The poverty problem: 1964 and 1989

by James Tobin

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Public service was one of Bob Lampman's careers. My friendship with Bob and my appreciation of his talent and character stem from the great days of the Kennedy-Johnson Councils of Economic Advisers. A work that focused Bob's research on public policy is Chapter 2 of the Council's Annual Report published with the 1964 *Economic Report of the President*. LBJ declared the war on poverty in his 1964 State of the Union address and followed up in his Economic Report. The Council's Chapter 2, "The Problem of Poverty in America," gives the intellectual foundations of the war. Bob Lampman was a Council staff member—we had all-star staffs in those days—with responsibility for the chapter. I had left the Council in late summer 1962, but I still spent a lot of time in Washington, especially during the November–January report-writing season. As Bill Capron, another staff member involved with this chapter, recently reminded me, one of the jobs Walter Heller assigned to me was to help Bob and Bill edit Chapter 2 and prepare the final draft. Rereading the chapter, I am proud to have been a minor collaborator.

The chapter lays out the rationale of the war on poverty, providing "some understanding of the enemy," and outlining "a strategy of attack." The first substantive paragraph is worth repeating here. (I confess that whenever I look back at those Reports of the early 1960s I find things worth repeating.)

> There will always be some Americans who are better off than others. But it need not follow that "the poor are always with us." In the United States today we can see on the horizon a society of abundance, free of much of the misery and degradation that have been the age-old fate of man. Steadily rising productivity, together with an improving network of private and social insurance and assistance, has been eroding mass poverty in America. But the process is far too slow. It is high time to redouble and to concentrate our efforts to eliminate poverty.[1]

Amen. The chapter naturally owes a great deal to Lampman's 1959 paper for the Joint Economic Committee. Like its precursor, the chapter is a thorough and balanced description and analysis of the measurement of poverty, its proximate sources and deeper causes, and the prospects for reducing it without and with the interventions the Administration was proposing. The chapter touches all the bases a paper on the subject would cover today.

The authors acknowledgc the significant contributions of overall prosperity to the reduction of poverty. They relate the incidence of poverty both to real GNP growth trends and to cyclical fluctuations. They note the macroeconomic slowdown of 1957–62 and report a corresponding slowdown in poverty reduction (p. 60). At the same time they say, "We cannot leave the future wearing away of poverty solely to the general progress of the economy. A faster reduction of poverty will require that the lowest fifth of our families be able to earn a larger share of national output" (pp. 60–61).

Diminishing returns are anticipated in the response of the poverty percentage to economy-wide progress. The left tails of income size distributions become thinner. Individual "handicapping characteristics" that lead to poverty become relatively more prominent (pp. 72–73). Education becomes an increasingly important lever to lift people from poverty, one in which Lampman and the Council had great hope.

The strategy relied on macroeconomic growth and full employment as powerful weapons that could eventually eliminate poverty, provided that (1) effective structural measures were taken to assure that almost everyone could share in general prosperity, and (2) safety nets of public assistance would be available for those few who could not. The war on poverty concentrated on structural reforms and initiatives: educational opportunities, from Head Start to adult literacy; community and regional rehabilitation and development; job training and opportunities, especially for youth; health services and other social services. Meanwhile the Great Society was inaugurating Medicare and Medicaid. As for safety nets, improvements were made in cash welfare programs, food stamps, and housing assistance.

Alas, poverty has not declined as we hoped. The poverty rate is greater now than in 1969 and 1973. Why?

America's overall economic performance has not been as good since 1973. Real GNP per capita grew at an average rate of 2.6 percent per year from 1939 (when the poverty criterion adopted in 1965 would classify 48 percent of whites and 87 percent of blacks as poor) to 1973 (when those percentages were respectively 8 and 31). The most severe recessions since the Great Depression occurred in 1974–75 and 1979–82. They were both triggered by great stagflationary shocks, sharp increases in oil and energy prices. Until recently, unemployment has been higher on average than 1973, and unemployment insurance has been

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both less generous and less available. Productivity growth slowed down, and real wages stagnated, not even keeping up with productivity growth. High interest rates, resulting from the bizarre tight-money-easy-budget policy mix of the Reagan administration, channeled incomes to rentiers, one reason for the growing inequality of income. Sectoral changes in the economy may have been disadvantageous to the poor, particularly the foreign competition hurting our less-skilled and less-educated workers.

These disappointments not only had direct poverty-increasing effects; they also restricted public funding of antipoverty measures and safety nets. While the intractability of current poverty may lend some credence to the favorite conservative aphorism, "You can't solve these problems by throwing money at them," evidently you can't solve them just by not throwing money either.

However, these factors do not seem to me sufficient to explain the adverse trend in poverty. While the dramatic reduction of poverty among the elderly is a striking success, mainly due to throwing money into Social Security, Medicare, and SSI, the persistence of poverty and dependence in the rest of the population, perhaps especially among children, is puzzling and profoundly disturbing. I live in a small city which, while providing more amenities than ever to half its population and to its suburbanites, is afflicted by all the social pathologies of Washington, New York, Detroit, and Chicago. We all know the litany: broken families, households without fathers, teenage pregnancies, unhealthy babies, drugs, crime, homicides, schools of low achievement, youths and young men unemployed or out of the legitimate labor force. These conditions reinforce each other in a vicious circle. As a result, there are more people beyond the reach of general prosperity than we thought possible, with more and more deep-seated "handicapping characteristics" than we thought conceivable in 1964. I'm afraid that we don't know how to arrest and reverse the disintegration of these urban neighborhoods, with or without new infusions of public money.

Charles Murray became a conservative guru with his absurdly exaggerated contention that "welfare" itself has caused poverty and welfare dependence. His germ of truth is that eligibilities for entitlements are to some degree endogenous responses to their terms and amounts. In contrast, the architects of the basic federal legislation in 1936 assumed that motivations for marriage, work, and place of residence were so strong that the systems could be designed to help the unfortunate without enlarging their numbers. The movement for welfare reform in the late 1960s was very conscious of the likely endogeneities. We wanted to reduce the perverse incentives of the system: to lower the "tax" on work implicit in needs-tested benefit formulas by reducing benefits only fractionally in response to additional earnings; to eliminate the discrimination against intact families by making two-parent households eligible for AFDC or other graduated needs-tested assistance; to eliminate the incentives for uneconomic migration by equalizing benefit entitlements throughout the nation.

Our advice was not taken. Today the emphasis is on sticks rather than carrots. In a "supply-side" era, ironically but not surprisingly, no expense is too great when it comes to insinuating incentives for the rich into tax codes, but similar incentives are too costly to provide in transfers for the poor. One encouraging possibility is to enlarge cashable earned income tax credits. "Workfare," it seems to me, will be effective only if, besides requiring work or training, it also guarantees jobs for its clientele, and only if its clientele includes not just mothers but fathers too.

The challenges today are as great as those a quarter century ago, perhaps greater. They are worthy of Bob Lampman's mettle, and they will not daunt him.■

[1] *Economic Report of the President, 1964* (Washington, D.C.: U.S. Government Printing Office, 1964), p. 55.