

Trends in income support

John Karl Scholz, Robert Moffitt, and Benjamin Cowan

John Karl Scholz is Professor of Economics at the University of Wisconsin–Madison and a former IRP Director; Robert Moffitt is Kreiger-Eisenhower Professor of Economics at Johns Hopkins University and an IRP affiliate; Benjamin Cowan is a dissertator in the Department of Economics at the University of Wisconsin–Madison and an IRP Graduate Research Fellow.

Antipoverty programs are designed to mitigate the most pernicious aspects of market-based economic outcomes—unemployment, disability, low earnings, and other material hardship.¹ These programs compose society’s “safety net” and each has different eligibility standards and benefit formulas. Although the programs can be aggregated and categorized to summarize trends in coverage and generosity, a consequence of their patchwork nature is that the safety net may appear different to a family in one set of circumstances than it does to a family in another.

Antipoverty programs operate under two broad categories: social insurance and means-tested transfers. Social insurance programs—such as Social Security, Medicare, unemployment insurance, and workers’ compensation have many more recipients than means-tested transfer programs.

The means-tested programs that constitute the safety net are collectively much smaller and have had varied public support over time. Over the last few decades, social insurance payments, particularly for the elderly, have risen dramatically, whereas means-tested cash entitlements for poor families have declined. The nature of means-tested programs has changed as well. For example, cash welfare benefits have been linked with work requirements, partly in response to evolving views about the nature of the poverty problem. Responsibility for antipoverty policy has broadened from the antipoverty agencies of the federal government (the Department of Health and Human Services and the Department of Labor) to the states (through their administration of TANF and Medicaid) and to the tax code, as evidenced by the Earned Income Tax Credit (EITC) and the refundable child credit.

Social insurance

Social insurance programs provide near-universal coverage since any individual (or their employer) who makes the required contributions to finance the programs can receive benefits. These programs have dedicated funding mechanisms under which, at least in an accounting sense, social insurance taxes are remitted to trust funds from which benefits are paid.

It is often inefficient for individuals to self-insure for contingencies like an unexpectedly long life, end-of-life health shocks, or extended unemployment spells. Because of adverse selection problems—the tendency for the riskiest individuals and families to seek insurance, which makes the pricing of products unattractive to less risky families and individuals—private insurance markets are unlikely to work well. Social insurance programs, which are government run, near-universal, and uniform in their rules and benefits, provide the welfare-enhancing benefits of insurance, while overcoming (through mandatory pooling) the adverse selection problems that arise in private insurance markets.

Social Security, Medicare, unemployment insurance (UI), workers’ compensation, and disability insurance (DI) are the major social insurance programs. Over time, the enormous increase in their benefits has been driven largely by increases in Social Security and Medicare. Social insurance benefits are predicated on events that are salient for most Americans—retirement, unemployment, or a disability or work-related injury—and receipt of benefits does not depend on an individual’s current total income but rather on past employment and earnings experience. All the social insurance programs have dedicated financing mechanisms. Although Social Security may reduce national saving and hasten retirement, and unemployment insurance may alter the intensity with which the unemployed search for jobs, there is no evidence that these programs encourage out-of-wedlock births or single parenthood. With the possible exception of DI, they also do not encourage individuals to spend extended periods out of the paid labor market (UI benefits are time-limited). Thus, the rationale and incentives of the programs do not appear at odds with societal norms of personal responsibility. Social Security and Medicare have the added feature of lessening the care-giving responsibilities that adult children might have for their parents, which is popular with both generations.

Means-tested transfers

Means-tested programs are financed by general tax revenues rather than through dedicated financing mechanisms; all limit benefits to those whose incomes and or assets fall below some threshold. Some are entitlements—all who satisfy the stipulated eligibility requirements get benefits, regardless of the total budgetary cost (e.g., Medicaid and Food Stamps). Other means-tested programs provide benefits only until the funds Congress or a state has allocated are spent, even if some eligible participants are not served (e.g., the State Child Health Insurance Program, Section 8 housing vouchers, and TANF). Means-tested programs have explicit antipoverty goals. Together, they account for a smaller share of government budgets than the social insurance programs.

Figure 1 summarizes the evolution of social insurance and means-tested (antipoverty) spending. Spending on all social

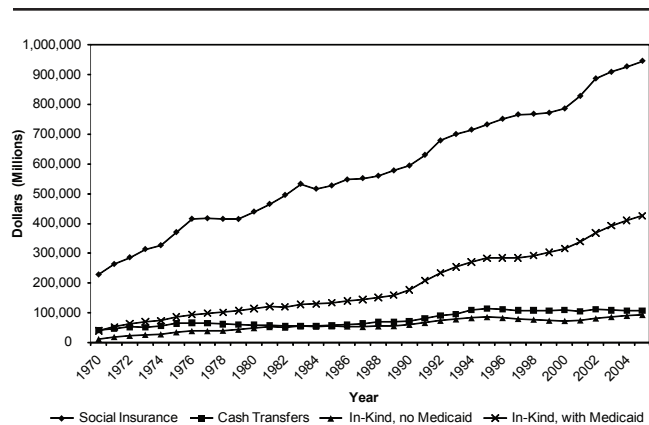


Figure 1. Total Social Insurance, Cash, and In-Kind Means-Tested Transfers, 1970–2005.

Source notes for all figures can be found in the book chapter.

Note: Amounts are shown in constant 2007 dollars. Social Insurance includes OASI, Medicare, UI, and DI. Cash Transfers includes SSI, AFDC/TANF, and EITC. In-Kind includes food stamps, housing aid, school food programs, WIC, Head Start, and Medicaid (where noted).

insurance programs now exceeds \$1 trillion annually. These expenditures rose at an annual rate of 7.2 percent in the 1970s, 3.3 percent in the 1980s, 2.9 percent in the 1990s, and 4.3 percent (in part because of the new Medicare Part D prescription drug benefit program) between 2000 and 2006.² The bottom two lines of Figure 1 show total spending on in-kind transfers (without Medicaid) and cash transfers. Means-tested in-kind transfers (the sum of school nutrition programs, Women, Infants and Children (WIC), Head Start, housing assistance, and food stamp benefits) grew at an annual rate of 16.0 percent in the 1970s, 2.1 percent in the 1980s, 2.0 percent in the 1990s, and 5.1 percent between 2000 and 2005.³ Means-tested cash transfers (the sum of AFDC/TANF, Supplemental Security Income (SSI), and EITC transfers) grew at an annual rate of 3.4 percent in the 1970s, 2.1 percent in the 1980s, 4.2 percent in the 1990s, and fell for the first time in 35 years between 2000 and 2005, despite a weak economy.⁴

The growth rates of both cash and in-kind safety net spending increased significantly in the 1990s relative to the 1980s. In-kind programs continued to increase in the 2000s, while cash

programs shrank. Spending on cash and in-kind antipoverty programs excluding Medicaid was around \$200 billion in 2005. Medicaid was an additional \$333 billion in 2005.

Effects of antipoverty policies

How do the social insurance and means-tested programs we have described affect the poverty rate and the depth of poverty among poor people? We examine the antipoverty effectiveness of these programs by measuring the degree to which they reduce the aggregate poverty gap, which is defined as the sum of the differences between market income and the poverty line for all families with incomes below the poverty line.⁵

Behavioral responses

Our analysis does not take into account behavioral responses to different programs, so we first briefly discuss labor market and family formation responses to changes in the safety net for prime-age workers and how they would likely affect our results. These responses have been at the heart of the policy debates shaping the evolution of antipoverty policy.

Antipoverty programs often provide greater resources to single-parent families than to two-parent families and so may provide incentives to delay marriage, divorce, or not marry. Program benefits and the EITC also generally increase with family size and hence provide incentives to have additional children. Our review of the available evidence, summarized in our book chapter, leads us to conclude that the tax and transfer system has measurable effects on the behavior of low-income families, with the strongest effects on reducing work effort. This implies that our estimates, given below, of the effect of antipoverty programs on the incomes of the poor are overstatements of their initial impact, because those programs may cause earnings to fall as work effort is reduced. Our impact estimates should consequently be regarded as upper bounds.

The evolution of the poverty gap, 1984–2004

Table 1 shows the evolution of the poverty gap between 1984 and 2004, and includes the following programs: Social Security, unemployment compensation, workers' compensation,

Table 1
Antipoverty Effectiveness of the Transfer System, 1984, 1993, and 2004^a

	Number Families (million)	Percent Poor, Pre-Transfer ^b	Average Monthly Market Income per Poor Family	Monthly Pre-Transfer Poverty Gap per Family	Average Monthly Transfer per Recipient Family	Percent of Total To Pre-Transfer Poor	Percent of Total Used to Alleviate Poverty	Percent Poverty Gap Filled	Monthly Poverty Gap per Family, Post-Transfer	Percent Poor, Post-Transfer ^b
2004 SIPP	124.5	30.3%	\$326	\$800	\$844	54.0%	30.7%	66.2%	\$580	14.1%
1993 SIPP	106.4	30.5	354	809	1,086	59.6	35.4	72.7	496	13.6
1984 SIPP	90.7	29.7	360	793	1,002	60.6	37.5	70.9	479	14.3

Source: Authors' calculations from the 1984, 1993, and 2004 SIPP (wave 1). Dollar amounts are in 2007 dollars, using the CPI-U.

^aThe transfers reflected in the calculations include those listed in Table 2, except Medicare and Medicaid.

^bThis poverty rate is for families and unrelated individuals: it reflects the fraction of families (including single-person "families") in poverty rather than the fraction of the total population in poverty; the latter is the more traditional measure.

Table 2
Effect of Transfers on Poverty, 2004 SIPP—All Families and Individuals

	Total Monthly Transfers (\$ million)	Average Monthly Transfer per Recipient Family (\$)	Percent of Total Transfers To Pre-Transfer Poor	Percent of Total Transfers Used to Alleviate Poverty	Percent of Poverty Gap Filled	Percent Poor, Post-Transfer ^a
No transfers						30.3%
All transfers	\$95,895	\$1,238	54.9%	22.8%	72.5%	12.0%
All Social Insurance	65,750	1,524	50.6	22	47.9	18.8
All cash transfers ^b	59,478	790	51.2	29.9	59.1	16.3
All in-kind transfers ^c	36,416	1,411	61.1	31.4	37.9	22.5
All means-tested transfers (except child care credit and foster child payments)	26,167	814	73.5	41.2	35.8	23.5
Social Insurance						
Social Security (OASI)	33,115	1,224	46.4	25.1	27.6	22.3
Disability Insurance	7,153	946	71.8	53.3	12.7	28.3
Medicare	17,074	2,131	47.7	16.9	9.6	27.2
Unemployment Comp	3,877	472	60.8	52.1	6.7	29.5
Workers'	2,654	3,909	52.4	13.7	1.2	30.0
Veterans Benefits	1,876	682	46.8	27.9	1.7	29.9
Means-tested transfers						
Medicaid	13,818	1,167	68.2	46.3	21.2	26.9
SSI	3,299	478	80.4	74.5	8.2	29.8
AFDC/TANF	922	435	87.1	83.3	2.5	30.2
EITC	2,326	120	65.4	57.9	4.5	29.2
Child tax credit	3,910	139	3.9	3.5	0.5	30.0
General Assistance	76	234	61.5	61.3	0.2	30.3
Other welfare	201	493	53.2	35.7	0.2	30.2
Foster child payments	68	741	23.9	13.1	0.0	30.2
Food stamps	2,252	241	87	83.7	6.3	29.9
Housing Assistance	2,825	547	86.6	79.8	7.5	29.7
WIC	447	106	58.5	56.7	0.8	30.2

Source: Authors' calculations from wave 1 of the 2004 SIPP. Dollar amounts are in 2007 dollars, using the CPI-U.

^aThis poverty rate is for families and unrelated individuals: it reflects the fraction of families (including single-person "families") in poverty rather than the fraction of the total population in poverty; the latter is the more traditional measure.

^bCash transfers include all programs listed under social insurance and the means-tested transfers headings, except housing, food stamps, Medicare, Medicaid, and WIC.

^cIn-kind transfers are housing, food stamps, Medicare, Medicaid, and WIC.

SSI, AFDC/TANF, the EITC, the child tax credit, general assistance, other welfare, foster child payments, veterans' benefits, food stamps, WIC, and housing assistance.⁶

We exclude Medicare and Medicaid from Table 1 for two reasons. First, it is technically difficult to estimate the value of Medicare and Medicaid. Second, medical benefits and insurance are only imperfectly fungible with other expenditures; if resources are not available for food, shelter, and clothing, it is not clear that it would be appropriate to suggest that the insurance value of health benefits is sufficient to move an otherwise poor family above the poverty line.

The table shows pre- and post-transfer poverty gaps for 2004, 1993, and 1984. The fraction of all families with pre-transfer income below the poverty line is about 30 percent in each year. The poverty gap per family is also about \$800 per month in each year. And, in each year, between 66 percent and 73 percent of the poverty gap is filled by safety net programs.

Although the pre-transfer poverty rates across years are similar, the percentage of total transfers received by pre-transfer poor families and the percentage of total transfers used to fill the poverty gap have been falling over time. For families who remain poor after transfers, the monthly poverty gap in 2004 was larger than the monthly poverty gap in 1984. This raises the possibility that transfers in 2004 moved more near-poor families over the poverty line, perhaps leaving those further away from the poverty line with even less assistance than before.

The antipoverty effectiveness of specific programs

Table 2 shows the antipoverty effectiveness of specific safety net programs in 2004. For this portion of the analysis, we also value Medicare and Medicaid.⁷ "All in-kind transfers" includes housing, food stamps, Medicare, Medicaid, and WIC. "Cash transfers" include all other means-tested transfers. We focus on the effects of three sets of programs—all

social insurance, all means-tested transfers (excluding the child credit and foster child payments), and the combined effects of all programs. If means-tested transfers did not exist, 51 percent of social insurance would go to the pre-transfer poor, and social insurance payments would close 48 percent of the poverty gap and reduce the poverty rate from 30 percent to 19 percent. If no social insurance programs were in place, 74 percent of means-tested transfers would go to the pre-transfer poor, and the means-tested payments would close 36 percent of the poverty gap and reduce the poverty rate from 30 percent to 24 percent. The *combined* effect of social insurance and means-tested transfers is to close 73 percent of the poverty gap and reduce the poverty rate from 30 percent to 12 percent.

As expected given their universality, the major social insurance programs—Social Security, disability insurance, Medicare, unemployment insurance, and workers’ compensation—are not sharply targeted on pre-transfer poor households. Disability insurance and unemployment insurance are the exceptions; 72 percent of DI benefits and 61 percent of UI benefits go to the pre-transfer poor. Around half of the other social insurance program benefits go to individuals or families with incomes below the poverty line. About half of DI and UI benefits and 14 percent to 28 percent of the other benefits reduce the poverty gap. Given the large size of the programs, however, they fill a substantial part of the poverty gap.

Means-tested programs typically provide a larger share of their benefits to the pre-transfer poor than do social insurance programs. For example, 87 percent of food stamp benefits go the pre-transfer poor and 84 percent of them reduce the poverty gap. But, because food stamps are much smaller than Social Security, they fill only about 6.3 percent of the poverty gap. Medicaid, SSI, housing assistance, and the EITC also close the poverty gaps by 4.5 to 8.2 percentage points.

The effects of the safety net programs by family type

Table 3 illustrates differences in the effects of safety net programs on elderly families and eight nonelderly family types: (1) single-parent, (2) two-parent, (3) childless, (4) white, (5) black, (6) Hispanic, (7) employed, and (8) unemployed. Nearly the entire poverty gap of the elderly is filled by \$48.6 billion in transfers per month, primarily Social Security and Medicare benefits, leaving them with a post-transfer poverty rate of 8 percent. Nonelderly single-parent families receive \$11.3 billion in transfers—76 percent go to poor families and 37 percent reduce the poverty gap. Although these transfers fill 82 percent of the poverty gap, 14 percent of nonelderly single-parent families remain poor. The \$15 billion in monthly transfers for nonelderly two-parent families reduces their poverty gap by 76 percent, resulting in a poverty rate of 5 percent.

Nonelderly black and Hispanic families and individuals have higher pre-transfer poverty rates than nonelderly white families, receive (on a per capita basis) more transfer payments, and, for those who are poor, have similar depth of poverty (as measured by the poverty gap). Despite receiving more in average transfers, black and Hispanic families and individuals have post-transfer poverty rates that are around 3 percentage points higher than those of white families and individuals.

Table 3 calls attention to several holes in the safety net. First, the tax and transfer system fills only about half of the poverty gap for nonelderly childless families, compared to three-quarters for two-parent families with children, and over 80 percent for single-parent families with children. Other than Food Stamps, these families have access to few public assistance programs in the absence of a disability; though as discussed earlier, strengthening their safety net runs the risk of creating incentives to not work or not invest in skills that could lead to greater self-sufficiency. Second, post-transfer poverty rates remain high for single-parent families with

Table 3
Antipoverty Effectiveness of the Transfer System for Different Family Types, 2004 SIPP

	Number Families (million)	Percent Poor, Pre-Transfer ^a	Monthly Poverty Gap per Family (\$)	Average Monthly Transfer per Recipient Family (\$)	Percent of Total to Pre-Transfer Poor	Percent of Total Used to Alleviate Poverty	Percent Poverty Gap Filled	Percent Poor, Post-Transfer ^a
Elderly families and individuals	23.2	55.2%	\$696	\$2,151	52.6%	17.4%	95.0%	7.8%
Nonelderly								
Single-parent families	10.6	47.8	1,014	1,119	76.1	37.3	82.1	13.8
Two-parent families	26	15	1,055	631	43.4	20.5	75.5	5.1
Childless families and individuals	64.7	24.6	754	1,005	57.2	29.1	50.7	16
White families and individuals	75.8	21.3	837	779	51.5	25.9	57.7	12.3
Black families and individuals	12.8	35.4	883	1,118	70.7	33.9	75.6	15
Hispanic families and individuals	12.8	32.8	891	1,004	63.9	31.1	69	15.4
Employed families	95.6	17.3	724	901	38.9	15.8	62.7	8.4
Unemployed, non-elderly families	12.1	83	1,029	1,681	90.2	49	66.6	44.1

Source: Authors’ calculations from wave 1 of the 2004 SIPP. Dollar amounts in 2007 dollars, using the CPI-U.

^aThis poverty rate is for families and unrelated individuals: it reflects the fraction of families (including single-person “families”) in poverty rather than the fraction of the total population in poverty; the latter is the more traditional measure.

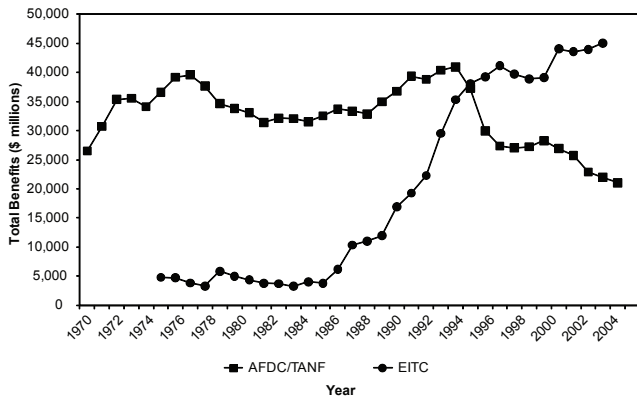


Figure 2. Total AFDC/TANF and EITC Benefits, 1970–2006.

Note: Amounts are shown in constant 2007 dollars.

children as well as for black and Hispanic families. Third, nonelderly families with no employed individuals have an exceptionally high post-transfer poverty rate, 44 percent. Changes in the nature of the safety net over the past 20 years have increased the economic vulnerability of family heads who are unable or unwilling to work.

The changing nature of U.S. antipoverty programs

The safety net has changed in striking ways for the nonelderly. The changes are evident, in part, in Figure 2, which shows the reduction in AFDC/TANF expenditures, which historically went to nonworkers, and the increase in EITC benefits, which go overwhelmingly to low-income workers with children. Other than food stamps and housing benefits, nonelderly families or individuals with very low or no earnings and patchy employment histories have no safety net to draw on.

Figure 3 shows the trend in average benefits (over all programs but excluding Medicare and Medicaid) received by nonelderly, nondisabled, single-parent families. We focus on families with incomes between 0 percent and 200 percent of the poverty line.⁸ The three lines show average benefits (in 2007 dollars) for families in the 1984, 1993, and 2004 SIPP surveys. In 1984 and 1993, we note that the largest benefits were received by those with no income and that average benefits fell as income as a percentage of the poverty line rose. This accords with the traditional structure of a transfer program, in which benefits are phased out as income rises; the negative slope of the lines in Figure 3 reflects that drop in benefits as income increases. The steepness of the line in 1984 and 1993 vividly highlights the weak incentives single parents faced to earn income in the paid labor market. In 1993, for example, families with no market income received around \$1,200 of monthly benefits but, as income increased to roughly 25 percent of the poverty line, average monthly benefits fell to around \$800.

The situation in 2004 was quite different, for the slope of the benefit line for those below 25 percent of the poverty line was actually positive, implying a subsidy to work (or a negative tax rate) on average. We attribute that development to

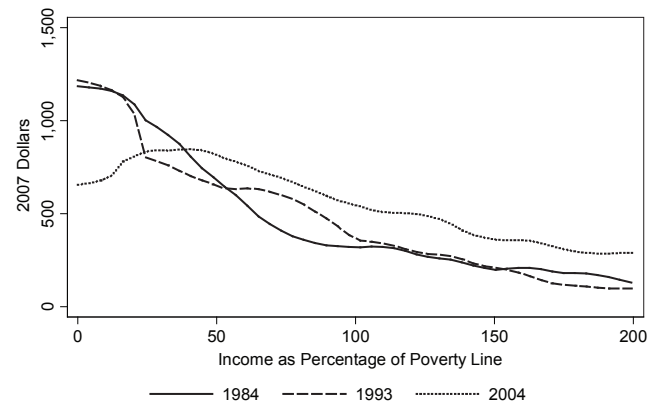


Figure 3. Average Monthly Benefits for Single-Parent Families.

Note: Amounts are shown in constant 2007 dollars.

the EITC and reductions in implicit tax rates associated with TANF. At the same time, however, average benefits received by a single parent with no income were 45 percent lower than in 1993. This was, in some sense, the “price” of increasing work incentives (namely, making conditions relatively worse for those at the bottom). We also note that the increases in benefits for higher-income families, that is, the work incentives that are provided, extended all the way up through the highest income level shown in the figure (200 percent of the poverty line). The income increases derive primarily from the Earned Income Tax Credit and the refundable child credit.

A similar pattern is evident for married couples with children. Average benefits for nondisabled, nonelderly married couples with children in 2004, with no income, are about 48 percent of the average benefits available in 1993. Once income exceeds roughly 40 percent of the poverty line, average benefits in 2004 are larger than comparable families received in earlier years.

Figure 4 shows average benefits for nondisabled, nonelderly childless families and individuals. Again, average benefits for those with very low or zero income are lower in 2004 than they were in earlier years. The EITC available to childless taxpayers, which was initiated in 1994, is starkly evident in the figure. Otherwise, few benefits are available and this fact has not changed for 20 years.

Substantial numbers of families or individuals are in “deep poverty,” with incomes below 25 percent of the poverty line.⁹ The education level of the “deep poor” has risen over time, the number of children has fallen, and the fraction of employed families (defined as at least one person in the family being employed in all 4 months of the reference period) went from 15 percent in 1984, to 10 percent in 1993, to 36 percent in 2004. Thus, it appears that the incidence of regular, but sporadic and poorly compensated, work is much greater in the 2004 SIPP. This conclusion is tempered, however, by three considerations. First, the employment question in the SIPP survey instrument changed in 2004. Second, surely families and individuals with incomes below 25 percent of

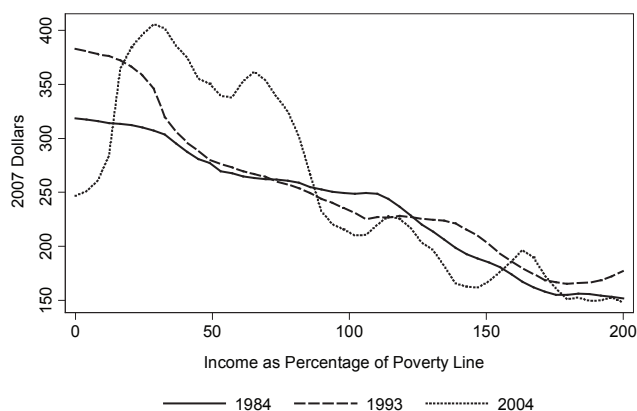


Figure 4. Average Monthly Benefits for Childless Families.

poverty supplement public transfers with other “off-the-books” resources, but the SIPP provides no insight on this phenomenon. Third, market income may also be underreported by low-income individuals, and the magnitude of this underreporting may have changed over time in the SIPP.

Unlike the striking changes for the poorest nonelderly families, the average benefits received by poor elderly families in 2004 are similar or slightly higher than those received in 1993 (and larger than those received in 1984). This trend stems primarily from the stability of Social Security benefits over this period. In contrast, the changes for nonelderly households are consistent with changing incentives embodied in the safety net: as greater emphasis has been placed on work, fewer benefits are available to those who, for one reason or another, are unwilling or unable to work.

The Future of Antipoverty Policy

Between 1975, the first year the EITC existed, and 2005, total spending on all means-tested cash and in-kind transfers (excluding Medicaid) averaged 2.0 percent of GDP, ranging between 1.8 percent and 2.5 percent. In 2005, it was 1.8 percent of GDP, near its 31-year low. Transfers now do less to close the poverty gap than they did before. Transfers reduced the poverty gap by 66 percent in 2004, and the comparable figures were 73 percent in 1993 and 71 percent in 1984. The differences between pre- and post-transfer poverty rates was between 15 and 17 percentage points in each year. But the depth of poverty for those remaining poor appears to have increased substantially—the monthly after-transfer poverty gap in 2004 is \$580, compared to \$496 in 1993, and \$479 in 1984.¹⁰ These patterns are driven by substantial changes in the antipoverty policy mix, which has resulted in large changes in the resources available to families and individuals in different circumstances.

The contrast in levels and, to a lesser extent, trends in social expenditures between the U.S. and other industrialized countries is striking. Smeeding calculates a consistent set of social expenditures (including cash, near-cash, and housing

expenditures) as a percentage of GDP for five groups of countries—Scandinavia; Northern Continental Europe; Central and Southern Europe; “Anglo” (Australia, Canada, and the United Kingdom); and the United States—between 1980 and 1999.¹¹ Spending for these programs ranges between 2.7 percent to 3.6 percent of GDP in the United States, a far lower level than every other country group. The other Anglo countries averaged between 4.8 percent and 7.8 percent of GDP, similar to the Central and Southern European countries. Northern Europe and the Scandinavian countries averaged between 8.1 percent and 15.3 percent of GDP. The trends across country groups vary, though most country groups increased expenditures as a share of GDP between 1980 and 1999. The United States did not.

Why has U.S. antipoverty spending been low and relatively stable given the nation’s persistent and high poverty rates, at least by international standards? A number of factors are relevant. There may be indifference or antipathy to the poor on the part of the public. Voters and policymakers may be skeptical that we know what works and may believe that some well-intentioned policies have counterproductive consequences. Lastly, the fiscal policy climate over much of the previous 30 years, with a respite in the 1990s, has been difficult.

Developments in 2008 promise both continuation and possible change in these trends. The recession that began in 2008 may be long and deep, leading to increases in pre-transfer poverty and declines in government revenue, causing further fiscal distress at the federal and state levels. On the other hand, the voters in the 2008 election, with their election of President Obama and his progressive agenda, signaled a desire for social policy change that, among other features, will likely promote a more equitable distribution of income and public benefits. How the twin pressures of increased economic contraction and fiscal stringency, on the one hand, and greater desire for activist government intervention, on the other, play out remains to be seen.

Given the severity of the economic downturn that began in 2008 and the magnitude of the likely fiscal policy response, it is an unusually difficult time to speculate on the future evolution of antipoverty and social insurance programs. The policy agenda of many will be to broaden health insurance coverage, improve education access, expand tax credits for some groups of low-skilled workers, and extend (and possibly enhance) unemployment insurance benefits. But there nevertheless appears to be little appetite for tax increases among the population or political leadership, so the potential for widespread, durable change in social policy is not clear at this point.

To the extent that durable change occurs, we hope policymakers will be influenced by the large and growing body of evidence that work-based antipoverty strategies like the Earned Income Tax Credit, the Canadian Self-Sufficiency Project, the Wisconsin TANF program (W-2), and the Minnesota Family Investment Program can increase both work and the after-tax incomes of poor families. These policies require that the poor work to receive benefits, but are structured

so that greater work effort increases disposable income. Although such a work-based safety net aligns assistance with fundamental values of Americans, we have not effectively struck a balance between supporting work and sensibly treating those families (and the children therein) who, for one reason or another, are unable or unwilling to work.¹²

Also, while the 1996 welfare reform increased work, the earnings of most individuals who left welfare were still well below the poverty line, even many years after their exit. Hence, the degree to which work can be the primary antidote to poverty depends on the ability of low-skilled people to maintain employment that, over time, leads to higher incomes that allow families to be self-sufficient. More research, policy innovation, and evaluation are needed to develop effective ways of increasing the earnings of disadvantaged workers.¹³

Major changes in poverty will not be achieved by simply reshuffling the 1.8 percent of GDP that is spent on cash and in-kind means-tested transfers (excluding Medicaid). If anti-poverty spending as a fraction of GDP simply increased to its *average* level over the last 31 years of 2.0 percent, there would be an additional \$26.5 billion for new initiatives. These funds could be used to expand successful state-level welfare reforms and provide new funding sources for child care and health insurance benefits that increase the attractiveness of work, and also to augment the safety net, pursue effective human capital development, expand rental housing subsidies, and ensure states have sufficient resources to handle families affected by TANF time limits in the way they see fit.

In the absence of a renewed antipoverty effort, many households will continue to be unable to afford adequate food, housing, and shelter. Our high poverty rate contributes to an erosion of social cohesion, a waste of the human capital of a portion of our citizenry, and the moral discomfort of condoning poverty amidst affluence. ■

points—October 1983 was 11 months; February 1993 was 23 months; and February 2004 was 27 months following the trough of the prior recession.

⁶Our market income measure aggregates wage and salary income, self-employment income, capital income (interest, dividends, and rents), and defined benefit pension income. We do not consider the effects of the individual income tax, aside from the refundable EITC and child tax credits. Because all workers are subject to the payroll tax, we reduce reported earnings by 7.65 percent (the employee OASDHI tax rate) when measuring the poverty gap and percent poor. The child credit was enacted in 1997, so it is only reflected in 2004. All programs deliver cash benefits, except for food stamps and housing benefits. Because the value of food stamps does not exceed the food needs of the typical family, we value them at the cost to the government. We use Fair Market Rent (FMR) data from the Department of Housing and Urban Development and value in-kind housing benefits as the difference between rents paid by housing assistance recipients and the FMR in the state.

⁷We assume that for most families, Medicaid is worth the cost of a typical HMO policy; for elderly or disabled families, we increase this by a factor of 2.5 to account for greater medical needs of these groups. We value Medicare using 2.5 times the average cost of a fee-for-service plan, adjusting for regional cost differences.

⁸Among all families with incomes below twice the poverty line in 2004, about 29 percent had almost no reported income (zero to 25 percent of poverty), and 39 percent had incomes below 50 percent of poverty. The remaining 61 percent were fairly evenly distributed between 50 percent and 200 percent of the poverty line.

⁹For two-parent families in 1984 and 1993, 11 percent of those with incomes below 200 percent of poverty have incomes below 25 percent of the poverty line. For childless individuals in 2004, 32 percent of those with incomes below 200 percent of poverty have incomes below 25 percent of the poverty line.

¹⁰All amounts are in 2007 dollars.

¹¹T. M. Smeeding, "Poverty, Work, and Policy: The United States in Comparative Perspective," in *Social Stratification: Class, Race, and Gender in Sociological Perspective*, 3rd edition, ed. D. Grusky (Westview Press, 2008, pp. 327–329).

¹²R. M. Blank and B. Kovak, "Providing a Safety Net for the Most Disadvantaged Families," in *Making the Work-Based Safety Net Work Better*, eds. C. Heinrich and J. K. Scholz (New York: Russell Sage Foundation, 2009).

¹³C. Heinrich and J. K. Scholz, "Pathways to Self-Sufficiency for Low-Income Families."

¹This article draws upon "Trends in Income Support," in *Changing Poverty, Changing Policies*, eds. M. Cancian and S. Danziger (New York: Russell Sage Foundation, 2009).

²Amounts are shown in real dollars (2007), excluding workers' compensation due to data limitations.

³Medicaid is considerably larger than the combined value of the other in-kind transfers in recent years. In-kind transfers including Medicaid grew at an annual rate of 11.2 percent in the 1970s, 4.5 percent in the 1980s, 6.0 percent in the 1990s, and 6.2 percent between 2000 and 2005.

⁴Supplemental Security Income is a means-tested, federally administered cash assistance program for the aged, blind, and disabled. The disabled make up nearly 80 percent of recipients.

⁵The poverty lines are the official Census Bureau thresholds for each year. See <http://www.census.gov/hhes/www/poverty/threshld/thresh04.html> for the 2004 thresholds. We measure the poverty gap using data from the first waves of the 1984, 1993, and 2004 Surveys of Income and Program Participation (SIPP), a nationally representative survey conducted by the U.S. Census Bureau. Each interview elicited information for the 4 months prior to the interview month. These surveys were conducted at similar business cycle