The changed face of poverty: A call for new policies

by Robert H. Haveman

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Despite a massive increase in public spending designed to reduce poverty and to bring the nation's citizens together economically, the incidence of poverty today is only slightly lower than when the War on Poverty was announced in 1964 and inequality is, if anything, greater. This disappointing performance is due in part to the altered face of poverty in the United States. Some traditionally poor groups have made rapid economic gains over the past quarter century, but other groups have fallen behind and now populate the lowest levels of the income distribution. Because of the nature of these changes in poverty and inequality, the nation's income redistribution system has lost much of its power.

Expanding that system without changing its structure will accomplish little more in terms of reducing poverty and inequality at reasonable cost. Moreover, the structure of the system contains incentives for inefficient and growth-inhibiting behavior—for reductions in work effort, independence, and initiative, for reductions in savings and investment, for problematic changes in family size and structure. In short, if we wish simultaneously to reduce poverty and promote efficiency, new ways must be sought. A new strategy must correct the inefficiencies fostered by current arrangements and must aim not at equalizing outcomes but at equalizing opportunities.

Growth of the system of income redistribution

Consider, first, the nature of the nation's income redistribution system, and in particular, its postwar growth (Table 1). In 1965, just before the rash of Great Society legislation began, less than 30 percent of a then much smaller federal government budget was allocated to programs that supported incomes and helped people buy essentials. At that time, however, the federal government acted in response to issues of poverty, discrimination, and ultimately to riots in the streets. In addition to such social assistance programs as Head Start, Community Action, Upward Bound, and Job Corps, social security retirement and disability benefits were expanded and Medicaid and Medicare were enacted. In the years from 1965 to 1985, federal spending on income transfers increased more than tenfold; programs designed to help people buy essentials increased about thirtyfold. These programs were America's main growth industry during this period. By 1980, the nation's income redistribution system had grown to over half the federal budget.

Inevitably, this massive growth in redistributive spending reduced poverty and inequality. Although it is difficult to measure the effects of these policies precisely, one set of indicators permits comparison of the level of poverty or inequality *without* these programs in place to their levels *with* them. In 1965, for example, the small redistribution system that existed increased the share of income captured by the bottom quintile by about 170 percent—from 1.4 percent to 3.8 percent.[1] By 1985, however, the system had increased the income share of the bottom quintile by 350 percent—from 1.3 percent to over 6 percent. Similarly, these programs reduced the incidence of poverty by 18 percent in 1960, but by nearly 40 percent in 1985.[2]

Clearly, the government's income redistribution system has been a powerful instrument for reducing inequality and poverty over the last twenty-five years. It has been the nation's key weapon in bringing us together economically, in countering the disequalizing effects of the market. But note its structure and focus: it transfers income to the poor and other target groups and helps people buy essentials; it attacks inequalities of outcome, not inequalities of opportunities.

At the same time that these equalizing measures were at work, other forces—demographic, labor market, economic—were countervailing these efforts. Over the period 1965–85, the distribution of market-generated incomes, which reflects what people are able to do for themselves, became increasingly unequal. Earnings gaps grew on a number of dimensions—by occupation, by industry, by region. A series of new inequalities had sprung up. As a result, poverty today is not markedly lower than its level twenty years ago, in spite of government's efforts, and meanwhile the degree of final income inequality in our society has increased.

Table 1

Federal Government Expenditures, 1950–1985, by Category
(billions of current dollars; percentage of column totals in parentheses)

	1950	1960	1965	1970	1980	1985
Social Program Expenditures						
Cash Income Support	11.4 (27)	24.9	31.2 (26)	51.4	216.8	331.5 (35)
Income security	4.1	7.4	9.5	15.6	86.5	128.2
Social security	.8	11.6	17.5	30.3	118.6	188.6
Veterans benefits	6.5	5.9	4.2	5.5	11.7	14.7
Helping People Buy Essentials	2.8 (7)	3.4	4.3 (4)	21.8	96.3	133.7 (14)
Health services	2.0	2.3	2.1	12.0	56.6	102.3
Education, training, and social services	.4	.4	2.2	9.6	34.1	30.4
Housing	.4	.7	—	.2	5.6	1.0
Traditional Programs						
Direct Subsidies to Producers	2.5 (6)	4.6	6.8 (6)	8.5	19.2	39.3 (4)
Agricultural subsidies	1.9	2.3	3.6	4.6	7.4	24.8
Water, air and ground transportation	.6	2.3	3.2	3.9	11.8	14.5
Defense, Space, Foreign Affairs	18.5 (43)	52.0	62.1 (52)	91.1	153.9	279.3 (29)
National defense	13.7	48.1	50.6	81.7	134.0	252.7
International affairs	4.6	3.0	5.3	4.3	12.7	16.2
Science, space, and technology	.2	.9	6.2	5.1	7.2	10.4
Investments in Physical Environment	1.8 (4)	2.1	3.2 (3)	4.3	24.1	19.1 (2)
Energy	.3	.5	.7	1.0	10.2	5.7
Natural resources and environment	1.5	1.6	2.5	3.4	13.9	13.4
Revenue Sharing	—	.2	.2 (—)	.2	8.6	6.4 (—)
Other Programs	2.6 (6)	4.9	7.8 (6)	12.4	39.6	40.2 (4)
Net Interest	4.8 (10)	6.9	8.6 (7)	14.4	52.5	129.4 (14)
Financial Allowances	−1.8	−4.8	−5.9	−8.6	−19.9	−32.8
TOTAL	42.6	94.2	118.1	195.6	591.1	946.1

Sources: Tabulations by the author from U.S. Office of Management and Budget, *Budget of the United States Government*, relevant years; *Statistical Abstract of the United States*, relevant years; U.S. Office of Management and Budget, *Historical Tables: Budget of the United States Government* (Washington, D.C.: GPO, 1987).

Accomplishments and failures of redistribution policy

Although there are many ways of characterizing what has happened to offset the government's efforts at redistribution, a glance at the patterns of winners and losers over the last quarter century is revealing. In 1965, three groups were recognized as vulnerable, high-poverty groups—blacks, the aged, and women. Policy measures were designed to enable these groups to enter the mainstream of American life. Antipoverty programs, expanded social security benefits, and affirmative action regulations are but the most visible of these efforts, and they had an impact.

Whereas the incidence of poverty among the elderly in 1967 was more than twice that of the nonaged, by 1985 it had fallen below that of the rest of the population. The key to their gains is the steady and rapid increase in social security benefits over the past twenty years. As a group, today's elderly enjoy a level of well-being that is at least equal to that of nonelderly citizens.[3] Theirs is a true success story.

Although blacks still earn less than whites in comparable positions, the gap between the two races has narrowed considerably. Like that of the elderly, though not to the same extent, this too is a success story. Among full-time workers, in 1960 black men earned about 31 percent as much as whites; by 1985, their share had increased to 73 percent.[4] Similarly, for two-parent families, black incomes increased from 64 percent to 78 percent of white two-parent incomes.[5] The racial gap in education has narrowed at least as much as has the income gap.

Women form the third group in the triad of "old" inequalities. Even though there are far more female workers now than a quarter century ago, the wage rates of women relative to those of men have not increased markedly. Hence, whereas women's earnings are expanding as a share of the economy's income, the gain has come through more work, not more pay. Although not as much has been achieved as was hoped, this too has constituted progress.

Reductions in these inequalities are the nation's success stories. Through increased work, earnings, and retirement benefits, the elderly, blacks, and women have drifted out of the bottom of the income distribution. Unfortunately, the progress we have made there has been accompanied by the emergence of a set of new inequalities, caused by new forces. These failures center on youths (primarily minority youths); those living in single-parent families; and single, minority-member, elderly people.

Consider, first, the deteriorated economic position of youth. Regardless of their education, young people in the 1980s are earning less relative to older workers (aged 45–54) than they did twenty-five years ago.[6] For youths (aged 18–24) without a high school degree, that ratio deteriorated from 61 percent to 54 percent over the period. Among both blacks and whites the youth unemployment rate has increased radically: for black men aged 16–24, an unemployment rate of 13.4 percent in 1960 had grown to 28.6 percent by 1986. Increasingly, and for a complex set of reasons, this younger group of working-aged citizens has drifted toward the bottom of the nation's income distribution.

The eroding economic situation of minority youths is eclipsed by that of mother-only families. Whereas the per capita income of white mother-only families was nearly two-thirds that of two-parent families in 1960, by 1985 it had fallen to 57 percent.[7] Among blacks the decrease was from 61 percent to 48 percent. The deterioration in the status of these families has accompanied a radical increase in their number. In 1967, only about 10 percent of all families were headed by a single mother; by 1984 the figure was over 21 percent. In 1986 over half of all black families were headed by a woman.[8]

This situation is reflected in the rising relative poverty rate for children. At the beginning of the War on Poverty, the incidence of poverty among children was not much above that of the rest of the population. Since then there has been a steady and inexorable rise in children's poverty rates; at present, children are about 50 percent more likely to be living in poverty than the rest of the population. In 1986 over 12 million children were counted as poor, compared to about 10 million at the end of the 1960s.[9] Nearly 40 percent of the nation's poor are children.[10]

The final component among those "left behind," surprisingly enough, consists of a very special group of the elderly—those living alone, especially minority members. While one of the biggest successes attributed to the nation's redistribution system is the lifting of the aged from the bottom of the income distribution, not all of the elderly are its beneficiaries. Some have fallen through the cracks in the social security floor—in particular, single nonworkers, workers with low or intermittent earnings, widows of low-earning men, those divorced from beneficiaries. At present, for example, one quarter of all aged widows are living in poverty. While the per capita income of white elderly couples is $10,000, that for black widows is $4,200.[11]

These developments demonstrate that as a nation we are concerned with poverty and inequality and have taken steps to reduce them. Important groups who were out of the economic mainstream have been brought in. The elderly and blacks, especially those living as couples or in two-parent families, represent the successes of the past two decades. Progress, however, has been far less than complete. Even as we continue to improve the lot of those previously at less advantage, a set of new inequalities—groups of people who have become separated from the mainstream—has grown up around us. They represent some of society's most vulnerable citizens—minority youth, children, single mothers, and the elderly living alone. In most of these cases, economic inequalities have roots in inequalities of opportunity. The focus of the nation's current redistribution system on outcomes rather than opportunities is not likely to meet the task of dealing with new inequalities, and it risks a loss of efficiency by its influence on macroeconomic factors: labor supply, savings and investment, the capital market, family structure, and migration. A new way of doing the nation's business is in order.

Where do we stand today? In spite of attacks on it over the past decade, a massive redistribution system is in place, as witnessed by an expenditure of over $600 billion in 1987. That system offers income support together with some job training programs to traditionally poor groups. For many it sets an income floor; for a few it opens opportunities. At the same time that this system has raised some groups from poverty and into the mainstream, new groups have dropped to the bottom, taking their place. These groups need new opportunities; an income floor is not enough.

Our social policy strategy needs a redirection—a return, in fact, to its original vision. Such opportunities can be provided. And at the same time the adverse side effects of the current approach in the form of labor supply disincentives, savings disincentives, and incentives for changes in family structure and location can be reduced. Reduction can reverse the tendency for some to substitute dependence on public transfers for individual initiative and independence.

Restructuring the redistribution system

I would like to sketch a program for fundamentally restructuring the nation's redistribution system—for returning it to its original vision of a hand up and not a handout. It is a program designed to provide new and expanded access to opportunity and to increase the productivity, efficiency, and independence of the population. It is a strategy to promote equality with opportunity.

It consists of scaling back social security retirement benefits for high earners and, to a small extent, in-kind assistance for food stamps and public housing, some public subsidies for higher education and student loans, and some traditional welfare programs. These reductions would free budgetary resources to support a set of new policies: personal capital accounts for youths, which could be used to purchase education, training, and health care; an employment subsidy program focused on workers with low education, training, and job prospects; and a child support system to assist children in single-parent families. In addition, the mélange of cash benefit programs would be replaced with a unified and universal system integrated with the recently reformed personal income tax. Finally, there would be incentives for individuals to save during their working years so as to increase their own contribution toward retirement. As a corollary, the federal government would accept responsibility for guaranteeing a social minimum for every citizen.

Consider the five main components of this new approach to reducing the nation's inequality:

1. A universal demogrant, integrated with the personal income tax. This program, a refundable tax credit, is the base of the new strategy. It provides a guaranteed income to all families of, say, one-half to two-thirds of the poverty line. It is akin to the existing earned income tax credit, but would provide support even in the absence of earnings. The amount of support—the tax credit—would depend on the size and composition of a household (or tax) unit, and would vary according to income from other sources. It sets a minimum income floor under all families; it will not eliminate poverty, but it will reduce the hardship of those in the lowest fifth of the income distribution.

2. A standard benefit retirement program, along with tax-favored annuities. Benefit levels in social security retirement programs would be reduced for workers who have high earnings during their working years, but a standard, poverty-line benefit is guaranteed for all. The system becomes more like an insurance system, with financing less closely tied to earnings. The federal government would also sponsor an information program to help families plan for their financial future and would provide tax-related incentives for individuals privately to purchase insurance or annuities yielding benefits in retirement years.

3. A universal child support system. To provide greater assistance for children living in one-parent families, a universal child support system would be substituted for the current system of court-determined awards and Aid to Families with Dependent Children. The system would provide income support to all children living with one parent. Benefits are paid on the basis of a fixed national schedule; they are financed by additional withholdings from the income of absent parents, plus residual public spending. Absent parents are thereby assigned responsibility for the support of their children.

4. An employment subsidy for disadvantaged workers. To reduce the cost to employers of hiring labor relative to capital, especially low-skilled labor relative to high-skilled labor, a two-pronged employment subsidy would be introduced. The first prong is modeled on the New Jobs Tax Credit program of 1978–80, the second on an employee-based wage subsidy focused on disadvantaged workers. The subsidy would offset constraints on labor demand resulting from market rigidities and increase the employment of less-skilled workers. Business costs and prices would tend to fall while output would tend to increase.

5. A universal personal capital account for youths. Upon turning 18, each person would receive a personal capital account of, say, $20,000 provided by the government. The account would be interest earning and could be drawn upon for approved purchases of education and training as well as for health care services.

The purpose of redirection

Although ambitious, a program of this nature is also feasible. I estimate that it could be accomplished with an increase in federal spending of no more than 1 to 2 percent. Several important goals would be achieved by such redirection:

- The "new inequalities" would be reduced. The child support system, the employment subsidies, and the youth capital account are directed toward these problems.
- A more even starting line would be created for the nation's children, young people, and single mothers.
- A minimum safety net would be placed under all of the nation's citizens.
- A clear message would be sent that people are responsible and accountable for the decisions they make.
- The labor market would be made more flexible and efficient through relaxation of the many constraints that now impede it.
- The disincentives which now plague the existing redistribution system would be replaced with inducements which foster work, independence, and initiative.

It is, of course, unclear whether the nation is prepared to deal with the problems of inequality that I have highlighted here—the large numbers of low-income and dependent individuals, youths without jobs or futures, and the increasing numbers of poor single mothers and children. There is, nevertheless, increasing evidence that policymakers recognize that the focus of the 1980s on increased economic growth and productivity has, through neglect, exacerbated these social ills. It has left us with particular populations at risk and fundamental and growing inequalities of opportunity.

The fact that a simple expansion of our current strategy carries with it serious efficiency costs indicates the need for a new way of conducting the nation's business. A new program to achieve equality with efficiency is within reach and can serve as the basis for the inevitable swing in emphasis of political concern. The single lesson of this journey, I believe, is that two central objectives of our society—less poverty and inequality, more efficiency—are reconcilable. By focusing on opportunities rather than outcomes, and by attending to both incentives and accountability, government policy can support the operation of a more productive and less unequal society and economy. But regardless of the nation's interest in proceeding down this path, it is important that we confront the facts of our successes and our failures and assess the options that we have open to us. ■

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[1]The data on the income share of the bottom quintile are from *Starting Even*, Table 5.2, and are calculated from data in the U.S. Census Bureau, *Current Population Reports*, Series P-60, no. 68 and subsequent poverty reports. The statistics taken from the book are, unless otherwise noted, derived from special tabulations of census data (decennial censuses and the Current Population Survey) carried out by the author.

[2]Ibid., Table 5.3, adapted from Christine Ross, Sheldon Danziger, and Eugene Smolensky, "The Level and Trend of Poverty in the United States, 1939–1979," *Demography*, 24 (November 1987), 587–600 (also available as IRP Reprint no. 571); and Sheldon Danziger, Robert Haveman, and Robert Plotnick, "Antipoverty Policy: Effects on the Poor and the Nonpoor," in Danziger and Daniel H. Weinberg, eds., *Fighting Poverty: What Works and What Doesn't* (Cambridge, Mass.: Harvard University Press, 1986).

[3]See "The Relative Economic Status of the Aged," *Focus* 6:2 (Spring 1983).

[4]*Starting Even*, Appendix Tables 1 and 2. The Appendix was written by Ross Finnie.

[5]Ibid., Appendix Table 8.

[6]The data on trends among youth are taken from *Starting Even*, Chapter 3.

[7]The data on trends among mother-only families are also from *Starting Even*, Chapter 3.

[8]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, 1988), p. 630.

[9]Ibid., p. 713.

[10]Ibid., p. 717.

[11]*Starting Even*, Chapter 3. Supplemental Security Income (SSI), a federal welfare program to aid the elderly poor, provides some income support, but only about 60 percent of the eligible elderly participate, and in many cases the benefits do not boost them over the poverty line.

The status of children in Wisconsin

The state of Wisconsin has just released *The Status of Children in Wisconsin: Recent Trends in Family Resources and Child Well-Being*, authored by two IRP researchers, Sandra K. Danziger and Michael R. Sosin, as well as John F. Longres, University of Wisconsin–Madison.

The document reports on some general trends in the status of children, youth, and their families in Wisconsin. It examines economic and demographic characteristics, household composition and family life, and the well-being of children. Its express purpose is to assess needs of children and families as can be inferred from population data rather than from patterns of use of services and programs.

Danziger, Longres, and Sosin find that the children of Wisconsin seem to be facing potentially troubling trends. These involve increasing family turbulence, increasing demands for early independence, increasing hours of work, and multiple social pressures. Although the typical child still demonstrates a high level of educational achievement and relatively good health, the growth in such problems as teenage pregnancy, gonorrhea, and violent crime attests to the fact that a proportion of the population is not faring as well as the rest. And stability of performance on some measures for the average child represents a departure from the consistent and continuous improvements of the past.

The study shows enormous differentials among children. There is evidence of growing economic inequality and of uneven access to the resources that may promote adequate socialization and maturation. Those who are in single-parent families, who are poor, or who are members of minority groups appear to be particularly vulnerable. Therefore, while the majority of children so far seem to be facing the pressures of change with equanimity, children who have fewer personal, family, and community resources appear to show disquieting rates of deterioration in well-being.

The Status of Children in Wisconsin may be obtained free of charge from the Wisconsin Department of Health and Social Services, Division of Community Services, Communications Unit, P.O. Box 7850, Madison, WI 53707.