University of Wisconsin–Madison
Institute for Research on Poverty

Focus

Volume 10

Number 3

Fall 1987

ISSN: 0195–5705

Poverty rates by state, 1979 and 1985: A research note

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The official poverty rate in the United States increased from 11.6 percent of all persons in 1979 to 15.2 percent in 1983 and then declined to 14.0 percent in 1985. The poverty rates for all persons and for various demographic groups are published annually by the U.S. Bureau of the Census. Poverty rates for states, however, are not published annually. As a result, users of statistics have relied on the state rates for 1979, derived from the 1980 Census of Population. Because of the great number of requests that the Institute has received for more recent state poverty estimates, Ross and Danziger have prepared this research note.

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The poverty rates for 1979 and 1985 shown in Table 1 give the percentage of persons in families with money income below the official poverty line in each state.[1] The table also shows the differences between the poverty rates in 1979 and 1985 by state.

"Money income" includes all cash income after government transfers but before payments of federal, state, local, or social security (FICA) taxes, and before any other deductions from earnings, such as union dues. Money income is the sum of earnings from wages, salary, or self-employment; social security and public assistance; dividends, interest, and rent; unemployment insurance and workers' compensation; pensions from public and private employment; and other periodic income. Income in the form of noncash benefits, such as food stamps, subsidized housing, and health benefits, is not included in the measure. Other forms of noncash income that are not included are the value of goods produced and consumed on farms and the value of fringe benefits.

The poverty lines used here to define the poverty population are the official lines that are updated and maintained by the Census Bureau. In a given year, they vary by the size of the family, the number of related children, and the age of the household head. For example, in 1985 the poverty lines varied from $5,156 for an elderly person living alone to $23,926 for a family of nine or more with at least one child under eighteen. The poverty line for a family of four was $10,989.

The original poverty index was developed in 1964 by the Social Security Administration, based on the Department of Agriculture's 1955 Economy Food Plan and the determination that families of three or more persons spend approximately one-third of their income on food. The poverty lines for these families were therefore set at three times the cost of the plan. The poverty index developed by the Social Security Administration was revised by federal interagency committees in 1969 and again in 1980. One of the modifications of the original SSA lines was to adjust the poverty levels each year based on changes in the Consumer Price Index. The 1980 modifications, implemented in the March 1982 Current Population Survey (CPS) and the 1980 Census, eliminated separate thresholds for farm families and for male- and female-headed households, and extended the thresholds from seven to nine family members. The poverty lines for 1979 and 1985 are, therefore, not completely comparable.

The poverty rates in Table 1 are constructed by comparing the income of the family or unrelated individual (a single-person family) to the poverty line corresponding to that unit. If the family's income is below the poverty line, then all of the *persons* in that family are counted as poor. The base for the poverty rate is the total number of *persons*—not family units—in the population.

The data used to construct the state poverty rates are taken from the computer tapes of the annual March Supplement to

Table 1

Poverty Rates for Persons by State, 1979 and 1985

	1979	1985	Percentage-Point Difference
New England			
Maine	12.0	11.9	−0.1
	(2.82)	(1.89)	(3.39)
New Hampshire	7.0	6.0	−1.0
	(2.45)	(1.48)	(2.86)
Vermont	13.2	9.2	−4.0
	(4.26)	(1.75)	(4.61)
Massachusetts	8.9	9.3	0.4
	(1.06)	(0.83)	(1.35)
Rhode Island	7.5	9.0	1.5
	(2.48)	(1.84)	(3.09)
Connecticut	5.9	7.6	1.7
	(1.21)	(1.40)	(1.85)
Mid-Atlantic			
New York	12.5	15.8	3.3
	(0.71)	(0.76)	(1.04)
New Jersey	10.8	8.3	−2.5
	(1.03)	(0.76)	(1.28)
Pennsylvania	9.0	10.5	1.5
	(0.75)	(0.84)	(1.13)
East North Central			
Ohio	9.8	12.8	3.0
	(0.81)	(0.95)	(1.25)
Indiana	9.8	12.0	2.2
	(1.14)	(1.52)	(1.90)
Illinois	11.8	15.6	3.8
	(0.86)	(1.04)	(1.35)
Michigan	8.9	14.5	5.6
	(0.84)	(1.03)	(1.33)
Wisconsin	7.1	11.6	4.5
	(1.06)	(1.72)	(2.02)
West North Central			
Minnesota	7.4	12.6	5.2
	(1.17)	(1.83)	(2.17)
Iowa	7.9	18.0	10.1
	(1.43)	(2.13)	(2.57)
Missouri	11.2	13.7	2.5
	(1.28)	(1.65)	(2.09)
North Dakota	13.1	15.9	2.8
	(3.71)	(1.94)	(4.19)
South Dakota	14.5	17.3	2.8
	(3.75)	(2.00)	(4.25)
Nebraska	9.8	14.8	5.0
	(2.13)	(1.96)	(2.89)
Kansas	8.3	13.8	5.5
	(1.62)	(1.83)	(2.44)

	1979	1985	Percentage-Point Difference
South Atlantic			
Delaware	9.0	11.4	2.4
	(3.38)	(1.77)	(3.82)
Maryland	6.4	8.7	2.3
	(1.08)	(1.35)	(1.73)
District of Columbia	16.1	20.4	4.3
	(4.20)	(2.28)	(4.78)
Virginia	11.0	10.0	−1.0
	(1.24)	(1.53)	(1.97)
West Virginia	14.3	22.3	8.0
	(2.29)	(2.30)	(3.25)
North Carolina	13.6	14.2	0.6
	(1.28)	(0.98)	(1.61)
South Carolina	20.2	15.2	−5.0
	(2.10)	(1.86)	(2.81)
Georgia	15.0	17.7	2.7
	(1.42)	(1.95)	(2.41)
Florida	14.6	13.4	−1.2
	(1.05)	(0.93)	(1.40)
East South Central			
Kentucky	12.0	19.4	7.4
	(1.56)	(2.23)	(2.72)
Tennessee	16.2	18.1	1.9
	(1.58)	(2.15)	(2.67)
Alabama	22.0	20.6	−1.4
	(1.91)	(2.52)	(3.16)
Mississippi	19.9	25.1	5.2
	(2.34)	(2.38)	(3.34)
West South Central			
Arkansas	21.1	22.9	1.8
	(2.45)	(2.24)	(3.32)
Louisiana	18.5	18.1	−0.4
	(1.73)	(2.07)	(2.70)
Oklahoma	12.8	16.1	3.3
	(1.77)	(1.89)	(2.59)
Texas	15.1	15.9	0.8
	(0.88)	(1.02)	(1.39)
Mountain			
Montana	14.2	16.1	1.9
	(3.54)	(1.76)	(3.95)
Idaho	11.3	16.0	4.7
	(2.95)	(1.97)	(3.55)
Wyoming	6.4	12.0	5.6
	(3.29)	(2.01)	(3.86)
Colorado	7.2	10.3	3.1
	(1.40)	(1.75)	(2.24)
New Mexico	18.5	18.5	0.0
	(3.08)	(2.00)	(3.67)
Arizona	10.0	10.7	0.7
	(1.70)	(1.77)	(2.45)
Utah	8.1	11.1	3.0
	(2.08)	(1.69)	(2.68)
Nevada	7.0	14.4	7.4
	(2.76)	(2.21)	(3.54)
Pacific			
Washington	9.6	12.0	2.4
	(1.31)	(1.87)	(2.28)
Oregon	9.0	11.9	2.9
	(1.61)	(1.94)	(2.52)
California	10.2	13.6	3.4
	(0.57)	(0.75)	(0.94)
Alaska	10.8	8.8	−2.0
	(4.46)	(1.74)	(4.79)
Hawaii	9.1	10.7	1.6
	(2.75)	(1.65)	(3.21)
United States	11.6	14.0	2.4
	(0.19)	(0.22)	(0.29)

Source: Computations by authors from March 1980 and March 1986 Current Population Survey computer tapes.
Note: Standard errors are in parentheses.

the CPS. The March CPS contains income information from the previous year, and therefore the data for income years 1979 and 1985 reported here are from the March 1980 and March 1986 CPS. Below the estimated poverty rates in the accompanying table, we report the standard errors. In general, the larger is the standard error shown in our table, the less reliable is our estimate.

The CPS sample is continually updated to produce more reliable estimates of characteristics of the U.S. population. The March 1980 sample reflects a design that was based on the 1970 Census, with coverage in all 50 states and the District of Columbia. The sample was weighted to reflect independent estimates of the total civilian noninstitutional population by age, race, and sex from the 1970 decennial census, modified by statistics on births, deaths, immigration, emigration, and the size of the Armed Forces. The 1986 CPS reflects a new sample design based on the 1980 Census and drawn to better represent individual states. Under the new state-based sample design, the clusters of counties from which the sample is drawn are defined within state boundaries, and the overall sample is allocated among states to produce more reliable state and national estimates. State-specific estimates prior to 1985 are not as reliable.

Because the sample on which each state poverty rate is based is relatively small, we cannot compute with any reliability the state poverty rates for demographic groups such as the aged, blacks, Hispanics, or female-headed households. Poverty rates by county are impossible to compute because an individual's county of residence is not reported in the data.

The poverty rate for all persons in the United States in 1985 was 14 percent. Some states had poverty rates in 1985 which were much higher than this, including the District of Columbia (20.4 percent), Alabama (20.6 percent), West Virginia (22.3 percent), Arkansas (22.9 percent), and Mississippi (25.1 percent).[2] Other states had much lower poverty rates, including New Hampshire (6.0 percent), Connecticut (7.6 percent), New Jersey (8.3 percent), Maryland (8.7 percent), and Alaska (8.8 percent).[3]

The poverty rate for the United States in 1979 was 11.6 percent. The state poverty rates computed from the CPS will in general be different from the published rates from the 1980 Census for two reasons. First, the 1980 Census uses a much larger sample, and it includes some types of group living quarters not represented in the CPS. Second, the poverty lines used in publications from the 1980 Census are the ones revised in 1982, while the 1980 CPS uses the previous thresholds. The Census Bureau found that the revision changed the overall poverty rate slightly (for 1981, the new poverty matrix raised the percentage poor from 13.0 to 13.2 percent). Finally, the sample from the 1980 Census is representative of the state, while the sample from the 1980 CPS may not be.

Standard errors of estimated state poverty rates

The state poverty rates reported in the accompanying table are subject to error from two sources: first, because a sample is taken to represent all persons, and second, because of nonsampling errors in response, enumeration, and systematic bias in the data. The extent of nonsampling error is not known, but the standard errors provided in Table 1 indicate the extent of sampling error, and the effect of some nonsampling errors in response and enumeration. Caution should be exercised in the interpretation of small differences in estimated poverty rates either within a year or between years.

The standard errors for the poverty rates for 1979 and 1985 reported in Table 1 are computed using the formula for the standard error of a percentage shown in the Appendix to the Census Bureau P-60 reports (see box). In addition, the standard errors for 1985 were adjusted by state-specific factors provided by the Census Bureau, which reflect the greater reliability of some of the state estimates than is true of others.

The formula used to compute the standard errors of the poverty rates is the following:

$$\sigma_{x,p} = \sqrt{f\left[\frac{b}{x} \bullet p(100 - p)\right]}$$

where x = the estimated number of persons in the state, taken from the CPS data; p = the estimated percentage of poor individuals in the state; f = the state-specific factor given by the Census Bureau for income year 1985 (in 1979, f=1.0 for all states); and b = the parameter given by the Census Bureau to be used in computing standard errors of percentages.

The standard errors and poverty rate estimates may be used to construct confidence intervals. The confidence interval is a range of values which include the unknown true state poverty rate with a known probability. For example, the interval from one standard error above and below the estimated poverty rate would contain the true state poverty rate with a 68 percent probability. Similarly, the confidence interval constructed using twice the standard error on either side of the estimated poverty rate would contain the true state poverty rate with 95 percent probability.

As an example, we can construct the 95 percent confidence interval for the estimated poverty rate for Wisconsin in 1985. The poverty rate is 11.6, with a standard error of 1.72. Twice the standard error above and below the estimated poverty rate gives an interval from 8.2 to 15.0. Therefore, we can conclude that there is a 95 percent probability that the actual poverty rate for Wisconsin in 1985 was within the interval 8.2 to 15.

To evaluate whether the change in poverty rates between 1979 and 1985 is statistically larger than zero, the standard error of the difference in estimates must be computed. Using the formula given in the Appendix to the Census Bureau P-60 reports, the standard error may be computed from the individual standard errors of the percentage poor:

For further discussion of official poverty rates see the following publications of the Bureau of the Census

Characteristics of the Population below the Poverty Level 1979, Series P-60, No. 130 (December 1981).

Money Income of Households, Families, and Persons in the United States: 1984, Series P-60, No. 151 (April 1986).

Characteristics of the Population below the Poverty Level: 1984, Series P-60, No. 152 (June 1986).

Receipt of Selected Noncash Benefits: 1985, Series P-60, No. 155 (January 1987).

Money Income and Poverty Status of Families and Persons in the United States: 1986, Series P-60, No. 157 (August 1987).

$$\sigma_{x-y} = \sqrt{(\sigma_x)^2+(\sigma_y)^2-2\rho\sigma_x\sigma_y}$$

where σ_x and σ_y = standard errors of estimates of x and y; and ρ = correlation coefficient.

Since the samples for 1979 and 1985 are different, ρ is zero. The formula then uses the sum of squared standard errors. The standard error of the difference in poverty rates is shown in the third column of Table 1, below the difference for each state.

Taking Wisconsin as an example once more, we note that the difference between the poverty rates in 1979 and 1985 is 4.5 percentage points. The standard error is computed as the square root of the sum of squared standard errors, or the square root of $(1.06^2+1.72^2)$. Thus, the standard error of the difference in poverty rates is 2.02. A 95 percent confidence interval around the difference in poverty rates is 4.04 percentage points added to and subtracted from 4.5 percentage points, or an interval of 0.5 to 8.5 percent. Because the interval does not include zero, we may conclude that the 1985 poverty rate for Wisconsin is significantly higher than the 1979 rate.

On the other hand, the increase in poverty in Indiana from 9.8 percent in 1979 to 12.0 percent in 1985 was not statistically significant at the 5 percent level. The difference in poverty rates was 2.2. The standard error of the difference in rates was 1.90. Twice the standard error on either side of the difference in poverty rates gives the interval $(-1.6, 6.0)$, which includes zero. Therefore, it cannot be concluded that there is a difference between the poverty rates for Indiana in 1979 and 1985. In general, estimated state poverty rates that are fairly similar in 1979 and 1985, and which have larger standard errors, are more likely not to be statistically different from one another. ■

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[1] A "family" in this article refers to a group of people living together and related by blood, marriage, or adoption. Unrelated individuals are considered to be family units of one person. The Census Bureau definition of families does not include unrelated individuals.

[2] Although the estimates in this list vary from 20.4 to 25.1 percent, they are not statistically different from one another at the 5 percent level of significance.

[3] Although the estimates in this list vary from 6 to 8.8 percent, they are not statistically different from one another at the 5 percent level of significance.

Small Grants: New Competition

The Institute and the U.S. Department of Health and Human Services will sponsor the seventh competition under the Small Grants program for research on poverty-related topics during the period July 1988 through June 1989. Four grants of up to $12,500 each are available for work during the summer of 1988; 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 or at the Department of Health and Human Services during the 1988–89 academic year. Guidelines will be available from the Institute after November 1, 1987. Application deadline will be February 5, 1988.

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

Institute for Research on Poverty
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3412 Social Science Building
University of Wisconsin
Madison, Wisconsin 53706

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Focus is free of charge, although contributions to the U.W. Foundation-IRP Fund sent to the above address in support of *Focus* are encouraged. The newsletter is made possible in part by a grant from the Rockefeller Foundation.

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

Financial aid for college students: Have the barriers to opportunity been lowered?

There is no more senseless waste than the waste of the brainpower and skill of those who are kept from college by economic circumstance.

Lyndon Johnson, proposing a national War on Poverty, March 1964

At the 1987 Research Workshop sponsored by the Institute and the U.S. Department of Health and Human Services, Sandra Baum presented a paper on aid to low-income college students. The discussant for the paper was Lee Hansen, an Institute affiliate with extensive experience in the economics of education. The presentation thus brought together two research generations: Hansen was a staff member on the President's Council of Economic Advisers when the War on Poverty was launched; Baum was awarded a Small Grant under the Institute's program supporting studies by new scholars. Appropriately, a recent paper by Hansen and Jacob Stampen provides the historical context within which to place Baum's findings.[1]

Student aid and the changing national goals of higher education

Over the past forty years the federal government has continually expanded its financial support for higher education, supplementing the traditional role played by states and the private sector. Table 1 documents the growth in that spending since 1963. In tracing the economic and demographic factors that have influenced federal intervention since World War II, Hansen and Stampen discerned a pendulum swing between concern for the quality of education and concern for equality of opportunity. Each swing enlarged federal support, although in varying degrees.

The immediate postwar years marked a period of emphasis on broader opportunity, inaugurated by the landmark G.I. Bill of 1944, offering federal aid to enable veterans to attend college. Extended to cover those who served in the Korean War, this assistance stabilized campus enrollments in the 1950s by offsetting the decline in persons of college age due to the low Depression-era birthrates. Because aid was not extended to nonveterans, however, the period 1946–57 was one of modest federal investment in higher education. As had long been true, postsecondary education was considered suitable for high school graduates of demonstrated ability, and monetary support consisted primarily of scholarships awarded on the basis of merit rather than need.

World War II and its aftermath gave new prominence to higher education: academicians played an important part in the war effort; colleges and universities helped ease the transition from a wartime to a peacetime economy. When new concerns emerged, it was from academic institutions that solutions were sought.

In 1957 the launching of Sputnik made it evident that Russia had overtaken America in science and technology and raised questions about the quality of education. One result was the National Defense Education Act of 1958, which offered graduate fellowships for students who became teachers and National Defense Student Loans that allowed graduates and undergraduates to borrow at subsidized rates. Now termed National Direct Student Loans, this program still exists, as shown in Table 1.

The major concern in the late 1950s remained one of helping certain promising students, not necessarily of lowering financial barriers for young people of limited economic means. The early 1960s ushered in a period emphasizing equality of opportunity. The new economic concept of human capital stressed investing in education to improve national productivity and individual well-being. Social scientists pointed as well to the "talent loss" resulting from the failure of qualified but poor high school graduates to enter college. Combined with the antipoverty campaign and the civil rights movement, these forces contributed to passage of the Higher Education Act of 1965, adding three new programs: (1) Equal Opportunity Grants, now named Supplemental Educational Opportunity Grants (SEOG), which provide funds to institutions for student scholarships to be disbursed on the basis of need; (2) federally insured Guaranteed Student Loans (GSL), for middle- and low-income students; and (3) the Work Study program (actually created in 1964), which subsidizes work experience for needy students.[2]

The move toward greater educational opportunity gained further momentum with the publication of two reports in the

Table 1

Student Financial Aid Available under Individual Programs, Selected Years, 1963–1985 (In millions of 1982 dollars)

Program	1963	1970	1975	1980	1985
Pell Grants	—	—	1,629	2,660	3,298
Supplemental Educational Opportunity Grants	—	325	350	408	348
State Student Incentive Grants	—	—	34	85	67
Work Study	—	552	513	734	610
National Direct Student Loans	356	584	800	774	740
Guaranteed Student Loans[a]	—	2,466	2,204	6,811	8,280
Social Security Survivors	—	1,212	1,901	2,099	0
Veterans' aid	211	2,724	7,271	1,911	656
Other grants	27	39	110	132	42
Other loans	—	102	78	68	218
Total federal	594	8,004	14,890	15,682	14,259
State grants	176	574	853	893	1,209
Institutional aid	940	2,343	2,496	2,383	3,014
Total	1,710	10,921	18,239	18,958	18,482

Source: Sandra Baum, "Financial Aid to Low-Income College Students: Its History and Prospects," IRP Discussion Paper no. 846–87, Table 2. Data from College Entrance Examination Board, *Trends in Student Aid, 1980–1986* (New York: College Entrance Examination Board, 1986); Donald Gillespie and Nancy Carlson, *Trends in Student Aid: 1963 to 1983* (New York: College Entrance Examination Board, 1983).
Note: The programs listed here are described in the text and in Table 2. Congress in 1986 enlarged the Pell Grant, Guaranteed Student Loan, and Work Study programs.
[a] Includes PLUS, a supplemental loan program.

late 1960s, one issued by the Carnegie Commission on Higher Education, the other written by Alice Rivlin, then Assistant Secretary in the Department of Health, Education, and Welfare.[3] Both urged federal financing of a larger system of need-based grants for college students. That system was instituted in 1972 with legislation authorizing Basic Educational Opportunity Grants, now known as Pell Grants, giving direct support to students of limited means, and a smaller program, State Student Incentive Grants, providing matching funds to states for needy-student scholarships. This legislation completed the federal student aid system that we now have, which consists of a combination of grants, loans, and job support to help the children of low-income families afford college.

In the 1970s middle-class families, experiencing the financial setbacks of inflation and recession while college costs rose, argued that they were neither rich enough to finance college for their children nor poor enough to qualify for needed assistance. The result was the Middle Income Student Assistance Act of 1978, which expanded income eligibility for both Pell Grants and Guaranteed Student Loans.

In 1980 Congress authorized increased funding for student aid, but 1981 marked the beginning of retrenchment, when the Omnibus Budget Reconciliation Act restricted the terms of GSLs and reduced support for Pell Grants. After 1981 Congress resisted further aid cuts proposed by the administration.

In the 1980s concern with quality again mounted when well-publicized reports criticized both lower and higher education.[4] This concern was in part responsible for passage in 1986 of legislation reauthorizing the aid programs through 1991 and expanding the GSL, Pell Grant, and Work Study programs. The principle of federal aid to college students is now firmly entrenched, and major cutbacks appear unlikely.

Table 2 describes the distributional characteristics of the four major federal programs. It shows that the proportion of total aid that went to low-income students declined over the period from early to late 1970s, owing to expansion of aid to middle-income students, but that this proportion has risen during the 1980s. It also shows that the real value of individual awards has diminished, meaning that program enlargement has resulted in greater numbers of recipients rather than increased benefits to individual recipients.

Table 2

Federal Aid to Students of Low and Moderate Income, Selected Years, 1972–1983 (Dollars in constant 1984 values)

	1972–73	1979–80	1982–83[a]
Pell Grants			
No. of awards	—	2,687,000	2,802,000
Proportion of funds to:			
Low-income students	—	59.8%	81.5%
Low- and moderate-income students	—	80.2%	95.4%
Average award:			
Low-income students	—	$1,281	$1,096
Overall	—	$1,173	$1,019
SEOG			
No. of awards	285,000	419,000	426,000
Proportion of funds to:			
Low-income students	68.2%	38.4%	37.6%
Low- and moderate-income students	98.5%	64.7%	65.1%
Average award:			
Low-income students	$1,161	$704	$541
Overall	$1,191	$750	$597
Work Study			
No. of awards	399,000	613,000	518,000
Proportion of funds to:			
Low-income students	50.7%	34.7%	37.5%
Low- and moderate-income students	83.9%	58.9%	63.0%
Average earnings			
Low-income students	$1,322	$819	$858
Overall	$1,253	$843	$850
NDSL			
No. of awards	512,000	577,000	436,000
Proportion of funds to:			
Low-income students	37.1%	27.6%	29.8%
Low- and moderate-income students	69.7%	51.0%	57.7%
Average loan:			
Low-income students	$1,274	$813	$804
Overall	$1,380	$827	$851

Source: Baum, Table 3. Data from College Entrance Examination Board, *Who Receives Federal Student Aid?* (New York: College Entrance Examination Board, 1986).

Note: Pell Grant figures are for all students. The figures shown for the other programs are for dependent students only (those supported by their parents); their income refers to family income. Low-income is defined here as below $15,000, moderate income below $25,000, in 1984 dollars. Median family income in constant 1984 dollars ranged over this period from a low of $25,216 in 1982 to a high of $28,085 in 1978.

[a]The Pell Grant figures are for 1983–84.

Gauging the effects of student aid

Reliable estimates of the results of aid to college students have until recently been limited by lack of adequate data. Lee Hansen, one of the first evaluators, found in 1983 that despite the expansion of federal assistance on behalf of poor students, over the 1970s the college enrollment rates of below-median-income youth, regardless of race or sex, declined relative to the rates of above-median-income youth.[5] These results cast doubt on the efficacy of aid to needy students. In the same year Charles Manski and David Wise estimated that the Pell Grants had significantly increased the enrollment of low-income freshmen, most of whom entered two-year colleges and vocational schools.[6]

With the advantage of a relatively new data set, Sandra Baum asked a more general question: Given the network of aid policies now in place, how many students appear deterred from higher education by lack of financial resources? She analyzed data from High School and Beyond, a large-scale longitudinal study of high school students undertaken by the National Center for Education Statistics beginning in 1980. Baum's sample consisted of 2,000 students who, as seniors in 1980, responded to questions about college aspirations and whose records contained information on parents' income, education, and occupation. Data from 1982 on the same respondents provided information about college attendance rates, and 1984 data were used to examine graduation rates.

She first divided the sample into three groups: those who in 1980 said they wanted to attend college and by 1982 had done so; those who said they did not want to attend college and subsequently did not; and those who said they wanted to go on to college, but two years later had not done so. Only 263 respondents, 13 percent of the sample, fell into the last category, suggesting that most students who say they wish to pursue higher education appear able to do so.

Baum then examined factors associated with lack of college aspirations among the 1980 seniors. Was low income the overriding factor, or did such constraints as rural residence or low parental education play a role? She found that among several specific characteristics (test scores, parents' income and education, residential location, race, religion, and sex), the most important explanatory variable was "ability," as measured by an achievement test administered during the survey. The higher the test score the more likely was the student to aspire to a college education. Parents' educational levels were also positively associated with college aspirations, but family income was not.

Investigation of actual 1982 college attendance rates among the entire sample (regardless of expressed intent in 1980) showed that the high school achievement scores, along with parents' education and occupation as well as their income, played a much larger role than did income alone. The differences between attendance rates of those with low versus high family income (46 percent versus 60 percent) were smaller

than the differences between those in the lowest versus highest socioeconomic-status quartile (38 versus 83 percent). And attendance rates among those of low ability but high socioeconomic status were lower than among those with high ability but low socioeconomic status. Other studies have already documented the role of parents' socioeconomic status in determining the educational levels of their children; what is new in Baum's research is documentation of the importance of academic achievement in high school.

These results suggest that low academic ability combined with low parental educational levels, rather than purely financial considerations, are the primary deterrent to college enrollment. Yet, Baum pointed out, even if we conclude that financial-aid policies have helped increase college attendance, "we cannot necessarily conclude that equal opportunity goals are being achieved." Providing access to college does not assure graduation; perhaps poor students are less able to complete their college education. Moreover, if low-income students are concentrated in two-year community or junior colleges, their economic opportunities may not be enhanced in the long run. To examine these issues Baum analyzed institutional attendance and dropout rates.

She found that the type of school attended was more closely related to measured achievement levels than to income: students of higher ability, regardless of income, were more likely to attend four-year colleges. And students entering two-year colleges were much more likely to drop out before completing a degree. High-income students at two-year schools dropped out much more often than did low-income students at four-year schools.

Recent evidence on effectiveness

Baum concludes that in the 1980s low family income does not seem to deter qualified high school graduates from either aspiring to or entering college, and that academic ability is the most important predictor of college enrollment and persistence. Her evidence supports the results of studies at the University of Wisconsin–Madison by Jacob Stampen and Alberto Cabrera, who investigated the effects of our current financial aid system on (1) the extent to which needs-based programs do in fact reach economically disadvantaged college students; (2) the ways in which the three basic forms of aid—grants, loans, and work-study support—are "packaged" by students of varying income levels; and (3) the effects of aid on the tendency to drop out of college.[7]

To address the first two issues, Stampen and Cabrera analyzed a nationally representative cross section of 10,000 student-aid recipients in public colleges and universities during the academic year 1983–84. Their results showed that aid based on financial need does in fact flow primarily to students of low income. The analysis of aid "packaging" revealed that combining different forms of assistance was by far the rule rather than the exception. Grants, which have stricter eligibility limits than loans, went predominantly to low-income students, as did work-study support. Very few aid recipients with higher incomes ($30,000 or more) had any form of assistance other than loans.

To assess the relationship between receipt of aid and the tendency to leave college, the authors compiled a longitudinal data base consisting of a 20 percent random sample of the 1979 freshman class in the University of Wisconsin System (thirteen separate campuses), whose records were followed for three years. There were no statistically significant differences in dropout rates of aided as opposed to more affluent, unaided students. The authors concluded that our student financial aid system now means that poor students are as likely to stay in school as students from higher-income families who do not receive any aid.

Baum's study and the Wisconsin research find that student aid has been effective in reducing financial barriers. Lower academic ability, more than any other factor, accounts for lower college enrollment and failure to complete schooling among students with less income. This conclusion moves our attention back to the role of elementary and secondary schools in promoting achievement. The message seems to be that, in order to promote the higher education of children from poor families, we must not only maintain financial aid programs but also do more to improve the quality of education at the elementary and secondary levels. ■

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[1] See Sandra Baum, "Financial Aid to Low-Income College Students: Its History and Prospects," IRP Discussion Paper no. 846–87; and W. Lee Hansen and Jacob O. Stampen, "Economics and Financing of Higher Education: The Tension between Quality and Equity," revised version, April 1987, of a paper presented at the annual meeting of the Association for the Study of Higher Education, San Diego.

[2] The 1965 act transferred Work Study from the Office of Economic Opportunity to the Office of Education.

[3] Carnegie Commission on Higher Education, *Quality and Equity: New Levels of Federal Responsibility for Higher Education* (New York: McGraw-Hill, 1968); Rivlin, *Toward a Long-Range Plan for Federal Financial Support for Higher Education* (Washington, D.C.: HEW, January 1969).

[4] National Commission on Excellence in Education, *A Nation at Risk: The Imperative for Educational Reform* (Washington, D.C.: GPO, 1983); *Integrity in the College Curriculum: A Report to the Academic Community* (Washington, D.C.: Association of American Colleges, 1984); Ernest L. Boyer, *College: The Undergraduate Experience in America* (Princeton: Carnegie Foundation for the Advancement of Teaching, 1987).

[5] Hansen, "The Impact of Student Financial Aid on Access," *The Crisis in Higher Education: Proceedings of the Academy of Political Science, 35* (1983), 84–96.

[6] Manski and Wise, *College Choice in America* (Cambridge: Harvard University Press, 1983).

[7] Stampen and Cabrera, "The Targeting and Packaging of Student Aid and Its Effects on Attrition," *Economics of Education Review,* forthcoming, and "Exploring the Effects of Student Aid on Attrition," *Journal of Student Financial Aid, 16* (Spring 1986), 28–40.

Notes on Institute researchers

Sandra Danziger has been appointed Assistant Professor of Social Work at the University of Michigan, Ann Arbor.

Sheldon Danziger, Institute Director, will be Visiting Scholar at the Institute of Public Policy Studies at the University of Michigan during the 1987–88 academic year. **Eugene Smolensky** will act for the director in his absence. Danziger has been appointed to the Committee on Child Development Research and Public Policy of the National Research Council.

Sheldon Danziger and **Peter Gottschalk** won the 1986 L. R. Klein Award for the best article written by an author outside of the Bureau of Labor Statistics, in the *Monthly Labor Review,* for an article titled "Work, Poverty, and the Working Poor: A Multifaceted Problem."

Irwin Garfinkel presented testimony, "Welfare: Reform or Replacement? Child Support Enforcement," to the U.S. Senate Committee on Finance, Subcommittee on Social Security and Family Policy, February 1987. He has been named Edwin E. Witte Professor of Social Work, University of Wisconsin–Madison.

Peter Gottschalk has been appointed Professor of Economics at Boston College.

W. Lee Hansen has been appointed to the Advisory Boards of the *Journal of Economic Perspectives* and *Liberal Education.* He has been appointed to the Committee on Engineering Labor Market Adjustments, Office of Scientific and Engineering Personnel of the National Research Council; and the National Commission on Social Science.

Robert M. Hauser is serving on the Committee on the Status of Black Americans of the Commission on Behavioral and Social Sciences and Education of the National Research Council. He has been named Vilas Professor of Sociology, University of Wisconsin–Madison.

Robert Haveman has been appointed Director of the La Follette Institute of Public Affairs at the University of Wisconsin–Madison. He will be a Visiting Scholar at the International Institute of Management, Science Center, Berlin, in November 1987.

Karen Holden is Chair-Elect of the Study Group on the Economics of Aging, Gerontological Society of America.

Rogers Hollingsworth is one of twelve scholars in the United States to receive a German Marshall Fund postdoctoral fellowship for his research on the governance of the American economy since 1945.

Marygold Melli was a Visiting Professor at the University of Giessen, West Germany, June 1987.

Philip Robins presented testimony, "The Role of Child Care in Promoting Economic Self-Sufficiency among Low-Income Families," to the U.S. House of Representatives, Select Committee on Children, Youth, and Families, March 1987.

Gary Sandefur will be IRP Associate Director for Research during the 1987–88 year.

Eugene Smolensky has completed five years as a member of the Committee on Child Development Research and Public Policy of the National Research Council. He will serve on the Council's Panel for Child Care Policy.

Michael Sosin has been a Visiting Professor at the School of Social Service Administration, University of Chicago, for the 1986–87 academic year.

Karl Taeuber appeared as an expert witness for the Milwaukee public schools in their suit against 24 suburban school districts and the state of Wisconsin. He testified on the role of national, state, and local governmental discrimination in producing housing and school segregation.

Marta Tienda has been appointed Professor of Sociology at the University of Chicago. She is a member of the U.S.-Mexico Bi-National Research Committee of the Ford Foundation.

Burton Weisbrod was a Visiting Professor at the University of California-Berkeley, School of Public Policy, in February and March 1987.

William Julius Wilson, a member of the IRP National Advisory Committee, has received a MacArthur Fellowship.

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The distributional implications of the Tax Reform Act of 1986

by Daniel H. Weinberg

Dr. Weinberg is an economist in the Office of Income Security Policy, U.S. Department of Health and Human Services. The views expressed in this paper are those of the author and should not be construed as representing the official position or policy of the Department of Health and Human Services or any office therein. This paper is drawn from material prepared for an article, "The Distributional Implications of Tax Expenditures and Comprehensive Income Taxation," *National Tax Journal, 40* (June 1987), 237–253. In addition to those who helped prepare that article, the author would like to thank Carl Dahlman for his helpful comments.

In any tax reform package, attempts can be made to restructure the tax system to be more generous to one particular group than to another and to affect economic behavior. The changes made by the Tax Reform Act of 1986 (TRA) cannot be characterized simply. On the one hand, TRA will reduce marginal tax rates, presumably to encourage work effort, thereby increasing total income. The lower marginal rates are also expected to reduce tax avoidance by making it less profitable. Clearly, reducing tax rates helps those with higher incomes. On the other hand, both the personal exemption and the standard deduction will be raised substantially. As a result, many families will be removed from any income taxation.

The purpose of this article is to display estimates of the net effect of the TRA on the distribution of income, using microsimulation methodology to examine the impact of the tax changes.[1]

Microsimulation of tax changes

The basis for my analysis of the distributional impact of tax reform is the TRansfer Income Model (TRIM), level 2, developed at the Urban Institute to model the effects of government tax and transfer policies.[2] The Tax Reform Act of 1986 was modeled by economically aging the March 1984 Current Population Survey (CPS) to 1988 and applying both the old and the new tax law.[3] The model uses the sample weights to aggregate the information on the 64,485 sample families to national totals. TRIM simulates only individual income and payroll taxes, not business taxes, and cannot simulate the impacts of most special provisions in the tax code (such as income averaging), only general provisions affecting the kinds of income reported on or imputed to the CPS.[4] TRIM does not simulate behavioral response to tax changes; in particular, the effects of the TRA on the economy as a whole due to changes in individuals' work effort or corporate investment behavior are not simulated.

To present distributional analyses by income class, I have developed an alternate definition of income, "available family income" (AFI), which I believe more accurately reflects a family's accessible resources and thus their ability to pay taxes than does adjusted gross income (AGI), the concept most often used in tax analysis. AFI adds together wages and salaries, self-employment income (farm and nonfarm), interest, dividends, rent, pensions (private and government), unemployment insurance, social security, workers' compensation, public assistance, food stamps, veterans' benefits, "other" cash income as reported on the CPS (e.g., scholarships), net capital gains received, and employer contributions to health insurance, pension plans, and legally required benefits.[5]

Simulation results

Table 1 presents the distribution of tax liabilities in 1988 under the old law and the new law in 1988 dollars. Families are divided into income deciles (tenths) on the basis of their available family income in 1988 (a classification that does not change when alternate tax laws are simulated). While there will actually be an *increase* in the percentage of *taxable* income paid in taxes from 18.5 percent to 19.3 percent, because of the changes in the definition of taxable income (resulting from such changes as the increase in the personal exemption), there will be a *reduction* in the percentage of AFI paid in income taxes, from 11.6 percent to 10.6 percent. The system remains progressive, with the share of income going to taxes rising as income rises.[6]

TRIM estimates that the Tax Reform Act will lead to a reduction in 1988 individual income taxes of $32 billion (in 1988 dollars), or 7.9 percent (5.6 percent of total payroll plus income taxes). This averages $337 per family.[7] Figure 1 illustrates the distribution of the tax reduction. Many of the families in the lowest two income deciles will be removed from the income tax rolls completely, with the two deciles averaging net income tax refunds of $18 and $12 per family respectively (see Table 1). Note, however, that since payroll

Table 1

Income Tax Liability by Income Decile: Comparison of the Tax Reform Act of 1986 with Previous Law (1988 dollars)

Available Family Income by Decile	Income Tax per Family	Share of Total Income Taxes	Income Taxes as a Percentage of: Available Family Income	Income Taxes as a Percentage of: Taxable Income
1988 Old Law				
1st ($0- 6,274)	$-9	0.0%	-0.2%	-2.2%
2nd ($ 6,275-10,492)	35	0.1	0.4	2.2
3rd ($10,493-15,763)	320	0.8	2.4	6.5
4th ($15,764-21,612)	890	2.1	4.8	9.3
5th ($21,613-28,041)	1,645	3.9	6.6	11.3
6th ($28,042-35,752)	2,617	6.2	8.2	13.0
7th ($35,753-44,765)	3,863	9.1	9.6	14.6
8th ($44,766-56,658)	5,506	12.9	10.9	16.3
9th ($56,659-75,569)	8,128	19.1	12.5	18.7
10th (>$75,569)	19,536	45.9	17.4	26.1
Top 5% ($>95,658)	26,727	31.4	19.0	28.8
All families	4,253	100.0	11.6	18.5
1988 New Law				
1st ($ 0- 6,274)	$- 18	0.0%	-0.5%	-217.6%
2nd ($ 6,275-10,492)	- 12	0.0	-0.1	-3.0
3rd ($10,493-15,763)	186	0.5	1.4	9.1
4th ($15,764-21,612)	701	1.8	3.8	13.2
5th ($21,613-28,041)	1,416	3.6	5.7	14.6
6th ($28,042-35,752)	2,341	6.0	7.4	15.5
7th ($35,753-44,765)	3,445	8.8	8.6	16.0
8th ($44,766-56,658)	4,848	12.4	9.6	16.7
9th ($56,659-75,569)	7,376	18.8	11.4	18.5
10th (>$75,569)	18,881	48.2	16.8	23.5
Top 5% ($>95,658)	26,369	33.7	18.8	25.0
All families	3,916	100.0	10.6	19.3

Source: Estimates generated by TRIM using the March 1984 Current Population Survey adjusted for economic growth.
Note: Deciles exclude families with negative income.

taxes were not affected by the TRA, families with earnings still have substantial tax liability, mitigating the impact of the TRA. The average percentage reduction in taxes paid declines monotonically from the second to the tenth decile, while the average dollar amount increases monotonically from the first to the ninth decile.

The effects of the TRA can also be seen in Figure 2, which presents another method of assessing effects on the income distribution. In that figure, "winners" and "losers" have been defined as those whose tax liability would decrease or increase more than 5 percent, respectively. Only about 10 percent of families in the lowest decile and about 30 percent of families in the second decile are winners (have more than a 5 percent decrease in their income tax liability) because so few of them have any income tax liability under either law. More than half of all families in each of the other deciles will be winners under the new tax law, while at most 15 percent of any decile will be losers. The distribution of winners and losers (for those that have any tax liability) is fairly uniform across the income distribution.

One- and two-parent families with children are the big winners (see Table 2, p. 14), with childless families and single individuals getting below-average tax reductions. The elderly also have only a small tax reduction (1.9 percent), in part because they no longer have two personal exemptions and they typically do not have dependents.

Conclusion

All measures of the impact of the Tax Reform Act of 1986 indicate that it will slightly decrease posttax income inequality, when compared to previous law. It is not known yet whether the act will induce a change in total personal income through individual or corporate effects or whether it will have other behavioral effects. ■

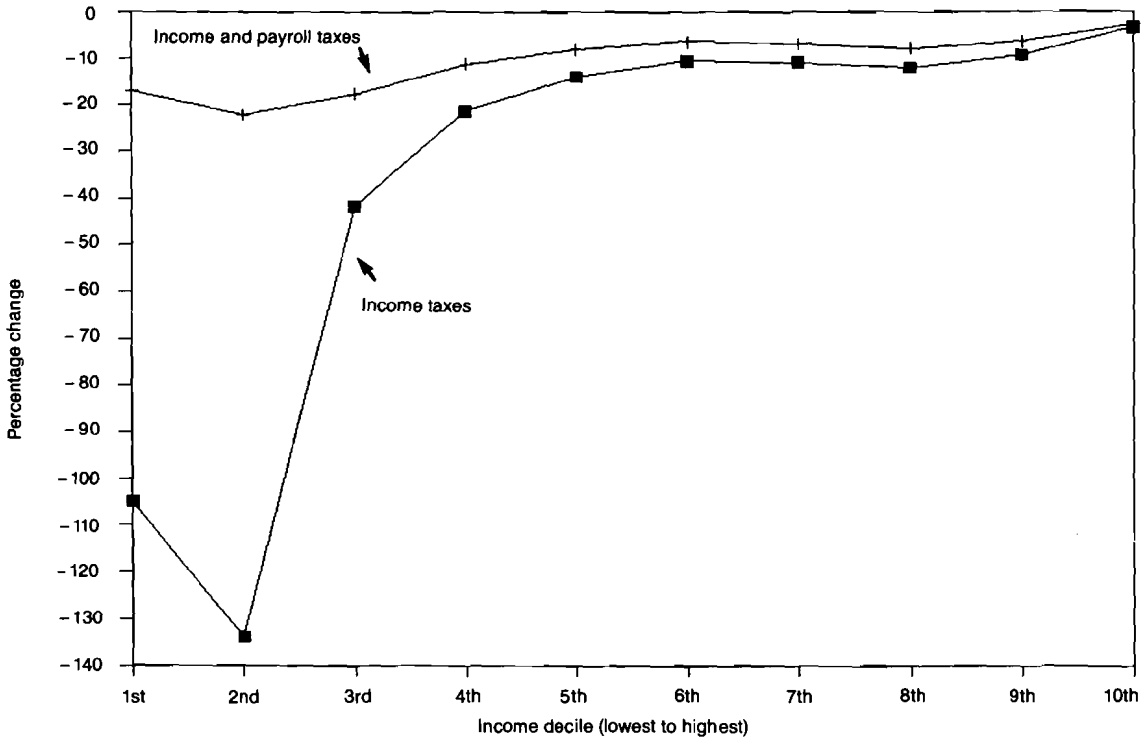

Figure 1. Percentage Change in Taxes: Tax Reform Act of 1986 vs. Old Law (as of 1988)

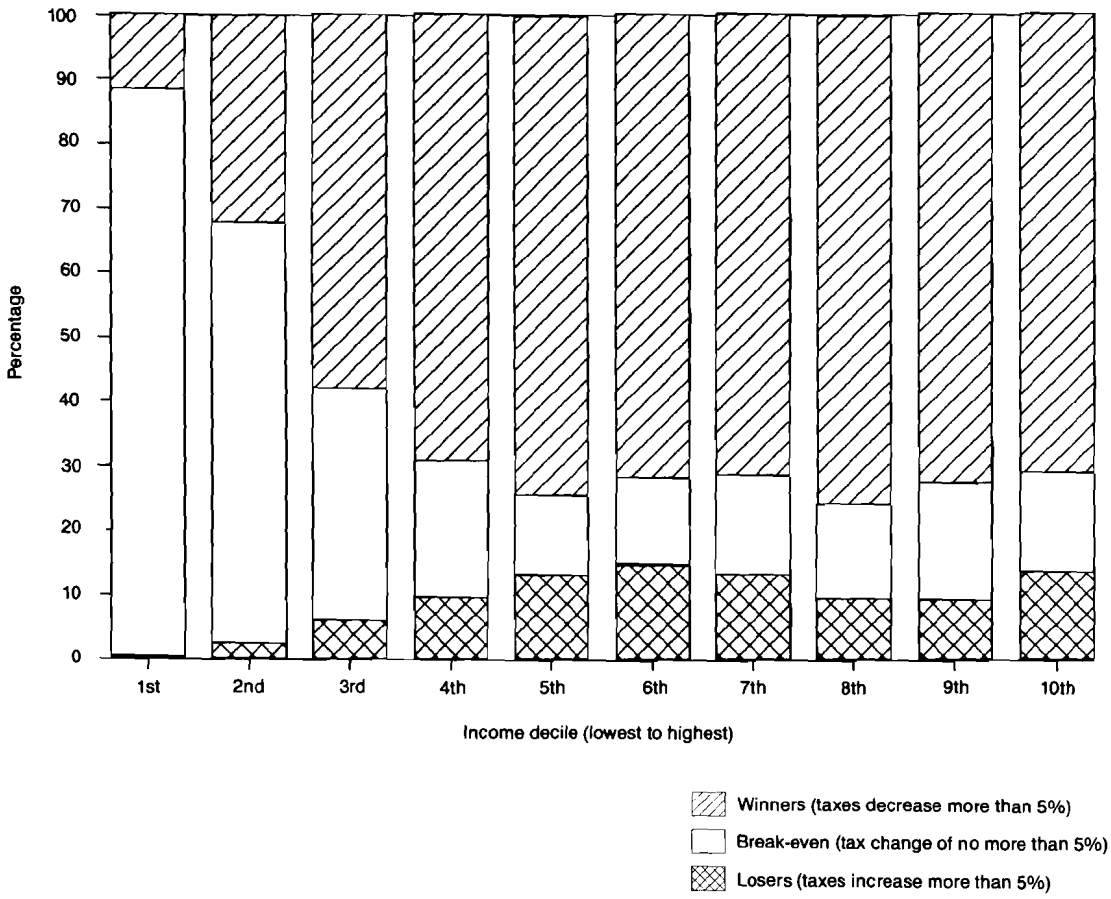

Figure 2. Winners and Losers in New vs. Old Law: Tax Reform Act of 1986 (as of 1988)

Table 2

Effects in 1988 of the Tax Reform Act of 1986 on Demographic Groups as Compared to Previous Law

Demographic Group	Percentage Decrease in Taxes: Income Taxes	Percentage Decrease in Taxes: Income plus Payroll Taxes
All Families	7.9%	5.6%
By Family Type		
Two-parent families with children	10.2	6.9
Couples with no children	7.2	5.3
Single-parent families with children	11.7	7.2
Single individuals	4.9	3.5
By Race/Ethnicity		
White	7.9	5.6
Black	7.8	5.1
Hispanic	12.4	7.7
By Age of Head		
Elderly (65+)	1.9	1.9
Nonelderly	8.8	6.2

Source: Estimates generated by TRIM using the March 1984 Current Population Survey adjusted for economic growth.

[1] See Daniel H. Weinberg, "The Distributional Implications of Tax Expenditures and Comprehensive Income Taxation," *National Tax Journal, 40* (June 1987) 237–253, for further information on the methodology used.

[2] See Randall Webb, Clara Hager, Douglas Murray, and Eric Simon, *TRIM Simulation Modules Manual* (Washington, D.C.: Income Security and Pension Policy Center, The Urban Institute, 1983).

[3] Economic aging is accomplished by increasing different economic income amounts (wages, interest, etc.) for households by different growth factors to account for both inflation and increases in productivity.

[4] Imputations were done for capital gains and losses, itemized deductions, fringe benefits and other noncash transfers, Individual Retirement Accounts, and child-care expenditures.

[5] While it is clear that in a steady state, the government would not tax both pension contributions and pension benefits, both have been included in AFI. Since pension contributions have not in the past been taxed, presumably any new tax law would phase in their taxation by progressively exempting pension benefits. In the first year of implementation, both would be fully taxable.

[6] Since the lowest decile has so little *taxable* income, the aggregate income tax refund for this group is actually more than twice as large as their taxable income (but only 0.5 percent of their AFI).

[7] To obtain the average income tax change per family, subtract the lower panel of column 1 (new law) from the upper panel of column 1 (old law) in Table 1.

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Danziger, S. K. "Breaking the Chains: From Teenage Girls to Welfare Mothers, or, Can Social Policy Increase Options?" DP 825–86.

Douthitt, R. "Canadian Family Tax Law and Its Implications for Household Time Allocation." DP 826–86.

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Garfinkel, I., Robins, P. K., and Wong, P. "The Wisconsin Child Support Assurance System: Estimated Effects on Participants." DP 833–87.

Corbett, T., Garfinkel, I., and Schaeffer, N. C. "Public Opinion about a Child Support Assurance System." DP 834–87.

(continued on page 21)

The antipoverty significance of the Tax Reform Act of 1986

According to Sheldon Danziger, the new tax bill marks a reversal in tax policy toward the poor.[1] For much of the last decade, poverty and inequality have been increasing, particularly for families with children (see Table 1). At the same time that their income share was decreasing, those at the bottom of the income distribution faced tax increases.

In 1975, the year of the most progressive federal tax treatment of the poor, the earned income tax credit (EITC) was introduced to subsidize the earnings of low-income families with children. In that year, for example, a family of four at the poverty line received a federal income tax credit of $250 (−4.55 percent of $5,497). Since that time, however, the three major pro-poor devices in the personal income tax—the EITC, the standard deduction, and the personal exemption—have been severely eroded by inflation. By 1985 such a family paid $370 in income taxes (3.37 percent of $10,988), an increase of $620. If one adds the increased burden of social security (payroll) taxes over this decade, then federal taxes paid by this family were about equal to the amount of food stamps it could have received in 1985. (But food stamps do not offset taxes, especially since many families are ineligible or fail to apply for this benefit.)

By increasing the standard deduction, the personal exemption, and the EITC and indexing them to inflation, the Tax Reform Act of 1986 will, by 1990, result in a negative federal personal income tax liability once again for a poverty-line family of four. The personal exemption is being raised from $1,080 to $2,000 by 1989; the standard deduction for joint filers is being raised from $3,670 to $5,000, and for single heads of households, from $2,480 to $4,400; and the EITC will increase to $840 by 1987 and $910 by 1989.[2]

Yet the new law does little to offset the increased poverty and inequality attributable to adverse market forces and reductions in income transfers that have characterized the period since 1973. As a result, Danziger suggests two additional income tax reforms that could aid the working poor without taking them through the welfare system:

1. A per capita refundable credit to replace the personal exemption. This credit would target more forgone revenue on those with lower incomes than would an increase in the personal exemption. A per capita refundable credit could be made high enough to replace both the personal exemption and the food stamp program.[3]

2. A refundable child-care tax credit. The current nonrefundable credit allows couples, when both spouses work, as well as working single parents, to subtract from their taxes a proportion of their work-related child-care costs. Very few poor families make use of this credit, however, because they do not have enough positive income tax liability to offset any refund to which they are entitled.

Danziger believes that the 1986 Tax Act means that antipoverty policy has reappeared on the national agenda. As such it can be extended in ways that will not threaten the efficiency effects of the recent tax reform and will have smaller disincentive effects on work and the family than programs to aid the poor through the welfare system. ■

[1] This material is taken from Danziger's "Tax Reform, Poverty, and Inequality," IRP Discussion Paper no. 829-87, prepared for the Western Michigan University Department of Economics Lecture Series on Tax Reform in the U.S., supported by the Upjohn Institute for Employment Research.

[2] For a discussion of the changes in the EITC, see Eugene Steuerle and Paul Wilson, "The Earned Income Tax Credit," *Focus* 10:1, Spring 1987.

[3] See Irwin Garfinkel and Robert Haveman, "Income Transfer Policy in the United States," in Edward Seidman, ed., *Handbook of Social Intervention* (Beverly Hills, Calif.: Sage Publications, 1983). Available as IRP Reprint no. 473.

Table 1

Mean Before-Tax Money Income of Families with Children by Income Quintile in 1984 Dollars, 1967-1984, Selected Years

	Mean Before-Tax Money Income of Quintile					Mean of All Families	Percentage Poor[a]
	1	2	3	4	5		
All families with children							
1967	$9,347	$18,950	$25,602	$33,276	$54,665	$28,369	13.5%
1973	9,308	20,678	28,988	38,796	63,258	32,206	11.4
1979	8,057	19,179	28,855	38,203	61,256	31,138	12.7
1984	6,142	16,491	25,836	36,967	62,198	29,527	17.4
Percentage change							
1967-84	−34.3	−13.0	+0.9	+11.1	+13.8	+4.1	+28.9
1973-84	−34.0	−20.2	−10.9	−4.7	−1.7	−8.3	+52.6

Source: Computations from computer tapes of annual Current Population Survey.

[a] Percentage of all persons in these families with incomes below the official poverty line.

Child Support Assurance System: An update

All the pieces of the Child Support Assurance System (CSAS) in Wisconsin are now authorized or already in place on a limited basis. CSAS was devised and refined for a decade by a group of university researchers and state officials led by Irwin Garfinkel and supported by the Institute, the Wisconsin Department of Health and Social Services, and the Ford Foundation. It is a system designed to improve the well-being of children who, though they have two living parents, reside with only one of them.

The three key features of the system are described in detail in an earlier issue of *Focus*.[1] They consist of the following:

- *A percentage-of-income standard.* A simple formula is used to determine the size of child support awards, based on the proportion of their income that married couples spend on their children. A Wisconsin parent not living with his family must pay 17 percent of gross income for the maintenance of one child, 25 percent for two children, 29 percent for three children, 31 percent for four children, and 34 percent for five or more children.

- *Automatic withholding.* The amount of the child support obligation is withheld automatically from the wages and other income of the noncustodial parent and transferred through the county clerk of court to the custodial parent.

- *An assured benefit.* An assured minimum benefit will be provided to every child who is eligible for child support. If the amount paid by the noncustodial parent is lower than the assured benefit, the difference will be made up through a public subsidy. Custodial parents receiving the public subsidy are taxed at a low rate up to the amount of the subsidy to prevent wealthy custodial families from benefiting at the expense of the state.

In July 1983 the Wisconsin legislature enacted a budget bill that introduced the first two elements of the new system on a trial basis. In July 1987 these elements were strengthened and testing of the assured benefit was authorized by the legislature.

How well is CSAS working?

A demonstration now under way is comparing child support awards and collections in ten counties using the CSAS (pilot counties) with similar counties not using the system (control counties). It is also comparing the same counties both before and during the period the CSAS is in effect. Additional information is being obtained through surveys. Study of the program is expected not only to reveal the costs and benefits of the CSAS measured in dollars and cents, but to serve as a guide to implementation—shedding light on the difficulties involved in carrying out such a reform. Eventually it should also provide information on any salutary behaviorial changes brought about by CSAS.

Use of the percentage-of-income standard

In 1984 only about 17 percent of judges and family court commissioners were making use of the new standard all or most of the time. By 1985 the standard was being used in 38 percent of new cases. Measurement of further improvement on this score is obfuscated somewhat by the fact that the legislature has now required that the new standard be used in all new cases unless the judge or court commissioner gives a written reason for deviating from it.

One unexpected drawback of use of the standard is that in nearly all cases in which it has been applied, it has served to arrive at a fixed child support award expressed in dollars rather than as a percentage of income. Evidently county clerks do not feel they have sufficient information on changes in the incomes of noncustodial parents to enable them to monitor percentage orders. This deprives the standard of its indexing mechanism—its ability to rise and fall with the incomes of noncustodial parents. Since most incomes rise over time, the effect will be to lessen the amount of child support collected.

A comparison of child support awards before and after the introduction of the standard shows very little change in the sizes of awards. In fact, the percentages in the standard are very close to those actually used, and are also close to those most people perceive as "fair" awards (see discussion of public opinion, below).

In general poor people pay a higher percentage of their income in awards than do the rich; the percentage declines as incomes rise. The use of the standard appears to have had some effect in making awards more proportional. It also appears to have lessened variation in awards across counties where it has been employed.

Effects of immediate income withholding

First measurements of automatic withholding yield somewhat anomalous results. In both pilot and control counties child support collections increased by the same amount: 10 percent. It had been expected that collections would be much larger in counties where immediate withholding was the rule

than in counties in which withholding was employed only when noncustodial parents were delinquent in making payments.

More careful analysis, however, revealed a number of reasons for the disappointing results. It was found that noncustodial parents in the pilot counties were more likely than their counterparts in the control counties to have low incomes and to be unemployed. When this difference was controlled for, collections in the pilot counties were found to have increased 4 to 6 percent more than in the control counties. Furthermore, implementation problems seem to have slowed the effects of automatic withholding in the pilot counties. New administrative procedures can be expected to become more efficient over time. Indeed, the second year of withholding shows a greater increase in amounts collected than did the first.

Finally, the difference between the pilot and control counties in using immediate withholding is not clear-cut. For reasons not yet fully known, only 57 percent instead of 100 percent of the new cases in the pilot counties made use of immediate withholding. Part, but not all, of this difference can be attributed to the fact that some noncustodial parents have no income from which child support can be withheld. Part may be due to unwillingness of judges to use withholding—in the case of wealthier fathers, the judges may view withholding as a demeaning implication that the parent cannot be trusted to fulfill his obligation to his children. And at the same time that immediate withholding has not been used as extensively as expected in the pilot counties, it has been used more and more extensively in the control counties. In fact, like the percentage-of-income standard, this provision became state law on July 1, 1987.

Two other measures give a better picture of the effectiveness of immediate income withholding. One is the relationship between the extent of utilization of this procedure in individual counties and child support collections in these counties. Analyses have shown that for each 10-percentage-point increase in the use of withholding, the ratio of months of child support paid to months owed increases by 1.6 percentage points, and the ratio of dollars collected to dollars owed increases by 1.1 percentage points. Looked at another way, this means that increasing immediate withholding from 0 to 70 percent would result in an increase in collections of between 13 and 18 percent. Moreover, the dollars collected increase over time, which suggests that immediate withholding frees county authorities to pursue other more difficult and time-consuming cases, such as those involving establishment of paternity.

The ratio of dollars paid to dollars owed and months paid to months owed in individual child support cases are respectively 25 percent and 26 percent higher when immediate withholding is used. These results are highly significant. It is likely, however, that they somewhat overstate the effects of immediate income withholding because it is impossible to control perfectly for whether the noncustodial parent has income that can be withheld.

Recent Institute Publications on Child Support

Tom Corbett, Irwin Garfinkel, and Nora Cate Schaeffer, "Public Opinion about a Child Support Assurance System." IRP Discussion Paper no. 834–87, 1987.

Irwin Garfinkel, "Utilization and Effects of Immediate Income Withholding and the Percentage-of-Income Standard: An Interim Report on the Child Support Assurance Demonstration." IRP Special Report no. 42, December 1986.

Irwin Garfinkel, Sara McLanahan, and Patrick Wong, "Child Support and Dependency." IRP Discussion Paper no. 838–87, 1987.

Irwin Garfinkel, Philip Robins, and Patrick Wong, "The Wisconsin Child Support Assurance System: Estimated Effects on Participants." IRP Discussion Paper no. 833–87.

Philip Robins, "An Analysis of Trends in Child Support and AFDC from 1978 to 1983." IRP Discussion Paper no. 842–87.

Judith Seltzer, Irwin Garfinkel, and Terri Orbuch, "Property Settlements and Child Support Awards: Do Divorced Parents Make Trade-Offs?" IRP Discussion Paper no. 836–87.

Testing the assured benefit

The assured benefit is expected to go into effect in two Wisconsin counties on April 1 or July 1, 1988. A single child living with one parent will be guaranteed an annual benefit of $3,000. For two children the guarantee will be $3,528; for three, $4,222; for four, $4,828; and for five, $5,224. The benefits will be counted as part of the custodial parent's income in determining if she is eligible for AFDC. Unlike AFDC, however, the assured benefit will not be reduced by one dollar for each dollar earned when the custodial parent works and receives wages. Custodial parents who have below-average income and who work will also receive a work-expense subsidy of $1.00 per hour worked for one child and $1.75 per hour worked for two or more children.

Public opinion on child support

When the Child Support Assurance System was first designed, it was thought to be a radical approach to the problem of nonpayment of support. In the past ten years, however, increased public awareness appears to have brought public opinion and the Wisconsin demonstration

very close in their preferences for a system for strengthening child support.

In the spring of 1985 researchers at the Institute for Research on Poverty conducted a telephone survey of Wisconsin households. Called CHIPPS (for Children's Income and Program Participation Survey), the survey sought to tap public perceptions regarding key provisions of the CSAS. A random sample of 1,083 households were telephoned and asked questions about child support.[2] Both direct questions and questions embedded in brief stories were used to elicit responses to the percentage-of-income standard, immediate withholding, and the assured benefit.

Factors influencing the standard

When neither parent has remarried, there is one child, the custodial parent has no income, and the noncustodial parent's income is $500 a month, public opinion seems to favor a child support payment equaling 21 percent of the noncustodial parent's gross income. This is actually somewhat higher than the percentage for one child in the standard (17 percent). The public's idea of a fair child support obligation concurs with the standard in other respects as well. It increases at a decreasing rate for each additional child (for example, the rate is 26 percent for two children and 28 percent for three), and the obligation remains constant as a proportion of income across most income levels for noncustodial parents. Only after the noncustodial parent is earning $5,000 a month do respondents suggest a reduction in the proportion to be paid in child support (to about 18 percent).

Public opinion evidently differs from the standard in two respects. If fathers remarry, the public suggests a small reduction in payments (to about 19 percent). The survey also suggests that noncustodial parents should pay only about 15 percent of income if the custodial parent has either remarried or has a moderate level of income ($1,500 a month). The CSAS does not take into account the marital circumstances of either parent. Nor is it affected by the mother's income. These differences can be interpreted to mean that the public is more interested in seeing that children's financial needs are met than in who should meet them.

When is immediate withholding justified?

The public's judgments about immediate withholding varied according to the proportion of missed payments, the amount of additional support collected through immediate withholding, and the amount of resulting reduction in welfare costs. On a scale of 1 (strongly oppose) to 10 (strongly favor), the average response was a 6 (or weak support) for immediate withholding when only 20 percent of parents missed payments, no additional child support was collected, and there was no reduction in welfare costs. This suggests modest support for universal withholding even under the most conservative circumstances. The proportion favoring withholding increases as delinquency increases and welfare costs are reduced. Surprisingly, the amount of additional child support collected does not appear to have any influence on the public's attitude toward immediate withholding.

Opinion on the assured benefit

The value of the assured benefit was measured by its cost relative to current welfare expenditures and its success in reducing welfare dependency. Support for the benefit was surprisingly strong. If welfare plus a publicly guaranteed child support payment would cost 20 percent more than the current welfare system and would reduce welfare dependency only 10 percent, the average response was a 7, which shows relatively strong support for this provision of the reform. Support increases significantly if total costs do not increase or if they decrease. Reductions in welfare dependency also increase support, but the effects are smaller than the effects of reductions in costs.

Possibilities of CSAS

Early results from a demonstration in ten counties give only an inkling of the potential effectiveness of the Wisconsin CSAS. Implementation problems related to withholding and use of the standard are expected to work themselves out before the study is ended. Results from the second year already show improvement over the first. The difficulties associated with implementing the assured benefit will be better understood when the two pilot programs are begun next year.

If the success of the system depends on the degree to which it receives public support, CSAS has evidently come at the right time. Indeed, it would be impossible to implement successfully such a program without public sympathy, since it encroaches on an area long accepted as private and individual—the economic responsibility of parents to their children. In the long run it is expected that the CSAS will go beyond providing some income security for children living with one parent and to effect behavioral changes—to reduce hostility and a sense of inequity between separating parents, to encourage AFDC mothers to work (because their child support, unlike AFDC benefits, will not be reduced by the amount of their wages),[3] and to cause remarrying noncustodial parents to take into account the preeminent responsibility they have incurred for their first family. Such effects can be anticipated only if there is a consensus that CSAS is equitable and inevitable. ■

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[1] Tom Corbett, "Child Support Assurance: Wisconsin Demonstration," *Focus* 9:1, Spring 1986.

[2] See Tom Corbett, Irwin Garfinkel, and Nora Cate Schaeffer, "Public Opinion about a Child Support Assurance System," IRP Discussion Paper no. 834-87.

[3] For a discussion of the relationship between AFDC dependency and child support, see Irwin Garfinkel, Sara McLanahan, and Patrick Wong, "Child Support and Dependency," IRP Discussion Paper no. 838-87.

New work under way: Economic well-being and family structure

A major Institute research agenda is being supported by the Office of the Assistant Secretary for Planning and Evaluation of the U.S. Department of Health and Human Services over the 1987–89 biennium. Co-principal investigators Sheldon Danziger and Eugene Smolensky will coordinate nine related projects that involve over a dozen other Institute research affiliates in Madison and across the country. The projects, described individually below, focus on the relationship between poverty and family structure and the roles played by labor force behavior and welfare dependence in that relationship. Some of the studies will examine how economic status affects family structure; others, how family structure affects economic status.

Several studies will examine the economic well-being of dependent populations—in particular, children and the elderly; several will examine issues of parental responsibility, especially as it relates to welfare dependency and child support enforcement; several will examine the intergenerational transmission of poverty and welfare dependency; several will examine the effects of welfare programs and labor market opportunities on family structure.

In addition to the interrelationships among the research questions, there are interrelationships among the data sets employed. Some studies use cross-sectional data over extended time periods (the decennial censuses of 1940–80; the 1962 and 1983 Surveys of Consumer Finances; the 1968–87 Current Population Surveys); others use panel data, following individuals over long periods (the Michigan Panel Study of Income Dynamics; the National Longitudinal Survey of Youth) or short periods (the Survey of Income and Program Participation); one uses data from the Seattle-Denver Income Maintenance Experiment; another will gather qualitative data.

Child Support, Work, and Welfare Dependence

Investigators: Irwin Garfinkel, University of Wisconsin–Madison, and Philip Robins, University of Miami

This research will address the strengths and limitations of public enforcement of private child support obligations and work requirements for mothers receiving Aid to Families with Dependent Children (AFDC). It will estimate the potential of both child support and work to reduce welfare dependence and improve the economic status of single mothers and their children. Two major questions will be addressed. First, how much income would families on AFDC be able to generate if the custodial mothers worked full time, full year and noncustodial parents paid a reasonable amount of child support? Second, what are the effects on welfare dependence and economic well-being of alternative methods of inducing custodial parents to cooperate with efforts to enforce absent parents to pay child support? The research will also lay the groundwork for estimating the effects of the landmark 1984 child support amendments to the Social Security Act on child support collections, welfare dependence, and economic well-being.

Child Support and the Cost of Children

Investigators: Eugene Smolensky and Robin Douthitt, University of Wisconsin–Madison, and David Betson, University of Notre Dame

There is now a federal directive requiring that guidelines be established for determining child support awards. This project will use recent data from the Bureau of Labor Statistics Consumer Expenditure Survey (CEX) to examine (1) various ways to measure the minimum cost of raising a child; (2) whether, above the minimum, there is no absolute cost of raising a child; (3) if the portion of family consumption devoted to a child declines as household consumption increases; (4) whether, as the number of children increases, spending on children as a proportion of family income increases; and (5) whether expenditures on children vary systematically with the age of children. In testing these propositions, the investigators will provide econometric estimates of the effect of children on household expenditures and derive the implications for setting child support awards.

Long-Run Trends in the Money Income of Children and the Elderly, 1939–1985

Investigators: Sheldon Danziger, University of Wisconsin–Madison, Peter Gottschalk, Boston College, Eugene Smolensky, and William Hoyt, University of Kentucky

This project will compare and contrast long-term trends in the economic well-being of the two largest dependent populations, children and the elderly, and analyze the underlying determinants of these trends. The study will have three parts. Part one will describe changes in mean money income and in official poverty rates for children and the elderly over the 1939–85 period, using data from the censuses of 1940 through 1980 and the March Current Population Surveys (CPS) of 1968–87. Interpretation of these trends will raise a significant bias problem if cohort size and macroeconomic conditions affect who will have children. For example, if the increased poverty rate among children reflects fertility rates that are declining more rapidly for higher income households than for impoverished households (a change in the

denominator of the poverty rate), the interpretation is quite different from one that can be drawn if fertility rates are constant and the child poverty rate rises because of declining earnings (a change in the numerator). This is the focus of part two of the study. In part three, a simple general equilibrium model will be developed for analyzing the efficiency effects of transfers directed to specific age groups and the taxes which have traditionally supported them. The model will emphasize spending on primary and secondary education for children and social security spending for the old. The parallel taxes are the property and payroll taxes, respectively.

Transitions of Youth: Evidence from Longitudinal Data

Investigators: Sara McLanahan and Gary Sandefur, University of Wisconsin–Madison, and Peter Gottschalk

This study will use the Panel Study of Income Dynamics and the National Longitudinal Survey of Youth to investigate the effects of family background and community characteristics on schooling, employment, pregnancy, and welfare use during adolescence and early adulthood. It will focus on outcomes associated with growing up in a female-headed family, especially a family on welfare. The research will consist of two parts. The first is sociological in nature, examining high school completion and periods of inactivity (defined as not being in school and not working) of young men and women who came of age in the 1970s and early 1980s, and the risk of teenage pregnancy among the women. It will investigate the relative effects of family economic status, household composition, school quality, and local labor market conditions on the probability and rate of completing high school, experiencing a period of inactivity, leaving inactivity for school or work, and giving birth while a teenager. The second part will draw on the economics literature to examine the links between childhood and youth experiences and subsequent welfare dependence. It will test two hypotheses: (1) welfare dependence among children of welfare recipients is higher than among children of nonrecipients, even after controlling for income, since welfare recipients can be assumed to have lower expected earnings capacity than persons who garner the same income from market activity, with a resulting impact on the earnings capacity of their children; (2) neighborhoods have an impact, even after controlling for the mother's welfare experience and the home environment, if public-provided goods such as adequate schools and rent subsidies are inputs into human capital development.

The Economic Well-Being of Children and Its Effects on Youth and Young Adult Achievement

Investigators: Robert Haveman and Barbara Wolfe, University of Wisconsin–Madison

This study of the intergenerational attainment process will measure the extent to which the well-being of children in their formative years, as well as the investments in them by both their parents and society, influences their productivity and attainment as young adults. The primary purpose then is to provide estimates of a basic relationship that is implicit in the often-posed question: "Does growing up in poverty have any effect on children and their achievement?" The second purpose is to develop a series of descriptive statistics that track children's well-being and its components over time. The data set to be used is the Panel Study of Income Dynamics, augmented by time diary data from the Michigan Time Use Study of 1975–76 and 1981–82.

SIME-DIME: Marital Disruption and Reconciliation

Investigator: Glen G. Cain, University of Wisconsin–Madison

This research will build upon Cain's reanalysis of the family effects of the Seattle-Denver Income Maintenance Experiment, SIME-DIME. (The results of his reanalysis will be featured in the next issue of *Focus*.) It is intended to further our understanding of several policy-related issues regarding marital stability as well as to provide more definitive results of the SIME-DIME experiment. It will deal with four basic issues: (1) remarriages and reconciliations by married couples who divorced or separated; (2) the time-dependency of marital dissolutions and the implications for evaluating experiments of limited duration; (3) time-varying independent variables such as the employment and training experiences of husbands and wives; (4) whether the differing statistical techniques used lead to varying measures of the program effects (sensitivity analysis).

Qualitative Study of AFDC Teen Mothers and Their Peers

Investigators: Sandra K. Danziger, University of Michigan, and Naomi Farber, University of Wisconsin–Madison

This study will focus on inner-city young women who experience early parenthood and become AFDC recipients before reaching age 20 and their peers who have not yet given birth. Through personal interviews it will attempt to learn whether AFDC teen mothers—one group participating in a training program, the other not—and their nonparent peers have similar perceptions about the availability or lack of opportunities and have similar educational and employment aspirations. It is hypothesized that those who have avoided early pregnancy perceive more opportunities for themselves. Although Danziger and Farber will not be able to determine whether perceptions caused this behavior or whether both perceptions and behavior were caused by a common third factor, the descriptive data on this group and on variation within it will provide important information. The study will also examine the expectations of these young women concerning the employment and parental responsi-

bilities of young men, especially those of their boyfriends and the fathers of their children.

Work, Welfare, and the Family

Investigators: John Fitzgerald, Bowdoin College, Robert Moffitt, Brown University, Robert Plotnick, University of Washington, and Anuradha Rangarajan, Brown University

The effect of AFDC on key demographic and economic decisions will be studied: the decision to marry, to divorce, to bear an illegitimate child, to head a household or live with others, to work or to receive welfare. Fitzgerald, using the Survey of Income and Program Participation, will study the way in which conditions in the male labor market and AFDC parameters affect the rate of marriage and remarriage and the rate of formation of self-sufficient families. Moffitt will study the effects of the AFDC-Unemployed Parent program and state divorce laws on the incidence of divorce over time and on the rate of divorce. Plotnick will study the effect of AFDC on the rate of out-of-wedlock births and on choice of living arrangements. All three use state-level variables that will be measured in a common way across the studies to facilitate comparisons. Moffitt and Rangarajan will examine the effects of AFDC on wages, wage growth, and work effort. Their results should throw light on the relationship between welfare and work and the role played by workfare and training programs.

The Dynamics of Poverty among the Elderly: Measurement, Duration, and Causes

Investigator: Karen C. Holden, Institute for Research on Poverty

This study will use data from the Survey of Income and Program Participation (SIPP) to look at two broad issues related to the dynamics of poverty among the elderly: the relative role of such events as retirement, disability, or widowhood in pushing the elderly into poverty, and the role of background characteristics (e.g., earnings history, pension choice, health status) in preventing poverty or altering its path as people age. Holden will first trace the paths into poverty among a sample of elderly couples and widows and examine the degree to which declines in their income to a point below the poverty threshold are associated with such major events as retirement, disability, or the death of a spouse. Next she will examine the extent to which the probability that the elderly can avoid poverty during retirement and widowhood (as well as differences among elderly individuals in the pattern of poverty) can be attributed to such characteristics as preretirement economic status, earnings history, marital status, family characteristics, health and disability, and earlier choices made about life insurance and pension annuity choice. ■

Discussion Papers

(continued from page 14)

Betson, D., and Greenberg, D. "A Simulation Study of the Efficiency and Distributional Effects of Cash Transfers, Public Sector Employment, and Private Sector Earnings Subsidies Paid to Workers." DP 835-87.

Seltzer, J., Garfinkel, I., and Orbuch, T. "Property Settlements and Child Support Awards: Do Divorced Parents Make Trade-Offs?" DP 836-87.

Tienda, M., and Fielding, E. L. "Migration, Preferential Worker Status, and Employment: Divergent Paths of Hispanic Market Insertion in the United States." DP 837-87.

Garfinkel, I., McLanahan, S., and Wong, P. "Child Support and Dependency." DP 838-87.

Smolensky, E., Danziger, S., and Gottschalk, P. "The Declining Significance of Age in the U.S.: Trends in the Well-Being of Children and the Elderly since 1939." DP 839-87.

Cox, D. "The Connection between Public Transfers and Private Interfamily Transfers." DP 840-87.

Pozzebon, S., and Mitchell, O. S. "Married Women's Retirement Behavior." DP 841-87.

Robins, P. K. "An Analysis of Trends in Child Support and AFDC from 1978 to 1983." DP 842-87.

David, M., and Fitzgerald, J. "Measuring Poverty and Crises: A Comparison of Annual and Subannual Accounting Periods Using the Survey of Income and Program Participation." DP 843-87.

Cain, G. G. "Black-White Differences in Employment of Young People: An Analysis of 1980 Census Data." DP 844-87.

Mitchell, O. S. "Social Security Reforms and Poverty among Older Dual-Earner Couples." DP 845-87.

Baum, S. R. "Financial Aid to Low-Income College Students: Its History and Prospects." DP 846-87.

Recent books by IRP researchers

Poverty Policy and Poverty Research: The Great Society and the Social Sciences

by Robert H. Haveman

University of Wisconsin Press, 114 N. Murray Street, Madison, WI 53715, 1987 ($37.50)

In this book the author measures the growth from 1965 to 1980 in federal expenditures on poverty research studies, evaluates the contribution of this research to basic knowledge and to research methods, and describes its influence on the social sciences.

That influence included development of the field of policy analysis and evaluation research, experimentation to assess the effects of social programs, econometric advances involving selectivity bias, and microsimulation modeling. The Epilogue reviews the years since 1980 and asks what lies ahead for poverty-related social science.

Fighting Poverty: What Works and What Doesn't

Edited by Sheldon H. Danziger and Daniel H. Weinberg

Harvard University Press, 79 Garden Street, Cambridge, MA 02138, 1986 ($27.50) Now available in paperback ($10.95)

Two decades after President Johnson initiated the War on Poverty, it is time for an assessment of its effects. In this book a distinguished group of economists, sociologists, political scientists, and social policy analysts provide that assessment. The numbers tell us that spending on social programs has greatly increased, yet poverty has declined only slightly. Do the numbers alone give an accurate picture? Have the government's efforts, as some critics claim, done more harm than good?

The evidence shows that simple comparisons of spending levels and poverty trends do not tell the whole story: many complex issues are involved in an evaluation of antipoverty policy. This volume provides a balanced and multifaceted analysis of antipoverty policies since the 1960s, including both successes and failures. An agenda for the future shows that much can be done.

Single Mothers and Their Children: A New American Dilemma

by Irwin Garfinkel and Sara S. McLanahan

Urban Institute Press, 2100 M Street, N.W., Washington, D.C. 20037, 1986 (cloth, $24.95; paper, $12.95)

The new American dilemma with which this book deals is how best to alleviate the economic hardship faced by poor mothers who are heads of families. The authors suggest that it is reasonable to expect work from welfare mothers to promote independence. But because work relief programs are successful only if jobs are available, the authors advocate the provision of jobs paying the minimum wage to all welfare recipients capable of working. They further suggest services, such as education and training programs, to facilitate economic advancement for these women. And because even full-time work will not always lift these families out of poverty, Garfinkel and McLanahan suggest a number of other ways to supplement the incomes of single mothers with little or no cost to the taxpayer.

Private Benefits: Material Assistance in the Private Sector

by Michael Sosin

Academic Press, Inc., Orlando, FL 32887-0016, 1986 ($19.95)

This monograph describes the complex history, present efforts, and likely future of private not-for-profit agencies that distribute material aid to the needy. It reports results of quantitative research as well as intensive case studies of the goals, structures, and operating procedures of numerous private agencies. While noting severe limits to private provision at present, Sosin envisions a division of services between the private and public sectors that will utilize the strengths of each in assisting the poor.

Social Welfare Spending: Accounting for Changes from 1950 to 1978

by Robert J. Lampman

Academic Press, Inc., Orlando, FL 32887-0016, 1984 ($29.50)

This book provides a social accounting framework for viewing the social welfare system in the United States, making it possible for the first time to compare the benefits and costs associated with changes in the system. It reviews what has happened to social welfare since 1950—its remarkable growth, who has been receiving more and who less from it. And it sketches out the alternative choices that will determine the future direction of income redistribution. A "Guide to Reading" directs the reader to supplementary literature.

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