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Workfare and welfare policy

by Michael Wiseman

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For over twenty years work has been a prominent issue in the national debate over welfare policy. Most Americans seem to agree that adults who are capable of working should if possible contribute to the support of themselves and their dependents. But substantial disagreement arises over the way, if any, this obligation should be imposed by society and the extent to which those who are not self-supporting are capable of becoming so. All of these questions have resurfaced in connection with discussions of "workfare," welfare reforms that link employment programs to income maintenance.

Many of the issues in the workfare debate involve social values, not empirical problems. But workfare proposals also raise practical issues of policy for which the outcomes of actual workfare programs provide important lessons. This essay discusses such issues in light of results of workfare programs and experiences in California and Massachusetts. The conclusion is that welfare work programs offer a useful opportunity for incremental welfare reform, but unanswered questions about the organization and consequences of such programs necessitate a cautious approach to program development and merchandising.

The case for work requirements

In its simplest form, the work requirement is a standard of assistance eligibility: unless the potential recipient is willing to work for some agency of the state, benefits are denied. Benefits generally involve more than wages, since most income maintenance schemes tailor payments to factors such as household size. Making the poor work for relief has a long and generally sordid history going back to the English Henrician Poor Law of 1536 (the "Act for the Punishment of Sturdy Vagabonds and Beggars"). This history reinforces opposition to such policies.

The case for work requirements rests on several interrelated arguments.

1. *A work requirement is an effective test of need.* The supply of public assistance by governments is in part dependent upon taxpayers' perceptions of the neediness of those receiving benefits. The willingness of the poor to work for benefits seems, for most people, to be a convincing demonstration of need. This "needs effect" is ongoing: A work requirement creates incentives for job finding or location of other resources if available. As such, it substitutes for financial incentives that have been incorporated in welfare programs to encourage work.

2. *Work requirements reduce welfare costs.* Costs are reduced in two ways. Work programs offset the cost of payments by the value of the product of the work recipients do. Payments are also lowered by reductions in caseload that result from the "needs effect" already cited.

3. *Work programs can preserve or enhance skills and contribute to employability.* The longer people are out of the labor force, the greater the difficulty they are likely to experience in obtaining and holding a job. Work, even if only in special jobs, may forestall this effect. And for recipients with no work history, workfare provides job experience.

4. *Work requirements make welfare more equitable.* It has been an abiding principle of welfare reform efforts that persons who work should be better off financially than those who do not.[1] But well-being involves both money income and time. While working poor households not receiving assistance may have higher money incomes than comparable welfare-dependent families without earners, they may be worse off, both because they do not get the in-kind benefits available to welfare recipients (such as Medicaid) and because welfare recipients do not have to work. This differential may be particularly evident to single parents who struggle to find sufficient time for both work and child rearing.

The case against work requirements

Work requirements for welfare recipients are anathema to many persons concerned about social welfare policy. Such programs, it is asserted, stigmatize the poor. Required work is therefore counter to the traditional focus of reform efforts, which have been directed toward development of systems of universal income support, like the negative income tax, that provide cash assistance based on money income.

Opponents also deny the validity of the arguments for mandatory work requirements. The needs-test argument may be rejected, it is claimed, because in welfare programs such as Aid to Families with Dependent Children (AFDC) eligibility already requires low or nonexistent income, very few assets, and, for many recipients, mandatory work registration and job search. The gains from eliminating a few persons unwilling to work from the welfare rolls would be offset by the additional burden placed upon the majority of the genuinely needy and, in addition, upon the dependents of those who, for whatever reason, would refuse to accept mandated jobs. As for the skills argument, unless jobs provided are skill-intensive (and therefore costly), it seems unlikely that menial labor alone will enhance a recipient's job readiness.

Opposition to the incentives and equity arguments for work requirements turns in part on perceptions of the circumstances of welfare recipients. If welfare cases stay open only for relatively short periods of time and occur because of events beyond people's immediate control—loss of jobs, for example—then welfare serves an insurance function, and the problem of dependency has its origin in the supply of jobs, not the unwillingness of recipients to work. A work program may lengthen welfare spells by interfering with the search for new, unsubsidized employment.

Opponents of mandated employment programs also tend to emphasize the cost of work program operation. An effective work mandate requires a job of last resort for all eligibles. To guarantee the virtues of the program, such jobs must produce useful output (to offset costs), enhance skills (to improve employability), and be organized in the expectation of rapid employee turnover. These requirements call for considerable capital and managerial commitment and innovation; without novelty, the more valuable the jobs are, the more likely it is that they replicate work done by regular employees of public or private organizations and therefore incur charges of displacement. Given the institutional and social constraints under which welfare policy must operate, critics argue, such programs, even if desirable, are simply not administratively feasible.

OBRA and recent developments in the workfare debate

Despite such reservations, interest in workfare grows. The initial catalyst for renewed attention to workfare was the Omnibus Budget Reconciliation Act (OBRA) of 1981. In addition to amending the Work Incentive program (WIN)[2] and permitting states to develop voluntary work opportunities, OBRA allowed the states to establish mandatory Community Work Experience programs (CWEP), in which adults receiving AFDC could be required to participate in training and "work experience" activities "to assist them to move into regular employment."[3] "As of January 1986, 24 States had opted to implement some kind of community work experience program";[4] several other states have announced plans for CWEP since that time.

While OBRA made workfare available for the first time as a policy option, four other developments have made serious consideration of such policies respectable. One is resumption of growth of the AFDC caseload after the reductions brought about by other OBRA provisions.[5] Work programs, it is suggested, could reverse this trend. Burgeoning popular and scholarly concern over long-term welfare dependency and the associated development of a socially isolated underclass in the poorest areas of the nation's cities is a second influence.[6] Some argue that work programs are important for reintegration of this group with the rest of society.[7] The third development is the growing attention given arguments that the AFDC system itself has contributed to poverty and welfare dependence by discouraging work.[8] As already discussed, work incentives are a major part of the case for work requirements. Finally, and perhaps of most importance, work and welfare programs have proved to be good politics, both for Republican conservatives such as Governor George Deukmejian of California and for new liberal Democratic leaders such as Governor Michael Dukakis of Massachusetts.

Experience with the difficulty of reforming welfare leads to skepticism about any policy posed as a solution to problems as diverse as reducing long-time dependency and assuring long-time incumbency. Given the growing importance of workfare programs, it is important to gather as much information as possible on what they can accomplish. The best available data on the consequences of a mandated work program are provided by an experiment conducted in San Diego County, California, in 1983 and 1984. This project provides a point of departure for consideration of general programs in Massachusetts and California.

Work and welfare in San Diego

In February 1986, the Manpower Development Research Corporation (MDRC) released the final report on a study of San Diego's Job Search and Work Experience Demonstration.[9] It provides the best available data on operation of a workfare program under an experimental design that allows assessment of effects on recipients' behavior and dependency. San Diego's program involved more than a work requirement, since all job assignments were preceded by an intensive program of job search assistance. Nevertheless, both program parts were work: activity schedules were tight and sanctions were imposed for failure to comply. The results show that it is administratively feasible to run a workfare program of this type; that such programs can improve recipient earnings, and thereby reduce dependency; that the mandatory aspect of workfare has important consequences; and that program effects differ among recipients according to household type and prior work experience.

Design

During the period from October 1982 to August 1983, new adult welfare applicants in San Diego for whom WIN registration was mandatory were assigned at random to one of three groups. In Group 1 recipients were required to participate in a three-week intensive program of job search that included both "employment readiness" training (how to prepare for interviews, etc.) and directed job search (JS). Group 2 recipients were also required to participate in the job search program, but if the search was unsuccessful these people were assigned up to thirteen weeks of work in unpaid positions in local government or nonprofit agencies. This was the Experimental Work Experience Program (JS/EWEP). Group 3 was the control; recipients in this category participated in neither JS nor JS/EWEP. While members of the control group were registered for WIN and nominally eligible for regular WIN job search assistance and other services, less than 6 percent received any service during the first six months following application. This very low service delivery rate suggests that the San Diego control group probably received slightly fewer WIN services than would be available under normal operation. All told, the three groups included 6251 applicants, with 1687 assigned to JS, 2878 assigned to JS/EWEP, and the remainder serving as controls.

According to MDRC, "The programs were implemented without major administrative or other obstacles." This means that persons assigned job search assistance received it, persons designated for the work experience programs actually were given jobs, and the control group was established by genuinely random assignment. Significantly, implementation included both delivery of services and the imposition of sanctions against recipients who did not cooperate; sanction rates were eight times greater for the experimental groups than was recorded for the controls. One shortcoming of the experiment was that JS/EWEP assignees were not warned of the job assignment that would follow if their job search was unsuccessful until after the job search workshop was under way. This may have reduced the effects of the prospective work requirement on behavior of people in this group.

Results

In evaluating the results, MDRC distinguishes between two groups of recipients. One group (labeled here SP) is made up of heads of single-parent welfare households. The second (labeled here UPE) is the unemployed "principal earner" of two-parent welfare households. SPs are, for the most part, traditional welfare mothers. UPEs are generally jobless fathers. The results for various measures of welfare use and employment for the two groups are summarized in Table 1.[10] To conform with employer wage reports, all data were col-

Table 1

Summary of Results, San Diego Job Search and Work Experience Demonstration

Program Outcome	Control Group	Job Search Only (JS) Group	Job Search with Work Experience (JS/EWEP) Group
Single Parents			
Ever employed during quarters 2–6	55.4%	60.5%**	61.0%***
Average no. of quarters employed	1.7	1.9	2.0***
Total earnings	$3,102	$3,353	$3,802***
Average no. of months received AFDC during quarters 1–6	8.6	8.3	8.1*
Average total AFDC payments	$3,697	$3,494	$3,409**
Sample size	873	856	1,502
Unemployed Principal Earners			
Ever employed during quarters 2–6	73.6%	74.0%	76.3%
Average no. of quarters employed	2.5	2.5	2.6
Total earnings	$7,145	$7,529	$7,361
Average no. of months received AFDC during quarters 1–6	7.5	6.7***	6.6***
Average total AFDC payments	$3,653	$3,184***	$3,124***
Sample size	813	831	1,376

Source: Barbara Goldman, Daniel Friedlander, and David Long, *Final Report on the San Diego Job Search and Work Experience Demonstration* (New York: Manpower Demonstration Research Corporation, 1986), pp. 54–55, 102–103.

Note: Asterisks identify the results of application of two-tailed tests of significance to differences between experimental and control groups. The statistical significance levels are indicated as * = 10 percent, ** = 5 percent, *** = 1 percent. All other differences are not statistically significant at the 10 percent level.

lected on the basis of calendar quarters. The first quarter includes the date of welfare application and usually covers some time before the family began receiving welfare. Since applicants for, not recipients of, aid formed the target group for study, some families (16 percent of the SP and 19 percent of the UPE groups) in the sample never received welfare at all. Participant experience was followed for six quarters, and the numbers in Table 1 measure outcomes for the five quarters following application (for earnings data) or the six quarters which include the point of application (for welfare data).

Looking first at the impact on the single-parent group, the outcomes of the experiment are what workfare advocates would expect. Participants in the experimental programs were more likely to be employed than those in the control group; their earnings were greater; they used welfare less; and they received less in welfare payments. (Employment does not include the EWEP assignment.) In general the differential between the JS and JS/EWEP groups was in favor of the job search with workfare group. Families in the JS/EWEP group reported 22 percent more earnings and received 8 percent less in welfare benefits over five quarters than did the controls. Members of the JS group also did better than the controls, but these differences are frequently not statistically significant. The difficulty encountered by MDRC in measuring experimental effects with precision reflects the large amount of random variation in earnings and work experience for people who apply for welfare; given the relatively small treatment effects, a larger sample size was needed for the JS group.

Four additional points about the outcomes for single parents should be made. First, for this group there was a significant positive difference in employment rates and earnings between participants in the JS/EWEP combination and participants in JS alone. But this differential was accumulated principally because of relatively poor performance by late cohorts of assignees to the job search component. Despite careful investigation by MDRC, the reasons for this outcome are unclear. The consequence, however, is that the experiment does not unambiguously indicate that the addition of a work assignment enhanced results beyond what was accomplished by job search alone. What is conclusive is that something about an intensive and obligatory job search/work experience program can affect employability and employment. Second, the difference between the experimental and control groups in earnings came about solely because of differences in employment rates, not differences in wages. Both groups got the same types of jobs; job search assistance seemed to help participants to find them more quickly. Third, program effects appear to have been greatest for recipients with little employment experience. Finally, the experiment produced no evidence that the employment experience component deterred people from continuing on welfare. As indicated above, however, this may in part be attributable to the fact that participants were not informed at an early point of the EWEP obligation that followed unsuccessful job search.

The consequences of the program for unemployed adults from two-parent families differ in important ways from those for single parents. As Table 1 shows, no statistically significant effect on future earnings of unemployed principal earners was detected for either the JS/EWEP or JS treatment. However, both programs affected the incidence of postapplication welfare receipt and the amount of payments. The differences are statistically significant and important: Over 18 months, average welfare benefits received by applicants assigned to the JS component averaged 13 percent less than those received by control-group members; for JS/EWEP assignees, over 14 percent less. The similarity of these figures points up another result: JS and JS/EWEP effects were virtually identical. Again, for the UPE group, other analysis by MDRC indicates that program effects were greatest for recipients with prior welfare history.

The apparent inconsistency between results for welfare receipt (which went down) and earnings (which showed no statistically significant effect) is an anomaly. Earnings data for the San Diego experiment were collected from state records for employer/employee contributions to the Unemployment Insurance system. The results are consistent with the position that the work requirement caused some recipients to choose to forgo AFDC in favor of "underground" employment that produced no earnings report. Such activities are presumably also pursued when welfare does not require commitment of time to job search or work. Thus the San Diego results may confirm the contention that for some recipients even minimal work requirements would lead to withdrawal from assistance because such obligations interfere with other activities. The MDRC data suggest that 14 percent of San Diego UPE recipients fell into this category; this is not large, but neither can such an effect be taken as insignificant.[11]

Costs and benefits

The fiscal bottom line on the experiment depends critically on what is measured and for how long. Viewed strictly from the perspective of the taxpayer and ignoring the value of whatever output recipients in EWEP produce, the present value of the benefits (measured over five years) of the JS/EWEP combination exceeded costs by about $950 per SP applicant; for UPE cases, the difference was $1060. For JS alone benefits exceeded costs by $452 for single parents and by $1239 per UPE applicant. Costs per applicant were around $650. Slightly less than half of applicants in the experimental groups actually received any JS or EWEP services. (The other applications were denied or the case closed before the services were received.) As a result, the applicant costs do not represent the cost per day of actual service delivery but rather cost per applicant of operating the program as a whole. However accrued, most costs came before benefits, so that the immediate effect of introducing the San Diego program would be to raise costs without offsetting welfare savings and/or tax benefits from increased earnings. Like the behavioral effects, these results are modest but important. The message is that programs of this sort won't reduce this year's deficit, but in the longer run they could make a difference.

Comments

The San Diego Job Search and Work Experience Demonstration is an important contribution to empirical knowledge about welfare policies. Five points deserve emphasis.

• The San Diego program did not require onerous make-work. MDRC attitude surveys indicate that the jobs done were viewed by recipients as meaningful, and, more important, most recipients seemed to view the search/work obligation as fair.

• The program was modest in conception and execution. The procedures followed were relatively straightforward and brief. This minimized the likelihood of interfering with turnover that would have occurred in the program's absence. Data for the control groups indicated that 15–20 percent of cases which actually opened were closed within a quarter in the absence of *any* intervention. Well over half the cases were closed within a year.

• The program does not provide a clear-cut demonstration of the efficacy of work assignments. Although there is evidence that the addition of work experience added to program effects for single parents, no detectable additional effects appear in the data for principal earners.

• The program's obligatory elements appear to make a difference. In the absence of vigorous program monitoring, some recipients appear to fall behind in the activities required for a rigorous job search. It is not clear, however, that those persons most frequently out of compliance with project regulations were necessarily the same persons who benefited from the services provided—in other words, the sanctions may have had little or nothing to do with the outcomes. In a future experiment it would be useful to vary the degree of obligation to test this effect. This could be accomplished by eliminating sanctions for noncompliance for one experimental group.

• Finally, both programs suggest that productivity will be enhanced by targeting hard-to-employ cases. But the San Diego experiment did not include two groups that are the object of considerable interest: long-term dependents already on welfare (recall that the experiment used only new applicants) and single parents with children younger than 6.

The new workfare

The San Diego Job Search and Work Experience Demonstration was relatively small. A number of states have embarked on much more elaborate programs. Two that have attracted considerable attention are the Massachusetts Employment and Training Choices (ET-Choices) program and California's Greater Avenues for Independence (GAIN) initiative.

Employment and Training Choices

Both the Massachusetts and California models differ substantially from the San Diego experiment. The differences are best illustrated by considering the path that would be followed by a single parent. For ET the initial step is to register.[12] This is mandatory for those meeting WIN requirements and optional for all other adult recipients. Step 2 is an appraisal session in which the recipient meets with an ET worker to develop an employment plan. In this session registrants are informed about ET options, which include career planning (an adjunct to the appraisal process), on-the-job training in supported work, various education and training programs, and direct job placement. In step 3 the recipient and worker agree on an employment plan based on the recipient's interests and available services. Simultaneously, a support-services plan is developed which includes, as needed, provisions for day care, arrangements for transportation, and assistance in developing health care alternatives if necessary once employment is attained. Finally, the program is initiated.

ET-Choices has several important features. One is the importance attached to child care. Most of this is delivered through a voucher system; availability of child-care support allows extension of the program to women with preschool children (a group exempted from the San Diego experiment). In fiscal year 1985, 35 percent of ET participants were women with preschool children. A second is the attention paid to planning for the period when employment is achieved and welfare eligibility is lost. By carefully describing to recipients the reduction of support once employment takes place, both uncertainty and adverse economic consequences are minimized. The change is facilitated by the extension of child-care support for one year past ET "graduation," i.e., job taking. The third exceptional ET feature is that aside from mandatory registration for WIN eligibles, the program is *voluntary*. No sanctions are imposed. Once informed of the ET opportunity, recipients who prefer not to participate need not do so. Finally, ET-Choices is surely the most publicized welfare program in the country. This publicity has two targets. One, of course, is the taxpaying public; because of the publicity, Massachusetts is one of the few states where a welfare program seems to be a political asset for state politicians. The other target is dependent adults. The publicity campaign serves to heighten awareness of the ET option, to create a popular presumption that welfare recipients are involved in efforts to achieve self-support, and, by emphasis placed on ET success stories, to arouse interest.

Over the first two and one-half years of ET operation, the AFDC caseload in Massachusetts declined by 9.5 percent. Over the same interval the Massachusetts economy was very strong (the unemployment rate declined by over 4 percentage points), and this contributed to the ability of recipients to find jobs. But since other states experienced even greater changes in economic conditions without the same change in caseloads, state ET officials were quick to attribute caseload trends to ET: "The successful job placement record of ET-Choices has contributed significantly to the decline in the Massachusetts AFDC caseload."[13] Indeed, ET program reports claim that system expenditures are recovered within a year. This claim is based on the assumption that in the absence of ET, no job placements would occur. But, as evidence for San Diego indicates, closure rates for AFDC cases, especially those in the AFDC-U (Unemployed Parent) category, are substantial even with no employment program.

To date the Massachusetts Department of Public Welfare has been unwilling to undertake a systematic evaluation of the net effects of ET-Choices. Given the comprehensive nature of the program, it would be difficult to do so. But failure to evaluate the program may be risky. In the longer run it is possible that oversell of ET-Choices may damage the credibility of what is a significant innovation. If the state attributes to ET virtually everything that happened to the caseload from 1983 to 1985, then it seems to follow that any reversals of trend are also to be laid at the feet of the program. Recent evidence indicates that the rate of caseload decline has attenuated, and, despite continuing strength in the state's economy, welfare applications are up. It may be that by touting individual successes in the ET program as a marketing device, the state has created an incentive for those outside welfare to enter the system.

In 1967 Congress changed procedures for calculation of welfare benefits so that earned income would not reduce benefits dollar for dollar. This incentive applied only to earnings once welfare dependency was achieved; it could not be claimed by applicants. As a result, it was possible for some people, once on welfare, to increase earnings to the point where, were they to reapply, they would lose welfare eligibility. Others, in similar circumstances, who had never achieved welfare eligibility would with the same earnings have lower incomes. This inequity was a major target of OBRA, whose provisions reduced both the size and duration of these features. ET and similar programs appear to create similar inequities. Why should some earners, by virtue of a spell of low income, be entitled to a substantial combination of supported education, child care, transportation, and health care assistance, while others whose current status is not objectively much different be denied it?

Greater Avenues for Independence

GAIN is an amalgamation of the San Diego and Massachusetts models: essentially, the program splits the JS/EWEP system and inserts ET in the middle. Participant paths through GAIN can be quite complicated; space permits only a brief description here. As with ET-Choices and the San Diego demonstration, the process begins with registration. At this point recipient job and welfare histories are evaluated and people are sorted on the basis of prior welfare history (whether on aid or not more than twice in the preceding three years), labor market connection (whether worked or not in preceding two years), and need for remedial education. Those who have worked recently are routed into an individual job search component; those deemed work-ready but without recent labor market experience are routed to a job club for more intensive search assistance.

If after three weeks of job search the GAIN participant has not found a job, he or she meets again with a counselor to draw up a revised contract. At this point the participant is provided with a range of ET-like training and education services plus whatever support is necessary to achieve the goals of the plan. The contract binds the state to deliver the services and the recipient to participate in the planned program. Services at this stage can include short-term (three-month) "preemployment preparation" programs—workfare—to "provide work behavior skills and a reference for future unsubsidized employment," but only if such a program is consistent with the participant's plan. GAIN envisions two types of work program: "basic," oriented toward general work skills, and "advanced," intended to utilize specific participant skills.

Following completion of the services component, the participant reverts to job search. If still jobless, his or her next step is long-term (12-months) advanced preemployment preparation, then if no job is found, a new contract, and so on. Persons who fail to complete training or other ET-like programs may be assigned directly to long-term basic workfare. Workfare assignments are, as in the San Diego experiment, to be developed by public and private nonprofit agencies; the total hours of obligation for recipients are either 32 hours per week or roughly the family AFDC grant divided by $5.17 per hour (a figure derived by averaging wages for jobs listed by employers with the state employment service), whichever is less. At each stage the participant has a right to coverage of transportation and child-care costs and third-party arbitration of disputes over compliance with the individual employment plan. While failure to comply with employment-plan provisions can eventually bring sanctions, the sanctions imposed are moderate (elimination of benefits for the GAIN participant, but not for the rest of the family) and appear to be difficult to enforce.

California's AFDC system is operated by counties, and it is anticipated that GAIN will not be implemented in all counties until 1988. There is little operating experience on which to judge the program. Nonetheless, several characteristics are clearly similar to ET. Like the Massachusetts program, GAIN is explicitly intended to include recipients with preschool children. GAIN also provides extensive support for participants, including child-care and transportation costs, with the child-care stipend extending at least three months beyond the point of job taking. The foundation of the GAIN plan is a "contract" with the recipient. But here a subtle difference arises: the California program recipients are required to develop a contract; in Massachusetts it is an option. And in California, if training services fail to produce employment, "preemployment preparation" work assignments are required. The publicity has emphasized the obligational aspect of the program, along with the major infusion of new resources provided by the legislature to support GAIN operations. The obligational aspect isn't very strong, but it is there. The key problem is that the program is so elaborate that it is unlikely to be administratively feasible, at least in the beginning. Recipients are absolved from participation in job search or employment programs while waiting for slots in training programs deemed appropriate by their own employment contracts. And it is not clear that the state will be able to mandate preemployment preparation for only some eligible participants if the total number of positions proves inadequate to meet demand.

GAIN includes a fallback. When available funds are insufficient to meet requirements of the program for all recipients, recipients in various categories are excused. The first to be excused are new applicants for the AFDC-U program. The last are single parents who are long-term AFDC dependents. This essentially reverses the targeting procedures in San Diego: it is the principal earners in AFDC-U families for whom the search/work obligation in San Diego appears to have had the greatest effect.

It is easy to criticize GAIN. But it is important to recognize what the legislation does. First, GAIN affirms application of the principle of employment orientation for the welfare system for virtually all recipients: this is a step beyond WIN. Second, GAIN attempts, albeit somewhat clumsily, to integrate fully a range of employment and training services with basic income maintenance: this, too, has not been attempted before on this scale. Third, the legislation makes an effort to target services on groups—young mothers, long-term dependents—thought to pose significant problems. Fourth, at least in public posture, the program is much more obligational than ET. Even with loopholes in the regulations, state and county welfare offices are likely to be held publicly accountable for the degree of obligation achieved. The public in California expects an operating work requirement, and this will certainly influence the character of the program that emerges from GAIN implementation. Perhaps most remarkable is the fact that, like the Massachusetts program, GAIN represents a major commitment of resources to the poor at a time when budgets are tight.

Conclusions

On balance, workfare in any of the three versions discussed above is an incremental welfare reform. Each program starts with the current AFDC system, and each changes the orientation of the program in the direction of increased emphasis on employment. The political popularity of the Massachusetts and California programs indicates broad public support for this type of initiative. The results of the San Diego Job Search and Work Experience Demonstration indicate that relatively simple programs can have significant payoffs both for recipients and for taxpayers without creating hardships. ET and GAIN, however, go substantially beyond the San Diego model, with consequences that are still very uncertain.

The new state aggressiveness and variety in welfare policy is surely one of the benefits of a federal system, and it is a positive consequence of the provisions of OBRA. For the immediate future it is appropriate to continue these experiments. But it is essential that innovation be yoked to serious evaluation and testing. In designing such tests, high priority should be given to comparison of voluntary versus obligatory participation schemes and program effects for long-term dependents and mothers with young children. It is also important that such policies not be oversold, either as answers to all the problems of income maintenance policy or as evidence for increasing state latitude in welfare policy-making. ■

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1 See, for example, the "goals of an income-tested welfare system" listed in Michael C. Barth, George J. Carcagno, and John L. Palmer, *Toward an Effective Income Support System: Problems, Prospects, and Choices* (Madison, Wis.: Institute for Research on Poverty, 1974), pp. 39–42.

2 Training programs and other employment-related assistance have been available to welfare recipients since 1968 through the Work Incentive program. By law certain adult recipients—mothers without preschool children in single-parent families and the unemployed principal earner (usually the father) in two-parent families—are required to register with the WIN program as a condition of receiving welfare. In practice the participation requirement has not been meaningful, for shortages of staff and funds have meant that two-thirds or more of those who register for WIN receive no services. In theory able-bodied adults without transportation problems or child-care problems who refused to accept job referrals generated through WIN or to participate in training could be "sanctioned" by reduction of welfare grants. In practice this has rarely occurred.

3 Public Law 97-35, August 13, 1981, Sec. 2307(a).

4 U.S. House of Representatives, Committee on Ways and Means, *Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means* (Washington, D.C.: GPO, 1986), p. 360.

5 OBRA reduced the amount of other income recipients could receive and still retain welfare eligibility and also changed procedures for benefit calculation in ways that reduced the return to employment. For the General Accounting Office evaluation of the effects of these changes see U.S. House of Representatives, Committee on Ways and Means, *Background Material*, pp. 403–404. For detailed analyses of the effects of OBRA, see Robert Hutchens, "The Effects of the Omnibus Budget Reconciliation Act of 1981 on AFDC Recipients: A Review of Reviews," IRP Discussion Paper no. 763-84, 1984; and Robert Moffitt, "Assessing the Effects of the 1981 Federal AFDC Legislation on the Work Effort of Women Heading Households: A Framework for Analysis and the Evidence to Date," IRP Discussion Paper no. 742A-84, 1984.

6 For a discussion of long-term welfare dependency, see Mary Jo Bane, and David T. Ellwood, *The Dynamics of Dependence: The Routes to Self-Sufficiency* (Cambridge, Mass.: Urban Systems Research and Engineering, Inc., 1983). Trends leading to underclass development are considered by William Julius Wilson in "Cycles of Deprivation and the Underclass Debate," *Social Service Review, 59* (December 1985), 541-559 (available as IRP Reprint no. 535).

7 See Lawrence M. Mead, *Beyond Entitlement: The Social Obligations of Citizenship* (New York: The Free Press, 1985).

8 Charles Murray, *Losing Ground: American Social Policy, 1950–1980* (New York: Basic Books, 1984); Mickey Kaus, "The Work Ethic State," *New Republic*, July 7, 1986, pp. 22–33.

9 Barbara Goldman, Daniel Friedlander, and David Long, *Final Report on the San Diego Job Search and Work Experience Demonstration* (New York: Manpower Demonstration Research Corporation, 1986). MDRC is engaged in an 11-state demonstration of state work/welfare initiatives of which the San Diego project is a part. See Judith M. Gueron, "Work for People on Welfare," *Public Welfare, 44* (Winter 1986), 7-12.

10 The estimates in Table 1 are derived from multivariate regressions that control for, in addition to experimental group, preapplication characteristics of sample members.

11 This rough estimate is calculated in the following way. For both experimental groups the maximum differential between average payments to families in the control and experimental groups occurred in the third quarter following application. In that quarter rates of welfare participation for unemployed principal earners were about 7 percentage points lower for the experimental than the control groups. Since by the third quarter following application only about 50 percent of applicants received any benefits at all, this implies that at most those who found the obligation imposed by the San Diego program unacceptable amounted to 14 percent (7/.5) of the caseload. This estimate may overstate the dissuasion effect, since the earnings differences between control and experimental groups reported in Table 1 show some positive effect on earnings. This could have produced some of the observed case closings and benefit reductions.

12 The description of the Massachusetts program that follows is based on conversations with staff of the Massachusetts Department of Public Welfare and *The Massachusetts Employment and Training Choices Program: Program Plan and Budget Request, FY87* (Boston: Department of Public Welfare, Executive Office of Human Services, Commonwealth of Massachusetts, January 1986).

13 *The Massachusetts Employment and Training Choices Program*, p. 6.

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Edited by E. Uhr. Unsigned articles written by Elizabeth Evanson and E. Uhr.

Conference on Poverty and Social Policy: The Minority Experience

A conference cosponsored by the Ford Foundation, the Rockefeller Foundation, and the Institute for Research on Poverty is being held November 5–7, 1986, at Airlie House, Airlie, Virginia.

The conference follows the one convened in 1984 by the Institute and the U.S. Department of Health and Human Services to take stock of our current knowledge of poverty, to evaluate antipoverty policies of the past twenty years, and to consider future policy directions. (See *Fighting Poverty: What Works and What Doesn't,* ed. Sheldon H. Danziger and Daniel H. Weinberg [Cambridge, Mass.: Harvard University Press, 1986] for the proceedings.) That conference dealt with broad theoretical and empirical issues rather than specific groups. Because poverty is a more serious problem for most minority groups than it is for white Americans, this conference will bring together existing information about the incidence, causes, and consequences of poverty among black Americans, Hispanic Americans, Native Americans, and immigrants of varying nationalities. Topics include the vulnerability of minority groups to cyclical changes in the economy, the significance of race and ethnicity as determinants of poverty, and the effectiveness of social welfare programs in reducing poverty among minority-group members. The conference papers will be summarized in a future issue of *Focus*. They are as follows:

- William Darity, Jr., University of North Carolina, Chapel Hill, and Samuel Myers, Jr., University of Maryland, "Antipoverty Programs and the Economic Well-Being of Minorities."
- Charles Hirschman, Cornell University, "Minorities, Markets, and Poverty: The Effects of Economic Conditions on Labor Force Patterns."
- Guillermina Jasso, University of Minnesota, "Double Disadvantages? The Effects of Nativity and Aging on the Experience of Poverty."
- Robert Mare, University of Wisconsin–Madison, and Christopher Winship, Northwestern University, "Family Background and Labor Market Effects on School Continuation: Racial and Ethnic-Group Differences."
- Peter Rossi, University of Massachusetts, "Minorities and Homelessness."
- Gary Sandefur, IRP, "Group-Specific Policies: Lessons from the Native American Experience."
- James P. Smith, Rand Corporation, "Racial and Ethnic Variation in the Feminization of Poverty."
- Marta Tienda, IRP, "Relative Socioeconomic Status Differentials among Minorities and Native-Born Whites: Historical and Contemporary Perspectives."
- William Julius Wilson, University of Chicago, "Social Policy and Minority Groups: What Might Have Been and What Might We See in the Future?"

The relative well-being of the elderly and children: Domestic and international comparisons

One measure of social welfare in a society is the economic health of dependent populations, such as the elderly and children. The well-being of these two groups relative to the working-aged population indicates a distribution of income that promotes security at all stages of life. But what of a society that protects its aged much better than it protects its children? This anomalous situation occurs in the United States, alone among a number of Western industrial nations.

The economic status of the elderly

Many studies have documented the rising economic status of the elderly relative to the nonelderly in the United States. It has been found that the elderly have a high level of economic well-being both absolutely and relative to the nonelderly population,[1] that the elderly are less likely than the nonelderly to fall below the official U.S. poverty line,[2] that the elderly are neither more nor less vulnerable to inflation than other demographic groups (they do not live on fixed incomes because social security benefits are indexed to the cost of living and most assets appreciate with inflation),[3] and that of all population groups, they experienced the largest increase in real income between 1979 and 1984.[4] Many of these studies, however, have relied entirely on comparisons of cash income or have examined the period of the early 1970s, before the massive change in the value of noncash incomes took place. A recent study by Timothy Smeeding, who did the pioneering work in evaluating noncash income for the Census Bureau,[5] has expanded and updated this work. In his "Full Income Estimates of the Relative Well-Being of the Elderly and the Nonelderly" (see box, p.11) Smeeding provides the most thorough comparison to date of the well-being of the elderly and nonelderly populations.

Measuring income

Starting with Census money income (defined below), Smeeding adjusts for most of the factors that extend or reduce its purchasing power for the different age groups. These factors include taxes, in-kind transfers, employment-related fringe benefits, and housing income in kind. The adjustments are briefly described as follows:

1. *Census income*, measured by the Census Bureau, includes private and public cash transfers in addition to earnings, property income, and all forms of pensions received by ex-employees or their survivors. Table 1, column 1, shows that the elderly were about half as well off as the nonelderly by this measure in 1979.

2. *Disposable income* is obtained by subtracting federal and state income and payroll taxes from Census income. The effect of this adjustment is to raise the relative incomes of the elderly, who face a lower tax burden than the nonelderly with the same income. They are allowed a double personal exemption,[6] have a one-time exclusion from paying capital-gains taxes upon selling their homes, and until recently did not pay any taxes on social security income. This raises the relative income of the elderly to about 60 percent.

3. *Public income* adjusts disposable income for the value of in-kind benefits. The valuation of in-kind benefits is somewhat complex because, whereas some are almost as good as

Table 1

The Ratio of Incomes of the Elderly to the Nonelderly, 1979

Income Measure	Unadjusted Household Income (1)	Equivalent Income Adjustments: Poverty Line[a] (2)	Equivalent Income Adjustments: Half-Way[b] (3)	Household Income per Capita (4)
1. Census income	.518	.640	.762	.903
2. Disposable income	.601	.742	.884	1.036
3. Public income	.672	.830	1.002	1.189
4. Public and private insurance income	.619	.775	.920	1.107
5. Total income	.647	.804	.951	1.142

Source: Smeeding, "Full Income Estimates of the Relative Well-Being of the Elderly and the Nonelderly," IRP Discussion Paper no. 779-85, Table 5 (data from March 1980 Current Population Survey).

Note: Elderly households are those headed by a person aged 65 or over.

[a] Adjusted according to equivalence scales derived from official U.S. poverty thresholds.

[b] Based on equivalence scales halfway between no adjustment and per capita adjustment.

cash (food stamps, for example), others restrict consumption to a great extent, and are therefore worth less than their market value to recipients. Smeeding, in this particular study, values all public in-kind benefits at their cost to the government. Those he includes are Medicare, Medicaid, veterans' health benefits, food stamps, school lunches, and public housing subsidies.[7] This adjustment greatly augments the relative income of the elderly, about 11 percent of the population, who receive approximately half of the market value of in-kind transfers. Their relative income, increased by the government's cost in providing the in-kind benefits, rises to 67 percent of that of the nonelderly.

4. *Public and private insurance income* adds employment-related benefits of a discretionary nature (fringe benefits) to the equation, valued at their cost to the employer. To the extent that employers contribute to health and other insurance and pensions of the working-aged population, this increases the incomes of the working-aged population in relation to the elderly. It reduces the relative income of the elderly to 62 percent that of the nonelderly.

5. *Total income* adds the cost of private housing in kind—both rent-free (or reduced-rent) public housing and the value of implicit rent in owner-occupied dwellings. Both of these housing incomes are estimated at market value—the difference between the market rent that the unit could command and the tenant's after-tax cost of his dwelling. These adjustments increase the relative well-being of the elderly, since three-quarters of households headed by persons over 65 own their own homes. Furthermore, a large majority of the elderly homeowners have fully amortized mortgages, whereas few of the nonelderly are so situated. When housing subsidies are included, over 70 percent of the elderly receive some form of housing income, compared to 35 percent of the nonelderly. The resulting income of the elderly is 65 percent that of the nonelderly.

Work by Timothy Smeeding on the Relative Well-Being of the Aged

"Nonmoney Income and the Elderly: The Case of the 'Tweeners,'' *Journal of Policy Analysis and Management, 5* (Summer 1986), 707–724. Also available as IRP Discussion Paper no. 759–84.

"Full Income Estimates of the Relative Well-Being of the Elderly and the Nonelderly." IRP Discussion Paper no. 779–85.

with Barbara Boyle Torrey and Martin Rein, "The Economic Status of the Young and the Old in Six Countries." Luxembourg Income Study–Center for the Study of Population (LIS–CEPS) Working Paper no. 8, Luxembourg, August 1986.

Other adjustments

Income is only one of several factors that must be taken into account in comparing the well-being of the elderly with that of the nonelderly. Family size determines how much money is available for individual needs. The average size of a household headed by a person 65 or older is 1.71 persons, whereas nonelderly households average 3.01 persons. One way of adjusting for size is to use per capita income, but this overstates the well-being of the elderly by not reflecting the economies of scale available to larger nonelderly households. To deal with this problem, Smeeding uses equivalence scales as well as unadjusted and per capita income. One is a "halfway" equivalence scale, which is the midpoint (harmonic mean) between the unadjusted and per capita figures; a second is the equivalence scale implicit in the poverty lines established by the Census Bureau for families of different size and composition.

An additional adjustment could be made for underreporting of income, since there is a large discrepancy between the elderly and nonelderly in the matter of underreporting. It has been pointed out that elderly households would experience a 37 percent increase in Census money income if adjustments were made for the underreporting of money income, mainly property income accruing to upper-income elderly households, whereas the average increase for the nonelderly is only 7 percent.[8]

Results

Taking family size adjustments into account and using an expanded definition of income (total income), Smeeding finds that in 1979 the elderly were between 80 and 95 percent as well off as the nonelderly population (depending on the equivalence scale used; see Table 1). If adjustments for underreporting (not shown in Table 1) were also made, these ratios would increase by about 15 percentage points. And, according to Smeeding, the elderly as a whole are even better off today than they were in 1979.[9] In fact, given that the ratio of Census cash incomes of the elderly to the nonelderly have risen from 52 percent in 1979 to 60 percent in 1984,[10] Smeeding estimates that the adjusted total income of elderly today is at least 20 percent higher than it was in the year (1979) on which this study is based.

The 'Tweeners

Having demonstrated the well-being of the elderly as a group, Smeeding goes on to point out that, nevertheless, many of them are still financially insecure and at risk of poverty. In his paper "Nonmoney Income and the Elderly: The Case of the 'Tweeners" (see box), he establishes that there is greater inequality among members of the elderly population than among the nonelderly. He divides the elderly into three groups—those who are poor; a middle group, with Census money incomes between the poverty line and double the poverty line; and the well-to-do. (In 1979 the poverty line for a single elderly person was $3500; for an elderly couple, it was $4350.)

Those elderly who are neither well-to-do (with sufficient resources to cope with economic emergencies) nor officially poor (who have access to several means-tested programs) numbered approximately 5.68 million households (about one-third of the elderly) in 1979. Smeeding labels as 'tweeners the 3.49 million in this income range who are vulnerable to two or more of the three major sources of economic insecurity: (1) reliance on Medicare as their only health insurance subsidy; (2) failure to receive any housing income in kind; and (3) dependence on Old Age and Survivors Insurance (OASI) as their primary source of money income. They constitute one-fifth of all the elderly.

Health care

Because health care costs have risen so fast, the economic burden of health care financing now takes a larger share of the budgets of the elderly than it did in 1962, before Medicare was enacted. The poor elderly, with either Medicaid or VA health coverage, have much broader coverage than those dependent on Medicare alone. Their coverage includes nursing home care, should that be necessary. Many well-to-do elderly retirees are still enjoying health insurance benefits subsidized by their former employer. It has been found that the elderly with only Medicare (or with largely substandard supplementary insurance purchased on their own) tend to have fewer visits to doctors, fewer days spent in the hospital, and buy fewer drugs than do the rest of the elderly.[11] Major medical needs—an inevitable concomitant of old age for some—will spell economic disaster for these persons.

In-kind housing

As mentioned earlier, most of the elderly (almost 90 percent of elderly couples) receive some sort of housing income in kind, which shields them from rental housing costs and unexpected changes in the cost of living. Those who own their own homes have the added security of equity in that home. Those without this sort of subsidy face higher and more volatile rental costs as well as greater vulnerability to rising utility costs.

Reliance on OASI

The elderly who rely on OASI as a primary source of money income (i.e., for 50 percent or more of their income) are especially vulnerable to political decisions affecting social security benefits. The 1983 amendments to the Social Security Act led to a one-time postponement in the annual cost-of-living escalator, which resulted in a decline in real income to all OASI recipients. The large and growing share of total federal outlays for OASI, coupled with awareness that the elderly as a whole are better off than the rest of the nation, makes further reductions possible.

The number of 'tweeners

Table 2 shows the proportion of the elderly who face these three conditions of economic insecurity. It is clear that a greater percentage of the middle group than either the rich or the poor faces two or more of these conditions. 'Tweeners make up 21.5 percent of all elderly households. Over 60 percent of those with incomes between the poverty line and twice the poverty line are in this category. Unable by and large to increase their incomes through earnings, the 'tweeners have only one option available to them in the event of a major crisis: to spend their income and divest their assets to qualify for such programs as Medicaid and SSI.

Table 2

Proportion of 'Tweeners in the Elderly Population, 1979

Conditions of Economic Insecurity	Types of Units			
	Poor	Middle	Well-to-Do	Total
Two or more (million)	1.58	3.49	1.71	6.78
(Percentage of total)	(54.1)	(61.4)	(22.5)	(41.9)
One or none (million)	1.34	2.19	5.88	9.41
(Percentage of total)	(45.9)	(38.6)	(77.5)	(58.1)
Total (million)	2.82	5.68	7.59	16.19

Source: Smeeding, "Nonmoney Income and the Elderly: The Case of the 'Tweeners," IRP Discussion Paper no. 759-84 (data from March 1980 Current Population Survey).

Note: The poor are those with Census money incomes below the poverty line. The middle are those whose incomes are between the poverty line and twice the poverty line. The well-to-do have incomes over twice the poverty line.

The well-being of children

In 1984 the Census Bureau reported that if all food, housing, and medical benefits (excluding institutional care expenditures) were counted at market value, only 3.0 percent of the elderly were in poverty, compared to 17.7 percent of preschool children.[12] Sheldon Danziger and Peter Gottschalk, in their study, "How Have Families with Children Been Faring?"[13] attribute the poverty of children to three causes: the greater number of families headed by women; the fact that more and more government transfers, most of them indexed for inflation, have gone to the elderly while the real value of transfers (such as Aid to Families with Dependent Children) to poor nonelderly families has declined; and the fact that the earnings of those heading families with children have been gradually declining. While the United States provides increasingly generous income to the aged, who are not expected to work, a growing number of the nonaged cannot earn enough, even working full time, to raise their incomes above the poverty line for a family of four: The proportion of families with children headed by such a "low earner" rose from about 20 to 30 percent over the period from 1967 to 1984.

International comparisons

In a recent paper based on the Luxembourg Income Study (LIS) database, described in a box on this page, Smeeding, Barbara Boyle Torrey, and Martin Rein compared the U.S. elderly to the elderly in five other Western countries: Canada, Norway, Sweden, the United Kingdom, and West Germany (see box, p.11). Three types of comparisons were made: poverty rates (percentage of persons with incomes below the U.S. poverty line translated into other currencies using the purchasing-power parities established by the Organisation for Economic Co-operation and Development—OECD); relative incomes of the elderly to the national average income (where the income is adjusted for differences in family size by means of equivalence scales); and overall income inequality among the elderly (as measured by the Gini coefficient). In this study the elderly (persons aged 65 or over or families in which the reference person was 65 or over) were divided into two groups: those aged 65-74 and those 75 and over. Finally, poverty rates were compared between the elderly and children (persons aged 18 and younger) in each country and across countries.

Smeeding and his associates found that in relation to these other countries, the U.S. elderly had the highest ratios of incomes relative to the national mean income and also the highest degree of income inequality among the elderly of all the countries studied. Yet their poverty rates were about average—below those of the elderly in the United Kingdom, above those in Sweden and Canada, and nearly the same as those in Norway and West Germany. Most striking, however, were the poverty rates among U.S. children, which were not only higher than those of the U.S. elderly, but were higher by at least 60 percent than those in any other country studied (see Table 3).

Table 3

Comparative Rates of Poverty Using the LIS Equivalence Scales and the U.S. Poverty Line, 1979 or 1981

	LIS[a]		U.S. Poverty-Line Scales	
Country	Elderly	Children	Elderly	Children
United States[b]	11.7%	17.4%	16.1%	17.1%
United Kingdom[b]	23.5	11.0	37.0	10.7
Sweden[c]	0.0	4.9	2.0	5.1
Norway[b]	5.5	7.7	18.7	7.6
Canada[c]	3.0	9.5	4.8	9.6
West Germany[c]	12.3	7.7	15.4	8.2

Source: Smeeding, Barbara Boyle Torrey, and Martin Rein, "The Economic Status of the Young and the Old in Six Countries," Luxembourg Income Study-Center for the Study of Population (LIS-CEPS) Working Paper no. 8 (August 1986).

Notes: Percentage of persons of each type with disposable incomes below the official U.S. government poverty line, converted to other currencies using OECD purchasing-power parities and adjusted for family size using either the LIS or the U.S. poverty-line equivalence scale. It should be pointed out that were the concept of total incomes to be used rather than merely disposable income (total cash income minus taxes), the discrepancy between the poverty rates of the elderly and children in the United States would be much greater than the discrepancy in other countries.

[a] The LIS equivalence scale is a measure halfway between per capita income, which counts each person in a three-person family as .33 equivalent adults, and household income unadjusted for the number. It is identical to the halfway measure used in Table 1. An implicit equivalence scale is embedded in the U.S. poverty line, which differs for families of different size and composition. It is also the same scale used in Table 1.

[b] 1979.

[c] 1981.

Luxembourg Income Study

The Luxembourg Income Study (LIS) has gathered in one central location (the Center for Population, Poverty and Policy Studies in Walferdange, Luxembourg) and made comparable several recent large microdata sets which contain comprehensive measures of income and economic well-being for a group of modern industrialized welfare states. The dataset is accessible to researchers at low cost. Because of the breadth and flexibility afforded by microdata, researchers are free to make several choices of perspective (definition of unit: family, household, etc.; measure of income; or population to be studied: e.g., men, women, urban families, elderly households) within the same research paper. This truly comparable microdata collection creates a potentially rich resource for applied comparative and policy research in economics, sociology, and public policy. The LIS databank covers several countries—the United Kingdom, Canada, Germany, Israel, Norway, Sweden, and the United States; France and Australia will soon be added. A copy of the User Guide and further information can be obtained by writing either Professor Timothy Smeeding (Economics and DSSR, 1141 Annex, University of Utah, Salt Lake City, Utah 84112, USA) or Professor Lee Rainwater (Sociology, 530 William James Hall, Harvard University, Cambridge, Mass. 02138, USA).

While the authors indicated that they plan to extend their work further to more completely compare the economic well-being of children and the elderly within and across countries, they conclude that the high absolute and relative poverty rates among U.S. children when compared to the U.S. elderly or to children of other countries are cause for concern. Yet Smeeding warns that policy changes to reduce the share of government spending going to the elderly should be designed to fall on the well-to-do, not upon those whose incomes only just enable them to get along. Indeed, the principal lesson to be learned from comparative studies of this sort is that within population groups (such as the young and old), economic circumstances vary widely. The goal of antipoverty policy should not be to play one demographic group off against another but to reach all those in need.■

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1 See Sheldon Danziger, Jacques van der Gaag, Eugene Smolensky, and Michael Taussig, "Implications of the Relative Economic Status of the Elderly for Transfer Policy," in Henry J. Aaron and Gary Burtless, eds., *Retirement and Economic Behavior* (Washington, D.C.: The Brookings Institution, 1984). Available as IRP Reprint no. 491. See also Christine Ross, Sheldon Danziger, and Eugene Smolensky, "Interpreting Changes in the Economic Status of the Elderly, 1949-1979," paper prepared for the Western Economic Association, May 1986. Revised July 1986. The exceptions to relative well-being among the elderly are widows, who face higher poverty rates than the rest of this group—see, e.g., Jennifer Warlick, "Why Is Poverty after 65 a Woman's Problem?" IRP Reprint no. 547, 1986; and the article by Richard Burkhauser, Karen Holden, and Daniel Myers in this issue.

2 U.S. Bureau of the Census, "Estimates of Poverty Including the Value of Noncash Benefits: 1979 to 1982," Technical Paper no. 51 (Washington, D.C.: GPO, 1984).

3 Michael Hurd and John Shoven, "Inflation Vulnerability, Income and Wealth of the Elderly, 1969-1979," in Martin David and Timothy Smeeding, eds., *Horizontal Equity, Uncertainty, and Economic Well-Being,* National Bureau of Economic Research–Research on Income and Wealth, Conference Vol. 50 (Chicago: University of Chicago Press, 1985).

4 John L. Palmer and Isabel V. Sawhill, eds., *The Reagan Record: An Assessment of America's Changing Domestic Priorities* (Cambridge: Ballinger, 1984), Table 10.6, pp. 332-333.

5 U.S. Bureau of the Census, "Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effects on Poverty," Technical Paper no. 50 (Washington, D.C.: GPO, 1982).

6 Eliminated, effective in 1987, by the tax reform bill that passed in September 1986.

7 Smeeding does not include institutional care under Medicaid and veterans' coverage, because a large portion of such benefits consists of food and housing, which are received in lieu of other forms of cash and noncash income, such as Supplemental Security Income (SSI).

8 Smeeding, "Full Income Estimates," p. 21, reporting Daniel Radner, "Adjusted Estimates of the Size Distribution of Family Money Income," *Journal of Business and Economic Statistics, 1* (April 1983), 135-146.

9 Smeeding, "Full Income Estimates," pp. 51-52, reporting Palmer and Sawhill, *The Reagan Record,* and Council of Economic Advisers, *Economic Report of the President, 1985* (Washington, D.C.: GPO, 1985).

10 U.S. Bureau of the Census, "Money Income and Poverty Status of Families and Persons in the U.S.: 1984," Series P-60, no. 149, August 1985.

11 Smeeding, "Nonmoney Income," pp. 10-11, reporting Mark Berk and Gail Wilensky, "Health Care of the Poor Elderly: Supplementary Medical Care" (Washington, D.C.: National Center for Health Services Research, December 1983).

12 U.S. Bureau of the Census, "Estimates of Poverty Including the Value of Noncash Benefits: 1984," Technical Paper no. 55 (Washington, D.C.: GPO, 1985), pp. 13-14.

13 IRP Discussion Paper no. 801-86. The results of this study are reported in *Focus* 9:1 (Spring 1986), pp. 6-10.

Seminars and workshops

The Institute and the Office of the Assistant Secretary for Planning and Evaluation at the U.S. Department of Health and Human Services jointly sponsored a workshop at Madison, May 1-2, 1986. The following research projects were described.

J. S. Butler, Vanderbilt University, "The Effect of the Food Stamp Program on Nutrient Intake," IRP Discussion Paper, forthcoming.

Howard Chernick, Hunter College, and Andrew Reschovsky, Tufts University, "The Taxation of the Poor: Impacts of Federal Tax Reform Proposals," IRP Discussion Paper no. 819-86.

Peter Mattila and Peter Orazem, Iowa State University, "A Study of the Impact of the Minimum Wage Laws on the Employment, Occupational Choice, and School Enrollment Decisions of Graduating High School Seniors," IRP Discussion Paper no. 812-86.

Jerald Schiff, Tulane University, "Government Social Welfare Spending and the Private Nonprofit Sector: Crowding Out, and More," IRP Discussion Paper no. 811-86.

Daniel Weinberg, ASPE, "Filling the 'Poverty Gap': Multiple Transfer Program Participation."

William Julius Wilson, University of Chicago, "The Importance of Ethnographic Research in the Study of Poverty."

Michael Wiseman, University of California, Berkeley, "Welfare Turnover and Welfare Policy," IRP Discussion Paper, forthcoming.

"The Efficiency and Equity Effects of Social Welfare Policies" was the title of a conference held in Paris, June 2-3, 1986. Sponsors of the conference were the French Centre d'Étude et de Recherche sur l'Épargne, les Patrimoines et les Inégalités of the Centre National de la Recherche Scientifique; the National Science Foundation; and the Institute. The papers, listed below, are available from the Institute.

Karen C. Holden, University of Wisconsin-Madison, Richard V. Burkhauser, Vanderbilt University, and Daniel A. Myers, Western Kentucky University, "Pensioners' Annuity Choice: Is the Well-Being of Their Widows Considered?" IRP Discussion Paper no. 802-86.

Mary Corcoran and Paul Courant, University of Michigan, "Sex-Role Socialization and Occupational Segregation: An Exploratory Investigation," IRP Discussion Paper no. 797–85.

Sheldon Danziger, University of Wisconsin, and Peter Gottschalk, Bowdoin College, "Unemployment Insurance and the Safety Net for the Unemployed," IRP Discussion Paper no. 808–86.

David Ellwood, Harvard University, "Working Off of Welfare: Prospects and Policies for Self-Sufficiency of Women Heading Families," IRP Discussion Paper no. 803–86.

Peter Gottschalk, Bowdoin College, "Can Work Disincentives Shorten the Duration of Job Search?" IRP Discussion Paper no. 817–86.

Robert Hutchens, Cornell University, George Jakubson, Cornell University, and Saul Schwartz, Tufts University, "Living Arrangements, Employment, Schooling, and Welfare Recipiency of Young Women," IRP Special Report no. 40.

Robert Moffitt, Brown University, "Trends in AFDC Participation over Time: Evidence on Structural Change," IRP Special Report no. 41.

Eugene Smolensky, University of Wisconsin, Myung-Hoon Lee, University of Wisconsin, Jacques van der Gaag, World Bank, and David Betson, University of Notre Dame, "An Application of a Dynamic Cost-of-Living Index to the Evaluation of Changes in Social Welfare," IRP Discussion Paper, forthcoming.

Thomas A. Hirschl, Cornell University, "Understanding Income Data and Products from the U.S. Bureau of Economic Analysis."

Maurice M. MacDonald, IRP, "Poverty and Hunger in America."

Martha McMurrey, Minnesota State Planning Agency, "Producing Post-Censal Estimates of Income and Poverty for Substate Areas."

Alice Robbin and Thomas Flory, SIPP ACCESS, "Introduction and Discussion of an Important New Data Resource."

Gary Sandefur, IRP, "An Introduction to Published and Unpublished Information on Poverty among Minorities in the U.S."

William E. Saupe and Linda Ghelfi, University of Wisconsin–Madison, "Discussion of the Prevalence and Nature of Poverty in Rural America."

Doris P. Slesinger, Applied Population Laboratory, "Examination of the Likelihood of Being Poor among the Young Old, Medium Old, and Old Old."

Paul R. Voss, Applied Population Laboratory, "Tracking the Redistribution of Income through the Migration of Individuals."

The 1986 Census Analysis Workshop, titled "Income and Poverty, Data and Trends," was held in Madison October 2 and 3. It was jointly sponsored by the Applied Population Laboratory, the Institute for Research on Poverty, and SIPP ACCESS, all at the University of Wisconsin–Madison. The conference comprised group discussions, workshops, and formal presentations, among them the following:

Rebecca M. Blank, Princeton University, "Where Is the Money Coming From? Recent Changes in Income Patterns."

Sheldon Danziger, IRP, "Fighting Poverty: What Works and What Doesn't."

Martin H. David, SIPP ACCESS, "Reflections on What We Know and Don't Know about Income and Poverty."

SIPP ACCESS has compiled a bibliography of publications, working papers, and technical memoranda related to the Income Survey Development Program (ISDP) and the Survey of Income and Program Participation (SIPP). These bibliographies are print versions of an on-line bibliographic database that is updated regularly.

"Publications Relating to ISDP and SIPP, 1976–1986," August 1986 ($3.00)

"Technical Memoranda Relating to ISDP and SIPP, 1977–1986," August 1986 ($5.25)

Send requests to SIPP ACCESS, Institute for Research on Poverty, 3412 Social Science Building, 1180 Observatory Drive, University of Wisconsin–Madison, Madison, Wis. 53706.

Notes on Institute researchers

Sheldon Danziger is serving on the Panel on Employment, Income, and Occupation for the National Academy of Sciences, Committee on the Status of Black Americans.

Sheldon Danziger and **Peter Gottschalk** presented testimony, "Work, Poverty, and the Working Poor," to the U.S. House of Representatives, Committee on Government Operations, Subcommittee on Employment and Housing, in December 1985; and "Poverty and the Underclass," to the U.S. House of Representatives, Select Committee on Hunger, August 1986.

Irwin Garfinkel was a visiting fellow at the Australian National University, Canberra, February 1986.

Arthur Goldberger has been elected a member of the National Academy of Sciences.

Lee Hansen has been elected president of the Midwest Economic Association. In February 1986 he testified on "The Impact of Demographic Trends on the Scientific and Engineering Work Force" for the Science Policy Task Force of the U.S. House of Representatives, Committee on Science and Technology.

Robert Haveman has been appointed a member of the advisory board of the Urban Institute's project on Changing Domestic Priorities.

Karen Holden is spending the 1986–87 academic year in Washington, D.C., as an economist in the Office of Research and Statistics of the Social Security Administration. She was one of seven U.S. gerontologists invited to participate in the International Forum on Aging, held in Beijing, China, in May 1986. The forum was sponsored jointly by the China National Committee on Aging and the Gerontological Society of America.

Robert Moffitt was a Visiting Professor at Tilburg University in the Netherlands for the month of May 1986. He is now serving as associate editor of the *Review of Economics and Statistics.*

Eugene Smolensky is serving on the Committee on Women's Employment and Related Social Issues, of the Commission on Behavioral and Social Sciences and Education, National Research Council, National Academy of Sciences.

Marta Tienda will be a Visiting Professor at Stanford University from January to June 1987. She has become a member of the editorial board of the *American Journal of Sociology.*

Burton Weisbrod was a Visiting Fellow at the Australian National University in March and April 1986. He lectured at seven universities in Australia and New Zealand. In 1987 Harvard University Press will publish his book *The Nonprofit Economy.*

Barbara Wolfe is serving on the economics screening committee of the Council for International Exchange of Scholars, which makes recommendations for award of Fulbright scholarships.

Small grants

New competition

The Institute and the U.S. Department of Health and Human Services plan to sponsor the sixth competition under the Small Grants program for research on poverty-related topics during the period July 1987 through June 1988. Three or four grants of up to $12,500 each are anticipated to be available for work during the summer of 1987; these grants do not require residence in Madison. One or two grants of up to $25,000 each are planned for visitors in residence at Madison during the 1987–88 academic year. Guidelines will be available from the Institute after November 15, 1986. Application deadline will be February 13, 1987.

Round V awards

Awards in the competition for work to be carried out from June 1986 to March 1987 were made for the following studies:

The Connection between Public Transfers and Private Interfamily Transfers

In response to government income transfers, do private transfers lessen or cease altogether? This research will examine such issues as the motivation behind private transfers and the extent of the potential private transfer network. Analysis of the results will be directed toward improving our understanding of the antipoverty effectiveness of government transfers. Principal Investigator: Donald Cox, Washington University.

The Effects of Government Transfers on Family Structure and Earnings Inequality

Two related events will be examined: the decline in labor force participation among black men and the rise in female-headed families. Have government transfers promoted births out of wedlock and lowered work effort of black men? Are black economic progress and lessening black-white inequality statistical illusions created by analyses that exclude blacks who have dropped out of the labor force? Principal Investigators: William Darity, Jr., University of North Carolina, Chapel Hill; and Samuel Myers, Jr., University of Maryland.

The Effects of the Marriage Market and AFDC Program Parameters on Recipient Duration on AFDC

Previous research has shown that white women are much more likely to leave AFDC through marriage than are black women. Other studies have shown that higher AFDC benefit levels do not necessarily increase the length of time a person is dependent on AFDC. This research will analyze the role of the marriage market in facilitating exit from AFDC and the effect of levels of benefits on recipients' dependence. Principal Investigator: John Fitzgerald, Bowdoin College.

Government Financing of Long-Term Care for the Elderly: Policy Implications of Community Care Demonstrations

Fifteen demonstration projects have experimented with expanding the financing of community care for the frail elderly. The implications of government financing of community services will be examined as a way to meet the need for long-term care for the elderly. Principal Investigator: Peter Kemper, National Center for Health Services Research, Washington, D.C.

Will Social Security Reform Alter the Incidence of Poverty among Older Married Couples?

How will recent retrenchments and rule changes in social security affect the retirement decisions of couples and the incidence of poverty among the retired? Analytical models will be constructed to simulate behavioral responses to the changes and their effects on income distribution among the elderly. Principal Investigator: Olivia Mitchell, Cornell University.

New book

Single Mothers and Their Children: A New American Dilemma

by Irwin Garfinkel and Sara McLanahan

> *According to official government data, about half of all the children and mothers in families headed by women suffer from the most extreme form of economic insecurity—poverty. No other major demographic group is so poor, and none stays poor longer. The average length of time in poverty for children in such poor families is seven years: more than a third of their childhood. A large minority of black children are born into poverty and never escape* (pp. 167–168).

The new American dilemma with which this monograph deals is how best to alleviate the economic hardship faced by poor mother-only families. Should the aim of government policy be simply to increase the economic well-being of these women and their children by providing benefits such as Aid to Families with Dependent Children? Or does this make matters worse in the long run by increasing the prevalence of single-mother households and their dependence on government? To answer this question, Garfinkel and McLanahan, both research associates at the Institute for Research on Poverty, marshal evidence, both historical and experimental.

They first look at the size of the problem. What proportion of single mothers are poor and for how long? Why are these families poor? And what are the long-term consequences for children growing up in such circumstances? They document the recent explosion in mother-only families and search out its causes.

They then examine the effects of public policy toward mother-only families from the colonial era to the present, with special emphasis on the programs of the Reagan administration. The cited Reagan policies include (1) the 1981 budget cuts, which marked the first explicit attempt by the federal government in the twentieth century to reduce public benefits to poor single-parent families; (2) the shift from work incentives to work requirements for those receiving welfare benefits;[1] (3) the expansion of federal efforts to strengthen the public enforcement of private child support obligations; (4) macroeconomic policies to control inflation through practices that resulted in high unemployment rates; and (5) support for antiabortion legislation.

Garfinkel and McLanahan conclude that the most important factor underlying growth of mother-only families has been the change in marriage behavior: among whites, disrupted marriages; among blacks, a decline in marriage. As for poverty programs, ". . . during the past thirty years the increases and decreases in government benefits greatly affected both the economic well-being and the dependence of poor mother-only families, but had modest effects, at most, on their prevalence" (p. 173). Though small in comparison to the growing independence of women and widespread unemployment among black men, increased government benefits are found by the authors to have some impact on the number of single-mother families. Furthermore, welfare dependence is common—affecting about one-half of all single mothers. And for many it is long-lasting: "Those who receive benefits for eight or more years constitute 65 percent of the total AFDC caseload in any given month" (p. 170).

SINGLE MOTHERS AND THEIR CHILDREN:

A NEW AMERICAN DILEMMA

by

Irwin Garfinkel

and

Sara McLanahan

Urban Institute Press, 1986
P.O. Box 19958
Hampden Station
Baltimore, MD 21211
(cloth, $24.95; paper, $12.95)

Yet, according to the authors, one of the principal goals of assistance is to promote independence, which means work. Because work has become the accepted norm for middle- and upper-income women, even those with young children, the authors suggest that it is reasonable to expect work from welfare mothers. They find no evidence, in any event, to indicate that poor children of employed mothers are less well off than poor children of mothers who stay home. Because work relief programs are successful only if jobs are available, they advocate the provision of jobs paying the minimum wage to all welfare recipients capable of working. And at the same time they suggest services to facilitate economic advancement for these women: namely, education and training programs.

Work, however, is not enough. Three-quarters of all welfare recipients cannot command high enough wages to lift their families out of poverty even if they work full time, year round. Garfinkel and McLanahan, therefore, propose ways to supplement the incomes of these women with little cost to the taxpayers and without the negative incentives built into the welfare system.

- A new child support assurance system. This would require all parents to share their incomes with their children. A simple formula would determine the amount of the child support award, which would be collected through universal withholding from earned income. In the event that the payment was below some assured minimum, the difference would be paid by the state. Such a benefit, when combined with earnings, could lift many mother-only families out of poverty. It would encourage work because the benefit would not be reduced dollar for dollar when earnings increased, as are AFDC benefits.[2]

- Conversion of the exemptions for children in the federal income tax (now $1080 per child, with an increase to $2000 in the new tax legislation) to children's allowances. While costing little more than the current tax exemption, a child allowance of $300 to $400 a year would help families at the bottom of the income distribution, who do not now benefit from the exemption because they pay no income taxes. Like the assured benefit, this allowance for children would go to rich and poor alike and would not be reduced as earnings rose.[3] Furthermore, by going to children in two-parent families as well as single-parent families, it would reduce the discrimination in favor of one-parent families, built into the AFDC program and the Child Support Assurance program. Such a child allowance should help reduce the high poverty rates among children in the United States compared to children in other Western countries, where benefits to children have long existed.[4]

- The conversion of the personal adult exemption in the federal income tax (soon to be $2000) into an adult allowance of $300–400. This too would be a greater benefit to the poor than an exemption.

The authors propose extensions to this basic agenda. The provision of work relief to all poor parents—not just single parents—would alleviate male unemployment, one of the principal causes of mother-only families, and enable a greater number of fathers to contribute to the support of their children. And raising child and adult allowances to the level of food stamp benefits would both eliminate the Food Stamp program and make a sizable dent in poverty and the social problems that stem from deprivation.

The book is part of the Changing Domestic Priorities Series of the Urban Institute, edited by John L. Palmer and Isabel V. Sawhill.

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[1] For a review of the workfare programs currently under way, see Michael Wiseman's article in this issue of *Focus*.

[2] A detailed description of the Wisconsin Child Support Assurance program is given in *Focus* 9:1 (Spring 1986), pp. 1–5.

[3] These proposals are also discussed in Garfinkel, ed., *Income-Tested Transfer Programs: The Case For and Against* (New York: Academic Press, 1982) and Garfinkel, "The Role of Universal Demogrants and Child Support in Social Security Reform: An Essay in Honor of Dr. George F. Rohrlich," IRP Discussion Paper no. 738-83, 1983.

[4] See "The Relative Well-Being of the Elderly and Children: Domestic and International Comparisons" in this issue of *Focus*.

New work under way

Migration patterns and well-being

Some Hispanic groups (such as the Cubans) prosper in the United States while others (Chicanos and especially Puerto Ricans) fare less well. Marta Tienda and Franklin Wilson of the Institute have received a grant from the Ford Foundation to investigate the relationship between economic well-being and migration patterns of Cubans, Puerto Ricans, and Mexicans.

The researchers intend to examine the population streams of migrants from Mexico, Puerto Rico, and Cuba from their place of origin and within the continental United States. The relationship between migration experience, 1980 residence, and labor market position (including earnings) of these groups will then be analyzed. Finally, the impact of migration and residence on welfare recipiency will be explored.

Public Use Microdata Sample tapes from the 1960, 1970, and 1980 decennial censuses will provide the data. In addition to information on geographic movements, residence, and employment history, Tienda and Wilson will examine variables such as gender, education, language, race, household characteristics (size and composition), and receipt of public assistance income.

They expect to obtain policy-relevant insights into such questions as, Does migration to the United States improve socioeconomic status? Does migration within the United States promote economic advancement? Or is geographic mobility detrimental, in that it weakens family structure and thereby promotes single-parent households? What are the determinants of migration? What sorts of people are doing the moving? Why does the Cuban immigrant experience appear to differ so greatly from the Puerto Rican experience?

Recent Institute Publications on Migration by Marta Tienda

with Leif Jensen, "Immigration and Public Assistance Participation: Dispelling the Myth of Dependency," IRP Discussion Paper no. 777–85.

with Ding-Tzann Lii, "Minority Concentration and Earnings Inequality: A Revised Formulation," IRP Discussion Paper no. 791–85.

with George Borjas, "The Economic Consequences of Immigration," IRP Discussion Paper no. 816–86.

A behavioral model of well-being

In collaboration with Nancy Brandon Tuma of Stanford University, Gary Sandefur of the Institute is developing, formalizing, and testing a dynamic behavioral model of migration. This project will utilize dynamic stochastic methods for analyzing longitudinal data.

Numerous factors are presumed to influence the decision to migrate, among them individual characteristics (gender, race/ethnicity, age, marital status, education, employment status, income, wealth, homeownership, and opportunities for sociability). Married couples must balance many of these factors in their implications for both husband and wife. (Job opportunities for the husband, for example, may mean a job loss for the wife if her occupation is not easily transferable.) Families with children must take into account the disruption of the children's routine and the quality of education. Characteristics of the present locale and future location (such as climate, crime rate, tax rate, and population size) also play a role in decision-making. Furthermore, different categories of people place different values on the various factors. Obviously, retirees will be more influenced by climate and health care facilities than by the unemployment rate. Even the distance between the locations is taken into account.

Sandefur and Tuma intend to examine the costs and benefits of migration, both monetary and nonmonetary, at three stages in the migration decision-making process: (1) when the decision is made to search for a new location; (2) during the search process, when alternative locations are evaluated; and (3) when the final decision to move is made. Based on the outcomes of the decisions (i.e., the moves) and the numerous pieces of information that they collect about individuals and locations, the researchers will derive a model that can be estimated and tested with longitudinal data.

The two data sets used to test the hypotheses will be the Panel Study of Income Dynamics and the National Longitudinal Survey of Youth. Both contain not only a wide variety of apposite individual characteristics but information on the county of residence, so it will be possible to supplement the data on individual attributes with information on locales using material from the U.S. Bureau of the Census and other government agencies.

The research is being funded by the National Institute of Child Health and Human Development.

Income redistribution policy

The Twentieth Century Fund has awarded a grant to Robert H. Haveman of the Institute to study income redistribution policy in the United States.

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Measuring the well-being of older women: The transition from wife to widow

by Richard V. Burkhauser, Karen C. Holden,
and Daniel A. Myers

Richard Burkhauser is a professor of economics at Vanderbilt University and an IRP affiliate. Karen Holden is a project associate at the Institute. Daniel Myers is an assistant professor of economics at Western Kentucky University.

The old refrain "His problem ain't so much what he don't know, but what he does that just ain't so" is an apt description of the public perception of poverty in old age. Thanks in large part to dramatic increases in social security benefits and in the incidence and size of private pension benefits, older Americans are now no more prone to suffer from inadequate income than are any other age groups.[1] This increase in the relative well-being of the elderly is not equally distributed, however. Cross-sectional data show a persistent and dramatic difference in poverty rates between older couples and widows, suggesting that widowhood itself substantially increases the risk of being poor.[2] But even this perception of reality held by more sophisticated observers of the elderly "ain't quite so."

A dynamic view of old-age poverty among women

We have found that cross-sectional comparisons of the income of married and widowed women overstate the importance of widowhood as the cause of differences in income between these two marital states.[3] Longitudinal data from the Retirement History Study (RHS), developed by the Social Security Administration, which includes income information on women as both wives and widows, expose the deficiencies of the cross-sectional data. Interviews were held at two-year intervals, 1969–1979. For each year of the RHS, the poverty rates of those women who eventually became widowed during the study period were compared with the rates of those who remained married over the entire period. Not surprisingly, in any given year, on average, widows were worse off than those who remained married. But more to the point, in the years when married, these future widows were also poorer. Hence simple static comparisons of widows and nonwidows suffer from classic selectivity bias (poor wives are more likely than well-off wives to become widows) and will overstate the importance of widowhood as the cause of the difference in poverty rates.

However, the use of longitudinal data also has pitfalls, as demonstrated in Table 1. The table is based on a sample of couples in which the husband died before the last RHS survey year, 1979, thus providing at least one survey year of information on his widow. The sample is segmented by the survey year first widowed. The first row contains the poverty rates of women in their last year before becoming widows, between 1971 and 1979. The second row shows the poverty rate of these women in their first survey year of widowhood. (Row 3 is discussed below.) The fourth row shows their poverty rate in the second survey year as widows. The findings are both remarkable and misleading.

The pattern is one of dramatic increases in poverty in the first survey year of widowhood. Poverty rates increase from 270 to 450 percent over those recorded in the last year of marriage (compare row 2 to row 1). These rates then fall substantially in the next survey period (compare row 4 to row 2). This suggests that the initial transition from wife to widow is a perilous one, but one that, once traversed, leads to a period of declining poverty.

Unfortunately, such dramatic variations in well-being are in large part an artifact of the data. The RHS, like other major data sets, follows the procedure of the Current Population Surveys of the Census Bureau in collecting income data from current household members and ignoring the income of members who have moved or died before the date of the survey. For families whose composition changed during or after the income reference year, the income reported will not accurately reflect the true income position of current household members. Consider a woman who was surveyed in March 1986 and whose husband died in January of that year. She would be classified as a widow at the time of the survey and asked what income she received in 1985. Even though her husband was alive during the entire 1985 reference year, his income is not likely to be reported. Therefore the widow could be counted as poor in 1985, even though the income received by her husband and herself in the year was far above the official poverty threshold.

The collection of income information from only current household members affects measured poverty rates of widows in two ways. First, it misstates the stock of poor people

Table 1

Poverty Rates of Widows before and after Widowhood

Survey Year	First Survey Year Widowed 1971	1973	1975	1977	1979
1. Last year as couple	16.1%	11.2%	14.0%	9.5%	8.0%
2. First year as widow	50.7	38.6	37.7	43.0	35.0
3. First full year as widow	36.1	27.5	26.9	30.7	25.0
4. Second year as widow	30.0	23.0	19.6	30.7	[a]

Source: Developed from Burkhauser, Holden, and Myers, "Marital Disruption and Poverty: The Role of Survey Procedures in Artificially Creating Poverty," *Demography* (1986), forthcoming. Data from the Retirement History Study, 1969-79. Sample includes married couples in 1969 in which the husband died during the survey period.

[a] Last survey year was 1979. Thus these widows were not interviewed after the first survey year of widowhood.

at a moment in time and overstates income differences between persons who are married in comparison to those who are widowed. Second, because data on the incomes of recently widowed households understate actual income of those households during the reference year, the movements into poverty associated with the death of the husband are overstated. Any attempt therefore to measure the importance of changes in marital status in moving women into and out of poverty will be confounded by this statistical artifact. Again, consider the hypothetical widow discussed above. After a year of measured poverty her reported income in the next survey period could rise, from, for example, a transfer of social security or pension to her name, even though the income actually available for her consumption needs falls. Although she was never actually in poverty, the widow appears to have escaped poverty between the first period of widowhood and the next survey.

This is precisely what occurs.[4] Looking at unadjusted income data in the first reported year of widowhood, segmented by the month of death of the husband, one gets the implausible result that the longer a woman is married during the income reference year the more likely she is to be in poverty in that year.

Row 3 of Table 1 uses income information from the subset of women who were widowed for the entire income reference year to approximate the true poverty rates of the full sample of widows. The results suggest that the risk of poverty does increase for women as they move from wife to widow but that the rise, while substantial, is considerably smaller than shown in row 2. In addition, it can be inferred that the length of time spent in poverty by those women who actually fall into poverty is longer.

The importance of survivors' benefits to the well-being of widows

The Retirement Equity Act of 1984 is the latest attempt by the federal government to encourage workers to choose a pension option that provides income to a spouse after the worker's death. Such pension options are currently taken by only about three-tenths of all pension recipients.[5] Called a joint-and-survivor pension, this option provides benefits until the death of both the worker and his spouse. The benefits, however, are lower each year than those paid in single-life pensions, which terminate at the death of the worker. Beginning in 1986, both spouses must sign when a joint-and-survivor option is declined. It is assumed that bringing the wife more formally into the decision-making process will lead to a more equal distribution of resources across the life of both marriage partners, thus reducing the high poverty rates of widows shown in Table 1.

There is no question that pension regulations can be developed which will force greater use of joint-and-survivor annuities among those in the population eligible for pensions. But Table 2 suggests that the problem of unequal sharing of resources across the lifetime of a marriage is more pervasive than those who dwell on the pension-option decision might suspect. The table shows the poverty rates and mean income levels of women in their last survey year of marriage and their second survey year of widowhood. The women are disaggregated by whether their husbands were eligible for pensions or not, and if so, whether or not they chose "single-life" pensions, which ended with their deaths, or joint-and-survivor pensions, which continued to be paid to their widows.

Table 2

Well-Being of Women before and after Widowhood, by Private Pension Eligibility Status

Marriage State	Total Sample (1)	Husband's Pension Eligibility: Not Eligible (2)	Husband's Pension Eligibility: Eligible (3)	Pension Option: Single Life (4)	Pension Option: Joint and Survivor (5)
Wives					
Poverty rate	14.2%	23.3%	5.5%	6.8%	2.5%
Mean income	$21,307	$17,451	$24,962	$21,817	$32,208
Widows					
Poverty rate	26.1%	36.6%	16.1%	20.3%	6.6%
Mean income	$10,177	$9,153	$11,148	$10,120	$13,515
Sample Size	785	382	403	281	122

Source: Myers, Burkhauser, and Holden, "The Transition from Wife to Widow: The Importance of Survivor Benefits to the Well-Being of Women," IRP Discussion Paper no. 806-86, 1986. Data are from the Retirement History Study, 1969-79 and cover the years 1969 to 1979. Incomes are from the last survey before and the survey following the first report of widowhood and are reported in 1984 dollars.

On average, for each comparison shown, widows have higher levels of poverty and lower mean incomes than when they were married, regardless of pension eligibility or annuity choice. Comparing the incomes of women as widows and as wives indicates that the share of the couple's income retained by women after their husbands' deaths, on average, is less than that assumed necessary by the most commonly used equivalence scales to hold a widow's well-being constant.

We have simulated the effect on the incomes of widows if all pension-eligible married men chose a joint-and-survivor pension.[6] This increases the mean income and reduces poverty of the widows of men who actually chose a single-life option, assuming no other change in behavior. But the simulation leads to a much smaller effect on the general condition of widows, since only 15 percent of widows who are poor had husbands who were eligible for pension benefits in the first place.

These simulation results represent the upper bound of what is likely to occur as a result of passage of the Retirement Equity Act, since this act does not force men to choose a joint-and-survivor option. Even if future legislation did require all married men to choose this option, simulations of this type remain an upper bound of likely outcomes, because husbands can often adjust their bequest of other assets to offset the higher survivor pension benefits required by law. Hence if husbands, alone or with the consent of their wives, act to maintain the present allocation of resources across their lifetimes, these simulations overstate the increase in the well-being of widows that will occur from a pension policy change.

Two pieces of evidence suggest that some offset is likely. First, in Table 2, the drop in income of women who received survivor benefits (column 5) was not substantially different from that of widows whose pension benefits ended with the death of their husbands (column 4). In fact they have 41 percent of the income they had in the last full year that their husbands were living, whereas the figure is 46 percent for widows whose pension benefits end with the deaths of their husbands. This suggests that for men who chose a joint-and-survivor option, the survivor's benefit may have been a replacement for other types of assets that could instead have been bequeathed to the wife—e.g., life insurance, other financial assets.

Publications by the Authors on Retirement Income

Karen C. Holden, Richard V. Burkhauser, and Daniel A. Myers, "The Dynamics of Poverty among the Elderly: Income Transitions at Older Stages of Life." *Gerontologist, 26* (June 1986) 292-297. Also available as IRP Discussion Paper no. 774-84.

Richard V. Burkhauser, Karen C. Holden, and Daniel A. Myers, "Marital Disruption and Poverty: The Role of Survey Procedures in Artificially Creating Poverty." *Demography,* forthcoming. Also available as IRP Discussion Paper no. 781-85.

Karen C. Holden, Richard V. Burkhauser, and Daniel A. Myers, "Pensioners' Annuity Choice: Is the Well-Being of Their Widows Considered?" IRP Discussion Paper no. 802-86.

Daniel A. Myers, Richard V. Burkhauser, and Karen C. Holden, "The Transition from Wife to Widow: The Importance of Survivor Benefits to the Well-Being of Widows." IRP Discussion Paper no. 806-86.

Richard V. Burkhauser, Karen C. Holden, and Daniel Feaster, "Incidence, Timing, and Events Associated with Poverty: A Dynamic View of Poverty in Retirement," IRP mimeograph, 1986.

Second, the pension-option choice is not random. We have developed and tested a model of that choice and have found that the asset position of the couple affects the probability of choosing a joint-and-survivor pension.[7] For instance, men in households with lower overall levels of wealth and those whose pension is a smaller fraction of total wealth tend to choose the single-life option. Forcing such men to take an actuarially fair joint-and-survivor option may induce them to compensate for the reduction in benefits during their lifetime with a faster consumption of other joint assets.

Hence, from a public policy perspective, renewed efforts to direct the annuity choice toward the joint-and-survivor option may only have limited long-term success in changing the distribution of resources across the lives of marriage partners and even less success in changing the well-being of most widows in old age. Nonetheless, it will to some degree assure to women whose husbands are eligible for pension benefits a minimum share of these benefits in widowhood. And it may reduce the chances that these women will become poor in their old age.■

[1] Sheldon Danziger, Jacques van der Gaag, Eugene Smolensky, and Michael Taussig, "Implications of the Relative Economic Status of the Elderly for Transfer Policy," in Henry J. Aaron and Gary Burtless, eds., *Retirement and Economic Behavior* (Washington, D.C.: The Brookings Institution, 1984). IRP Reprint no. 491.

[2] U.S. Bureau of the Census, "Estimates of Poverty Including the Value of Noncash Benefits: 1984," Technical Paper no. 55 (Washington, D.C.: U.S. GPO, 1985).

[3] Karen C. Holden, Richard V. Burkhauser, and Daniel A. Myers, "The Dynamics of Poverty among the Elderly: Income Transitions at Older Stages of Life," *Gerontologist, 26* (June 1986), 292–297.

[4] Richard V. Burkhauser, Karen C. Holden, and Daniel A. Myers, "Marital Disruption and Poverty: The Role of Survey Procedures in Artificially Creating Poverty," *Demography* (1986), forthcoming.

[5] Laurence J. Kotlikoff and Daniel E. Smith, *Pensions in the American Economy* (Chicago: University of Chicago Press, 1983).

[6] Daniel A. Myers, Richard V. Burkhauser, and Karen C. Holden, "The Transition from Wife to Widow: The Importance of Survivor Benefits to the Well-Being of Widows," IRP Discussion Paper no. 806-86, 1986.

[7] Karen C. Holden, Richard V. Burkhauser, and Daniel A. Myers, "Pensioners' Annuity Choice: Is the Well-Being of Their Widows Considered?" IRP Discussion Paper no. 802-86, 1986.

New work under way
(continued from p. 20)

Haveman will explore the meaning of inequality, its impact on behavior, and the various measures that have been used to describe it. He will put in perspective the role of the U.S. federal programs to reduce inequality.

The level of inequality in this country when the War on Poverty began was large, both absolutely and relative to other Western industrialized nations. In part this inequality stemmed from the inherent diversity of the United States—racial, ethnic, and regional. There were large gaps between the incomes of blacks and whites, men and women, the North and the South, and professionals and workers. Both the elderly and the disabled were generally seen as living in relative deprivation.

Many of the social programs that dominated federal policy in the 1960s and the 1970s were directed at reducing these gaps. Yet while progress brought certain groups into the mainstream, shifts in the economy and in the structure of society generated new problems. A new set of inequalities was added to the existing set.

The decline of manufacturing and other more traditional employment as a high-technology, service-oriented society developed meant a more unequal distribution of earnings—unskilled menial jobs at one end of the continuum, highly paid professional jobs at the other.

The postwar baby boom flooded the labor market with unskilled youth, their relative wages depressed by the increase in supply. Many of them did not find jobs and others took jobs with little opportunity for advancement. Women entered the labor movement in increasing numbers, further depressing low wage levels. Divorce and separation climbed, resulting in an increase in the incidence of single-parent families with children, many of whom found themselves at the bottom of the income distribution. And births out of wedlock produced single-parent families who also tended to be at the bottom of the income distribution.

Furthermore, the policies that were credited with ameliorating inequalities were simultaneously criticized for numerous alleged inefficiencies and misallocations. It was argued that most of the expenditures of the social programs were a matter of taking money from the middle classes in order to return it to the same group. It has been suggested that both income transfers and taxes produced disincentives to work, to save, and to invest, and thereby slowed economic growth. Behavioral changes have been attributed to the incentive effects implicit in the programs: early retirement, out-of-wedlock births, independence in family living arrangements. The existing system is viewed as encouraging dependence on the public sector instead of individual initiative.

Such criticism has encouraged the opinion that the drive for equality has gone too far, that efficiency costs are higher than any social gain that may be realized.

Haveman takes issue with this position. It is his judgment that although reducing inequality remains an important goal, the means for attaining it have not all been efficient. He suggests that it will be possible both to increase equality and to improve the allocation of resources. Therefore, as part of his study he will propose a new strategy to deal with the new inequities and at the same time increase individual responsibility and accountability.

Discussion Papers

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