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## Poverty in the United States: Where do we stand now?

*Two years ago a special issue of* Focus *titled "Poverty in the United States: Where Do We Stand?" (5:2, Winter 1981–82) recounted trends in poverty and the growth of income support programs since 1965. In October 1983 the rising number of poor in America prompted the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation of the Ways and Means Committee of the U.S. House of Representatives to hold hearings on the reasons for steady increases in poverty rates since 1978. Among the questions they invited witnesses to address were the relative importance of recession, demographic change, budget reductions, and a ten-year decline in the real level of public assistance benefits in causing increased poverty. This issue of* Focus *summarizes parts of the testimony presented to Congress to assess where we stand now, twenty years after the nation declared its intent to launch a full-scale effort on behalf of the poor.*

### The problem of poverty

Before one can discuss probable causes and possible cures, it is first necessary to address the basic questions concerning poverty: How much poverty is there? Who are the poor? How poor are they? And how long do they remain in poverty?

#### How much poverty?

Poverty has been on the increase in recent years. The Bureau of the Census reports that 15 percent of the population were below the poverty line in 1982, compared to 11.7 percent in 1979, which means that the number of poor persons had increased by more than eight million. The official poverty rate was as high in 1982 as it was in 1966. Do as great a percentage of all persons live in poverty now as when the War on Poverty started? Or are the official numbers misleading?

According to David Stockman, Director of the Office of Management and Budget, and others who testified before Congress, the Census Bureau's measurement procedures do not provide a complete picture: "The total exclusion of any value of noncash assistance when measuring the incidence of poverty is a key reason why measured poverty has not declined during the last decade."[1] He states that in-kind means-tested benefits (such as Medicaid, Food Stamps, school lunches, and housing subsidies), which were relatively insignificant in 1959, by 1973 were providing over half of all means-tested assistance, and by 1982 more than 70 out of every 100 dollars of such assistance was noncash.[2] The census numbers have other drawbacks, noted by others who testified, such as Timothy Smeeding, of the University of Utah. The official statistics do not subtract taxes from income, though taxes affect a household's level of consumption. Further, they fail to distinguish between the private economy's antipoverty performance and the government's contribution, both in the form of social insurance and in welfare.

A better understanding of what has been happening to poverty in the United States is provided by Table 1, presented to the Congressional subcommittees by Sheldon Danziger, Director of the Institute for Research on Poverty.[3] This table gives poverty rates over the period 1965-82, comparing the census measure with other measures that adjust for its deficiencies: pretransfer income, prewelfare income, and adjusted income. (For definitions of these terms and others used to define and clarify the complex concept of poverty, see box.) In every year there is a much higher poverty level under the census income measure than under the adjusted income measure. Nonetheless, all four measures reflect the same pattern over the past fifteen years. Poverty declined sharply from 1965 to the early 1970s, remained fairly stable in the mid-1970s, then in 1978 began to climb rapidly. This pattern is depicted in Figure 1. The difference between pretransfer and posttransfer (census) income shows how important are government cash transfers for the well-being of the population. In 1982 one-quarter of the population had incomes below the official poverty threshold on the basis of their market incomes alone. But after the receipt of cash and in-kind transfers, fewer than 10 percent remained poor.

**Table 1**
**The Trend in the Incidence of Poverty among Persons, Selected Years 1965-82**

| Year | Pretransfer Income (1) | Prewelfare Income (2) | Posttransfer Income (Census Income) (3) | Adjusted Income[a] (4) |
|---|---|---|---|---|
| 1965 | 21.3% | 16.3% | 15.6% | 12.1% |
| 1968 | 18.2 | 13.6 | 12.8 | 9.9 |
| 1972 | 19.2 | 13.1 | 11.9 | 6.2 |
| 1974 | 20.3 | 13.1 | 11.6 | 7.2 |
| 1976 | 21.0 | 13.1 | 11.8 | 6.7 |
| 1978 | 20.2 | 12.6 | 11.4 | n.a. |
| 1979 | 20.5 | 12.9 | 11.7 | 6.1 |
| 1980 | 21.9 | 14.2 | 13.0 | n.a. |
| 1981 | 23.1 | 15.1 | 14.0 | n.a. |
| 1982 | 24.0 | 15.9 | 15.0 | 8.8[b] |
| % Change | | | | |
| 1965-1978[c] | − 5.2 | −22.7 | −26.9 | −49.6 |
| 1978-1982[c] | +18.8 | +26.2 | +31.6 | +44.3 |

**Source:** Sheldon Danziger in Danziger, Peter Gottschalk, Robert J. Rubin, and Timothy M. Smeeding, "Recent Increases in Poverty: Testimony before the House Ways and Means Committee," IRP Discussion Paper no. 740-83, p. 6.
[a]Adjusted income data are from Timothy Smeeding, "The Antipoverty Effects of In-Kind Transfers," *Policy Studies Journal, 10* (1982), 499-521.
[b]This is an estimate from Peter Gottschalk and Danziger, "Changes in Poverty, 1967-1982: Methodological Issues and Evidence," IRP Discussion Paper no. 737-83.
[c]Percentage changes for adjusted income data are from 1965-79 and 1979-82.
n.a. = not available

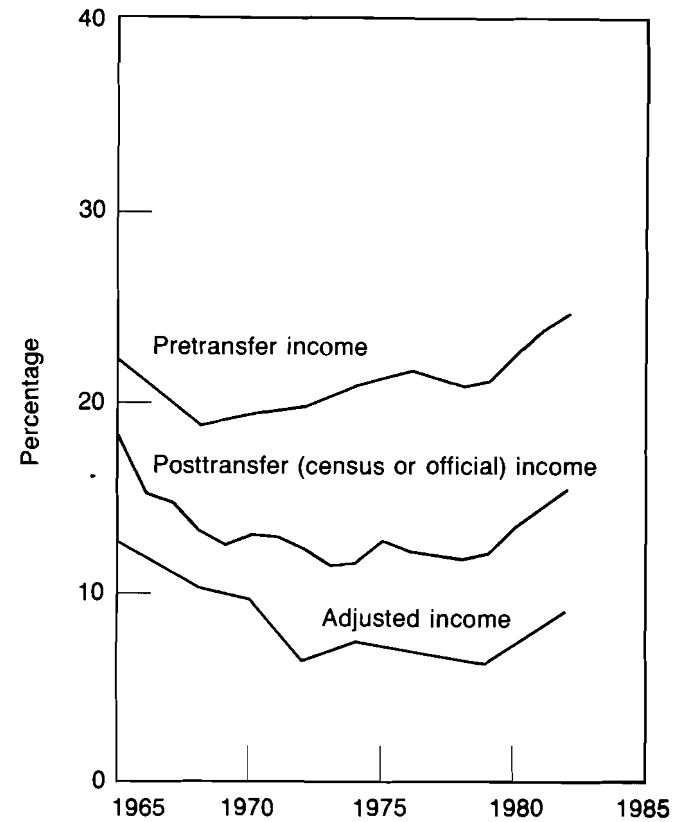


**Figure 1. Trends in the Incidence of Poverty among All Persons According to Three Measures of Income**

**Source:** For pretransfer poverty, computations by Sheldon Danziger and Robert Plotnick from the Survey of Economic Opportunity for 1965 and March Current Population Surveys for other years. For posttransfer poverty, U.S. Department of Commerce (Bureau of the Census), *Current Population Reports*, Series P-60, "Consumer Income." For adjusted poverty, Timothy Smeeding, "The Antipoverty Effects of In-Kind Transfers," *Policy Studies Journal, 10* (1982), 499-521.

Poverty as measured in relative terms (defined in box; not shown on table or figure) remained 10 to 15 percent above the absolute measures shown in Figure 1. Danziger calculated that pretransfer poverty for all persons, if measured relatively, declined from 21.3 to 19.7 percent between 1965 and 1968, but rose steadily from 1968 until 1982, when it reached 26.5 percent. Relative poverty after receipt of cash transfers declined very slightly from 1965 to 1978—from 15.6 to 15.5 percent—and then rose to 17.8 percent in 1982.

### Who are the poor?

Aggregate figures provide only a rough picture of the incidence and extent of poverty. A more detailed examination

## Terms Used in Measuring Poverty

1. *Census income.* Used to draw the official poverty line, census (or posttransfer) income includes money wages and salaries, net income from self-employment, social security income, public assistance income, and other cash government transfers, property income (interest, rents, dividends, etc.), and private transfers, such as pensions and alimony. It does not subtract taxes paid.

2. *Pretransfer income.* Also termed market income or pre-government-transfer income, this concept is census income excluding government transfers but including private transfers such as gifts, alimony, child support, and private pensions.

3. *Prewelfare income.* Prewelfare income is census income minus only cash public assistance programs (means-tested), such as Supplemental Security Income and Aid to Families with Dependent Children. It includes social insurance benefits, such as social security, unemployment insurance, railroad retirement, veteran service-related pensions, and black lung benefits, which are not means tested.

4. *Adjusted income.* Census income augmented by the value of such in-kind transfers as Medicare, Medicaid, food stamps, and public housing, subtracting federal income and payroll taxes, and taking into account underreporting of income. Alternate measures for estimating the value of in-kind income (reported in *Focus* 6:1) include "market value"—what the benefit would cost if purchased in the market; "recipient value"—how much cash the recipient would be willing to pay for the benefit; and "poverty budget share"—the proportion of their income that those at the poverty line typically spent on the good in 1960–61, when in-kind benefits were minimal.

5. *Absolute poverty threshold (line).* The official census income level below which households are classified as poor. Based on the assumption that the poor spend approximately a third of their incomes for food, the poverty line originally consisted of three times what the Department of Agriculture in 1955 ascertained to be the minimum food consumption requirement for a family of four. Adjustments are made for different-sized families, and the poverty line is adjusted each year for inflation, as measured by the percentage change in the Consumer Price Index. In 1982 the official poverty line ranged from $4901 for a single person, to $9862 for a family of four, to $19,698 for a family of nine or more.

6. *Relative poverty threshold.* This poverty threshold varies directly with changes in the national median income, adjusted for family size. Those whose incomes are below 44 percent of the median are classified as poor. This figure was chosen so that the count of absolute and relative poor persons for 1965 was equal. It incorporates the same adjustments for family size that are included in the official measure. In 1982 the relative poverty line was about 14 percent higher than the absolute line, or $11,200 for a family of four.

7. *Poverty deficit or gap.* The amount of income required to bring every poor person up to the poverty threshold.

8. *Benefit reduction rate.* The rate at which means-tested benefits are cut back as earned income increases (i.e., the tax rate on benefits).

reveals that some demographic groups are much more likely to be poor than others. The House Ways and Means Committee's staff report, *Background Material on Poverty*, noted: "A person's age, race, sex, family status, and family size are all related to the likelihood of being poor. In 1982, children, blacks, people of Spanish origin, and women were more likely to be poor than the population in general; whites, males, the aged and persons living in married couple families were less likely to be poor."[4] Table 2 divides the poverty population according to household type, age, and geographic location, and compares the numbers of poor in these groups and their poverty rate in 1982 and 1979 (using the census money income measure).

*Women heading households.* As Stockman pointed out, the large growth over the past twenty years in the number of people in female-headed families who are poor does not result from an increase in their incidence of poverty, but from sheer increase in their number. About one out of every five children in this country is now living apart from one parent, and because of increasing divorce rates, separations, and out-of-wedlock births, it is estimated that nearly one of two children born today will spend part of his or her first 18 years in a family headed by a single mother.[5]

Rudolph Penner, Director of the Congressional Budget Office, stated in his testimony that the number of persons in families headed by a woman with no husband present has increased more than 15 percent since 1978, compared to a 6 percent growth in the overall population. One of the immediate and alarming effects in the growth of this group is the large increase in poverty among all children, which increased from 16.0 percent in 1979 to 21.3 percent in 1982 (see Table 2).[6]

If single-parent families are growing fast, black single-parent families are growing even faster. And if poverty is prevalent among the white single-parent households, it is much more so among blacks. The number of poor black families headed by women doubled between 1969 and 1982. These families accounted for 71 percent of all poor black families in 1982, compared with 54 percent in 1969.[7] In 1982 the poverty rate was 35.6 percent for all black persons and 57.4 percent for those living in female-headed families.

The major cash welfare program directed at single parents and their children is Aid to Families with Dependent Children. It was created by the 1935 Social Security Act, and conceived of as a small program to aid widows not covered by social security. Though it has been amended and broadened over the years, it has—in comparison with the rest of our social welfare system—remained small. AFDC in fiscal year 1981 accounted for only 17 percent of total welfare expenditures and only 4 percent of total expenditures on income support.[8] The percentage cut in the AFDC budget in the Omnibus Budget Reconciliation Act (OBRA) of 1981 was larger than that for most other transfer programs. The Reagan administration introduced a gross income limit of 150 percent of each state's standard of need, raised the marginal benefit reduction rate on a recipient's earnings from 67 percent to 100 percent after four months of earnings, set maximum allowable deductions for work and child care expenditures, computed the third of their earned income that AFDC working recipients were allowed to keep (for four months) on the basis of their income after deductions rather than before, lowered the ceiling on assets, and counted stepparent income when calculating the benefit.[9]

Robert J. Rubin of the Department of Health and Human Services stated in his testimony that these changes have reduced welfare rolls. "In all, 408,000 families lost eligibility [for all] benefits and 299,000 lost [some] benefits as a result of the OBRA changes. The changes saved the federal and state governments about $1.1 billion in 1983."[10] And Stockman wrote:

> The dire predictions of those who opposed the gross income cap and limiting of work disregards in AFDC... did not come true. Contrary to assertions that wage-earning recipients would quit their jobs to stay on welfare, the number of recipients who quit work or lost jobs and returned to welfare was the same both before and after the 1981 Reconciliation Act—18 percent.[11]

But although the AFDC recipients whose benefits were reduced or terminated did not, by and large, quit work and return to welfare, they did experience significant losses in total income. Preliminary findings of studies being carried out jointly by the Institute for Research on Poverty and the Wisconsin Department of Health and Social Services suggest that less than 10 percent of the AFDC recipients in Wisconsin who were working when OBRA terminated or reduced their benefits quit a job and were back on welfare a year after the cuts went into effect.[12] And for all the women

**Table 2**
**Selected Characteristics of Persons below the Poverty Level: 1982 and 1979**
(Numbers in thousands)

| Characteristic | Below Poverty Level | | | Poverty Rate | | |
|---|---|---|---|---|---|---|
| | 1982 | 1979 | Percentage Difference | 1982 | 1979 | Percentage Point Difference |
| All persons | 34,398 | 26,072 | 31.9 | 15.0 | 11.7 | 3.3 |
| In families | 27,349 | 19,964 | 37.0 | 13.6 | 10.2 | 3.4 |
| Related children under 18 years | 13,139 | 9,993 | 31.5 | 21.3 | 16.0 | 5.3 |
| In families with female householder, no husband present | 11,701 | 9,400 | 24.5 | 40.6 | 34.9 | 5.7 |
| In all other families | 15,649 | 10,563 | 48.1 | 9.1 | 6.3 | 2.8 |
| Unrelated individuals | 6,458 | 5,743 | 12.4 | 23.1 | 21.9 | 1.2 |
| Under 65 years | 30,647 | 22,390 | 36.9 | 15.0 | 11.3 | 3.7 |
| 65 years and over | 3,751 | 3,682 | 1.9 | 14.6 | 15.2 | -0.6 |
| In metropolitan areas | 21,247 | 16,134 | 31.7 | 13.7 | 10.7 | 3.0 |
| In central cities | 12,696 | 9,720 | 30.6 | 19.9 | 15.7 | 4.2 |
| Outside central cities | 8,551 | 6,415 | 33.3 | 9.3 | 7.2 | 2.1 |
| In nonmetropolitan areas | 13,152 | 9,937 | 32.4 | 17.8 | 13.8 | 4.0 |

**Source:** U.S. Department of Commerce (Bureau of the Census), "Poverty Trends and Issues," prepared for the Committee on Ways and Means, U.S. House of Representatives, October 18, 1983, Chart 4.

affected, income from earnings, AFDC, and food stamps decreased by 17 percent over this period. The OBRA changes may, however, have decreased the incentive to begin work for those women on AFDC who were not working when OBRA was implemented. A research project to address this question is just getting under way at the Institute.

*Two-parent households and unrelated individuals: the working poor.* Timothy Smeeding, in his testimony before the committee, stated that "the major increases in poverty experienced during the past four years have been among persons, adults but especially children, living in traditional husband-wife families." In 1979 families headed by married couples made up 34.4 percent of the poor. Today they make up 40 percent, and 60 percent of the increase in poor families last year was made up of husband-wife families.[13]

This is the working population, and their mainstay during recessions is Unemployment Insurance (UI). But since 1979 there has been a large drop in the fraction of the unemployed receiving UI.

Gary Burtless of the Brookings Institution, in his testimony, stated that in fiscal year 1976 about three-quarters of the unemployed were covered by UI, but in fiscal 1982, only 42 percent were covered. Relative to the number of newly unemployed workers, there have been between 16 and 18 percent fewer initial UI claimants in the past two years. Burtless attributes this relative drop in applications to a number of changes that have been made both at the state level and at the federal level since the 1974-75 recession.[14] Because additional benefits (such as Extended Benefits – an extra 13 weeks of coverage) are made available only when the count of those on UI reaches a certain level, the reduced number of initial claimants started a chain reaction that cut back benefits at every stage of the recession. According to the U.S. Department of Labor, the August 1983 outlay for UI was an estimated $15 billion, or 34 percent lower than would have been the case if the system had compensated the unemployed in proportion to the levels paid in 1976.[15]

Though UI is not primarily an antipoverty program, Burtless demonstrated that it has been reasonably effective in aiding some of those who would be poor in the absence of the program, particularly husband and wife families. But the changes in UI have reduced its antipoverty effectiveness. "In 1975 about 34 percent of one-earner husband-wife families with pre-UI incomes below the poverty line were raised above poverty by their UI payments. In 1982 only 20 percent of these families were raised above poverty by UI payments. The relative drop in effectiveness was even larger for families suffering 26 or more weeks of unemployment."[16]

Using data from the Michigan Panel Study of Income Dynamics (PSID), Burtless found that among nonaged, poor, male-headed families, the fraction of unemployed breadwinners receiving any UI benefits at all dropped from 51 to 29 percent between 1975 and 1981, and among those receiving UI benefits, a smaller fraction below the poverty line were brought above the line by their benefits – 49 percent in 1975 vs. 37 percent in 1981.[17]

The working poor also pay taxes. And, according to Smeeding as well as data contained in the *Background Material on Poverty*, taxation in recent years has begun to adversely affect the poor. The earned-income tax credit (EITC) was enacted by Congress in 1975 to alleviate the tax burden on low-income families who had children and who supported themselves primarily by earnings. At that time, payroll taxes were lower and a family of four did not have to start paying federal income taxes until its income was 22 percent above the poverty line. In subsequent years the distance between the poverty threshold and the tax threshold narrowed considerably: inflation drove up the poverty line, but tax adjustments to offset the effects of inflation did not keep pace. Nor did the EITC. Originally set at $400, its maximum amount was raised to $500 in 1979 and has not changed since then.

According to Smeeding, in 1982 a family of four with earnings at the poverty level would have to pay $946 in federal income and payroll taxes, despite the EITC. The same family would on average qualify for food stamps in the amount of $900. The net effect of food stamps and taxation would therefore have been to reduce a poverty-level income by an additional $46. These taxes equaled 9.6 percent of income in 1982 and are projected to rise to 9.8 in 1983, and to 10.1 in 1984.[18] Thus while the general population has had tax cuts, the working poor have had increases.[19]

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Unsigned articles written by E. Uhr and Elizabeth Evanson; edited by E. Uhr.

The one government welfare program for which all of those with low income and assets are eligible is Food Stamps. OBRA has restricted benefits and reduced eligibility for this program in a number of ways. The first month's payments have been prorated, indexation has been slowed, and a gross income limit equal to 130 percent of the poverty line has been established for all households except those containing an elderly or disabled person. A slightly larger benefit reduction rate on earnings has been imposed. New rules have tightened restrictions on boarders, aliens, and college students, and strikers have been eliminated from the rolls altogether.[20]

*The aged.* The aged are the success story of the period following the War on Poverty. As can be seen from Table 2, at a time when the poverty rate was rising for all other groups, the economic status of the aged continued to improve. Over 43 percent of this group have pretransfer incomes below the poverty line, but after money transfers their poverty rate falls to 14.6 percent, slightly less than the rate for all persons. If their assets and in-kind transfers (such as Medicare and food stamps) and favorable tax laws are taken into account, their economic status relative to the nonelderly increases even more (see *Focus* 6:2). Because social security and Supplemental Security Income are indexed to consumer prices, these major sources of income are not eroded by inflation, and because most of the aged are not in the work force, they are less vulnerable to the ups and downs of the business cycle. Dependent on government transfers, they can have their incomes reduced through legislative acts. However, the fact that they are a potent political force makes it unlikely that any retrenchment will adversely affect current retirees.

Though the Reagan administration sought to reduce government spending on social welfare programs, and was particularly concerned over the short-term deficits in OASDI, the 1983 amendments to the Social Security Act made only

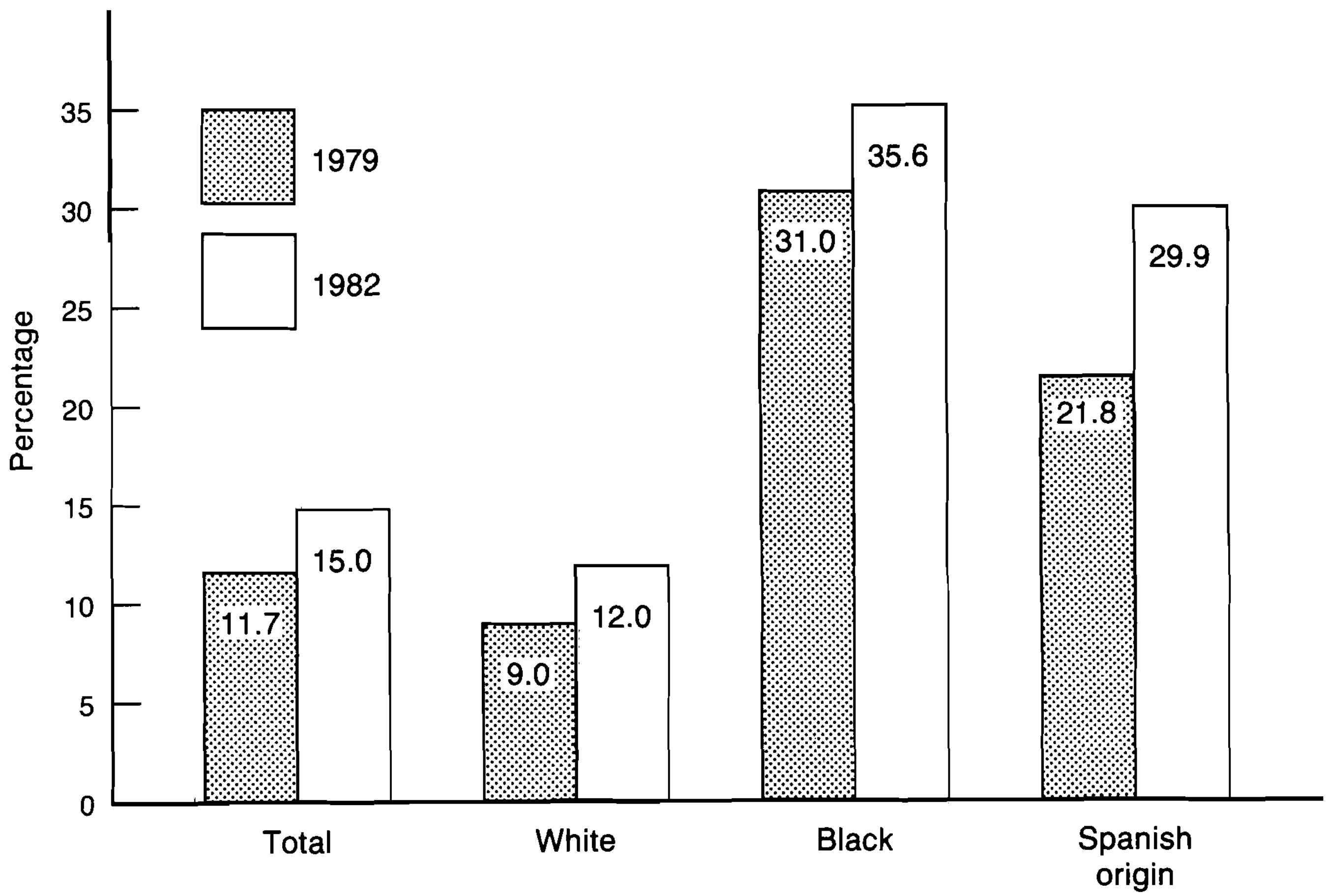


**Figure 2. Percentage of Persons below the Poverty Level, by Race and Spanish Origin: 1979 and 1982**

**Source:** "Poverty Trends and Issues," prepared by the U.S. Department of Commerce (Bureau of the Census) for the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, Chart 3.

**Table 3**
**Poverty Deficit in Current Dollars before and after Cash Transfers, Selected Years, 1967–82**

| Year | Pretransfer Poverty Deficit[a] (1) | Cash Transfers Received by Pretransfer Poor Households[a] (2) | Posttransfer Poverty Deficit[a] (3) | Percentage Reduction in Poverty Deficit Due to Cash Transfers (4) | Posttransfer Poverty Deficit as a Percentage of GNP (5) |
|---|---|---|---|---|---|
| 1967 | $ 22.6 | $ 17.5 | $10.0 | 55.5% | 1.29% |
| 1974 | 45.0 | 57.3 | 15.1 | 66.4 | 1.04 |
| 1979 | 70.5 | 80.0 | 23.9 | 66.0 | 1.02 |
| 1980 | 88.9 | 95.9 | 31.4 | 64.6 | 1.22 |
| 1981 | 104.1 | 109.0 | 39.3 | 62.2 | 1.37 |
| 1982 | 114.9 | 118.1 | 45.3 | 60.5 | 1.47 |
| % Increase in Current Dollars | | | | | |
| 1979/1967[b] | 211.9 | 357.1 | 139.0 | – | – |
| 1982/1979[c] | 63.0 | 47.6 | 89.5 | – | – |

**Source:** Sheldon Danziger in Danziger, Peter Gottschalk, Robert J. Rubin, and Timothy M. Smeeding, "Recent Increases in Poverty: Testimony before the House Ways and Means Committee," IRP Discussion Paper no. 740–83, p. 10.
[a]Billions of current dollars.
[b]Between 1967 and 1979, the Consumer Price Index increased by 117 percent.
[c]Between 1979 and 1982, the Consumer Price Index increased by 33 percent.

small changes in the economic status of the aged. The changes eliminated inequities in coverage, provided for a gradual rise in the retirement age, made half of social security subject to income tax in the case of high-income beneficiaries, and delayed the annual cost-of-living adjustment from July to January.

Of the 3.8 million aged poor in 1982, blacks and women were disproportionately represented. The poverty rate among elderly blacks was 38.2 percent, compared to 12.4 percent for elderly whites. Whites who lived alone had a poverty rate of 23.5, whereas blacks who lived alone had a rate of 61.6 percent. Women, who accounted for 59.1 percent of the noninstitutionalized aged population, accounted for 70.9 percent of the aged poor.[21]

*Geographic distribution.* During the 1970s the poor became increasingly concentrated in metropolitan areas. In 1969 only 54 percent of the poor lived in cities, whereas in 1982, 62 percent of the poor were located in these areas. The central cities contained 37 percent of the nation's poor in 1982 (12,696,000; see Table 2), whereas they had contained 33 percent of the poor in 1969. At the same time the proportion of the total population living in central cities dropped from 32 percent to 28 percent.[22]

The proportion of the poor living in the South has lessened. Between 1969 and 1982 it dropped from 46 to 41 percent.[23] Nevertheless, the South still had the highest poverty rate in 1982—18.1 percent, compared to 13.0 in the Northeast, 13.3 in the North Central states, and 14.1 in the West.[24]

*Race and ethnic background.* Although two-thirds of the poor in 1982 were white, other races were disproportionately represented. Blacks, for example, made up 22.9 percent of the poor, though they are only 11.9 percent of the total population. People of Spanish origin accounted for 12.5 percent of the poor, though they are only 6 percent of the population.[25] Put another way, only 12 percent of all whites, but 35.6 percent of all blacks and 29.9 percent of all Hispanics were poor (see Figure 2). Race is not only related to poverty at a given time, it is also related to level of poverty and length of time in poverty.[26]

**How poor are the poor?**

"The proportion of poor persons with incomes at 75 percent or less of the poverty lines increased from 61 percent in 1978 to 68 percent in 1982."[27] Since 1978, in terms of census income alone, it would appear that the poor are losing ground. Just how poor were the households with incomes below the poverty line? This question can be answered in part by examining what has happened to the poverty deficit (defined in the box). Table 3 illustrates that cash transfers between 1967 and 1979 were increasingly successful in reducing the poverty deficit. They reduced the deficit by 55.5 percent in 1967 and 66.0 percent in 1979. After 1979, however, the pretransfer deficit grew faster than did cash transfers, so the posttransfer deficit grew even faster. This deficit, in current dollars, grew from $23.9 billion to $45.3 billion between 1979 and 1982 (or from $31.8 to $45.3 billion in constant 1982 dollars). The 1982 pretransfer poverty deficit of $114.9 billion means that the income of the typical poor household before transfers is about $4540 below the poverty line; the posttransfer deficit of $45.3 billion means that those households remaining poor after receiving cash transfers were about $3200 below the poverty line.[28] Table 3 also demonstrates that the antipoverty impact of cash transfers (discussed in more detail below) has been decreasing in recent years – only about 60 percent of the gap was reduced by transfers in 1982.

Also shown in the table is the continued growth of cash transfers to the poor. In 1982 the poor received $118.1 billion in cash transfers – more than enough, in theory, to wipe out the poverty deficit. However, this could be achieved only by an income-tested program which reached all of the poor and provided each pretransfer poor household only the amount of its poverty deficit. Such a program would be impossible to administer and would have great work disincentives. Most of the antipoverty impact of existing transfers is due to social insurance programs – chiefly social security – which raise the incomes of many of the pretransfer poor who receive them far above the poverty line. These social insurance transfers remove more persons from poverty than do cash public assistance transfers, because a greater number of the pretransfer poor receive them and because the average social insurance benefit is higher.

**How long are they poor?**

An earlier article in *Focus* on the dynamics of poverty (5:1, Summer 1981) outlined changing views in the 1960s and 1970s concerning the permanent versus the transitory nature of poverty. In the 1960s many analysts perceived the poor as a separate population, imbued with its own culture, socially immobile, isolated from the rest of society. In the 1970s others began to point to large flows of people into and out of poverty, creating a churning effect around the threshold. The availability of longitudinal data has now made it possible to track the actual course in time of individuals who become poor.

Harvard researchers Mary Jo Bane and David Ellwood, using a ten-year segment of the Michigan PSID, found, as Stockman put it in his testimony, that "the same poor people are not always with us – even though the same numbers seem to be."[29] The main findings of the study, which Stockman described, are that many of those who become poor experience short periods of poverty lasting one to two years, but that a small number remain poor for a very long time and, because of their continuing presence, form the dominant part of the poverty population at any one time. These long-term poor eventually consume a large portion of welfare expenditures. They constitute the group termed by some the underclass – the hard core, those most difficult to reach.

Another recent study utilized the Michigan PSID to address the issue of whether poverty persists across generations. To find out whether motivational deficits among poor parents depressed the levels of their children's economic attainment, a research team headed by Martha Hill at the University of Michigan followed the history of family members who left home and established their own households. The research results showed considerable economic upward mobility across generations of poor families: "Most of today's poor children are not tomorrow's poor adults."[30]

These analyses of the dynamics of poverty indicate that the best evidence we now have gives us both good and bad news. Many poor people remain so for only a short time, but those who do not soon escape poverty are likely to stay poor for many years. More optimistic is the finding that poverty is not necessarily transmitted from one generation to the next.

**Table 4**
**The Antipoverty Effectiveness of Major Income Transfers, Selected Years, 1965–82**

| | Percentage of Pretransfer Poor Persons Removed from Poverty by | | | |
|---|---|---|---|---|
| Years | Cash Social Insurance Transfers[a] | Cash Public Assistance Transfers[b] | In-Kind Transfers[c] | All Transfers |
| 1965 | 23.5 | 3.3 | 16.4 | 43.2 |
| 1976 | 37.6 | 6.2 | 28.1 | 71.9 |
| 1978 | 37.6 | 5.9 | n.a. | n.a. |
| 1980 | 35.2 | 8.5 | n.a. | n.a. |
| 1982 | 33.8 | 3.8 | 25.8[d] | 63.3[d] |

**Source:** Sheldon Danziger in Danziger, Peter Gottschalk, Robert J. Rubin, and Timothy M. Smeeding, "Recent Increases in Poverty: Testimony before the House Ways and Means Committee," IRP Discussion Paper no. 740-83, p. 8.

[a]Cash social insurance transfers include social security, railroad retirement, unemployment compensation, workers' compensation, government employee pensions, and veterans' pensions and compensation.

[b]Cash public assistance transfers include AFDC, SSI (OAA, APTD, and AB in 1965), and general assistance.

[c]In-kind transfers include Medicare, Medicaid, Food Stamps, and, for 1976, school lunch and public housing; this figure also adjusts for direct taxes and the underreporting of cash transfers.

[d]Based on estimate for adjusted income poverty 1982.

n.a. = not available

## Causes and cures

Among those presenting testimony before the subcommittees, none disputed the actual numbers of poor people under the various measures, but there was some disagreement over the long-term causes and cures underlying those numbers. Argument continues over whether the state of the economy or government transfers has the greater effect on poverty in the United States. Some stressed economic growth as the primary factor in reducing poverty, but Institute researchers found the picture more complex. Sheldon Danziger described the varying antipoverty effectiveness of transfers over past years, and Institute affiliate Peter Gottschalk, of Bowdoin College, summarized research intended to disentangle the effects of economic change, income transfers, and long-range changes in income inequality.

**Income transfers and poverty: Trends over time**

One way to gauge the effect of social programs is to estimate how many people they move out of poverty. Table 4, which Danziger presented in his testimony, arrays those figures over a seventeen-year period, separating transfers into social insurance, public assistance, and in-kind transfers including adjustment for taxation and underreporting of income.[31]

As seen in the table, cash social insurance benefits remove the greatest percentage of the pretransfer poor from poverty, and cash public assistance the smallest in each year. Social insurance had an increasing effect in reducing poverty from 1965 until 1976, then steadily diminished in importance after 1978. Public assistance followed a different trajectory: its effectiveness rose till 1976, declined till 1978, rose to its highest point in 1980, and within two years after that had dropped to a point almost as low as in 1965. In-kind transfers had a growing effect from 1965 to 1976, then dropped off.

The principal conclusion to be drawn is that transfer effectiveness rose in the period 1965 to 1976 and declined steadily from that point on. Does that rise and decline account for the concomitant decline and rise in poverty, or was it economic growth and then economic recession that caused the change in poverty rates?

**Economic change, transfers, and poverty**

To pursue the question of how transfer effectiveness compares with the power of market income in determining poverty rates, Gottschalk and Danziger in a joint paper compared three sets of figures: (1) economic activity, shown by year-to-year changes in real (adjusted for inflation) gross national product and by yearly unemployment rates; (2) transfer efforts, shown by changes in cash as well as in-kind transfers; and (3) the poverty rates over time.[32] Table 5 displays these figures over selected years since 1950.

Using the evidence in Table 5, Gottschalk and Danziger conclude that the data are consistent with the following simple story: The period of sharp reductions in poverty in the 1960s resulted from a combination of economic growth, declining unemployment, and large increases in transfers. The stable poverty rates of the 1970s resulted from offsetting factors: growth slowed and unemployment rose, but so did both cash and in-kind transfers. After 1979, declining economic growth, rising unemployment, and lower real transfer levels all contributed to greater poverty.

**Table 5**
**Time Series on Macroeconomic Conditions, Income Transfers and Poverty, Selected Years 1950–82**

| Year | Real GNP per Household[a] (1972 dollars) (1) | Unemployment Rate (2) | Real Cash Transfers per Household[a] (1972 dollars) (3) | Real In-Kind Transfers per Household[a] (1972 dollars) (4) | Official Incidence of Poverty[b] (5) | Incidence of Poverty Adjusted for In-Kind Transfers[c] (6) |
|---|---|---|---|---|---|---|
| 1950 | $10,880 | 5.3% | $ 365 | $ 29 | n.a. | n.a. |
| 1965 | 15,350 | 4.5 | 816 | 63 | 17.3 | 12.1% |
| 1968 | 16,390 | 3.6 | 911 | 204 | 12.8 | 9.9 |
| 1970 | 16,080 | 4.9 | 1,010 | 242 | 12.6 | 9.3 |
| 1972 | 16,710 | 5.6 | 1,225 | 304 | 11.9 | 6.2 |
| 1974 | 16,720 | 5.6 | 1,263 | 327 | 11.2 | 7.2 |
| 1976 | 16,630 | 7.7 | 1,513 | 427 | 11.8 | 6.7 |
| 1978 | 17,440 | 6.1 | 1,488 | 464 | 11.4 | n.a. |
| 1979 | 17,580 | 5.8 | 1,419 | 472 | 11.7 | 6.1 |
| 1980 | 16,850 | 7.1 | 1,414 | 482 | 13.0 | n.a. |
| 1981 | 17,020 | 7.6 | 1,458 | 505 | 14.0 | n.a. |
| 1982 | 16,160 | 9.7 | 1,475 | 508 | 15.0 | n.a. |

**Sources:** For GNP, consumer price index, and unemployment rate, *1982 Economic Report of the President*; for cash and in-kind transfers, "Social Welfare Expenditures under Public Programs in the U.S.," *Social Security Bulletin*, December 1968, December 1972, January 1971, January 1977, November 1981; for official poverty incidence and number of households, *Current Population Reports*, Series P-60, "Consumer Income"; for adjusted poverty, Timothy Smeeding, "The Antipoverty Effects of In-Kind Transfers," *Policy Studies Journal 10* (1982), 499–521.

**Note:** *Cash transfers* include *social insurance* (non-income-tested: old age, disability, survivors', railroad retirement, unemployment insurance, workers' compensation, government employee pensions, veterans' pensions and compensation) and cash *public assistance* (income-tested: AFDC, SSI, and general assistance). *In-kind transfers* include cash equivalent values of Medicare, Medicaid, food stamps, public housing; figure also adjusted for direct taxes and underreporting of cash transfers.

[a]Transfers are divided by all households, not by recipient households.

[b]All persons. For families, the poverty incidence was 12.2% in 1982, 11.2% in 1981.

[c]This series also adjusts census incomes for simulated values of taxes and income underreporting.

n.a. = not available.

To further explore the relative effects of these factors, Gottschalk in his testimony described analyses separating out three elements: changes in mean market income, which reflect the state of the economy, changes in mean cash transfer income, and a residual category that captures changes in the shape of the income distribution.[33] This third category is important because fluctuations in poverty rates result from changes in the distribution of income. For example, if the real incomes of all households rise proportionately during good times, a smaller proportion of households will fall below the fixed poverty line. If, however, economic expansion does not raise the incomes of all households equally, the shape of the income distribution changes. And, if the incomes of those households at the bottom of the distribution grow slower than the average, poverty may rise despite an increase in *average* incomes. Table 6 decomposes the change in poverty rates over two time periods, the earlier one marked by declining, the more recent by rising, poverty rates.

Between 1967 and 1969, poverty went down by 2.6 percentage points. Both cash transfers and market income were important – transfers somewhat more so – in achieving that result. Yet over the same years growing inequality was large enough to take away half of the effect of rising mean incomes. Between 1979 and 1982, poverty rose by 3.3 percentage points. This was partly a result of depressed mean market income, which increased poverty by 0.8 percent. Far more important was the change in the shape of the income distribution: because incomes declined more sharply among those in the lower income ranges, poverty rose 2.9 percent. In other words, if all households had experienced equal decreases in market income and equal increases in transfers, poverty from 1979 to 1982 would have risen only about 0.4 percentage points, not 3.3 points.

**Table 6**
**Decomposition of Changes in Poverty Rates**

| Household Head | Actual Percentage Point Change in Poverty (1) | Percentage Point Change in Poverty Associated with Change in: Mean Market Income (2) | Mean Cash Transfer Income (3) | Shape of the Income Distribution (4) |
|---|---|---|---|---|
| All persons | | | | |
| 1967–79 | – 2.6 | –2.4 | – 3.1 | 2.9 |
| 1979–82 | 3.3 | 0.8 | – 0.4 | 2.9 |
| Young men (under 25) | | | | |
| 1967–79 | – 1.9 | –2.5 | – 0.6 | 1.2 |
| 1979–82 | 5.8 | 3.0 | – 0.6 | 3.4 |
| Prime-aged men (25–64) | | | | |
| 1967–79 | – 1.7 | –3.1 | – 0.8 | 2.2 |
| 1979–82 | 3.0 | 0.8 | – 0.2 | 2.4 |
| Elderly persons (over 65) | | | | |
| 1967–79 | –12.9 | 0.5 | –19.6 | 6.2 |
| 1979–82 | – 0.6 | –0.1 | – 1.8 | 1.3 |

**Source:** Computations from data derived in Gottschalk and Daniziger, "Macroeconomic Conditions, Income Transfers, and the Trend in Poverty," in Lee Bawden, ed., *An Assessment of Reagan's Social Welfare Policy* (Washington, D.C.: Urban Institute Press, 1984).
**Note:** The sum of the changes in columns 2, 3, and 4 is equal to the change shown in column 1.

Because of the different experience among demographic groups that has been documented above, Gottschalk and Danziger separated out the relative effects for households headed by young men, older men of working age, and the elderly. Table 6 illustrates again the dramatic decline in poverty among the aged, and shows that growth in mean transfers was almost solely responsible for that decline. Among the other groups, growth in market income was more important than transfers in reducing poverty until 1979, but even in that earlier period the gains from both sources were diminished by greater income inequality. In the more recent period, market incomes again played a greater role, but in the opposite direction: despite the poverty-reducing effects of transfers, the recession drove poverty rates up, as did a continued increase in income inequality.

These figures demonstrate the power of earned or market income in raising or lowering poverty rates among those of working age who are not insulated, as are the elderly, from economic ups and downs. David Stockman underlined this point when he described "the critical importance of swings in the business cycle to non-elderly poverty" and concluded that "variations in poverty over the business cycle are ample evidence that the poor and near-poor benefit considerably from economic growth."[34] The evidence presented by Gottschalk and Danziger confirms this conclusion but points to the importance of recent increases in inequality in offsetting the gains to economic growth.

To estimate the magnitude of the poverty reduction which will accompany the economic recovery, Gottschalk and Danziger used projections based on (1) the economic recovery predicted in July 1983 by the Office of Management and Budget, and (2) proposed expenditures on the major transfer programs in the federal budget for fiscal year 1984. They estimated that even if the economy improved as forecast, the poverty rate would drop only from 15 percent in 1982 to 14.6 percent in 1983, and would remain at that level through 1984. This small drop in poverty is largely a result of the predicted slow decline in unemployment rates. (It is worth noting that unemployment rates in recent months have been falling somewhat faster than the July 1983 official predictions.) "It would take," concluded Gottschalk, "either a stronger than officially predicted recovery or an unexpected increase in income transfers to bring poverty as officially measured back to the 11–12 percent range of the late 1970s."[35]

## Directions for the future

There is thus general agreement that declines in unemployment combined with economic growth will reduce poverty for those attached to the work force—in the short run. There is less agreement about the ability of growth to counter the secular increase in inequality.

Most students of poverty do agree that a robust economy will have the least effect on those, such as single parents with small children, whose commitment to the work force is tenuous, those who are disabled, and those who are disadvantaged by lack of training, race, or ethnic background. For these people, welfare or public employment and training programs of some sort or another seem to offer the only possibility of escape from poverty.

### CBO options

In response to the request by the subcommittees that the Congressional Budget Office identify and analyze options for increased welfare expenditures that would reduce the poverty rate and/or the poverty gap, Rudolph Penner, CBO Director, began by pointing out that any increase in outlays related to welfare programs must, of course, be financed by cutting nonwelfare programs, or by raising taxes, or by increasing an already large deficit. He also noted that changes in welfare programs have a number of different goals, some of them in conflict with one another. The goals he listed were targeting benefits toward those most in need; treating persons with similar incomes alike; encouraging families to remain together; maintaining incentives so that program recipients who can work do so; simplifying the system and reducing administrative costs; and keeping costs as low as possible.

After making these qualifying remarks, Penner set forth the following options for changes in welfare programs, the particular advantages and drawbacks of which have been the subject of much debate.[36]

*1. Establish a national minimum AFDC benefit level.* AFDC now varies from state to state. The maximum guarantee in Mississippi for a family of three is $96 a month. The same family in Vermont would get $530. A national minimum would target much of the increase in benefits on single-parent families in states where payments are quite low, resulting in more equal treatment across states for these families. If costs were shared by states and the federal government, however, poor states might have difficulty in funding the program. To bring AFDC plus food stamp benefits up to three-fourths of the poverty line, federal expenditures would have to rise by $1.2–1.6 billion in 1984 and state costs by $1.0–1.5 billion.

*2. Require state participation in the Unemployed Parent program under AFDC.* This program would make AFDC available to intact families in the 31 states that do not now have an AFDC-UP program. It would provide equity between one-parent and two-parent families and eliminate the incentive for men to leave home. It would cost between $.5 and $.7 billion, three-fifths of which would be paid by the federal government.

*3. Expand Food Stamp benefits.* This program now provides benefits to all the poor, including the working poor and childless individuals who are not eligible to participate in other programs. Because it is a federal program already in place, raising the size of the benefits would be administratively simple. An increased federal expenditure of $.9–1 billion would raise total benefits by 8 percent. If Food Stamps were transformed into a cash program, counterfeiting and black market activities would be eliminated, but there would be no guarantee that recipients would use the money for food.

*4. Expand Medicaid eligibility to all poor families with children.* If eligibility for Medicaid were expanded to include all poor families with children, it would cost the federal government about $6 billion and the states about $5 billion in 1985, assuming the present cost-sharing arrangements stay the same. Such an expansion would provide access to medical care for all poor children and reduce work disincentives for AFDC families by allowing them to retain Medicaid benefits when no longer eligible for AFDC benefits.

*5. Expand the dependent care tax credit for low-income families.* This program provides a nonrefundable tax credit of 30 percent (up to $720) of dependent care expenses for families earning less than $10,000. Increasing the credit and making it refundable would encourage work by reducing some of the tax burden on poor working families who have dependent care expenses. Even an increased credit would provide limited aid to the very poor, who would be unable to pay for care for their dependents in the first place. A refundable credit to cover up to 60 percent of expenses is estimated to cost between $1.5 and $2 billion in reduced revenues in 1984.

*6. Change the earned-income tax credit.* As mentioned earlier, the EITC has not kept up with inflation. Either the amount of the credit could be raised or the credit could be expanded to cover childless couples and unrelated individuals. The expansion would cause a revenue loss of about $600 million. Penner suggests that a tax rate lower than 12.5 percent could be used during the phase-out stage in order to lessen work disincentives.

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*7. Expand child support enforcement.* Because the poverty of single-parent families is directly related to lack of child support from the noncustodial parents, mandatory withholding of child support payments from wages would reduce poverty. Withholding would save the federal government between $25 million and $50 million a year in AFDC benefits but would not increase the well-being of women on AFDC because the payments would be used to offset AFDC benefits. Increased incentive payments to states would encourage them to collect child support payments and to establish clearinghouses through which child support payments would pass.

*8. Moderate the asset test required under SSI.* Although the income limits for SSI and AFDC are indexed to the growth of the CPI, the SSI asset test of $1500 for an individual and $2250 for a couple has not changed. Raising the asset limit would raise participation rates for SSI among the elderly and disabled. Raising the asset limit of SSI by 50 percent would probably cost less than $500 million, but the resulting impact on the degree of SSI participation cannot be predicted.

It should be pointed out that these proposals by no means exhaust the possibilities for change. Many different prescriptions have been recommended by students of poverty policy. Some advocate incremental changes in programs now in place. Others propose more sweeping reforms[37] such as a Credit Income Tax.

## Conclusion

Robert Rubin summed up the Reagan administration's goals as follows:

> Our policy for reducing poverty is two-fold. First, we believe that a sound and growing economy is the essential element to reducing poverty and improving the economic well-being of all Americans. A strong economy will produce jobs that provide income to those capable of working. Employment not only provides immediate income but ensures the long-run potential for improving a family's standard of living. Second, for those who are unable to provide for themselves, the federal and state governments must maintain public assistance programs that assure that every American can maintain a decent standard of living.[38]

Doubts were expressed over whether the administration's programs could carry out these goals and bring poverty rates back down to the levels of the late 1970s. And questions were raised about the fairness of the administration's budget cuts.

Jack Meyer of the American Enterprise Institute pointed out that while the 1982 and 1983 budgets made significant cuts in programs for the poor, such as Food Stamps, AFDC, and Medicaid, there were much smaller cuts in social security and Medicare, though these programs account for four-fifths of federal social spending.[39] He further pointed to the trend, implicit in the budget cuts, which reduces aid to the working poor while maintaining it for the dependent poor: the elimination of the $30-and-a-third provision for employed AFDC beneficiaries after four months, the cutback in food stamps, and the loss of health insurance by the unemployed. He argued that "The administration contends that it would be a waste of society's scarce public dollars to give 'permanent' help to the working low-income households. Yet, it has made little effort to withdraw the wide array of special tax breaks and other equally permanent subsidies flowing to middle and upper-income households."[40] As an example, Meyer pointed to the open-ended tax deduction for employer-provided health insurance.

Poverty has proved more difficult to eliminate than was envisioned when the War on Poverty was declared, twenty years ago. There is more of it in bad economic times than in good, more when less is done to alleviate it, more for some types of people than for others. No cheap and easy solutions have been proposed. Yet the concern of members of Congress and the growing body of research and experimental results are encouraging—there is a range of alternative policies which, though expensive, offer the promise for further reducing poverty. ■

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[1]David Stockman, statement before the U.S. House of Representatives Ways and Means Committee, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., November 3, 1983, p. 5.

[2]Ibid., p. 6.

[3]Sheldon Danziger, "Alternative Measures of the Recent Rise in Poverty," presented before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983 (also available in IRP Discussion Paper no. 740-83).

[4]*Background Material on Poverty*, prepared for use of U.S. House of Representatives Committee on Ways and Means by its staff (Washington, D.C.: U.S. GPO, October 17, 1983), p. 10.

[5]Daniel Patrick Moynihan, "Welfare Reform's 1971-72 Defeat, A Historic Loss," *Journal of the Institute for Socioeconomic Studies, 6* (Spring 1981), 8.

[6]Rudolph G. Penner, statement before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, p. 9.

[7]"Poverty Trends and Issues," prepared by the Bureau of the Census for the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, p. 9.

[8]Irwin Garfinkel and Elizabeth Uhr, "Child Support and the Public Interest," *Public Interest*, in press.

[9]Steven Cole, Sandra Danziger, Sheldon Danziger, and Irving Piliavin, "Poverty and Welfare Recipiency after OBRA: Some Preliminary Evidence from Wisconsin," paper given at the Association for Public Policy Analysis and Management Research Conference, Philadelphia, October 20-22, 1983, p. 1.

[10]Robert J. Rubin, statement before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., November 3, 1983, p. 13 (also available in IRP Discussion Paper no. 740-83).

[11]Stockman, pp. 22-23.

[12]Cole et al.

[13]Timothy Smeeding, "Recent Increases in Poverty in the U.S.: What the Official Estimates Fail to Show," testimony before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, pp. 14–15 (also available in IRP Discussion Paper no. 740–83).
[14]Gary Burtless, testimony before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, pp. 1 and 6. The significant changes he lists are the following: The imposition of a high implicit tax on pensions and old age insurance, which cut back the amount of UI received by retirees; the imposition of federal taxation on UI benefits for higher income families; the imposition of interest charges on federal loans to debtor state UI programs; the tightening of eligibility requirements on workers who voluntarily leave a job or who are discharged for cause; tougher job search requirements to UI claimants; and restrictions on benefits to school employees who do not work during school holidays.
[15]*Background Material on Poverty*, p. 101.
[16]Burtless, p. 19.
[17]Ibid., p. 21.
[18]Smeeding, pp. 10–11 and Table 3; *Background Material on Poverty*, p. 151, Table 3.
[19]For an analysis of tax changes across the entire distribution, see Frank Levy and Richard C. Michel, "The Way We'll Be in 1984: Recent Changes in the Level and Distribution of Disposable Income," Urban Institute Discussion Paper, 2100 M Street, N.W., Washington, D.C., 20037, November 1983. Levy and Michel found that over 1979–84, "among the top one-fifth of families, taxes as a proportion of income will have declined slightly from 31.6 percent to 31.1 percent. The experience of the bottom quintile [is that] taxes as a proportion of income will have increased from 9.7 percent to 11.9 percent" (p. 42).
[20]Maurice MacDonald, "Evaluation of Impacts of the Omnibus Budget Reconciliation Act of 1981 on Wisconsin Food Stamp Costs and Caseload," IRP Special Report, forthcoming.
[21]*Background Material on Poverty*, p. 19.
[22]"Poverty Trends and Issues," p. 10.
[23]Ibid.
[24]"Poverty Trends and Issues," Table 7.
[25]*Background Material on Poverty*, p. 12.
[26]See Mary Jo Bane and David T. Ellwood, "Slipping into and out of Poverty: The Dynamics of Spells," mimeo., Harvard University, August 1982, p. 43.
[27]Penner, p. 4.
[28]Danziger, pp. 9–11.
[29]Stockman, p. 2.
[30]Martha Hill et al., "Final Report of the Project: 'Motivation and Economic Mobility of the Poor'; Part 1, Intergenerational and Short-Run Dynamic Analyses," Survey Research Center, University of Michigan, Ann Arbor, August 1983, mimeo., p. 10.
[31]Danziger, p. 8.
[32]Peter Gottschalk and Sheldon Danziger, "Changes in Poverty, 1967–1982: Methodological Issues and Evidence," IRP Discussion Paper no. 737–83.
[33]Peter Gottschalk, "Will a Resumption of Economic Growth Reverse the Recent Increase in Poverty?" statement before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, pp. 2–7 (also available in IRP Discussion Paper no. 740–83).
[34]Stockman, p. 17.
[35]Gottschalk, p. 8.
[36]The discussion of the CBO proposals is taken from Penner, pp. 11–25.
[37]See, for example, Irwin Garfinkel and Robert Haveman, "Income Transfer Policy in the United States," IRP Reprint no. 473, 1983.
[38]Rubin, p. 1.
[39]Jack A. Meyer, statement before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, p. 1.
[40]Ibid., p. 5.

The University of Wisconsin Foundation has established an Institute for Research on Poverty Fund to be used to support the projects of the Institute for Research on Poverty. Contributions to the fund are tax-deductible. Checks should be made out to the *University of Wisconsin Foundation–Institute for Research on Poverty Fund* and sent to the U.W. Foundation, 702 Langdon Street, Madison, WI 53706.

**Institute publications**

Sheldon Danziger, Peter Gottschalk, Robert J. Rubin, and Timothy M. Smeeding, "Recent Increases in Poverty: Testimony before the House Ways and Means Committee." IRP Discussion Paper no. 740–83.

Sheldon Danziger and Eugene Smolensky, "Abrupt Changes in Social Policy: The Redistributive Effects of Reagan's Budget and Tax Cuts." IRP Discussion Paper no. 725–83.

Peter Gottschalk and Sheldon Danziger, "Changes in Poverty, 1967-1982: Methodological Issues and Evidence." IRP Discussion Paper no. 737–83.

Sheldon Danziger and Peter Gottschalk, "The Measurement of Poverty: Implications for Antipoverty Policy." IRP Reprint no. 476.

**Related reading**

Staff of the U.S. House of Representatives, Committee on Ways and Means, *Background Material on Poverty*. Washington, D.C.: U.S. GPO, 1983.

Peter Gottschalk and Sheldon Danziger, "Macroeconomic Conditions, Income Transfers, and the Trend in Poverty." In Lee Bawden, ed., *An Assessment of Reagan's Social Welfare Policy.* Washington, D.C.: Urban Institute Press, 1984.

# Small Grants program: Round I awards, Round II coming up

The first of three competitions in the Institute's Small Grants program was completed in September 1983. Three awards, the maximum permitted, were made by a panel composed of members of the Institute's National Advisory Committee. The grants are each in an amount of up to $10,000 for work in the academic year 1983–84. They will support the following research projects:

- *AFDC: An Empirical Examination of the Forces behind the Growing Caseload.*

  To what extent do some individuals forgo work in order to reduce their income to the point at which they can draw welfare benefits? The research outlines a technique to answer this question, taking into account such factors as the level of AFDC payments, demographic composition of the population, and economic conditions. The 1972 and 1980 waves of the Panel Study of Income Dynamics provide the data base. Principal Investigator: Laurie Bassi, Georgetown University.

- *Child Support Enforcement as a Means of Reducing Welfare Dependency and Poverty.*

  The research will address two major questions: How effective are current child support enforcement procedures? Does the program change AFDC dependency, poverty, and the work decisions of women with children? The data base is the child support supplement to the April 1982 Current Population Survey. Principal Investigator: Philip Robins, University of Miami.

- *Issues of Poverty: A Life-Cycle View.*

  This project deals with the validity of different measures of income over the lifetime. Measures of single-year realized income during working years fail to include such potential income as social security and pension wealth, or home equity. Drawing on data from the Retirement History Survey, the study will compare the ability of realized as opposed to comprehensive (wealth-inclusive) income measures to predict whether a worker who was on the verge of retirement in 1969 was in poverty in 1979. The same data set will be used to estimate a dynamic model explaining the return to work of those who had been fully retired. Principal Investigators: Richard Burkhauser, Kathryn Anderson, and J. S. Butler, Vanderbilt University.

The next two competitions in the Small Grants program will be held during the first half of 1984. Round II will fund research to be carried out during the summer of 1984; its application deadline is February 15. Round III covers work during academic year 1984–85. Applications will be due May 1, 1984. Both competitions invite research from a wide range of disciplines: history, political science, public administration, law, psychology, sociology, social work, philosophy, and economics. Like Round I, the next two rounds will each provide up to three awards of $10,000.

Designed to encourage researchers across the nation to investigate the causes and consequences of poverty in America, the Small Grants program focuses on three priority areas, delimited by these questions: To what degree have government policies in the United States succeeded in preventing or alleviating poverty? What have been the intended and unintended consequences of government intervention in combating poverty in the United States? What changes in the economy or society have affected the government's ability to prevent or alleviate poverty?

These three major questions can be examined in any number of ways, using quantitative or qualitative data. They embrace such smaller questions as the following: Is there anything different about society's views toward government policies related to poverty in 1984 as compared to 1964 or to earlier periods? Why have views changed? How has the responsibility for the care of the poor been divided among the government, the private sector, philanthropic organizations, and the family? How has government responsibility been divided among federal, state, and local governments? What have been the consequences? What has happened to income poverty? to economic opportunity? How have particular demographic groups fared (the elderly, single parents, minorities)? What do we know about the effects of incentives created by government programs on, say, educational attainment? on labor supply? on health status? What have we learned about the effects of government intervention on the family? on communities? on society as a whole? How have systems for delivering social services to the poor evolved? How have programs structured the relationship between clients and the state? What has been the role of advocacy?

For further information about the program, write to Elizabeth Evanson at the Institute. ■

# New work under way

## IBM-supported research

Under contract to the IBM Corporation, Eugene Smolensky and Ralph Andreano of the Institute are exploring the potential for expanded use of computerized processing in the administration of social welfare programs. They intend to find where further automation will have the greatest impact, not only in saving time and money but also in improving the operation of the system through such means as the reduction of fraud, the timely delivery of information, and increased equity.

Smolensky, Andreano, and their staff will concentrate on five Wisconsin programs. They will determine the costs and benefits of further automation, decide what technology and what products will be needed, and extrapolate the results of their case studies to the nation. The areas on which they are focusing are Medicaid, the Wisconsin Computer Reporting Network, substitute child care services, child support, and health insurance.

*Medicaid.* Greatest attention is being given to the Medicaid program for two reasons: First, it is a very complicated paper-driven system, made up of clients, providers of service, and government at both the federal and state levels. It has many gray areas of permitted treatment, and is subject to varying interpretations of a complex of procedures and rules, which change frequently. Second, it is very costly. It is now a significant federal budget item and is even more important at the state level. In Wisconsin it is the most expensive item in the budget, exceeding higher education. The researchers are analyzing current practices in order to pinpoint areas of high return to automation. Their analysis will take into account such diverse factors as error and abuse on the part of providers as well as clients, the need to conceal a patient's source of payment to prevent "second-class" medicine, the use of diagnostically related groups of services (DRGs), and the movement toward health maintenance organizations (HMOs).

*Wisconsin's Computer Reporting Network (CRN).* The CRN is a standardized automated system used throughout Wisconsin to determine applicants' eligibility for and benefits under all of the state's welfare programs. Since its introduction there has been an enormous expansion in the segment of the Aid to Families with Dependent Children program that provides aid to unemployed parents (AFDC-UP). Why did this take place? Was it because CRN affected agency biases and popular pressures to contain the program? The extent to which CRN has reduced administrative costs through speed, accuracy, and simplicity of automated data processing and decision-making will also be measured.

*Substitute child care services.* Currently, because it is difficult to keep track of all the cases and because many data are involved, "drift" occurs when children who are ostensibly placed in short-term substitute-care settings remain there for many years. This project will investigate the attitudes and experiences of those who have been associated with the implementation of computerized systems in Wisconsin to find out how feasible the use of automation is to solve problems related to drift in child placement.

*Child support collection.* The State of Wisconsin is now embarking on a major effort to improve child support collection. Different strategies are being compared. One involves automating the response to delinquencies through the use of a computerized recordkeeping system whereby an absent parent is notified of his delinquency and, if he fails to respond, a notice is generated to his employer to withhold child support from his wages. This study will focus on the problems associated with the implementation of this system and will evaluate its effectiveness.

*Health insurance smart card.* A card which would link financial information (policy terms, benefit coverage, payment procedures) to medical history information has been suggested as a means of simplifying procedures between insured patients, carriers, and providers of medical services. To what extent would such cards reduce paperwork? Would insurance carriers be willing to use them? Would "smart" cards affect the utilization of medical care?

## Poverty and Policy: Retrospect and Prospects

A conference sponsored jointly by the Institute for Research on Poverty and the Office of the Assistant Secretary for Planning and Evaluation (ASPE) of the U.S. Department of Health and Human Services will be held in Williamsburg, Virginia, December 6–8, 1984. The commissioned papers by nationally recognized scholars will attempt to provide a comprehensive picture of poverty policy in the United States—past, present, and future. They will establish an empirical base so that analysts with alternative viewpoints can study and debate the results and implications of the past twenty years of antipoverty policy; assess from a variety of disciplinary perspectives the development, achievements, and failures of the policies which have been pursued; evaluate how various vulnerable groups have been affected by the past twenty years of social policy; and explore potential strategies for preventing as well as alleviating poverty. The participants and the topics will be listed in a subsequent issue of *Focus*. ■

# Retirement plans and actions: Some implications of the 1983 social security amendments

by Richard V. Burkhauser

Richard V. Burkhauser, an Associate Professor of Economics at Vanderbilt University, has recently coedited, with Karen C. Holden, an Institute monograph on future directions for the social security system (*A Challenge to Social Security: The Changing Roles of Women and Men in American Society* [New York: Academic Press, 1982]) and is the coauthor, with Robert Haveman of the Institute, of two new books on national disability policy (*Disability and Work: The Economics of American Policy* [Baltimore: Johns Hopkins University Press, 1982] and, with Victor Halberstadt as third author, *Public Policy toward Disabled Workers: Cross-National Analyses of Economic Impacts* [Ithaca: Cornell University Press, 1984]).

Economic analysis of public policy has centered on the incidence of government tax and benefit policy and the behavioral response that individuals make with regard to it. Economists have long argued that in attempting to redistribute income, policymakers should be sensitive to the impact such efforts have on work, savings, and other economic behavior and should gear their programs to achieve redistributive goals with a minimum of such distortions.

A major development in public policy analysis over the last decade has been the integration of life-cycle theory into program analysis. For those economists looking at the effect of social security policy on redistribution, this has meant that single-period analyses, which considered current recipients as net gainers and current taxpayers as net losers, had to be modified to recognize the link between social security taxes paid at younger ages and benefits received at older ages. One result of such a life-cycle view is that to this point in its history social security (OASI) has primarily redistributed income from younger to older generations with rich and poor sharing equally.[1]

Because of the link between taxes paid in one period and benefits received in another, those studying behavioral responses elicited by social security also must consider its multiperiod relationships. For instance, the true marginal social security payroll tax is *not* necessarily equal to the tax rate in a given year. Its effect is offset to the degree future benefits increase with earnings and hence with the payment of the tax. As a result, at some ages increases in expected benefits make the payroll "tax" a subsidy to work.[2]

This may also be the case with regard to the social security earnings test. The 50 percent "tax" on work for those who are eligible to receive social security benefits is offset to some degree by the additional benefits related to continued work and by actuarial adjustments associated with postponed acceptance of benefits.[3]

A life-cycle view of policy stresses the point that individuals make work and saving plans across their lifetimes and that a social security policy which changes tax or benefit rules at older ages will affect the immediate behavior of both old and young.[4]

The firestorm of protest which greeted the 1981 Reagan administration proposals to increase the actuarial penalty for early retirement and to push back normal retirement age to 68 in 1982 was in part caused by the speed with which these proposals were to be implemented. Such abrupt and unexpected changes in policy were said to be an unfair hardship for workers who had made retirement plans under the old rules. In contrast, the 1983 social security amendments were passed with bipartisan support, yet beginning in the year 2003 they will do much the same thing.

After the turn of the century normal retirement age will begin to rise, increasing by two months in each of six years until it reaches age 66 in the year 2009. Another set of increases over a subsequent six-year period will bring the full-benefit age to 67 in the year 2027. The earliest age at which benefits are permitted will remain 62, but the new law will change the maximum reduction at age 62 from its current level of 20 percent to 25 percent in 2009 and to 30 percent in 2027.

Clearly, part of the reason for the broad support for these changes was the long period between enactment and implementation. Policymakers holding a life-cycle view would argue that this was necessary to allow younger workers to adjust their plans. A more cynical view would argue that it permitted the short-run financial crisis in social security to be solved through immediate tax hikes at the cost of only a promise to begin reducing system liabilities in 20 years—an ample time period for those opposed to such reductions to form a consensus preventing their implementation. If this latter view is correct, those opponents of future reductions in benefits risk undoing the advantages that advance warning of changes in government policy give to those who are affected by it.

In a new paper two colleagues and I argue that this is not a trivial point.[5] Using a life-cycle rational expectations model we test the relationship between planned and actual retirement behavior. We show that people can predict their true retirement age years in advance, and further, that the differences between actual and planned retirement can be traced to unexpected intervening events. Using data from the Retirement History Survey, we find that retirement plans made in 1969 by workers age 58 to 63 and carried out over the next decade were fairly accurate. In our sample of 1580 men who were working in 1969, we found that 57 percent who in 1969 had planned to retire at a specific age did in fact retire at that age; 24 percent retired earlier and 19 percent later than planned. Hence there is clearly some relationship between planning and subsequent behavior.

More important, we found that actual retirement was also affected in a systematic way by expected events – changes in social security, in personal health, and in local labor market conditions – over the decade after retirement plans were made.

Table 1 presents the results of our multinomial logit equation. In it we look at those factors which explain whether a worker retires earlier than planned (column 1) or later than planned (column 2). Real social security benefits remained virtually constant between 1959 and 1968. Expectations based on this experience greatly understated actual changes in benefits over the next decade. Our social security variable measures the difference between the actual wealth value of benefits at planned retirement age and what social security wealth would have been, based on expectations of zero real growth. We argue that the greater the change in total wealth caused by this unexpected change in social security policy, the greater the difference between actual and planned retirement. We find that changes in total wealth caused by social security policy both increase the probability of earlier than planned retirement and decrease the probability of later than planned retirement.

**Table 1**
**Factors Affecting Retirement Decisions:**
**Multinomial Logit Results**
(Early, On Time, Late; N = 1580)

| Variables (Mean) | Earlier than Planned | Later than Planned |
|---|---|---|
| Constant | −4.16** | −0.54** |
| | (11.45) | (2.34) |
| Change in total wealth ($39,000) | 0.45* | −0.88** |
| | (1.91) | (3.53) |
| Health got better (14.5 percent) | 0.21 | −0.04 |
| | (1.39) | (0.27) |
| Health got worse (25.8 percent) | 0.48** | −0.37** |
| | (4.11) | (3.10) |
| Unemployment difference (2.8 percent) | −0.35** | 0.25** |
| | (10.2) | (8.11) |
| Years away from retirement (4.2 years) | 0.54** | −0.31** |
| | (15.2) | (9.04) |
| Mandatory retirement on job (51.8 percent) | 0.36** | −0.42** |
| | (3.10) | (3.64) |
| Tenure with the firm (19.7 years) | 0.85** | −1.44** |
| | (1.98) | (3.45) |
| Pension with the firm (75.8 percent) | 0.24* | −0.65** |
| | (1.70) | (5.34) |

**Source:** K. H. Anderson, R. V. Burkhauser, and J. F. Quinn, "Do Retirement Dreams Come True? The Effect of Unexpected Events on Retirement Age," IRP Discussion Paper (in press).
**Note:** t-statistics in parentheses.
*Significant at the 10 percent level.
**Significant at the 5 percent level.

Our findings provide some evidence that workers make retirement plans across time which are sensitive to government policy. Those who complained that the sudden change in social security policy in 1981 would have substantially affected the plans of older workers were probably correct. Likewise those who argue that the long-run changes made in 1983 will allow for a smoother transition in work and leisure choices for younger workers are also probably correct.

Unfortunately, the uncertainty caused by even aborted attempts to repeal the 1983 amendments is likely to increase the difficulty of planning future work effort and thus may dissipate much of the advantage of their early enactment. As the baby-boom generation reaches peak labor force participation age in the 1990s, the short-term financial crisis that precipitated the major reforms in social security will ebb. This will happen even faster if the present economic recovery continues.

I am concerned that growing surpluses in the social security trust fund may give a false signal that the long-run crisis in system liabilities has been overcome. This may embolden those who have long opposed any type of reduction in social security benefits to push repeal of the 1983 reforms. It would then be a difficult task for policymakers not to take short-run advantage of such huge and apparently growing reserves. Yet I believe that such a move would confuse a brief respite with a reprieve from the consequences of the inevitable demographic shift in the age distribution in the United States population and would be a long-term disaster for the system and those whose retirement plans depend upon it.

My review of the evidence leads me to conclude that the trend toward early retirement which our social security and pension systems encouraged over the last three decades cannot be sustained. Calls for repeal of the long-term changes made in the 1983 amendments to the Social Security Act merely increase uncertainty and will make the ultimate change in labor supply prescribed by the graying of the baby-boom generation that much more difficult. ■

*(notes on following page)*

# International conferences on social policies

A conference titled "Income Transfer Policies and the Economic Well-Being of the Poor" will be held at the Rockefeller Foundation's Bellagio Center at Lake Como, Italy, in May 1984. Organized by Sheldon Danziger and Eugene Smolensky of the Institute, the conference will explore the effects of changes in social welfare policies on the economic well-being of the poor in the United States and several Western European countries.

For decades after World War II, most Western democracies rapidly expanded public programs designed to raise the income share of the poor. As a result of the worldwide recession that followed the first oil embargo of 1973, however, critics of these programs, who have argued that they have important adverse effects on economic growth by reducing work effort and private savings, have had increasing influence on policy. Public income transfer programs are being—or have been—cut back in the United States, the United Kingdom, Germany, and even the Netherlands and Scandinavia. Only France seems to be resisting this trend, while Switzerland has been unaffected by either the rapid expansion of the earlier period or the retrenchment of today.

The conference will investigate how these policy retrenchments affect the economic well-being of the poor, and will also attempt to explain differences that may exist from one country to another. Participants will provide estimates of how income transfer policies in the late 1970s affected income inequality in their own country and estimate what effects these changes in social policies will have on the work effort and incomes of the poor.

Among those presenting papers at the conference will be Danziger, Peter Gottschalk, Robert Lampman, and Smolensky from the United States, Denis Kessler, André Masson, and Dominique Strauss-Kahn from France, Carmela d'Atice and Alessandra del Boca from Italy, Philip de Jong and Kees Goudswaard from the Netherlands, René Frey and Robert Leu from Switzerland, and Michael O'Higgins from the United Kingdom.

The conference is being supported by the Council for European Studies and by the University of Wisconsin International Studies Program. The Rockefeller Foundation is providing the facilities.

A second conference will be held at the Institute for Research on Poverty, November 1 and 2, 1984. Sponsored by the French Centre d'Étude et de Recherche sur l'Épargne, les Patrimoines et les Inégalités of the Centre National de la Recherche Scientifique, it will consist of papers given by American and French social scientists on the topic "Social Policy and Individual Behavior." It will explore the responses of individuals—changes in work effort and savings, for example—to changes in transfer programs. The conference is being organized by Denis Kessler of the University of Paris, Nanterre. Professor Kessler presented a lecture, "French Economic and Social Policy since Mitterrand," at the Institute on November 1, 1983. ■

**Retirement plans,** notes

[1]See Richard V. Burkhauser and Jennifer L. Warlick, "Disentangling the Annuity and Redistributive Aspects of Social Security," *Review of Income and Wealth, 27* (1981), 401-421.

[2]See for example Richard V. Burkhauser and John A. Turner, "Is the Social Security Tax a Tax?" Vanderbilt University Working Paper no. 81-W20, 1981.

[3]See for example Alan Blinder, Roger Gordon, and Donald Wise, "Reconsidering the Work Disincentive Effects of Social Security," *National Tax Journal, 33* (1980), 431-442.

[4]See Richard V. Burkhauser and John A. Turner, "A Time Series Analysis on Social Security and Its Effects on the Market Work of Men at Younger Ages," *Journal of Political Economy, 86* (1978), 701-716 (IRP Reprint no. 307).

[5]Kathryn H. Anderson, Richard V. Burkhauser, and Joseph F. Quinn, "Do Retirement Dreams Come True? The Effect of Unexpected Events on Retirement Age," IRP Discussion Paper (in press).

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