many locations in which most residents—and hence most customers—are white, in these areas firms have an incentive to discriminate against black employees, particularly in service jobs.[16]

The overall effects of segregation on social and economic outcomes for minorities are large and significant. Careful estimates by David Cutler and Edward Glaeser show that in 1990, blacks between the ages of 20 and 30 who lived in a highly segregated metropolitan area were less likely to have graduated from high school or college and to have a job, and more likely to be a single parent and to have lower earnings, than those who lived in a less segregated area.[17]

The role of current discrimination

The compelling evidence that discrimination persists in housing markets and in the practices of lenders is mostly derived from fair housing audits. The audit is a survey technique in which teams of auditors equally qualified, but of different race or ethnicity, respond to advertisements for houses or apartments. A national audit study conducted in 1989, the Housing Discrimination Study, found that discrimination against blacks and, to a lesser degree, Hispanics in the home purchase and rental markets was widespread, statistically significant, and took many different forms.[18]

Blacks were more likely to be excluded from available units or to be told about fewer units than actually were available. Black home buyers were told about 25 percent fewer houses than their matched white team members. Blacks were less likely to receive special incentives to rent or to be offered help in finding financing to purchase, and were more likely to be steered toward certain types of neighborhoods and high-interest loans. There is no evidence that the incidence of this kind of discrimination has declined over the last 20 years. Fair housing audits conducted in 1977 and in the mid-1990s by different groups came up with comparable results.

Potential home buyers interact not only with real estate agents but also with lenders and home insurance companies. Patterns of discrimination have been found for lenders, though the evidence for the home insurance market is less clear. A study based on 1991 data found that black and Hispanic customers were 82 percent more likely to be turned down for loans than were white customers, even after other factors such as credit qualifications and the type of loan were taken into account.[19]

The net impact of discrimination in the housing market is that black and Hispanic households cannot expect to gain as much as white families do from housing search, are less likely to move in response to any given change in housing, and are more likely to encounter discouragement if they do try to move. When they do move, they can expect to find houses that are a poorer match to their preferences. They must pay higher search costs, accept lower-quality housing, or live in lower-quality neighborhoods than comparable white households—all outcomes directly tied to poverty.[20]

Calculating the effect of past and present discrimination

The combined effects of past and present discrimination are visible in four of the five channels through which housing affects poverty. Only rent burdens appear to be exempt from these effects—there is no evidence that blacks pay higher rents or purchase prices than whites at any income level for equivalent housing in equivalent neighborhoods.[21] The situation might change if the federal poverty measure was revised to take into account variation in housing costs, because minorities are more likely to live in central cities, where the cost of housing is relatively high.

By restricting housing choices, past and current discrimination magnify the concentration of poor black and Hispanics in low-quality housing, which is the second channel that links housing and poverty. Moderate or severe physical problems with housing are roughly twice as common among poor blacks and Hispanics as among poor nonblacks and nonpoor Hispanics—about 20 percent report such problems. About the same percentage of poor blacks live in houses with chipped plaster or peeling paint. Thus segregation and discrimination concentrate low-income blacks and Hispanics in poor-quality housing that presents greater threats to health.

The third channel is home ownership. Income and wealth differentials combine with segregation and discrimination to produce large, long-standing intergroup differences in home ownership (see Figure 1). These differentials are higher now than they were in the early 1980s. Even poor nonblacks have a greater rate of home ownership than blacks in general.[22] Poor blacks and Hispanics thus have the most limited access of all groups to the "insurance" against poverty that home ownership represents.

The fourth channel is the neighborhood effect. In the 1990 census, poor blacks were more than twice as likely as other poor groups to live in neighborhoods of concentrated poverty, and that share appeared to be increasing. Poor blacks and Hispanics are also more likely to live in neighborhoods where other indicators of distress are relatively high. For example, 12.9 percent of poor blacks, but only 5.8 percent of poor nonblacks, live in neighborhoods where crime is so "bothersome" that they would like to move.[23]

The effect of segregation and discrimination on the school environment of black and Hispanic children is equally dramatic. In large cities, the vast majority of black and Hispanic children, over 90 percent, go to predominantly minority schools. School segregation along ethnic lines is driven largely by segregation *across*, not within, school districts—the historical disparities and

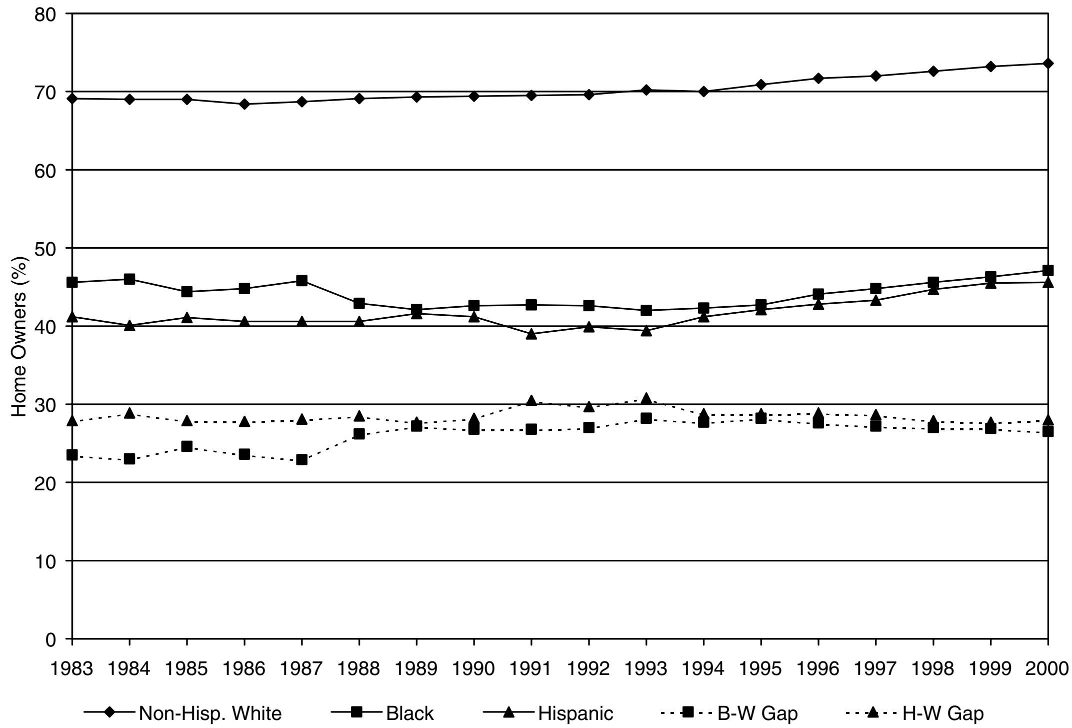

Figure 1. Home ownership rates, 1983–2000.

Source: U.S. Census Bureau, *Housing Vacancies and Homeownership: Annual Statistics: 1999*, Table 20; Council of Economic Advisers, *Changing America: Indicators of Social and Economic Well-Being by Race and Hispanic Origin* (Washington, DC: U.S. GPO, 1998).

current discrimination in housing markets that make it difficult for black and Hispanic households to move into suburban neighborhoods continue to play a role. Furthermore, over half of minority schools have poverty rates above 50 percent, whereas 60 percent of largely white schools have poverty rates below 10 percent.[24] The result, as earlier noted, is lower performance among all children in the poorer schools—hence disproportionately among black and Hispanic children. This in turn translates into lower earnings capacity.

Discrimination and segregation also play a role in spatial mismatch, the fifth channel. Segregation, the suburban shift in employment, and continuing housing discrimination together result in higher unemployment and lower wages for blacks than for whites. Compelling evidence arises from the employment situation of teenagers, who do not make their own housing decisions and for whom the picture is clearer than for adults. Studies (mostly with data from the 1980s) found that average access to jobs was then much higher for white than for minority youth, and differences in access explained about a third of the employment gap between white and minority teenagers. More recent evidence from the Gautreaux Program, which helps public housing residents in Chicago find housing throughout the metropolitan area, also suggests that employment outcomes for blacks improve when the barriers to suburban residence are broken. Those participants who moved to suburban areas were more likely to have jobs than those who stayed in the central city.[25]

Overall, the disparities in poverty between white and minority households have many different causes, but housing markets clearly have important effects, through several different channels. In a systematic overview that explores the simultaneous determinants of residential segregation, class and school segregation, school dropout rates, and poverty among blacks, George Galster estimated that the black poverty rate would fall by 14 percent if all current housing discrimination were eliminated.[26] Thus housing policy should be an important element of any antipoverty program, and any policy to eliminate the differences in poverty among ethnic and racial groups should include policies to promote fair housing and fair lending, to support community activities that maintain neighborhood integration, to provide mobility-enhancing rental housing subsidies, and to promote home ownership among low-income families through tax subsidies and lending. ■

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[1]This article draws upon John Yinger, "Housing Discrimination and Residential Segregation as Causes of Poverty," presented at the IRP conference, Understanding Poverty in America: Progress and Problems, on May 22–24, 2000, in Madison, WI. The revised conference papers will be jointly published by Harvard University Press and the Russell Sage Foundation in a volume tentatively titled *Understanding Poverty: Progress and Prospects.*

[2]U.S. Census Bureau, *Poverty, 1998*, < http://www.census.gov/hhes/poverty/ poverty98/pv98est1.html >; P. Jargowsky, *Poverty and Place: Ghettos, Barrios, and the American City* (New York: Russell Sage Foundation, 1997).

[3]U.S. Census Bureau, *American Housing Survey for the United States: 1997*, National Tables, Washington, DC, September, 2000 <http://www.census.gov/hhes/www/housing/ahs/ahs97/ahs97.html>; Office of Policy Development and Research, U.S. Department of Housing and Urban Development, *Rental Housing Assistance—The Worsening Crisis: A Report to Congress on Worst Case Housing Needs*, Washington, DC, 2000. HUD defines poor families as those with incomes below 30 percent of the area median—roughly the poverty line.

[4]"Estimating the Value and the Cost of Housing," *Focus* 19, no. 2 (Spring 1998): 31–35.

[5]U.S. Census Bureau, *American Housing Survey: 1997*, National Tables, tables 2.7, 2.3.

[6]U.S. Census Bureau, *American Housing Survey: 1997,* National Tables, table 2.7; E. Pamuk, D. Makuc, K. Heck, C. Reuben, and K. Lochner, *Socioeconomic Status and Health Chartbook: Health, United States, 1998* (Hyattsville, MD: National Center for Health Statistics, 1998).

[7]U.S. Census Bureau, *American Housing Survey: 1997*, National Tables, table 2.7; Pamuk and colleagues, *Socioeconomic Status and Health Chartbook*; H. Noble, "Study Shows Asthma Risk for Children in Poor Areas," *New York Times*, July 27, 1999.

[8]E. Hurst, M. Luoh, and F. Stafford, "The Wealth Dynamics of American Families, 1984–94," *Brookings Papers on Economic Activity* 1 (1998): 267–338.

[9]R. Green and M. White, "Measuring the Benefits of Homeowning: Effects on Children," *Journal of Urban Economics* 41 (May 1997): 441–61.

[10]See, e.g., H. Savage, *Who Could Afford to Buy a House in 1995?*, Current Housing Report H121/99-1, U. S. Census Bureau, Washington, DC; U.S. Census Bureau, *American Housing Survey: 1997*, National Tables, tables 2-13, 5-12, 6-12.

[11]S. Gabriel, "The Role of FHA in the Provision of Credit to Minorities," in *Mortgage Lending, Racial Discrimination, and Federal Policy,* ed. J. Goering and R. Wienk (Washington, DC: Urban Institute Press, 1996), pp. 183–250.

[12]On neighborhood effects, see D. Ginther, R. Haveman, and B. Wolfe, "Neighborhood Attributes as Determinants of Children's Outcomes: How Robust Are the Relationships?" *Journal of Human Resources* 35, no. 4 (Fall 2000): 603–42; R. Mincy, "The Underclass: Concept, Controversy, and Evidence," in *Confronting Poverty*, ed. S. Danziger and D. Weinberg (Cambridge, MA: Harvard University Press, 1994), pp. 109–46; X. Briggs, "Moving Up versus Moving Out: Neighborhood Effects in Housing Mobility Programs," *Housing Policy Debate* 8, no.1 (1997): 195–234. On the effects of poverty on school performance overall, see W. Duncombe and J. Yinger, "School Finance Reform: Aid Formulas and Equity Objectives," *National Tax Journal* (June 1998): 239–62; R. Ferguson, "Paying for Public Education: New Evidence on How and Why Money Matters," *Harvard Journal on Legislation* 28 (1991): 465–98.

[13]S. Ross and J. Yinger, "Does Discrimination in Mortgage Lending Exist: The Boston Fed Study and Its Critics," in *Mortgage Lending Discrimination: A Review of Existing Evidence,* ed. M. Turner and F. Skidmore (Washington, DC: Urban Institute, 1999), pp. 43–84; J. Kasarda and K-f. Ting, "Joblessness and Poverty in America's Central Cities: Causes and Policy Prescriptions," *Housing Policy Debate* 7, no. 2 (1996): 387–419.

[14]U.S. Census Bureau, *Money Income in the United States: 1998*, Report P60-206, Washington, DC: GPO, September 1999 <http://www.census.gov/hhes/www/income98.html>; Hurst, Luoh, and Stafford, "Wealth Dynamics"; J. Gyourko, P. Linneman, and S. Wachter, "Analyzing the Relation among Race, Wealth, and Homeownership in America," Wharton Real Estate Center Working Paper, University of Pennsylvania, Philadelphia, PA, 1997.

[15]D. Massey and N. Denton, *American Apartheid: Segregation and the Making of the Underclass* (Cambridge, MA: Harvard University Press,1993); N. Denton, "Are African Americans Still Hypersegregated?" in *Residential Apartheid: The American Legacy*, ed. R. Bullard, J. Grigsby III, and C. Lee (Los Angeles, CAAS Publications, 1994), pp. 82–94; D. Cutler, E. Glaeser, and J. Vigdor, "The Rise and Decline of the American Ghetto," *Journal of Political Economy* 107 (June 1999): 455–506.

[16]H. Holzer and K. Ihlanfeldt, "Customer Discrimination and Employment Outcomes for Minority Workers," *Quarterly Journal of Economics* 113, no. 3 (August 1998): 835–67.

[17]D. Cutler and E. Glaeser, "Are Ghettos Good or Bad?" *Quarterly Journal of Economics* 112, no. 3 (August 1997): 827–72.

[18]J. Yinger, *Closed Doors, Opportunities Lost: The Continuing Costs of Housing Discrimination* (New York: Russell Sage Foundation, 1995).

[19]The original study, the Boston Fed Study, has been criticized, but independent investigations of the same data have confirmed its findings. See A. Munnell, G. Tootell, L. Browne, and J. McEneaney, "Mortgage Lending in Boston: Interpreting HMDA Data," *American Economic Review* 86, no. 1 (March 1996): 25–53; Ross and Yinger, "Does Discrimination in Mortgage Lending Exist?"

[20]J. Yinger, "Cash in Your Face: The Cost of Racial and Ethnic Discrimination in Housing," *Journal of Urban Economics* 42 (November 1997): 339–65; In the study I use housing demand concepts to estimate the value households place on the housing opportunities they lose because of discrimination. I estimate that the average cost of current discrimination is roughly $4,000 every time some change in circumstances gives a black or Hispanic family an incentive to search for a new home. See also Charles and Hurst, "Transition to Home Ownership."

[21]See, for instance, K. Kiel and J. Zabel, "House Price Differentials in U.S. Cities: Household and Neighborhood Racial Effects," *Journal of Housing Economics* 5 (June 1996): 143–65.

[22]U.S. Census Bureau, *American Housing Survey:1997*, National Tables, tables 2-13, 5-12, 6-12.

[23]J. Kasarda, "Inner-City Poverty and Neighborhood Distress: 1970 to 1990," *Housing Policy Debate* 4, no. 3 (1993): 253–302; U.S. Census Bureau, *American Housing Survey: 1997,* National Tables, tables 2-13, 5-12, 6-12.

[24]Majority white schools are those in which fewer than 10 percent of students are black or Hispanic. See C. Clotfelter, "Public School Segregation," *Land Economics* 75 (November 1999): 487–504.

[25]K. Ihlanfeldt and D. Sjoquist, "Job Accessibility and Racial Differences in Youth Unemployment Rates," *American Economic Review* 80 (March 1990): 267–76, and "The Effect of Job Access on Black and White Youth Employment: A Cross-Sectional Analysis," *Urban Studies* 28, no. 2 (1991): 255–65; K. Ihlanfeldt, *Job Accessibility and the Employment and School Enrollment of Teenagers* (Kalamazoo, MI: W. E. Upjohn Institute for Employment Research, 1992); S. Popkin, J. Rosenbaum, and P. Meaden, "Labor Market Experiences of Low-Income Black Women in Middle-Class Suburbs: Evidence from a Survey of Gautreaux Program Participants," *Journal of Policy Analysis and Management* 12 (Summer 1993): 556–74. Evidence on the employment effects of the Moving to Opportunity program, implemented in 1994, is not yet available; see M. Turner, "Moving Out of Poverty: Expanding Mobility and Choice Through Tenant-Based Housing Assistance," *Housing Policy Debate 9*, no. 2 (1998): 373–94.

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The memberships theory of poverty: The role of group affiliations in determining socioeconomic outcomes

The body of statistical evidence, when combined with ethnographic studies and social psychology experiments, strongly supports the view that group memberships play an important role in the determination of individual socioeconomic outcomes, and hence are a significant causal factor in the generation and persistence of poverty.[1]

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Although social scientists have long been aware of the importance of group influences as a cause of socioeconomic deprivation, economic research has traditionally paid more attention to individual and family-based explanations. But now economists too have begun to shift toward group-based explanations of poverty, impelled by a growing sense that individual-level explanations are inadequate for understanding many of the differences one observes in socioeconomic outcomes, especially when one considers group differences in these outcomes. In this article I describe some of the basic ideas and implications of a group-based theory of poverty that combines economic and sociological approaches. I call it the "memberships theory of poverty."

The basic idea of the memberships theory of poverty is straightforward. It postulates that our socioeconomic outcomes depend significantly upon the composition of the groups of which we are members over the course of our lives.[2] Such groups may, in principle, be defined along many dimensions, including ethnicity, the neighborhoods in which we live, our schools, and our places of work.

Group memberships can shape individual outcomes through different paths. These include, though they are clearly not limited to:

1. Peer group effects: the choices of some members of a group affect the preferences of others.

2. Role model effects: the characteristics of older members of a group influence the preferences of others.

3. Social learning: information about the costs and benefits of many behaviors comes from observing others. To the extent that one is in a group which produces certain types of information, such as knowledge of criminal opportunities, or fails to produce other types, such as knowledge of the labor market advantages of college, groups produce social learning.

4. Social complementarities: the choices of some members of a group make the choices of other members more or less productive. For example, a study group in which hard work by other members makes the efforts of each member more productive can be said to exhibit social complementarities.

Consider, as an example, the role of neighborhoods in the transmission of poverty and inequality across generations. First, there is the role of local public finance. Approximately 45 percent of all public revenues spent on primary and secondary education are generated through local sources, with obvious implications for disparities in school quality.[3] Second are peer group influences. If the educational effort and aspirations of one child are influenced by the efforts and aspirations of his friends and peers, then neighborhoods can create powerful forces promoting or retarding social mobility. Third is the influence of adult role models. Children in poor communities who observe that the rewards for education are low among the adults they know may themselves make lower educational choices, deciding, for example, not to complete high school or attend college. Fourth, social networks matter for employment, and poor communities appear less able to generate the labor market information necessary for rapid and successful matching of community members to jobs. And last, neighborhoods can represent the carriers of people's aspirations toward economic success and family responsibility, with the attendant implications for the perpetuation of poverty.

Some group memberships are matters of choice (subject to constraints), for example, the location of a family in a particular neighborhood. Other group memberships, such as ethnicity or gender, are fixed. When the memberships are themselves choices, a theory of inequality, to be complete, needs to account for those choices as well as for their consequences. Clearly, too, the effects of these group memberships are not independent of each other. Suppose that an individual is a member of an ethnic group that suffers from discrimination, grows up in a poor community whose role models and peer groups militate against economic success, and in turn is placed in poor schools and jobs. It is the sequence of memberships, with their attendant social interactions, rather than one membership in isolation, that explains why the individual is poor.

The memberships theory is substantively different from standard economic models of poverty in two respects. First, it shifts the emphasis in a causal explanation of poverty from individual characteristics that *explain* differences in behavior to group memberships and influences that *constrain* individual outcomes. Second, it highlights the role of externalities in producing poverty. We can characterize role models and peer influences as externalities because in each case the choices and characteristics of some individuals directly affect others without any markets to regulate these effects.

Empirical evidence for the memberships theory

At this point, the memberships theory of poverty encompasses a body of disparate theoretical and empirical studies, all of which point toward the same idea: that the groups which define one's location in socioeconomic space play a crucial determining role in one's life prospects. Although there are many plausible theoretical arguments and empirical demonstrations that some sort of group influences matter, we are far from identifying many of the specific causal mechanisms that link individual outcomes to groups. There is nevertheless a body of compelling evidence that group memberships play an important role in the generation and persistence of poverty.

The evidence for the memberships theory of poverty falls into four main categories: ethnographic studies, regression analyses based on observational data, evaluations of the effects of government interventions in membership on individual outcomes (quasi-experiments), and controlled experiments in social psychology. Because there has yet to be any effort to estimate structural memberships-based models, this evidence is to some extent indirect.

Ethnographic evidence

Ethnographic studies of poverty provide a rich body of evidence on the ways in which community deprivation influences individual behavior. They focus both on the emergence of social norms within inner cities that perpetuate deprivation across generations and on the strong, positive social networks that may militate against the effects of deprivation.[4] They make apparent the diversity of positive and negative interactions that coexist in poor communities, and although they do not represent the sorts of quantitative evidence required by the new theoretical models of social interactions, they are essential for evaluating the substantive significance of these models.[5]

Regression evidence

There is a vast literature that seeks to document the influence of group memberships on socioeconomic outcomes; much of it focuses on the role of residential neighborhoods in children's outcomes.[6] Although these studies typically conclude that some combination of contextual (i.e., neighborhood) variables do have a statistically significant influence, there seems to be no consensus about which of these contextual effects is the most robust. And a recent careful analysis of neighborhood effects on teenagers' outcomes found that the use of richer individual controls systematically reduces the magnitude of the estimated neighborhood influences.[7] Methodological difficulties and confusions, some of them explored in recent econometric work, also constrain the regression-based analysis of social interactions.[8]

Quasi-experiments

These are, in effect, a sort of natural experiment in which researchers seek out cases of individuals who are assigned to new groups (typically, new neighborhoods) as a result of some policy decision or other exogenous event. The most prominent example is the Gautreaux program, whereby housing subsidies and placement services were provided to residents of inner-city Chicago public housing, enabling them to move either to another part of Chicago or to a suburb. Studies have found that children who moved to the suburbs fared better in many ways, including high school completion and employment, than did their counterparts who moved within Chicago.[9] A second such quasi-experiment, still continuing, is the Moving to Opportunity program.[10]

For all the interest of their findings, both demonstrations suffer from a range of problems that make interpreting the data difficult. For example, the programs are far from a pure random-choice experiment; in both cases, those who moved were to some extent self-selected and not necessarily representative of the poor communities from which they moved. And the Moving to Opportunity program is recent enough to raise concern that its results may not be permanent.

Controlled experiments

The most persuasive evidence of group effects can be found in the social psychology literature.[11] One classic example is the work on obedience to authority conducted by Stanley Milgram. In Milgram's experiments, subjects were instructed to administer a sequence of increasingly powerful electric shocks to a "patient" who began to protest that his life was in danger. Sixty percent of subjects nevertheless continued to administer shocks if told to do so by an "authority"—a man in a white coat. But if a second individual was present and refused to do so, the refusal rate by subjects increased dramatically.[12] Such evidence, though not directly linked to poverty, clearly suggests why one might observe variations in the rates of social pathologies among communities: such pathologies are presumably sanctioned by powerful social norms that operate rather like the sanction provided by an authority figure.

The implications for policy

A focus on group-level influences naturally leads one to ask whether the government can and should intervene in order to alter the ways in which groups are formed in the economy and in society as a whole. I term such policies, which redistribute group memberships rather than income, "associational redistribution."[13]

The most obvious and currently controversial example of government policies of this type is affirmative action—an intervention by government in the allocation of individuals into schools and firms. Contemporary magnet and charter school programs and the location of public housing projects, which can have a major impact on patterns of residential segregation, also come into this category. Each of these very disparate programs is designed to alter social interactions among individuals by altering the composition of socioeconomic groups.

At first glance, associational redistribution might appear to be a new and unusually invasive form of government intervention. What justifies these policies is their goal: the achievement of equality of opportunity. This justification most obviously applies if the cost of achieving such equality in any other way is prohibitively expensive. Suppose that we wish to ensure that poor black and affluent white children have equal opportunities for labor market success as adults. Possible ways to eliminate the dependence of their respective outcomes on family and community background would include both affirmative action policies and increased investment in public schools. If one believes that improvements in school investments have only modest effects on labor market outcomes, then affirmative action will be relatively attractive.[14]

Furthermore, such policies can only be justified if the political objective of equality of opportunity outweighs any possible harm created by the policies required for its achievement. It is, for example, sometimes argued that antidiscrimination and affirmative action policies violate rights to free private association.[15] In the case of neighborhoods, there would seem to be a strong argument for respecting people's rights to engage in private association. But there is the question of whose rights are being protected. Parental preferences are not necessarily those that best serve the interests of the children. To the extent that the parents' preference for racial exclusivity is the source of segregated neighborhoods, it is reasonable for a policymaker to reject those preferences, both because they impose segregation on the parents' own children, who cannot meaningfully share those preferences, and because they may harm other children through limiting their choice of neighborhoods.

Even if associational redistribution policies do generate conflicts with individual rights, the memberships theory is still germane to public policy discussion and still speaks to the desirability of such policies. There are, unquestionably, complex ethical judgments to be made about the trade-offs between equality of opportunity and other social goods that may be diminished by associational redistribution. But such judgments are the essence of politics, and the memberships theory is useful in clarifying the nature of the trade-offs involved. ■

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[1]This article draws upon Steven N. Durlauf, "The Memberships Theory of Poverty: The Role of Group Affiliations in Determining Socioeconomic Outcomes," presented at the IRP conference, Understanding Poverty in America: Progress and Problems, on May 22–24, 2000, in Madison, WI. The revised conference papers will be jointly published by Harvard University Press and the Russell Sage Foundation in a volume tentatively titled *Understanding Poverty: Progress and Prospects.*

[2]It may be helpful here to clarify the relationship between the memberships theory and another concept that has drawn much attention, social capital. In the context of poverty, many have claimed that the problems of the inner city are at least partially due to an absence of social capital of various types. Elsewhere, I have discussed some of the ambiguities of definition that inhere in these analyses; see S. Durlauf, "The Case 'against' Social Capital," *Focus* 20, no. 3 (Fall 1999): 1–5. If we accept the definition of social capital as "the influence that the characteristics and behaviors of one's reference group has on one's assessments of alternative courses of behavior," I would argue that the body of ideas associated with the concept of social capital can be subsumed within a general memberships theory of social inequality. To the extent that social capital is a well-defined resource which members of a particular social network can access, it is simply a version of a group influence.

[3]J. Kozol, *Savage Inequalities* (New York: Crown, 1991).

[4]Examples include E. Liebow, *Tally's Corner* (Boston: Little, Brown, 1967), C. Stack, *All Our Kin* (New York: Basic Books,1974), M. Duneier, *Slim's Table* (Chicago: University of Chicago Press, 1992), E. Anderson, *Code of the Street* (New York: W. W. Norton, 1999).

[5]For social interaction models see W. Brock and S. Durlauf, "Interactions-Based Models," in *Handbook of Econometrics*, ed. J. Heckman and E. Leamer (Amsterdam: North-Holland, forthcoming).

[6]For a review of earlier studies, see C. Jencks and S. Mayer, "The Social Consequences of Growing Up in a Poor Neighborhood," in *Inner-City Poverty in the United States*, ed. L. Lynn and M. McGreary (Washington, DC: National Academy Press, 1990).

[7]D. Ginther, R. Haveman, and B. Wolfe, "Neighborhood Attributes as Determinants of Children's Outcomes: How Robust Are the Relationships?" *Journal of Human Resources* 35, no. 4 (Fall 2000): 603–62.

[8]C. Manski, "Identification of Endogenous Social Effects: The Reflection Problem," *Review of Economic Studies* 60 (1993): 531–42; Brock and Durlauf, "Interactions-Based Models."

[9]See, e.g., J. Rosenbaum, "Changing the Geography of Opportunity by Expanding Residential Choice: Lessons from the Gautreaux Program," *Housing Policy Debate* 6 (1995): 231–69.

[10]H. Ladd and J. Ludwig, "The Effects of MTO on Educational Opportunities in Baltimore: Early Evidence," Working Paper 25, Joint Center for Poverty Research, Northwestern University and University of Chicago, 1998.

[11]See D. Aaronson, "Using Sibling Data to Estimate the Impact of Neighborhoods on Children's Educational Outcomes," *Journal of Human Resources* 33 (1998): 915–46.

[12]S. Milgram, *Obedience to Authority* (New York: Harper and Row, 1974).

[13]S. Durlauf, "Associational Redistribution: A Defense," *Politics and Society* 24 (1996): 391–410.

[14]J. Heckman, A. Layne-Farrar, and P. Todd, "Does Measured School Quality Really Matter? An Examination of the Earnings-Quality Relationship," in *Does Money Matter?*, ed. G. Burtless (Washington, DC: Brookings Institution Press, 1996).

[15]See G. Loury, "Why Should We Care about Group Inequality?" *Social Philosophy and Policy* 5 (1987): 249–71 for a discussion.

What's next? Some reflections on the poverty conference

Poverty and race

Glenn C. Loury, Professor of Economics and Director of the Institute on Race and Social Division, Boston University

Of necessity, I bring an outsider's perspective to poverty research.[1] But although it is not a field to which I have contributed, as a student of inequality in American society I have been an avid consumer of this work for some time now. One thing is immediately apparent. The field has progressed impressively over the last 25 years—with better data, more sophisticated analytic methods, and a growing number of creative scholars working on the problems. We have witnessed the professionalization and institutionalization of research in this field in the years since the War on Poverty. On balance, this is surely a good thing. Yet my sense of the matter is that it is also a mixed blessing. I will say more on this point in due course.

Conceptual issues

Although some effort has obviously been taken to gather an interdisciplinary group of scholars, the balance is still heavily weighted in favor of econometric analysis. There is nothing wrong with rigorous statistical inference from quantitative data—this activity is indispensable. But I'm moved to ask: Where are the ethnographers, developmental psychologists, social philosophers, and political analysts? These are vitally important areas of scholarship bearing directly on the issues under discussion. There are some puzzles raised by the poverty data that can, in my opinion, only be illuminated with cross-disciplinary collaboration. I know that effective scholarly exchanges across disciplinary boundaries are not easy. But a difficult thing becomes impossible when it is not tried.

I stress this because, as I see it, we will need to look beyond the conceptual resources of economics and quantitative sociology if we are to make progress on some of the crucial outstanding issues. Why, for example, does couching some interventions explicitly in terms of religious faith seem to matter for their success? How does a group of people (like welfare recipients living in cities and belonging to racial minority groups) come to be stigmatized, and what effect does the prospect of such stigmatization have on their behavior and their well-being? Where do ideas about identity (who am I?) and about social identification (who is essentially like me?) come from, and what role is played by people's ideas in this regard to produce or to avert bad social outcomes? What can be said about the shaping of individual preferences—regarding work, sexuality and family formation, academic achievement, associational behaviors, and the like?

Social scientists have not made much progress toward answering such questions, but what progress there has been is the result mainly of qualitative investigations in the field. How can the insights from such qualitative inquiry be integrated with the knowledge produced from careful statistical analyses of nationally representative data sets? I urge that some consideration be given to this question at the next ingathering of poverty researchers. The sociologist George Farkas provides an apt illustration of the point I'm trying to make here.[2] Paraphrasing, Farkas argues as follows: Here is a young man to whom one says, "Why don't you marry the girl you got pregnant? Why don't you work in a fast-food restaurant instead of standing on the street corner hustling? Why don't you go to community college and learn how to run one of the machines in the hospital?" And his answer is not, "I have done my sums and the course you suggest has a negative net present value." Rather, his answer is, "Who, me?" He cannot see himself thus. Now, I ask, how are we to understand the people who answer us in this way? And, how can we achieve a satisfactory grasp of the nature of poverty in American society in the absence of such an understanding?

Another area where my theorist's sensibility cries out for greater clarification involves the construction of the very concept of "poverty" itself. A clear distinction between "poverty," "disadvantage," "inequality," and "social exclusion" is often not drawn. Measurement of poverty involves imposing a binary categorization (poor/not poor) upon a continuous, multidimensional flux of social experience. There are two parts to this problem: to define a measure of well-being, and to define what about the distribution of well-being is normatively salient. Despite the disappointing (to me, anyway) results of efforts by axiomatic social choice theorists to deduce poverty measures from more primitive postulates about social values, I am convinced that this remains an area much in need of theoretical work. More generally, I think that there are both normative and positive issues raised by the problem of poverty (that is, issues of *social values* and of *individual behavior*). I judge that the former warrant more attention.

Race and poverty research

As the director of an institute dedicated to the study of "race and social division" I would be remiss if I did not comment on this aspect of the poverty problem. Taking the papers presented at this conference as a whole, in table after table and regression after regression one encounters the disturbing evidence that racial differences in the experience of poverty are large, intractable, and poorly understood. Why are the extent, severity, and durability of impoverishment so much greater among blacks than whites, Hispanics than Asians? It is a failing of the poverty research tribe that so little can be said with confidence about this. I offer two thoughts on this problem.

The first deals with the concept of racial discrimination. In the early days, discussions of race and poverty in the United States often entailed some consideration of discrimination. As an historical practice, this is appropriate and understandable. My current view, however, is that a focus on the discriminatory treatment of individuals is no longer adequate. To illustrate my position, consider an elemental distinction between two kinds of behavior—what I'll call discrimination in *contract* and discrimination in *contact*.

By "discrimination in contract" I mean to invoke the unequal treatment of otherwise like persons based on race in the execution of formal transactions: the buying and selling of goods and services, or the interactions with organized bureaucracies, for instance. By contrast, "discrimination in contact" refers to the unequal treatment of persons on the basis of race in the associations and relationships that are formed among individuals in social life, including the choice of social intimates, neighbors, friends, heroes, and villains. It involves discrimination in the informal, private spheres of life.

An important difference is to be noted between these types of discrimination. Discrimination in contract occurs in settings over which a liberal state could, if it were to choose to do so, exercise review and restraint in pursuit of social justice. Precisely this has happened in the United States in the period since 1965, with significant if not complete success. Yet in any liberal political order some forms of discrimination in contact (marriage, residence, friendship networks, for instance) must remain a prerogative for autonomous individuals. Preserving the freedom of persons to practice this discrimination is essential to the maintenance of liberty, because the social exchanges from which such discrimination arises are so profoundly intimate and cut so closely to the core of our being.

However, and this is my key point, mechanisms of status transmission and social mobility depend critically upon the nature of social interactions in both spheres—that is, on the patterns of contact as well as on the rules of contract. The provision of resources fundamental to the development of human beings is mediated by formal and informal, by contractual and noncontractual social relations. I have in mind the roles played in the shaping of persons by the family, the social network, and (using the word advisedly) the "community." I am thinking about infant and early childhood development, and about adolescent peer group influences. I mean to provoke some reflection on how people come to hold the ideas they, in fact, do hold concerning who they are (their identities), which other persons are essentially like them (their social identifications), and what goals in life are worth striving toward (their ideals).

My fundamental empirical claim is this: In U.S. society, where of historical necessity patterns of social intercourse are structured by perceptions of race, it is inevitable that developmental processes operating at the individual level will also be conditioned by race. From this it follows that, in a racially divided society like the United States, fighting discrimination in the sphere of contract while leaving it untouched in the sphere of contact will generally be insufficient to produce basic equality of opportunity for all individuals. And yet a commitment to political liberalism would seem to require precisely this. Hence the dilemma, one that I believe is powerfully relevant to the study of racial disparities in the experience of poverty.

My second point has to do with the role of cultural explanations in accounting for racial disparities. I am deeply suspicious of the easy evocation of cultural arguments in this area, because these arguments typically neglect the crucial point that group identifications and racial self-understandings are endogenous. How are we to account for the ways in which, within a system of mutually susceptible individuals, each seeking approval or standing with the others, a normative type emerges that becomes the model for what "authentic" behavior represents within the (racial) group?

The "peer effect" models typically posit a gravity-type idea: the norm (for a race-, class-, or neighborhood-based group) is the mean or median behavior found within the group, toward which individuals are pulled, to some extent contrary to their individual inclinations. But why? These are human beings, not celestial bodies. Why should criminal behavior, early unwed pregnancy, or hours spent studying be driven by the mean or median action within a peer group, and not by the 90th or 10th percentile action? In other words, how does the group construct its notion of what constitutes a norm?

I think this centrist-focused approach may be quite far off, and that examples can be found where idealization of heroic, extreme behavior is more influential than "regression to mean" types of peer influence. For this reason, I am interested in how notions of stigma, shame, honor, and the rest arise as outcomes of intersubjective encounters amongst a group of people seeking to discover for themselves "who they really are," as individuals and collectively. And I am particularly concerned about such matters when the groups involved are defined in part on the basis of "race." Anyone who evokes notions like "black culture," "ghetto culture," or "underclass culture" in an effort to explain racial differences in poverty experience ought to be required to address such matters as well. ■

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[1]These remarks form part of rapporteur's comments by Professor Loury, presented at the IRP conference, Understanding Poverty in America: Progress and Problems, on May 22–24, 2000, in Madison, WI. The revised conference papers will be jointly published by Harvard University Press and the Russell Sage Foundation in a volume tentatively titled *Understanding Poverty: Progress and Prospects*.

[2]*Human Capital or Cultural Capital? Ethnicity and Poverty Groups in an Urban School District* (New York: A. de Gruyter, 1996).

What's next? Some reflections on the poverty conference

Poverty and children

Jane Waldfogel, Associate Professor of Social Work, Columbia University

Papers presented at the conference raise a number of issues that should receive more attention in future research on poverty and poverty policies.[1] Here I consider two that have particular salience for the study of child poverty: interactions between poverty and other forms of disadvantage, and some pathways by which poverty might affect child outcomes.

Interactions between poverty and other forms of disadvantage

Children who grow up in poverty fare worse than other children on a number of outcomes, for example, educational attainment and health. So also do children raised in mother-only families.[2] But are there interactions between poverty and other forms of disadvantage? Can we conjecture that children in single-parent families are especially vulnerable to the adverse effects of poverty, whereas children in two-parent families are buffered from those effects?

Drawing on data from the National Survey of Families and Households, Thomas Hanson and his colleagues found that the adverse effects of low income on child outcomes did differ according to family structure. The effects of poverty were larger for children in single-parent families on five outcome measures (school performance, grade point average, and three measures of behavioral problems), but were larger for children in two-parent families on three other measures of child well-being (sociability, initiative, and quality of life).[3]

A different pattern of interactions appears in the children of the National Longitudinal Survey of Youth. When I examined cognitive outcomes for children up to the age of 8, I found that the significant negative effect of growing up in poverty was no greater for children in single-parent families. There were, as expected, adverse effects of poverty on *behavioral problems* of young children, but these effects were smaller for children in single-mother families than two-parent families.

At this point, then, the evidence on our conjecture is mixed. Children in single-parent families may be more vulnerable on some outcomes, whereas children from two-parent families may be more vulnerable on others. Or the correlates of poverty may tend to be different in single-parent versus two-parent families. Poverty in two-parent families, for instance, may be more strongly associated with unemployment, whereas poverty in single-parent families may be more strongly associated with early childbearing. These differences, rather than differences in family structure per se, may account for the differential effects on outcomes.

Future research on the interaction of poverty with other types of disadvantage or risk factors might address whether the effects of growing up in poverty are different for:

- children living in poor neighborhoods, segregated neighborhoods, or neighborhoods low in social cohesion;[4]
- children from immigrant families, or children who do not speak English as their first language;
- children who attend poor-quality schools or who have learning disabilities;
- children who have chronic health conditions or limitations;
- children whose mothers work early in their childhood, or who experience poor-quality child care or multiple child care transitions.

If the effects of growing up in poverty are more pronounced for children experiencing other types of disadvantage or risk factors, these interactions have implications for our understanding of those effects and also for our thinking about remedial policies. If, for instance, the effects of growing up in poverty are more severe for children from particular groups, estimating these effects across all groups will lead us to underestimate the impacts for the more vulnerable children. Moreover, understanding which children are more vulnerable can help us to target policy interventions to them and to design interventions that more effectively address that vulnerability.

How poverty affects child outcomes

The question of how and why poverty matters for child outcomes is a hotly contested topic.[5] Some insights that come from the literature on poverty and child maltreatment are relevant.

Research has established that poor children, and children who live in poor communities, are more likely to be identified as abused or neglected and are more likely to be placed into foster care than nonpoor children and those living in nonpoor areas.[6] At least four hypotheses have been put forward to explain this:

1. Individuals who report families to the child welfare agency are biased and are more likely to report families if they are poor. If this hypothesis is true, we should see elevated rates of reports of *all types of maltreatment* among poor children.

2. Poor parents are under more stress and may therefore resort to harsher parenting. If so, we should see elevated rates of *physical abuse* among poor children.

3. Poor parents do not have the resources to provide adequate care for their children. If so, we should see elevated rates of *neglect* among poor children.

4. The connection between poverty and maltreatment is due to unobserved heterogeneity, i.e., there may be underlying problems, such as substance abuse or mental illness, that cause both the poverty and the abuse or neglect. Usually these underlying problems are thought to lead to parents' failure to provide appropriate care for (rather than actively maltreating) their children. Thus this hypothesis predicts that we should see elevated rates of reported *neglect* among poor children.

We do not yet have enough evidence to determine which hypotheses are valid. What we do have suggests that there is probably some truth to each, but that poverty in the United States is most strongly related to neglect.[7] Cross-country comparisons are also suggestive. The United States, which has a higher rate of child poverty than Canada or England, also has a much higher rate of child maltreatment, and this is due primarily to a higher rate of neglect (rates of physical and sexual abuse are not notably higher).[8]

Thus, it is probably the case that poor parents simply do not have the resources to provide adequate care for their children or are affected by some underlying condition that explains both the poverty and the neglect. Differentiating between these two hypotheses is difficult, but Christina Paxson and I recently found evidence that in states and years where welfare benefits are higher, fewer children are reported for neglect and fewer children are placed in foster care.[9] These results suggest that when it comes to neglect, money, and not just the unobserved characteristics of poor parents, may matter, since presumably the level of welfare benefits in a state and year are not determined by the unobserved characteristics of poor parents.

Focusing on how poverty affects children has implications both for our understanding of poverty and for the design of policy responses. If poverty is related to child neglect, then that connection may help us understand the processes by which poverty leads to other adverse outcomes for children, and that understanding in turn might help us design interventions to help ameliorate those outcomes. ■

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[1]These remarks form part of rapporteur's comments by Professor Jane Waldfogel, presented at the IRP conference, Understanding Poverty in America: Progress and Problems, on May 22–24, 2000, in Madison, WI. The revised conference papers will be jointly published by Harvard University Press and the Russell Sage Foundation in a volume tentatively titled *Understanding Poverty: Progress and Prospects*.

[2]G. Duncan and J. Brooks-Gunn (eds.), *Consequences of Growing Up Poor* (New York: Russell Sage Foundation, 1997); S. McLanahan and G. Sandefur, *Growing Up with a Single Parent: What Hurts, What Helps* (Cambridge, MA: Harvard University Press, 1994).

[3]T. Hanson, S. McLanahan, and E. Thomson, "Economic Resources, Parental Practices, and Children's Well-Being," in *Consequences of Growing Up Poor*, ed Duncan and Brooks-Gunn, pp. 190–238.

[4]See J. Yinger, "Housing Discrimination and Residential Segregation as Causes of Poverty," in this *Focus*.

[5]See M. Corcoran, "Mobility, Persistence, and the Intergenerational Determinants of Children's Success," in this *Focus*.

[6]See, for instance, L. Pelton, "Child Abuse and Neglect: The Myth of Classlessness," *American Journal of Orthopsychiatry* 48 (1978): 608–17; J. Garbarino and D. Sherman, "High-Risk Neighborhoods and High-Risk Families: The Human Ecology of Child Maltreatment," *Child Development* 51 (1980):188–98; J. Garbarino and K. Kostelny, "Child Maltreatment as a Community Problem," *Child Abuse and Neglect* 16 (1992): 455–64; D. Lindsey, *The Welfare of Children* (New York: Oxford University Press, 1994); C. Coulton, J. Korbin, M. Su, and J. Chow, "Community Level Factors and Child Maltreatment Rates," *Child Development* 66 (1995): 1262–76.

[7]See, for instance, R. Hampton and E. Newberger, "Child Abuse Incidence and Reporting by Hospitals: Significance of Severity, Class, and Race," *American Journal of Public Health* 75 (1985): 56–60; G. Zellman, "The Impact of Case Characteristics on Child Abuse Reporting Decisions," *Child Abuse and Neglect* 16 (1992): 57–74; P. Trickett, L. Aber, V. Carlson, and D. Cicchetti, "Relationship of Socioeconomic Status to the Etiology and Developmental Sequelae of Physical Child Abuse," *Developmental Psychology* 27 (1991):148–58; V. McLoyd, "The Impact of Economic Hardship on Black Families and Children: Psychological Distress, Parenting, and Socioemotional Development," *Child Development* 61 (1990): 311–46; J. Waldfogel, *The Future of Child Protection: How to Break the Cycle of Abuse and Neglect* (Cambridge, MA: Harvard University Press, 1998); C. Paxson and J. Waldfogel, "Parental Resources and Child Abuse and Neglect," *American Economic Review Papers and Proceedings*, May 1999, pp. 239–44, and "Work, Welfare, and Child Maltreatment," Working Paper no. 7343, National Bureau of Economic Research, 1999.

[8]Waldfogel, *Future of Child Protection.*

[9]Paxson and Waldfogel, "Work, Welfare, and Child Maltreatment."

What's the Internet got to do with it? Housing discrimination in the twenty-first century

David R. Harris, Assistant Professor of Sociology at the University of Michigan

In 1995 I accepted a position at the University of Michigan and began looking for a home. As an African American, I was concerned about facing racial discrimination in the housing market.[1] As a producer and consumer of research on residential segregation, I knew my concerns were justified.

Throughout the 1970s, 1980s, and early 1990s, numerous studies revealed substantial racial discrimination in the U.S. housing market. Some collected housing market data, checked for racial disparities, controlled for nonracial factors, and attributed residual race effects to discrimination.[2] Others interviewed blacks about their experiences in the housing market and took special note of reports of discrimination.[3] Yet a third group of researchers uncovered evidence of antiblack sentiment in the neighborhood preferences of whites, and used this to suggest that there were incentives for real estate agents, landlords, and lenders to discriminate.[4] A fourth body of work relied on housing audits.[5] The basic idea was that if auditors were matched on relevant nonracial traits, any differences between the treatment of white auditors and their black or Latino partners would be due to racial discrimination. Each of these studies has its own particular strengths and weaknesses, but together they present compelling evidence that, in the mid-1990s, blacks and Latinos were less likely than comparable whites to be shown homes in thriving neighborhoods, less likely to be treated with respect by housing agents, and less likely to be approved for mortgages.

Recently I again entered the housing market. Doing so has reminded me of the many unpleasant aspects of home-buying, but it has not aroused my earlier concerns about racial discrimination. It is not that I think real estate agents have stopped discriminating against blacks, or even that my improved economic status now protects me from discrimination; rather, my expectation that racial discrimination will play a smaller role in my current search reflects my belief that existing research on housing discrimination is losing its relevance.

At issue is the technological revolution that is sweeping American society and the fundamental ways that it is changing how people find housing. Whereas in 1995 I obtained nearly all of my information about housing, neighborhoods, and mortgages from real estate professionals, I now make little use of these sources. Instead, I use the Internet to get detailed information about neighborhoods, search and tour homes, review the prices of recently sold homes, apply for a mortgage, obtain homeowners' insurance, and communicate with real estate agents and lenders. Moreover, because none of these sites ever ask for my race, either explicitly or implicitly, searching for a home in cyberspace grants me immunity from racial discrimination. Of course at some point I do meet with real estate agents, but even then there is less discrimination than there would be if I had not used the Internet. In some cases the agent and I have already established a relationship through e-mail—which reduces the motivation to discriminate—and before all face-to-face meetings I have already gathered much of the information that agents have traditionally provided—which limits the opportunity to discriminate.

This relationship between technology and housing discrimination is all the more important because evidence suggests that the Internet is playing an increasingly prominent role in the housing market. There are numerous sites that list homes for sale—one boasts that its database includes more than 1.3 million properties, and some metropolitan areas have put their entire multiple listing service online. According to a recent study, nearly two-thirds of real estate agents now use the Internet to supply potential buyers with information and to cultivate new business.[6] In addition, most mortgage lenders have taken their business on the Internet, and many now accept online loan applications. This combination of abundant information, extreme convenience, and free web sites has made the Internet an increasingly popular tool for many home buyers. A recent survey found that 37 percent of people who purchased a home in 1999 used the Internet to assist with some aspect of their search.[7]

All of this should be good news for those who worry about racial inequality in general, and housing discrimination in particular. I nevertheless fear that this change in how the housing market operates will have negative consequences for blacks and Latinos, despite the potential for gains from this marriage between technology and real estate. The problem is that there are significant racial differentials in Internet access. In its most recent annual report on the "digital divide," the National Telecommunications and Information Administration finds that Internet usage is growing rapidly among U.S. households, up from 26.2 to 41.5 percent between 1998 and 2000.[8] The report also finds that Internet access is unevenly distributed. Less than 20 percent of households with an annual income below $20,000 use the Internet, compared to almost 80 percent of households with an annual income greater than $75,000. In addition to a digital divide by class, the report presents evidence of a digital divide by race and ethnicity (Figure 1). Whereas over 45 percent of Asian and white households use the Internet, fewer than 25 percent of African-American and Latino households are online. Finally, the report also suggests that there is an interaction between the racial and economic digital divides. Internet usage is somewhat more similar among households with similar incomes, but racial differences persist within income categories, especially among less affluent households (Figure 2).

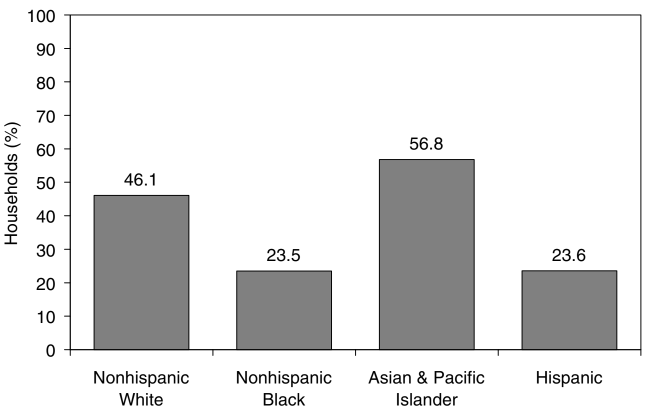

Figure 1. U.S. households using the Internet, by race and ethnicity, 2000.

Source: National Telecommunications and Information Administration, *Falling Through the Net: Toward Digital Inclusion* (Washington, DC: NTIA, 2000), Figure I-10.

As a result of the digital divide, the benefits afforded whites by discriminatory real estate agents and lenders are compounded by the information advantage whites gain from the Internet. Rather than leveling the playing field, the Internet and the digital divide are making it even more difficult for many African Americans and Latinos to realize their housing dreams. Given the increasing prominence of the Internet in the housing market, the racial digital divide, and the absence of both in discussions of housing discrimination, researchers and policymakers should make understanding these issues and their implications a top priority.

From a policy perspective, a principal goal should be to find ways to close the digital divide. This effort is already underway in the form of a partnership between government agencies, technology companies, and consumer advocates (www.digitaldivide.gov). Although this initiative and the narrowing of the digital divide over the past two years are both encouraging signs, the magnitude of the remaining gap suggests that more needs to be done. A second goal should be to educate blacks and Latinos about the increasing role that the Internet can play in the home-buying process. If we can achieve these goals, the technological revolution might help eliminate some of the subtle forms of racial discrimination that persist in the housing market and have proven immune to traditional antidiscrimination efforts. If our efforts are unsuccessful and the digital divide remains, many blacks and Latinos will find the housing market of the twenty-first century even more hostile than the market described in existing research. ■

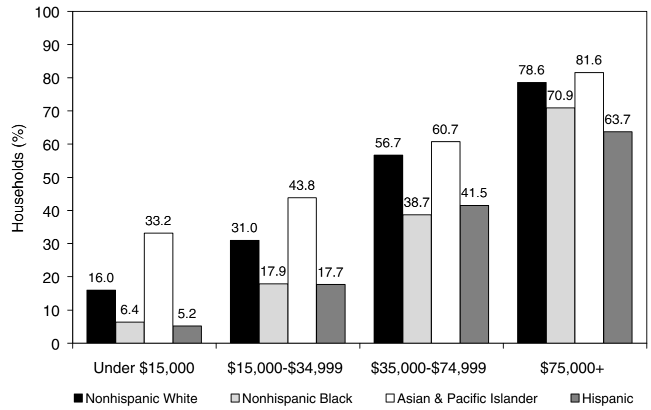

Figure 2. U.S. households using the Internet, by annual income, race, and ethnicity, 2000.

Source: National Telecommunications and Information Administration, *Falling Through the Net: Toward Digital Inclusion* (Washington, DC: NTIA, 2000), Figure A-11.

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[1]These remarks are based upon comments presented at the IRP conference, Understanding Poverty in America: Progress and Problems, on May 22–24, 2000, in Madison, WI. The revised conference papers will be jointly published by Harvard University Press and the Russell Sage Foundation in a volume tentatively titled *Understanding Poverty: Progress and Prospects*.

[2]A. Munnell, G. Tootell, L. Browne, and J. McEneaney, "Mortgage Lending in Boston: Interpreting HMDA Data." *American Economic Review* 86, no. 1 (March 1996): 25–53.

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[4]L. Bobo and C. Zubrinsky, "Attitudes on Residential Integration: Perceived Status Differences, Mere In-Group Preference, or Racial Prejudice," *Social Forces* 74 (1996): 883–909; R. Farley, H. Schuman, S. Bianchi, D. Colasanto, and S. Hatchett, "'Chocolate City, Vanilla Suburbs': Will the Trend Toward Racially Separate Communities Continue?" *Social Science Research* 7 (1978): 319–44.

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[6]F. Pafenberg and K. Roth, "Realtors and the Internet: The Impact of On-line Technologies on the Real Estate Industry," Report of the National Association of Realtors, 1999. < http://www.onerealtorplace.com/online.nsf >

[7]K. Roth, *The 2000 National Association of Realtors Profile of Home Buyers and Sellers.* Report of the National Association of Realtors, 2000. < http://www.nar.realtor.com/research/images/668prof.pdf >

[8]National Telecommunications and Information Administration, *Falling Through the Net: Toward Digital Inclusion* (Washington, DC: NTIA, 2000). < http://digitaldivide.gov/reports.htm >

Using measures of material hardship to assess well-being

Sondra G. Beverly

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Measures of material hardship identify individuals who do not consume minimal levels of very basic goods and services such as food, housing, clothing, and medical care. In recent years, American scholars have begun to supplement traditional measures of income poverty with hardship measures. For example, researchers have created point-in-time estimates of hardship, described trends in hardship, identified the predictors of hardship, and used hardship indicators to evaluate welfare reform.[1]

There are a number of reasons to be concerned about hardship. First are fundamental normative reasons. Partha Dasgupta suggests that material deprivation destroys positive freedom, that is, "our ability to undertake motivated activities and to exercise our realized capacities."[2] Second, individuals are more likely to be "productive," in a broad sense, when nutritional, health, and shelter needs are met. Third, hardship measures, unlike measures of income poverty, acknowledge that living conditions are shaped by much more than current income and family composition. For example, families may receive in-kind transfers or may purchase goods and services with savings or credit. They also face substantially different cost-of-living, out-of-pocket health care, and child care expenditures.

Hardship measures are important tools for policy analysis. Over the past 25 years, the proportion of means-tested benefits received in the form of cash has decreased, while the proportion received as in-kind benefits has increased.[3] However, federal and state governments have only occasionally engaged in systematic efforts to monitor food-, health-, or housing-related hardship. Because existing measures of economic and material well-being are not consistent with public policy interventions, it is difficult to assess the impact of these transfers accurately.[4] This situation has become increasingly problematic since the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

Still, hardship measures have several disadvantages. These measures do not reveal *how* people obtain basic goods and services, and thus they do not count as poor those who avoid hardship through begging, stealing, or taking on debt. They are also vulnerable to criticism on the ground that they do not identify the causes of hardship and thus may be measuring preferences. Households may consume low levels of particular goods and services because they value other outcomes.[5] Finally, there is currently no consensus regarding the definition and measurement of material hardship. What forms of consumption should be included—for example, should telephones and automobiles be viewed as necessities? Within each chosen consumption category, what standards of measurement should we use to determine whether housing or food intake is "adequate"? Who should assess these conditions, "experts" or individual survey respondents?

A systematic effort to improve measures of material hardship is clearly necessary.[6] But until better measures are created, it is possible to make use of available hardship data. This article offers specific recommendations for using existing measures of material hardship.

Existing indicators of material hardship

Two nationally representative surveys collect data on multiple forms of material hardship: the Survey of Income and Program Participation (SIPP), administered by the U.S. Census Bureau, and the National Survey of America's Families (NSAF), administered by the Urban Institute in partnership with Child Trends. These surveys ask about food insufficiency, housing problems, household crowding, eviction (or difficulty making housing payments), utility disconnection (or difficulty making utility payments), telephone disconnection, medical need, and lack of access to vehicles and other consumer durables.[7] Hardship data from the SIPP are (or will be) available for 1992, 1995, and 1998, with a few exceptions.[8] Hardship data from the NSAF are (or will be) available for 1997 and 1999. Table 1 lists many of the hardship questions available in these surveys.

In addition to these national surveys, state and city surveys designed to evaluate welfare reform often include hardship questions.[9] In some cases, these questions are identical to questions included in the SIPP or the NSAF; in others, they are modified versions. A fairly common question regarding medical need, for example, is: "Was somebody in your home sick or hurt when you could not afford to get medical care?" State and city surveys often ask about hardship experiences that the SIPP and the NSAF do not. For example, several state surveys asked if families ever had to go to a homeless shelter.

Using existing hardship indicators

Ideally, we should choose hardship indicators for which consistency between the measure and some external criterion has been empirically demonstrated. Such assess-

Table 1
Selected Hardship-Related Questions in the Survey of Income and Program Participation and the National Survey of America's Families

	SIPP	NSAF
Food Insufficiency	Which statement best describes the food eaten in your household in the last four months? (Enough of the kinds of food we want; Enough but not always the kinds of food we want to eat; Sometimes not enough to eat; Often not enough to eat) Thinking about the past month, how many days did your household have no food or money (or food stamps) to buy food? About how much did your household fall short on its food budget last month?	We worried whether our food would run out before we got money to buy more. (Often true, sometimes true, never true) The food that we bought just didn't last, and we didn't have money to get any more. (Often true, sometimes true, never true) Did you or other adults in your family ever cut the size of your meals or skip meals because there wasn't enough money for food? How often did this happen? (Almost every month; Some months but not every month; Only 1 or 2 months)
Housing Problems	Are any of the following conditions present in this home? (A leaking roof or ceiling; A toilet, hot water heater, or other plumbing that doesn't work; Broken windows; Exposed electrical wires; Rats, mice, roaches, or other insects; Holes in floor; Open cracks or holes in the walls or ceiling)	
Household Crowding	How many rooms are there in your home? Count the kitchen but do not count the bathrooms.	How many bedrooms are there in your home?
Eviction/ Difficulty Paying Rent or Mortgage	Has there been a time when your household did not pay the full amount of the rent or mortgage? Has there been a time when your household was evicted from your home/apartment for not paying the rent or mortgage?	Was there a time when you and your family were not able to pay your mortgage, rent or utility bills? Did you or your children move in with other people even for a little while because you could not afford to pay your mortgage, rent or utility bills?
Utility Disconnection/ Difficulty Paying Utility Bills	Has there been a time when your household did not pay the full amount of the gas, oil, or electricity bills? Has there been a time when your household had service turned off by the gas or electric company?	See above
Telephone Disconnection	Has there been a time when your household had service disconnected by the telephone company because payments were not made?	Has your household ever been without telephone service for more than 24 hours? What was the total amount of time your household was without telephone service for more than 24 hours?
Medical Need	Has there been a time when you had someone in your household who needed to see a doctor or go to the hospital but didn't go? Has there been a time when you had someone in your household who needed to see a dentist but didn't go?	Did any family member not get or postpone getting (medical care or surgery; dental care; mental health care) when they needed it? Did any family member not fill or postpone filling a prescription for drugs when they needed them? What was the main reason they did not get (care; prescription drugs)? (Open-ended questions)
Lack of Vehicle Access	Does anyone in this household own a car, van, or truck? What is the year, make, and model of this (these) vehicle(s)?	Does anyone in your family own a car or other vehicle?
Lack of Access to Other Consumer Durables	Which of the following items do you currently have in your home (or building) that are in working condition? (Washing machine; Clothes dryer; Dish washer; Refrigerator; Food freezer; Color television; Gas or electric stove; Microwave oven; Videocassette recorder; Air conditioner; Personal computer; Telephone)	

Note: Unless written in the present tense or otherwise noted, questions refer to the previous 12 months.

ments have rarely been conducted, so we must rely on cruder standards. At a minimum, we seek indicators that have "face validity" (i.e., they appear to measure what they are supposed to measure) and that are based on unambiguous, unbiased questions. For economic and cultural reasons, hardship indicators may be more or less valid in particular populations, and we must look for those that are appropriate to the population in which we are interested. Below, I discuss some common indicators for each of the domains identified in Table 1.

Food insufficiency

The first food-insufficiency question included in the SIPP is typically coded dichotomously. Households that report sometimes or often not having enough to eat are considered "food insufficient", and households in the other two categories are considered "food sufficient." Unlike most of the commonly used hardship indicators, this indicator has been subjected to empirical tests of validity. Several studies have shown that usual food expenditures and the intake of calories and several nutrient groups are lower in food-insufficient households than in food-sufficient households.[10] The food-insufficiency indicators in the NSAF (and many of the food-insufficiency questions included in city and state surveys) were taken from the U.S. Department of Agriculture's "food security" measure. The 18-item food security measure has been shown to be valid, and a six-item "short form" has been shown to be a reasonably reliable substitute.[11] Still, more research may be needed to assess the reliability and validity of the four indicators included in the NSAF, because they are used independently from the other questionnaire items.

Housing problems

In past research, housing problems have been defined as the presence of two or more of six or seven conditions resembling those in the SIPP.[12] This measure may be a poor indicator of hardship if survey questions do not specify how severe a condition should be in order to be considered a "hardship." In the 1992 SIPP survey, higher-income individuals were fairly likely to report rodents or insects, a leaking roof, and broken windows, suggesting that some respondents were reporting "inconveniences" (e.g., ants in the kitchen, a window that wouldn't open) rather than genuine hardships (e.g., rats, a broken window pane).[13] Using these survey questions may cause researchers to overestimate the prevalence of hardship.

There are at least two ways to decrease the incidence of such "false positives." Researchers might choose not to use indicators that are fairly common in higher-income households. Or, when creating a housing problems index, they might choose a more stringent threshold by defining housing problems, say, as the presence of three or more conditions. Both methods might, of course, increase the incidence of "false negatives." Consideration of the consequences of both errors should provide some guidance.

Household crowding

There are two common definitions of household crowding. The first (available in the SIPP) defines a household as overcrowded when the person-to-rooms ratio is greater than one. This indicator does not take into account the size of rooms, the age and sex of household members, or economies of scale associated with living space.[14] Empirical data suggest that the measure does not capture genuine hardship: in a mid-1980s survey of Chicago households, household crowding was not significantly related to satisfaction with living standards.[15] The second definition (available in the NSAF) says that overcrowding exists when a household has more than two persons per bedroom. This definition does not consider the size of rooms or the age and sex of household members but does, to some extent, adjust for economies of scale.

Eviction and utility disconnection

With regard to eviction and utility disconnection, there is a conceptual distinction between material and financial hardship. It is possible to argue that measures of material hardship assess actual consumption whereas measures of financial hardship assess potential consumption. If these propositions are true then households can experience financial hardship without experiencing material hardship. Households that do not pay the full amount of their rent, mortgage, or utility bills, or those that pay more than one-third of household income for housing, are certainly vulnerable to material hardship but are not necessarily experiencing it.

The second NSAF question regarding housing and utility payments—"Did you or your children move in with other people even for a little while because you could not afford to pay your mortgage, rent or utility bills?"—is somewhat difficult to classify. Some may argue that this variable captures material hardship in the form of housing instability; others may argue that moving in with others is a strategy to avoid hardship, rather than a hardship per se. Researchers should clarify their interpretation of this variable before using it.

Finally, the two SIPP questions on utility disconnection might best be combined in analysis, so that researchers are more likely to identify households that experienced utility disconnections *because of unpaid bills*.

Telephone disconnection

Telephones are a key method of communication in contemporary American society. Although some analysts do not consider them to be "necessities," Kathryn Edin and Laura Lein found that a substantial number of low-income single mothers were willing to experience a food shortage or a gas or electric disconnection in order to maintain telephone service.[16] SIPP users who believe that lack of telephone service is a genuine material hardship have the option of combining two indicators in order to identify those whose service was disconnected *or* who did not own a telephone at the time of the interview. Cross-tabulations of 1992 SIPP data show that 46 percent of those identified as having phone-related hardship by this more comprehensive indicator were not captured by the disconnection indicator alone.[17]

Medical need

The most common indicators of medical need, including the SIPP and NSAF questions, are especially vulnerable to the criticism that they are subjective, because respondents determine whether medical or dental care was "needed." However, as Susan Mayer and Christopher Jencks argue, "not being able to consult a doctor when you think you are sick constitutes a hardship regardless of whether the doctor could actually help you. Indeed, one major reason for consulting doctors is to determine that 'it's nothing serious.'"[18] For stricter definitions of medical need, these indicators can be combined with other data. For example, it is almost always possible to identify those who did not receive care *and* who lacked health insurance coverage, because most surveys that collect hardship data also ask about health insurance coverage.

Some researchers have defined the lack of health insurance, in and of itself, as a material hardship. It is not clear, however, that this is a good material hardship indicator.[19] Although being uninsured certainly poses some risk, it does not constitute a true hardship for healthy individuals. Nor does having insurance necessarily imply that one can access needed medical and dental care. Insured individuals may not seek care if out-of-pocket expenditures are too high; those covered by Medicaid may find it difficult to access care because of Medicaid restrictions or because physicians refuse to treat Medicaid patients. People living in areas with few doctors and dentists face barriers to access—for example, transportation costs—not captured by health insurance coverage.

Lack of access to vehicles and other consumer durables

Most surveys that ask hardship-related questions inquire about vehicle ownership or access. The SIPP also asks about access to several other consumer durables, only some of which would normally be considered "necessities." When deciding whether these survey items capture true material hardship, researchers should consider the population of interest. For example, lack of access to a vehicle may be a useful measure of material hardship if there is no convenient and reliable public transportation.

Creating hardship indices

Although individual hardship indicators are useful because they identify specific hardship experiences, hardship indices also provide important information. In fact, estimates based on single measures are likely to underestimate the extent of material hardship because families allocate resources differently. In difficult times, some families will reduce their expenditures on food, others will choose to move to less desirable housing, and others will give up health insurance.

Hardship indices can also capture the degree of material hardship even if the composite indicators are dichotomous. For example, a simple summative index identifies the number of hardships a household is experiencing, and we might conclude that a family with multiple hardships is worse off than a family with only one. The practice of creating composite measures, however, is not a simple enterprise. There are at least four key tasks.

First, component indicators must be selected. This task is not necessarily straightforward. Researchers must, for example, decide when it is appropriate to combine dissimilar indicators. There are reasons to be cautious about combining measures of material hardship with other measures such as those that capture financial hardship. There are also reasons to be cautious about combining subjective and objective indicators of hardship. Some surveys ask individuals how they *evaluate* the basic goods and services to which they have access. For example, SIPP respondents are asked to rate the general state of repair of their homes and the amount of space in their homes on a scale from 1 to 10. They are also asked whether conditions in their homes are undesirable enough that they would like to move. Because satisfaction is shaped by experience, these indicators should arguably not be used as proxies for, or even combined with, more objective hardship indicators.[20] In addition, if *similar* indicators are included in a hardship index, researchers may double-count a single hardship. For example, it often does not make sense to count a late or missed utility payment and a utility disconnection as two separate hardships.

The second and third tasks associated with creating a hardship index are to select a common scale so that indicators may be combined and to choose a weighting scheme. Most researchers have simply summed several dichotomous indicators. These indices are simple to compute and have intuitive interpretations, but dichotomizing ordinal or continuous measures results in a loss of information.[21] Perhaps more significant, simple summative indices imply that each hardship is equally important, that experiencing a food shortage, for example, is no better or worse than having one's phone disconnected. We need to develop indices that weight component indicators according to "severity" or some other criterion. In the meantime, scholars should use hardship indices only when they are confident that the advantages outweigh these disadvantages.

The fourth task is to choose a threshold value above which individuals are defined as experiencing material hardship. In most cases, there is no best way to do this, and different stakeholders are likely to prefer different thresholds. Researchers could consider using two or more indices, each with a different threshold value, for example, identifying individuals who experience at least one of six hardships and those who experience at least two of six hardships.

Although American scholars and policymakers have defined poverty almost exclusively in terms of current income, economic poverty is clearly multidimensional. The expanding body of hardship data and the increasing use of hardship indicators are positive developments, but researchers need to be aware of the strengths and weaknesses of existing indicators and indices. In the future, researchers, policymakers, and advocates for disadvantaged groups could work together to improve measures of material hardship. In the meantime, if researchers make thoughtful measurement decisions, existing material hardship data can provide important information regarding well-being. ■

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[1]Point-in-time estimates of hardship are discussed in K. Bauman, *Extended Measures of Well-Being: Meeting Basic Needs, 1995*, Report P70-67, U.S. Census Bureau Washington, DC, 1999, and in M. Federman, T. Garner, K. Short, W. Cutter IV, J. Kiely, and others, "What Does It Mean to Be Poor in America?" *Monthly Labor Review* 119, no. 5 (1996): 3–17. On trends in hardship, see, e.g., S. Mayer and C. Jencks, "Recent Trends in Economic Inequality in the United States: Income Versus Expenditures Versus Material Well-Being," 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), pp. 121–203. Predictors of hardship are considered in K. Edin and L. Lein, *Making Ends Meet: How Single Mothers Survive Welfare and Low-Wage Work* (New York: Russell Sage Foundation, 1997). Hardship indicators are used to evaluate welfare reform in, e.g., S. Danziger, M. Corcoran, S. K. Danziger, and C. Heflin, "Work, Income and Material Hardship after Welfare Reform," *Journal of Consumer Affairs* 34, no. 1 (2000): 6–30; P. Loprest, *How Families That Left Welfare Are Doing: A National Picture* (No. B-1). Urban Institute, Washington, DC, 1999; and A. Sherman, C. Amey, B. Duffield, N. Ebb, and D. Weinstein, *Welfare to What? Early Findings on Family Hardship and Well-Being* (Washington, DC: Children's Defense Fund and National Coalition for the Homeless, 1998).

[2]P. Dasgupta, *An Inquiry into Well-Being and Destitution* (Oxford: Clarendon Press, 1993), p. 43.

[3]In the early 1960s, less than 20 percent of public means-tested benefits was transferred to low-income individuals in the form of in-kind benefits. In the early 1990s, the comparable figure was greater than 70 percent ("Improving the Measurement of American Poverty," *Focus*, 19, no. 2 [Spring 1998]: 2–5). However, recent expansions of the federal Earned Income Tax Credit have once again increased the proportion of cash benefits.

[4]R. Blank, *It Takes a Nation: A New Agenda for Fighting Poverty* (New York: Russell Sage Foundation, 1997); S. Mayer and C. Jencks, "Poverty and the Distribution of Material Hardship," *Journal of Human Resources* 24, no. 1 (1989), 88–113.

[5]Although measures of hardship may be confounded by differences in preferences, the causal relationship between the two may be overstated. If hardship measures reflect very basic consumption standards, then it is fairly unlikely that preferences will "cause" hardship, unless households are already quite vulnerable.

[6]S. Beverly, "Measures of Material Hardship: Rationale and Recommendations," *Journal of Poverty*, 5, no. 1 (forthcoming, 2001) provides specific recommendations for improving hardship measures.

[7]The American Housing Survey, administered by the U.S. Department of Housing and Urban Development and the U.S. Census Bureau, also collects data on housing problems, household crowding, telephone disconnection, and vehicle access.

[8]Data on housing problems, household crowding, and access to other consumer durables are not available for 1995. Data on vehicle access are available for 1986–89 and 1991–present. Data for 1992 come from the 1991 and 1992 panels. Data for 1995 come from the 1993 panel. Data for 1998 will come from the 1996 panel.

[9]The Office of the Assistant Secretary for Planning and Evaluation in the U.S. Department of Health and Human Services maintains an on-line library of surveys used by its grantees. < http://www.aspe.hhs.gov/hsp/leavers99/library.htm >

[10]See, e.g., S. Cristofar and P. Basiotis, "Dietary Intakes and Selected Characteristics of Women Ages 19–50 and Their Children Ages 1–5 Years by Reported Perception of Food Sufficiency," *Journal of Nutrition Education* 24, no. 2 (1992): 53–58; D. Rose and V. Oliveira, *Validation of a Self-Reported Measure of Household Food Insufficiency with Nutrient Intake Data*, Technical Bulletin No. 1863, Economic Research Service, U.S. Department of Agriculture, Washington, DC, 1997.

[11]W. Hamilton, J. Cook, W. Thompson, L. Buron, E. Frongillo, and others, *Household Food Security in the United States in 1995: Summary Report of the Food Security Measurement Project*, Food and Consumer Service, U.S. Department of Agriculture, Washington, DC, 1997.

[12]Edin and Lein, *Making Ends Meet*; Mayer and Jencks, "Poverty and the Distribution of Material Hardship."

[13]See S. Beverly, "Economic Poverty Reconsidered: Material Hardship and Income-Poverty in the United States," unpublished doctoral dissertation, Washington University, St. Louis, MO, 1999. Although income and hardship are not perfectly correlated, it is reasonable to expect genuine hardship to be relatively rare in higher-income households.

[14]Large households probably need fewer rooms per person than small households. For example, two adults and one child need two bedrooms and a kitchen/living room. For two adults and four children, three bedrooms, a kitchen, and a living room may be adequate.

[15]Mayer and Jencks, "Poverty and the Distribution of Material Hardship."

[16]*Making Ends Meet*, p. 57.

[17]Beverly, "Economic Poverty Reconsidered."

[18]Mayer and Jencks, "Poverty and the Distribution of Material Hardship," (quotation, p. 98). In their study of Chicago households, Mayer and Jencks reinterviewed participants who answered yes to a very similar question and concluded that this indicator generally did capture genuine medical hardship.

[19]See, e.g., Edin and Lein, *Making Ends Meet*; Mayer and Jencks, "Poverty and the Distribution of Material Hardship."

[20]As Amartya Sen suggests, "a person who is ill-fed, undernourished, unsheltered and ill can still be high up in the scale of happiness or desire-fulfilment if he or she has learned to have 'realistic' desires and to take pleasure in small mercies," *Commodities and Capabilities* (Amsterdam: North-Holland Publishing Co.,1985), p. 21.

[21]For example, when we define food-insufficient households as those which sometimes or often do not have enough to eat, we lose the distinction between sometimes not having enough to eat and often not having enough to eat.

IRP Minority Scholars, 2000: Research Projects

In 2000, young researchers selected as IRP Minority Scholars came to UW–Madison for one- to two-week visits during which they gave seminars, worked on their own projects, and conferred with an IRP adviser and other faculty affiliates. Here they give brief reports about the research projects that their seminars presented.

Poverty in the family: Siblings of the black and white middle classes

Mary Pattillo-McCoy

Middle-class blacks lag behind their white counterparts in numerous domains. Middle-class African Americans are more likely to be lower middle class in both occupational status and income. Middle-class blacks and whites reside in unequal neighborhood environments; the former live with higher poverty rates, higher unemployment, more people on welfare, more high school dropouts, and more crime. Finally, the black middle class is at an extreme wealth disadvantage when compared to whites. The theme in these findings is that middle-class blacks remain ideologically, economically, and socially tied to the black poor. One area that has received little attention is the family of these groups. My research (with Colleen M. Heflin, University of Michigan) investigates "'poverty in the family'" of middle-class blacks and whites.

Much of the urban poverty literature emphasizes social isolation of poor African Americans due, in part, to the outmigration of the black middle class. The literature stresses geographic outmigration, but suggests social distance between poor and nonpoor African Americans as well. However, my ethnographic research in Groveland, a black middle-class neighborhood in Chicago, documents cross-class connections in black neighborhoods and within black families (published in *Black Picket Fences*, University of Chicago Press, 1999). Consider the words of one neighborhood resident:

> Just think about the welfare reform. Just think about your family. Those people that are gonna be hurt by it, they' re gonna come to their family first for support. And how much support can you give? So I think that people 're gonna have to wake up to that. Black people especially.

In her final words, this resident makes a basic assumption that the family members of middle-class African Americans like herself are more likely to be economically needy than the family members of middle-class whites. To test this hypothesis, we use sibling data from the 1994 wave of the National Longitudinal Survey of Youth. We characterize the siblings of middle-class blacks and whites and test for racial differences in the probability of having a poor sibling.

Bivariate analyses of three middle-class samples (middle-income, white-collar, and college-educated) show that middle-class blacks are more than three times as likely as middle-class whites to have a poor sibling. Also, blacks' siblings fare significantly worse than whites' siblings in income, educational attainment, public assistance receipt, employment, occupational status, and family composition. One in four middle-class blacks has a poor sibling compared to approximately one in twelve middle-class whites. College-educated blacks and whites are overall less likely to have poor siblings, but the racial disparity persists.

In the multivariate analyses, we find that having been poor as an adolescent doubles the probability of having a poor sibling, regardless of race. Since middle-class blacks were four times as likely as whites to have been poor, we conclude that the recency of the black middle class strongly contributes to the higher likelihood of having a poor sibling. However, with various individual and family-background controls, middle-class blacks are still twice as likely to have a poor sibling as middle-class whites.

Why does sibling poverty matter? The well-being of extended kin (in our study, siblings) is important because of the material and psychological strain that needy family members can pose, as well as the presence or absence of certain forms of capital. Not only can a poor sibling translate into particular demands on the resources of middle-class blacks and whites (as argued by the Groveland resident quoted above), there is also the simple exposure to the stresses of living in poverty for middle-class adults and their children. Also, a poor sibling is much less likely to be able to provide support for a middle-class sibling who is undergoing his/her own period of economic stress. For example, a poor sibling is unlikely to be able to provide job or educational contacts for sisters and brothers or nieces and nephews. Thus, racial differences in family contexts signal possible differences in pressures to support economically marginal kin, in the presence or absence of positive and negative influences on middle-class youth, and in the larger pool of financial, cultural, or social resources available to black and white middle-class families.

In future research, we intend to explore how different family contexts might affect outcomes such as wealth accumulation and children's educational development.

We are also exploring other data sets, including the National Survey of Family and Households (NSFH), housed at the University of Wisconsin–Madison. Although the NSFH does not query siblings, it does have valuable information provided by parents on various outcomes for all of their children. One variable of particular interest is children's involvement in the criminal justice system. The very high and growing incarceration rates of African Americans suggest that middle-class blacks are more likely than whites to have a family member in jail, which again may affect their own socioemotional well-being or that of their children. Overall, this research agenda extends the literature on racial disparities among the middle class in neighborhoods, occupations, and wealth to illustrate a similar fragility of the black middle class within families.

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Family environment and adolescent sexual debut in alternative household structures

Mignon R. Moore

This study is part of a larger research agenda designed to increase our understanding of the interactions between family and community environment as they relate to problem behavior for adolescents living outside of two-biological-parent families. The study examines the relationship between family structure, parenting behaviors, and sexual onset for black and white youth in alternative two-parent and single-parent households. Early sexual debut, meaning first intercourse at or before age 16, is considered a problem behavior because younger adolescents are less likely to use condoms or other contraceptives and because longer durations of sexual activity increase the likelihood of sexual disease transmission, adolescent pregnancy, and parenthood. Although the risk of early intercourse is lowest for teens living with two married, biological parents, we know less about the relationship between family structure and sexual debut for adolescents in other two-parent households. Moreover, high levels of parental social support and discipline may also influence the decision to initiate sex, but not much is known about their relationship to sexual debut, nor how parenting from father-figures interacts with family structure to affect the behavior of young people. Finally, there has been little comparative work examining the extent to which family structure and process differentially affect the sexual activity of black and white youth.

The study uses data from the first wave of the National Longitudinal Study of Youth 1997 (NLSY97) to advance the literature in three ways. First, the NLSY97 allows us to examine a more complete representation of families, including divorced and remarried households—family types most often used in research—as well as household structures that have become more common in society, such as cohabiting families, first-marriage stepfamilies,[1] and never married, single-mother households. Second, this research tests the importance of mothers' and fathers' social support and discipline as mediators of family structure, understanding that the effects of fathers' parenting on sexual debut are likely to vary by the way in which a parent enters the family (i.e., as a stepfather or as a mother's cohabiting partner). Third, the study provides pooled and separate estimates by race to examine whether family structures operate in different ways for black and white youth.

In multivariate analyses the logistic regressions for whites show that, compared to living with two biological parents, the risk of early sexual debut is significantly greater for youth in every alternative family structure except the first-marriage stepfamily. The risk of early sexual onset is significantly lower in first-marriage stepfamilies when compared to the risk in remarried and cohabiting households. Interactions with fathers' support and discipline show that, among white families, firm and supportive parenting increases the odds of early debut when received from a male cohabitor or stepfather in a remarried household, and decreases those odds when received from a biological father or a father in a first-marriage stepfamily. This suggests that firm and supportive parenting in first-marriage stepfamilies may operate in a protective way, similar to parenting received from biological fathers in traditional two-parent households, and different from parenting received from stepfathers in remarried families.

Analyses for blacks reveal a different relationship between family structure and adolescent sexual onset. Compared to those in households with two biological parents, youth who live in never-married or maritally disrupted single-mother households have a significantly higher odds of sexual debut. However, none of the alternative two-parent families predicts a risk of sexual onset that is significantly different from that in two-biological-parent families. In addition, the findings suggest that high levels of support from fathers in two-parent households may be protective, regardless of family type.

We know that early sexual onset places youth at risk for a variety of unhealthy outcomes during adolescence and adulthood. Families have the potential to act in a protective way, but the process by which parental behaviors relate to teenage sexual activity has not been well studied, particularly with respect to African-American families and nontraditional, two-parent households. In the present study, the results support existing family structure and parenting theories for white families, but suggest a need to reconceptualize these theories for African-

Americans. My future work in this area will address these issues further using other datasets. I will also combine survey research with qualitative, ethnographic methods to examine racial and ethnic differences in the meaning and nature of social interaction in alternative two-parent households, as well as their influence on adolescent behavior.

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[1]First-marriage stepfamilies are formed as a result of a marriage by a biological parent to a nonbiological parent subsequent to a nonmarital birth.

Hispanic workers: Determining the nation's future prosperity

Sonia M. Pérez

As the proportion of the U.S. workforce that is Hispanic has increased, the economic status of Latino workers has begun to receive greater attention. Hispanics currently represent one in nine Americans. Owing to both high fertility and immigration, by 2030 one in four Americans will be of Hispanic origin.

The effects of these demographic changes, coupled with the Hispanic population's youthfulness (more than one-third are under 18 years old and almost half are under 25), are already being felt in the U.S. labor market and overall economy. Latino men have consistently had the highest labor force participation rate of any group of male workers. Whereas Hispanic women have typically been less likely than their African-American and white counterparts to work, their labor force participation rates have steadily increased in the past decade, so that they are now close to parity with other American women workers. In 1996, two out of every five workers hired for new jobs were Latino. Moreover, recent research measured the buying power of Hispanics at more than $380 billion in the late 1990s.

These and other signs, like the growth in small businesses and the tendency of Hispanics to form two-parent working families, underscore the economic strength and influence of Hispanic workers—and their potential impact on the cities and states in which they live, as well as on the nation as a whole. Despite these impressive indicators, however, several other areas raise concerns.

Latino families continue to be three times likelier than whites to be poor. It is especially troubling that Hispanic families with full-time, year-round workers are more likely than others to be among the working poor. Further, although the poverty rate of Hispanic families with children dropped from 30.4 percent in 1997 to 28.6 percent in 1998—its lowest rate since 1991—poverty for these families remains more than double the rate of similar white families. Overall, one-third of Latino children are poor.

What explains the mixed economic picture of Latino workers and families? How do Latinos compare to other Americans in terms of economic mobility? How do these comparisons look within and across the diverse U.S. Latino population? And to what degree do factors like immigrant status and discrimination affect Latino economic progress?

National Council of La Raza research shows that low education levels and, in some cases, limited English proficiency influence Latino worker status. Compared to other students, Hispanics enter school later, leave school earlier, and have the lowest high school and college completion levels. Such factors are associated with an occupational distribution that is heavily skewed toward low-wage jobs, poor mobility, and earnings that often do not reach the poverty line, even when workers are employed full time and year round.

Deindustrialization and the increase in low-paying service jobs have also hurt Latino workers. Similarly, changes in the requirements of the workforce, including higher education and skill levels, have resulted in a skills mismatch for Latino workers. Other workplace issues that affect Latino economic status include low rates of health insurance and pension coverage. Labor market discrimination has also been shown to limit job opportunities for Hispanic workers, and more research is needed to update previous studies and further document and address these practices.

Finally, the "immigrant" factor has often been cited as contributing to a depressed overall economic profile of U.S. Hispanics. Data show that 70 percent of Hispanics are citizens (63 percent are native born and 7 percent are naturalized). Of those under 18, 85 percent were born in the United States. Given that Hispanic immigrants are especially likely to have low human capital, some argue that their outcomes adversely mask the progress of native-born Latinos. Our research shows that although Latino immigrants do tend to be poorer than Latinos born in the United States, native-born status alone is not enough to ensure economic stability or mobility. For instance, the poverty rate of U.S.-born Mexican Americans is still three times higher than that of whites. And Puerto Ricans, U.S. citizens by birth, have consistently had the highest poverty rate of all Latino subgroups. Moreover, immigrants have other positive characteristics that arguably strengthen the Latino community and the nation, including a strong work ethic and entrepreneurial spirit, and high home ownership rates.

Why does this matter and what are the implications for the nation? Changes in the composition of the U.S. population mean that Latinos represent an increasing share of students, workers, and taxpayers. This suggests that the sustainability of the nation's economy will depend on the labor force participation and productivity levels of the significant proportion of Latinos who are entering their prime working years. To ensure that Latino workers are adequately prepared to compete and excel in the workforce, increasing Latino educational attainment stands out as the most important and pressing policy priority. While we pay attention to lowering the Hispanic dropout rate, we need to go beyond that and look at preprimary education and the college completion rate, given the demands of the current economy. Additionally, the Earned Income Credit is arguably the most effective antipoverty policy for Latino workers, and policymakers should heed the calls for expanding and deepening the credit.

Many of the challenges facing Latino workers are not intractable. High levels of economic and social '"return'" are achievable if the nation makes critical education and workplace investments in low-wage workers. In light of the growing awareness of the importance of Latino workers to the economy, such investments are well within the nation' s capacity and interest.

Sonia M. Pérez is Deputy Vice President for Research at the National Council of La Raza in San Juan, Puerto Rico; she was a Visiting Minority Scholar at IRP in April 2000. This summary is based on research presented in Sonia M. Pérez, ed., *Moving Up the Economic Ladder: Latino Workers and the Nation' s Future Economic Prosperity*, National Council of La Raza, Washington, DC, 2000.

Does racial integration in schools improve some black outcomes and not others?

Lloyd A. Blanchard

Since the publication of the Coleman Report, scholars have wrestled with whether or not, all else being equal, desegregation would improve the educational outcomes of disadvantaged black children.[1] In an attempt to answer this long-assumed, but never resolved question, I use a public-sector cost function approach, which includes a measure of black-white integration among other cost factors.[2] With the cost function, expenditure per pupil is the dependent variable and any number of outcomes can be used as explanatory variables, whereas with the traditional education production model, only one outcome can be used as the dependent variable. A key advantage is that the cost model focuses on the practical resource trade-offs that are inherent in the policy interventions ultimately sought. I modify this cost model to facilitate group-specific interpretations.

Using school district data from the Census, the Department of Education's Common Core of Data, and the New York State Education Department, I find a significant inverse relationship between black-white integration and educational costs when the test score and retention rate (one minus the dropout rate) variables are included in the model (New York sample), and a positive relationship between integration and costs when the retention rate is the only outcome variable included (U.S. sample). This suggests that greater integration reduces the cost of increasing black children's test scores, but raises the costs of increasing their retention rate. When I drop the test score variables from the New York model, the remaining retention effect becomes insignificant. Taken together, these results suggest a somewhat paradoxical effect: although integration may help improve the cognitive development of black children, it may also exacerbate the already high rates of dropping out of school for this group.

Though these results are interesting and potentially important, I would like to examine them using microdata that allow a comparison of test scores and dropout rates of black and white students in districts with varying degrees of integration. Although this basic approach has appeared in the literature, one should take into account the ecological perspective that children develop within sets of embedded contexts. That is, it is likely that the social influences on individual students are contingent upon their membership in peer groups, classes, schools, and neighborhoods. Furthermore, this perspective may be the most appropriate way to represent the "segregation" that takes place in a variety of contexts. I believe hierarchical models are useful conceptual tools that help us discern the theoretical paths through which these ecological effects operate.

In its most general form, the hierarchical model is a random-coefficients model, where the estimated parameters of a regression equation are thought to vary by some specified group characteristic. For example, if the data contain 100 children in 10 neighborhoods, and test scores represent the dependent variable, a simple hierarchical model with an intercept and a single slope parameter on a student characteristic will effectively produce 10 estimates of the parameter that is thought to vary by neighborhood. Then, in effect, these estimated coefficients are regressed on the neighborhood characteristic to obtain the *neighborhood-contingent effect of the student characteristic on test scores*. This approach is somewhat equivalent to the common practice of including a student-neighborhood interaction term, but the hierarchical approach explicitly recognizes that only the student characteristic has a direct effect on test scores, whereas the neighborhood simply mediates this effect.[3] Moreover, if one included neighborhood variables specific to adult, peer, and institutional contexts, then one might be able to test the alternative hypotheses and learn more about the theoretical pathways through which neighborhoods operate. Notwithstanding the empirical problems of estimating neighborhood effects, the hierarchical model, in my opinion, provides a useful framework by which we can begin to better sort out the myriad influences on the educational outcomes of disadvantaged children that are not based in the school itself.

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[1]J. Coleman, E. Campbell, C. Hobson, J. McPartland, A. Mood, and others, *Equality of Educational Opportunity* (Washington, DC: U.S. Government Printing Office, 1966).

[2]For a seminal discussion on public-sector cost models, see D. Bradford, R. Malt, and W. Oates, "The Rising Cost of Local Public Services: Some Evidence and Reflections," *National Tax Journal* 22 (June 1969): 185–202. For a recent application to education, see W. Duncombe and J. Yinger, "Why Is It So Hard to Help Central-City Schools?" *Journal of Policy Analysis and Management* 16, no. 1 (1997): 85–113.

[3]I realize that this is an empirical question, but most studies avoid discussing the conceptual rationale for including such interaction effects. The mediating effect of environmental contexts is at the heart of the burgeoning social capital literature. For a recent review, see M. Woolcock, "Social Capital and Economic Development: Toward a Theoretical Synthesis and Policy Framework," *Theory and Society* 27 (1998): 151–208.

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